GLOBAL INVESTOR INTENTIONS SURVEY 2015

CBRE GLOBAL RESEARCH

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53%

INTENDING TO BUY MORE

Gradual recovery of real estate investment after GFC underpins strong buying intentions

51%

PREFER VALUE ADD/ OPPORTUNISTIC ASSETS

Investors continue to move up the risk curve

EXPECT 10-15%

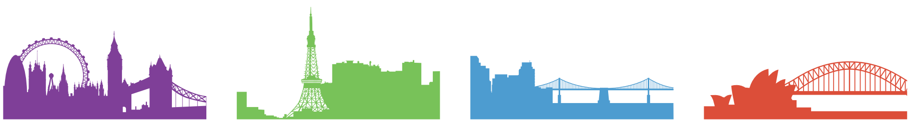
MORE CAPITAL INTO REAL ESTATE IN 2015

The positive buying momentum will support continued growth in global real estate capital flows

OBSTACLES

1. Asset pricing
2. Availability
3. Competition

City rankings show sustained interest in gateway cities and there is stronger sentiment towards tier two markets



TOP. 1 LONDON

TOP. 2 TOKYO

TOP. 3 SAN FRANCISCO

TOP. 4 SYDNEY

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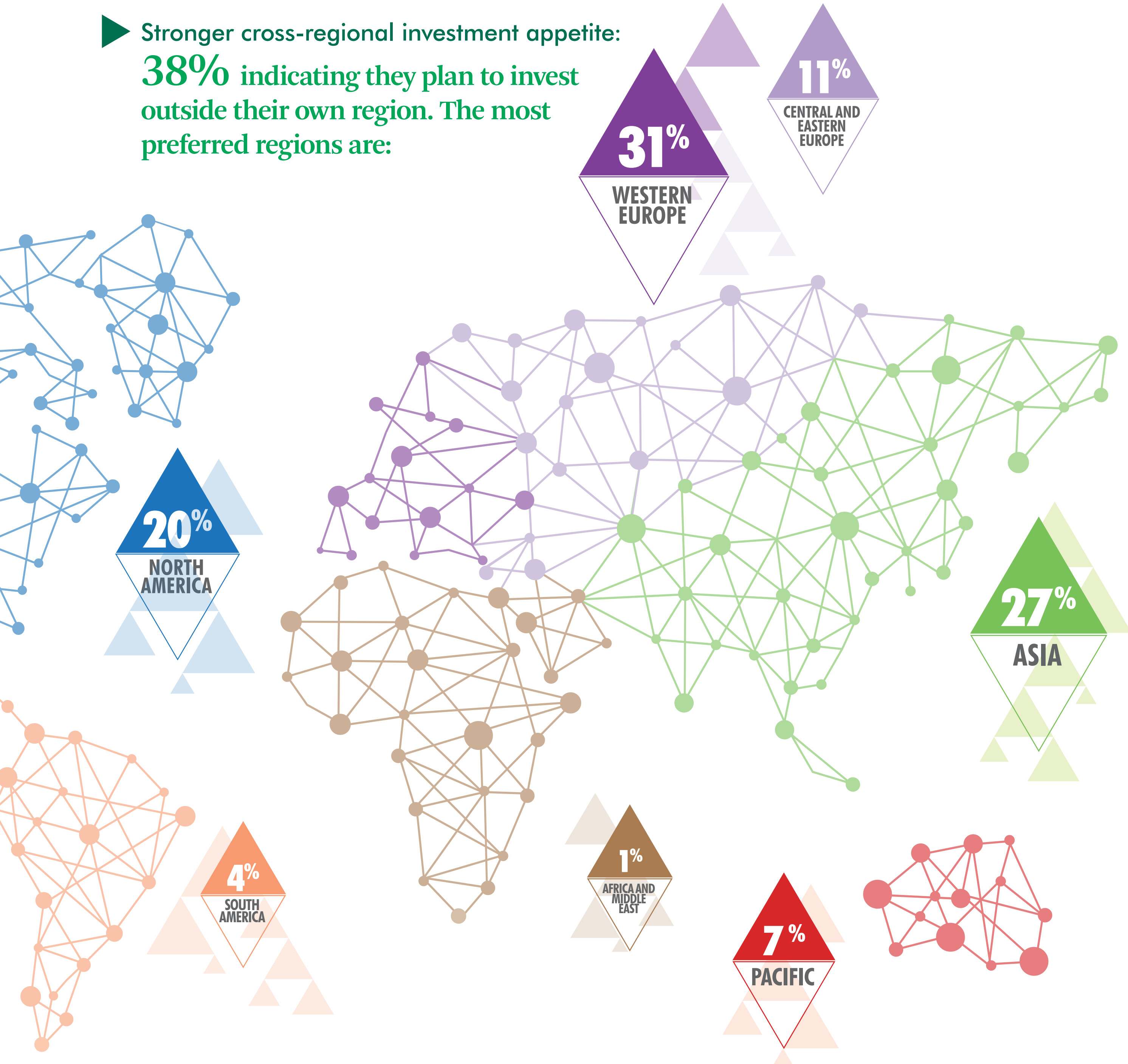
Stronger cross-regional investment appetite:
38% indicating they plan to invest outside their own region. The most preferred regions are:



TOP. 5 NEW YORK | TOP. 6 MADRID | TOP. 7 DALLAS | TOP. 8 LOS ANGELES | TOP. 9 SEATTLE | TOP. 10 PARIS

Executive Summary

The 2015 Global Investor Intentions Survey shows that global real estate investors remain confident and their intentions are strongly expansionary. The appetite for cross-regional investment is increasing and more investors intend to deploy capital outside their own region this year.

Despite the strong liquidity in the investment market, investors are concerned about the intense competition for assets. Pricing is identified as the biggest obstacle to making acquisitions. There continue to be worries over economic weakness but there are encouraging signs of recovery in the U.S. and sustained growth in Asia.

Tighter yields in most markets are prompting investors in EMEA and North America to place a stronger emphasis on value add and opportunistic investments for higher returns. In contrast, investors in Asia Pacific intend to increase their focus on acquiring core assets in 2015. This trend is partly due to the increased participation of long-term low risk-tolerant institutional investors both from Asia and internationally.

The survey suggests that in the coming year investors are likely to rebalance their portfolios and switch from market sectors that are perceived to be overpriced. Second tier and smaller cities are gaining popularity but London remains the preferred city. Offices are the favoured asset class whilst retail is lagging. Alternative property sectors such as student living, healthcare and retirement homes are seeing stronger interest.

Overall, the mood among investors remains upbeat and buying demand will exceed selling pressure. CBRE believes 2015 will be another strong year for the global real estate investment market, with capital flows expected to increase by 10-15%.

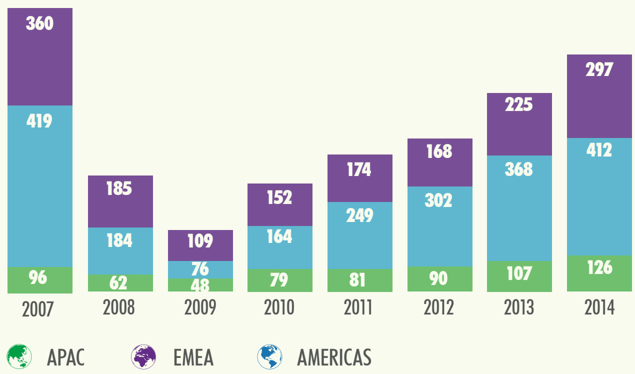
Capital Flows into Global Real Estate Surge to Post-GFC high

The "new normal" economic environment of moderate growth, low interest rates and falling bond yields continued to drive investment in commercial real estate in 2014, supported by the inherent qualities of property as an asset class.

Capital flows into global real estate increased to US$835 billion in 2014, a figure almost four times greater than the US$232 billion recorded in 2009. EMEA posted the greatest increase in capital flows in 2014, followed by Asia Pacific and the Americas (Figure 1). On the back of the ample liquidity, capital values have outpaced more moderate rental value growth, resulting in tighter yields (Figures 2 and 3).

Total cross border capital flows into all types of investment, including stocks and bonds, have been level over the past three years (Figure 4), reflecting the general nervousness about the global economy. By contrast, capital flows into real estate have picked up sharply. We think this trend will continue in 2015.

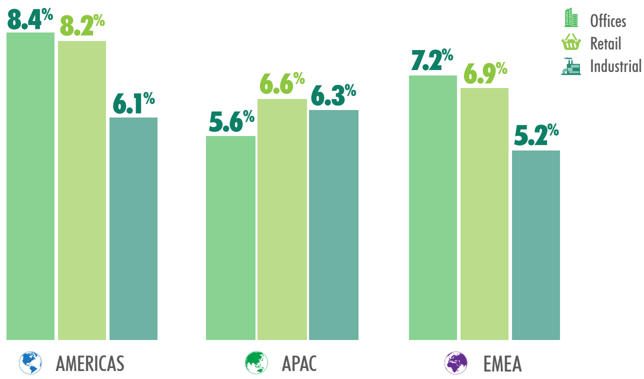
Figure 1: Real estate investment turnover by region



Source: CBRE Research, Real Capital Analytics, April 2015.

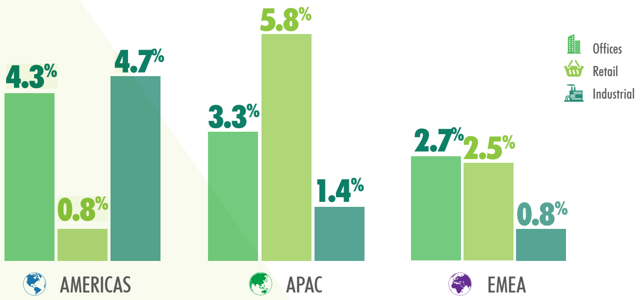
Note: Investment sales volumes in U.S. dollars

Figure 2: Capital value growth by sector and region 2014



Source: CBRE Research, April 2015.

Figure 3: Rental value growth by sector and region 2014



Source: CBRE Research, April 2015.

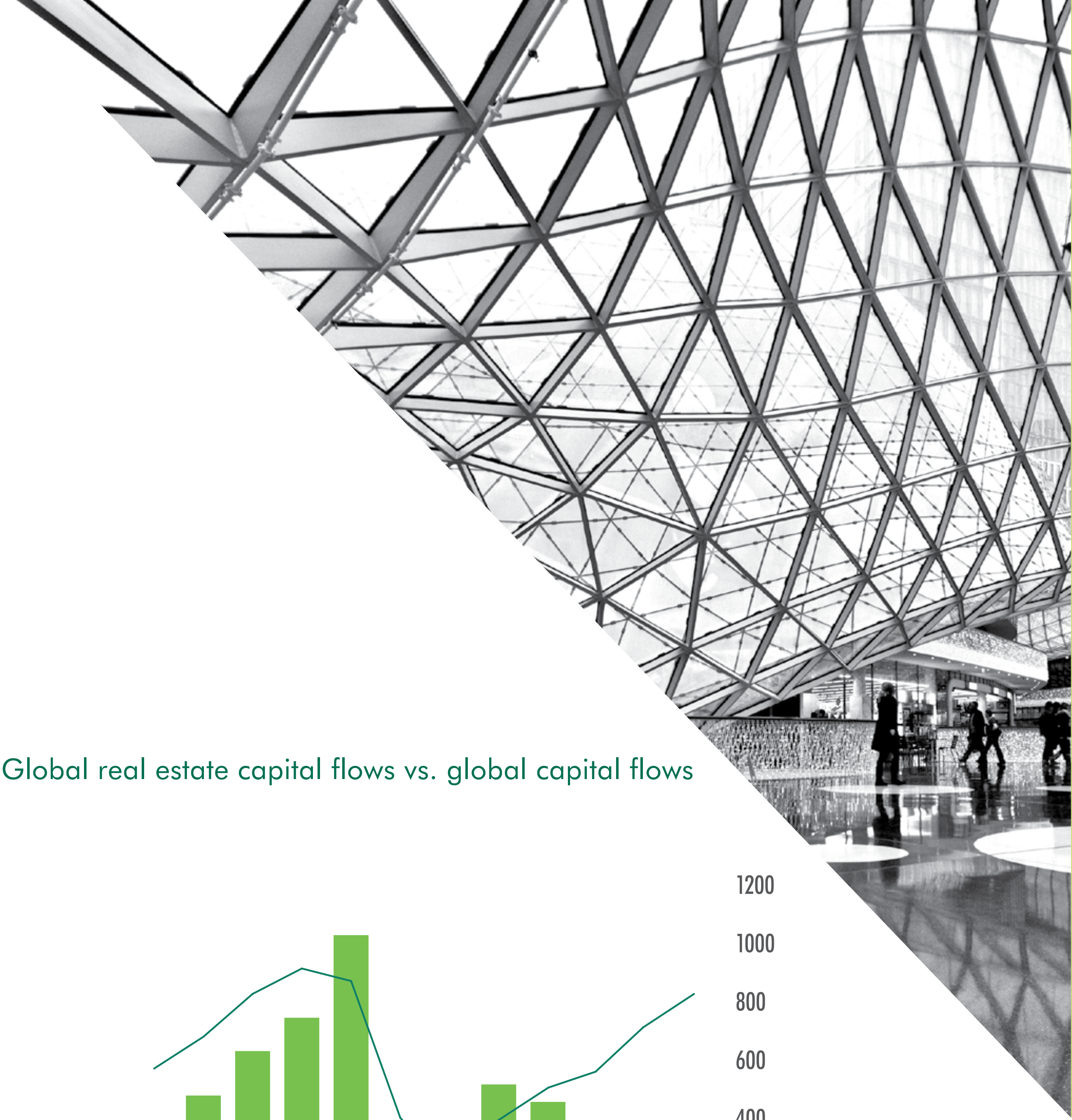
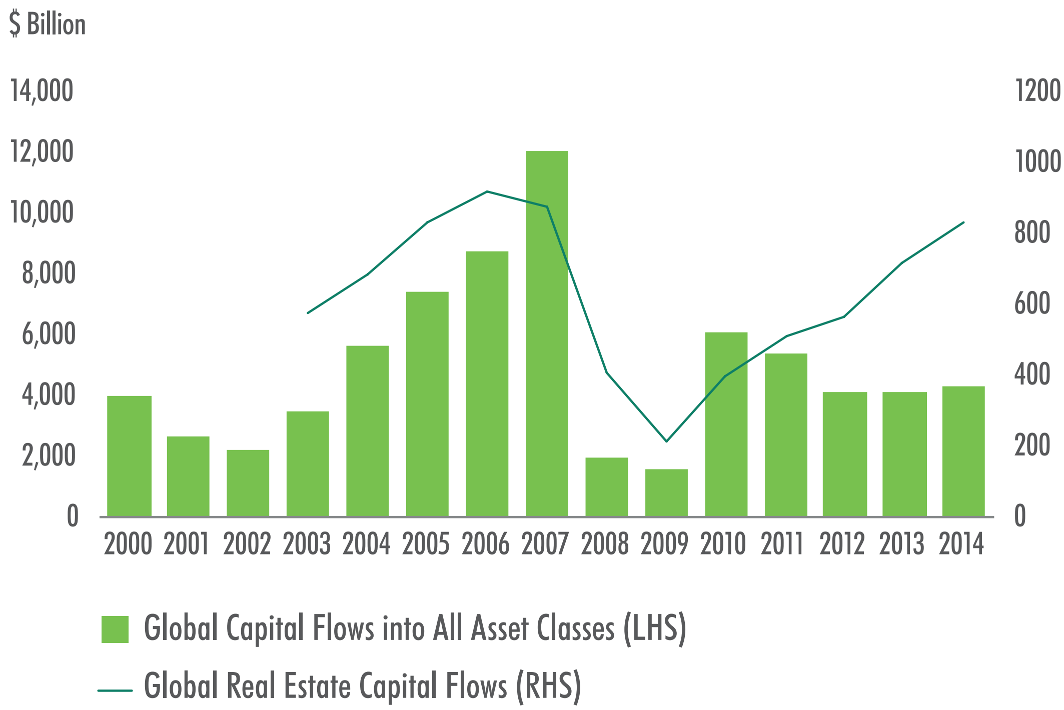


Figure 4: Global real estate capital flows vs. global capital flows

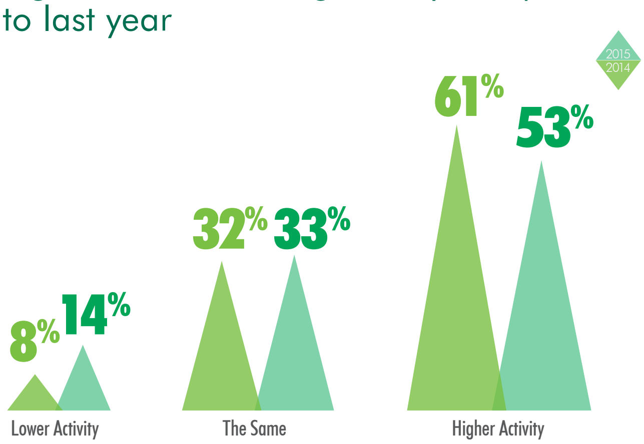


Source: Mckinsey, CBRE Research, April 2015.

Global Investors are Upbeat

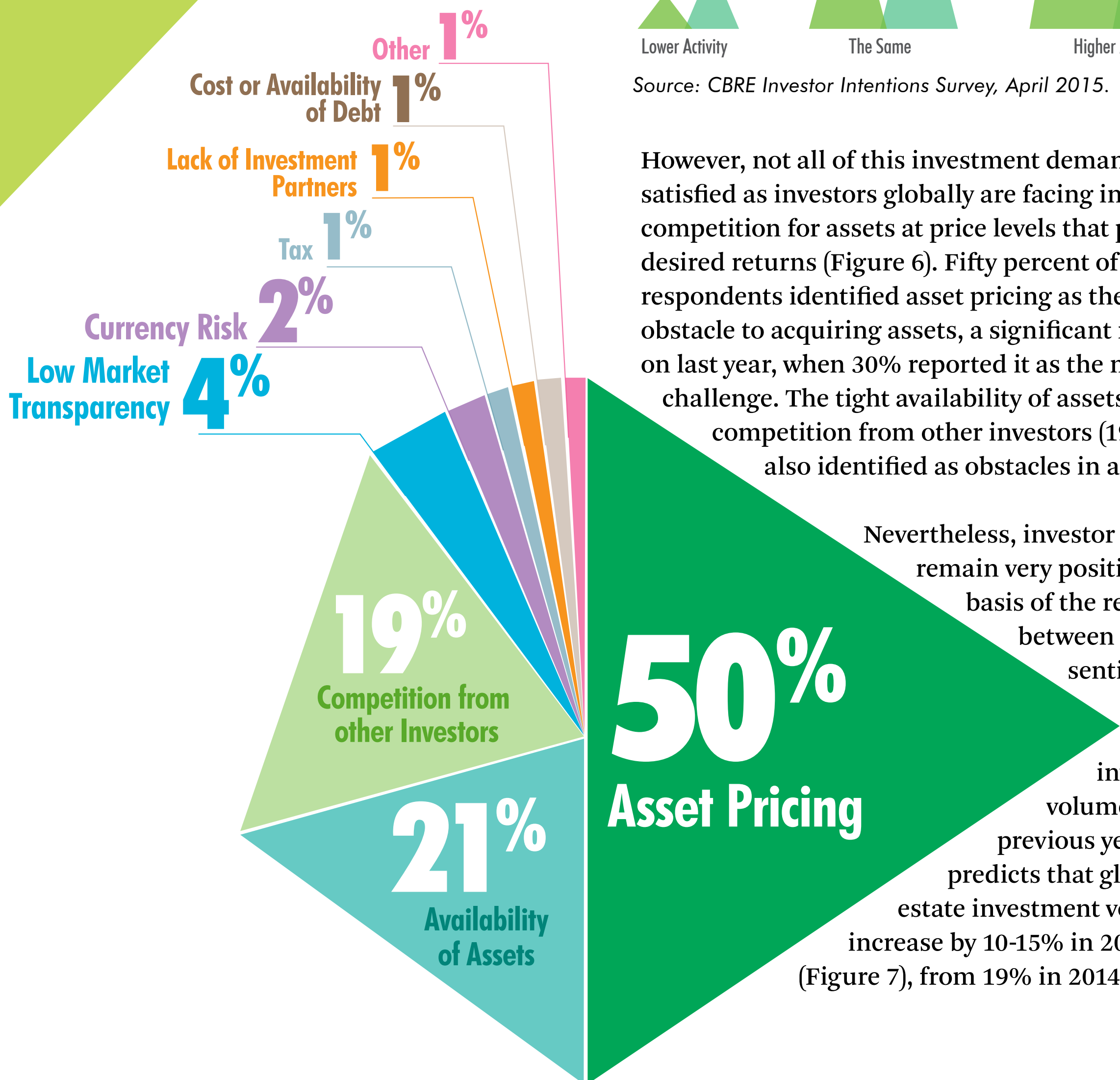
Our view on the continued buoyancy of real estate capital flows is supported by our survey. Investor intentions for 2015 remain strongly expansionary (Figure 5). Fifty-three percent of respondents said they plan to increase their purchases this year, a slight decline on the 61% recorded in the 2014 survey. Last year was a particularly strong one for global real estate investment and it is natural for investor intentions to moderate slightly.

Figure 5: Purchasing activity compared to last year



Source: CBRE Investor Intentions Survey, April 2015.

Figure 6: Main obstacle to acquiring assets

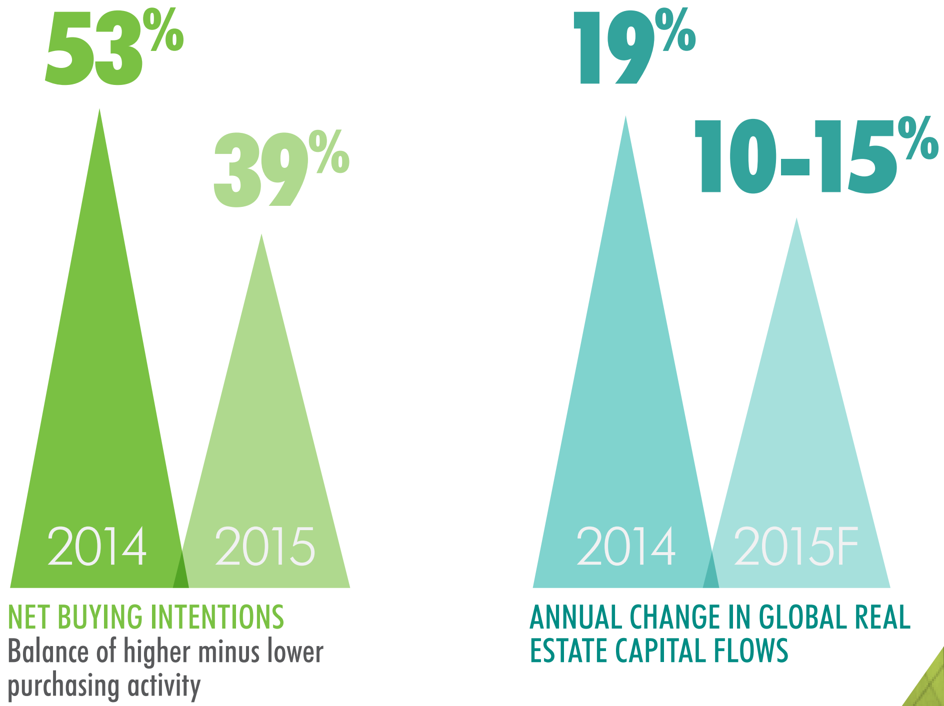


Source: CBRE Investor Intentions Survey, April 2015.

However, not all of this investment demand will be satisfied as investors globally are facing intense competition for assets at price levels that provide desired returns (Figure 6). Fifty percent of respondents identified asset pricing as the top obstacle to acquiring assets, a significant increase on last year, when 30% reported it as the main challenge. The tight availability of assets (21%) and competition from other investors (19%) were also identified as obstacles in all regions.

Nevertheless, investor intentions remain very positive. On the basis of the relationship between survey sentiment and investment volumes in previous years, CBRE predicts that global real estate investment volume will increase by 10-15% in 2015 (Figure 7), from 19% in 2014.

Figure 7: Projected increase in global real estate investment volume

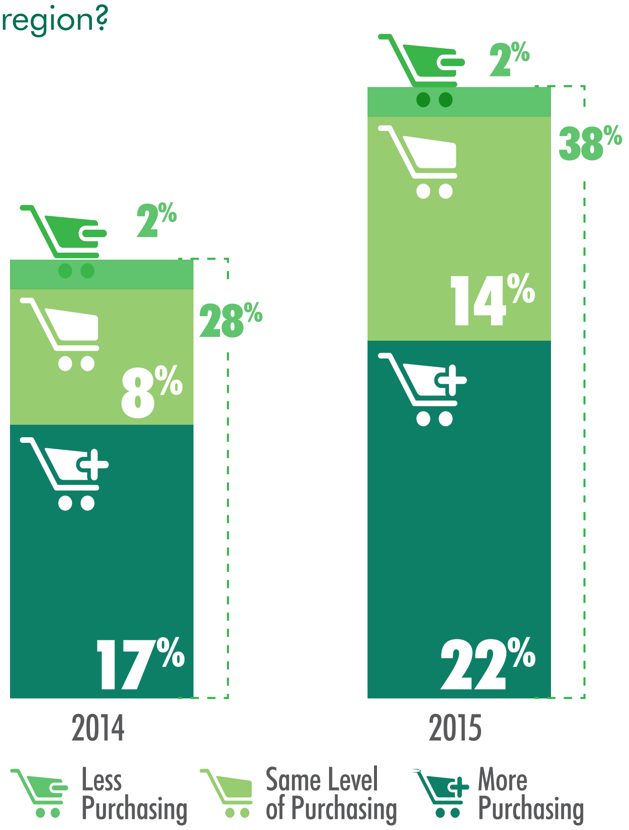


Source: CBRE Investor Intentions Survey, CBRE Research, April 2015.

Cross-Border Investment: Stronger Appetite Led by North American Investors

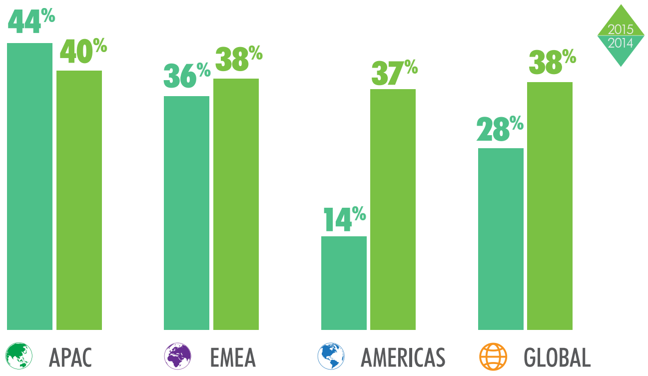
The globalisation of commercial real estate investment was reflected by the 40% y-o-y growth in cross-regional capital flows in 2014, a figure well above the overall market (19% y-o-y). This trend is expected to continue and is supported by the survey findings of investors' intentions to invest outside their region of domicile. Investors' appetite for cross-regional investment (investors from EMEA, North America and Asia Pacific investing outside their own region) grew significantly, with 38% of respondents saying they intend to invest outside their own region this year, up from only 28% in 2014 (Figure 8).

Figure 8: Will you invest outside your own region?



Source: CBRE Investor Intentions Survey, April 2015.

Figure 9: Cross-regional investment intentions by region



Source: CBRE Investor Intentions Survey, April 2015.

The increase was largely due to more North American investors intending to invest internationally (Figure 9). The economic picture in the U.S. continues to strengthen and is boosting investor confidence. This is underpinning demand among domestic investors to place capital not only within the country, but also in overseas markets. The improved purchasing power of the U.S. dollar is also supporting the flow of U.S. capital into other regions. However, investment returns and diversification remain the most important factors supporting outbound investment.

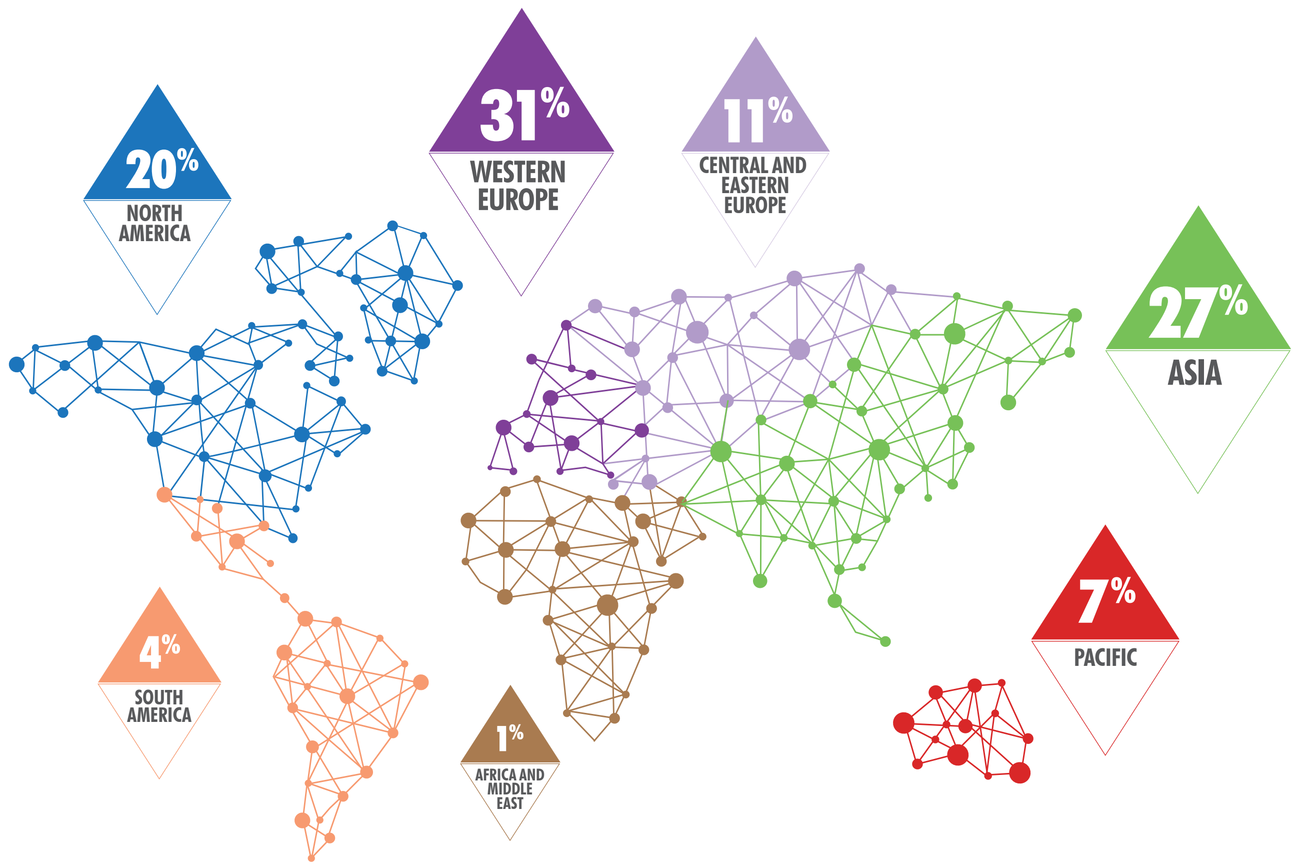
Asia Pacific investors have the strongest appetite for outbound investment at 40%, although the figure was slightly down on last year. Cross-border real estate investment by Asian investors surged by 23% y-o-y in 2014. Many groups in this region are likely to slow the pace of building up their global property holdings after expanding so rapidly in recent years. This is supported by the survey findings that fewer Asian investors plan to increase the amount they invest outside the region compared to last year.

Preferred Region: Western Europe is the Top Destination

Among investors looking to invest outside their own region, 31% of respondents identified Western Europe as the top destination (Figure 10), which is also the region that received the vast majority of cross-border investment. Despite the slowdown in China, 27% of investors regarded Asia as their preferred location, perhaps due to the fact that economic growth here still comfortably outpaces other regions and continues to offer significant long-term potential.

Eleven percent of respondents identified Central and Eastern Europe as their top destination, a huge result relative to the size of these markets. Whilst markets in this region are small, they are showing distinct signs of economic revival, prompting investors to take an interest.

Figure 10: Preferred region for cross-border investment



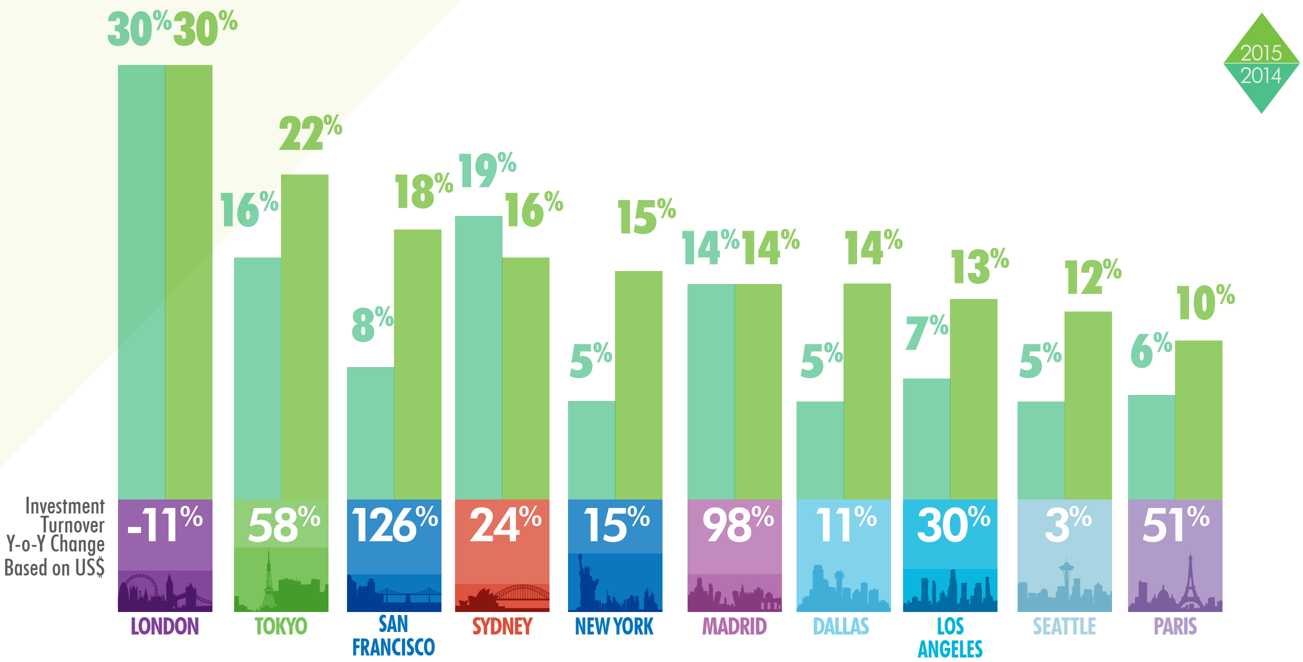
Source: CBRE Investor Intentions Survey, April 2015.

Preferred Cities: London Retains Top Spot but Second-tier Cities Gain Popularity

London retained its position as the top city for investment, although investor intentions were flat on a year-over-year basis. Other gateway cities such as Tokyo, Sydney, New York and Paris remained in the top ten (Figure 11).

There is much stronger interest in second tier cities this year, with the likes of Madrid, Dallas and Seattle all making the top ten. Yields in gateway cities in EMEA and North America have already compressed to a point where investors feel compelled to search for opportunities elsewhere. This is also linked to the marked increase in appetite among investors from EMEA and North America for value add and opportunistic investments.

Figure 11: Preferred cities for investment



Source: CBRE Investor Intentions Survey 2015, Real Capital Analytics, April 2015.

Preferred Sectors: Offices Favoured; Retail Lagging

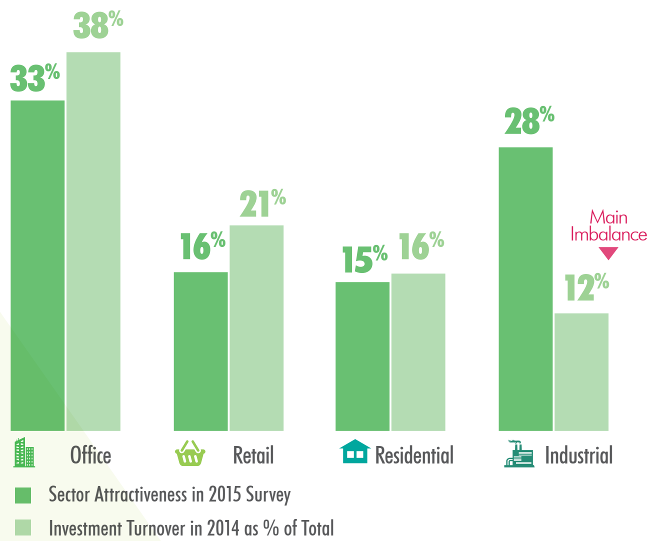
Office and industrial remain the preferred sectors, selected by 33% and 28% of investors, respectively, percentages virtually unchanged from last year's survey (Figure 12).

With the exception of North America, investor interest in retail assets continues to fade as structural changes in the sector such as the rise of e-commerce and other new formats discourages investment. Decline in investor interest in retail may also be explained by the fact that it is a more challenging sector to manage, as large shopping centres in many markets are tied up in REITs and high street retail units have small lot sizes and are consequently difficult to build up into large holdings.

That said, CBRE expects to see a consumer revival in most regions in the coming year – indeed one is already taking place in the North America – and believes retail still offers significant opportunities for investors and should not be overlooked.

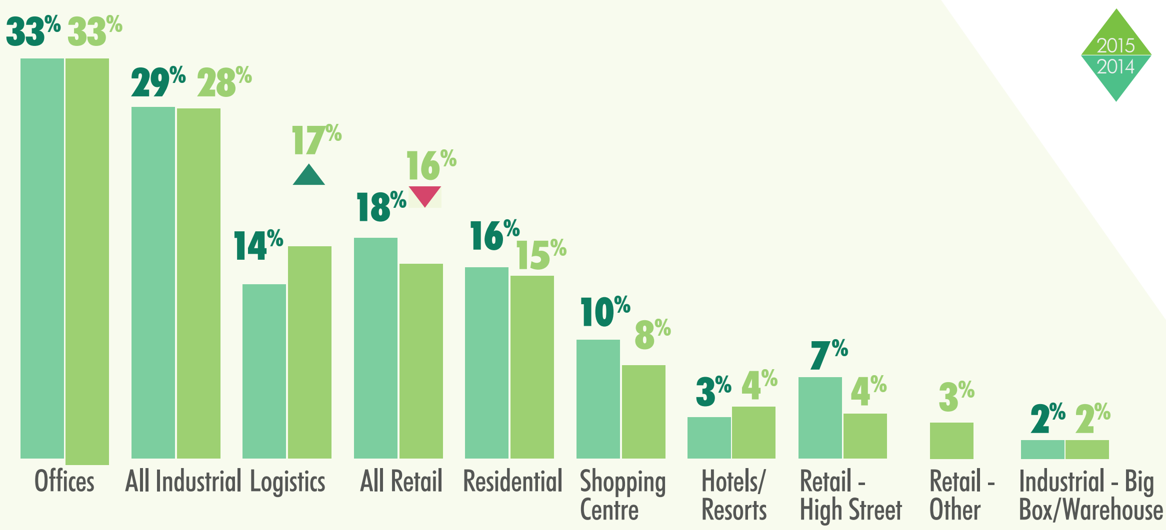
Investor interest in industrial and logistics assets is being driven by the structural change in the retail sector and the growth of e-commerce. However, there is a limited amount of assets in this sector available for sale, meaning that investors will continue to find it challenging to source deals (Figure 13).

Figure 13: Imbalance in investor intentions vs. actual activity



Source: CBRE Investor Intentions Survey, April 2015.

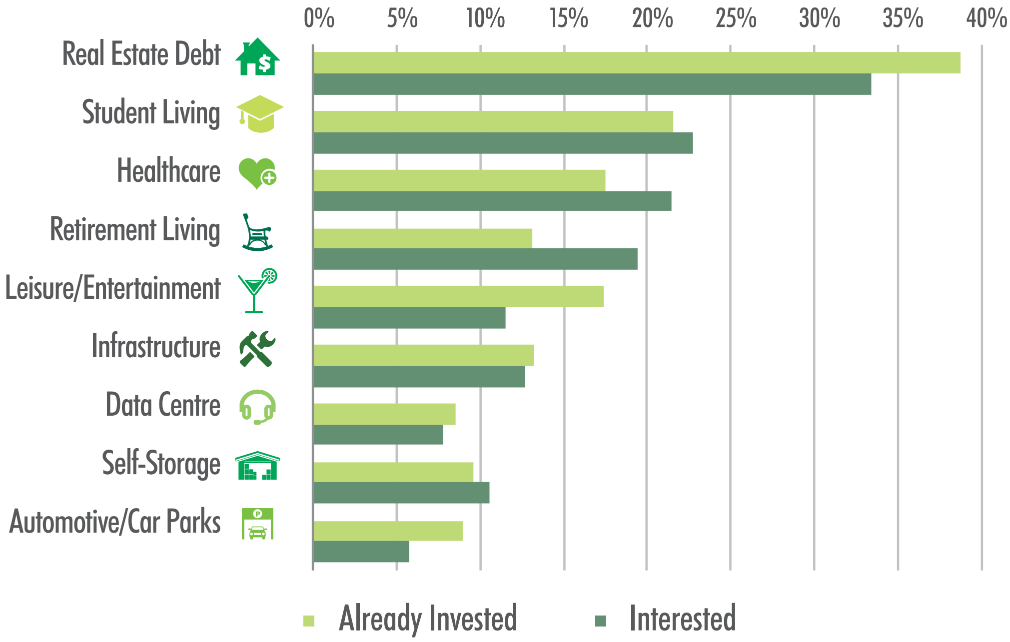
Figure 12: Preferred sector for investment



Source: CBRE Investor Intentions Survey, April 2015.

Growing Demand for Alternative Sectors

Figure 14: Investor interest in alternative sectors



Source: CBRE Investor Intentions Survey, April 2015.

Keen competition for assets has propelled investment demand for alternative sectors (Figure 14). Investment interest in most alternative sectors outpaces existing investment. Real estate debt is the preferred option this year as investment is being supported by the availability of debt products such as CMBS. Sectors recording strong growth in interest included student living, healthcare and retirement living. There is strong interest in these niche residential sectors, supported by the trend of growth in higher education and ageing populations.

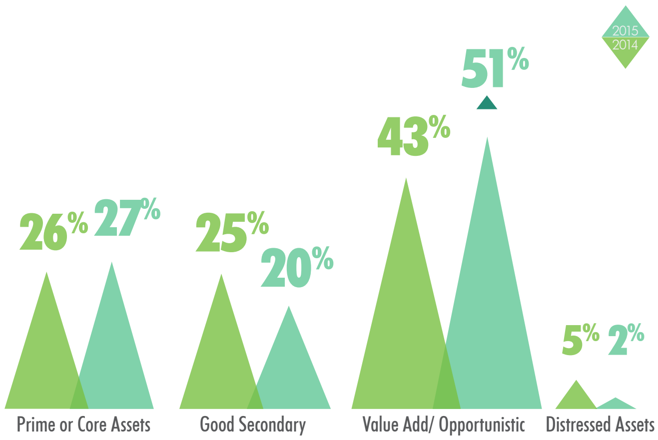
Risk Preference: Asia Pacific Investors Focus on Core; EMEA and U.S. Buyers Look for Value Add

Investors indicated that they are moving up the risk curve in search of higher returns. Around half of survey respondents said that they will focus on value add and opportunistic investments this year, up from 43% in the 2014 survey (Figure 15).

EMEA and North America both saw a marked increase in investor interest in value add and opportunistic investments (Figure 16), as indicated by the increased appetite for assets in second-tier markets.

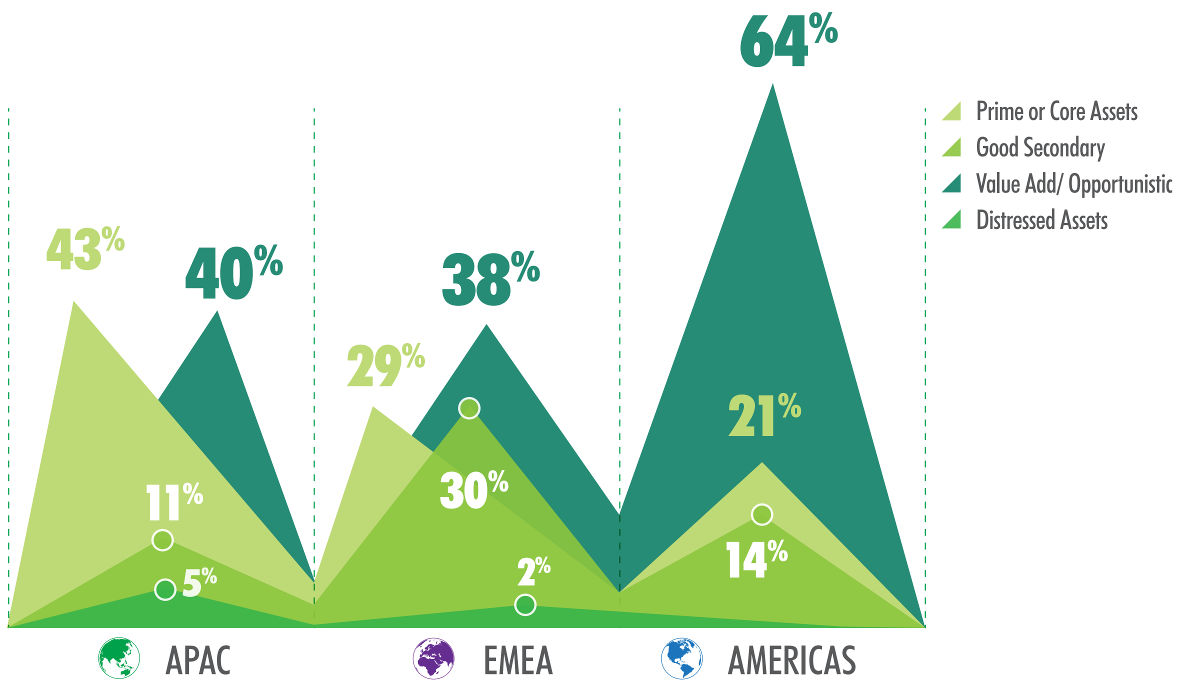
In contrast, Asia Pacific saw a significant jump to 43% in this year's survey compared to 29% in last year's survey in the percentage of investors preferring prime or core assets. Risk appetite in this region is now polarised at each end of the spectrum. This is due to the strong desire for wealth preservation in a region where savings rates are high together with increased participation by Asian and international institutional investors which have relatively low risk profiles.

Figure 15: Preferred asset type for purchase



Source: CBRE Investor Intentions Survey, April 2015.

Figure 16: Risk profile by region

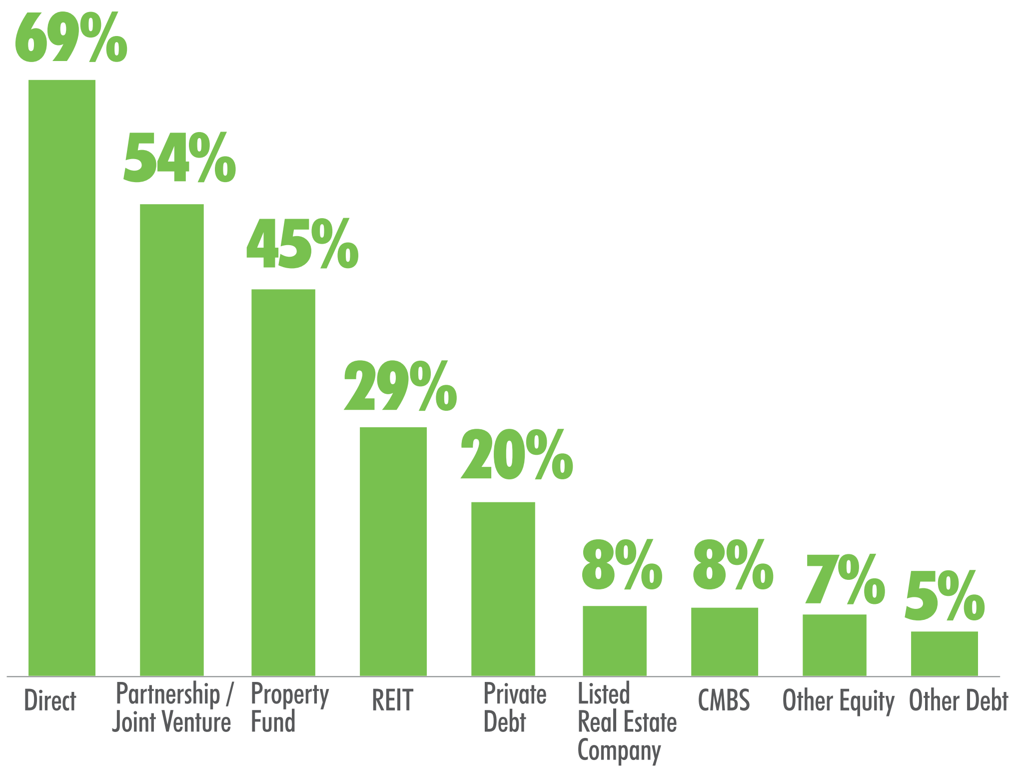


Source: CBRE Investor Intentions Survey, April 2015.

Investment Vehicle: Direct and Partnership Investing Remain the Norm

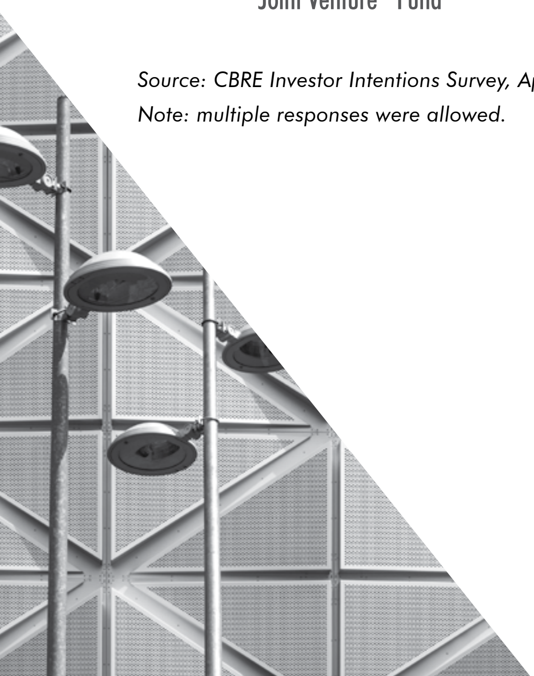
Over the past few years investors have invested via direct channels and partnerships for reasons of control over their portfolios and strategies. Many buyers were caught with illiquid fund holdings after the onset of the global financial crisis and were unable to make a quick exit. Costs can be lower with direct joint venture investing. The survey (Figure 17) shows these preferences will continue in the coming year. That said, a considerable percentage of responses (45%) indicate a preference to invest via funds. This is linked to the recovery in global private equity fund raising activity.

Figure 17: Principal types of investment vehicles



Source: CBRE Investor Intentions Survey, April 2015.

Note: multiple responses were allowed.



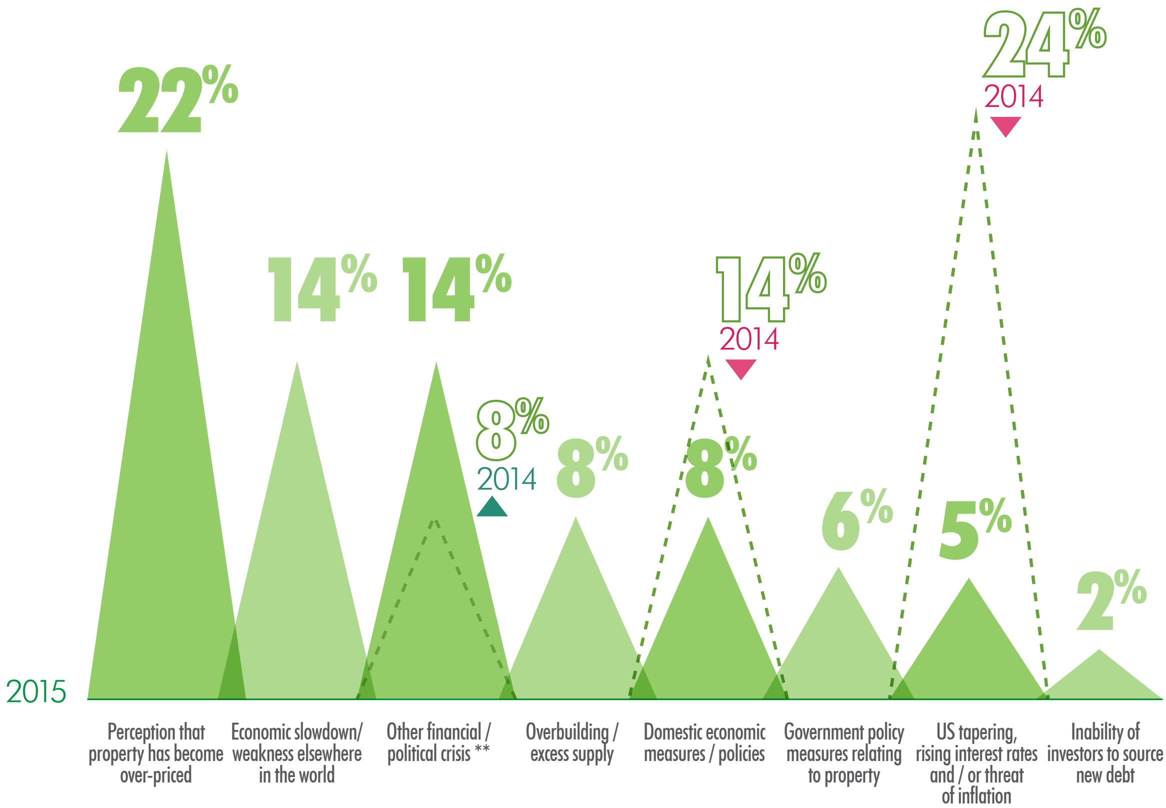
Strong Pricing to Drive Portfolio Rebalancing

Respondents identified overpricing and economic slowdown/weakness as the main threats to property markets in the coming year (Figure 18). There is also increased concern about the potential for financial and political crises. Despite these worries, CBRE believes the global real estate market will continue to offer good spreads with a modicum of rental growth.

Investors are set to increase their selling activity in the coming year (Figure 19) as they look to rebalance their portfolios and offload non-core assets. They may switch from market sectors that are perceived to be overpriced to assets that provide higher returns. However, buying demand will still exceed supply. Given investors' intentions to increase investment in 2015 alongside the challenge of a very competitive marketplace, they will need to work hard and be creative; be proactive in locating assets; and choose advisors who really understand the local market in order to meet their investment goals.

Investors showed significantly lower concern over tapering in the U.S., rising interest rates and/ or the threat of inflation. Only 5% of respondents selected this as the biggest threat, down from 24% in 2014. Two reasons for the drop are the greater clarity provided by the U.S. Federal Reserve (the Fed) and the stronger performance of the U.S. economy. This has also boosted the acceptance that the Fed will increase interest rates later in 2015. Further loosening by central banks elsewhere has also helped lower concerns over interest rates. Higher interest rates and lending costs are challenges that investors will need to prepare for, but not for the next couple of years.

Figure 18: Main threats to property markets



Source: CBRE Investor Intentions Survey, April 2015.

*** Includes China hard landing and failure of Abenomics.*

Conclusion

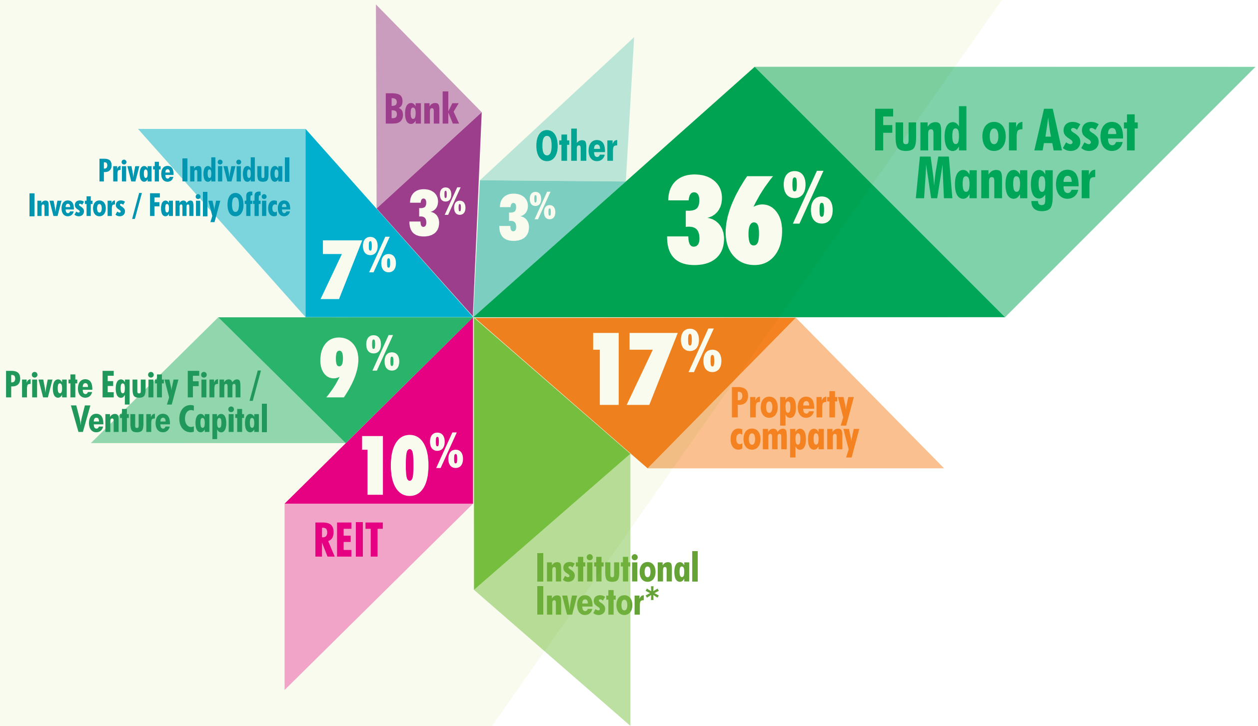
The 2015 Global Investor Intentions Survey shows that global real estate investors remain confident and their intentions are strongly expansionary.

The appetite for cross-regional investment is increasing and more investors intend to deploy capital outside their own region during 2015. Many investors plan to move up the risk curve in search of higher yields, a trend that is expected to result in a stronger focus on value add and opportunistic investments in the coming year.

Whilst pricing and potential interest rate hikes remain a concern, CBRE believes that 2015 will be another strong year for the global real estate investment market, with capital flows expected to increase by 10-15%.

About the Survey

Figure 20: Composite of survey respondents investor type



Source: CBRE Investor Intentions Survey, April 2015.

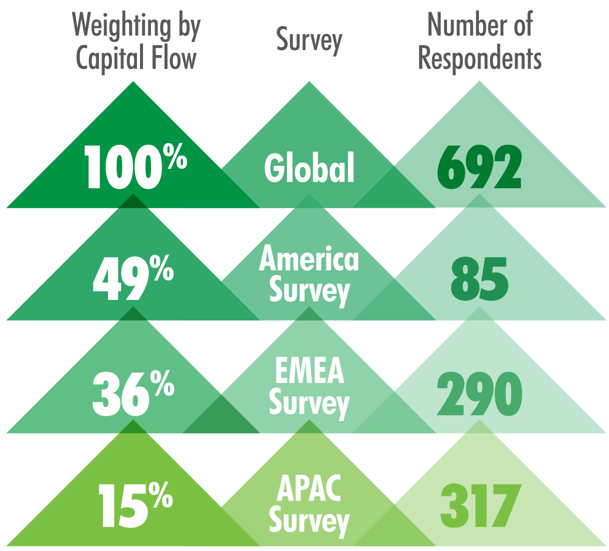
** Institutional investors include pension funds, insurance companies and Sovereign Wealth Funds.*

The 2015 Global Investor Intentions Survey was conducted using an online questionnaire in January 2015.

Responses were obtained from more than 700 real estate investors in the Americas, EMEA and Asia Pacific from a broad range of investor types including asset managers, property companies, institutional investors, REITs, investors and banks.

By region, 317 responses were obtained in Asia Pacific; 290 in EMEA; and 85 in the Americas.

The global survey results were formulated by weighting the survey responses according to real estate capital flows in all three regions.



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