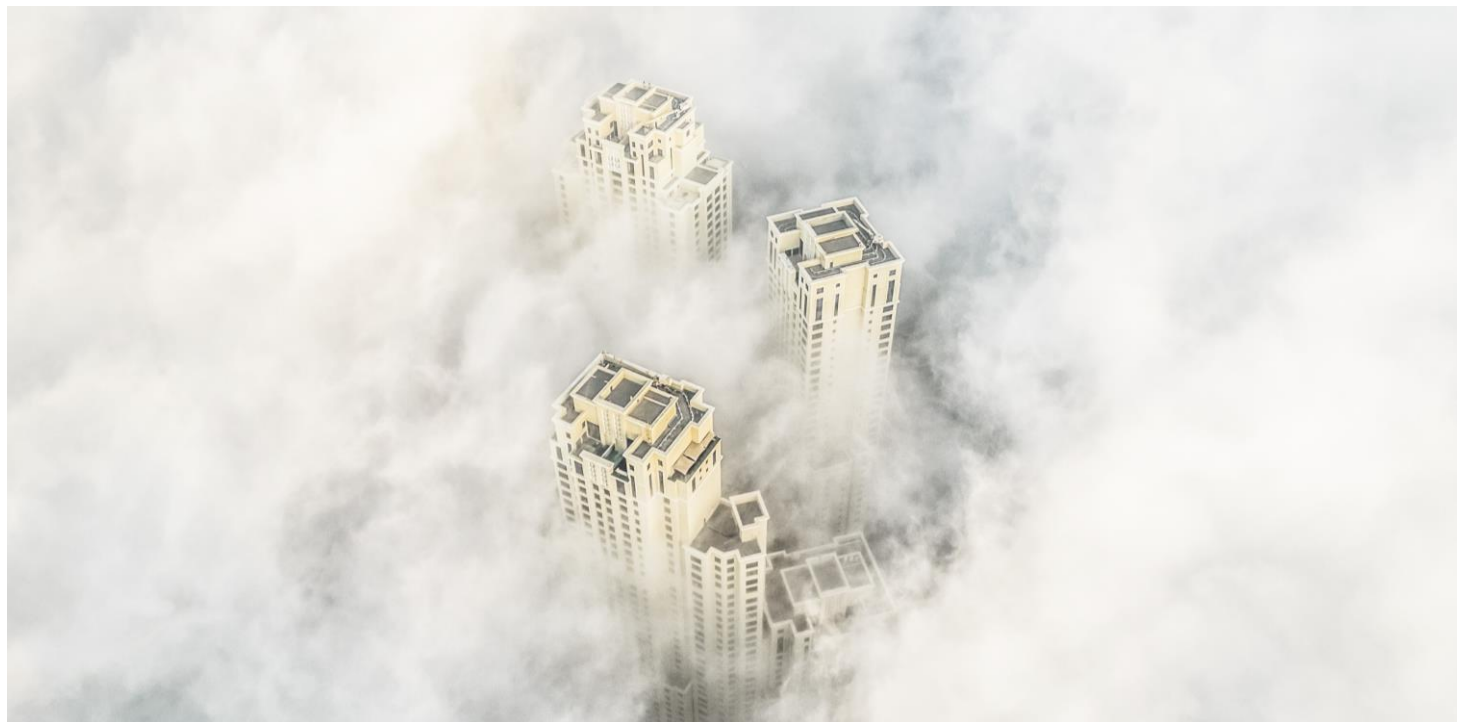


# Real Estate Outlook

Edition 2, 2022



## An unclear outlook.

04

Global overview

08

European outlook

12

US outlook

# Content

## 04

Global overview



## 08

European outlook



## Our research team

---

Jaipreet BAINS  
Darnesha COLLIER  
Kurt EDWARDS  
Nicola FRANCESCHINI  
Zachary GAUGE

# 12

## US outlook



---

Fergus HICKS  
Brice HOFFER  
Amy HOLMES  
Courtney LEE  
Frances Osei-BONSU



**Fergus Hicks**  
Real Estate Strategist



# Global overview

**Strong performance** continues.

Global real estate performance remained strong in the first quarter. Investment activity pulled back slightly from the record high at the end of 2021 and the pace of cap rate and yield compression eased. The war in Ukraine is curbing economic growth, boosting inflation and is expected to have a cooling impact on real estate returns.

## Market overview and outlook

# Strong performance to cool as headwinds build.

As restrictions due to COVID-19 gradually fade away and life returns to pre-pandemic-like conditions, apart from China and Hong Kong where new lockdowns have been imposed, the global economy faces new challenges. The unexpected war in Ukraine has rocked the international order and had a big impact on energy and agricultural markets and on specialist products produced by Russia and Ukraine. The war is expected to curb economic growth in the advanced economies by up to one percentage point this year, with Europe the most affected. For example, in April the IMF downgraded its growth forecast for 2022 for the advanced economies to 3.3% from 3.9% in January and further downgrades look likely.

The war has stoked already high inflation by turbo-charging energy prices even further, and in many countries inflation is running at multi-decade highs. For example, US inflation was 8.3% in April, down slightly from 8.5% in March, and eurozone inflation was 7.4% in April. Meanwhile, in Japan inflation has turned positive, reaching 1.2% in March. The big uptick has crushed the 2021 narrative of transitory inflation. This has been particularly uncomfortable for central banks as they look significantly behind the curve and are now rushing to tighten policy.

The global real estate market continued to perform well in the first quarter, with robust levels of transaction activity. According to Real Capital Analytics, global investment volumes were USD 266 billion during 1Q22. After adjusting for seasonal effects, volumes fell 11% from the exceptionally strong 4Q21. However, they remained close to record highs and were still nearly 30% above 4Q19 levels. Industrial and apartments continued to drive global activity, both up by more than 50% from pre-pandemic levels, while activity in the office and retail sectors has recovered and was broadly similar to pre-pandemic levels.

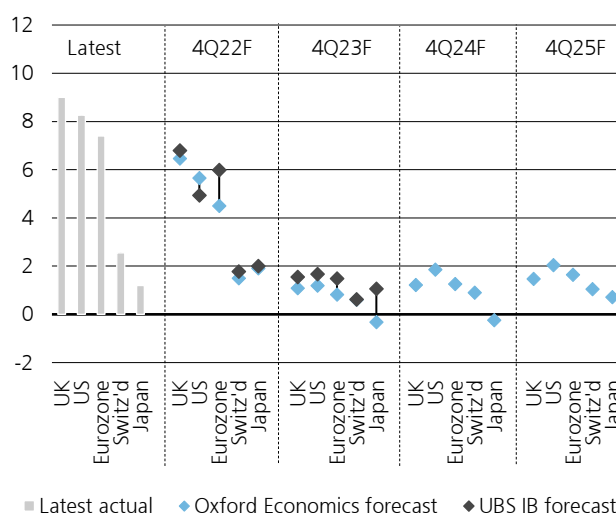
Following widespread falls in prime cap rates and yields in the second half of 2021, the market was more balanced in the first quarter of 2022. Yields and cap rates were flat in the vast majority (75%) of 300-plus city-sector markets we monitor globally. In the industrial sector, where a majority of markets had seen a reduction in yields each quarter since 4Q20, downward pressures eased, with 32% reporting a fall in 1Q22. Data from Real Capital Analytics on transaction cap rates show a similar picture. Global industrial cap rates were 5.0% in 1Q22, just above residential at 4.6%. This left a reasonable gap to offices at 5.5% and retail at 5.9%.

Property market performance in the first quarter maintained the strong momentum from 2021, when global all property total returns were 12.6% for the year according to MSCI data. In 1Q22, US all property returns were 5.3% QoQ according to

NCREIF, while UK total returns were not far behind at 4.7% QoQ according to MSCI. Canada total returns were 2.1% QoQ and Ireland 1.5% QoQ, also according to MSCI data. Industrial continued to outperform across countries, while office and retail returns were more muted at around 1-2% QoQ. UK retail returns were stronger at 4.5% QoQ. The residential market continued to perform well, and in the US, total returns were 5.3% QoQ according to NCREIF data<sup>1</sup>.

Going forward, what happens in the economy will be key in determining what happens in real estate markets. We expect inflation to remain high for the rest of the year. However, we expect central banks to return it to target over the next two years (see Figure 1). What is much less certain is the journey economies will endure as a result of rapid policy tightening. Recession signals are flashing and a downturn is a real possibility, as the cost of living crisis and rate rises squeeze disposable incomes. We think that a controlled slowdown would see real estate returns slow but remain positive. A sharper downturn, or recession even, would likely weigh more heavily on real estate markets and performance.

**Figure 1: Annual inflation rates (%)**



Note: UBS Investment Bank forecasts not available for 2024 and 2025  
Source: Oxford Economics; Thomson Refinitiv Datastream; UBS Investment Bank, May 2022

<sup>1</sup> Past performance is not a guarantee for future results.

## Strategy viewpoint

# Real estate outperformed during stagflation.

Inflation is at a multi-decade high, boosted by the war in Ukraine, and Oxford Economics expects it to average at 6% in the advanced economies this year. Sharp rises in food and energy and prices are pushing inflation higher. Furthermore, compared to before the war in Ukraine started, Oxford Economics has cut its forecast for GDP growth in the advanced economies by 0.8%pts for this year and by 0.4%pts for 2023.

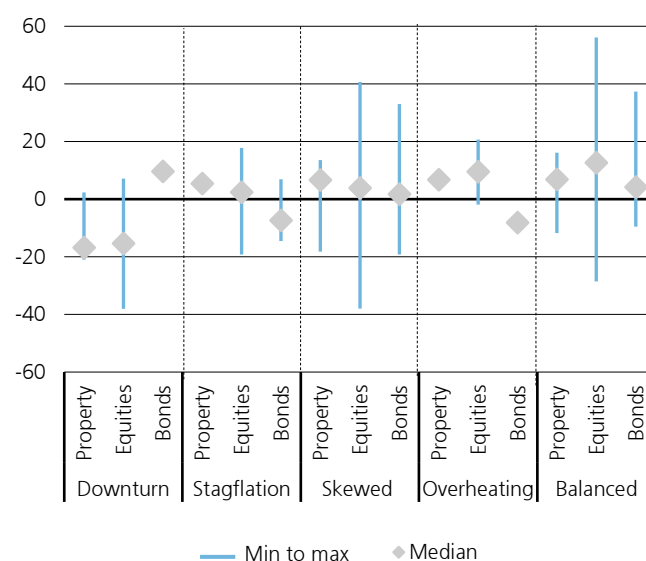
High inflation is eroding real disposable incomes and households are financing some of their spending from savings. Consequently, personal savings rates are falling. The 1970s *oil shock* and stagflation period saw high inflation accompanied by a rise in unemployment and recession. The cost of a barrel of oil rose four times during the 1973-74 oil embargo and today prices have rebounded even more sharply from their low in 2020. The risk of a similar economic environment arising now is increasing.

The question is what effect stagflation would have on the real estate market. Yet, there is limited evidence on real estate performance during stagflation, since the main historical episode of stagflation occurred during the 1970s; a period when performance data is unavailable for most real estate markets. However, data from NCREIF is available for the US from the late 1970s. We have looked at this data to try to understand the performance of property during stagflation.

We compared the performance of property, equities and bonds in real terms – after inflation – in different states of the economy. The states of the economy were downturn, stagflation, balanced, skewed and overheating. Stagflation occurs when inflation is above average and GDP growth is below average. Downturns occur when both inflation and GDP growth are below average and overheating when they are both above average. Skewed periods are when either inflation or GDP growth is outside of the average. Balanced is when both GDP growth and inflation are around average.

We plotted the minimum, maximum and median annual real total returns for the three asset classes in the various economic states (see Figure 2). Since 1978, US real estate has typically delivered annual real total returns of 6-7%, with a median of 6.9% during periods when the economy was balanced. During the small number of stagflation periods observed, real estate outperformed equities and bonds on the basis of median real annual total returns, but at 5.5% median real total returns were weaker than during all other states of the economy bar downturns. During downturns, median real annual property total returns were negative at -16.8%<sup>1</sup>.

**Figure 2: US real total returns by asset class (% YoY, 4Q78-1Q22)**



Note: Equities = S&P 500; government bonds = ICE Bank of America Merrill Lynch 7-10 Year US Treasury Index; average defined as within one standard deviation of mean; inflation = 3.5% average and 2.7% standard deviation; annual GDP growth = 2.6% average and 2.3% standard deviation. Source: Thomson Refinitiv Datastream; NCREIF; UBS Asset Management, Real Estate & Private Markets (REPM), May 2022. <sup>1</sup> Past performance is not a guarantee for future results.

Hence, on the limited evidence available real estate outperformed equities and bonds during stagflation. During the stagflation periods, the median real total return on equities was 2.5% and for government bonds it was -7.3%. Real estate did not show negative real total returns for nearly all periods when inflation was above average. The range of return outcomes for real estate was less than for equities, which is consistent with the lower volatility of real estate as an asset class compared to equities<sup>1</sup>.

Overall, we think that recession accompanied by average or below average inflation, is the biggest risk for the real estate market. Compared to the Global Financial Crisis (GFC) period, we do see factors which we believe would mitigate the impact of any recession. New supply and development are more balanced than prior to the GFC, loan-to-value ratios are not as stretched and spreads between real estate yields and bond yields are less compressed. This should provide some cushion for the real estate market in the event of an economic downturn.



## Real estate investment performance outlook

2021 actual and 2022-24 outlook are measured against the country-sector's long-term average total return, with the average +/- 100bps described as "in line with long-term average". The long-term average refers to the period 2002-21. The red underperformance quadrant refers to negative absolute total returns, either in 2021 actual or the 2022-24 outlook.

		LTA	Office	LTA	Retail	LTA	Industrial	LTA	Multifamily
North America	Canada	8.6		8.4		11.2		n/a	
	US	7.5		8.7		11.4		8.5	
Europe	France	7.6		9.1		10.0		n/a	
	Germany	5.0		5.2		8.5		n/a	
	Switzerland	5.7		6.1		n/a		6.4	
	UK	6.9		4.9		10.7		n/a	
Asia Pacific	Australia	10.0		8.8		11.9		n/a	
	Japan	5.2		5.3		6.1		5.7	

: Actual 2021

: Outlook 2022-24

: Underperformance (negative absolute returns)

: Underperformance vs. long-term average

: In line with long-term average

: Outperformance vs. long-term average

Source: UBS Asset Management, Real Estate & Private Markets (REPM), May 2022. Note: Abbreviation LTA: long-term average. Expected / past performance is not a guarantee for future results.



**Zachary Gauge**  
Head of Real Estate Research  
& Strategy – Europe ex DACH



# European outlook

Balance of negotiating power is key.





For many years, the main argument in defense of ever-lower property yields was that the spread over fixed income yields remained comfortably above historic levels. This is no longer the case, with the spread between government bond yields and prime office yields now below their long-term average in every major market. We expect performance to become polarized between the select few sectors and micro-locations where there is a genuine supply-demand imbalance and landlords can pass on some of the inflationary pressure to tenants. For the rest of the market, the record low property yields now look exposed to rising rates.

## Market overview and outlook

# Relative value of real estate rapidly eroding

### Economy

As inflation continues to exceed expectations, hitting 7.5% in the eurozone in April and 9% in the UK, the outlook for economic growth has weakened. Under the base case scenario, we are still not in recessionary territory although the risks of a persistent war in Ukraine driving a stagflationary scenario have risen over the last three months. Central banks are treading a precarious path in attempting to ease demand without contributing to a recession. Base effects mean that if wholesale energy prices stabilize or start to fall back, this will have a neutral or negative contribution to the consumer price index in twelve months' time. This would provide a major contribution to bringing inflation back down to target levels. But the biggest concern is that higher wage settlements agreed in 2022, in-light of the current levels of energy-driven inflation, is resulting in second-round inflation effects. This could push high inflation well into 2023.

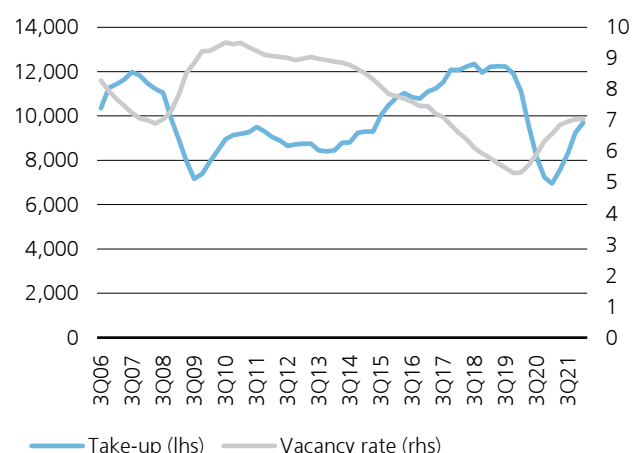
Although the full picture is not yet available, there have been some early signs of higher inflation feeding through into higher wages. In response to this, UBS IB is now forecasting a further two hikes from the Bank of England to bring the base rate to 1.5% by the end of 2022. The ECB is expected to end its asset purchase program in July and hike rates three times in 2022, followed by four further hikes in 2023 to bring the base rate to 1.25% by year-end.

### Occupier markets

With the pandemic starting to fade, we appear to be seeing a leveling off in the office supply and demand data (see Figure 3). The vacancy rate continues to edge up, but now at a very marginal rate. And the level of take-up continues to improve on activity recorded during the pandemic, but remains 15-20% below pre-pandemic levels for the first quarter. Demand at these levels would be consistent with calculations for occupiers assessing their real estate requirements for a hybrid working environment, resulting in a net loss of demand for office space. It is too early to see any impact of the Ukraine war on the data, although with weakening business sentiment and heightened uncertainty we may see some occupiers delaying requirements in 2Q22.

Prime retail markets were again largely stable in 1Q22, with just a couple of UK regional markets reporting negative rental movements. With a slimmed down network, the outlook for in-store retail in 2022 was actually reasonably positive, particularly at the prime-end of the market with overseas tourism set to resume. But the squeeze on disposable incomes is likely to delay any recovery in rents that may have come through. Logistics rents continued to increase, but there are now clear signs of pressure building on the occupier side, particularly for high energy consumers. Key logistics occupiers have seen sharp declines in their share prices, as future growth assumptions now look too optimistic against the challenging backdrop.

**Figure 3: European vacancy rate and take-up**  
(%, '000 sqm)



Source: JLL, 2Q22

### Capital markets

Despite the headwinds, investor demand for European real estate continued to strengthen, with data from RCA showing a record level of transactions for the first quarter of the year at EUR 71.4 billion. Based on the valuation data, real estate returns are looking very attractive in a multi-asset portfolio as liquid markets have corrected. With large volumes of capital already earmarked for European real estate, it is unlikely we will see this correction filtering through to the market in the next six months. But it's difficult to see how in an environment of weakening economic growth, cost-push inflation, rising interest rates, geopolitical uncertainties and higher debt costs, yields will be able to maintain their record low levels for the foreseeable future. Higher inflationary costs are only going to be transferrable to tenants in the markets and sectors where supply is tight, elsewhere the record low real estate yields are starting to look exposed.



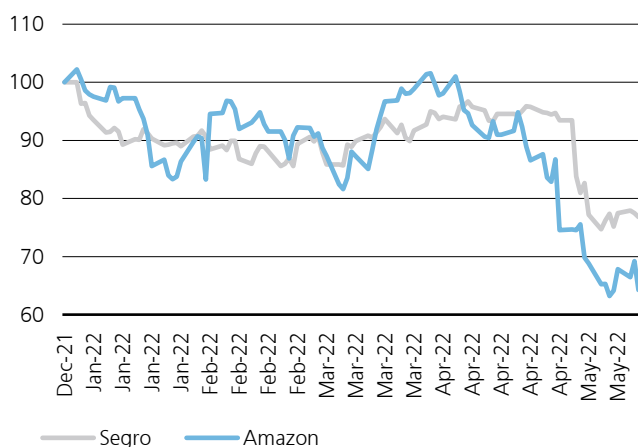
## Strategy viewpoint

# Has the logistics market overheated?

### Early warning signs

On 28 April, Amazon announced its first quarterly loss since 2015 with a warning that it had over-leased and over-hired during the pandemic triggering a sharp correction in its share price. Soon after, the share price of Segro and other industrial focused REITs followed a similar decline (see Figure 4).

**Figure 4: Equity prices indexed to 31 Dec 2021**



Source: Refinitiv Eikon Datastream, 19 May 2022

There seemed to be a strange misconception within some real estate circles that the logistics sector was bulletproof after several years of huge outperformance. But the reality is that logistics occupiers in Europe are facing the same, and in some cases stronger, headwinds than other sectors due to the rise in energy costs and the squeeze in consumer spending. Add to that higher interest rates and an economy rebalancing from consumer spending on durable goods (that can be delivered), to services (which cannot) and you can start to get quite concerned about the health of the occupational market.

### The counterargument

Since the correction in the listed market, some commentators (usually employed by companies with a vested interest in the logistics sector), have sought to quash concerns of a spillover into the direct market. The gist of the argument goes, that the logistics market was so hot that a company like Amazon pulling back will make very little difference. And as Amazon was far more aggressive in its expansion than other logistics occupiers, the rest of the market is still playing catch-up. Against a backdrop of low supply, they expect the market to still see plenty of rental growth and there's no need to worry.

### Reality

However, there are some quite significant flaws to this argument. The biggest being that logistics real estate was priced based on extremely strong occupier demand continuing into the future. Even if we accept that demand will stay strong, albeit slightly weaker than anticipated, then slightly weaker demand will feed into slightly weaker rental growth. With prime yields dropping below 4% across all major Western European markets, if you're not getting stellar rental growth off these yields you've overpaid. And taking Amazon aside, the assumption that demand will remain strong is also questionable. As noted before, there are many cost-pressured logistics operators across Europe that have been affected, and some of the pure-play e-commerce companies had been operating on wafer thin profit margins even during the pandemic. The idea that these companies are still going to be aggressively acquiring more logistics space against the current economic backdrop seems optimistic at best.

And lastly, the supply-side argument has been oversimplified. What is correct, is that for the past several years demand has significantly outweighed new supply coming through which has driven strong rental growth. And vacancy rates are still generally still very low. But construction has been increasing year-on-year to try and keep up with demand, and based on key market data from PMA there was nearly 19 million square meters completed in 2021, a 25% increase on the previous year. During the COVID-19 impacted years, the vast majority of new supply was pre-let before or during construction. But with even more supply coming online in 2022 and weaker demand to absorb it, we anticipate more schemes will complete without an occupier in-place and the availability of logistics space in Europe will start to increase.

We're not saying that the logistics market is about to collapse, and clearly there are still some positive long-term drivers of structural demand. But there appear to be obvious signs now that the future growth assumptions which drove huge valuation increases may have gone slightly too far. As with the liquid markets, there's a key factor which seems set to follow through into a sensible repricing for direct logistics assets: the realization that the pandemic trends won't last forever and those sectors which enjoyed a boom during that period may see some of the toughest times in a high inflationary and interest rate environment.



**Kurt Edwards**  
Head of Real Estate Research  
and Strategy – US



# US outlook

**A strong economy** facing headwinds.





Growing economic uncertainty based on weaker consumer sentiment and inflation concerns increases the importance of focusing on durable income growth across real estate sectors, metros, and product types. Continued strong industrial and apartment return performance is anticipated, but at a lower margin than 2021, given interest rate pressures. We expect a deteriorating performance for office and a gradual strengthening in retail performance through 2022.



## Market overview and outlook

# The difference one quarter can make.

### Commercial real estate

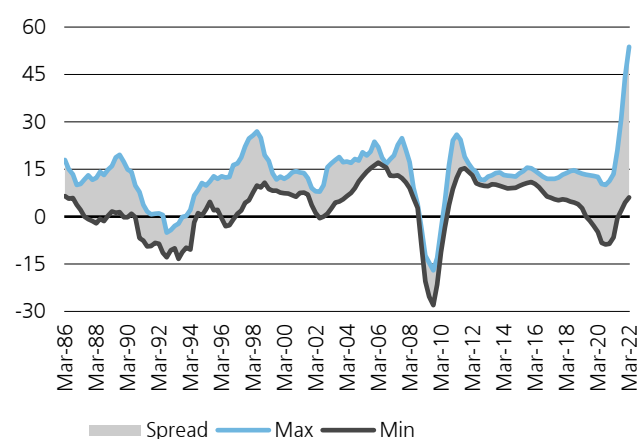
Our [first edition](#) of the 2022 Real Estate Outlook saw few signs of the economy slowing. Corporate earnings were healthy, employment was reaching pre-pandemic levels, reasonable wage growth was present, and the supply chain issues were largely unwinding. In one quarter, commodity and energy prices spiked due to the Ukraine war, the geo-political framework is being questioned as it relates to powerful trade blocs and national security, and now the prospect of a *soft-landing* seems unlikely without the right amount of fiscal planning and support. As other asset classes experienced losses year-to-date, the first quarter commercial real estate data came in strong, bringing the one-year total return to 28.5% – the highest on record for the NFI-ODCE.

In this new era of macro volatility, public markets can warrant concern as a useful leading indicator but can also give false signals based on short-term volatility. Fundamentals, in general, for real estate are still strong as of the writing of this piece (May 2022), but the growing disconnect between public and private market values has inspired added caution. Dispersion among the traditional sector total returns are at the highest levels since the inception of the NPI (four times the average spread of 10%) driven primarily by the industrial sector.

Private real estate has been able to absorb the shock to the risk premium spreads caused by the Fed's hastened plans of tightening. Sectors with relatively strong growth prospects, such as industrial and apartments, trade at a third of their 15-year average spread to treasury, 93 and 88bps respectively (see Figure 5). The other sectors are at roughly half of the 15-year average spread (below 200bps) except for non-mall retail (227bps). In some cases, depending on the metro and product type, cap rates are now lower than secured debt costs (see Figure 6) which means positive gearing will rely on growing the income.

Growing economic uncertainty, based on weaker consumer sentiment and inflation concerns, increases the importance of focusing on durable income growth in sectors, metros, and product types.

**Figure 5: Sector dispersion – total return (%YoY)**



Source: NCREIF as of March 2022. Past performance is not a guarantee for future results.

According to Real Capital Analytics, transaction volume in 1Q22 was USD 170 billion (including entity transactions), which represents a 56% increase in volume from 1Q21. Apartment trades still represent the largest block of volume at USD 63 billion, but the highest growth was exhibited by the retail sector. Retail transaction volume grew by 102% year-over-year. However, rising rates will undoubtedly temper the outsized growth in overall transaction volume going forward. The trailing twelve-month total volume of USD 913 billion as of 1Q22 may well be the peak in transactions for some time.

**Figure 6: Initial yield by asset class and real estate sector**

Asset class or real estate sector	Initial yield (%)
Non-mall retail	5.2
Baa Corporate Bond	5.2
S&P 500	4.9
Suburban office	4.8
Mall	4.6
All property	4.2
CBD office	4.1
Industrial	3.9
Apartments	3.8
10-year US Treasury	2.9

Source: NCREIF, Moodys, multpl.com (S&P 500 initial yield is inverse of TTM PE Ratio). Past performance is not a guarantee for future results.

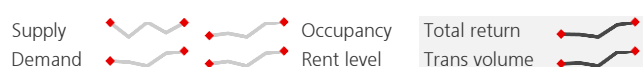
## Primary sector review

**Figure 7: Sector forecast**

%	Rent Growth					Cap Rates					Total Returns				
	2019	2020	2021	2022 forecast	3-yr forecast	2019	2020	2021	2022 forecast	3-yr forecast	2019	2020	2021	2022 forecast	3-yr forecast
Apartment	2.8	(1.1)	13.7	8.0	4.8	4.2	3.5	3.6	3.6	3.6	5.5	1.8	19.9	12.0	8.4
Industrial	2.4	3.3	6.8	6.0	4.5	4.4	4.2	3.2	3.1	3.1	13.4	11.8	43.3	15.7	10.4
Office	2.6	(0.6)	0.1	0.2	0.4	4.1	4.2	4.1	4.1	4.1	6.6	1.6	6.1	4.3	4.8
Retail	1.1	1.2	1.7	2.7	2.2	4.6	4.1	4.8	4.9	4.9	1.9	(7.5)	4.2	4.6	5.4

Source: REPM forecast model as of February 2022. Past / expected performance is not a guarantee for future results.

### Apartments



As the sparklines above indicate, the pace of apartment supply growth is in line with that of 2018, while the pace of demand has accelerated. As a consequence, occupancy and rent growth have gained strength. Our forecast model anticipates rent growth to average 4.8% over the next three years (see Figure 7); steady performance just above the long-term average.

The apartment sector delivered an annual total return of 19.9% in the year ending 1Q22 – the highest since 1980. Transaction volume is typically down in the first quarter, as such 1Q22 transaction volume was about 60% below the record setting 4Q21 volume; the per unit price has risen sharply since mid-2020.

### Industrial



The industrial sector saw an unprecedented 51.9% annual total return in 1Q22, proving out expectations that supply chain disruptions and logistics challenges would be no match for sustained customer demand. Persistent demand has been more than a match for near constant completions and occupancy continues to rise.

Our forecast model supports continued above average rent growth (see Figure 7), the three-year forecast averaging 4.5% annually. The sparkline table above illustrates that 2020 ultimately had minimum impact on this rising sector. Growth trends established in 2018 and 2019 have sustained, and in some cases accelerated, into first quarter 2022.

### Office



Office sector fundamentals are struggling for consistent and sustainable strength. Although office asking rents have not experienced a prolonged drop, neither has the sector seen clear upward momentum (see Figure 7). Our forecast model calculates near zero-average rent growth over the next three years. The office sector is pushing hard for growth and recovery, but has only managed to match 2019 returns.

The pace of 1Q22 office transactions stands at half that seen in 4Q21. However, the sector price per square foot was held steady by a balance between the decline in CBD values and the rise in suburban values. We expect structural vacancy to be higher and capital expenditures to continue to grow as landlords compete for a shrinking office-using workforce that will require higher standards of sustainability and quality of occupants' health.

### Retail



Demand experienced a rebound in 2021, while the pace of supply continued to diminish, driving a sharp rise in both occupancy and rent growth. Our forecast model (see Figure 7) anticipates retail rent growth annual average of 2.2% over the next three years; a healthy pace, above the 1.4% 10-year average.

The sparklines above show total return improving as the negative quarterly returns in 2020 fall from the one-year calculation, with 4.2% annual return in 1Q22. Transaction volume has recovered to the 2018 level with an incremental increase to the per square foot average price.

Sparklines: Data shown is year-end 2018 through 2021, and year-over-year 1Q22. Horizontal axis only shown if there are negative datapoints. Supply, demand, occupancy, rent: CBRE-EA as of March 2022  
Transaction volume: Real Capital Analytics as of March 2022  
Total Return: NCREIF as of March 2022. Data show unlevered NCREIF Property Index total returns. Past / expected performance is not indicative of future results.

## Selected niche sectors

### Self-Storage

Self-storage fundamentals remain strong. The sector continues to benefit from pandemic-related demand drivers, such as remote workers becoming first-time storage users and looking to create space for their home offices. Occupancy rates are near record highs, at 96% as of 4Q21.

New deliveries slowed in 2021 due to delays from labor shortages and increasing construction costs. A moderate supply pipeline is expected to continue through 2022 due to further delays. Tight market conditions coupled with a postponed construction pipeline accelerated same-store NOI growth, which grew 17% in 2021.

The near-term outlook for the sector is strong given positive tailwinds from relocation and working from home, but some moderation in the outer years is expected as supply ramps up again.

### Cold storage

The cold storage sector faces long-term tailwinds amid near-term headwinds. The COVID-19 pandemic spurred a change in consumer behavior towards online grocery consumption.

Although e-commerce sales as a share class of total retail sales moderated between 2020 and 2021 from 13.6-13.2%, grocery online penetration captured more market share, expanding from 8.7-9.6% within the same period. Over the long term, we expect increasing grocery online penetration to drive additional demand for cold storage.

Despite this long-term trend, the sector faces existing challenges from reduced food production volumes, which has dragged occupancy levels, and increased power and labor costs, which are eating into margins. Landlords will benefit from triple-net lease structures to reduce inflationary risk.

### Senior housing

Senior housing market fundamentals are recovering from pandemic disruptions. According to NIC MAP, occupancy rates in primary markets improved to 80.6% in 1Q22, a 20bps increase from a quarter ago, and a 250bps jump from a pandemic-low in 2Q21.

Rents have also accelerated, growing 3.3% over the trailing year. The sector faces strong tailwinds from the aging baby-boomers. Over the next 10 years, robust population growth among the 80-plus cohort is expected to drive significant demand for senior housing and the pace of development will need to ramp up to meet this demand.

### Life sciences

The life science sector is quickly gaining ground as an attractive alternative to conventional office. The sector's physical space is a key component to research and development (R&D) operations, making life science resistant to work-from-home headwinds.

Additionally, increasing venture capital funding towards R&D within the biotechnology and pharmaceutical industries is driving strong sector fundamentals. Vacancy rates dropped 30bps to 5.3% in 1Q22, and high barriers to entry within key cluster markets (i.e. Boston, San Francisco) will further contribute to tight market conditions.



## Strategy viewpoint

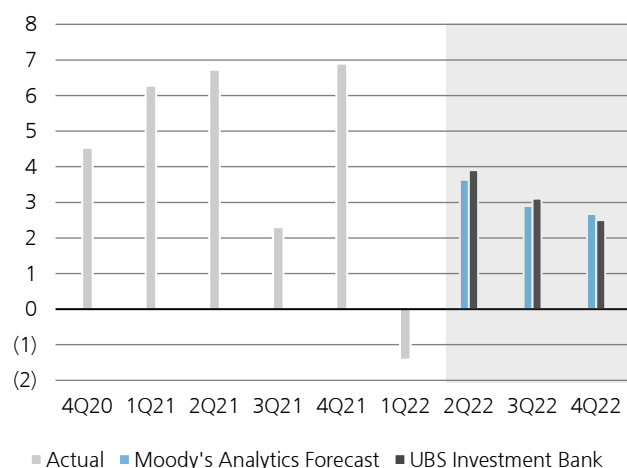
# Uncertainty looms

### Economic viewpoint

The US economy contracted in the first quarter, as a widened trade deficit and slowdown in inventory investment weighed on output. GDP shrank at a 1.4% annualized rate in 1Q22 (see Figure 8), a sudden turnaround from a 6.9% expansion in 4Q21. The first quarter posted the weakest GDP growth since the pandemic-induced recession in 2Q20. The increased trade deficit masked the acceleration in consumer and business spending. Domestic demand remained strong despite soaring prices.

At the market level, we anticipate continued strong performance for industrial and apartment returns, but at a lower margin than 2021, given interest rate pressures. We expect deteriorating performance for office and a slow strengthening in performance, albeit from a low base, in retail through 2022.

**Figure 8: Real GDP quarterly annualized forecast (%)**

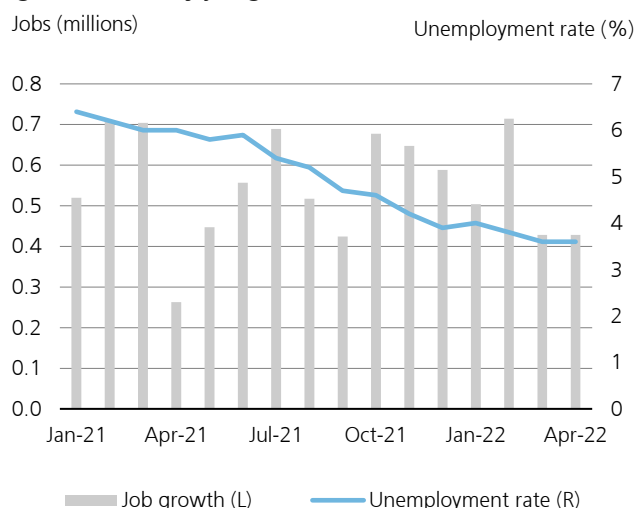


Source: Actual Moody's Analytics as of 28 April 2022; Moody's Analytics forecast as of 9 May 2022; UBS Investment Bank forecast as of 29 April 2022. Shaded area indicates forecast data.

UBS Global Banking Research expects US real GDP growth to rebound in 2022, finishing the year off at a solid annual pace of 2.0%. The expectation of a rapid rebound in the second quarter is being driven by strong momentum from private domestic demand, a shift in consumer spending towards services, and a continued strong labor market.

April's jobs report posted an increase of 428,000 employed and moderate revisions for February and March by a combined 39,000 jobs to 714,000 and 428,000, respectively (see Figure 9). The monthly unemployment rate held steady at 3.6% in April, matching December 2019's rate. As of April 2022, the labor force participation rate remains 120bps below the February 2020 peak, with 475,000 fewer jobs than at the end of 2019.

**Figure 9: Monthly job growth**



Source: Moody's Analytics as of 6 May 2022

Despite a positive base case scenario, talks of a recession are sweeping the market as uncertainties surrounding the effects of a higher policy rate loom. With prices continuing to soar, the Fed has signaled plans for multiple rate hikes this year. In an attempt to combat inflation, the Fed runs the risk of overcorrecting and sparking a recession. The Fed also faces the challenge of tackling elevated prices amid the Ukraine War, which is an external factor that is driving up food and oil prices.

If the Fed is unable to slow inflation, the US economy could enter stagflation – a period of simultaneously stagnant economic growth and high inflation. Even with these uncertainties, UBS Global Banking Research's leading predictor model signals that there is currently a low (30%) chance of a recession within the next year.

For more information, please contact:

**UBS Asset Management**

Real Estate & Private Markets (REPM)  
Research & Strategy

Fergus Hicks  
+44-20-7901 6022  
fergus.hicks@ubs.com



Follow us on LinkedIn

To visit our research platform, [scan me!](#)



[www.ubs.com/repm-research](http://www.ubs.com/repm-research)

**This publication is not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments relating to UBS Asset Management Switzerland AG or its affiliates in Switzerland, the United States or any other jurisdiction.** UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS and UBS accepts no liability whatsoever for the actions of third parties in this respect. The information and opinions contained in this document have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith but no responsibility is accepted for any errors or omissions. All such information and opinions are subject to change without notice. Please note that past performance is not a guide to the future. With investment in real estate/infrastructure/private equity (via direct investment, closed- or open-end funds) the underlying assets are illiquid, and valuation is a matter of judgment by a valuer. The value of investments and the income from them may go down as well as up and investors may not get back the original amount invested. Any market or investment views expressed are not intended to be investment research. **The document has not been prepared in line with the requirements of any jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.** The information contained in this document does not constitute a distribution, nor should it be considered a recommendation to purchase or sell any particular security or fund. A number of the comments in this document are considered forward-looking statements. Actual future results, however, may vary materially. The opinions expressed are a reflection of UBS Asset Management's best judgment at the time this document is compiled and any obligation to update or alter forward-looking statements as a result of new information, future events, or otherwise is disclaimed. Furthermore, these views are not intended to predict or guarantee the future performance of any individual security, asset class, markets generally, nor are they intended to predict the future performance of any UBS Asset Management account, portfolio or fund. Source for all data/charts, if not stated otherwise: UBS Asset Management, Real Estate & Private Markets. The views expressed are as of March 2022 and are a general guide to the views of UBS Asset Management, Real Estate & Private Markets. All information as at March 2022 unless stated otherwise. Published March 2022. **Approved for global use.**

© UBS 2022. The key symbol and UBS are among the registered and unregistered trademarks of UBS. Other marks may be trademarks of their respective owners. All rights reserved.

