

2024

Global Outlook

EMERGING TRENDS IN REAL ESTATE®



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EXECUTIVE SUMMARY

“While event risk remains high, 2024 appears to be a pivot point, moving towards greater liquidity in real estate markets. Though there are good reasons why investors have been hesitant, we're moving towards a period where there's greater clarity. It should be an opportune time to buy.”

Global investment manager



Senior industry players canvassed for this Global edition of *Emerging Trends in Real Estate*® believe there is a good prospect of renewed investment activity on the back of greater clarity on monetary policy in the United States, Europe and Asia Pacific.

The hope is that buyers and sellers of properties are starting to accept a higher-for-longer interest rate environment and will therefore find the middle ground on pricing that has been so elusive over the past two years.

With alignment on pricing comes the belief that real estate can recover from one of the worst investment downturns in years although any upswing in activity is expected to be much more pronounced in 2025 than in 2024.

But there is still a fair degree of caution in real estate, and diversification of risk by market and by sector will be critically important.

Industry leaders across all three regions acknowledge that the geopolitical backdrop to investment is fraught with uncertainty and may yet override the recent stability on inflation and interest rates. The wars in Ukraine and Gaza as well as the 60-plus elections due to be held around the world in 2024 are all weighing on sentiment.

This is already a period of daunting challenges for the industry, not least with the colossal amount of real estate debt that needs to be refinanced this year and next – \$1.2 trillion in the US alone.

The deployment of so-called “rescue capital” will be a big part of the global real estate narrative in 2024.

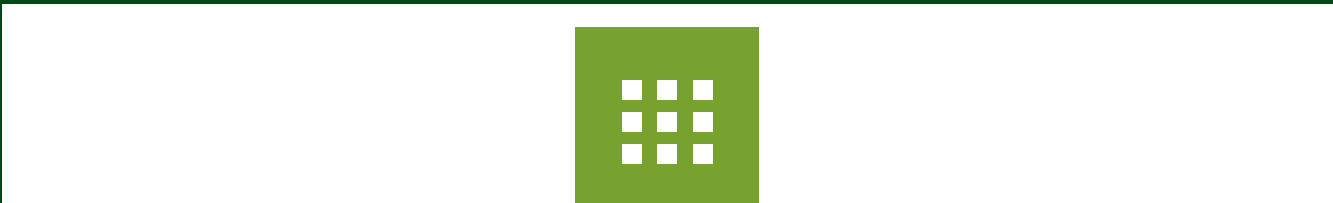
Though the industry has been in wait-and-see mode over the past two years because of short-term, cyclical forces, the interviewees are looking to the long term. The message is clear that the driver of investor and occupier behaviour is no longer about the traditional property sectors but increasingly about “the three Ds”: demographics, digital and decarbonisation.

The three Ds are reinforcing the investment case for logistics and alternative real estate sectors – most notably data centres. It is no coincidence that industry concerns over housing affordability – highlighted in all three regional editions of *Emerging Trends* – are translating into far greater investor attention on the various forms of housing.

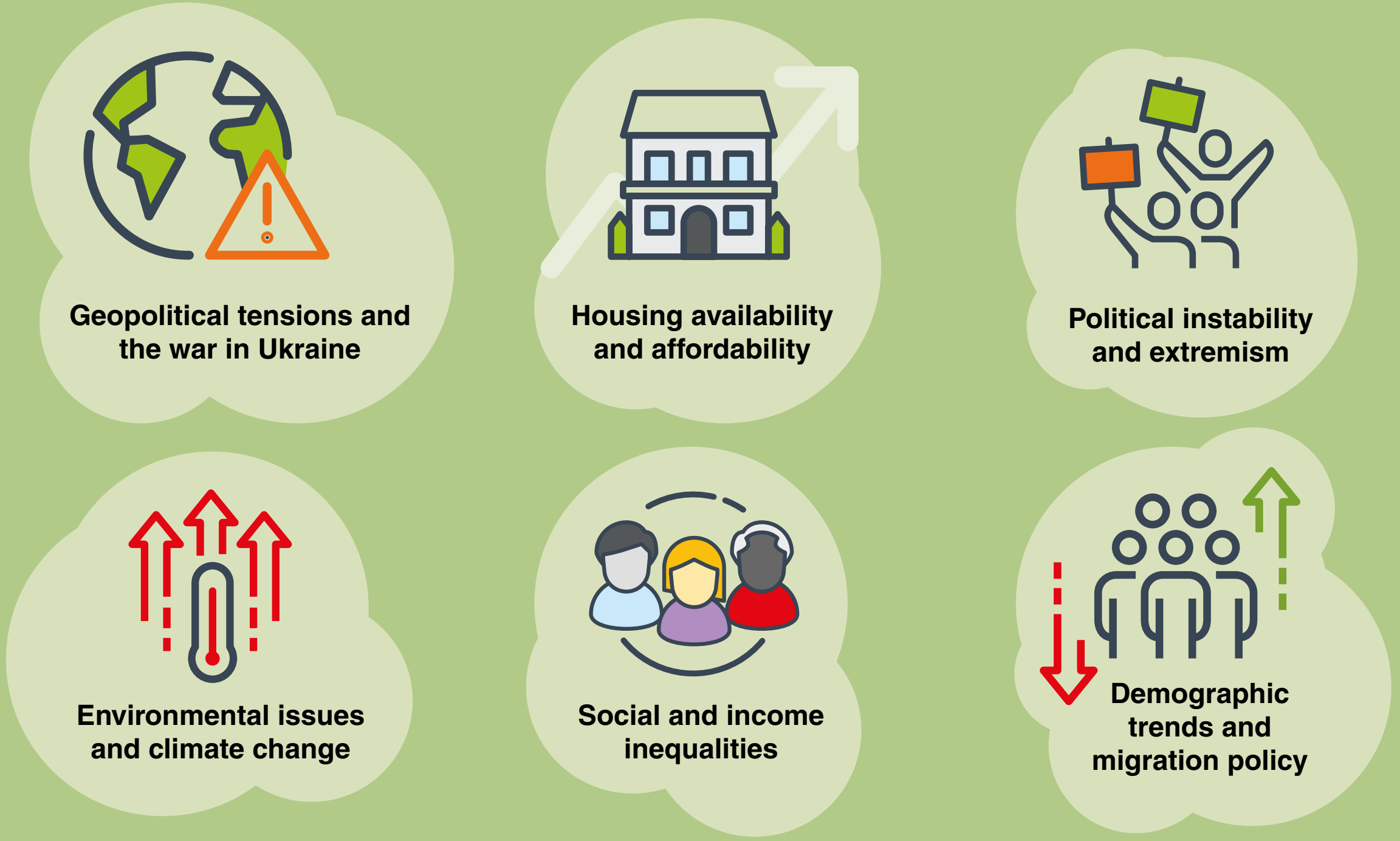
The shift of capital into these sectors complements the industry’s environmental, social and governance (ESG) agenda. Though tough market conditions may slow progress on ESG compliance this year there is nonetheless a strong belief that the industry is at a pivot point, and that a long-term, thematic approach to real estate will open up a new world of potential products for private equity and opportunistic capital.

Many of the more progressive players in all areas of the industry are challenging old assumptions about market dynamics, pricing and risks. As we report in Chapter 2, they are re-thinking just how real estate can be made fit for purpose in the long term.

Economic and financial concerns



Social and political concerns



- Geopolitical tensions and the war in Ukraine
- Housing availability and affordability
- Political instability and extremism
- Environmental issues and climate change
- Social and income inequalities
- Demographic trends and migration policy

Real estate and development concerns



- Construction costs
- Labour/resource availability
- Regulations
- Land availability/cost
- Cap rate movements
- Environmental requirements

Sectors to watch



- Data centres
- Life sciences
- Healthcare facilities
- Student Housing
- Senior Housing
- Affordable housing
- Self-storage
- Flexible Offices
- Logistics/ industrial/ warehouse
- Urban retail

CHAPTER 1

PERIOD OF ADJUSTMENT

“Direct market investors would like to invest in 2024 as real estate has once again become attractive relative to rates. But they are waiting for the re-pricing to complete by mid-2024 and they are wary of geopolitical risks.”

European investment manager

Real estate leaders are slowly becoming reconciled to an elevated interest rate environment while grappling with more fundamental challenges around the industry’s role in society and in making buildings fit for purpose in an uncertain future.

Despite economic headwinds around the world, the senior industry players canvassed for this Global edition of *Emerging Trends in Real Estate®* are drawing some comfort from the widespread view that inflation and interest rates may have peaked.

Given that all three regional editions of *Emerging Trends* identify interest rate movements as the top industry concern, it is understandable that some clarity on monetary policy since the turn of the year has brought a measure of relief. Interviewees for this Global report note, as one puts it, “a change of tone” towards the asset class albeit far more positive in the US and Asia Pacific than in Europe.

The hope is that buyers and sellers of real estate are moving towards a state of acceptance in this higher-for-longer interest rate era and can find the middle ground on pricing that has been so elusive over the past two years. With alignment on pricing comes the belief that real estate can recover from the current slump in deal activity. But doubts persist.

One big concern is that the geopolitical backdrop to investment is fraught with uncertainty and may yet override the stability on interest rates. Over two years on, the war in Ukraine remains front of mind for many global players, and now there is the added uncertainty around the Middle East.

The full implications of the war in Gaza were not known during the research for the regional editions of *Emerging Trends* – and are still unknown. There is, though, an acknowledged risk of this war spreading elsewhere in the region. Even as the devastating humanitarian crisis continues there, the attention is broadening to the other consequences, notably the attacks on shipping in the Red Sea. Along with restrictions due to the drought around the Panama Canal, there is now huge disruption to global supply chains and renewed inflationary pressure.

“The hardest risk to assess is geopolitical risk, and the financial markets are historically poor at doing this,” observes one interviewee.

Other significant developments – good and bad – have come to light since the interviews and surveys were conducted for the regional editions of *Emerging Trends*. US economic performance has been far stronger than predicted, easing fears of a recession later in 2024.

This greater-than-expected resilience has prompted the International Monetary Fund (IMF) to upgrade its 2024 growth forecast for the US from 1.5 per cent to 2.1 percent. As a result, the IMF has increased its global growth forecast by two-tenths of a percentage point to 3.1 percent in 2024, with 2025 unchanged at 3.2 percent. Headline inflation is expected to be 5.8 percent this year and 4.4 percent in 2025 (Figure 1-1).

Figure 1-1 GDP growth projections (% change p.a.)

| | Projections | | |
|----------------------|-------------|------------|------------|
| | 2023 | 2024 | 2025 |
| World | 3.1 | 3.2 | 3.2 |
| Asia Pacific | | | |
| Australia | 1.8 | 1.4 | 2.1 |
| China | 5.2 | 4.6 | 4.1 |
| India | 6.7 | 6.5 | 6.5 |
| Indonesia | 5 | 5.0 | 5.0 |
| Japan | 1.9 | 0.9 | 0.8 |
| Malaysia | 4 | 4.3 | 4.4 |
| Philippines | 5.3 | 6.0 | 6.1 |
| South Korea | 1.4 | 2.3 | 2.3 |
| Thailand | 2.5 | 4.4 | 2.0 |
| Europe | | | |
| France | 0.8 | 1.0 | 1.7 |
| Germany | -0.3 | 0.5 | 1.6 |
| Italy | 0.7 | 0.7 | 1.1 |
| Netherlands | 0.2 | 0.7 | 1.3 |
| Poland | 0.6 | 2.8 | 3.2 |
| Spain | 2.4 | 1.5 | 2.1 |
| United Kingdom | 0.5 | 0.6 | 1.6 |
| North America | | | |
| Canada | 1.1 | 1.4 | 2.3 |
| United States | 2.5 | 2.1 | 1.7 |

Source: IMF World Economic Outlook, January 2024



But the latest official data show that two other major economies, Japan and the UK, unexpectedly slipped into recession during the final quarter of 2023. As one global real estate player warns: “Beware the false precision of official economic forecasts. The range of potential economic outcomes is quite wide given the Black Swans on the horizon.”

Politics as well as geopolitics may undermine the official forecasts. More than 60 countries, representing nearly half the world’s population, are due to hold elections in 2024. The industry is clearly weighing up varying degrees of uncertainty – pre- and post-election – not least in the US. One US-based interviewee refers to a rush to get deals completed before the US presidential election in November.

A European interviewee warns of the long-term impact of “the political instability that we see at the moment”, adding: “This is a global phenomenon, with the exception of some Asian markets. But that lack of political strength means we’re getting less long-term strategy on infrastructure planning, and we’re feeling the effects of that.”

One consequence of “the year of the election” is that governments will inevitably court popularity and focus on short-term, domestic issues at a time of global geopolitical uncertainty.

“There’s a lot going on but there is the tension of many countries looking at themselves first, rather than on a combined or a joint-forces basis,” says a European interviewee. “That should give us more concern than we currently have.”

As this interviewee concludes: “Since the financial crisis, we’ve learned as an industry to have a multi-problem schedule ahead of us. I wouldn’t say you get used to it, but somehow you arrange business around it. That may be more difficult this time because I strongly believe the outcome of elections and the outcome of the economic situation will hit us in real estate more heavily than most people expect at the moment.”

Serious challenges ahead

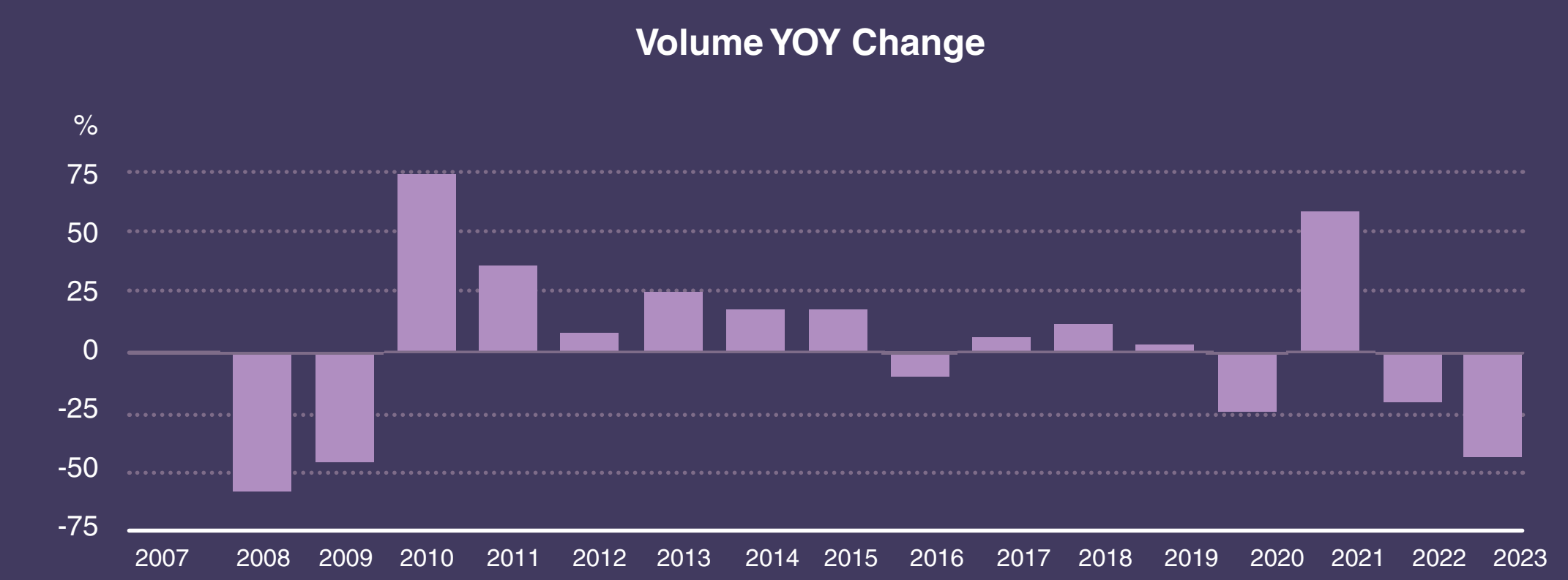
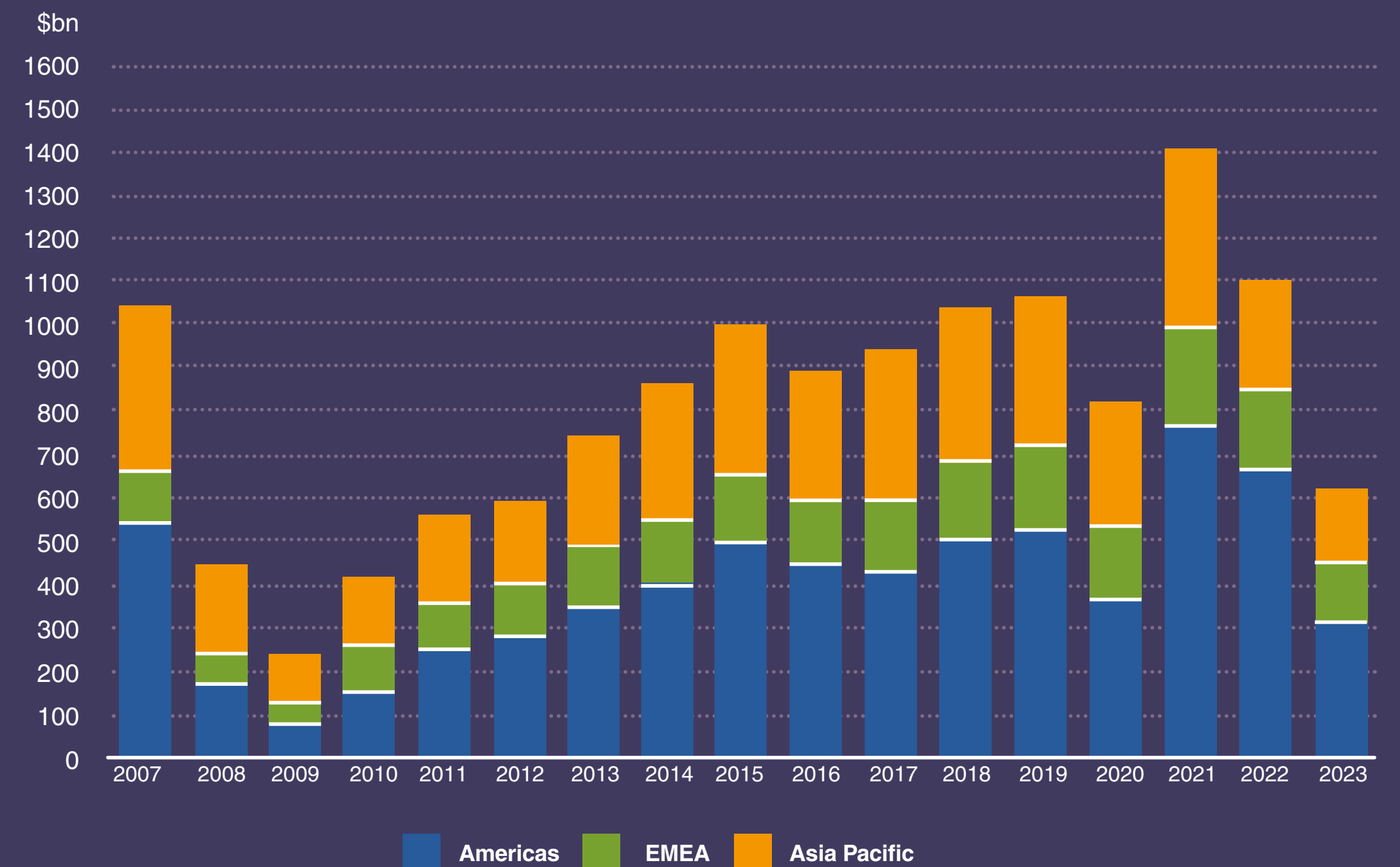
If there is to be an improvement in investment markets in 2024 it will come from a very low base: global transaction activity has slumped to its lowest level since 2012.

The latest data from MSCI Real Assets show that transactions involving income-producing properties fell by 48 percent in 2023 to \$615 billion, which was a 17 percent fall on the 2021 total (Figure 1-2).

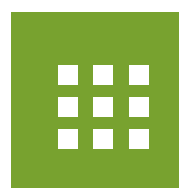
Nowhere has escaped the slowdown although the MSCI figures show that some of the major markets in Asia Pacific have shown more resilience than Europe and North America – and continue to do so, according to our interviewees.

Some believe the geopolitical uncertainty may well have implications for global capital flows, with markets in Asia Pacific as the likely beneficiaries, at least in the short term.

Figure 1-2 Global real estate capital flows 2007-2023



Source: MSCI Real Assets.
Charts exclude development sites.





Investors want to be where they see things to be safe or safest. That's certainly a factor.

Singapore and South Korea, for instance, both ended 2023 relatively strongly in terms of investment, according to MSCI. As one interviewee says: "Investors want to be where they see things to be safe or safest. That's certainly a factor."

As equally disturbing as the volume decline, MSCI says the total return for assets in its Global Quarterly Property Index was negative for the first three quarters of 2023, adding that prices have continued to fall in most global cities.

By contrast, MSCI reports that total returns in the US and UK real estate investment trust (REIT) markets turned positive at the end of 2023. That trend looks set to continue, says one European interviewee: "As of early 2024 the investors in the listed market are quite optimistic whereas the private market investors are only cautiously optimistic. This is not mutually contradictory given that the listed market is priced at a significant discount to the private market."

Even so, this time last year the industry was forecasting an upturn in activity for 2023 – a false hope, as it turned out. The industry leaders canvassed for this year's report suggest there are grounds for renewed optimism although rate

cuts – starting with the Federal Reserve and followed by other central banks – may be delayed until later in the year than initially forecast. One consequence is that any upswing in transaction activity is likely to be much more pronounced in 2025 than in 2024.

"It's not a period of happy days are here again," says one global player. "But there's a general view that the central bank moves have succeeded in bringing down inflation across the developed world, except for those places that want a little inflation like Japan. And with that, real estate values have adjusted. We're pretty much done with the adjustment, maybe within 5 to 10 percent off the bottom. And with that, we're going to see an uptick in liquidity, an uptick in transactions in 2024, with a bigger year lying ahead in 2025."

Though one European interviewee acknowledges the positive rhetoric around interest rates and "some stabilisation on valuation", the industry should still exercise caution. "We are still in the phase of consolidation, and we still find ourselves with a lot of challenges ahead of us."

Yet no-one is getting carried away about real estate investment in 2024. One reason is that with prolonged higher interest rates, bonds look attractive to investors, especially as real estate has yet to reprice completely at this level. Another reason is that many institutional investors, particularly in Europe, are still working their way through the "denominator effect", when falls in the value of their equity and bond portfolios hindered the amount they could invest in private real estate.



“After 18 to 24 months of inactivity, of course institutional investors will look at real estate. They will not stay on the sidelines forever,” says another European interviewee. “But for that type of capital, budgets get done at the beginning of the year, and that money has not been earmarked, so it will not magically appear after the summer. It’s a process.”

For many borrowers, pain will be part of the process. A “wall of maturities” falls due this year and next, marking the end of the so-called “pretend and extend” period and the start of a new era of higher financing costs. “It’s going to hurt a lot,” this European interviewee continues. “There seems to be a consensus that we have reached peak in terms of rates. Does that mean it’s a peak in terms of inflation? Not sure. And that also means therefore, that these high rates could stay and longer than expected. And that’s where it starts to bite into the real estate story because we know that these high rates will be an issue when refinancing comes into place.”

As much as \$1.2 trillion of commercial real estate debt is maturing over the next two years in the US alone, according to the Mortgage Bankers Association. In February, the scale of debt prompted US Treasury Secretary Janet Yellen to raise concerns over the impact of falling property values on the banking system.

Says one US-based interviewee: “I’m not worried about the system not having enough money. And that’s because there’s been a tremendous rise in private banking in the United States. The private credit markets are going to go a long way to help deal with the wall of maturities.”

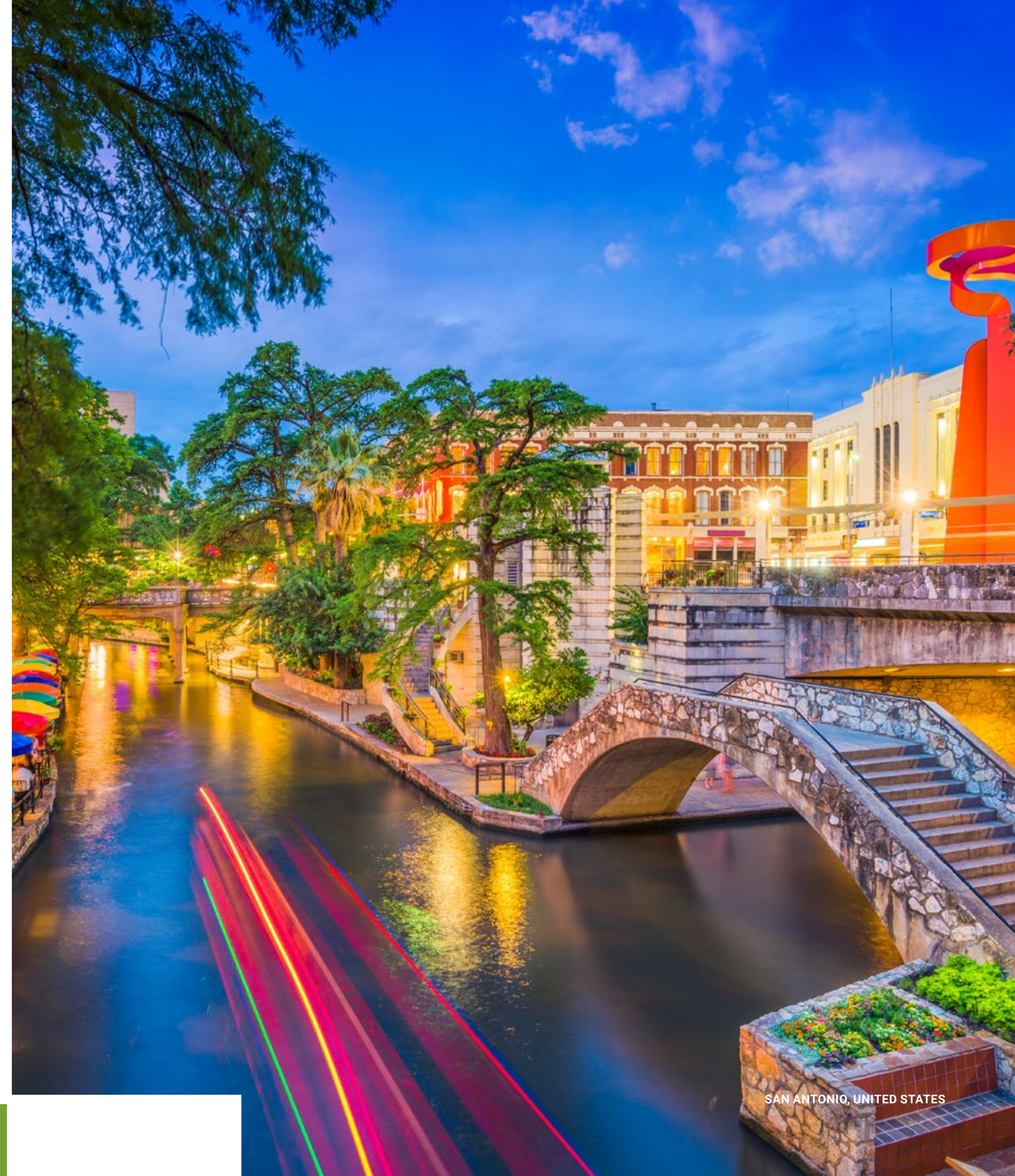
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After 18 to 24 months of inactivity, of course institutional investors will look at real estate. They will not stay on the sidelines forever.

This interviewee adds: “The real interesting part is not the loan to values as much as it is a debt service coverage test. That’s because with interest rates being higher on these loans now than when they were put on, you have much lower debt service coverage, and how do you make that all work? It really depends on asset by asset.”

According to one Asia Pacific-based industry leader, the refinancing issue will present “opportunities across the capital stack”, suggesting that distress is not going to come so much from poor asset performance or oversupply, but from the balance sheet of the sponsor. “That’s really going to be the source of the opportunity this time around. And unlike previous cycles, because interest rates remain elevated relative to a year ago, there’s a time value associated with waiting. You’re paying a real cost to continue to hope for a future that may salvage you or may not. My expectation is that a lot of groups are just going to decide to take their chips off the table, and that will drive transaction volumes.”

As a US player puts it: “If you’re a seller, hope is not an option.” One way or another, “rescue capital” will play a starring role in the story of real estate in 2024.



SAN ANTONIO, UNITED STATES





LONDON, UK

The great reset

Much of the industry has been in wait-and-see mode over the past two years but all three editions of *Emerging Trends* reveal that many of the more progressive players have been using this time to challenge long-held assumptions about market dynamics, pricing and risks.

The “great reset”, as the United States and Canada edition describes it, goes well beyond the industry adapting to the new era of higher-for-longer interest rates. It is the opportunity for a radical re-think of what will make real estate fit for purpose in the long term, which we explore in detail in Chapter 2.

As one European real estate leader interviewed for this Global edition suggests, this period of higher interest rates – the new normal – will be tough for the industry but ultimately beneficial. “One of the failures in the past was due to the low interest rates, and really the flooding of cheap money into the market. It was too easy to make money with real estate. And now people need to give it a long-term perspective again, and I think this is a chance.”

Many of the industry leaders canvassed for this Global edition suggest that the driver of investor behaviour is no longer about the traditional property sectors but increasingly about “the three Ds”. As one global player says: “For those who want to go back in the market, they will try to stick as closely as possible to the big secular trends,

“

One of the failures in the past was due to the low interest rates, and really the flooding of cheap money into the market.

which are underlying growth. So, anything where demographics, digital and decarbonisation play a role.”

In many respects, the uneasy juxtaposition of the cyclical and structural influences on real estate has been a recurring theme in *Emerging Trends* for several years although arguably these twin challenges have been amplified over the past year or so. One global investment manager describes 2023 as “maybe the weirdest of all years other than 2020”. The view is that the current market dislocation needs to be seen not in isolation but as the culmination of a pandemic, a sharp rise in populism, inflation well above average and a central bank response that has been remarkable in both the pace and sheer volume of rate rises.

As this manager concludes, this chain of extraordinary events has only underlined the need for investors to consider another “D” in the coming years: diversification of risk by geography and by sector. “The globe’s economies don’t move in lockstep, and there are advantages in pricing and availability of financing that vary by location.”

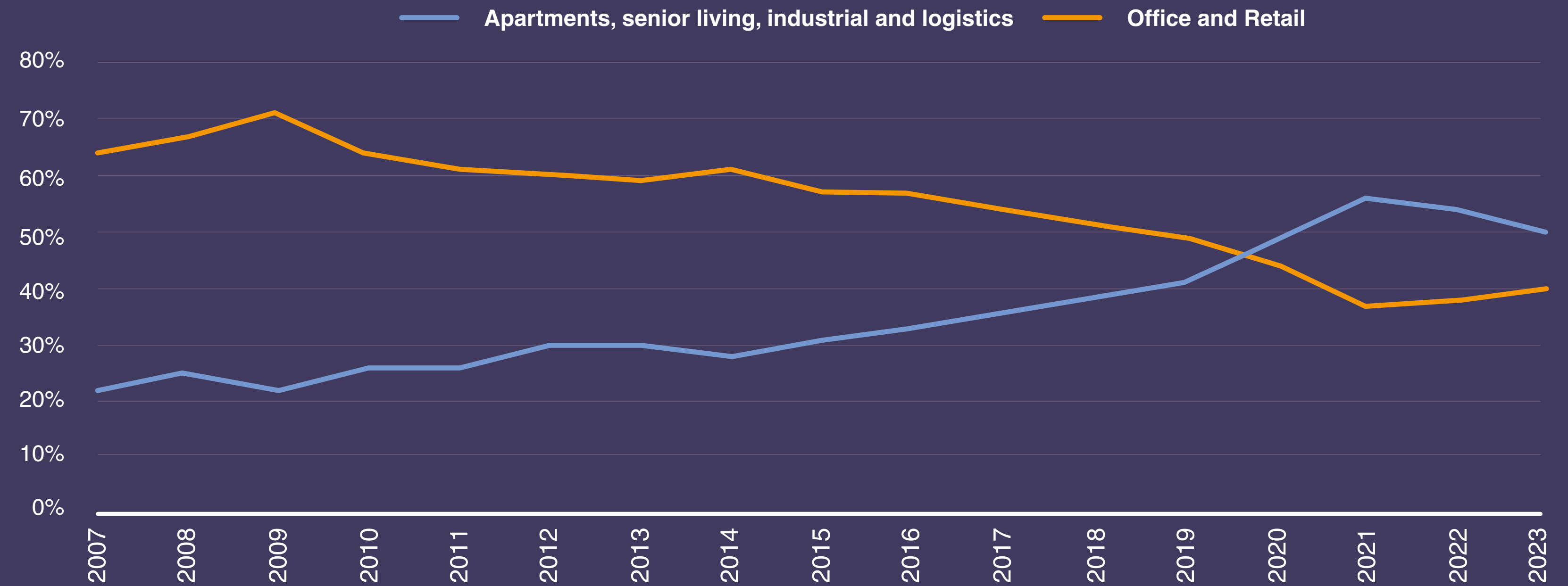


“We’re also trying to move away from investments that are dependent upon the macro economy. Office and retail are two that are really driven from a tenant-demand perspective that way. We prefer sectors where the tenant demand emanates far more out of demographic dynamics than it does out of the macro.”

So far, the three Ds translate into the now familiar “beds, sheds and meds” theme of logistics, alternative real estate sectors and various forms of housing, including private rented, student accommodation and senior living. All have been flagged in recent years in *Emerging Trends*, but most industry players are very strongly saying that the secular investment case becomes more compelling as each year goes by. For many, alternative sectors have already become the mainstream as the latest figures from MSCI demonstrate: more capital was deployed into industrial, apartments and senior housing than in offices and retail in 2023 (Figure 1-3).

According to some global players, the disruption to shipping in the Red Sea is shining a light on structural trends in the wider economy, such as nearshoring and “friendshoring”, which have seen companies redirect their production and supply chains’ focus on to friendly powers. This shift has underlined the importance of the logistics sector. “We’ve become a highly global world, reliant on logistics in the supply chain,” says one US-based interviewee. “COVID certainly highlighted how difficult supply chain and logistics issues can bring things to a halt. I think that’s as much a contributor to inflation as anything else. Geopolitical issues increase costs.”

Figure 1-3 Share of global transaction volumes



Source: MSCI Real Assets

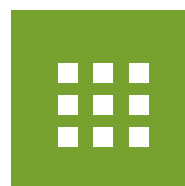
Importantly, much of the “long-term thematic approach to real estate”, as one interviewee puts it, complements the environmental, social and governance (ESG) agenda. ESG is opening up a new world of potential products for private equity and opportunistic capital. New energy infrastructure, for instance, is identified as the sector offering the greatest overall investment and development potential for the third year running in *Emerging Trends Europe*.

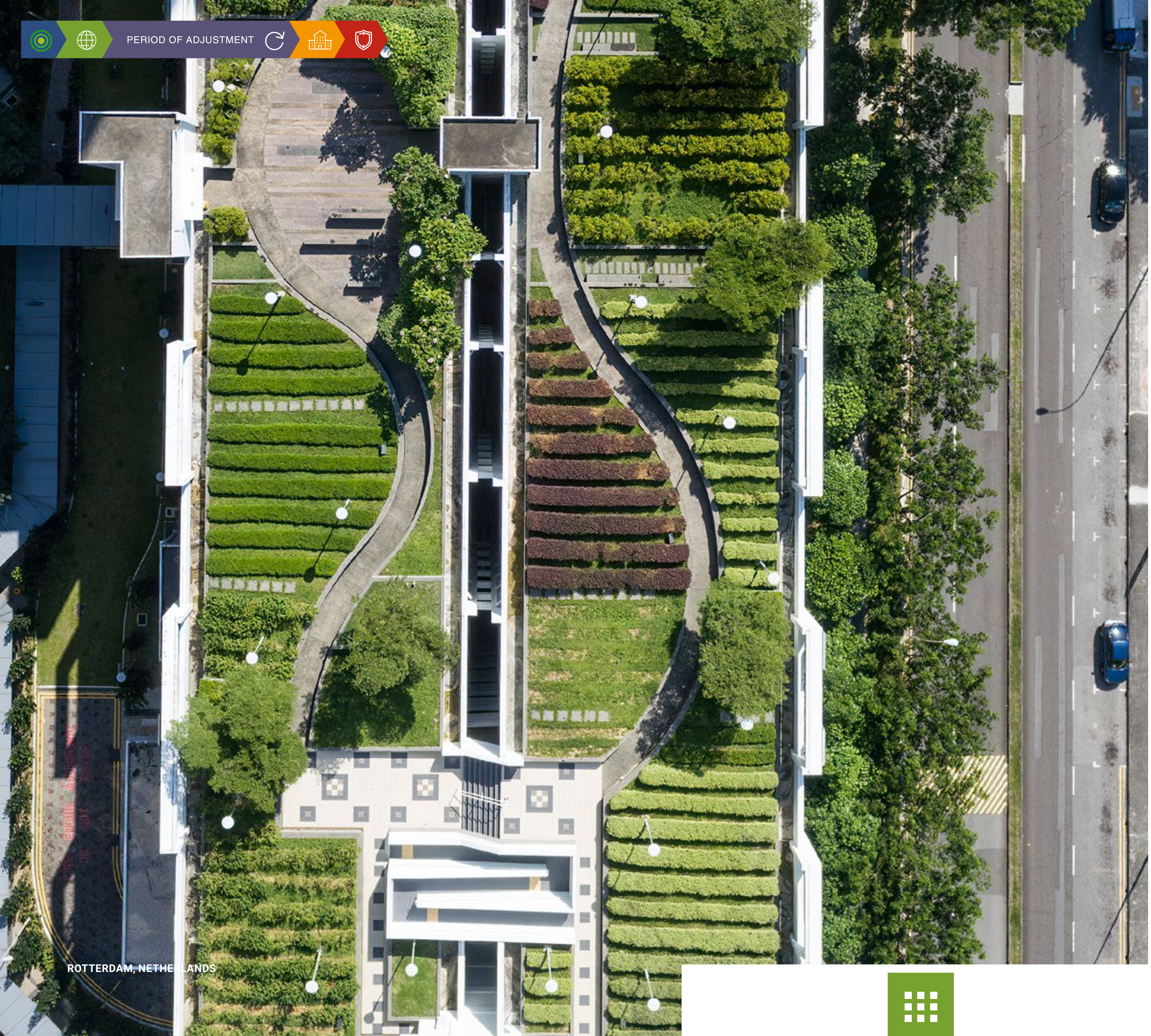
For many, the combination of decarbonisation and soaring energy prices makes it a compelling thematic play.

It is also clear that the interlinked challenges of environmental sustainability, regulation and asset obsolescence – already significant – are only expected to increase in importance over the long term.



We've become a highly global world, reliant on logistics in the supply chain.





ROTTERDAM, NETHERLANDS

“

The borders with other asset classes and industries have become blurred, ESG is no longer just about E but also about S, and technology has become an integral part of operations.

ESG is predicted to have the biggest impact on real estate by 2050, according to as many as nine out of 10 respondents to the *Emerging Trends Europe* survey.

However, there are persistent concerns that the prevailing tough market conditions may slow progress on ESG compliance despite widespread acknowledgement of its merits as a means of ultimately enhancing income and value. Some 59 percent of investors globally have a net zero target and recognise its importance in a market increasingly valuing sustainability, according to a survey published this year by INREV, the European association for investors in non-listed real estate vehicles. The fact that net zero targets are post-2040 for most investors is less reassuring, says INREV, indicating that costs associated with meeting these targets may have pushed the timeline beyond what many initially expected to be a goal for 2030 and therefore no longer in accordance with the Paris Agreement.

As one European interviewee says, the real estate industry needs to “transform itself across multiple dimensions”, concluding: “The borders with other asset classes and industries have become blurred, ESG is no longer just about E but also about S, and technology has become an integral part of operations. Real estate is no longer passive income; it is about operational expertise. And if you believe that we need new types of real estate, then you believe we need to invest in development risk. Do we have the right skills? Do we have the right mindset?”



Trending topics

Social and income test for housing

Housing affordability is once again at the top of the list of social-political concerns among industry leaders in North America, Europe and Asia Pacific, and there is no let-up in sight. In some countries, conditions are worsening.

For years, investors' response to this widespread problem has been to shift capital from unfavoured sectors and reallocate into various forms of housing, which have been consistently near the top of the rankings in all three regional reports. That high ranking still applies this year in Europe and Asia Pacific.

By contrast, the US is presently working through the consequences of soaring house prices during the pandemic followed by a doubling of mortgage rates. After sharp rent increases in 2022, rent growth has eased due to large supply deliveries although construction has now fallen. Rent growth is expected to resume, albeit at a heavy cost. MSCI calculates that there is \$9.6 billion of outstanding distress and \$67.3 billion of potential distress in the US multifamily sector.

None of this is helping the affordability crisis although in “the year of the election” interviewees expect housing to be a prominent part of the political agenda. In an electioneering context, some expect to hear more about rent controls – a controversial topic over the years in *Emerging Trends Europe*. The prevailing industry view is that they are counterproductive although there is some support. “Regulation in itself is not always a bad thing,” says one European institutional investor in residential. “We would argue that it is actually quite a good thing for the sector, as long as it’s done in the right way.”

According to this interviewee, the bigger challenge on affordability in Europe lies in making social housing economically viable for institutional investors. “If we’re developing at scale in social housing, there probably has to be a bit of public participation, some sort of security of income, or at the very least there has to be participation in the planning and the development component to de-risk it.”

It is no coincidence that social equity/inequality and mass migration have risen to prominence with housing affordability in the *Emerging Trends Europe* survey.



We are so very much in an era of real estate trying to solve social challenges.

All three issues are interlinked in the minds of European industry professionals, especially in this election year.

Yet the challenges associated with building truly affordable, lower-income housing are evident across all three regions. One housing lender interviewed for the United States and Canada edition of *Emerging Trends* expresses a view about the US but which resonates in many countries: “We are so very much in an era of real estate trying to solve social challenges. So, it could logically follow that deals are getting harder to do. With a lot of social challenges – addiction, crises of despair, and lots of health-related challenges – all sorts of individuals need and deserve a kind of care that goes well beyond a standard property management operation. And those kinds of housing needs are trying to be jammed into a programme that was not set up to do that kind of work.”



SAN DIEGO, UNITED STATES



DATA CENTRE IN EUROPE

Surging demand for data centres

One of the industry leaders interviewed for this Global edition poses an important question for the world of real estate in 2024: “Data centres ... are they real estate, technology or infrastructure?”

The answer is probably all three as data centres have come to epitomise the blurring of boundaries in the built environment. They are also a shining example of an alternative sector reaping the rewards of secular trends in society.

All three regional *Emerging Trends* reports rank data centres at or near the top for investment prospects in 2024. But if anything, the shift of capital into the sector is accelerating beyond initial expectations as investors tap into the seemingly limitless rise in data usage and storage.

One US interviewee talks of “huge dollars going into data centres”. An investment manager in Asia Pacific refers to the sector as “one of the top topics of interest” among investors because “there’s a need everywhere, particularly the more developed, high-population markets, but even emerging markets”.

In Europe, investors see “extremely compelling economics”, says an investment manager.



Interviewees across all three regions compare data centres to logistics in the good old times.

“You will get a return on cost, maybe at 9 percent and an exit at 6 percent. You really get rewarded for the development risk you’re taking.”

Interviewees across all three regions compare data centres to “logistics in the good old times”. Just as e-commerce lifted logistics demand to a new level a decade ago, so the rapid uptake of generative artificial intelligence tools is helping turn an under-developed data centres sector into a leading prospect today. Significant endorsement has come from influential groups such as Blackstone and KKR, which have recently unveiled ambitious plans to invest in the sector.

And yet there is also resistance. The huge energy and water usage of data centres is putting excessive pressure on national climate targets and electricity grids. 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 over the past year.





One way forward may be through a greater focus on “edge” data centres, which are smaller than conventional data centres and located closer to end users.

As *Emerging Trends Europe* suggests, one way forward may be through a greater focus on so-called “edge” data centres, which are smaller than conventional data centres and located closer to end users. Once again, the rationale here brings to mind the evolution of logistics with the newer hierarchy of regional and last-mile centres complementing the big central distribution centres, speeding up delivery and saving costs.

Another approach to taking energy usage in this sector off grid is emerging in west London. Backed by the UK government, the Old Oak and Park Royal Development Corporation has recently announced plans to recycle waste heat from nearby data centres and use it to heat 10,000 new homes and 2.7 million square feet of commercial space.

Such innovation is a sign of things to come with data centres. It is also an example of how the industry is starting to think in terms of developing “sustainable ecosystems” that integrate the various real estate sectors. In doing so, the industry recognises that it must balance making short-term profits with providing for the longer-term needs of a complex and fast-changing society.



MILAN, ITALY



Figure 1-4 Biggest movers for investment and development



Figure 1-5 Top cities for real estate investment in 2023

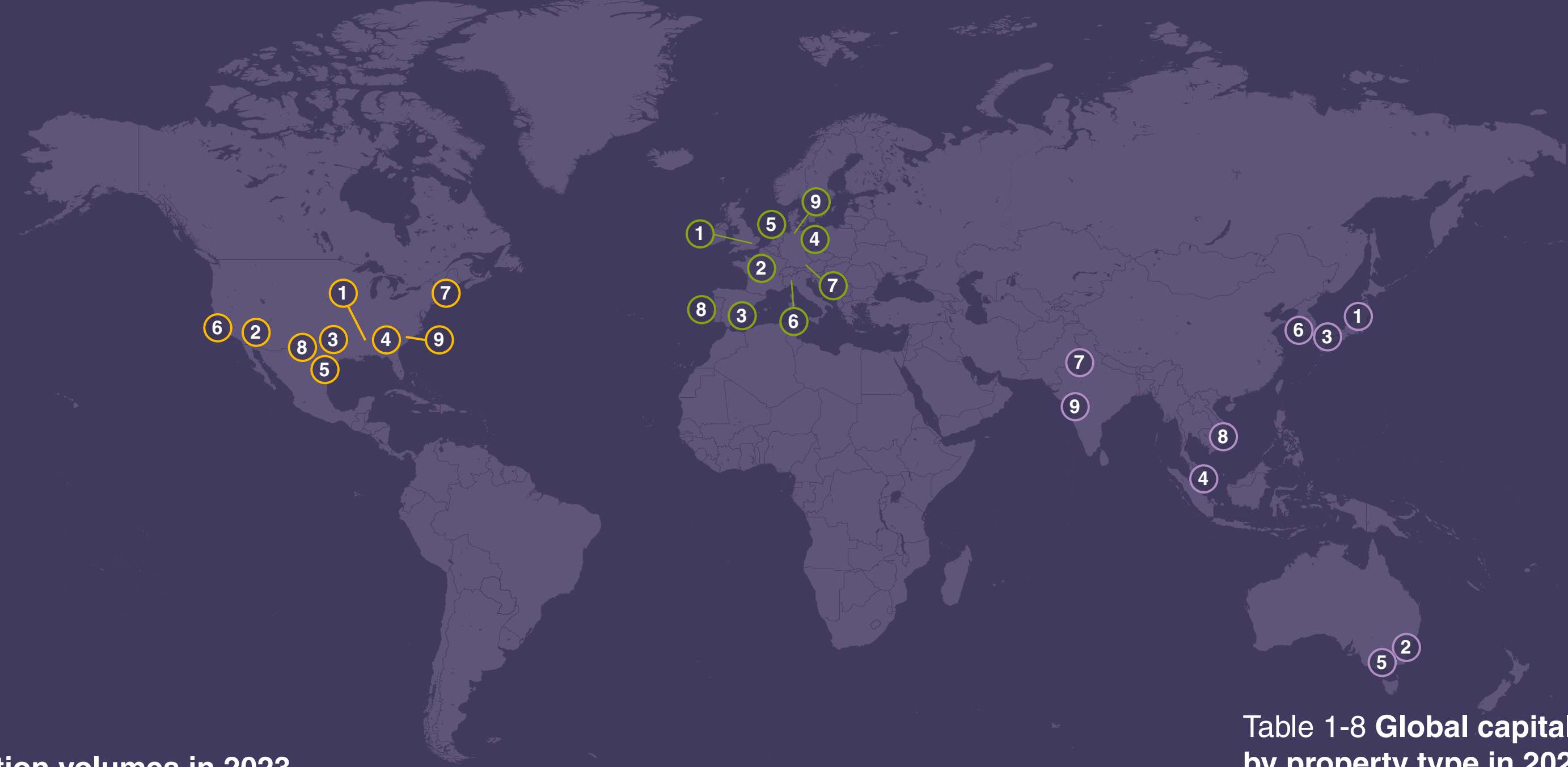


Figure 1-6 Top 5 city rankings for investment and development prospects

| | Europe | USA | APAC |
|----|-----------|-----------|-----------|
| 1. | London | Nashville | Tokyo |
| 2. | Paris | Phoenix | Sydney |
| 3. | Madrid | Dallas | Osaka |
| 4. | Berlin | Atlanta | Singapore |
| 5. | Amsterdam | Austin | Melbourne |

Figure 1-7 Transaction volumes in 2023

| Americas | | | EMEA | | | Asia Pacific | | |
|-----------------|--------------|-------------|----------------|--------------|-------------|-----------------------|--------------|-------------|
| | (US\$ bn) | YOY(%) | (US\$ bn) | YOY(%) | (US\$ bn) | YOY(%) | | |
| United States | 285.3 | -55% | United Kingdom | 44.1 | -42% | China | 37.4 | -19% |
| Canada | 24.3 | -22% | Germany | 27.4 | -53% | Japan | 36.9 | -16% |
| Brazil | 0.9 | 22% | France | 27.4 | -36% | South Korea | 18.7 | -47% |
| Puerto Rico | 2.9 | 676% | Spain | 9.9 | -44% | Australia | 16.4 | -56% |
| | | | Sweden | 8.5 | -50% | Hong Kong, SAR, China | 8.1 | 23% |
| Americas | 313.7 | -53% | EMEA | 162.6 | -49% | Asia Pacific | 142.5 | -27% |

Table 1-8 Global capital trends by property type in 2023

| | Volume (US\$ bn) | YOY (%) |
|-------------------------|------------------|-------------|
| Apartment | 155.6 | -58% |
| Industrial | 151.9 | -42% |
| Office | 135.9 | -55% |
| Retail | 106.7 | -30% |
| Hotel | 48.5 | -33% |
| Senior housing and care | 16.5 | -29% |
| Income Properties | 615.1 | -48% |
| Dev Sites | 575.6 | -19% |
| Grand Total | 1,190.6 | -37% |

Regional snapshots

North America

Investment volumes slumped by a sobering 55 percent to \$285.3 billion in 2023, according to MSCI, and yet the outlook for US real estate has brightened since the turn of the year. “The optimism is quite palpable,” one US-based interviewee says.

The improved mood owes much to a US economy that continues to defy predictions of a slowdown. The consensus view is that interest rates have peaked, with an expectation that the Federal Reserve will cut rates this year, albeit later than the industry would like (Figure 1-9).

Above all, there is huge relief that the 10-year Treasury yield has settled down after causing investment sentiment and transactions to plummet last October when it hit 5 percent, a level last seen in 2007. Prices fell throughout 2023 but the interviews indicate that the pace of decline is moderating, with the notable exception of offices.

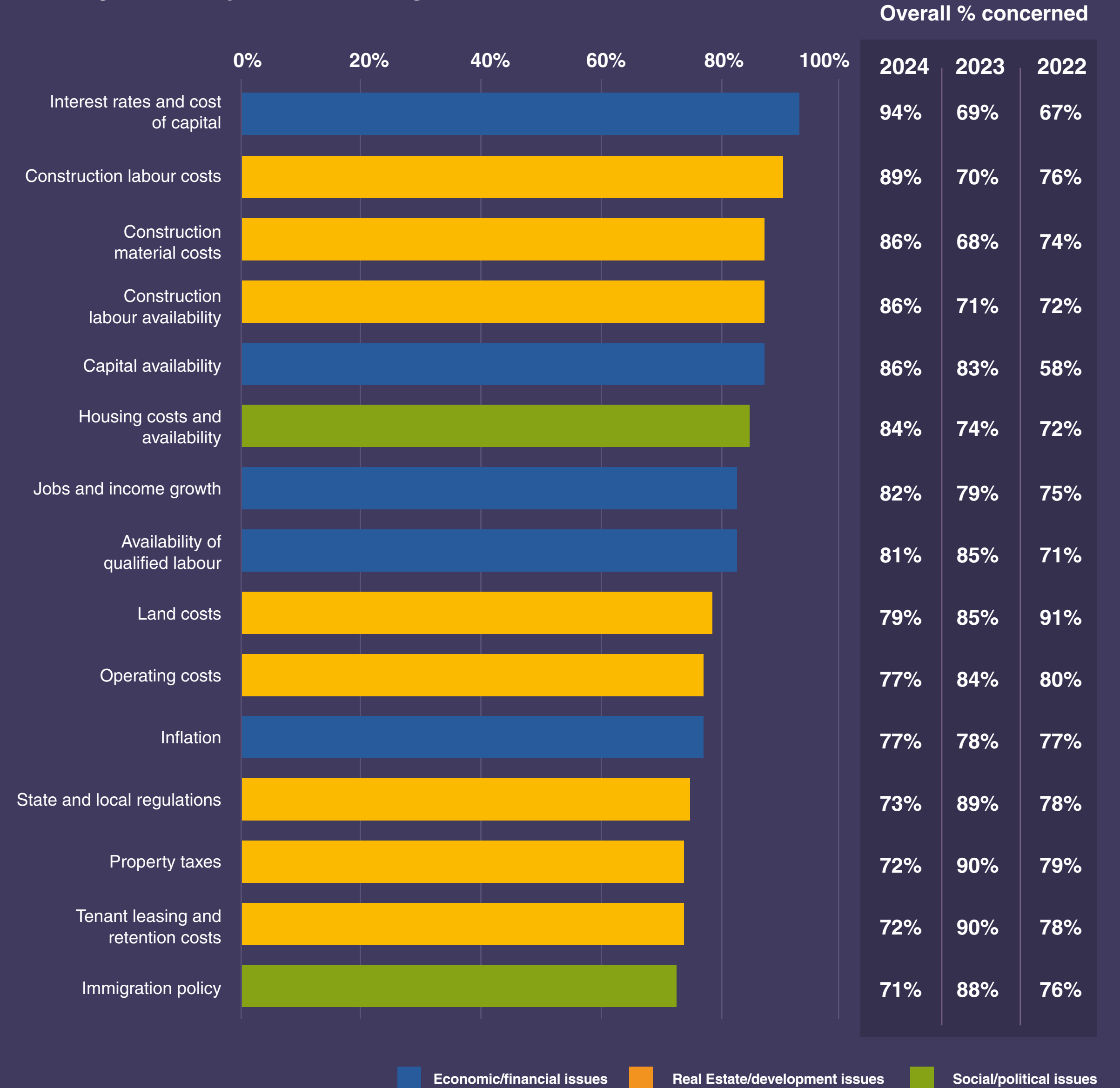
According to one interviewee, the bid-ask spread between buyers and sellers has “definitely narrowed”, adding: “Sellers have come back, realising that cap rates are not going to be compressing.”

As for the buyers, the interviews indicate that they are likely to hedge against further falls in value by doing deals through preferred equity structures or joint ventures with operating partners. As one investment manager says: “It feels like everybody out there who has capital has turned into a bridge lender, some kind of a short-term, higher-octane pref lender. We’re seeing that a lot, and that will be a great solution for certain assets where you have the basics of great sponsorship, great fundamentals.”

Yet there certainly is downside risk and uncertainty with a looming presidential election and an estimated \$1.2 trillion of commercial real estate debt that will need refinancing over the next two years. “There’s a lot of money being put out in real estate after last year when nothing was done,” says one interviewee. “So, people are trying to figure out how do you get your business done before the election and then afterwards.”

The one sector that remains difficult to figure out is office, where deal volume has fallen more than any other property type. Industry leaders in the US have largely accepted that workplace occupancy will not be returning to its pre-pandemic state.

Figure 1-9 Key issues causing concern in North America, 2024



Source: Emerging Trends in Real Estate North America and Canada 2024 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.



CO WORKING SPACE, UNITED STATES

Hybrid working is here to stay, and it is clear that the impact on the US office sector remains much more severe than in Europe and Asia Pacific. MSCI says that US office prices fell by as much 16.1 percent during 2023 but even that extraordinary decline has not been enough to tempt investors to step in from the sidelines. The implication is that current owners must endure further price falls if they are to sell their assets. But so far this year there is no sign of any respite. Says one US investor: “We definitely wouldn’t go near office. It’s hard to get something done in office right now. The risk-reward profile there is very, very hard. In so much as there are transactions in the sector, people are going to be very cautious.”

In stark contrast to offices, the retail sector is showing a remarkable resurgence in the US. Tenant demand has skyrocketed over the past 18 months. As the United States and Canada edition of *Emerging Trends* sets out, the industry is starting to acknowledge that American consumers will keep buying most of their goods and many services in shopping centres indefinitely, even if e-commerce continues to take market share away from in-store retailers.

Consumers’ appetite for shopping as part of an overall leisure-time experience appears to be underpinning demand for in-store retail. In other words, the long-term impact of e-commerce on shopping centres is less than initially feared and, according to one line of thought, possibly less significant than the impact of hybrid working on office property.

“I just didn’t think physical retail could be as dead as was predicted,” says one investment manager interviewed for this Global edition. “And it certainly has come back to life in part, as we watch retailers that thought they could serve their customers online only. They have learned that it’s an expensive way of meeting the needs of their customers. And that stores are actually the cheapest means of getting a sale, even when you add in operating costs and the people that are needed to staff the stores.”



There's a lot of money being put out in real estate after last year when nothing was done

As this manager goes on to suggest: “Retail will tell us a lot about ‘the office is dead’ theme that many have been sounding, at least in the US. Office is not dead. A lot of office will have a future as some other property type. Just as a lot of retail properties have become something else in the last five years while physical retail was challenged.”



Europe

The European real estate industry is still coming to terms with high interest rates but also difficult economic circumstances that continue to weigh on sentiment, suggesting that the market here may take slightly longer to get back onto an even keel than the US and Asia Pacific (Figure 1-10).

Though there is a widespread view that interest rates have peaked, and the European Central Bank and the Bank of England will eventually cut rates later this year, the industry leaders interviewed for this report indicate that buyers and sellers of commercial property remain far apart on pricing.

“Europe is much harder to judge than the US and Asia,” says one global investment manager. “It has probably corrected fastest but whether it recovers is unknown because the economic outlook is not great.”

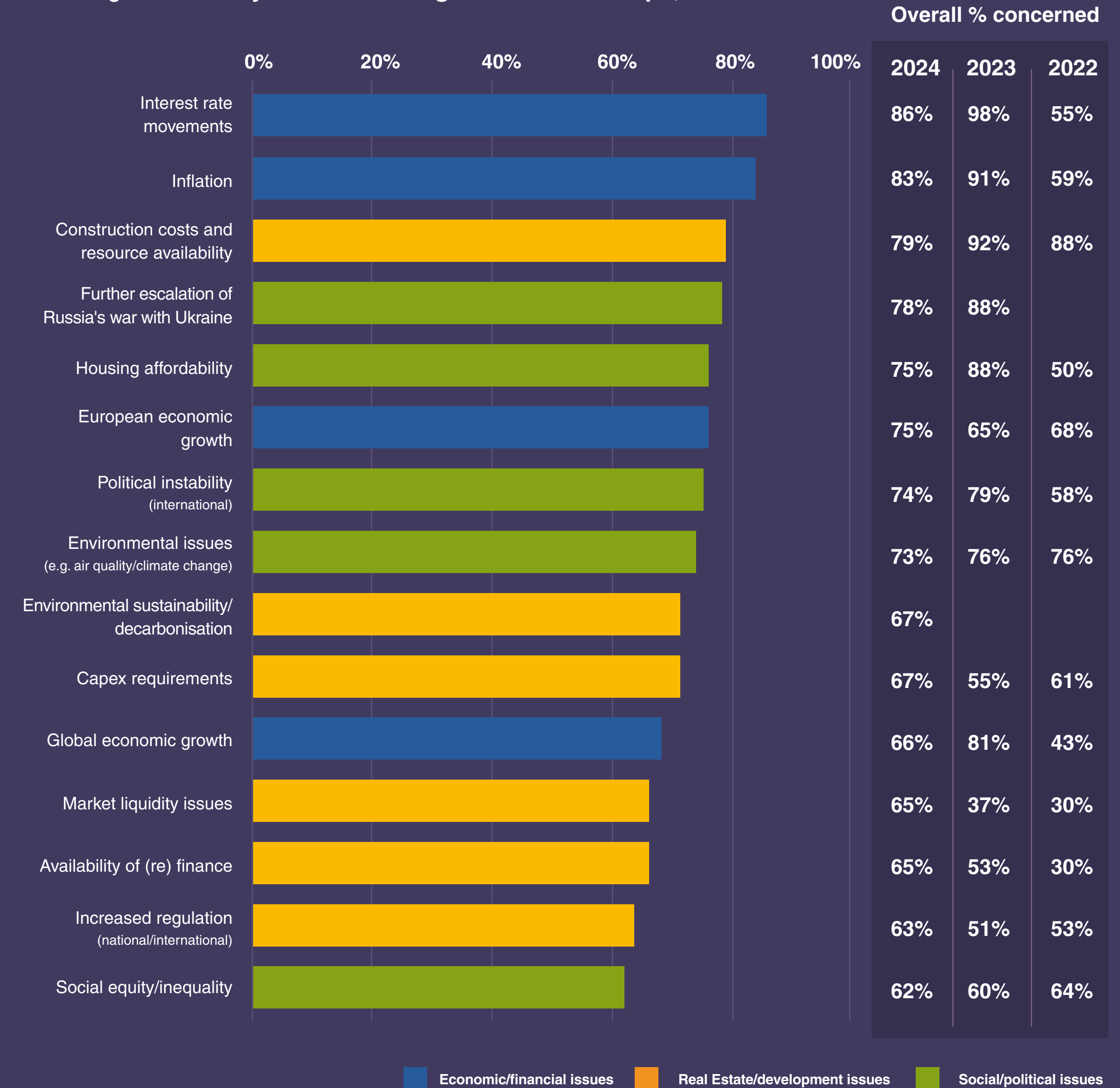
Indeed, the IMF has forecast that the Eurozone economy will grow just 0.9 percent in 2024 compared with 2.1 percent for the US and 5.2 percent for Asia. As another global player points out, Europe’s economy is “more challenged” than the other regions. “So, I think it may take a little while longer for sentiment about the occupier side combined with sentiment about the bid-ask spread to deliver results.”

Europe’s big economies, such as Germany and the UK, are the object of most concern and indeed the latter has slipped into recession since interviews were conducted for *Emerging Trends Europe*. Germany remains at risk, says one European-based interviewee, because of its relatively high dependence on exports. “The order book is shrinking, which may extend to weaker occupier demand.”

On the face of it, Europe’s economic uncertainty has translated into bleak investment numbers. The latest MSCI data show transaction volumes for EMEA tumbling by nearly half to \$161.9 billion in 2023. German and Swedish deal volume fell 75 percent and 74 percent respectively from their post-pandemic peak.

The situation is most acute in offices, where MSCI says there is a price gap between buyers and sellers of 39 percent in the Netherlands, 32 percent in Germany and 27 percent in France. The top buyers of European office property appear to have stopped adding to their portfolios amid the risks posed by hybrid working and environmental obsolescence. This “double impact” is at its worst in Europe’s secondary office markets, says one interviewee, adding: “Retail is no longer the sick man of property. Office is – even if the issues are less significant than in the US.”

Figure 1-10 Key issues causing concern in Europe, 2024



Source: *Emerging Trends in Real Estate Europe 2024 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'.



LISBON, PORTUGAL

Not surprisingly, as *Emerging Trends Europe* highlights, banks are especially cautious about lending on secondary offices but also on development, which has come to a standstill in many European markets. Industry leaders here say downside risks to occupational markets as well as high construction and labour costs are holding back development financing. For the same reasons, the economics of decarbonisation are problematic.

Yet in principle, the outlook for development is promising given Europe’s chronic undersupply. Some 43 percent of European survey respondents believe that new development is the best route to acquire new prime real estate although even more, 62 percent, favour retrofitting or repurposing existing assets. One senior professional interviewed for this Global report believes that “2025 will be a banner year for development after multiple years of limited supply”. It is fair to say that is a bullish prediction and that others believe the pendulum will swing back towards development in the medium term rather than next year.

Even so, the interviews for this report suggest that any change in sentiment towards European real estate – positive or negative – will be far more nuanced than the hard data indicate. “This cycle’s been really interesting from a macro perspective,” says one European investment manager. “Our occupier markets would suggest it has been a soft landing. “With residential, particularly private rented accommodation,



2025 will be a banner year for development after multiple years of limited supply

we’ve seen very little impact from a tenant perspective on our occupation rates. We’ve still got high conviction on high-quality, affordable accommodation in major cities around Europe.”

Even with offices, this manager says, the trends are “still quite regional” and vary by submarket rather than universal. “You’ve got pockets of Europe where the occupier markets are actually holding up quite well.”

According to another European interviewee, a balance must be struck between pricing and quality, predicting that inner city locations will “stabilise” much sooner than the locations that rely wholly on pricing incentives. “You will have a flight to quality on location, which is normal after a downturn, but it will be even more important this time.”



Asia Pacific

A recurring theme in *Emerging Trends Global* in recent years is of Asia Pacific as a haven for capital compared with Western property markets, and that argument still applies in the current uncertain economic climate, albeit with significant caveats.

Interviewees point to the region’s relative economic stability underpinning the investment case in difficult times. “For the first time in living memory in a part of the economic cycle where the US dollar has strengthened, raised interest rates, and it hasn’t led to an emerging market currency crisis in Asia,” says one global investment manager. “That tells you about how the region has evolved and how the strength of the underlying economies has held up. As we head back into an [monetary] easing cycle, with the backdrop of the economic engine and the demographics that exist in this region, it’s going to continue to present an incredibly compelling investment environment.”

Another global player says: “We do think Asia at the moment is probably the most attractive market to be investing in. On top of that, the continued growth in the middle class, and now purchasing power in the region, is a very strong engine for growth in future.

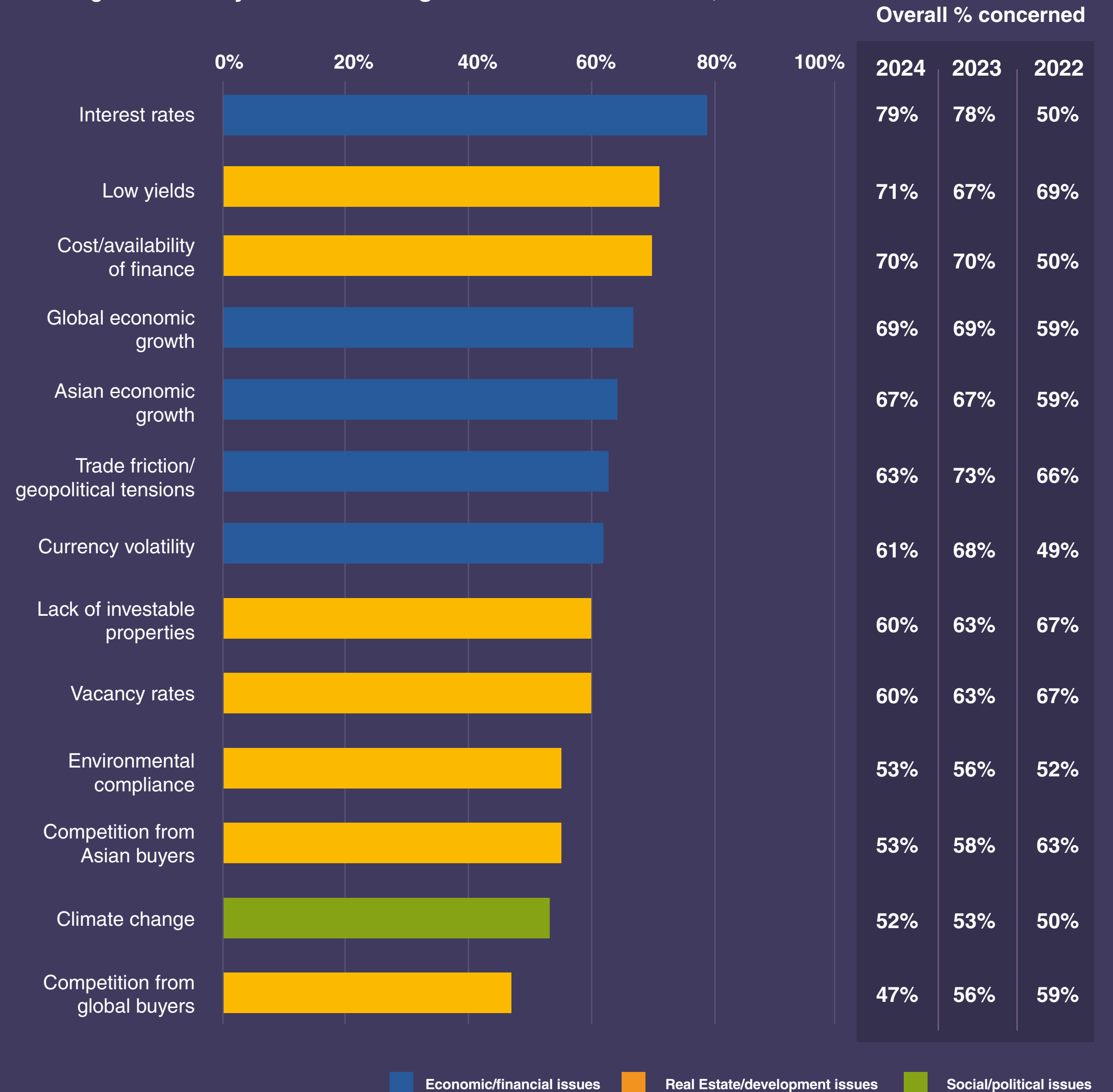
“Even in areas like technology, the pace of adoption is much quicker across the region, and that’s going to be beneficial for business.”

Though deal volume was down 28 percent to \$139.7 billion in 2023, according to MSCI, the fall was less severe than North America and Europe. The headline number also obscures the differences in capital trends across a region of such disparate economies. Singapore, for instance, saw a doubling of deal volume in the fourth quarter, boosted by a resurgence in cross-border interest.

That is not to say Asia Pacific is without its own geopolitical tensions or free of the challenges facing other markets (Figure 1-11). As one investment manager acknowledges: “Asia is not immune from inflation and interest rate rises, particularly in Australia and South Korea, where we’ve seen a much higher rate of increase in interest rates and cap rates as a result.”

There is also the likelihood of “a lot more distressed activity” across the region in 2024 while interviewees say the gap in pricing expectations between buyers and sellers of properties is averaging 15 percent. “That bid-ask spread still exists,” says one, “but it has narrowed considerably as we all coalesce around a true cost of capital. Given a bit of time, reality will set in, and groups will start to transact. We’re already seeing some initial green shoots of that.”

Figure 1-11 Key issues causing concern in Asia Pacific, 2024



Source: *Emerging Trends in Real Estate Asia Pacific 2024 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.



I don't think capital gains are going to be any part of the growth expectations that we've had in the last 10 years.

If the expectation is just to collect a yield, another interviewee says, Asia remains a relatively safe place. “But if the expectation is for capital gains, the answer is that it’s not. I don’t think capital gains are going to be any part of the growth expectations that we’ve had in the last 10 years. I think that’s off the table for two years.”

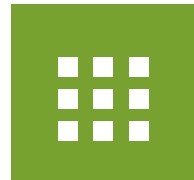
While many markets around the world are dealing with inflation, China is dealing with different inflationary circumstances, including “a lot of supply across different sectors in real estate”, says one investment manager. Yet China remains the region's biggest market with \$37.5 billion of deals completed in 2023, according to MSCI.

To the surprise of many, Japan slipped into recession at the end of 2023. But the region’s second largest property market continues to find favour with overseas investors for its growing multifamily sector and increasingly in the hospitality sector on the back of a boom in tourism. And as MSCI points out, while capital values have fallen for most other major industrial markets worldwide, they continue to rise across Japan.

According to one global player, there is scope for “operational value add” investment in Japan. “Corporates and conglomerates are selling assets that have been non-core to their business, haven’t got the attention they deserve. There’s an opportunity to reposition and revitalise assets and substantially improve cash flows.”

As in other regions, the industry leaders interviewed for this report say there is a focus on sectors with “very strong tailwinds”, such as logistics, data centres and the various forms of housing. There is also increasing attention on decarbonisation, but as an opportunity as much as an obligation. “It’s another dimension to asset enhancement or repositioning,” says one investment manager. “It’s going to have a more pronounced effect in major cities where there are more global occupiers and global capital.”

However, one notable difference between Asia Pacific and the other regions lies with workplace trends in the office sector. “Notwithstanding the headlines of the office being dead,” one global player says, “that reality is true for commodity product in secondary markets in the US. That is not the case in a place like South Korea, where employees are 100 percent back to the office, rental rates are up 20 to 30 percent year over year, vacancies are at historical lows. And given the rise in construction costs and interest rates there, there is no new premium, grade A supply for the next three years. And so, the tailwinds are spectacular. Occupancy and demand continue to be incredibly strong.”



CHAPTER 2

FIT FOR PURPOSE REAL ESTATE

“The next generation is definitely choosing who they work for with their heart, much more than older generations, who thought, okay, just get into work.”

Director, corporate office occupier



The real estate industry is going through a process of transformation, buffeted by structural change and the megatrends of demographics, digitalisation, urbanisation and climate change. But cutting across all of this disruption are the changing demands of the occupiers.

Occupier-driven change often unfolds gradually in plain sight but invariably ends up with significant consequences across all sectors, requiring a rethink of delivery models for real estate. Yet the industry is frequently judged to be on the back foot, slow to respond to changing consumer preferences and tenants' needs.

With that in mind, our research for this Global edition has sought to consider how the industry can work more closely with occupiers and other industries and endeavour to create a "real estate eco-system" that can pave the way for buildings to be fit for purpose over the coming decade.

With the benefit of hindsight

The owners of three large Amazon industrial units in the UK had good reason to be satisfied when the global e-commerce giant took long leases on huge swathes of space between 2004 and 2014.

But Amazon's \$775 million purchase of Kiva Systems, an order fulfilment company, and subsequent deployment of 750,000 robots across

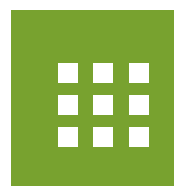
its warehouses, resulted in a rationalising of its fulfilment portfolio in 2023. After just a decade, the buildings no longer appeared to be fit for purpose. The whole episode was a kind of operational obsolescence, a salutary lesson for the owners and for real estate generally.

The same pattern is evident across all sectors, not least with offices. Hybrid work had been growing in most Western markets long before the onset of COVID 19. But the pandemic accelerated the trend and cast a light on a disruption that mirrors the huge impact of e-commerce on the retail sector.

"The change now is that the balance of power is shifting, especially now that COVID has shown that you don't need physical space in the way you did before," says one of the corporate occupiers interviewed for this report.

One impact of the pandemic was to make senior corporate decision makers reassess the role of real estate. "It moved up the pecking order, and it removed a brick wall that would only have come down after a long generational change," another occupier says.

Occupier requirements around what is fit for purpose real estate continue to evolve. The question is, can the real estate industry evolve and keep pace with its end users?





If you look at who the landlord has viewed as their customers, traditionally, it generally hasn't been the occupiers – the landlord's customers, normally, are investors in their company.

Redefining relationships across real estate

It is clear from *Emerging Trends over recent years* that the underlying value of the various real estate sectors is being redefined in response to key factors well beyond location, important though it still is.

Building specifications, amenity provision, and environmental and sustainability credentials are all now critical to the value proposition. As a consequence, property as a service has been accepted practice for some time now for many real estate businesses as they seek to get closer to the customer. This in turn is driving greater sophistication of the end product, for instance, enabling the shift into operational real estate and latterly the push towards co-location of contrasting uses on the same site, such as industrial and housing. But is this enough?

The interviews conducted for this Global edition suggest that the relationship between building owners and occupiers will need to become more intertwined – and much more of a partnership – although it also true that some occupiers still do not have clear views on their long-term needs.

Not so long ago, landlord and tenant interactions were few and far between, often only around lease renewals. The new principles of partnerships between owner and occupier would mean a stronger collaboration.

In turn, the occupier's requirements would be embedded in the ongoing service provision of the property.

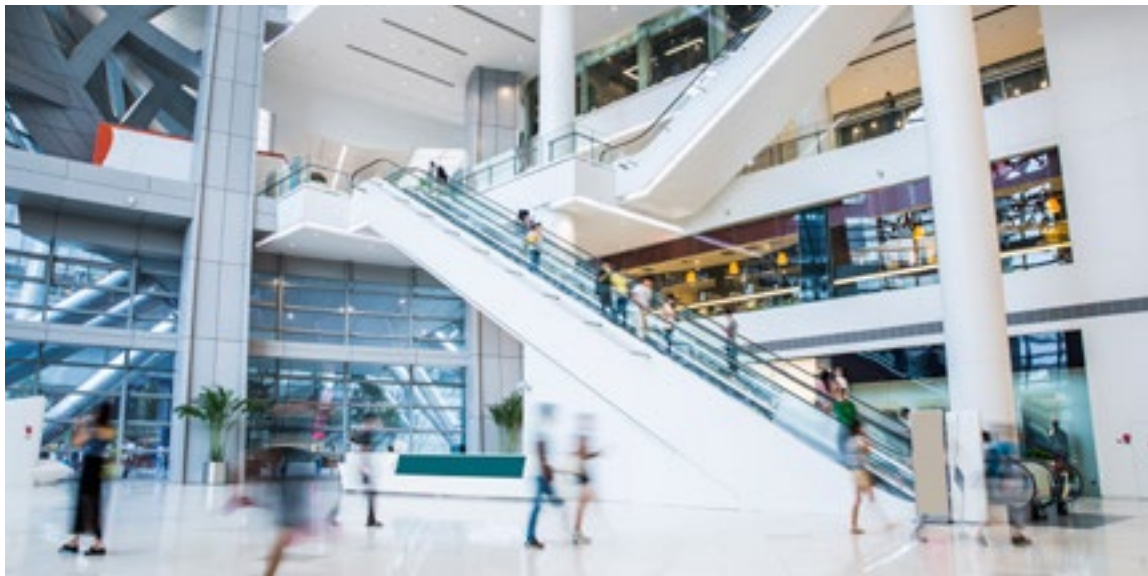
This trend is certainly emerging among large global office occupiers, which are still likely to take headquarter buildings or significant regional hubs on long leases, given the tailored requirements they typically have for this type of space. But many are also teaming up with flexible office providers, taking smaller offices on flexible leases and offering all-access passes to all staff allowing them access to offices across the world.

Retail has already undergone much of the upheaval currently facing the office sector. The days of the hands-off retail landlord leasing space to a brand then simply collecting a rent cheque are now far in the past. Retailers want to be in centres and on high streets that provide experience and amenity to draw in shoppers constantly.

One example is the way turnover rents – where the rent paid by a retailer comprises a fixed element plus a component based on the turnover achieved – create a greater alignment between retailer and landlord. These rents have grown in popularity as the retail sector has responded to the growth of online sales, ensuring that landlords are incentivised to draw as many shoppers to their schemes as possible.

The next big change in this sector will be the blurring of in-store and online retail, and it is likely to have a significant impact on how the real estate is used and valued.





The logistics of retailing

Inditex, the global clothing company that owns such fashion brands as Zara, Pull&Bear, and Bershka, has streamlined its inventory management, effectively eliminating the boundaries between what traditional real estate investors would distinguish as separate sectors.

The company employs a state-of-the-art tracking system, with all of its inventory embedded with radio-frequency identification tags across a global network of over 6,000 stores across 90 countries and synced with its distribution centres. At its headquarters in Spain, Inditex traces every garment in its supply chain, and it uses advanced analytics to enable it to ship orders to customers quickly by providing the most cost-efficient fulfilment option.

Major retailers are investing in technology that will allow them to track more accurately the stock they have in individual stores. This will allow for quicker rotation of stock, but also for deliveries to be made from stores rather than warehouses – in other words, faster deliveries and more environmentally friendly. "My office is one kilometre from a major fashion retailer's store, and one kilometre the other way is another," an interviewee says.

"I can guarantee you within those shops is a white shirt that is my size. But at the moment they're sending it to me on a little motorbike from a place which is 50 kilometres out of town. That doesn't make sense at all. And if I have five deliveries turning up at my house every day, environmentally, that's obscene."

If deliveries can be fulfilled from stores, shopping centres should become a much more valuable investment, the argument goes. In effect, this amounts to retail taking on the role – and some of the value – of logistics with the goal of getting goods to consumers quickly and efficiently. But as another interviewee adds, the industry is not there yet. At the very least, the structure of many stores and shopping centres will need to change, with more back-of-house space to fulfil orders and deliveries – "something many owners don't get right now".

As all three regional editions of *Emerging Trends* highlight, investment in artificial intelligence and technology generally will be critically important as a force for change across all sectors. But as some of the occupiers interviewed for this Global edition suggest, the partnership approach to real estate is equally important, and it is long overdue.

Two commonly cited failings of the real estate industry are a lack of speed in responding to tenants' needs, and a fundamental error when analysing who their customer is. "If you look at who the landlord has viewed as their customers, traditionally, it generally hasn't been the occupiers – the landlord's customers, normally, are investors in their company," one interviewee says. "I see real estate as a service of the business," another occupier says.



If deliveries can be fulfilled from stores, shopping centres should become a much more valuable investment.





CO-WORKING SPACE, COPENHAGEN, DENMARK

Those who succeed in the industry will be able to adopt that service mindset. The fact that many real estate businesses fall short here is considered a significant problem, and uppermost in the minds of many occupiers across different sectors when it comes to what frustrates them about the industry.

“Ideally, flexibility is key. I think that landlords are really late to the party there,” one occupier says. “And that’s because of the way assets have been valued, on the income stream. And if there’s flexibility, that reduces their value proposition from a valuation perspective. So, what the need of the end user is, versus what an institutional landlord needs for investment purposes... that’s counterintuitive.”

“Who is the owner?” another corporate occupier asks. “Is the owner somebody that I will have a relationship with, or is it somebody distant out there and I’m going to have to deal with their lawyers and their property manager and the asset manager and the fund manager? Or can I actually establish some sort of partnership with the owner of the environment where I’m going to be residing?”

There is a lot to play for if landlords consider true partnerships with occupiers and think about the challenges beyond the physical building and about the needs of the workforce. In the context of the logistics and retail sectors, such an approach would extend beyond single locations to the wider needs – including energy usage – of the supply chain and customers.

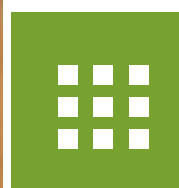


Flexible offices

Greater flexibility between office landlord and tenant has been put into practice in London by Great Portland Estates, the UK real estate investment trust, and law firm Clifford Chance, which in 2022 leased 321,000 sq ft at 2 Aldermanbury Square on an over-arching 20-year lease but with numerous options to break.

Essentially, the firm can change the size of its footprint several times within the period of its lease. It is a sign that the conversation here has advanced from the tenant-as-customer rhetoric of a few years ago into something more tangible where flexibility becomes embedded within occupiers' requirements.

In that sense, real estate businesses are no longer simply builders and owners of physical assets, whereby the needs of the end customer represent a risk to be reduced through long leases or transferred to other parties.



Green above all

Informing every decision that occupiers take when it comes to real estate is their ESG strategy.

A desire from employees to work somewhere “impactful” is reinforcing their commitment to sustainability, particularly in Europe, but also in the US and Asia Pacific. Companies set overall ESG goals, and for many of them their buildings must demonstrate this commitment as well, serving as a physical embodiment of the goal of cutting carbon emissions and reducing energy use.

“When we started the [office development] project, eight years ago, it was important and special to have a BREEAM (Building Research Establishment Environmental Assessment Method) Excellent score, or the equivalent,” one occupier says. “Now it’s a given. It’s nothing special anymore.”

For some interviewees, this is another area where the industry falls down, not understanding just how central sustainability is to the business of modern companies. “There needs to be more work on that and more collaboration between occupiers and investors,” one interviewee says. The same need to partner exists when it comes to utilities providers too.

The research indicates some uncertainty among occupiers regarding how real estate feeds into the S of ESG. While housing affordability is consistently highlighted in all three regional *Emerging Trends* reports as one of the key challenges facing real estate and society, only one of the office occupiers interviewed for this Global edition regards it as a

factor in their decision on where to base their main HQ. “We tend not to be in CBD locations, we tend to be slightly outside the CBD in cheaper locations,” this occupier says. “That’s because of where our staff travel in from.”

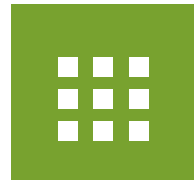
Even with the environmental agenda the importance of real estate in overall decarbonisation efforts still lacks clarity. Partly this is an issue of data collection; partly it reflects the fact that for all their ESG ambitions, some occupiers have not fully grasped how real estate can impact their decarbonisation targets. A separate study published this year by ULI as part of its C Change programme to mobilise the European real estate industry to decarbonise, refers to “missed connections” between owners and occupiers. Progress has been held back by a lack of understanding of the broader goals of decarbonisation and even the “absence of a common language” between the two sides.

However, sustainability will eventually have to be integrated into all aspects of occupiers’ requirements. According to a study by the UK-based Energy & Climate Intelligence Unit, more than a fifth of the world’s 2,000 largest public companies, representing nearly \$14 trillion in annual sales, have committed to net zero, a goal that will clearly require them to be in buildings that comply.

The inevitable consequence is that occupiers’ real estate requirements will be impacted by their net zero pathways across their entire corporate value chain. This will influence numerous property decisions involving location, sustainable mobility options and building specifications.



HONG KONG, CHINA





STOCKHOLM, SWEDEN

Ultimately, fit for purpose real estate will be defined by increasingly stringent and wider-ranging sustainability requirements, combined with evolving occupier demands for more flexible, service-led provision of space and a transparent, collaborative relationship with the landlord. For those in real estate who fail to adapt, there is far greater risk around obsolescence and stranded assets.

The rise of real estate ecosystems

The idea of property as a service is long-established, with valuable lessons learnt from the hospitality sector.

But with increasing interconnectivity between different industries, the more progressive property players are taking service to the next level, thinking about how “real estate ecosystems” can be developed to work for the benefit of owners, occupiers and the wider community.

A major example of this nexus lies in the rapid growth of data centres, where the downsides of the sector can become benefits for nearby occupiers. As is well acknowledged, data centres consume a lot of energy and create a lot of heat. But there are promising examples of co-location with other property types that can utilise the

waste heat and reduce their own carbon consumption.

Google has located its data centre in Hamina, Finland, near a former paper mill, which provides access to seawater cooling and renewable energy sources, reducing the energy consumption and carbon footprint of the data centre.

Another example is Green Mountain, a Norwegian data centre company which has co-located its data centre in Rjukan, Norway, with a hydroelectric power plant. This arrangement allows access to renewable energy and cooling water while reducing the energy consumption and carbon footprint of the data centre.

The expansion of the sector is global but so too is the resistance, with many national and city authorities introducing tougher environmental conditions over the development of data centres. In many respects, however, environmental necessity has become the mother of invention, and not just in data centres but across real estate.

The installation of electric vehicle charging stations is becoming standard practice at logistics properties, enabling customers to transition to low-carbon transportation and enhance their sustainability performance.

Without the infrastructure in place to charge fleets, logistics operators will not be able to make the transition from fossil fuel to electric fleets.





Housing goes digital

For the most part, innovation in the residential sector focuses on improving service and amenity for the customer. Yet there are signs of a greater integration with other industries.

UK housebuilder Barratt Developments, for instance, is working with Openreach, the BT-owned communications infrastructure group, to make full fibre broadband standard across all of the 15,000 homes it builds every year.

The joint venture highlights the role digital infrastructure can play in creating fit-for-purpose real estate. In an increasingly digitalised economy, a high-quality internet connection is no less fundamental to real estate than the provision of water, gas and electricity.

In the US, office REIT Boston Properties invests in on-site renewable energy generation to reduce the energy bills of its tenants and the carbon emissions of its buildings. It also uses its off-site renewable energy procurement to ensure that new renewable energy facilities are built.

According to a global residential operator interviewed for this report: “We are seeing a greater integration of systems, having more and more amenity and service provision made available on apps, creating more convenience for the end user – the resident.” In this interviewee’s opinion, everything to do with residential management “needs to be seamless, digital and on demand”.

Octopus Energy and the Hill Group, for instance, have partnered to deliver the UK’s biggest “Zero Bills” development, comprising 89 houses with no energy bills.

Each property will be equipped with cutting-edge low-carbon technology, including solar panels, high-quality insulation, heat pumps, and home storage batteries.

In effect, this is a new development with a self-sufficient power supply but also a pointer to how sustainable infrastructure and property development should be considered together.

These are all examples of innovation across the industry where the real estate outcome is greater than the sum of its parts. Yet not all the occupiers interviewed for this report have fully formed their views yet on the principles of partnering with property owners, let alone think in terms of a wider business eco-system for the good of all concerned.

The resistance to change here – or possibly an inability to change – is reflected in a far broader study by PwC. Its latest Global CEO Survey suggests that companies’ impetus to reinvent will intensify over the next three years in the face of the challenges from megatrends, technology and climate change.



We are seeing a greater integration of systems, having more and more amenity and service provision made available on apps, creating more convenience for the end user - the resident.



RESIDENT USING HOME INTEGRATION APP





SAN DIEGO, UNITED STATES

The majority of the 4,702 CEOs surveyed are acting decisively, but 45 percent of them are still not confident that their companies would survive more than a decade on their current path.

According to research by Innosight, corporate longevity remains in long-term decline: the average lifespan of S&P 500 companies in the late 1970s was around 35 years and is forecast to shrink to as low as 15-20 years this decade. At the same time, the number of business start-ups has been trending up since the the onset of the pandemic in 2020. In the US alone, a record 5.48 million new businesses formed in 2023, according to the US Census Bureau.

The dynamics of the occupier base account for a big part of the challenge in creating fit-for-purpose real estate. But it can also be argued the other way: as a true partner, the real estate industry can support its occupiers more effectively.

There is precedent here. When it comes to creating business ecosystems, one sector stands out and it has a long track record: life sciences. For more than two decades in the US, and more recently in Europe and Asia, life science real estate developers and investors have realised that building networks between companies, academia, government research facilities and funding partners can create a virtuous circle for all concerned.

It is this interaction that distinguishes the successful schemes from the also rans – something that owners and occupiers in other sectors must emulate in the years to come.



Life science connections

Kadans Science Partner, a Netherlands-based developer/operator (owned by AXA Investment Managers) aims to help life sciences companies make vital connections to funders, regulators, partners and talent. The service enables micro-firms, typically with fewer than 10 employees, to scale up rapidly through their business lifecycle.

Kadans has over 400 clients across 27 science clusters in six countries. It recently formed a joint venture with the UK's Canary Wharf Group to develop one of Europe's largest commercial innovation lab centres. The facility will span 750,000 sq ft and include fully fitted, best-in-class laboratories and amenity-rich space for growing life sciences companies.



ABOUT THE REPORT



DELHI, INDIA



Interviewees

abrdn

Anne Breen

Bank of America Merrill Lynch

Struan Robertson

Barclays Capital

Schecky Schechner

Booking.com

Marnix Mali

Brookfield

Stuart Mercier

Eurofund

Ian Sandford

Gensler

Julia Simet

GLP

Adrienne Howells

Greystar

Nigel Allsop

Heitman

Mary Ludgin

Helaba

Christian Schmid

Hines

Ronen Journo

Hon Kwok Land Investment Co

James Wong

Macquarie

Rhebeckha D'Silva

Morgan Stanley

Kev Zoryan

PGIM Real Estate

Benett Theseira

PIMCO Prime Real Estate

François Trausch

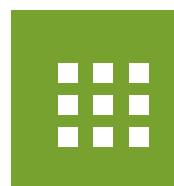
Savills IM

Andrew Allen

State Street

Cameron Bennett

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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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.

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Global Outlook

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