Emerging Trends in Real Estate®

The global outlook for 2014

pwc

Urban Land Institute

Introduction

The *Emerging Trends in Real Estate*© *US, Europe* **and** *Asia Pacific* **reports are produced annually by the Urban Land Institute and PwC following interviews with the most senior property professionals. Over many years, they have become key indicators of sentiment in their respective regions.**

We have drawn together those regional insights for this global report, highlighting the most relevant investment and development trends.

A common theme across all three regions is the need this year for many investors to move up the risk curve as competition for core assets intensifies.

But it is clear that investors are paying greater heed than ever before to long-term demographic trends, as well as the latest advances in placemaking.

This report, therefore, reflects the outlook for 2014 and beyond.

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Capital flows

Direct investment in real estate is "almost back at the pre-crisis level" and increasingly the impetus is attributable to sovereign wealth fund and institutional capital, much of it from Asia.

This is one of the conclusions of *Emerging Trends in Real Estate® Europe 2014,* but the same sentiment could be expressed for the US and Asia Pacific.

Interviewees and respondents to the surveys conducted for all three *Emerging Trends* reports have proclaimed the continuing influence of Asian sovereign wealth funds with their flow of capital into core property, and latterly into secondary assets.

If anything, Asian capital – especially from China – is becoming more important to regional markets as each year goes by.

According to Real Capital Analytics (RCA), sales of large lot size commercial property around the world totalled over $1.1 trillion in 2013, surpassing the trillion dollar mark for the first time since 2007.

Real estate fundamentals are expected to remain strong in prime markets such as the Central Business District in Beijing, China.

The two biggest sources were the US and China – with the latter accounting for 35 percent of global volume. A big part of this came from land transactions in China – sales of land rights rose 39 percent to $390 billion during the year – but the cross-border activity from Chinese investors was equally significant.

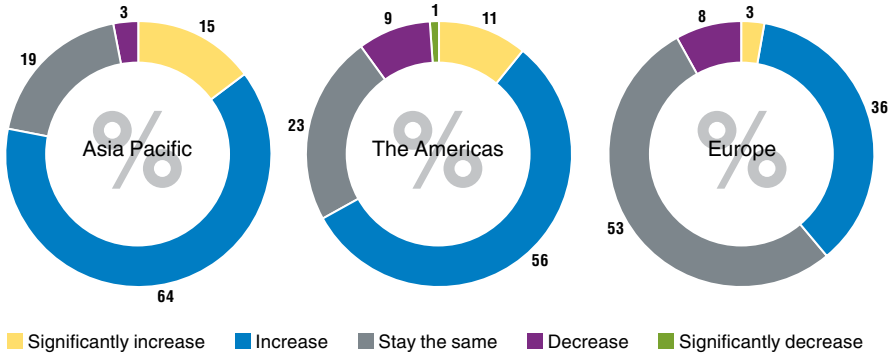
RCA calculates that Chinese investment in Europe alone tripled last year to €3.05 billion as developers and private individuals joined the country's sovereign wealth funds in seeking to diversify their assets outside Asia.

It was also the year when Chinese insurers emerged as a global force. In May 2013, China's regulator relaxed the rules restricting investment in overseas real estate by insurance companies. Barely a month later Ping An Insurance made its first overseas purchase when it bought the Lloyd's Building for €304 million.

And the flow of capital from China continues. In January, China Investment Corporation paid Blackstone about €917 million for Chiswick Park in west London – already a contender for Europe's largest transaction of 2014.

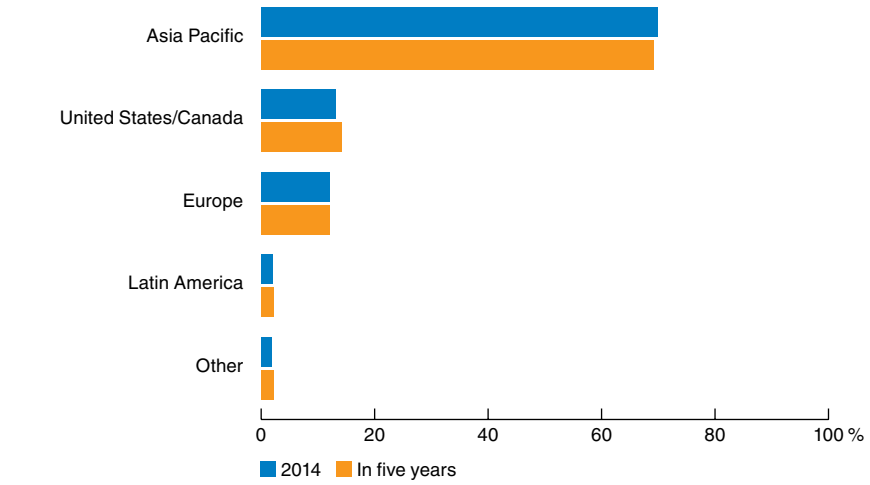
The ubiquitous presence of such Asian capital is one of the key trends highlighted in the *Emerging Trends* series and is largely seen as a force for good in the marketplace.

Figure 1 **Cross-border capital into European real estate in 2014**



Note: Percentages may not total 100 due to rounding.
Source: *Emerging Trends Europe 2014* survey

Figure 2 **Asia Pacific investors' regional allocation percentages**



Source: *Emerging Trends Asia Pacific 2014* survey

Figure 3 **Change in availability of capital for US real estate in 2014**

Source: *Emerging Trends US 2014* survey
Note: Based on US respondents only

As one European fund manager says: "There is so much Asian capital coming into Europe, even if you pick up a small bit of this capital it's actually very significant for you as an individual fund manager."

There are encouraging signs that this strengthening of cross-border flows has emboldened domestic institutions, especially in the UK, which remains Europe's biggest and most liquid investment market. "The UK is still dominated by non-domestic providers of equity but as far as UK institutional money is concerned, that tap is starting to be turned back on," says one adviser.

Another interviewee adds: "We're optimistic that these new sources of capital – a lot of which are recycled savings from emerging markets that are doing quite well – need to diversify and invest overseas. There is no reason why it will not continue, providing the environment stays benign."

Nearly 80 percent of respondents to *Emerging Trends in Real Estate® Europe 2014* believe that capital from Asia will increase during 2014. The other big capital source is the Americas, and here 67 percent of survey respondents expect a significant increase of funding in 2014. According to RCA, the US accounted for 27% of global deals in 2013, with volume of $301.6 billion, up 21 percent. In many respects, RCA argues, US property investment is "close to a full rebound from the global financial crisis".

Similar sentiment is expressed in *Emerging Trends* in the US, where capital availability is expected to improve in 2014. According to survey respondents, the biggest increase in the availability of equity capital will come from foreign investors, followed closely by pension funds and other large institutions; private equity funds, hedge funds and opportunistic funds; and private local investors.

A recent survey of foreign investors by the Association of Foreign Investors in Real Estate, which is made up of nearly 200 "investing organisations" in 21 countries, found that 81 percent of respondents "intend to increase their portfolio of assets in the US. They also believe that the US is "a stable environment in which to invest and is the best market for capital appreciation". Specifically, 71 percent "believe economic fundamentals had improved to the point that makes secondary cities – as opposed to core gateway cities – in the US worth looking at for new real estate acquisitions".

The American *Emerging Trends* report also reveals that the movement into secondary markets is underpinned by an increase in both debt and equity capital. Respondents to the report are particularly positive about the prospects for equity capital from institutional investors and private equity funds, as well as debt from insurance companies, mezzanine lenders and issuers of commercial mortgage-backed securities. Secondary cities are also benefiting from foreign capital – notably Miami, which has seen an influx of South American investment.

As for capital heading out of the US for Asia, the picture is more complex. The steady stream of capital inflows to Asia that was so much a hallmark of US economic easing in 2012 went into reverse in 2013, as the prospect of reduced economic stimulus in the US prompted investors to repatriate assets back to the West. So far, the impact of this sell-off has been largely confined to developers and real estate investment trusts (REITs) listed on the region's capital markets. By contrast, as the Asia Pacific *Emerging Trends* points out, the physical market has been left unscathed.

The US is a stable environment in which to invest and is the best market for capital appreciation.

The report notes that, unlike other asset classes, real estate in Asia has "barely flinched" in response to the tapering of the US economic stimulus and expectations of higher interest rates. The major real estate investment destinations, such as China and Australia, remain the same as in previous years while Japan has re-emerged strongly as an investor favourite.

This apparent resilience is due, in part, to the increase in sovereign wealth and institutional capital being directed to Asian markets, as well as the substantial volume of Asian capital being exported from China, Singapore and South Korea into real estate assets across the region.

In fact, Asian investors of all types – from high-net-worth individuals to sovereign wealth funds, institutional funds and insurance companies – are buying real estate throughout Asia in unprecedented volumes. Again, many of the buyers have come from China.

One reason for this is that the volume of capital accumulated in many Asian countries has far outstripped the capacity of domestic markets to absorb it. In terms of private investment, there has been a significant rotation of foreign capital away from Hong Kong, where the introduction of regulations aimed at stemming speculative investment in real estate has seen high-net-worth Chinese money move to other destinations. Similar regulations have been introduced in Singapore.

The fact is that interviewees report substantially higher levels of Chinese capital in almost every major Asian market, especially for high-end residential assets. It seems that Asian capital is just as important at home as it is across the globe.

Investment surges around the world

Sales of large lot-size commercial property around the world totalled over $1.1 trillion in 2013, surpassing the trillion dollar mark for the first time in the post-financial crisis era, according to Real Capital Analytics (RCA).

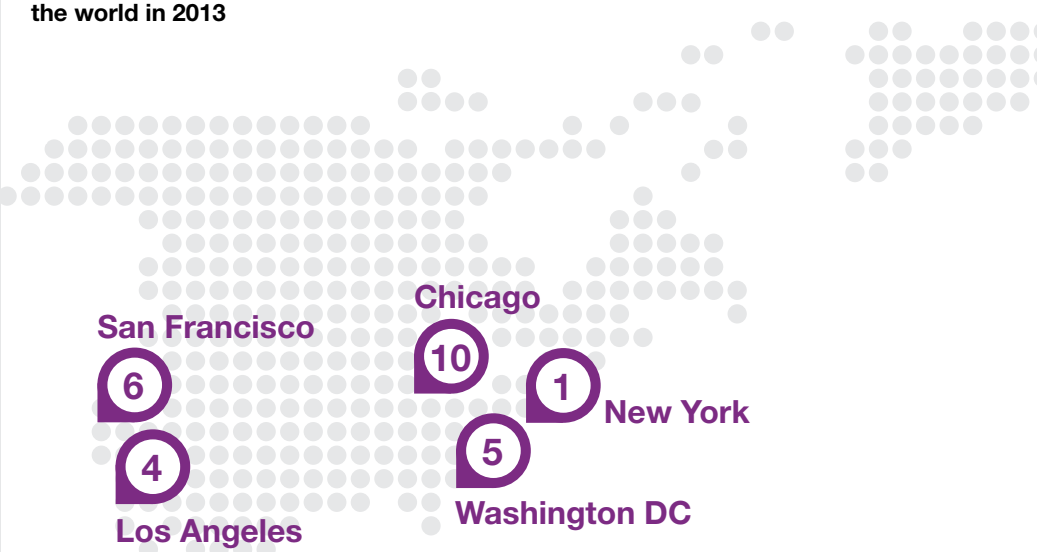
RCA says that the strength of the US, a revival of transactions in Europe and a massive volume of land deals in China all contributed to this remarkable upturn in activity.

Such overall volume growth left the position of the world's most active investment markets unchanged in 2013 compared with the previous year, although there was a significant re-shuffling further down this global league table.

The top five cities all posted healthy gains, illustrating that despite a renewed risk appetite causing volumes to surge in secondary markets, investor demand in core locations remained very strong.

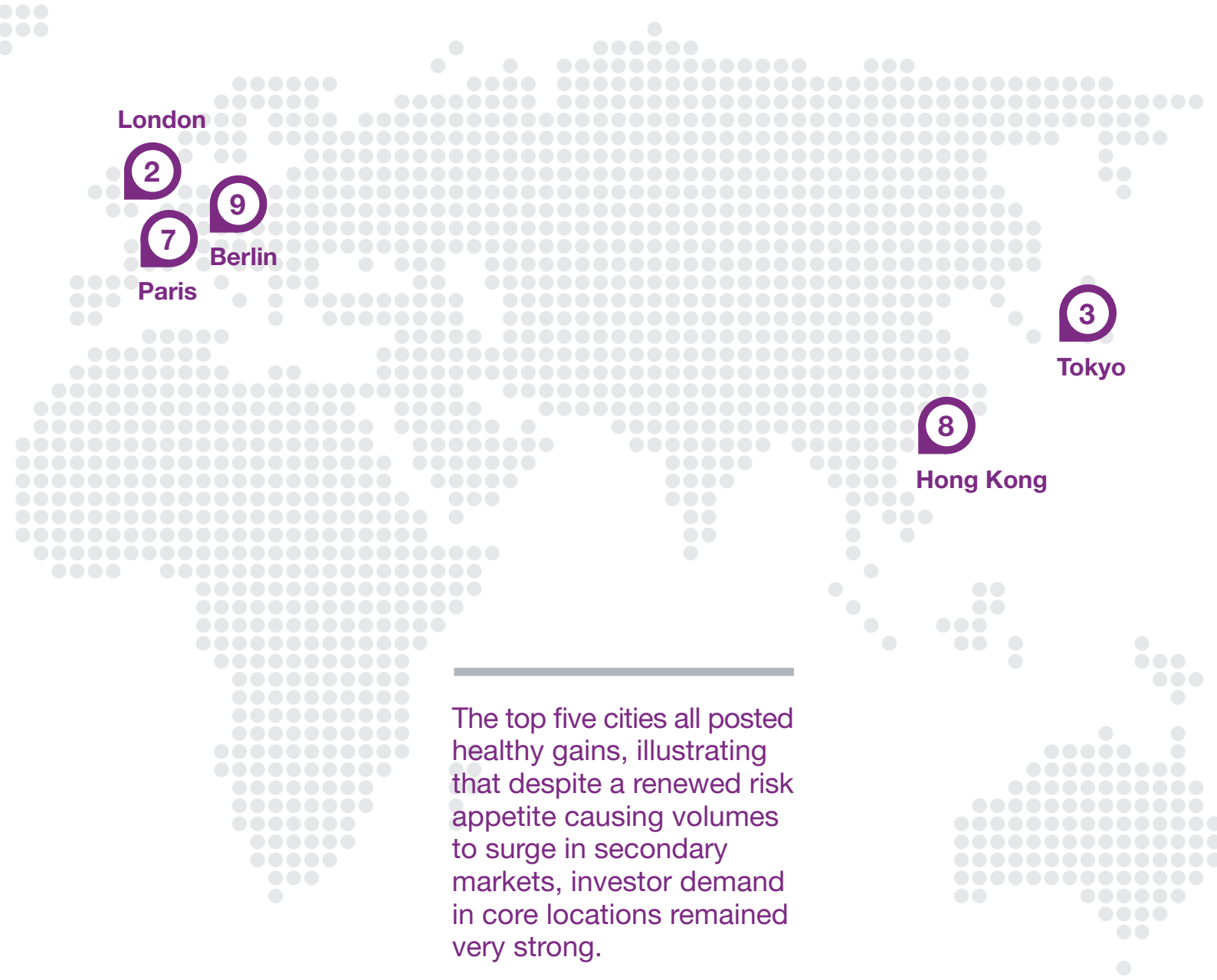
So much so that one of those core investment markets, Berlin, broke into the top 10 for the first time. Other big advancers further down RCA's rankings included Atlanta, Sydney, Moscow and Osaka, which reflected the growing capital base targeting higher yields than available in core locations.

Figure 4 **The top 10 cities for commercial property investment across the world in 2013**



Rankings 2012	2013	Market	2013 Sales Volume ($M)	YOY % Change
1	1	New York	$47,200	20%
2	2	London	$43,981	41%
3	3	Tokyo	$31,818	37%
4	4	Los Angeles	$27,370	25%
8	5	Washington DC	$18,086	24%
5	6	San Francisco	$17,930	-14%
6	7	Paris	$16,004	-12%
7	8	Hong Kong	$13,472	-18%
14	9	Berlin	$12,671	55%
9	10	Chicago	$12,499	17%

Source: Real Capital Analytics – Global Capital Trends 2013



The top five cities all posted healthy gains, illustrating that despite a renewed risk appetite causing volumes to surge in secondary markets, investor demand in core locations remained very strong.

Investing in the US

The US real estate recovery is set to continue this year, with investors increasingly forsaking some of the traditionally popular cities and turning instead to secondary markets in search of higher yields.

The momentum of this recovery seems powerful enough to weather spikes in interest rates that may be inevitable.

The desire to look beyond the investment heartlands of Boston, Chicago, Los Angeles, New York City, San Francisco and Washington has been evident for some time. But 2014 may well be the year when such plans come to fruition.

According to *Emerging Trends in Real Estate® 2014*, this search for value owes much to the fact that opportunities in core markets have become harder to find, and the best assets more expensive.

But there is a pull factor, too. The pace of the economic and real estate recovery remains uneven across US metropolitan-area markets. The recovery has clearly had more momentum in cities with favourable demographics, exposure to those with growing industry sectors and those with an attractive cost of doing business.

Such trends have been in place since the recovery began but they are now evident in a much larger group of markets. The all-important consequence for the industry is an improvement in the property fundamentals of occupier demand and rental growth, which many investors regard as sustainable. As one fund manager says, “The focus is now on the top 25 markets, not the top six. We like markets that have the potential for growth.”

This is not to diminish the leading investment markets of the past few years, which remain attractive and will continue to appeal to investors with certain return targets.

But as a national portfolio manager says, “the outlook for a broader number of markets is that improved demand will create the kind of leasing momentum that will allow landlords to push rents”.

If there is a threat to this market recovery and “leasing momentum”, it is the timing and pace of any interest rate increases. The report forecasts a modest increase in the short term, but does not expect a small increase to cause a major disruption to the recovery. If higher interest rates are a function of the Federal Reserve Board’s response to an improving economy in 2014, the increased borrowing cost should be offset by greater demand and therefore higher rents. Of course, faster-than-anticipated rises or rates growing faster than the underlying economy could undermine the recovery.

But as Mitch Roschelle, PwC partner and real estate advisory practice leader, puts it, the steady economic recovery and job creation so far have generated “tailwinds” that have propelled the commercial real estate market forward. “The momentum of this recovery,” he says “seems powerful enough to weather spikes in interest rates that may be inevitable.”

Industrial expansion

"If you are a long-term investor, the industrial sector just keeps doing well, even if it's not glamorous," says one respondent to *Emerging Trends in Real Estate® 2014*.

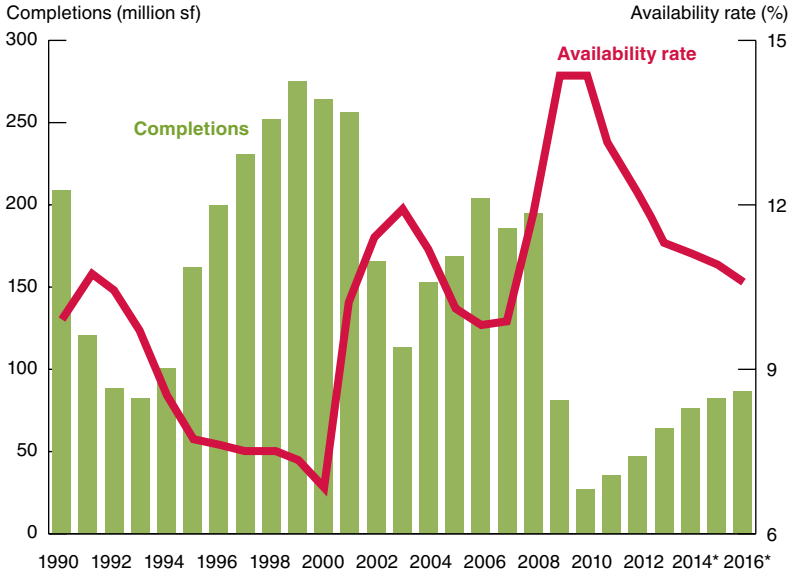
Not glamorous, perhaps, but industrial real estate in the US is nonetheless at an important juncture. The sector is starting to feel the benefit from major advances in supply chain distribution and manufacturing, whether it is on the back of e-commerce or the so-called "reshoring" of factories.

With an improving US economy also boosting the sector, it is little surprise that industrial real estate is attracting the smart money. In terms of market sector prospects, industrial tops the ranking in this year's report, with warehousing standing out as particularly strong – 64 percent of survey respondents making a "buy" recommendation for the subsector and fewer than 10 percent advising selling.

The strength of US warehousing reflects the expanding influence of e-commerce distribution networks. "Electronic retailing is impacting the whole distribution programme," says one logistics executive. "Facilities are being built to enable same-day delivery – huge buildings, fulfilment centres in areas where we've never seen warehouses before."

In making buy/hold/sell recommendations for the total industrial sector by metropolitan area, respondents put Miami at the top of the list, with over 60 percent of respondents rating the city as a "buy". The next top four industrial markets – Houston, Seattle, Los Angeles and Dallas – are all global distribution hubs with healthy local economies.

Figure 5 **US industrial completions and availability rates**



Source: CBRE Econometric Advisers
* Forecasts

Industrial space in general will also benefit from the shortening of supply networks through the "reshoring" of factories to the US and the elimination of a long supply chain across the Pacific Ocean, which many companies have concluded is no longer worthwhile as employment costs in China rise. Low US energy costs are fuelling this trend as well.

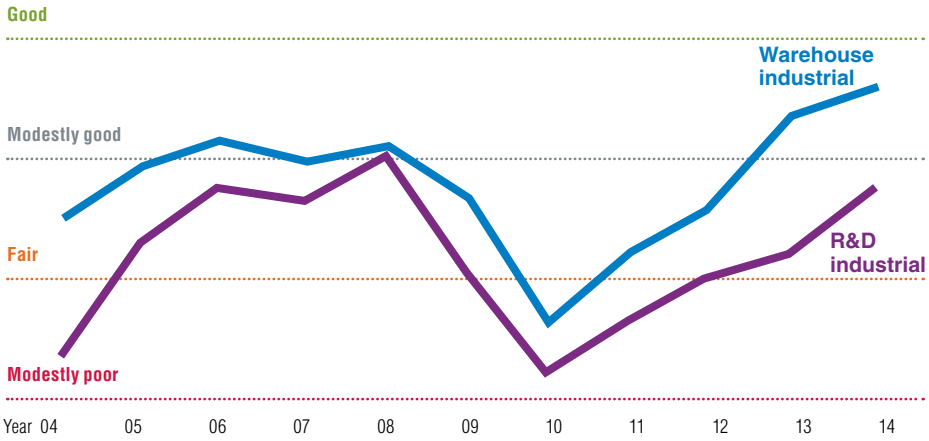
New factories are also opening up in some surprising locations and in some unexpected industries. In 2013, a semiconductor manufacturer announced plans to build a facility in Saratoga County, New York, to support technology development and manufacturing activities. And it's not just American manufacturers that are looking to shorten their supply chain. Last year an Asian computer producer opened a personal computer assembly plant in Whistett, North Carolina.

Facilities are being built to enable same-day delivery – huge buildings, fulfilment centres in areas where we've never seen warehouses before.

"Manufacturing is coming back to the US, and it's coming back faster than we thought," says one economist. "Back in 2011, no one thought we would see anything until 2015. Now, we are seeing dozens of companies moving back to the US because the economics are shifting. A key driver of this trend is that labour costs in China are rising, with wages increasing by about 15 to 20 percent a year and the steady appreciation of the Chinese yuan against the dollar. Manufacturers are seeing very long supply chains, and there are increasing concerns about intellectual property. They were willing to accept all that before, but no longer because there's less of an advantage in labour costs."

Manufacturing is coming back to the US, and it's coming back faster than we thought.

Figure 6 **Industrial/distribution investment prospect trends**



US warehouse industrial

2014	Prospects	Rating	Ranking
Investment prospects	6.56	Good	1st
Development prospects	6.44	Modestly good	1st

Buy	Hold	Sell
63.5%	26.9%	9.6%

Expected capitalisation rate, December 2014 6.7%

US R&D industrial

2014	Prospects	Rating	Ranking
Investment prospects	5.72	Modestly good	8th
Development prospects	5.11	Fair	7th

Buy	Hold	Sell
36.0%	41.6%	22.4%

Expected capitalisation rate, December 2014 7.5%

Source: *Emerging Trends US 2014* survey
Note: Based on US respondents only

Development demand

When a recovering economy follows years of under-supply in real estate it is natural for "space market fundamentals" to emerge as the primary drivers of total returns, and so reduce the reliance on falling capitalisation rates. Development also starts to figure once again in investors' plans.

The US economy expanded at an annual rate of 3.2 percent in the last three months of 2013, which was a creditable performance albeit undermined by a weak first half that dragged the annual rate of growth down to 1.9 percent for the year as a whole.

That is not huge growth, but as one fund manager suggests in *Emerging Trends in Real Estate® 2014* it is "enough to create demand for real estate product – that is, demand for space and improving rent – because at the same time there's almost no new supply. It's a sweet spot for real estate."

Following on from such positive investor sentiment, the report signals that there may well be an increase in development during 2014 – and what is more, it is likely to be broadly based. Development activity has been dominated by multifamily housing in recent years – with Generation Y seeking to rent and baby boomers looking to downsize from houses to apartments. Now it appears that other sectors are also coming into play.

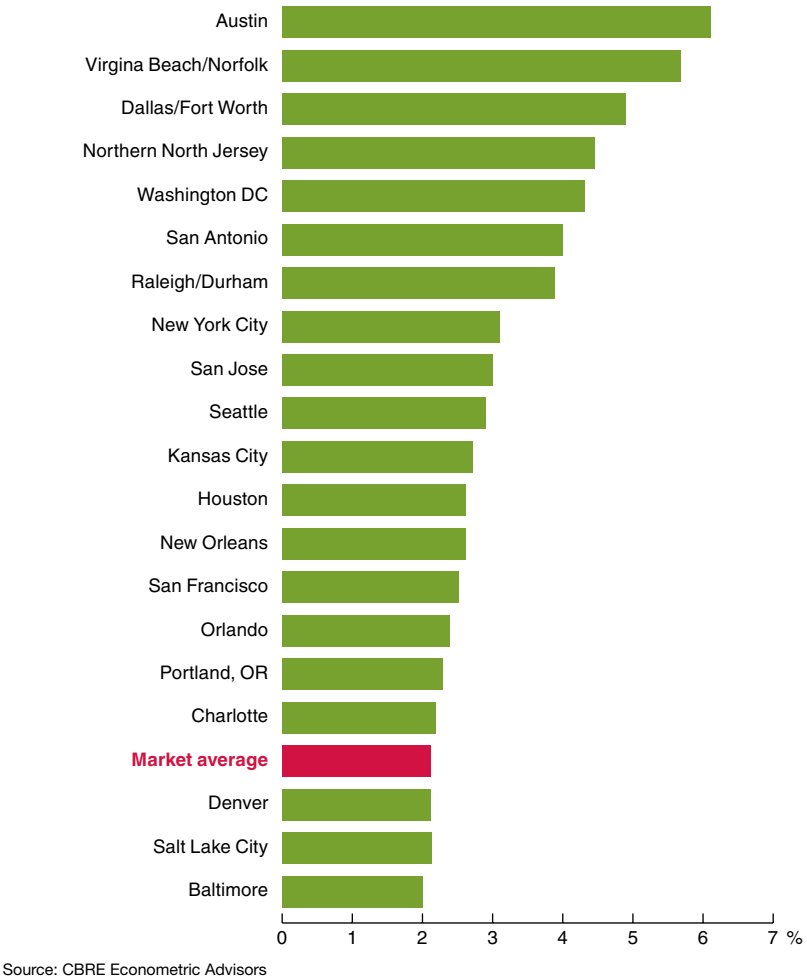
An improvement in market vacancy rates is driving higher rent growth forecasts. And the result is that development has become viable in select markets and property types and may well start feeding through to the supply figures in the coming years.

Industrial is where respondents feel the best development opportunities exist in 2014, but prospects for hotels are also expected to strengthen during the year. The office sector, too, could see an increase in redevelopment as building owners look to reposition properties to meet changing tenant demands. The improvement is also widespread in geographical terms, with 40 markets reporting an improvement in development prospects for 2014.

No-one anticipates a development boom, however. Survey respondents are comfortable that the recovery will continue even with slow growth in demand because new supply delivered remains at relatively low levels.

In 2007, real estate data providers reported that new supply of commercial real estate was ramping up but had begun fairly late in the real estate cycle. With little new construction in the post-recession years, one economist predicts: "In 2014, we could start to see some tightening as we continue to absorb space with very little new supply at all. We might see landlords push rents a little higher than you might expect."

Figure 7 **2013 Space under construction as a percentage of inventory**



Source: CBRE Econometric Advisors

Investing in Europe

It says something about the improving conditions and confidence in European real estate that the biggest perceived issue facing the industry is a shortage of prime assets to buy. That in itself is prompting many investors to be bolder when it comes to investment strategy for 2014 – risk is no longer a dirty word.

The backdrop to this renewed optimism is a widespread economic recovery and a significant easing of the political uncertainty over the eurozone, at least for now. It is one reason why Europe continues to be the first-choice destination for so much global capital and why there is a "battle for assets" with the major European players.

Prime office stock in Europe remains the first choice asset class for many global investors.

This competition for core assets has led to a search for value beyond such key markets as London, Munich and Paris, and into solid, income-producing property in secondary cities.

Office investors in Munich can achieve yields of approximately 4 percent, but those willing to invest in smaller German markets such as Stuttgart can achieve up to 6.5 percent. Investors are also looking to acquire secondary properties in major markets which have good existing income streams or which, with careful asset management, could be transformed into core assets.

Respondents to *Emerging Trends in Real Estate® Europe 2014* expect the movement of investors further up the risk curve to gather momentum in 2014. "In the UK we've been buying regional assets for five years, across sectors. If we were bidding on assets 12 months ago, chances were that we were the only bidders," says one fund manager. "Now you can have 12 or so bids for the same kind of assets. It has become highly competitive and yields are coming down quite rapidly."

Another consequence of such a competitive market is that investors are increasingly considering development as a way of adding high-quality assets to their portfolios. The report demonstrates that 71 percent of respondents believe that development is an attractive way to acquire prime property.

As one pan-European fund manager concludes: "There remains an appetite for yield but the economic backdrop is inviting investors to consider more positively putting more risk on the table."

Spanish stampede

The turn around in investor sentiment towards Spain has been one of the most remarkable property stories of the past year and, if anything, investment activity is increasing.

A year ago only the boldest of property players ventured into Spain but within weeks of the country's so-called 'bad bank', Sareb, opening for business last summer, a rush of opportunistic investors into Madrid and Barcelona had turned into a veritable stampede.

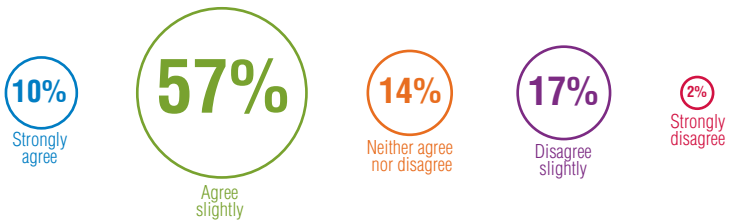
Since then, the sheer weight of international capital bearing down on Europe is leading a much broader range of institutional investors to consider this recovering market.

For many, it is a re-run of what went on in Ireland and that country's National Asset Management Agency. "It is about the opportunities becoming unlocked with the whole banking sector dealing with its portfolios and loans issues," says one investor. "The difference with Spain is that it has been so fast."

The renewed enthusiasm for Spain is by no means universal. Some fund managers regard the investor surge into the market as not so much a search for value as "a lemming-like scramble". Debt is harder to come by here than most European markets, while the disconnect between capital flows and on-the-ground occupier demand is more extreme here than anywhere else.

One sceptic observes: "The investors who 'need' to do distress have been heading down there. My concern is that this is driven by the buy-side rather than sell-side. I do expect to see quite a lot of deals done in 2014. But in five years' time, I think people will look back and see this as one of those experiences they would rather not talk about."

There are now good buying opportunities in Spain



Others see high yields, a relatively liquid and transparent market and a broad range of opportunities. One pan-European fund manager speaks for many when he suggests that mainstream institutions will soon start to give the opportunistic investors a run for their money. "What is driving it is a sense that there are positive signals coming out of Spain, though it is still challenged," he says. "We think that it is a medium-term play rather than immediate – but it is coming back. You will see one or two benchmark deals, which gives confidence for others to go in on the best stock in the best locations."

In fact, one of those benchmark deals actually took place as early as last autumn when leading UK-listed shopping centre owner Intu and the Canadian Pension Plan Investment Board paid €162m for Parque Principado mall in Oviedo, northern Spain. Intu also owns three retail development sites in Spain.

It seems that confidence is spreading. As many as 67 percent of respondents to the *Emerging Trends in Real Estate® Europe 2014* survey believe that there are now good buying opportunities in Spain.

It is a re-run of what went on in Ireland. It is about the opportunities becoming unlocked. The difference with Spain is that it has been so fast.

Residential resurgence

Investors are looking at housing with renewed interest as an imbalance between supply and demand becomes one of the defining characteristics of many European cities.

According to the interviewees for *Emerging Trends in Real Estate® Europe 2014*, the prospects for residential investment in 2014 are stronger than mainstream commercial property asset classes (see Figure 8).

Student accommodation, healthcare, private sector rental, serviced apartments and retirement living all outrank such commercial staples as offices and logistics. Housebuilding and social housing are close behind.

The fact that investors favour student housing above all else is little surprise to some, since this sector has several of the same attributes that attract institutional investors into core commercial real estate – the opportunity to invest at scale allied to long lease income and covenant strength.

> We are working hard to increase our allocation here. We are particularly looking at London residential but there is a lack of supply in many cities.

The UK represents the most mature student accommodation market outside the US and, according to CBRE, £2.1 billion was ploughed into the sector in 2013 – the second year in a row investment here has topped £2 billion. But mainland Europe is catching up fast. As one interviewee says, student housing is "a product that is needed in France, Germany, Spain and Italy".

This particular growth story owes much to the growing numbers of overseas students descending on leading universities across Europe, willing to pay for good accommodation. Indeed it is evident that demographic trends generally are increasingly important to investment strategies, whether it be ageing populations turning investors on to retirement living or the sheer growth in household numbers in many European cities.

Modern apartment blocks, like this one in London, have attracted institutional investment.

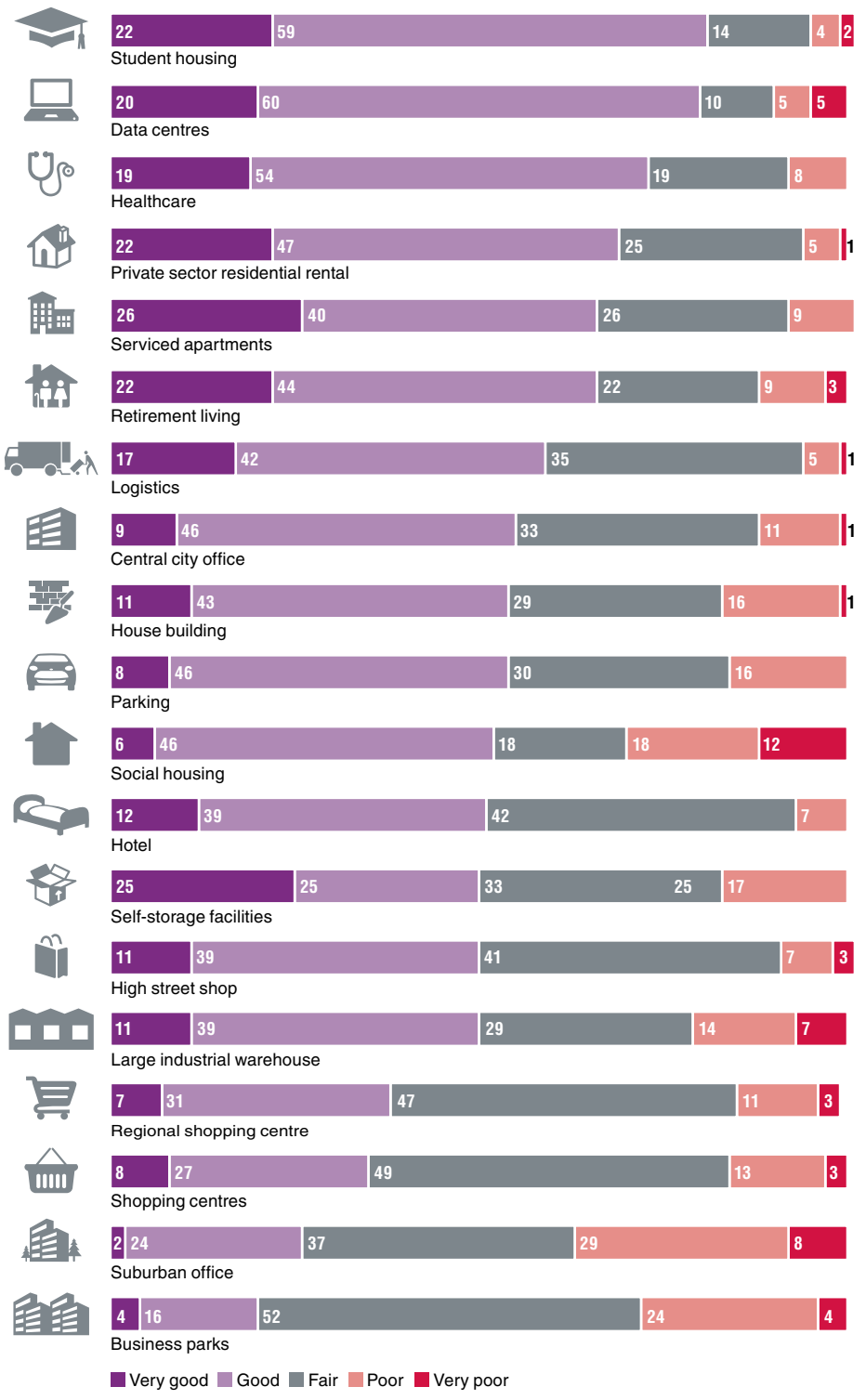
"We are working hard to increase our allocation here," says one German fund manager. "We are particularly looking at London residential but there is a lack of supply in many cities and we do want to capitalise on demographic trends. It is one of the few asset classes that is not harmed by e-commerce."

London has been one of the stand-out markets in this respect. But central government support over the past year for the private rented sector nationwide has provided impetus to a broader institutional move into what one interviewee calls "the biggest untapped investment sector in the UK – worth £4 trillion".

Others claim that the recent rise in German listed housing companies represents "the biggest fundamental change in residential investment in Europe". Investor interest here is rooted in fundamental supply and demand dynamics. Cities such as Berlin, Hamburg and Frankfurt have experienced high population growth but supply has not kept pace. "Residential investments in Germany's top locations are a must," says one interviewee.

There have been some concerns expressed over the possibility of German residential markets over-heating, not least from the Deutsche Bundesbank. And yet as one pan-European fund manager says: "You can't foist €8 billion of market capitalisation on investors who don't want it. I don't see this reversing in 2014."

Figure 8 **European sector investment prospects, 2014**



Source: *Emerging Trends Europe 2014* survey

Investing in Asia Pacific

Real estate fundamentals are expected to remain strong in markets throughout Asia in 2014, with stiff competition for core assets in prime markets prompting some investors to look beyond the mainstream for acceptable returns.

Unlike other asset classes, real estate in Asia "barely flinched" last year in response to the tapering of the US economic stimulus and expectations of higher interest rates.

According to Emerging Trends in *Real Estate® Asia Pacific 2014*, this was due, in part, to the increase in sovereign wealth and institutional capital being directed to Asian markets, as well as the substantial volume of Asian capital being exported from China, Singapore and South Korea into real estate across the region.

It remains to be seen whether the weight of capital will be quite so evenly spread across the region in the coming year. But there is certainly an expectation of some "headwinds" as rising interest rates compress yields further.

So far, investors have reacted to higher prices and lower yields for core assets not by pulling out of the region, but by broadening their exposure to cover such specialist sectors as senior care and logistics.

Indeed, industrial/distribution outranks all other property asset classes for investment potential in *Emerging Trends in Real Estate® Asia Pacific 2014*. Like other parts of the world, the sector here is undersupplied, due to growing demand for storage facilities, fuelled by an increased online consumer spending. China's secondary cities, as well as Shanghai and Guangzhou, offer the best prospects for industrial investment.

But the move up the risk curve in Asia Pacific also offers opportunities in emerging markets, such as Indonesia and the Philippines, which warrant closer inspection by investors.

Jakarta is ranked third for investment potential – behind Tokyo and Shanghai – despite a lack of market transparency, difficulties obtaining entitlement, and competition from local businesses and individuals. The fact is, though, that newly released office stock in Jakarta is of better quality than in previous years. More importantly, there is the continuing strong demand from companies seeking space, including the currently under-supplied central business district. In that context, it is no surprise that the Indonesian capital is ranked first for development prospects.

Meanwhile, Manila moves up to fourth place for investment prospects in 2014, the result of a fast-growing economy, the increasing popularity of the city as a destination for multi-nationals seeking outsourced services, and an acknowledgement that the problems long associated with lack of transparency and governance issues are improving. It is also evident from the report that the city is benefiting from its young population – a sign, perhaps, that investors are starting to take demographic trends more seriously in their decision-making.

Japanese revival

Politics has come into play in a big way in Japan's real estate market, underpinning its re-emergence as a favoured destination for global capital after a five-year absence from the top rankings.

Money has poured into the market in the expectation of rising prices following the massive economic stimulus programme introduced by Japan's prime minister, Shinzo Abe.

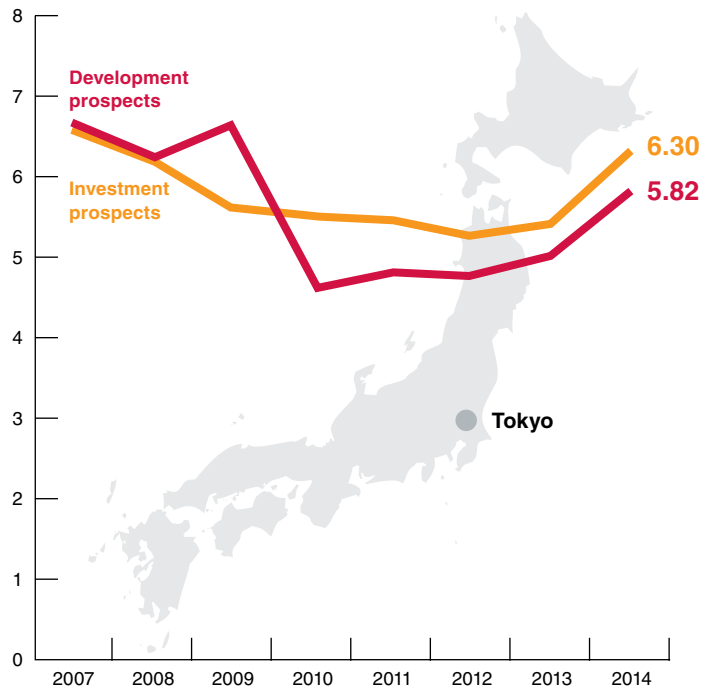
So-called "Abenomics" has created the conditions that involve depreciating the yen and reintroducing inflation into the economy – including real estate – as the government seeks to reverse nearly two decades of economic decline.

The jury is still out on that long-term goal. But in the meantime anticipation is everything for property investors, which is why Japan has risen to the top of the rankings for investment prospects in *Emerging Trends in Real Estate® Asia Pacific 2014*, compared with a lowly 13th the year before.

"Abenomics is producing a feel-good factor that is starting slowly to translate into demand," says one investor interviewed for the report. "A lot of the new stock that's been overhanging the market over the last couple of years is filling up, and a lot of oversupply has slowly been taken up by consolidation at low rents."

Tokyo, in particular, has seen the biggest rise in transaction volumes across all commercial sectors. Although rents have remained static so far, prices have begun to move, with investors reporting 50 to 100 basis points of cap rate compression during the past year.

Figure 9 **Tokyo's investment prospects and development prospects**



Source: *Emerging Trends Asia Pacific 2014* survey

"When you have a government desperately trying to stimulate inflation and that likes handing money to the JREITs [Japanese real estate investment trusts] directly to allow them to go out and spend, then you'd expect there to be some positive movement," says one consultant.

The problem for most investors, however, is that the JREITs and other local institutions are cornering the market for the vast majority of core assets in Tokyo, leaving slim pickings for other investors.

As a result, foreign funds are diversifying by moving up the risk curve, looking for opportunities in secondary assets and sectors, and picking up smaller buildings with the intention of repositioning and selling them on. Secondary cities, such as Osaka, Fukuoka and Sapporo, are also starting to figure in investors' plans.

In truth, the intense competition for assets is a good position for real estate in Japan after its prolonged spell in the doldrums. "We're very bullish on Tokyo," adds one foreign developer, "particularly around refurbishing existing assets – focusing on energy and sustainability and repositioning from a B to an A-grade."

Niche developments

Niche sectors, secondary markets and development opportunities across Asia Pacific have become increasingly important to global investors as they seek exposure to a region where there is stiff competition for core real estate.

B-grade assets and suburban locations in Australia, Japan and China are all starting to look attractive.

B-grade assets and suburban locations in Australia, Japan and China are all starting to look attractive in much the same way as the move towards diversification is starting to gain traction in the US and Europe.

But it would be rash of investors to assume that a region as culturally diverse as Asia Pacific offers a formulaic carbon copy of what is happening in Western markets. And nowhere are the differences more glaringly apparent than with alternative investments and development.

Self-storage is one niche sector in demand in parts of Asia, invariably because typically small living spaces mean that increasingly wealthy consumers are running out of space to store the things they've bought.

As one specialist investor cautions, however, Asians use self-storage in a different way than in developed countries, where people probably have more possessions. "In the West, it's like renting an extra garage; in Asia, it's like renting a closet," he says.

In one recent Japanese transaction, cap rates registered between 7 and 8 percent, with financing available at 2 percent. Self-storage is also attractive in other parts of Asia, but as the investor says, each market has its quirks, which can make investments problematic.

In China, for instance, it is arguably too early for a major commitment to the sector "because people with a lot of money who therefore need more space probably already have residential units that are sitting empty".

In Hong Kong and Singapore, meanwhile, the alternative-use value for potential self-storage assets is probably too high to justify the purchase price of property suitable for conversion.

Figure 10 **Asia Pacific city development prospects, 2014**

1	Jakarta	●	5.97
2	Tokyo	●	5.82
3	Shenzhen	●	5.76
4	Shanghai	●	5.75
5	Guangzhou	●	5.73
6	Beijing	●	5.68
7	China: secondary cities	●	5.61
8	Manila	●	5.60
9	Singapore	●	5.57
10	Hong Kong	●	5.57
11	Sydney	●	5.54
12	Bangkok	●	5.54
13	Taipei	●	5.46
14	Kuala Lumpur	●	5.39
15	Seoul	●	5.34
16	Melbourne	●	5.10
17	Bangalore	●	5.00
18	Osaka	●	4.89
19	Auckland	●	4.87
20	Ho Chi Minh City	●	4.85
21	Chennai	●	4.75
22	New Delhi	●	4.42
23	Mumbai	●	4.24

● generally good
● fair
● generally poor

Source: *Emerging Trends Asia Pacific 2014* survey

Another way to enhance returns is to enter at the development stages but, like niche sector investment, knowledge is paramount, which is why overseas groups are pairing up with local developers in some select markets. Development was the only category registering a higher sentiment score among respondents to *Emerging Trends in Real Estate® Asia Pacific 2014* than the previous year.

The bigger Chinese developers are more receptive to pairing with foreign players because it suits their purposes in a broader sense, such as tapping expertise in areas such as retail management. In addition, as one fund manager observes, "being associated with a good Western name doesn't do their share price any harm".

In their different ways, niche investment and development in Asia Pacific require a certain degree of specialisation, which, in turn, filters out the investors willing or qualified to compete. But once the research is complete, fortune often favours the brave, particularly in a market like Japan, where competition for assets is intense and where alternatives are especially attractive. As one investor observes, "Japanese domestic capital is very risk-averse, and if we can play in some of those areas where they don't feel comfortable, that can offer some attractive opportunities."

"Abenomics" in Japan has boosted the Tokyo Stock Exchange and the wider investment market.

Knowledge is paramount, which is why overseas groups are pairing up with local developers in some select markets.

Attitudes to risk across the world

By common consensus in the three *Emerging Trends* reports, intense competition for prime real estate is forcing investors to move up the risk curve in the US, Europe and Asia Pacific.

Here we interview respected property players from each region to get further insight into their respective territories and an indication of how that shift up the risk curve differs from market to market.

Mary Ludgin
Managing director and head of global research at the Chicago-based investment management firm Heitman.

The view from the US

How is Heitman performing in its core markets and what is the outlook for the rest of the year?

"In the US, conditions continue to improve along with the economy. Early-recovery sectors like apartments (rented residential) have shifted into a more mature phase marked by a slower rate of net operating income growth. Office and industrial will see strong income growth as occupier demand accelerates while construction is at cyclical lows. In Europe, the economic recovery should begin to release pent-up space demand after a period of stagnation in demand and rents. And investment capital will begin migrating to riskier assets and markets. Asia is more variable. Tokyo office is poised for rent growth as the nation's economy accelerates. Australia's property markets have weakened but investment demand has not."

What is driving performance in your chosen markets – is occupier demand feeding through to rental growth or is weight of capital and yield compression the key influence?

"In the aftermath of the global financial crisis, capital flows were anticipatory: investors snatched up prime assets in prime markets at bargain prices but well ahead of the property market recovery. Over time, the weight of capital caused significant yield compression. Now, yields have compressed about as far as they will in these liquid markets. Investment performance in these locations is now about what happens to rents and occupancy."

Yields have compressed about as far as they will in liquid markets. Investment performance in these locations is now about what happens to rents and occupancy.

How does Heitman's approach to investment risk differ at home in the US and overseas, if at all?

"We approach investment risk the same way across the three regions in which we invest. Ours is a research-led investment process, with investment strategies designed to capitalise on mispriced risk and emerging opportunities. We use multiple types of diversification to mitigate risk, including diversification by property type and by market type, with the latter focused on managing a portfolio's exposure to various types of economies. Finally, we like to mix together investments in primary markets with those in liquid secondary markets where the potential for yield compression exists. And we have embraced specialty real estate sectors for their above-average yields and less-cyclical demand."

Do you subscribe to the theory that competition for core assets is sending many investors up the risk curve (and into secondary assets or prime assets in secondary cities, or development)? Is Heitman adopting such a strategy?

"The move up the risk spectrum is a function both of yield compression and of the cycle. The sharp shock of 2008/09 pushed most investors into safe mode. Our investment strategy has been widespread from the early days of this recovery, mixing up prime assets in prime markets with prime assets in secondary markets to achieve yields/total return premia that exceeded the additional risk. We are particularly willing to go to smaller markets for retail centres with national tenants. We are developing in locations where we have first-mover advantage. And we like renovation strategies – core with a scratch – or assets previously owned by a capital-constrained entity where occupancy and rents can be improved with a coat of paint or upgraded amenities."

Heitman has made notable moves recently into the UK healthcare sector with Signature Senior Lifestyle and into the German residential market with Grainger. Can you explain the rationale behind such diversification and the partnership approach here?

"You've hit it. Our investment in specialty property types is partially about diversification. We like adding specialty properties into a portfolio because their occupier demand is often delinked from the macro economy. Senior housing demand, for instance, is typically triggered by need. As a result, these sectors hold up well during recessions as well as periods of economic growth, boosting portfolio returns. We make specialty investments in partnership with operating companies that have deep experience in managing senior housing or self-storage or student accommodations. Their expertise they bring is critical to investment success. Our rationale for the investment with Grainger related to favourable supply/demand characteristics in a developed country where rental housing dominates over for-sale housing. While the eurozone recession has translated into flat rents for most property types, rented-residential rents have been growing."

Dr Reinhard Kutscher
Chairman of the management board of the German fund manager Union Investment Real Estate.

The view from Europe

Ongoing competition for core investment properties in Germany is concentrating attention among your peers on riskier and thus higher yielding investments. There is also a greater trend towards investing in development projects. How has Union Investment's appetite for greater risk manifested itself?

"Project acquisitions accounted for about half of our own investment volume of some €4.5 billion in the last two years. We expect development projects and redevelopments to play a greater role for investors going forward."

What effect have equity-rich investors such as sovereign wealth funds had on your markets?

"If investors from Asia and the Middle East were to significantly boost their positions in European real estate markets, competition will become even more intense. European investors will be under even more pressure to adopt alternative investment strategies."

What is your position on alternative asset classes, such as student housing, senior living and healthcare, as another route up the risk curve?

"We don't go for alternative asset classes like the ones you mention. But we have launched a special fund for renewable energy – windparks and photovoltaics – last year."

How do you think mainstream European investors balance safety and returns in the current economic climate?

"The euro crisis is having a more sustained impact on investment decisions than expected. Investors remain cautious in terms of strategy and are taking precautions against defaults. At the moment, though, the only way to generate higher returns is to take calculated risks."

Does Union Investment's approach to investment risk change from country to country within Europe and change again in markets further afield?

"Our strategy is mainly the same for all markets we act in – core and core with slight 'scratches'."

What is the investment strategy for Union Investment going forward?

"Our focus will remain on the 'ripe' national and international real estate markets in Europe, the Americas and Asia Pacific. Besides this we will put a stronger investment focus on so-called secondary cities. In Europe that would include Birmingham, Cardiff, Darmstadt, Bremen and Nuremberg. In the US it would be cities such as Austin, Texas."

Nicholas Brooke

Former president of the Royal Institution of Chartered Surveyors and chairman of the Hong Kong-based consultancy Professional Property Services.

The view from Asia

Real estate markets across Asia were for the most part very strong in 2013 with investment activity rising throughout the year. How do you see the markets performing during 2014?

"The markets have remained very strong and that's partly driven by increased allocations to real estate by many institutions and funds and then, in turn, greater allocations to the Asia Pacific region. So we've got an even greater weight of capital trying to find a home. Asia, of course, is a series of markets within a market and there are some stronger contenders than others. Japan continues to be the flavour of the month and China continues to attract a lot of attention despite some slowing in the economy. In terms of the more emerging property markets, Indonesia, the Philippines and Vietnam are all attracting attention."

Competition for core assets is sending many investors up the risk curve. How is that trend developing in Asia Pacific?

"A lot of it is driven by diversification into real estate and then diversification across the sectors. In trying to find a home for their wealth, investors are having to look at second and third tier cities because they can't find product in the capital and major cities in the region. They're also having to move back into the development arena. Many of them moved away from development risk after '08 but they can't find the quality product now and the reality is that if they are going to be major players, they have at least to assume some construction and market risk if they are going to participate in potential opportunities.

"People have short memories. They are now rationalising risk in a way that a year or two ago they would have said, 'this is not for us – too risky'. They are definitely moving up the risk curve.

"What's interesting, I think, is the move into non-traditional areas of real estate. You've got the shift into second and third tier cities but you've also got the shift into logistics, student housing and retirement homes. Not that it's their core business but developers are now spreading their horizons much wider in terms of the sectors and businesses that they look at."

What is driving performance in the main markets? Is occupier demand feeding through to rental growth or is weight of capital and yield compression still the key influence?

"All the economies in the region are doing reasonably well. There is some slowing because many of our economies depend on exports but four, five and six percent is being achieved in many of the economies, which is obviously very good by European standards. And if you're looking at that sort of GDP growth then businesses are growing, there is increased employment and increased occupational demand for real estate. In Asia, too, there is a major issue around housing. Nearly all of our markets have challenges in that the latent demand is huge. For anyone who wants to own their own home, there are issues around affordability. So, one of the sectors attracting a lot of attention today is residential."

Reforms in China are impacting on the economy in a positive sense in that the focus is much more on sustainable growth rather than growth for growth's sake.

Asian sovereign wealth funds and institutional capital have been a major force across the region in 2013. Do you see that influence continuing in Asia Pacific this year and beyond?

"Governments are looking to these funds to play a major part in city agendas and in urbanisation and regeneration across the region. They are seen as the private partner in the public-private relationships which will have to be developed to drive many of the urbanisation and regeneration programmes in Asia Pacific."

Are there any indications that Asian funds and institutions adopt a different approach to investment risk between different markets of Asia Pacific, or further afield in Europe?

"They are looking to the US and Europe to spread their risk. Clearly in most of our markets there is a much higher element of risk than you'd find in a mature market and they are working hard to secure that balance. But they are more comfortable with Asia than a US or European investor. So the regional and country risk factor that others might weigh quite heavily when reviewing opportunities in Asia, they look at it through a different set of spectacles, if you like. With development, I think they would look at it in a similar way across all markets. It's the way they look at the country risk and the regional risk that's different.

"It is also fair to say that local funds and investors have more of a trading mentality than an investment mentality. They're not speculators but their horizons are usually five to 10 years. The discussion on any investment on which I advise is invariably centred around exit – what is our exit strategy?"

Any clouds on the horizon, such as the onset of "tapering" by the US Federal Reserve and the threat of interest rate rises, or a slowdown in China's economy?

"Certainly borrowing money has become more expensive. We have also seen the more troubling signs of grey lending with funds set up in mainland China outside the banking regime – up to half of the funding into real estate last year came from the grey community. But reforms in China are impacting on the economy in a positive sense in that the focus is much more on sustainable growth rather than growth for growth's sake.

"An aspect of every real estate discussion is the impact of tapering but my experience is that whilst a lot of the money linked to financial initiatives in the US went into the stock markets and, to a certain extent, property speculation, not a lot of it has gone into the purchase of core assets."

If investors are going to be major players in Asia Pacific they have at least to assume some construction and market risk.

Placemaking – reaping the rewards

Hong Kong's Causeway Bay may be one of the city's most polluted neighbourhoods, but the worms living on the 38th storey of the iconic Hysan Place skyscraper demonstrate that this is a building aiming for a new vibe amid the smog.

The worms are part of an urban rooftop farm at the award-winning mixed-use building – a 5,000 sq ft community green space that reflects what its developer terms an "unfailing commitment to promoting sustainability and a balanced lifestyle".

The farm is part of Hysan Place's multi-dimensional offer, aimed at tenants and community alike. On top of an average of around 80,000 visitors in the mall each day, you'll find school kids using the farm for education alongside office workers harvesting veg. Elsewhere, publicly accessible roof gardens, a wetland and an urban stage for events all provide compelling reasons to dwell.

Hysan Development Company's efforts are curious given that Causeway Bay commands the world's highest retail rents. With luxury brands willing to pay $3,000 per square foot, landlords, it could be argued, hardly need effort to draw punters. But Hysan Place was built for a new age.

"Making the most of every inch we have is not achieved by stacking one floor on top of another," explains its director, design & project Dr LK Chan.

In short, Hysan believes great development is about making successful places. And it is not alone. *Emerging Trends in European Real Estate 2014* identified placemaking as one of the biggest themes for the post-crisis era.

Its findings build on global interest in how good places contribute to health, productivity and consumer activity.

A UK government report published last year concluded a "pleasing local environment" reaps economic rewards – with green initiatives boosting local business investment, attracting retailers and millions in extra spending. The US government recently estimated that street trees add $52m in increased property values annually.

Developers are embracing green space, pedestrian areas, "green" infrastructure and independent traders, beneficial to retail and office occupiers alike, to attract users to new schemes. And now, prominent districts rising from the ground in London, Copenhagen, Vienna, New York and Lyon are embracing some or all of the above.

But the placemaking agenda is being driven by a desire to make spaces more relevant. In the internet age, where the purchase of a new outfit and a working day can be managed remotely, developers must create buildings for a new kind of user.

"It is very important for us to facilitate interest and public happenings in every place we create," says Dr Chan. "People don't come out to shop but to experience something different, meet and socialise."

Eight thousand miles east in Maryland US, the online effect is similarly influential. John Tschiderer, vice president of development for listed Federal Realty Investment Trust says: "A consumer needs half an hour to buy what they want online, rather than taking four hours going to a store. This provides opportunities for new experiences in retail, entertainment and food environments. That has an impact on how you plan stores and public spaces today," he says.

Tending to the rooftop urban farm of the Hysan Place skyscraper.

"Public concerts, farmers' markets, fountains and pergolas; if you are in the business of providing [discretionary spend] retail today then all this matters," says Ohio-based Yaromir Steiner, founder and CEO of Steiner + Associates, which has developed 7.4m sq ft of mixed-used space across the US.

Designing places that offer unique and diverse experiences requires a shift in approach. As Dr Chan describes it, developers need to behave more like "curators".

She says that developing good places requires management of both the "hardware" – the physical real estate, and the "software" – the events and community activities. "We have to facilitate happenings," she explains, which requires a marketing and communications team big enough to manage the building's extensive event calendar.

A consumer needs half an hour to buy what they want online, rather than taking four hours going to a store. This has freed up new time for something else; be it recreation, eating and entertainment.

UK developer Argent is taking a similar approach at a major regeneration project at King's Cross in London – which includes 26 acres of public space, 3.4m sq ft of offices, 500,000 sq ft of retail and 2,000 new homes. But it's also to become home for a new UK headquarters of Google, perhaps one of the most desirable commercial occupiers around.

It's no coincidence that Google wants to position itself at King's Cross. In its hunt for space, the online search group wanted an environment that encouraged "casual collisions of the workforce". And the new neighbourhood offers Google's 4,500 employees access to a street food thoroughfare, canal-side hangouts and choreographed water fountains. Pop-up cafés and outdoor sports areas are also part of the mix.

Robert Evans, partner, Argent, says: "Developers have caught onto the fact that good places are complex in their tone, character and feel – and give people a multitude of reasons to linger." It is all these elements, he argues, that give a scheme the ability to attract the best occupiers from the outset.

Argent's success, says Patricia Brown, director of urban consultancy Central which is working on the regeneration of London's Elephant & Castle, was down in part to its flexible masterplan. "They began with an interactive and collaborative approach and worked with a vision that wasn't set in stone; you cannot design for 2014 in 2000," she says.

Placemaking innovations don't have to be complex. The use of natural elements like daylight, water and vegetation are simple but effective, says Evans, while investing attention in the right kind of details is also key.

To this end, Federal Realty – which is contributing to the transformation of 420 acres of Maryland's White Flint Corridor from a car-dependent commercial district to a pedestrian-focused mixed-use community – believes "starting in the dirt" is crucial. Tschiderer explains: "Some projects fail because they do not recognise that what is memorable to users is what happens in their sight line, on ground level. It is not about great architecture that looks nice from a distance."

"The quality of finishes, the right public space, thinking through how people might walk through an area, what the vegetation should look like – these considerations are as important as getting great quality retailers. If you have fantastic store fronts but no interactive public spaces, you've missed an opportunity," Tschiderer adds.

King's Boulevard is part of the new public space at King's Cross, Central London.

The quality of finishes, the right public space, thinking through how people might walk through an area – these considerations are as important as getting great quality retailers.

But maintaining aesthetically pleasing greenery, and giving over potentially leaseable space to water fountains costs money. Placemaker developers, however, say the long-term pay-offs are worth it.

"Working out how to run a farm or establish good relationships with partners takes time and capital. But we are not giving up space; we are making revenue from it. Listed company Hysan reported increased retail turnover of 58.4% in 2012, primarily reflecting Hysan Place mall's contribution after the mall opened in August of that year.

Argent agrees that placemaking adds intangible economic value to a scheme. On the strength of that it invited the charity Global Generation to King's Cross to use empty space as an educational garden project for local kids. "The space could have been used to generate up-front income but the charity's activities created broader value and buy-in from the community," says Evans.

King's Cross and its tenants will share the costs of promoting the estate and its events through the service charge, understanding that they have a stake in brand building at this new neighbourhood – associated not so very long ago with crime and prostitution. "Retailers have turnover-related rents," explains Evans. "So the better we are at bringing footfall, the better they do."

Having the right operating budget at the outset, and one that can be communicated to potential tenants, is important in aligning interests between occupier and landlord. "Yes, placemaking costs more but not so much as to preclude developers from doing it," says Tschiderer. "As long as you can explain that common maintenance charges are essential to the quality of the place then tenants see it benefits them."

The value independent local traders can generate should not be underestimated either. Not only do these businesses generate loyal footfall but they can help attract the right commercial tenant.

Steiner says a town's small retailers can often be squashed by larger brands on site, but bringing a well-known restaurant can be successful. "Every city has a star eatery or bar. We bring those operators into corner units, with some capital to help them. Having them there provides places for interaction and cohesion.

"That local angle is the holy grail when it comes to creating a sense of place," he adds.

Europe's *Emerging Trends in Real Estate 2014* identifies placemaking as a key theme for developers today, part of a wider interest in the sustainability of real estate.

Placemaking, the report says, is gaining in sophistication as the industry explores creative ways to ensure viability: "The long-term sustainability of schemes is about the curation of a better tenant mix, not just leasing to the high street retailers that can pay the best rents," it concludes.

Sustainability – both a building's energy efficiency and its long-term value – is fast becoming a concern for real estate professionals in Europe as they meet increased regulatory pressure, climate change risk and more and more occupiers seeking "green buildings".

Over three quarters of Europe's survey respondents confirm they have a sustainability strategy in place. But green issues are shaping the agenda globally too.

Asia's *Emerging Trends* report also finds a positive attitude towards sustainability: "Developers who say that you don't get extra value – I think they're living in the dark ages. It's a competitive advantage because tenants, investors, and governments demand it."

Both Asian and European interviewees report the costs of green construction reducing.

One respondent from Asia says: "We can build a five-star Green Star or a Green Mark today for no more than it would have cost five years ago to build a normal building." While Europe reports that costs of construction could even be reduced if sustainable features were planned from the outset.

Green buildings are a lower priority for interviewees of the US report, with developers only identifying sustainability as of "moderate importance".

A recent report into attitudes to sustainability by Cushman & Wakefield found that US investment managers lag behind their European counterparts in their adoption of green investing practices.

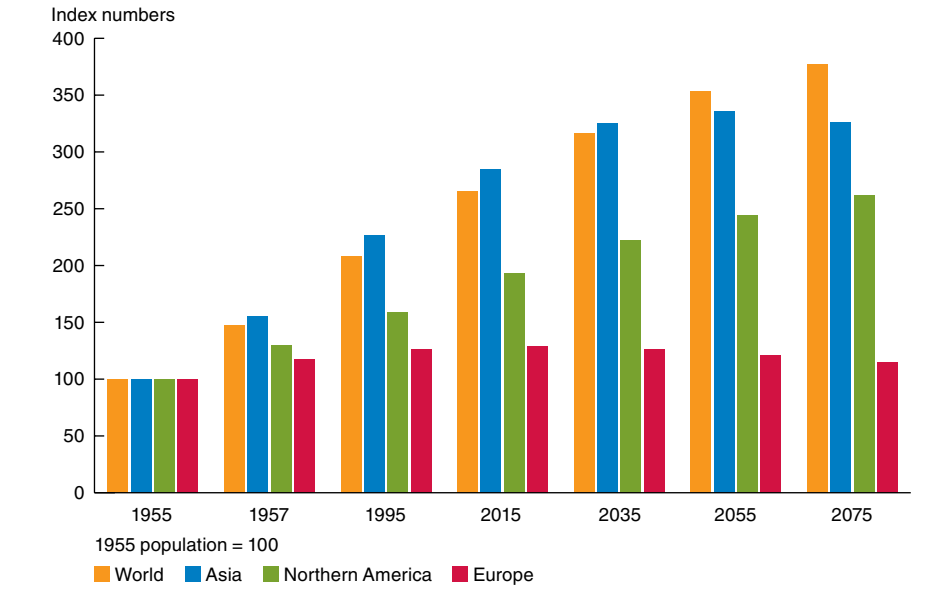
It also revealed that while momentum for sustainable investment is growing, most owners have not yet developed mandated sustainability requirements for their properties or portfolios. But as Cushman also found increased demand by real estate investors for green strategies, sustainability may well be on the *Emerging Trends* US agenda for 2015.

Demographics at work

Institutional investors invariably claim to be in real estate for the long term, but how many look beyond the average length of a lease and pay heed to the demographic trends that will shape demand for decades to come?

That is an uncomfortable question for some investors who are only now recovering from the fallout from the global financial crisis and starting to generate decent returns from property. But a clear message in all three *Emerging Trends* reports is that investors ignore demographic trends at their peril.

Figure 11 **International trends in total population**



Source: United Nations

As Professor Dirk Brounen, Professor of Real Estate Economics at Tilburg University in the Netherlands, suggests in *Emerging Trends in Real Estate® Europe 2014*, many European markets have entered a new era in which success and returns are no longer yielded by "tapping into a growth trend".

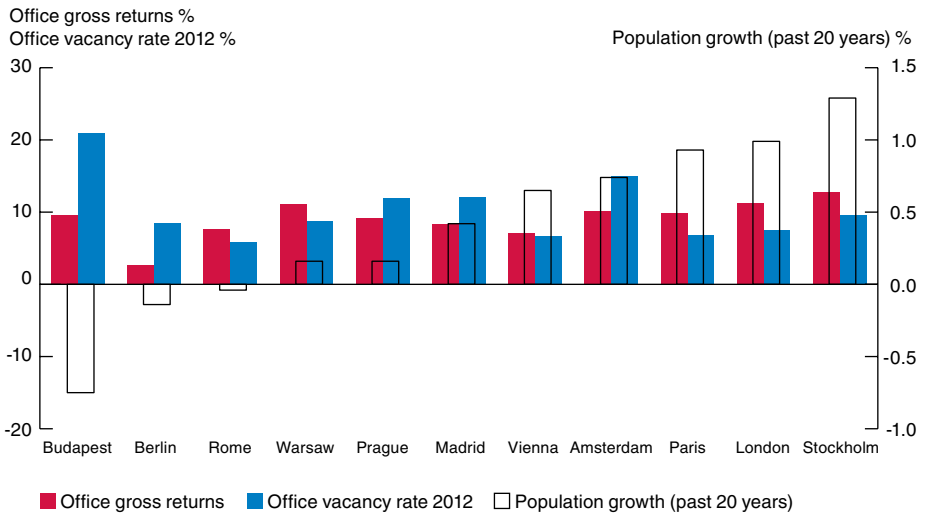
Professor Brounen writes: "Commercial real estate success is a careful outcome of adjusting supply to changes in demand. This sounds fairly simple, but the past few years have proven otherwise. More and more cities and investors suffer from the painful side-effects of what economists like to refer to as 'disequilibrium'."

In other words, there needs to be a far more considered analysis of supply and demand, which encouragingly is starting to happen in the US as Generation Y – those people born between 1979 and 1995 – starts to make its presence felt.

As the American *Emerging Trends* points out, Generation Y – also known as the Millennials – numbers some 72 million, which is approaching the size of the baby boom generation of 73 million. But Generation Y is growing through immigration and it also stands out as the most urban, multicultural and transient generation in America today.

The growth of Generation Y and its impact on all sectors of commercial real estate could be the singular most dominant trend for many years. This group lives, works and plays in different ways than previous generations. The Millennials will be more urban and less suburban; they won't want to drive as much but will want to be mobile.

Figure 12 **City populations and office markets**



Source: United Nations

As a result, all real estate property sectors are making changes. Office users are demanding less space per worker as they reconfigure for more collaboration. Retailers are looking for urban formats that will be able to serve city dwellers more efficiently. Industrial space is being designed and located where it can meet the needs of online retailers with ever faster delivery times. And multifamily space is adapting to provide less space per unit, but increased common areas.

It is worth noting that a city does not need to be in the top 10 in terms of growth to benefit from the impact of the Millennials. San Francisco, New York, Chicago, Washington DC and Atlanta are all projected to have average to below-average total population growth, but will see much stronger growth in the 20-to-34-year-old population.

Europe has reached its peak and is gradually transiting into a future where the annual outflow of elderly retiring from the labour force exceeds the number of youngsters that join in.

But while Asian and North American populations continue to grow, global property investors no doubt acknowledge that the issue for much of Europe is demographic ageing. As Professor Brounen puts it, “Europe has reached its peak and is gradually transiting into a future where the annual outflow of elderly retiring from the labour force exceeds the number of youngsters that join in.”

Yet this demographic decline is not the same everywhere. In parts of Europe, such as Scandinavia and Turkey, populations will continue to grow. Professor Brounen acknowledges that the influence of these varying demographic trends over the performance of local real estate markets still needs testing.

He adds: “Perhaps real estate entrepreneurs will manage to incorporate these long-term trends adequately in their plans for new supply, ensuring that a decrease in demand does not result in oversupply.”

Sponsoring organisations

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- Exploring issues of urbanisation, conservation, regeneration, land use, capital formation and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
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