

Global Real Estate Insights

November 2021

Activity by location

Momentum continues to build across global capital markets, with year-to-date volumes up 25% year-on-year (y/y), as of end Q3 2021. This is significantly up on the 6% y/y uplift posted at the end of Q2, and reflects the gradual re-opening up of markets post-inoculation.

It is evident that nations with higher inoculation rates and fewer restrictive lockdown conditions in place are benefiting the most, with North American and European countries featuring at the top end of the recovery spectrum. **The U.S., Canada, Nordics, UK, Ireland, Germany, Italy and Spain have seen investment volumes rise above figures posted in 2020 and the longer-term cyclical average.** For APAC, only Australia and South Korea feature in this quadrant. Though Singapore is just shy of being included, its investment volume growth year-over-year remains the highest of any nation globally. [See Figure 1.]

By city, this pattern of 'relaxed restrictions' investment growth is clearer. The top performing markets year-to-date

are almost entirely European and North American – bar Sydney, Hong Kong and Singapore. Interestingly, it is Tier 2 cities that are driving the recovery – particularly in the U.S. Phoenix, Atlanta, Miami, San Diego and Houston have seen investment volumes double since this point in 2020. Stockholm and Berlin sit in the same group, the latter the leading city market overall, with volumes 150% higher than in 2020. [See Figure 2.]

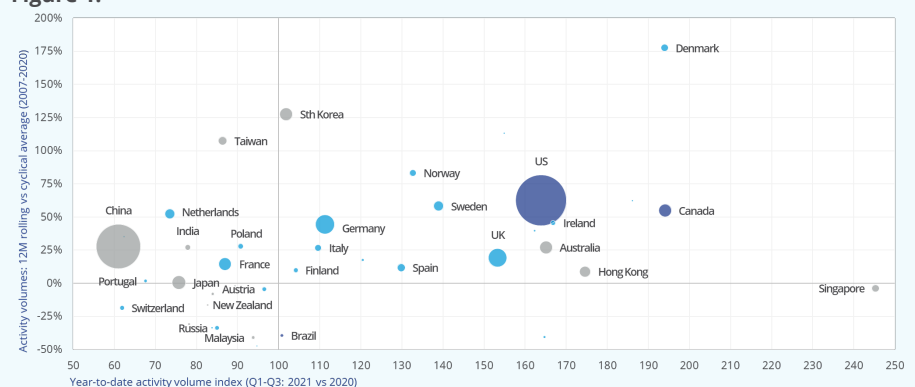
As for APAC, although China's major cities have seen significant activity – and from a deal perspective, they have been the main hosts of the biggest deals by lot size in 2021 – strict lockdown conditions and capital controls are curtailing domestic and overseas investors from engaging in the market. It is certainly not the result of weakening economic conditions, which are strong for 2021 and forecast to remain very robust in 2022 – much like the globe's other major economies.

Global Investment momentum year-to-date changes by country

[Recent performance vs cyclical average & COVID-19 impact, bubble size represents activity volumes]



Figure 1.

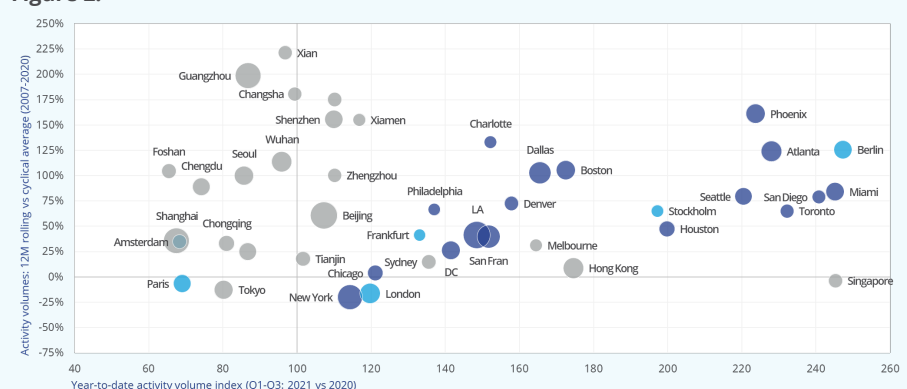


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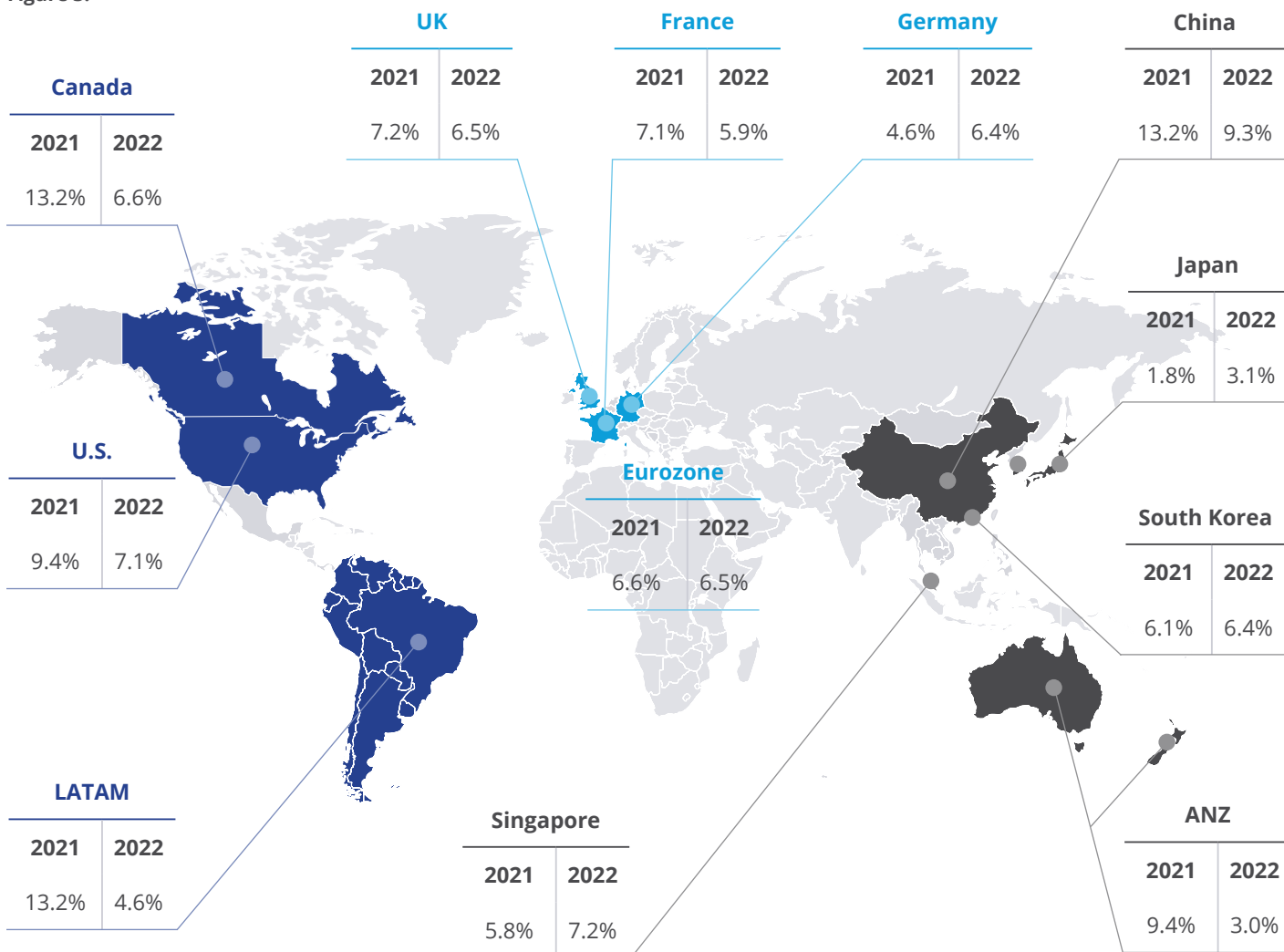
Figure 2.



Source: Colliers / RCA

Global Economic Recovery: GDP growth rates for 2021 & 2022

Figure 3.



Source: Colliers / OxfordEconomics

Activity by sector

Buoyancy in the logistics and living sectors is evident year-to-date across all three global regions. Industrial and logistics (I&L) is the most consistent performer, accounting for around 20% of activity in all three regions. Activity is up by more than 50% in both EMEA and APAC, and 16% in the Americas. For residential (multifamily), investment levels have expanded but less aggressively. Though investment is up by 31% in APAC, it remains a nascent sector (bar Japan and Australia) compared to other global regions.

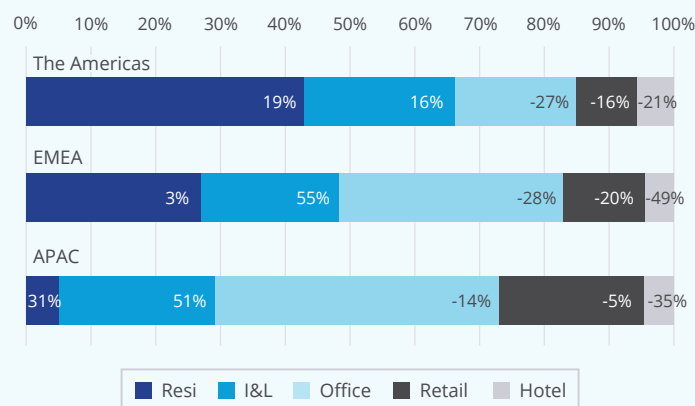
Although office investment levels are down y/y, it is making a comeback with several large deals transacting in major global cities. Overall these three sectors account for around 80% of global activity for standing assets, indicating just how much the retail star has fallen and the extent to which hospitality continues to be negatively impacted by the pandemic and reduced travel.

As long-haul routes re-open globally, and confidence is restored to intra-regional business and leisure travel through high inoculation rates, we do expect the hotel sector to pick up in 2022. Vendor / buyer pricing expectations seem

to have moved more in sync, hotel operators are looking to rationalise their portfolios and more capital is looking at value-add and opportunistic re-purposing opportunities in the sector – as with retail. Yet I&L, living and offices look set to dominate the landscape for Q4 and beyond.

Figure 4.

Investment volumes by global region: weighting by sector and y/y change in activity





















Source: Colliers / RCA

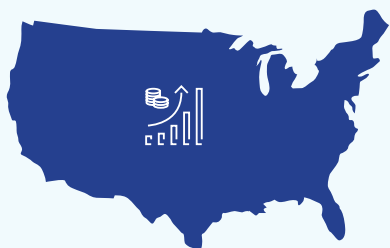
When it comes to the volumes of market transaction activity by asset type, different locations stand out by sector. Figure 5 below indicates those locations where transactions by sector has exceeded US\$5 billion over the last 12 months, and the U.S. clearly stands out across all sectors. Although Chinese investment volumes have matched those of the U.S. in total, the high proportion of land sales means it is yet to feature as a top location for standing assets – globally. After the U.S., the UK and Germany clearly stand out overall, as do Japan and France. Other destinations have seen more focused investment into one or two sectors, with South Korea and Australia standing out for offices and retail.

Sector activity over US\$5 billion during last 12 months

Figure 5.

Countries	 Resi	 I&L	 Office	 Retail	 Hotel
 U.S.	\$260 bn	\$136bn	\$114bn	\$57bn	\$35bn
 Germany	\$27bn	\$9bn	\$30bn	\$10bn	
 UK	\$14bn	\$24bn	\$23bn	\$12bn	
 China		\$15bn	\$23bn	\$10bn	
 Japan	\$7bn	\$6bn	\$18bn	\$6bn	
 France	\$8bn	\$6bn	\$19bn		
 South Korea			\$21bn	\$12bn	
 Australia		\$12bn	\$14bn	\$7bn	
 Canada	\$14bn	\$11bn			
 Netherlands	\$8bn	\$6bn	\$6bn		
 Sweden	\$7bn	\$6bn			
 Hong Kong			\$5bn	\$6bn	
 Denmark	\$7bn				

Source: Colliers / RCA



Year-to-date, **the U.S. is the dominant market across the five sectors** with regards to investment volumes.



In **Australia**, the market witnessed the **largest retail transaction in Australian history**, and also one of the **largest global retail transactions since 2018**.



Big-ticket offices bouncing back

- Manhattan's office market may be below its historical average, but several important deals have closed in Q3, including the Daily News Building and the Pfizer Building.
- In Germany, Allianz's acquisition of Tower 1 of the FOUR development in Frankfurt is the biggest deal of 2021, closing at ca. US\$1.62 billion. Frankfurt also hosted the second-largest sale, as the Skyper office tower closed for US\$650 million. These deals helped the office sector account for 50% of market share in Germany during Q3.
- In South Korea, office transactions worth US\$4.2 billion were closed in Q3, eclipsing volumes seen in the previous three quarters. Meanwhile in Japan, the Nippon Building Fund acquired a 'strata' investment stake in the Iidabashi Grand Bloom in Chiyoda, Tokyo from Mitsui Foundation. They acquired 31,150 sqm of the 122,280 sqm asset for US\$705 million.



I&L portfolios demanding premium pricing

- In the U.S., Oxford Properties acquired the KKR Portfolio for US\$2.2 billion, comprising 149 assets over 14.5 million sq ft. Black Creek also acquired a 48-property portfolio from Prologis - both deals reported cap rates in the low 4% range. Torchlight Investors claimed the top spot for the largest single-asset purchase in the market - a Target distribution center in New Jersey. The 1.1 million sq ft, newly built asset traded at a reported 3% cap rate.
- Blackstone's acquisition of the £1.7 billion (US\$2.3 billion) Project Alaska in the UK represented a significant deal for the sector in Europe. The Italian market was also very active as GLP bought a 10 asset portfolio for US\$300 million, while EQT Exeter bought the Elizabeth Portfolio for US\$137 million.
- Investment appetite for the industrial sector in China and Hong Kong remained strong, with the latter location witnessing 20% quarter-on-quarter (q/q) growth in industrial transaction volumes.



Multifamily billion dollar portfolios drove activity in Europe and North America

- In Europe, Heimstaden purchased Akelius' portfolio of 28,776 assets across Sweden, Germany and Denmark for around US\$10.4 billion. France posted a record H1 for the sector, registering US\$5.1 billion worth of residential sales. It remained the top performer in Ireland, accounting for 53% of Q3 turnover as the market responds to a strong demand for housing across all tenure types.
- In the U.S., multifamily continues to dominate across a range of markets. The sale of Spring Creek Towers portfolio, comprising 46 buildings and 5,881 units in Brooklyn, New York was the biggest deal of the quarter, closing for \$1.18 billion.



The retail barbell: investors focus on luxury and grocery

- Australia has had a stellar year for retail transactions and is helping shift the narrative on the sector. UniSuper and Cbus Property acquired stakes in Pacific Fair and Macquarie Centre for US\$1.6 billion, partnering with AMP Capital who retained a stake in these core assets. Joint venture was also the route to market for GIC's sale of 50% of the Queen Victoria Building, The Strand Arcade and The Galleries portfolio. Sold to Link REIT, this represented Sydney CBD's largest retail transaction since 2017, comprising 35,000 sqm of luxury, boutique high quality retail accommodation.
- The U.S. market is witnessing improving retail fundamentals, with store closures on track to be the lowest total in more than a decade and positive absorption being recorded across the sector. Slate Grocery REIT's acquisition of a 25-property Annaly Capital Grocery Portfolio for \$380 million (3.1 million sq ft) was one of the biggest deals of the quarter.
- Meanwhile in Spain, MDSR closed the acquisition of Mercadona supermarket chain (27 assets) for over US\$115 million and Realty Income, acquired seven Carrefour hypermarkets for US\$108 million.



Hotel recovery driven by higher RevPAR

- The hotels sector is starting to recover, but primarily in Europe and North America to date. Spain is one of the fastest recovering markets, with investment volumes exceeding US\$1.4 billion in Q3. This included the largest hotel investment transaction in the market to date in 2021, as Brookfield Asset Management acquired a portfolio of four prime hotels from Selenta Group for ca. US\$510 million.
- The U.S. is by far the most active market. Mid-scale assets are dominating recent hotel sales in the U.S., while resorts and luxury properties are beginning to trade more regularly. This suggests that liquidity is getting back to normal, evidenced by the purchase of the Margaritaville Hollywood Beach Resort in Florida, a 369 room resort, for \$270 million.



Looking Forward – Activity & Pricing Movement

Economic growth and low rates of leverage are supporting huge cash buffers, on the back of government support for business and individuals, even though this support is now being tapered off in light of rising inflation. Anticipated higher interest rates in the next 12 months will impact consumer spending levels. Meanwhile, continued supply-chain blockages, rising energy prices and the potential impact on household and business spending pose a challenge for the industry generally. In particular, there is also a clear knock-on effect on construction cost inflation, which is spiking and likely to remain elevated over the next 12 months.

On the downside, less new product being built could reduce the expansion of investment activity. The flipside is that this supply inelasticity will underpin relative to expansionary and latent demand growth being witnessed across markets. This is reflected in the outlook for capital

values across all asset types in Q4, which is almost universally on the up or stable in North America and EMEA, bar hotels. For APAC, the cap values trends are slightly more muted, and again the prospects for hotels in the next quarter remain down.

When net initial yields across major regional markets are placed in the context of current and anticipated government bond prices (in the next 12 months), the expectation of pricing changes is cogent. North American, European and Japanese locations offer the best spreads going forwards, supporting growth in pricing growth in these locations.

Although higher interest rates are expected in 2022, these are not expected to increase by more than 50 – 75 basis points – depending on the location. This may eventually take some heat out of the market in 2022, but not in Q4.

Figure 6.

Q4 2021 Pricing Movement Expectations

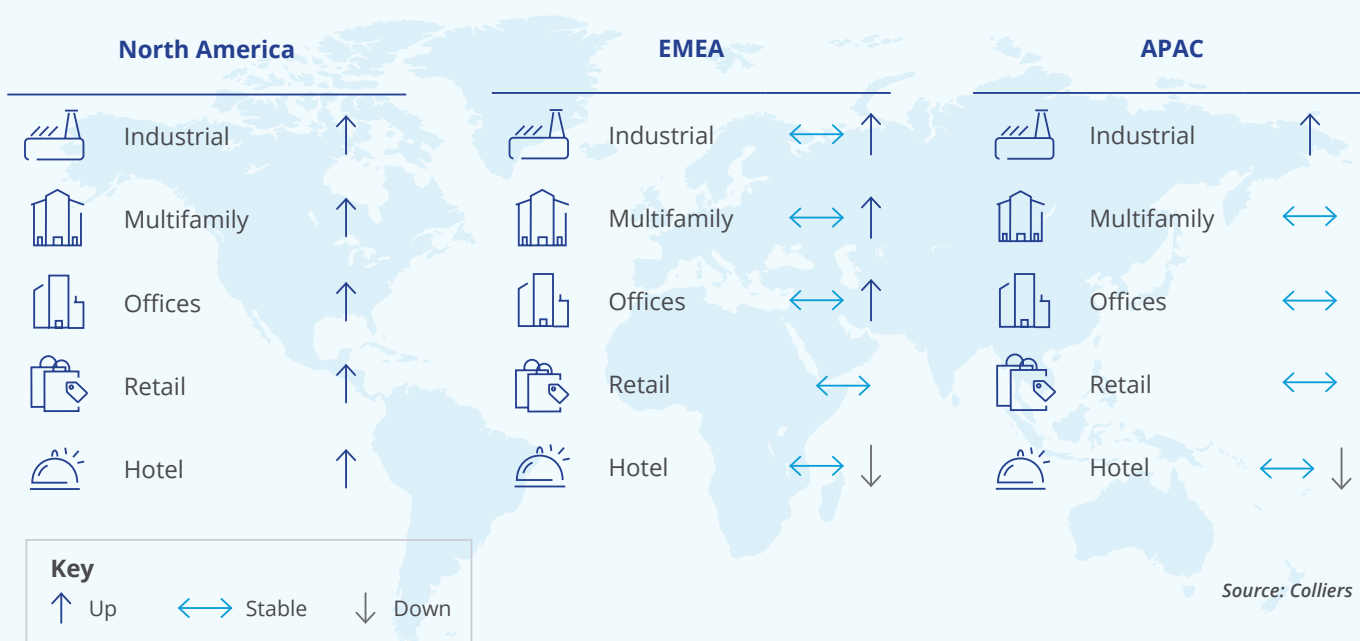
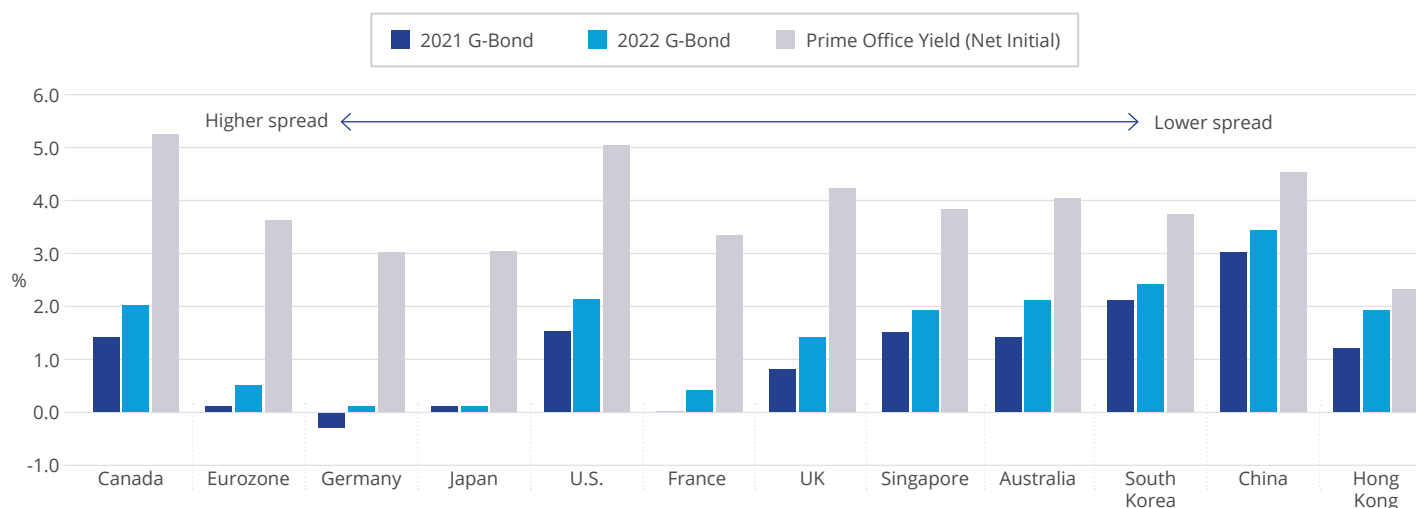


Figure 7.

Global markets: net initial yields vs 10yr -government bonds



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