May 5, 2021

Global Research

Global Real Estate Perspective - Highlights

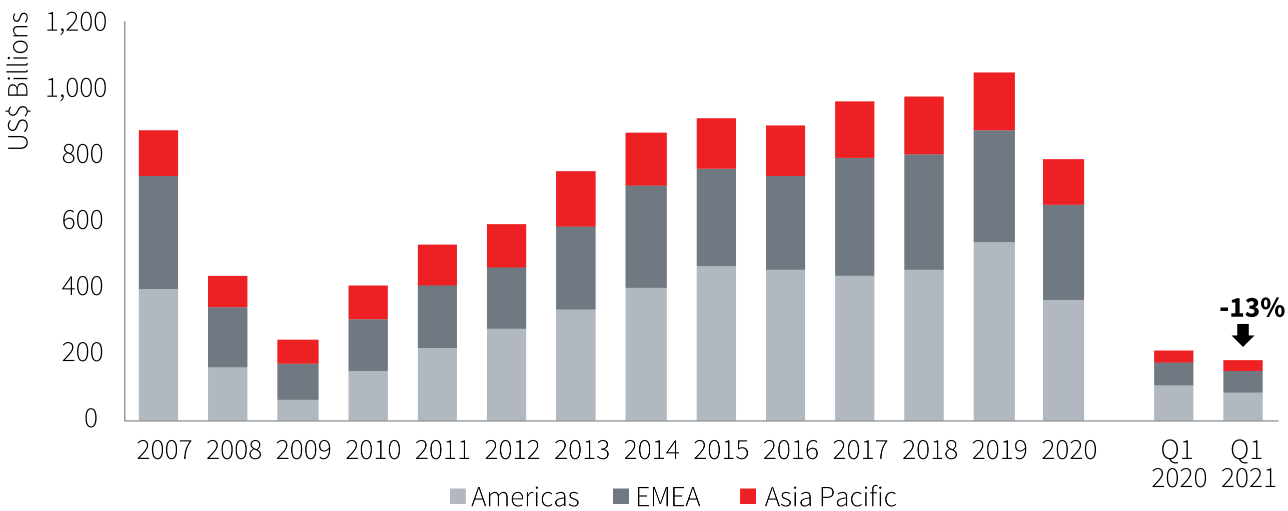
Investor and Corporate

Summary

Global capital flows

- The early stages of the real estate capital markets recovery remain mixed and uneven. The relative resilience and strength of the transactional environment varies by country, with larger, established markets evidencing gains. Globally, transaction volumes totaled US$187 billion in Q1 2021, marking a 13% decline year-on-year. This still represents a steady improvement of liquidity and capital flows given the robust volumes of Q1 2020 in several of the major commercial real estate markets.
- Markets with deep access to capital continue to exhibit greater stability, as varied health protocols hinder a broader recovery in cross-border flows. Global investors with ample dry powder and 'boots on the ground' continue to play a critical role in the market, deploying US$17.5 billion in Q1. The office sector accounted for 48% of investments by global investors, reinforcing the criticality of these groups to the recovery of the sector.
- Longer-term tailwinds favoring real estate capital markets remain intact. Institutional investor target allocations to real estate continue to increase and are forecast to reach an average 10.9% in 2021[1], bringing an abundance of new capital into commercial property markets. Climbing allocations, coupled with a fundraising market that is stabilizing, will continue to provide sources of liquidity to the broader recovery.
- The focus on portfolio diversification is benefitting markets with diverse property markets – of note, those with established or growing Living, logistics and alternatives sectors. These sectors continue to gain from sharp increases in investor demand. While still down in activity, markets historically concentrated in office and retail investment are experiencing improved investor confidence. That said, the appetite for risk remains muted, and the majority of investment is occurring in well-let, core or core-plus assets with credit tenancy.

Direct commercial real estate investment, Regional volumes



Source: JLL, April 2021

[1] Source: Hodes Weil 2020 Institutional real estate allocations monitor

- The debt markets saw increased activity and heightened competition in Q1 as the lender pool expanded for the second consecutive quarter. The re-emergence of previously sidelined lenders, along with improving rent collection metrics, led to more aggressive term agreements, while spreads have begun to compress in lagging segments of the market that exhibit marginal risk.
- Globally, bid-ask spreads have improved over the past six months. The convergence of buyer and seller expectations has broadened from growth sectors to stable segments of office and retail markets. Over the past two quarters, spreads have improved in core and core-plus segments of the office market. This is setting the stage for an accelerated recovery in transaction activity.

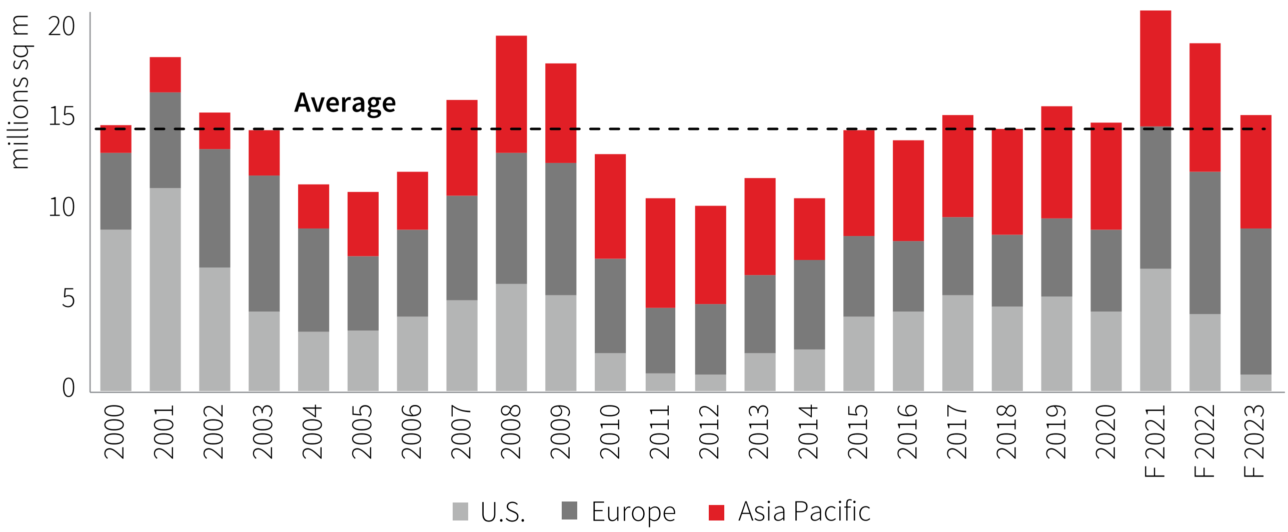
Corporate Occupiers

- The corporate occupier world is in a transition phase, and uncertainty around how things will play out remains high. Companies' re-entry plans continue to evolve, with 56% of companies now looking at H2 2021 or beyond (JLL Account Pulse Survey, February 2021). What is certain is that very few organizations will return to pre-pandemic ways of working, with 2021 set to be a year of inflection, experimentation and piloting. There is still no detailed roadmap to follow and navigating the future of work with the agility to adapt to changes throughout 2021 and beyond will be a necessity.

Office sector

- Momentum in global office markets remains subdued, with Q1 leasing volumes down 31% on Q1 2020. All three regions recorded lower transaction levels with the U.S. the hardest hit (-45%), while Europe continues to show more resilience (-8%). Vacancy maintained its upward trajectory adding 70bps over the quarter to 13.6%, the highest level since 2012.
- The pandemic has underscored the importance of the built environment – including office space – to public health and shaping individual and community wellbeing. This is reflected in an increased occupier focus on health and wellbeing which is likely to heighten the existing polarization of demand between prime and secondary stock. The acceleration of vaccination programs across Europe and the U.S. should ensure that the tentative signs of recovery turn into increased leasing volumes in the second half of the year.

Global office development, 2000 – 2023



24 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific
Source: JLL, April 2021

- Flexible operators are reporting increased enquiry and viewing levels although the decision-making process remains slow. Tenants are concentrating on managed solutions that provide self-contained space where they have control of their environment. Most operators have paused expansion plans and are currently reviewing their portfolios. In the short term they are looking for new income streams, such as offering day passes and on-demand access to their premises.

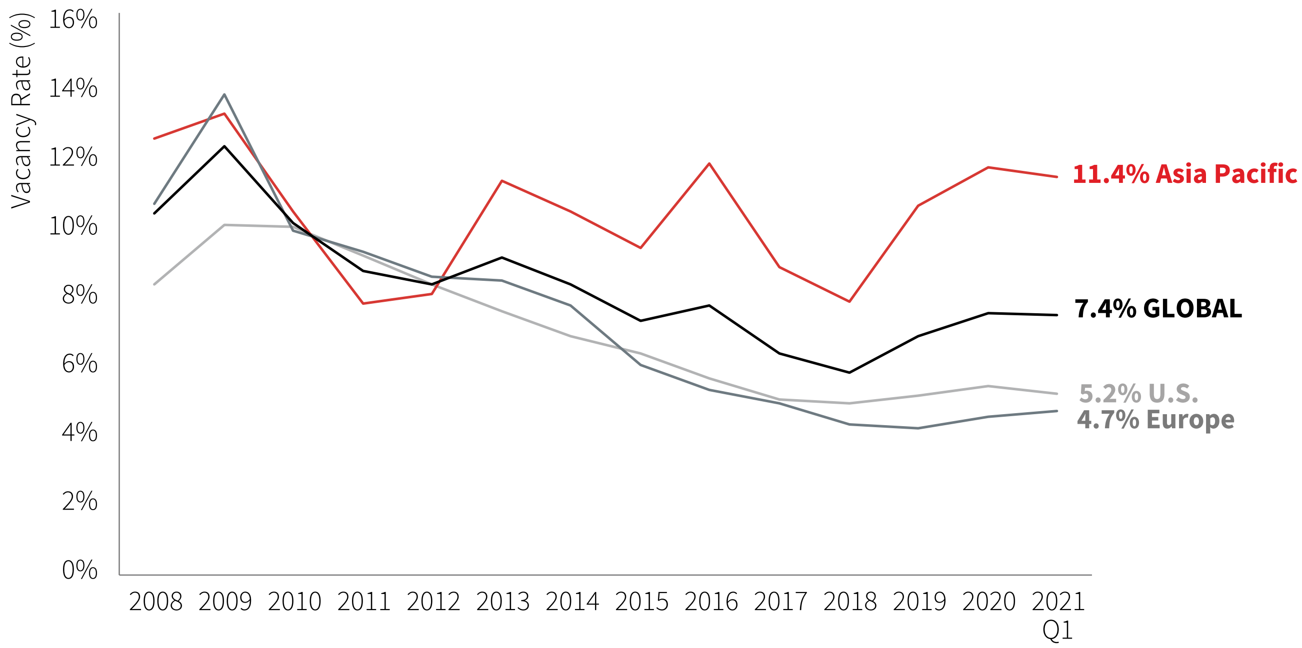
Retail sector

- Retailers continue to face unique challenges in major markets globally as a result of ongoing and evolving measures to contain the spread of COVID-19. However, the sector has begun to get a first glimpse of how the recovery of retail leasing markets may progress, with an increase in leasing activity evident in select gateway markets where vaccine rollouts are acting as a tipping point.
- While many operators are rightsizing their overall retail footprint leading to a net reduction in demand in the most developed markets, the occupier base of major markets is set to broaden with the entry of new operators and business models. Consumer goods manufacturers, sustainable fashion retailers, EV-producers and value goods specialists are all looking to increase their footprint, while specialists running 'dark stores' and 'dark kitchens' are also showing interest in taking retail space.

Logistics sector

- Leasing momentum and demand for logistics space held up well across all three regions in Q1, supported by robust demand from E-commerce and 3PLs. Strong demand and delays to construction have caused a build-up in the development pipeline, although vacancy so far remains low and relatively stable in most markets.

Logistics space, vacancy rates 2008 - Q1 2021



U.S. based on 55 city markets; Europe based on 10 national markets (excluding Belgium);
Asia Pacific based on 26 city markets (staggered starting point for some markets, with coverage for some Tier 2 China markets beginning after 2008);
Global: weighted average according to region's (US/Europe/Asia Pacific) share of total GDP.
Source: JLL, April 2021

- The move to online shopping has led to increased demand for new last-mile logistics facilities, where high land values, lack of available space and zoning issues have all created significant challenges for developers and occupiers. This has pushed interest in conversions and multistory facilities. Other trends include rising demand for cold storage facilities and supply chain resilience.

Hotels & hospitality sector

- Following a tough 2020, the global lodging industry is slowly starting to see performance move in a positive direction on the back of improving vaccination schedules. Drive-to, leisure markets continue to outperform, while business travel is expected to remain under pressure this year but should start to gradually return.
- Hotel investment continued to be subdued in Q1. This reflects a few factors including more limited levels of distress than originally anticipated, a lack of quality product on the market and the abundance of capital available making the bidding process more competitive for the few, higher-quality assets for sale. As such, potential buyers are not seeing the discounts once expected.

Living sector

- Structural demand, combined with strong pricing, has meant that segments complementary to core multifamily have been attracting increased attention, including single-family residential, coliving and retirement properties. In the multifamily sector, rent collection levels remain high in both the U.S. and the UK. Elevated concessions and the reopening of businesses has resulted in a pickup in demand in urban locations as the number of tours and leases signed grew over the first quarter.
- U.S. transaction volumes in Q1 were down 22.6% year-on-year; however, this follows the strongest Q4 in history. European markets also started 2021 with momentum and, with 30% of 2020 investment activity orientated toward new homes, European investors are notably attracted to the ESG credentials of these opportunities. Investment into multifamily has accelerated in Asia Pacific attracted by its defensive qualities. In Japan, the sector made up approximately half of all transactions in 2020 and this strength has continued into 2021.

Data Centers

- 2020 was characterized by robust demand for data centers across all three regions. In the U.S., aggregate demand jumped by 72.9% in 2020, while volumes in London also rose by 72%. Cloud services dominated demand across the globe last year and further expansion is expected in 2021. Big technology companies, cloud providers and social media are all driving the increase. Matching this vigorous demand is an expanding development pipeline. In the U.S. the construction pipeline is the largest on record and currently over double that of 2019.
- There are currently five major global trends in the data centers sector: strong cloud demand, a pickup in enterprise co-location, strength in M&A and operator activity, the expected increase in demand for 5G and the ongoing focus on sustainability.

To find out how we can support your global real estate market strategy with research insights and strategic advice, please contact one of the members of the global research team.

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