Globalization and Real Estate: Where next?
Executive summary

Globalization’s impact on the real estate industry has been far-reaching:

**Capital markets:** Cross-border investment in real estate trebled in the years leading up to the global financial crisis and have since surpassed pre-crisis levels.

**Yields:** Office yields have fallen by more than 275 basis points (bps) in the past 20 years as inflation and interest rates have trended down, boosting real estate values and contributing to the decline in affordability in certain markets.

**Regions:** East Asia has grown astonishingly during the past 30 years, creating new real estate markets and new sources of capital. Since 2012, China’s share of global real estate inventory has grown from 7% to 12%.¹ There is now an estimated $3.9 trillion of investable commercial real estate in developed Asia.²

**Cities:** Global cities have acted as gateways for an increasingly internationally mobile labor force that in turn has boosted demand for high-end residential property and retail outlets. Global gateway cities are the primary target for cross-border real estate investors.

**Sectors:** The growth of global trade in goods and services has led to expansion of the industrial & logistics and services sectors both in new locations and existing hubs. Growth in tourism has also enabled the hotel sector to expand in a larger number of destinations.

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The future of globalization is not possible to divine at the present moment. While there have been a series of political events to indicate a populist movement away from further global integration, one cannot accurately predict their far-reaching outcomes. In addition, the rhetoric of anti-globalization in the U.S. appears to have cooled in recent months and populist parties in the recent elections in the Netherlands and France in Europe have failed to secure power. However, there seems to be general consent that two broad scenarios are possible:

1. A temporary slowdown of the global integration process with modifications to current trading patterns and migration.

2. A substantial reversal of integration due to increased protectionism both in trade and immigration.

Although the first scenario is the most likely of the two, we will examine what both scenarios might mean for real estate in this CBRE ViewPoint.
INTRODUCTION
As the world has become more globalized over the past 30 years, the structure and growth rate of individual economies has changed. Emerging markets—led by China, India, Russia and Brazil—have experienced rapid GDP growth and a very material uplift in average incomes and standard of living. Four billion people or more have been lifted out of poverty.3

Real estate has also seen dramatic changes in the sources and levels of demand. China, for example, has experienced huge growth in floor space in all sectors (office, industrial and retail) purely due to economic growth. In the U.S., logistics property around West Coast ports has boomed due to increased imports from Asia. More recently, office absorption in Bangalore, India has surged due to the relocation of business service activity from the U.S. and Europe.

It is not just patterns of occupancy that have been affected; patterns of ownership have also radically changed due to the increase in cross-border investment that has taken place since the mid-1990s. No one now is remotely surprised if Chinese investors acquire hotels in New York. A bigger global economy has led to a much bigger real estate universe but also more diverse and diversified ownership patterns.4

Despite the many positives of globalization, such as cheaper manufactured goods made in China and lower interest rates, there have been adverse effects and significant social, cultural and economic disruption. In developed countries like the U.S. and the U.K., middle- and lower-income workers have not had real wage increases for many years. Mass immigration from poorer parts of the world into the OECD countries has, in some cases, created tension and put a strain on public services.

Only a patchwork of policies have been implemented to alleviate the negative effects of globalization. As seen in the recent U.S. election and the Brexit referendum, disillusioned citizens made their voices heard at the ballot box.5 The full implications of these political shifts are yet to be seen, but there is a possibility of more protectionist trade policies, limitations on capital flows and checks on immigration. In the short and medium terms, the pace of globalization in its current form could slow and this may have consequences for real estate.6

In this CBRE ViewPoint, we examine the following:

- What the word “globalization” actually means;
- The positives and negatives of globalization;
- How globalization has impacted real estate;
- Where we go from here.

5. We do not imply that the vote for Brexit in the U.K. and Donald Trump in the U.S. is entirely due to anti-globalization backlash; issues of principle, sovereignty and international relations are also important.
6. And other asset classes.
WHAT IS GLOBALIZATION?

At the core of globalization is international trade and cross-border financial flows. Other important components include the mingling of cultures, increased immigration, richer and more diverse cross-border information flows, more extensive global supply chains and the increased power of multinational corporations.

Trade as a percentage of global GDP increased from around 30% in the 1960s to nearly 60% by 2015.

The reduction of trade barriers such as tariffs, the creation of free-trade areas such as the EU, advances in transportation and communication, and financial liberalization have all enabled very rapid growth of trade. Average tariffs between the OECD and the rest of the world have decreased by 50% in the past 20 years thanks to successive rounds of negotiations and political shifts in low-cost countries such as China. Some 35.6% of U.S. personal consumption on clothing and shoes in 2010 was on items made in China. However, only 38.8% of the retail price of these goods accounted for the cost of these imports, making them extremely profitable for the companies that retail them.

Cross-border financial and capital flows have broadened and deepened as both cause and effect of economic integration. Foreign direct investment (FDI) has flowed from the advanced economies to emerging markets in search of lower-cost production. Portfolio investment flows have also surged due to the desire for higher returns and lower

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volatility from investing overseas. Portfolio investment, such as that into real estate, has been facilitated by the reduction and elimination of national capital controls, improved communications technology, rapid innovation in financial markets and alternative investment vehicles such as REITs. In Europe, between 1984 and 2004, the result has been an increase in the ratio of cross-border financial positions (i.e., any financial arrangement, such as a loan, occurring between nations) to GDP from 130% to more than 450%. Stock market returns across the globe today are also significantly more correlated with one another than they were 20 years ago.

More recently, digital globalization—involving flows of data and information—has further facilitated cross-border trade and investment. E-commerce platforms allow individuals to purchase overseas goods directly and to the extent that e-commerce now constitutes 12% of global trade. As well as physical goods, data flows enable streams of information, ideas and financial products to be bought and sold. According to McKinsey Global Institute, 900 million people have international connections on social media,
with implications for shopping, networking and the cross-border mobility of labor. As the graph below shows, global flows of data and communication have increased rapidly since 2005, with a predicted ninefold increase in the next five years.\(^\text{12}\) It is argued that global GDP has increased by 10.2% more than it would have without the corresponding increase in digital flows.\(^\text{13}\) Even if new forms of trade protectionism impede cross-border flows of physical goods, there is little evidence that it will be possible to reduce flows of information in digital space.

Figure 3: Global Flows of Data and Communication

[Diagram showing total used cross-border bandwidth (thousands of gigabits per second) from 2005 to 2014, with data for cross-regional and intra-regional flows.]

Source: OECD (2016)


IS GLOBALIZATION A GOOD THING?

Globalization has been extraordinarily positive in many respects. Over the past 20 years, approximately 4 billion people, largely in emerging markets, have seen their income dramatically increase from subsistence levels. GDP per capita in the G7 nations in 2015 was approximately 33% higher than in 1990 in real terms, and 150% higher in emerging markets. The level of inequality between developed and developing economies has been significantly reduced over time.

Figure 4: GDP Per Capita Growth: Emerging Markets vs. G7

GDP per capita ($ developed countries)


Some of this change can be explained by the shift of manufacturing to East Asian economies, which have become increasingly integral to global value chains due to low labor costs and manufacturing expertise. As emerging markets became more deeply ingrained in patterns of global trade, employment in the manufacturing sector boomed. An illustration of this is the twentyfold increase in foreign direct investment (FDI) inflows to Asia between 1991 and 2015, compared with a sixfold increase in Europe.

![Figure 5: FDI Inflows Since 1990](source: World Bank (2015))

The developed economies have felt the benefit of this in the long-term suppression of import prices. According to the OECD, this has led to a 0.1% p.a. reduction in inflation in the U.S. and 0.3% in Europe. The resulting boost to levels of real disposable income over a prolonged period (shown in Figure 6 below) has allowed households in the advanced economies to enjoy the purchase of more and better-quality goods. In turn, this has sustained demand for emerging market manufacturers.

Perhaps the most important macro-economic change over the past 30 years has been the decline in inflation and the consequent fall in interest rates. While other factors, such as successful inflation targeting by central banks and the labor market reforms of the 1980s, partly explain the decline in interest rates over the past 30 years, globalization is also an important part of the story. Two factors are important:

- The flow of cheap manufactured products from low-cost manufacturing locations such as China helped central banks achieve their goal of stable low-inflation expectations and moderate year-on-year wage growth.

- The introduction into the global trading system in 1989 of 1.5 billion additional workers from the formerly closed communist labor forces of China, Russia and Eastern Europe made workers in the OECD less able to demand cost-of-living pay increases.17

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17. The Globalization of Labor, Chapter Five, IMF World Economic Outlook, 2007
While reduced barriers to trade have delivered higher returns to multinational corporations able to relocate functions to low-cost locations, reduced barriers to immigration have allowed workers to migrate to locations with greater potential for a comparatively high wage. The result has been a general increase in the percentage of foreign-born people living and working in OECD countries.\textsuperscript{18} While most economic studies attest to the benefits of immigration, many communities in economic decline due to globalization have faced increased competition for jobs and resources from immigrants. In particular, immigrants are often willing to accept lower wages in occupations traditionally held by less-well-skilled native-born workers. This has likely reinforced higher levels of perceived insecurity and a hardened attitude towards further immigration.\textsuperscript{19}

![Figure 7: Attitudes Towards Immigrants](image)

Source: Migration Policy Index (2014)

Interestingly, evidence suggests that many immigrants use social media to integrate in new cultural surroundings.\textsuperscript{20} Thus, just as digitization has facilitated flows of capital, it has also facilitated movement of people.

At the same time as low-skilled workers in the advanced economies have faced near stagnant real wages, those at the top end of the income scale have done very well. This is evidenced in the growth in CEO pay and the number of high-net-worth individuals. Of course, running a modern corporation with multiple geographies, highly extended
supply lines, fast-moving consumer markets and public shareholders to please is much more difficult than it was. Even so, the growth of CEO salaries, and income inequality more generally has become a political issue in some countries.

Figure 8: Percent Change in CEO Compensation, Stock Prices, and Typical Worker Compensation, 1978 to 2014


More recently, many corporations have utilized the geographical limitations of national authorities and lack of international policy coordination to reduce their tax liabilities. The flipside of this is low or negative growth in government expenditures in OECD countries, increasing the resentment felt by many voters towards large global companies, particularly in Europe.

Just as the tax base has been eroded, there is a growing sense that the knowledge base of advanced countries is also under threat. Not only are factories offshored, but so is intellectual property with digital globalization. So the monopoly of OECD nations on the use of industrial-manufacturing intellectual property is broken, allowing high-tech ideas to be combined with low-wage workers in developing nations. Digital globalization has exacerbated the trend towards redistribution of manufacturing worldwide and is much less easy to control.

As goods and ideas have crossed borders more and more easily, so have consumers. Increases in disposable income, alongside cheaper air travel and the rapid development of leisure infrastructure, have allowed many people to travel the world more widely. International visitor numbers in the past six years have grown by more than 40%, aided by the availability of low-cost flights.23

Figure 9: Global GDP Growth vs. International Tourism

The accessibility of other cultures has resulted in less measurable but nonetheless important cross-fertilization of cultural ideas and tastes. For example, since 2004 there has been more than 40% aggregate growth in the number of restaurant groups serving Chinese, Mediterranean or Indian/Pakistani food in the U.K. (although part of this trend can be attributed to the general tendency towards eating out more).24 In addition, multinational companies are seeking to actively alter tastes in new markets. For instance, Starbucks recently announced an aggressive expansion plan in China, with 500 stores rolling out this year and plans to open another 3,400 by 2019.25


REAL ESTATE

While globalization has had profound social impacts, it has also fundamentally altered the real estate industry. Real estate has value both for its physical use and as an investment asset class, so it is affected both by changing occupier trends and financial flows.

CAPITAL MARKETS CONSEQUENCES

Capital flows and market integration

In the years leading up to the global financial crisis, cross-border investment into real estate tripled and subsequently increased by another 23% by 2015, the latest peak. For example, the level of foreign ownership in the city of London has now surpassed that of domestic, having been at only 3% in 1972. Between 2000 and 2007, rates of growth in cross-border investment were greater than those of domestic investment.

Figure 10: Restaurant Growth in the UK

% growth in number of restaurant groups

Source: Horizon Analytics (2016).

There is increasing evidence that real estate prices are determined more by international investors than by domestic ones. There is increasing evidence that real estate prices are determined more by international investors than by domestic ones.29 Detailed analysis of the Nordic markets has shown that foreign investment flows have a greater impact on yields than domestic investment.30 One possible explanation for this is that foreign investors have a greater appetite for risk; another is that they have a lower cost of capital due to an excess of savings over investment in their home economy. The result is increasing foreign ownership of real estate assets in countries where real estate is freely traded, particularly those of the G7.

Globalization of real estate investment and pricing has been facilitated by the securitization of real estate markets, particularly through the growth of real estate investment trusts (REITs) and listed property trusts. For several decades, only the U.S., the Netherlands and Australia allowed REIT structures, but since the early 1990s their use has grown internationally. During the seven-year period from January 2000 to March 2007, the value of listed property markets increased by 170% from $350 billion to $945 billion.31 The standardization of government approaches to taxation of REITs is part of the trend towards more uniform practice and regulation of the real estate and financial industries globally.

As a standard product across markets, REITs can aid “price discovery” in the property industry. As small units can be easily bought and sold, transactions can occur at a

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significantly faster rate than with direct property investments. In some cases, this means that the REIT market is more prone to sentiment swings, as illustrated when the FTSE NPRA/NAREIT UK Index fell 9% in the week after the Brexit vote. Globalization of real estate investment structures has therefore come with the greater risk that economic shocks in one part of the world are transferred to another. After the 2008 global financial crisis, where the performance of real estate securities was highly correlated between markets, there was a peak-to-trough decline of 60% to 70% in the U.S., Europe, East Asia and Australia.32

REITs are not the only example of how regulation and taxation of the real estate industry is becoming increasingly standardized internationally. In 2014, the first International Ethics Standards Coalition met at the U.N. to provide leadership in reducing the perceived problem of uneven ethical standards in the real estate industry between the increasingly interrelated markets. The RICS International Property Measuring Standards are an attempt to harmonize measuring practices so that comparisons between properties from country to country can be made more easily. Other real estate associations, notably the Urban Land Institute, have been highly successful in their global expansion programs and their diffusion of best practice.33

**Interest rates and yields**

Over the past 30 years, interest rates have fallen substantively due to the effects of globalization. One reason for this is the decline in inflation. While central bank policies are important in keeping inflation levels low, the role of cheap imported goods from China (and Asia) is also important. Moreover, real interest rates have fallen due to the global savings glut which is associated with globalization. As interest rates have fallen, so also have real estate yields. Falling yields have meant rising prices, higher levels of real estate lending and greater investor interest in the sector.

![Figure 12: Global Office Yields vs. G7 Bond Rates](chart)

Source: CBRE Research, OECD, 2016

Lower interest rates have also had an impact on housing markets, where large increases in the real value of housing—supported by lower interest rates—can be seen over the past three decades. The result has been highly beneficial for those who own houses, but less so for those like the millennial generation who have lower levels of home ownership.

**Figure 13: House Prices and Disposable Income**

![Graph showing house prices and disposable income over time with lines for OECD countries, Germany, Canada, UK, and Japan.]

Source: Atlanta Federal Reserve Bank, 2016

**Market integration**

As a result of common practice and better information, real estate markets are becoming more and more integrated. Property returns between cities, particularly those of the same global status, are much more highly correlated than they were. For instance, office yields in the city of London are now more correlated with those in Tokyo than in Birmingham, England. As we have previously noted, this means that shocks to the economic system in one part of the world reverberate around all parts of the world very quickly.
Regional and National Consequences
Due to the structural changes in the global economy outlined earlier, Asia has grown immensely both economically and in terms of real estate supply. Between 2005 and 2015 alone, Asia Pacific’s share of world output rose from less than 30% to almost 40%. The region now accounts for 33% of the global public real estate investable universe and 24% of the combined global public and private institutional real estate universe. As such, emerging markets in Asia Pacific represent a significant proportion of investment opportunities on a global level.

34. Oxford Economics, August 2016 – comparison based on GDP at Purchasing Power Parity rates
As a consequence of the rapid economic growth in Asian economies and especially China, these regions have also grown as a source of capital for real estate investment. For instance, in Canada, Chinese investors represent the largest foreign group, purchasing $1.3 billion of real estate in the first half of 2016. In 2015, the Chinese accounted for 26% of total investment in U.S. residential property. At present, international markets are an attractive opportunity for Chinese investment given the limited investment channels in China, abundant liquidity, local currency (RMB) appreciation and the relatively lower valuation of overseas assets in the years following the 2008 financial crisis.

Not only is this capital channelled into existing real estate, but also into funding development of new buildings. Over the past five years, Real Capital Analytics has recorded about $21 billion of Chinese investment in development sites. The purchases are strongly weighted to other parts of the Asia Pacific region, particularly Australia. To put this level of investment in context, buyers from Europe have spent just $14 billion internationally on development sites and North American investors have spent only $16 billion.

**City Consequences**
Recent decades have seen the expansion of the “global city.” Characterized by international connectivity, cosmopolitanism, density of financial and business services,
and cultural amenities, global cities can bear greater resemblance to one another than to neighboring cities within the same country. Their growth is encouraged by the dispersal of economic activity across countries and regions due to globalization, which has necessitated increasing integration and complexity of central organizational functions (Sassen, 2005). Global cities provide the ideal hub for such central functions to locate, being highly accessible by air, providing easy access to world-class legal and financial advice, and providing places and facilities that professionals in these services enjoy.

The World Cities Network (WCN) has tracked the number of global or regional headquarters of service firms in more than 300 cities since 2000. This provides a quantitative indicator of cities’ global reach in terms of their “advanced producer services” according to the number and decision-making importance of the firms represented there. According to WCN’s measures, London is the most globally connected city, followed by New York. WCN’s study concludes that the global footprint of service firms has expanded considerably since 2000. For instance, McKinsey & Company was present in 75 of the measured cities in 2000, but by 2016 had extended its reach to more than 100. This trend creates a clear need for high-quality office space in a growing number of locations.

Between 2000 and 2016, according to the WCN database, East Asian cities increased considerably in connectivity. This is particularly the case for Chinese cities, including Beijing, Shanghai, Guangzhou and Shenzhen. The implication of this trend is that growing prosperity in this region has attracted service firms seeking global reach and the opportunity for growth.

As well as commercial activities aggregating in globally connected cities, the growing group of highly compensated workers has enlarged the market for luxury housing in these destinations. Vancouver and London are two key examples of gateway cities that have experienced a surge in demand for luxury housing, especially as second homes. Mayors of both these cities are taking action to curb the trend. For instance, the mayor of Vancouver introduced a 15% tax on purchasers who are not Canadian citizens or permanent residents.38

The expansion of luxury retail has accompanied that of luxury housing. This applies not only for the more-established retail destinations such as New York and London (prime rents in the latter grew last year by 53%), but also for a range of new cities that have experienced rapid economic growth in recent years. For instance, Mumbai—India's

largest financial center—is home to outlets of Louis Vuitton, Dior, Salvatore Ferragamo, Versace, Jimmy Choo and Burberry.\(^4\) Approximately 13\% of the total brands that entered and expanded in Mumbai from 2012 to H2 2015 were in the luxury segment.

**Sector Consequences**

Higher volumes of goods manufactured in low-cost markets that are exported to developed economies have created increased demand for industrial & logistics real estate. In the U.S., this has meant the increased development of many of the West Coast ports such as Los Angeles and Long Beach. This typically delivers lowest-cost manufacturing options and provides relatively quick overseas transport times relative to the alternative route through the Panama Canal and to the East or Gulf coasts.

The North American Free Trade Agreement precipitated the explosion of automobile manufacturing in Mexico, which, coupled with a flurry of other trade agreements (44 between 1993 and 2012), contributed to an 80\% increase in industrial property supply in Mexico’s Bajio region since 2012. CBRE’s *Global and Emerging Hubs* report\(^4\) explores the emergence of 20 additional logistics hubs in response to the growth in global trade. The success of the manufacturing industry in Bajio has also supported growth in the retail and office sectors, which have seen a 45\% and 38\% increase in supply, respectively, since 2012.

In the more developed economies, high-value businesses—such as financial services—can be exported to new markets, which support office demand in those markets. According to the Global Financial Cities Index, some of the fastest-growing financial cities include Beijing and Shanghai.\(^4\) Higher incomes and lower-cost goods then support retail demand, and both Beijing and Shanghait rank among the top-20 cities for development of new shopping center space, according to CBRE’s *Global Shopping Centre Development ViewPoint*.\(^4\) But low-value services have also moved to emerging markets, creating a huge boost to office demand in India and the Philippines for example.

The globalization of tastes and cultures has also facilitated retail expansion. CBRE’s *How Global is the Business of Retail?* report finds that out of the 334 leading international retailers surveyed, the number of countries that every region’s retailers are active in has grown.\(^4\) Global gateway cities act as key conduits for foreign brands to enter a new country, with London being home to the highest number of international retailers in the world.\(^4\)

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With growing affluence in emerging economies, the pool of international travelers is expanding to include visitors from a broader number of countries. The number of Chinese outbound tourists rose by 10% year-over-year to 128 million in 2015, while their spending grew by 26% over the same period. Increasing cross-cultural contacts and greater access to information regarding tourism attractions in less well-known parts of the world have also broadened the number of destinations in demand. The demand for low-cost and “authentic” travel experiences, especially among the millennial generation, has been partially fueled by a growing number of Airbnb providers. As of 2016, Airbnb has grown to more than 2.5 million listings worldwide with properties in almost every country.

**FUTURE OF GLOBALIZATION**

The future of globalization seems uncertain at present. The potential long-term impacts of recent political events, including the EU referendum in the U.K. and the election in the U.S., are not clear. But there appears a general consensus about two possible scenarios at either end of the range:

1. A temporary slowdown of the global integration process with modifications to current trading patterns and migration.

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47. Airbnb (2017), https://www.airbnb.co.uk/about/about-us
2. A substantial reversal of integration, due to increased protectionism both in trade and immigration.

Scenario 1 appears to be the most probable, whereby there is a slowdown of integration, a mild rebalancing of the global economy and relatively little impact on real estate. Specific possibilities under this scenario include:

a) **Slowed growth of global trade.** The ratio of global trade growth to global GDP growth could fall below 1, having been higher than 2 since the 1990s.

b) **A contraction in supply chains.** There could be some transfer of manufacturing activity to and between OECD nations as companies seek to protect themselves from potential trade barriers. This may not bring much job growth due to the trend towards automation, but it may stabilize levels of manufacturing employment. A downside could be a rise in the cost of manufactured goods.

c) **Reduced immigration.** This points to potentially higher labor costs and labor shortages in certain industries such as hospitality, health care and construction. In due course, this could increase costs and prices in these industries and lessen demand for industrial and logistics space as supply chains shorten.

d) **Changing patterns of trade.** These effects are not easy to predict, but they could have an impact on ports and logistics infrastructure. Since the 1970s, for example, the U.K.’s East Coast ports (such as Dover) have boomed as trade with Europe grew, while its West Coast ports (such as Liverpool) have declined. These trends could be reversed.

e) **Moderate restrictions in capital flows.** There is widespread concern about house prices in most of the coastal cities that have thrived under globalization. This concern has been exacerbated by the growth in foreign ownership. It is likely that some controls on foreign ownership will emerge, as have already occurred in Vancouver. There also may be further limitations on foreign ownership of important national companies.

Under Scenario 2, which is less likely, the impacts on real estate would be much greater:

**Capital Markets Consequences**

To the extent that globalization has been somewhat responsible for persistently low levels of inflation and interest rates, its reversal could lead to more rapid growth in prices and the need for tighter monetary policy. Tariffs would raise the cost of imported goods for some countries, such as the U.S., via currency effects or because production has to relocate to higher-cost locations. These higher costs would most likely cause workers to demand higher wages in order to maintain their standards of living. A classic wage/price spiral could ensue.
At the same time, countries that have grown wealthy from exports, such as Japan, China and Germany, might lose export markets, so they would have to boost domestic demand substantially to maintain growth and employment. Savings in these export-surplus countries could fall, thus potentially lowering global supply relative to higher global demand. Globally, labor could regain some of the bargaining power it has lost over the past 20 years or so. Unit labor costs could rise and “offshoring” might no longer be the solution. Real and nominal bond rates could rise, and so could real estate yields.

As an aside, the potential macro-economic upside of a retreat from globalization is clear. One of the problems in the global economy over the past 15 years has been the overreliance by some countries on growing levels of exports to drive economic growth. This is certainly true of the Asian economies, but also Germany and other parts of northern Europe. A retreat from globalization could cause these countries to rebalance their economies in favor of domestic demand, potentially boosting overall global demand, reducing global savings and driving up real wages.

Regional and National Consequences
Big export economies such as China and Germany could suffer a period of economic disruption in order to adjust to altered trading conditions. The U.S. might fare reasonably well, being a large economy that relies less on exports and more on domestic demand. The EU has the potential to fare well, but would have to more adequately coordinate fiscal policy and harmonize its banking system. Post-Brexit, which will probably be after 2019, the U.K. could find itself in a difficult position, attempting to forge a series of new bilateral trade deals in an environment of retreat from global trade.

City Consequences
For the same reasons as export-oriented countries and regions, the most globally integrated and outward-facing cities could face economic disruption. Financially-oriented capitals could see a reduction in international investment inflows and in external demand for internationally traded financial services.

For real estate, this means that some of the super-prime locations and developments might see outward movement in cap rates. The boom in luxury retail spending by tourists could fade, while some of the super-prime residential real estate developed over the past 20 years might also see a reduction in demand.

However, there may be some benefits to a retreat from globalization, such as a reduction in economic volatility caused by the high levels of interdependence and integration between major financial centers. Out of the top 1,000 commercial real estate investment deals by value in 2007 and 2008, 50.2% took place in just 10 cities and 30% of office
investment was in just London and New York.\textsuperscript{48} Out of the same top 1,000 deals, 50% of buyers were based in the top-10 international financial centers. There was also a 0.6 correlation between office investment value and the city’s score on the Global Financial Connectivity Index. Financial markets and global cities are consequently highly integrated, and the dynamics of financial markets will play out in the performance of commercial real estate in global financial centers. It then follows that a decoupling of the financial and commercial real estate markets of global cities will have a negative impact on the degree of correlation between the two and reduce the volatility of office investments in these cities in the long-term.

\textbf{Sector consequences}

It is probable that the logistics sector will see the most change, though not necessarily for the worse. A greater focus on domestic and intra-regional flows of goods would reduce the need for large ports bringing goods into the advanced economies from Asia, and the infrastructure surrounding them to transport those goods to consumers. For the U.S., this is especially relevant for West Coast ports such as Los Angeles and Long Beach. In addition, facilities that service Mexican trade with the U.S. might have reduced demand.

\textbf{CONCLUSION}

Despite some recent nationalist political sentiment, a complete reversal of global integration appears unlikely. Simply put, it would be too costly in terms of reduced standards of living, disruptions of business models and the potential for conflict. Globalization is not a single process. It is the product of numerous bilateral and multilateral trade agreements, a long-term increase in financial integration, cross-border mergers and acquisitions, vastly improved communications technology and information flows, lower travel costs and even social media. Even if trade agreements are partially unwound, it is very hard to see the other aspects of globalization doing anything other than continuing apace. Furthermore, many think that recently dismantled trade deals, such as TPP and TTIP, could eventually re-emerge in slightly different forms. Because of mutual self-interest, even Brexit likely will be less disruptive to trade than is currently feared.
