FIVE ECONOMIC TRENDS TO WATCH FOR IN 2020

THE GLOBAL ECONOMY IS EXPECTED TO GROW BUT AT A MODEST PACE

Expect the global economy to expand at a rate of around 3.2% this year in PPP (purchasing power parity) terms. Partly because of easy monetary policies across the globe, expect all of the major economies to grow. US GDP is likely to expand by around 2%, in line with its potential rate. Given the historically low unemployment rate, US employers will find it increasingly difficult to hire staff. More US cities have an unemployment rate below 4% since when the data began to be collected in 1990. The Eurozone is expected to grow at approximately around 1%. Because of its sensitives to global trade flows, expect Germany to become more reliant on household consumption as a source of growth instead of net exports and investment. This could be challenging for the German economy as its households tend to save more than the European average. Even before details of the coronavirus were known, the Chinese economy was expected to expand by less than 6%. With India leading the way, the world's six other largest emerging economies are all expected to grow this year.

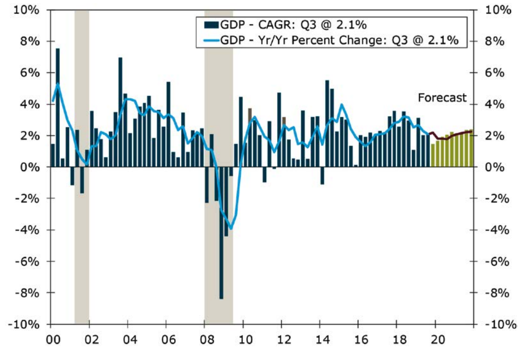
THE GLOBAL POPULATION IS THE BIGGEST ON RECORD, BUT ALSO MUCH OLDER

According to the United Nations, the world's population is expected to reach 7.7 billion in 2020, a 10% increase from a decade ago. China, India, and Sub-Saharan Africa are expected to drive around half of the world's annual population increase. At the same time, the number of people above the age of 60 globally is expected to surpass the one billion mark. China is expected to have a larger number of people above the age of 65 than all the six other largest emerging economies combined. The ramifications of this trend for economic growth and social policy are profound but as yet undetermined. It is an immense opportunity for businesses in advanced economies. For perspective, as a percentage of people above the age of 65 relative to the country's overall population, Japan is expected to remain the 'greyest' country in the world and Niger is expected to be the youngest. Out of a population of roughly 331 million, 76 million will be 65 and older in 2020 in the US – nearly 23%.

MORE JOBS WILL BE CREATED ACROSS ALL G7 COUNTRIES, WITH THE BULK CREATED IN THE US, UK, AND JAPAN

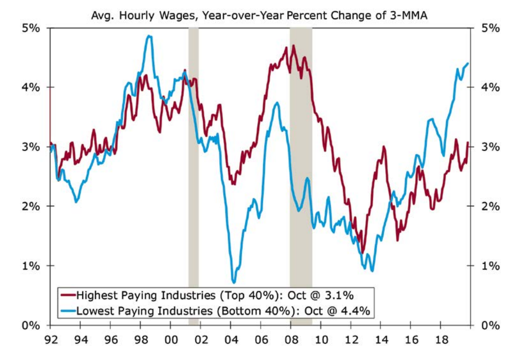
Expect G7 countries to create around 2 million new jobs. Four out of the five new jobs in the G7 will be created in the US, UK, and Japan. As the pool of labor resources in the G7 gradually dries up, expect earnings to continue their upward trajectory. But due to the lack of productivity growth, corporate profit margins will most likely shrink. The International Labor Organization ("ILO") expects the seven largest emerging economies–the E7–to create about 8 million jobs net. But because of demographic pressures, Russia and China are expected to see a contracting workforce. With increasing wages and more disposable income, consumer shopping habits are continuing to drive the industrial real estate market, as warehouse leasing demand in 2020 will be driven by both traditional and online retailers and by third-party logistics providers (3PLs) making efforts to meet the demand for e-commerce fulfillment.

US REAL GDP



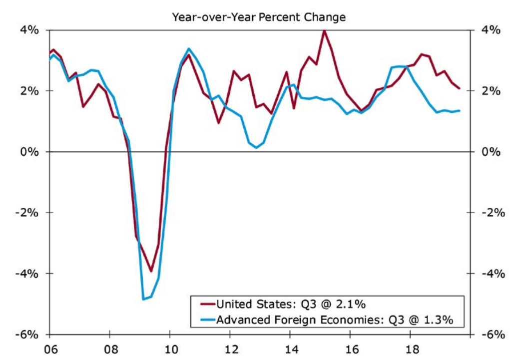
Source: U.S. Department of Commerce and Wells Fargo Securities

WAGE GROWTH IN HIGH & LOW PAY INDUSTRIES



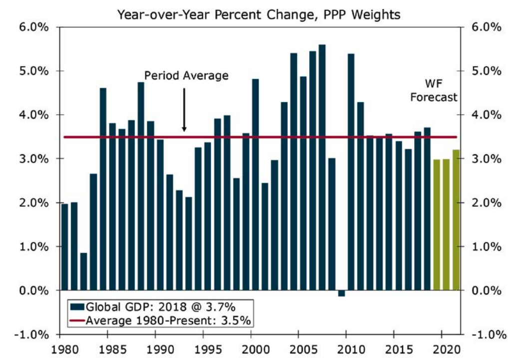
Source: U.S. Department of Labor and Wells Fargo Securities

GDP GROWTH: US VS INTERNATIONAL



Source: Datastream, Federal Reserve and Wells Fargo Securities

REAL GLOBAL GDP GROWTH



Source: International Monetary Fund and Wells Fargo Securities

FIVE ECONOMIC TRENDS TO WATCH FOR IN 2020

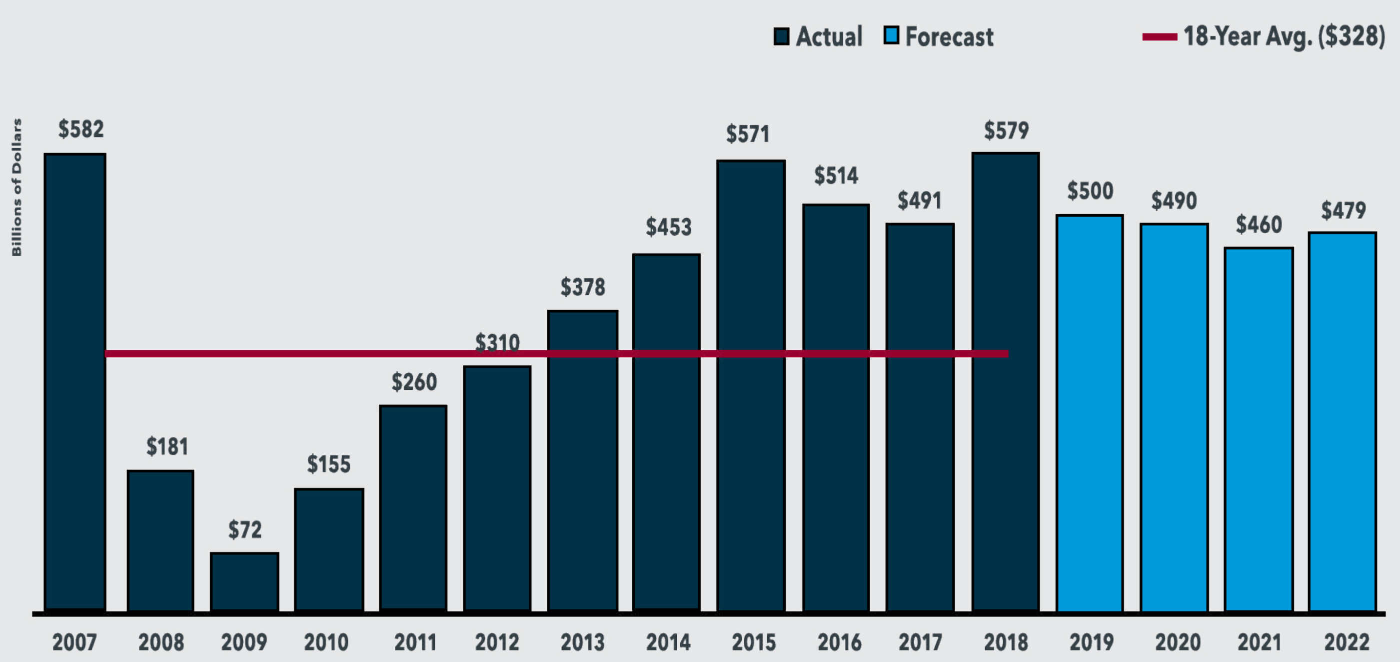
EVEN WITH THE UNCERTAINTIES OF TRADE NEGOTIATIONS, GLOBAL TRADE FLOWS ARE EXPECTED TO INCREASE IN 2020

Trade policy remains the most fluid aspect of the near-term outlook. Positive developments that emerged towards the end of 2019 included the progress of ratification of USMCA7 in the U.S. Congress and the agreement on a Phase One deal between the U.S. and China. The Phase One deal is a promising development although it lessened only some tariffs (largely on consumer goods). It is unlikely that existing tariffs (largely on capital and industrial equipment and intermediate goods) will be removed entirely any time soon since they are largely viewed as leverage for future negotiations. A partial offset to the effects of the U.S.-China trade war is that the IMF anticipates global economic growth to accelerate in 2020-2021, and with it, the World Trade Organization forecasts an uptick in trade flows.

CENTRAL BANKS WILL KEEP INTEREST RATES LOW THROUGHOUT 2020

Central banks entered the year in an accommodative stance, with real short-term rates resting at zero in the US and nominal 10-year yields in negative territory in Japan and several European countries. And even though unemployment has fallen to unprecedented lows across the industrialized world—there are 7.2 million unfilled job openings in the US alone—tame inflation has allowed the Federal Reserve to take a very gradual approach to rate normalization. In a boon to real estate markets, in particular, expect rate hikes to only resume in 2021 at the earliest if at all.

COMMERCIAL REAL ESTATE TRANSACTION VOLUME



Source: 2001-2018, Real Capital Analytics; 2019-2022, ULI Real Estate Economic Forecasts

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COMMERCIAL REAL ESTATE SERVICES