

# The Age of **RESPONSIVE REAL ESTATE**

Presented by Econometric Advisors

**2020  
SPRING  
CLIENT FORUM**

**CBRE**

# GLOBAL ECONOMIC OUTLOOK IT WAS ALL LOOKING SO GOOD

**2020  
SPRING  
CLIENT FORUM**

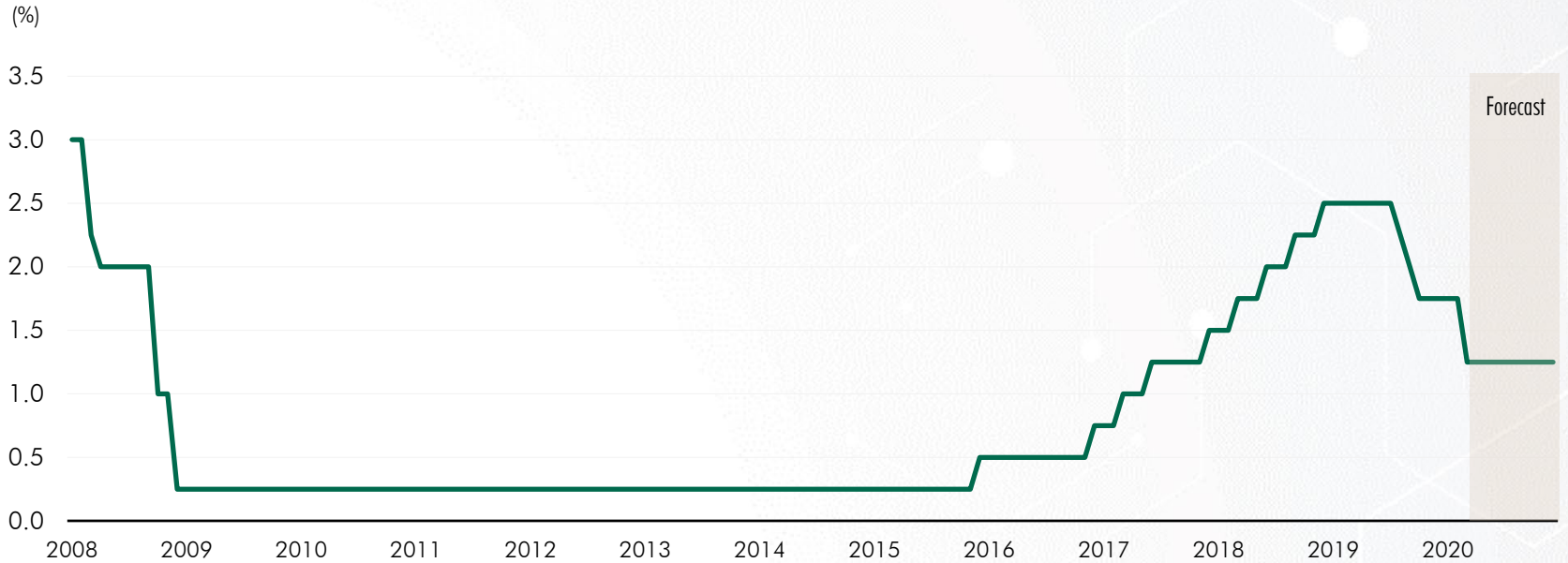


**DR. RICHARD BARKHAM**  
Global Chief Economist &  
Head of Americas Research  
CBRE Research

**CBRE**

# MONETARY POLICY WAS SUBSTANTIALLY EASED IN 2019

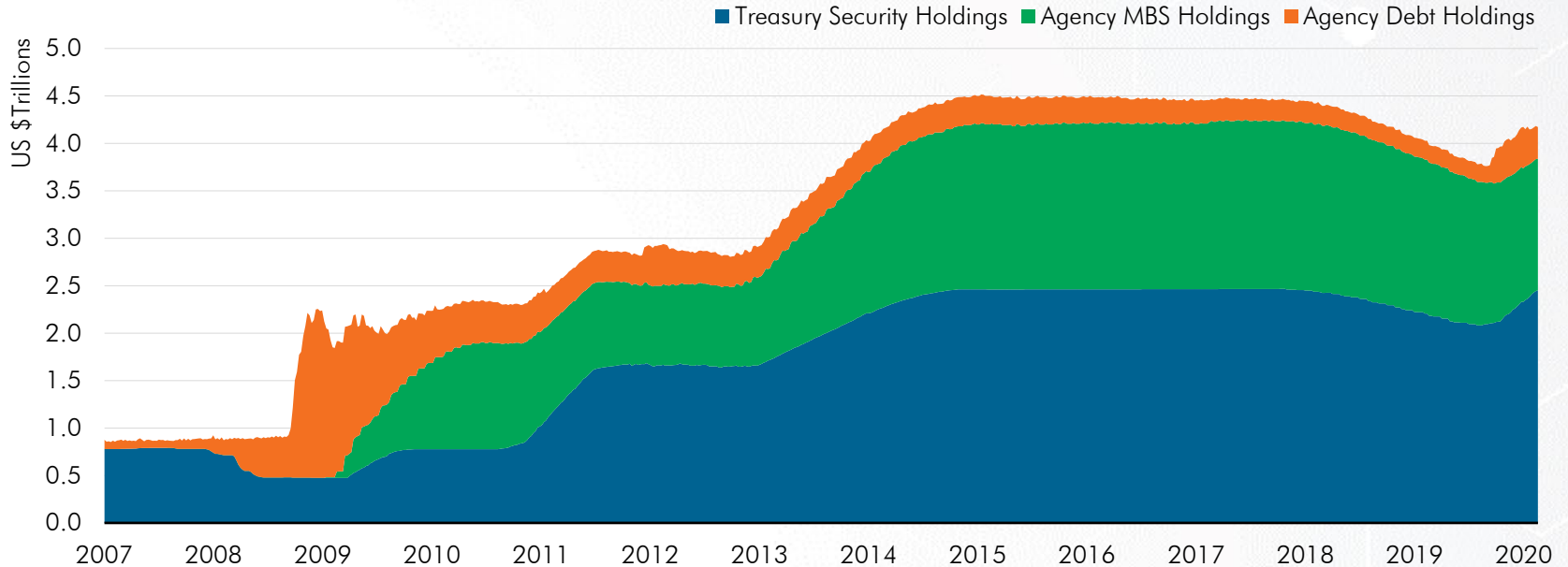
The federal funds target rate (%)



Source: Federal Reserve, Macrobond, CBRE Econometric Advisors, February 2020.

# INCLUDING A RETURN TO BALANCE SHEET EXPANSION

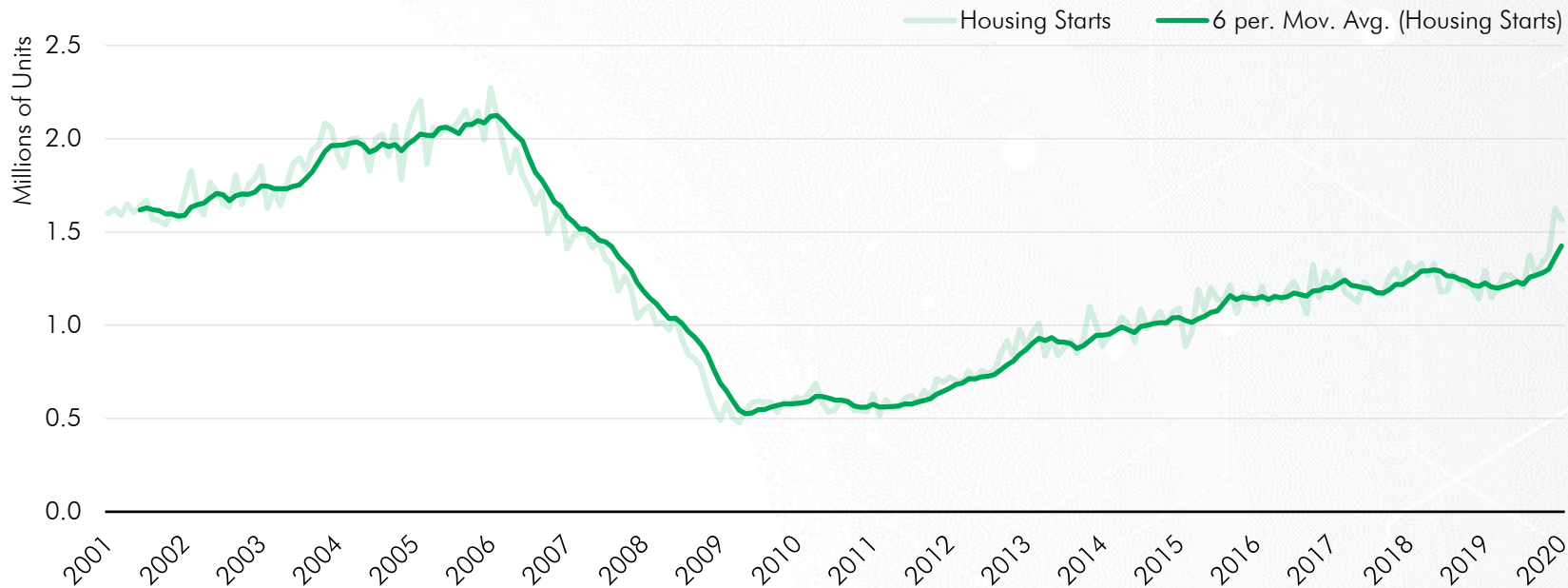
Total of federal reserve banks, by asset type, US \$trillion



Source: Federal Reserve, CBRE Econometric Advisors, February 2020.

# PROVIDING A MARKET UPTICK IN U.S. HOUSING MARKET

U.S. Housing starts (millions of units, SA, AR)



Source: Census Bureau, Macrobond, CBRE Econometric Advisors, January 2020.



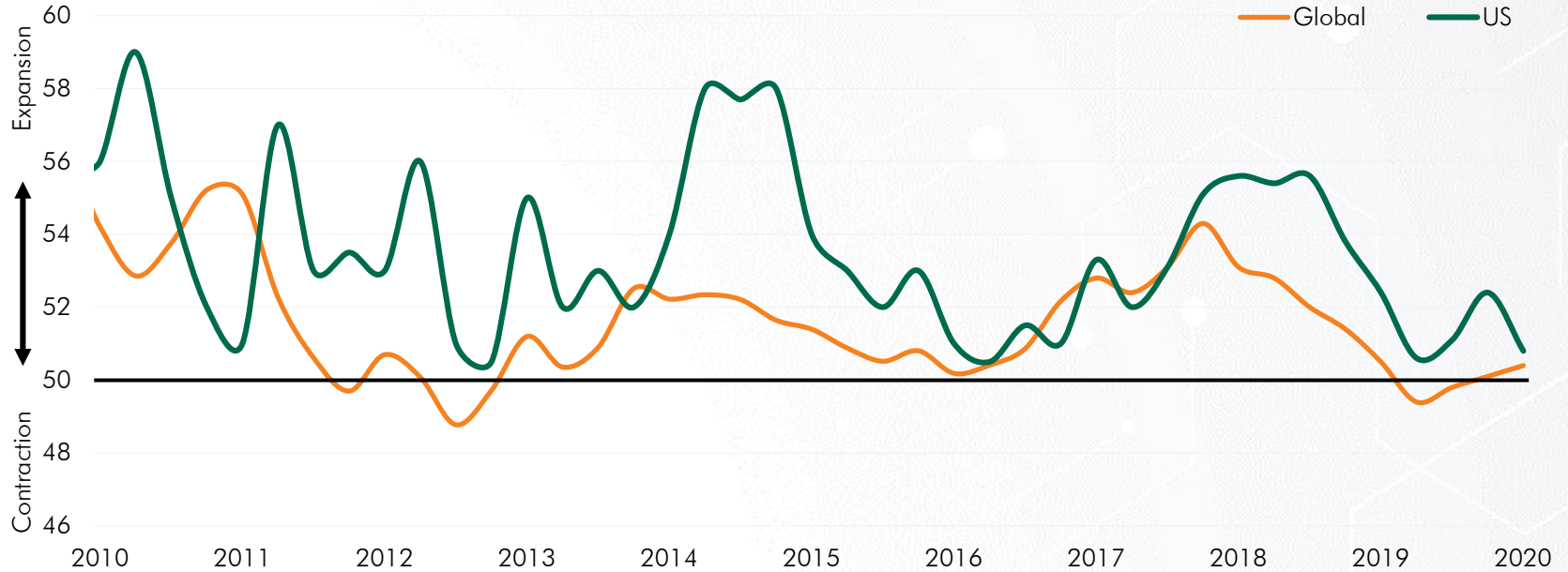
# THE TRADE DEAL

Not complete, but OK for now

- China to buy \$200 billion worth of U.S. goods over next two years
- Beijing to halt forced technology transfer and strengthen IP protection
- U.S. companies to have better access to China's financial services market
- "Enforceable" restraint on China from competitive currency devaluation

# GLOBAL MANUFACTURING HAS ALSO BOTTOMED OUT

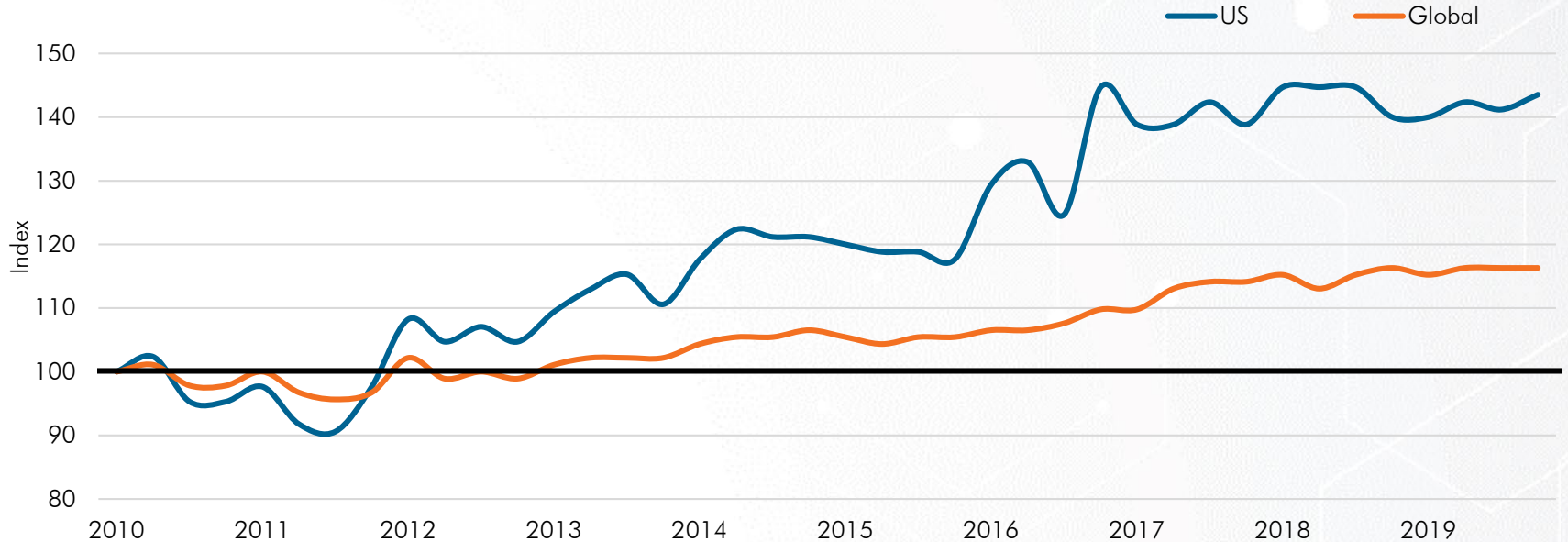
IHS Markit PMI index (50 = no change)



Source: IHS Markit, CBRE Econometric Advisors, Q1 2020.

# CONSUMERS ARE CONFIDENT (ESPECIALLY IN THE U.S.)

Nielsen consumer confidence index (q1 2010 = 100)



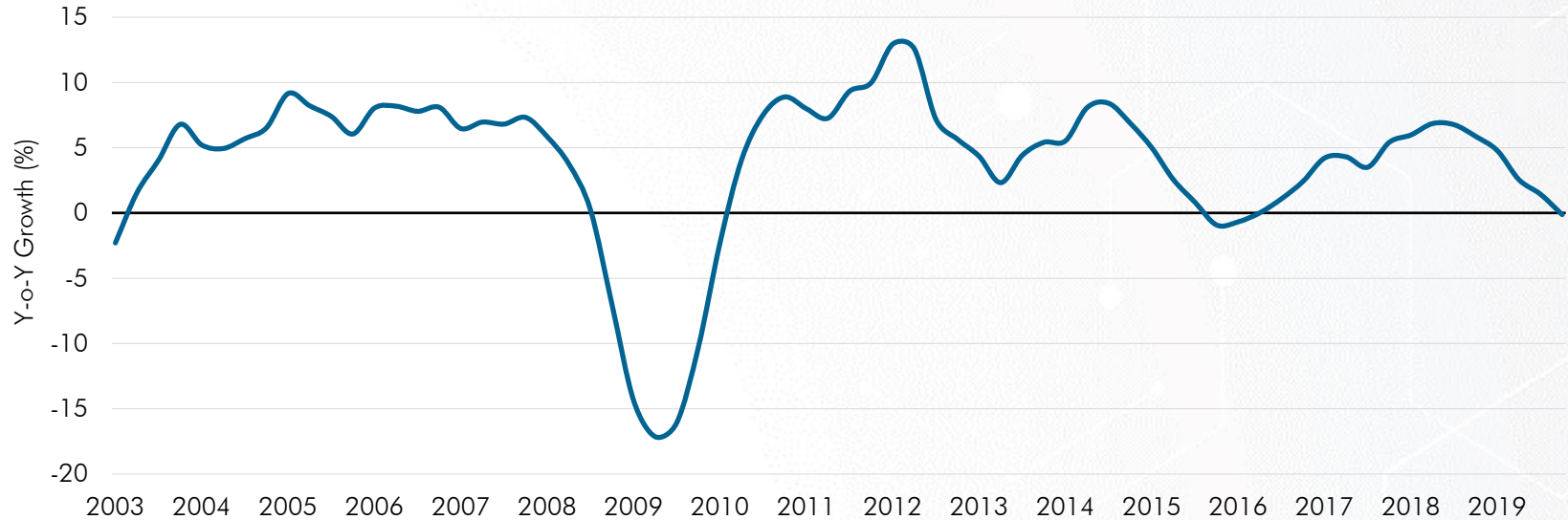
Source: Nielsen, CBRE Econometric Advisors, Q4 2019.



# GIVING UPSIDE POTENTIAL FOR U.S. CAPEX

## U.S. Real gross private domestic investment

### Total Nonresidential Domestic Investment



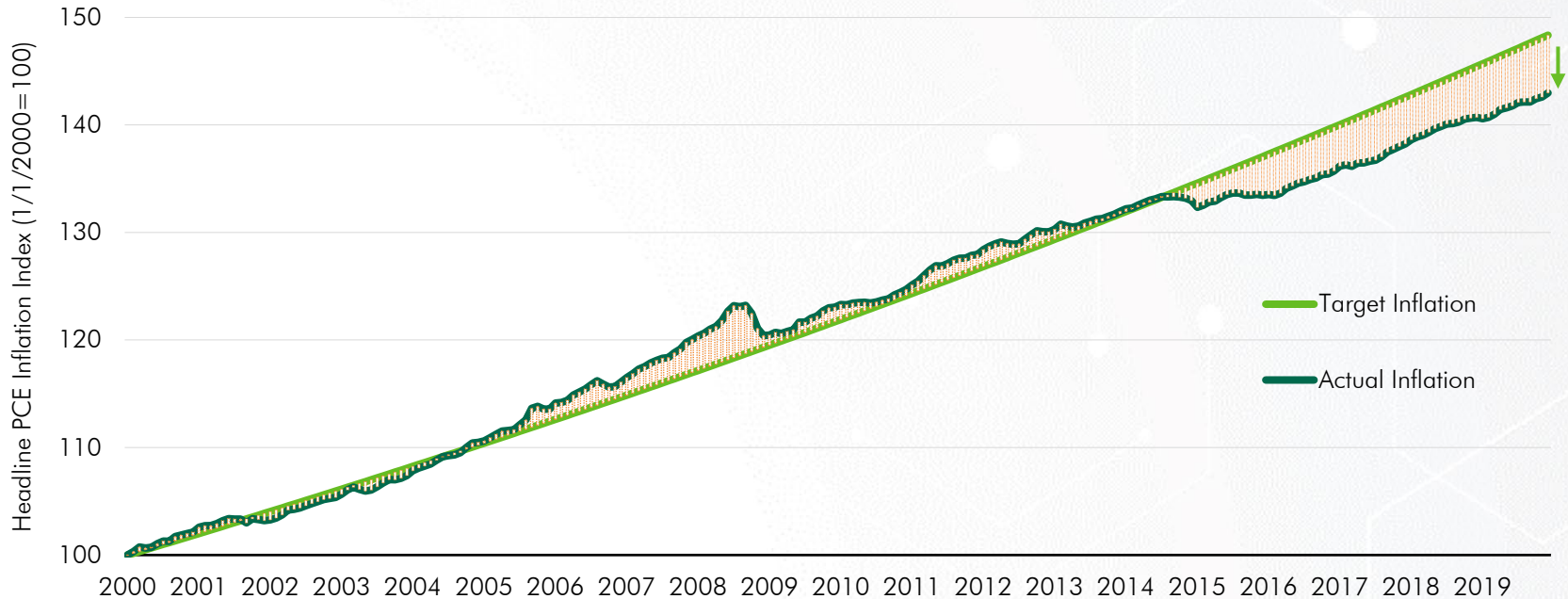
Source: BEA, Macrobond, CBRE Econometric Advisors, Q4 2019.



**DESPITE ELECTION UNCERTAINTY**

# UPSIDE IN THE FED'S REVIEW OF LONG-TERM MONETARY POLICY

New Regime seeks to close the deflationary gap



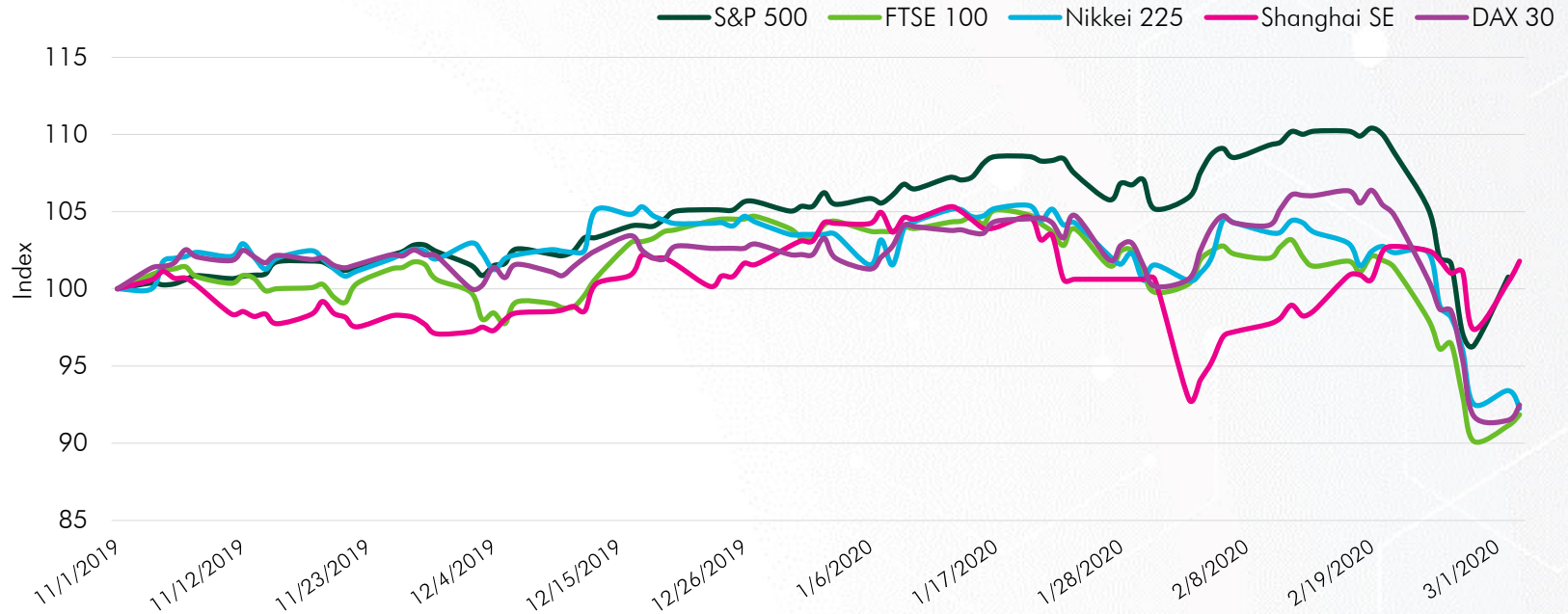
Source: St. Louis Fed, CBRE Econometric Advisors, February 2020.



**NOW WE HAVE  
COVID-19**

# HERD BEHAVIOR HAS TAKEN OVER

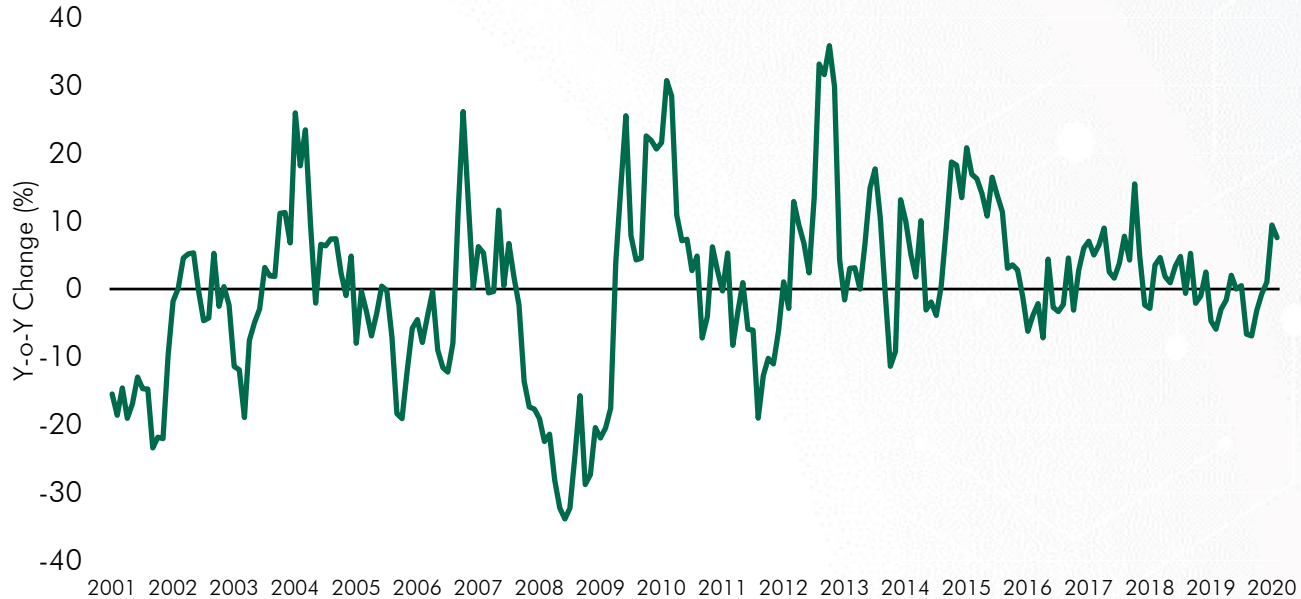
Equity market indexes (11/1/2019 = 100)



Source: S&P, FTSE, Deutsche Boerse, Nikkei, Shanghai Stock Exchange, Macrobond, CBRE Econometric Advisors, March 2020.

# UNDERMINING CONSUMERS - THE KEY STRENGTH OF U.S. ECONOMY

Consumer sentiment index [monthly]



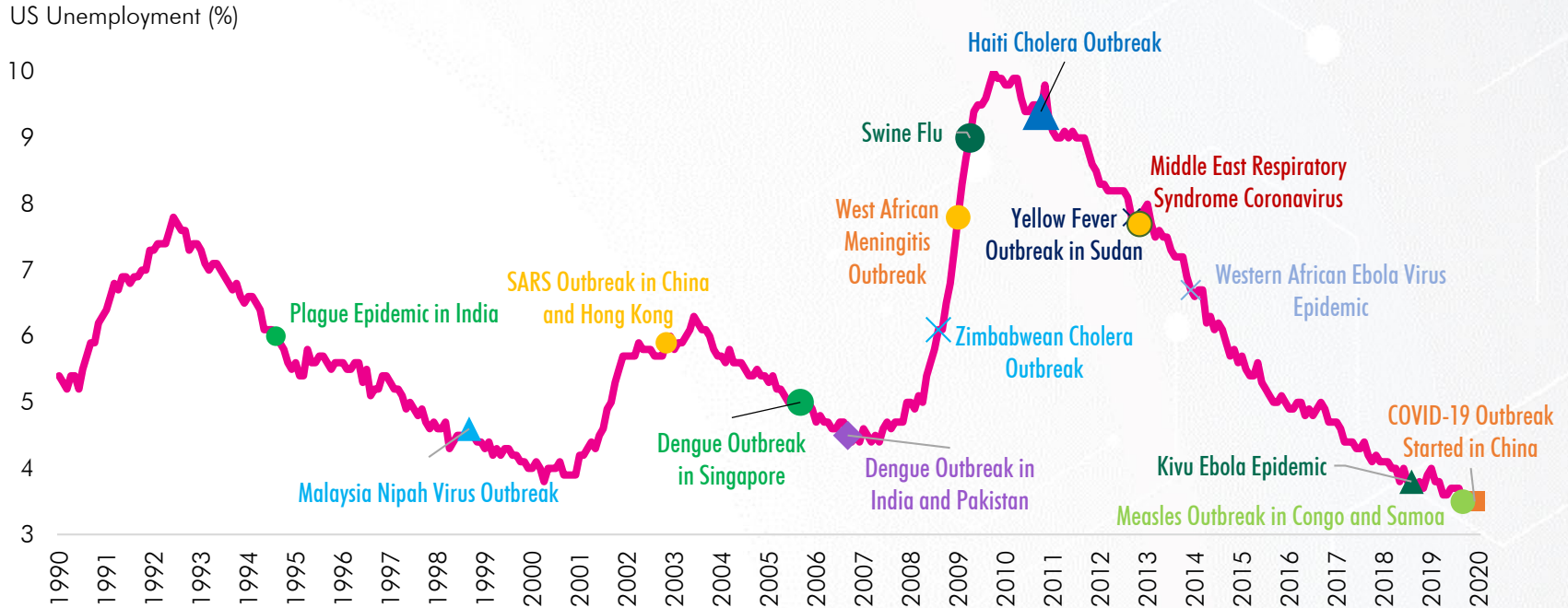
## Key Drivers of Consumer Sentiment:

- + Prime-Age Worker Wage Growth
- Unemployment Rate
- CPI Inflation
- + Stock Market Growth

Source: University of Michigan, CBRE Econometric Advisors, February 2020.

# PREVIOUS EPIDEMICS HAVE NOT DERAILED THE CYCLE

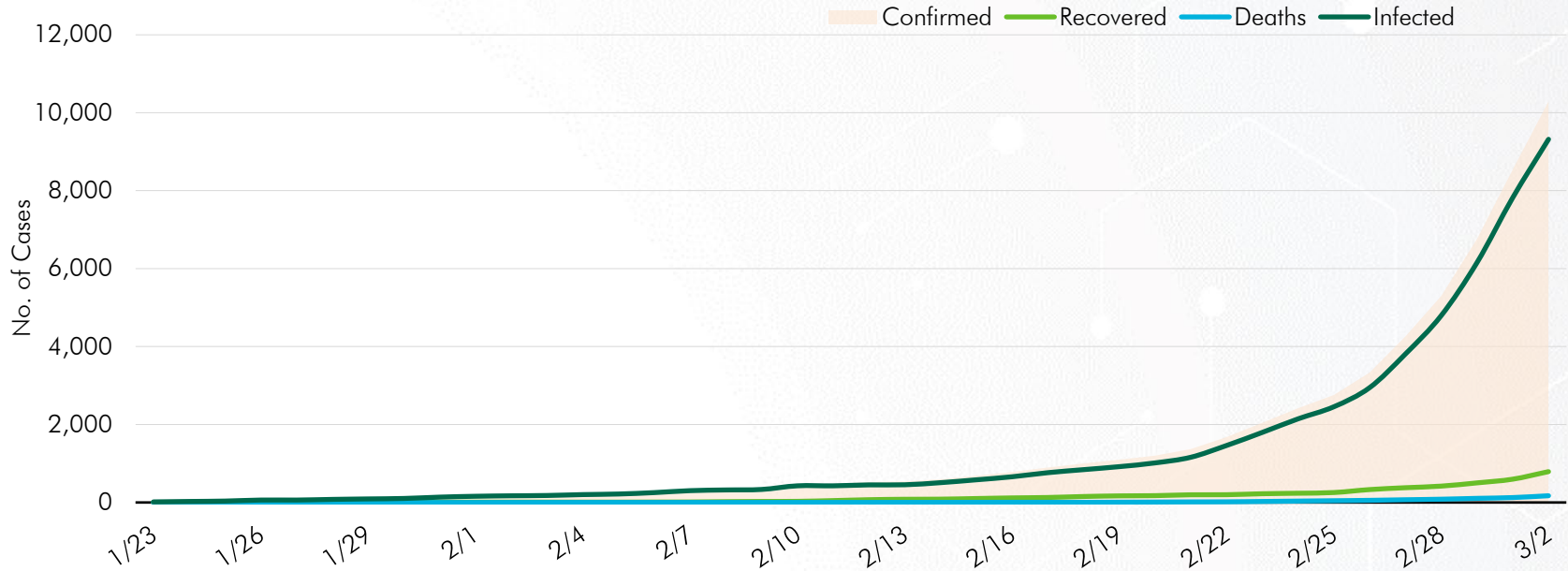
## Major epidemic events and the U.S. Economic cycle



Source: BLS, Wikipedia, CBRE Econometric Advisors, January 2020.

# BUT IT COULD GET A LOT WORSE

## Total confirmed cases outside of mainland China

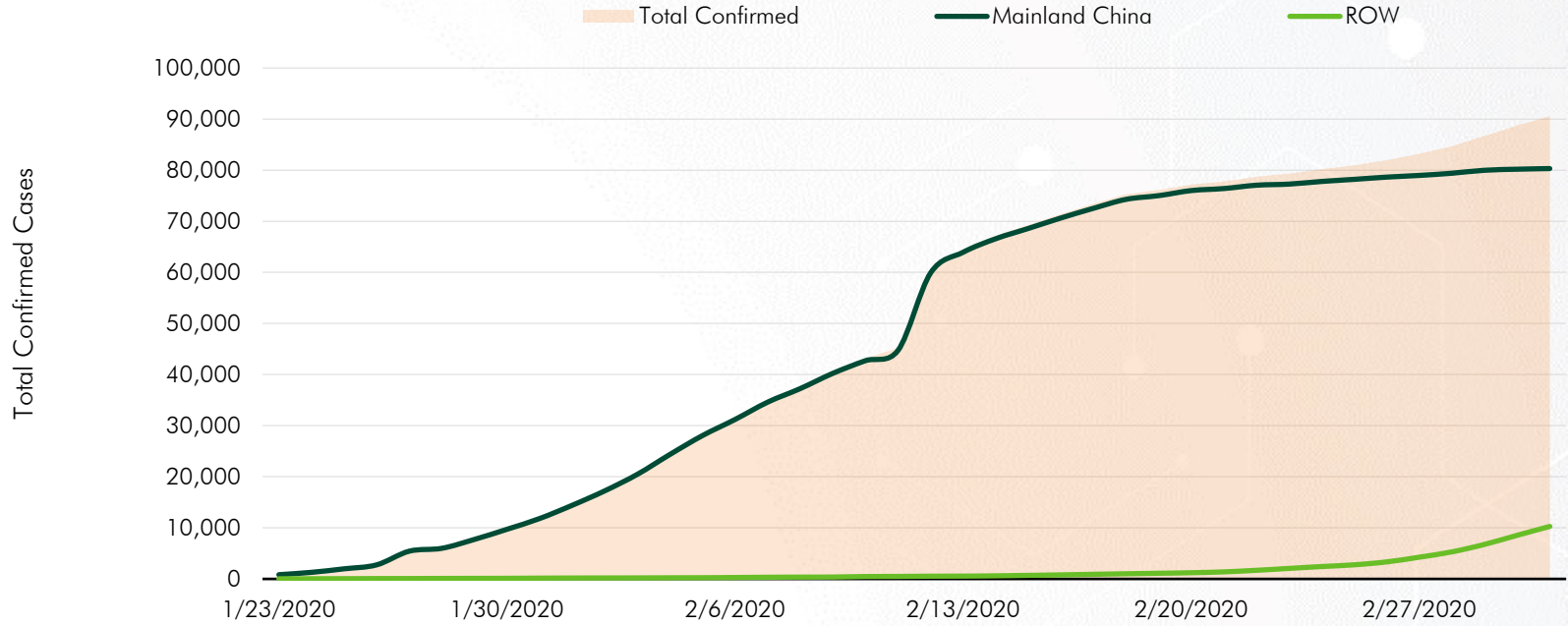


Source: COVID19info.live, CBRE Econometric Advisors, February 2020.



# EVEN AS SITUATION IMPROVES IN CHINA

## Total confirmed cases and new infections per day



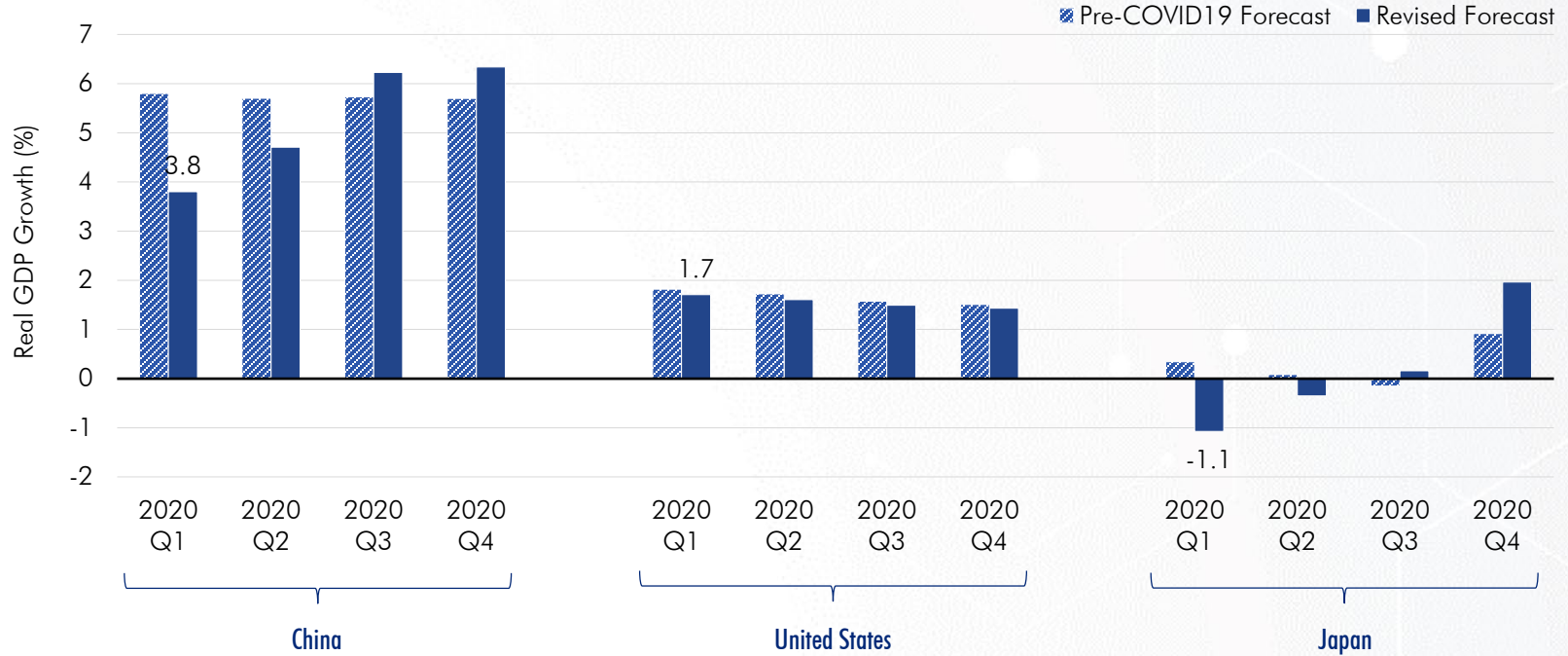
Source: COVID19info.live, CBRE Econometric Advisors, February 2020.

**WHERE DO WE GO FROM HERE?**



# CORONAVIRUS REVISIONS - NOT DONE YET

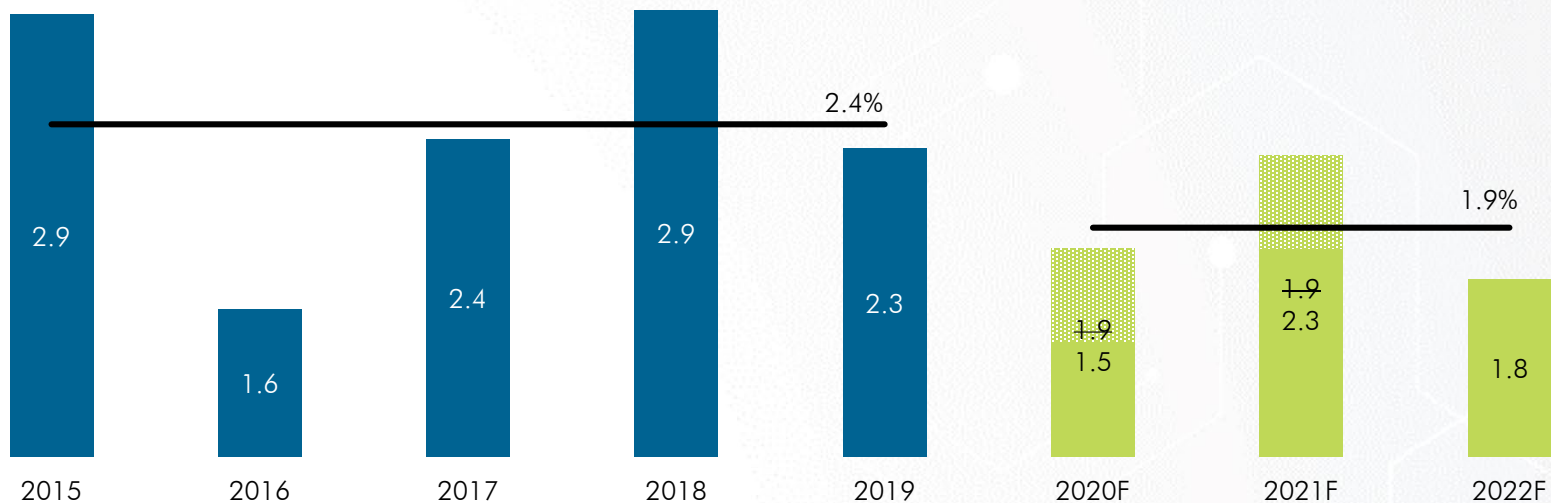
2020 quarterly forecasts by Oxford Economics



Source: Oxford Economics, March 2020.

# FULL-YEAR GDP GROWTH – UNDER REVIEW

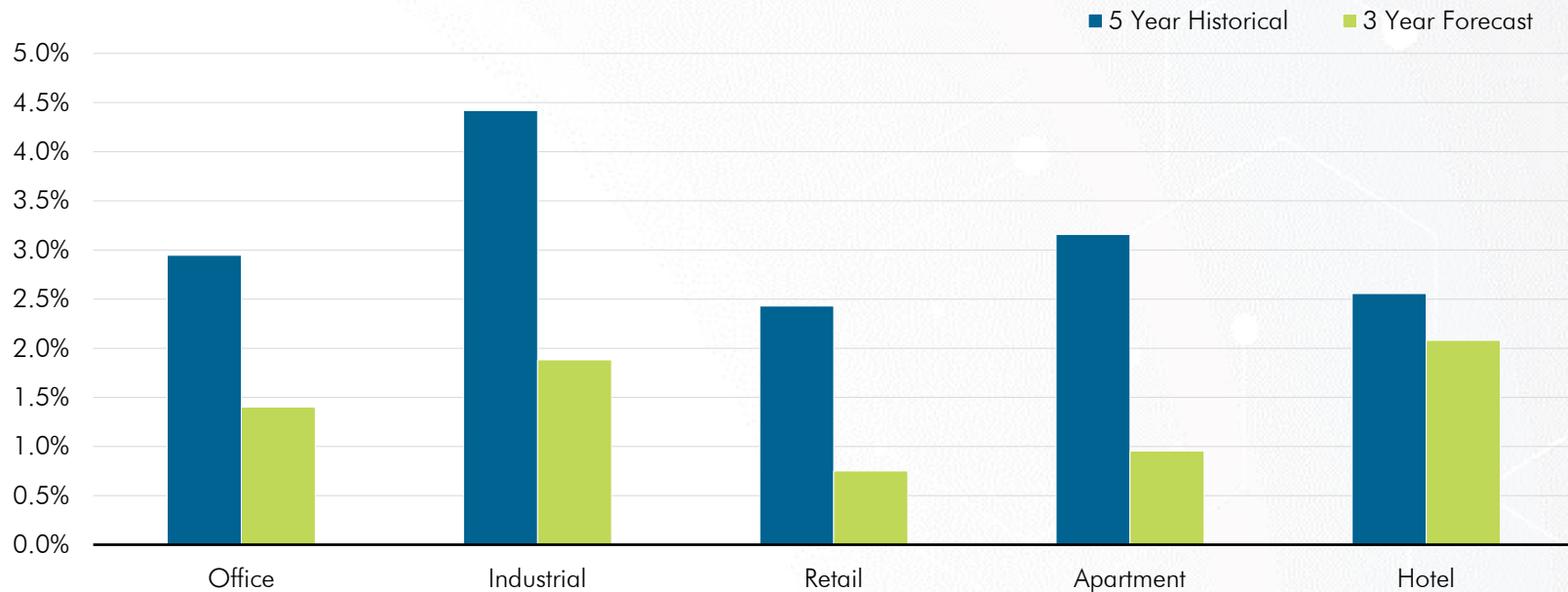
Annual U.S. Real GDP growth (%)



Source: CBRE Econometric Advisors, March 2020.

# REAL ESTATE RENT GROWTH BY SECTORS – UNDER REVIEW

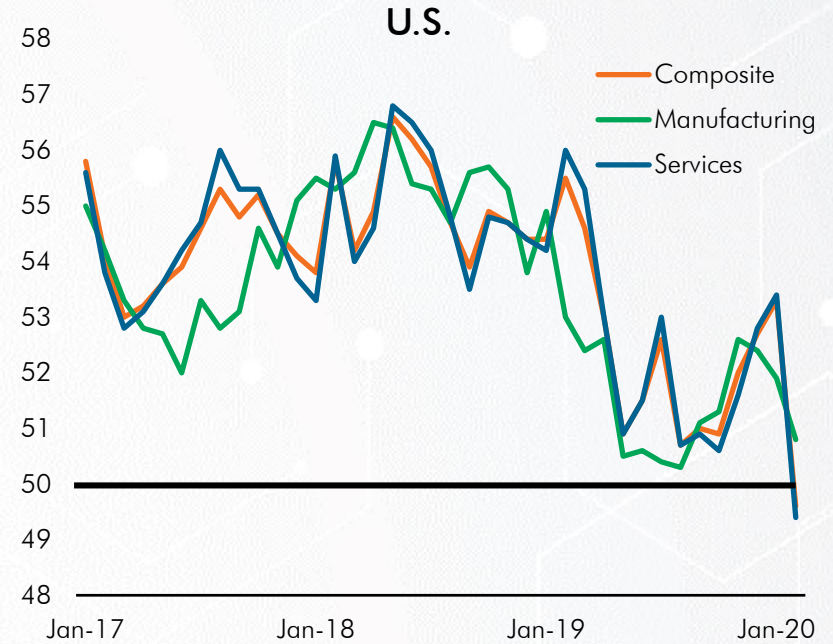
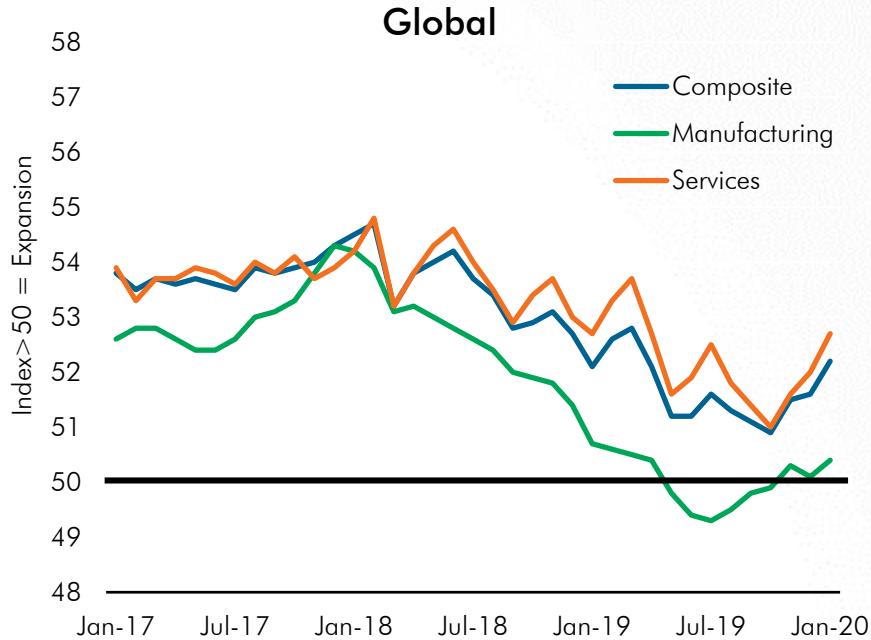
Average year over year growth



Source: CBRE Econometric Advisors, Q4 2019.

# SHORT-TERM RISKS TO THE DOWNSIDE

## Global market business confidence index



Source: Markit Business Survey, Macrobond, CBRE Econometric Advisors, February 2020.

## **RISKS TO THE DOWNSIDE?**

- **The Fed has acted – but there is no silver bullet**
- **Labor demand is high – but intense corporate ‘knee jerk’ underway**
- **Warm weather will help – but that is still a month away**
- **Easing tariffs would help – but will it happen**
- **The cure is worse than the disease**
- **V shape, U shape, L shape – and back again**

## **BOTTOM LINE**

- **Economic weakness floods into Q2**
- **Growth for the year, cut by up to a half**
- **Employment growth seizes up for six months**
- **Rent growth evaporates – vacancy rises a bit**
- **Capital values broadly resilient**



## **LONGER-TERM RISKS TO THE UPSIDE?**

- **The lagged effect of monetary policy**
- **The catch-up of pent-up demand**
- **The Capex deficit**