2025 Global Outlook

EMERGING TRENDS IN REAL ESTATE®

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EXECUTIVE SUMMARY

"We expect overall transaction volumes to increase substantially this year. Hospitality, retail, offices are a big part of this recovery."

US investment banker

LONDON, UNITED KINGDOM

Inflation and higher-for-longer interest rates in some regions continue to cast a long shadow over global real estate as the industry weighs up the opportunities and risks over what promises to be a challenging year ahead.

Political policy-making and geopolitical instability are among inflation's chief drivers, and they are uppermost in the minds of the industry leaders interviewed for this Global edition of *Emerging Trends in Real Estate®*.

The backdrop to the latest interviews included martial law being declared in South Korea in the final weeks of 2024, the slew of executive orders in the early days of the new US administration and political tensions created in the build-up to the election in Germany in February. These interviews reinforce the cautious sentiment evident in all three regional editions of *Emerging Trends*. This is an industry questioning how political decisions will influence monetary policy, economic growth and, above all, the wars in Ukraine and Gaza. As one global player says: "The overarching concern is political risk."

If anything, the geopolitical risk is greater now than at the start of the year, and it is keenly felt in the industry's challenges around climate change and the environmental, social and governance (ESG) agenda. Despite the wildfires that tore through Los Angeles in January and the destructive flash floods in Valencia last October there has been a backlash against ESG regulations in the United States, and a reordering of capex priorities in other parts of the world. ESG is now "a politically charged acronym". But real estate leaders want to see the industry get back to basics: focus on the financial upside of paying attention to matters of energy and the environment, and demonstrate a return on investment.

Despite the prevailing uncertainties, the regional reports suggest that dealmaking prospects are improving in all markets, albeit slowly. The new interviews and the latest investment data from MSCI confirm the positive trend but with the caveat that inflation may yet delay further recovery, particularly in the US. Interviewees also underline the ongoing value of diversification. Asia Pacific is seen as particularly promising for structural reasons, providing investors with different entry points.

Interest has resumed in sectors that have repriced sufficiently to offer a promising risk-reward outcome, such as retail and some value-add offices, but this remains a market-by-market judgement call.

"The overarching concern is political risk.

SEOUL, SOUTH KOREA

The office sector, in particular, still prompts a wide divergence of opinion on the prognosis for non-prime premises in the US and Europe if not in Asia Pacific where hybrid working is far less of an issue.

There is much more of a consensus around residential as a strong sector play with demographic-driven subsectors like senior and student housing expected to remain popular for dealmaking in 2025. At the heart of the sector's appeal, however, is the widespread supply/demand imbalance in housing generally, which has been highlighted in all three regional reports as a key factor for years. This year, though, some global players are further encouraged by the pro-development policies unveiled by many of the new governments in power now following the record number of elections in 2024.

The interviews also indicate that the trend towards assets with an operational component permeates nearly all investment categories, from core to opportunistic. As many industry leaders now acknowledge, managing a business alongside the asset requires a wider range of skills in-house but invariably leads to greater returns. In essence, this trend reflects a broader shift towards real estate becoming a more complex undertaking, bringing both opportunities and challenges. This includes the need for increased operational expertise, vertical integration, new partnerships and innovative investment structures.

As this trend develops, arguably the greatest opportunity for outsized returns lies in assets "at the intersection of real estate and infrastructure". Logistics, data centres and new energy infrastructure have been at or near the top of the *Emerging Trends* sector rankings for several years and yet there are signs of interest and capital moving to an altogether higher level. As analysed in Chapter 2, if investors want to participate in these sectors their knowledge base must extend well beyond the usual real estate risk-reward metrics and into digitisation, the exponential growth of artificial intelligence and power requirements, and increasing focus on strategic regional independence, including energy security and data sovereignty.

Industry concerns: Challenges ahead

North America	Europe	Asia Pacific
Interest rates/cost of capital	International political instability	Low yields
Housing availability/affordability	Escalation of wars	Interest rates/cost of capital
Construction labour costs/availability	European economic growth	Trade friction/geopolitical tensions
Capital availability	Increased regulation	Global economic growth
Job and income growth	European political instability	Vacancy rates

Real estate business issues

Constuction Costs

The problem everywhere is that construction costs, and the ability to secure contractors is a nightmare.

Asia Pacific fund manager

Regulations

Another challenge around keeping up with changing regulations is that whatever you decide to spend on today, may be insufficient for the future.

European institutional player

Changing occupier demand/vacancy rates

It's necessary to be in a good location with modern facilities because those are the assets that outperform. All the average, grade-B stock, they can't ride the wave anymore.

Asia Pacific regional analyst

Environmental requirements

It's difficult to incorporate additional [ESG] costs with limits on market pricing, and margins are already slim with high interest rates and cost escalation.

US-based industry professional

Cap rates

Cap rates aren't necessarily going back to those historic lows because growth rates aren't there.

American investment banker

Economic and financial concerns

Interest rates

We are in a new interest rate regime. The neutral rate of interest is higher now than it's been in the last couple of decades.

US-based head at a data analytics firm

The last couple of years would suggest that interest rates are much more fundamental to the real estate industry and value creation. We'd all like to think we work so hard and try to add value, but it basically boils down to where are interest rates.

Europe-based global investment manager

Economic growth

The future trajectory of the economy looks as tenuous and uncertain as ever.

US-based industry consultant

Both in Europe and to some extent the US, growth continues to be the single most important factor that is going to drive the occupational markets.

European senior executive

Investment activity

Valuations are not reflecting the market price, as there is no benchmarking due to lack of deals.

Chief investment officer of a pan-European real estate firm

Social and political issues

Geopolitical tensions

Geopolitics has been a concern for the last decade and is here to stay. It's a kind of new constant.

European real estate head at an institutional investor

Housing availability and affordability

The housing crises across Europe will soon need to be rebranded as housing emergencies, because as it stands the current levels of delivery cannot sustain the needs of tomorrow.

European real estate executive

The housing stock should be turning over more than it does here. We don't produce enough of it. We don't have places for people to age down into.

US-based developer

Demographic trends

We're trying to focus geographically on cities that are showing strong population growth, strong job growth and business formation, and so that is going to lead us to the major Sun Belt cities.

American industry professional

Political instability and extremism

The big picture is one of uncertainty with changes in political tone. There are worrying trends not seen since the Second World War [compounded by] migration and the gap between the haves and the haves-not.

Pan-European manager

SECTORS TO WATCH

DATA CENTRES

LOGISTICS / INDUSTRIAL

PRIVATE RENTED RESIDENTIAL

SENIOR HOUSING/ ASSISTED LIVING

STUDENT HOUSING

HEALTHCARE FACILITIES

NEW ENERGY INFRASTRUCTURE

SELF-STORAGE FACILITIES

HOTELS

RETAIL

CHAPTER 1

FACING UP TO REALITY

"We are most concerned about base rates staying higher for longer. We may have to get used to this. But there's still good news out there for real estate."

CEO, real estate investment bank

HOUSTON, UNITED STATES

The global real estate industry is facing up to the reality of lingering inflation and higher-for-longer interest rates in some regions, as it contemplates a complex year ahead.

This inflation may delay the hoped-for recovery in capital markets and occupier metrics, particularly in North America, although Europe is largely seen to be on the right trajectory, and some Asian markets are even on a divergent, deflationary path.

Political decisions and geopolitical instability are among inflation's main drivers, according to real estate leaders canvassed for this this Global edition of *Emerging Trends in Real Estate®*. "The overarching concern is political risk," says the CIO of a global pension fund. "The US administration's rapid issuing of executive orders doesn't help investors, who prefer a stable environment." Orders including tariffs, an immigration crackdown, and President Trump's efforts as a peacemaker in the Middle East and Ukraine could potentially affect the delicate geopolitical balance. "A range of tensions mean that inflation risk is now higher than it was six months ago," adds a real estate investment head.

However, another industry leader suggests that "the inflationary trend began before the election and largely reflects the health of the US economy". The US Federal Reserve, meanwhile, identifies systemic and politically driven inflation in its January meeting minutes, saying that due to "recent higher-than-expected readings on inflation, and the effects of potential changes in trade and immigration policy,

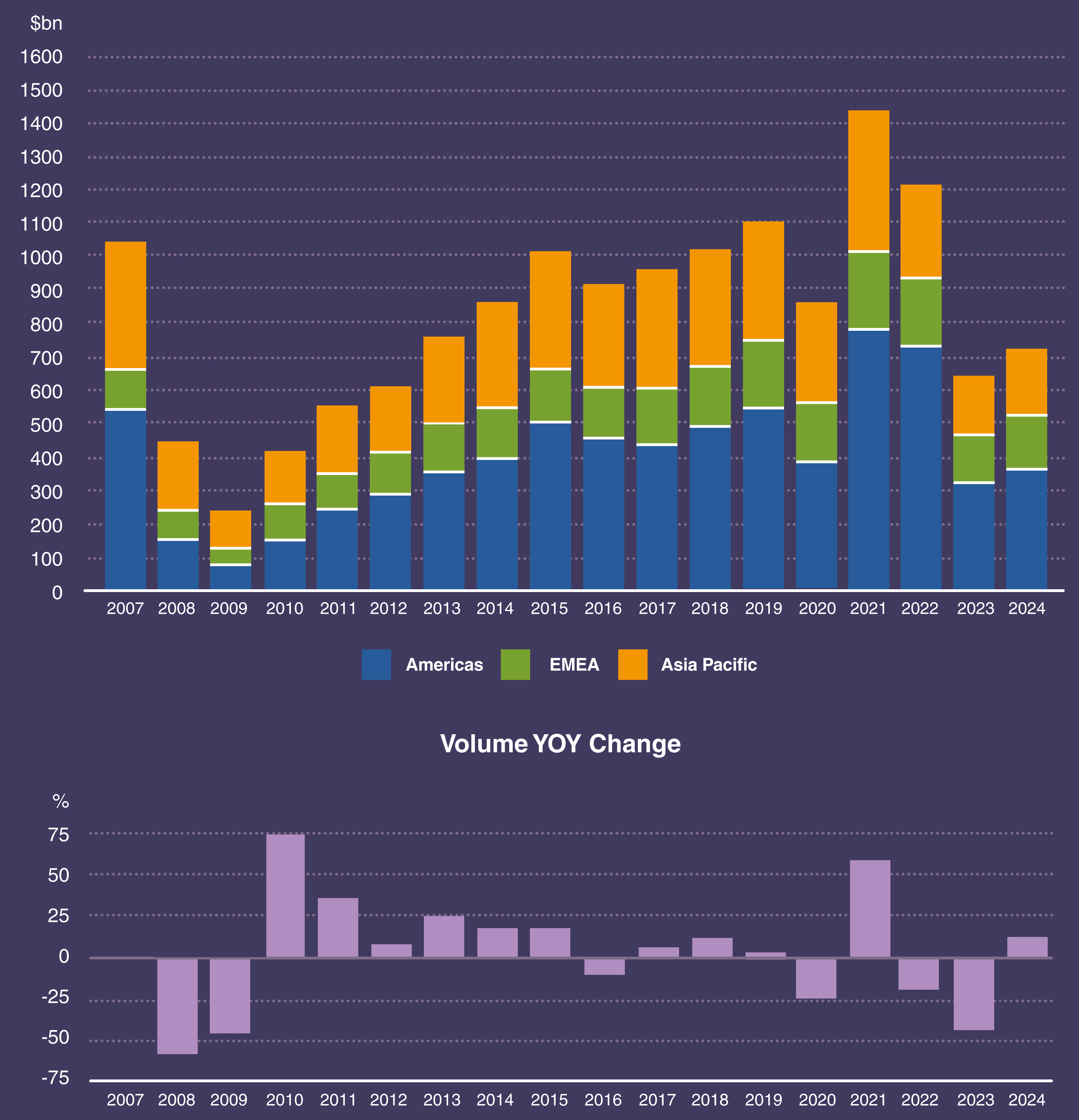
> "The overarching concern is political risk. President Trump's rapid issuing of executive orders doesn't help investors, who prefer a stable environment.

[rate cutting] could take longer than previously anticipated". The Fed held rates steady at its January 29 meeting, after three consecutive reductions towards the end of 2024 brought rates down by a full percentage point.

Nevertheless, Europe's slower-growth mode could well be a foil for global, systemic inflation, giving the European Central Bank (ECB) and the Bank of England (BoE) sufficient reasons to continue cutting rates. At the end of January, the ECB instigated its fifth rate cut since 2023, with the BoE following suit in February, although sentiment has cooled on the BoE making multiple cuts this year.

General optimism about the direction of travel is further boosted by a sense that valuations have reached a realistic level in Europe, with dealmaking consequently starting to improve. "We're not expecting peak volumes this year, but they should continue to pick up, quarter-on-quarter," says a European real estate investment head.

Figure 1-1 **Global real estate capital flows 2007-2024**



Source: *MSCI.*

Charts exclude development sites.

> Investors still see greater value in the US and Europe compared to APAC because values have fallen faster there.

In Asia Pacific, markets may take more time to resume, with one APAC-focused investor calling the environment "still rather sluggish" but highlighting "significant opportunities connected to demographics".

According to the regional *Emerging Trends* reports, which canvassed views across Europe, North America and Asia Pacific in the third quarter of 2024, business confidence is up in all three regions, despite a range of challenges ahead. For Europe, political instability is seen as the chief issue clouding the horizon; in North America, interest rates and cost of capital rank highest, while Asian respondents point to low yields and interest rate challenges.

The interviews for *Emerging Trends Global*, conducted this year, reaffirm confidence in Europe, despite geopolitical clouds, while interviewees in Asia Pacific express doubts that capital markets will recover quickly. "Investors still see greater value in the US and Europe compared to APAC because values have fallen faster there," notes one asset manager.

Similarly, US-based investors see higher interest rates and inflation slowing the resumption of deals, or contributing to a "corrugated" recovery. "Our house view is that there is going to be upward pressure on inflation in the US because the new environment we are in is going to involve a bit more protectionism," says one global CIO. A European investor sees the financing climate continuing to improve: "Sentiment is a lot better than it was 12 months ago, with interest rate reductions making cheaper leverage a commodity again for yielding asset classes, which is great news."

Views on the key economic and financial issues also vary across the regions. In Europe, economic and global economic growth are the main concerns followed by interest rate movements. The growth outlook is still top of mind for Europe although sentiment is generally positive. A European real estate head says that "Europe is heading for growth over the next two years, now that interest rates are coming back to a low level". However, another Europe-based investment head wonders if "occupier markets will take some time to thrive" due to "uncertain aspects" in the growth outlook.

Interest rates and the cost of capital remain the main concerns for the year ahead in America and Asia Pacific. "Interest rates won't now fall as fast as we hoped towards the end of last year, not least due to the strength of the US economy and the rises in 10-year bond yields," says an investment banking chief.

SINGAPORE

There's a lot of capital out there and the banks are substantially back – they see there is a new, less restrictive, regulatory regime.

SYDNEY, AUSTRALIA

Despite this, the outlook for real estate debt is largely seen as positive. "There's a lot of capital out there and the banks are substantially back – they see there is a new, less restrictive, regulatory regime," says the CEO of a global investment bank.

The picture is slightly more complex in Asia, largely because of the impact of the Bank of Japan's divergent monetary policy. In January, the institution raised interest rates to a 17-year high as core inflation hit a 16-month peak, while leaving the door open for further hikes this year. The Reserve Bank of Australia, which is closer to Western central banks in market sentiment, cut rates at its February 18 meeting by 0.25 percent but warned that "we cannot declare victory on inflation yet". "The market differences in the region remain significant," says an investment head based in APAC. "While Japan is becoming more inflationary, there is debate about whether deflation will hit China."

The global dealmaking that is taking place is focused on assets that are pulling away from the pack in terms of fundamentals, and in some cases, displaying cap rate compression. Investors are increasingly drawn to those assets, which one interviewee says, "lie at the intersection of real estate and infrastructure", citing data centres, logistics sub-sectors, and a range of living segments as experiencing tailwinds. Taking on assets with a dimension of operational risk is seen as "the only way to drive alpha in this environment", adds another CIO. These themes are further explored in Chapter 2.

Yet interest has also resumed in assets that have repriced sufficiently to offer a promising risk-reward outcome, such as retail and some value-add offices.

The more optimistic interviewees share the view that the industry is close to the resolution of a three-year-long pathway to recovery. In *Emerging Trends Global 2023*, one leader hoped that "investment activity will start increasing, possibly by the summer [of 2023], if there is a 'declaration of victory on inflation'". In 2024's Global report, leaders saw 2024 as "a pivot point, moving towards greater liquidity in real estate markets". The view now is that 2025 should mark the next stage of breakthrough, perceived by some as a "reset point" or even "the start of a new cycle". Yet pockets of caution remain. Even the global euphoria last September about the Fed starting to cut rates – flagged in all three regional reports as a turning point – has receded.

With the Fed holding rates firm in January and further cuts this year now seen as unlikely, the industry must look to other routes for resuming growth. "There will be no major change for rates in the US this year," says an investment banking head. "Where we are is where we will be. But a sense of stability can also help build confidence."

Geopolitics and grandstanding

Politics and geopolitics are likely to continue shaping the global investment environment this year, with financial markets and even investment decisions potentially swayed by public policy.

“My views on the real estate outlook change week by week,” says the president of a global investment firm. “The new US administration is driving a lot of uncertainty. Question is, how will capital markets and flows respond to some of that uncertainty in 2025?”

The last few months have witnessed significant political tremors. In Asia, investors focused on South Korea’s rising star were shocked when President Yoon Suk Yeol declared martial law, acting as a reminder that, as one interviewee notes, "it's a young market" and still subject to elevated risk. In Europe, economic concerns and the growing populist movement led to Germany's election and pressure on France's government, leaving questions over political stability in both nations, as well as across the European bloc.

The UK budget, the first from chancellor Rachel Reeves, attracted the full spectrum of critiques. The International Monetary Fund saw sensible moves to shore up the country’s budget deficit, and said it expected the country’s economy to grow by 1.6 percent in 2025, up from an earlier forecast of 1.5 percent.

> “The new US administration is driving a lot of uncertainty. Question is, how will capital markets and flows respond to some of that uncertainty in 2025?

However, business leaders decried plans to hike national insurance contributions for employers and other market watchers warned that growth in the medium term would remain sluggish. The government's borrowing criteria, meanwhile, remain in doubt following the UK gilts sell-off in January.

In the US, President Trump’s victory split the critics, with some hoping it would mean fewer regulations and others checking the small print. “Tariffs mean inflation, reduced immigration means inflation,” says one real estate investment chief interviewed for this report.

The market reaction to the new US administration’s slew of executive orders has been erratic. Some have welcomed claims that President Trump could loosen certain checks on business profits and make mergers cheaper and easier.

WASHINGTON DC, UNITED STATES

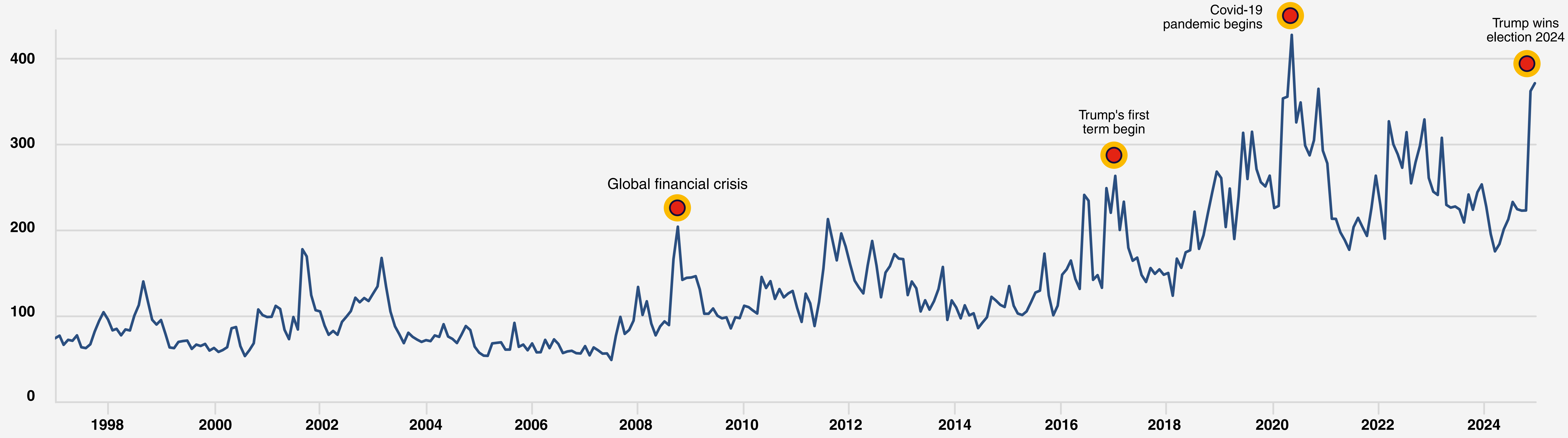
But commodity tariffs and plans to clamp down on immigration and exit the Paris Agreement prompt mixed responses. “While the elections were positive in relation to overall economic activity, there is a sense that a number of policies are inflationary,” says one banker.

During January’s World Economic Forum in Davos, WEF CEO Børge Brende described the “political, geopolitical, and macroeconomic landscape” as “shifting under our feet”. He added: “At this very moment the clock is quickly ticking down to meet critical political priorities: driving economic growth, reducing carbon emissions, finding ways to end conflict.” Delegates at the Forum also heard that around half of Generation Z does not believe in democratic institutions and that 40 percent now support hostile activism to achieve change. Meanwhile, February’s Munich Security Conference 2025 examined how growing political divergence could stand in the way of joint approaches to global crises. Interviewees for this report express concern that the US and Europe appear to be on different paths over key issues, including defence and trade.

This climate of uncertainty does not have a predictable expiry date in an increasingly conflicted world. Indeed, the global economic policy uncertainty (GEPU) index – which tracks the impact of seismic events by scanning keywords in news media – jumped to a post-pandemic high in January on the back of Trump’s executive orders.

> “
> At this very moment the clock is quickly ticking down to meet critical political priorities: driving economic growth, reducing carbon emissions, finding ways to end conflict.

Figure 1-2 **Global Economic Policy Uncertainty Index**



Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., Global Economic Policy Uncertainty Index: Current Price Adjusted GDP

Note: The GEPU Index is a GDP-weighted average of national EPU indices for 16 countries that account for two-thirds of global output. Each national EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, uncertainty and policy-related matters. Each national EPU Index is renormalised to a mean of 100 from 1997 to 2015 before calculating the GEPU Index.

Deal or no deal?

The regional reports suggest that dealmaking prospects are turning a corner in all markets, and the latest investment data from MSCI confirms the positive trend.

As one European real estate leader interviewed for this Global edition notes, “investment volumes for last year turned out to be not bad at all”.

While greater clarity on pricing is supporting transactions, there continues to be an absence of real distress, according to interviewees. “There may be some opportunities emerging from distress and dislocation, but it hasn’t been really present in this cycle,” notes a regional investment head. “People expected it, but banks have ‘extended and pretended’ so there haven’t been many forced sales.”

European commercial real estate is coming off the back of its busiest fourth quarter for two years with sales totalling €55.6 billion, according to MSCI. This took total transaction volumes for 2024 to €188.8 billion, 13.7 percent higher than in 2023.

Real estate volumes also rebounded by 11.3 percent in North America, says MSCI, following a year of significant contraction, with US deals jumping by around a third year-on-year in the fourth quarter, boosted by September’s rate cut.

However, sticky inflation might now delay further recovery in North America, warns one investment banker.

> Investment volumes for last year turned out to be not bad at all.

“There will be increased volume without question, but it might not happen in the first half of 2025 anymore.”

In Asia, volumes also rebounded by double figures, improving 13.4 percent on 2023. However, a major data centre deal in the fourth quarter – the sale of AirTrunk for $16 billion – slightly skewed the results. Without this, volumes were similar to 2023.

“Volumes have been rather low, and I don’t expect them to pick up rapidly. However, the next few years could become very good vintage years as a consequence,” says an APAC-focused head of investment. Another sees Japan “as the exception to this rule, attracting plenty of investor interest”.

Yet there is more consensus across all three regions about the trends shaping the investible universe and the sectors that are likely to be top of investor wish lists. The trend towards data centres – highlighted in all three regional reports as the most promising sector – offers huge opportunities and new risks for the industry, which are analysed in Chapter 2.

MADRID, SPAIN

BANGKOK, THAILAND

Another trending sector, living, with its demographic-driven subsectors like senior and student housing, remains popular for further dealmaking. "There is so much undersupply in living; fortunately, a lot of the new governments that resulted from the year of record elections are more about building than regulating," says the global investment chief of a real estate firm. "We also think that retail's repricing has run its course – there's not a lot of capital chasing it and a lot of retail that is working," they add. "We'll be more of a fast follower in offices."

Development is a nuanced topic across all three regions. North America has faced over-supply, such as in multifamily in some Sunbelt markets, although ongoing high construction and labour costs mean that the "supply should be absorbed this year, supporting rents", according to a US-based investor. In Europe and Asia, development is still at historic lows, not helped by high construction expenses and planning constraints, a concern repeatedly expressed by participants during recent Emerging Trends roundtable discussions in the Netherlands, Denmark and the UK. Industry leaders see few signs of improvement on costs and delays to date even though they are encouraged by individual government pledges to boost housebuilding and infrastructure programmes.

Many leaders also underline the ongoing value of diversification. Asia is seen as particularly promising for structural reasons. "You could say that individual Asian markets provide true diversification, providing the investor with different entry points," notes one APAC-based CIO. In this region, however, "asset allocations are not where they should be," they add. "[Digital] infrastructure is the one bright spot, with capital still flowing in; investors are increasing allocations to somewhat newer asset classes."

> "You could say that individual Asian markets provide true diversification, providing the investor with different entry points.

Capital flows could be further boosted by the resolution of the denominator effect in the light of real estate repricing. While sluggish markets initially saw equities and fixed income assets reprice more quickly, leaving some investors over-exposed to property, subsequent real estate repricing left several funds under-allocated, according to interviewees. But now, as one real estate investment bank CEO declares: "There are no issues with the denominator effect. A lot of pension funds that subscribe to a modern portfolio theory are increasing their allocations, albeit more into the alternative space."

This is further helped by a perception that the cost of capital is moving in the right direction, particularly in Europe and Asia, although one investor also positively identifies a “tremendous amount of capital showing up [in the US] amid generationally low credit spreads”. In Europe, “interest rate reductions over the course of the year… should improve the cost of leverage”, says another investor.

Moreover, conditions are seen as brighter for core capital after a difficult couple of years, with one core fund manager noting that “capital raising is back as of the first quarter of 2025”. The Global Open End Diversified Core Equity (ODCE) Fund Index reported a total return of 1.99 percent in the third quarter of 2024, marking the first positive performance since mid-2022, with all three regions back in the black. Meanwhile, the 2025 Investment Intentions Survey, published in January by INREV and PREA, reports a significant uptick in interest for core strategies focused on Europe, with 38 percent of investors now favouring them, up from 21 percent in 2024.

The preference for alternative assets with an operational component seems to be something that transcends nearly all investment styles, from opportunistic to core. One institutional investor says that “we have been investing into asset classes with a bigger, operational component for seven years now. Managing the business more than the asset is an investment-style position which requires you to have all the different skills in-house but leads to greater returns.”

However, a Japanese fund manager warns about chasing after the same assets as everyone else. “With more maturity, more transparency, that means that all the fat in the market has gone … there’s competition for everything.”

Indeed, a real estate investment head advises staying alive to evolving niches, even where they lack liquidity. “There will continue to be an interest in core real estate, but people make money finding the next trend, where demand is moving.”

“There will continue to be an interest in core real estate, but people make money finding the next trend, where demand is moving.

TOKYO, JAPAN

FIREFIGHTER, CALIFORNIA, UNITED STATES

Environmental costs

The social cost of the wildfires that tore through Los Angeles in January is incalculable.

But financial institutions have already figured it may be among the costliest in history for the insurance industry with Moody's estimating insured losses "to run well into the billions of dollars".

California's insurance landscape, like that of Florida, has experienced significant shifts in recent years, with insurers raising rates and refusing to renew policies in high-risk areas. The outlook for commercial and residential real estate in an increasing number of neighbourhoods is bleak.

In Europe, intense rainfall in Spain produced deadly and destructive flash floods in the province of Valencia in October, damaging homes and infrastructure as people lost their lives. Scientists said climate change played a part in precipitating a "cold drop" that triggered the formation of cumulonimbus rain clouds. Although the disaster was described as a freak event, few think it will be the last. The real estate industry, in turn, has been shaping a more assiduous climate strategy in the face of real-world fears. "Many investors are focused on climate risk, although it can depend on geography," says a Europe-based real estate investment chief.

> Many investors are focused on climate risk, although it can depend on geography.

This supports the findings in the three regional reports, where environmental and sustainability requirements and climate change rank quite differently depending on location. While 67 percent of survey respondents in Europe cite environmental or decarbonisation requirements as an important real estate concern, the topic ranks lower among Asian and North American respondents. Climate change does figure among the top three APAC social and political issues, but it is lower on the list for North American leaders, and higher for European leaders.

Yet, insurance is a big and expanding issue for the future of real estate, as *Emerging Trends Europe* summarises. Residential is viewed as the most vulnerable asset class globally, due to the size of the sector as well as the insurance costs involved for individual residents. The high costs of adaptation and mitigation measures are also an issue. All this impacts institutional investors committed to residential, but ultimately, no sector can afford to ignore the warning signals. "There are going to be new conversations around insurance in the wake of the LA fires, and that discussion is going to get litigated," says a global real estate investment head.

Furthermore, the *Financial Times* recently reported that institutional investors are increasingly paying attention to climate change. A group of 26 global financial institutions and pension funds have asked their asset managers to scrutinise investments over their exposure to climate risk more closely. This comes amid a shift by investors away from high-profile commitments towards quieter, results-focused action, and the integration of sustainability into core business functions.

Set against this is a palpable backlash against environmental, social and governance (ESG) lawmaking, particularly in some US states, and a reordering of capex priorities in other parts of the globe. Morningstar reported that towards the end of 2024, asset managers in the US and Europe wound down hundreds of ESG funds.

In 2024, the *Financial Times* reported that businesses are stepping back from their green ambitions, missing or dropping climate targets and toning down their public promises to do more on the environment.

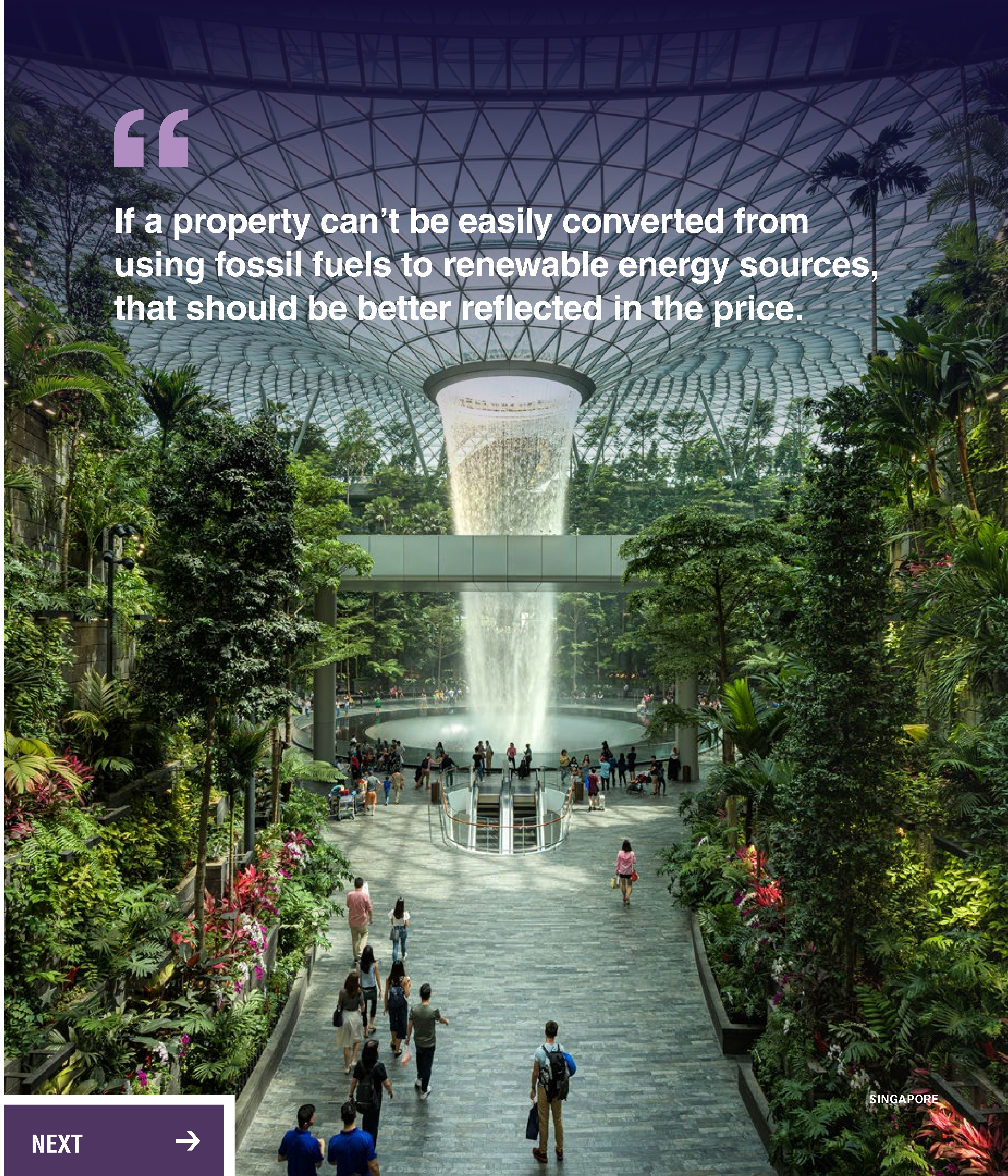
At the same time, the six largest US banks have quit the Net-Zero Banking Alliance. And BlackRock has quit Net Zero Asset Managers, a voluntary global group that describes itself as committed to "the goal of net zero greenhouse gas emissions by 2050 or sooner". "ESG has become a politically charged acronym that, unfortunately, draws an immediate connection to 'woke' liberalism. Yet many conservatives acknowledge climate change," says a US-based private equity investor.

One solution is to focus on the financial upside of paying attention to matters of energy and the environment. "The issue needs to be driven purely by economics in the long-term," suggests one investment banker. "The LA disaster is about economics, not politics – it's going to cost more to insure in high-risk areas and will be hard to invest where the governance structure doesn't work."

Politicians will inevitably still take a position on the topic. Yet Trump's decision to exit the Paris Agreement once more has not alarmed all market watchers. Last time it happened, it allowed Europe to step into a leadership position on best practice, which may develop further this time. "It makes sense for Europe to step up to the plate in terms of ESG – it has become the region's selling point," says an institutional investor.

For now, ESG proponents would do well to demonstrate the "return on investment", adds another real estate head. "It's going to make sense where it makes the operations of a building cheaper and limits its environmental risks", plus "some tenants just want to be in a greener building". Equally, "rents must reflect whether you're in a 'brown' or a 'green' building" – eventually – even if market rates are not fully pricing that in today.

A building's capacity for renovation is also cited as a key factor. As one investment head says: "If a property can't be easily converted from using fossil fuels to renewable energy sources, that should be better reflected in the price."



Trending topics

Back to the office?

The first quarter of 2025 brought some positive headlines for global office markets, as major employers around the world announced increasingly stringent return-to-office mandates.

In the US, Amazon, JP Morgan and the Federal Government were among those supporting full-time office returns, with Amazon CEO Andy Jassy saying that the company's three-day-a-week "experiment" instituted in 2023 had only reinforced the view that "the advantages of being together in the office are significant".

A survey by the UK's Chartered Institute of Personnel and Development found that 30 percent of large private sector employers are planning to increase the number of mandated days in the next 12 months, compared with 21 percent of SMEs and 17 percent of employers in the public sector.

In Asia Pacific hybrid working has not fully taken root. It has been largely business as usual although Savills reports that India, Australia and Thailand are among markets offering fully remote positions while Japan is allowing 62 percent of employees to work in a hybrid fashion.

As one investment chief points out, the workplace revolution has not significantly impacted rents or transactions. "Offices are still quite a compelling story in markets like Japan and South Korea, not least due to compact apartment sizes dissuading working from home," they say. APAC office deals reached $54.5 billion by the end of 2024, according to MSCI, a marginal increase on the previous year. South Korea, Japan and China all attracted office buyers, with the latter's appeal linked to declining asset prices.

Office deals in the Americas climbed by around 10 percent year-on-year in 2024, according to MSCI data. In the US, central business district offices posted the steepest annual price declines, falling 9.3 percent, while also accounting for the largest annual gain in fourth quarter investment at 125 percent. Yet MSCI notes that falling prices have not rejuvenated investment volumes to historical norms, with office deals in US markets remaining at 42 percent below the averages recorded in the five years before the pandemic. Still, there are signs of positive momentum with more transactions closing in the final quarter of the year than they have for the past three years.

Norges Bank Investment Management's deal in December for eight office properties in Boston, San Francisco, and Washington DC has been credited with aiding price discovery in the market.

BUSY OFFICE, EUROPE

ONTARIO, CANADA

European office markets saw mixed results in 2024. While total office investment fell by 10 percent year-on-year, offices remained the number one asset class by investment volume, despite accounting for just 22 percent of the market at €42.4 billion. By way of comparison, industrial and residential accounted for €40.4 billion and €39.8 billion of deals respectively in the MSCI figures.

Yet globally, the trend was upwards. Overall office deals rose 7 percent year-on-year, achieving total volumes of $156.2 billion, according to MSCI. The final quarter of the year saw a 15 percent year-on-year surge in office transactions.

Several interviewees for *Emerging Trends Global* believe that offices are worth studying again this year, amid returning investor interest for "legacy" sectors that also include retail. "The big question mark is the pace at which capital markets in offices will return, and what the industry will do with non-prime premises," says one investment leader.

"The office will reinvent itself going into the new cycle," says another investment head. "While the US scenario is a bit more extreme, markets on the whole are experiencing a trifurcation of the asset class." The same interviewee describes prime as experiencing "very good demand with an excellent occupier story", followed by a secondary class of "older offices which are still in good locations that can be converted to prime". The issue is "a third class of old stock in the wrong location".

They warn: "This is ideal for alternative use, but that means a lot of value destruction."

While conversions are being explored by many office landlords, this prospect of value destruction has created a write-down headache. Use classes from living to logistics do not offer the rental income the office once did. "The market will have to resolve this problem and reach a new equilibrium," says a European real estate investor.

Still, as office values decline in key markets, the winner may be the risk-taking buyer. In Asia Pacific, a 12-storey office building was recently acquired by China Pacific Insurance for $90 million with plans to redevelop it into a 240-unit senior housing asset. In Brisbane, offices are being converted into student accommodation, such as at 240 Margaret Street and 41 George Street.

Even so, many industry players suggest that beyond the headlines and the positive prime story, the problem of what to with secondary or commodity offices remains a significant cloud on the horizon. "The definition of investible office stock shrank materially in 2022," notes one European real estate head. "Although the market has stabilised in CBD areas, there is still a significant part of the market in remote locations which remains a very difficult asset to deal with."

Hospitality: here to stay

Hospitality has been on quite a trip since the end of COVID-19. A surge in the desire to travel, led by the middle classes and wealthy consumers globally, boosted average daily rates (ADR) by double figures in 2023 and 2024.

Hospitality real estate – with its inflation-hedging ability to reprice room rates daily and its operational side suiting a generation of more hands-on real estate investors – saw a commensurate surge in interest. Both credit and equity players are now increasingly exploring the space, while hotels are once again sought after anchors in mixed-use schemes.

In *Europe Emerging Trends Europe*, a tourism rebound has seen hotels move into the top 10 of asset types ranked by income, with respondents rating the rental prospects of the sector at a positive 3.87 out of 5 for 2025.

In terms of investment trends, there is evidence that hotel investors have clear preferences for budget or luxury properties, with some reticence about the middle ground over fears for its profitability. "That middle ground is still the difficult space, affected more by consumer affordability than the other two," a hospitality investment head says.

Meanwhile, the extended stay, branded residential and hostel categories are all tipped as growing segments responding to travel trends and even plugging into the hybrid work phenomenon. "The rise of bleisure – a blending of business and leisure – has seen average stays extended," explains another hospitality investor, noting that long-stay models also proved particularly resilient during the pandemic.

While tourism markets around the world reopened at different paces post-pandemic, with Asia Pacific the slowest to welcome visitors again, this region has since become one of hospitality's star attractions. Japan is leading the pack, where investor interest is underpinned by high-quality hotel assets including ryokans, traditional Japanese inns, budget business properties, and a growing subsector of resorts and five-star properties. Accordingly, the country recorded an all-time-record hotel deal volume of $7.7 billion in 2024, MSCI notes. The market does have some challenges, such as staff shortages impeding the growth of luxury hotel operations, and the fierce competition for stock, impacting values.

A growing band of specialist and non-specialist investors have also been eying the European hospitality market after two years of above-average returns. MSCI data show that for 2024, hotel investment volumes reached a post-pandemic peak of €20.9 billion, a 57 percent year-on-year rise, driven by major portfolio trades in the UK and fresh interest in Southern Europe.

RYOKAN, JAPAN


PARIS, FRANCE

UK transactions hit a six-year high, while Southern Europe posted an annual record of €5.2 billion.

While the US saw a surprising absence of portfolio deals, 2024 was the year of large single asset transactions, with seven trades over $300 million taking place in the second half of the year alone. One US investor is convinced that "the ongoing recovery of hospitality will contribute to improved overall deal volumes this year". Others believe that private equity interest and family office capital will continue to drive global volumes, with co-investment vehicles enabling core capital to access the sector in increasing amounts.

One dark cloud on the horizon is the issue of over-tourism, which has become a complex story of resource-guarding, housing shortages and regulation. Residents of idyllic destinations have become increasingly vocal about crowds, environmental damage, and pressure on local communities, affecting everything from carbon emissions to the availability of water.

Meanwhile global increases in the number of short-term, AirBnB-style rentals – in cities from Barcelona to San Francisco and Sydney – have put pressure on housing stock and rents, forcing local governments to take a position on their regulation, and eye the hospitality industry more critically. Yet one hospitality investor suggests that "the citizen protests that have taken place aren't really about tourism; they're about a lack of housing".

"

Almost 30 percent of apartments in central Paris are now let as short-term rentals; this is unsustainable.

Another notes that "almost 30 percent of apartments in central Paris are now let as short-term rentals; this is unsustainable". Local authority reaction has been piecemeal, with some cities introducing or increasing tourist taxes, while Italy's Venice has even introduced a day ticket for visitors that want to enter the city on weekends in high season.

Several cities are also cracking down on the professional hotel sector, with New York's Safe Hotels Act requiring existing hotels to obtain a new licence to operate. Amsterdam city hall, meanwhile, will stop issuing permits for new hotels altogether. While a hotel investor says that "barriers to entry are good for the industry", it seems likely that the sector should expect fresh scrutiny the more success it attains.

Figure 1-3 **Biggest movers for investment and development**

2 ↑ Up 1 place
Madrid

3 ↑ Up 11 places
Houston

7 ↑ Up 3 places
Bangkok

12 ↑ Up 2 places
Warsaw

9 ↑ Up 10 places
Salt Lake City

10 ↑ Up 9 places
Taipei

Figure 1-4 **Top cities for real estate investment in 2023**

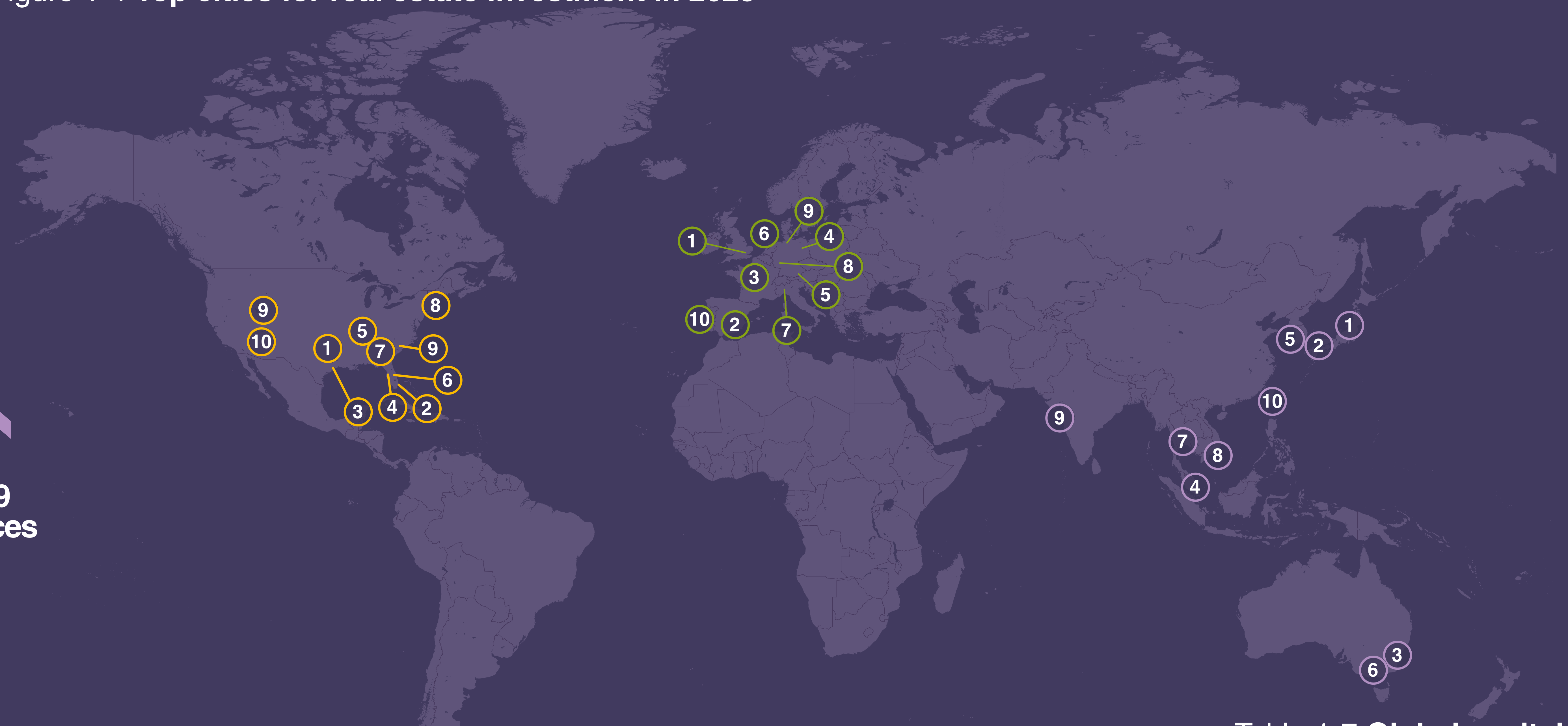


Figure 1-5 **Top 5 city rankings for investment and development prospects**

	Europe	USA	APAC
1.	London	Dallas	Tokyo
2.	Madrid	Miami	Osaka
3.	Paris	Houston	Sydney
4.	Berlin	Tampa/St. Petersburg	Singapore
5.	Munich	Nashville	Seoul

Figure 1-6 **Transaction volumes in 2024**

Americas

	(US$ bn)	YOY(%)
United States	350.4	14%
Canada	23.5	-19%
Brazil	2.4	6%
Mexico	1.0	-66%
Americas	360.1	11%

EMEA

	(US$ bn)	YOY(%)
United Kingdom	62.3	26%
Germany	32.9	-2%
France	21.5	-29%
Spain	12.0	-5%
Sweden	11.8	36%
EMEA	196.5	12%

Asia Pacific

	(US$ bn)	YOY(%)
China	418.3	-25%
Japan	55.5	12%
South Korea	32.9	48%
Australia	28.7	24%
Hong Kong, SAR, China	15.7	-1%
Asia Pacific	173.5	13%

Table 1-7 **Global capital trends by property type in 2024**

	Volume (US$ bn)	YOY (%)
Apartment	194.5	20%
Industrial	190.7	16%
Office	156.2	7%
Retail	108.5	-3%
Hotel	57.3	14%
Senior housing and care	17.4	-4%
Income Properties	724.2	11%
Dev sites	449.9	-23%
Grand Total	1,174	-5%

Source: *MSCI; Emerging Trends in Real Estate Asia Pacific, Europe, United States and Canada 2025*

Regional snapshots

North America

Talk of a new cycle beginning in North American real estate seems to have been vindicated by MSCI showing total transaction volumes rising by 11.4 percent in 2024, following a year of significant contraction.

Momentum gathered pace in the fourth quarter with heighted deal-making, although examples of property market distress rose again albeit at a slowing rate.

MSCI's data also show that US commercial property prices stabilised in 2024, ending the year down just 0.7 percent. Retail registered the biggest annual improvement in prices, ahead of industrial, where price growth has flattened. MSCI reports that while office and apartment prices continued to fall in 2024, the declines were less severe than in 2023.

Industry leaders interviewed for *Emerging Trends Global* surmise that the Federal Reserve rate cut in September, coupled with the presidential election outcome, helped drive the surge in Q4 2024 dealmaking. Despite the revision of some market expectations about the future cutting cycle in the wake of the 10-

> “Sentiment had shifted so strongly towards interest rate cuts, but that was a false promise at the end of the day. Stable rates mean stable values, so we expect that volumes will still increase substantially.

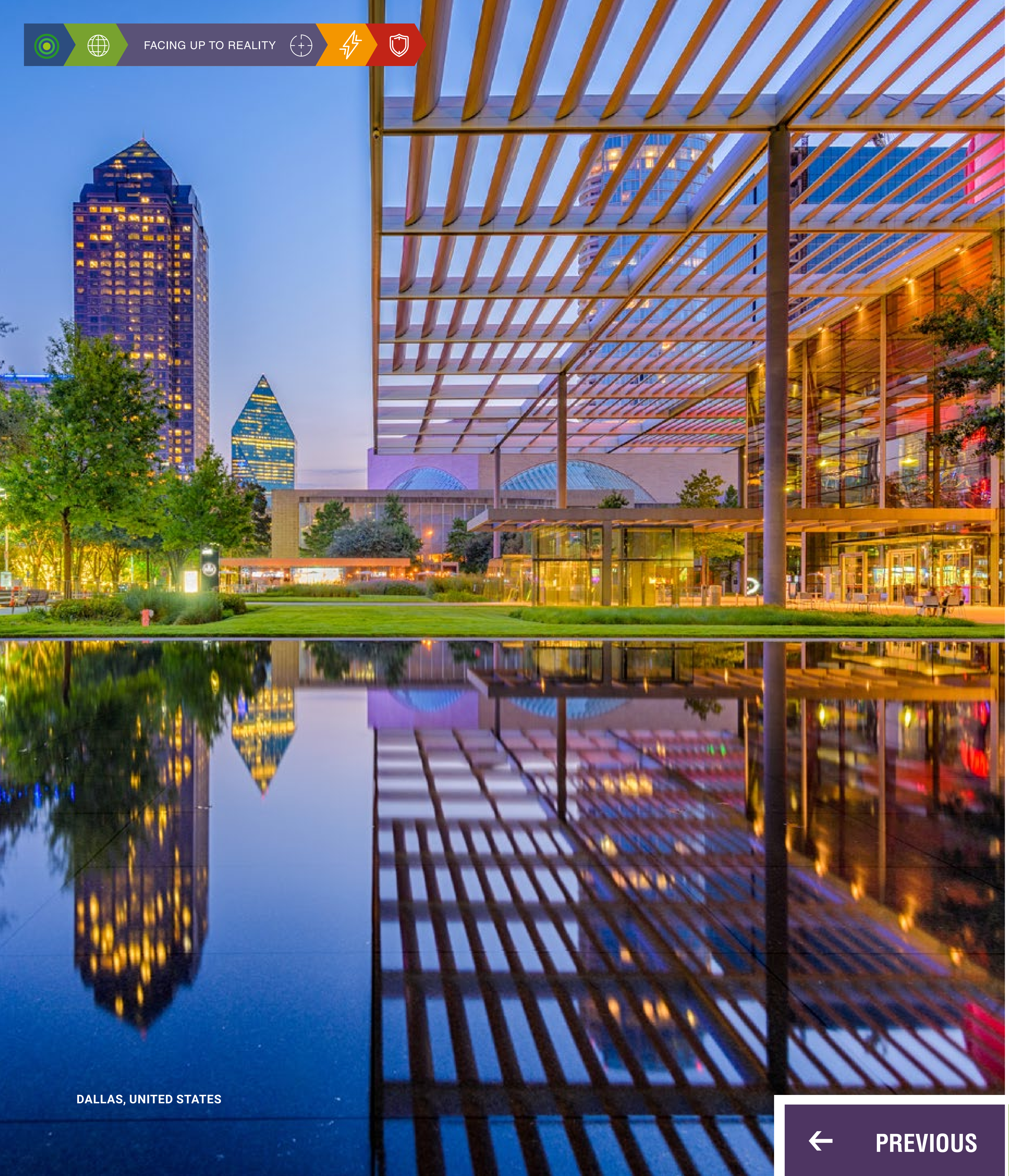
year bond yield spike and Trump-era policies such as tariffs, a number of sector leaders remain optimistic about the trading environment. Says an investment banking chief: “Sentiment had shifted so strongly towards interest rate cuts, but that was a false promise at the end of the day. Stable rates mean stable values, so we expect that volumes will still increase substantially.” They cite evidence of a “material recovery in retail, hospitality, offices”, creating “pockets where we can trade”.

Figure 1-8 **Key issues causing concern in North America, 2025**

	Overall % concerned		
	2025	2024	2023
Interest rates and cost of capital	86%	94%	69%
Housing costs and availability	84%	84%	74%
Construction labour costs	83%	89%	70%
Construction labour availability	79%	86%	71%
Capital availability	79%	86%	83%
Jobs and income growth	77%	82%	79%
Operating costs	77%	77%	84%
Availability of qualified labour	77%	81%	85%
State and local regulations	77%	73%	89%
Land costs	76%	79%	85%
Inflation	72%	78%	77%
Political extremism	72%	68%	69%
NIMBYism	72%	69%	69%
Infrastructure/transportation	72%	67%	68%
Property taxes	70%	72%	68%

Source: *Emerging Trends in Real Estate United States and Canada 2025 survey*

Note: *Chart shows the key issues causing highest concern from survey based on respondents' score of importance on a 5-point scale (5 being 'Great Importance'). All issues (economic/financial, social/political, real estate/development) have been ranked highest to lowest by respondents' rating of importance and normalised into percentage terms.*



While "the 10-year [bond yield] is a bellwether against which pricing risk is measured", one interviewee says, "market fears may be subsiding". They explain: "It's not clear whether tariffs will actually be implemented, or if they are merely a negotiating tool." Another interviewee adds: "The recapitalising of assets across all sectors is rising substantially; we've seen 25 percent more interest in transactions in this current capital market environment. There's a lot of capital out there, and the banks are back substantially, as they see evidence of a new, less restrictive regulatory regime."

Other interviewees, however, believe that sticky inflation could cut into competitiveness. "We thought that inflation was on a downward trajectory going into 2025. I no longer feel comfortable with that assessment," says a US-based CIO. Another interviewee outlines a bleaker possibility: "Death in the real estate industry is stagflation. You can't ignore the scenario where interest rates stay elevated, growth is not exciting and inflation stays high."

Others see business prospects continuing to improve through the "creation of value on the ground, not capital stack engineering". While the higher-for-longer cost of finance environment has its downsides, this investment executive suggests that "investors have their eyes wide open to how leverage has evolved" and identifies a lending environment "more about the sponsor's vision", backed by "increasing volumes of capital-raising that will need to get deployed".

"
We thought that inflation was on a downward trajectory going into 2025. I no longer feel comfortable with that assessment.

In *Emerging Trends United States and Canada,* doing business in a frothy, expensive environment is an overriding concern. The main business issues of "great importance" are seen as construction labour costs, construction labour availability and operating costs, with land costs in fifth place. Housing tops the list of social and political concerns. Yet the more optimistic real estate leaders canvassed for *Emerging Trends Global* wonder if these factors could collide to boost real estate's business case this year.

Last year's pockets of excessive multifamily development, particularly in the fast-growing Sunbelt markets, put downward pressure on rents, which displayed the greatest declines seen since the pandemic during the first two quarters of 2024. The expensive construction environment should cap supply rates this year, with the markets absorbing that excess, suggests a real estate investment chief. "That supply working its way through the Sunbelt will balance out the sector's prospects," they note.

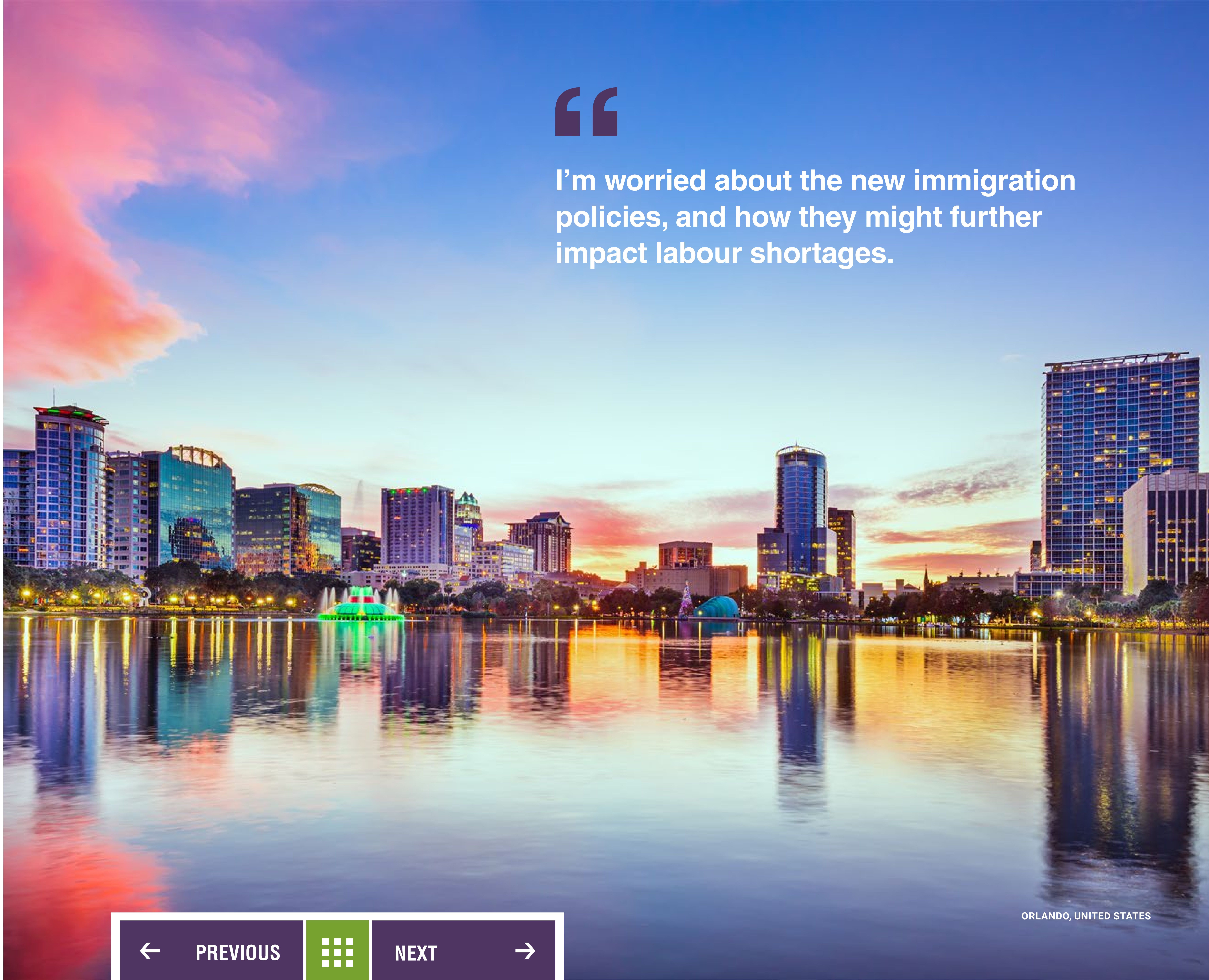
The pendulum for development could swing back towards “coastal markets … where the cities continue to have a lot of well-educated talent,” they say, while adding that “there will continue to be flows into the Sunbelt”.

Even if firms wanted to develop, another interviewee remarks, construction worker availability may have been dealt another blow. “I’m worried about the new immigration policies, and how they might further impact labour shortages,” they say.

Another big development story surrounds data centres, although US-based interviewees note the challenge around heavy capital requirements and the search for sites with sufficient power – themes that are explored in Chapter 2.

One investor predicts further interest in an alternative investment track less burdened by such capital requirements. “Not offices and retail, which require a lot of capex relative to net operating income. But other spaces, where there is more value in the land than the structure – manufactured housing, industrial outdoor storage, even warehousing to some extent – the revenues and cash flow are good.”

The gradual repricing of vast swathes of offices is piquing interest, perhaps imitating retail’s value-led rebound story. “There is a very strong occupier story in a few key markets, and some rental growth in there,” remarks a global investment chief. “Investors see opportunity in older assets in good locations which have the potential to be turned into tier 1 offices.”



“I’m worried about the new immigration policies, and how they might further impact labour shortages.

ORLANDO, UNITED STATES

Europe

While political and geopolitical factors remain significant concerns for the European real estate industry, overall sentiment about the market's prospects is becoming more positive.

Political instability and the escalation of wars registered as the top two issues causing concern for the industry in 2025, according to *Emerging Trends Europe*. Now, as European governments seek to find common ground over the Ukraine conflict while the US and Russia engage in bilateral talks, geopolitical tensions could not be higher.

Despite this, for many real estate investors, the issue of sluggish growth remains even more pertinent to the investment landscape. Identified as the main business concern in the regional report, economic growth still feels out of reach for a number of industry players interviewed for this edition. "You will have to be selective when it comes to asset classes and what you are buying," says one investment head. "Not everything will see a value increase, although we remain positive with a sense of a new cycle beginning."

But with both the European Central Bank (ECB) and the Bank of England (BoE) continuing their rate-cutting programmes in the first quarter of 2025, many suggest that the institutions finally have inflation tamed.

"You will have to be selective when it comes to asset classes and what you are buying.

As one investor suggests, there is a reassuring degree of predictability about it. "It is what's supposed to happen – there is an inflation spike, central banks come in, rates go down, and economies slow." While this would normally depress prospects for rental growth, the same investor notes that it should still arrive to some degree "due to lack of supply", or even better, "from strong fundamentals driving rents upwards in some markets".

Transaction data also indicate that the region is largely on the right path. MSCI notes that deal volumes increased by 11.6 percent in comparison with 2023, while the fourth quarter of the year was the busiest yet for the market since late 2022. However, this headline belies the patchy nature of recovery. While the UK displayed clear year-on-year improvements, and Southern Europe hit a record high of €5.2 billion, dealmaking in Germany and France was on a par with 2011 and 2012 respectively.

MSCI says that as the UK market entered a slump the fastest in 2022, it is now the first to climb out of the hole, with prices also suggesting that competitive tensions are returning.

Figure 1-9 **Key issues causing concern in Europe, 2025**

Overall % concerned	2025	2024	2023
Political instability (international)	85%	74%	79%
Further escalation of wars in Europe/Middle East	83%	-	-
European economic growth	77%	76%	88%
Increased regulation (national/international)	74%	63%	51%
Political instability (Europe)	72%	55%	68%
Environmental issues (e.g. air quality/climate change)	71%	73%	76%
Construction costs and resource availability	70%	79%	92%
Capex requirements	69%	67%	53%
Environmental sustainability/decarbonisation	67%	67%	55%
Global economic growth	62%	66%	81%
Availability and/or cost of (re)finance	61%	65%	53%
Interest rate movements	60%	86%	89%
Social equity/inequality	60%	62%	60%
Market liquidity issues	60%	65%	-
Cybersecurity	59%	55%	48%
Inflation	56%	83%	91%

Source: *Emerging Trends in Real Estate Europe 2025 survey*

Note: *Chart shows the issues causing highest concern from the survey based on the sum of respondents indicating to be 'Very concerned' or 'Somewhat concerned'.*

MUNICH, GERMANY

Yet the French and German outlook is unlikely to improve simply by waiting it out – both are riven by political uncertainty and sluggish growth. Germany's federal election has returned a conservative chancellor, but the far-right AfD has achieved a comfortable second following its campaign for "mass deportation of migrants". France, which swapped prime minster three times last year, is not placed much better, also thanks to a huge budget deficit. Three decades ago, former French president Jacques Chirac declared: "When France and Germany advance, all Europe advances. When they don't, it grinds to a halt". Some will look to history repeating itself.

ECB's January rate cut, however, attracted its share of plaudits. CEO of the European Public Real Estate Association (EPRA) described it as "good news for Europe's listed property sector". As EPRA's CEO said, the wall of imminent refinancings might not do as much damage as feared, adding: "While 43 percent of the sector's outstanding debt is due to mature between now and the end of 2027, our research shows this will result in a moderate increase in the cost of debt for companies refinancing expiring loans. This is broadly bearable, given their reasonable loan-to-value levels."

In the UK, the Labour government might seem to have squandered its post-election surge of goodwill, with the Treasury in particular coming under fire in the fourth quarter of the year due to a tough Budget. Despite a spike in gilt yields in January rocking the government's own borrowing rules, Goldman Sachs research suggests that the BoE will be able to keep to its rate-cutting plan and that yields on treasury bonds will also move in the right direction. Its strategists project 100 basis points of cuts to rates in 2025, compared with the 41 basis points of cuts that have been priced into the bond market. Ten-year gilt yields, meanwhile, are expected to fall to about 4 percent by the end of 2025 from the 4.9 percent high of January 13.

> Not everything will see a value increase, although we remain positive with a sense of a new cycle beginning.

The UK government has, in addition, made real estate and infrastructure a key part of its growth plans, backing a third runway for Heathrow airport, designating data centres as critical national infrastructure and announcing changes to planning laws. The latter will reduce environmental protections and alter public consultation and judicial review processes to push through more development faster. The rapid need to build homes has been placed in the context of a brewing migration crisis, following an Office for National Statistics prediction that the UK population will rise by five million to 72.5 million by 2032.

In terms of this year's dealmaking, greater alignment on pricing should support the market overall, notes one European investment chief, while inflation "shouldn't be" an issue. "Europe should return to growth thanks to the direction of interest rates: I don't expect contagion from the US in terms of inflation," they say. "Currency costs are favourable for US investors targeting Europe too." While geopolitical tremors keep some degree of global inflation alive, the investment chief notes that "these things are very difficult to forecast or take into account" and advises: "Just make sure you are sufficiently diversified at a portfolio level geographically, so your portfolio is robust enough to stand tensions." Another concludes: "Simply due to the consensus that it will not be a very inflationary environment, investors should come back to the market more and more."

Sector preferences could well follow the deal flows that emerged last year. MSCI data show that while offices were still the most purchased sector in 2024 at 22 percent of all trades, the total volume spent on corporate premises fell to its lowest level since 2009, and fewer European offices changed hands in the calendar year than MSCI has ever recorded. In contrast, volumes surpassed 2023 levels in the industrial, living and hospitality sectors, underlining the long-term shift towards beds and sheds. "Residential is a very significant sector, and supply is too low at a time when mortgage financing is difficult for individuals," a European CEO notes.

"

Residential is a very significant sector, and supply is too low at a time when mortgage financing is difficult for individuals.

UK industrial was a clear winner last year among regions and sectors, leading deal volumes and achieving price increases of 10 percent year-on-year. Market watchers see the sector as aiding wider European recovery. "Vacancy rates are minimal in European logistics, and there is no new supply coming to market," notes a French real estate investment head. "It should continue to be a positive story from a rental perspective."

MILAN, ITALY

Asia Pacific

Asia Pacific's diverse and often countercyclical qualities have long drawn real estate investment specialists looking to expand their options, especially when Western economies are in late-cycle malaise.

Industry leaders say the region's appeal persists on a basis of diversification, population growth and other demographic metrics, as well as divergent monetary policy in the case of Japan. However, as Europe and North America look to kick-start a new capital markets cycle with volumes set to improve still further in both regions, Asia Pacific might need a few more reasons to attract investors.

Interviewees identify a range of fundamentals that fit the bill, but regional issues include something of a liquidity crisis in key markets and China's still-sluggish path to recovery.

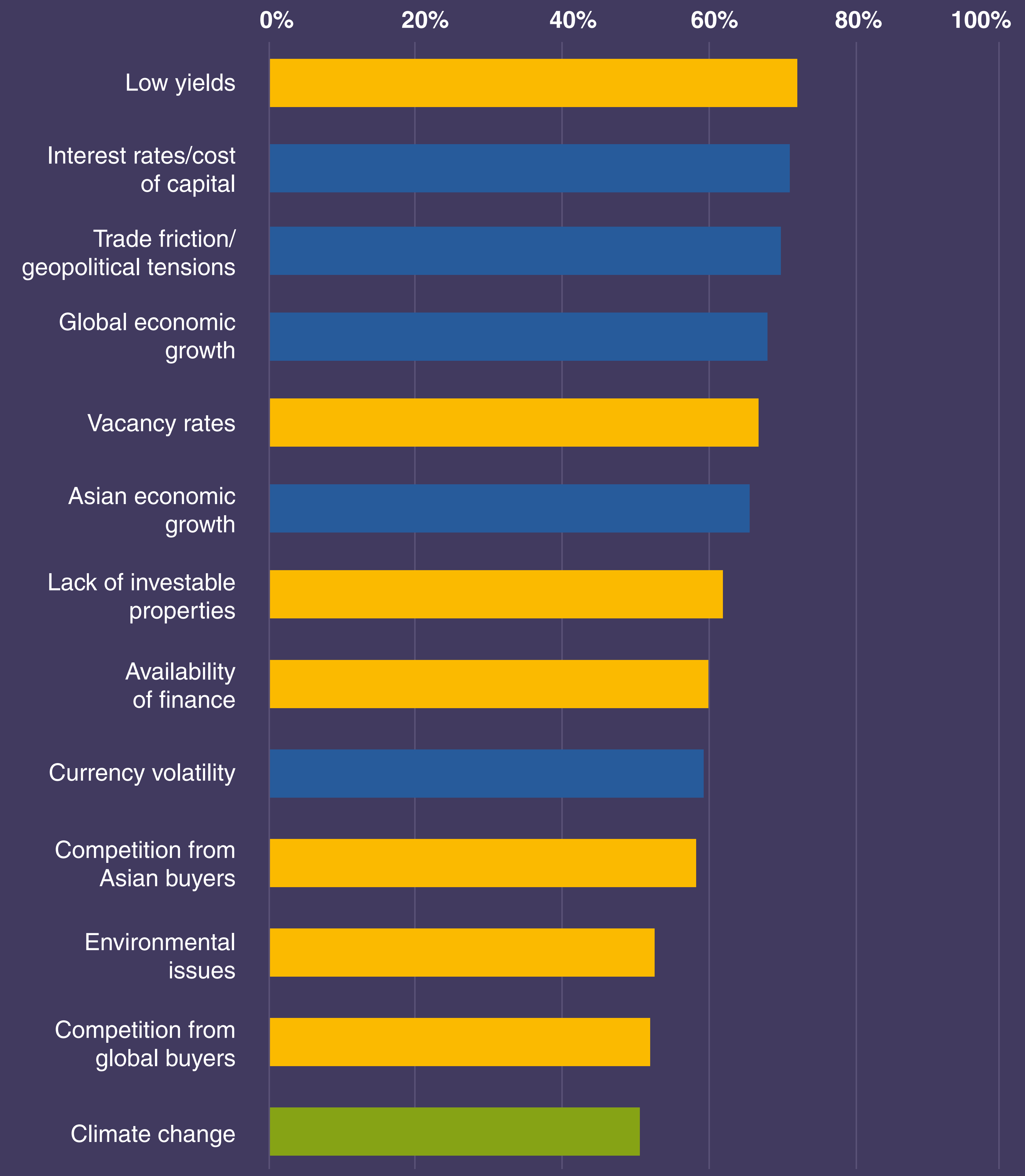
"Asia stands out for its population growth versus other regions, with urbanisation rates still very high in various countries," notes a global investment chief. "The demand for new-build real estate is much higher, and arguably, the energy transition task is even bigger, due to the population size and improvements that need to be made. From that perspective, you would expect much more capital to be flowing into Asian markets."

While investment volumes increased in 2024 by a cheering 13 percent to $172.8 billion, with a buoyant $55.8 billion of deals taking place in the fourth quarter alone, the figures were boosted by an uncommonly large deal. September saw Blackstone and the Canada Pension Plan Investment Board (CPP) acquire data centre firm AirTrunk from Macquarie Asset Management and the Public Sector Pension Investment Board for more than AUD$24 billion ($16 billion). This was the largest commercial real estate deal ever recorded in Asia Pacific and the largest deal globally for 2024. Year-on-year regional investments in data centres increased by 733 percent.

Cross-border deal volumes accordingly rose by 30 percent, while the share of cross border capital surged to a 5-year hight of 30 percent.

"The demand for new-build real estate is much higher, and arguably, the energy transition task is even bigger, due to the population size and improvements that need to be made. From that perspective, you would expect much more capital to be flowing into Asian markets.

Figure 1-10 **Key issues causing concern in Asia Pacific, 2025**



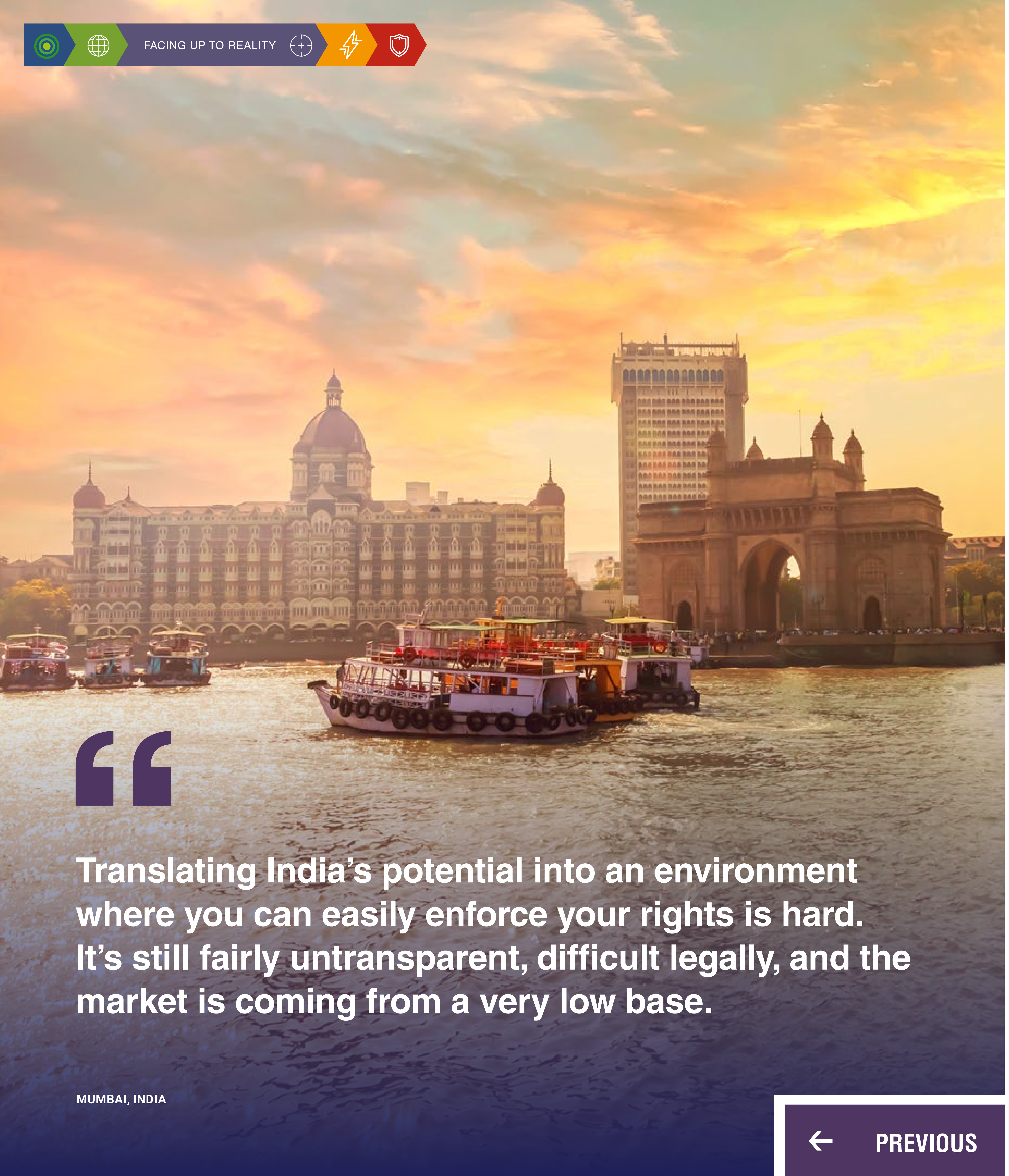
Overall % concerned

	2025	2024	2023
Low yields	72%	71%	67%
Interest rates/cost of capital	71%	79%	78%
Trade friction/geopolitical tensions	70%	63%	73%
Global economic growth	68%	69%	69%
Vacancy rates	67%	60%	63%
Asian economic growth	66%	67%	67%
Lack of investable properties	62%	60%	63%
Availability of finance	60%	70%	70%
Currency volatility	59%	61%	68%
Competition from Asian buyers	58%	53%	58%
Environmental issues	54%	53%	56%
Competition from global buyers	53%	47%	56%
Climate change	52%	52%	53%

Economic/financial issues Real Estate/development issues Social/political issues

Source: *Emerging Trends in Real Estate Asia Pacific 2025 survey*

Note: *Chart shows the 'Most Problematic Issues for Real Estate Investors' from the survey, based on respondents' score of how 'problematic' the issue is on a 9-point scale (9 being 'Most problematic'). The issues have been categorised by key themes (economic/financial, social/political, real estate/development) and normalised into percentage terms.*



> “Translating India’s potential into an environment where you can easily enforce your rights is hard. It’s still fairly untransparent, difficult legally, and the market is coming from a very low base.

MUMBAI, INDIA

An APAC-based institutional investor cites the draw of “such a mix of countries”, with “some of the oldest populations in the world in Japan and China, and the youngest in India”.

However, they note that “emerging markets have generally disappointed, and that doesn’t help going forward. As a consequence, many investors are looking backward – they will repeat what they did over the past decade.”

India, which stands out for its population growth and “lots of potential macroeconomically”, nonetheless has liquidity issues and its fair share of sceptics, they add. “Translating India’s potential into an environment where you can easily enforce your rights is hard. It’s still fairly untransparent, difficult legally, and the market is coming from a very low base. Pension funds want a good return but with a decent amount of risk, so they will only make it a very small part of their portfolios.”

While China remains in a multi-year downtrend, Australia is seen as on the right track for growth, although its potential is checked by its relatively small population. Singapore appeals but is another micro market; just another reason why its own highly active funds, including sovereign wealth investor GIC, tend to gaze outwards.

Competition remains high in Japan for its most attractive assets. “There’s competition for everything, and the pricing is tighter and more transparent [than it used to be],” complains a Tokyo-based fund manager in *Emerging Trends Asia Pacific.*

Yet the country has been benefitting from a strong hospitality story, underlined by rising deal flows and merger activity.

In January, the Bank of Japan raised interest rates to their highest point since the global financial crisis, lifting the short-term policy rate from 0.25 percent to 0.5 percent. At the same time, it revised its inflation forecasts upwards. “This might start impacting prices in Japan, but we still expect there to be quite a lot of deal activity,” says one regional investment chief.

Indeed, another potential issue is the effect of global inflationary headwinds – mostly from the US – flanked by political and geopolitical tremors. China is one of a number of nations which has been threatened by US tariffs, while South Korea’s brief decline into martial law late last year may have put off non-specialist investors. “South Korea does have that risk premium compared with other Asian markets; it has been a fairly volatile political situation, and it’s not the first time we have seen scandals – it does go with the territory,” says an APAC investment chief. At the same time, they say “we still feel very confident about the South Korean economy, which is buoyant, high consumption and digitally driven.”

For another APAC-based investment head, geopolitics do not matter. “At the end of the day, geopolitical factors are not actually big issues for real estate. The markets will continue, and the few spots in the world that are successful and stay neutral, such as Singapore, can flourish. They are able to do business with China, Russia, the US and the Gulf States.”

“Transaction volumes have been rather sluggish and I don’t anticipate that they will pick up anytime soon.

In *Emerging Trends in Real Estate Asia Pacific*, survey respondents believe that while regional repricing trends should accelerate this year, values are not expected to decline to the same extent as in some Western markets, given generally higher local occupancy rates and lower use of non-recourse lending, contributing further to the slow-growth outlook.

“Transaction volumes have been rather sluggish and I don’t anticipate that they will pick up anytime soon,” confirms an APAC-based investor interviewed for *Emerging Trends Global*. “However, the next few years could become very good vintage years as a consequence – that’s typically those years when investors can be more selective in the deals they execute.” They describe “Infrastructure as a bright spot, and anything energy related or connected to climate change … which is attracting capital”. Overall, “investors are increasing allocations to somewhat newer sectors”. Other sectors on the radar are logistics in Japan and Korea and retail in Australia.

Another investment chief describes “an almost infinite demand” for housing, ideally affordable, adding: “Logistics is still a very important sector, but it will be built out at the cost of other asset classes.”

HO CHI MINH CITY, VIETNAM

CHAPTER 2

NEW HORIZONS

UNLOCKING THE GOLDEN OPPORTUNITY IN DIGITAL AND NEW ENERGY INFRASTRUCTURE

"Everyone's chasing digital infrastructure. It has a better return on cost than most commercial real estate, but only large players can play in it – the size and scale is mind-boggling."

US investment banker

MELBOURNE, AUSTRALIA

In a high-cost, low-growth economy, many real estate investors have turned their attention to higher-yielding opportunities and those sectors such as digital and new energy infrastructure that are benefiting from the strongest tailwinds.

All three of the regional *Emerging Trends in Real Estate* reports pinpoint significant growth opportunities in data centres and energy infrastructure, driven by the energy transition, digitisation, the exponential growth of artificial intelligence (AI) and power requirements.

Many of the property and infrastructure leaders interviewed for this Global edition of *Emerging Trends* also underline the ongoing value of diversification, which is further driving the shift towards alternative sectoral allocation strategies.

At a time when geopolitical and economic uncertainty is casting a shadow over real estate, our research for this Global edition has sought to establish why, as one interviewee puts it: "There's most interest in those assets which lie at the intersection of real estate and infrastructure."

Figure 2-1 **Digital and new energy infrastructure growth drivers and barriers**

Megatrends	
urbanisation, digitalisation, climate change	
Growth Drivers	**Barriers**
Increasing digitalisation of all segments of the economy, business and society	Intense use of environmental resources: energy and water
Transition to net zero and rising concerns over energy security	Regulation / Public (sector) perception
Net growth in global demand for energy (not only because of digitalisation), which requires even more non-fossil fuel energy sources	Design often not appealing
	Large amount of capital required for single investments
Increasing demand for data, processing power and storage (e.g. AI, renewables, nuclear, battery energy storage systems)	Lack of knowledge
	Lack of suitable product
Continued focus on critical infrastructure, data and energy security, sovereignty and redundancy	Skill shortage in the workforce

DEFINITION

Digital infrastructure

Digital infrastructure comprises the physical facilities and software-based platforms that enable digital services and communication.

It encompasses the equipment that stores and processes data, the facilities that house that equipment, as well as the networks that interconnect them. Data centres, fibre optic networks, telecommunications towers, small cells, and distributed antenna system are the key components of digital infrastructure. These assets support cloud computing, artificial intelligence, e-commerce and smart cities, serving as the backbone of the digital economy. As businesses transition to cloud-based operations and demand for data processing escalates, digital infrastructure has become a critical real estate sector with significant investment potential.

DEFINITION

New energy infrastructure

New energy infrastructure encompasses the essential systems that generate, transmit, distribute and store energy to meet societal demands.

It includes clean technologies, including renewables (e.g. wind, solar, hydro, geothermal power), nuclear and hydrogen power, battery storage, EV charging facilities, smart grids, low-emissions fuels, efficiency improvements and heat pumps. The sector is undergoing rapid transformation due to the global push for decarbonisation, sustainability, and energy security, making energy infrastructure a crucial consideration for long-term real estate investment and development.

Figure 2-2 **Overall sector prospects for 2025**

Rank	United States and Canada	Europe	Asia Pacific
1	Data centres	Data centres	Data centres
2	Single-family housing	New energy infrastructure	Health/wellness
3	Senior housing	Student housing	Industrial/ distribution
4	Multi-family housing	Logistics facilities	Senior housing
5	Neighborhood and community shopping centers	Private rented residential	Multifamily/rented residential
6	Manufacturing	Self-storage facilities	Student housing
7	Student housing	Retirement/ assisted living	Hotels
8	Warehouse	Co-living	Life sciences
9	Flex	Education-related real estate	Affordable housing
10	Fulfillment	Serviced apartments	Self-storage

Source: *Emerging Trends in Real Estate Asia Pacific, Europe, United States and Canada 2025 surveys*

Data centres rise up the rankings

As long ago as 2020, Patrizia identified an opportunity at its Court Lane Industrial Estate in Iver, Buckinghamshire, to develop a mega data centre.

But it took more than four years and a change of UK government to get the greenlight for the construction of the 700,000-sq ft, 140 MW facility. The German investment manager has since sold the site to investor Affinius Capital, which will join forces with a specialist data centre developer to take the project through to completion.

In many respects, Patrizia's experience in the UK encapsulates the lengthy challenge but ultimately the financial reward ahead of real estate investors looking to diversify or exploit outdated industrial assets. As one logistics developer interviewed for *Emerging Trends Europe*, says: "Data centres are an interesting exit for underperforming warehouses."

In fact, data centres score highest for investment and development prospects in 2025 across all three regional editions of *Emerging Trends*. They started their rise up the sector rankings several years ago, underscored by rapid technological advances, and if anything, momentum is building.

According to Green Street, global demand reached unprecedented levels last year, asking rents grew at a double-digit pace, capital raising reached new thresholds, and hyper-scale tenant capex budgets hit record levels. In its latest research, MSCI marks out 2024 as a stand-out year, with acquisitions of existing data centres through single property and portfolio deals increasing by more than 60 percent in the US.

Amazon's acquisition of a nuclear-powered data centre in Pennsylvania for $650 million is seen as a potential game-changer, in light of the sector's sizeable need for power. Microsoft, meanwhile, has pledged to invest $80 billion to build new AI-enabled data centres, over half of which will be in the US.

Against such impressive capital commitments, *Emerging Trends US and Canada* suggests that with their infrastructure and net-lease combination, data centres are on a path to be one of the largest property types in the country over the next 10 years. Demand is being fuelled by cloud storage, mobile data traffic, overall internet traffic and AI. To put that growth in context, Northern Virginia is already the leading global data centre market largely because it was one of the earliest locations of the internet ecosystem, with proximity to government and military-focused users, deep fibre optic connectivity, availability of land and a low risk of natural disasters. Today, approximately 70 percent of world internet traffic passes through data centres in Northern Virginia.

In Asia Pacific, MSCI says investment in the sector reached a record level last year on the back of Blackstone and CPP Investments acquiring data centre firm AirTrunk from Macquarie Asset Management and PSP Investments.

Completed in September, the transaction implied an enterprise value of more than AUD$24 billion ($16 billion) and beat the largest previous deal in the sector, namely KKR and GIP's $15 billion buyout of CyrusOne in 2021.

Globally, the data centre market is expected to grow by 15 percent a year until 2027, according to research by JLL. The interviews for *Emerging Trends Global* indicate that over the next 10 years a third of the growth will come from the aggregation of cloud computing capacity, a third from data sovereignty, particularly in Europe, and the final third from AI.

New energy infrastructure

An area also seeing increased attention and conviction among many global players, albeit not as much as data centres, is new energy infrastructure.

Total energy investment worldwide exceeded $3 trillion in 2024, according to the International Energy Agency (IEA). Around two-thirds was allocated to clean technologies, including renewables, electric vehicles, nuclear power, grids, storage, low-emissions fuels, efficiency improvements and heat pumps.

Key drivers of this investment are linked to broader trends around energy transition – countries shifting from fossil fuels to low carbon sources – and rising concern over energy security.

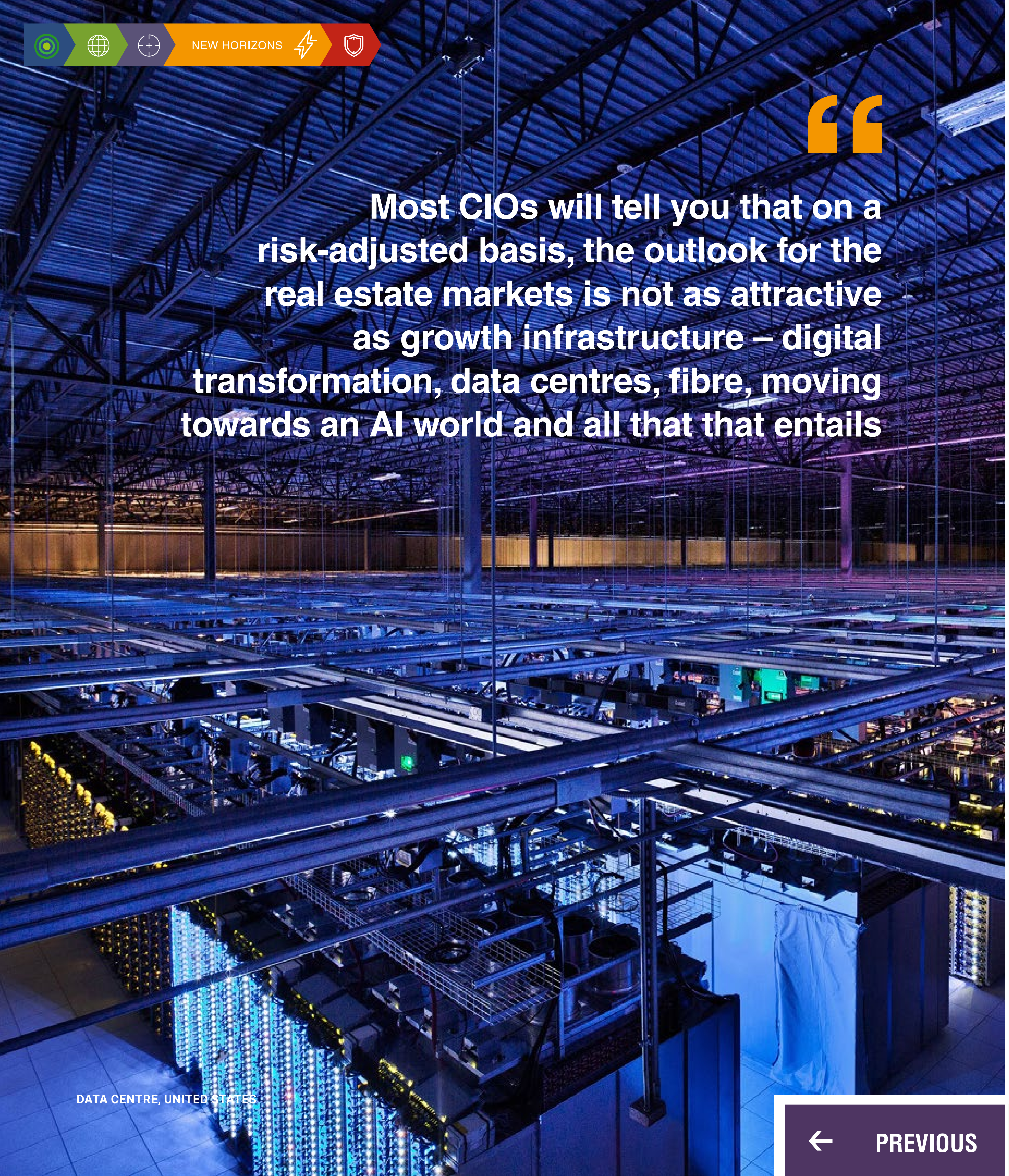
The war in Ukraine and increased energy consumption have pushed up energy prices and highlighted the problem of energy dependency. At the same time, around 145 countries have announced or are considering net zero targets, covering close to 90 per cent of global emissions, according to the Climate Ambition Alliance. This has resulted in demand for more, locally produced clean energy. Like real estate, renewable energy, such as wind turbines and solar panels, provide stable, indexed income.

Energy security, concerned with ensuring an uninterrupted and reliable supply of energy to meet societal needs, has become a critical priority as industry professionals and governments seek to mitigate risks from geopolitical tensions, security threats to critical energy transportation corridors, trade disputes, supply chain disruptions and subsequent price volatility.

Governments and industries are responding by scaling investments in domestic energy infrastructure to reduce reliance on volatile fossil fuel markets and achieve energy independence.

Global investment in low-carbon energy transition reached $2.1 trillion in 2024 alone, including $728 billion in renewable energy and $390 billion in power grids and their digitalisation, according to BloombergNEF's 2025 report.

WIND FARM, UNITED STATES



DATA CENTRE, UNITED STATES

According to MSCI, more than €1 billion was invested in energy production assets in 2024, including Norges Bank’s acquisition of a 37 percent stake in the Race Bank Wind Farm (situated in the North Sea) from Macquarie.

In January 2025, Aviva Investors acquired a majority stake in Connected Infrastructure Capital, a German-based developer of renewable energies, for €40 million. In the same month it invested €30 million in Innovo Renewables, an Italian-based renewable energies developer and manager.

Such is the scale of investment required for deals in this sector that while energy infrastructure is attractive from an investment perspective, it is more viable for large institutional players with significant capital to deploy.

The intersection of structural megatrends such as digitalisation, decarbonisation and deglobalisation is accelerating the transformation of global energy systems.

As AI and digital technologies drive exponential growth in energy consumption and the imperative for energy security increases with rising geopolitical instability, investors identify pivotal investment opportunities in renewables, grid resilience and localised power generation.

Reshaping the investment landscape

Some leading institutional players have responded to the convergence of real estate and infrastructure by merging their infrastructure and real estate businesses into a single “real assets” category.

Over the past two years, AustralianSuper, a major superannuation fund, and Norges Bank Investment Management have each integrated their respective teams to reflect the overlap between the sectors. Infrastructure investor IFM Investors has merged with leading Australian property fund manager ISPT creating a $150bn real asset management platform. Blue Owl, an asset manager, has acquired IPI Partners, a digital infrastructure fund manager for about $1 billion to bolster its presence in the data centre market.

Most recently KKR has merged its infrastructure and real estate businesses, taking the combined assets under management to $157 billion.

Last year APG, which manages the assets of ABP, the Netherlands' largest pension fund, outlined a new strategy targeting energy transition investments. The new mandate increased its allocation to infrastructure from 4 percent to 7 percent, and focused on five themes: decarbonised mobility and transport, clean and connected renewable power, equality and quality of life, a circular economy and digital infrastructure with enhanced connectivity.

Though other institutions still prefer to keep things separate, there is nonetheless a recognition in this latest round of corporate reshuffling that the capital requirements for future data centres are likely to be immense.

Moody's estimates that global data centre capacity will double over the next five years. Considering the addition of 15 MW of new capacity at a rate of $12.5 million per MW, the cost of this growth will amount to $188 billion, while their market value is estimated at approximately $281 billion, both in present-day dollars. Corporate strategies may differ but the three regional Emerging Trends reports reflect a global industry that wants to be deeply involved in the essential infrastructure of the digital economy and the energy infrastructure to support the transition to a net zero economy. It is not altruistic: the prospects for income growth look more compelling than mainstream real estate.

Identifying the opportunities is increasingly front of mind for real estate players. "Most CIOs will tell you that on a risk-adjusted basis, the outlook for the real estate markets is not as attractive as growth infrastructure – digital transformation, data centres, fibre, moving towards an AI world and all that that entails," says an investment banker interviewed for *Emerging Trends Europe.*

Already massive demand from cloud computing hyper-scalers is certain to be compounded by the growth of AI, which requires enormous amounts of computing power and data storage, as well as by the predicted expansion of edge computing infrastructure located closer to end users.

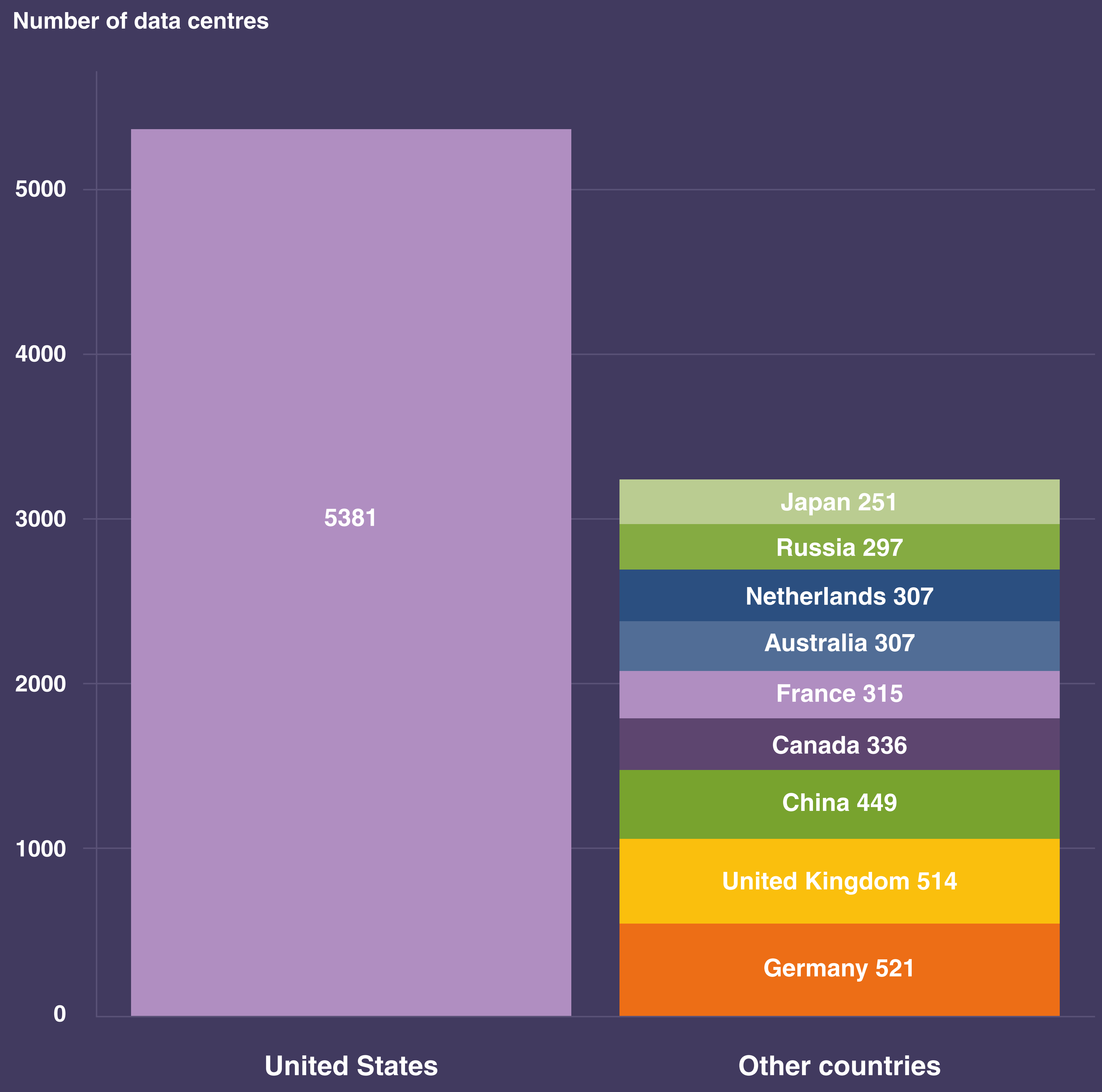
As a result, research by CBRE shows that data centre vacancy across Europe's biggest markets has fallen below 10 percent for the first time and seems certain to decline further, underpinning the investment case. "The demand story is turning into a rental growth story because it's very difficult for the supply side to keep up," says a pan-European investment manager.

The real estate push into data centre investment across Europe is partly driven by the major logistics players – including Prologis, Segro and Merlin – many of which have previously invested in the sector on a smaller scale. They have the advantage of already controlling suitable land and holding established relationships with data centre operators.

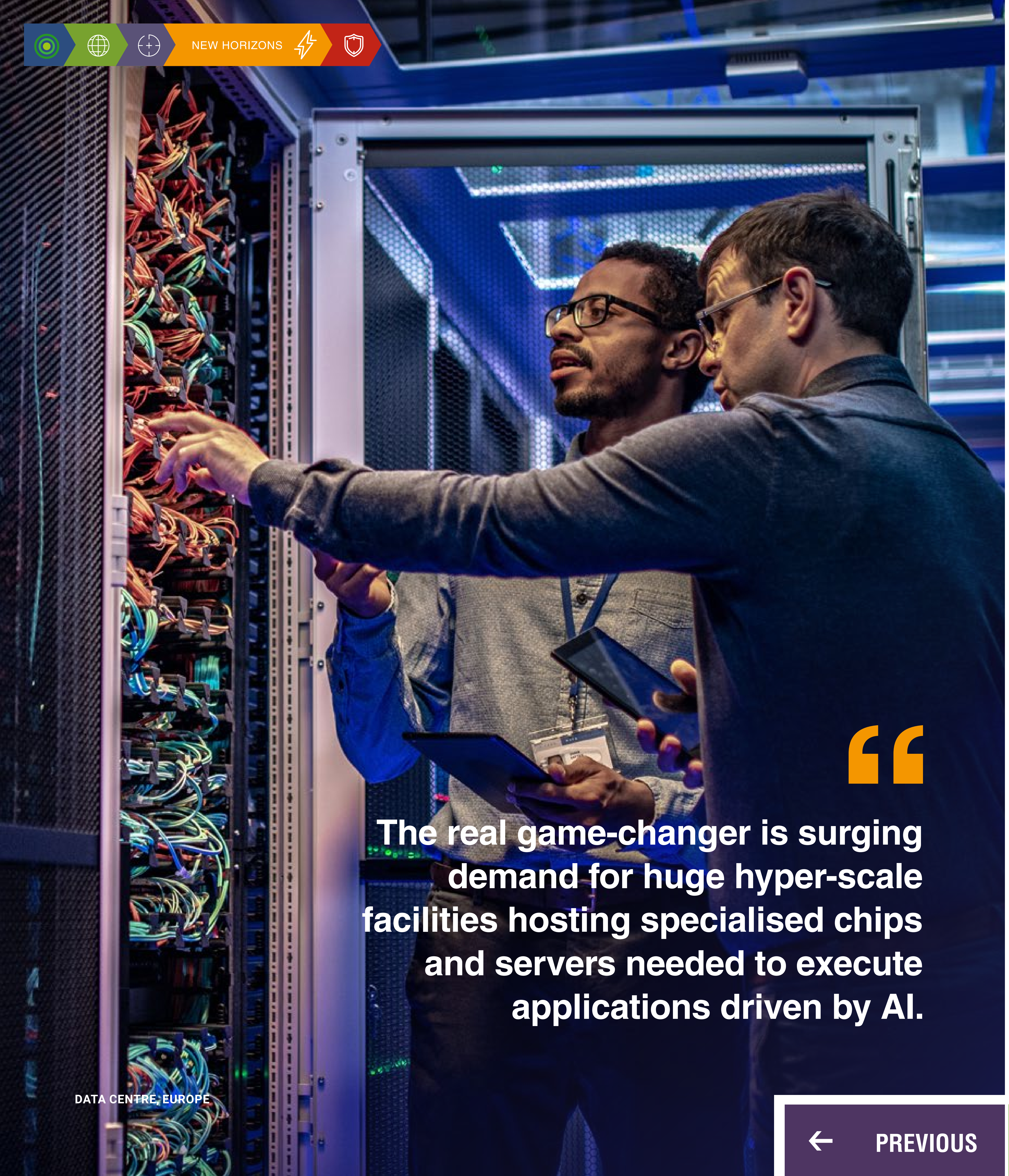
Industry leaders interviewed for *Emerging Trends Asia Pacific* acknowledge that the "ballooning growth" of the sector across the region is partly based on conventional co-location, edge, and cloud facilities. But "the real game-changer" is surging demand for hyperscale facilities hosting specialised chips and servers needed to execute applications driven by AI. The design parameters of AI machine-learning processes hosted at these hyperscale facilities have led to "a seemingly limitless appetite" for power and bandwidth that are fundamentally changing the design, location and financing of new data centre infrastructure.

In addition to the favourable market dynamics, the interviewees for *Emerging Trends Global* have been encouraged by various pledges of support for AI – policy and financial – from governments around the world since the turn of the year.

Figure 2-3 **Number of data centres in the US and major international markets**



Source: *Statista, Cloudscene (as at March 2024)*



DATA CENTRE, EUROPE

In January, the UK government put AI at the heart of its economic growth agenda with the creation of “AI Growth Zones”, which aim to speed up planning permission and improve energy connections. Indeed, the government signalled its support of AI last year with Patrizia’s development in Buckinghamshire by overruling the local authority, which had been blocking the proposal on the basis it would damage the green belt.

Also in January, US president Donald Trump announced the Stargate Project, a $500 billion commitment to AI. In February, French President Emmanuel Macron hosted the Artificial Intelligence Action Summit in Paris, where he unveiled plans for €109 billion of AI investment in France over the coming years.

But if data centres are seen as “critical infrastructure” alongside such government support for AI, some serious challenges remain. As interviewees for *Emerging Trends Asia Pacific* point out, growth across the region has been “frothy” and given the finite nature of local supplies of energy and water, current deal flows may already be “bumping up against a hard ceiling of capacity”.

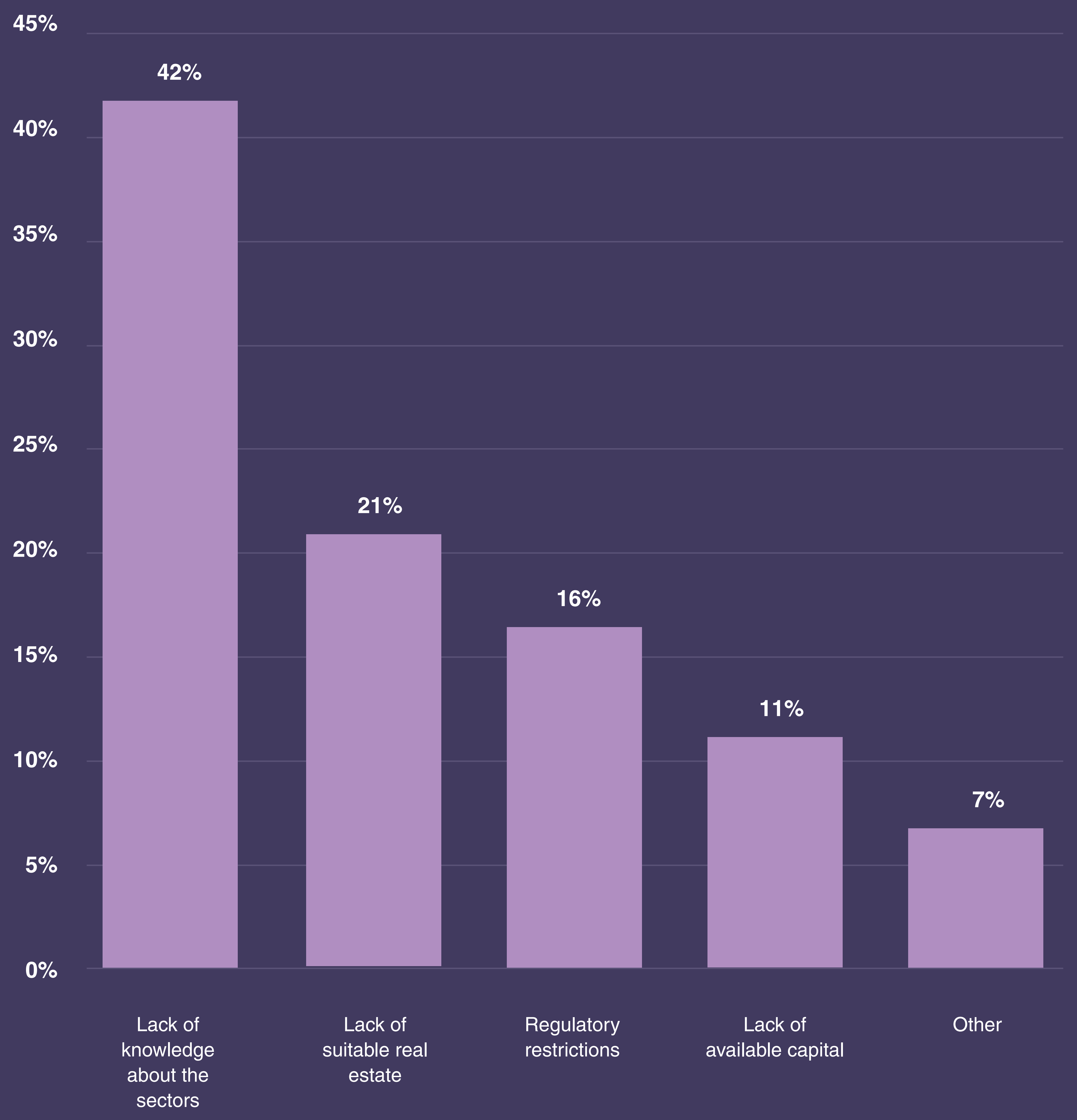
According to one investor: “If you look at Malaysia now, they’ve been overwhelmed by the demand and are trying to put in place regulations to have more structure around growth and get a better handle on what’s coming through. To me, it’s just a matter of time that every market will have regulations in place that will complicate the expansion of the industry.”

Another significant caveat to the success of data centres has come via the unexpected rise of China’s language-learning model, DeepSeek, which feeds into views that capacity requirements could yet evolve in this nascent sector. DeepSeek sparked a sell-off of US tech stocks in January after it claimed to have found a way to run AI more efficiently and cheaply than established businesses in the US. DeepSeek’s emergence could imply shifts towards higher demand for cheaper and easier-to-run “inference” data centres. “The downside is that potential data centre pipelines become rationalised,” says one real estate investment banking head.

Despite initially rattling the market for tech stocks, DeepSeek is unlikely to dent the enthusiasm for data centres, according to most interviewees. Indeed, it could pave the way for AI to be introduced to more areas in our lives. In other words: Jevons’ paradox whereby as technology enhances efficiency, the overall consumption of a resource may increase rather than decrease. If anything, US tech giants, such as Meta and Microsoft, have reaffirmed their commitment to data centre expansion.

“We’ll figure out what DeepSeek means,” says one US-based property leader, “but it doesn’t fundamentally impact the case for data centres. That is driven more by the supply bottleneck, which is in turn driven by the need for power.”

Figure 2-4 **Barriers to increased institutional investment in niche and emerging alternative real estate sectors such as data centres**



Source: *Emerging Trends in Real Estate Europe 2024 survey*

Overcoming the barriers to entry

It is difficult to invest in many emerging sectors because, in capital markets terms, they are small and relatively illiquid, with few stabilised assets available to trade.

"In North America, there is more of a robust opportunity set for sectors outside the main food groups," says one global investor interviewed for *Emerging Trends Europe*. But in Europe they have yet to become established and "it's just less transactable if you want to be in those sectors".

Other investors express disquiet at the prospect of large quantities of real estate capital chasing scarce assets in unproven sectors. "It cannot be healthy to take the lion's share of demand and try and squeeze it into this tiny little sleeve," says the CIO of a global asset manager. The problem with too many currently fashionable niche strategies, they argue, is that "the implicit growth rate in their pricing assumptions is ludicrous from a long-term perspective".

At least with data centres, the investment case is backed by attractive supply/demand dynamics with the sector moving from the niche to the mainstream. But building a large data centre can run to hundreds of millions of dollars, which limits the number of investors to large players such as Bain Capital, Blackstone, Brookfield and KKR.

> "In North America, there is more of a robust opportunity set for sectors outside the main food groups.

The real estate head of an investment management firm says that their investment committee is still wary about this "very new" sector. "The challenge here is how do you price the obsolescence risk," they say. "Some centres built ten years ago are already facing this problem. Furthermore, Moore's law determines the speed of miniaturisation, and therefore there will be an opposite driver here in terms of amount of space that is required to store that data and what kind of space is needed." As a consequence, some investors limit their involvement to buying land, securing the power and building the shell, with the tenant being responsible for the technology inside.

When banks first started to finance data centres they split the real estate from the technology. Today, lenders focus on cash flow and make sure that the loan is amortised before maturity. Leverage tends to be higher than in mainstream real estate, with loan-to-values and loan-to-costs reaching 80 percent. There is little or no room for residual value in their calculations. With offices or shopping centres, there is always a residual value as they can be refurbished or repurposed and relet. Some even build in a reserve to cover demolition costs at the end of the asset's life.

> If you think of an offshore wind park, you basically consider for the next 20 years the secured income which is guaranteed by a power purchase agreement or by a regulatory regime from the country requiring the energy.

Opinions about the life span of a data centre vary, and as one interviewee for *Emerging Trends Global* says: "It's a very fast development. Nobody knows what will be going on in five or ten years."

Another industry leader downplays talk of relatively short life spans, saying there is room for new data centres as well as older ones that are still functioning, like there are new cars and old cars on the road.

The shell of the building may outlive the technology inside and could be used again in theory but the risk is that technological advancements could impact the bricks and mortar of the building. For example, AI requires more powerful chips that can handle multiple tasks – so-called graphics processing unit (GPU) or tensor processing unit (TPU) chips. They require more energy and can get up to 10 times hotter than the older central processing units (CPUs). Consequently, they need to be submerged in cooling liquids.

The floors of an existing data centre may not be strong enough to support the extra load. Upgrading to such immersive cooling could therefore involve refurbishing the whole building.

Energy infrastructure is financed the same way as data centres. Cashflow is the main driver, and the asset is amortised over its life. Wind farms and solar parks have a typical economic life of 25 to 30 years, much longer than many expected when renewable energy took off around 2010. They can be levered up to 80 percent or higher.

"If you think of an offshore wind park, you basically consider for the next 20 years the secured income which is guaranteed by a power purchase agreement or by a regulatory regime from the country requiring the energy," says one interviewee. "You always make sure that the investments or the financing that you provide is being repaid out of the secure cash flow because it is very hard to make any assumption about the usage requirements after 20 years."

The life of the assets can sometimes be prolonged by replacing components. In other cases, technology has moved on. Today's wind turbines, for example, are much bigger than the first generation, making it economically unviable to upgrade the older turbines.

OFFSHORE WIND PARK


POWER SUB STATION

Dealing with power capacity constraints

One of the major challenges for real estate investors targeting digital and energy infrastructure is understanding the power implications.

They will be familiar with land and planning, but not with the grid they need to hook up to. In most countries, power was produced centrally by large power stations and then distributed across the country.

Increasingly, governments are reorganising the grids to enable decentralised power generation. They will decide who will join the grid and when. As one interviewee notes, there is a "massive bottleneck in every power market".

Investors need to know how these processes work. They also need to know how electricity is priced and sold, in half-hour blocks on a forward basis every day of the year. "You've got 48 half-hour blocks to manage in your forecasting every day," says an interviewee.

Scale is important as it allows investors to buy solar panels and wind turbines in bulk for their various sites. It also enables them to negotiate power contracts with large organisations, which are willing to spread the cost across multiple sites. The main requirement for data centres is access to power, preferably existing power grids to ensure round-the-clock supply.

> "There is a massive bottle neck in every power market.

Globally, data centres will account for 2 percent of electricity usage in 2025, according to JLL. This may seem small overall. Other sectors, such as electric cars and air conditioning, consume more electricity and will continue to do so in the coming years. However, data centres cluster around urban areas, where most people live. Their energy consumption tends to account for a larger proportion in these areas.

Demand for power has grown to a point that it is now outstripping available capacity in many developed markets across the US, Asia and Europe, leading to increasing competition for resources.

As a result, construction moratoriums have sprung up in some markets. Following a ban on new construction in Singapore in 2019 (now partially lifted), both South Korea and Taiwan recently issued their own suspensions, while competition with either businesses or residents for land and energy have led to similar shadow bans at a local level. Japan is Asia Pacific's largest data centre market after China, and grid connections typically involve delays of between four and eight years, according to one interviewee, which is "far too late for some of these hyperscalers, who need capacity now – in fact by yesterday".

In Europe locations such as Dublin and Amsterdam offer limited scope for expansion because their electricity grids lack capacity, prompting municipal authorities to issue a moratorium on data centre development.

In Ireland, the proportion of electricity consumed by data centres has become a "political issue", says a local interviewee. The Transmission Service Operator has stopped accepting new applications for grid connections in Dublin until at least 2028. There are also restrictions on data centres outside the capital as it is worried that the grid will not be able to cope. Similarly, Amsterdam placed a moratorium on the development of data centres in 2019 and has since introduced stringent rules for new developments. There must be a need, and they must meet environmental criteria.

In the US, power availability is also the single biggest constraint on the sector's growth. In key markets such as Northern Virginia, Phoenix, and Silicon Valley, securing new power capacity is becoming as difficult as acquiring land itself.

One solution to the power issue is that data centre developers are increasingly building new hyperscale facilities in locations far removed from sources of demand – a solution made possible by the low latency nature of most AI-related tasks. A number of previously obscure emerging market destinations have therefore quickly picked up the slack, with more than half of all APAC data centre transaction volumes in the first half of 2024 being recorded in Southeast Asian countries, according to JLL.

In Europe, developers and investors are starting to look at secondary locations, outside the traditional data centre hotspots of Frankfurt, London, Amsterdam, Paris and Dublin.

Madrid is regarded as a good secondary location as the country has an abundance of solar and wind energy. Attention is also turning to Oslo, Zurich and Milan.

In the UK, Blackstone bought a site last year in Cambois, north of Newcastle upon Tyne, where Britishvolt had planned to build batteries for electric cars before it collapsed. The availability of the site, which is well situated for access to power and data cables, and the fact that simple data storage does not require the proximity to urban locations were some of the main benefits for choosing Cambois over Greater London. Blackstone has said the project could involve investment of up to £10 billion.

Just outside Berlin, data centre owner and operator Virtus is building a €3 billion data centre campus, next to one of the country's largest onshore wind farms. This, says Virtus, will help it to achieve net zero emissions by 2030.

In the US, investors and developers are looking beyond the major cities of Dallas and Chicago at places such as Richmond, Columbus and Charlotte. As the interviews for *Emerging Trends US and Canada* indicate, electric power for new developments will be constrained for the foreseeable future. Northern Virginia and Silicon Valley are particularly constrained, but many other top-tier markets are experiencing power limitations, leading to wait times of five or more years.

Some data centre operators are looking at power supply on site by installing wind turbines, solar panels or even small modular reactors (SMRs).

SOLAR FARM

BERLIN, GERMANY

They are mini nuclear power plants that can be prefabricated before installed on site. They can produce 300 megawatts (MWe) of electricity compared with more than 1,000 Mwe generated by a traditional nuclear power plant. OpenAI founder Sam Altman, the man behind ChatGPT, is backing Oklo, a developer of SMRs.

A lack of space, particularly near urban areas, and the need for constant supply are the main challenges for renewable energy. Investors relying on the sun and wind will have to install large batteries to store energy for cloudy or windless days.

As well as proximity to a power source, data centres need fibre cables to transmit the data. Some data needs to travel faster than other data. The speed with which the data travels across the network is called network latency. Frankfurt is an important location for data centres as it is home to the world's largest internet exchange, DE-CIX, connecting hundreds of networks. Of the major European markets, Frankfurt is also expected to grow the fastest. Moving to secondary markets means more reliance on cables. Geopolitical tension has exposed the vulnerability of deep-sea cables with the West accusing Russia of sabotage by dragging anchors across the bottom of the sea recently. The interviewees for *Emerging Trends Global* remain confident that such actions will not interrupt the operation of data centres as there usually are back-up cables.

Land has become more valuable as it has become scarcer. Data centres and energy infrastructure could evolve in the same way as logistics properties, according to one interviewee. Before logistics became mainstream, many lenders also applied zero residual value to warehouses and storage units.

The main challenge with renewable energy is continuity. Attention has been shifting towards battery storage and interconnectors. Demand and supply need to be better aligned through storage and the ability to move energy around.

"If we want to minimise the costs of the clean energy transition, we need to make sure that we're using the new capacity that we're building as efficiently as possible," says another interviewee.

Once the site and the energy supply have been secured, there are other operational aspects data centre owners must consider. They may need to outline what measures have been taken to fend off, say, a cyber or drone attack, and what the response time will be. To make sure everything keeps running smoothly in case of a cyber-attack, the data could be backed up on a different set of servers. However, this could require double the amount of space.

Such complexities have meant that more conservative investors, such as insurance companies, are avoiding the sector. When financing data centres, lenders will scrutinise the operator and its ability to keep it running. But as one interviewee says: "There are not many strong operators that can guarantee that kind of service."

Regulatory pressures

Data centre operators are working in a sector that is facing increased regulation as governments worry about the impact of AI and where sensitive data is being kept.

The EU broadened and tightened rules covering the sector with the new Network and Information Systems Directive (NIS2), which took effect last October. Mandatory incident reporting and greater oversight from the regulator are the main pillars of the new rules. In addition, there is the Critical Entities Resilience Directive (CERD) and the Cyber Resilience Act (CRA).

As more data is stored in the cloud, data sovereignty is becoming more important. Governments and the tech industry have their own interpretation of what data sovereignty is, but it broadly means access to or control of, mostly personal, data, within designated national borders. The EU has been legislating in this area since the mid-1990s. It is also looking to regulate AI.

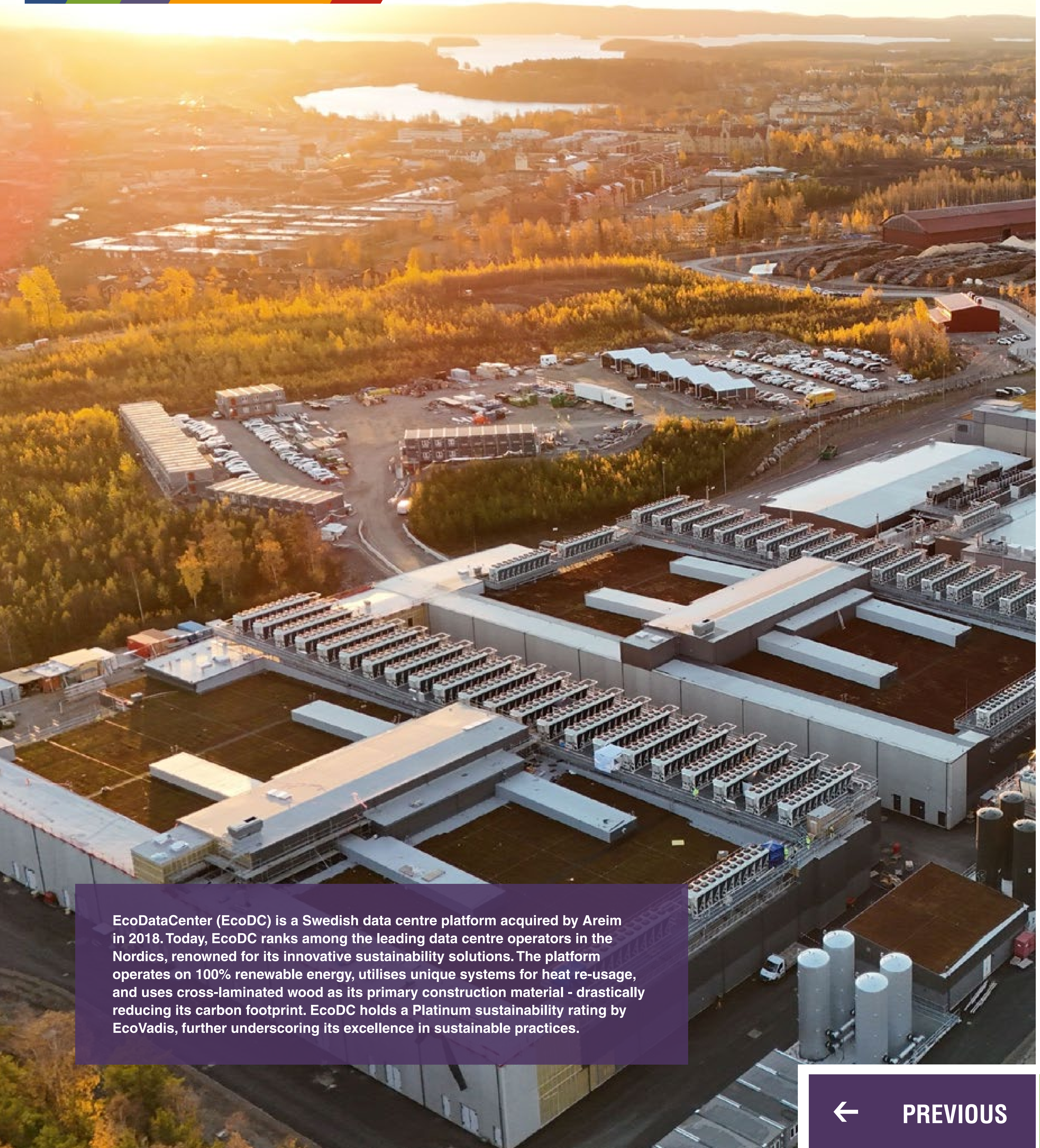
In Asia Pacific, approaches to AI regulation vary by country, though most jurisdictions are moving to address the issue as adoption of AI increases. Many jurisdictions are initially implementing voluntary and principles-based AI regulation, such as Singapore, which has introduced its Model AI Governance Framework, providing guidelines on ethical AI deployment. Japan has established the Social Principles of Human-Centric AI.

The US takes a fragmented approach to AI governance, relying on federal initiatives, state laws and industry standards. In 2023, an executive order established principles for the safe, secure, ethical development and use of AI. However, no federal legislation followed. A turn came with President Trump's 2025 Executive Order 14179, Removing Barriers to American Leadership in Artificial Intelligence, which prioritises deregulation, reducing compliance burdens and accelerating AI innovation.

With no unified federal framework, states are stepping in. Laws have been enacted or are in development in more than half of US states, focusing on development processes, risk management and data privacy. The Colorado AI Act, enacted in 2024 and set to take effect in February 2026, will require AI impact assessments, transparency and consumer notification of AI-driven decisions. Colorado sets a precedent, and more states are expected to follow, creating a complex regulatory landscape for businesses.

Some interviewees believe that national borders will become more important as it matters where the data is being held and processed. Growing concern around data sovereignty, cybersecurity and cyberwarfare is creating an opportunity for some areas. Schwarz Group's STACKIT, for example, is targeting privacy and data sovereignty-conscious European organisations with cybersecurity and cloud services. The company offers EU-compliant and locally hosted German cloud services to businesses and the public sector.


EUROPEAN COMMISSION, BELGIUM



EcoDataCenter (EcoDC) is a Swedish data centre platform acquired by Areim in 2018. Today, EcoDC ranks among the leading data centre operators in the Nordics, renowned for its innovative sustainability solutions. The platform operates on 100% renewable energy, utilises unique systems for heat re-usage, and uses cross-laminated wood as its primary construction material - drastically reducing its carbon footprint. EcoDC holds a Platinum sustainability rating by EcoVadis, further underscoring its excellence in sustainable practices.

Sustainability matters

The rise of data centres has raised concerns about sustainability and it was no surprise in 2024 – a bumper year for transactions in the sector – that the EU legislated for operators to be rated on their efficiency.

National and city authorities in countries as diverse as Ireland, Germany, the Netherlands, Singapore, China and the US have all imposed tougher environmental conditions on the development of data centres in recent years. With its new legislation, the EU wants to create more transparency around energy and water usage and promote best practices. Data centres in the EU accounted for 2.7 percent of electricity in 2018 and will reach at least 3.2 percent by 2030 if developments continue at the current pace, according to the European Commission. The most recent Energy Efficiency Directive has a new binding target of reducing energy consumption by 11.7 percent by 2030.

Singapore has implemented several measures to integrate sustainability into its data centres sector. It has established the Green Data Centre Standard (SS 564), which offers a framework for data centres to enhance energy efficiency. In 2024, it launched the Green Data Centre (DC) Roadmap, aiming to balance the growth of digital infrastructure with environmental sustainability, through measures such as promoting the adoption of advanced cooling technologies.

With rapid global data centre expansion and growing environmental activism, water use and reuse are becoming growing priorities for operators and developers. In Northern Virginia, for instance, water usage has reportedly increased by nearly two-thirds since 2019. In 2023, Google's data centres consumed 6.1 billion gallons of water, 17 percent more than in the previous year. Google said it mirrored the growth in electricity usage. By comparison, New York's nine million citizens consume one billion gallons of water a day.

Given the scale of demand, industry groups are advancing measurement standards, tech companies are tracking progress towards water-positive targets and governments are setting goals for data centres.

In Asia-Pacific, where water scarcity is a major concern, Singapore leads in regulating data centre water usage and discharge. It mandates high-consumption facilities to comply with the Public Utilities Board's Mandatory Water Efficiency Management Practices, ensuring stricter controls on water intake and wastewater discharge while targeting a water usage effectiveness of 2.0m³/MWh within a decade.

Following this direction, Malaysia's National Water Services Commission is set to introduce stringent guidelines, mandating data centres to use reclaimed water and rainwater to ease pressure on potable supplies. These measures reflect a broader regional push toward water conservation amid increasing environmental and industrial demands.

Increasingly, local communities are railing against the arrival of new data centres. While people rely on data centres for their phones and computers to run fast and without glitches, they do not want them in their backyard.

Their argument is that they create relatively few jobs yet create a big burden on local resources. In 2022, Meta abandoned plans to build Europe's largest data centre in the Dutch town of Zeewolde following strong opposition.

Methods to address environmental sustainability of data centres include on-site renewable energy generation. However, wind and solar require a lot of land, and on-site land is usually scarce, so must be supplemented by agreements with renewable energy providers to purchase electricity from wind or solar farms.

One area of contention is the use of diesel generators at data centres, which is often required as a back-up power source. Given the stringent power requirements outlined in service level agreements with data centre tenants – a back-up power source is required to ensure continuity of service and a failsafe in the event of a breakdown or malfunction of renewable energy sources. Regulation on diesel generators varies by market but is usually bound by strict regulations. For example, operators typically may run generators for only a limited number of hours per year for routine maintenance and inspection purposes. While green alternatives to diesel are in development, there is currently none provided at scale.

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Some investors will not want to invest in data centres, because they think that it's very difficult to have a green data centre

“Some investors will not want to invest in data centres, because they think that it's very difficult to have a green data centre,” says one industry leader. “It's not impossible, but it's difficult.”

Balancing risk and reward

The nature of investment and development in the built environment is evolving, with the convergence of real estate, technology and infrastructure.

As many real estate funds venture into digital and new energy sectors, the industry finds itself at an inflection point, shifting from an “invest-and-sit”, passive exercise in capital placement into more private equity-like formats that require varying degrees of operational expertise.

While a growing number of institutional investors treat infrastructure and real estate as part of a unified strategy, significant differences remain in risk profiles, market cycles and valuation challenges.

SINGAPORE

Data centres and energy infrastructure require scale and expertise as they are highly operational assets.

Moves into these niche sectors by traditional real estate players are likely to involve a degree of co-investment, creating joint ventures with established operators. According to a fund manager adopting this approach: "I don't want to go out and build my own business and compete with [incumbent operators], who are well established and have teams in place. I don't want to go into new markets and try to hire people away from them to run my business. I'd rather just partner with them, and leverage off their [technical] and origination capabilities." This approach removes a significant degree of complexity on the operational side, though it also negates potential upside for investors to leverage the value of the operational platform managing the assets.

Whatever strategy is adopted, understanding the differences between such sectors and traditional real estate is crucial for investors. Investors must balance flexibility with caution, ensuring that synergies do not come at the expense of informed risk management. As the lines continue to blur, innovative investment vehicles and frameworks will be necessary to optimise real asset allocation strategies.

"

I don't want to go out and build my own business and compete with operators, who are well established and have teams in place. I'd rather just partner with them, and leverage off their technical and origination capabilities

Figure 2-5 **Risk and underwriting considerations for real estate, digital and new energy infrastructure**

Risk factor	Digital infrastructure	New energy infrastructure	Traditional real estate
Regulatory	Data laws (GDPR, CCPA), tax breaks, energy efficiency, zoning laws	Grid regulations, subsidies, interconnection, new energy regulations and building requirements e.g. low-carbon heating systems	Zoning laws, building codes, sustainability rules
Operational	High energy and cooling needs, cybersecurity risks, grid dependence (with back up system required)	Grid dependence, maintenance, cybersecurity risks	Tenant covenant/turnover, tenant services/amenities and the option to reuse/repurpose the land
Technological	Rapid obsolescence, AI/5G shifts, high R&D	Battery/grid modernisation, decentralisation	Slow innovation, optional smart tech upgrades
Financial and lending	High upfront capex, contract-based financing, no residual value	PPA-backed non-recourse debt, tax equity, limited residual value	LTV-based lending, capital growth
Performance metrics	Power usage effectiveness (PUE), lease uptime, network traffic, EBITDA/MW	Capacity factor, Levelized cost of electricity (LCOE), Debt Service Coverage Ratio (DSCR)	NOI, occupancy, cap rate, debt yield

ABOUT THE REPORT

BANGKOK, THAILAND

Interviewees

APG
Patrick Kanters

Apple
Kristina Raspe

AXA
Timothée Rauly

Bank of America
Matthias Baltes

Bain Capital
Chris Leddy
Joe Marconi

BentallGreenOak
Amy Price

Blackstone
Alexis Kantt

Brookfield Asset Management
Simon Maine

CBRE Investment Management
Tania Tsoneva

Commerz Real
Tobias Huzarski

Eastdil Secured
Roy March

Equinix
Régis Castagné

Green Street
David Guarino

Helaba
Sabine Möller
Christian Alexander Schmid

Hines
David Steinbach

Independent consultant
Thomas Kieldsen

JLL
Steven Jack
Daniel Thorpe

KKR Real Estate
Ralph Rosenberg

LGIM
Robin Martin

Nuveen
Louise Kavanagh

Patrizia
Phoebe Smith

PGIM Real Estate
Raimondo Amabile

Pure DC
Marco Fok

PwC UK
Asim Iqbal

Savills IM
Alex Jeffery

Morgan Stanley
Seth Weintrob

Morningstar DBRS
Mirco Iacobucci

Willkie Farr & Gallagher
Cornelia Thaler

Additional interviews were conducted for this Global edition of *Emerging Trends* but some industry leaders and occupiers have not been named due to confidentiality preferences. Their valuable insights have nonetheless contributed significantly to the overall findings of this study.

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Global Real Estate Leadership Team

Thomas Veith
PwC Global Real Estate Leader

Jean-Baptiste Deschryver
PwC EMEA Real Estate Leader

Robert Walker
PwC UK Real Estate Leader

Gareth Lewis
PwC ETRE Global and EMEA Leader

Kevin Fossee
PwC US & Global Real Estate Digital Leader

Tim Bodner
PwC US & Global Real Estate Deals Leader

Paul Walters
Asia Pacific Real Estate Assurance Leader

Stuart Porter
Asia Pacific Real Estate Tax Leader

Nana Duah Poku
PwC ETRE Project Manager

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The Urban Land Institute is a global, member-driven organisation comprising more than 48,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide. ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics.

Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 80+ countries. The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanisation, demographic and population changes, new economic drivers, technology advancements, and environmental concerns. Drawing on the work of its members, the Institute recognises and shares best practices in urban design and development for the benefit of communities around the globe.

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Chief Executive Officer
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Chief Executive Officer
ULI Asia Pacific

Simon Chinn
Vice President Research & Advisory Services
ULI Europe

Anita Kramer
Senior Vice President Center for Capital Markets & Real Estate
ULI Americas

May Chow
Senior Vice President
ULI Asia Pacific

Colin Galloway
Consultant
ULI Asia Pacific

Juliette Masson
Associate, Research & Advisory Services
ULI Europe

Authors

Doug Morrison
Editor

Isobel Lee
Author

Bert Erik ten Cate
Author

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