

AEW

2020 OUTLOOK: CALM BEFORE THE STORM

LOWER FOR LONGER OFFERS EXTRA TIME

21 JANUARY 2020

RESEARCH & STRATEGY

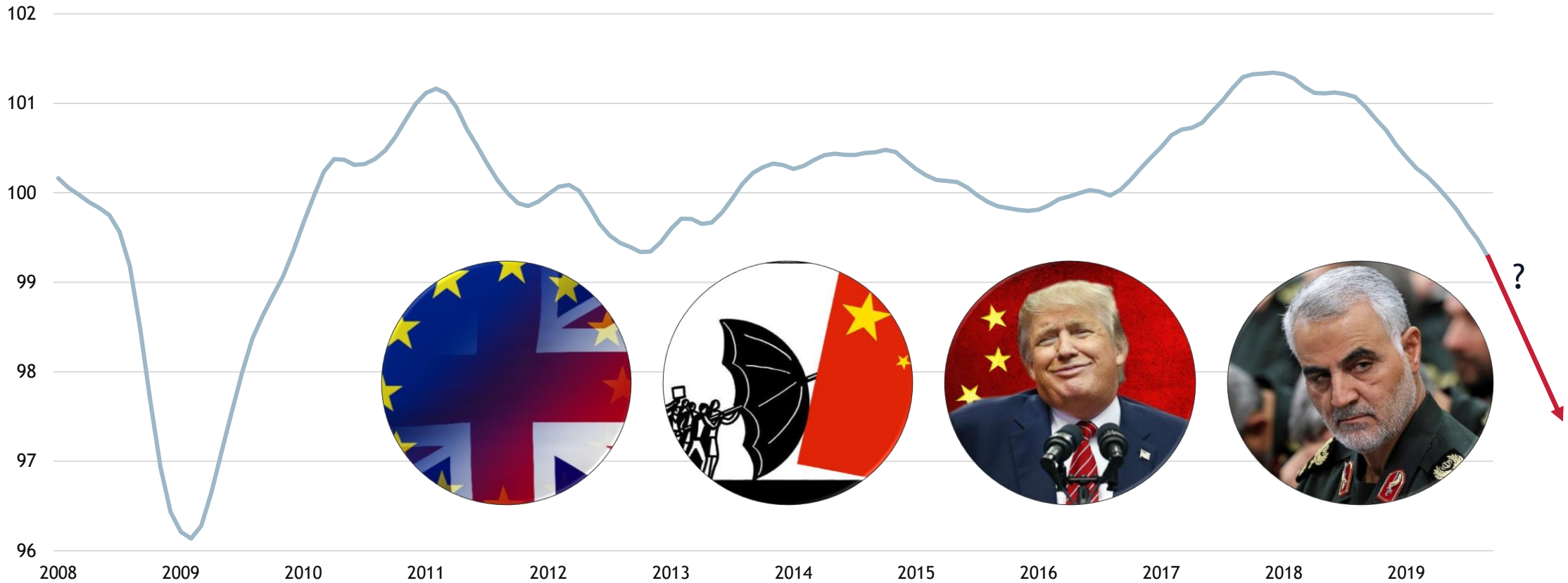


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- I. MONETARY POLICY EXTENDS EXCESS SPREAD
- II. MARKET FORECAST SCENARIOS
- III. RELATIVE VALUE UPDATE

HOW WILL EUROPEAN REAL ESTATE FARE IN 2020?

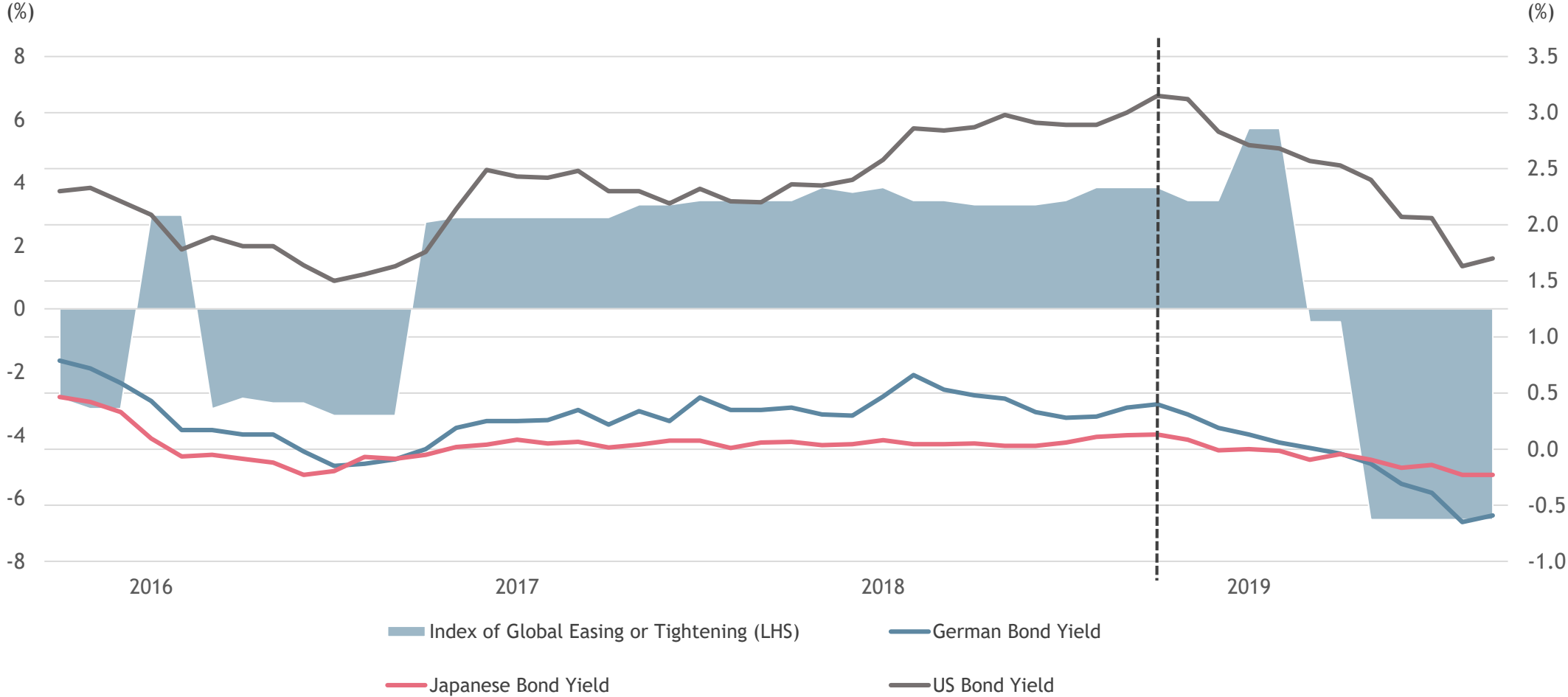
POLITICAL EVENTS PUSH BUSINESS CONFIDENCE TO LOWEST POINT SINCE 2012/2013



Sources: OECD Business Confidence Index & AEW

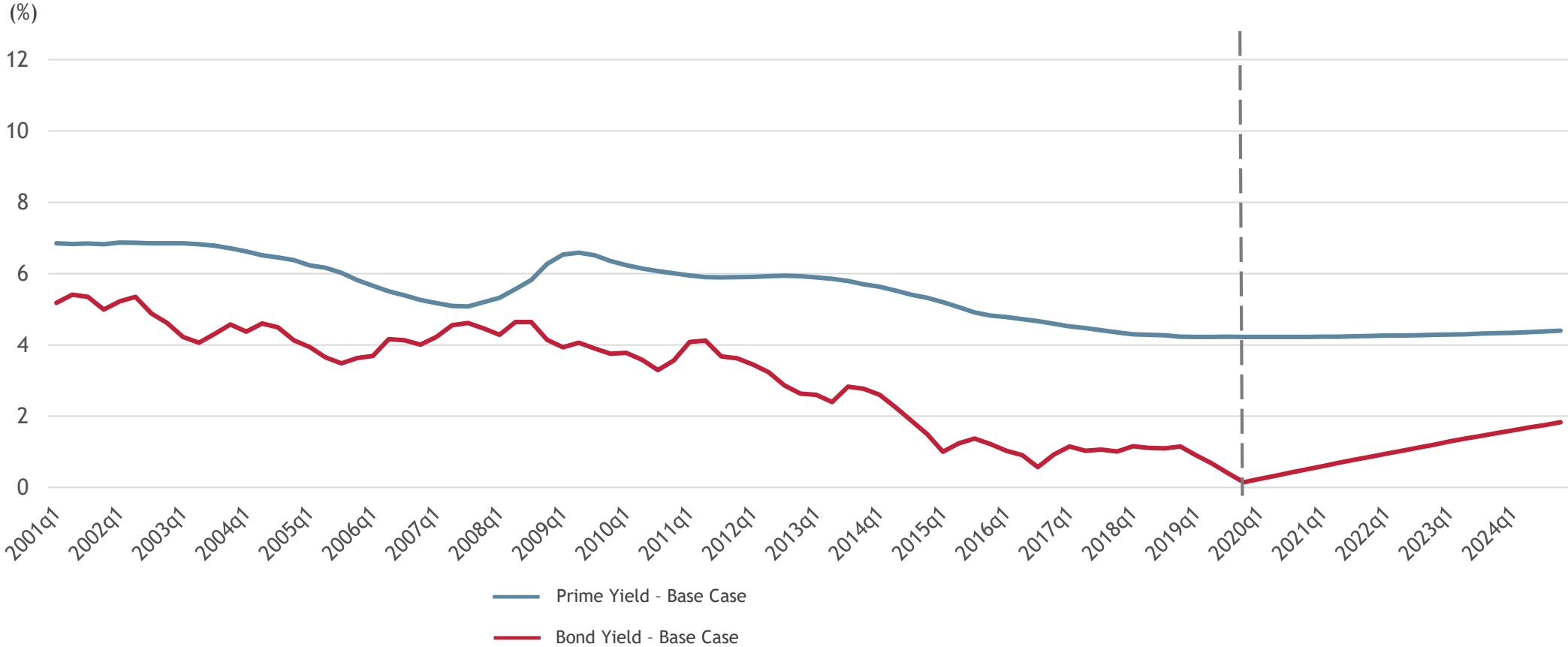
MONETARY POLICIES COME TO THE RESCUE... AGAIN

GOVERNMENT BOND YIELDS MOVE DOWN TO HISTORICAL LOWS



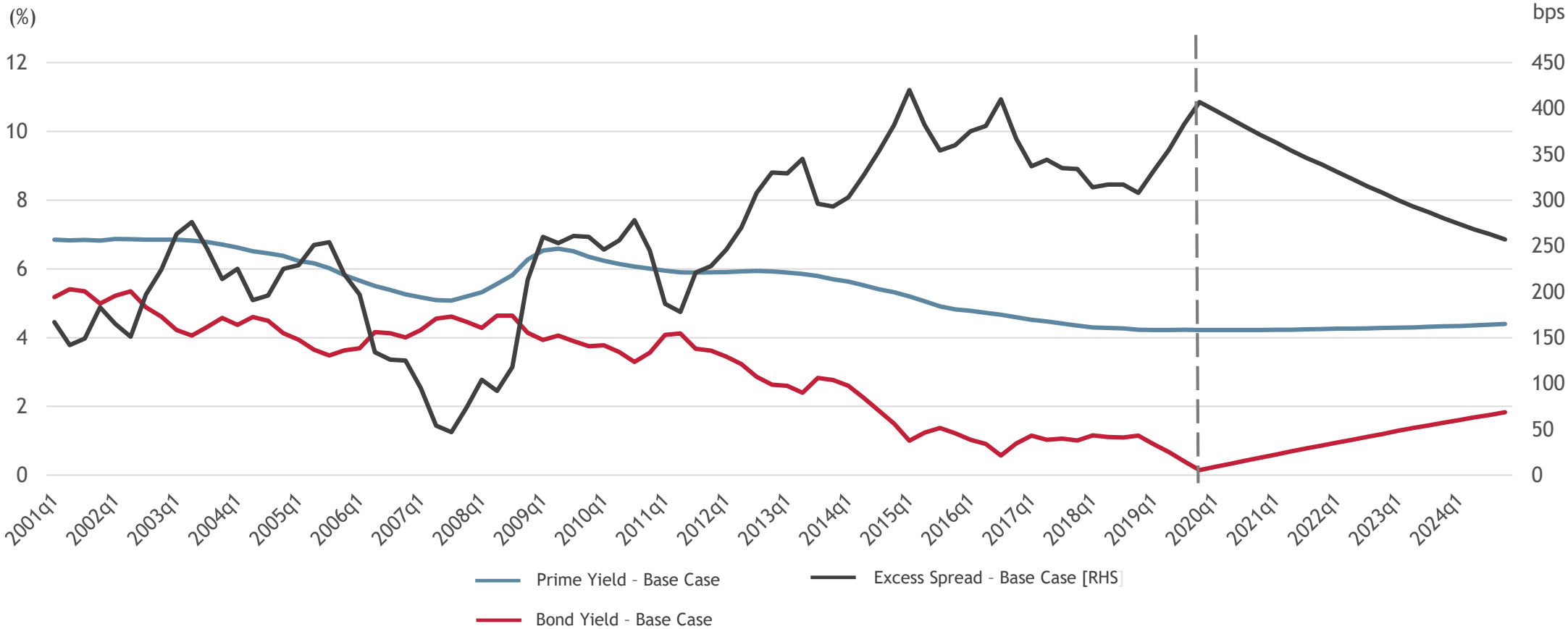
Sources: AEW, CFR & OECD

EXCESS YIELD STAYS NEAR HISTORIC HIGH IN BASE CASE BUT SETS NEW RECORD IN LFL SCENARIO



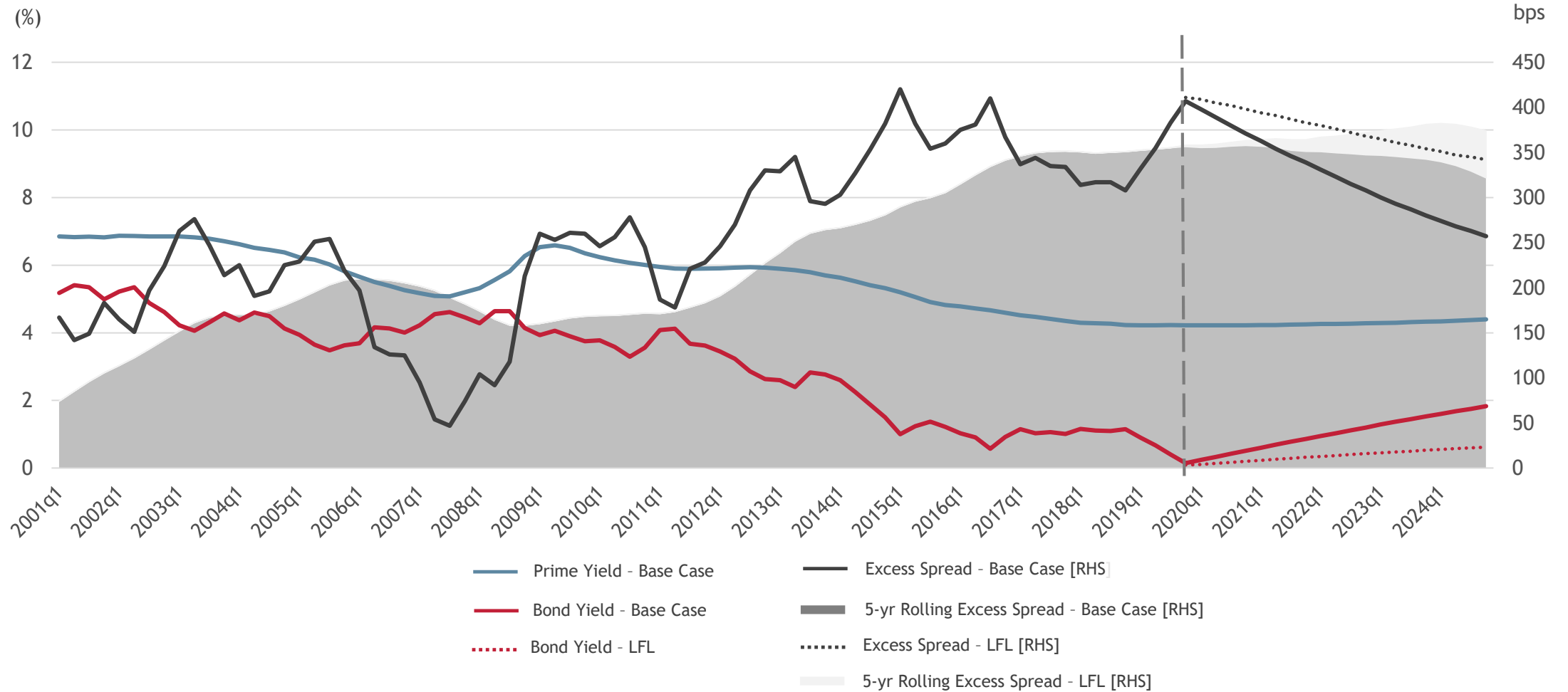
Sources: CBRE, Natixis & AEW Research 2019

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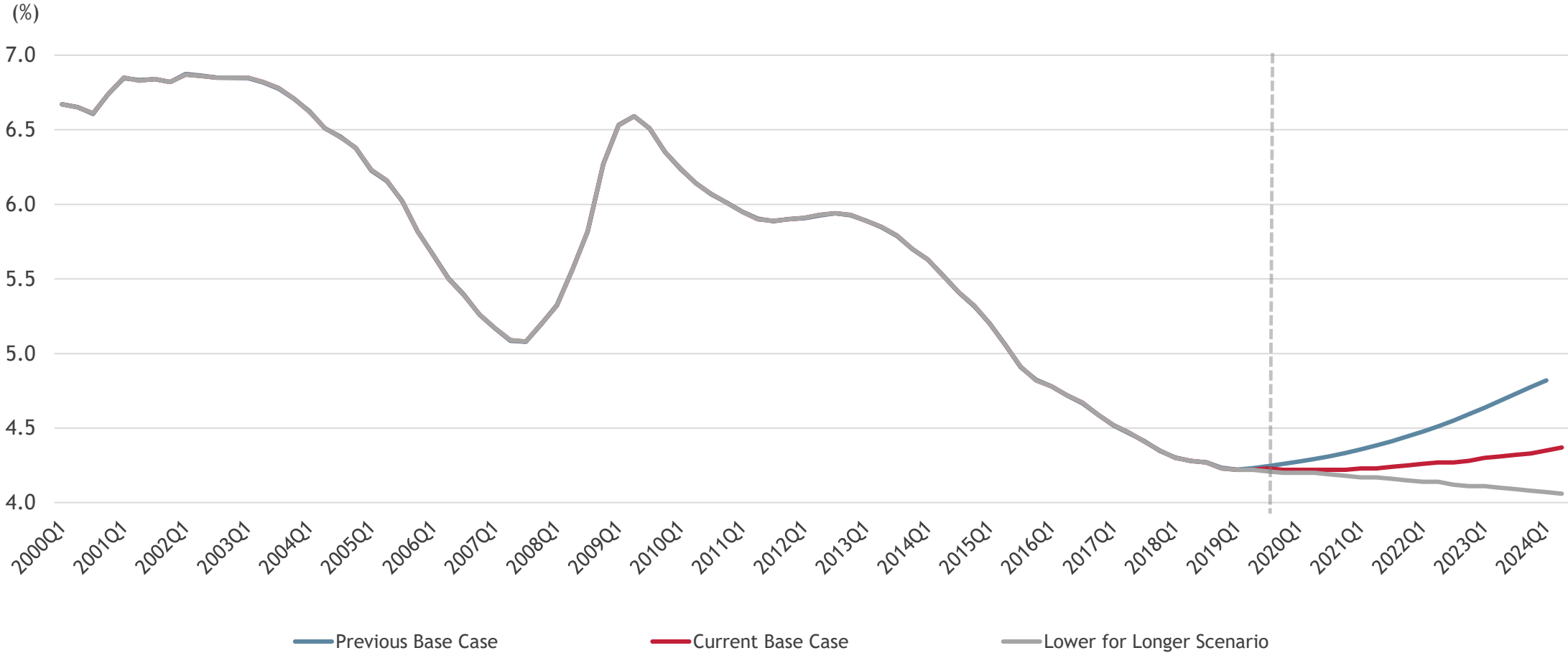


Sources: CBRE, Natixis & AEW Research 2019

MARKET FORECAST SCENARIOS

LOWER-FOR-LONGER BOND YIELDS PUSH DOWN PROPERTY YIELDS

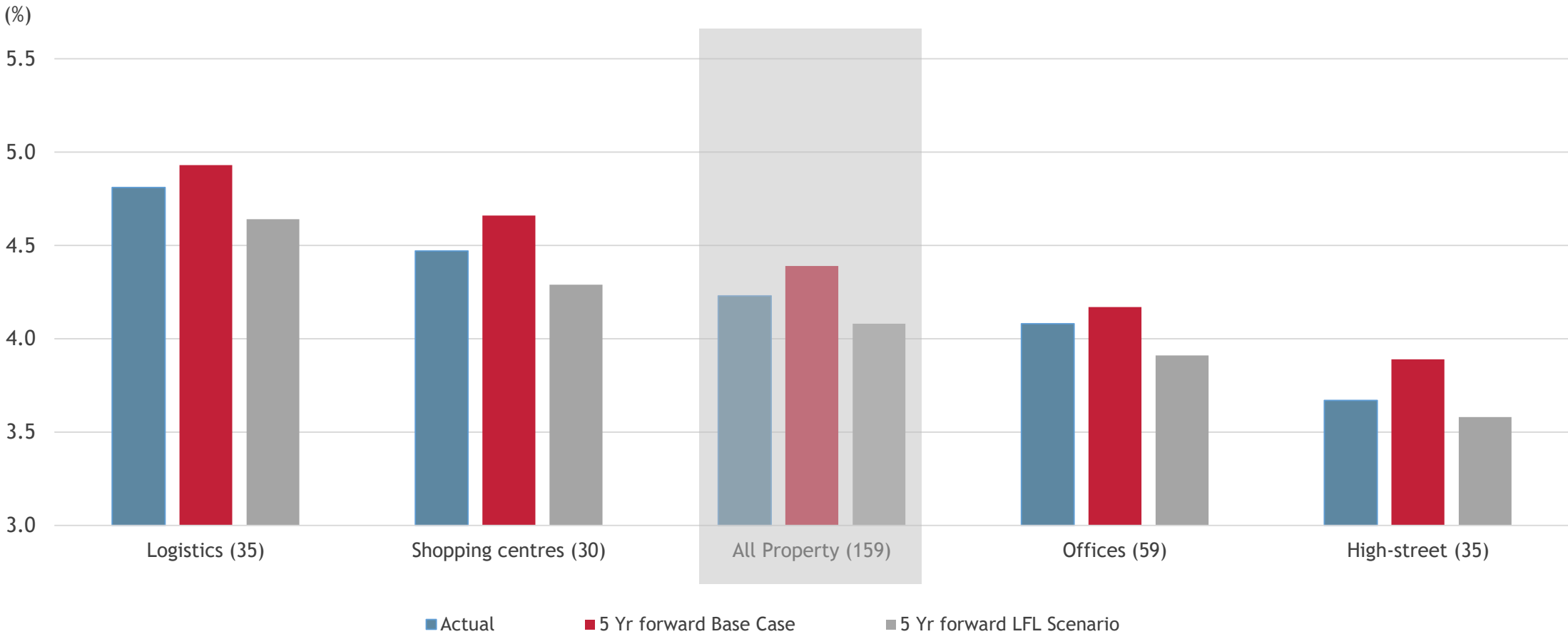
AVERAGE ALL PRIME PROPERTY YIELDS



Source: CBRE, Natixis, Bloomberg & AEW Research 2019

BASE CASE PROPERTY YIELD SHIFT BY ONLY 20 BPS

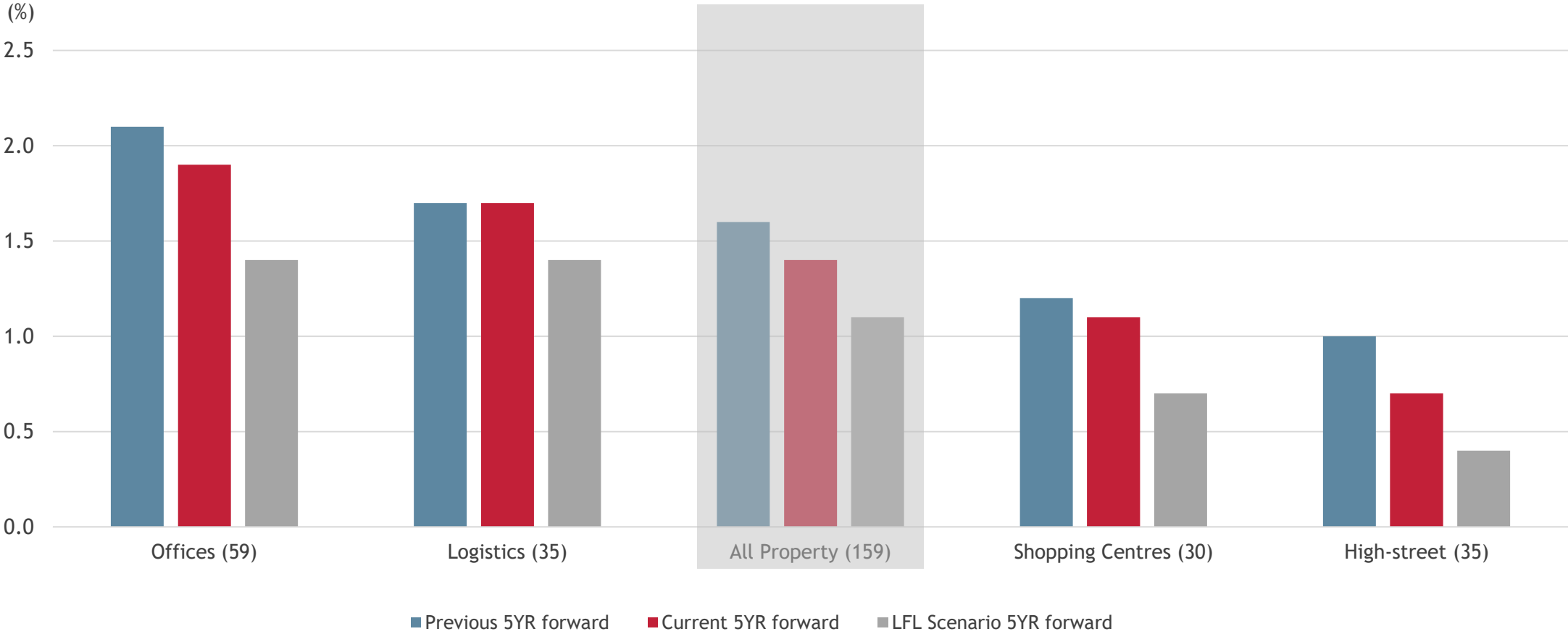
LFL SCENARIO SHOWS FURTHER TIGHTENING



Sources: CBRE, Natixis, Bloomberg & AEW Research 2019

LOWER RENT GROWTH AS ECONOMIC GROWTH SLOWS

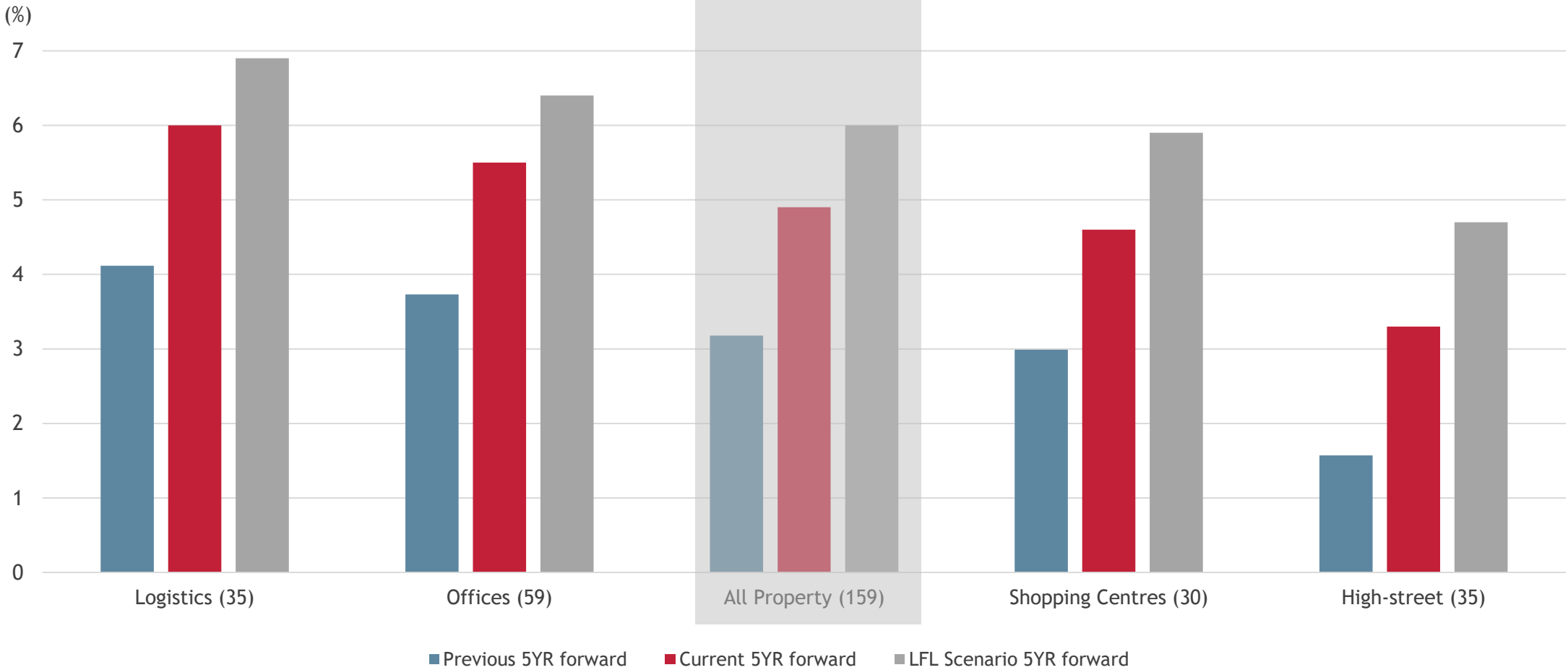
LOGISTICS ONLY SECTORS LEFT UNCHANGED IN BASE CASE



Sources: CBRE, Natixis, Bloomberg & AEW Research 2019

FUTURE YIELDS STILL DRIVE BETTER OVERALL RETURNS

TOTAL RETURN FORECAST

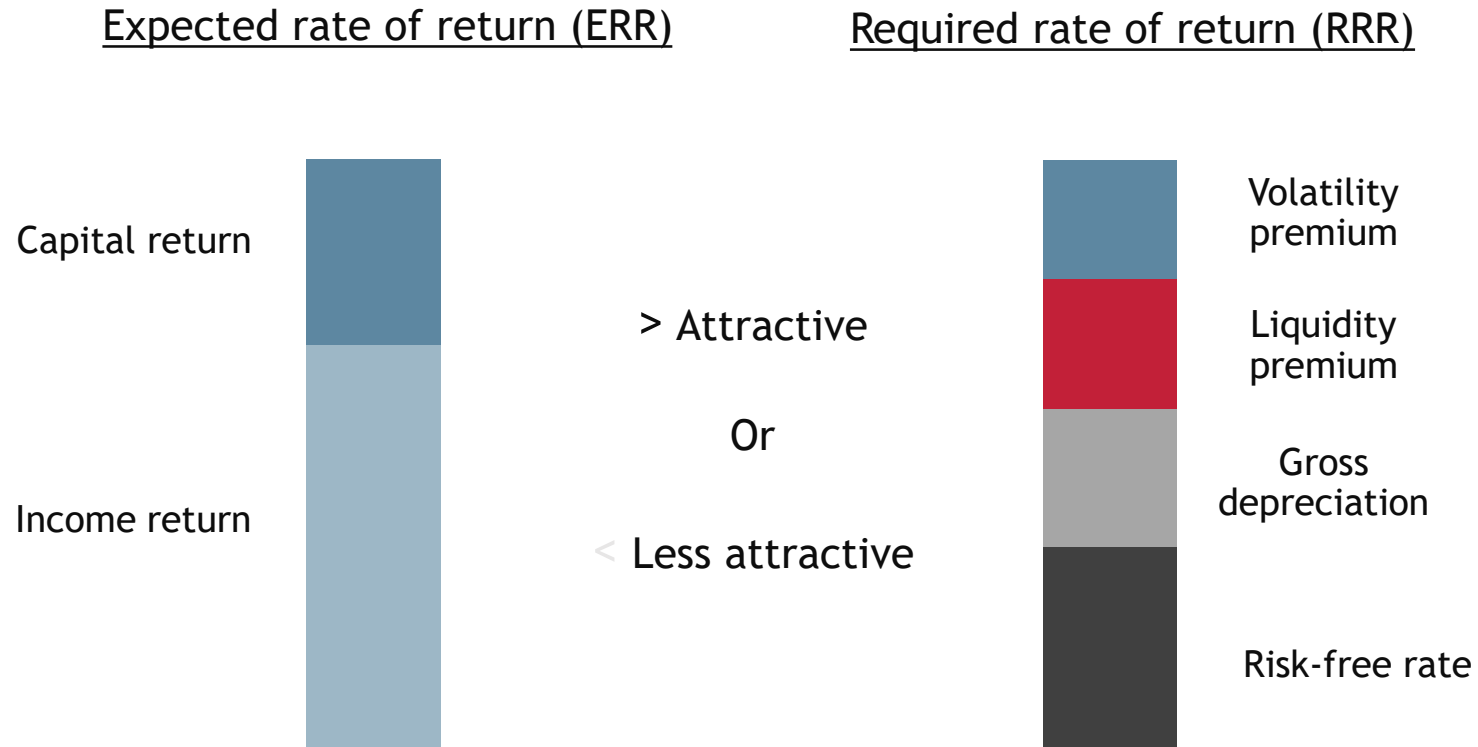


Sources: CBRE, Natixis, Bloomberg & AEW Research 2019

RELATIVE VALUE UPDATE

RISK-ADJUSTED RETURN METHODOLOGY

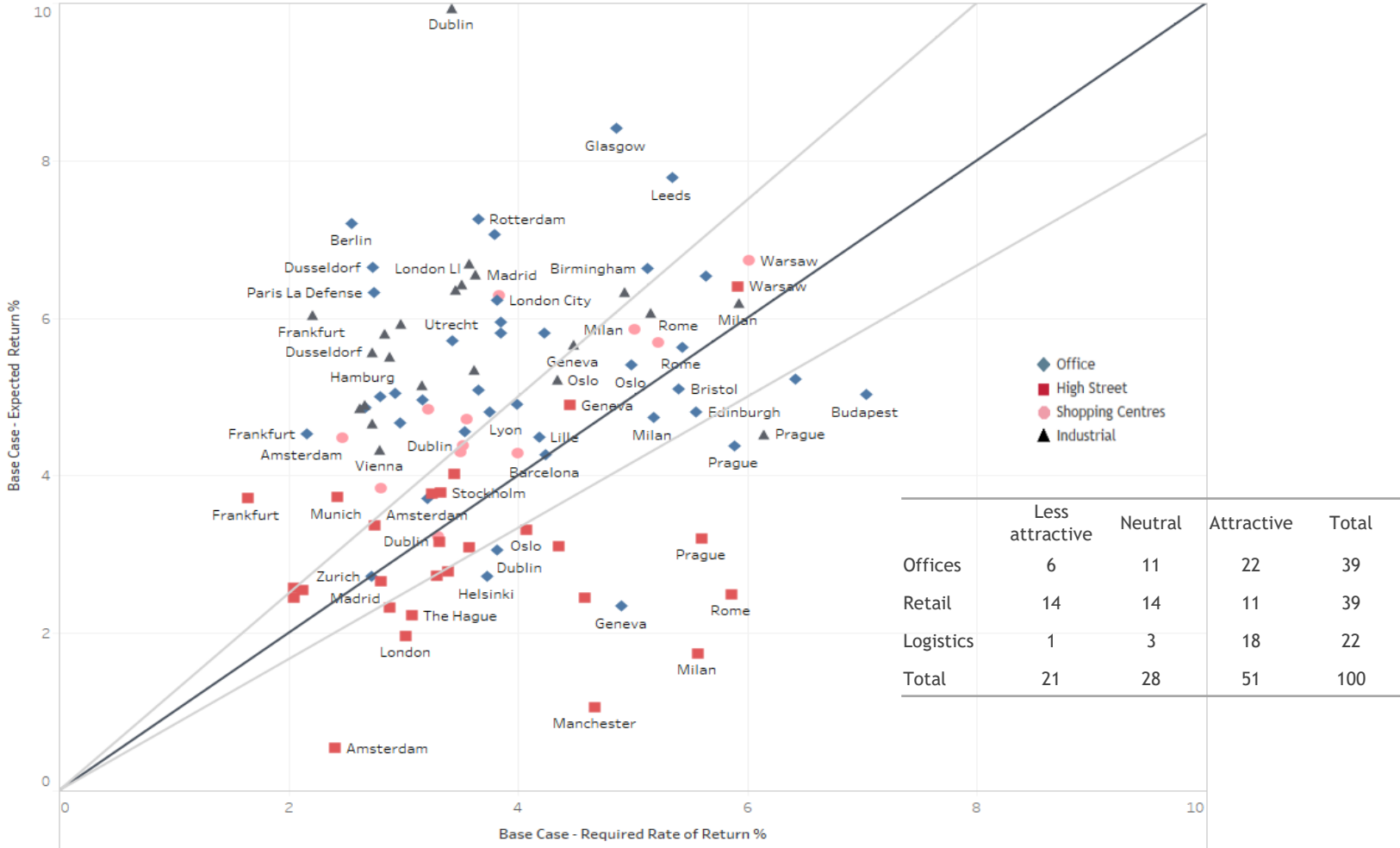
FOCUS ON MINIMUM ACCEPTABLE LEVEL OF RETURN GIVEN EACH SEGMENT'S RISK PREMIA



Source: AEW

LOGISTICS COMES OUT AHEAD

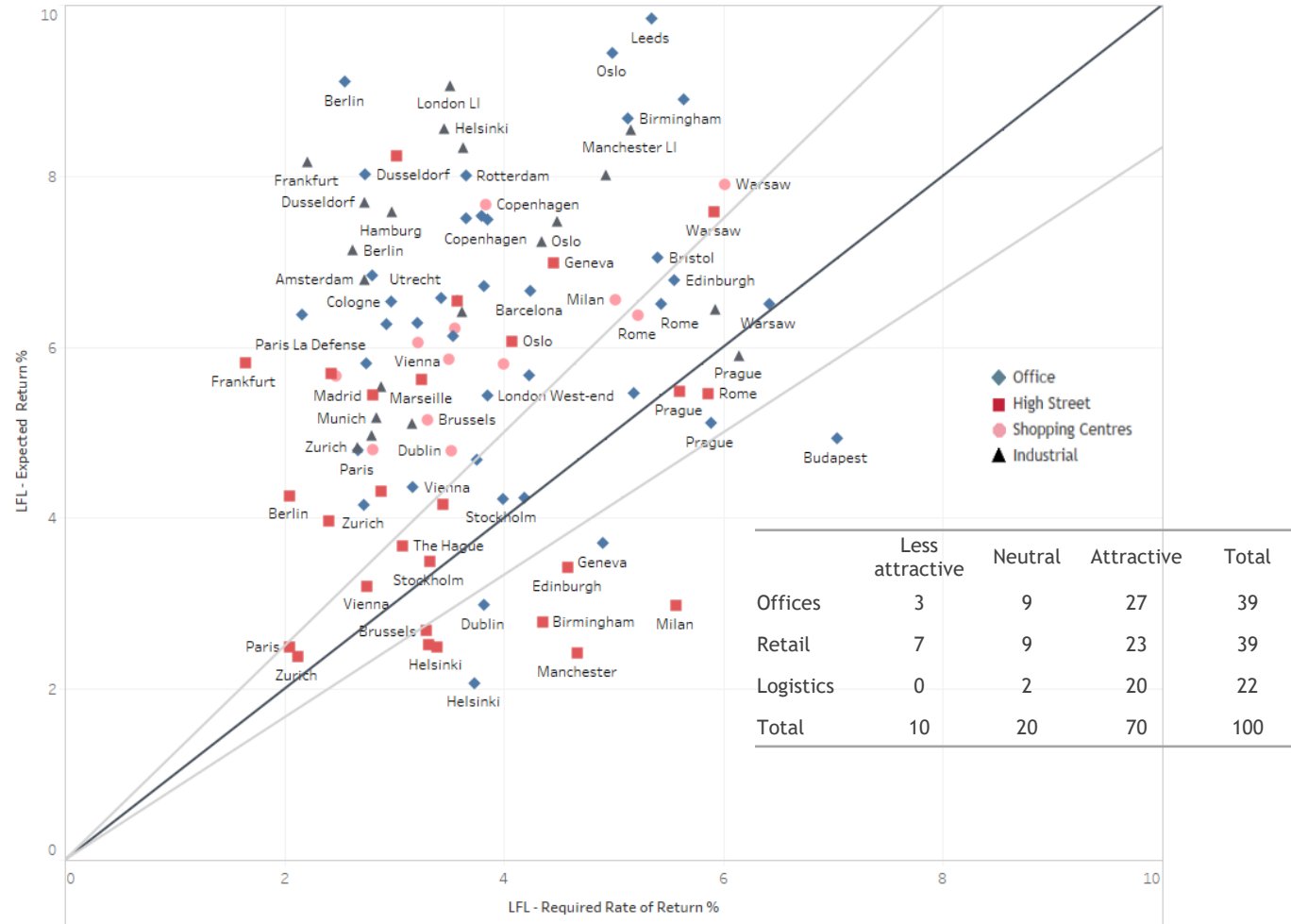
PRAGUE IS ONLY EXCEPTION



Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW

LFL SCENARIO SHOWS 90 OF 100 RATED ATTRACTIVE OR NEUTRAL

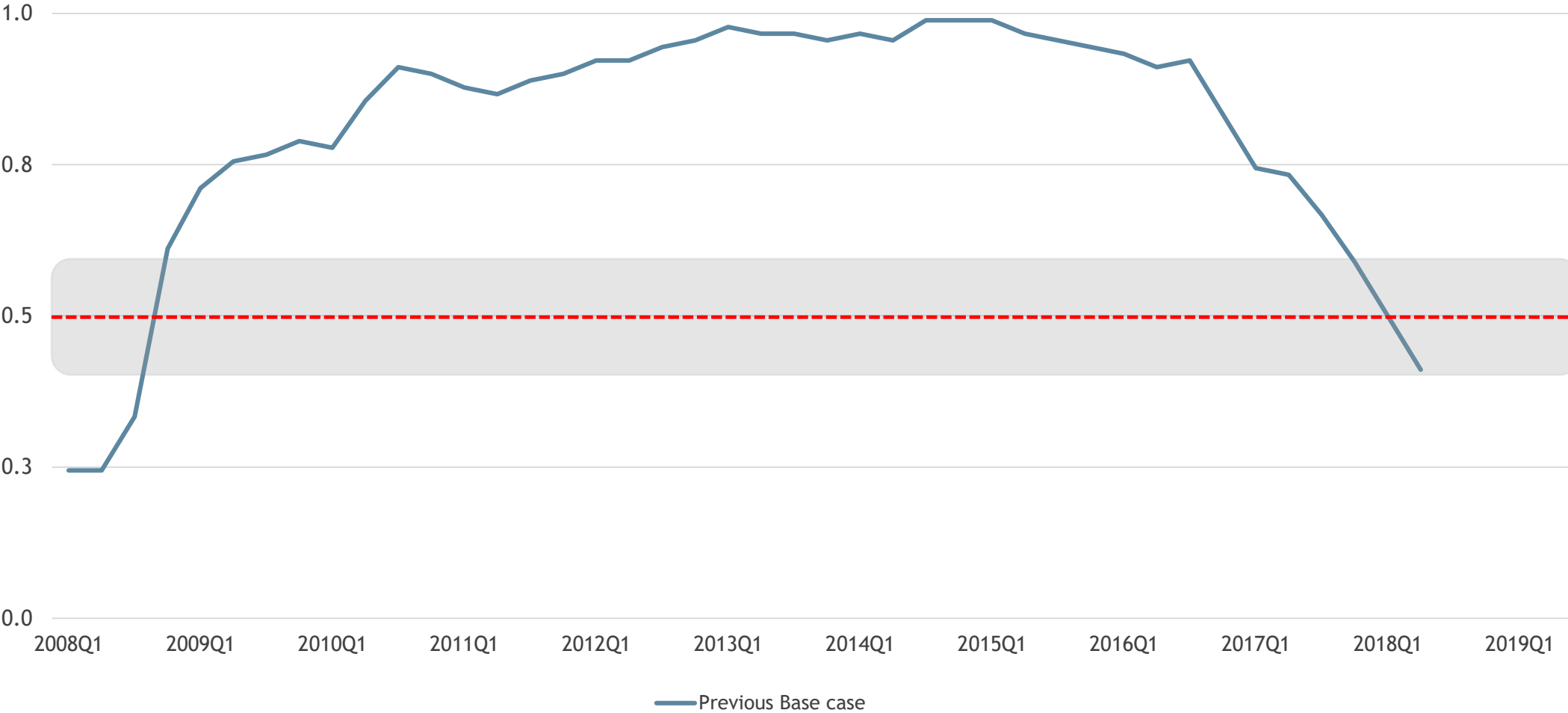
RETAIL REMAINS CHALLENGING



Sources: CBRE, RCA, MSCI, Oxford Economics, Natixis & AEW

CYCLE EXTENSION CONFIRMED BY RISK-ADJUSTED RETURN INDEX

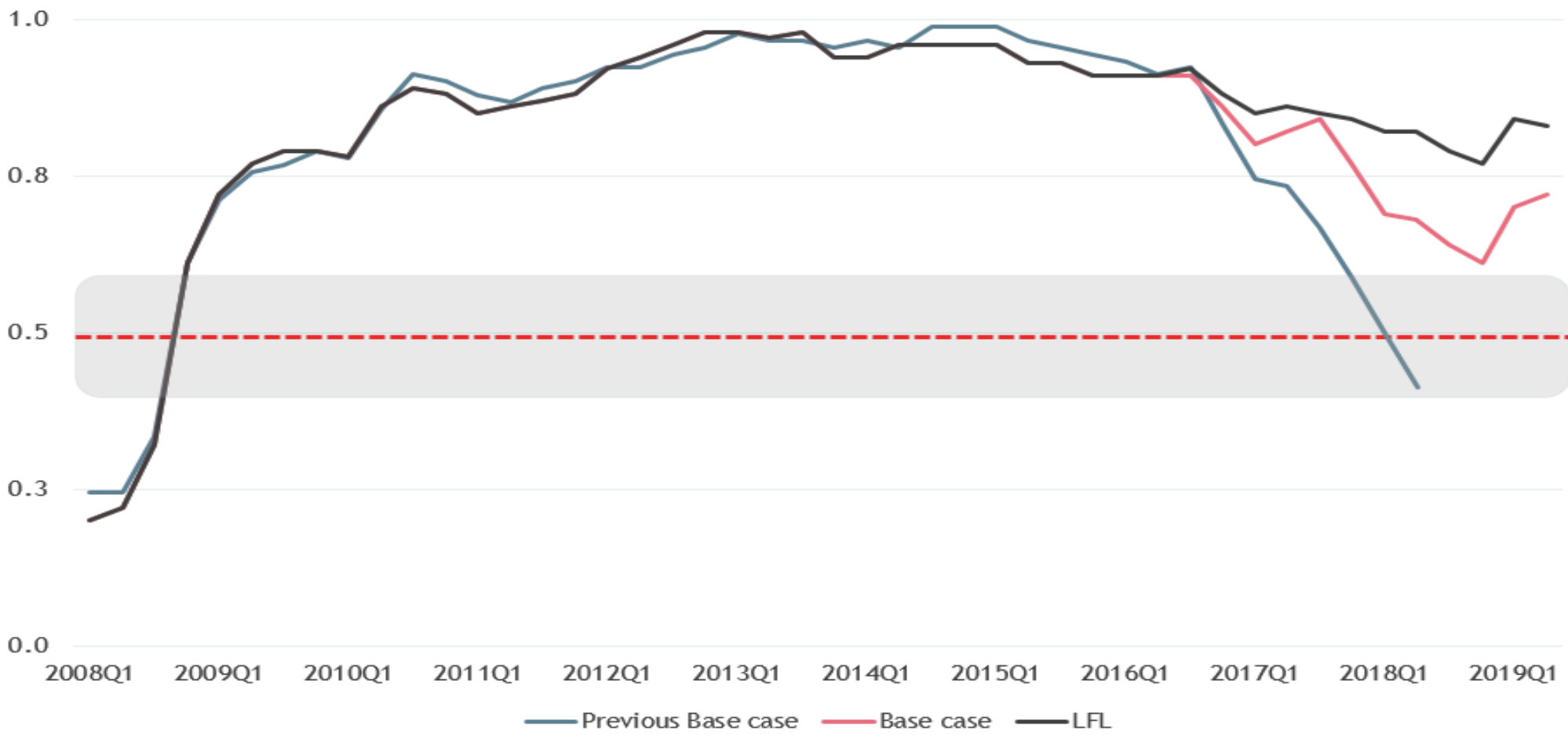
BASE CASE VS LOWER-FOR-LONGER SCENARIO



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



Focused on the Future of Real Estate

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