Global Capital Markets

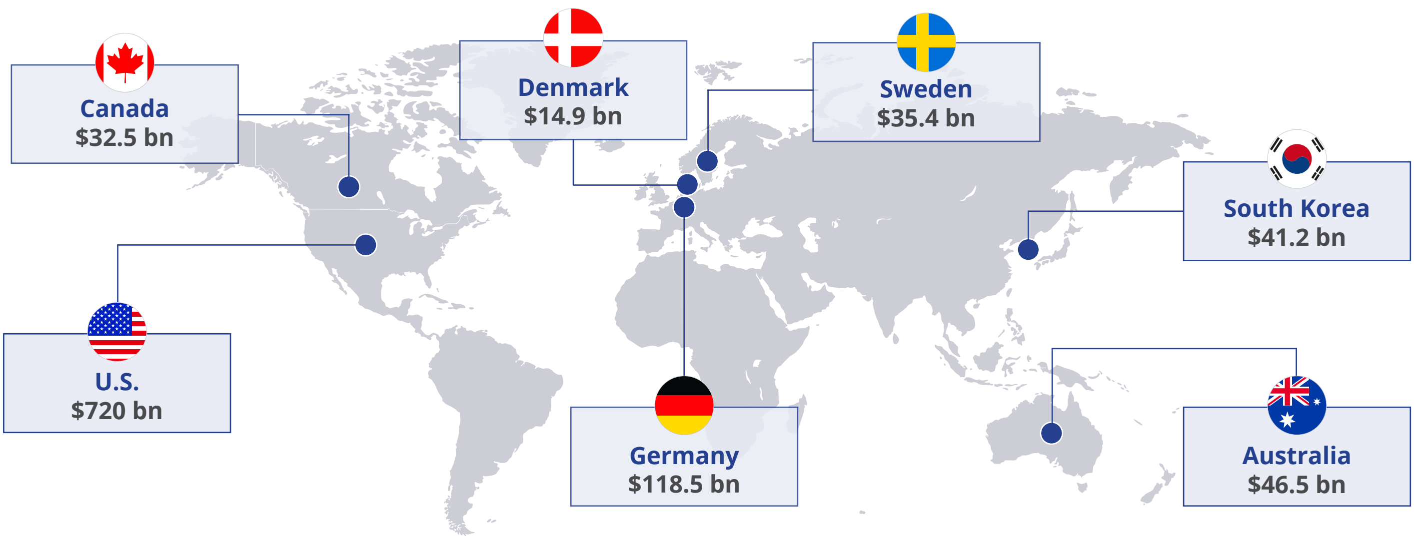
Global Real Estate Insights

March 2022

2021: A record year for global volumes

Global capital markets surpassed pre-pandemic levels by reaching US$2.19 trillion, 35.7% up on 2020 and 16.5% on the 5-year average [see figure 1]. A number of countries posted record years in terms of investment volumes, including some of the world's largest real estate markets such as the U.S., Germany and Australia. The UK posted its second biggest year on record, only marginally behind levels seen in 2015, hitting US$91.5bn in 2021.

Figure 1. Global record-breaking countries: 2021 investment volumes

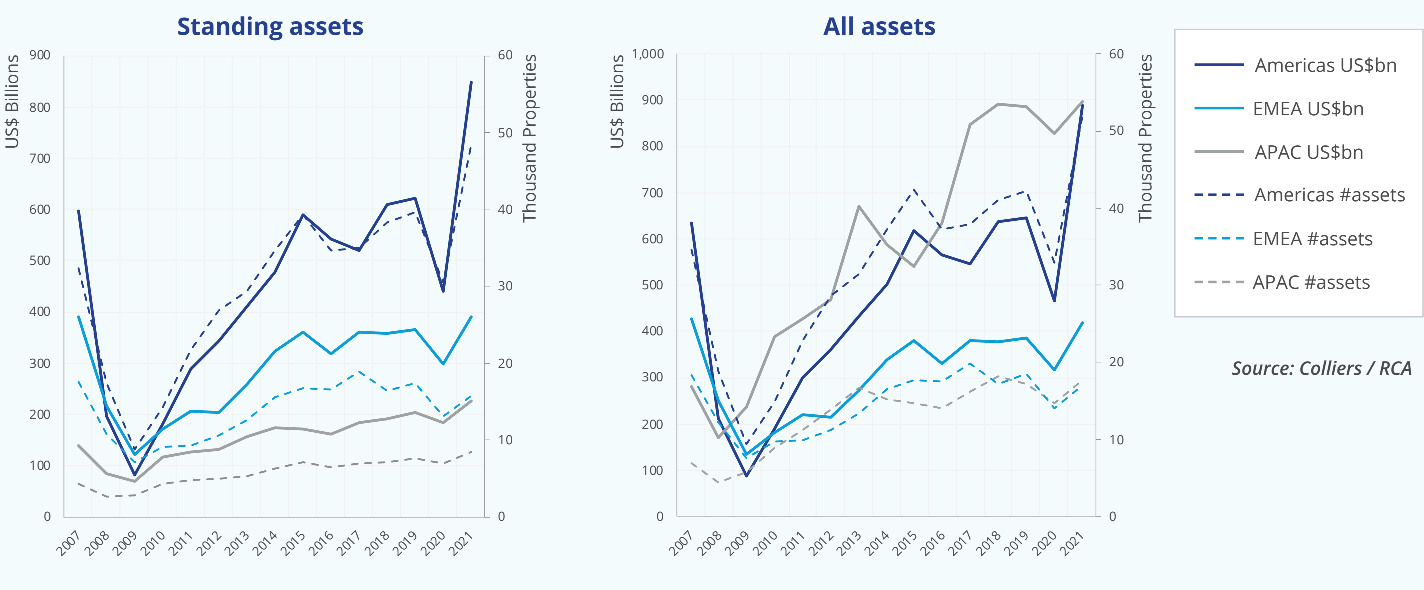


All figures are in USD

Source: Colliers / RCA (figures relate to US$10 million+ transactions as of 15th Feb 2021)

By region, **the Americas posted a record year for investment activity**, and the **largest increase in activity for all sales** (including land and development) **and standing assets.** Activity expanded by 87.8% over 2020 and 38.8% over the 5-year average. Latent capital, frustrated by market conditions in 2020, came back in force in 2021. Cross-border activity rallied, adding to strong domestic capital spending. This enabled EMEA and APAC markets to get back to pre-pandemic levels, rebounding by 30.6% and 8.1% respectively on 2020.

Figure 2. Global investment volumes by region



Source: Colliers / RCA

City strategies

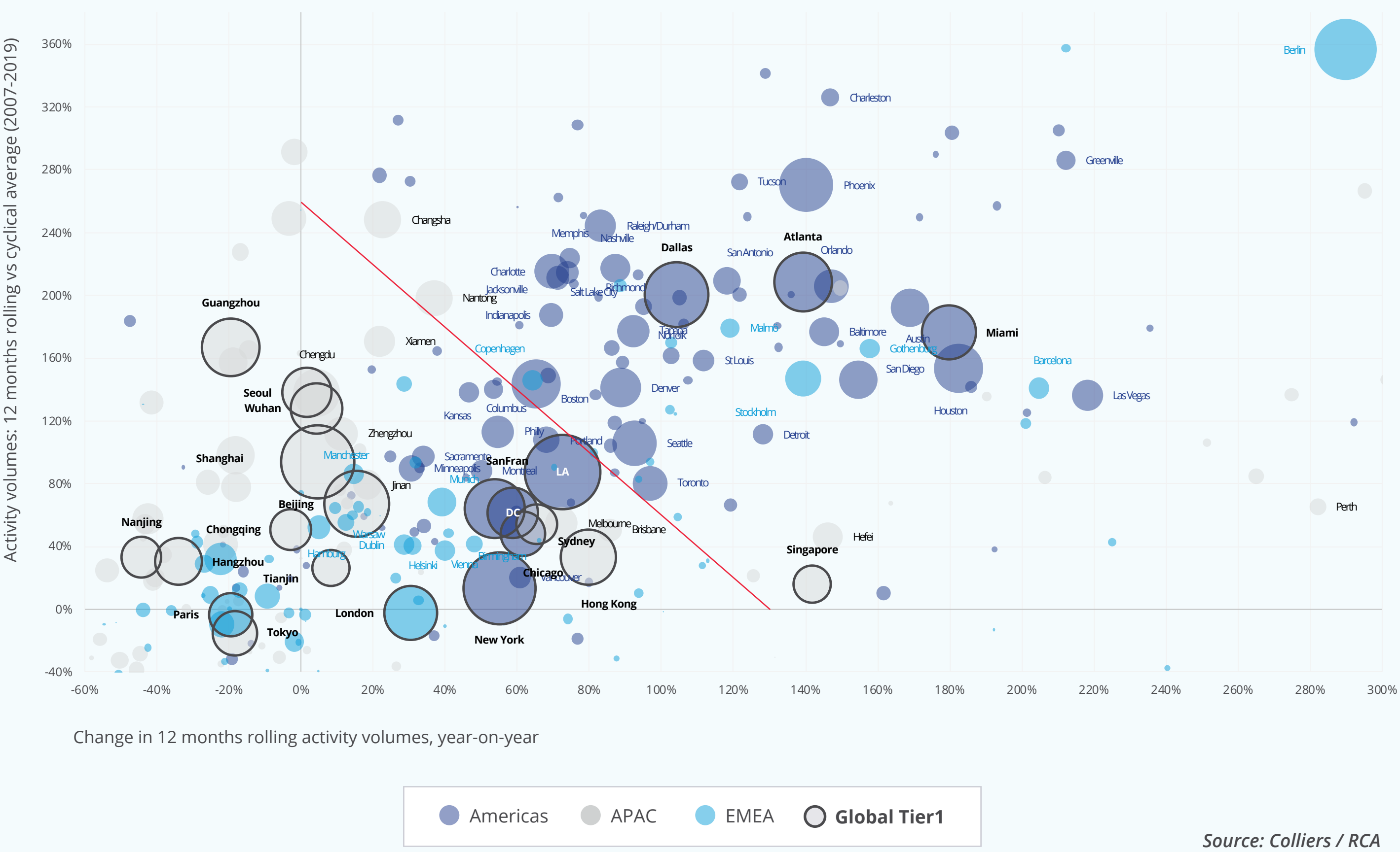
When looking at the investment picture by city, the expansion of investment into the U.S. is clear. The majority of cities posting strong growth in volumes year-on-year, and relative to the 5-year average, are in the U.S. with **Atlanta, Dallas and Miami leading the line globally in 2021 as the fastest growing, large markets [see figure 3]**. They are surrounded by multiple other second-tier and third-tier U.S. markets, including Houston, San Diego, Phoenix, Las Vegas, Denver and Charleston, most of which are significant in size. Atlanta, Dallas, Houston and San Diego have been driven by high industrial/logistics (I&L) and residential volumes. Interestingly, the markets with a large volume of office transactions, such as Boston and Richmond, tend to be markets bolstered by expansive life sciences sectors driving occupier activity and investment demand.

In EMEA, **Berlin stands out as the most expansive market. This reflects the strong, continued appetite for the low-value German capital city, in relative terms** but the Vonovia acquisition of Deutsche Wohnen for €13 billion has clearly distorted the city's position. The transaction also reflects the huge appetite for residential assets. **Barcelona, Stockholm, Gothenburg, Malmö, Copenhagen, Northampton and Eindhoven were the most active markets. Northampton features highly** as a key national logistics distribution hub for the **UK market**.

APAC markets have much lower representation in the strong growth quadrant. Only Perth and Singapore are featured. **Perth's inclusion demonstrates the expansion of capital across the Australian market**, while **Singapore continues to be an attractive location based on the mixture of assets/sectors available for acquisition.** There has been limited expansion relative to the 5-year average, however, as a result of restrictive lockdowns. The same can be said for the major markets of Hong Kong and Sydney. Tokyo and the major Chinese markets all tend to be much further back. For example, economic activity in Japan only started to normalise in Q4 after Tokyo lifted its fourth COVID-19 related state of emergency.

The number of second-tier and third-tier locations in the fast-growing quadrants, highlights the extent to which investors have shown increasing comfort and willingness to seek product and value away from the more traditional, liquid global centres of activity. It also reflects the huge shift in activity towards residential and I&L assets globally. In fact, the **residential and I&L sectors expanded their market share in 2021 to account for over 50% of all standing investment activity.** This underpins the continued shift in sector allocations **[see figures 4, 5 & 6].**

Figure 3. Global investment momentum: 2021 vs 2020 & 5-year average
[Recent performance vs cyclical average; bubble size represents last 12 months of activity volumes]



Source: Colliers / RCA

City activity by sectors: the growing dominance of residential and logistics

Figure 4. Fastest growing city markets (y/y and 5yr % growth)

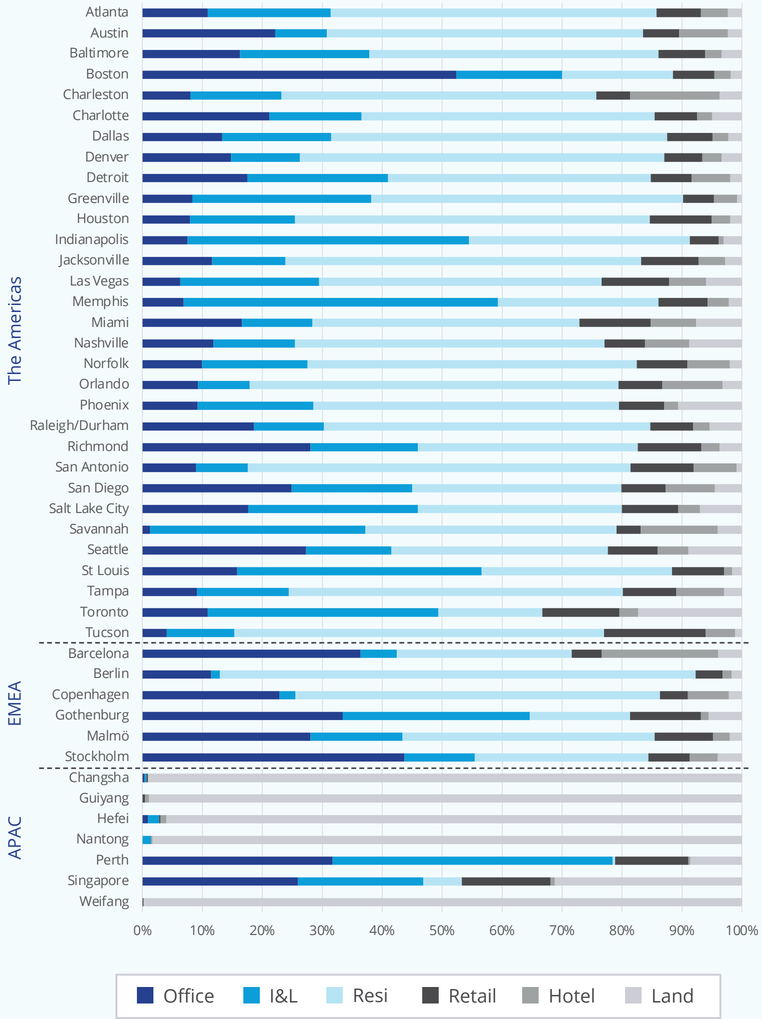


Figure 5. Annual volumes by sector (y/y change) - standing assets only: Q4 2021

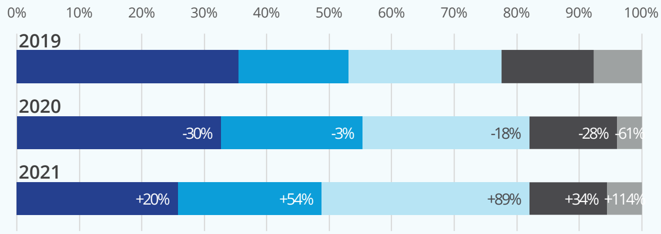
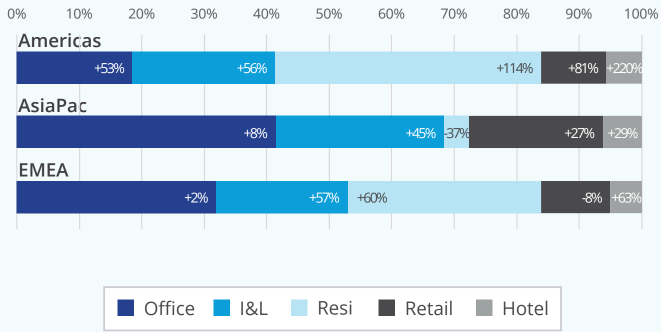


Figure 6. Annual volumes by sector, by region (y/y change) - standing assets only: Q4 2021



Source: Colliers / RCA

Will this sectoral shift continue?

I&L is now the top pick of investors globally for 2022, according to our Global Investor Outlook (GIO) report, with residential being the third most popular sector. Offices are the second most popular sector overall, yet **core offices remain the most popular strategic pick across key locations globally**. Office investment activity started to rebound in the second half of 2021, with significant deals happening across the globe, from Seoul and Sydney to Stockholm and Seattle.

In Europe, there was a big upturn in office absorption during the second half of 2021, particularly Q4, with take-up levels recovering from the bottom of the trough in Q2 2021. The end of restrictive lockdowns and higher mobility across major economic centres have helped support this expansion in office occupier demand, coupled with a lack of quality office availability. **Over 50% of projects due to be delivered across major centres in the next 18 months are already pre-let**, supporting higher prime rents. This includes the London and Paris markets, as well as the top 'German-7' markets.

What about the big cities?

With the office sector recovering in Europe's major cities, we expect to see similar trends in major cities in other global regions. That said, differing office market dynamics in each region will drive a different response.

For example, office space is typically occupied at a high density in European and APAC markets, and vacancy was already tight leading up to the pandemic. Although vacancy has moved out slightly, there has been limited space coming back to market in the form of sub-lets. As lockdowns ease in APAC and city economies mobilise and recover, these fundamentals will deliver a quick upturn in office performance. Demand for offices has not reduced in volume; there is simply much more pressure on the quality and flexibility of space. This is reflected in the **positive outlook for office capital values, especially core/core-plus values in both APAC and EMEA** in the year ahead **[see figure 7].**

In North America, office density is much lower. Signs of excess space in the market were visible during the pandemic when sub-leased space hit almost 170 million sq ft by the end of Q3 2020, rising to 208 million sq ft by mid-2021. It is now down to just under 200 million sq ft, but this remains equivalent to the office markets of Warsaw, Copenhagen and Amsterdam. Compounding the office market quandary is the shift to agile working, given the lower historic propensity for a greater work-life balance. This points to the U.S. office market taking longer to adjust to a new normal, reflected in the outlook for capital values. It stands to reason to why office investment is lower down the pecking order in North America, where value-add is seen as the best way to engage in the sector. In Europe and APAC, core-plus and core office strategies come out firmly on top.

While office investment may take longer to recover in North America than EMEA and APAC, it is the one sector enabling the deployment of large lot sizes of capital. Offices are also priced at an effective discount to the more defensive residential and I&L sectors, when it comes to prime yields/cap rates **[see figure 8]**. Overall, **we expect renewed office investment in the bigger global cities to enhance their market share of investment activity in 2022**. A position that is likely to be supported by a flight to safety following the market volatility created by Russia's recent invasion of Ukraine.

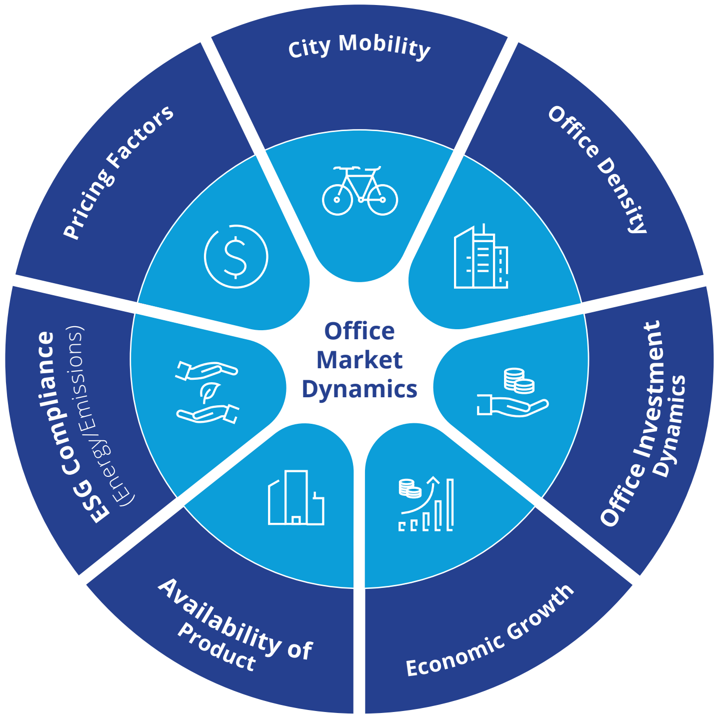
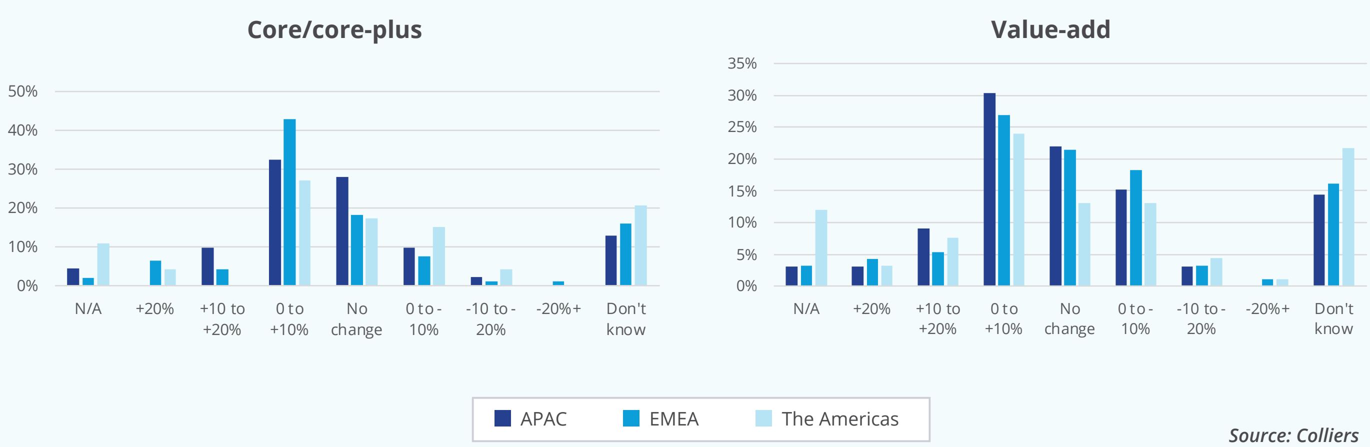
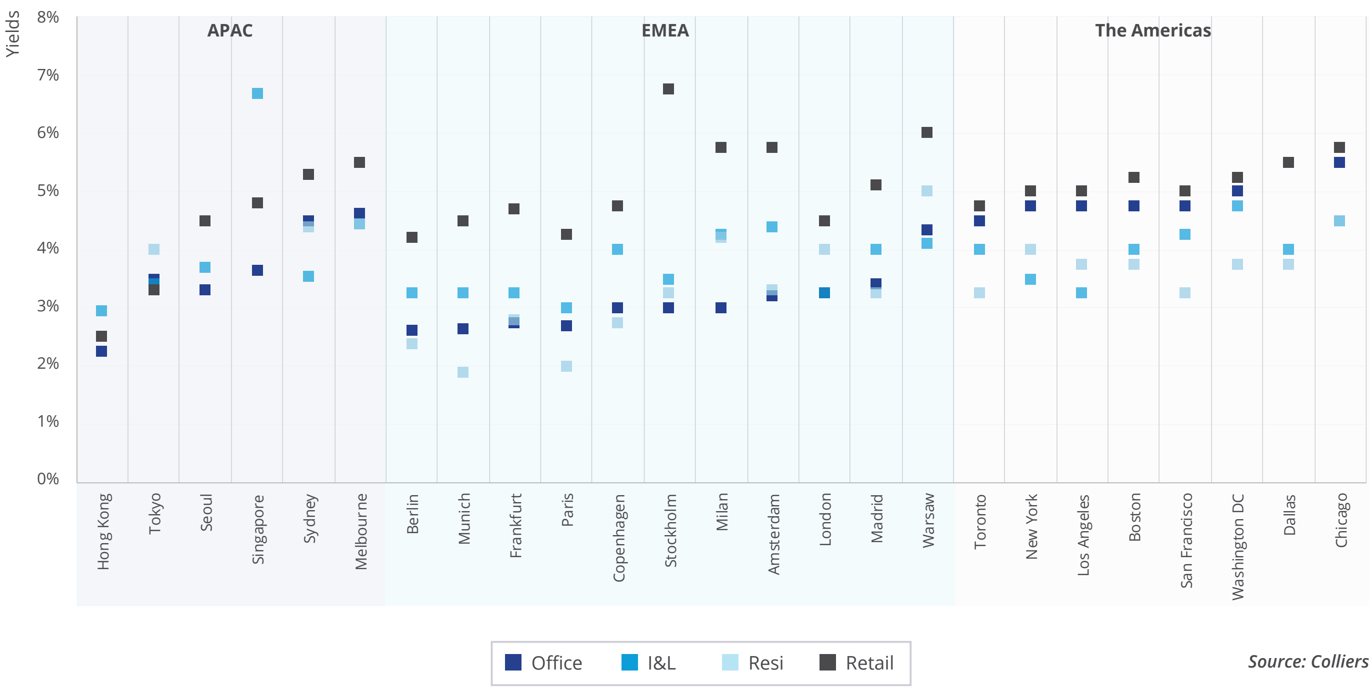


Figure 7. Office capital values: 2022 growth expectations



Source: Colliers

Figure 8. Major market yields/cap rates, by sector: Q4 2021



Source: Colliers

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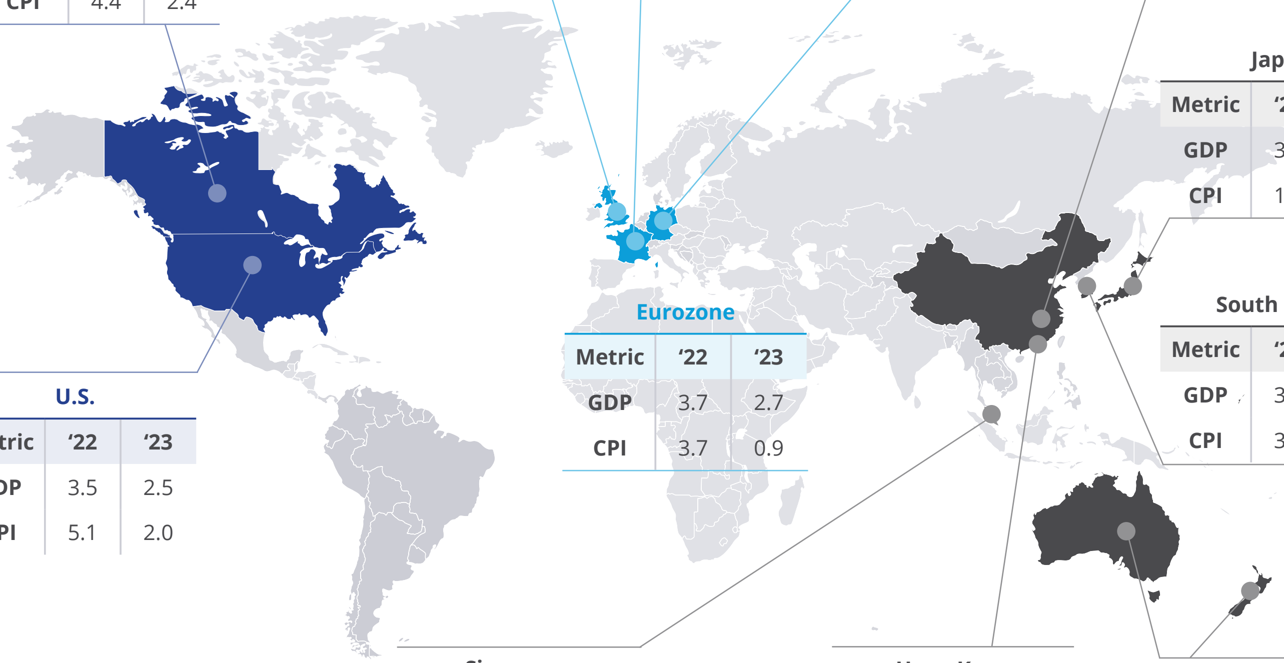
Global economic outlook 2022 & 2023

GDP and inflation (%)



Canada

Metric	'22	'23
GDP	4.2	3.1
CPI	4.4	2.4

UK

Metric	'22	'23
GDP	3.8	2.6
CPI	5.8	1.9

France

Metric	'22	'23
GDP	3.4	2.1
CPI	2.9	1.0

Germany

Metric	'22	'23
GDP	3.5	3.0
CPI	3.9	1.0

China

Metric	'22	'23
GDP	5.0	5.5
CPI	2.4	2.4

Japan

Metric	'22	'23
GDP	3.1	2.2
CPI	1.1	-0.4

Eurozone

Metric	'22	'23
GDP	3.7	2.7
CPI	3.7	0.9

South Korea

Metric	'22	'23
GDP	3.1	2.9
CPI	3.0	1.6

U.S.

Metric	'22	'23
GDP	3.5	2.5
CPI	5.1	2.0

Singapore

Metric	'22	'23
GDP	3.7	1.3
CPI	3.4	2.6

Hong Kong

Metric	'22	'23
GDP	2.8	2.3
CPI	2.3	2.8

ANZ

Metric	'22	'23
GDP	3.8	4.0
CPI	3.8	2.4

Source: Colliers / OxfordEconomics

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