Real Estate Outlook Global

H1 2024

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Introduction and key calls

The time to invest is now

CBRE Investment Management's proprietary real estate forecasts show that investors are set to earn super-normal returns as the real estate market puts the bulk of its repricing in the rear-view window and enters a period of cyclical recovery. Even without optimizing for market and sector selection as well as execution strategy, we expect to see real estate deliver a 100 basis point premium to the historical average.

We believe that investors can and should optimize for market, sector and execution strategy. Our latest forecasts suggest that there is strong relative and absolute value to be found in global modern logistics, residential and data centers, with selective opportunities in resilient retail and modern offices in Europe and Asia Pacific.

We believe that investors can find more compelling returns by seeking our preferred sectors through execution strategies that capitalize on constrained market liquidity—whether through secondaries, the listed sector or recapitalizations and forced sales.

Our latest forecasts suggest that there is strong relative and absolute value to be found in global modern logistics, residential and data centers, with selective opportunities in resilient retail and modern offices in Europe and Asia Pacific.

Key calls

01

Super-normal returns as market recovers

CBRE Investment Management's proprietary real estate forecasts show that investors are set to earn super-normal returns as the real estate market puts the bulk of its repricing in the rear-view window and enters a period of cyclical recovery.

Even without optimizing for market and sector selection as well as execution strategy, we expect to see real estate deliver a 100 basis point premium to the historical average.

02

Logistics, living and data centers look attractively priced

We believe that investors can and should optimize for market and sector as well as execution strategy.

Our latest forecasts suggest that there is strong relative and absolute value to be found in global modern logistics, residential and data centers, with selective opportunities in resilient retail and modern offices in Europe and Asia Pacific.

03

Constrained liquidity offers attractive entry points

We believe that investors can find more compelling returns by seeking those preferred sectors through execution strategies that capitalize on constrained market liquidity—whether through secondaries, the listed sector or recapitalizations and forced sales.

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Figure 1 shows that we are forecasting strong nominal returns across all four regions—from Asia Pacific at 6.6% to the U.K. at 8.1%. It is worth noting that Asia Pacific is typically lowest given that Japan has a heavy weight in the region and yields there are commensurately lower than most other global markets given Japan's markedly lower interest rates.

It is worth noting that these return forecasts are modestly lower on a like-for-like basis than those shown in the last edition of this Outlook. This reflects the fact that our interest rate forecasts were revised to show rate cuts coming later than previously expected, so that the bond yield forecasts are somewhat less helpful to the cap rate forecasts.

Putting these numbers into a historical perspective, the long-run total return trend for real estate between fiscal year 2021 and 2024 was 6.5%. By contrast, if you were to invest now and hold for five years, we are forecasting a nominal return of 7.5% globally—a gap of 100 basis points. However, inflationary conditions have varied markedly over that time. The historical trend real return on real estate, stripping out inflation, is 4.3% compared to a forecast return of 5.2%. This is without optimization by picking the best performing markets and sectors. Whether you look at nominal or real returns, investors re-entering the market now are set for 90-100 basis points of outperformance as they capitalize on a cyclical recovery.

Figure 1: CBRE Investment Management's H1 2024 Real Estate Return Forecasts

	Europe ex U.K.	U.K.	Asia Pacific	U.S.
Total returns Q3 2024-Q2 2029, % p.a.	7.5%	8.1%	6.6%	7.8%
Prior forecast, Q1 2024-Q4 2028, % p.a.	6.3%	7.9%	6.6%	7.9%
Prior forecast Q3 2024-Q2 2029, % p.a., like-for-like	7.5%	8.9%	7.4%	8.8%

Source: CBRE Investment Management, forecasts as of H1 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Real estate return forecasts

Forecast returns are historically high as much of the repricing is behind us

Our rent forecasts are broadly unchanged since the last edition of our Outlook. This reflects a few changes to our real economic forecasts of demand drivers such as job growth and retail sales and a few changes to our supply pipeline forecasts.

Figure 2 shows that we expect modest rent growth in Europe ex-U.K. that almost keeps pace with inflation. The exception is legacy office, where we expect rents to be flat, yet still a better performance than legacy office in the U.S., reflecting tighter supply, a better quality of legacy stock, a more pronounced return to office and greater use of mass transit in European cities.

In the U.K. and Asia Pacific, we see rent growth broadly keeping pace with inflation, in particular, with real rent growth in U.K. residential and Asia Pacific hotels and data centers.

The strongest economic growth outlook and rent growth forecasts are in the U.S., with strong real rent growth forecasts in logistics, residential and neighborhood and community centers retail. We have comprehensively revised our data center forecasts with a marked uplift in our rent growth forecasts for the subsector.

We continue to expect yields to move in over the forecast period in all segments bar legacy office, U.K. high street retail and U.S. and Asia Pacific hotels (**Figure 3**). The few changes to our forecasts were mostly driven by how far repricing was from our expectations. In most cases, we are forecasting less inward yield shift because our interest rate forecasts are modestly higher than in our Q2 2024 Macro Outlook.[1]

By far the strongest economic growth outlook and, therefore, rent growth forecasts are in the U.S.

[1] Access our Q2 Macro Outlook at www.cbreim.com/insights/articles/macro-outlook-q2-2024.

Figure 2: Rent growth, % Y-o-Y, average, Q3 2024-Q2 2029

Europe ex U.K.: Residential (1), High street, Logistics, Retail, Malls, Modern office, Hotel, Legacy office (7) -0.1%

U.K.: Residential, Logistics, Modern office, Care homes (5), Leisure, High street, Retail, Hotel, Malls, Legacy office (7) 0.3%

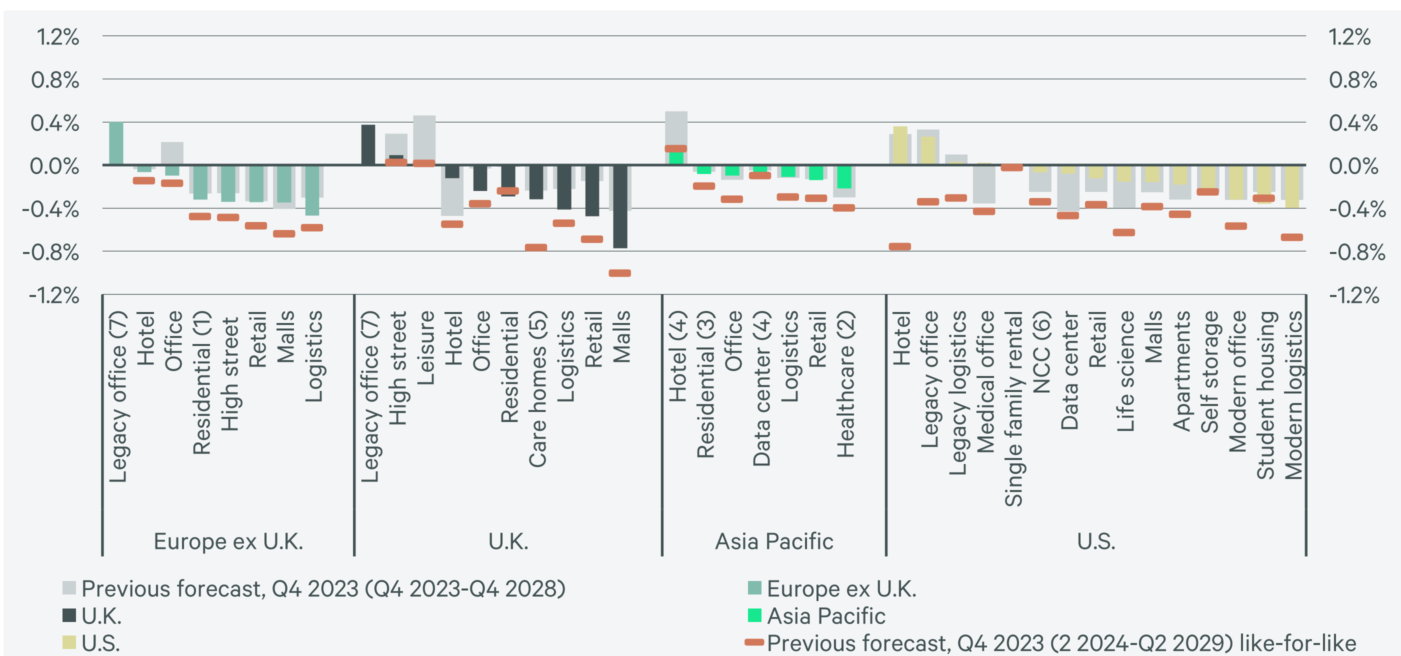
Asia Pacific: Hotel (4), Data center (4), Healthcare (2), Residential (3), Logistics, Office, Retail

U.S.: Modern Logistics, Data center, Legacy logistics, Single-family rental, NCC (6), Apartments, Student housing, Self storage, Hotel, Medical office, Retail, Life science, Modern office, Malls, Legacy office

Previous forecast, Q4 2023 (Q1 2024-Q4 2028)
U.K.
U.S.
Europe ex U.K.
Asia Pacific
Previous forecast, Q4 2023 (Q3 2024-Q2 2029) like-for-like

Rent growth figures reflect prime properties. (1) Switzerland residential is not included in aggregates; (2) Australia only; (3) Japan and Australia; (4) Japan only; (5) Previously referred to as secondary healthcare; (6) Neighborhood and community centers; (7) Newly added sector, no previous forecast
Sources: CBRE, CoStar, JLL, RealPage, MSCI, CBRE Investment Management forecasts as of H1 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Figure 3: Yield shift, cumulative, % point, Q2 2024-Q2 2029



Yield shift figures reflect prime properties. (1) Switzerland residential is not included in aggregates; (2) Australia only; (3) Japan and Australia; (4) Japan only; (5) Previously referred to as secondary healthcare; (6) Neighborhood and community centers; (7) Newly added sector, no previous forecast
Sources: CBRE, JLL, RealPage, MSCI, CBRE Investment Management forecasts as of H1 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

Figure 4 shows our forecasts for total returns. Sectors more than regions are driving performance. In most markets, logistics and residential offer the highest forecast returns, with legacy office and malls bringing up the rear. A variation exists, however, in where the sector sits within each region. For example, while forecast rent growth is strong in the U.S. and Asia Pacific, the U.S. data center return sits at approximately 8%, whereas in Asia Pacific, the forecast is just under 6% due to low ingoing yields.

Figure 4: Total return, % Y-o-Y, average, Q3 2024-Q2 2029

14%
12%
10%
8%
6%
4%
2%
0%

Europe ex U.K.: Logistics, Malls, Residential (1), Retail, Necessity retail, High street retail, Hotel, Modern office, Legacy office (7)

U.K.: Care homes (5), Residential, Logistics, Other retail, Necessity retail, Malls, Modern office, Retail, Leisure, High street retail, Hotel, Legacy office (7)

Asia Pacific: Hotel (4), Healthcare (2), Logistics, Residential (3), Office, Retail, Data center (4)

U.S.: Modern logistics, Student housing, Hotel, Single family rental, Legacy logistics, Apartments, Data center, NCC (6), Medical office, Modern office, Retail, Life science, Self storage, Legacy office, Malls

Previous forecast, Q4 2023 (24Q1-28Q4)
U.K.
U.S.
Europe ex U.K.
Asia Pacific
Previous forecast, Q4 2023 (24Q3-29Q2) Like-for-Like

(1) Switzerland residential is not included in aggregates; (2) Australia only; (3) Japan and Australia; (4) Japan only; (5) Previously referred to as secondary healthcare; (6) Neighborhood and community centers; (7) Newly added sector, no previous forecast

Sources: NCREIF, MSCI, CBRE Investment Management forecasts as of H1 2024. For illustrative purposes only. Based on CBRE Investment Management's subjective views and subject to change. There can be no assurance any targets or business initiatives will occur as expected. Forecasts are inherently uncertain and subject to change.

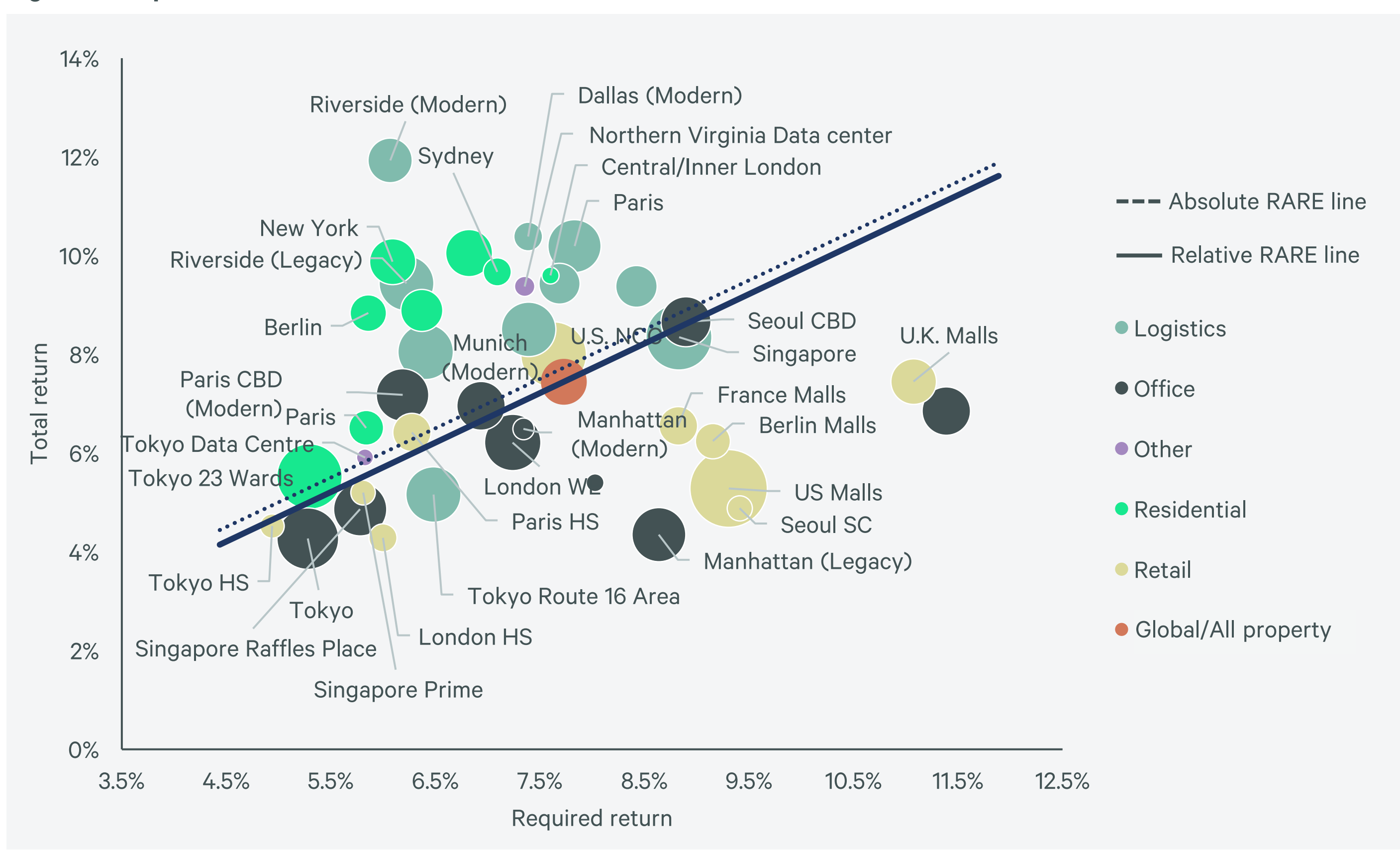
Risk-adjusted returns

Logistics, residential and data centers look to be good value

Figure 5 shows an even more granular selection of our real estate total return forecasts on the vertical axis with the estimated required return on the horizontal axis. This analysis allows us to see which segments are projected to be of greater relative and absolute value for the five-year investment horizon from Q3 2024-Q2 2029. The chart shows that almost every logistics and residential sector offers relatively good value, with some of the modern logistics markets, such as Riverside, looking exceptionally attractively priced. Some of the data center markets, such as Northern Virginia and Tokyo, also offer good value.

Some of the modern logistics markets, such as Riverside, looking exceptionally attractively priced.

Figure 5: Required return & total return, for all sectors (Q3 2024-Q2 2029)



HS = high street retail; NCC = neighbourhood and community centres; Modern = Modern Office/Logistics; Legacy = Legacy Office/Logistics; U.S. residential reflect apartments. All Japanese residential markets represent JREIT quality assets.
Total return figures reflect unlevered property returns of a passive fully invested portfolio before fees and taxes. The return is the 5-year average per annum for the period 24Q3-29Q2.
Absolute RARE line: Markets above the line are expected to generate returns higher than their required return.

These risk-adjusted return forecasts are more of a mixed bag when it comes to office and retail. Most office markets look to be poor value, even when we look just at the modern office segment. A couple of European and Asia Pacific markets, however, look fairly priced, such as Paris CBD modern office and Seoul CBD, where office overall is benefiting from low vacancy rates and a back-to-office culture.

The majority of retail continues to look to be poor value, but there are a handful of fairly priced markets, such as Paris high street retail and U.S. neighborhood and community centers. For investors with a particular need for high and stable income, these segments could be particularly attractive.

> A couple of European and Asia Pacific markets look fairly priced...where office overall is benefiting from low vacancy rates and a back-to-office culture.

Model portfolio

Structural overweight to residential and data centers

CBRE Investment Management has a neutral strategic allocation to regions. We seek the most attractive risk-adjusted returns globally without a pre-forecast bias toward any particular jurisdiction. In terms of our tactical positioning, given higher forecast returns, we are tactically overweight to the U.K. and U.S., although we have moderated the U.S. position slightly (**Figure 6**). This has allowed us slightly increase our Europe ex-U.K. allocation to reflect the fact that the region has undergone most of its repricing and has strong forecast returns. Asia Pacific has been nudged down to a very slight underweight position to reflect lower forecast returns. These overweight and underweight tactical positions are slight, reflecting the overall regional neutrality.

We remain strategically and tactically overweight to residential given strong demand tailwinds. We have, however, softened our tactical overweight a little to reflect near-term headwinds from decelerating rent growth in U.S. multifamily.

We also have high conviction with a strategic and tactical overweight to data centers given the tailwinds from the rise of cloud computing, e-commerce and generative AI.

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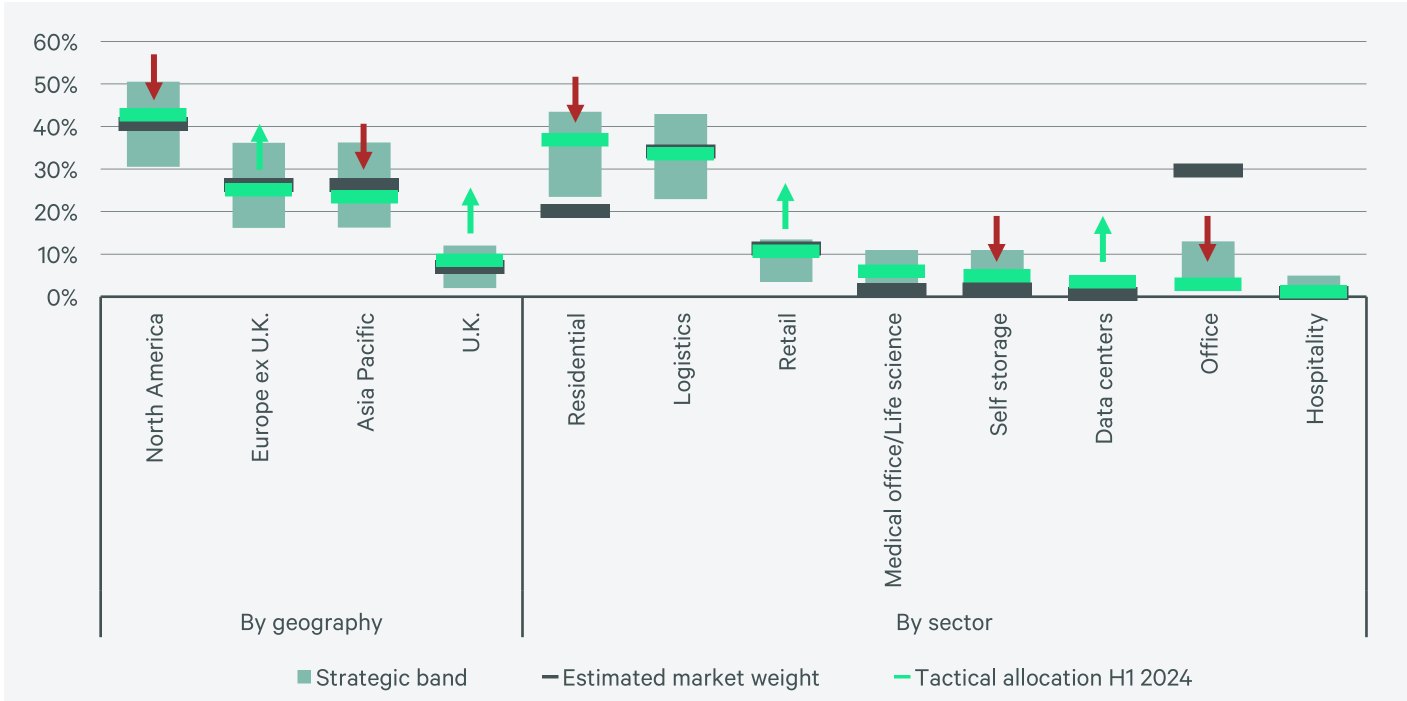
Our second largest allocation is to logistics. After years of being both strategically and tactically overweight to the sector, we are now neutral overall. We believe there is substantial functional obsolescence in older stock which is not yet rationally priced by the market. However, we remain hugely overweight to modern logistics although this is only a small segment of the overall sector.

Turning to our underweight allocations, we remain strategically and tactically underweight to office. Legacy office continues to endure a structural repricing. While pockets of modern office are forecast to perform better, the returns still do not meet the fair value hurdle, with the exception of a couple of European markets.

While we remain strategically underweight to retail, we have further increased our tactical allocation given the attractive income returns available on the formats and assets that have endured the sector's structural shifts.

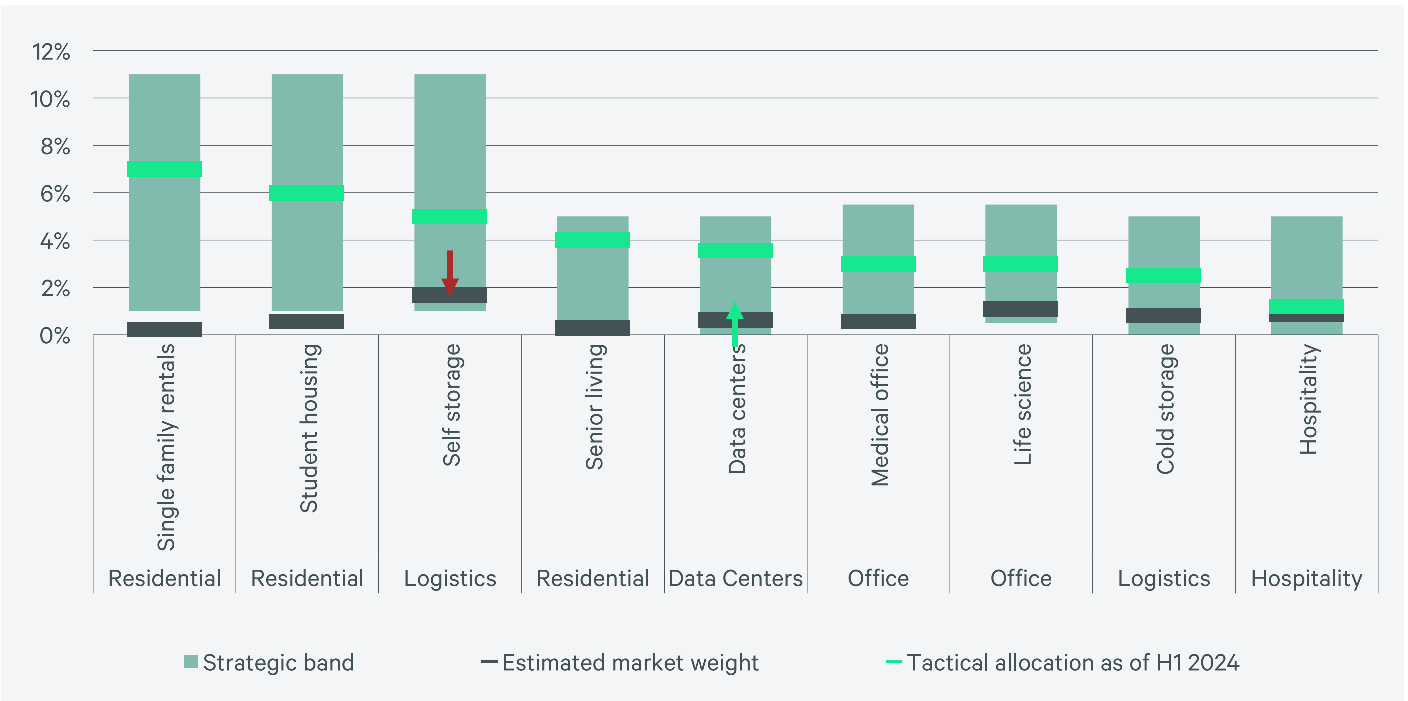
Figure 7 takes us on a deeper dive into what we classify as our Next Generation segments, where we see substantial structural tailwinds from demographic and technological trends. Given the positive tailwinds, we are structurally overweight to all these segments. However, we are only tactically overweight to single-family rentals, senior living, and data centers. We have further decreased our self-storage allocation and remain tactically neutral to medical office and life science, especially given modest oversupply in the latter.

Figure 6: Global model portfolio for core unlevered local currency investors, tactical positioning, % of GAV



Source: CBRE Investment Management as of H1 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Figure 7: Tactical positioning relative to benchmark, % of GAV



Source: CBRE Investment Management as of H1 2024. For illustrative purposes only. Current market conditions differ from prior market conditions; including during prior periods of stress and dislocation. There can be no assurance any prior trends will continue.

Preferred strategies and cycle timing

A generational buying opportunity in logistics, residential and data centers

Figure 8 shows our preferred strategies for real assets as well as our preferred means of access. As in our previous Outlook, we remain convinced that the most attractive risk-adjusted returns are available in modern logistics, residential more broadly, and data centers. As before, we continue to believe that attractive returns are available to investors who exploit the wide discounts to NAV in the listed sector and who are able to exploit limited liquidity in the private markets and buy from forced sellers or through recapitalizations and secondaries.

Beyond niche access strategies, the broader market opportunity is clear. Even without picking the best sectors and markets, the forecast real return on real estate is now 90 basis points higher than the long-term average. There is no clearer quantifiable signal that after a capital market repricing, we are now entering a period of super-normal returns for real estate. Our key message remains that the time to invest in real estate is now.

The forecast real return on real estate is now 90 basis points higher than the long-term average.

Figure 8: Real assets preferred strategies

PREFERRED ASSET TYPES

INFRASTRUCTURE (Clean technologies); REAL ESTATE (Digital real assets, Modern logistics, Mainstream and niche residential, Resilient and relevant retail); PREFERRED MEANS OF ACCESS (Private market dislocation, Listed markets)

Clean technologies	Digital real assets	Modern logistics	Mainstream and niche residential	Resilient and relevant retail	Private market dislocation	Listed markets
Sustainable transport, power grids and renewable energy generation	Meet unabated demand for cloud computing and AI adoption	Disciplined focus on creating and owning the logistics that meet tenant needs	Invest in supply constrained markets	Invest in resilient, income producing retail	Take advantage of reduced liquidity, and emerging forced sales	Take advantage of public-private arbitrage & next gen exposure
Clean transport (rail and EV charging) will claim the lion's share in "build back better" fiscal stimulus. In Europe and the U.S., assets that see a better chance of reaching maturity due to stronger policy support such as energy storage and hydrogen.	Towers are benefitting from wireless traffic growth and carrier spending globally. Data centers are seeing strong private market interest as constrained supply and power meets continued strength in demand.	Ruthlessly weed out assets that are over a decade old. Develop or own assets that meet tenants' evolving needs: e.g., floorplates that can handle robotic packing and greater density; roofs that can handle solar; closed loop EV charging capability.	Structural undersupply of good quality, affordable homes for low-middle income workers in major cities in all major developed markets. Strong ongoing demand for SFR & senior living.	For income-seeking investors, we have conviction in U.S. NCC and selected European retail that has proven resilient and retains its customer relevance. We look for locations and formats with high and resilient occupancy and a compelling leisure, retail offer.	Gain access to preferred sectors at attractive prices: – Recapitalizations and secondaries – Forced sales from funds with redemption queues – Recapitalizing developers unable to build out land banks due to high credit & construction costs	Given balance sheet strength, earnings outlook, and discounted valuations, we believe the sell-off is over-done and provides an attractive entry point to good quality underlying portfolios in our preferred sectors.

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