

## QUARTERLY COMMENTARY

## GLOBAL REAL ESTATE

The global economy is facing immense challenges that could spill over into Canada. The biggest risks are trade wars breaking out more heatedly between the U.S. and China, or between the U.S. and Europe, that would put another dent into the global marketplace. After a disappointing 2018 when housing prices and sales declined, 2019 has seen a rebound in the housing markets. Not only did sales numbers stabilize and resume an upward climb, but prices also demonstrated some strength. Residential investment increased at its fastest pace since 2012.

As we move into 2020, those involved in the Canadian real estate industry are wondering whether things will continue to improve in the year ahead or if there is trouble on the horizon. The good news is that most forecasts are calling for a continued recovery in 2020. This is supported by strong immigration numbers that are likely to maintain a sustained demand for housing in Canada's most populous housing markets. Newcomers to Canada are expected to purchase 20% of the new house build over the next five years. Since the Bank of Canada is unlikely to increase interest rates this year the pressure on mortgage financing will be subdued. The federal government's efforts to help new homebuyers with shared equity mortgages and a possible re-evaluation of the stress test are also positive signs. However, as always in real estate, there are plenty of unknowns that could disrupt that positive picture.

Property values in the U.S. remain well supported. The U.S. population is aging and will continue to age in the coming decades which will drive demand for alternative property types such as senior housing and medical office properties. As well, aging millennials will drive retail sales and future demand for retail real estate. Consumers hit their peak spending between the ages of 35 and 54 when they are reaching their best earnings potential and are starting to form families, both of which support higher expenditures. Also supporting the real estate market is the very conservative bank lending standards currently in place.

Internationally, European real estate values have oscillated upwards over the last few years. Interest in European residential properties has increased significantly since 2007. This has been largely driven by the sector's strong supply/demand dynamics. There is a lack of modern product, as well as a growing institutional investor base that is searching for diversification, security of income, yield stability and rental appreciation in a global economy short of healthy risk adjusted return possibilities.

Real estate, like most other asset classes around the world, had a very good year in terms of overall performance. The Canadian real estate market was up 22.8% for 2019, although it did come under selling pressure in the fourth quarter falling 0.8% (all figures are in Canadian dollar terms). Internationally, real estate performance was not quite as good, but was still very impressive. For the year, it was up 18.3% and similarly to the Canadian market fell 0.7% in the last quarter of the year.