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Emerging Trends in Real Estate Global
2022 Outlook

The outlook for the global economy remains strong, and it continues to provide a solid foundation for real estate activity in the future.
Recovery from the Covid-19 crisis continues, with global activity now passed its pre-pandemic peak. However, this rapid recovery has already faced supply constraints in many sectors and economies, leading to higher global inflation.

A condition of uncertainty

Despite the prolonged turmoil of COVID-19 and the typical structural shifts in the way we live and work, real estate continues to attract capital, demonstrating its stability and attractiveness against other asset classes. Despite the widespread economic uncertainty, 2021 marked a record year in the global real estate world with sales volumes exceeding 2020 by 59%, and the previous peak observed in 2019 at 22% - well above the forecast expected last year. This exceptional level of activity was driven by global demand for residential and industrial real estate and increased liquidity post Covid Lockdowns
However, increased macroeconomic uncertainty has given a rise to a clear sense of caution amongst global investors. We have observed Inflationary trends in most developed markets, in January 2022, inflation reached 5.1% in Europe and 7.5% in the United States; the fastest annual rise there has been in 40 years. Additionally, interest rate hikes across markets like US, Europe and UK are expected to cause downward pressure on real estate transactional activity in the immediate future. In the aftermath of the above we expect the market to present value opportunities for real estate investments

Carbon dismissal financing: The Organization for Economic Cooperation and Development (OECD) has called for $7 trillion to be invested every year between now and 2030, so that the world meets climate and development goals.

"This will be a historical event for real estate", said one Global Emerging Trends participant. We expect the trend of ESG focused real estate investments to gain further momentum based on this.

The contraction of the investment grade real estate pool will increase the competition for core assets

Given the current interest rate environment, the capital targeting investment grade real estate is likely to continue to increase in quantum as investors look for stable & risk mitigated returns. While the industrial, residential, and healthcare asset classes get the greatest share of allocated capital, core offices and specialized asset classes, such as student/senior housing are beginning

to attract more investor attention, despite facing occupancy challenges in 2021. There is still a lack of investor appetite for retail, non-core offices and business focused hotels.

Price acceleration: Industrial and residential prices have accelerated rapidly on account of the compression of the cap-rates due to the increased interest from investors and significant rental growth due to the rise in inflation rates, particularly in the United States and the United Kingdom. While rental growth in Europe has not kept pace vis-à-vis markets like US & United Kingdom, it is expected to catch up in the coming years. In Asia, prices and rents have grown more modestly, indicating potential for upward trend in values in the future.

Office markets in US have experienced price corrections, major cities in the United States have seen an expansion in cap-rates, particularly for assets with high vacancies and shorter weighted average lease terms. This is due to the high likelihood of adopting work-from-home business models and increased uncertainty around future demand. On the other hand, office markets in Europe and UK continue to experience compression in cap-rates owing to the recovery in occupancy levels post Covid lockdowns.

Fundamental elements of asset classes may realign to varying degrees across markets
In all regions, the fundamentals of the real estate market have been affected by the pandemic to varying degrees. The industrial asset class continues to deliver the strongest performance globally, driven by accelerated tenant demand in e-commerce and the restructuring of supply chains. Fundamentals surrounding the residential asset class have changed, primarily due to lack of supply, variations in disposable income and affordable housing. While the fundamentals in these asset classes have been pushed through structural changes due to COVID-19, it is expected that they will be moderated due to future increased supply and stabilization in demand from industrial tenants.

While uncertainty and occupancy challenges were headwinds for the office market in 2021, employment rates have risen in 2022. However, as preferences from being in the office full-time have begun shifting, mixed office models are expected to become the norm, resulting in a 15-%10% drop in total office demand though this drop is expected to vary based on the asset's region, location and specifications. Fundamentals are also beginning to improve for sub-types of retail and hotel assets, particularly Grade-A shopping malls and leisure hotels.

Real estate market trends

Industrial: Upward movement in pricing; development is the most attractive

Operational Fundamentals

- The industrial asset class continues to witness lower returns than other asset classes, driven by strong investor demand, caused by strong growth expectations.

- The increase of e-commerce, diversification of supply chains, and re-stocking are expected to continue to support the significantly growing demand for well-positioned logistics assets. The inventory shortage that has redirected supply chains is expected to continue to shift demand to new markets, such as Vietnam, India, and Mexico.

- In addition, supply chain bottlenecks have led to delays in ports and shipping, shifting growing demand to inland ports, and more rail-dependent locations.

- There are significant variations in global market rental growth with the U.S. and the U.K. leading the way.

- The market has begun to acclimatize with similar increased rates across primary and secondary markets, despite varying expectations and exposure to supply risks.

The United States: Take advantage of the current relationships and targeted development opportunities in U.S. primary markets, for example, Los Angeles, Boston, and high-growth second-tier markets supported by unique demand engines.

Europe: Target attractive development opportunities in markets with higher growth in supply-demand balanced locations, for example, London submarkets.

Asia: Target development opportunities for smaller warehouses at landfill sites in Japan. Continue to develop the industrial platform in major distribution centers in India and China.

Residential: Increasing market rentals are expected to rebalance demand-supply dynamics

Operation Fundamentals

- Capital Values for Residential, despite supply shortages remain at reasonable levels in many global markets.

- The significant growth in market rents in the U.S. challenges rental affordability and sustainable rental growth.

- Supply is expected to catch up in many markets and re-balance residential markets.

- Regulatory restrictions may limit rental growth in specific markets preventing a sharp rise going forwa

Investment Strategies

United States:

- Acquire A-/B+ grade multifamily assets in attractive, employment growth focused residential markets with potential for rental appreciation

- Develop a single-family rental product to address housing shortages in sun-belt states in South-West US that benefit from changing demographic trends and migration from saturated North-Western states in the US

Europe:

- Take advantage of asset management experience to reposition old assets and drive rental growth in high-growth markets, such as Finland

Asia/Pacific:

- Target future development/acquisition opportunities in Japan and continue to assess opportunities in emerging rental markets, such as Australia.

Offices: Significant variance in performance across geographies

Operation Fundamentals

- The impact of increased work-from-home remains a key element of discussion, its impact significantly varies around the world due to health and lifestyle choices.

- In general, expect to see less demand and a variation in performance between markets and asset quality levels

- Assets with strong fundamentals such as superior locational attributes, high occupancy levels, longer lease terms and good ESG credentials will see an increased demand over inferior quality assets

- Emerging "core" markets are taking an increasing share of absorption and investment activity

Investment Strategies

United States:
Target a modern, high-quality office product in high-growth markets that benefit from demographic shifts, such as sun-belt markets.

Europe:
Repositioning office assets to meet the requirements of the modern tenant with an attractive foundation and a defensive rental level.

Asia:
Target stable high-yielding assets in key Asian markets where moderate leverage can generate attractive cash returns.

Hotels: From Alpha Beta game to growth-oriented BETA

Operation Fundamentals

The fundamentals of leisure hotels have recovered much faster than we expected in the United States and are now at or ahead of 2019 levels. Recovery has been delayed for hotels outside the United States and business-focused hotels that rely on conferences or international travel.

Investment Strategies

Acquire hotel assets that may face operational challenges and weak cash-flows in the short term but that are likely to see a rapid recovery back to pre-COVID 19 levels after the resumption of tourism and commercial travel.

Specialized Asset Classes are of Greater Interest

Operation Fundamentals

We have observed general increase in investor interest in specialized asset classes. Healthcare continues to perform well. The fundamentals of life-sciences remain very strong, with vacancy rates approaching zero in high-profile offerings, attracting capital and keeping cap-rates at record lows. New developments and office-to-laboratory conversions will increase supply levels. Student housing provides an attractive spread, being stable and offering countercyclical demand. Hence, returns have bounced back to 2019 levels in key markets, along with reduced supply levels compared to pre-COVID levels.

The fundamentals of senior housing have recovered as vaccination rates have accelerated for the 75 years and above. Supply is also lower compared to pre-COVID levels. The cap-rates are relatively higher than in other specialized asset classes, given the asset class's repricing.

Investment Strategies

- Reposition healthcare assets, including Life-Science and Medical Offices, at attractive cost and returns within an institutional healthcare region, such as the United States and the United Kingdom.
- Assess partnership opportunities with established operators, to acquire senior housing assets at attractive pricing, supported by favorable demand drivers, and lower levels of new supply, such as in the United States.

- Evaluate partnership opportunities with specialized operators to develop and enhance student housing assets close to prestigious universities within the United States and Europe.

Retail: It's starting to recover.

Operating Fundamentals

The lack of investor interest and the challenges of weak fundamentals have increased focus on other asset classes. Leasing activity was strong in the second half of 2021, despite prevailing pandemic concerns, especially in prominent Grade-A malls in tier 1 cities. Higher diversity in performance, as retailers realign their positioning and footprint in order to achieve more efficient revenue and cost synergies.

Investment Strategies

Observe the pricing correction of high-street assets and rental levels that may present value opportunities that benefit from increased demand due to tourism

ESG Considerations Remain at The Forefront

Investment managers are expected to continue to focus on managing the environmental footprint of real estate assets they own and manage in order to reduce negative environmental impacts, whilst increasing efficiency and value for investors, tenants, and the wider community. Initiatives have focused on safety, energy/water usage efficiency, indoor air-quality and natural hazards that need constant monitoring.

These ESG considerations are now fully integrated into investment, underwriting, asset management and retention/sale decisions. In addition, it is believed that there will be opportunities to reposition existing assets to better align with higher ESG standards.

Conclusion

We believe that the global real estate environment will support attractive real estate returns for value-add/opportunistic investments over the next several years, driven by the growth of rents in certain asset classes (e.g. industrial and residential), cap rate compression and moderate levels of price corrections in asset classes that were negatively affected by Covid-19.

In the current investment environment, we believe that local market perspective, presence and partnerships combined with the ability to actively manage assets to drive growth, will be critical to achieving attractive risk-adjusted returns.