Taking Stock 2024: A review of global real estate capital markets

savills

Introduction

For commercial real estate, it's safe to say that 2023 was not what we envisaged, or indeed hoped for. This is despite a relatively positive economic backdrop, with inflation following the path of least resistance, and strong labour market outcomes bringing the elusive 'soft landing' into focus.

At this point last year, we expected activity to bottom out around mid-year, with a recovery taking hold in the second half. But the recovery failed to materialise, as economic resilience gave rise to 'higher for longer' interest rates, extending a period of wait-and-see in real estate capital markets.

As we look ahead to the rest of 2024, we are optimistic that pricing will bottom out around mid-year, with a recovery taking hold in the second half. At this point, you may have a sense of déjà vu. However, while not wanting to succumb to the 'this time is different' syndrome, there are good reasons to believe that this time *is* different.

The current downturn remains predominantly interest rate driven; this cycle is somewhat unique in so far as fundamentals have, on the whole, remained relatively robust. So it stands to follow that as rates come down, values will stabilise, and investors will return to the market. Last year we wrote of risk and opportunity being two sides of the same coin. This year, investors are potentially facing a biased coin in favour of opportunity.

Within this report, we make a number of references to transactional turnover in some markets falling to levels not seen since 2009. Looking back at previous periods of stress to find learnings for today can be misguided, however, one observation we feel is highly pertinent is that when we emerged from the depths of the Global Financial Crisis, we were experiencing a true dearth of both equity and debt in real estate markets, particularly in the West. Despite this, the speed of recovery was dramatic.

Today, when we look at the sheer number of investors, the quantum of investable capital, and how globalised real estate markets are now compared with 2009, it feels like the nature and shape of the recovery will be quite different.

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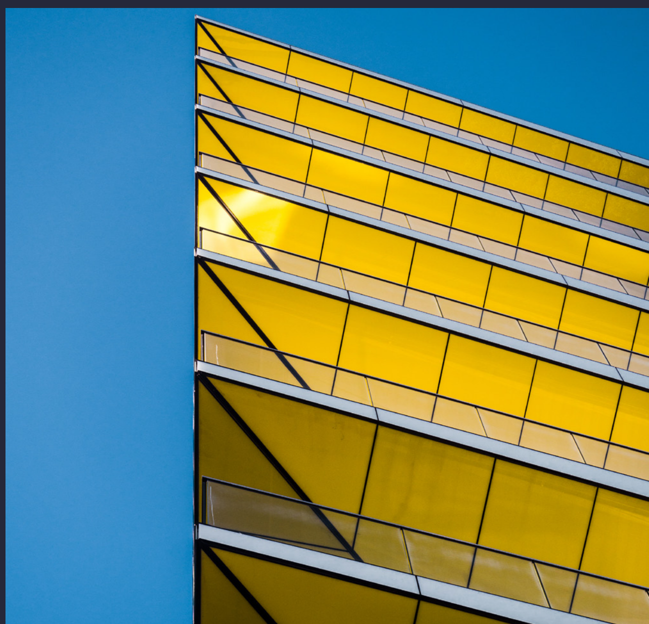


Global

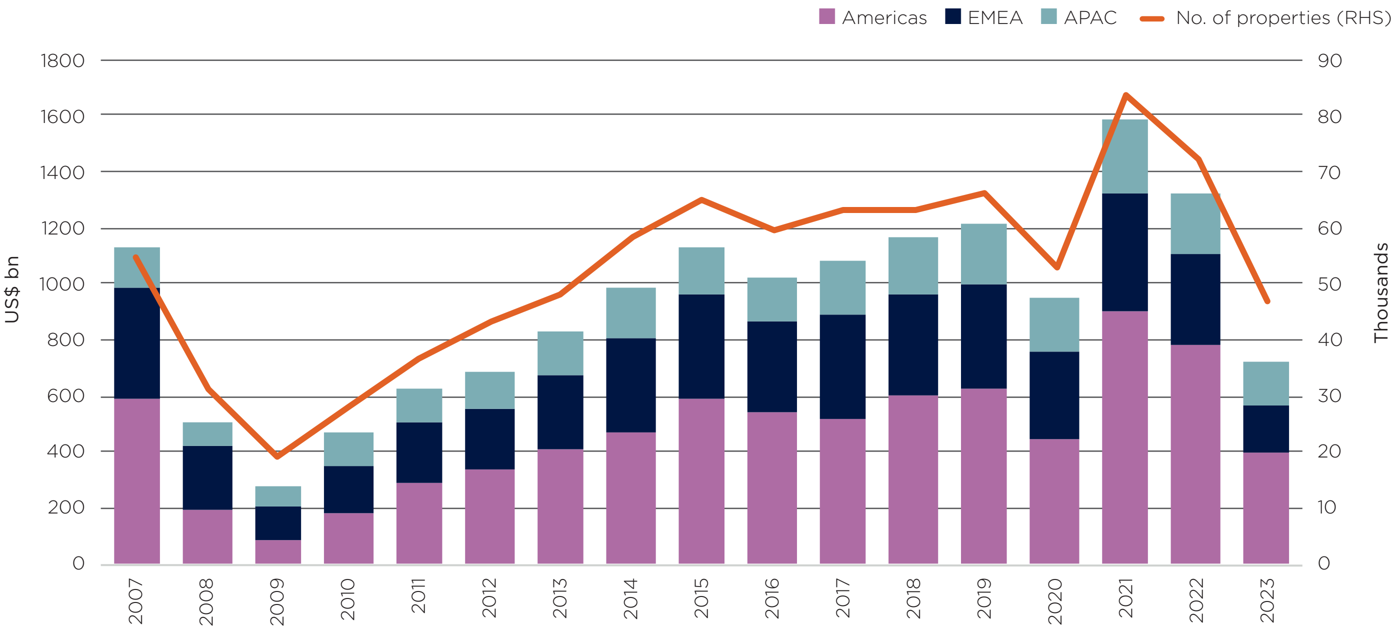
Interest rates remain key to the outlook for capital markets this year. Volatility is likely to persist in the short term, as the timing and pace of the policy pivot comes into focus, with downside risks still weighing on the global economy. However, we anticipate that dealmaking should recover momentum through the year in line with the wider economic outlook. This will be supported by greater price discovery as motivated sellers bring more stock to the market, with 'FOMO' (the 'fear of missing out') increasing the pool of active buyers, looking to time the bottom.

To say that the last 12 months were a challenging environment for Commercial Real Estate (CRE) capital markets is an understatement. Rising interest rates have combined with a weak cyclical demand environment and rapid structural change in some sectors.

Even when the soft landing came into focus through the second half of the year, the previously anticipated recovery in investment activity failed to materialise, as resilient economic growth spawned expectations of 'higher for longer' rates. In 'normal' times, seasonality in deal activity shows a pick-up in investment of around 20-30% in the last quarter of every year, as investors look to close before year-end. This pattern was not evident in Q4 2023 however, with global investment falling by 5% compared with the previous quarter. Given it was easier for investors to sit on the sidelines and wait things out, this is what many decided to do.

Overall, global investment fell by 45% in 2023 to US$722bn, the lowest in more than a decade.[1] The downturn was not just about falling property values, as deal volumes also fell to 2013 levels. All sectors experienced a significant scaling back in activity; living and offices were most impacted – down by 56% and 53% respectively, on 2022 levels, albeit with the former coming

Global CRE investment



Source: Savills Research using MSCI Real Capital Analytics

[1]MSCI Real Capital Analytics, including properties and portfolios US$10mn and greater. Excludes development. Downloaded 1st February, 2024.

off a high base – while industrial & logistics (-39%), hotels (-33%), and retail (-31%) fared a little better. North American and European markets bore the brunt of the slowdown – given acute inflationary and interest rate pressures – with many Asia Pacific markets proving more resilient.

For institutional buyers, it was the most subdued year since the Global Financial Crisis (GFC).[2] This was somewhat driven by a pivot away from offices, in part due to weightings, however institutional investors were also less active in other sectors, given many have a preference to finance when transacting, which was clearly difficult to rationalise given elevated borrowing costs and tightening credit standards.

Nevertheless, domestic institutions were still marginal net buyers of property through the year, underpinned by the resilience in Asia Pacific markets, where the pressures of the denominator effect were less relevant given continued rising target allocations to CRE.

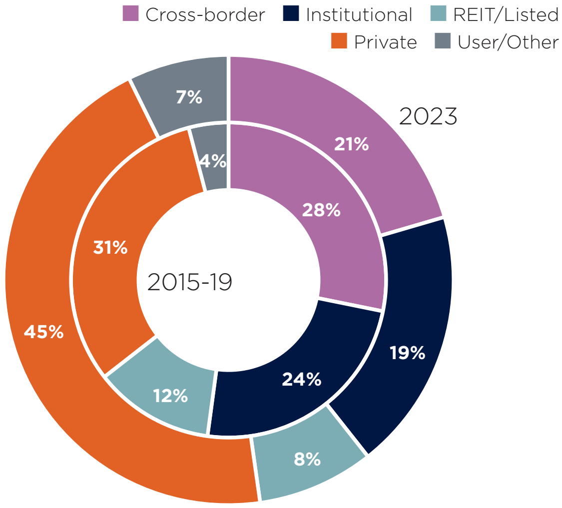
Other sources of capital were equally circumspect given the wider risk-off environment. Cross border investors accounted for 21% of global investment last year (similar to 2022), down from a longer term average of 28%. This was driven by a sharp decline in long haul capital – in line with general trends in capital flows, seeking 'safe-haven' domestic markets during periods of global economic uncertainty – although this was not a ubiquitous trend. Some Asia Pacific investors, notably from Singapore and Japan, have continued to deploy at scale across Europe and the US.

Instead, 2023 was the year of the private Investor. Privates were the primary beneficiaries of the wider dislocation in markets, increasing their global market share in acquisitions to 45%, up from a longer term average of 31%. This supported greater liquidity for smaller lot sizes; the number of individual property deals below US$100mn fell by just 33% last year, while large scale asset sales were few and far between. The average size of deal was smaller consequently, down by nearly 16%. Owner-occupiers were also more active last year, particularly in the retail sector, where occupiers have used acquisitions as a means of hedging against rising rental growth.

45%

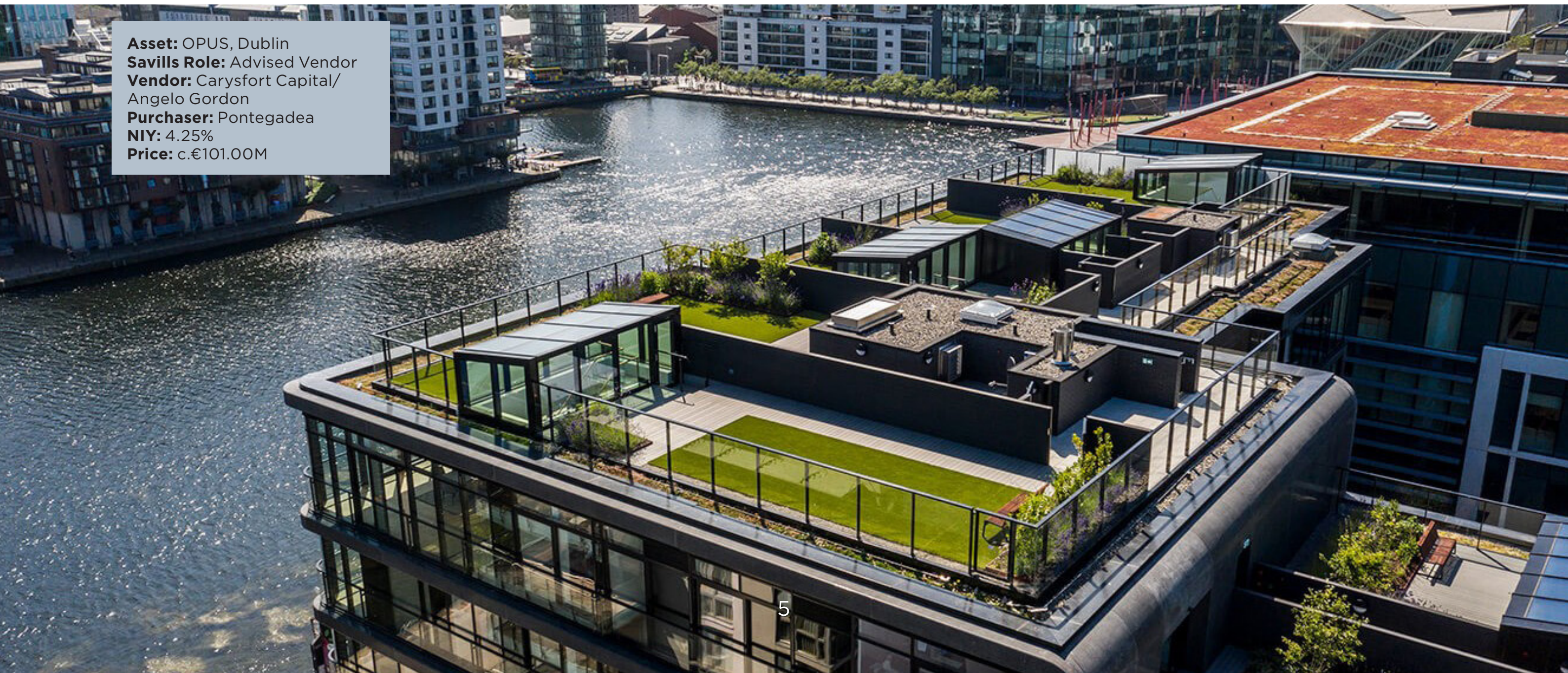
The market share of private buyers in 2023, up from a pre-Covid average of 31%, as smaller, typically cash-rich buyers benefitted from reduced competition from institutions.

Global investment by type of investor



Source: Savills Research using MSCI Real Capital Analytics

[2]An institutional investor is defined by MSCI Real Capital Analytics as an investor such as a bank, insurance company, retirement fund, hedge fund or mutual fund which is financially sophisticated and makes large investments, often held in very large portfolios of investments.



Asset: OPUS, Dublin
Savills Role: Advised Vendor
Vendor: Carysfort Capital/ Angelo Gordon
Purchaser: Pontegadea
NIY: 4.25%
Price: c.€101.00M

> Fast forward 12 months and immaculate disinflation has now become the baseline forecast.

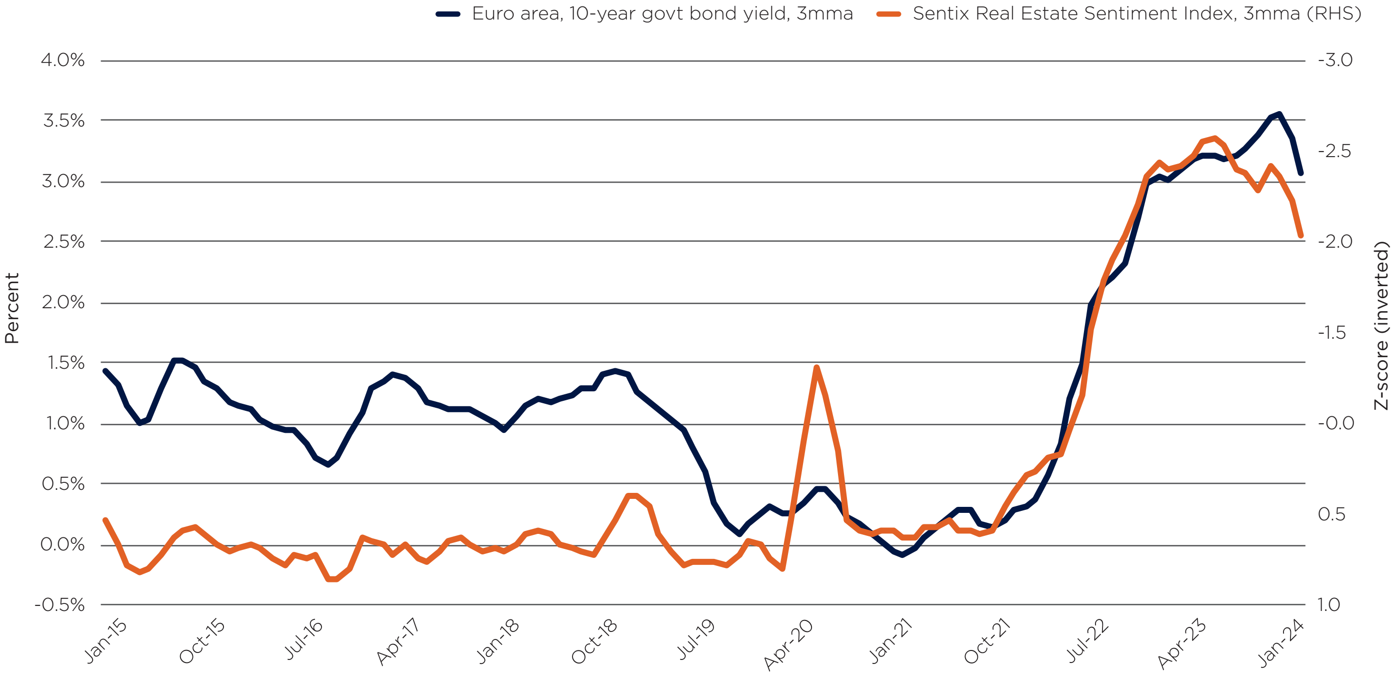
Looking ahead, there is a renewed sense of optimism in CRE markets, underpinned by more than the simple exuberance that often accompanies a new year. The current cycle remains predominantly interest rate driven, with fundamentals showing resilience in line with the wider economic environment. The timing and scale of the policy pivot will therefore provide the catalyst for a pick-up in capital markets activity. In this regard, the end of last year provided an inflection point in sentiment – underpinned by encouraging inflation data and a major repricing in interest rate expectations – that has carried into early 2024. As such, 'survive till 25' could yet morph in to 'don't ignore 24.'

At the beginning of 2023, most economists were expecting a year of very weak global growth, with some major developed economies possibly falling into outright recession. Risks to this outlook were, in the words of the IMF, 'unusually large and to the downside.[3]' The one upside risk left on the table – where inflation slowed largely of its own accord, and economic growth proved resilient to tighter monetary policy – became known as the 'immaculate disinflation' scenario, such was the low probability assigned to its fruition. 'Transitory' was already confined to the past, and a materially weaker global economy was considered a pre-requisite to bring inflation down.

However, fast forward 12 months and immaculate disinflation has now become the baseline forecast. Price pressures have dissipated faster than many expected and growth has proven relatively resilient to the many headwinds, including a sharp tightening in monetary policy, bank failure in the US, war in Europe and the Middle East, and a property crisis in China.

The narrative for the year ahead will continue to be dominated by inflation and monetary policy. Economic growth is expected to remain lacklustre, certainly in the first half of the year, as tighter monetary policy continues to feed into weaker activity levels, and the nascent recovery in real wage growth helps to alleviate ongoing cost-of-living pressures. The last yards on inflation are considered the hardest, and policymakers are likely to err on the side of caution to ensure their credibility is restored.

European real estate sentiment and bond yields

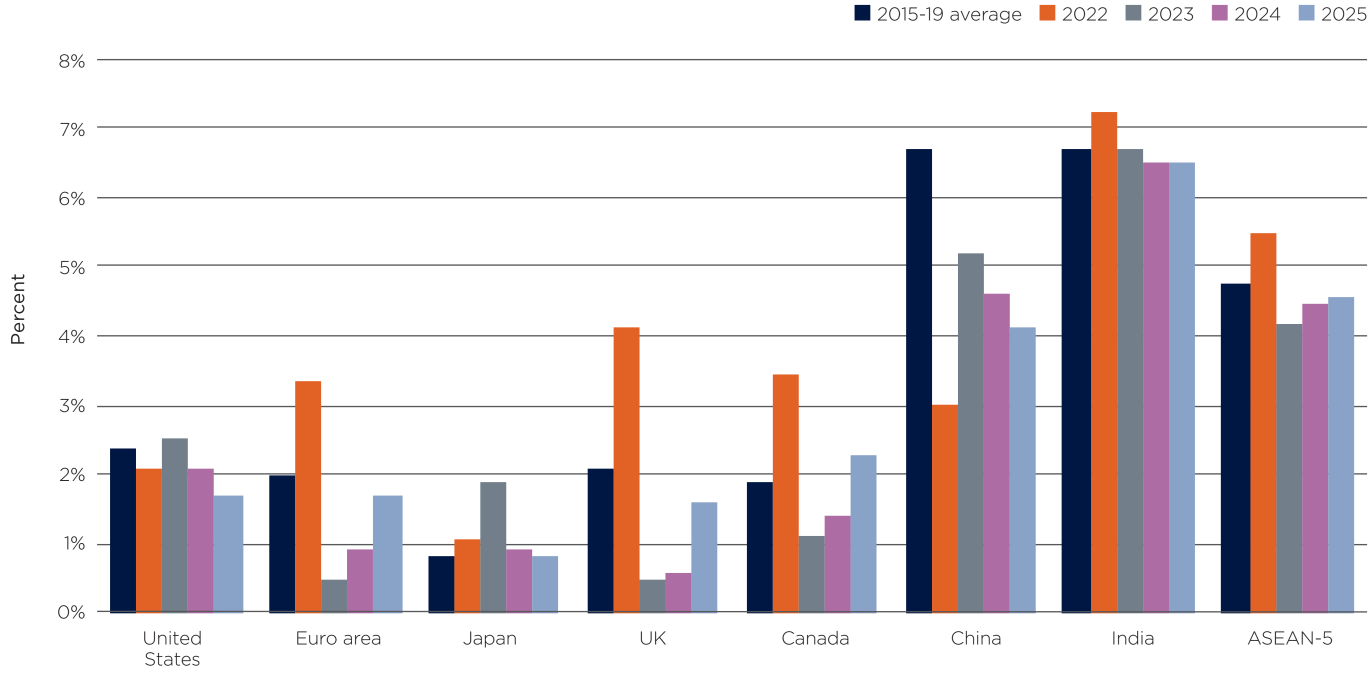


Source: Savills Research using Macrobond

[3]IMF World Economic Outlook, October 2022.

> Economic conditions should encourage central banks to begin easing policy around the mid-year.

IMF global economic growth forecasts



Source: Savills Research using IMF World Economics Outlook (Jan-24)

Nevertheless, economic conditions should encourage central banks to begin easing policy around the mid-year. This will support a broad-based recovery in sentiment and activity, that will gather steam through the second half of the year, bringing global growth back in line with pre-Covid trends.

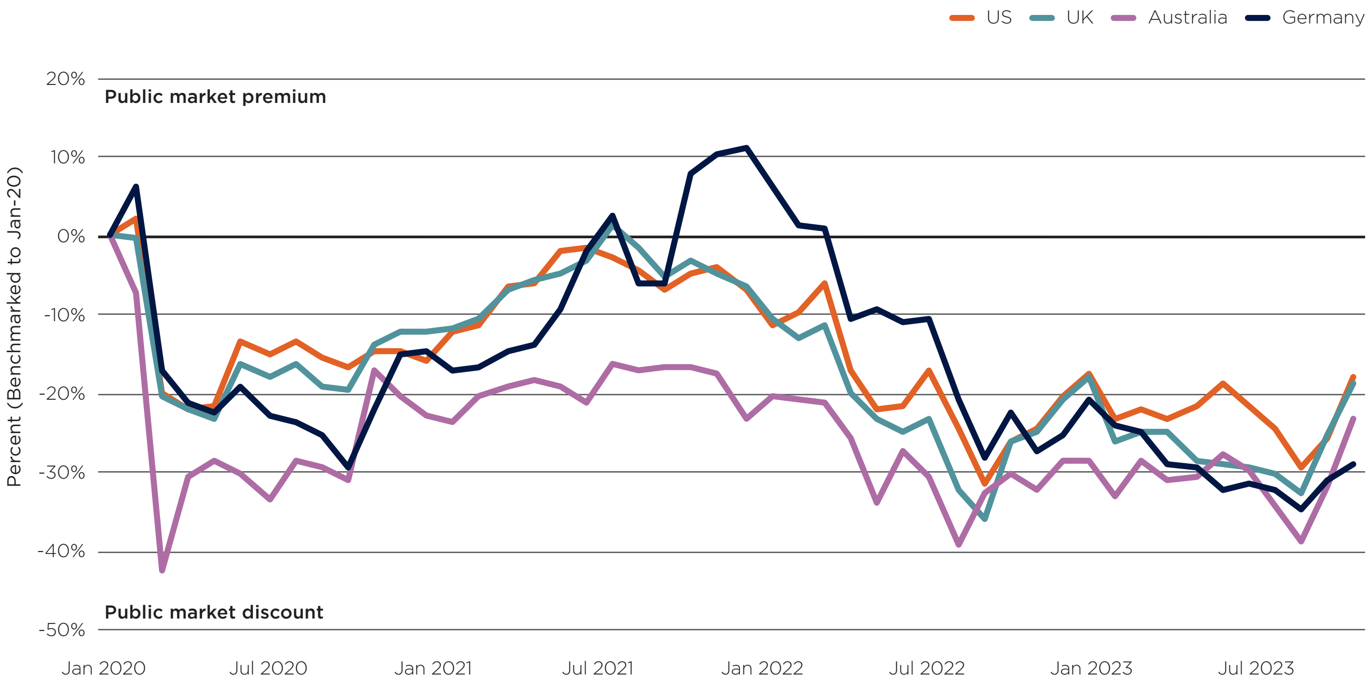
Risks to the outlook continue to cloud the horizon, and will feed into elevated levels of volatility, particularly in the first half of the year. The Ukraine/Russia war remains unresolved, while conflict in the Middle East is threatening to escalate, the Chinese economy is struggling under the weight of its highly indebted property developers, and several key elections have the potential to materially change the outlook. But if we have learnt anything from the last few years, it is that the global economy is amazingly resilient, so do not also discount the chances of an upside surprise for the year ahead.

US$722bn

Global investment in commercial real estate in 2023 was the lowest in more than a decade.

Providing the outlook plays out as expected, an increase in the pool of buyers and sellers will underpin a recovery in CRE markets this year, with FOMO providing more impetus as the year progresses. In any cycle, the greatest returns are made by those who buy closest to the market nadir, so any evidence of a fledgling recovery will bring more investors quickly in from the cold. There remains an estimated US$761.2bn of dry-powder across closed-ended funds to support this recovery, according to Realfin data. Much of the early year optimism is based on expectations of lower rates. As these expectations come to fruition the FOMO dynamic will be reinforced, both directly via a lower cost of borrowing, and indirectly via pricing, by boosting the premium of real estate to the prevailing 'risk-free' return and so negating any perceived need for prices to adjust further (closing the valuation gap between public and private markets).

Public and private CRE valuation gap



Source: Savills Research using Macrobond and MSCI

Furthermore, a recovery in sentiment and growth momentum in the second half of this year will feed into occupational markets as well as capital markets, providing better underwriting conditions for new deals.

Investor preferences will hold true to pre-Covid structural trends; beds/sheds/meds and data centres remain firm favourites, albeit clearly not all investors will be able to successfully deploy into these sectors. Offices will continue to provide investors with opportunity, particularly in Asia Pacific, where the fundamentals are also easier to buy into, while retail offers a high income return for those with the necessary expertise to meaningfully participate in the sector.

The investment cases behind these sectors are well versed; aligning with global megatrends around socio-demographic change, deglobalisation and geopolitics, and the environment, and investors will do well to align with these priorities, not least to support future exit strategies. But while the timing looks good to return to the market, investors may struggle to find a suitable entry point, given a lack of available stock, and the challenges associated with development. The number of active sellers in 2023 was more than 75% down on 2019 levels, and discretionary sales are likely to be limited again this year, as many landlords look to avoid crystallising losses on existing portfolios.

Liquidity will need to come from 'motivated' sellers, which will support greater price transparency and recycle capital through the market. The good news, from a market functioning perspective, is that there are good reasons to expect more motivated sellers this year. First, there is a significant quantum of debt set to mature in 2024 – estimated at around US$900bn across Australia, France, Germany, UK, and the US alone. In the latter, where the debt refinancing challenge is likely to be most acute, an estimated US$2tn is set to mature by 2027, according to MSCI.

Many property owners face the prospect of a higher cost of debt and lower equity valuations at refinancing. For some, the cost will be too much to bear, leading to refinancing challenges where the decision to sell will be somewhat forced upon existing sponsors.

> "Many property owners face the prospect of a higher cost of debt and lower equity valuations at refinancing. For some, the cost will be too much to bear."

There will also be situations where hard covenants are firmly breached, and absent sponsor remedies, assets become 'distressed.' Given that most banks are not typically in the loan-to-own business, these distressed assets are likely to go to market for sale.

The impending 'wall of debt' needs some context, as the collateral on many loans, particularly in sectors or on assets that have experienced strong rental growth since deal origination, will be in positive equity territory. The proliferation in non-bank lenders also provides some cushion against the more cautious commercial banks. However, the US, and to a lesser extent, European office sectors, look somewhat vulnerable to distress, given the outsized decline in valuations, and the reticence of lenders to increase exposure to the sector at this juncture. The US multifamily sector may also see some distress, particularly in short term loans originated at the peak of the market in 2021 and 2022.

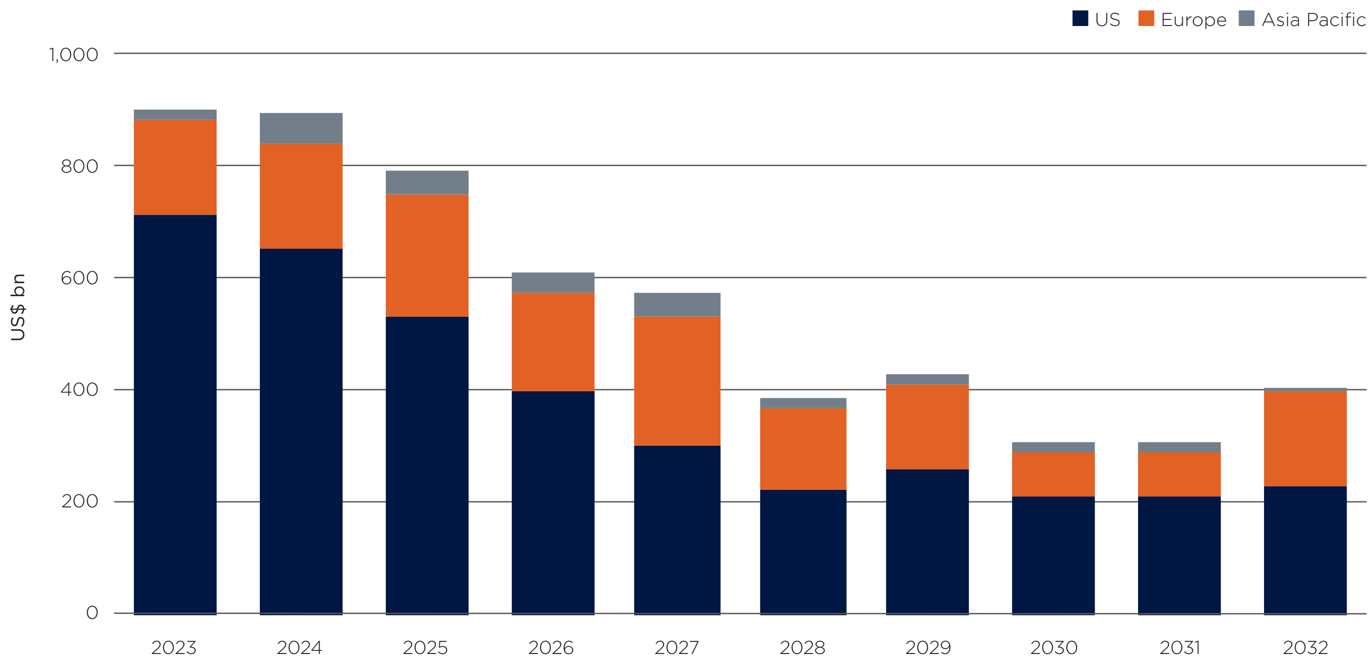
Andrew McMurdo, Co-Head, Savills Capital Advisors, comments on this, "The refinancing challenges that the market has been rightly focused on are still yet to really drive forced selling from owners in scale. The question that everyone is asking is when will this happen. It is still not clear what will break first; the patience of credit committees or the interest rate environment."

Many investment funds are under pressure to sell this year to satisfy growing redemption requests. Some investors are looking to cash-in before private valuations catch up with public-market expectations, while others are simply de-risking portfolios given a shift in the relative returns between CRE and other interest bearing asset classes. This is particularly true of European open-ended funds, while some closed-ended funds will also need to dispose of assets; much like there is pressure to deploy, time limited funds face pressure to exit.

US$900bn

The amount of debt due to mature across Australia, France, Germany, UK, and the US in 2024, with refinancing events expected to lead to more motivated sellers this year.

Maturing CRE debt



Source: Savills Research using IMF, including data on Australia, France, Germany, UK and US.

While all signals point to a more functioning market this year, the recovery is likely to be relatively modest. Higher global interest rates leave a legacy of equity destruction via a permanent rebasing in property yields – with advanced economy government bond yields expected to stabilise at around 100-150bps above pre-Covid levels – as well as a refinancing challenge that leaves many properties needing to be recapitalised over the next few years. This will deplete the amount of capital recycling through the system.

At the same time, the amount of new capital is likely to be subdued. The environment for fundraising will again be challenging this year, with many institutions expected to reduce allocations to CRE as portfolio valuation effects continue to force some rebalancing. Globally, institutional target allocations have stabilised in recent years, while interest in infrastructure is growing as an alternative to property, providing an opportunity for the largest money managers to deploy at scale and gain exposure to thematic drivers of long term growth.

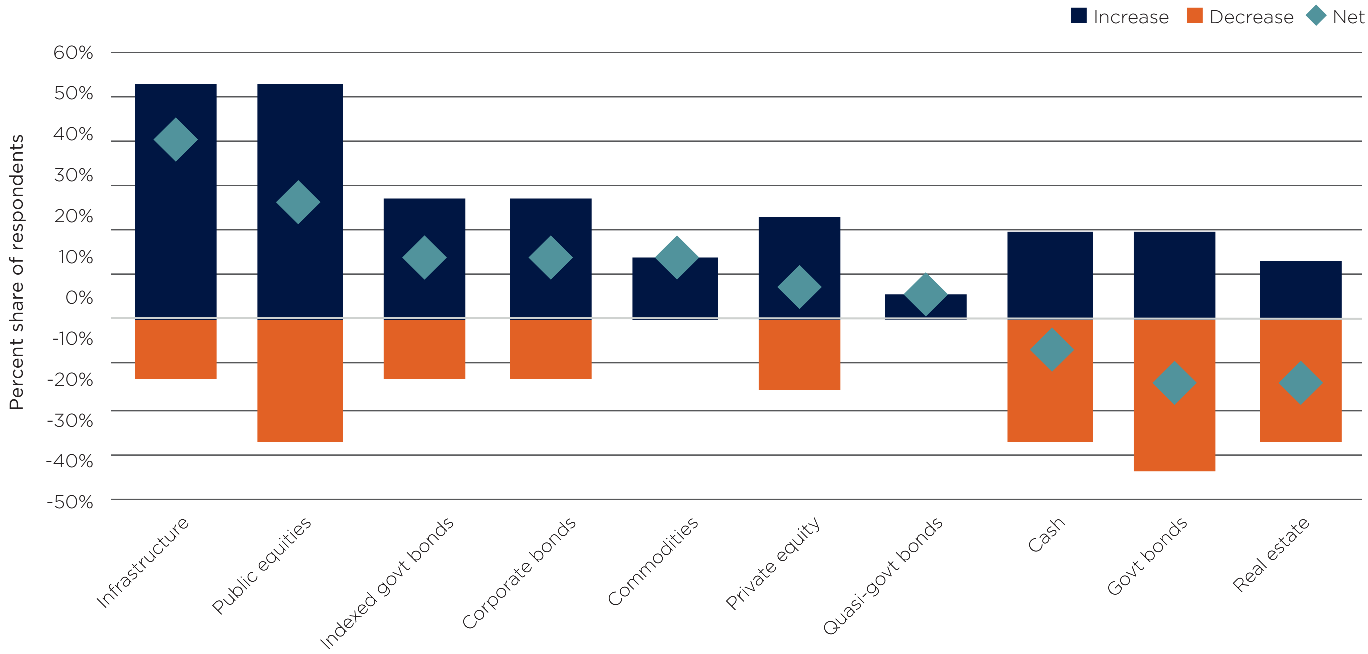
This is evidenced by the recent acquisition by Blackrock, one of the world's largest asset managers, of Global Infrastructure Partners for a reported US$12.5bn.

Meanwhile, for multi-asset investors, fixed income is again providing competition to CRE in a higher interest rate environment, particularly when looking at the comparable risk-profile of corporate bonds. In the UK for example, many funds with a high proportion of underlying defined-benefit pension fund investors are expected to offload assets in the coming year, now able to fund their future liabilities following the rise in bond yields, without the need to hold more risky income-generating assets.

"In 2024 we expect to see cross border investment flows continue to be impacted by many of the same factors that were prevalent in 2023, in particular the high cost of finance" says Emma Steele, Director, Global Cross Border Investment at Savills, "whilst this has meant pricing adjustments, which for some has served to be a motivator for deployment, for others, the general investment 'environment' needs to improve further before they can/will re-engage. The most nimble, and resultantly active, investors continue to be those who have discretion over their capital and so we expect to see continued deployment from private individuals, family offices and discretionary funds, predominantly into core assets. That being said, we do expect to see a re-emergence of private equity and institutional capital in spaces beyond the 'beds and sheds' sectors this year, including into offices."

Debt financing will also be more difficult to come by; credit conditions will remain tight despite falling interest rates, as greater regulatory focus on the exposure of commercial banks to CRE, in the aftermath of the regional banking crisis in the US, will provide for a more circumspect lending environment.

Expected change in institutional allocations over the next 12-24 months



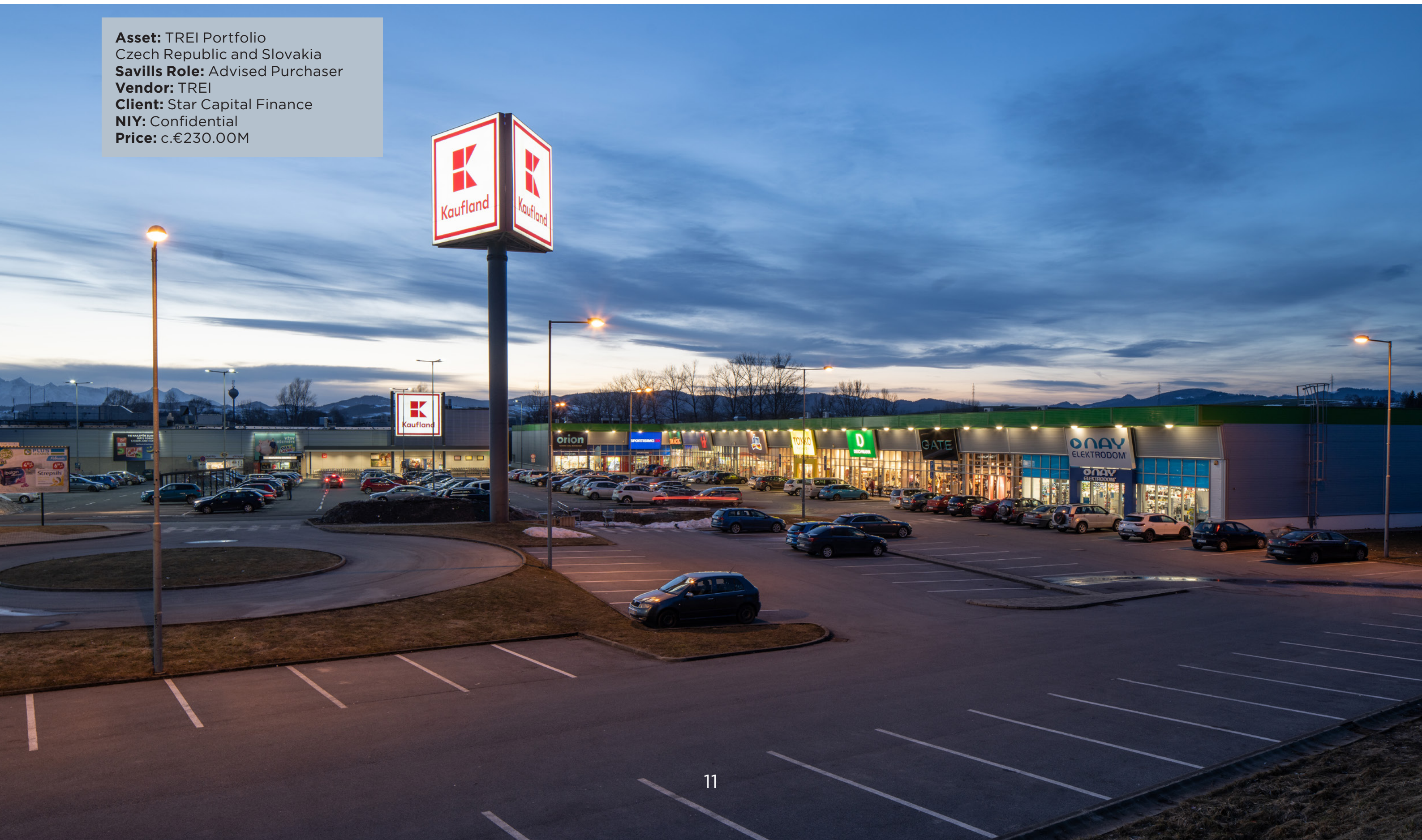
Source: Savills Research using OMFIF Global Public Pension report 2023

> The credit markets continue to have both capital and risk appetite for many of the sub sectors in the broader real estate market, despite the market disruption. Clearly financing offices and retail is challenging but even in these sectors there are the haves and have nots. With the diversification of lenders over the past five-plus years through the growth in non-bank money, the risk is widely disseminated and less systemic than previous cycles. In addition, banks are very profitable, benefiting from the rising interest rate environment, so the kind of balance sheet cleansing forced by regulators post GFC appears unlikely.

Andrew McMurdo, Co-Head, Savills Capital Advisors

US$761.2bn

The amount of dry-powder held by closed-ended real estate investment funds at the beginning of 2024.



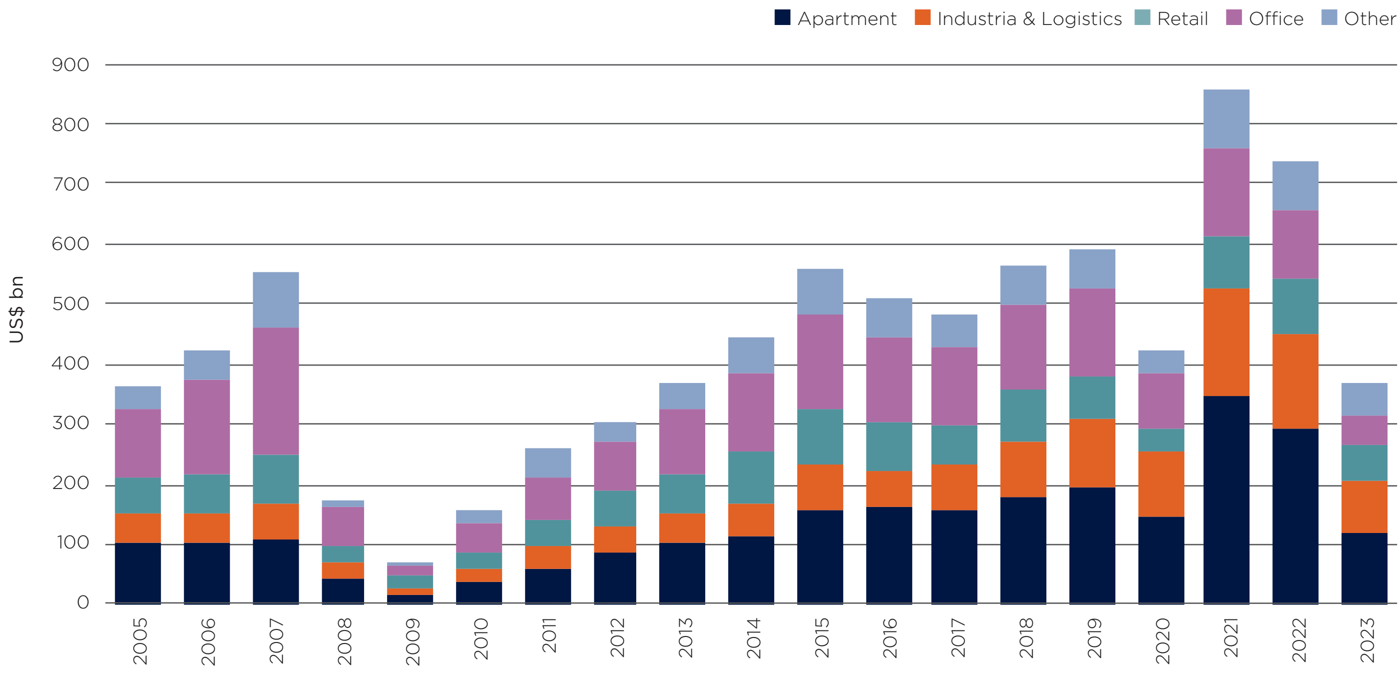
Asset: TREI Portfolio
Czech Republic and Slovakia
Savills Role: Advised Purchaser
Vendor: TREI
Client: Star Capital Finance
NIY: Confidential
Price: c.€230.00M

United States

The US CRE market has an image problem. The image is of an aging, poorly located office tower that is largely empty, owned by a highly leveraged investor who needs to refinance. A looming debt maturity wall and concerns over the health of many regional banks cloud the horizon. But a recovery should take hold as we move through this year, underpinned by the other core sectors, particularly industrial & logistics, where current pricing is increasingly attractive amidst falling borrowing costs.

Last year, CRE investment totalled US$371bn in the US, falling by nearly 50% in comparison with 2022. Base effects are important in contextualising this figure, following a strong start to 2022. But the downturn was sustained through the year, with Q4 representing the weakest quarter of 2023, in stark contrast to the normal seasonal pattern. As such, total investment was still 37% below the level recorded in 2019, when average capital values were also below current levels, and you have to go back more than a decade to see a weaker annual outturn. Despite this, total investment in 2023 was more than four-times higher than in 2009, whereas in Europe, last year was a mere 35% higher, showing just how much the real estate capital markets have expanded in the US since the GFC.

US CRE investment



Source: Savills Research using MSCI Real Capital Analytics

> With interest rates falling and the post-covid reality well-known we believe this year will finally bring visibility to long-term capital values for office and increased liquidity. Lenders will continue to take a commercial approach with respect to restructurings and financings and re-financings which will lead to a corresponding uptick in transaction volumes. For the multifamily sector specifically, continued strong fundamentals resulting from a resilient economy should provide investors with confidence to take a long-term view. Similarly for industrial & logistics, while perhaps some of the enthusiasm has levelled off, there remains significant interest in the asset class as investors play both offense and defense.

David Heller, Executive Vice President, Capital Markets Group

Domestic institutions – net sellers for the first time since 2017 – were largely responsible for this decline in activity, accounting for just 17% of all acquisitions last year, down from a longer term market share of around 25%. Private buyers were the main beneficiaries, although also less active, nevertheless sponsored over 60% of transactions in the year, up from a longer term average of 50%. This shift in the buyer profile underpinned a decline in the average deal size, which fell by around 25%, with only nine individual property transactions in excess of US$500mn completing, down from a long term average approaching thirty.

Cross-border inflows held up reasonably well, underpinned by several major deals backed by investors from Singapore and Japan, encouraged by a growing yield arbitrage to domestic markets, and undeterred by the strong US dollar and any potential negative carry from hedging currency risk. Early in the year, GIC, the Singaporean Sovereign Wealth Fund, partnered with US-based investor Blue Owl Capital on a reported US$15bn acquisition of the STORE Capital REIT portfolio, while a single Japanese private investor, Mori Trust, was responsible for two of the largest office transactions in the year.

All major markets experienced double-digit declines in investment. Dallas was the most resilient market – a position retained from the last few years – underpinned by significant investment in the multifamily sector. The more populous, diversified markets of Los Angeles, New York, and Chicago followed Dallas. The former was supported by a significant weight of capital targeting the industrial & logistics sector, despite a tough leasing market that has now seen five consecutive quarters of negative net absorption, pushing the vacancy rate to 4.5% at year-end (up from a cyclical low of 1.5% in early 2022). Atlanta, similar to Dallas in terms of representing a major destination for multifamily investment, completed the top five.

US$371bn

Total investment declined by 50% in 2023.

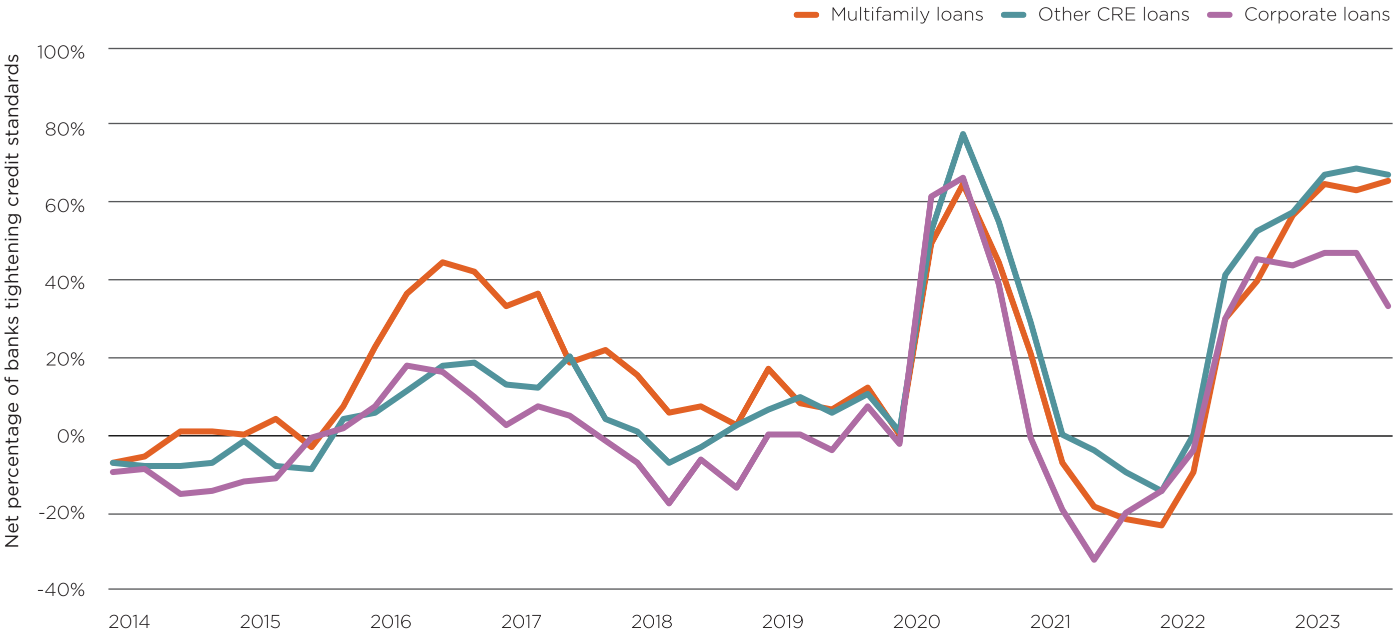
The year ahead is likely to support a recovery in deal activity, especially if the US economy continues to show resilience in the face of tighter monetary policy, and interest rates come down through the second half of the year. Global dry powder continues to favour the US market, with opportunistic investors positioned for the recovery amidst a notable outward shift in property yields, and expectations of more motivated sales activity.

The industrial & logistics and multifamily sectors offer the most attractive fundamentals to investors, albeit with some oversupply concerns in the short term, while retail continues to offer opportunities for the operationally savvy investor, particularly in more 'affluent' hubs, where household wealth and inbound tourism can compensate for reduced purchasing by office occupiers.

Credit conditions on CRE will however remain tight for the foreseeable future, with debt more difficult to secure, particularly for secondary offices, holding back the wider recovery. The regional banking crisis raised concerns about the role that smaller banks play in lending against CRE, especially during the recent boom in the multifamily sector. However, it is the larger commercial banks that are significantly cutting their exposure to CRE, and tightening loan standards, in response to regulatory concerns over the potential for losses to accumulate on CRE loan books.

Non-bank lenders will continue to grow in importance, given the available returns on credit strategies in a higher rate environment, which will ensure a more sustained 'credit crunch' is avoided. But distress is expected to accumulate through the year.

Credit standards on US CRE loans



Source: Savills Research using Macrobond

The most distress is expected in the office sector, where a new normal has now emerged. Work-from-home is firmly entrenched in the US, with the national occupancy rate unmoved through the last 12 months at 50% of pre-Covid levels.[4] This has underpinned a decoupling in the relationship between employment and take-up; which has been compounded by a significant onboarding of new supply over the last decade, driving vacant space to record highs.

This has hit tech-centric markets the hardest, such as San Francisco, where the availability rate hit a record of 36.7% at the end of 2023, compared with the national average of 25%.[5] But even diversified occupational markets such as New York are struggling with excess supply, which given the difficulties in repurposing older CBD offices, will take time to work through the system, weighing on capital markets activity.

Notably, major US institutions have largely withdrawn from the market; total investment by domestic institutional investors fell by 73% last year, and was down as much as 90% from the peak in 2016. However, 2023 may represent an inflection point.

[4]Kastle Back to Work Barometer, based on the top 10 office markets.
[5]The availability rate includes both vacant space and currently occupied space due to come vacant and actively being marketed to new tenants).

Some markets are beginning to see inventory levels fall, such as New York and Phoenix, as a combination of discounted pricing and state-level incentives attract opportunistic investors to the repurposing potential of older buildings. Investors are already showing more interest in suburban offices, given a more agreeable repurposing play.

Further distress will accelerate this process. The weak occupational backdrop makes it very difficult to secure financing on offices, and given a peak-to-trough decline in average capital values of 20%[6] – with many examples of assets transacting at more than 50% discounts – we expect more distressed assets to come to market this year as the financing gap will be too much to bear for some landlords (given future CapEx requirements on top).

Much like elsewhere, there is a bifurcation in the office market. In the words of Michael Soto, Senior Director, and Head of Office Research in the US, "fundamentals are challenged but the office isn't going away." Stabilised office assets with high quality tenants in major gateway markets will continue to represent an opportunity for those core investors brave enough to deploy. For all the negative news, best-in-class buildings have seen rents hold up over the last 12 months (albeit with rising landlord concessions). These buildings should be well positioned to capitalise from any recovery, as well as a continued flight to quality from occupiers.

Likewise, not all old offices will need repurposing, and a manage to ESG strategy will be viable for well-located buildings in markets undersupplied with green buildings. According to Soto, "a lot of office inventory constructed in the 1980's and 1990's might now be functionally obsolete. As a result, it is this subset of the office market which is seeing deteriorating fundamentals and will be targets for conversion or redevelopment."

In stark contrast, the industrial & logistics sector retains its appeal for investors, as outlined by Mark Russo, Senior Director, Head of US Industrial Research, "the US industrial & logistics market is experiencing a period of recalibration, and beyond the short-term hurdles, investors largely see an asset class with solid long-term fundamentals intact."

14%

Share of office sector in total investment, down from around 30% a decade ago.

Investment activity has followed the wider market down over the last 12 months, falling by 44% in 2023 to US$87bn. This has more to do with the wider risk off environment, rather than any fundamental shift in sentiment towards the sector.

This is despite the ongoing shift in supply-demand dynamics that favours prospective tenants over landlords, as weaker take-up interacts with a highly supplied market. But while leasing activity was 22% down in 2023, it has broadly returned to 2019 levels, and the national vacancy rate of 6% remains low enough to accommodate some further weakness in the short term, despite a 200bps increase over the last 12 months.

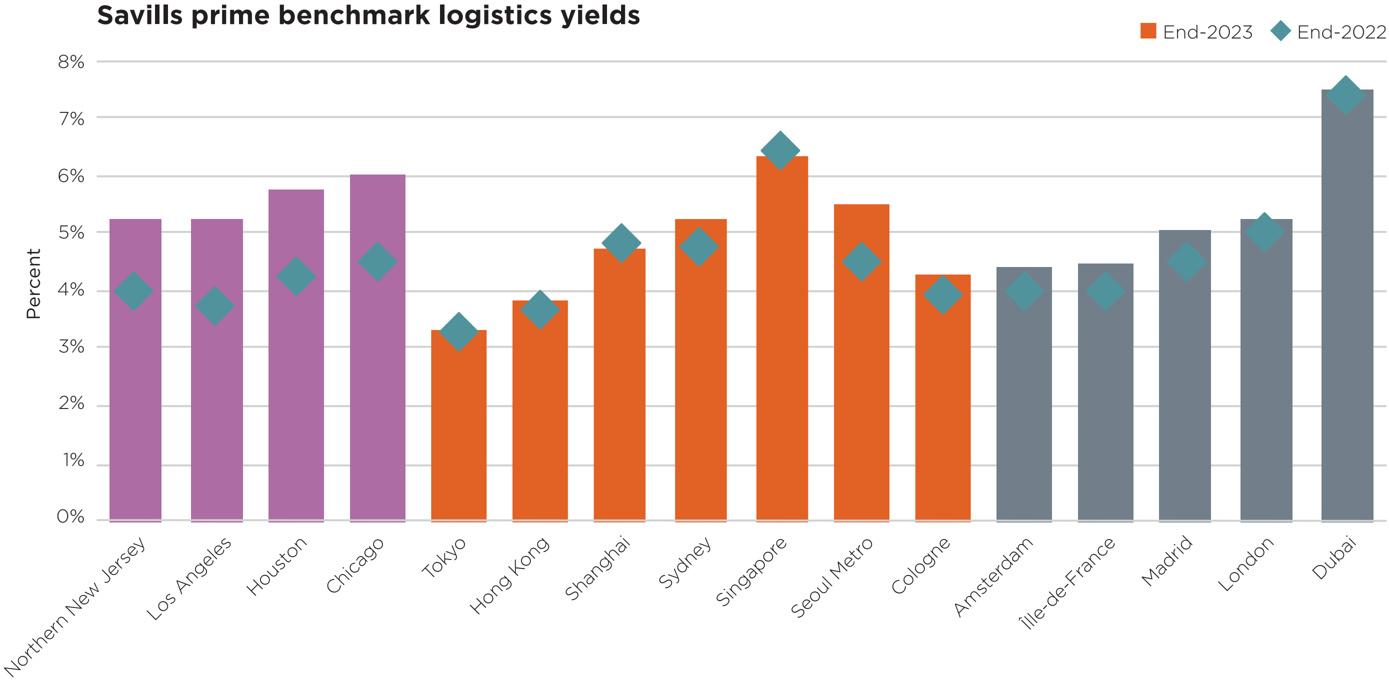
Rising vacancy has nevertheless underpinned a slowdown in rental growth from the blockbuster rates of the last few years, but has not triggered a correction. We expect low single-digit rental growth over the next 12 months while the market absorbs the new stock, pushing the national vacancy rate to a still manageable peak of around 7.3%.

Some markets are more exposed to an increase in inventory, particularly those in the Sun Belt region, including Dallas and Phoenix. But in most markets, pre-leasing and build-to-suit mitigates the oversupply risk, while a sharp decline in construction starts should bring the market back into balance from the second half of this year.

Rising rates have underpinned a significant yield expansion of 200-250bps since the beginning of 2021 across the prime markets we cover. However, strong rental growth (+64% since 2019) through this cycle has helped to offset this outward shift in yields, supporting resilience in pricing. This should also prevent any build up in distress in the sector.

[6]MSCI Real Capital Analytics Commercial Property Price Index.

Savills prime benchmark logistics yields



Source: Savills Research

Attractive yields of 5-6% should see core investors quickly return to the sector this year, particularly if debt costs continue to fall, favouring prime industrial & logistics assets in land-constrained markets. Value add opportunities exist where shorter lease terms provide some reversionary opportunity in rents. Furthermore, with the recent glut of supply likely to give way to a renewed shortage in the second half of this year, developers able to break ground in 2024 stand to capitalise.

64%

Rental growth in the industrial & logistics sector since 2019, helping to offset the impact of yield expansion on capital values.

A huge amount of capital flowed into the multifamily sector in 2021 and 2022, chasing record rental growth on the back of strong household formation (some of which was pent-up during Covid) and internal migration patterns that favoured metros in the South and West. Markets such as Atlanta, Dallas, Houston, and Phoenix were the chief beneficiaries of this booming market.

The pullback in activity has been equally dramatic, with total investment in 2023 falling by more than 60% in comparison to the previous year. Over the longer term, the outlook remains favourable; underpinned by a deterioration in housing affordability, combined with relatively favourable demographics, which should support continued growth in the renting population.

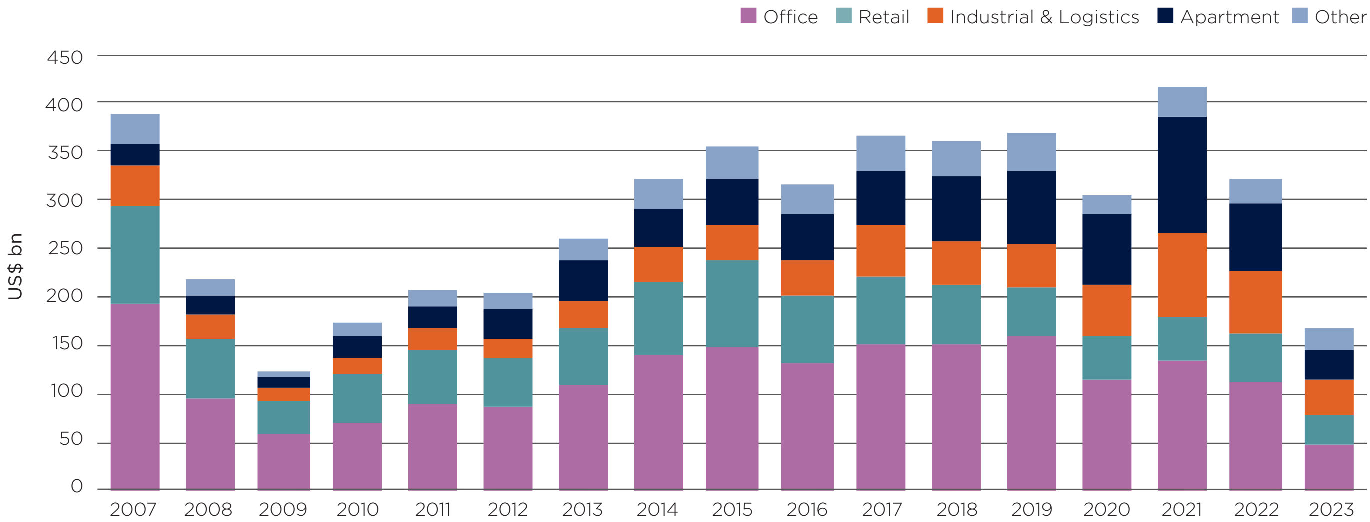
However, in the short term, investors are facing a very different environment, not only in the cost of debt, but also in terms of the fundamentals. Rental growth is sharply down from recent highs, and many markets are seeing vacancy rise as new apartments come to market, following a construction boom that complemented the recent investment boom. There is a significant amount of debt due in the next few years, much of which was originated when rates were low and valuations were near the peak. This will lead to some distressed sales.

UK and Europe

European capital markets were oversold last year, as cross border investors pulled back from the region. Risk appetite should improve through 2024, supporting a recovery in investment activity and return of long haul capital. The office sector is dealing with the collateral damage from the US market, despite a very different occupational backdrop. This could hold back aggregate investment activity despite continued strong interest in industrial & logistics and living sectors.

Total investment in European CRE (including the UK) amounted to just US$167bn in 2023, representing a 48% decline on the year (even when allowing for currency fluctuations). The last 12 months were quiet by historical comparison; you have to go back to the GFC to find a more sedate year for the European market. The near 9,000 recorded transactions in 2023 did, however, exceed 2009 levels by 23%.

European CRE investment



Source: Savills Research using MSCI Real Capital Analytics

The European CRE market is sensitive to the convictions of offshore investors, who typically underwrite around 50% of acquisitions in any given year, and can be unnerved when the market turns. And so it proved last year; with inflows of capital from outside of Europe falling by 62%. Within this decline there were some notable trends; investment from Singaporean and Canadian funds both declined by more than 80%, albeit both on the back of an exceptional few years, while South Korean investors have all but ceased to make new acquisitions, after being the fourth largest source of cross border capital in 2019. The caveat is the UK market, which remains the largest recipient European market for global capital, receiving more than double the amount of inbound investment compared with Germany, the next largest destination market.

The listed sector has also contributed to the wider market downturn. Mainland European REITs entered this down cycle carrying significantly more debt than their US counterparts, and pressure to deleverage has contributed to a sharp decline in investment activity, down 70% last year. Privates were also net sellers through the year. However, they also increased acquisition market share to nearly 23% (up from a long term average of 15%), which helped to support liquidity for smaller lot sizes, with the average deal value for individual property transactions falling by 13% from the previous year.

62%

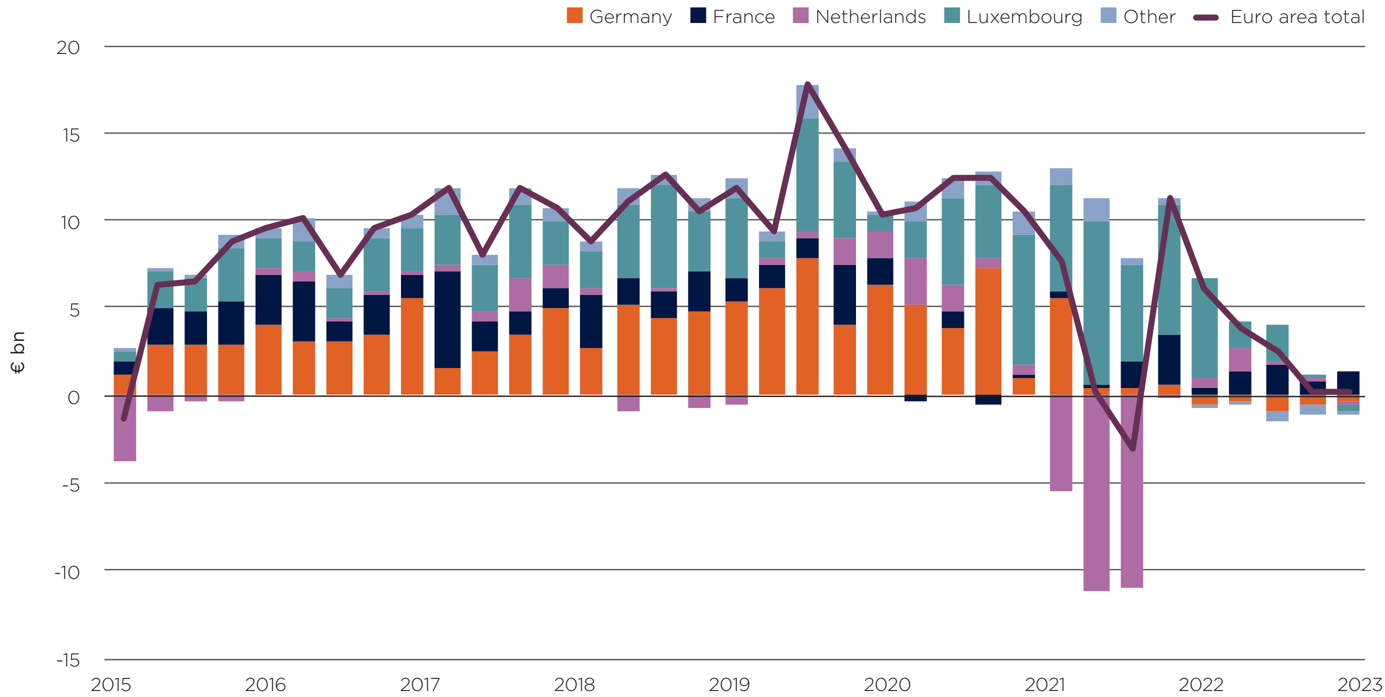
Decline in cross-border capital inflows from non-European based investors.

Looking ahead, we expect a reasonable recovery in investment in 2024, rising by around 20% in comparison with last year. Sentiment has turned in response to a more favourable interest rate outlook. Activity will be driven by opportunistic investors enticed by the prospect of favourable pricing adjustments, while core investors will maintain their focus on the premium green segment of the market, with European legislators leading the way on environmental regulation, and occupiers continuing a flight-to-quality. Among the more active buyer groups will be the newer French property funds (SCPIs), insurance companies, Middle Eastern investors, and US private equity.

Liquidity will be supported by more motivated sellers. The refinancing challenge in Europe is less severe than in the US, and European banks are less exposed to CRE than their US counterparts, but debt costs will remain well above the pre-2022 levels, and credit committees are becoming more selective on the sectors and quality of assets they are willing to lend against in order to manage risk.

Elsewhere, open-ended investment funds – more prominent in Europe than in other regions – are also likely to be a source of increased sales, raising cash in response to growing redemption pressure from investors. In the UK, real estate open-ended funds saw net outflows of £4.8bn in 2023, compared to an average of £14bn of net inflows per annum in the five-years to 2019, according to the Calastone Fund Flow Index.

European open-ended real estate fund net inflows



Source: Savills Research using ECB Investment Funds Balance Sheet Statistics

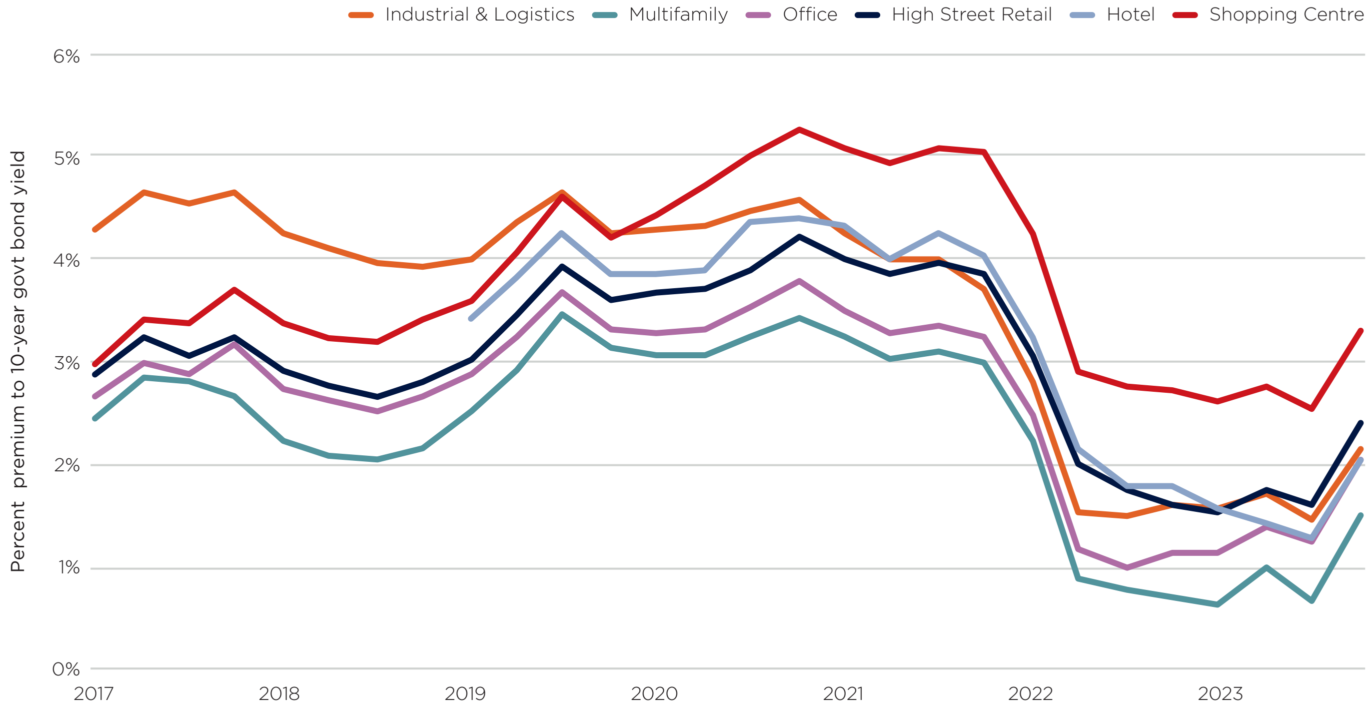
We remain relatively cautious on pricing for the first half of this year. Average prime benchmark yields for the region have shifted outwards by around 60-140bps through this cycle, implying capital value falls due to yield expansion alone (i.e., excluding the impact of rental growth or occupancy levels) of around 15% on hotels and much of the retail sector, to 25%+ on industrial & logistics, multifamily, and offices (based on the top end of the market). This shift is significantly less than the 250-300bps rise in government bond yields, even when considering the recent rebasing in market rates towards the end of last year.

This implies that risk premiums remain squeezed, and while you can argue that the recent history is not necessarily an appropriate benchmark, deploying capital into an environment of continued economic uncertainty and interest rate volatility needs to be appropriately compensated. However, with interest rates expected to fall over the course of the year, prime property values may start rising, particularly in sectors backed by strong fundamentals.

US$167bn

Total investment turnover in 2023, down 48% on the previous year, and the lowest since 2009.

Risk premiums on prime European CRE



Source: Savills Research using Macrobond

> "With both the European Central Bank and Monetary Policy Committee likely to cut rates this year, we expect that 2024 will be the year that prime commercial property prices start to rise again in the UK and Europe. The largest and fastest rises will be in sectors where there is a solid occupational story and a degree of over-correction in yields during the Covid period. For opportunistic investors, 2024 and 2025 will be the best opportunity to capture a bounce that we have not seen in over a decade."

Mat Oakley, Head of UK and European Commercial Research

The European office sector is suffering from the collateral damage of difficulties in the US market. As such, the investment recovery is likely to lag that of some other sectors. Europe is not immune to the challenges of work-from-home, however, occupancy rates have recovered to around 80% of their pre-Covid average, and continue to move in the right direction. Meanwhile, take-up has held up reasonably well, down just 17% below the pre-Covid average, and vacancy rates stabilised in the second half of last year.

Given this context, a 57% decline in investment activity in comparison with 2022, and a 70% decline in comparison with 2019, is probably not a fair reflection of the fundamentals. But much of the negative sentiment surrounding US offices is promoting more caution in Europe. This is having both a direct and indirect impact; US institutions, for example, who accounted for around 15% of total European office investment pre-Covid, were far less active in 2023. We have seen evidence of US groups starting to return to the office market due to the compelling pricing metrics.

Tristam Larder, Head of European Capital Markets, says "The headwinds in the office market are well documented but if investors look behind the headlines they will find a more nuanced story in Europe. I firmly believe we will continue to see a crowding effect from investors and tenants into prime which drive rents and surprise to the upside in certain markets with low vacancy rates and limited supply. There will be overflow as tenants are priced out of these prime markets but want good transport links and amenities for their employees. These assets might not be classed as 'prime' but they will find their market as the capital follows the tenants and these trends stabilise. The headlines though will continue to be dominated by tales of oversized office buildings sitting empty which were developed in locations far from public transport when money was cheap and speculation was rife."

A recovery in business sentiment may support more discretionary leasing activity as we move through the year. However, this is likely to be tempered by some softening in labour markets, while corporates are not immune to the rise in debt costs. The German market is likely to weigh on the regional aggregate, offset by some recovery in other European markets.

Nevertheless, prime office rents rose by an average of 4.3% over the past 12 months, and core markets are likely to see further rental growth as occupiers increasingly trade up to better quality stock in well-connected locations. This should bring some more risk averse investors back to the market, in addition to the more opportunistic groups who are already active. Prime vacancy remains low in major markets, such as Paris CBD, London West End, and Amsterdam, and the provision of high quality office space will remain undersupplied in these markets. Value add investors will look to ride this recovery via the refurbishment potential of older buildings.

4.3%

Growth in prime office rents in 2023.

Asset: Project Eagle, United Kingdom
Savills Role: Advised Vendor
Vendor: Vita
Purchaser: Clients of Savills Investment Management
NIY: Confidential
Price: c.£450.00M

Savills latest survey of European investors indicates the most positive sentiment towards the industrial & logistics sector.[7] This is where we expect transactional activity to return first. Core investors will look to the major markets such as the UK, Germany, the Netherlands, France, and Spain to deploy.

Prime yields, which were quick to adjust at the beginning of the cycle, have likely peaked in this cycle. Early movers can look ahead to some yield compression towards the end of this year and into 2025 as more capital chases the market. Finding enough sellers to satiate this demand will be more of a challenge, particularly given that the definition of prime has been squeezed over the last 12-18 months, and very little distress is expected.

Investors will follow the nascent recovery in occupational markets. Take-up was down by 14% in 2023 across the whole of Europe, but tenant demand bottomed out in the middle of the year, with some occupiers forced to act on business requirements in the second half, despite continued uncertainty in the economic outlook (take-up rose by 12.6% in the final quarter).

This was not enough to prevent a continued rise in vacant space, underpinned by new supply onboarding. But the market is not facing an acute risk of oversupply; the average core European vacancy rate rose to 4.5% by end-2023, which is broadly comparable with 2019 levels, despite rising from a cyclical low of 3.2% in mid-2022.

The market will continue to favour landlords as a result. Rental growth for prime units is expected to remain strong this year, albeit lower than what the market has become accustomed to in recent years. Secondary units and markets are expected to be under greater pressure, as supply continues to increase and occupiers question the suitability of such units from an ESG perspective.

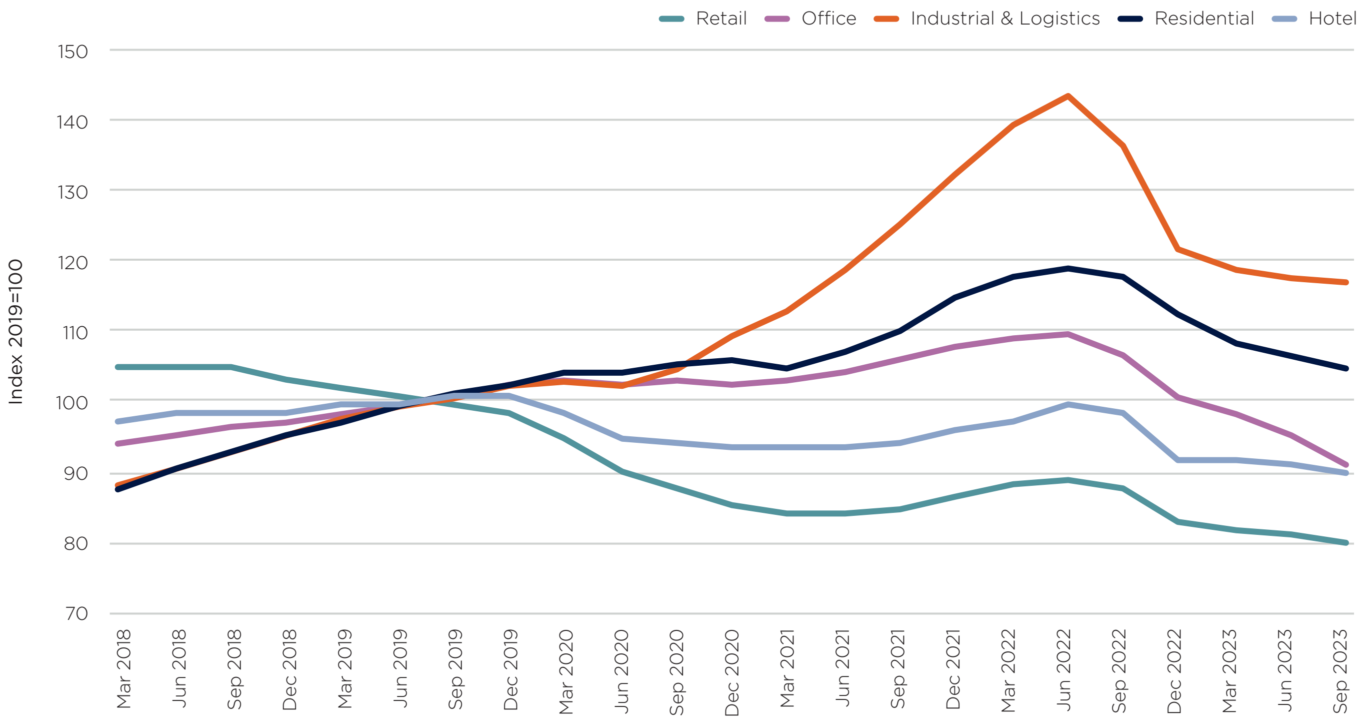
[7] Savills EME Investor Sentiment Survey, based on responses from pan-European investors with a combined €500bn of European AUM, collected between 5th - 19th September, 2023.

Assets: Project Bach, Stockholm
Savills Role: Advised Vendor
Vendor: Fabege
Purchaser: NREP
NIY: Confidential
Price: SEK 3.40BN

The retail sector is back in fashion and should see another solid year. Investment was more resilient than the other major sectors last year, with retail accounting for 19% of total investment in the region, the highest share in six years. This is supported by a significant repricing in asset values that pre-dates the current cycle; average capital values have fallen by around 25% since peaking in 2018, compared with a 5% decline in average office values.

The occupational market has also responded to the resilience in consumer spending and a simultaneous rebasing in rents that has encouraged many retailers to expand their physical presence.

European CRE capital values



Source: Savills Research using MSCI

However, lenders remain cautious about the sector, with a reduced appetite to participate in potentially high-risk transactions. This is reflected in the decline in the number of large, high-leverage deals that once fuelled market growth.

This is particularly relevant for shopping centres, which provide investors with an opportunity to deploy at scale in the retail sector. Vacancy rates, which have reached double-digit figures in most European markets, are expected to plateau over the course of 2024 for prime assets, with upward pressure on rents to emerge in 2025. But while the yields look attractive at face value, question marks remain over their future viability. Understanding local fundamentals is crucial to defining what is prime, although redevelopment potential helps to provide a good hedge against the risk of being wrong.

Retail parks have also shown the resilience from an occupational perspective, and we expect them to do well again this year. Assets that are anchored by essential product categories, particularly groceries, will attract core investors. Supply constrained markets – which currently includes all but the more emerging European markets – will drive competition for space and support rental growth.

For prime high street, vacancy will continue to be squeezed (outside of Germany and the Nordics), which will lead to further rental growth. Destination high streets have led the recovery due to increased luxury demand, but the mass market will follow. Investment opportunities will be constrained more by a lack of opportunities rather than a lack of appetite.

The upside potential on rents is however limited across much of the sector. Retailers are facing upward pressure on costs, principally from higher energy and labour, and so will have limited scope to pay higher rents. Some larger cash-rich retailers, including the supermarkets, have opted to increase their ownership of real estate. Owner occupiers accounted for around 15% of total investment last year, sharply up from a long term average of less than 4%.

Asset: 1 New Street Square, London
Savills Role: Advised Purchaser
Vendor: Land Securities
Purchaser: Chinachem
NIY: 4.71%
Price: £349.50M

For investors in multifamily, 2023 was a year to forget. Total investment across European markets of US$22.3bn (€23.4bn) was down by two-fifths on the previous year, and the lowest level in over a decade. This dramatic decline in investment was not uniform however, with the UK down by just 2%, and Spain by less than 19%, while other markets saw turnover fall by over 60%. This was against a backdrop of softening yields; most markets have seen repricing of 100-150bps since late 2021.

Nevertheless, looking ahead, the residential sector should be one of the bright spots in Europe's investment landscape in 2024. Respondents to INREV's 2024 Investment Intentions Survey had residential as their top pick, for example, edging out the industrial & logistics sector. However, we do expect that activity will remain muted during the first half of the year, before a wider recovery in risk sentiment encourages investors to deploy their significant dry powder.

In terms of pricing, many markets are either at or close to bottoming out, and we could see some inward movement in yields towards the back end of 2024.

Peter Allen, Savills Head of Operational Capital Markets, says, "There continues to be a significant weight of capital looking to enter the living sectors over the medium to long term. The repricing seen in trading towards the end of 2023 has created an attractive opportunity for investors who are able to penetrate the market in the short term. If the macro-economic backdrop improves, we will witness an uptick in transaction activity and potential yield compression over time."

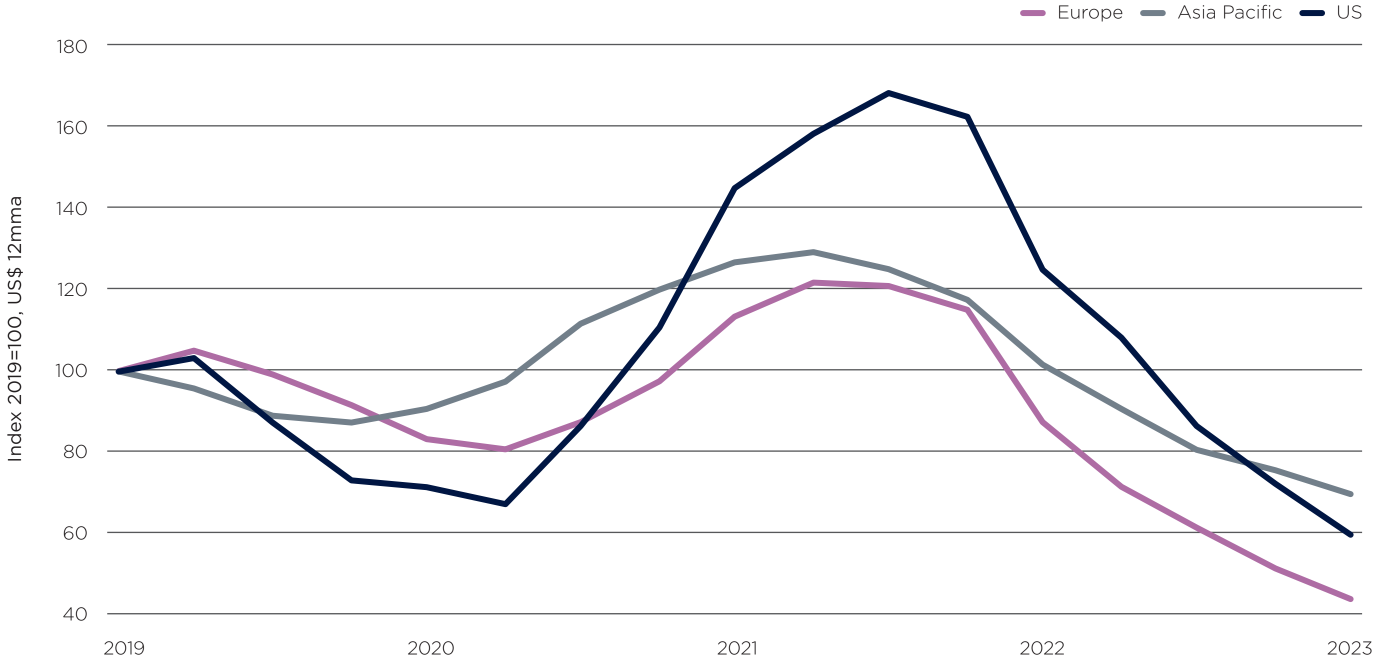
Asset: Mandarin Oriental Hotel, Barcelona
Savills Role: Advised Purchaser
Vendor: Spanish Private
Purchaser: The Olayan Group
NIY: Confidential
Price: Confidential

Asia Pacific

A recovery in CRE investment activity is expected this year, albeit that resilience through the last 12 months will imply only modest growth in comparison with the other global regions. Japan will again be at the forefront of any recovery, followed by those markets where interest rate pressures have been most acute. The recovery in China will lag the rest of the region, weighing on the regional aggregate, given issues around the indebted property sector and wider economic slowdown.

Asia Pacific CRE capital markets have proven relatively resilient to global events in recent years, with some markets showing less volatility in comparison with the US and Europe. This was again evident through the last 12 months, with total investment of US$145bn representing a 28% decline on the previous year, comparing favourably with North America and Europe, despite being the weakest performance for the region since 2012.

CRE investment by region



Source: Savills Research using MSCI Real Capital Analytics

Nevertheless, the region is not immune to global trends. A shift in sentiment away from offices is as much evident in Asia Pacific, for example, as it is in the rest of the world, with total investment in 2023 falling by 45% in US$ terms, compared with more modest declines across other core sectors. This was underpinned by sharp falls in Australia (-70%) and China (-53%); the former due to a lack of price discovery that lags peer markets in Europe, and the latter due to high and rising vacancy amidst a deteriorating leasing environment and wider economic uncertainty.

Large North American institutions are leading this pivot away from offices. US and Canadian investors accounted for just 14% of total cross border investment in Asia Pacific offices in 2023, down from a longer-term average of around one-third. This underpinned a significant decline in office acquisitions; when also including European investors, total office investment by investors headquartered outside the region has fallen by nearly 90% since 2019.

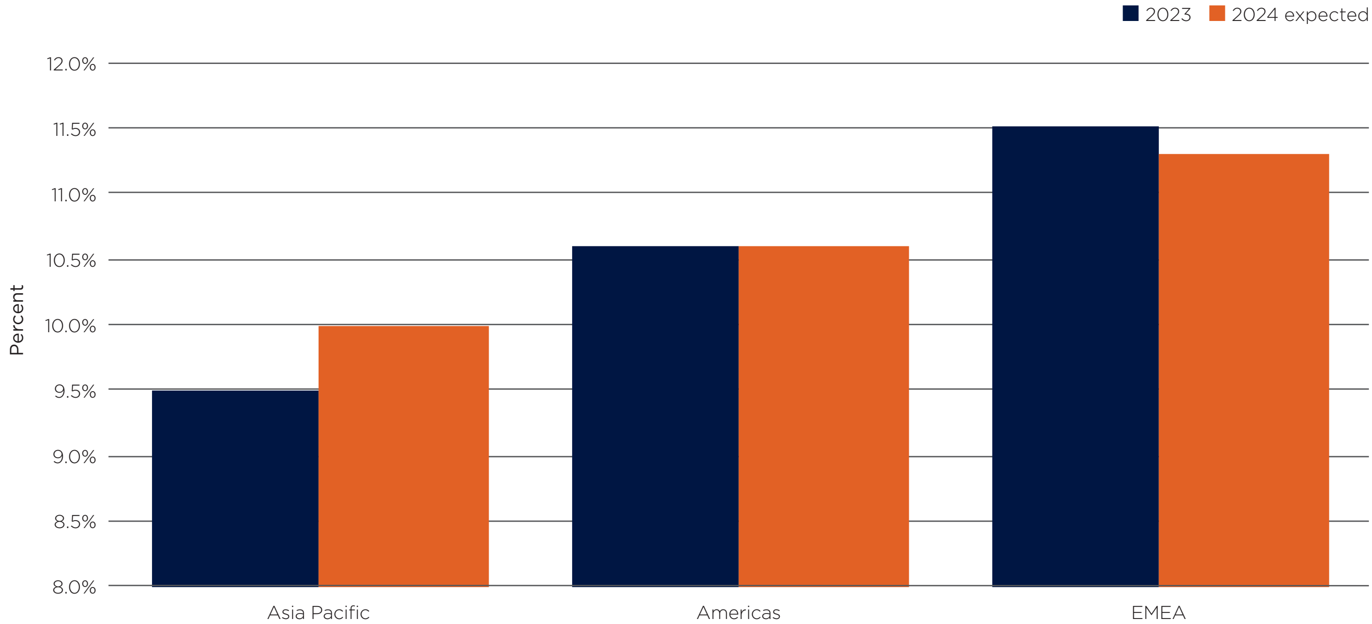
In total, capital inflows from outside of Asia Pacific fell by 53% in 2023 to a 10-year low. In 2019, nearly 20% of investment turnover was underpinned by extra-regional investors, following several years of expansion into the region by global institutions hunting for yield in a suppressed domestic interest rate environment. But last year, this share had declined to just 9%, reversing more than a decade of growth in market share.

Some long-haul capital will return to the region as a recovery in the global economy encourages greater confidence in the real estate markets. However, a permanent shift away from offices will impact overall West-East capital flows in CRE, given it remains the most liquid sector across Asia Pacific, while popular sectors such as living and data centres are still very immature from an institutional perspective (with some exceptions), as are high growth markets such as India and Vietnam.

Instead, capital markets are increasingly a regional affair in Asia Pacific. Intra-regional cross border investment was down by just 13%, with investors from Japan and Singapore increasingly active, as well as Mainland Chinese investors, possibly responding to fewer opportunities in the West amid growing geopolitical tensions. Indeed, Asia Pacific cross border investors were relatively more active in all regions over the last 12 months, deploying around US$48bn into global non-domestic markets through the year, representing a decline of just 20%.

Asia Pacific investors were also relatively active in domestic markets. Institutions were major net buyers, in contrast to the experience of US and European markets, and rising target allocations to CRE should provide a tailwind for fundraising (which also held up better than in the US and Europe). Overall, nearly 70% of Asia Pacific institutions responding to the 2023 Real Estate Allocations Monitor reported a desire to increase their target allocations in 2024, compared to 17% in EMEA and 10% in the Americas, and there remains significant catch-up potential in allocations relative to global benchmarks. Meanwhile the listed sector in Asia Pacific will continue to grow in stature, especially in less developed markets such as China and India, where new REITs are continually launched to market.

Institutional target allocations to CRE



Source: Savills Research using 2023 Institutional Real Estate Allocations Monitor

"Asia Pacific's investment markets proved resilient last year relative to their peers in Europe and the US. 2024 should see a modest recovery from 2023 lows, buoyed by intra-regional cross border capital flows. Favoured destinations will include Japan, South Korea, Australia, and India while multifamily, logistics and hotel assets will remain sought after. More niche asset classes including student accommodation, senior housing and data centers are all likely to attract more institutional interest.

Investors will continue to be wary of offices despite a more prevalent return-to-work culture. With few motivated sellers, price discovery may prove a slower process than in other regions while a slew of elections in the first half alongside rising geopolitical tensions and a Chinese economy beset by cyclical and structural challenges could further mute the regional outlook."

Simon Smith, Regional Head of Research & Consultancy, Asia Pacific

Asset: Solitaire on Cecil, Singapore
Savills Role: Advised Vendor
Vendor: TE Capital / LIM
Purchaser: Private Families / Individuals
NIY: N/A
Price: SGD 213.28M

Debt distress across the region is likely to be limited. Some vulnerability stems from a relatively immature debt market, with commercial banks still dominant. This is not ubiquitous; there are a number of institutional investors and private credit specialists which have begun lending in the region. But even in 'mature' markets such as Australia, South Korea, and Japan, banks account for more than 80% of lending on CRE, compared with 50-60% across Europe and the US.

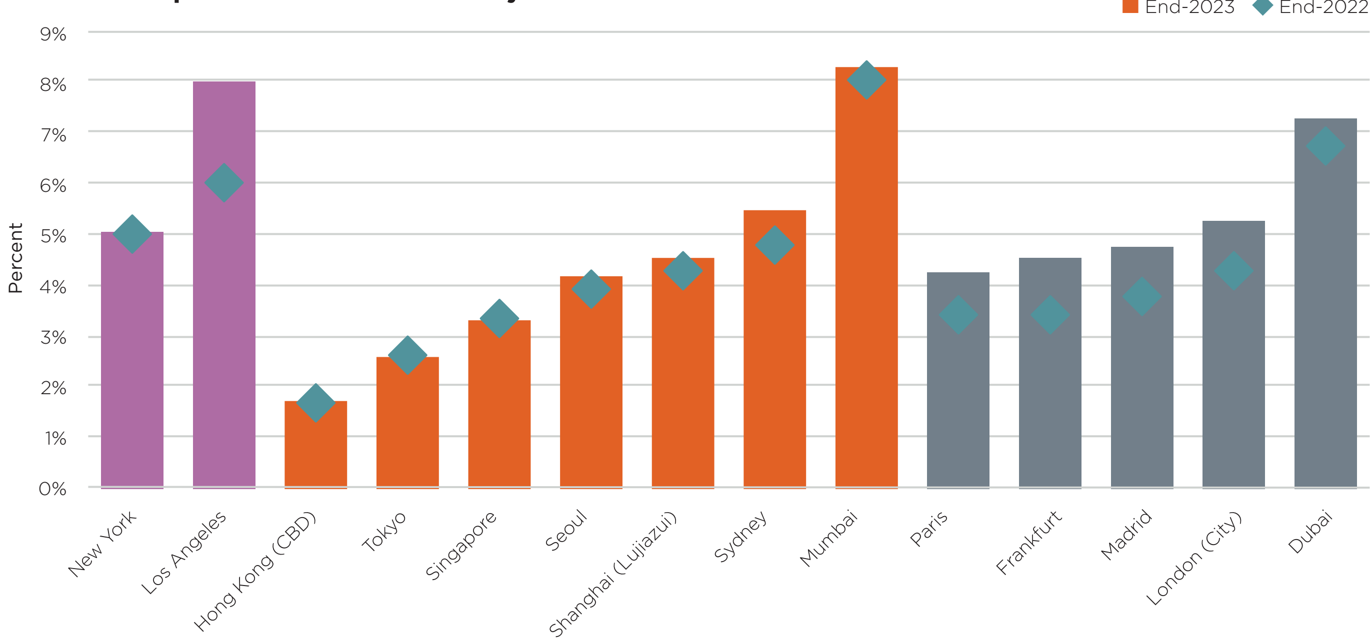
However, regional banks are generally less exposed to CRE, both from a balance sheet perspective, and due to their relatively conservative lending standards (LTVs etc.). This should prevent a broad-based tightening in credit standards, although in some markets such as Hong Kong, banks are still being ultra-cautious towards CRE, particularly offices, only willing to lend against stabilised assets. Furthermore, limited capital value declines through this cycle should keep LTVs relatively stable at refinancing events, implying a limited debt funding gap.

As a consequence, the lack of more 'motivated' sellers will likely hold back the regional recovery in activity. The yield expansion through this cycle has generally lagged that seen in the US and Europe. Prime benchmark office yields in South Korea and Australia, for example, have risen by around 100-115bps since the beginning of 2022, compared with the 150-180bps shift seen in Europe. This is despite similar interest rate dynamics, with most markets (outside Japan and China) continuing to see a negative spread to the cost of debt. Without the impetus from motivated sellers, the period of price discovery will linger through the first half of the year as liquidity remains muted, providing little transparency on market valuations.

US$145bn

Investment was relatively resilient to global headwinds in 2023, falling by just 28% in comparison with the previous year.

Savills prime benchmark office yields



Source: Savills Research

One market where distress is impacting deal activity is in Mainland China. Total investment of RMB269bn (US$37.5bn) in 2023 was around 19% down on the previous year, with liquidity supported by an increase in asset transfers between developers, as well as disposals via auction of distressed loan collateral (some at a significant discount). The multifamily sector is one of the few that is showing signs of resilience.

The most active buyer groups in China included domestic end-users and insurance companies, focusing on good quality stock in Tier 1 cities. The participation of foreign capital was limited to investors headquartered in Hong Kong and, to a lesser extent, Singapore, with a much-reduced presence of investors originating outside the region (many of whom are exiting the market).

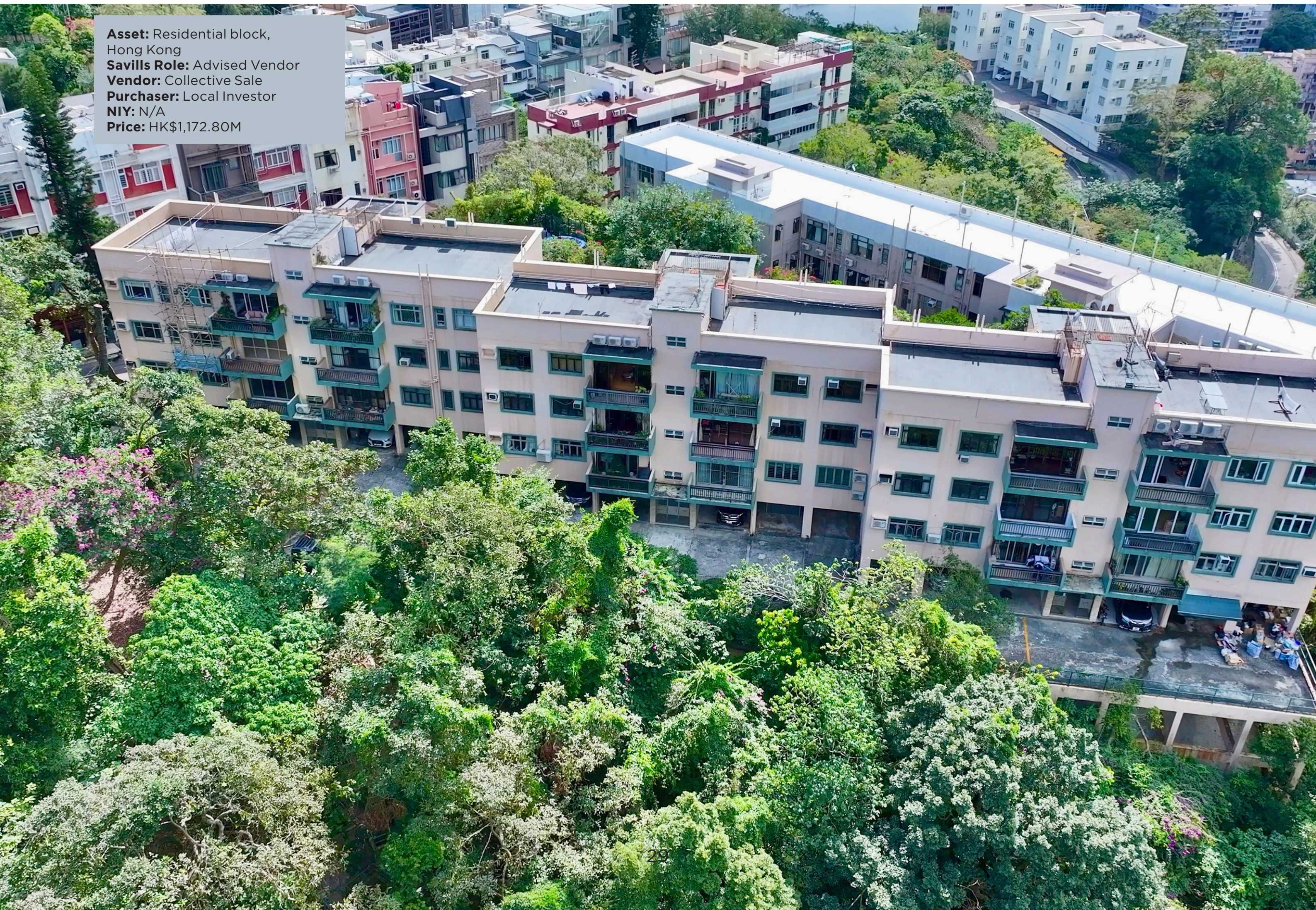
Institutional investors will continue to exercise caution until there is stability in the macro environment and leasing sentiment experiences an upturn, particularly in offices, with vacancy pushing above 20% in Shanghai by the end of the year. The government continues to favour an incremental approach to policy easing, which should provide a floor to economic growth, but will not be enough to offset both cyclical and structural challenges.

According to James Macdonald, Head of Research at Savills China, "China faces a convergence of factors adversely impacting the commercial real estate sector. The economy grapples with high debt levels, diminishing returns from fixed investments, and weakened consumer sentiment. As the real estate market matures, relying solely on capital value growth for commercial real estate returns is insufficient. Healthier yield spreads are necessary, but achieving them proves challenging due to faltering leasing demand and intensified competition from new supply. Investors find themselves compelled to seek distressed opportunities, explore undersupplied emerging markets, or exercise patience."

However, the continued influx of more assets into the market will exert further downward pressure on pricing, particularly on older assets situated in non-core locations, while a moderation in supply levels will lead to competition for the best buildings. CRE remains a crucial asset class for large domestic institutions, given the limited tangible alternatives amid the ongoing stock market rout.

70%

The majority of regional institutional investors responding to the 2023 Real Estate Allocations Monitor are planning to increase their target allocations in 2024, compared to less than 20% in other regions.



Asset: Residential block, Hong Kong
Savills Role: Advised Vendor
Vendor: Collective Sale
Purchaser: Local Investor
NIY: N/A
Price: HK$1,172.80M

> "Sentiment remains largely positive across the core sectors in Japan; the industrial & logistics sector in particular continues to captivate investors."

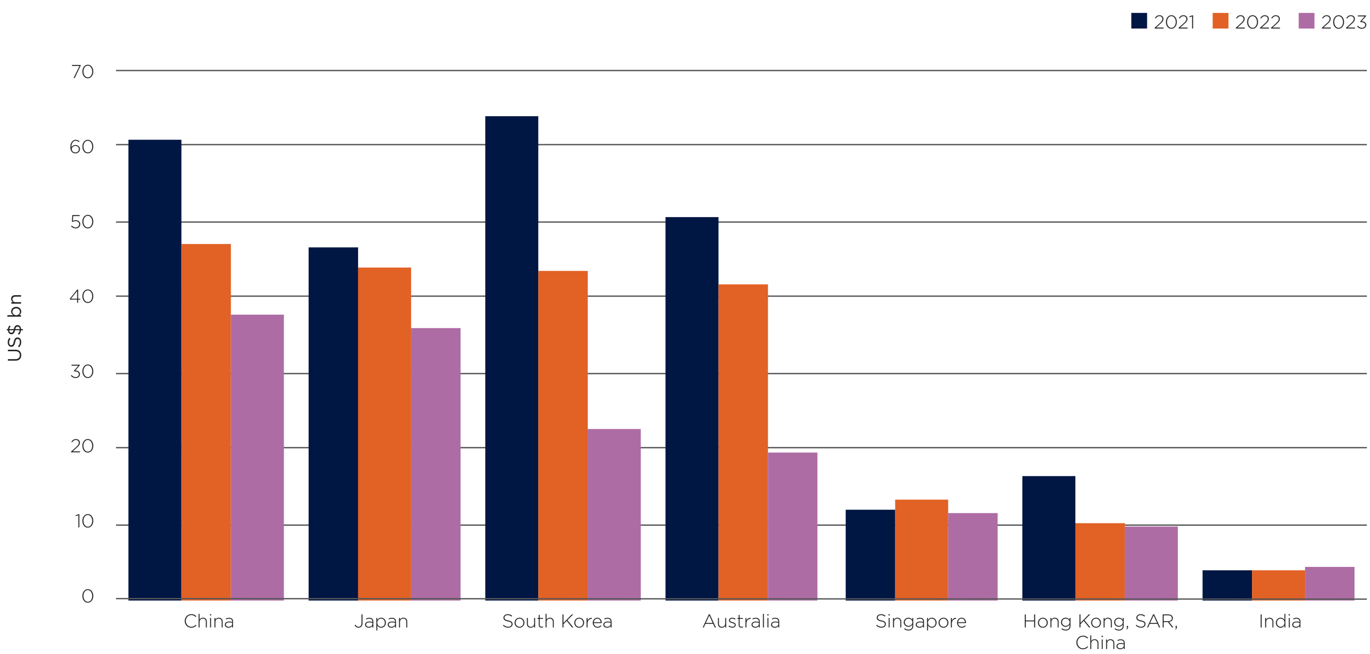
Behind China, Japan saw the second largest investment turnover in 2023, with global investors attracted by the continued ultra-loose monetary policy stance of the Bank of Japan, and improving domestic fundamentals. Total investment of ¥5tn (US$36.9bn) represented a decline of 16% on 2022. Sentiment remains largely positive across the core sectors (office, retail, multifamily, and industrial & logistics). The industrial & logistics sector in particular continues to captivate investors, as evidenced by GIC's acquisition of six logistics facilities from Blackstone for an estimated US$800mn, representing one of the largest transactions of last year in Japan. Rising vacancy will lead to some bifurcation in the market, while demand will increase for facilities with specialised features, such as cold storage.

Elsewhere, investors also continue to back the retail (particularly luxury) and hotel sectors, following a robust post-Covid recovery in inbound tourism, with the Osaka Expo 2025 providing a tailwind for the latter. Residential appetite has experienced a soft waning in demand, contrasting with a backdrop of improved rental growth, pushing the prime yield out to 3.4% by the end of the year. New supply has been absorbed in the office sector, and global investors would do well to distinguish the fundamentals in Japan from the US.

91%

Asia Pacific investors underpinned the large majority of investment turnover, with long haul capital pulling back from the region over the last 12 months.

Asia Pacific CRE investment by market



Source: Savills Research using MSCI Real Capital Analytics

The markets facing the greatest pressure from higher interest rates, notably South Korea and Australia, experienced the sharpest slowdown in deal activity across the major regional markets. In both cases, investment fell by around 50% on the previous year (local currency terms). In the former, numerous high-profile office transactions have experienced delays or withdrawals due to wide bid-ask spreads, as well as fundraising difficulties arising from constrained market liquidity.

Industrial & logistics will remain popular for investors in 2024. As outlined by Katy Dean, Head of Research, Australia, "Despite a critical undersupply of zoned and serviced land, particularly on the east coast, some developers have chosen to delay completion dates. This will help keep competitive tension on availability, even in the face of cyclical headwinds, and help prolong the rental growth cycle, albeit at a slower rate."

In the multifamily sector, a combination of continued strong growth in household formation, and low vacancy in housing stock, will drive rental growth. Australia provides one of only a few destinations for regional investors to deploy at scale into the multifamily sector, with prime yields expected to stabilise at 4.0% in Sydney and 4.5% in Melbourne over the next 12 months.

Student accommodation and senior housing are also mature sectors in Australia, unlike much of the region, although there is growing interest from institutions in rapidly aging markets such as Japan and South Korea, where major domestic institutions have entered the senior care business.

Instead, investors in South Korea will continue to favour the office and industrial & logistics sectors. The former is supported by a very low vacancy rate thanks to a full return to the office, which is driving solid rental growth of more than 7% across prime offices in Seoul. With fundamentals looking strong, a prime yield of 4.15%, coupled with falling interest rates, should increasingly provide a compelling case to invest.

Rounding out the top six regional markets – which together account for around 90% of Asia Pacific investment in CRE – are Singapore and Hong Kong, both of which exhibited some resilience to higher rates in 2023. In Singapore, total investment of S$12bn (US$9.1bn) was 11% below 2022. Several large shopping mall transactions helped to support activity levels, with retail accounting for over 40% of total investment last year, up from a long-term average of around 20%.

Retail assets should continue to pique the interest of investors, supported by a scarcity of prime stock, and yields hovering around the high 4% level. This compares with a more uncertain leasing environment for other core sectors, including office, where the prime yield sits at around 3.3% despite elevated levels of new supply coming on line next year. This tight yield highlights the long term nature of investors in this market and the competition for a finite number of assets. Much depends on what major tenants are planning to do, as requirements hit the market ahead of a spike in lease renewals due in 2025.

In Hong Kong, while investment turnover rose by 23% last year, this comes off a low base, following several years of decline that began in 2019 following a period of political and social unrest, which prompted many investors to look overseas to deploy. The retail sector is also beginning to show signs of a nascent recovery after almost a decade of contraction, with both rents and values expected to buck the wider trend and return to positive growth.

Finally, it is worth highlighting the continued strength of the growing Indian market, with private equity inflows rising by nearly 15% last year to INR357bn (US$4.3bn). Offshore investors remain the primary buyer group, with the office sector providing the most liquidity to deploy, particularly in major markets such as Mumbai. The investable universe continues to expand however, including the launch of the first retail REIT, Blackstone-backed Nexus Select Trust, in May. The investor base should continue to expand, with new investors entering the market in 2024, particularly from elsewhere in the Asia Pacific region.

15%

Offshore investors continue to pivot towards the nascent Indian market, with private equity inflows rising by nearly 15% last year.

Savills Research
We're a dedicated team with an unrivalled reputation for producing well-informed and accurate analysis, research and commentary across all sectors.

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