2023 Global Investor Outlook

Navigating the **global real estate reset**

Global Capital Markets

Foreword

Fundamentals around real estate **remain strong.**

Tony Horrell
Head of Global Capital Markets
& CEO UK & Ireland

Actionable advice has never been more important to investors in real assets. Faced with a macro environment that offers no shortage of reasons to hesitate, many are confining capital to the sidelines, awaiting more clarity and for relative stability to return.

We understand this caution, and that more than anything, **what our clients value at this volatile point in time is guidance** – on how policy shifts are likely to impact portfolio performance; on which markets or assets remain firmly positioned for long-term growth; on managing risks and meeting the demands of their many stakeholders. **The 2023 Colliers Global Capital Markets Investor Outlook is designed to provide a big-picture version of the tailored intelligence we deliver to individual clients.** It distills views from Colliers' senior real estate leaders and experts across our markets globally, along with data from a survey of our international investor client base and our industry-leading research team.

As the report will show, real estate is by no means immune to the volatility impacting capital markets globally. In many markets a recalibration is underway that we expect to continue well into 2023. Yet it is also immediately evident that the fundamentals around real estate remain strong, and that investors are highly attuned to the advantages it presents as an asset class. We are already witnessing heightened interest in assets and locations where value has clearly emerged and bolder investors are judging a bottom has been reached. When confidence returns to the markets in earnest, we expect a surge in activity as investors look to make up for months of paralysis, putting the substantial pools of capital they have at their disposal to work.

It is for all these reasons that **we recommend that investors view recent trends not so much as a downturn but as a return to relative rationality.** It is a time that presents some truly exceptional opportunities for those with the right strategies and resources. In key gateway cities this period could be viewed as a once in a lifetime chance to buy top quality real estate at a significant discount to historical averages. Just as 2023 will continue to present risks and challenges, many of which will be unexpected, **we will continue to provide our investor clients the insights they need to navigate market shifts and capitalise on the possibilities that emerge as a result.**

Background

This is the **third edition of our annual outlook** for global property investors and is an exploration of the forces that will shape the real estate world in 2023 and beyond. The number of investor responses for this survey has been higher than ever, undoubtedly reflecting investors' concerns and views on global and regional real estate markets in the year ahead.

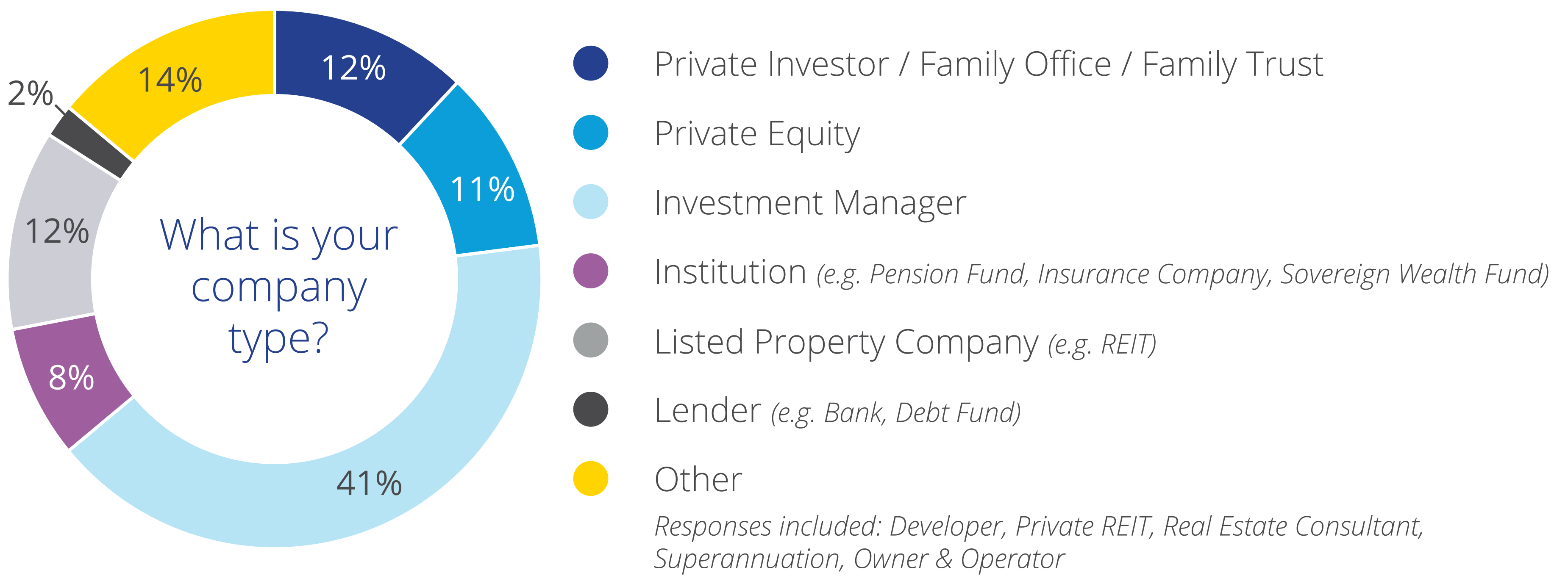
In addition to investor responses to the survey, we interviewed over 30 Colliers Capital Markets professionals to provide their local, sectoral and regional insights.

About the report

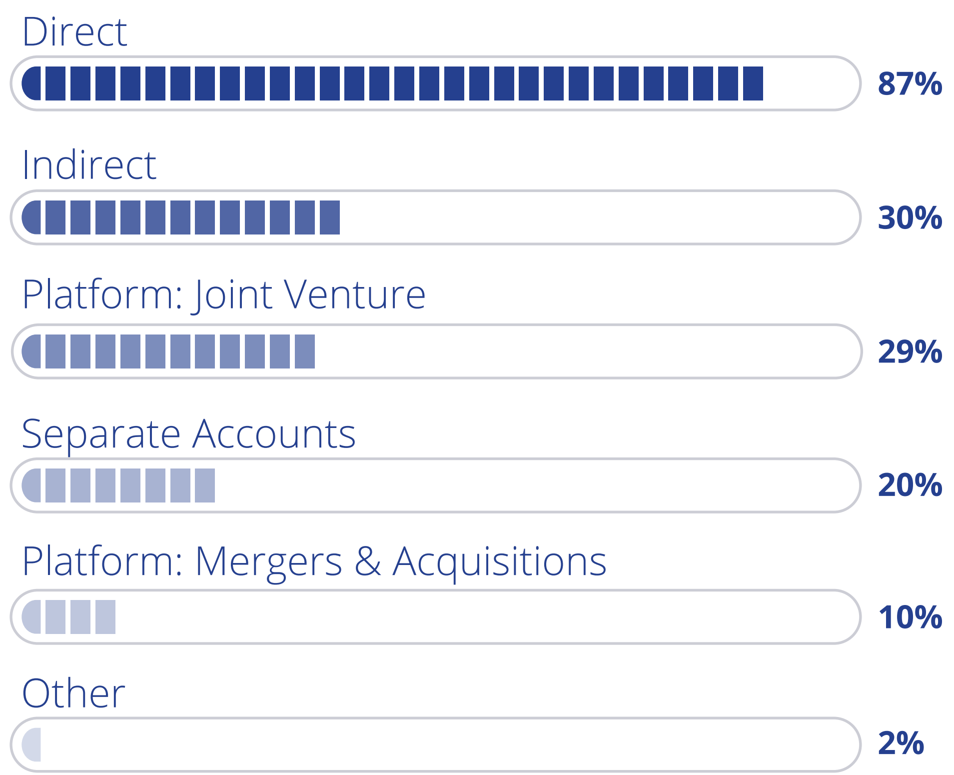
30+ in-depth interviews with our Capital Markets experts around the world.

Sentiment from **750+** investors who took part in our global outlook survey.

About the investors surveyed



How do you manage and deploy capital?*



*This chart represents how often each selection was chosen relative to total responses provided. For each selection, the % figure indicates the percentage of investors surveyed who chose this specific selection, whereby each investor could choose multiple answers.

2023 Global **key themes**

1. Pricing 'reset' and recalibration, before stabilisation.
2. Momentum is key.
3. Expect the unexpected.
4. Pockets of opportunity rather than widespread distress.
5. More platform and privatisation plays.
6. A shift from equity to debt.
7. A flight to quality, and a focus on fundamentals.
8. Sustainability driving decisions, as opposed to an afterthought.

1. **Pricing 'reset'** and recalibration, before stabilisation.

Inflation and higher interest rates will continue to weigh on investor decision making in 2023 as the market continues on a journey of price discovery. Markets have already seen a correction in pricing, particularly during Q3 of 2022, with yields / cap rates moving out by up to 100 basis points. However, some markets are yet to see any price correction, emphasising that the timing of the 'landing, stabilisation and recovery' of each market and sector will differ markedly.

Overall, **Colliers' consensus is that the stabilisation of the global real estate market will take hold by mid-2023**, as more certainty emerges around the interest rate and economic outlook.

Our expert's view

"How this plays out in the more transparent, liquid markets will dictate the most popular gateway destinations for global capital. Those markets which reprice the quickest, and so look like better value, will attract money in the first part of 2023. Those markets that lag behind on repricing may find themselves waiting longer for investment to return. There are two markets that are already clearly repricing faster than all the others – the UK and U.S."

Tony Horrell,
Head of Global Capital Markets & CEO UK & Ireland

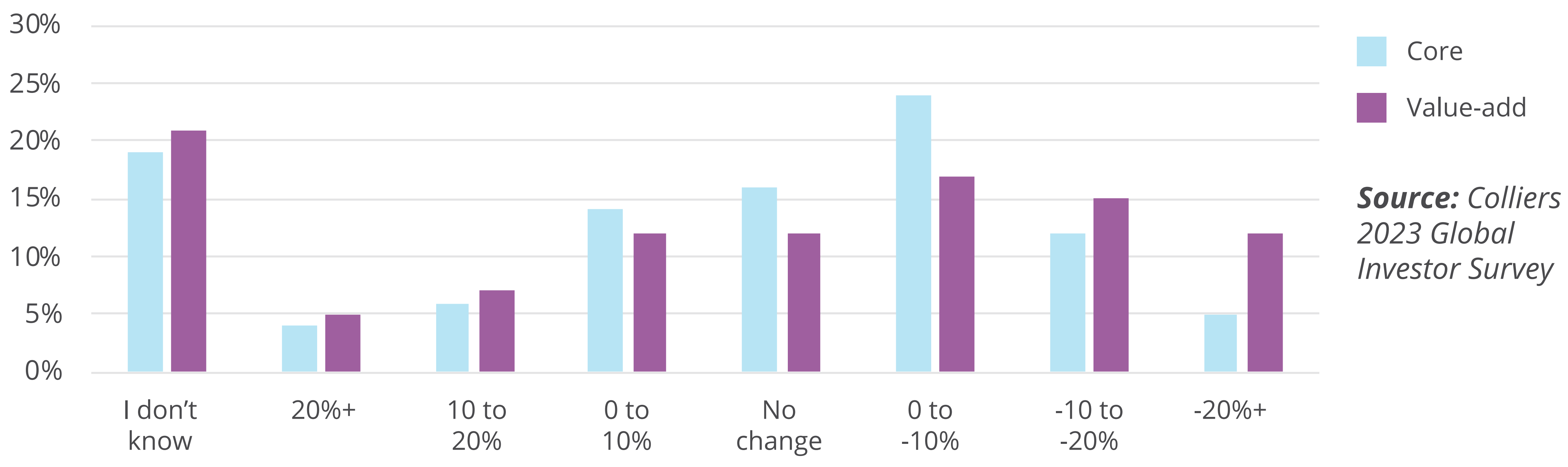
Survey results reflect the significant variance in how and when markets will land. Overall, investors consensus view is that there will be a further correction in core asset values of -10% by the end of 2023. Value-add assets are prone to a further drop.

That said, almost 20% of investors stated that they simply 'don't know' where values will land in 2023. This was above 30% for retail, hospitality and multifamily / build-to-rent (BTR) value-add assets. We would put this down to the multiple factors driving pricing change across markets, and the timing and velocity of change. *Our global investor survey took place between 3rd October - 3rd November 2022, during which time there were significant changes in values in some markets. We cannot be certain whether all the views expressed by investors accounted for this, or they represent the expectation of further price changes in 2023.* It simply confirms that the price discovery journey still has some way to go.

The view on value change also differs by region. For North American core offices, this was far more bearish, with 13% of investors believing values will decline by over 20% in 2023. Less than 5% thought this would be the case in APAC and EMEA.

Global capital values: % change in 2023 for all asset classes

% of investors deciding what the capital values will be for core and value-add across all asset classes.



Source: *Colliers 2023 Global Investor Survey*

2. **Momentum** is key.

Sentiment across markets is clearly low, with investor attention primarily focused on managing a 'survival and stability' strategy before turning their attention to growth. **The speed with which investors can get assets into a stable position will be key to driving positive momentum, and an upturn in market activity.** The challenge is the market remains susceptible to further shocks and events, that **have the capacity to trigger backwards steps, as much as push the market forwards.**

3. Expect the **unexpected.**

It is unlikely to be a smooth landing, certainly not for all markets. Real estate markets offer a solid, long-term investment and income stream once pricing levels are clearer. Yet the **factors influencing decision making are changing hourly and daily, not monthly or quarterly,** so many of the benchmarks, data and analysis used to guide future activity become redundant. Currency volatility is yet another factor for investors to consider. Investors just cannot predict where future finance costs are going, and it is very difficult to financially model new opportunities. Those who pay all-cash still think the markets haven't moved enough in terms of pricing, creating a sense of 'why buy today when it could be cheaper tomorrow?' **While the market is feeding off daily market changes and anecdotes, it is unlikely to pick up any real momentum.**

Global challenges: key downside risks

Average % of investors who cited the following as the top three negative challenges that will affect their real estate strategies in 2023.

88%

Interest rates

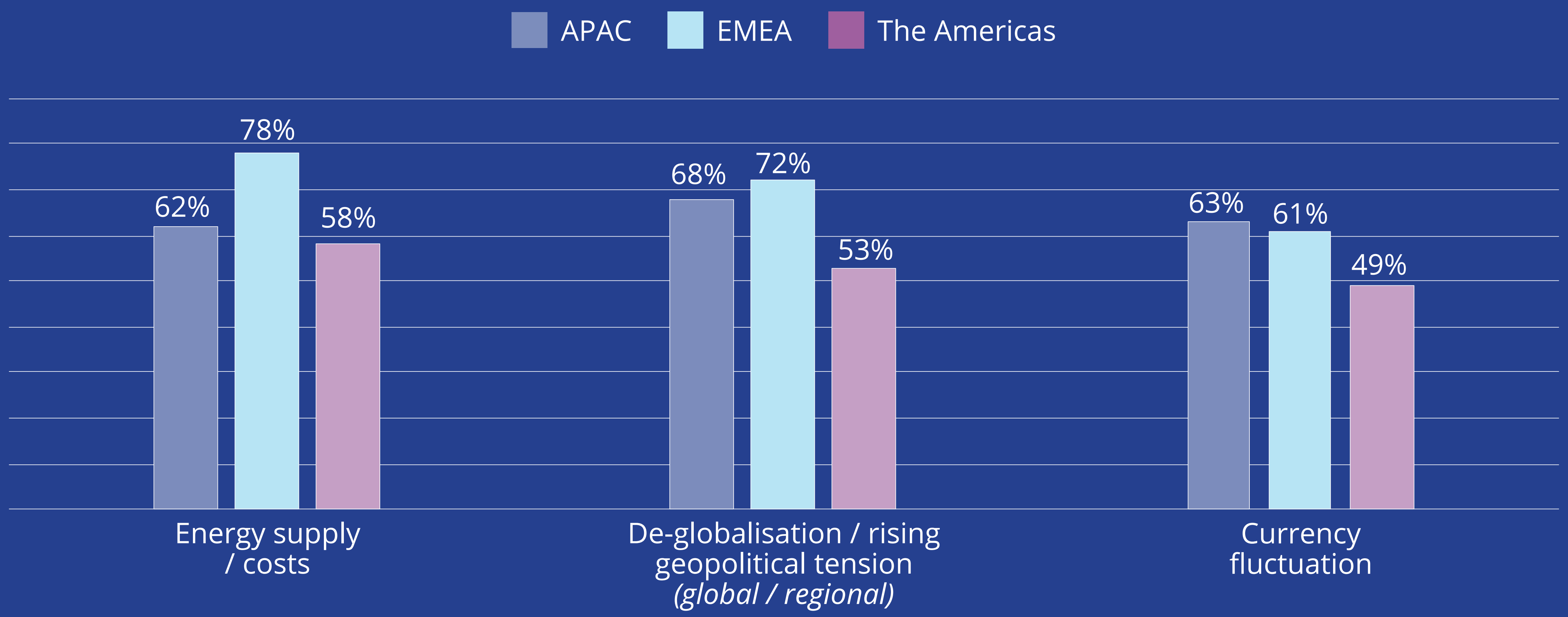
74%

Inflation

68%

Supply chain disruption

Top regional macro challenges

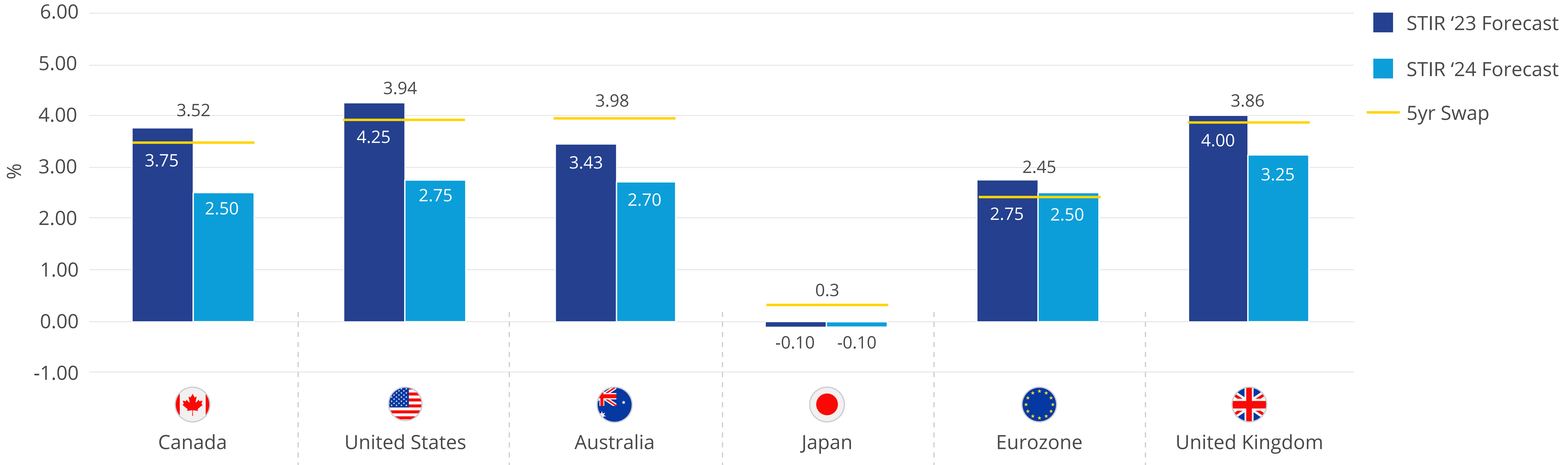


Source: *Colliers 2023 Global Investor Survey*

4. **Pockets of opportunity** rather than widespread distress.

The current environment is different from crises past. Unlike the aftermath of the Global Financial Crisis, liquidity remains broadly available, leverage is lower and demand in most asset classes remains healthy. However, capital values will be negatively impacted by the transition to higher interest rates, so some distress will become more evident in 2023. Investors will be under pressure to refinance, and it will not be confined to owners who invested late-cycle or in high-risk assets. **Investors are already eyeing the relative bargains that may emerge, with significant opportunity funds being drawn up to act on assets that have to trade, particularly in the first half of 2023.** This will help drive new pricing levels.

Short Term Interest Rates (STIR) vs Swap Rates



Source: *Colliers / FactSet / Bloomberg*
Data based on daily rates and forecasts as of 29th November 2022

Our expert's view

"Investors will find low basis opportunities in the gateway markets of New York, San Francisco, Washington, D.C., Boston, Chicago, and Los Angeles, as liquidity events drive decision-making. This will allow buyers to reposition assets, through reinvestment or conversion. Alternative asset classes such as life science are viable targets, while conversions to assets within the broader housing sector are also gaining traction."

David Amsterdam,
President, U.S. Capital Markets & Northeast Region

5. More **platform and privatisation plays.**

Publicly listed investors continue to trade at discounts to net asset value (NAV). Although these discounts have started to wind back in, we will see 'risk-on' private equity and other cash-rich investors take positions in the listed sector, with routes to market including the purchase of bonds that can be converted to equity.

Tighter conditions also mean some of the larger platforms assembled by developers and asset owners will become increasingly expensive to maintain. This will lead to large-scale capital placement and direct opportunities as non-performing assets and portfolios come to market to shore up balance sheets.

Our expert's view

"Core assets are incredibly difficult to source in many locations. A very attractive option for investment fund managers and capital allocators in markets like Japan, is working in partnership with developers to create new core assets from older sites. This is a great strategy that we expect to continue in 2023."

John Howald
Executive Director, Head of International Capital, APAC

Our expert's views

"Discounts to NAV in the listed sector remain high, and we'll see private equity and similar investors taking advantage of that arbitrage. We expect to see selective 'take-private' scenarios happen in Europe, with investors taking a controlling interest in REITs and then delisting."

Luke Dawson
Managing Director,
EMEA Cross Border Capital Markets

6. A shift from **equity to debt.**

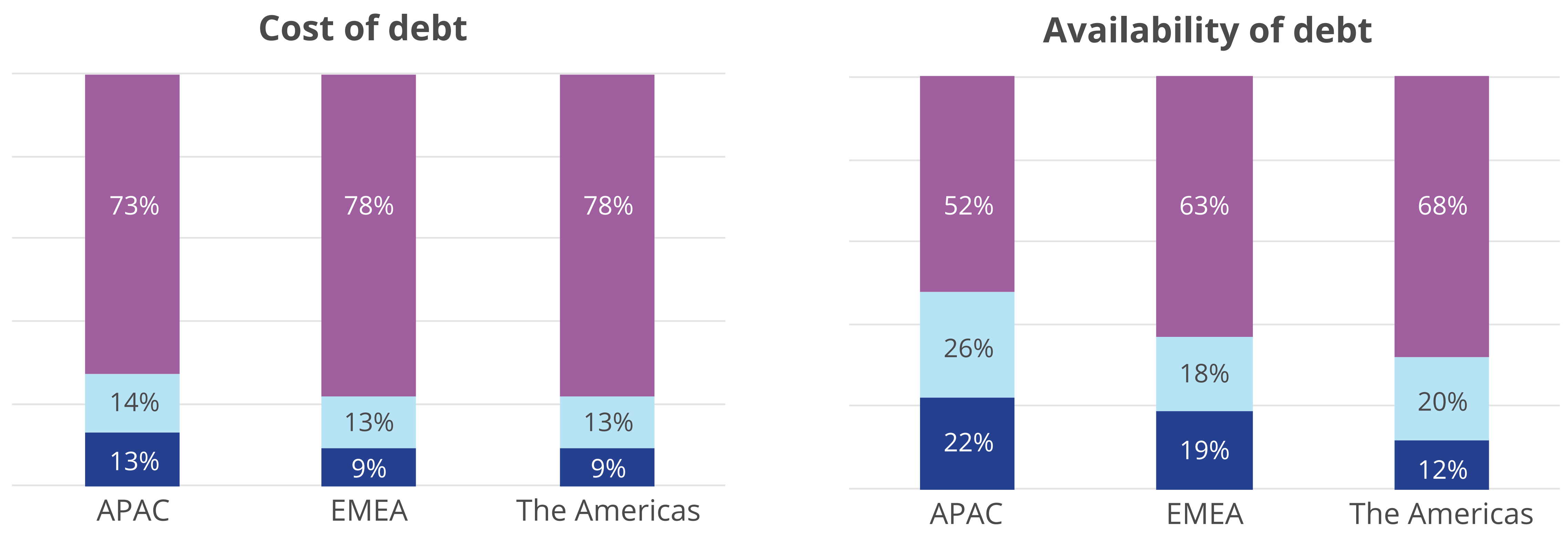
Responses to our survey illustrate how big an impact interest rates are having when it comes to the cost and availability of debt. **Globally, 76% of investors said the rising cost of debt will have a negative impact on their real estate strategies in 2023. A further 60% anticipate a reduction in the availability of debt will have negative consequences.**

As the cost of capital rises, **investors are recognising it can be more advantageous to extend their activities into debt than aim for direct equity investment.** We have witnessed heightened activity and creativity in the debt space and see this evolving, as more investors explore solutions like mezzanine debt, bridge loans and project finance. This will help close any liquidity gaps and recalibrate pricing in the process.

Please rank the following factors in terms of their influence on your ability to pursue your investment strategy during 2023:

% of investors who chose how the cost and availability of debt will impact their real estate strategies in 2023.

Positive impact
No impact
Negative impact



Source: *Colliers 2023 Global Investor Survey*

Our experts' views

"The speed at which the equity allocators and investment managers are adopting credit opportunity strategies has been a surprise. They're deploying across the capital stack, chasing what they perceive to be attractive relative risk / reward versus taking common equity positions."

Jeff Black
U.S. Capital Markets Board of Advisors, Debt & Equity Lead

"Capital continues to be raised for new debt platforms in the UK and Europe, but with an even greater focus on opportunistic and core plus transactions. Senior debt remains readily available, but sponsors need to have strong track records and business plans to match."

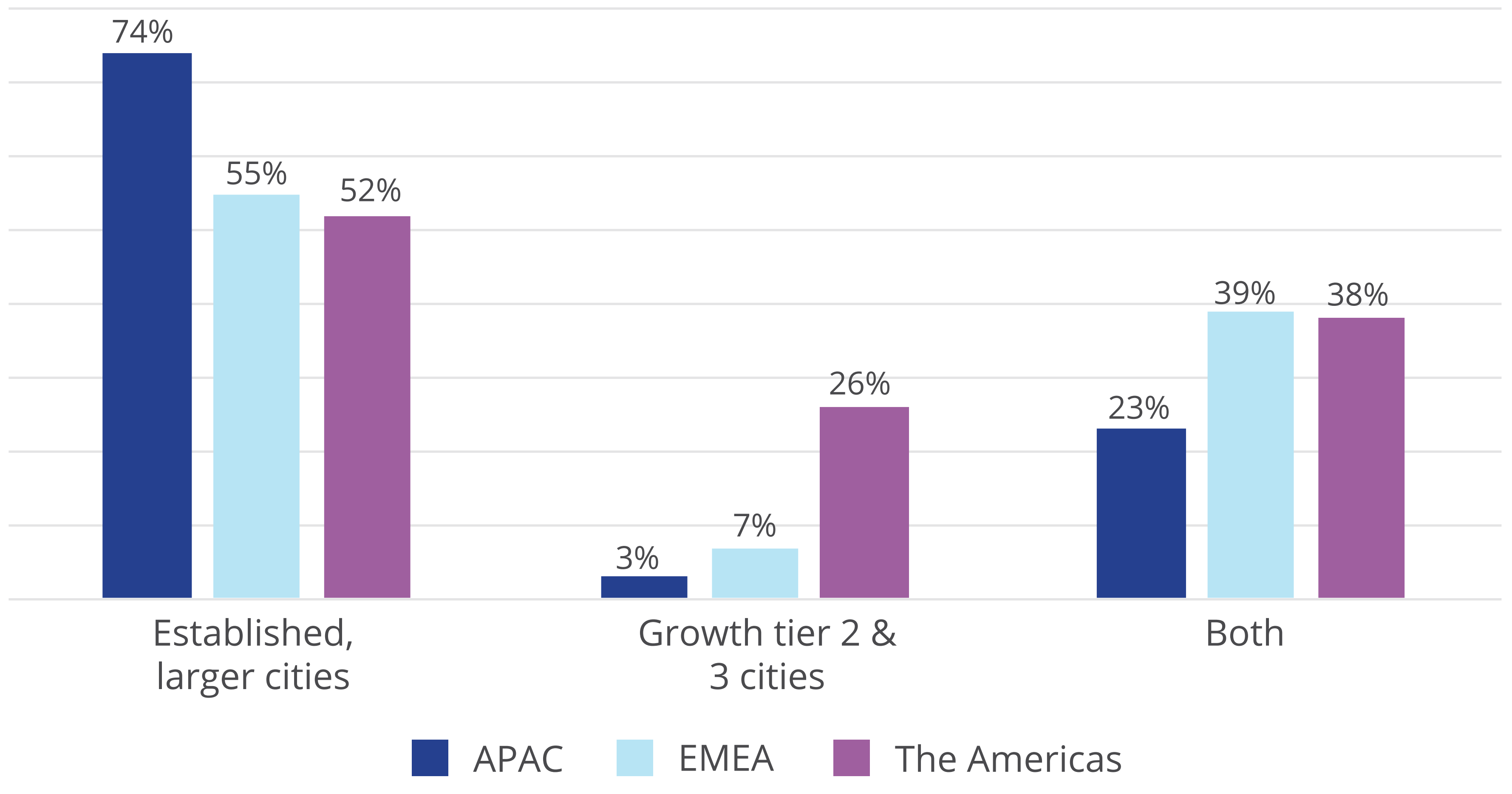
Ben Thomason
Director, Head of Debt Advisory, UK

7. Sectors: A flight to quality, and a focus on fundamentals.

Office, industrial & logistics and multifamily / BTR assets continue to top the list of preferences globally, but the weighting of interest continues to differ by region. While core assets in top-tier global cities remain the preference, sectors closely connected to changing demographic and economic realities, such as multifamily / BTR, student and senior housing continue to drive activity away from major cities. This will continue to push investors into second and third-tier cities, particularly in American and European markets.

During 2023, what is your city preference when investing in asset classes?

% of investors, split by region, choosing their preference on city type.



Source: *Colliers 2023 Global Investor Survey*

Our experts' views

"The flight to quality means the smart investor is really executing plans proactively. A key element to asset management is factoring in capital expenditure (CAPEX) for asset upgrades and repositioning, to improve energy efficiency and overall operational costs."

John Marasco
Managing Director, Capital Markets & Investment Services, ANZ

"Secondary markets boomed during the pandemic, and we see continued investor interest in smaller cities. Alternative assets like life science that are viewed as 'recession proof' will move to the forefront."

Adam Jacobs
Senior National Director, Research, Canada

Please choose the asset classes you are considering investing in during 2023.

Average % of investors who chose sectors. For each selection, the % figure indicates the percentage of investors surveyed who chose this specific selection, whereby each investor could choose multiple answers.

60% of investors chose industrial & logistics. This was also the most popular asset choice last year.

60% of investors chose office. This sector was the **no.1 choice in APAC and EMEA.**

48% of investors chose multifamily / BTR. This sector was the **no.1 choice in the Americas.**

27% of investors chose hotel.

26% of investors chose retail.

25% of investors chose specialised (alternatives). **This sector has become a mainstream option.**

24% of investors chose land.

Defensive assets driving activity

While there will be renewed focus on opportunistic plays in 2023, multifamily / BTR and industrial & logistics assets will be most in favour as defensive asset strategies persist. Supply and demand fundamentals in both of these sectors are key. Under-supplied housing markets and low vacancy rates across industrial assets help underpin capital values and support income growth. Equally, **industrial & logistics assets will continue to absorb market share, with investor interest in first-mile assets on the rise** as the near-shoring of Foreign Direct Investment (FDI) becomes a reality.

For multifamily / BTR assets, greater attention needs to be placed on operational expenditure (OPEX), especially as yields / cap rates are often most resistant to change in this sector. **Operational-intensive assets will require closer scrutiny as the cost base rises.** This was one of the biggest concerns of investors going into 2023, alongside the rising cost of creating new assets.

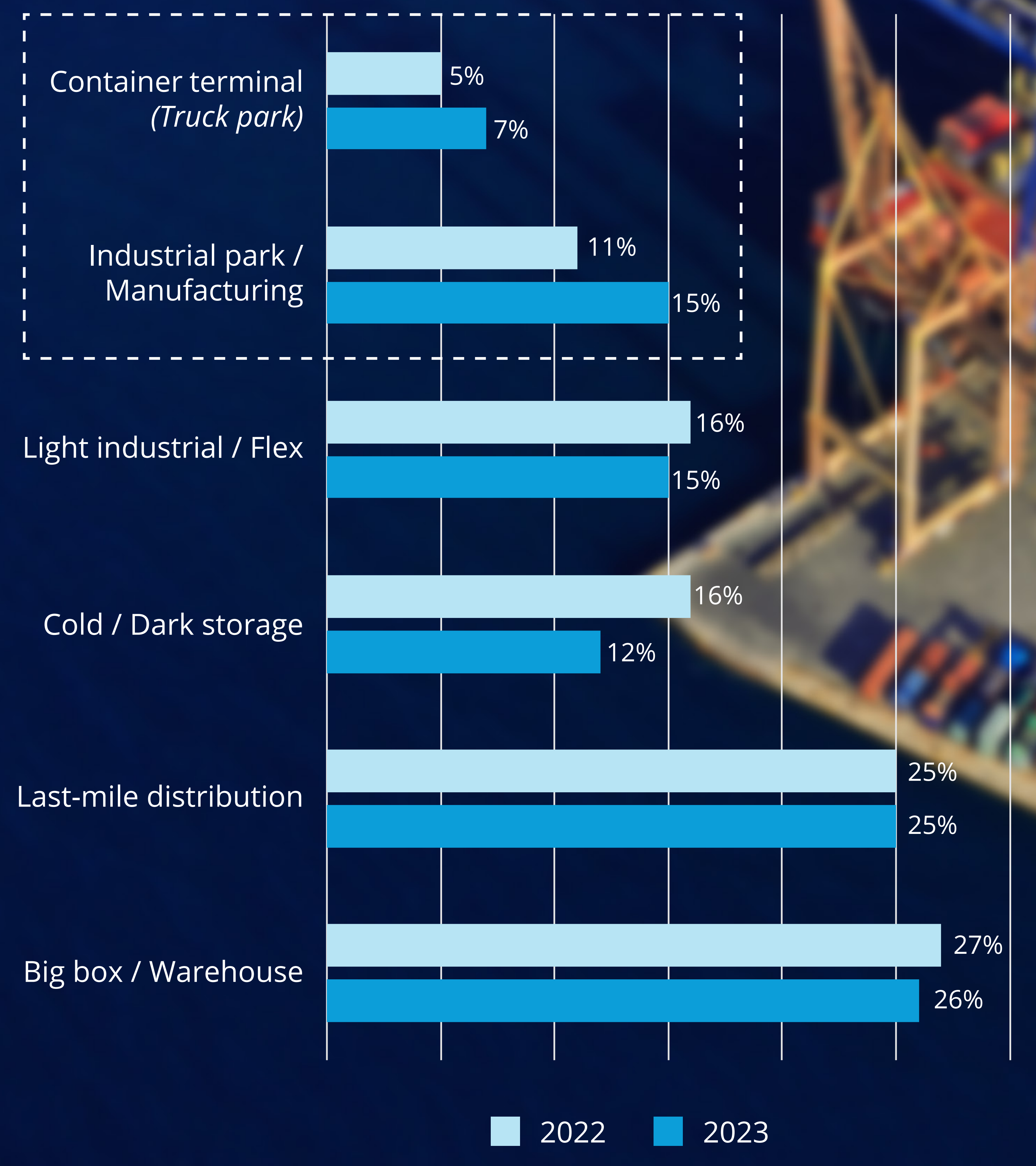
The **top two market factors** investors cited as having a negative impact on their real estate strategies in 2023.

85% Rising construction costs

77% Higher asset operating costs

Which types of industrial & logistics assets do you intend to invest in during 2023?

% of investors who will be investing in industrial & logistics assets during 2023.



Source: *Colliers 2023 Global Investor Survey*

Our experts' views

"The living sector is well protected right now. Lower mortgage availability and higher interest rates, coupled with an uncertain economic outlook, act as a demand boost to the institutional residential multifamily leasing markets. This trend often lasts beyond the short-term horizon."

Chris Pilgrim
Director, Global Capital Markets

"The U.S. is vastly under-housed and that is not solved in a short amount of time. This is especially the case in a higher interest rate environment where the cost of building materials is rising and labour shortages are prevalent."

Aaron Jodka
Director of Research, U.S. Capital Markets

8. Sustainability driving decisions, as opposed to an afterthought.

Closely connected to the flight to quality is the **growing emphasis investors are placing on environmental, social and governance (ESG) criteria and ratings.** This is not just for regulatory and reputational reasons, but increasingly in response to occupier demands and to balance out asset operational costs longer-term. Investors are focusing on assets with strong sustainability characteristics, with expectations these will command a premium. **Non-compliant assets will increasingly be confined to discounted territory and targeted for redevelopment**, as disposal and acquisition strategies are activated.

Our experts' views

"There's a dynamic shift in peoples' thinking around ESG across APAC and it is not just from office tenants. If you go to a financier, a tenant, or an investor, ESG is one of the major criteria being enquired for – moving from a 'nice to have' consideration to a 'need to have.'

Joanne Henderson

National Director, Research, Australia

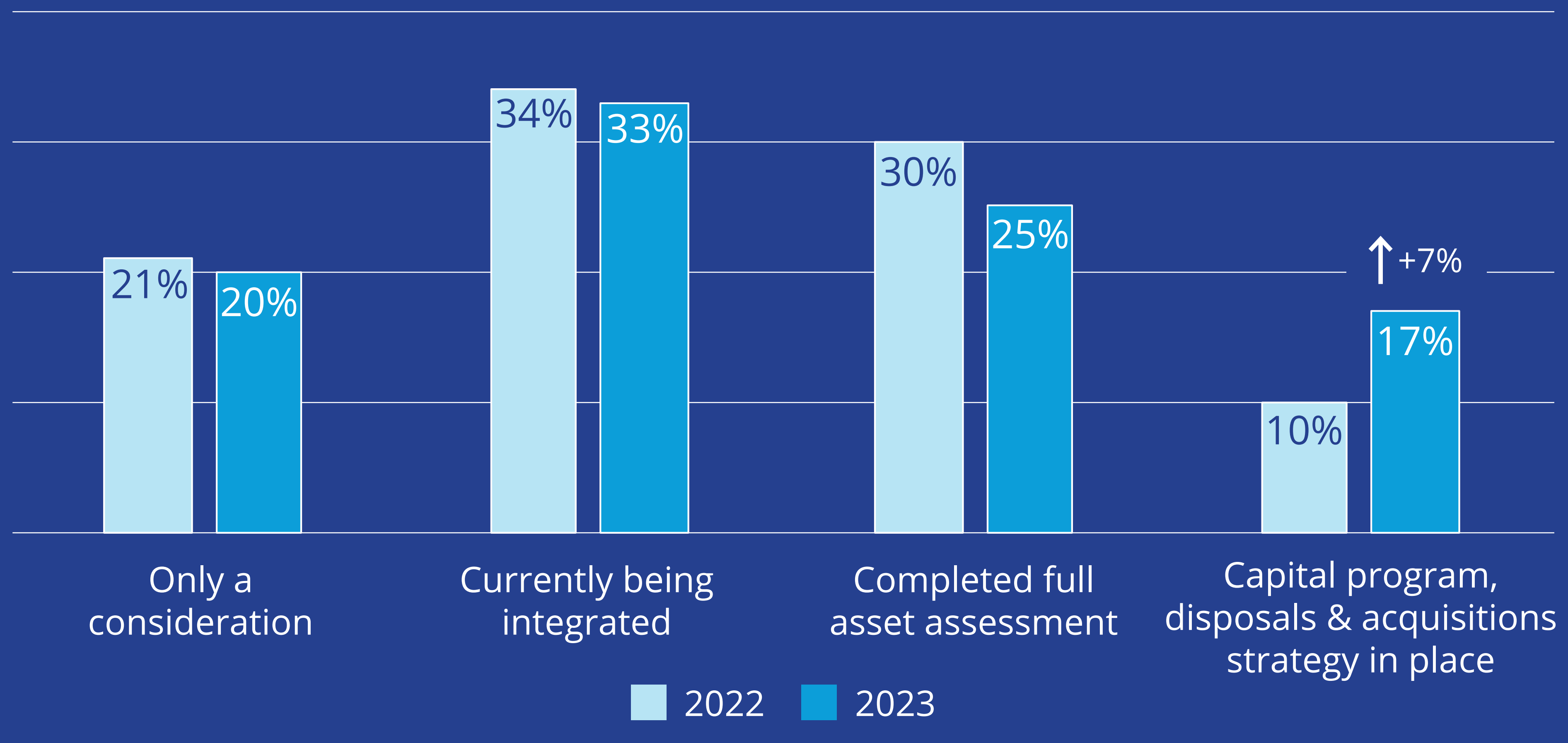
"We have seen some investors make clear decisions on where and what to buy, indeed where and what not to buy, based on their ESG-informed investment strategy. They've looked at their portfolio and they know certain buildings are going to be a problem going forward, so they have already started to offload them. The rationalising of portfolios as investors step away from non-ESG compliant assets will be a key source of market activity over the next few years. Discounts on non-compliant buildings are inevitable."

Damian Harrington

Director, Head of Research, Global Capital Markets & EMEA

Are you taking action on the environmental performance of your assets?

Investors environmental considerations in 2023 (%)



5% of respondents chose N/A in 2023 and 4% in 2022

***Source:** Colliers 2023 Global Investor Survey*

45%

of investors intend to dispose of up to 20% of their portfolio in the next five years.

***Source:** Colliers 2023 Global Investor Survey*

Key Takeaways

Colliers' consensus is that the stabilisation of the global real estate market will take hold by mid-2023.

Colliers will be **continually tracking the key themes presented in this report**. Keep an eye out during 2023, as we will be **releasing additional reports** based on these subjects **on a regional and global level**.

1

The velocity and timing of market stabilisation, repricing and recovery will differ across markets and sectors in 2023...

But, some markets may move backwards before they move forwards.

2

Understanding and managing the multitude of rising cost pressures impacting real estate is critical...

The cost of capital is only one part of the equation.

3

Core assets to prevail but non-core will be a source of some distress...

We expect to see some creative routes to market in the year ahead through the curation of debt, platforms, privatisation and project management.

Report **contributors**

Our Colliers Capital Markets Experts listed to the right were interviewed between 24th October and 14th November 2022. It is their **expert views and knowledge**, alongside our global investor survey that have shaped this report.

If you have any questions regarding the content within this report or if you wish to **discuss how we can help you with your real estate investment needs in 2023** and beyond, please reach out to one of our experts or contact Damian Harrington or Alison Hunter.

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Research, Canada

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Annual revenue
$4.6B

Countries we operate in
63

Assets under management
$92B

Lease / sale transactions
53,000

Square feet managed
2B

Professionals
18,000

All statistics are for 2022, are in U.S. dollars and include affiliates