Global Outlook

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In this Report:

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Autonomous RE

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Old School demand for Real Estate was based on FIRE (Financial, Insurance and Real Estate). Think Bank of America, Berkshire Hathaway and Blackstone. New School demand for Real Estate is now STEM (Science, Technology, Entertainment and Math). Think Merck, Google, Disney and Alibaba. The deconstruction of real estate is complete. What we used to consider as **Location, Location, Location** has now become **Location, Bilocation, and Dislocation.** The arcane "paper push" systems of the baby boomers with vaulted marble lobbies, corner offices and concrete tilt-up pyramids have morphed into the transparent cloud of big data and blockchain. Real Estate now must be fluid, dynamic, evolving and nimble. Real Estate must be Autonomous – free to reposition itself when consumer preferences change. And in today's market consumer preferences morph monthly.

We now have opportunity zones, innovation hubs, intermodal districts, sleep boxes, micro-units, ghost kitchens, co-workspace, car matrixes, and e-sports. This has all transformed – morphed – deconstructed traditional real estate KPI's where office is now co-work, shopping centers are now retail resorts, industrial is now logistic outposts, and residential is now community housing. All sectors have evolved into Live-Work-Play nodes that must be interconnected into the vast information highway integrating social, political, economic and environmental preferences.

This is the age of Autonomous Real Estate.

Looking Around

Global impacts have recently come to roost on Real Estate investment strategies. These impacts include Brexit or Not to Brexit, Tariffs or Not to Tariff, Borrow or not to Borrow, and Cyber Security or Cyber Breach. All of these global economic rain clouds that have been on the horizon necessitates an alertness for you to interpret risk. Your ability to identify risk from both the Macro and Micro level will be the difference in surviving, thriving or stabilizing in the next downturn. And the downturn is around the corner. We are just not sure if the downturn will be a sharp curve leading to a fork in the road, or the downturn will be a lazy economic parabola with little impact.

Projections for 2019 are as follows:

The US economy will remain stable and a preferred "safe haven" for international investment. Tariff wars are the wild card. Tax stimulus likely stalled the downturn.

Eurozone has peaked with a long slow decline. Brexit is still up in the air. Macron is being challenged and Merkel's commitment to support the Eurozone may wane.

Japan is still in stagnation and may suffer with a potential China and US trade war.

China is still growing, but not at the same unsupportable pace in the past. Expect about 6.3%.

Emerging markets like Brazil, India and Russia may see a mild uptick, but other countries such as South Africa and Turkey may get caught in the tightening global financial and political fallouts.

Bottom line as the economic and political heads winds change – stay diversified and stay ever vigilant to your investment. Use the right people and be resilient.

According to Real Capital Analytics 2018 investment trends showed the following:

Americas – YOY Strongest demand in Industrial, Retail, and Hotel. Office is flat. Demand for Senior Housing dropped.

EMEA – YOY Strongest demand in Residential. Demand dropped in all sectors including Office, Industrial, Retail and Senior Housing.

Asia Pacific – YOY Strongest demand in Industrial and Hotel. Demand dropped in Residential and Senior Housing. Office was flat.

According to **PwC**, the global cities for real estate investment for 2019 are:

Canada	Europe	Asia Pacific
Toronto	Lisbon	Melbourne
Vancouver	Berlin	Singapore
Montreal	Dublin	Sydney
	Madrid	Tokyo
United States	Frankfurt	Osaka
Dallas/Fort Worth	Amsterdam	Shanghai
New York-Brooklyn	Hamburg	Ho Chi Minh City
Raleigh/Durham	Helsinki	Shenzhen
Orlando	Vienna	Seoul
Nashville	Munich	Guangzhou
Austin		
Boston		
Denver		

"Real estate demand is moving more quickly than at any other point in my career. Landlords are having to delve into the operation of the business in a way that is more akin to hotels…."

Global ***Emerging Trends in Real Estate* | Pwc**

"With interest rates expected to rise in a number of key markets in 2019, a further slowdown in yield compression is expected "

PGIM – Trends 2019

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Location – Bilocation- Dislocation

Location – Location- Location is the bygone era of the traditional economic standard for the Agents of Production oft associated with Real Estate Fundamentals – Land, Labor, Capital and Entrepreneurial Coordination. While still true in the Keynesian Economic point of view this has transitioned toward Solow Economics where in the long run growth is achieved through technological progress.

This redefinition of the traditional mantra model for real estate as Location, Location, Location is now –

Location-Bilocation-Dislocation

What has happened? Location reflected the permanence of sticks and stones fixed to the land. Therefore, the real estate became integrated which was now greater (or lessor) than the sum of the parts. But in today's advances in technology, data transparency, intellectual capital (people) and big data – the real estate can be in multiple locations, or Bilocation. Amazon can have an industrial building that connects to a drone, or autonomous truck and deliver groceries to a house, condo, or apartment. A ghost kitchen can prepare meals for a restaurant miles away. An innovation hub with scholars, entrepreneurs and politicians can use and connect into co-work, retail, hotel and apartments. The Bilocation of real estate is not a branch office of the same company – Bilocation real estate is an extension of the real estate in much the same way we have feet, legs, body, arms, hands and head. And connecting the autonomous real estate idea is the network of systems so each component can grow and learn.

Real estate markets today have permanence (location) and now transitions, or Bilocation.

Lastly, real estate can be Dislocation. While we can have bilocation with integrated components, and systems, and processes that make a greater whole, we can also have dislocation where the real estate components can be displaced. We have seen this with telecommuting. Employees are displaced from the main workplace through mobile, remote and flexible systems. Real estate has been deconstructed and broken down to is essential parts.

Deconstruction of the business model has led to the dislocation of real estate. Volatility in real estate is a given with a Ying Yang relationship between evolution and revolution of the sticks and stones. Retail best provides the example where the General Store had most items in store, the Specialty Store had a few items in store and the E-Store has no items – no store. Today the store is in the cloud.

We need to rethink Real Estate Economics 101. We need to broaden our reach and scope.

Estate is the new Land

Industry is the new Labor

Investment is the new Capital

Enterprise is the new Entrepreneurial Coordination.

Remember Sears. Sears had Location. Sears did not have Bilocation. Now Sears is Dislocated, displaced and fragmented.

"The real estate business is currently experiencing a shift in demand away from the traditional business operation model to more flexible solution. Technological advancement and digitization, the quest for sustainability, and changes in user lifestyles are all factors that are demanding a greater level of adaptability in real estate strategic management and value creation. "

Deloitte – Real Estate Predictions 2019

Highlights: Cities to Watch | Dubai

Our affiliate partner in Dubai is Declan King, MRICS with ValuStrat. According to ValuStrat 2019 Review the market has the following overview and performance indicators for property types.

There is optimism from the Department of Economic Development which expects an 18% YoY economic growth.

This optimism is countered by the actual declines in Residential negative 12.4% YoY, Office negative 14.4% YoY, Hotel ADR negative 5.5% YoY and Industrial negative 1.7% YoY.

Residential villas showed only single digit declines in Palm Jumeirah, Emirates Hills and Al Furjan, but 16% decline in Jumeirah Island.

Office price levels stood at AED 700 per SF, or US$190.58, with rents at AED 90 per square foot, or US$24.50 per square foot.

Retail occupancy was at 92% with average rental rates at AED 600 per square foot, or US$163.35 square foot.

Hotel occupancy was at 78% with primary demand from Western Europe, GCC (Gulf Cooperation Council) and South Asia. Other primary demand areas were Russia and China.

Industrial price levels stood at AED 180 to 400 per SF, or US$49.01 to 108.90 per square foot. Rents ranged from AED 27 to 50 per square foot, or US$7.35 to 13.61 per square foot.

Overall, UAE is experiencing the same transition in real estate with focused development using digitization, and attention to shifting consumer trends. This has especially occurred in the recent legislation for 100% foreign ownership, dual licensing and longer visas that attract skilled professionals in science, research, medical and knowledge-based industry.

Mirroring the rest of the global real estate Dubai is moving toward flexible office (co-working), leveraging technology to create smart buildings and smart cities, retail is trending toward "shop-entertainment" and "eater-tainment" in the malls.

Adaptation to global trends has been delayed and may explain the softening in the market but is now catching up.

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About IRV, Inc.

International Realty Valuation, Inc. (IRV) is a global network of independent and highly competent professionals committed to providing expert financial reporting, forensics, consultation, and valuation services for both tangible and intangible assets to the most discerning of public and private clients. With a number of affiliate firms in several countries, our team has cumulative cutting edge knowledge of global and regional markets, as well as international standards and requirements. This enables us to complete a wide variety of assignment, including valuation of large portfolios with multiple locations, in a thorough, objective, timely, and cost effective manner. We serve major national, regional and international banks, lenders, developers, investors, governmental agencies, public and private companies.