2020 OUTLOOK: CALM BEFORE THE STORM
LOWER FOR LONGER OFFERS EXTRA TIME
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I. MONETARY POLICY EXTENDS EXCESS SPREAD
II. MARKET FORECAST SCENARIOS
III. RELATIVE VALUE UPDATE
HOW WILL EUROPEAN REAL ESTATE FARE IN 2020?

POLITICAL EVENTS PUSH BUSINESS CONFIDENCE TO LOWEST POINT SINCE 2012/2013

Sources: OECD Business Confidence Index & AEW
MONETARY POLICIES COME TO THE RESCUE... AGAIN
GOVERNMENT BOND YIELDS MOVE DOWN TO HISTORICAL LOWS

Sources: AEW, CFR & OECD
EXCESS YIELD STAYS NEAR HISTORIC HIGH IN BASE CASE
BUT SETS NEW RECORD IN LFL SCENARIO

Sources: CBRE, Natixis & AEW Research 2019
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MARKET FORECAST SCENARIOS
LOWER-FOR-LONGER BOND YIELDS PUSH DOWN PROPERTY YIELDS
AVERAGE ALL PRIME PROPERTY YIELDS

Source: CBRE, Natixis, Bloomberg & AEW Research 2019
BASE CASE PROPERTY YIELD SHIFT BY ONLY 20 BPS
LFL SCENARIO SHOWS FURTHER TIGHTENING

Sources: CBRE, Natixis, Bloomberg & AEW Research 2019
LOWER RENT GROWTH AS ECONOMIC GROWTH SLOWS

LOGISTICS ONLY SECTORS LEFT UNCHANGED IN BASE CASE

Sources: CBRE, Natixis, Bloomberg & AEW Research 2019
FUTURE YIELDS STILL DRIVE BETTER OVERALL RETURNS

TOTAL RETURN FORECAST

Sources: CBRE, Natixis, Bloomberg & AEW Research 2019
RISK-ADJUSTED RETURN METHODOLOGY
FOCUS ON MINIMUM ACCEPTABLE LEVEL OF RETURN GIVEN EACH SEGMENT’S RISK PREMIA

Expected rate of return (ERR)  Required rate of return (RRR)

Capital return

Income return

> Attractive

Or

< Less attractive

Volatility premium
Liquidity premium
Gross depreciation
Risk-free rate

Source: AEW
LOGISTICS COMES OUT AHEAD
PRAGUE IS ONLY EXCEPTION

Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW
LFL SCENARIO SHOWS 90 OF 100 RATED ATTRACTIVE OR NEUTRAL

RETAIL REMAINS CHALLENGING

Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW
CYCLE EXTENSION CONFIRMED BY RISK-ADJUSTED RETURN INDEX

BASE CASE VS LOWER-FOR-LONGER SCENARIO

Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW
CYCLE EXTENSION CONFIRMED BY RISK-ADJUSTED RETURN INDEX
BASE CASE VS LOWER-FOR-LONGER SCENARIO

Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW
# 2020 Annual Outlook - Key Views

**Big Ideas**
- Lower-for-longer bond & property yields
- Stable Values despite slower rent growth
- Most Markets are Attractive

**Opportunities**
- Impact of Tech
  - E-commerce (Logistics vs Retail)
  - Flex office
- ESG Integration
  - GRESB Expansion
  - Building-level Certification

**Threats**
- Excessive Debt
  - Stable LTVs
  - Low Rates
- Supply of Space matched to Demand

**Best Ideas**
- Value Add: UK Retail Re-development
- Core +: Urban Logistics Development
- Core: Senior Debt
THANK YOU