# RISKS CROSS BORDER INVESTING IN 2020

What are the greatest risks for cross border investing in 2020?

Nearly half of respondents included geopolitical issues among their primary concerns and about 40% mentioned currency fluctuations and interest rate risks (p. 7).

## POLITICAL RISKS

- Geopolitical events (e.g., US tariffs and trade wars; protectionist policies; Brexit; Hong Kong protests impacts on Asian trade; geopolitical risks in the Middle East; war with Iran; civil unrest in Latin America)
- US domestic political risks (e.g., US political instability; 2020 elections; potential for dramatic policy changes; volatile political climate; impact on economic policies; immigration and labor issues)

## CURRENCY RISKS

- Currency fluctuation; forex market volatility; high hedging costs; interest rate risk and volatility; negative interest rates leading to currency imbalances

## TAX AND REGULATORY ENVIRONMENT

- Less certainty around municipal requirements for development
- Lack of knowledge/transparency on local governance (fiscal and legal) and financial/real estate markets
- For multifamily property, political risk at the state and local level; additional regulation and other restrictive policies that make developing and managing increasingly expensive and difficult

## ECONOMIC SLOWDOWN

- Global synchronized economic slowdown
- Slowing US GDP growth
- End-of-cycle economic slowdown
- Slow growth in some European countries

## PRICING ISSUES

- Late-cycle high pricing
- Compressed cap rates due to low interest rates and intense competition for assets on the equity and debt sides

## OTHER CONCERNS

- Technology disruptions
- Corporate high yield debt bubble
- Lack of climate action and infrastructure investment; in exposing investments to increasing climate risks

# OPPORTUNITIES

What are the greatest opportunities for cross border investing in 2020?

As in past surveys, the continued growth and relative strength of the US market presents an ongoing opportunity for investors, along with low interest rates and attractive yields.

## DIVERSIFICATION

- Scaling of the investment portfolio; diversification to create long-term cash flow; diversification, market liquidity, real estate quality; exposure to sectors and opportunities uncommon in domestic markets; diversification into established and/or emerging markets

## US GROWTH AND STABILITY

- Simple size of US market and greater liquidity means opportunities are still there
- Higher growth than in Europe; better cap rates in the US and good debt financing. Europe has become extremely expensive in the face of poorer economics
- Strong relative value compared to government and high yield debt; yield spread over government bonds
- Additional return over domestic investment; attractive fundamentals (i.e., growth and tightening vacancy figures) on a relative basis to other countries; higher risk-adjusted returns

## US-SPECIFIC STRATEGIES

- Continued growth in innovation centers across the US; concentration of job and population growth will create opportunity for alpha capture, despite regulatory risks
- Special situations debt and preferred opportunities in the US, with hedging costs for European and Asian investors coming down
- Strong development of second markets due to lack of new housing supply and increasing number of households
- Cross-border investors looking beyond traditional markets will find numerous opportunities (e.g., Seattle, Denver, Portland, Austin, Nashville, etc.)
- Strong demand for modern logistics real estate driven by ecommerce growth and demographic shifts. Greater accessibility and better matching of exposure by taking advantage of differences in economic and property market cycles
- Strength in many of the residential markets, including senior care and student housing

## NON-US-SPECIFIC STRATEGIES

- Global urbanization and demographic changes
- Divergent interest rate environments decoupling economies and making cross-border investments more attractive
- Markets that will benefit from trade issues, such as Central and South America (i.e., Mexico and Brazil)