Research
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Global Real Estate Perspective - Highlights

Investor and Corporate

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Overview

A mixed outlook, with momentum gradually building through the rest of the year

The global economy's resilience continued in the first quarter of 2024, despite geopolitical uncertainty and shifts to the interest rate outlook. Growth remains subdued by historic standards but as inflation eases further and the timing of policy rate reductions becomes clearer, momentum should build through the second half of the year and into 2025.

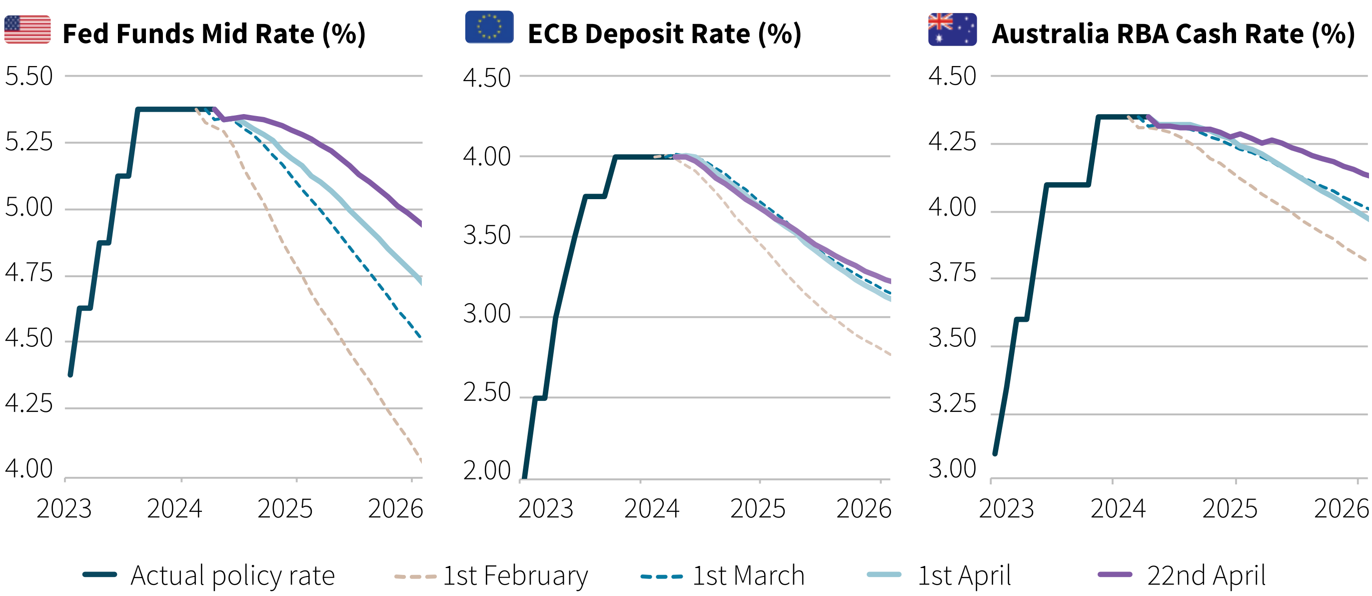
Global Capital Flows

Interest rates

Market sentiment mixed, with interest rate outlook starting to diverge

Investor sentiment has been relatively mixed but stable during the first quarter, with some improvement evident in the United States. However, since the close of the quarter, the release of the March inflation numbers in the U.S. are putting into question when and if the Fed will cut rates this year. Risks remain elevated, with interest rates and geopolitics in direct focus, as well as recessionary risks in some markets. These factors could introduce volatility and impact sentiment throughout the year, and the renewed uncertainty around U.S. interest rate policy is challenging recent improvements in the market. However, indications are that some investors are no longer able to 'wait out' the market in hopes of near-term interest rate cuts and will move to accept and transact at current values.

Market expectations for central bank policy rates



Source: Refinitiv, JLL, April 2024

Pricing dynamics

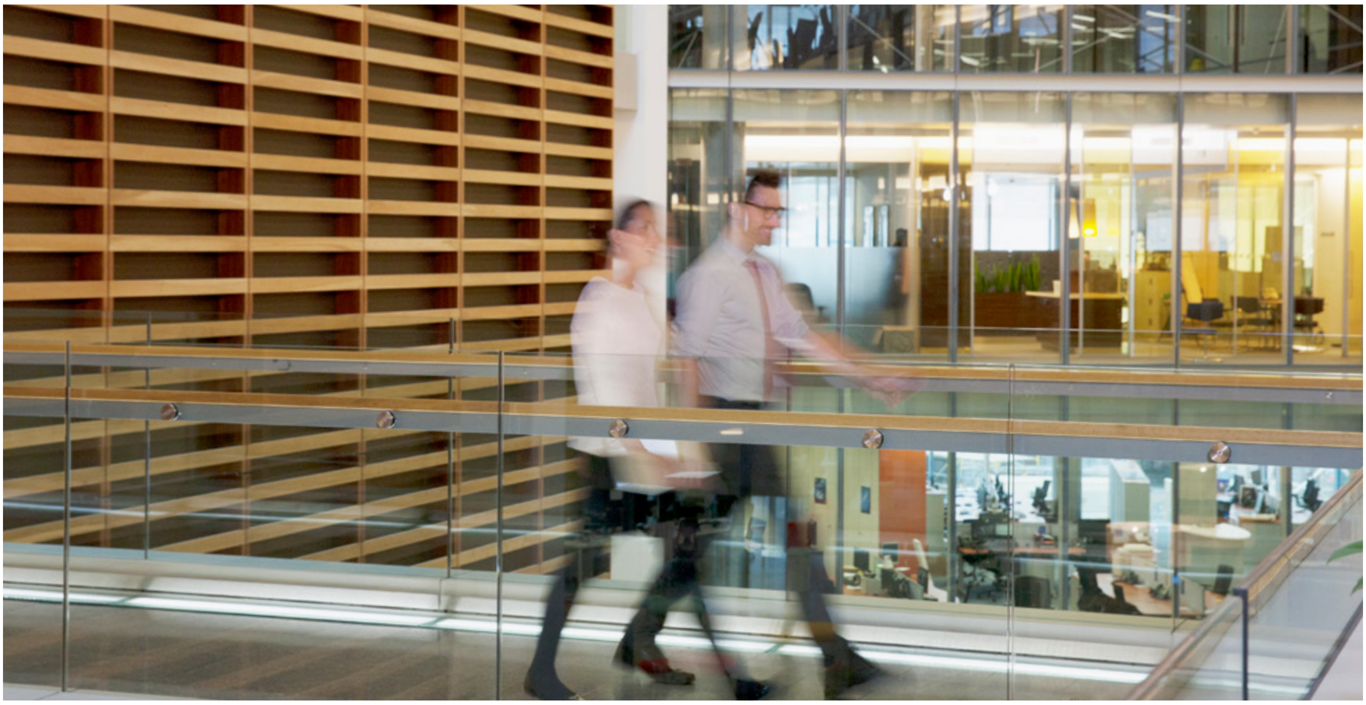
Price discovery continues but is believed to be stabilizing in the U.S. and UK

Real estate markets globally have undergone significant price adjustments from peak 2022 levels with few exceptions, largely driven by the rising cost of capital. Investor propensity to transact is greater in markets where price adjustments are more transparent. More buyers are active in the U.S. and UK markets, a function of increasing confidence in pricing levels and a fear of missing out on opportunities. There has been an increase in Global Bid Intensity across most sectors in early 2024, with dynamics stronger for the logistics and living sectors. However, the bid-ask spread remains, indicating the need for further price discovery and an increase in transaction activity to close the value gap. The stability of rates and sustained investor confidence will be critical to the further resumption of market improvements and for transaction volumes to materially rise this year.

Debt markets

Improvements in debt market pricing in early 2024

Debt market conditions continued to improve in early 2024, both in pricing and liquidity. Markets saw notable evidence of spread compression during the first quarter across the U.S. and parts of Europe and Asia. Lender confidence remains varied and is strongest for logistics, living and grocery-anchored retail, as well as for high-quality assets at smaller deal sizes. Loan originations remain balanced and diversified across various lender types. Alternative lenders such as private credit funds remain active and are gaining market share from banks. The most material shift during the first quarter, however, was the rebound in CMBS issuance. This market has become one of the most constructive for CMBS issuance since 2021 and is supporting larger transactions, refinancings and less in-favor assets, including offices.



Investment activity

Closed deal activity remained below potential in Q1, but strategic deals are reemerging

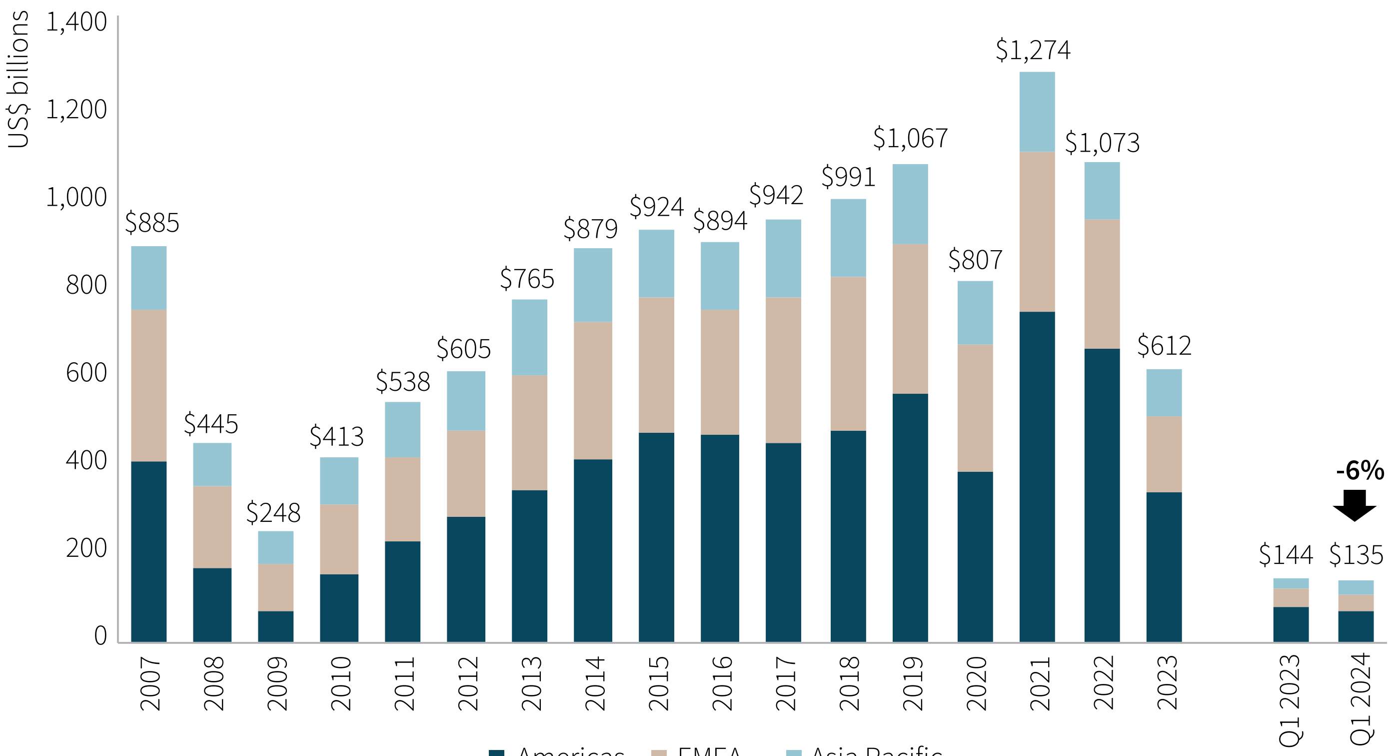
Mixed market sentiment was further evident in closed transaction activity during the first quarter. Globally, direct investment volumes into commercial real estate declined 6% year-over-year to US$135 billion in the quarter. Over the trailing 12-month period, volumes declined 34% globally. The pace of declines continued to moderate across the Americas and EMEA, an early signal of stability, and Asia Pacific experienced its second consecutive quarter of growth. With improvements in debt markets and liquidity, strategic deals – even those of scale – are emerging in M&A activity. Recently announced opportunities across the regions represent important barometers for the market and are expected to spur more M&A and strategic transaction activity.

Sector dynamics

Sector diversification in focus

Divergent sectoral dynamics remain, and capital is most focused on deploying to growth-oriented sectors such as logistics, living and data centers. The extent of these shifts varies globally, influenced by differences in the investible universe, risk profile and sector forecasts. The outlook across the most active property sectors in the short and long term remains mixed. As a result, sector diversification will remain in focus for investors and is increasingly evident in larger, strategic transactions. Diversification will take different forms in markets around the world due to varying degrees of barriers to entry and competition, and even less-favored sectors still have a place within globally diversified portfolios.

Global transaction volumes by region, 2007 – Q1 2024



Source: JLL, April 2024

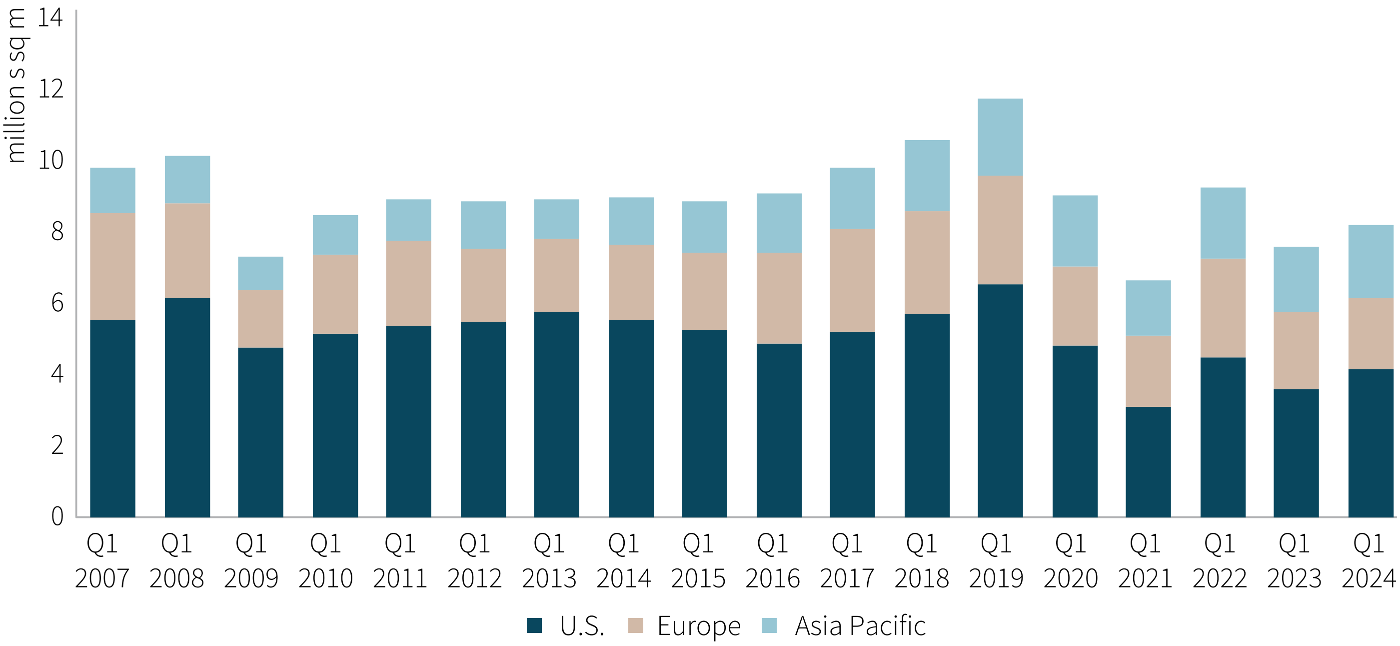
Property Sectors

Offices

Gradual improvement in demand continues

Global office leasing volumes declined by 12% from the previous quarter during Q1 2024, in line with normal seasonal patterns, but were 8% above levels from a year earlier. Performance diverged across regions, with leasing activity up 14% year-over-year in the U.S. and 12% in Asia Pacific, while volumes were 7% lower in Europe. Upgrading into higher-quality space continues to be a priority for many occupiers, and downsizing trends contributed to continued occupancy losses in the U.S., although net absorption was positive in other regions.

Global office gross leasing volumes, Q1 2007 – Q1 2024



23 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific
Source: JLL, April 2024

The global vacancy rate rose by 30 bps to hit 16.5%, with additional increases in North America and Europe, while vacancy edged lower in Asia Pacific. New completions are set to rise by 9% this year, although development pipelines differ significantly by region. Construction has already slowed sharply in North America, with U.S. office inventory declining for the first time on record during Q1 as conversions and redevelopments removed stock from the market. In Europe and Asia Pacific, development pipelines are set to remain above long-term averages through 2026 before declining. Completing projects will push up overall vacancy through the remainder of 2024, while leasing volumes are expected to rise from last year's levels across regions, limiting availability in newer space and sought-after locations.

Logistics

Positive outlook despite slowdown in early 2024

All three global regions registered cooling industrial fundamentals during Q1 2024, with a recovery in demand anticipated to begin in the second half of the year. While absorption figures fell sharply in the U.S. and Asia Pacific over the quarter, both noted an increase in inquiries. Rental growth in all three regions remained positive, albeit at a slowing pace.

Ongoing geopolitical tensions have impacted shipping activity in EMEA and Asia Pacific, while climate-related disruptions were evident in the Panama Canal. Shifting supply chain trends will continue to have varying impacts across regions and markets as nearshoring continues, with some European manufacturers opting to move operations to the U.S. or Mexico due to the lower cost of power. Futureproofing efforts will support industrial activity for high-quality space, as available supply that is ESG compliant and has reliable, renewable energy is limited across logistics markets globally. Occupiers are opting to lease Class A space to meet future needs for their operations while looking to invest in critical areas such as technology integration and automation.

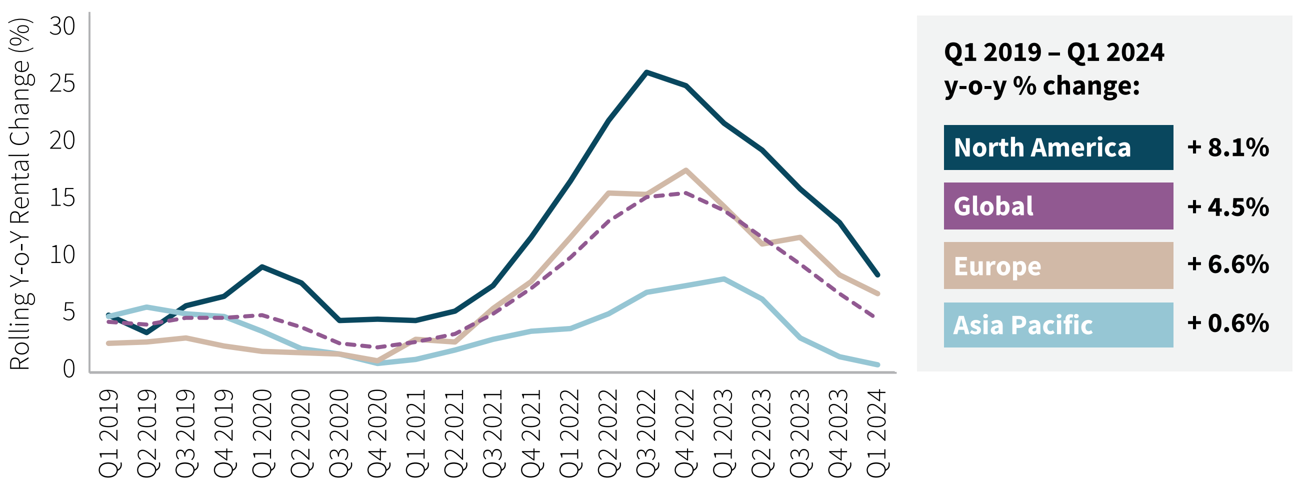
Retail

Mixed performance across global retail markets

Consumer demand has become more mixed across major retail markets, with global consumer spending set to fall from 3.2% last year to 2.3% as the impacts of higher inflation, interest rate hikes and weaker economic growth dampen demand. But this will still mark a fourth successive year of spending growth, while international tourism continues to act as a tailwind in popular visitor destinations. Conditions are expected to improve in the second half of 2024 and into 2025, supported by real disposable income growth as inflation and interest rates decrease.

Regional leasing activity diverged during the first quarter. In the U.S. there was a notable slowdown in new store acquisitions, with a lack of available supply causing a pullback in net

Logistics annualized rental change, Q1 2019 – Q1 2024



North America: based on 55 city markets in the U.S. and 9 city markets in Canada; Europe: based on 13 national markets; Asia Pacific: based on 35 city markets.
Source: JLL, April 2024

absorption despite continued strong demand from retailers. Meanwhile, robust momentum in leasing activity across Europe's key retail markets carried over into Q1. More retailers have broadened their focus from primary markets to include the best space in Europe's regional cities. Retailers also remain active across Asia Pacific and are focused on the strongest growing markets, targeting gateway cities in India, the thriving Southeast Asian markets and Japan.

Living

Tentative signs of improving living investment activity

The long-running undersupply of homes and constrained affordability in many global housing markets continue to underpin the investment rationale for the living sector, with momentum building in the U.S., Asia Pacific and Europe despite continued market uncertainty. Investors pressed ahead with long-running strategies to acquire living assets in Q1 2024, albeit at modest levels compared to the past 5-10 years. While some investors are still waiting on reductions to central bank policy rates before fully committing to new opportunities, living investment activity is expected to grow through 2024.

The U.S. living sector opened the year with optimism despite a heavy supply pipeline and an elevated interest rate environment dragging on transaction volumes. Bright spots in spring leasing momentum and large-scale M&A deals in the multifamily space have driven renewed investor conviction. Living markets in Europe are beginning to rebound, with an increase in the number of deals during Q1, although an absence of larger transactions and portfolio sales saw overall volumes decline. In Asia Pacific transactions rose by 10% year-over-year as investors increased exposure to the sector. A consistent stream of new project announcements and partnerships across the region will lead to a greater level of transactions in stabilized income-producing assets in coming years.

Hotels & hospitality

Global hotel performance continues to strengthen

The global hotel industry continues to thrive, benefiting from a strong travel sector that is driven not only by domestic leisure travelers but also a revival of international, business and group travelers. Global hotel revenue per available room (RevPAR) remains at elevated levels, recording an increase of 14.7% in year-to-date February 2024 compared to the same period in 2019.

However, performance across global markets is not uniform. While activity in Europe and the U.S. continues to outpace other regions, contracting consumer savings are beginning to lead to a normalization of leisure spending, which is causing a slowdown in resort market performance. To date, this has been mitigated by strengthening urban travel driven by a surge in international travel and the return of business and group demand. In Asia Pacific, the reopening of all borders has resulted in rising sentiment, which has led to an acceleration of intraregional travel. We expect RevPAR in the region to reach a full recovery to pre-pandemic levels by the end of Q2 2024, with urban markets around the world likely to see meaningful inbound Asian travel accelerate throughout the year.

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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