

Global Capital Market Conditions June 2022

Executive Summary

- The global economic outlook dampened in Q1 2022 with persistently high inflation and rising interest rates fueling uncertainty in financial markets. Volatility continued in Q2.
- Global commercial real estate investment volume increased by 34% year-over-year in Q1 to US\$282 billion. Investment increased by 47% in the Americas, 25% in EMEA and 5% in APAC. We expect momentum to continue in Q2.
- Cap rates continued to fall in Q1. However, rising borrowing costs may bring the compression cycle to an end in the Americas and EMEA.
- We expect investment volume will finish 2022 slightly off the record volume of 2021 due to slower economic growth.
- A strong U.S. dollar will make markets in EMEA and APAC attractive to U.S. investors, while higher hedging costs likely will hamper foreign capital flows into the U.S. The yen is at an historic low, which will attract foreign investors to Japan.



Economic Outlook

Global GDP outlook remains positive despite headwinds

- The pace of GDP growth will slow in 2022 from 2021's above-average levels.
- GDP growth in 2023 is expected to slow for the United States, Euro Zone and United Kingdom. Asia-Pacific and China may experience below-trend growth.

GLOBAL GDP GROWTH: ANNUAL %

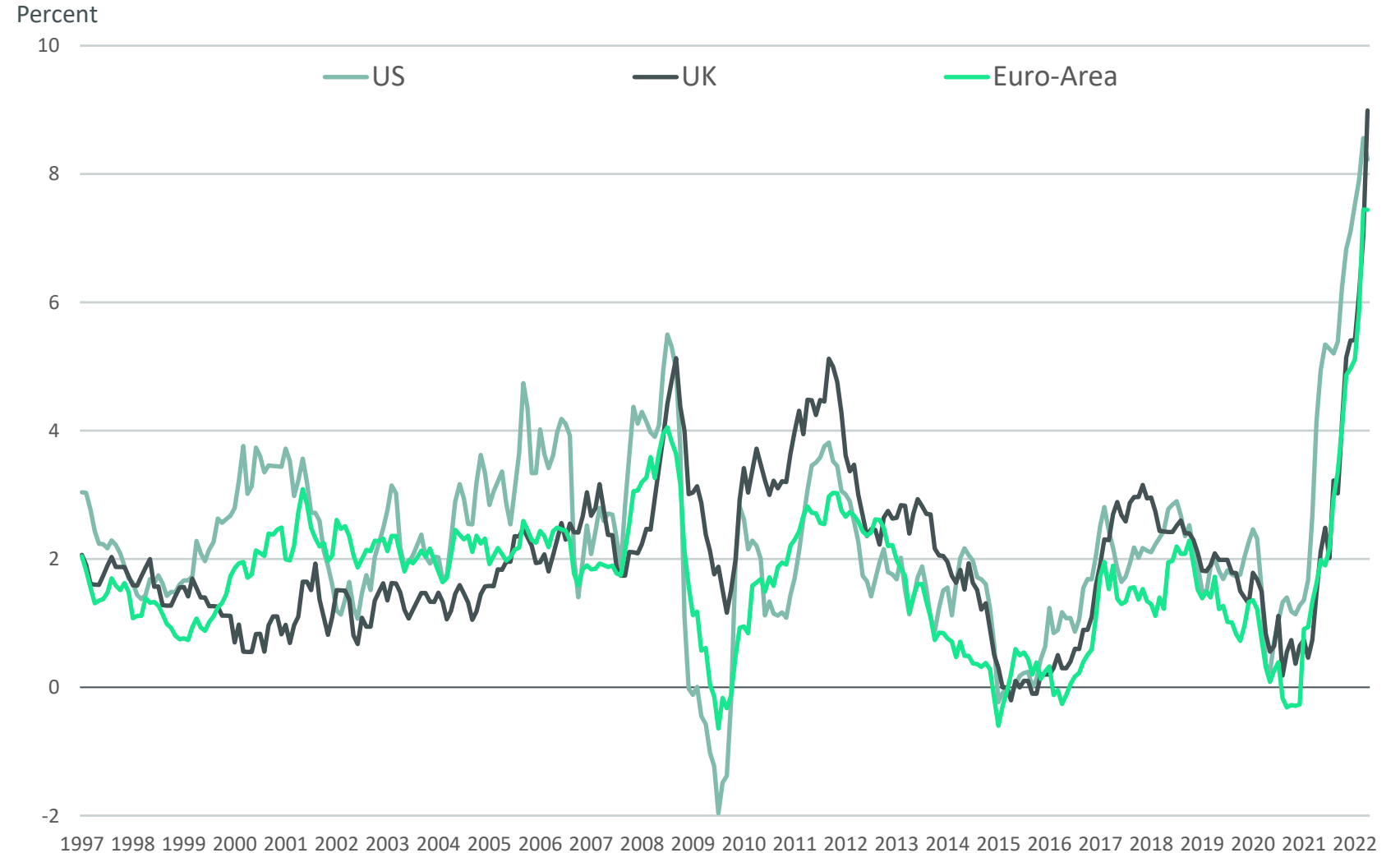


Source: CBRE House View, April 2022 Forecast.

Inflation is worldwide but most pressing in the U.S. & Europe

- High inflation has hit the U.S. particularly hard because of the government's large pandemic-related economic stimulus measures.
- Europe has similar inflationary pressure as a result of the war in Ukraine and economic sanctions placed on Russia.
- Inflation is less severe in Asia-Pacific.

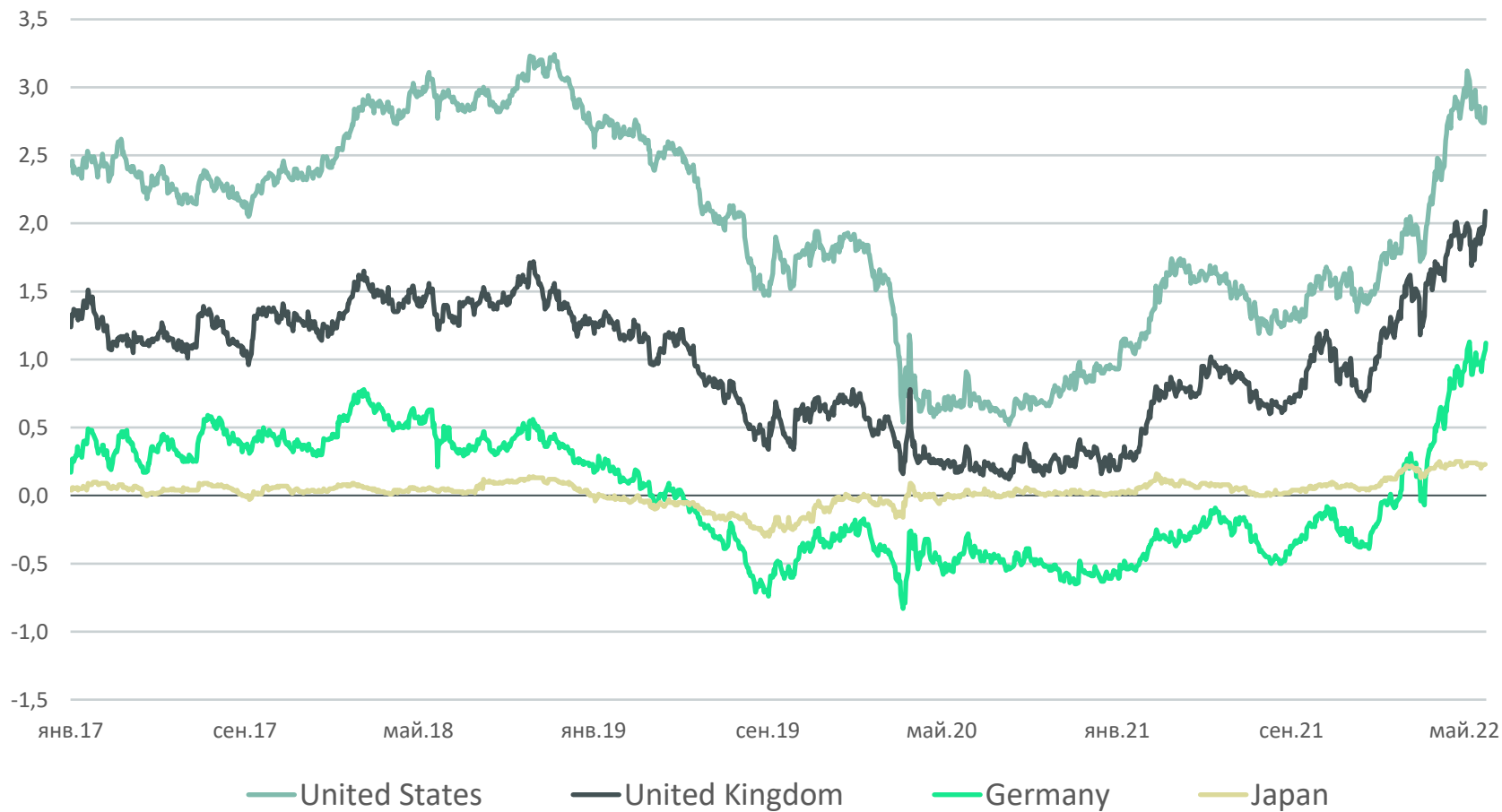
Consumer Price Index – International Comparisons



Source: BLS, Eurostat, ONS, CBRE Research, May 2022.

Bond yields sharply higher, except in Japan

10-Year Government Bond Yields

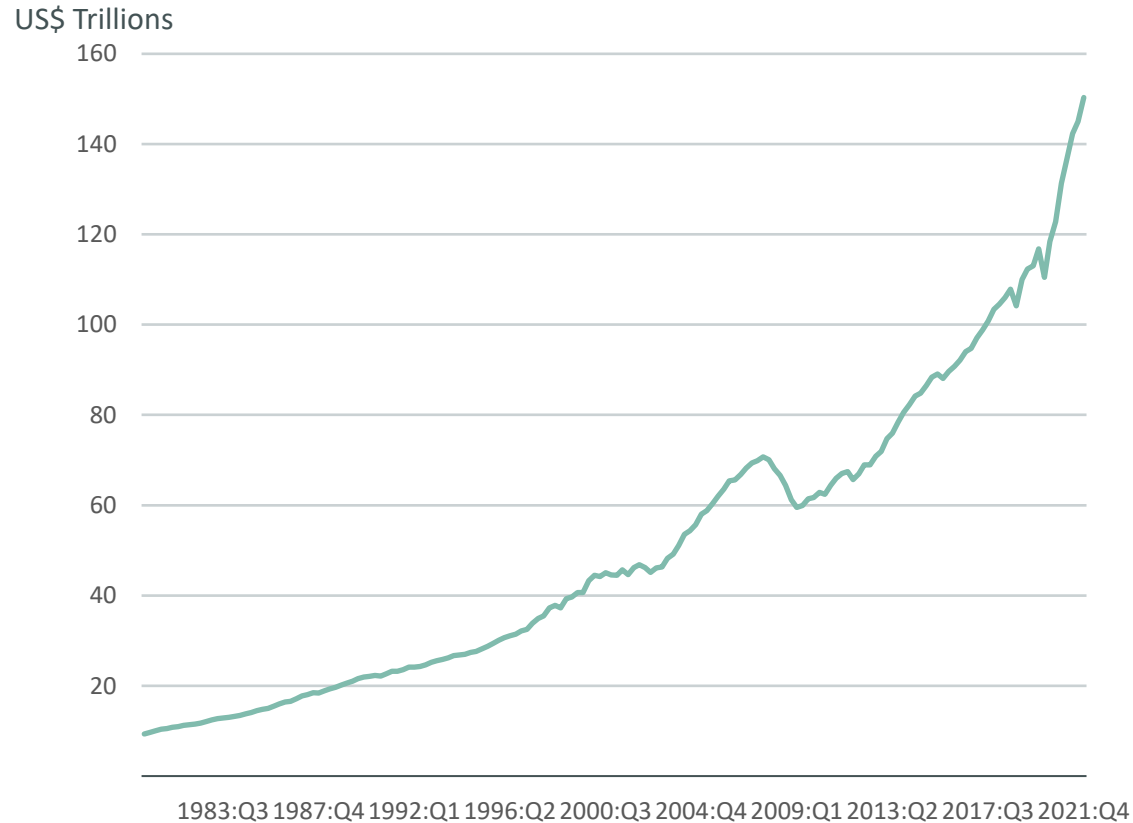


Source: Federal Reserve, Macrobond Financial AB, CBRE Research, May 2022.

U.S. consumers benefit from strong balance sheets and tight labor market

market

Net Worth – U.S. Households and nonprofit organizations



U.S. Unemployment Rate

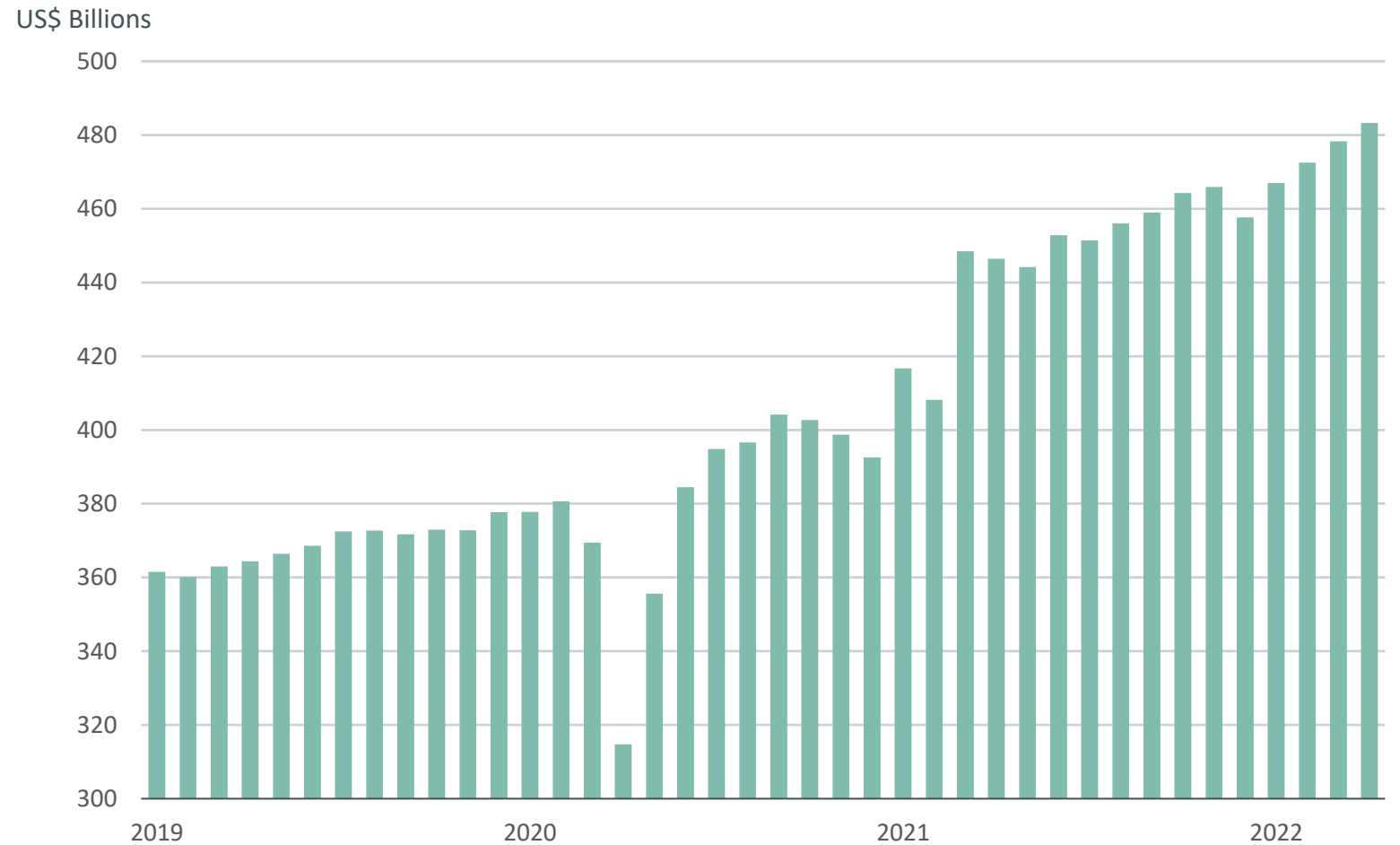


Source: Federal Reserve, BLS, CBRE Research May 2022.

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Despite inflation,
consumers
continue to spend

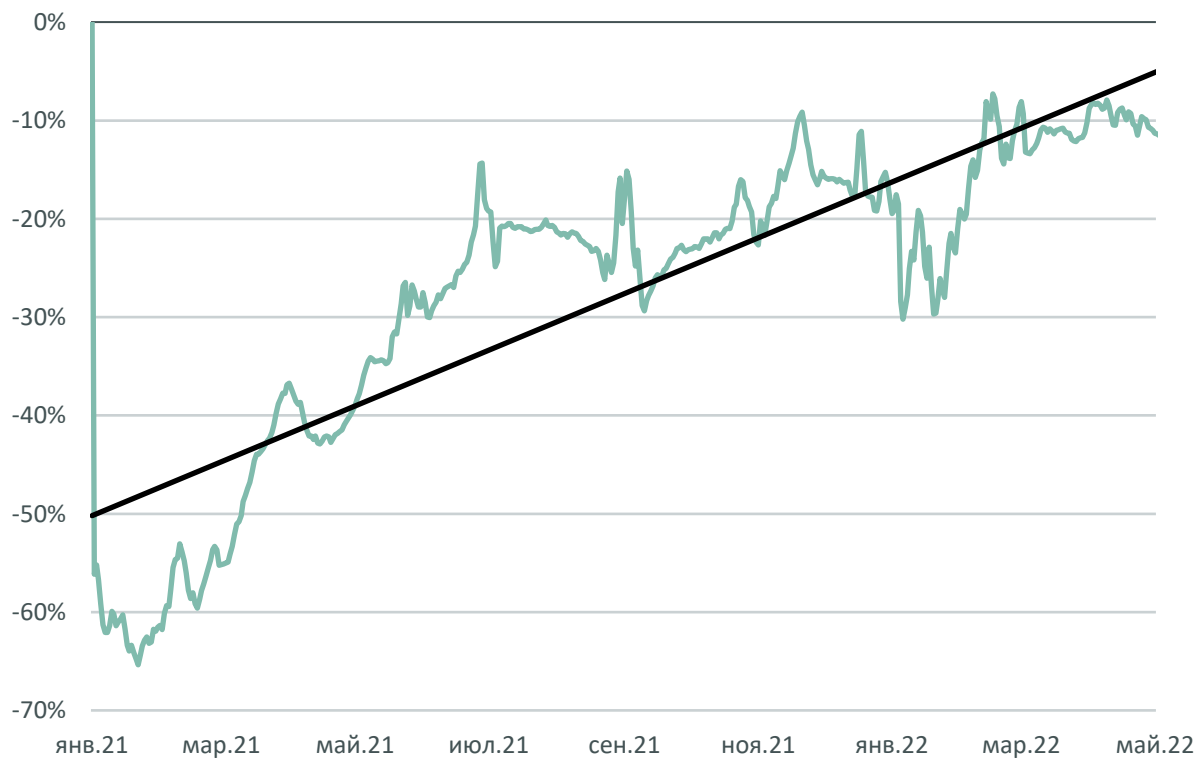
U.S. Retail Sales (excl. gas & auto), US\$ Billions



Source: U.S. Census Bureau, CBRE Research May 2022.

Service spending continues to recover, especially in travel and dining

Passengers at airport security % change from 2019 levels



U.S. OpenTable restaurant booking 7-day moving average, Y-o-Y

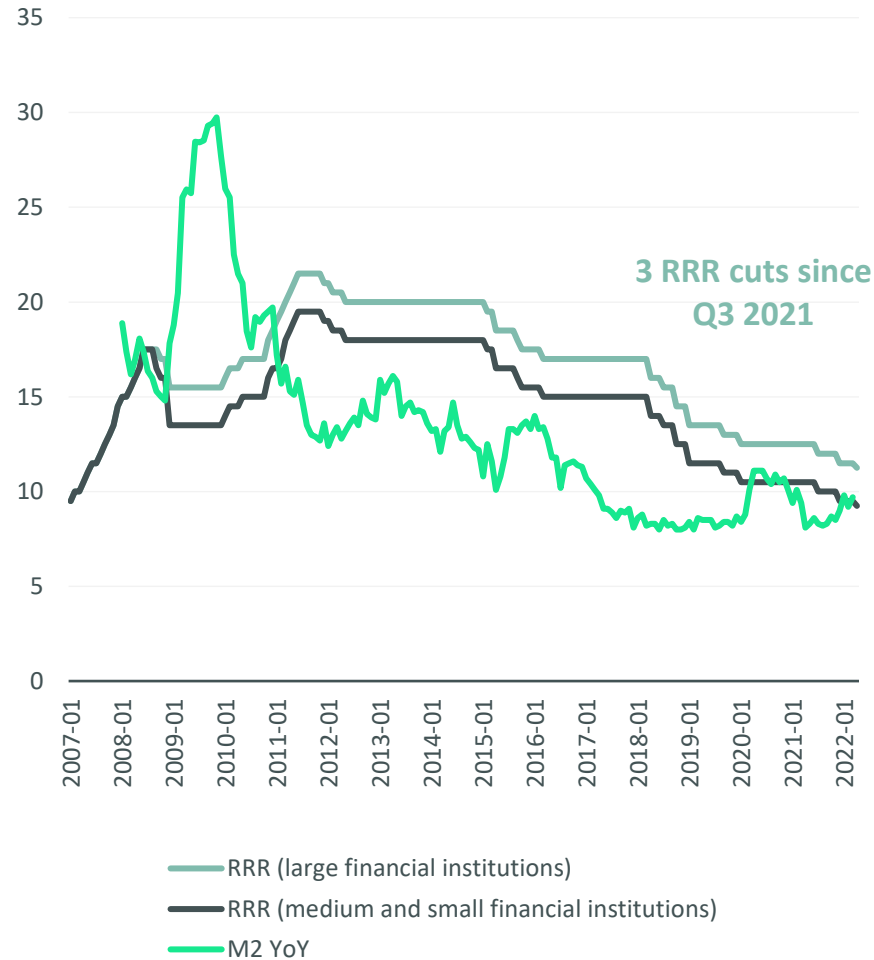


Source: U.S. Transportation Security Administration, OpenTable, CBRE Research May 2022.

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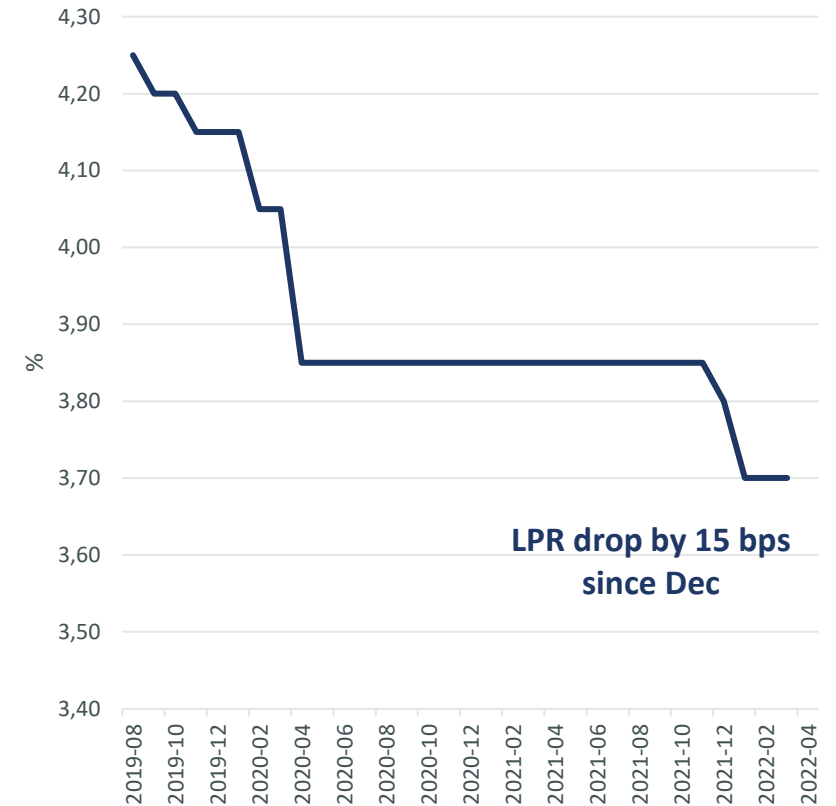
Facing a different economic cycle, stimulus in China continues

China required reserve ratio and monetary supply (%)



Source: Wind, CBRE Research, April 2022.

China lending prime rate (1 Year)



Keys to a “Soft Landing”

Supply chain
issues are largely
resolved in H2
2022

Goods inflation
eases as
consumers
continue shifting
to services

Slower economic
activity moves
China to
deflation

Key risks to watch

Supply chain
issues & COVID
Zero Policy in
China continue
into 2023

Elevated
inflation persists,
despite
monetary
tightening

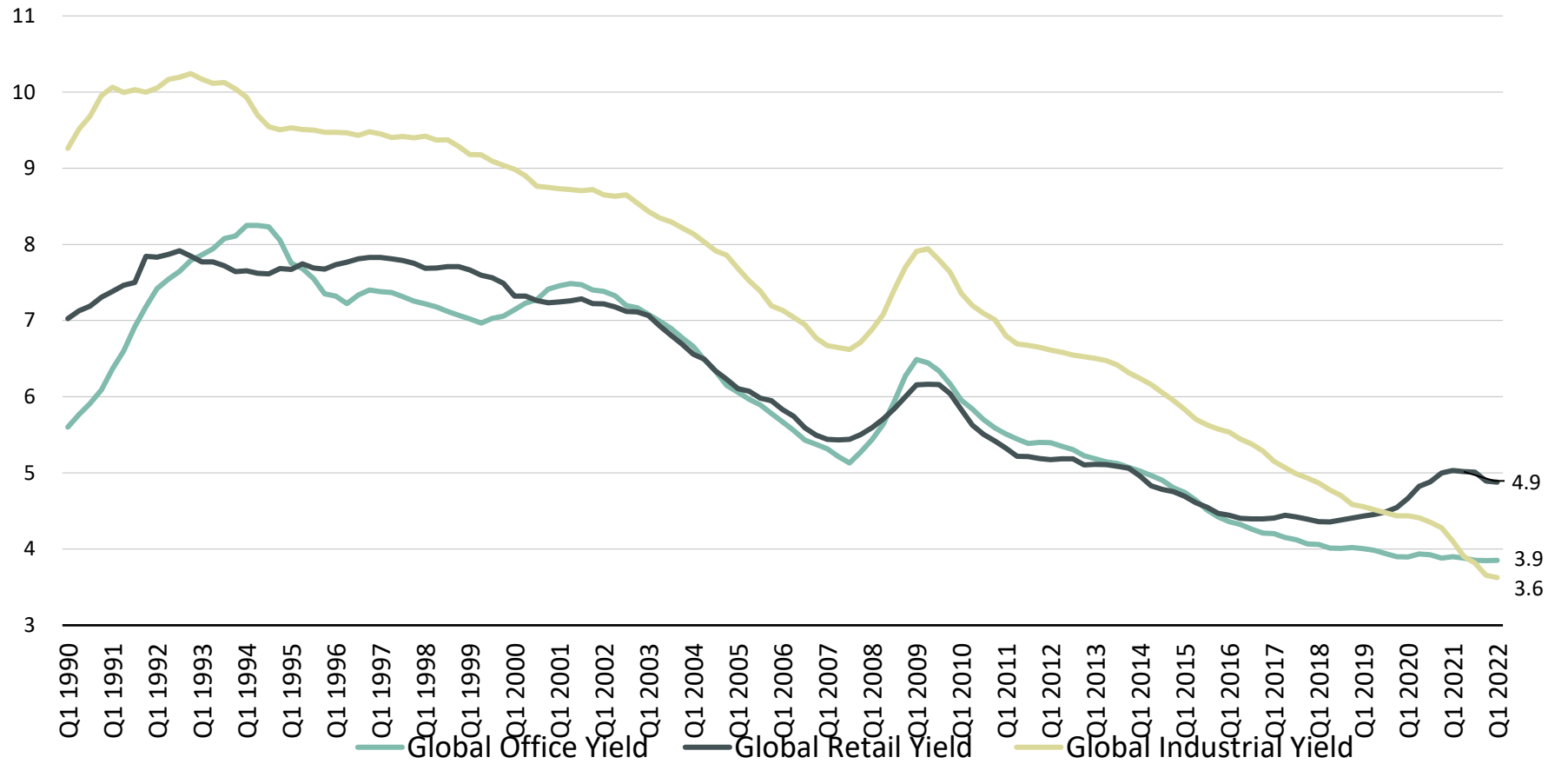
Fed overdoes
monetary
tightening,
triggering a mild
recession in the
U.S.

2

Real Estate
Outlook

Modest yield expansion likely across most sectors

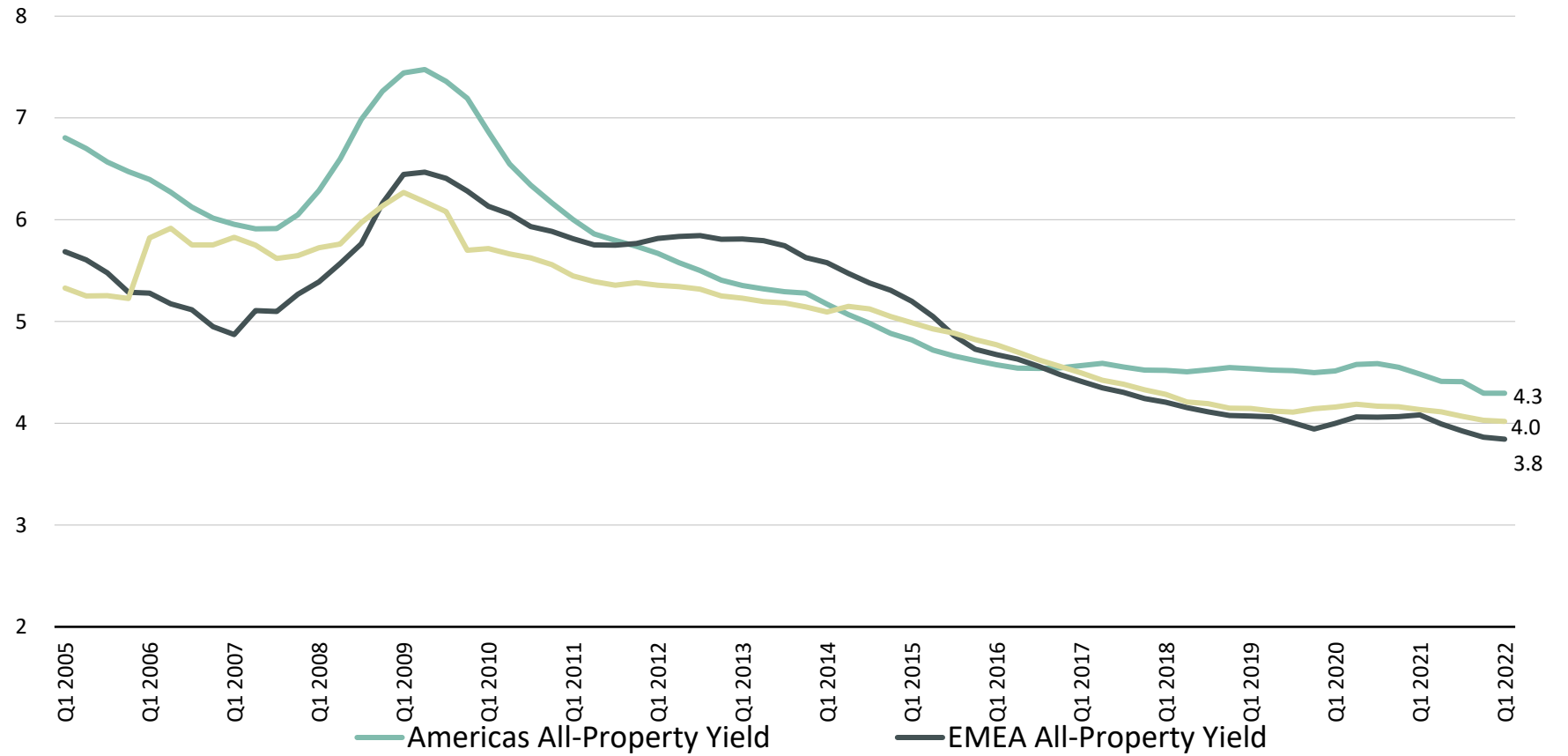
COMPOSITE YIELDS BY PROPERTY TYPE %



Source: CBRE Research, Q1 2022.

Modest yield expansion likely across all regions

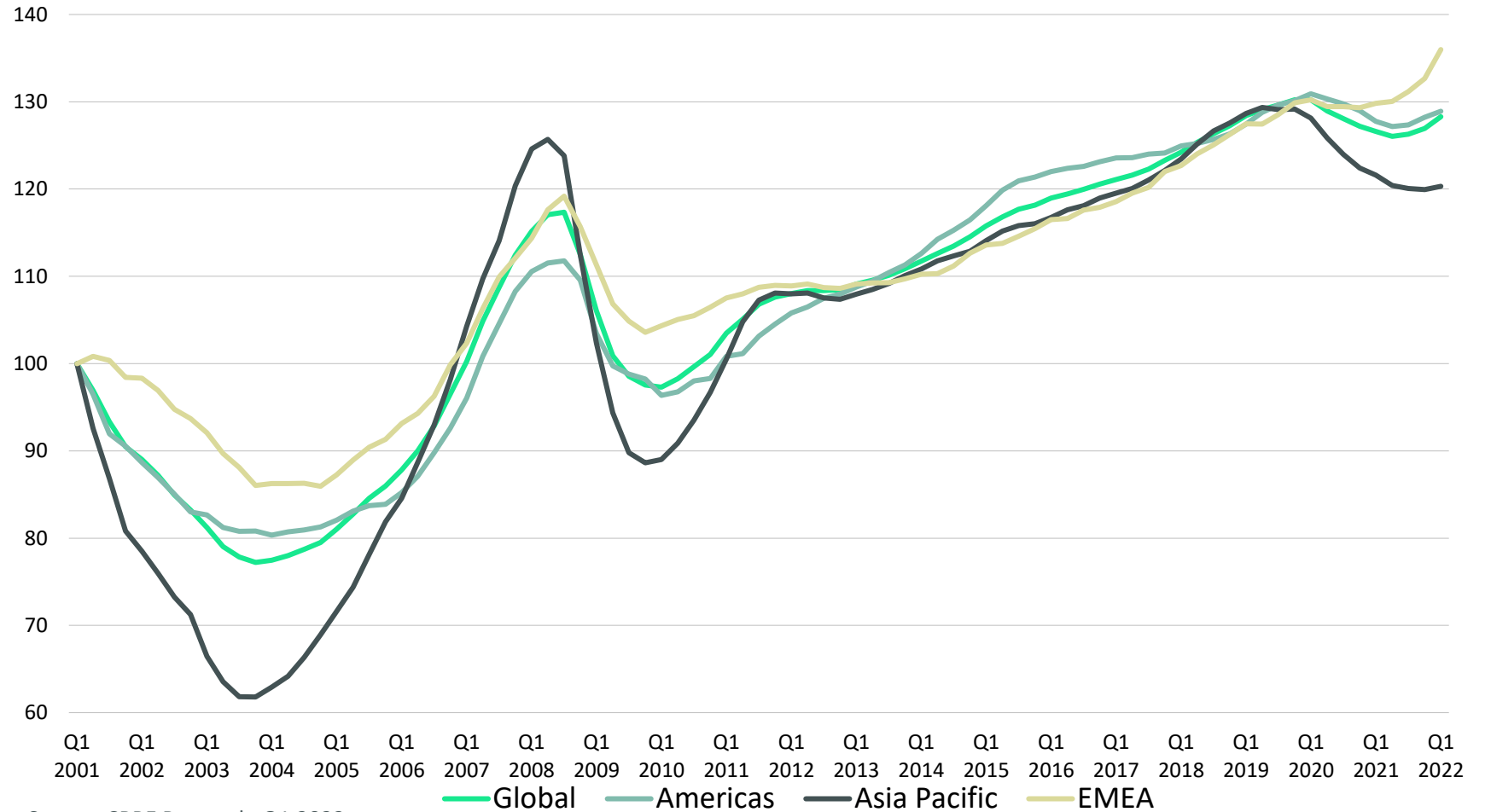
All-Property Yield By Region %



Source: CBRE Research, Q1 2022.

Return to the office drives global office rent growth, led by EMEA

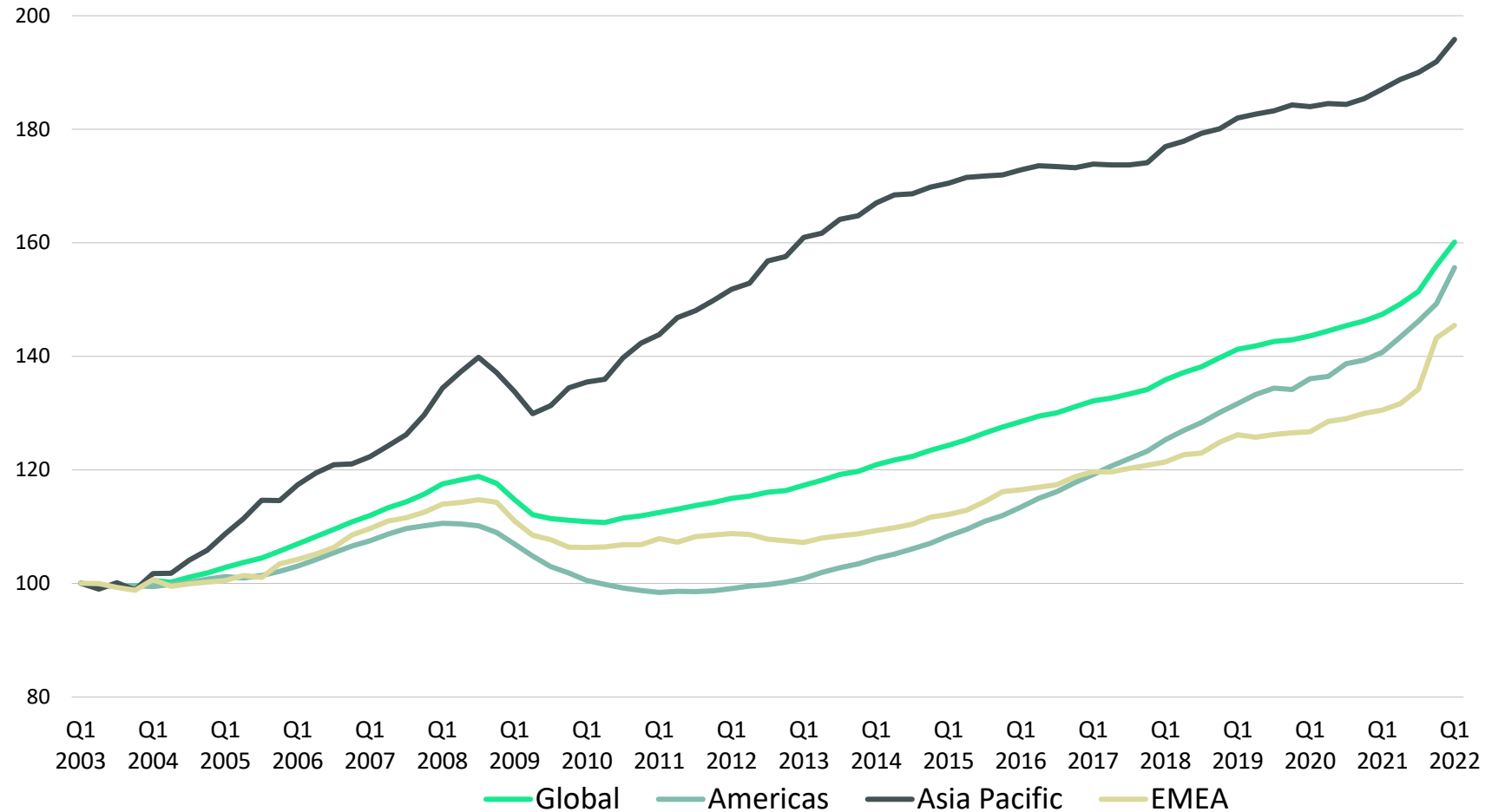
Global Office Rent Index (Q1 2001 = 100)



Source: CBRE Research, Q1 2022.

Global industrial rent continues to grow on the back of tight vacancy rates

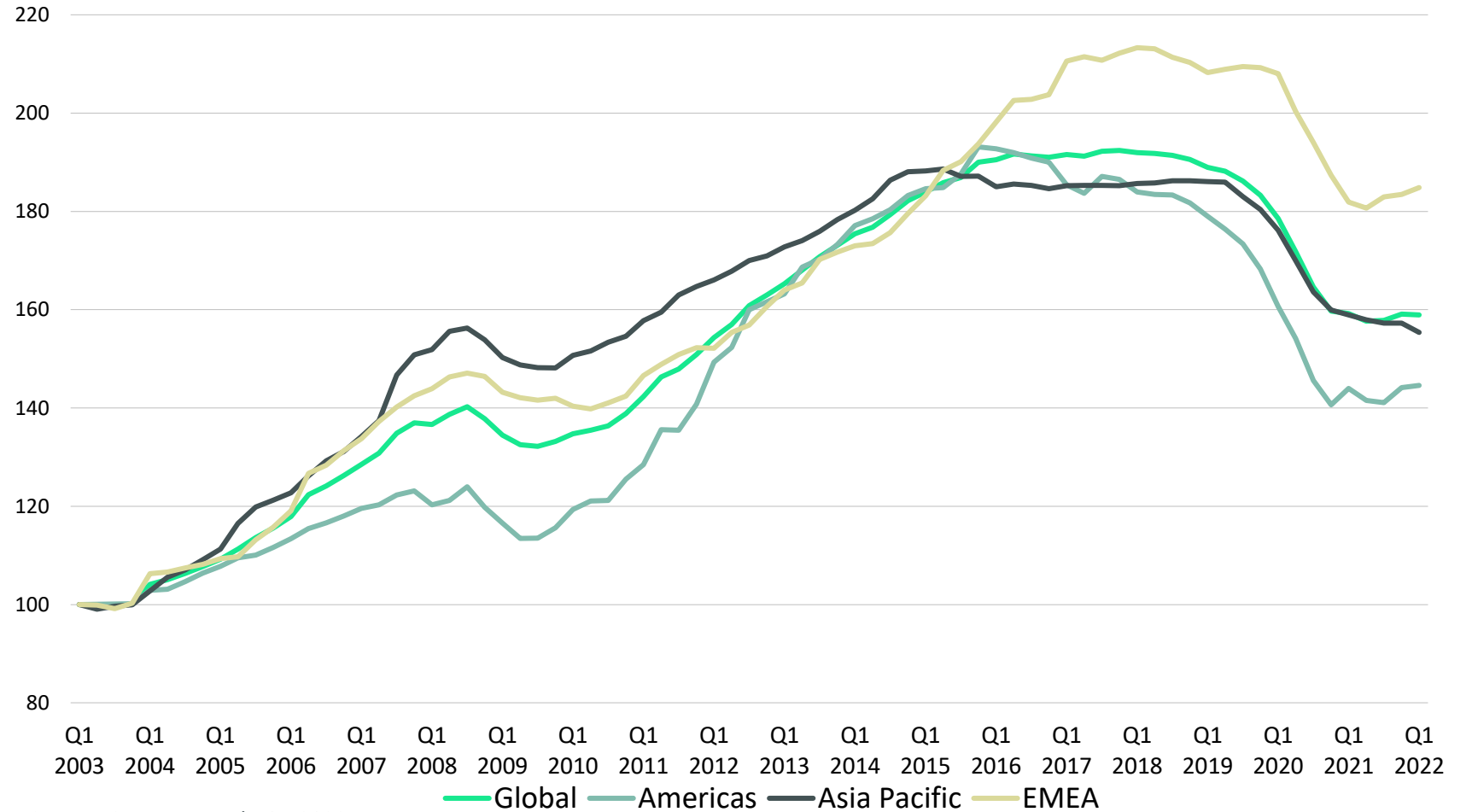
Global Industrial Rent Index (Q1 2003 = 100)



Source: CBRE Research, Q1 2022.

Global retail rent is bottoming out

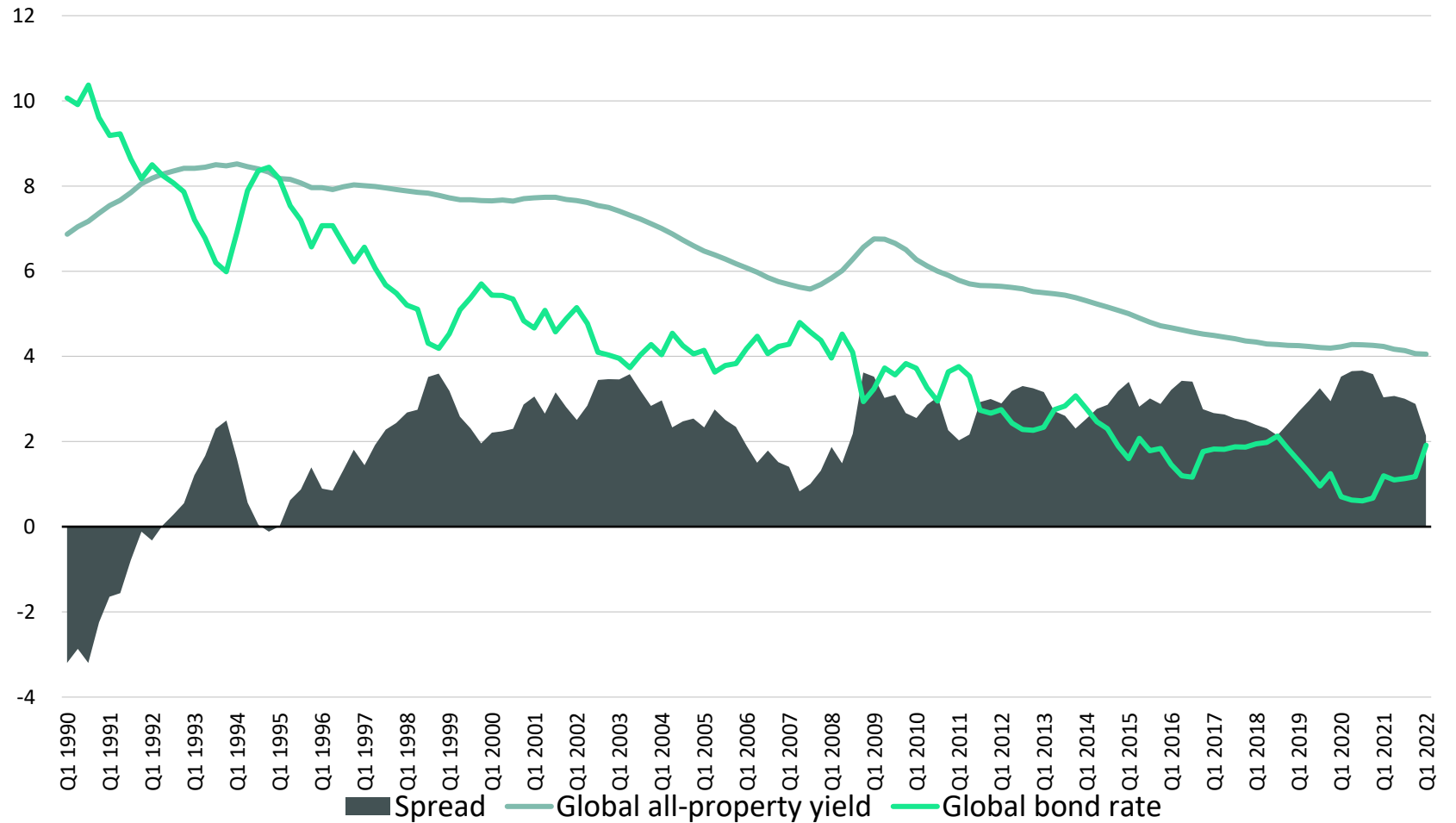
Global Retail Rent Index (Q1 2003 = 100)



Source: CBRE Research, Q1 2022.

Yield spreads have compressed as bond yields increased

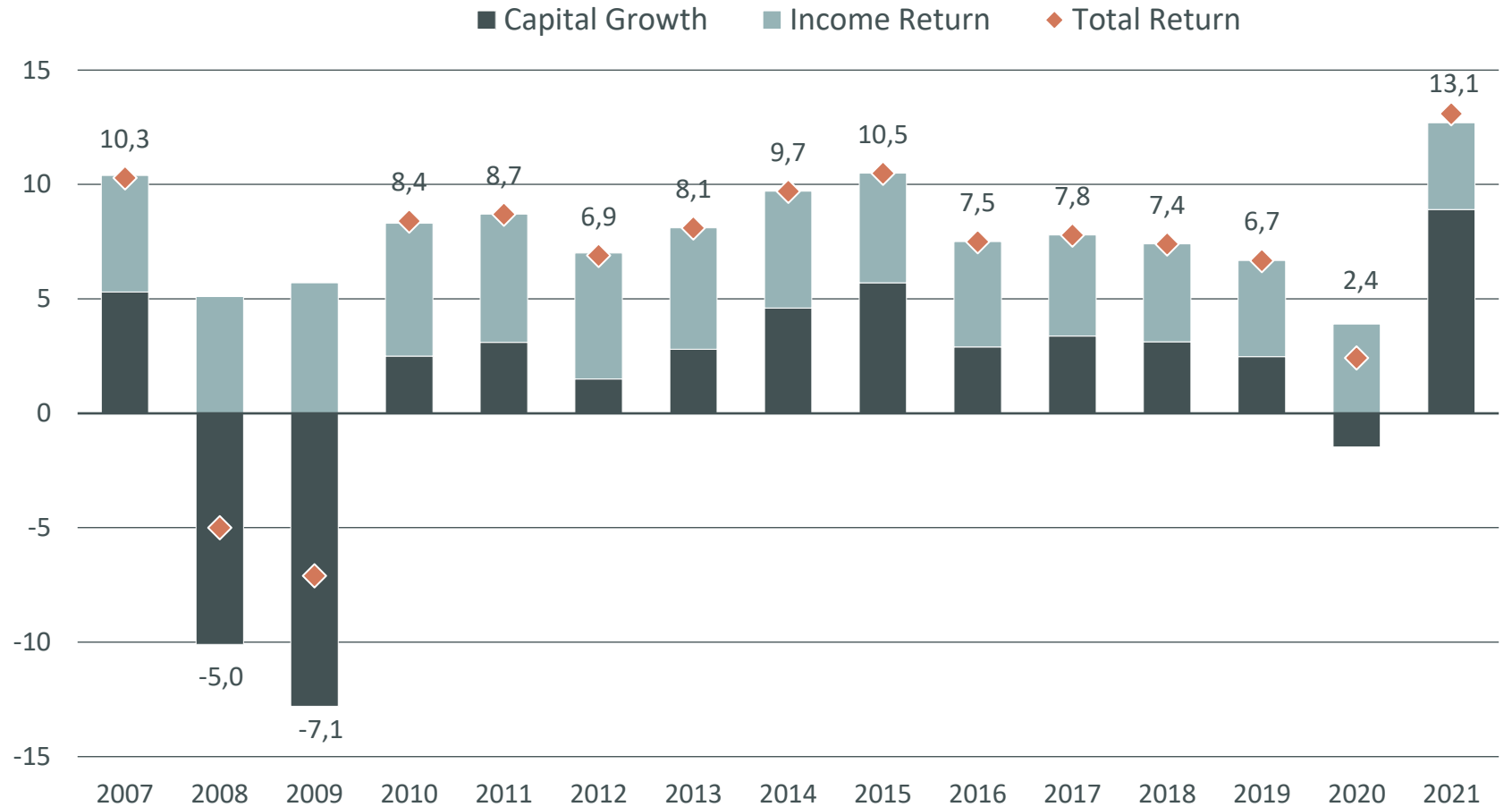
All-Property Yield (Average) and Bond Rate (End of Period), Quarterly, Percent



Source: CBRE Research, National Sources & Macrobond, Q1 2022.

With the rise in bond yields, total returns will be driven by income growth

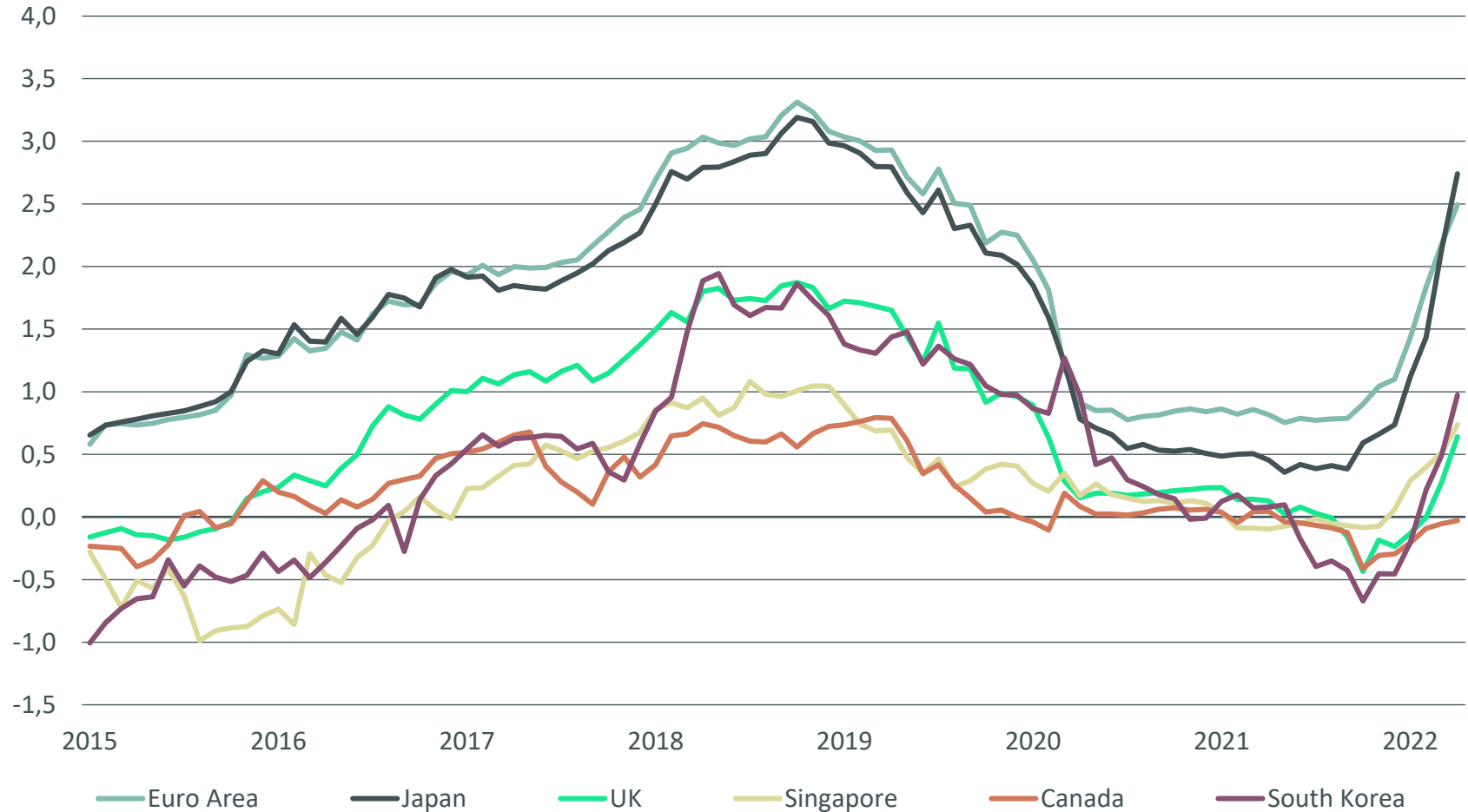
Global Investment Returns Outlook (%)



Source: CBRE Research, MSCI, 2022.

Rising US\$ hedging costs create a buying opportunity for US\$-denominated investors

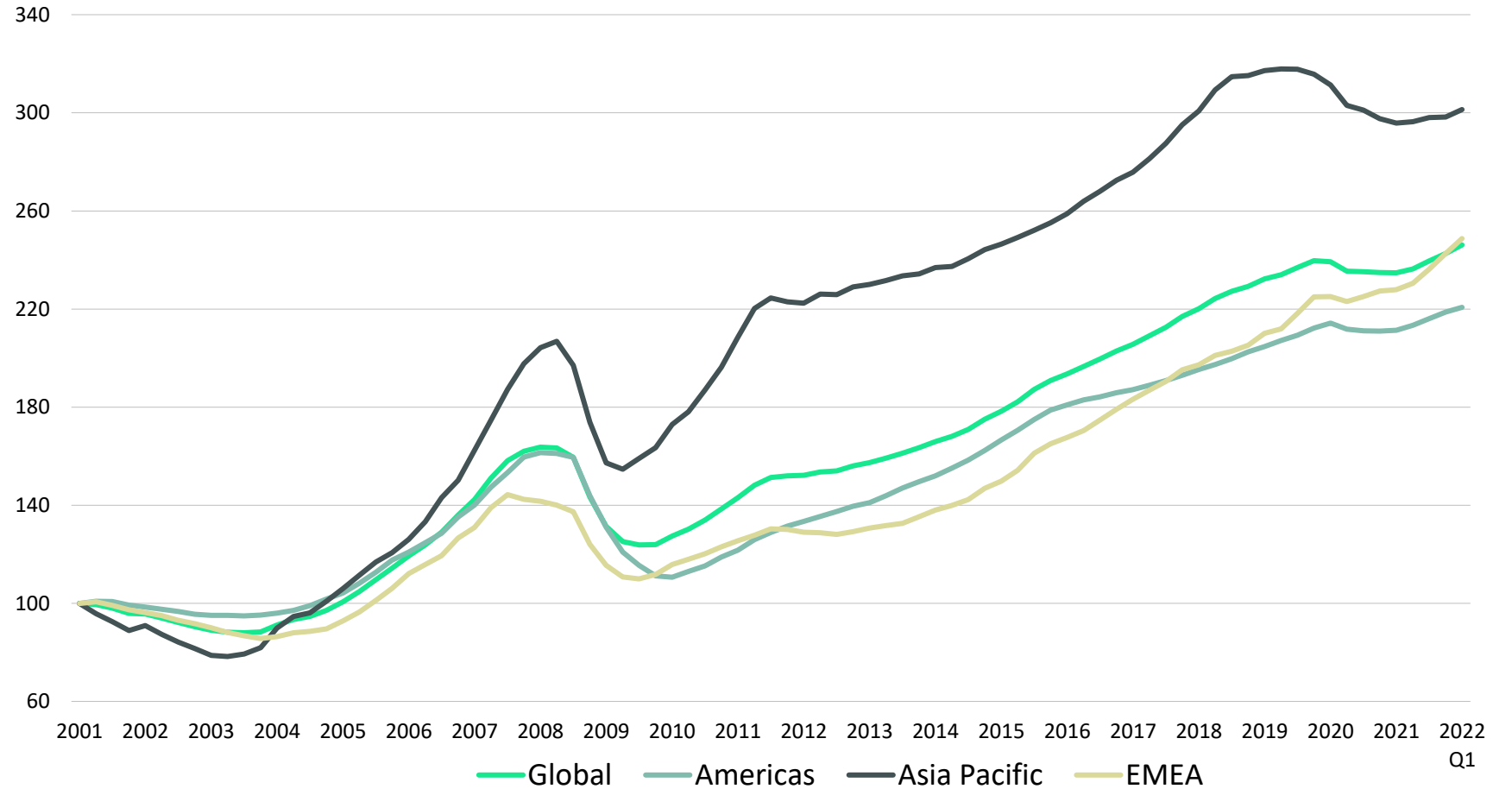
Hedging Cost Against U.S. Dollar Depreciation (%)



Source: Chatham Financial, CBRE Research, May 2022.

Global office capital values growth expected to ease in H2 2022

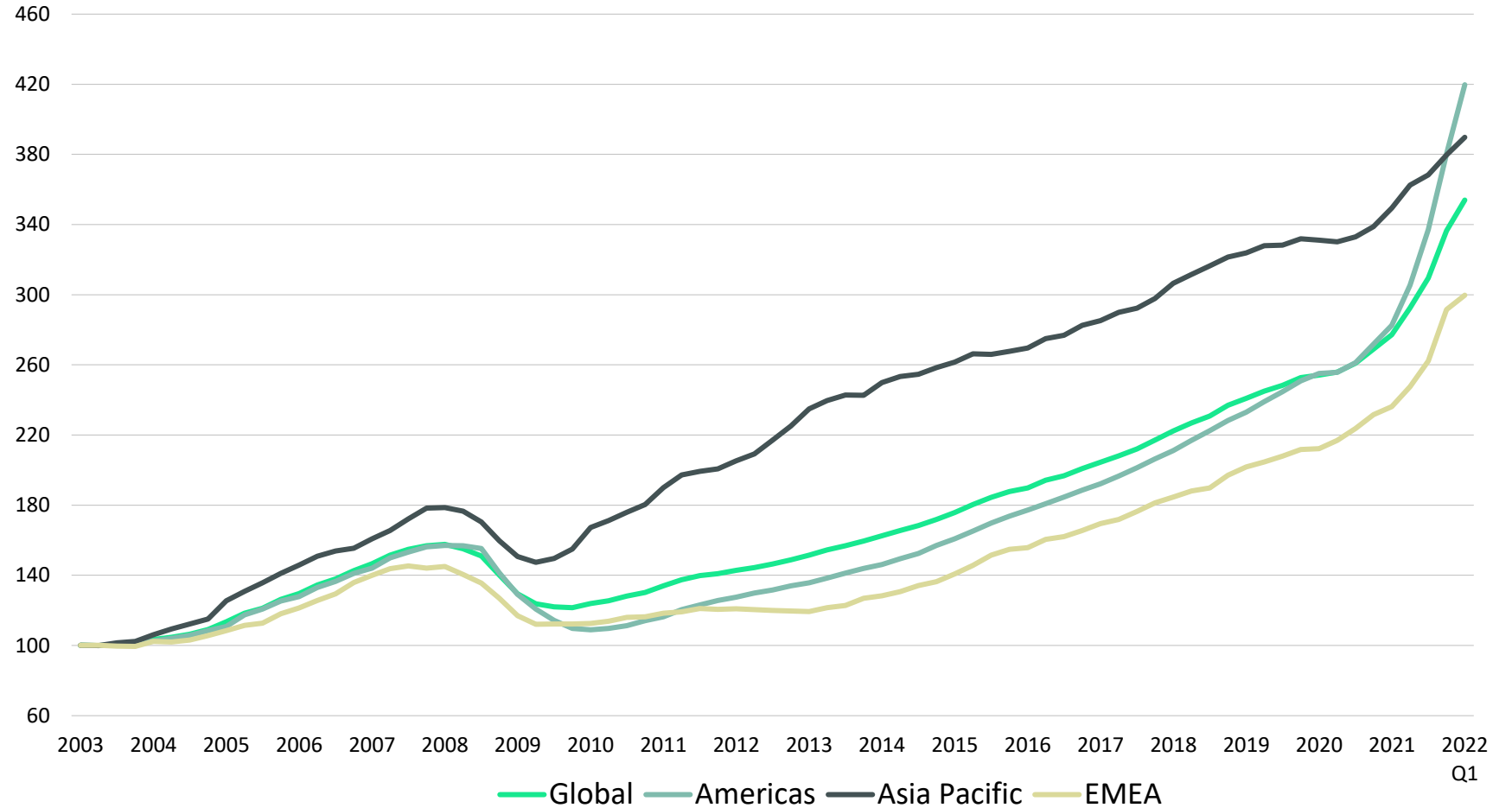
Global Office Capital Value Index (Q1 2001 = 100)



Source: CBRE Research, Q1 2022.

Global industrial capital value growth expected to slow later this year

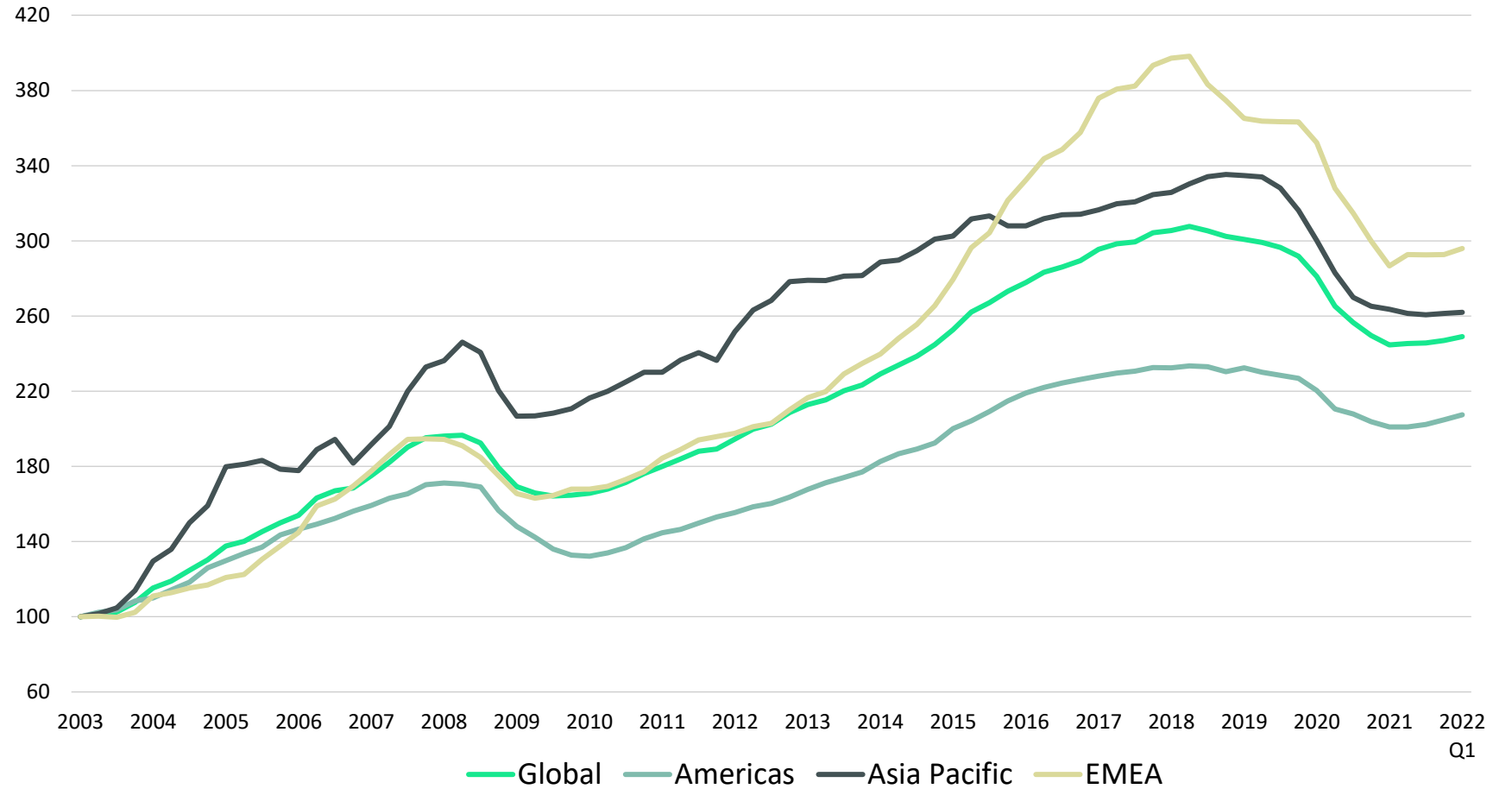
Global Industrial Capital Value Index (Q1 2003 = 100)



Source: CBRE Research, Q1 2022.

Global retail capital values are bottoming out

Global Retail Capital Value Index (Q1 2003 = 100)

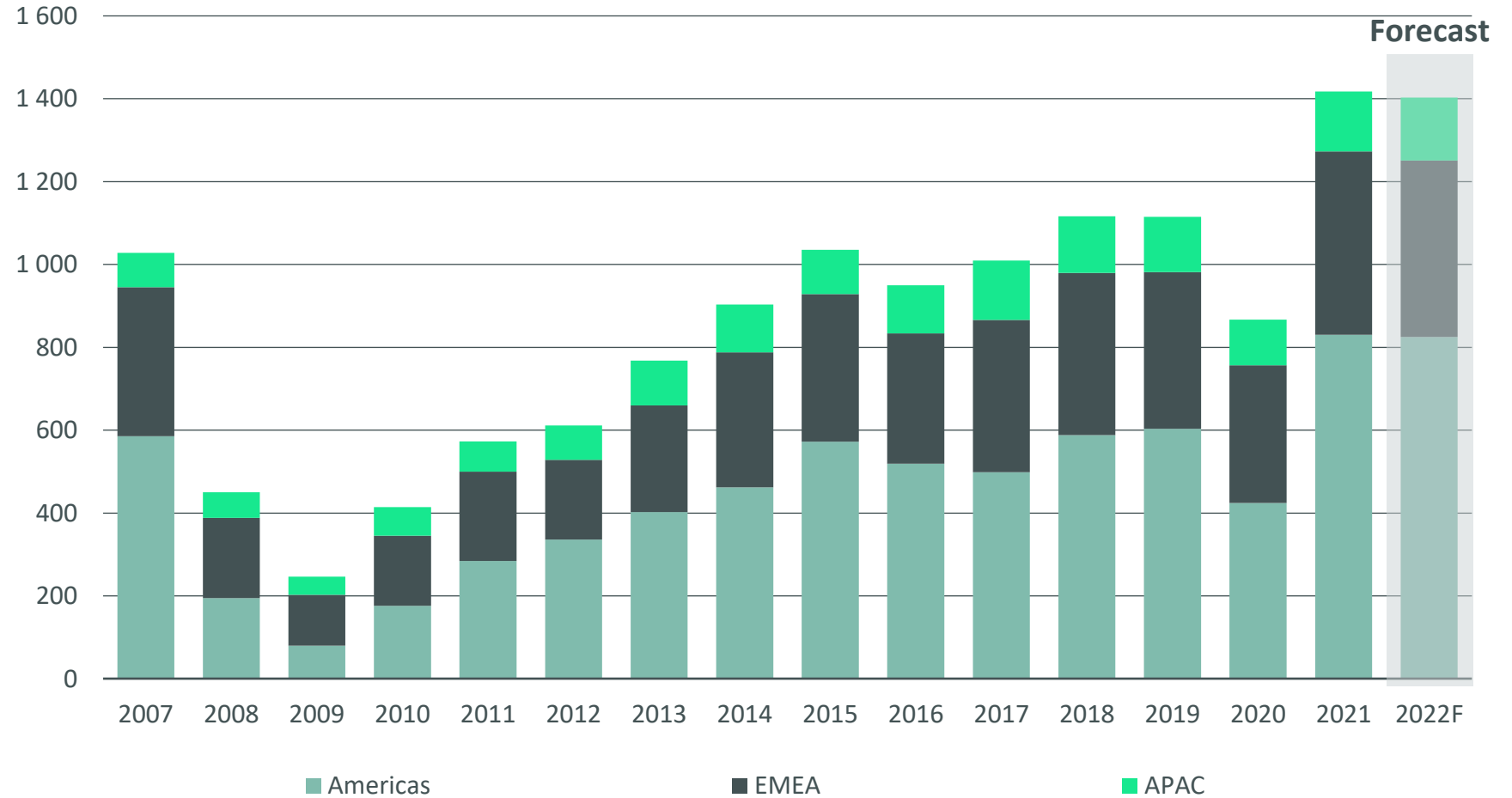


Source: CBRE Research, Q1 2022.

Healthy investment activity expected in 2022 despite increased headwinds

- Global commercial real estate investment volume in 2022 will be slightly less than the record volume in 2021.
- We expect investment volume to decrease by 1% in the Americas and by 5% in EMEA but increase by 5% in APAC.

Annual Global Property Investment Volume (US\$ Billions)

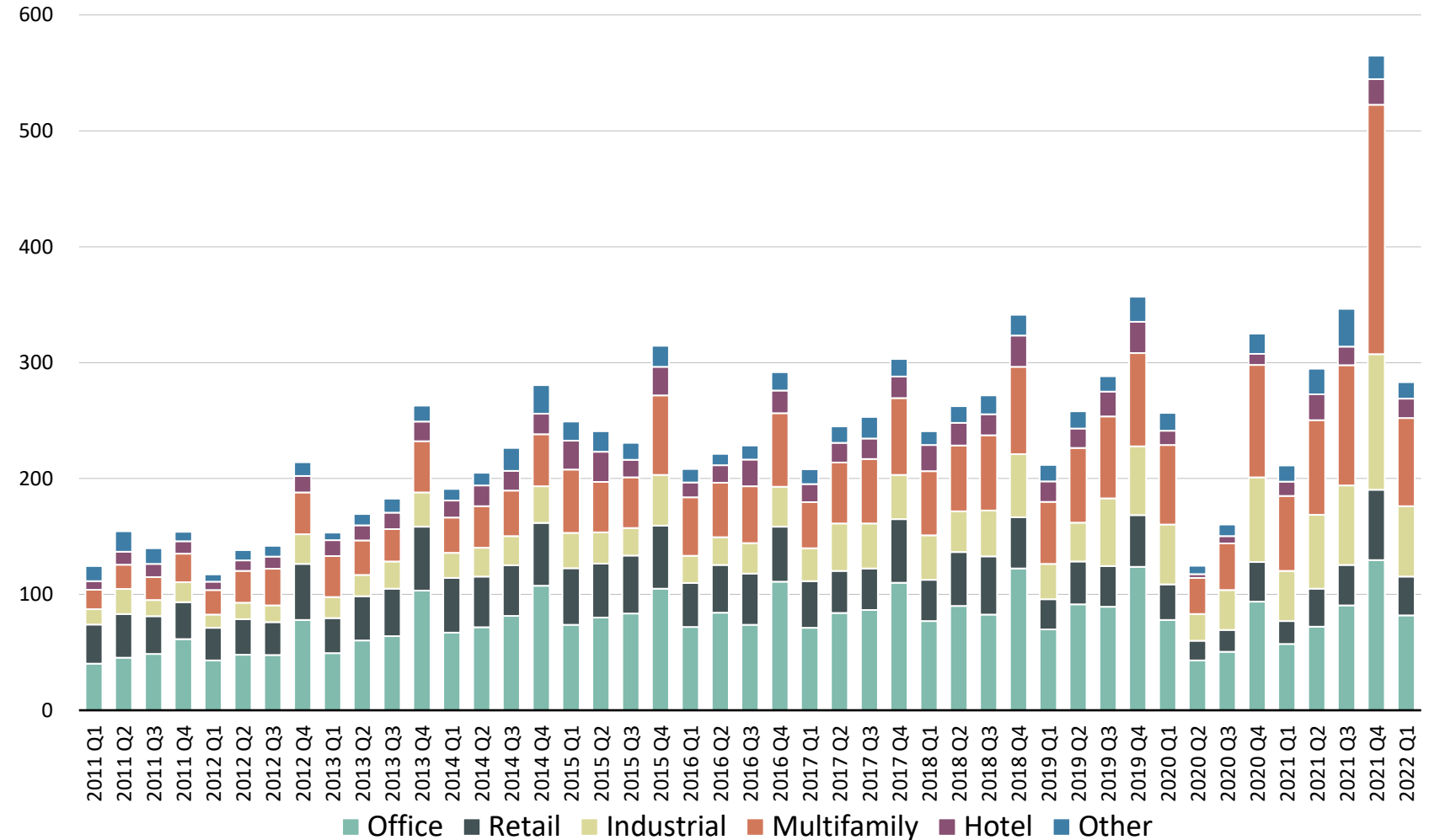


Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

Multifamily, office & industrial remain most preferred property types

- Multifamily remained the largest sector for investment, driven by strong demand in the Americas and Europe.
- Global capital is returning to the office and retail sectors, particularly for high-quality assets.

Global Property Investment by Sector (US\$ Billions)

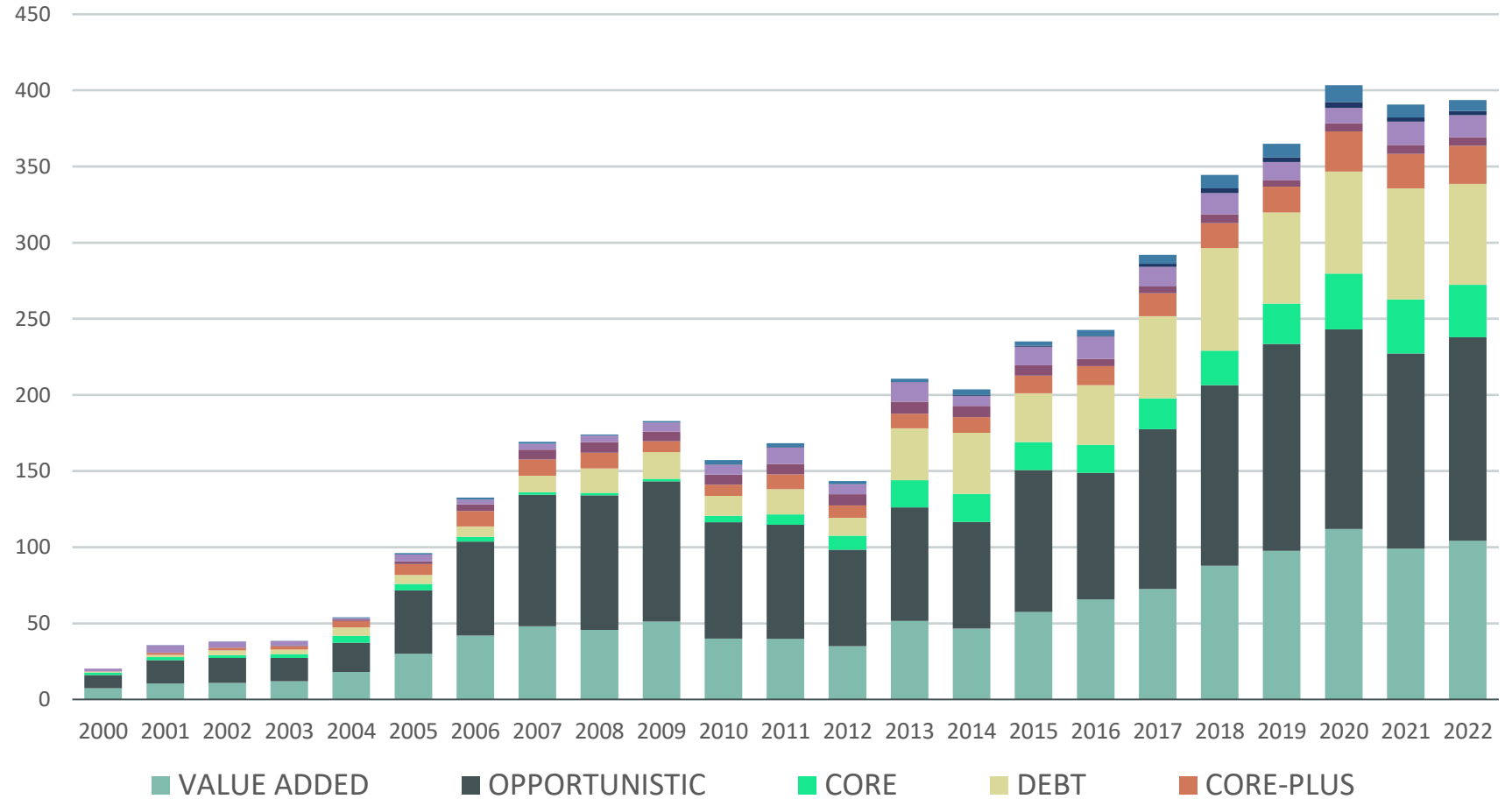


Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

Investors have ample capital to deploy in 2022

Global Real Estate Dry Powder By Strategy, US\$ Billions

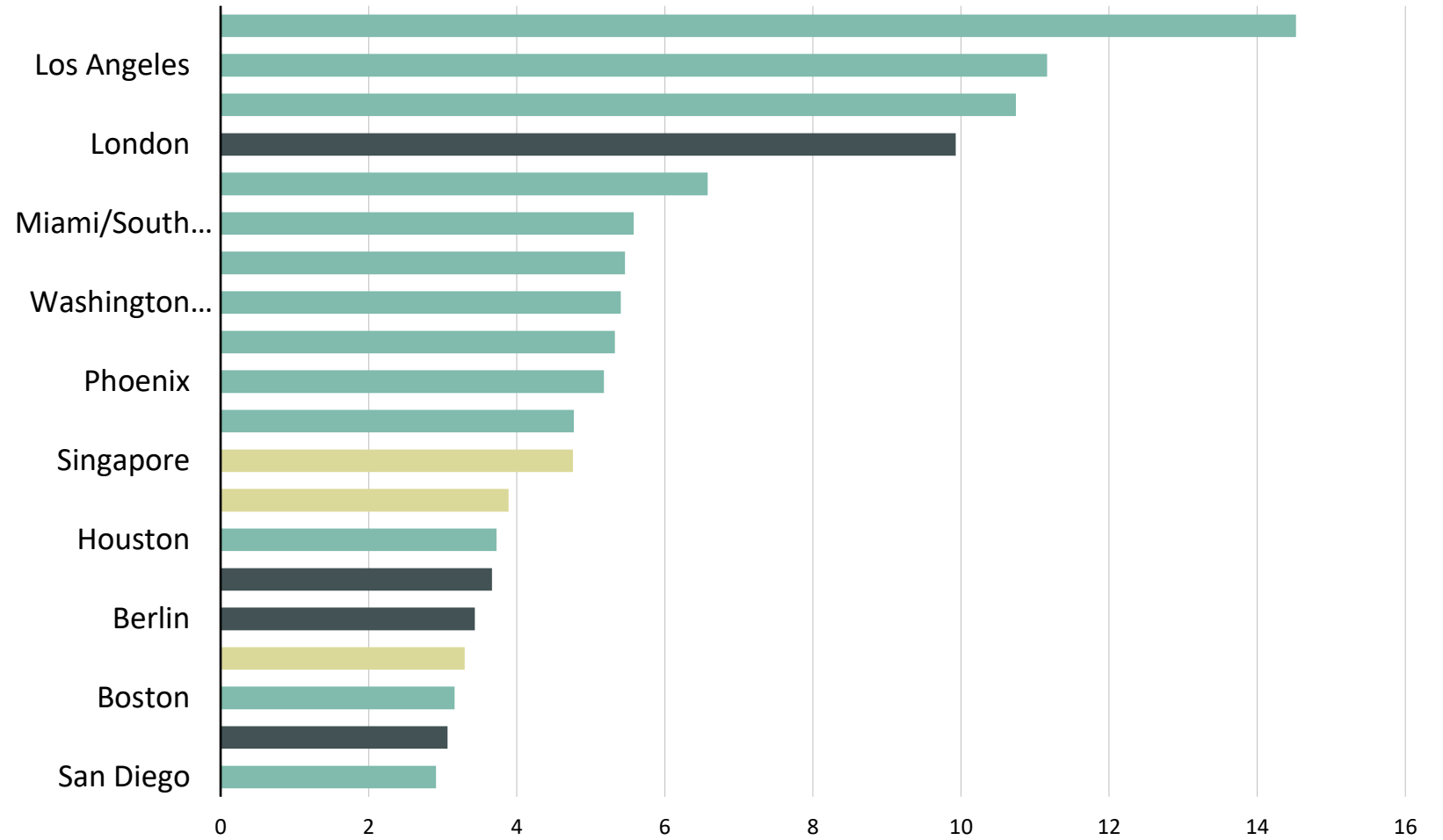
Dry Powder (US\$ Billions)



Source: Prequin, CBRE Research, Q1 2022.

Top global cities for investment

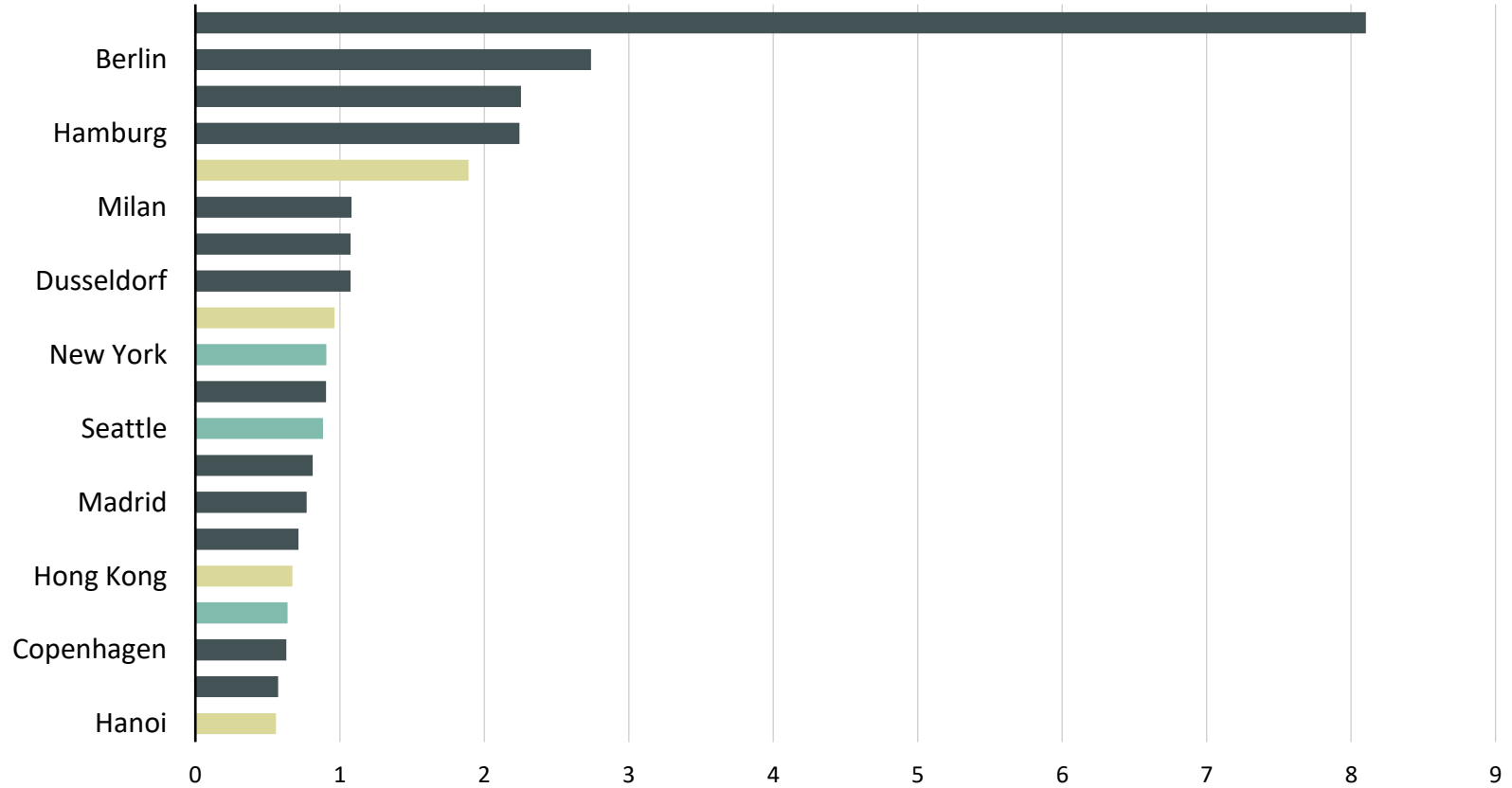
Top 20 Global Cities by Investment Activity in Q1 2022 (US\$ Billions)



Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

Top global cities for cross-border investment

Top 20 Global Cities by Cross-Border Investment Activity in Q1 2022 (US\$ Billions)



Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

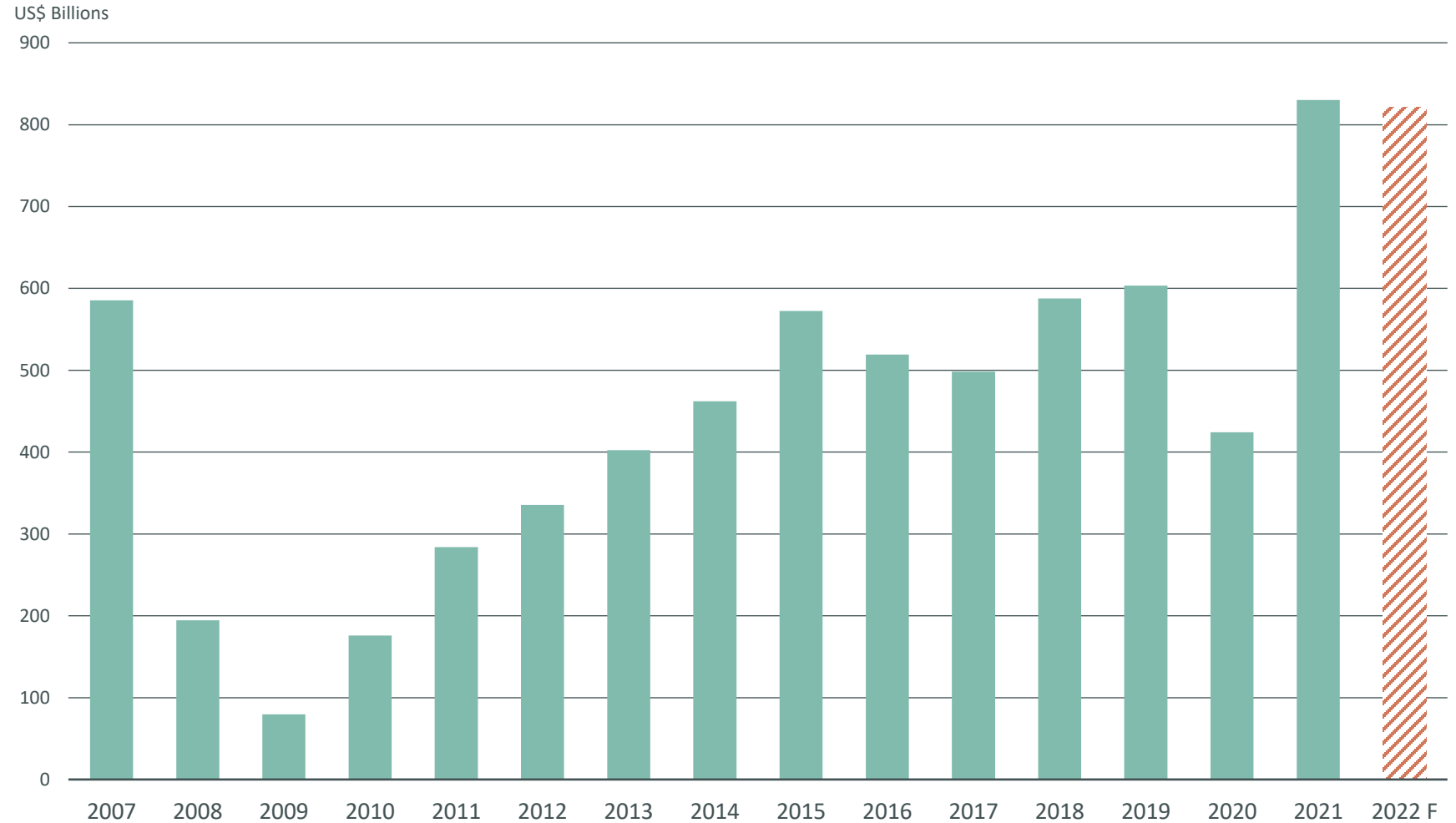


Regional
Trends -
Americas

Americas Investment Forecast

- After a strong first quarter, the investment outlook remains solid for 2022.
- Slower economic growth likely will impact investment activity as the year progresses.
- We expect investment volume in the Americas to decline by 1% from the record level in 2021.

Americas Investment Volume 2007 to 2022

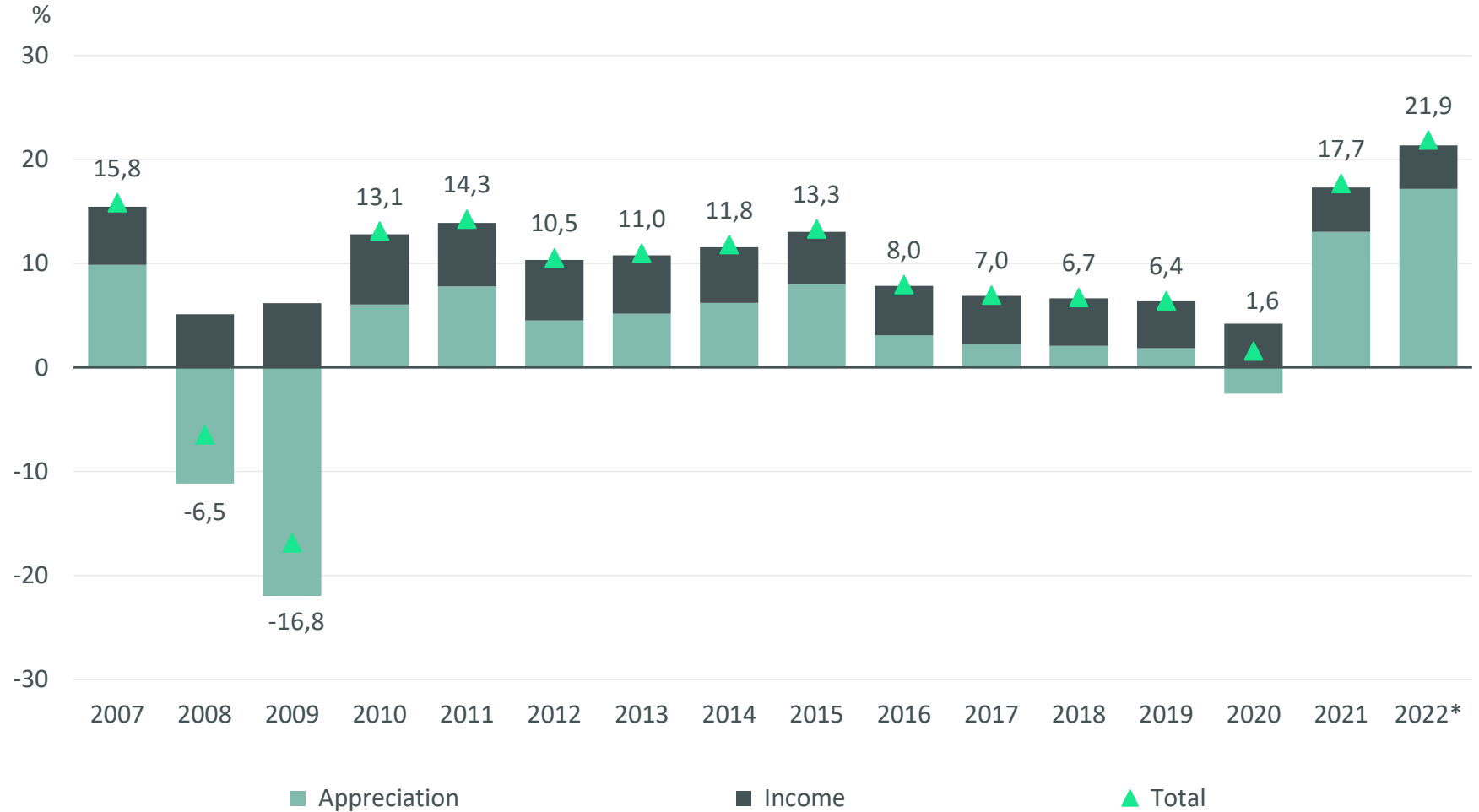


Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

U.S. Property Index Returns

– The annualized NCREIF total return increased to 21.9% in Q1 2022.

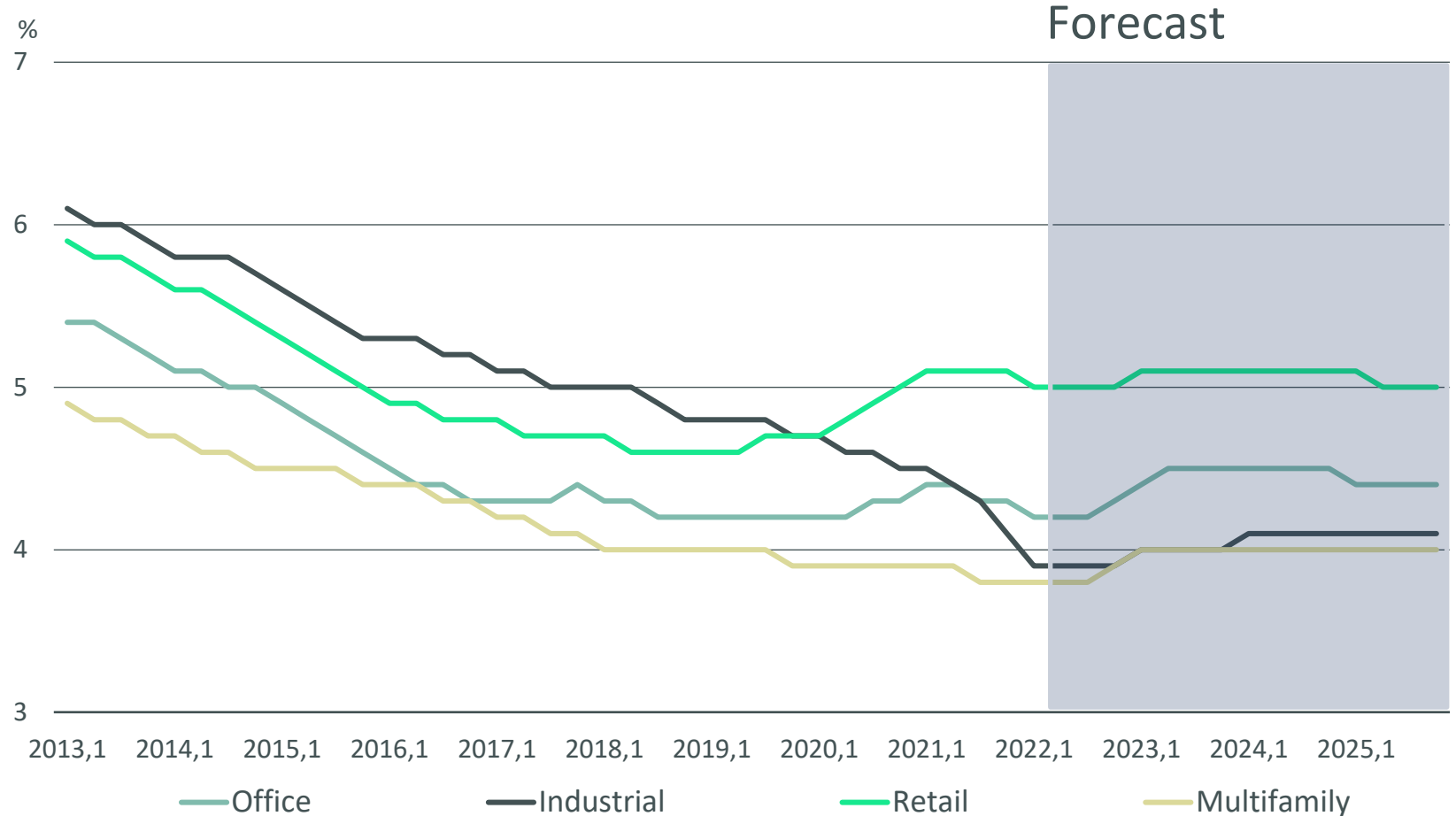
U.S. Property Index Returns from NCREIF



Source: CBRE Research, NCREIF, Q1 2022. All returns are reported on an unlevered basis.

Yields to rise in late 2022 & early 2023, even for multifamily and industrial sectors

U.S. Cap Rates with Forecast

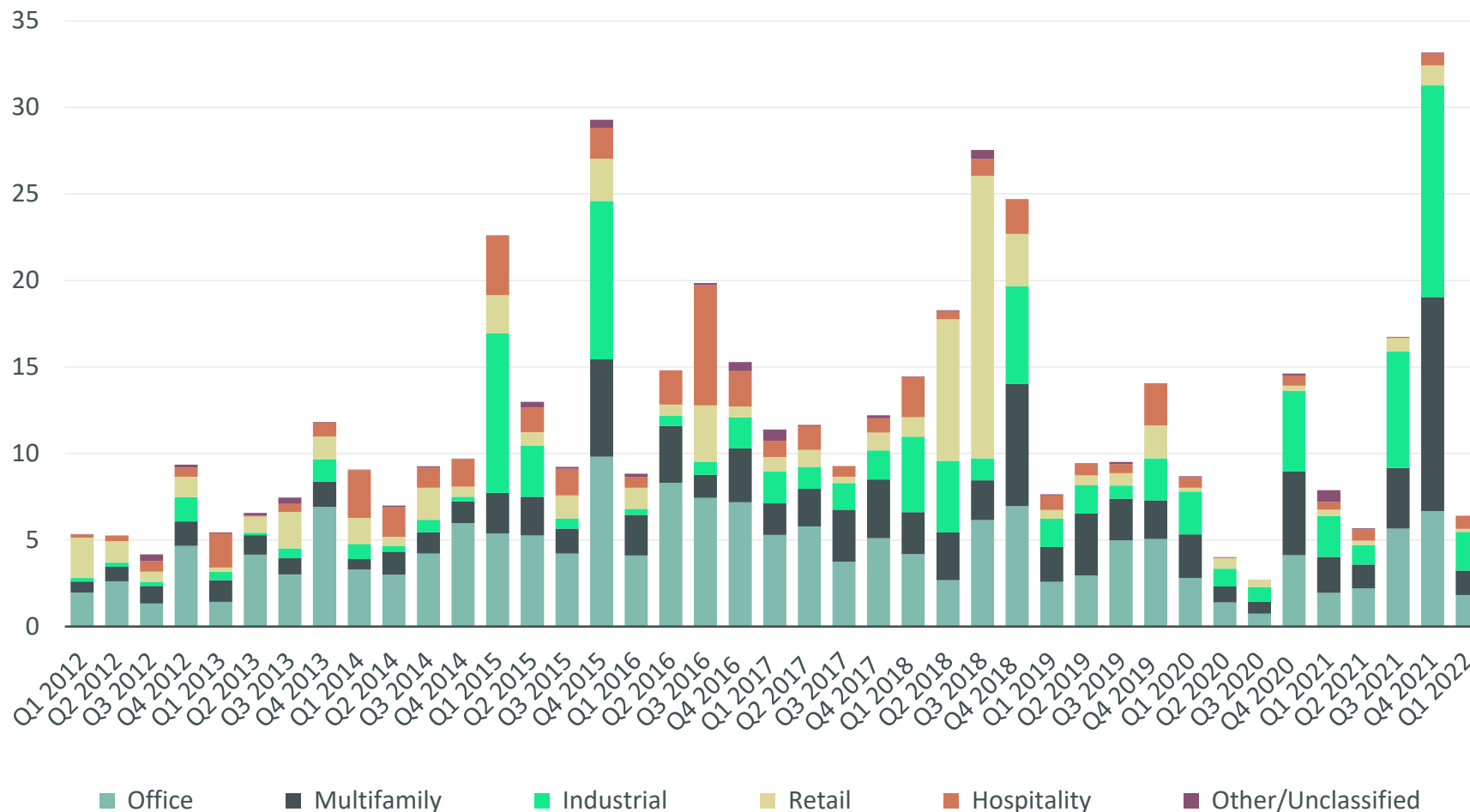


Source: CBRE Econometric Advisors, Q1 2022.

Foreign investment subdued by strong dollar

U.S. Cross-Border Investment By Property Type

Investment Volume (US\$ Billions)

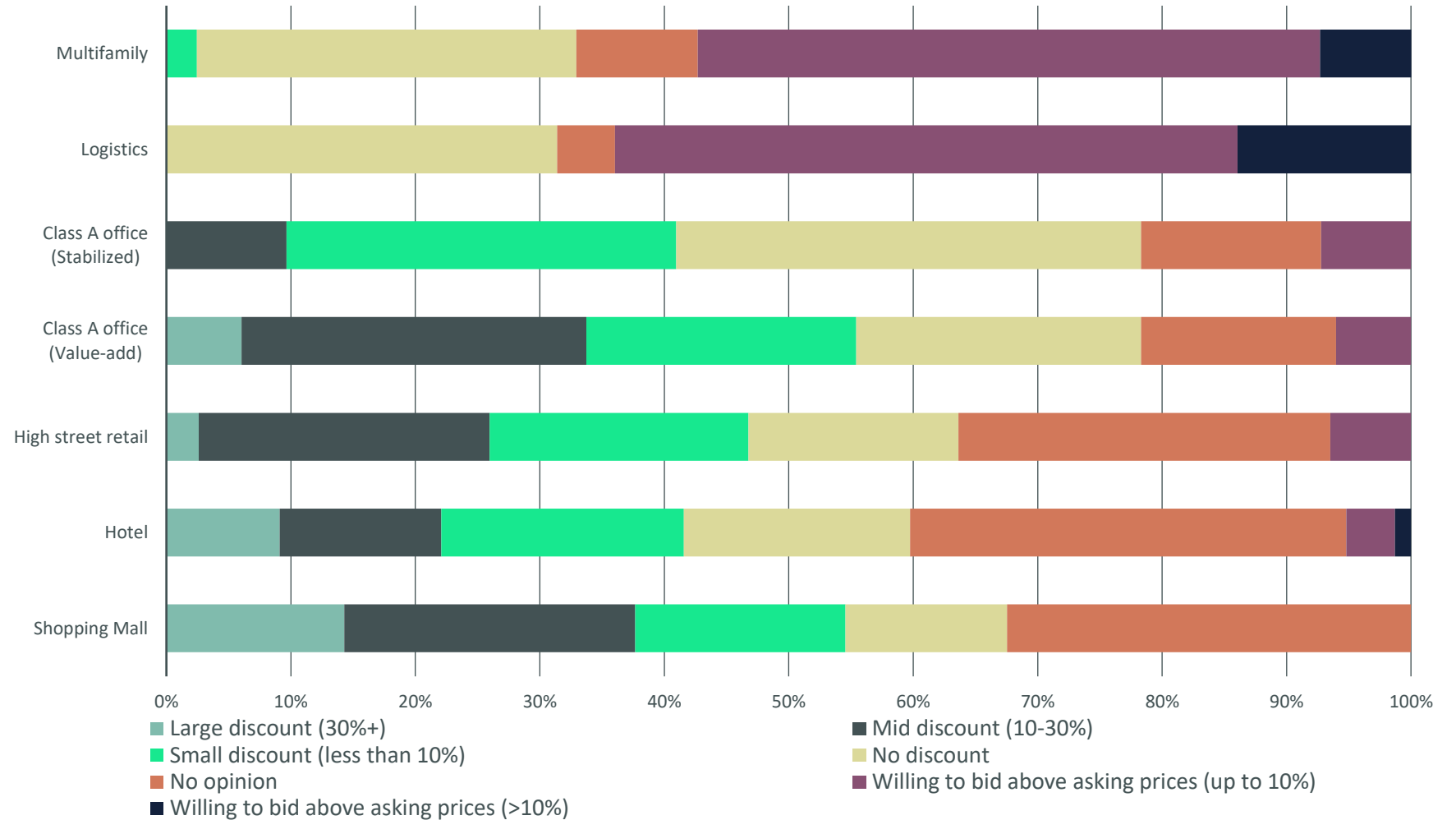


Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

U.S. Investor Intentions Survey

- Multifamily and industrial properties were expected to command strong pricing. These sectors generally saw the greatest cap rate decline in the past two years.
- Investors continue to expect discounts in the retail sector. This is especially true with shopping malls, which have lagged in recovery compared with other retail property categories.

Pricing Expectations in 2022 vs. 2021



Source: CBRE Research, Q1 2022.

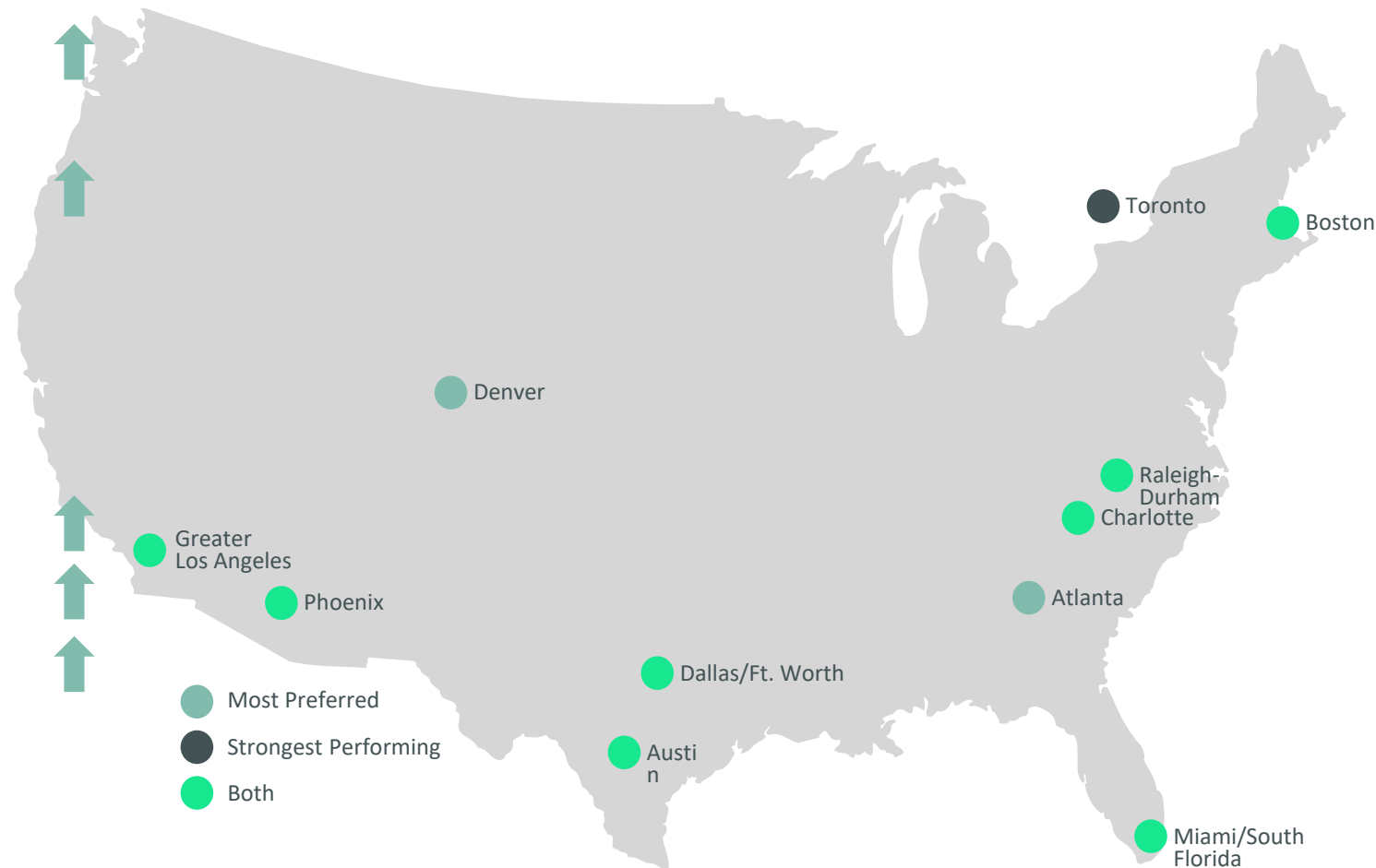
U.S. Investor Intentions Survey

- Secondary markets dominate those that are most preferred by investors, except for Los Angeles and Boston.
- Many of the most preferred markets are in the Sun Belt region. Dallas displaced Austin as the most preferred market after being No. 2 last year.

Most Preferred U.S. Markets for Investors

1	Dallas
2	Austin
3	Phoenix
4	Miami
5	Denver
6	Greater Los Angeles
7	Atlanta
8	Boston
9	Raleigh
10	Charlotte

Source: CBRE Research, Q1 2022.



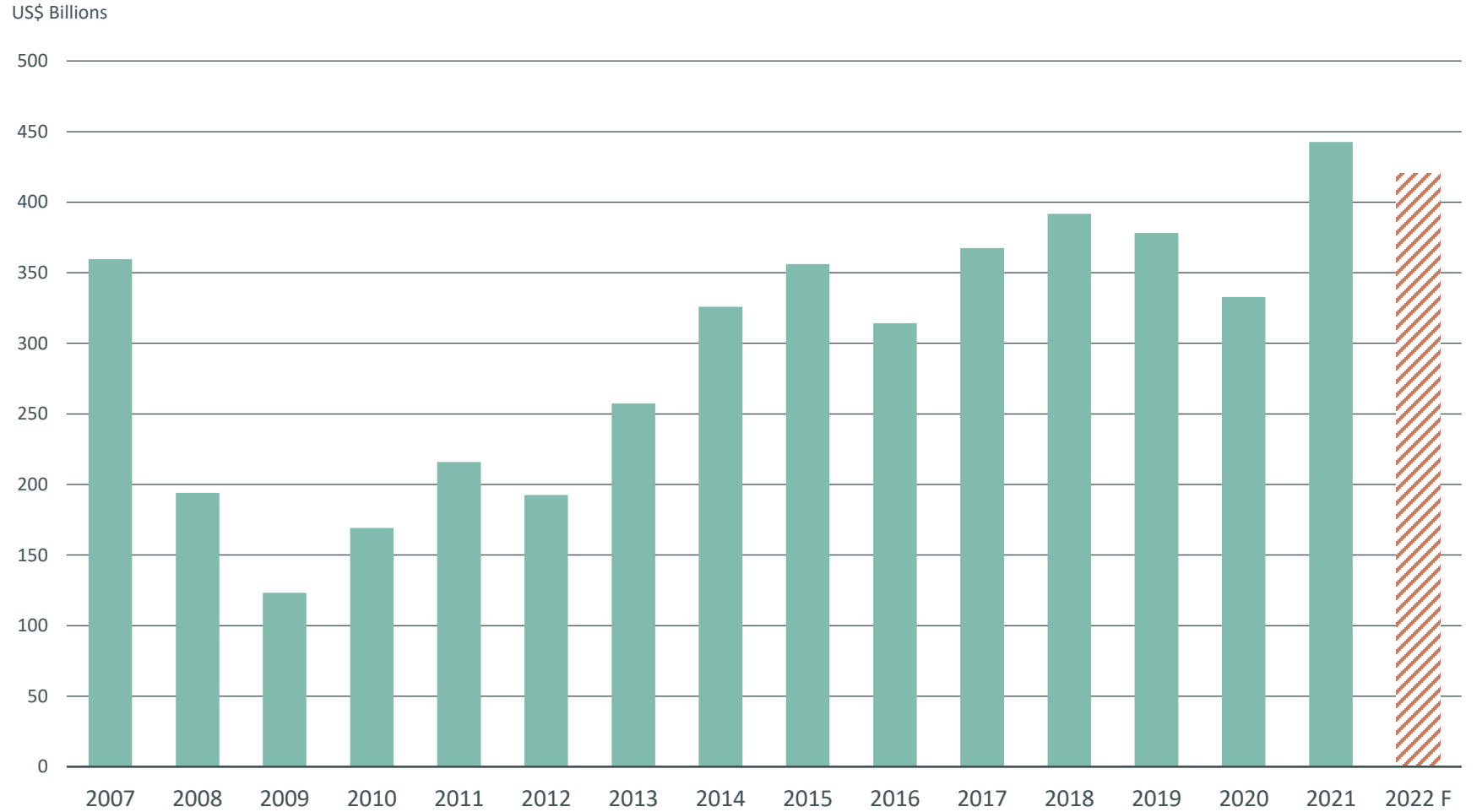
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Regional
Trends -
EMEA

EMEA Investment Forecast

- CBRE forecasts a 5% decrease in 2022 investment volume from the record amount in 2021, largely due to macroeconomic uncertainty.

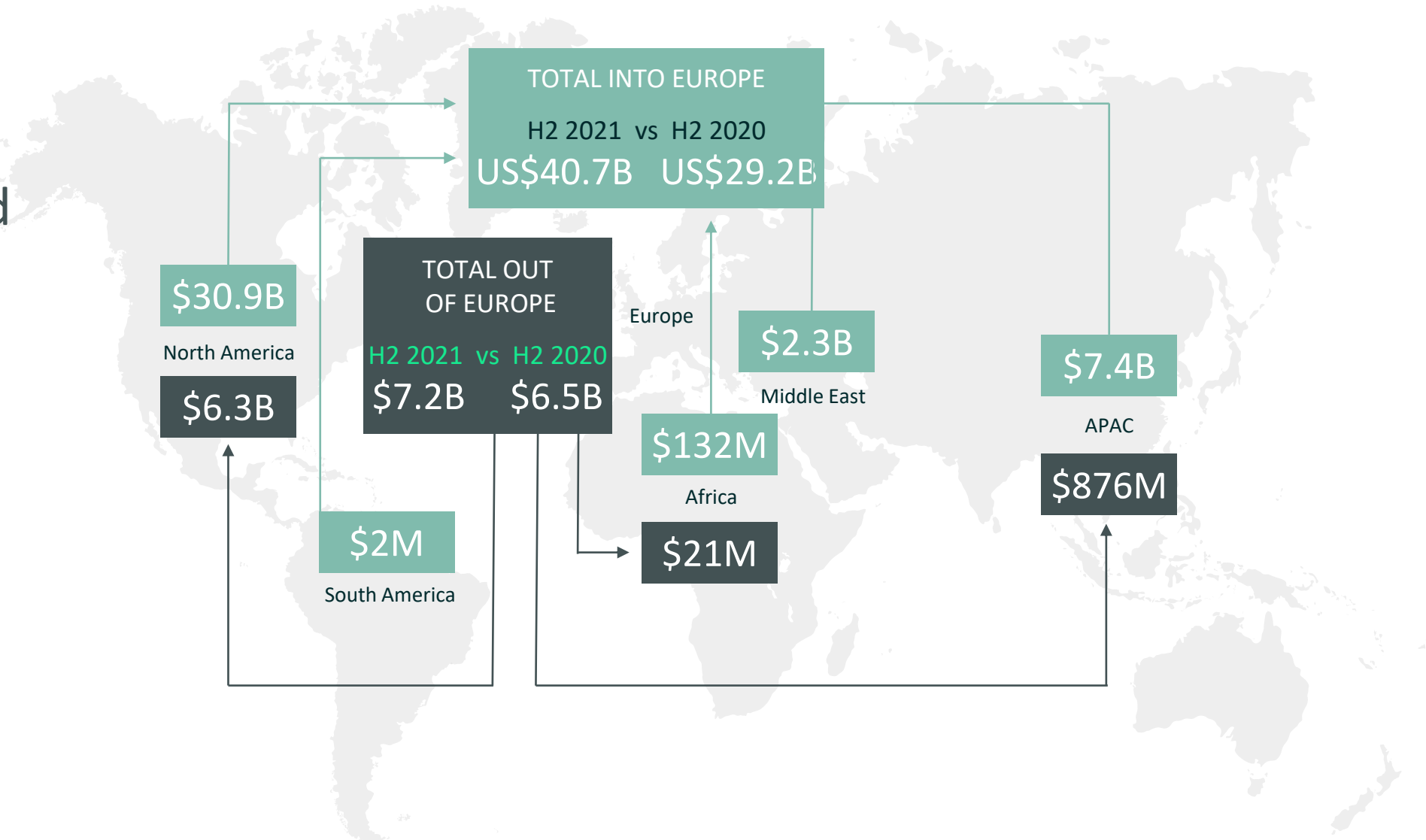
European Investment Volume 2007 to 2022



Source: CBRE Research, Real Capital Analytics (for Americas), Q1 2022.

Foreign capital flow to EMEA led by U.S. investors

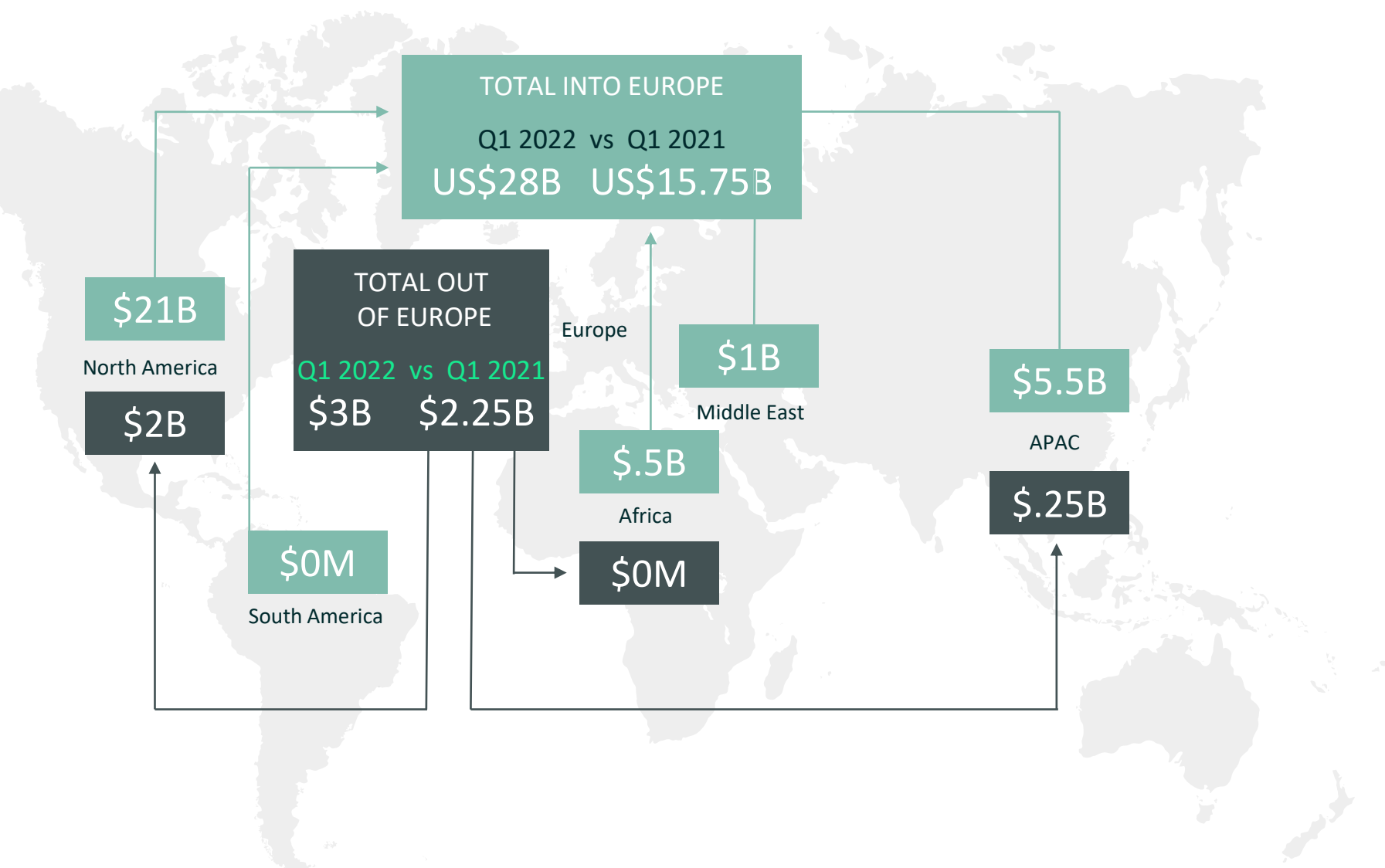
- Cross-regional capital flows to Europe increased by 39% H2 2022 compared to the same period in 2021. U.S. capital targeting the continent neared a record high and momentum should continue throughout 2022, especially given the strong dollar environment.
- Cross-regional outflows from Europe historically are very limited, as most European investors prefer to remain in their region.



Source: CBRE Research 2022, Real Capital Analytics.

European investors prefer to stay in Europe

- Cross-regional capital flows to Europe in Q1 2022 have nearly doubled the total in Q1 2021. Capital inflows from the U.S. closed Q1 at US\$28 billion.

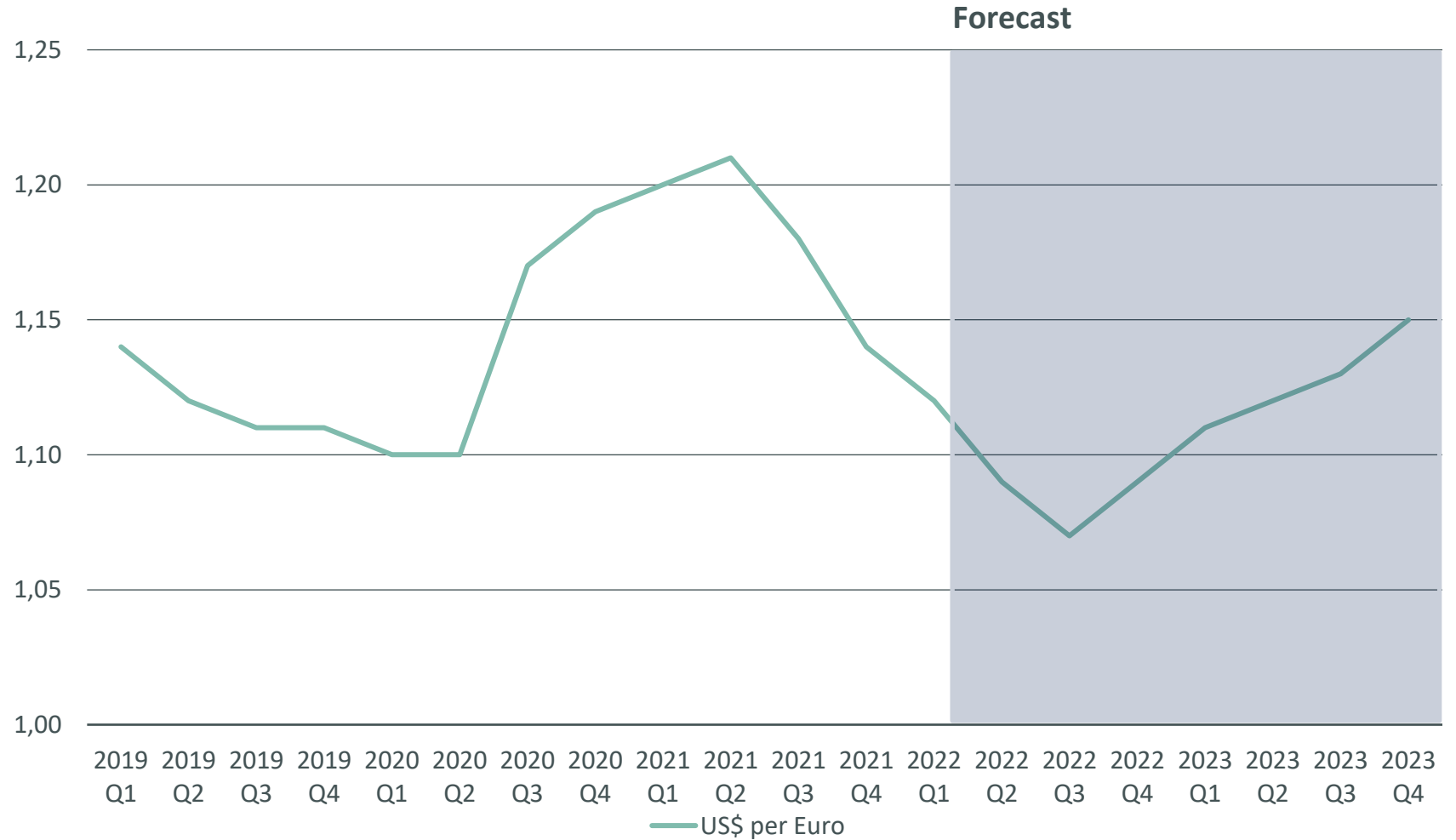


Source: CBRE Research 2022, Real Capital Analytics.

US\$ strength over euro drives U.S. investors

- The U.S. dollar has strengthened relative to the euro, due to its relative safety and diverging monetary policy.
- A strong dollar relative to the euro should continue attracting U.S. investors to Europe. U.S. capital flows to Europe were at or near record levels in H2 2021 and Q1 2022.

US\$ per Euro – Exchange Rate



Source: Oxford Economics May 2022.

European Investor Intentions Survey

- German cities garnered strong interest in the 2022 European Investor Intentions Survey.
- London again was selected as the most preferred city. Paris and Amsterdam increased in the rankings from 2021.

Most Preferred European Markets for Investors

1	London
2	Paris
3	Amsterdam
4	Berlin
5	Frankfurt
6	Madrid
7	Copenhagen
8	Warsaw
9	Barcelona
10	Munich

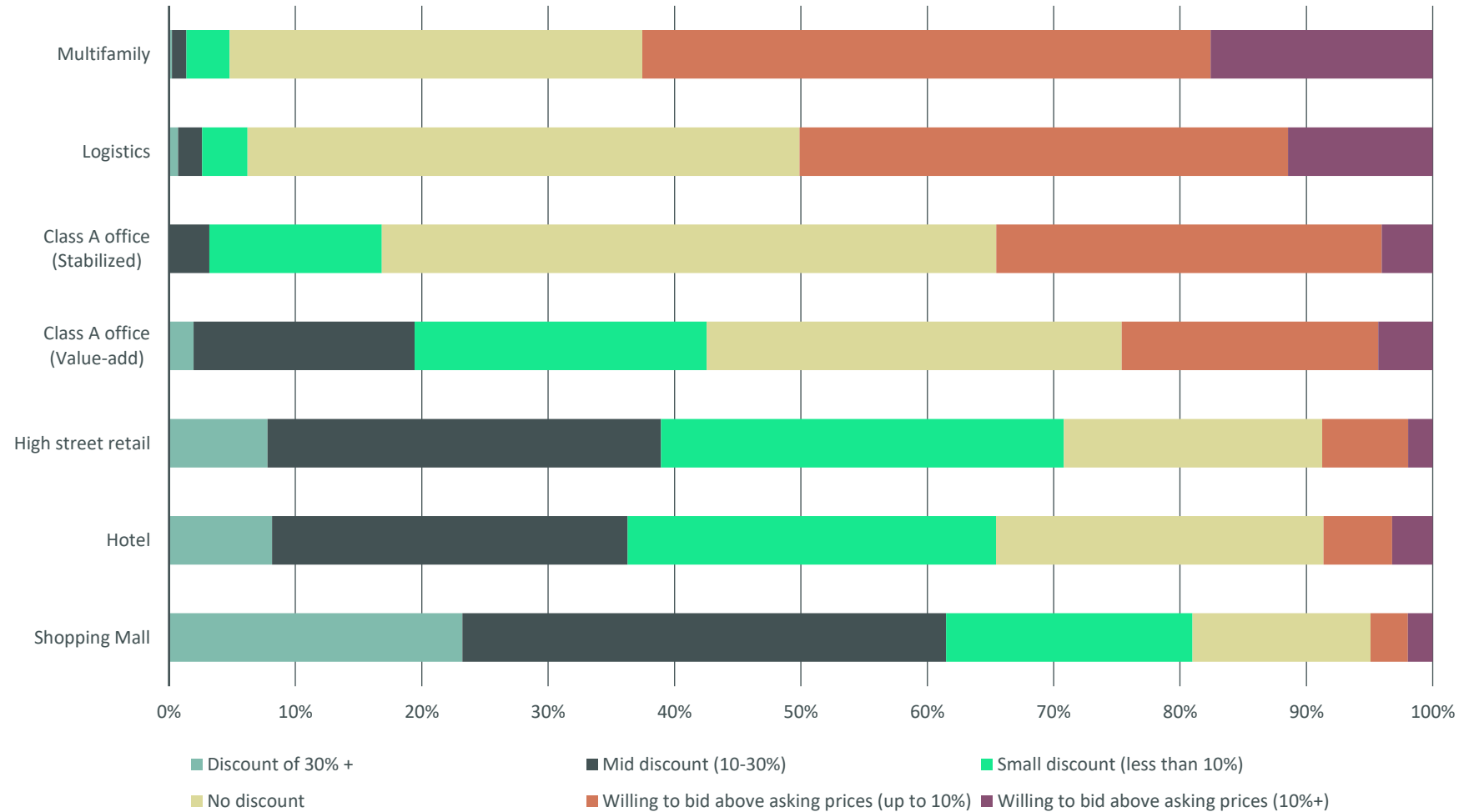
Source: EMEA Investor Intentions Survey, Q1 2022.



European Investor Intentions Survey

- Pricing expectations for multifamily and logistics assets were especially strong at the start of the year, with more than half of surveyed investors willing to bid above asking prices. Q1 2022 logistics volume closed at an all-time high, while residential volume was down by 21% quarter-over-quarter—primarily due to lack of available inventory rather than a lessening of investor interest.
- Pricing across the office sector remains strong in Continental Europe, as return to the office is more advanced than in the US

Pricing Expectations in 2022 vs. 2021



Source: EMEA Investor Intentions Survey, Q1 2022.

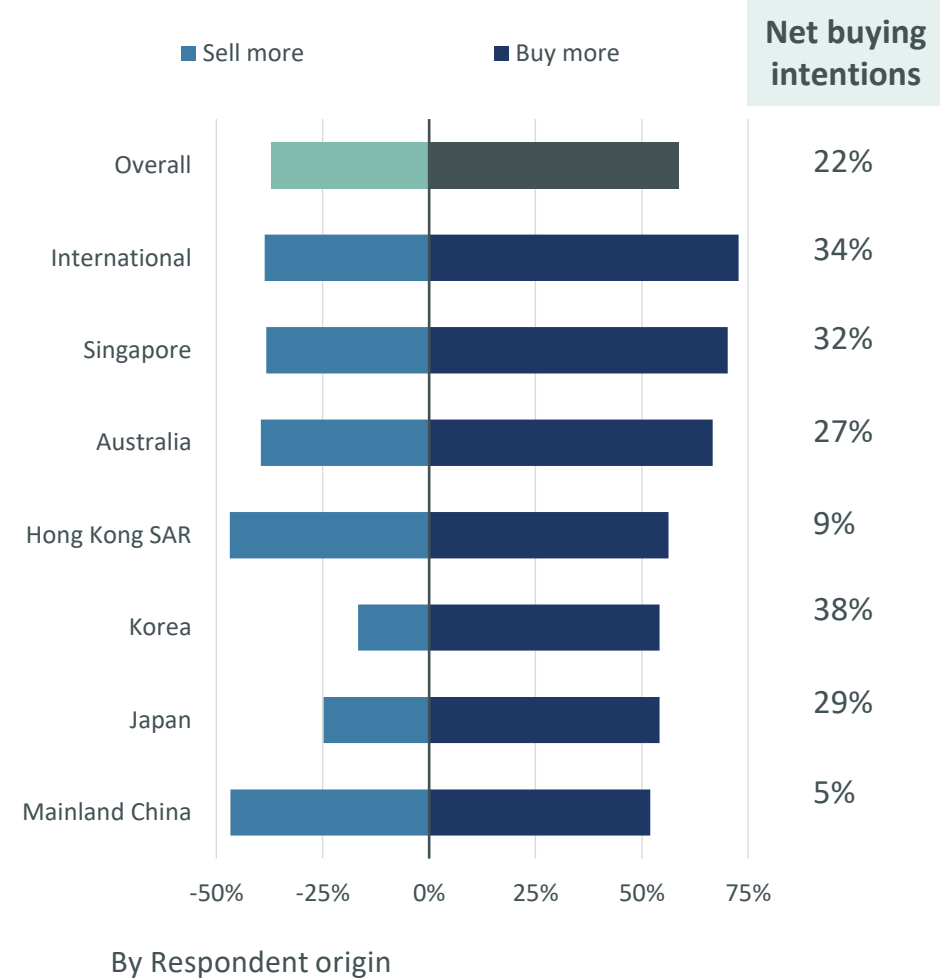
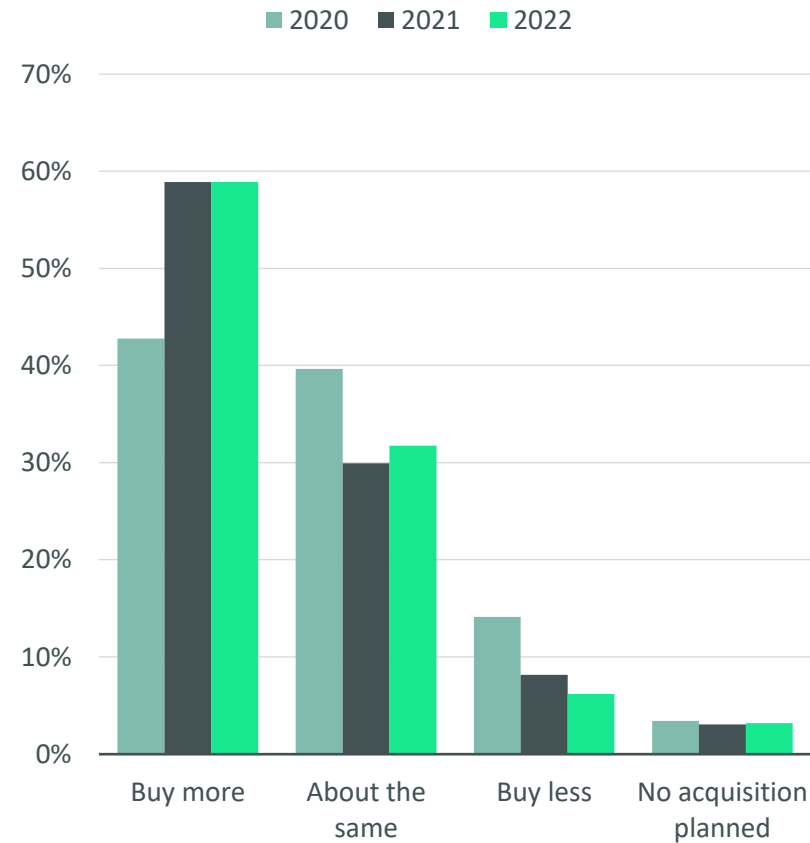


Regional
Trends -
APAC

Investors retain strong purchasing intentions

- According to the 2022 Asia-Pacific Investor Intentions Survey, nearly 60% of investors indicated that they would buy more in 2022.
- Buying intentions were especially strong in Korea, Singapore and Australia, while investors in mainland China were more likely to sell in order to pay back debts and maintain lower gearing ratios.

Intentions Toward Purchasing and Selling Activity

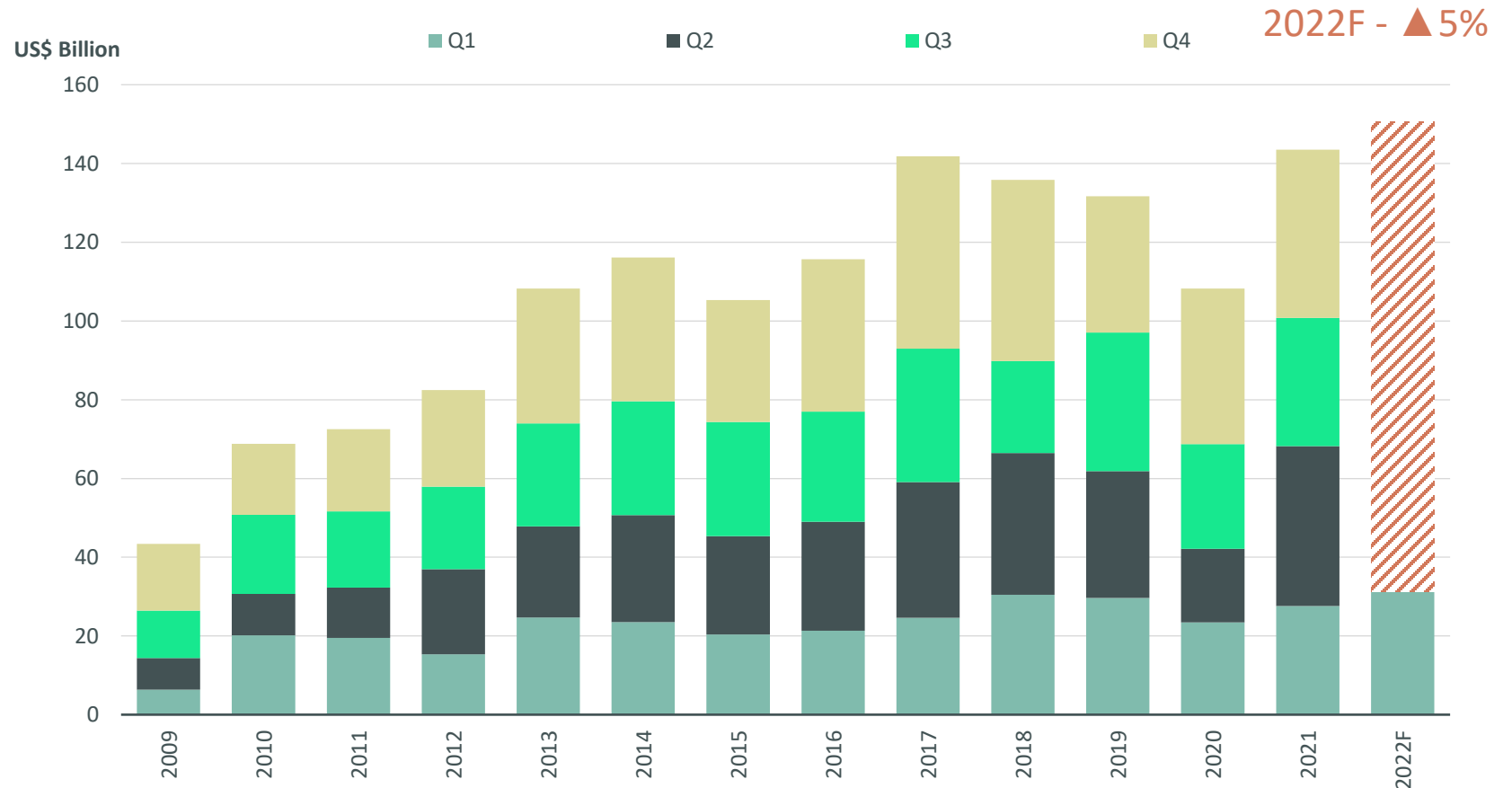


Source: 2022 Asia-Pacific Investor Intentions Survey, CBRE Research, January 2022

Asia-Pacific Regional Investment Volume

Investment turnover expected to reach new high in 2022

- CBRE forecasts that APAC investment volume will grow by 5% year-over-year in 2022 to a record US\$150 billion.
- While the office sector is expected to have the largest share of total volume, the logistics sector also is expected to be highly sought-after.

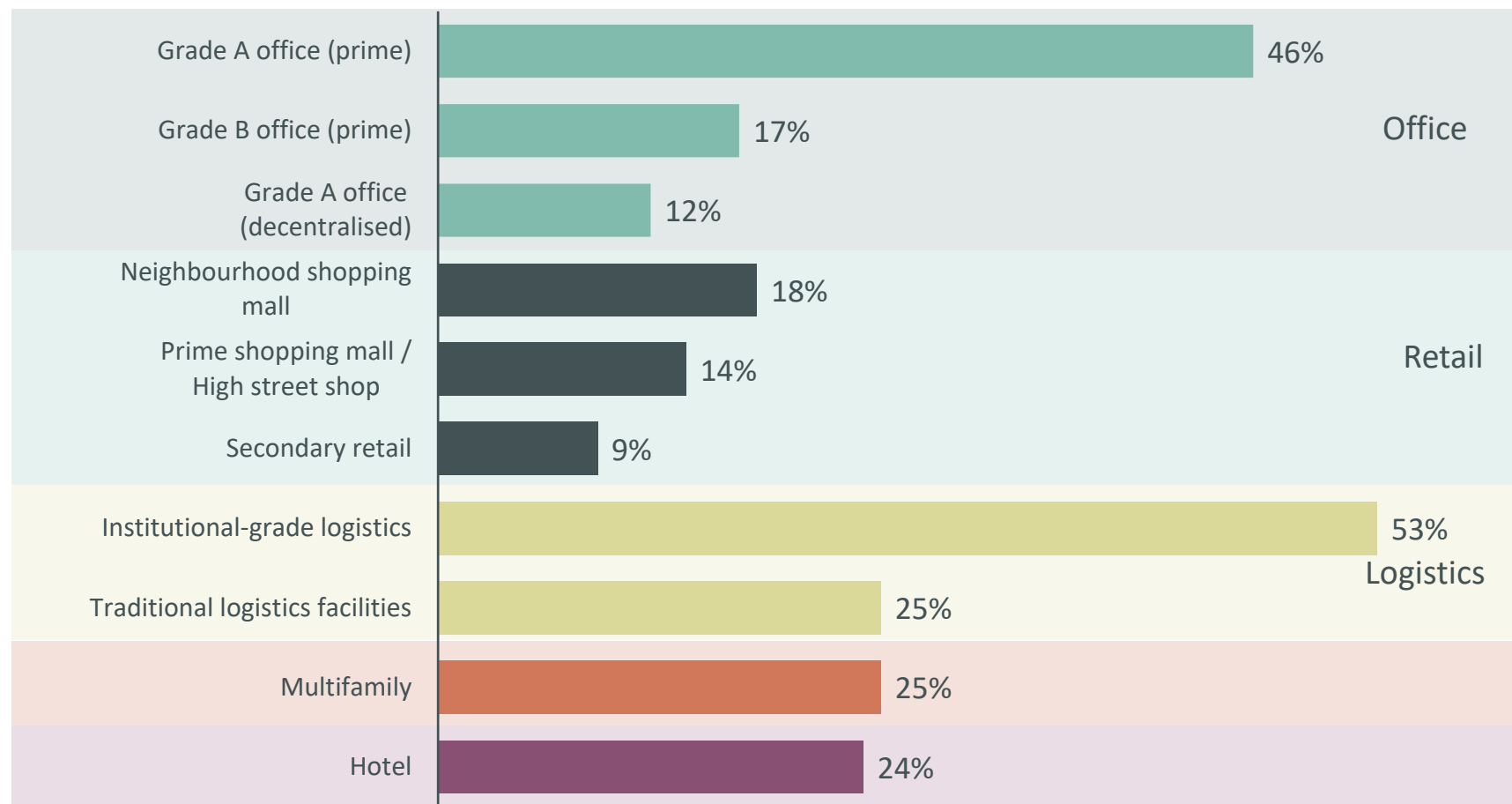


Notes: Transactions include deals above US\$10 million in the office, retail, industrial, mixed-use, hotel and other commercial sectors. Residential and development sites are excluded
 Sources: Real Capital Analytics, CBRE Research, January 2022.

Institutional-grade logistics & prime office remain the most popular sectors

- According to the APAC Cap Rate Survey Q1 2022, more than half of CBRE professionals indicated that enquiries on institutional-grade logistics will increase, followed by Grade A offices in prime locations.

Asset type that CBRE professionals receive higher enquiries in Q1 2022 vs. Q4 2021



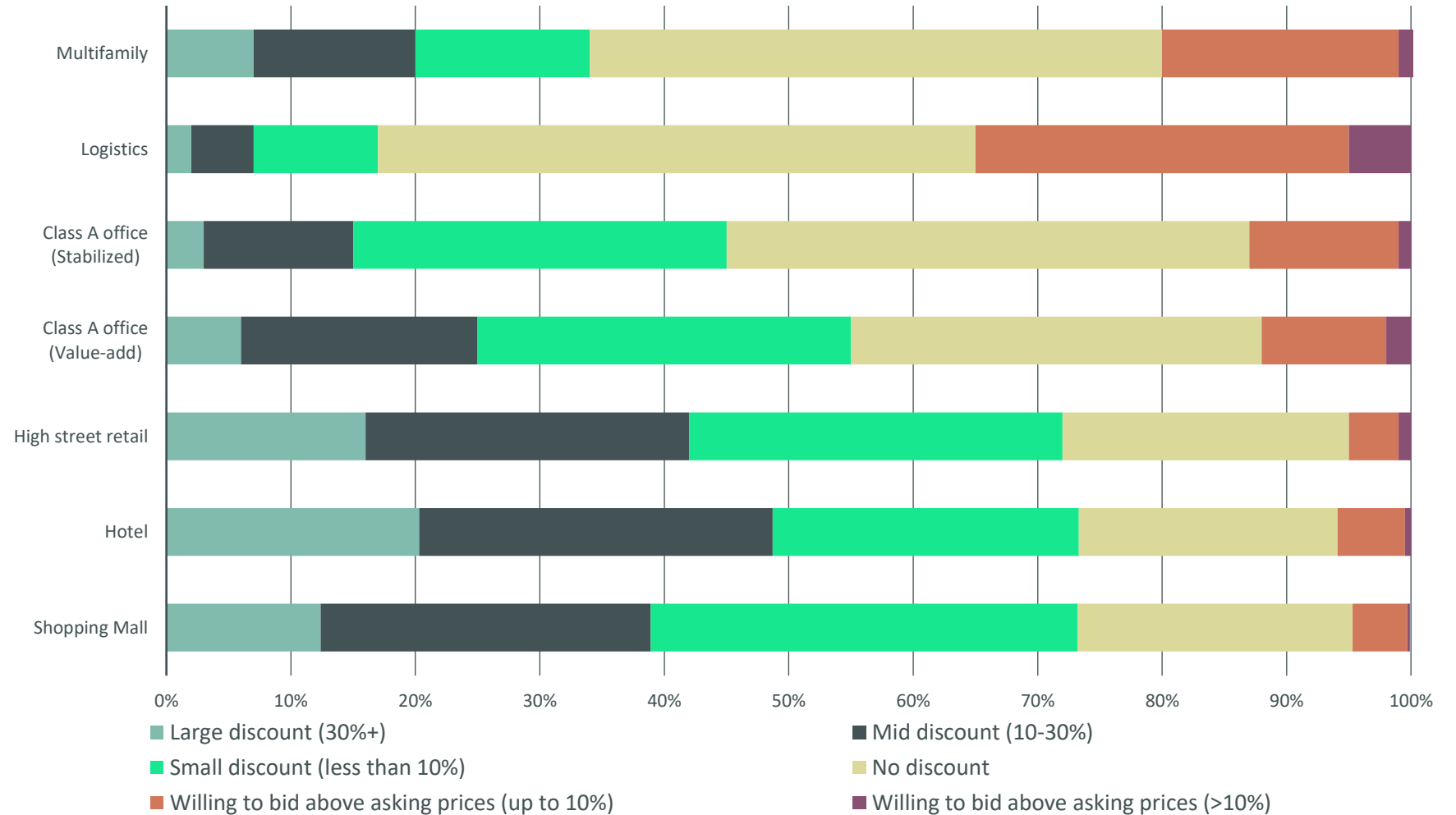
Note: The survey was conducted from April 11 to April 29, 2022.

Source: APAC Cap Rate Survey Q1 2022, CBRE Research, May 2022.

APAC investors willing to bid high for logistics assets

- About 35% of investors are willing to bid above asking prices for logistics assets, which has caused logistics yields to compress further in some markets.
- With the relatively conservative border control policy in APAC, investors still expect discounts for tourism-related sectors, such as retail shops, shopping malls and hotels.

Pricing expectations in 2022 vs. 2021

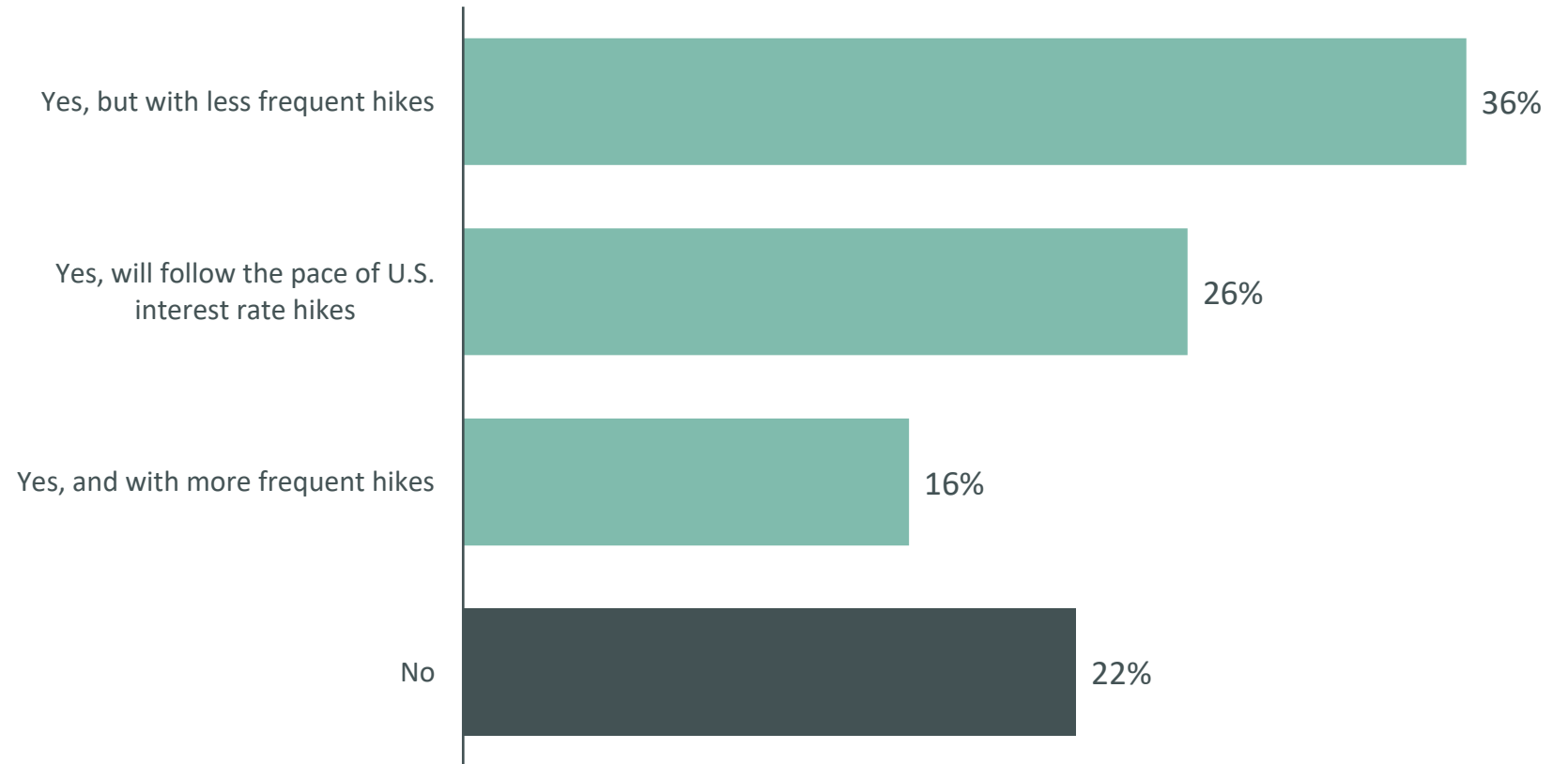


. Source: 2022 Asia-Pacific Investor Intentions Survey, CBRE Research, Q4 2021.

78% of surveyed CBRE professionals say investors are concerned about higher financing costs

Concerns over the cost of finance are rising due to U.S. interest rate hikes, but most respondents expect rate hikes in Asia Pacific to be less pronounced.

Do investors worry about the increase in the cost of finance and expect central banks in their own country to follow U.S. interest rate hikes?



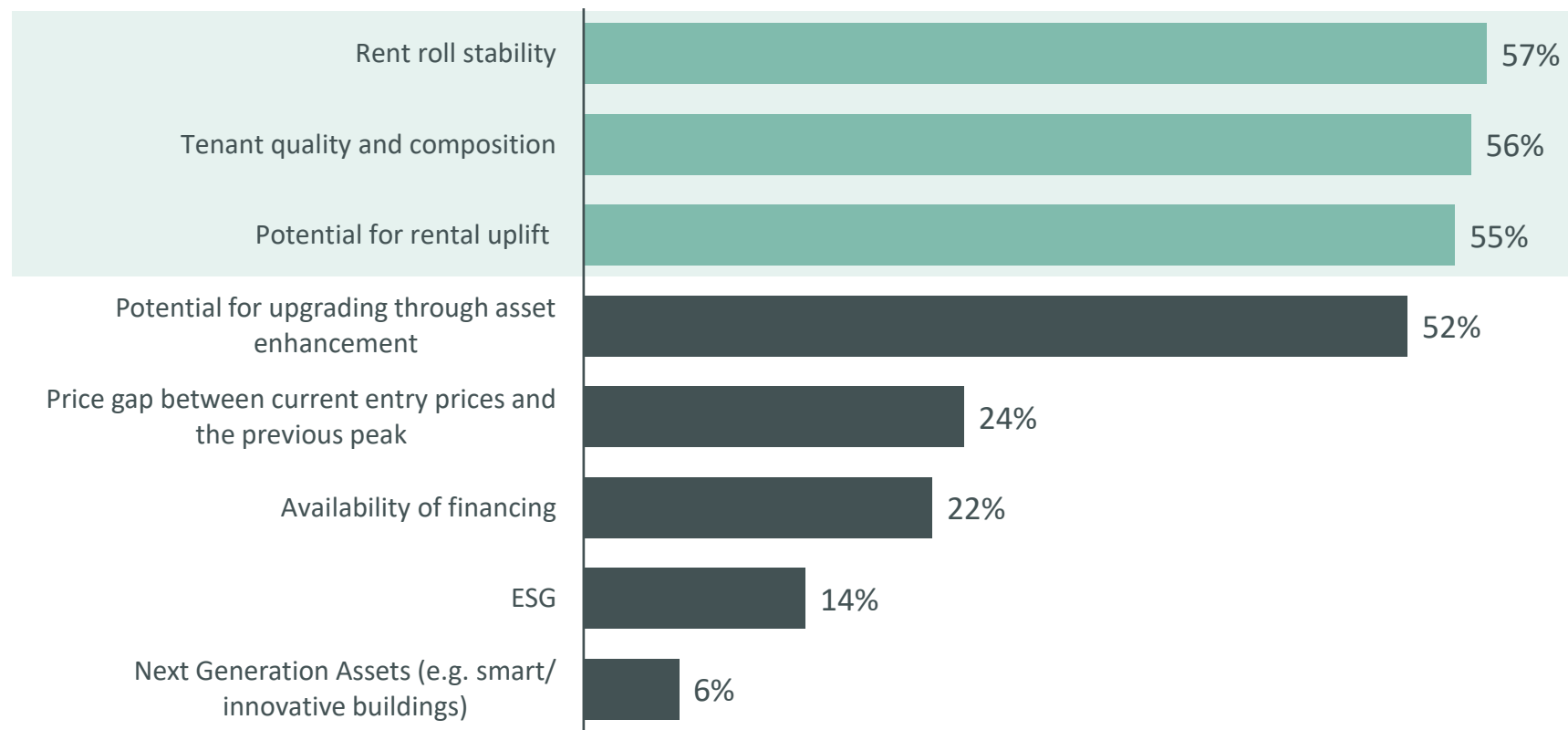
Note: The survey was conducted from April 11 to April 29, 2022.
Source: APAC Cap Rate Survey Q1 2022, CBRE Research, May 2022.

Investors are prioritizing income stability, reflecting the emphasis on core and core-plus strategies

The top three factors for investors when evaluating potential acquisitions are all rental income related, which indicates that investors remain risk adverse.

- Investors are pursuing value-added opportunities such as asset enhancement initiatives and taking on leasing risk to achieve higher returns.

When evaluating potential acquisitions, what are the three main factors that CBRE professionals see investors are considering? (select top three)

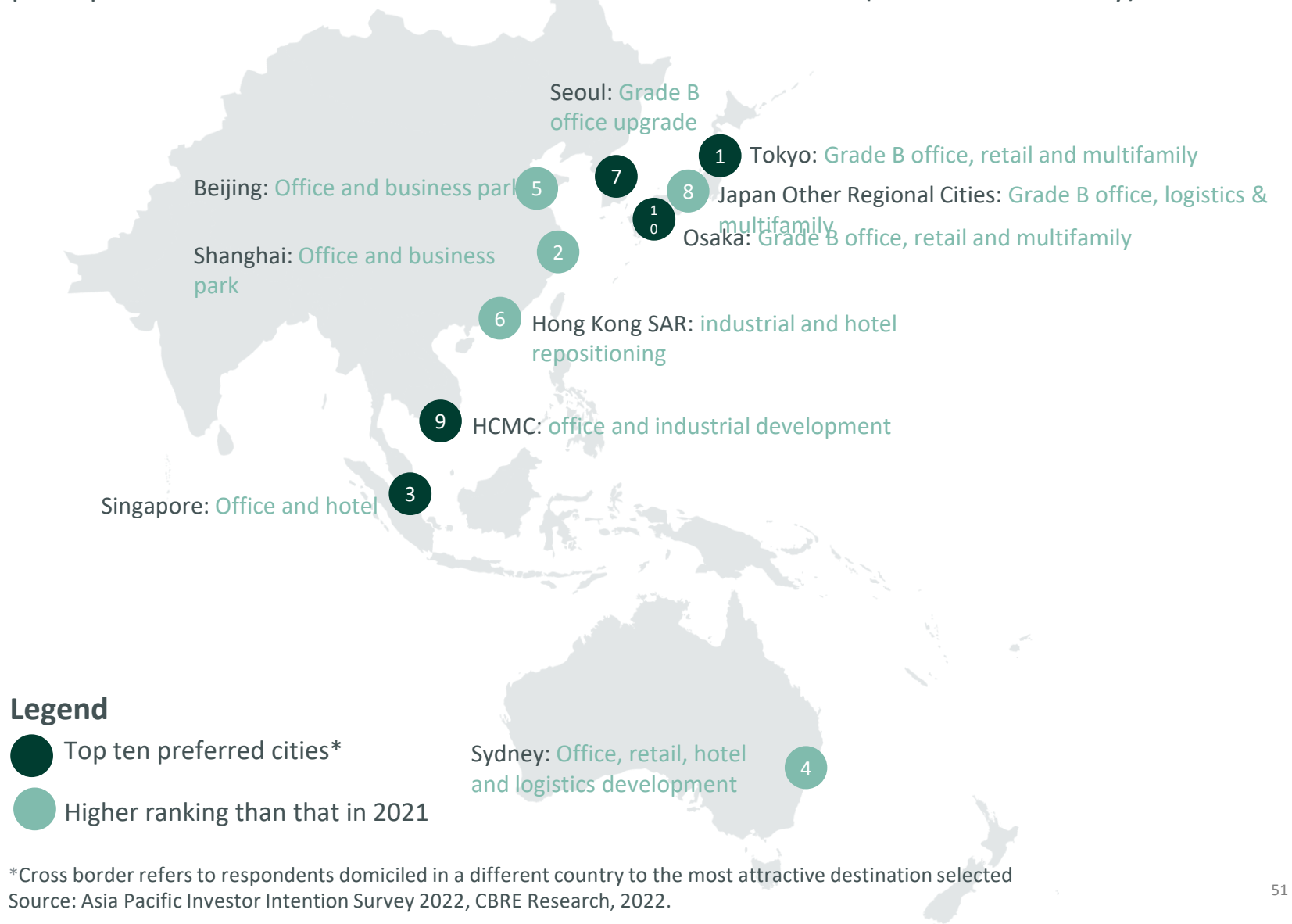


Note: The survey was conducted from April 11 to April 29, 2022.
Source: APAC Cap Rate Survey Q1 2022, CBRE Research, May 2022.

Top 10 preferred cities and target sectors

- The availability of low-cost financing; prolonged low interest rates, high liquidity and a large volume of mature multifamily assets helped Tokyo retain its status as the most popular city for investment in Asia for the third consecutive year.
- Singapore remains a major destination for cross-border investors. Investors are mainly focused on office. Over the past year, international fund managers concluded a series of core-plus and value-added acquisitions in anticipation of steady rent growth, limited new supply and strong leasing demand from technology companies.

Top ten preferred cities for investment and relevant sector focus (cross-border* only)



Legend

- Top ten preferred cities*
- Higher ranking than that in 2021

*Cross border refers to respondents domiciled in a different country to the most attractive destination selected
 Source: Asia Pacific Investor Intention Survey 2022, CBRE Research, 2022.

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