



# Global Capital Market Conditions March 2023

# Executive Summary

- Worsening macroeconomic conditions and rising interest rates led to a slowdown in capital market activity in Q4 2022. A slow start to 2023 is expected.
- Global commercial estate investment volume fell 20% y-o-y to US\$1.13 trillion in 2022. Activity weakened across all regions with a 17% y-o-y decrease in the Americas, a 27% y-o-y decline in EMEA and a 19% y-o-y fall in Asia Pacific. The decline in investment volume was caused by the rapid rise in financing costs and the worsening economic outlook.
- Higher borrowing costs and weaker fundamentals led to cap rate decompression across all regions and property types. While CBRE's yield data show increases of as little as 50 bps, anecdotally cap rates are up about 100 bps to 150 bps for most properties across the Americas. Smaller increases are being reported in Europe and Asia Pacific.
- Tightening financial conditions and the deteriorating economic outlook will weigh on commercial real estate investment in H1 2023. However, conditions may be conducive for a healthy recovery in H2 2023, should interest rates stabilize.

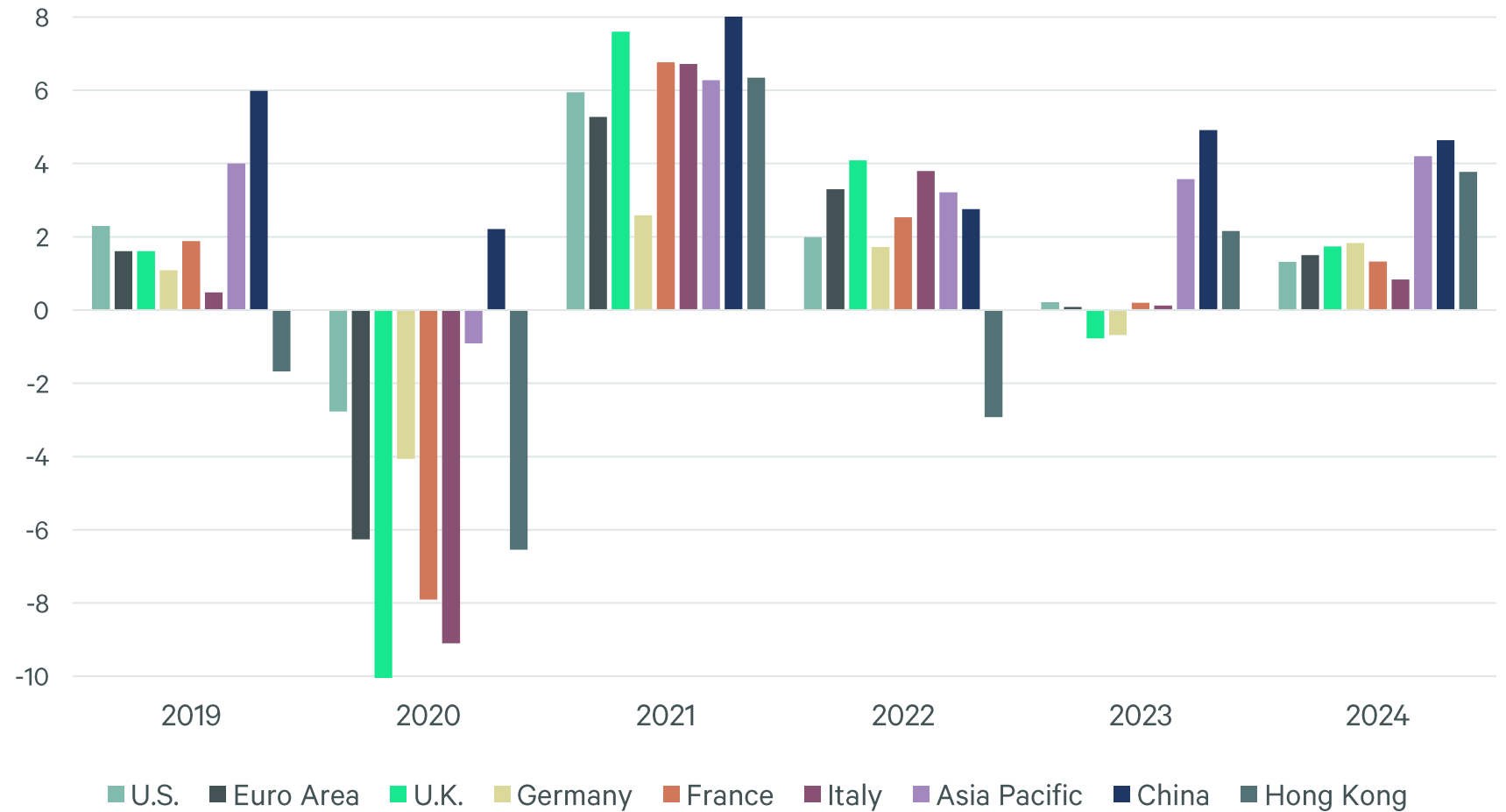


# Economic Outlook

# Global GDP growth slows

- The pace of GDP growth slowed in 2022 but remained mostly positive.
- In 2023, CBRE expects the U.S. and the U.K. to experience a moderate recession. The Euro Area will witness slower growth.
- Growth in Asia Pacific will be below trend. Growth in the region will be led by China as the country re-opens following the end of zero-COVID.

Global GDP growth, annual, %

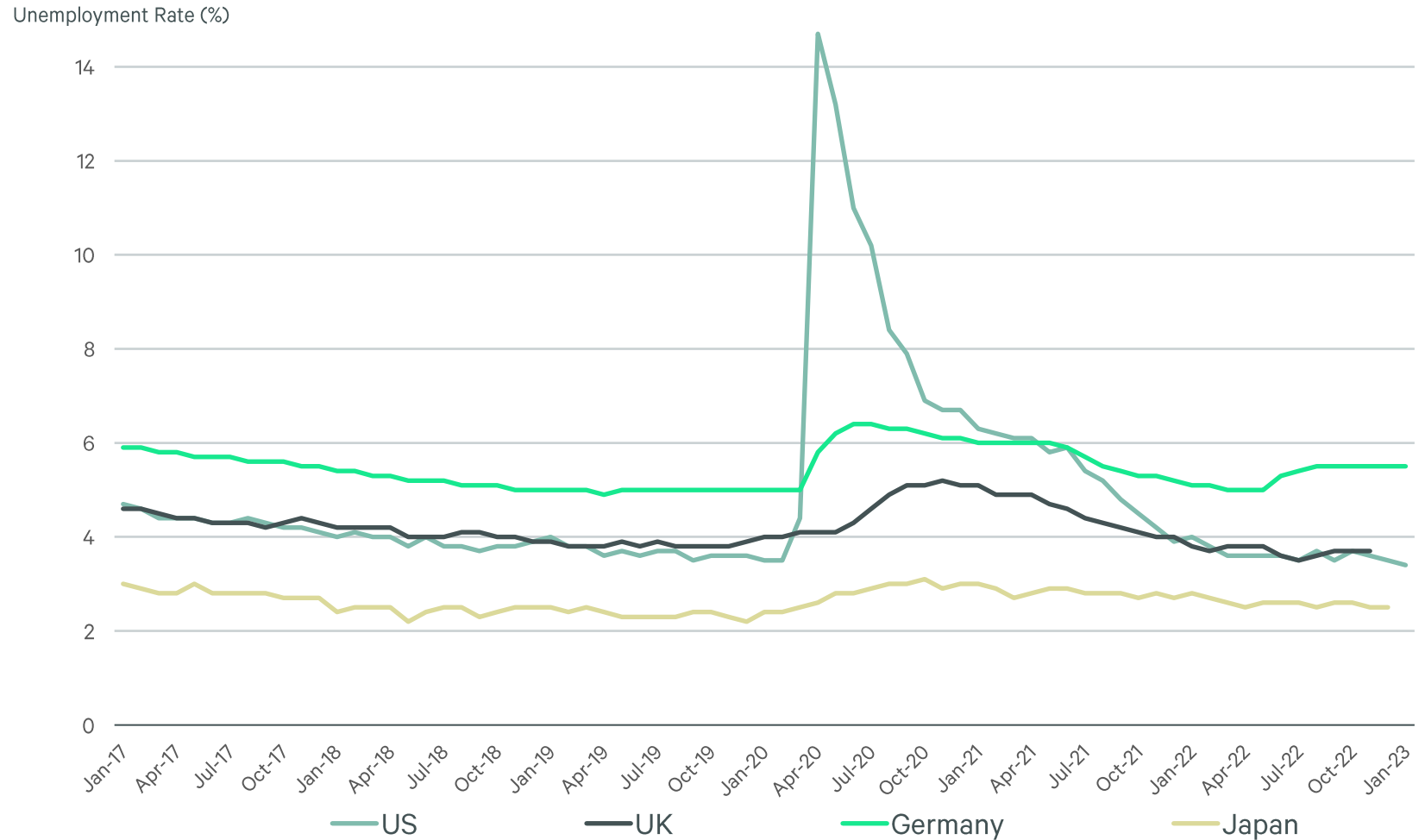


Source: CBRE House View, January 2023 Forecast.

# Global labor markets remain resilient

- Labor markets remain tight across major developed economies.
- There has been a slight uptick in unemployment in Germany, where manufacturing has been impacted by the war in Ukraine.

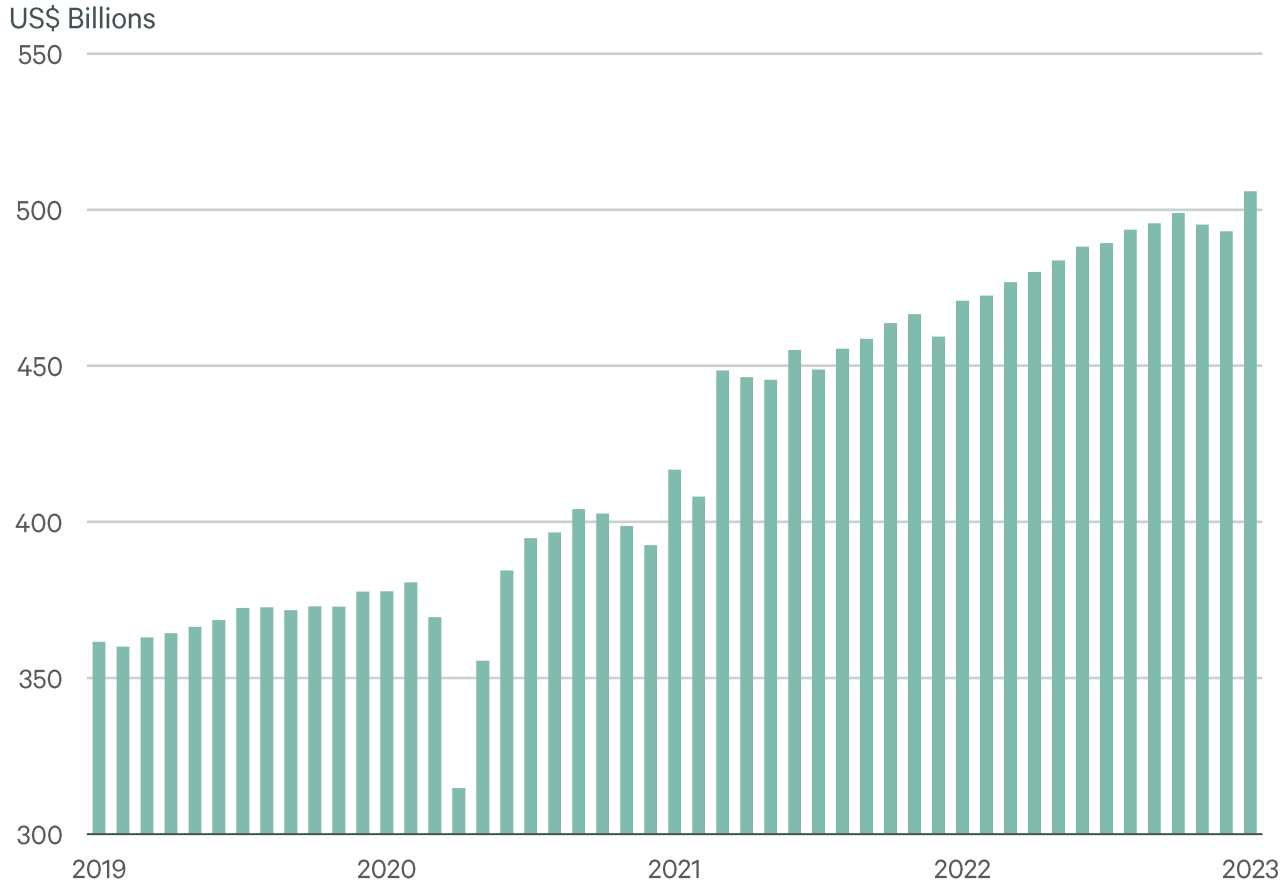
## Global unemployment rates



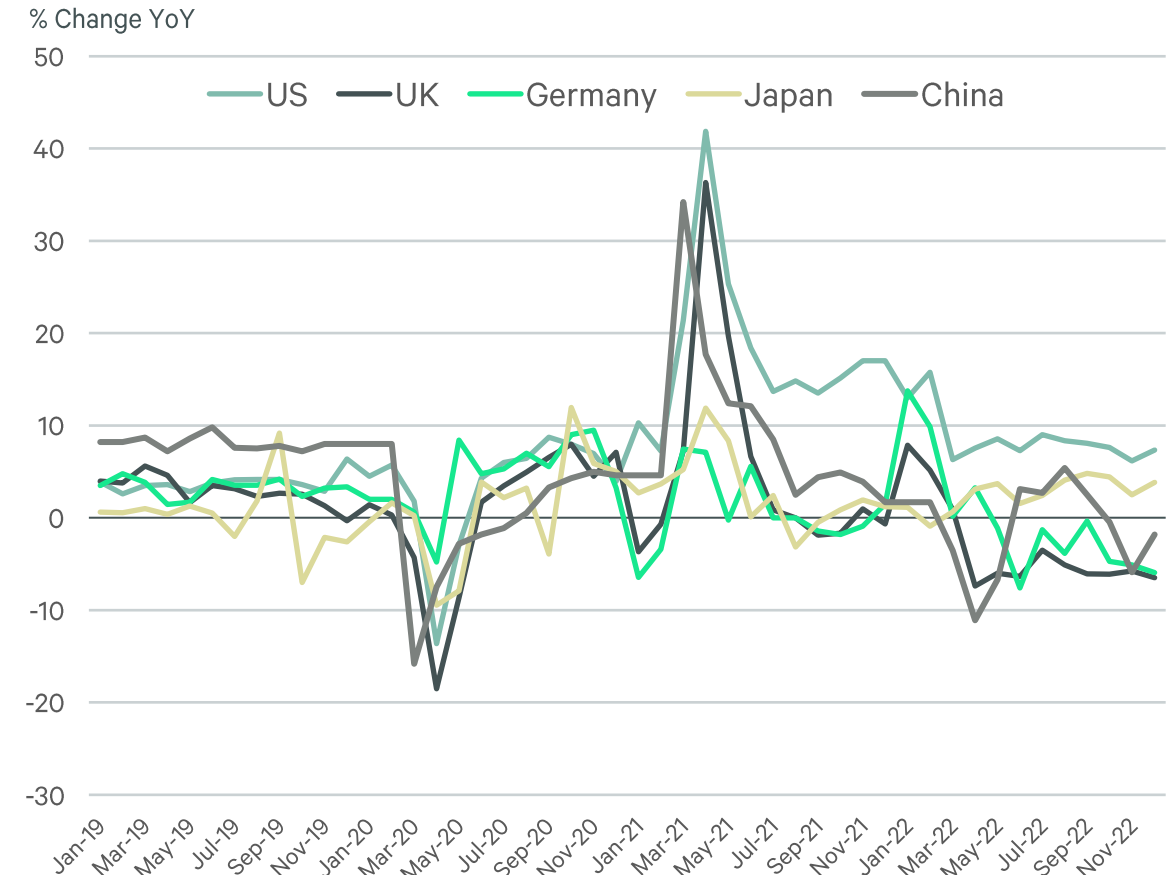
Source: Federal Reserve, BLS, ONS, German Federal Employment Agency, Japan Statistics Bureau, CBRE Research, January 2023.

# Retail spending generally strong but sales slow in Europe

**U.S. retail sales (excl. gas & auto), US\$ Billions**



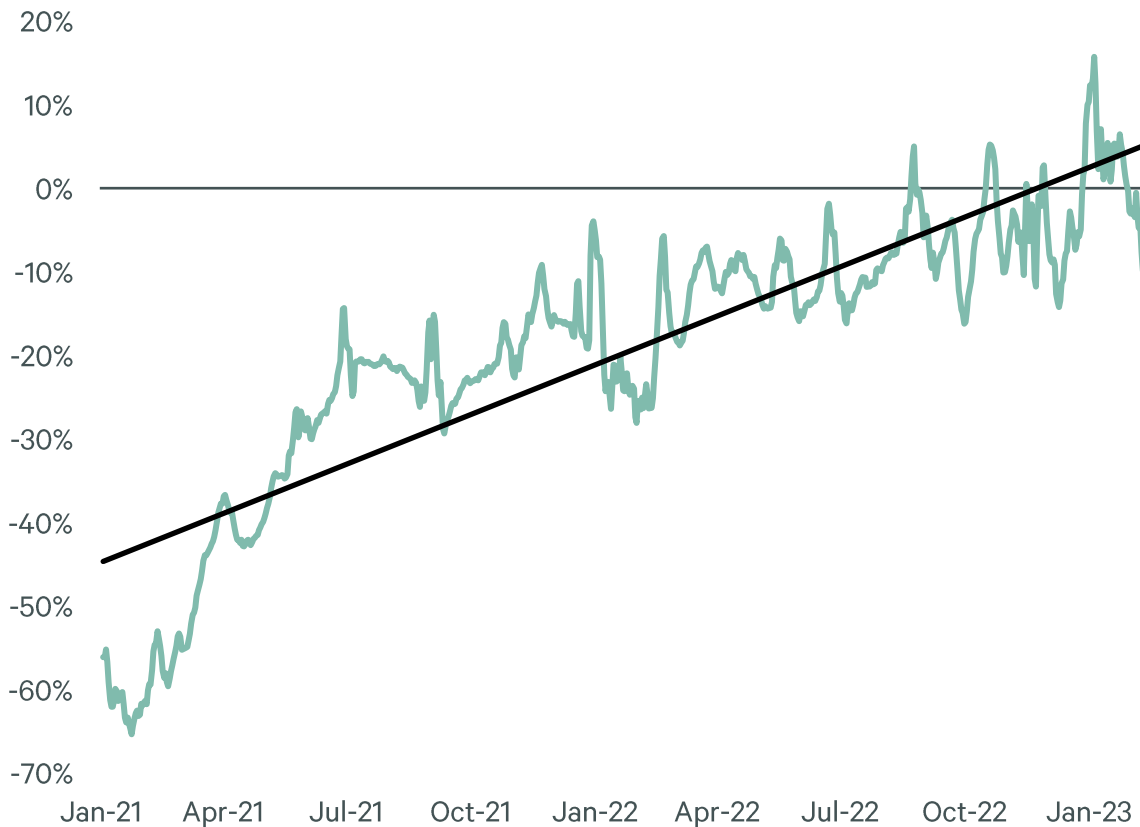
**Global retail sales (% change y-o-y)**



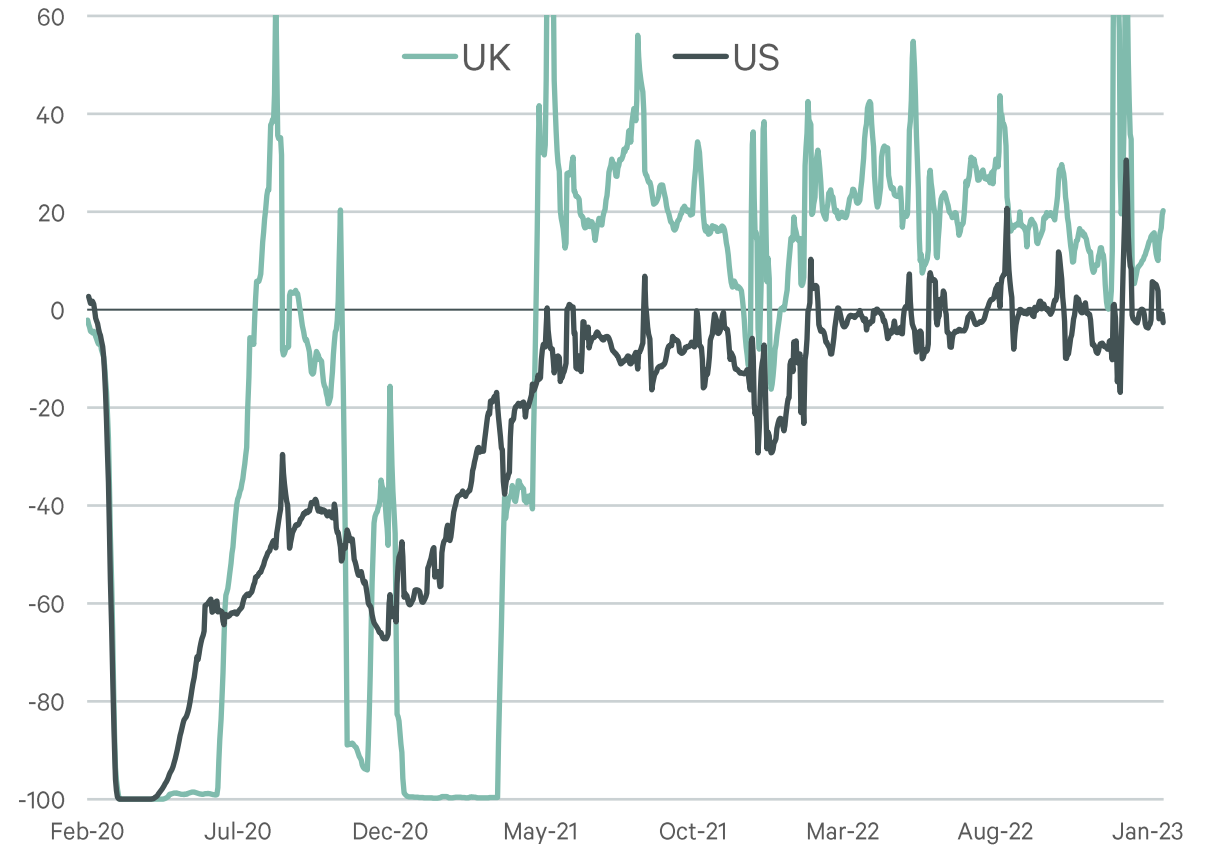
Source: U.S. Census Bureau, ONS, German Federal Statistical Office, Japan Ministry of Economy, China NBS, CBRE Research, January 2023.

# Leisure sectors in the U.S. and UK look strong

### Passengers at airport security in the U.S. - % change from 2019 levels



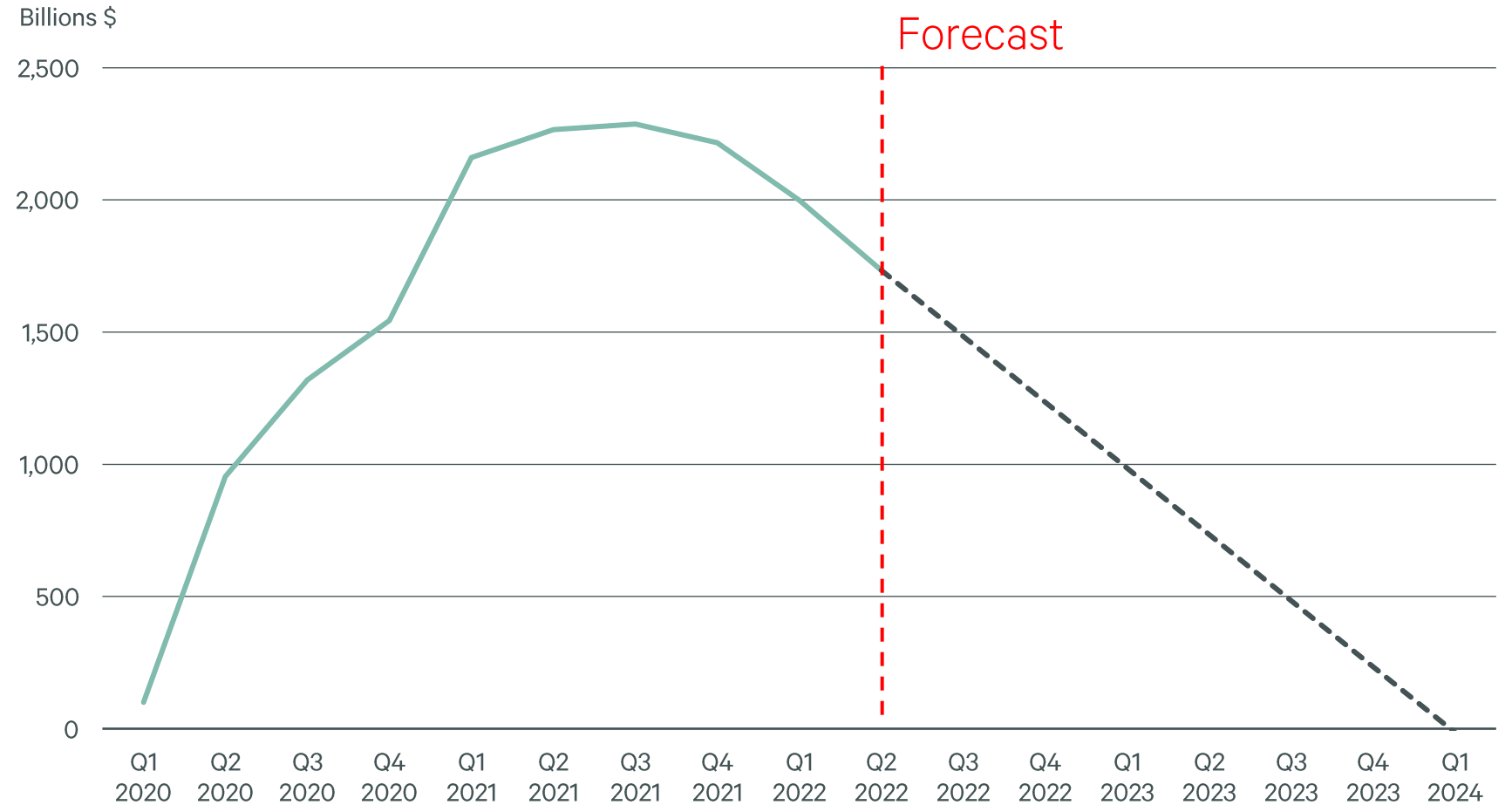
### OpenTable restaurant booking 7-day moving average, compared to 2019



Source: U.S. Transportation Security Administration, OpenTable, CBRE Research Q4 2022.

U.S. consumers still have an excess savings cushion from the pandemic

U.S. stock of excess savings (\$ Billions)

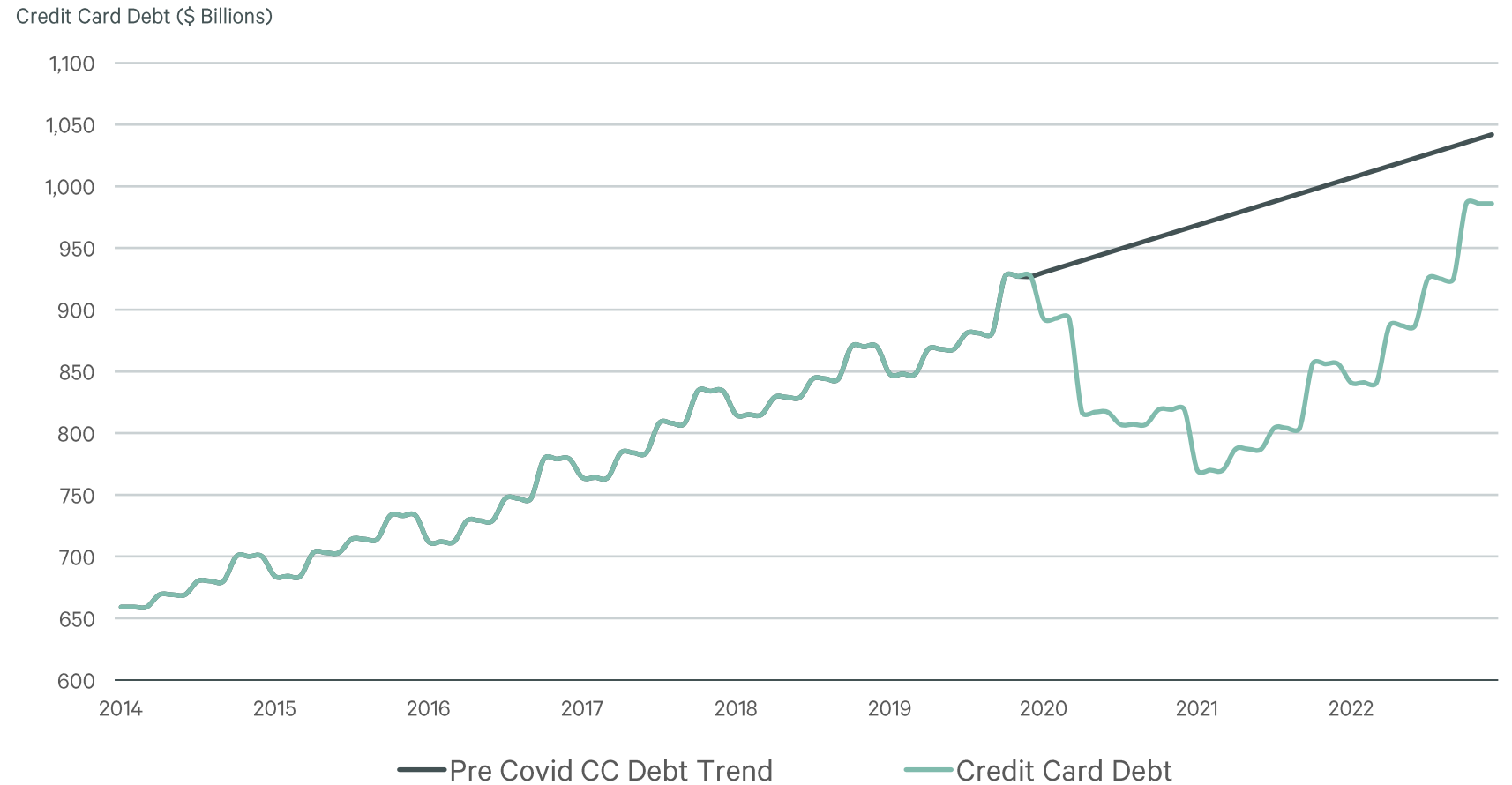


Source: Federal Reserve, CBRE Research, Q4 2022.



U.S. consumers use credit cards to fuel spending; debt levels returning to pre-pandemic trend

### U.S. credit card debt

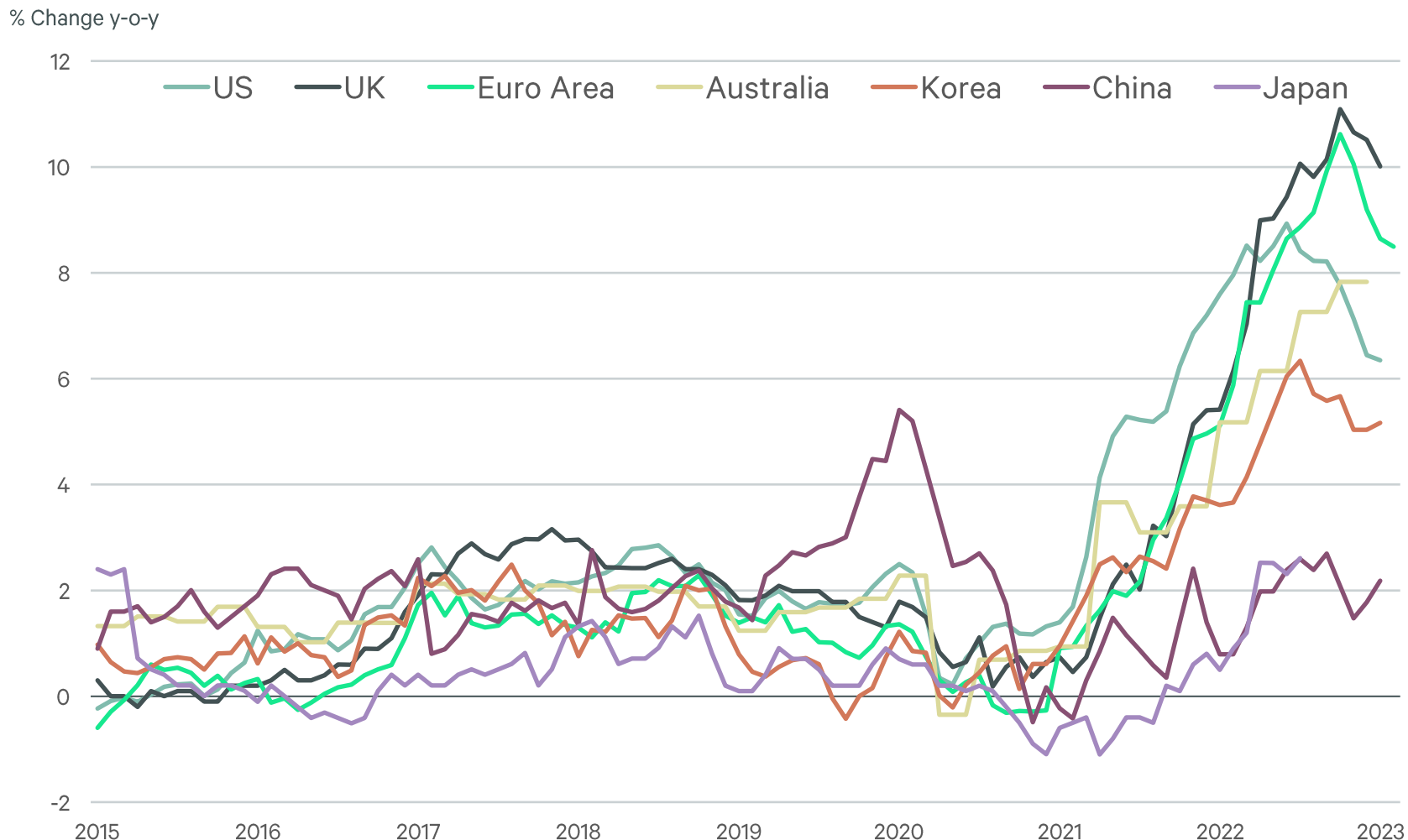


Source: Federal Reserve Bank of New York, CBRE Research, Q4 2022.

# Elevated inflation persists but pace of increases slows

- While persistently high inflation has prompted central banks to raise interest rates, the rate of price increases has somewhat eased in the U.S., UK, and the Euro Area.
- Although China's re-opening will provide a tailwind for global and regional economic growth, growth could cause inflation to remain at higher levels in some Asia Pacific countries.

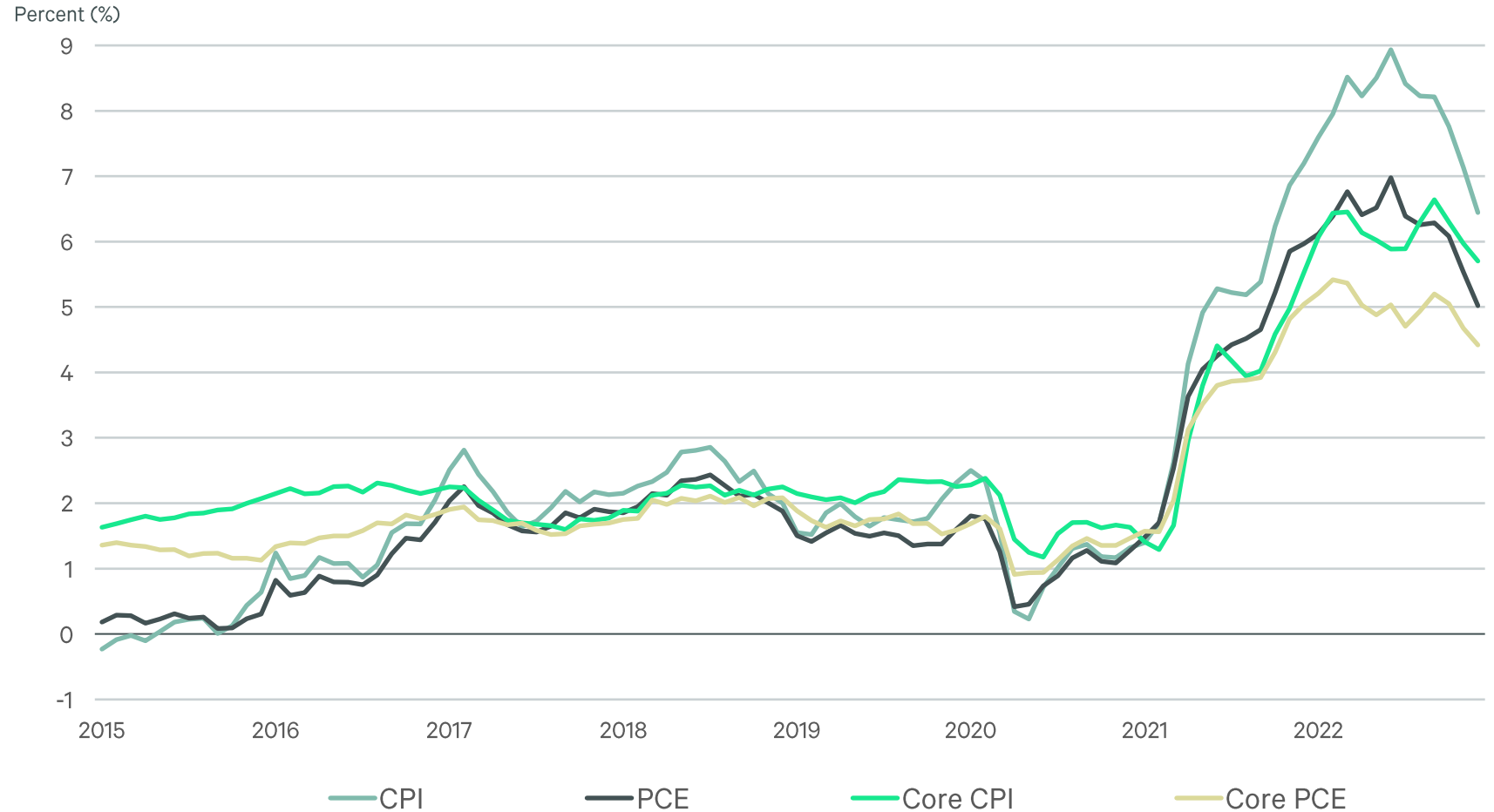
## Consumer Price Index – international comparisons



Source: BLS, Eurostat, ONS, Australian Bureau of Statistics, KoSIS, NBS, Japanese Statistics Bureau, CBRE Research, January 2023.

Inflation appears to have peaked in the U.S. but remains elevated

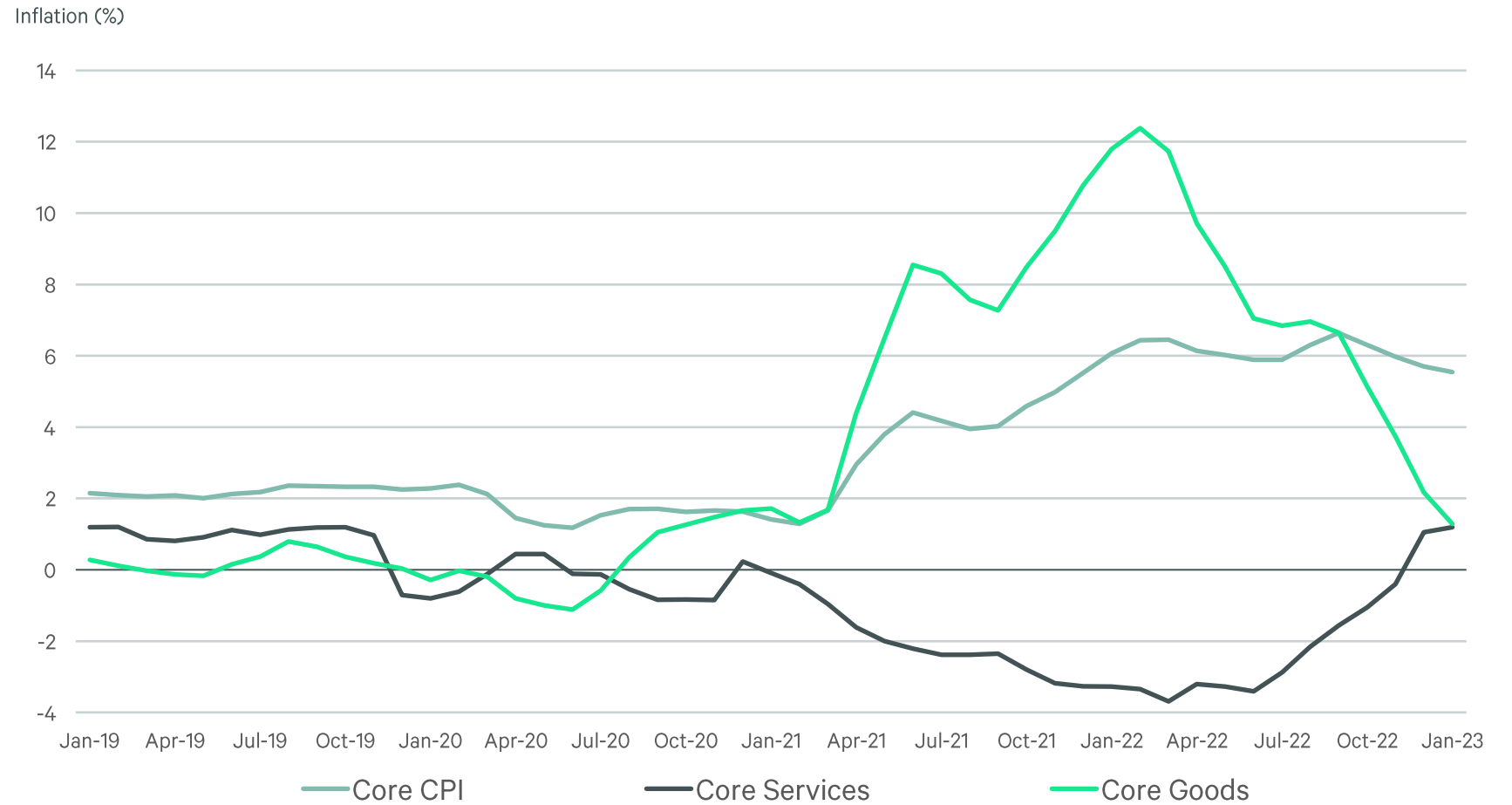
U.S. CPI, PCE, Core CPI, Core PCE (year-over-year % change)



Source: BLS, BEA, Federal Reserve Bank of San Francisco, CBRE Research, Q4 2022.

Goods inflation has come down but services inflation is still rising

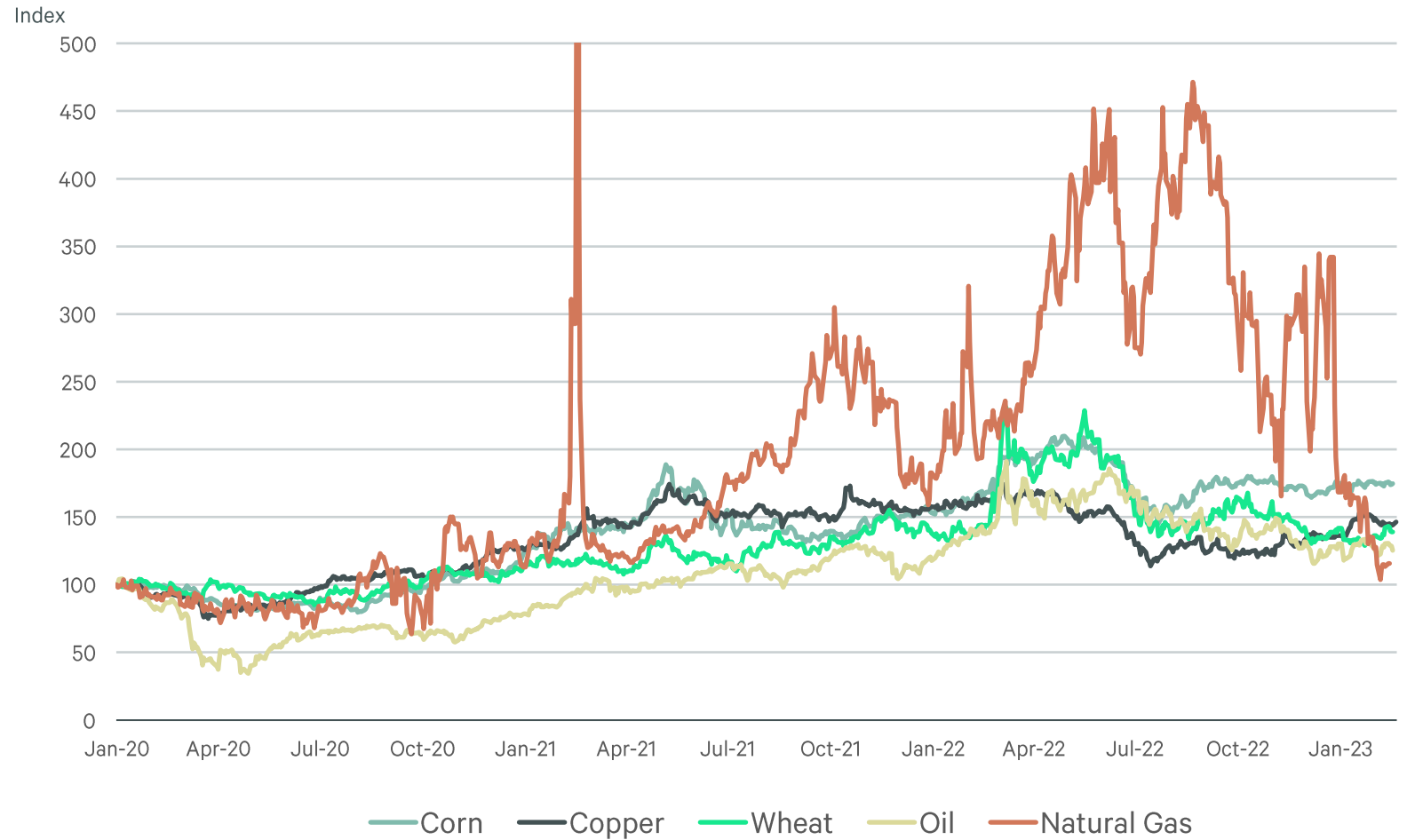
### U.S. Core CPI, Core Services CPI, Core Goods CPI



Source: BLS, CBRE Research, Q4 2022.

Commodity prices fall from 2022 highs, lessening inflationary pressure; natural gas prices decline to pre-war levels

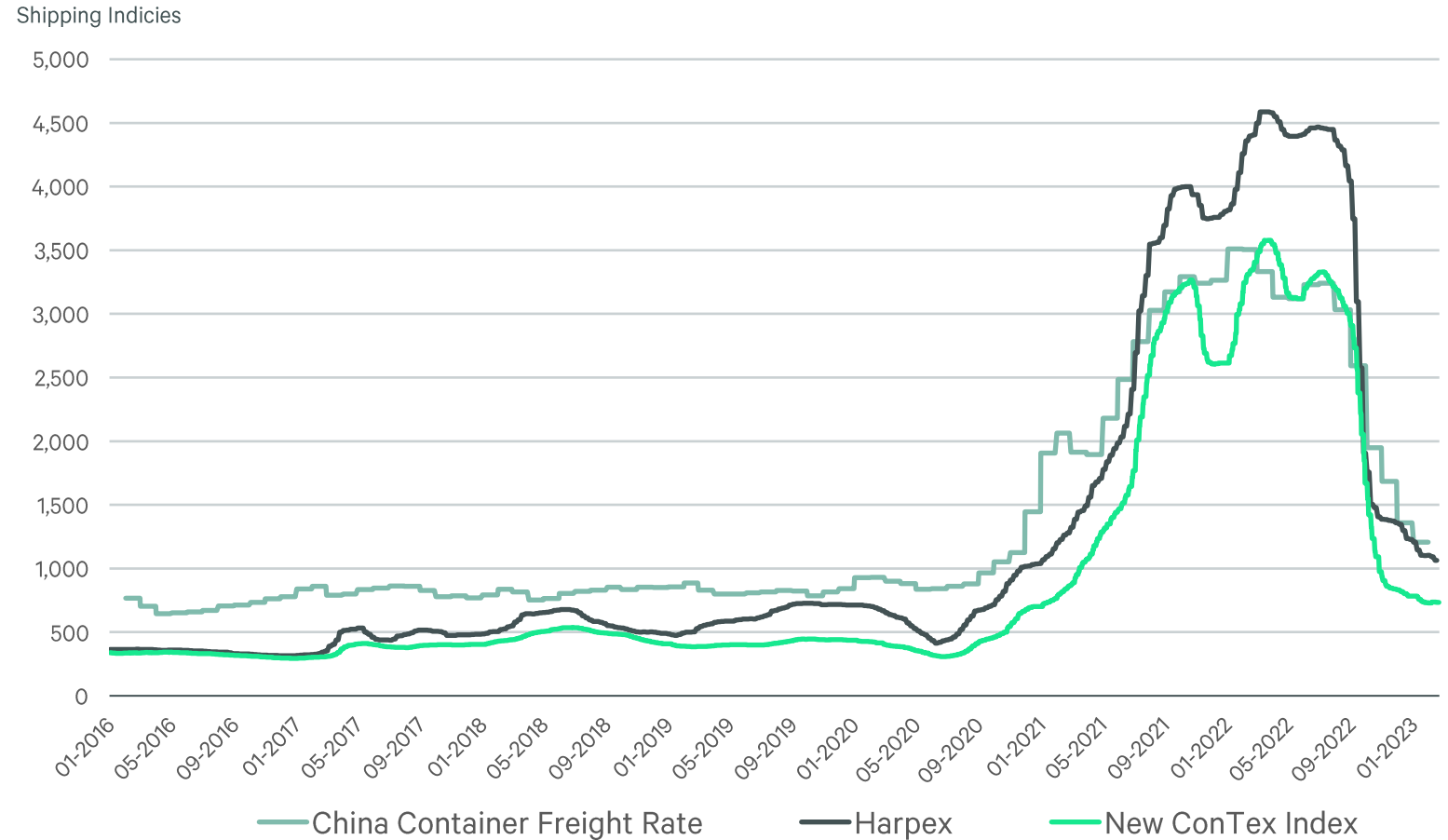
Global Commodity Prices (Index: January 2020=100)



Source: S&P GSCI, LME, EIA, CBRE Research February 2023.

# Shipping rates normalize as supply chain pressures ease

## Global Shipping Rate Indices

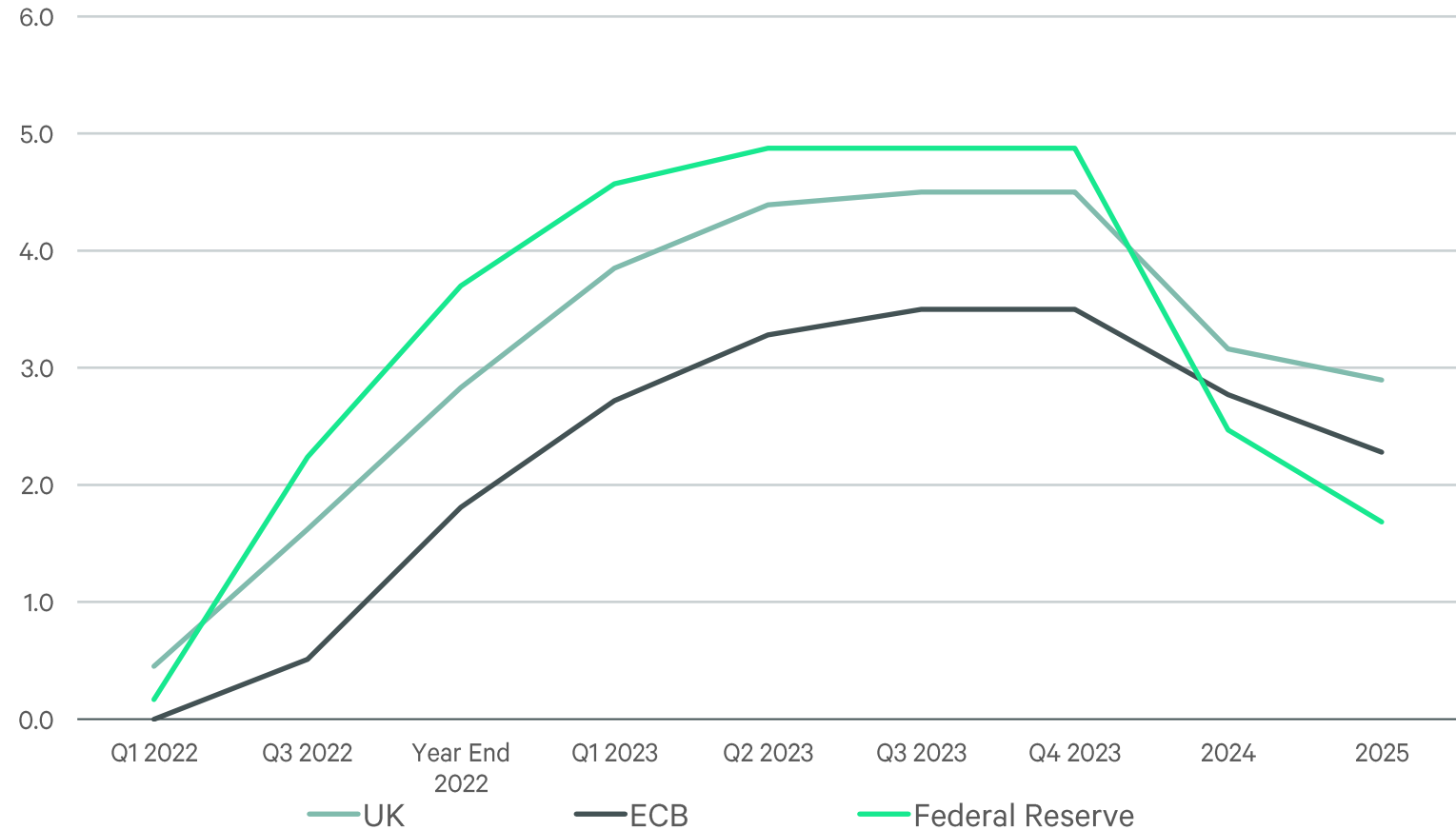


Source: China Ministry of Transport, Harper Petersen & Co., Hamburg Shipbrokers' Association (VHSS), CBRE Research Q4 2022.

# Central banks tighten monetary policy

- Central banks worldwide have hiked interest rates in order to tame inflation.
- Interest rates will peak in 2023 and then start to come down as inflation eases and economic conditions worsen. However, ultra low interest rates are unlikely to return anytime soon.
- With the exception of Japan and China, economies in Asia Pacific are largely following the upward interest rate trend. However, the Bank of Japan's response to the 10-year JPY yield curve is being closely watched.

## Central banks' short-term rates

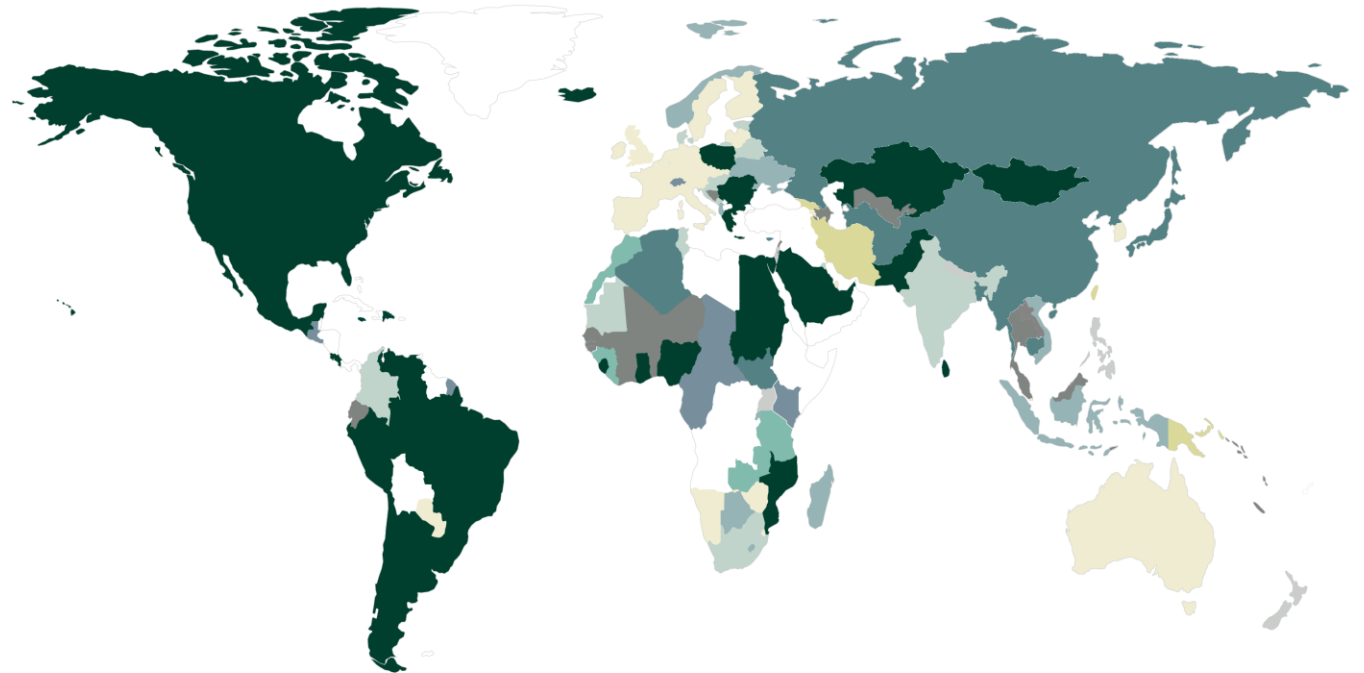
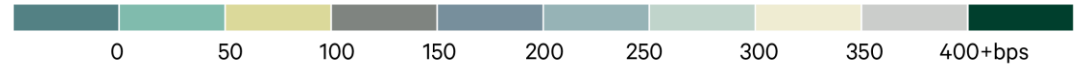


Source: Oxford Economics, CBRE House View, February 2023 Forecast.

# Asia Pacific economies pursue less aggressive approach towards monetary tightening

## Central bank policy rates

Changes since 2022



Market	Current Policy Rate	Change since 2021
United States	4.50%	+450bps
Eurozone	3.00%	+300bps
United Kingdom	4.00%	+390bps
Canada	4.50%	+425bps
Australia	3.35%	+325bps
India	6.50%	+250bps
Japan	-0.10%	Stable
Mainland China	3.65%	-15bps

Source: Macrobond, CBRE Research, Q4 2022

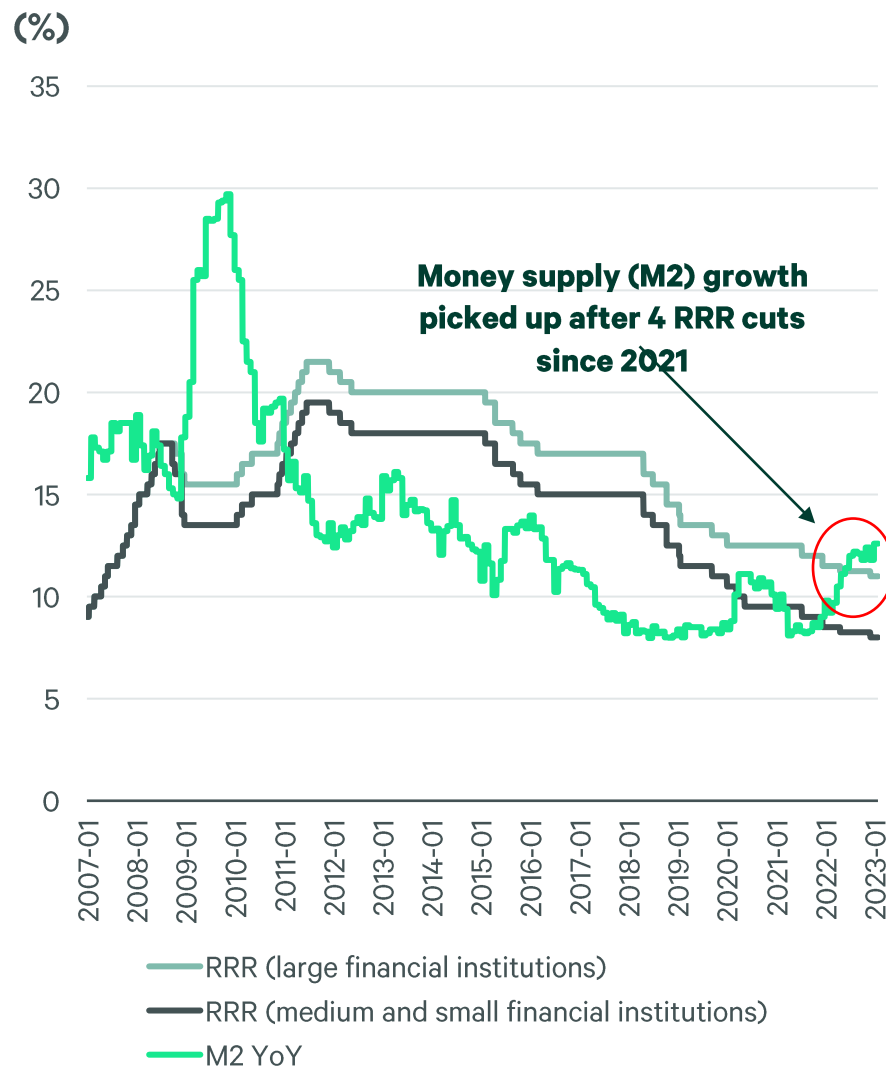
Note: Mapped data shows change in interest rates in basis points for distinct central banks since the beginning of 2022



# China cautious on further monetary stimulus following end of zero-covid

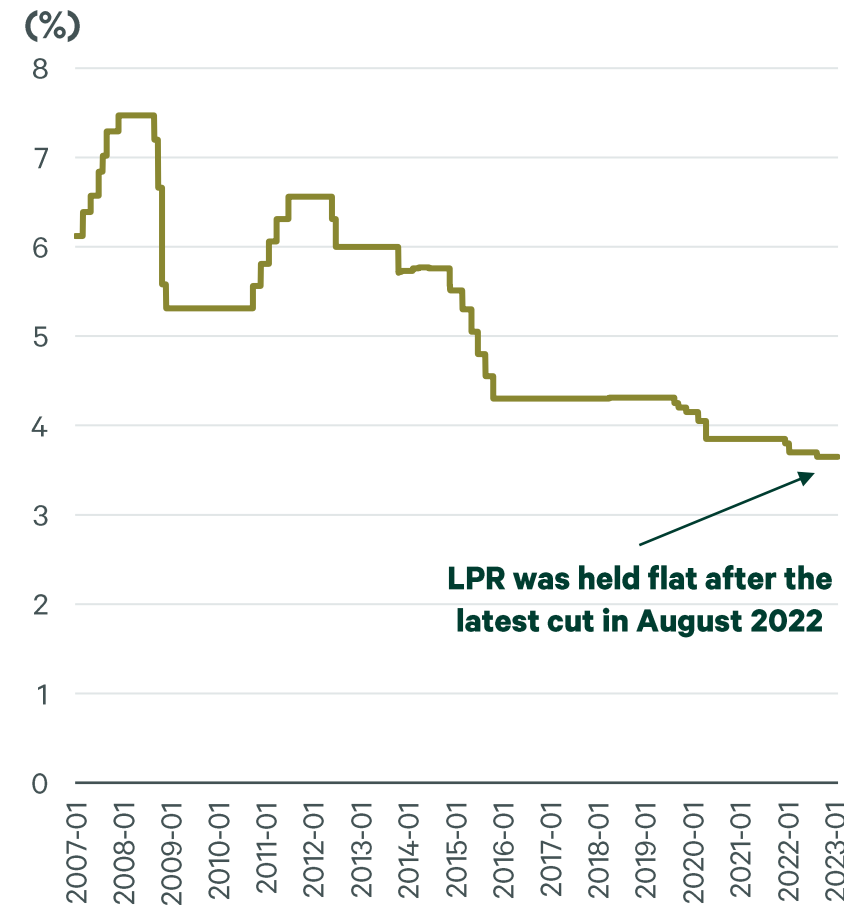
- China adopted a prudent stance towards monetary policy at its annual Central Economic Work Conference in December 2022.
- A “proactive fiscal policy” will be the focus in 2023 to provide support to the economy.

China required reserve ratio and money supply



Source: Macrobond, CBRE Research, February 2023.

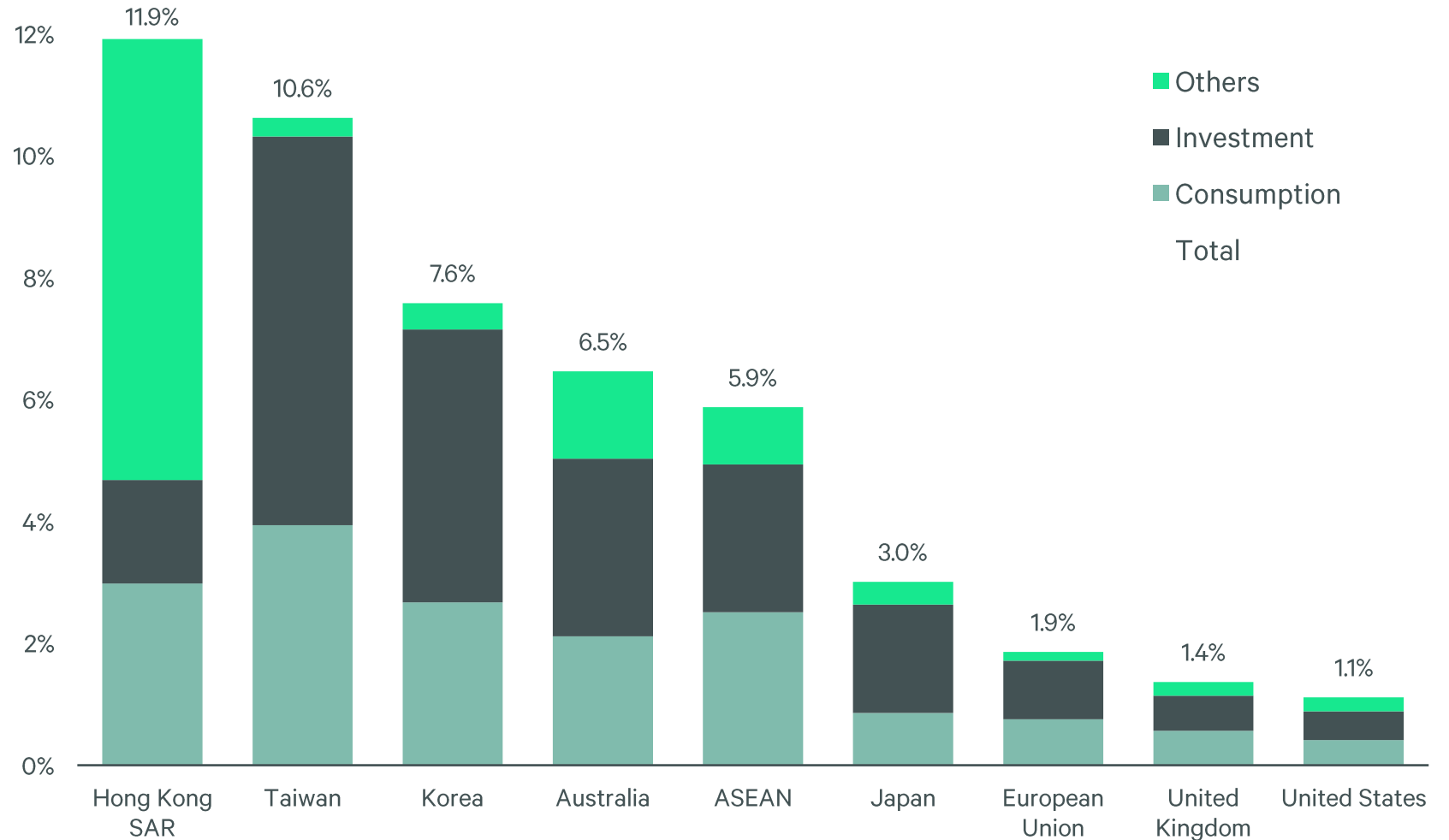
China 1-year loan prime rate



# China's revival likely to somewhat offset impact of global economic slowdown

- The impact of China's re-opening will largely benefit economies within Asia Pacific.
- The recovery of tourism and anticipated return of Chinese visitors should provide a tailwind to economic growth in Hong Kong.
- Chinese consumption and investment demand in North and Southeast Asian countries will help negate a portion of the recent decline in export volume.

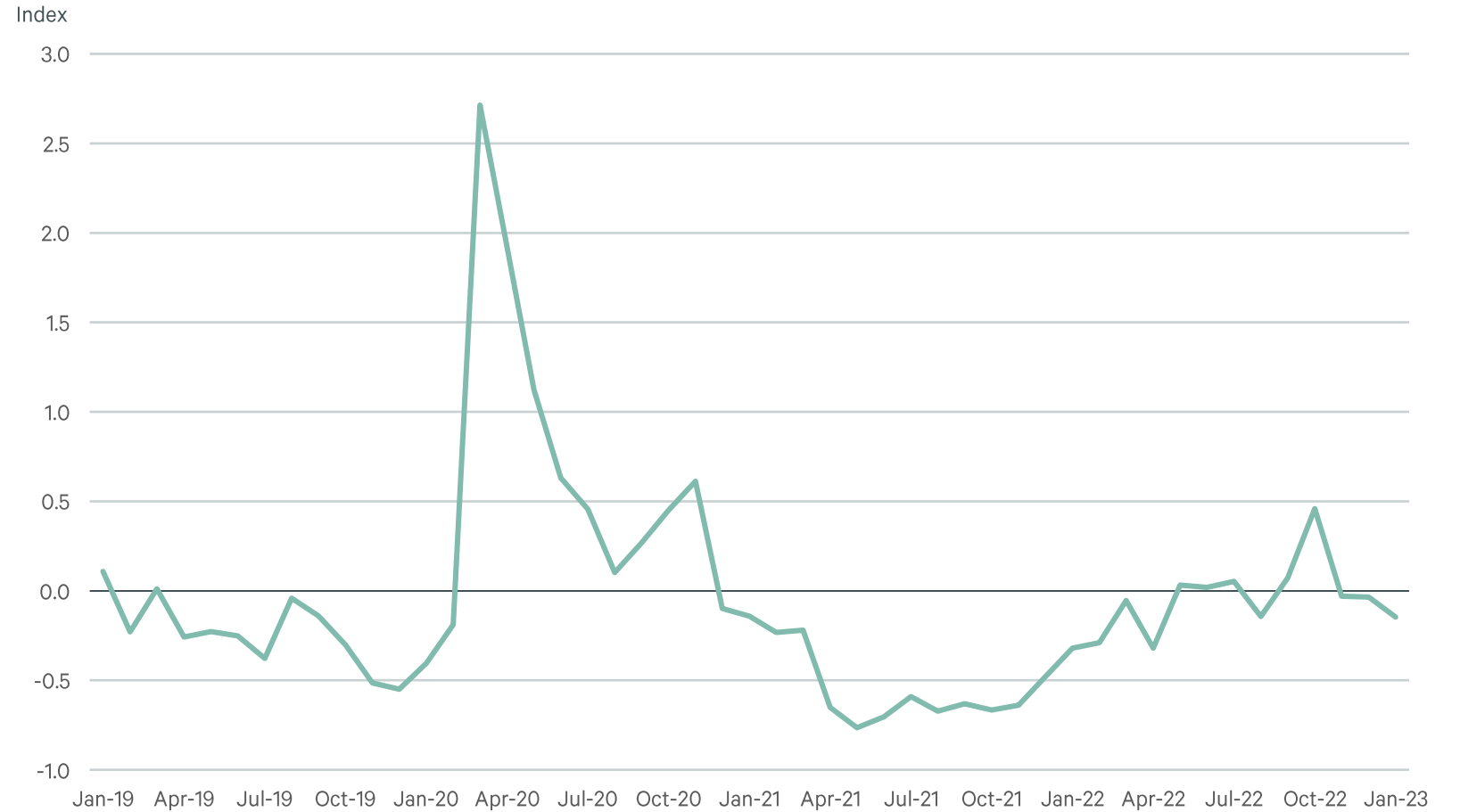
Value added exports to mainland China for final demand in 2018 as % of GDP



Source: OECD TiVA, United Nations Conference on Trade and Development, CBRE Research, February 2023.

# Financial conditions loosen back to August 2022 levels

## Financial Stress Index – Kansas City Federal Reserve

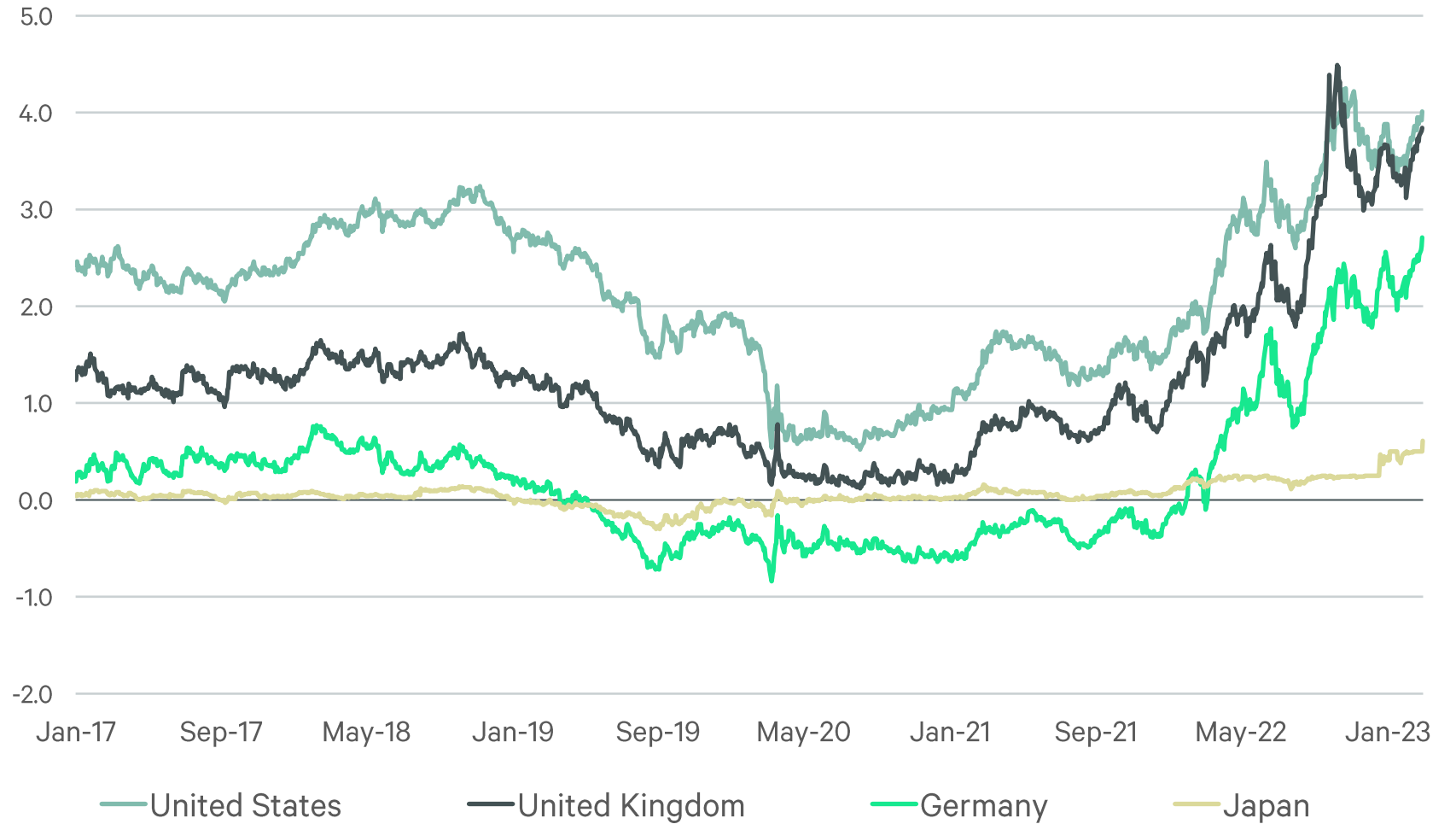


Source: Kansas City Federal Reserve, CBRE Research January 2023.

# Bond yields remain elevated

- The 10-year Treasury yield has crept back up amid concerns over persistent inflation.
- Yields in the UK, Germany and Japan have also increased over the past month.

## 10-year government bond yields



Source: Federal Reserve, Macrobond Financial AB, CBRE Research, Q4 2022.

Bond spreads are deeply inverted, signaling a recession in the U.S.

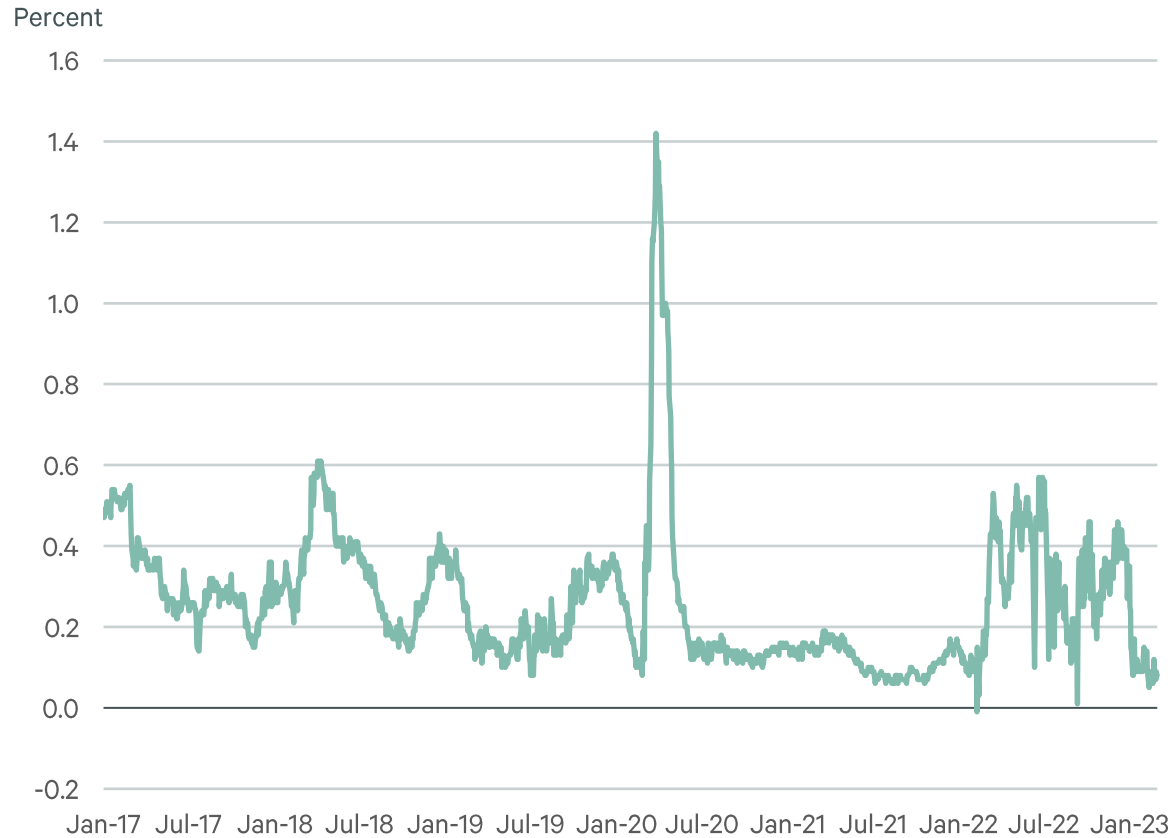
### Select U.S. government bond spreads



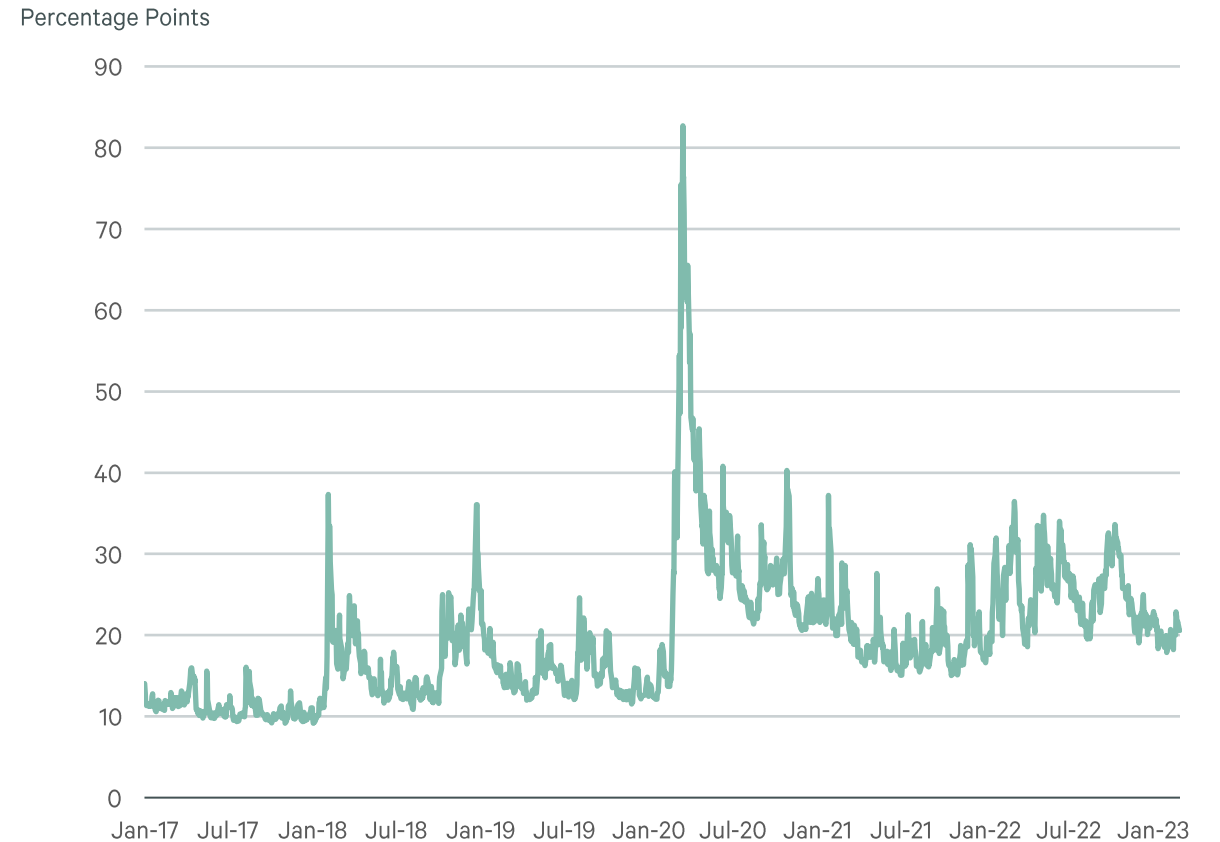
Source: U.S. Department of Treasury, CBRE Research, Q4 2022.

# Volatility has fallen in recent months

## TED Rate Spread



## VIX Volatility Index



Source: Macrobond Financial AB, CBOE, CBRE Research, Q4 2022.

## Keys to an economic soft landing

Supply chain pressures and commodity prices continue to ease

Inflation slows as monetary tightening takes effect and job market cools

Central banks continue to implement carefully calibrated monetary policies

## Key risks to watch

U.S. economy continues to outperform expectations, leading to higher inflation

Services inflation remains elevated despite monetary tightening

Central banks overdo monetary tightening, triggering a recession

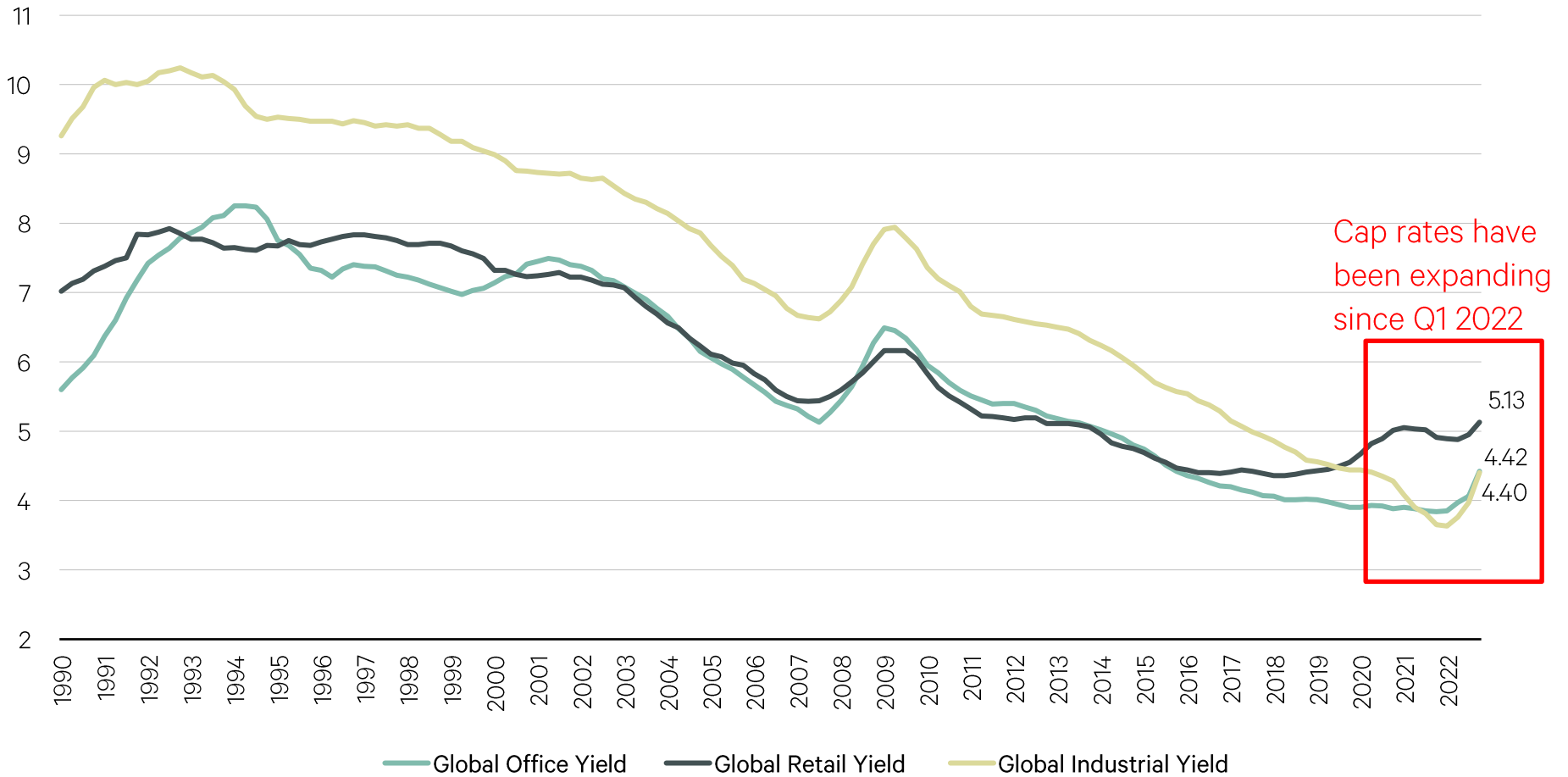




# Real Estate Outlook

Yields are rising globally across property types

Composite yields by property type, %



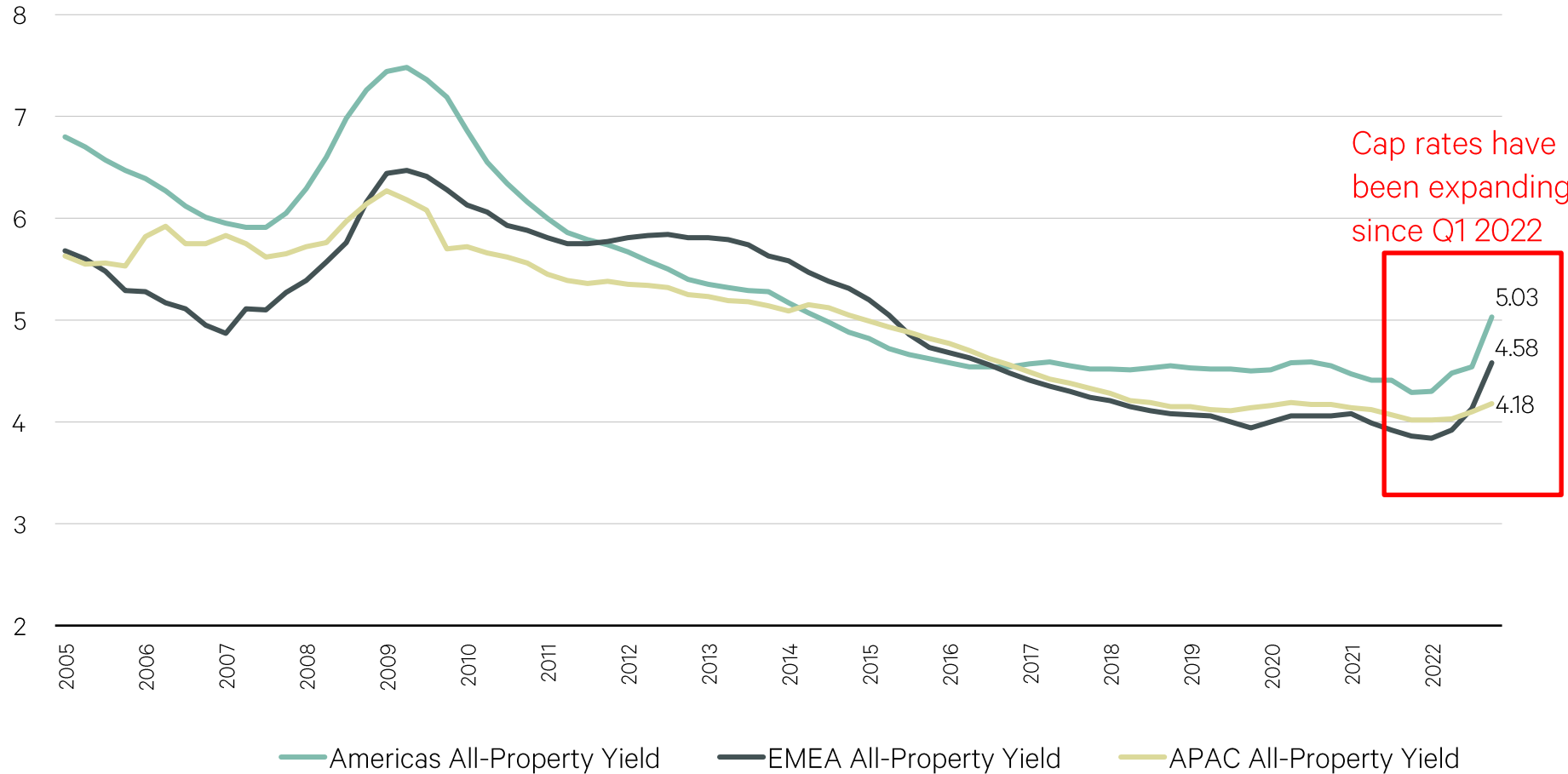
Top market average in each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Yield expansion occurring across all regions; further increases likely

- Anecdotal evidence suggests that cap rates for prime U.S. assets across most property types increased by 100 bps to 150 bps in 2022.
- Cap rates in Asia Pacific remain stable for now but are expected to expand over the next few quarters, led by Korea and Australia.

All-property yield by region, %



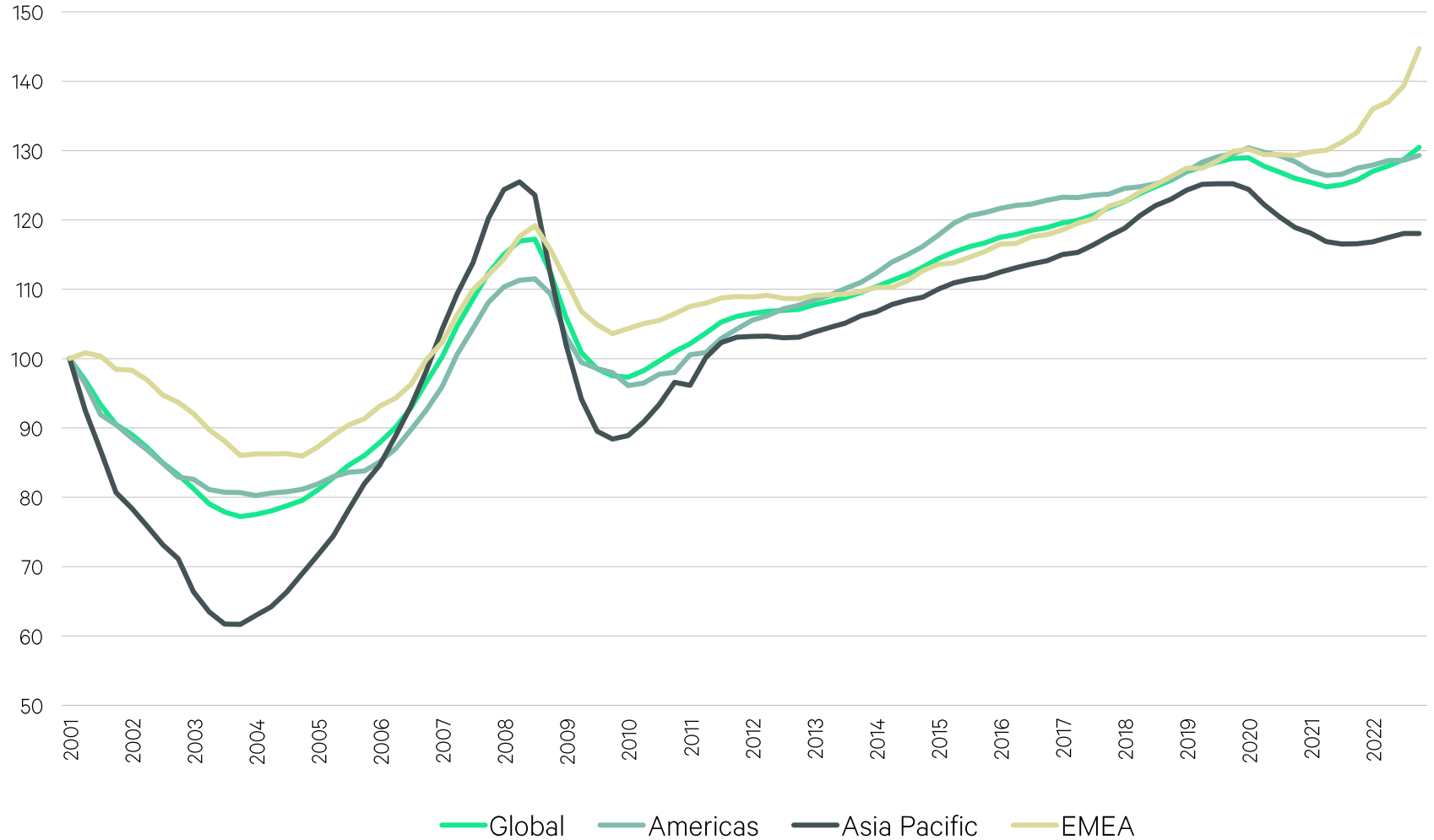
Top market average in each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Strong fundamentals drive office rental growth in EMEA

- Slower office rental growth in Asia Pacific is largely due to excess supply in India, Tokyo and China.
- Rental growth in EMEA remains strong because of a lack of new stock.

Global Office Rent Index (Q1 2001 = 100)



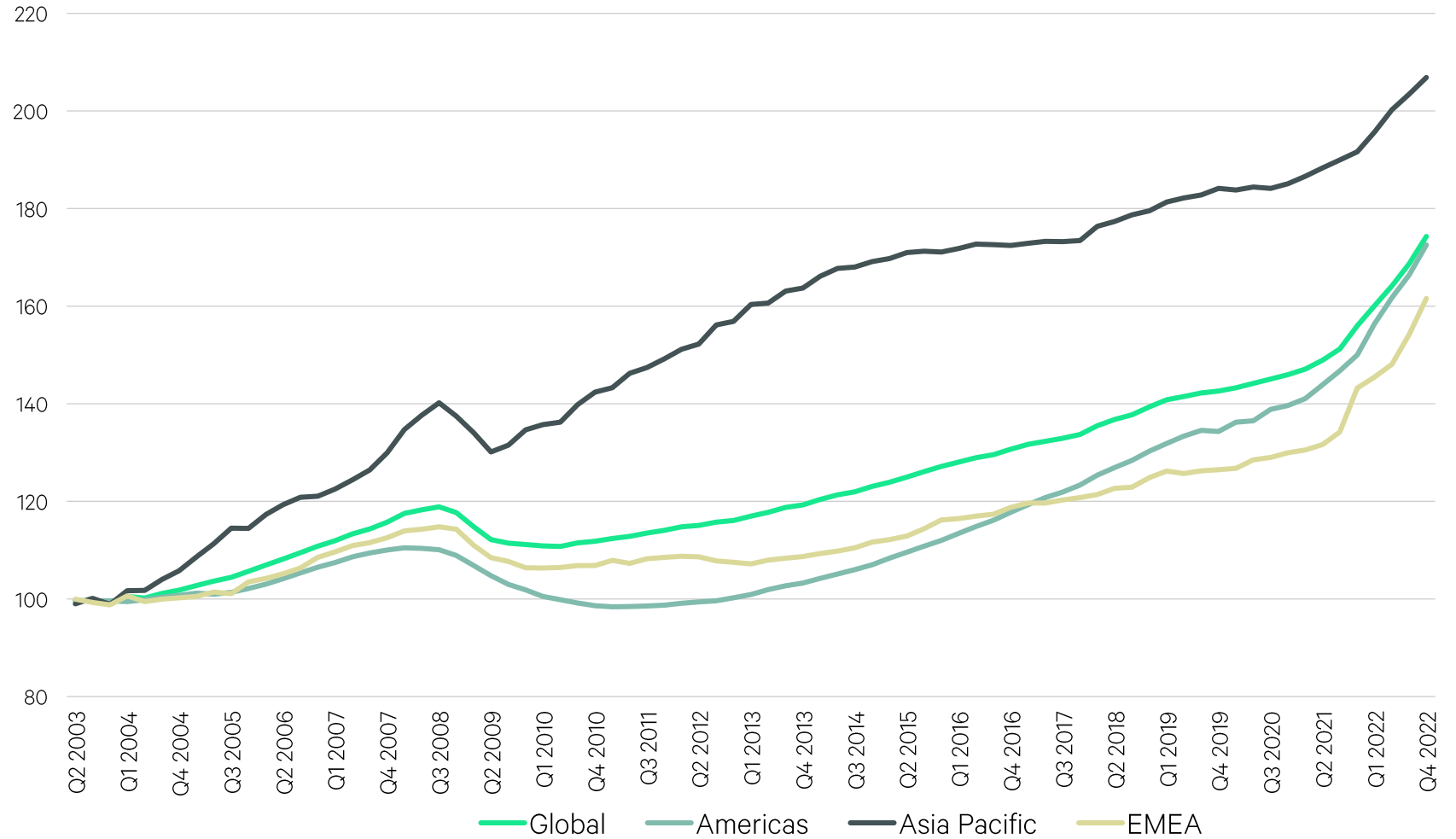
Weighted average of Class A office in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Global industrial rents continue to grow on the back of low vacancy

- Low industrial vacancy globally is pushing up rents across regions.
- As the economy weakens, industrial rental growth will slow.

**Global Industrial Rent Index (Q1 2003 = 100)**



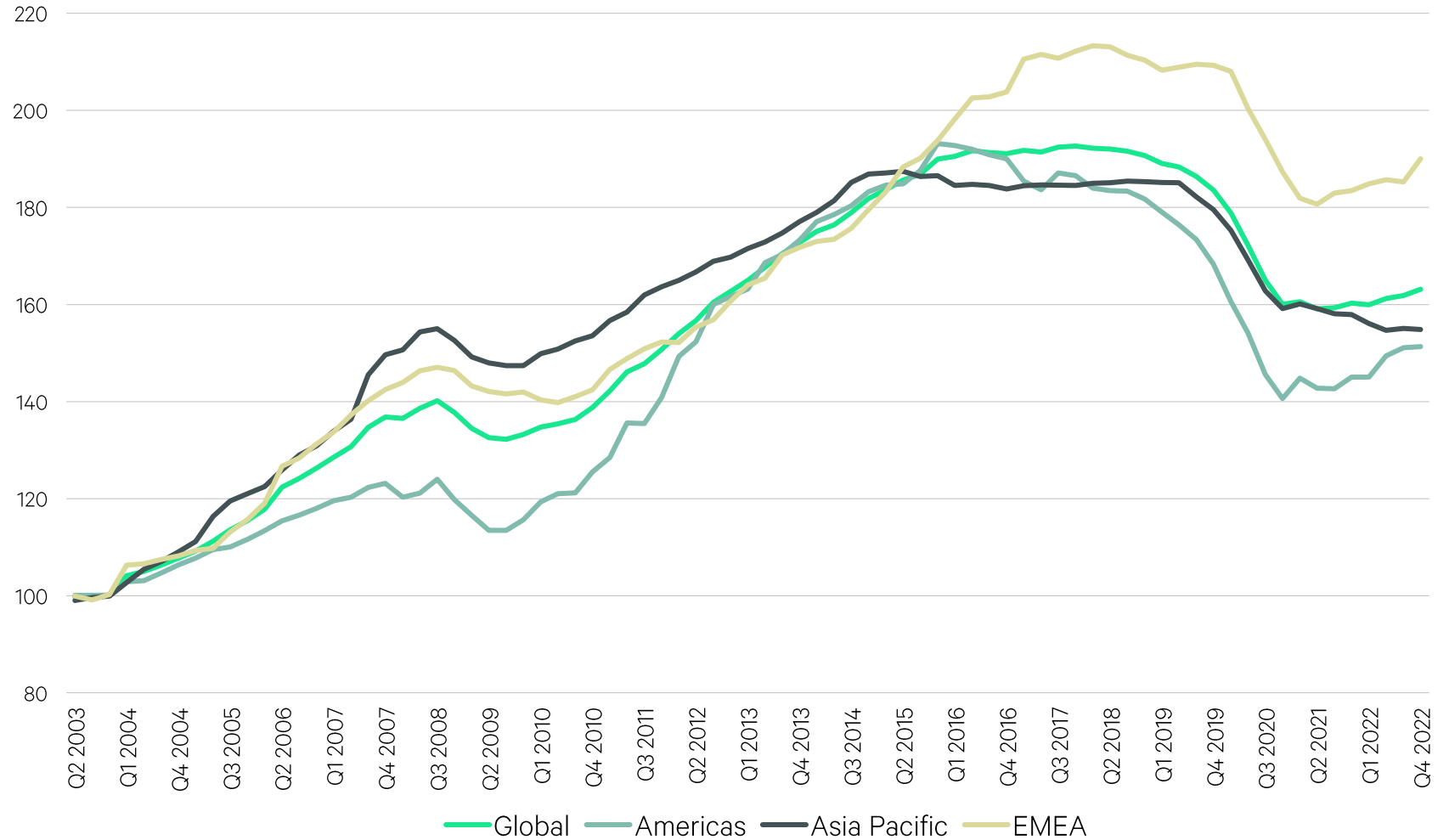
Weighted average of Class A industrial in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Retail rents rise slightly in the Americas and EMEA but bottom-out in Asia Pacific

- The lack of new retail supply in the U.S. has led to stronger rental growth in the Americas.
- Retail conditions are set to improve in Asia Pacific along with China's re-opening. Retailers in Asia are displaying a strong expansionary appetite, with a focus on China, Hong Kong, Singapore, Vietnam and Japan.

**Global Retail Rent Index (Q1 2003 = 100)**

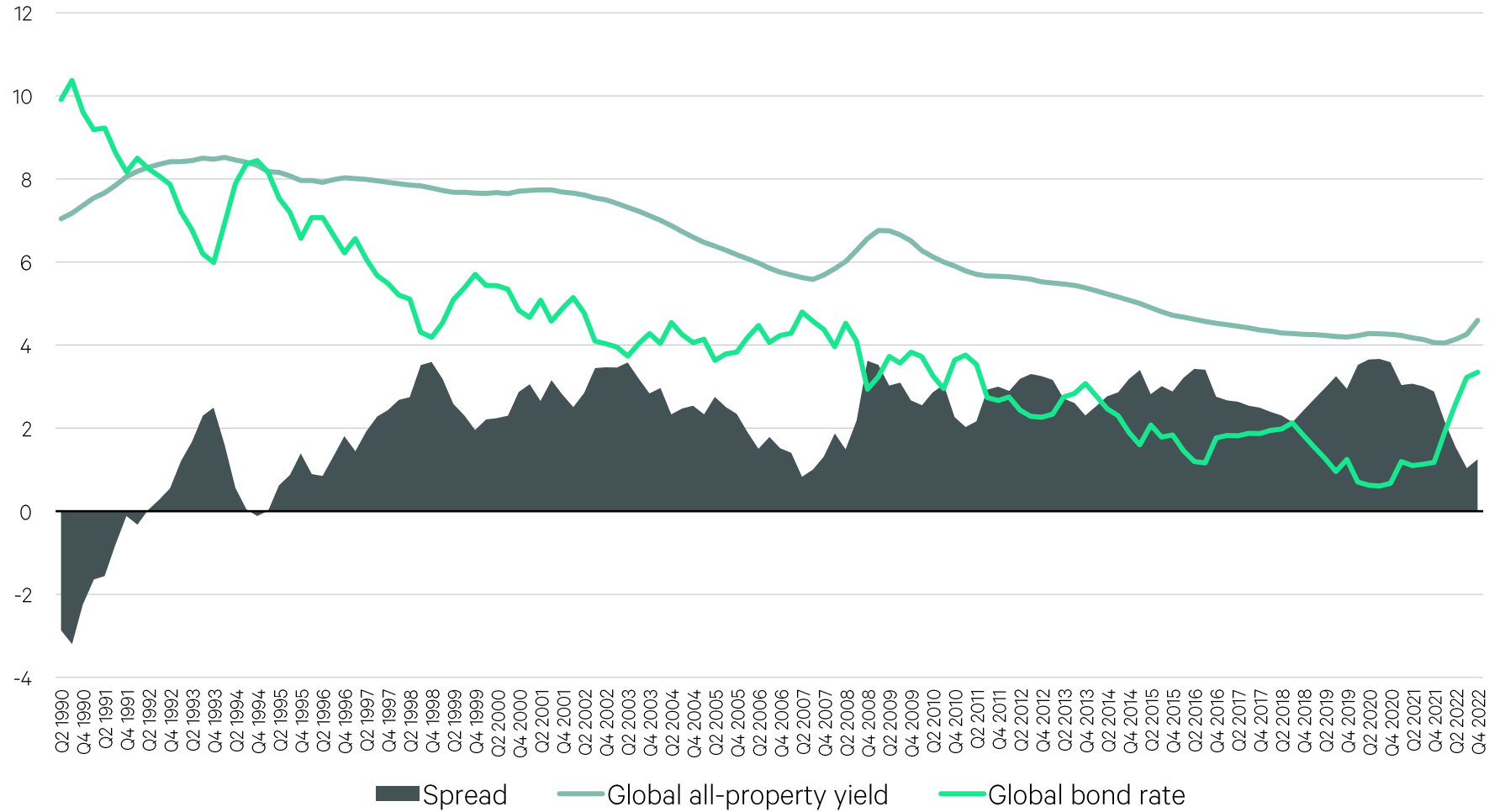


Weighted average of Class A retail in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Yield spreads widen but remain tight

All-property yield (average) and bond rate (end of period), quarterly, %



Top market average in each region, end of period quarterly.

Source: CBRE Research, National Sources & Macrobond, Q4 2022.

Corporate and treasury yields remain relatively elevated

U.S. 10 Year Treasury, BAA Corporate Bond Yield, CBRE DealSlicer loan quote rates



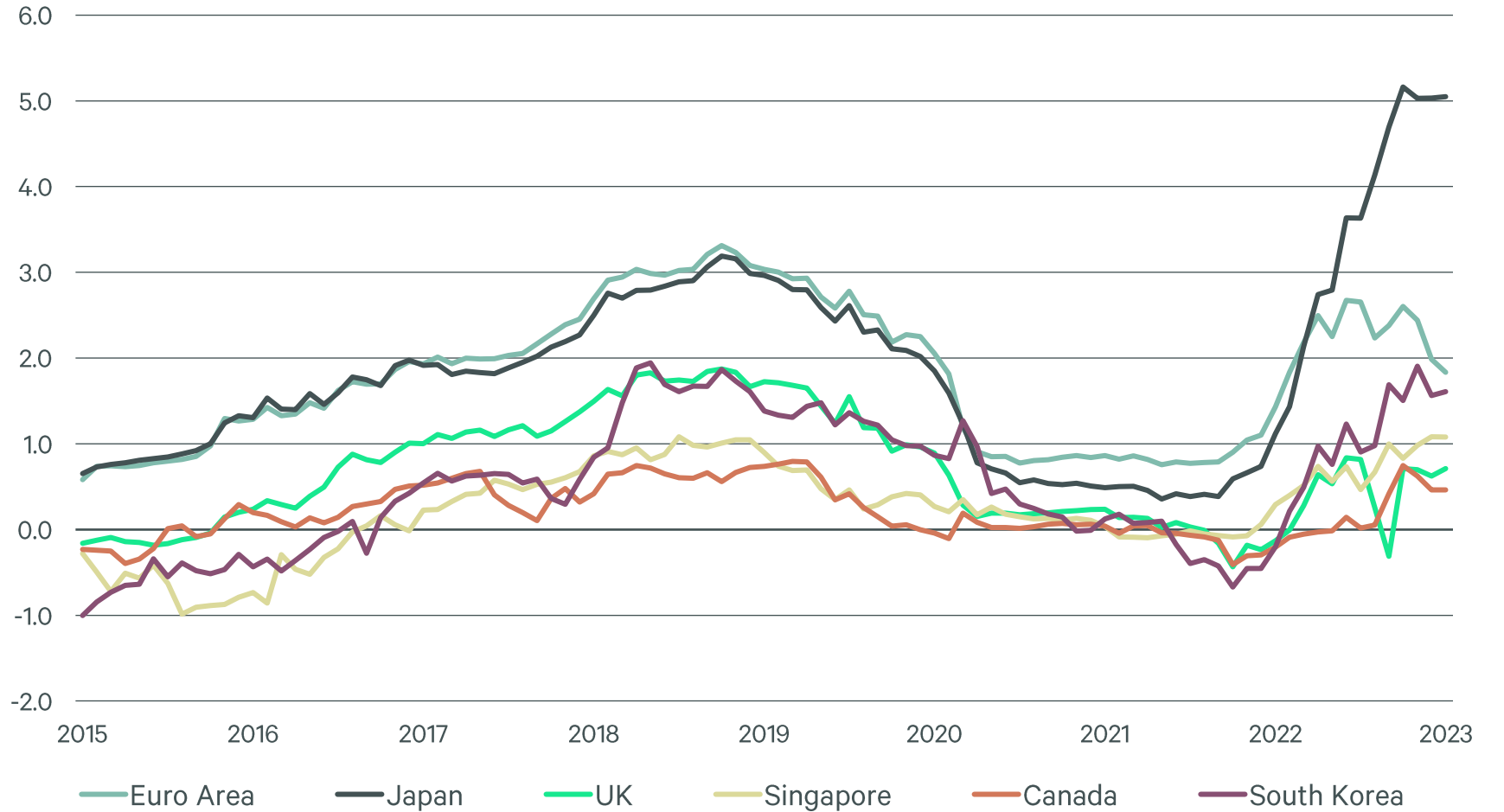
Source: FRED, Moody's, CBRE Research, Q4 2022.

\* Note: CBRE DealSlicer utilizes data on CRE loan quotes from CBRE's proprietary database.



Rising USD hedging costs create buying opportunities for USD denominated investors

Hedging cost against USD depreciation (%)

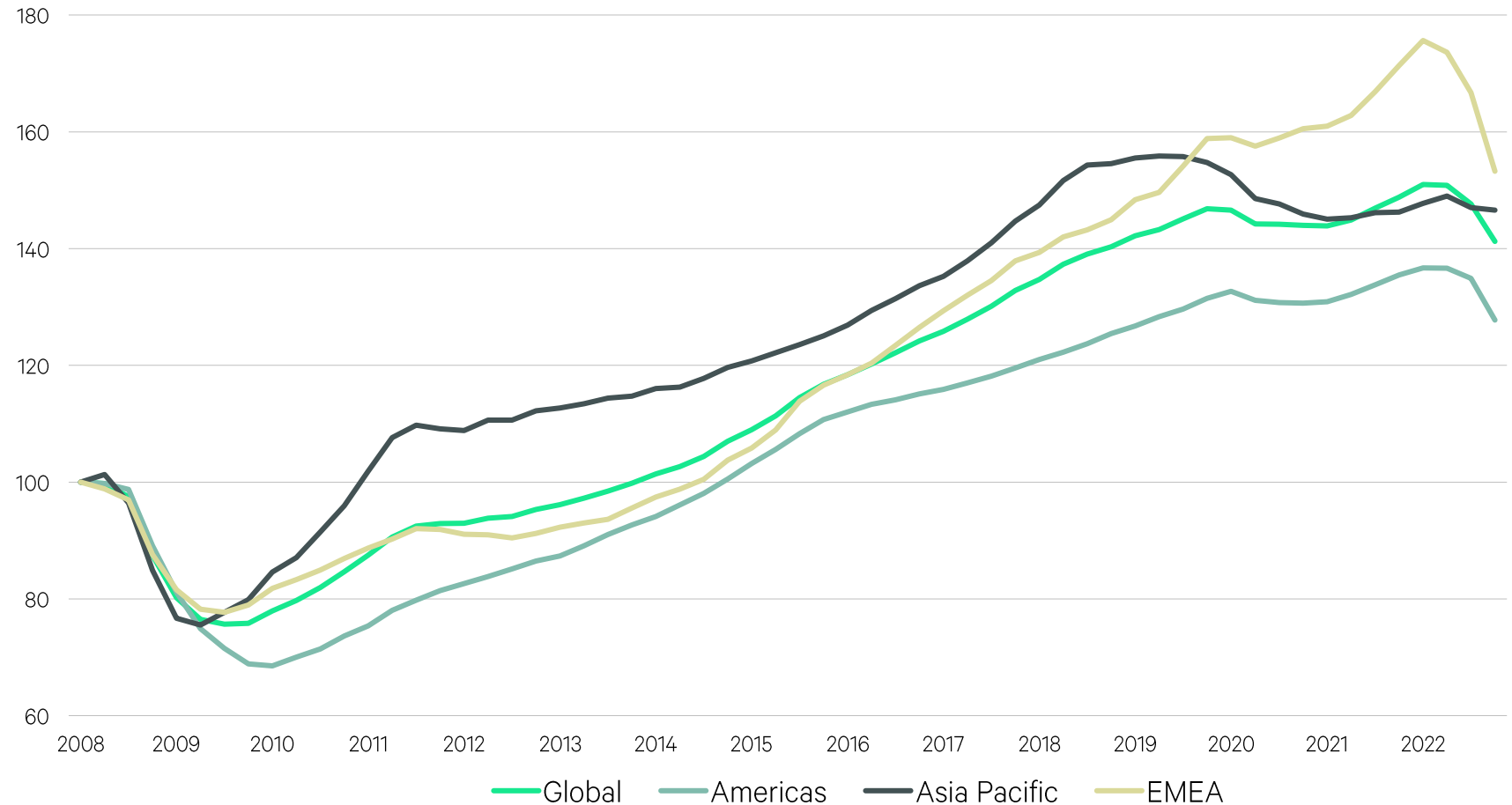


Source: Chatham Financial, CBRE Research, Q4 2022.

# Office values fall globally amid economic uncertainty and structural change

- Office capital values continue to fall globally due to lower office usage and weakening fundamentals amid economic uncertainty.
- While high-end grade A office assets are commanding a premium, B and C grade properties are seeing a greater loss in value.

Global Office Capital Value Index (Q1 2008 = 100)



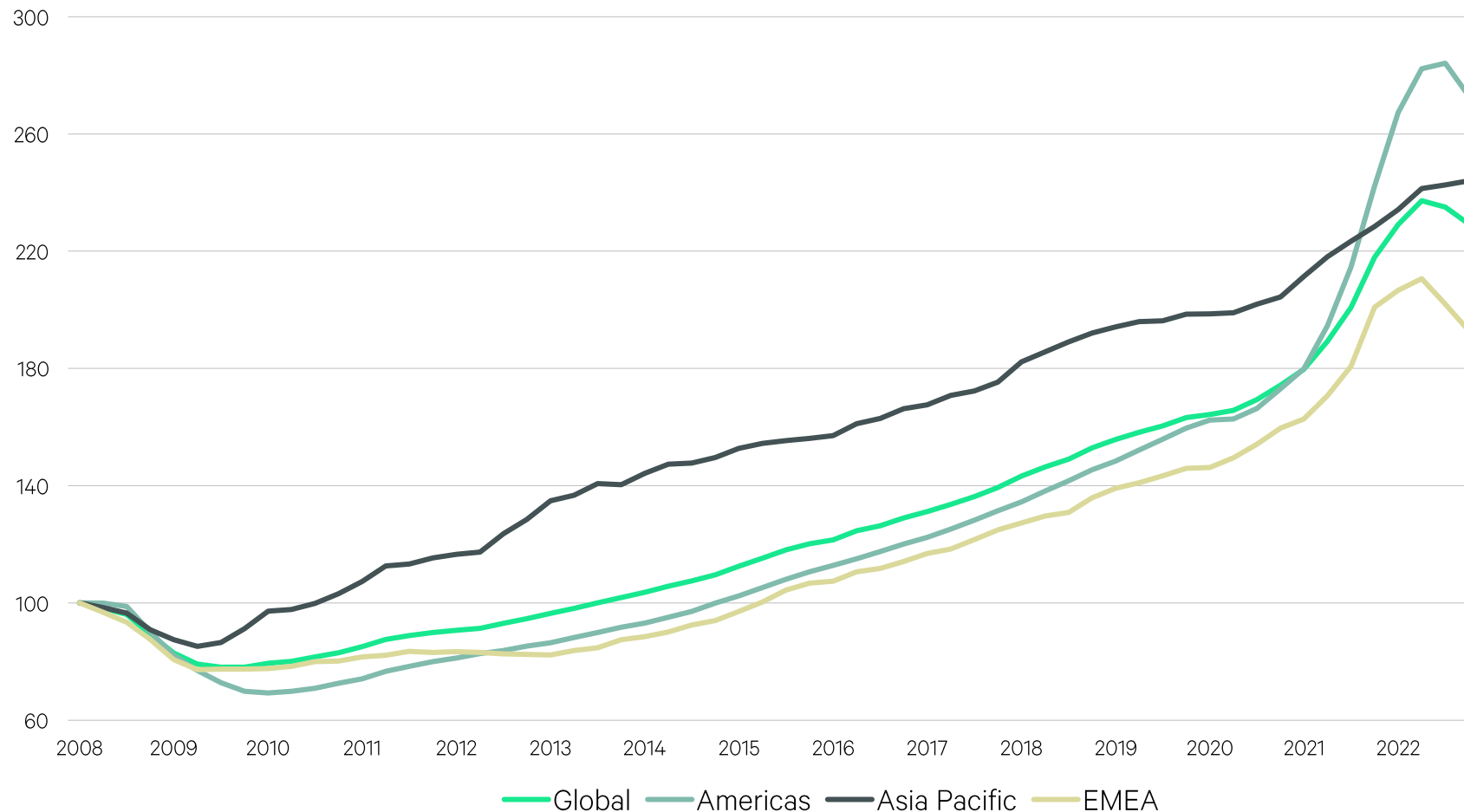
Capital value of investment grade office properties in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Industrial capital values fall in the Americas and EMEA, stay flat in Asia Pacific

- Capital values in the Americas and EMEA fell in 2022 due to worsening economic conditions and rising interest rates and cap rates.
- Despite solid fundamentals, cap rates across all regions will continue to face upward pressure in 2023.

Global Industrial Capital Value Index (Q1 2008 = 100)



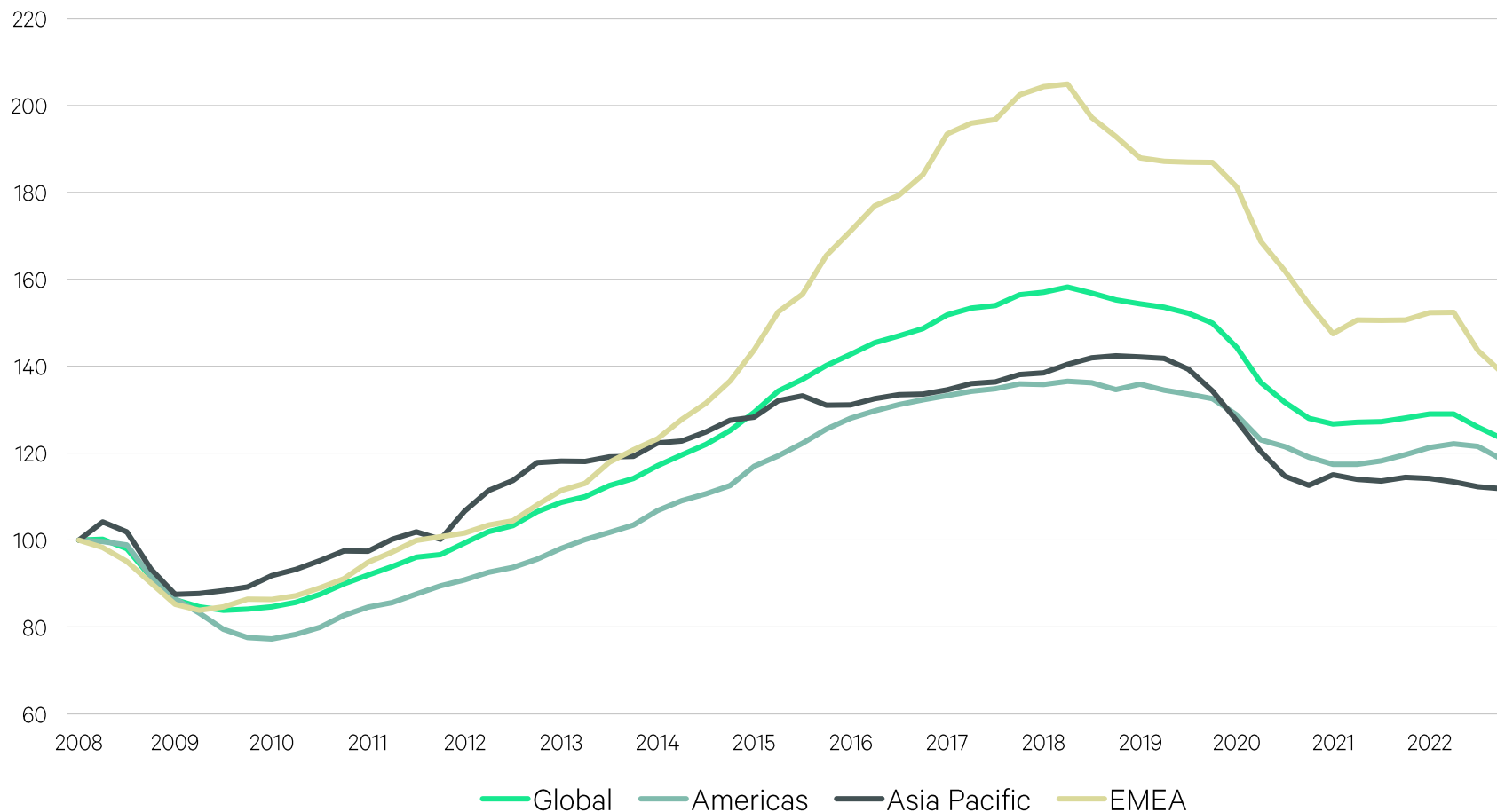
Capital value of investment grade industrial properties in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Retail capital values decline globally

- Despite resilient retail sales, capital values fell across the sector in Q4 2022.
- While retailers are re-assessing their global footprint, those in Asia Pacific are showing a positive attitude towards expansion.
- Investors have turned more positive towards selected retail assets globally as cap rates become attractive.

Global Retail Capital Value Index (Q1 2008 = 100)



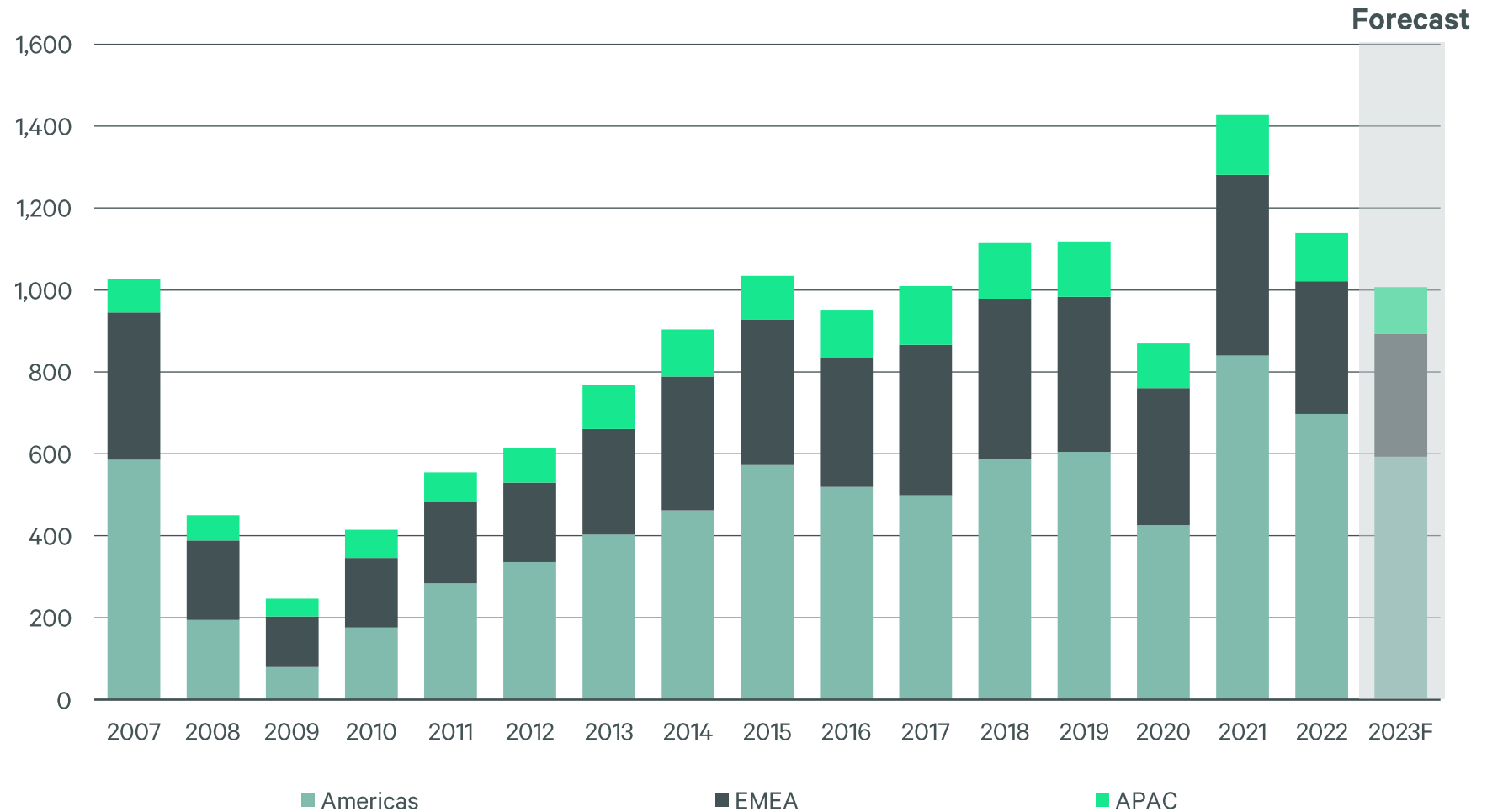
Capital value of investment grade retail properties in top markets for each region, end of period quarterly.

Source: CBRE Research, Q4 2022.

# Global real estate investment logs second highest total on record despite slowdown

- Global commercial real estate investment volume fell 20% y-o-y in 2022 from 2021's record high.
- Full-year investment volume declined by 17% y-o-y in the Americas, by 27% y-o-y in EMEA, and by 19% y-o-y in Asia Pacific.
- Investment volume in the Americas is forecasted to decline by 15% y-o-y in 2022. EMEA is expected to see a decline between 5% to 10%, while a decline of 0% to -5% is forecasted in Asia Pacific.

Annual global property investment volume (US\$ billions)

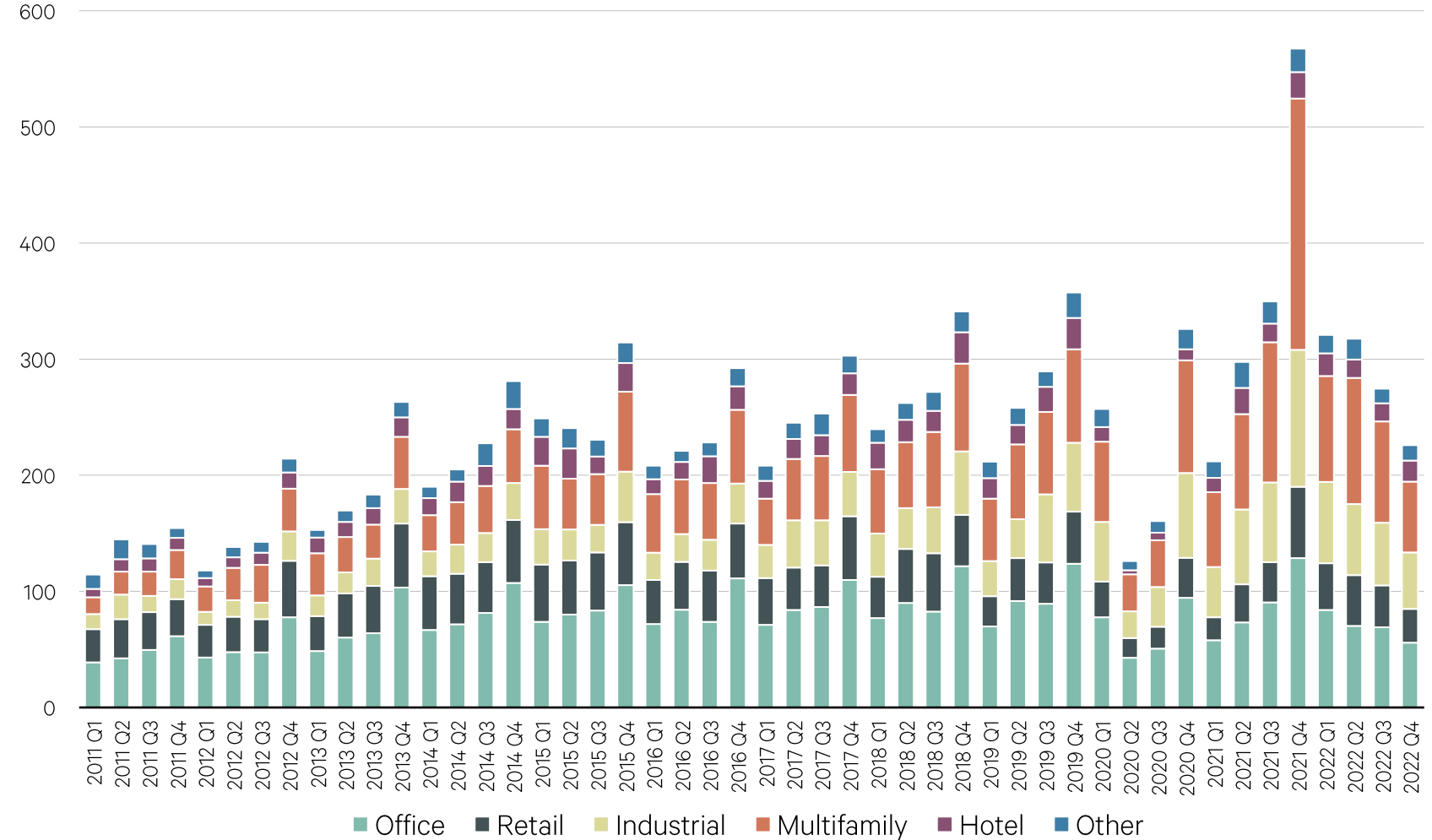


Source: CBRE Research, MSCI Real Assets (for Americas), Q4 2022.

# Multifamily, office and industrial remain most sought-after property types

- U.S. investors continue to prefer multifamily and logistics due to solid fundamentals and structural tailwinds.
- European and Asia Pacific investors continue to invest in offices, especially core prime office assets in major cities.

Global property investment by sector (US\$ billions)

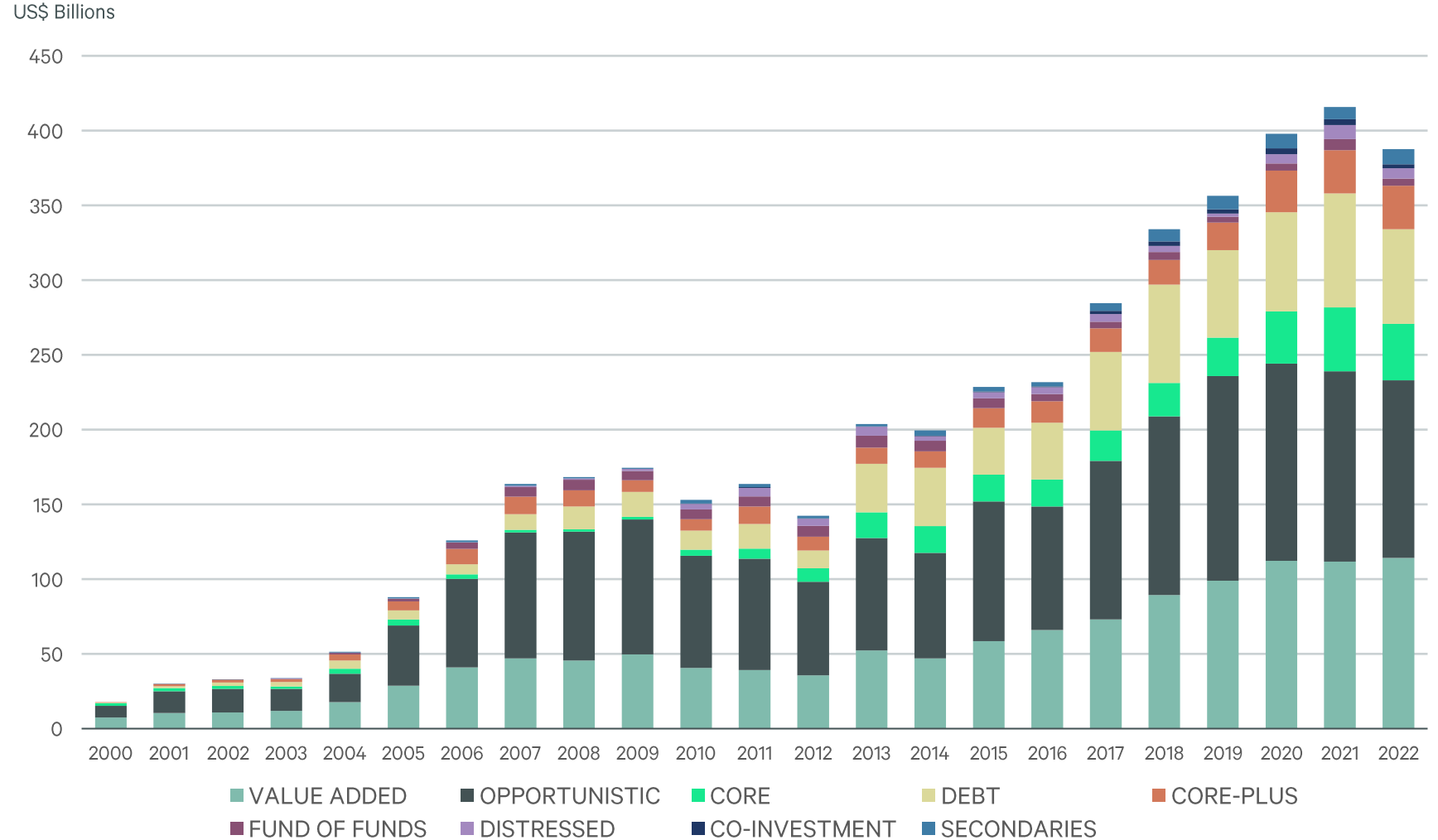


Source: CBRE Research, MSCI Real Assets (for Americas), Q4 2022.

# Investors possess ample capital available for deployment

- While the amount of dry powder available in 2022 fell from 2021 levels, investors with value added and opportunistic strategies still possess ample capital for deployment.

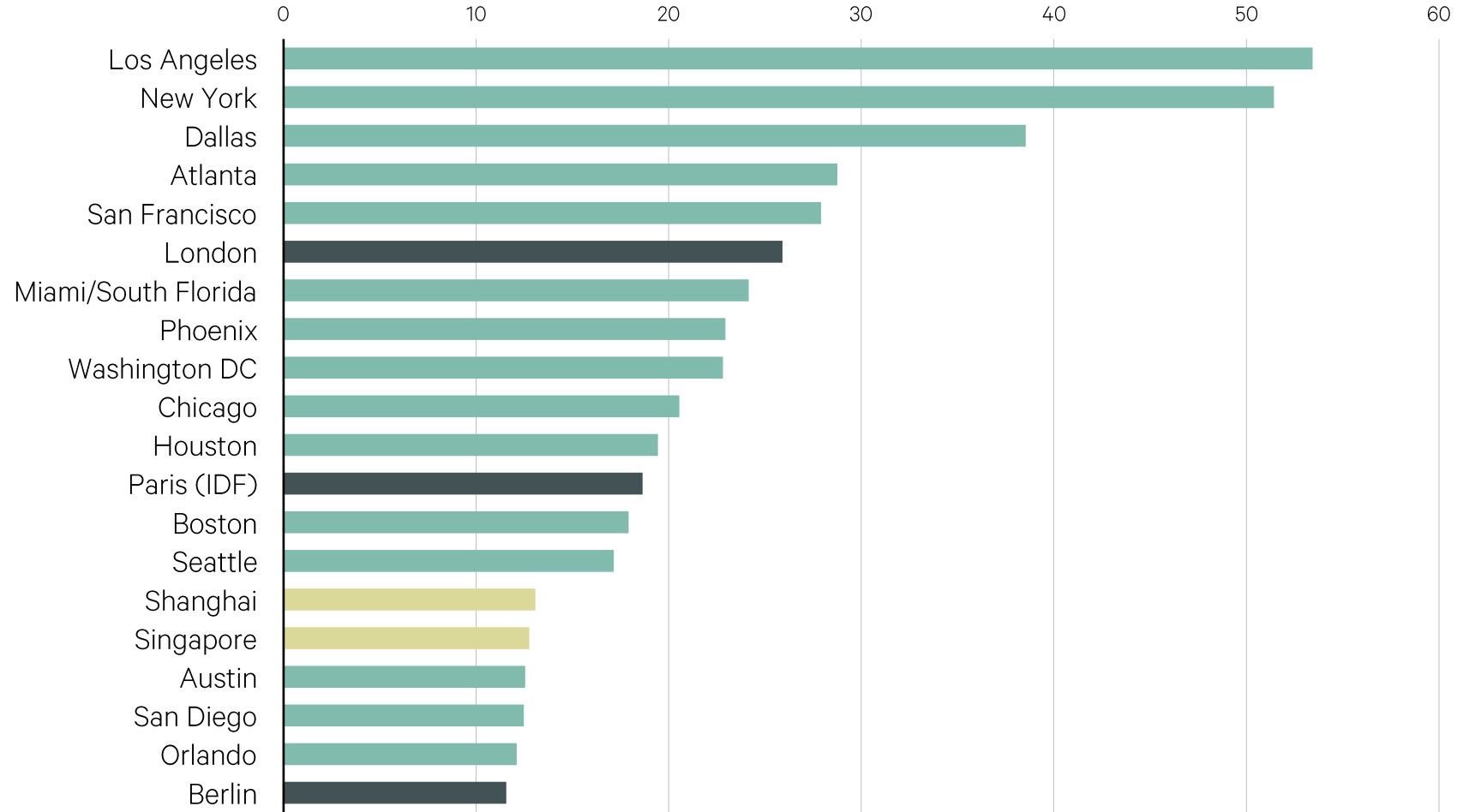
Global real estate dry powder by strategy, US\$ billions



Source: Preqin, CBRE Research, Q4 2022.

# Los Angeles and New York head list of top global cities for investment

### Top 20 global cities by investment volume in 2022 (US\$ billions)

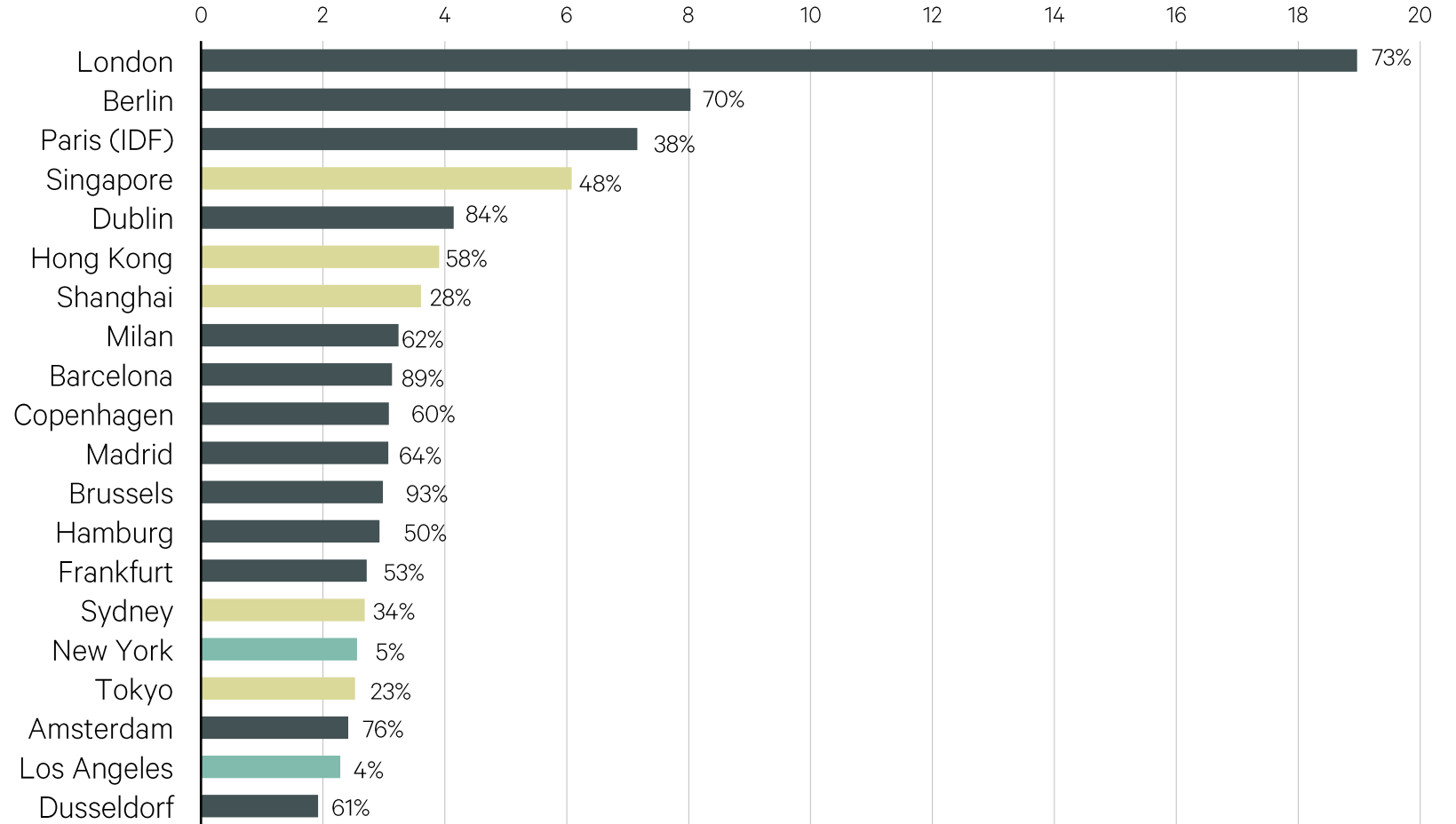


Source: CBRE Research, MSCI Real Assets (for Americas), Q4 2022.



# London most popular cross-border investment destination

**Top 20 global cities by cross-border investment activity in 2022 (US\$ billions)**  
 Percentage value represents cross border as % of total investment in the market



Source: CBRE Research, MSCI Real Assets (for Americas), Q4 2022.

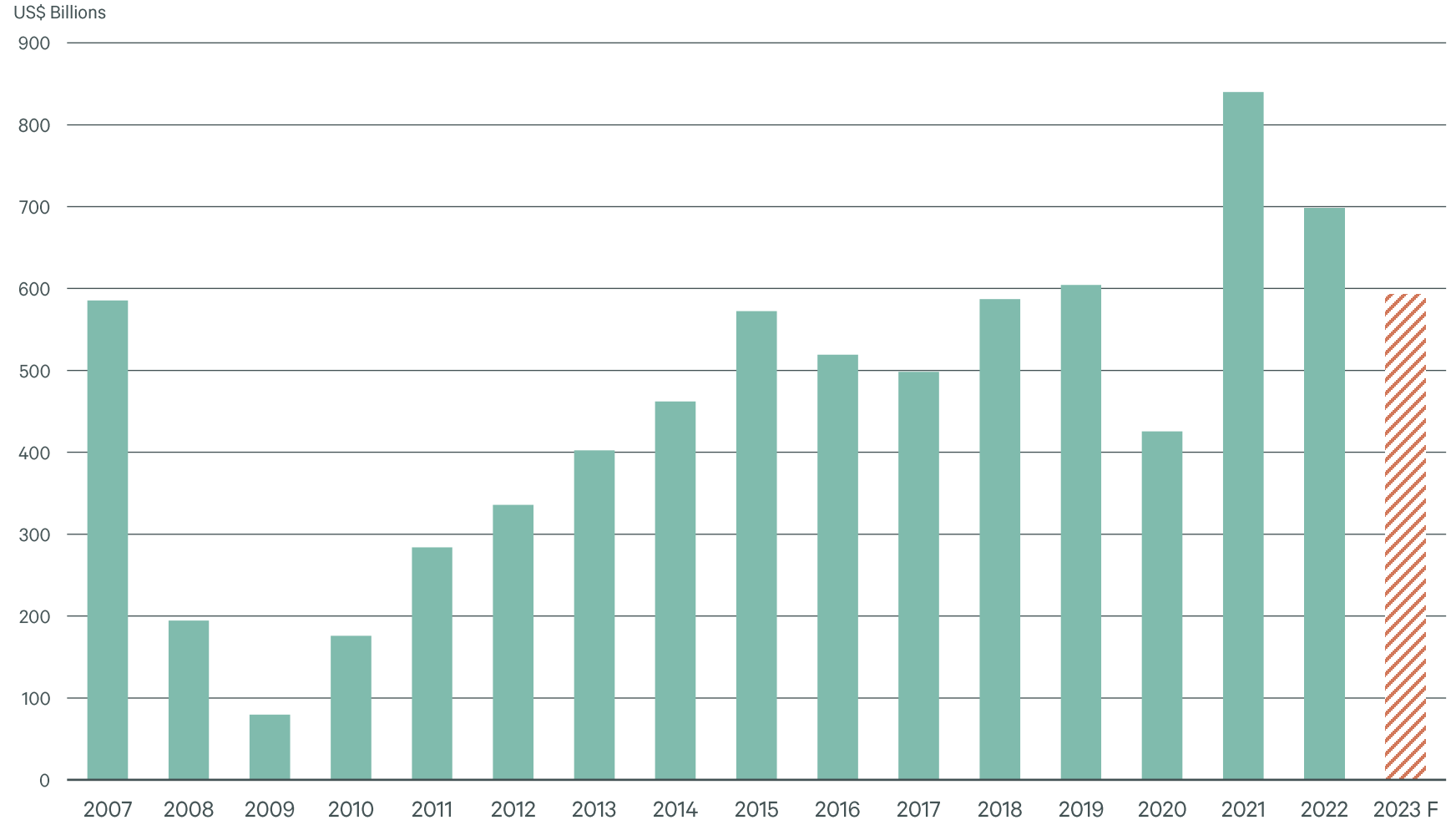


Regional  
Trends:  
Americas

# Investment volume expected to decline but should remain close to pre-pandemic levels

- Economic uncertainty and higher interest rates weighed on investment activity in H2 2022.
- Investment volume nevertheless remains strong on a historical basis.
- CBRE forecasts 2023 investment volume to fall 15% from 2022 levels.

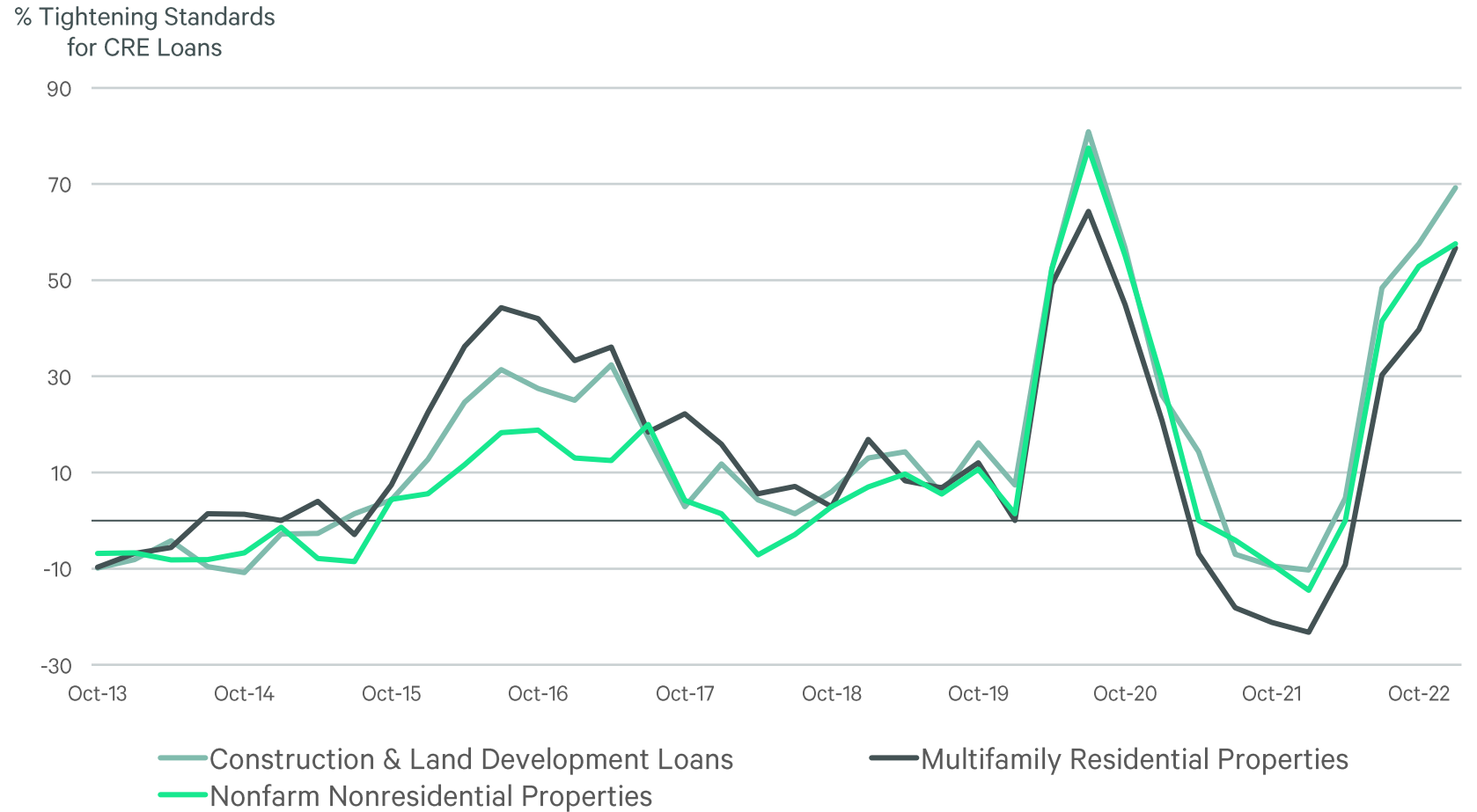
Americas investment volume 2007 to 2023



Source: CBRE Research, MSCI Real Assets, Q4 2022.

# Lenders tighten underwriting standards

## Senior loan officer opinion survey on bank lending practices for commercial real estate

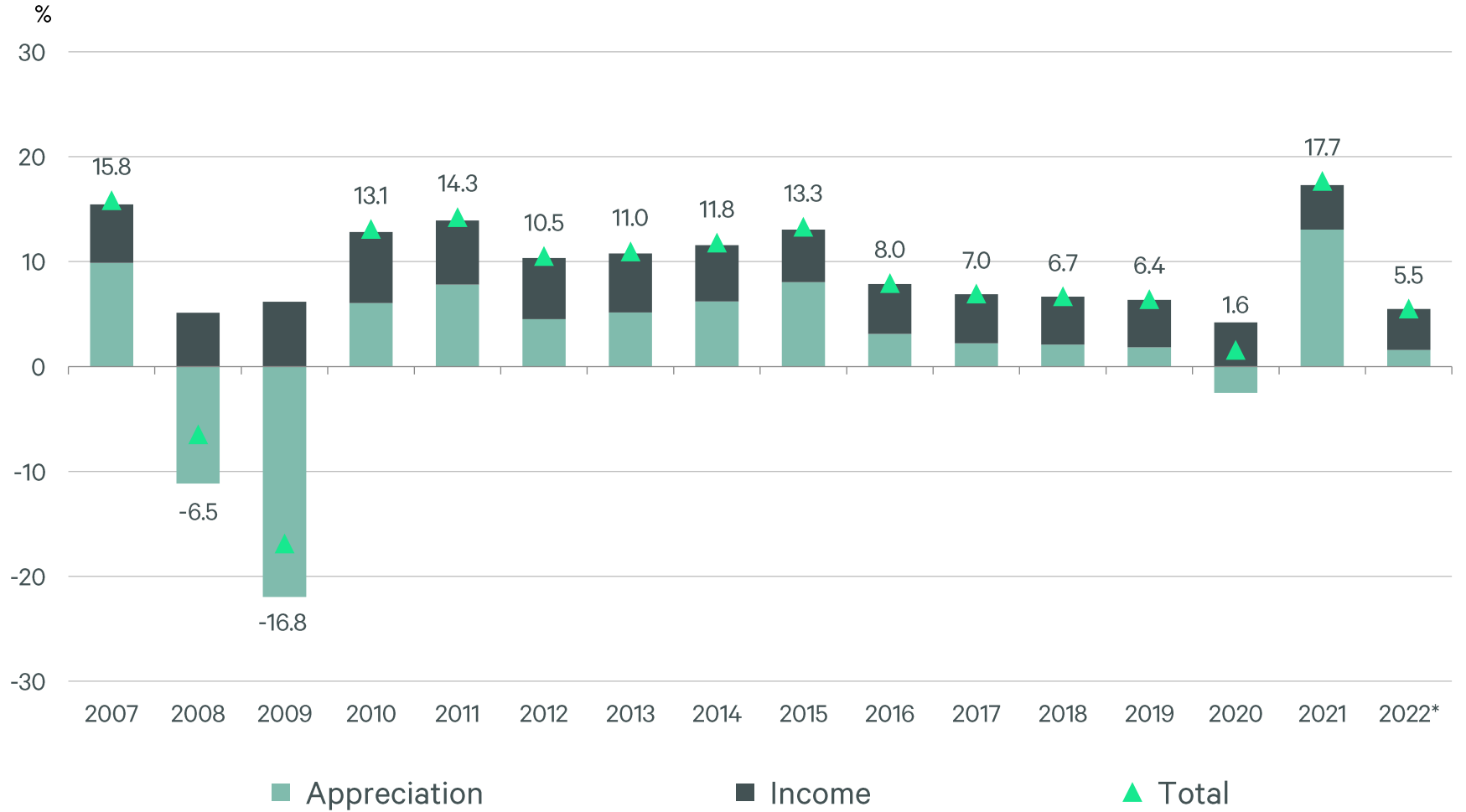


Source: Federal Reserve, CBRE Research, Q4 2022.

# U.S. property index returns remain positive in 2022

- Annualized NCREIF total returns increased to 5.5% in Q4 2022.
- Returns are expected to weaken in 2023 as private funds write-down property values and cap rates continue to expand.

## U.S. property index returns from NCREIF

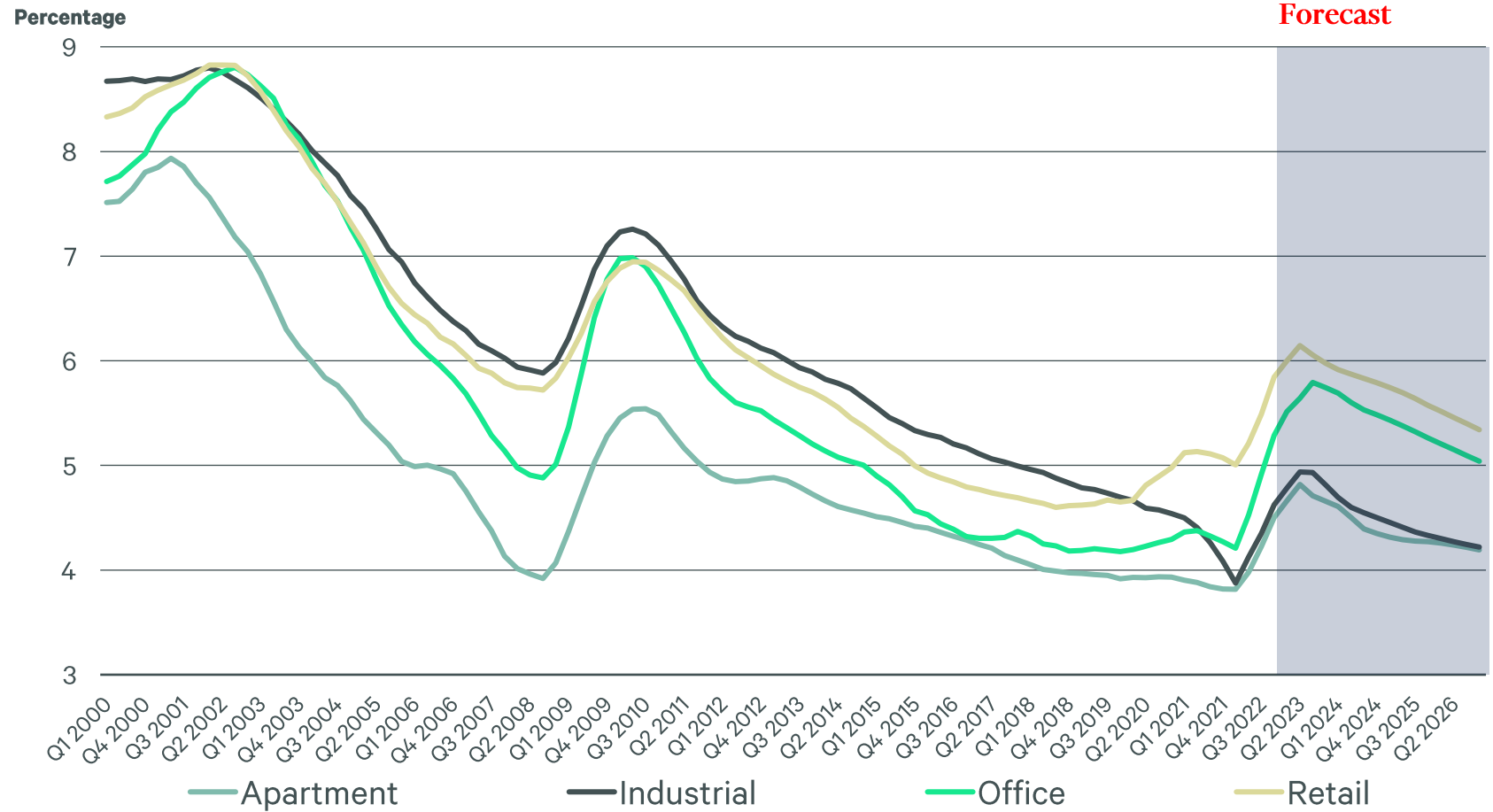


Source: CBRE Research, NCREIF, Q4 2022. \*For year ending Q4 2022. All returns are reported on an unlevered basis.

# U.S. cap rates to decompress further into H1 2023

- Despite a lack of comparative sales, anecdotal evidence suggests that cap rates for prime U.S. assets across most property types increased by 100 bps to 150 bps in 2022.
- If the Fed continues to raise interest rates, cap rates are forecasted to expand further in the range of 25 bps to 50 bps.

## U.S cap rates by sector

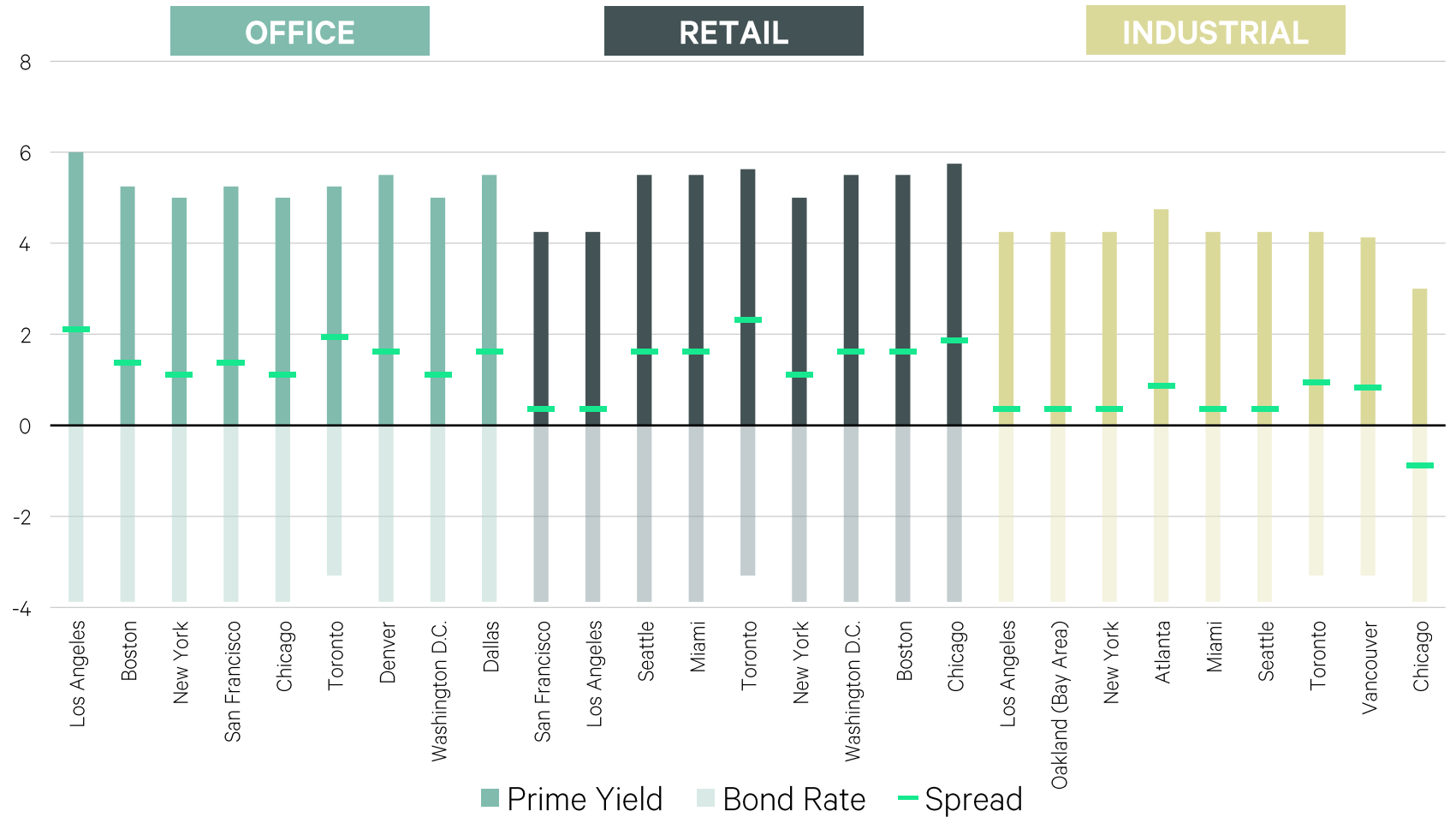


Source: CBRE Econometric Advisors, Q4 2022.

# Spreads are tight across sectors in the Americas

- Anecdotal evidence suggests yields have increased by around 100 bps for all property types in the Americas. Spreads nevertheless remain relatively compressed.

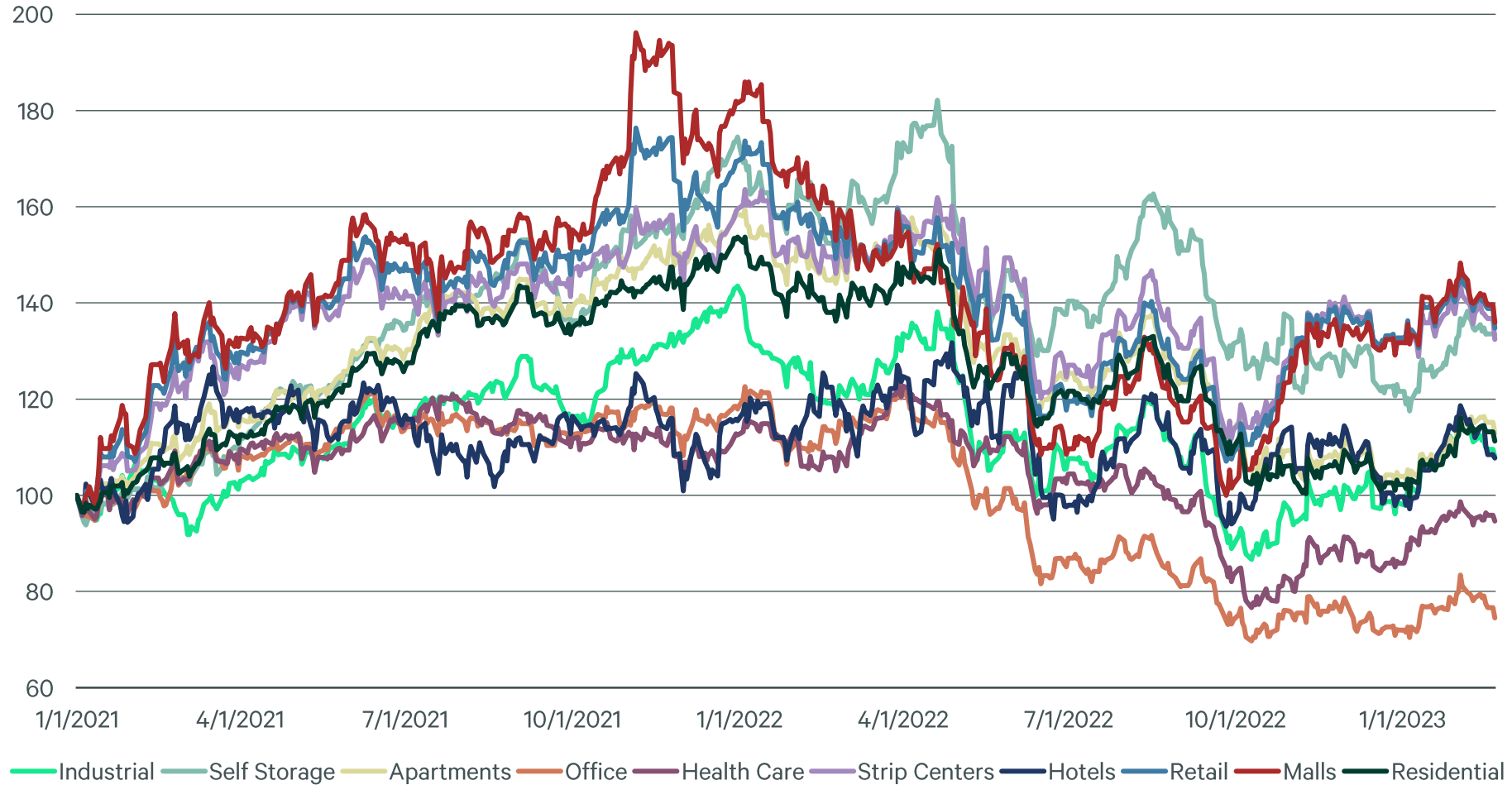
Sector yield spreads in major Americas markets



Source: CBRE Research, National Sources, Macrobond, Q4 2022.

# U.S. REITs rebound but remain off highs; office and healthcare lag

### U.S REIT Index by Sector Index (Jan. 2021 = 100)



Source: CBRE Research, Wilshire Associates Incorporated, Q4 2022.



Relatively strong USD creates opportunities abroad but weighs on demand for assets in the U.S.

### U.S. Dollar Index



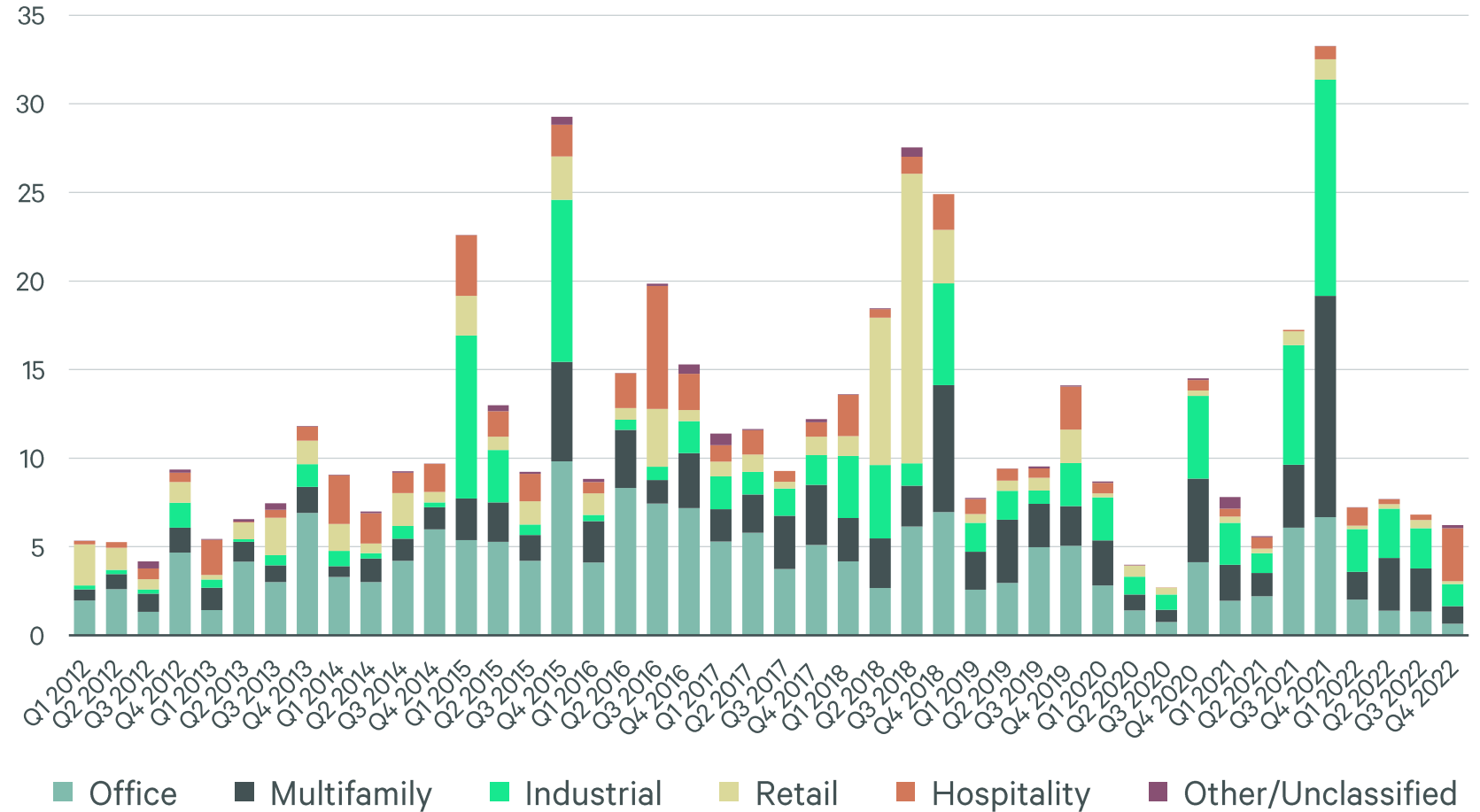
Source: Intercontinental Exchange (ICE), CBRE Research, Q4 2022.

# Strong USD negatively impacts foreign investment

- Foreign investment in the U.S. fell 81% y-o-y in Q4 2022 and declined 9% q-o-q from Q3 2022.
- Foreign investment in the U.S. will continue to be hampered by the strength of the USD and higher hedging costs.

## U.S. cross-border investment by property type

Investment Volume (\$ Billions)

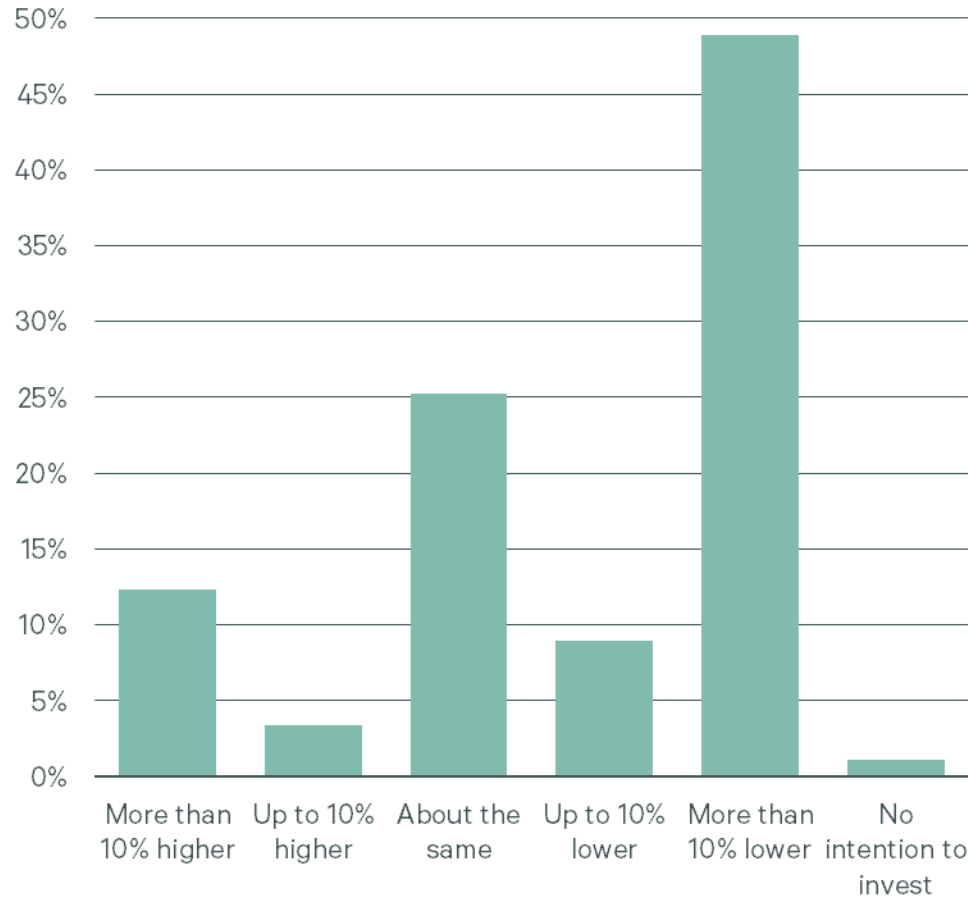


Source: CBRE Research, MSCI Real Assets (for Americas), Q4 2022.

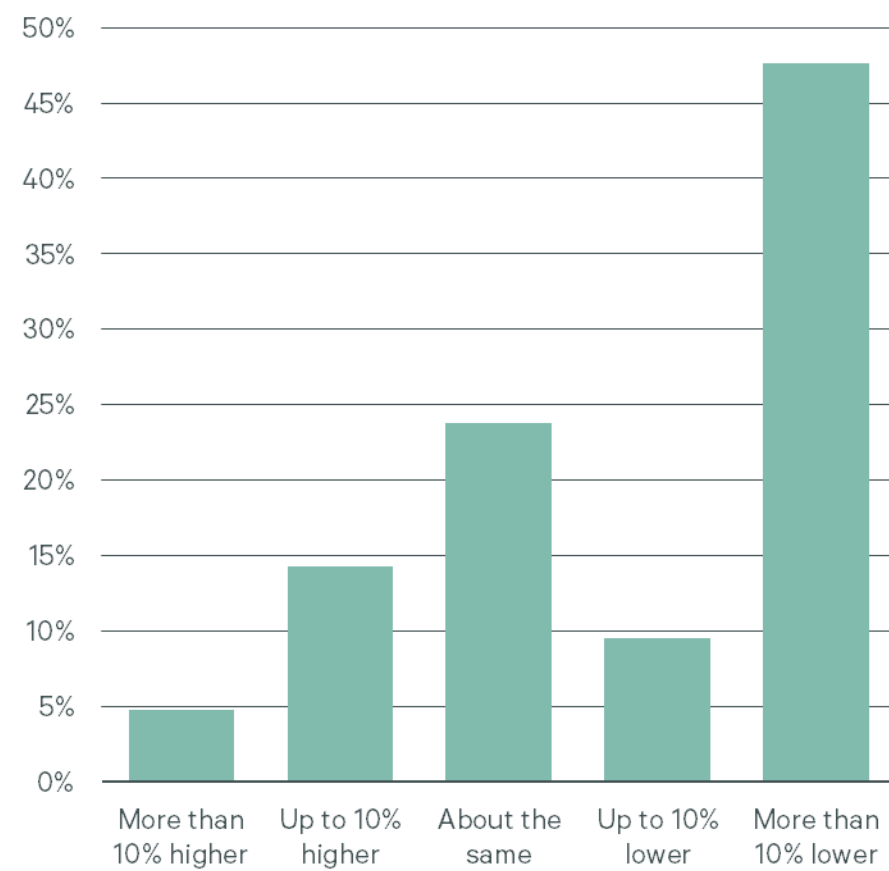
# Investors plan to purchase less and lenders intend to originate less

— Full information available in CBRE’s [U.S. Investor and Lender Intentions Surveys](#).

**Investors' purchasing activity expectations in 2023**



**Lenders' origination activity expectations in 2023**



Source: CBRE Investor and Lender Intentions Surveys, Q4 2022.



Regional  
Trends:  
EMEA

## Road ahead remains bumpy despite recent improvements



Avoided recession in 2022; minimal growth in 2023, Recovery in 2024



Inflation has peaked but remains well above target  
Interest rates to remain elevated

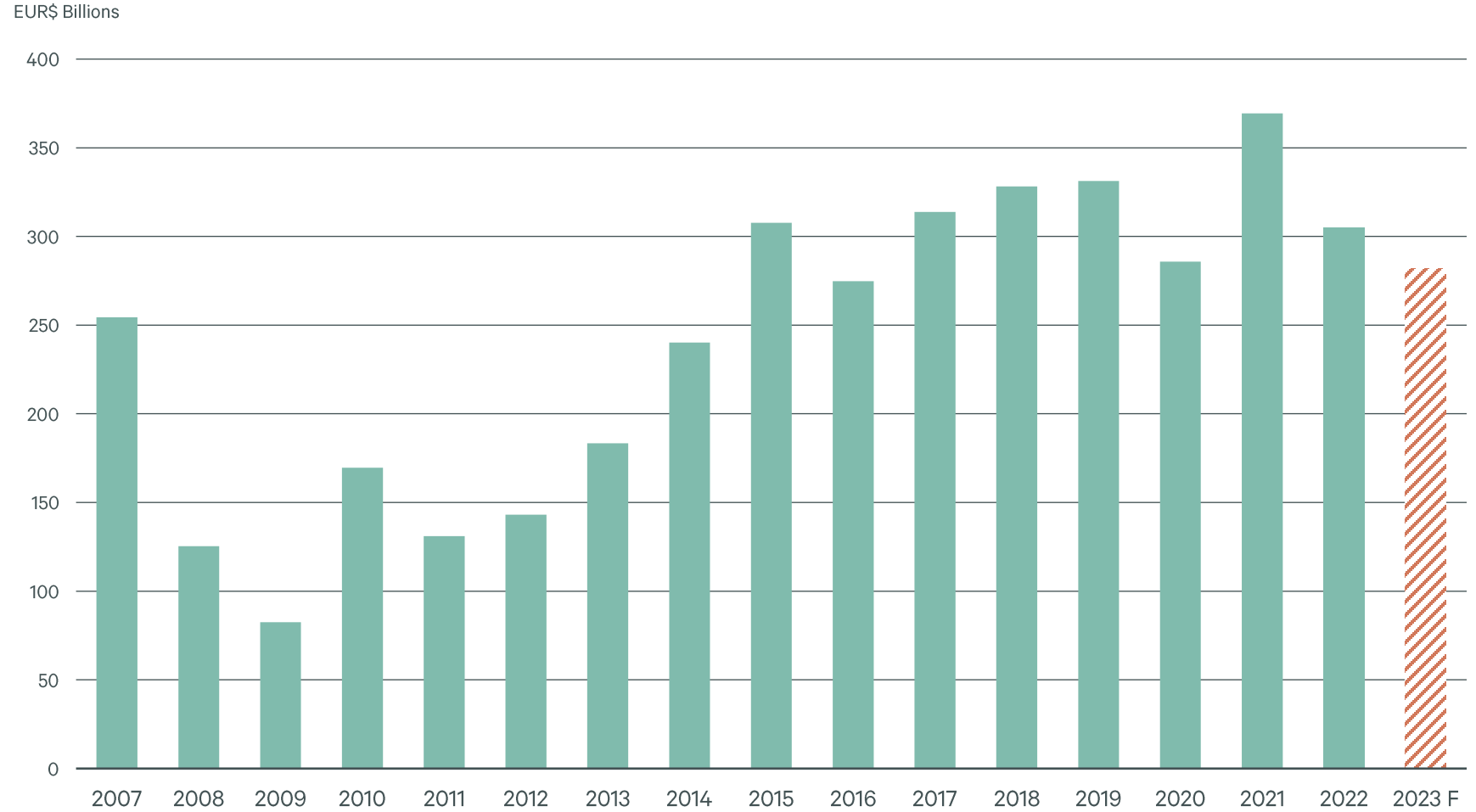


Uncertainty centered on geopolitics; 2024 gas reserves

# Investment volume set to decline

- European investment volume fell by 17% (local currency) y-o-y in 2022.
- Investment is forecasted to experience another 5% to 10% y-o-y drop this year.

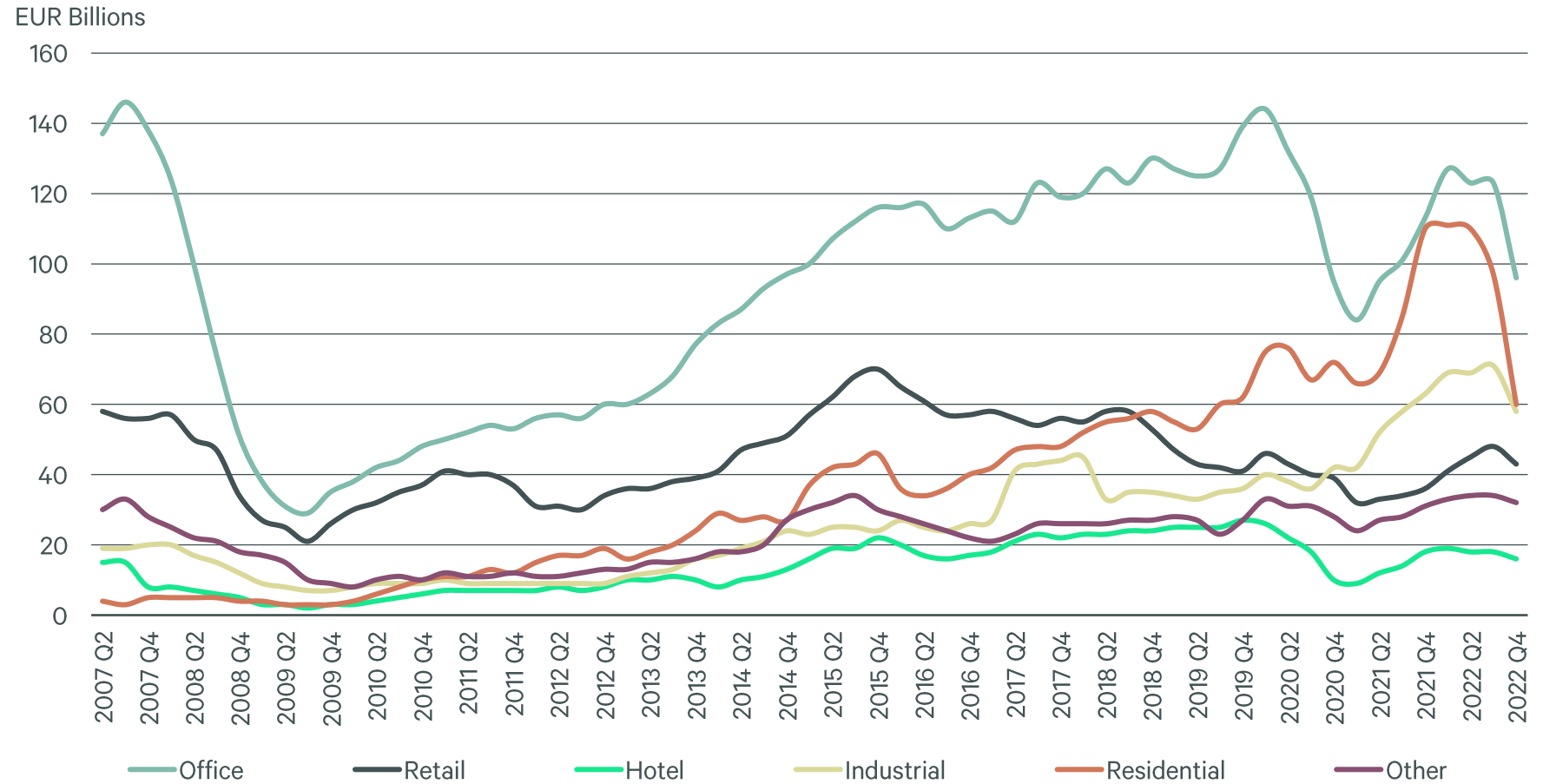
## European investment volume 2007 to 2023



Source: CBRE Research, Q4 2022.

Investment volume falls across all property types; decline most prominent in office and residential sectors

Total investment volume rolling four quarters (EUR Billions)

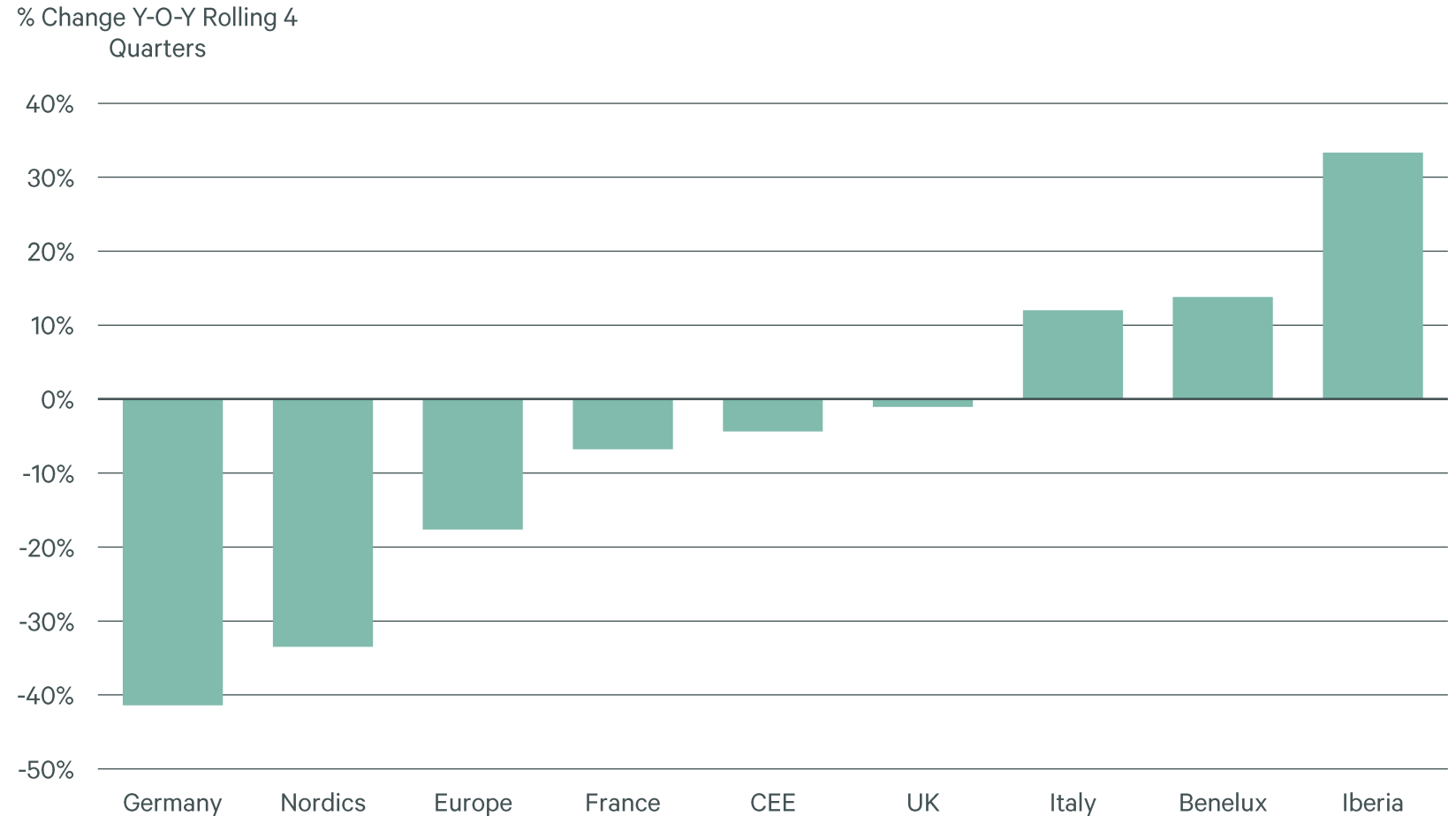


Source: CBRE Research, Q4 2022.

## Bright spots include Southern Europe

- Germany and the Nordics led the regional decline in investment volume in 2022, logging a drop of 18% y-o-y. The fall was partly due to higher financing costs curtailing the flow of large residential portfolio deals.
- The UK saw only a -1% y-o-y decrease in investment volume as H1 2022 saw several prime office assets change hands.
- Southern Europe registered strong deal flow during the first three quarters of 2022, partly due to the area lagging the regional resurgence in investment volume in 2021.

European investment by region 2022 vs 2021



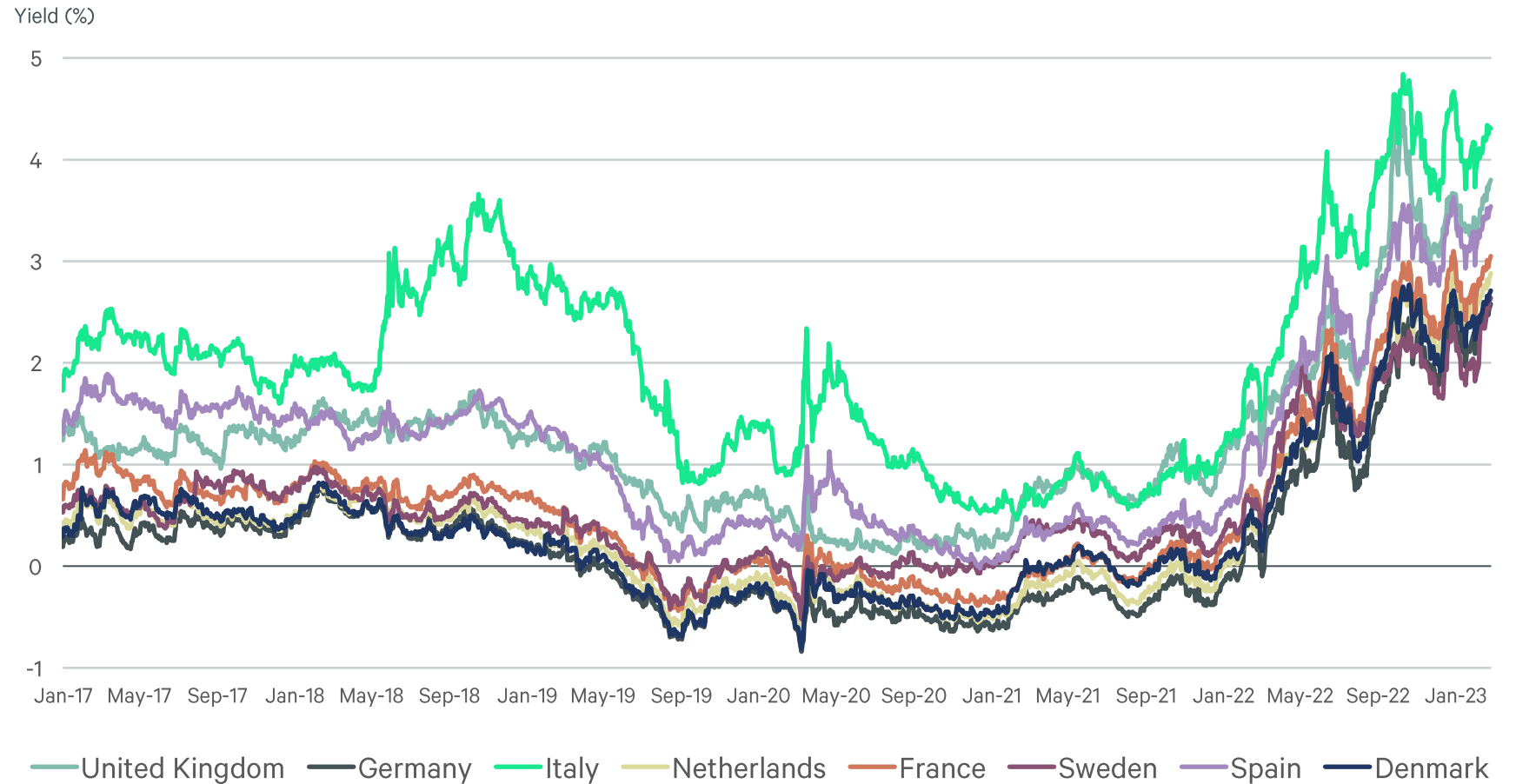
Source: CBRE Research, Q4 2022.



# Bond yields up across Europe

- Bond yields increased across major economies in Europe in Q4 2022 as central banks hiked policy rates to tame inflation.
- Higher borrowing costs are weighing on investment activity and property values.

## 10-year government bond yields



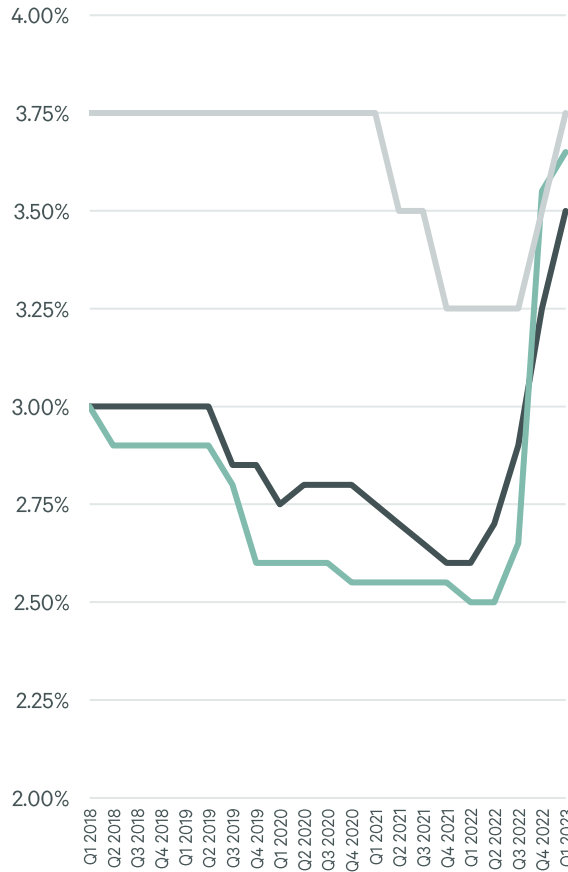
Source: Macrobond, CBRE Research, Q4 2022.

# Yields also up across property types

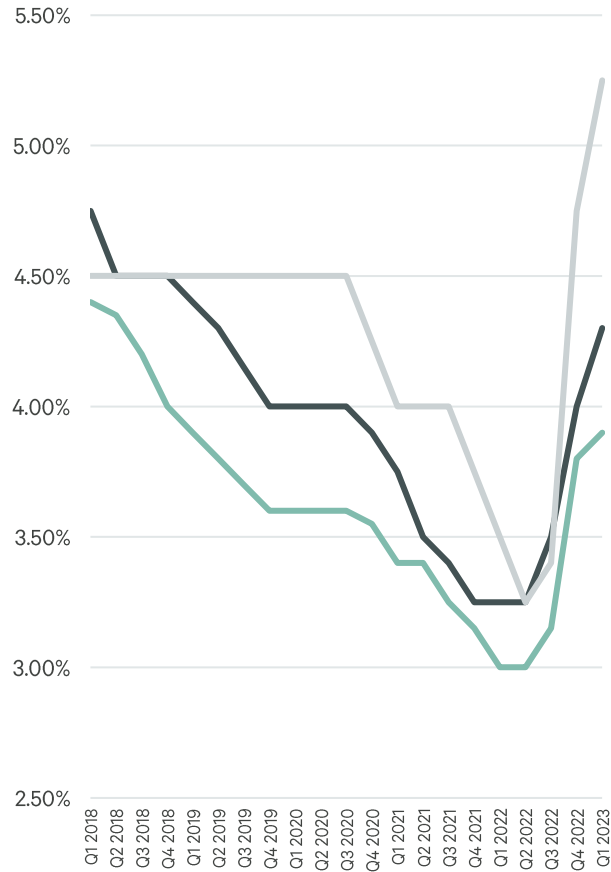
- Rising interest rates and worsening economic conditions led to yield expansion across all major property types and markets in H2 2022.
- With prime retail yields having already expanded significantly during the pandemic, there has been less movement in recent quarters relative to office and logistics.

## Prime Yields – France, Germany, UK

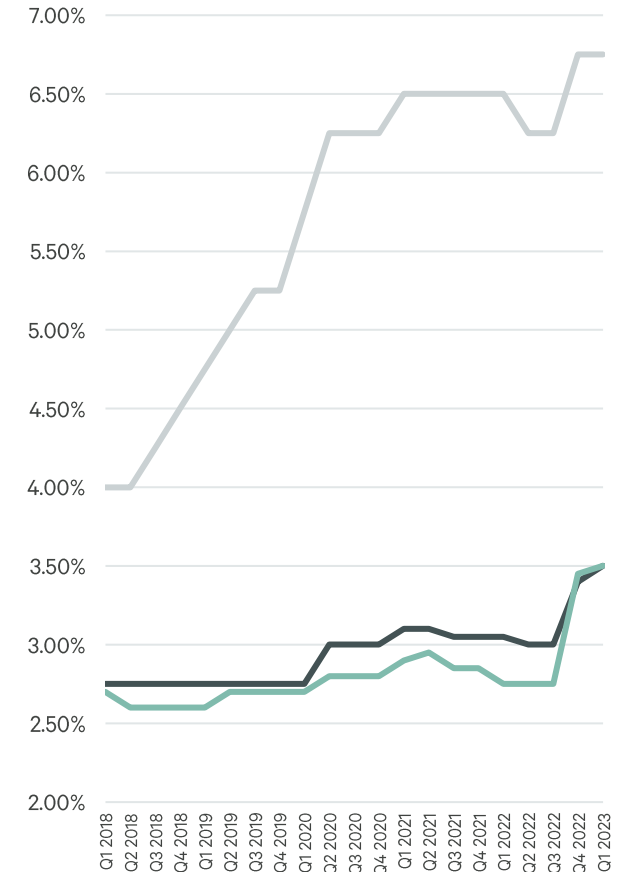
### Office - Prime



### Logistics - Prime



### Retail - High St.



— United Kingdom

— France

— Germany

Source: CBRE Research, Q3 2022.

# Swap rates settle after 2022 surge but remain elevated

- Swap rates have moved up by 300 bps since the end of 2021.
- Investors are paying closer attention to the movement of swap rates, loan margins and LTV ratios as these factors have a significant impact on entry and exit cap rate assumptions.

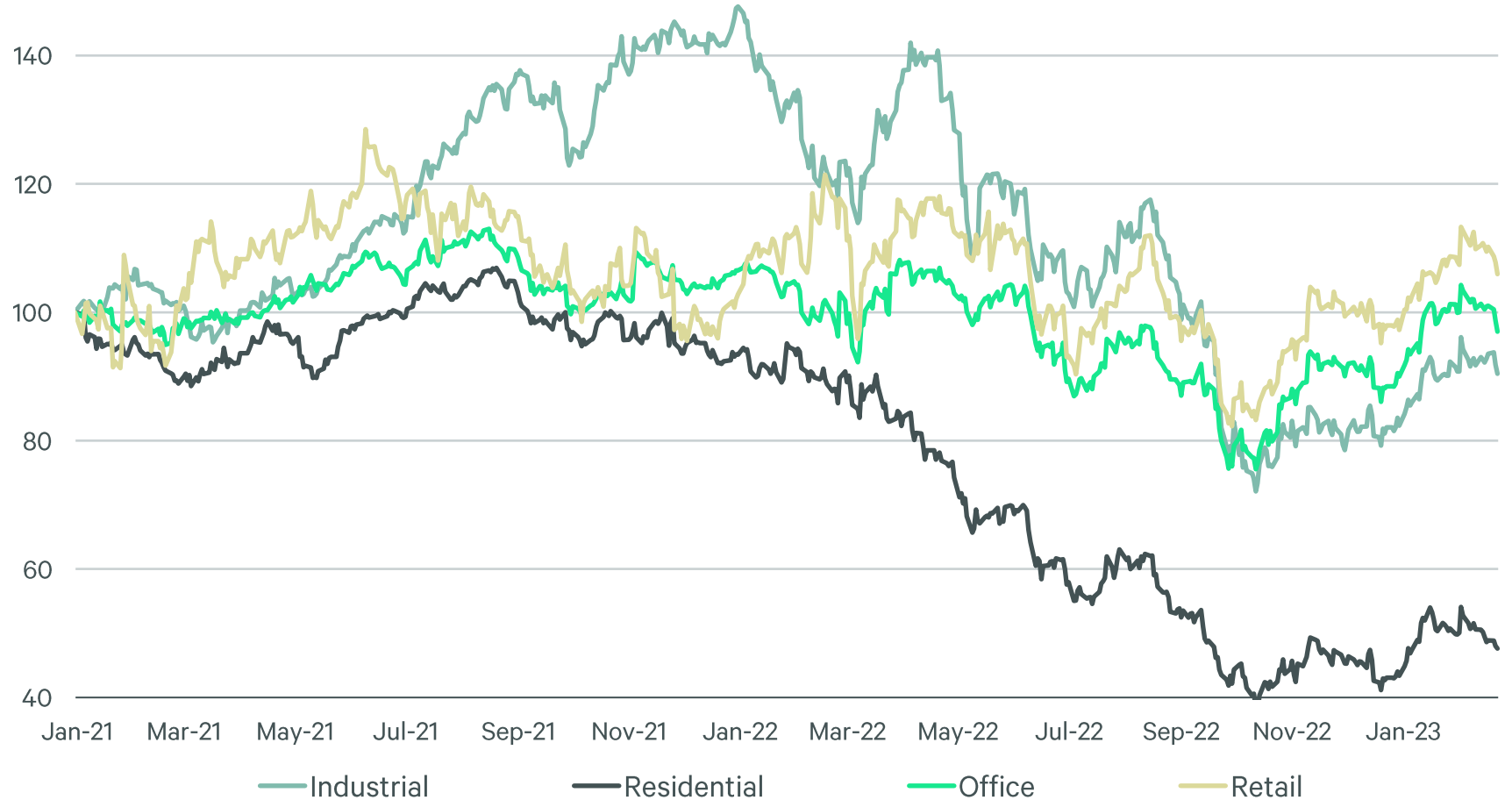
### 5-Year swap rates (%) As of January 2023



# European REITs yet to regain momentum; residential REITs lag

- Residential REITs dropped by the largest magnitude among all sectors in 2022.
- Industrial REITs also declined in 2022.

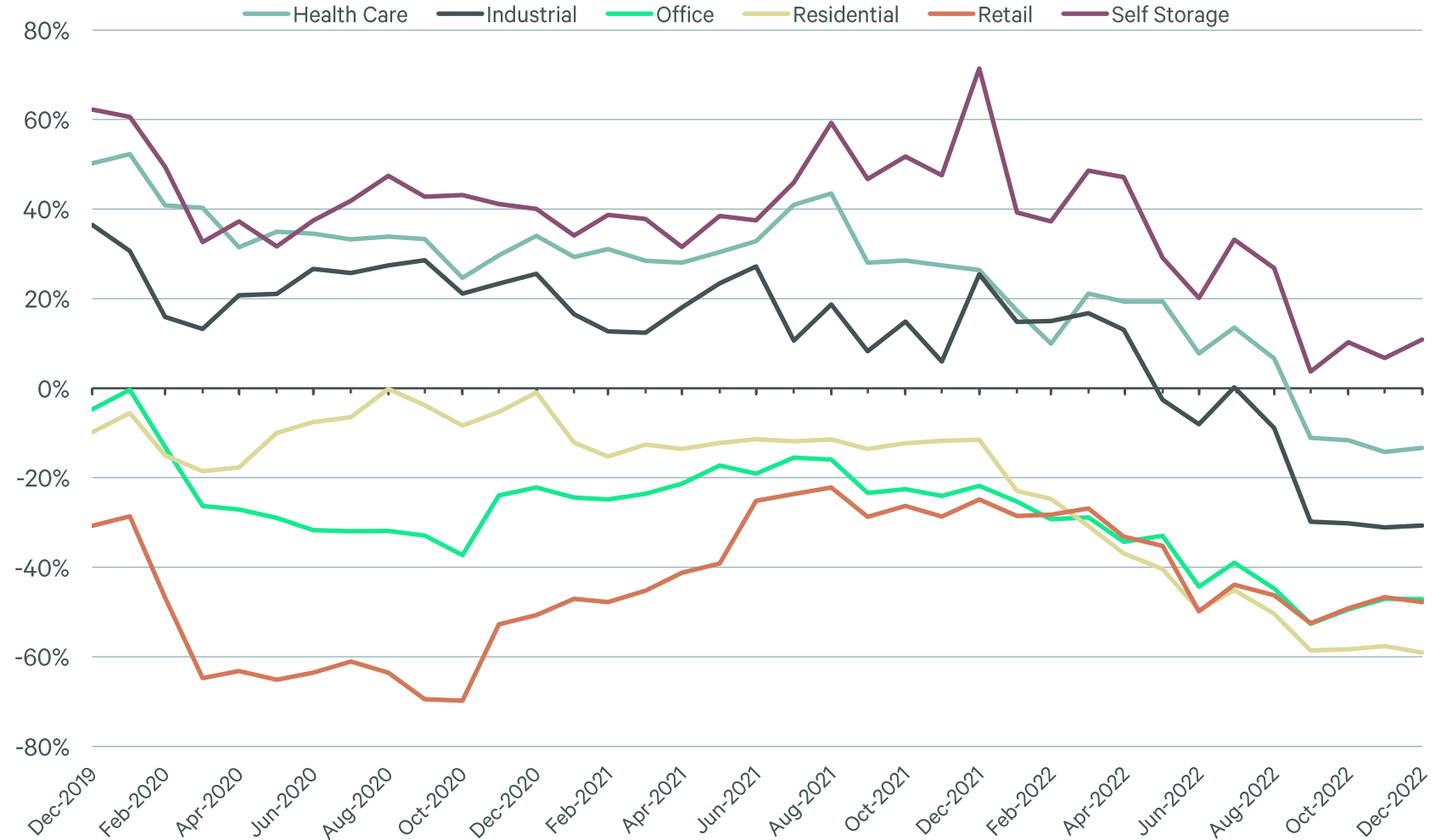
Euro Area REIT index by sector, EUR (Jan. 2021 = 100)



Source: CBRE Research, FTSE/EPRA, January 2023.

# European REITs trade at a discount to NAV

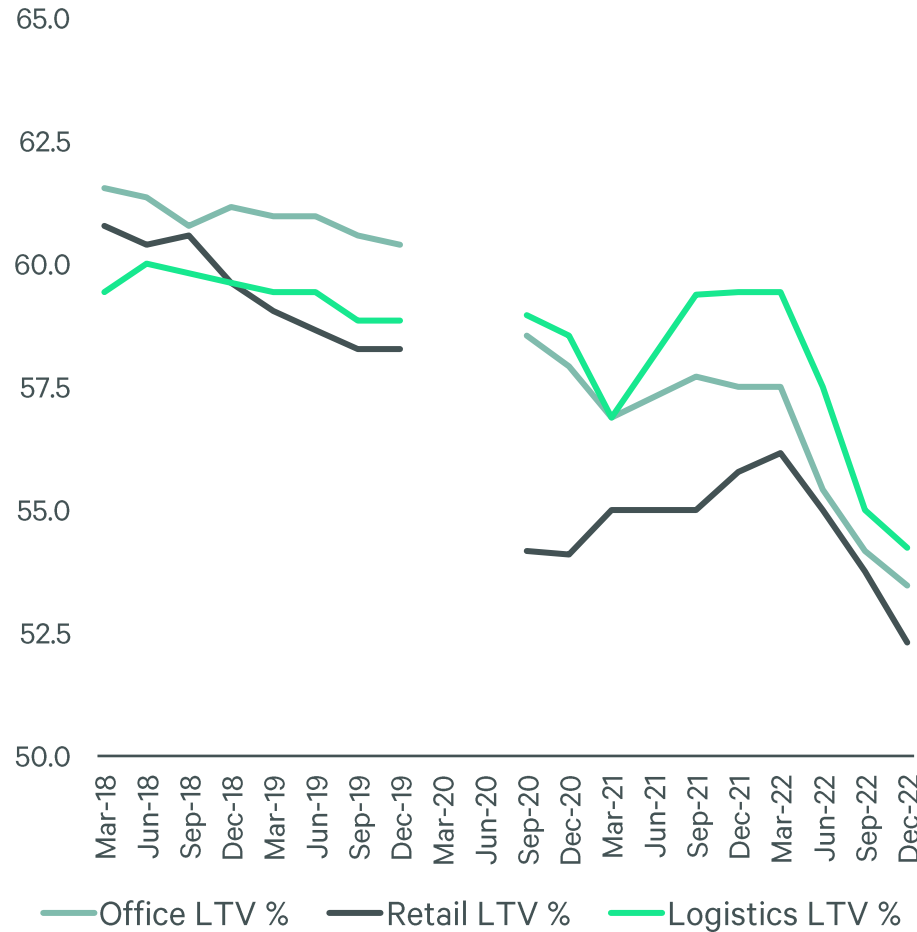
## European REIT discount to NAV by sector



Source: FTSE/EPRA, CBRE Research

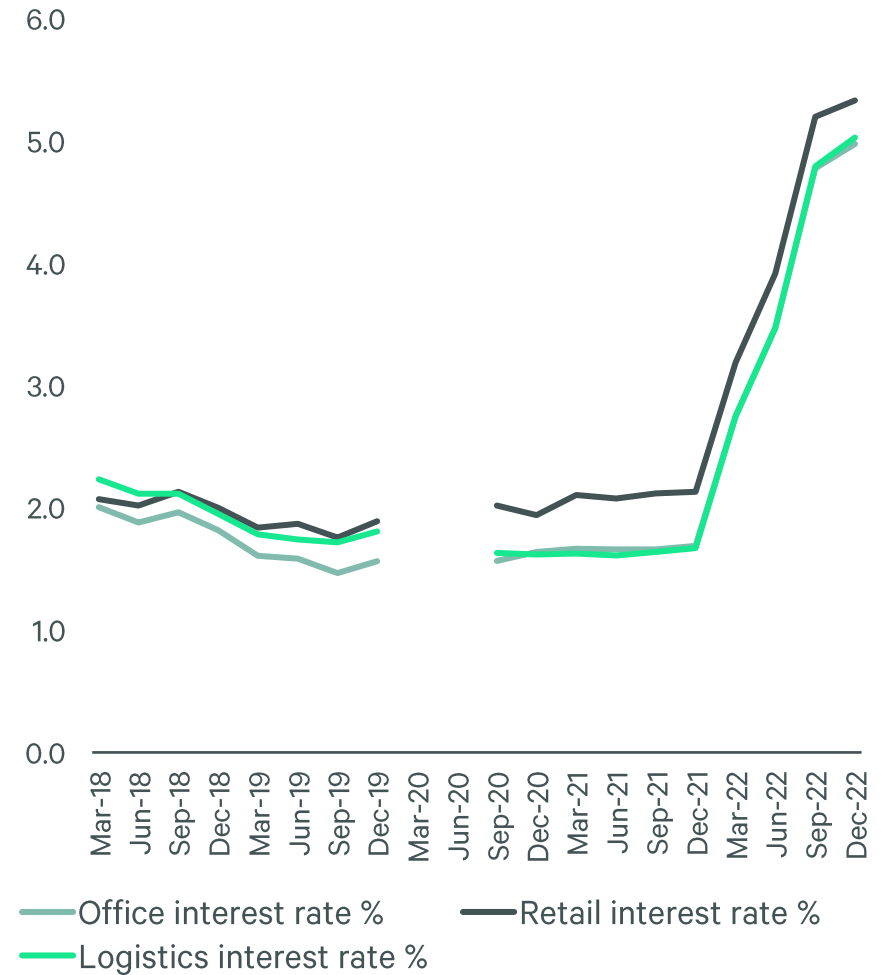
Rising cost of debt and lower LTV ratio create opportunities

Loan-to-value ratio (%) - European average



Source: CBRE European Debt Financing Review

Total cost of debt (%) - European average



Source: CBRE European Debt Financing Review

# 2023 European Investor Intentions Survey

01 Half of investors expect buying and selling activity to either remain the same or increase in 2023

02 Allocations to real estate among firms with the largest AUM are expected to remain the same or increase in the coming year

03 The geopolitical and macroeconomic landscape will weigh on investment volume in 2023

04 Opportunistic, distressed and NPLs are the most popular investment approaches

05 Office assets remain most sought after but multifamily continues to close the gap

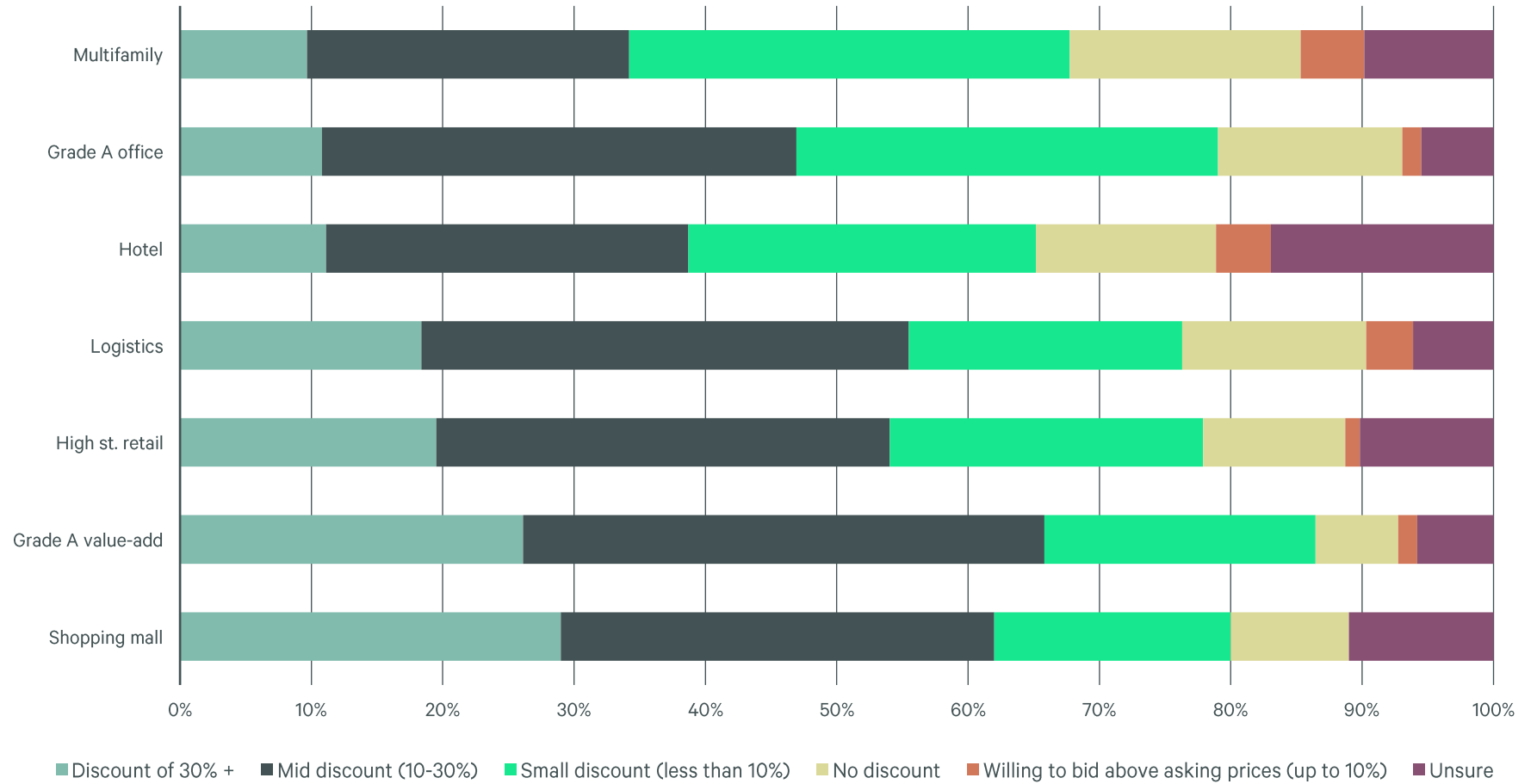
06 Discounts are expected to emerge across all asset classes, especially in the value-add office, retail, and logistics

07 Southern Europe is increasingly preferred in terms of country performance and most attractive city

08 ESG criteria remains a focus for investors, with some willing to pay premiums over 20% to acquire ESG-certified assets

Discounts expected across all sectors; deepest cuts for retail and value-add offices

European investors' pricing expectations in 2023



Source: CBRE European Investor Intentions Survey, Q4 2022



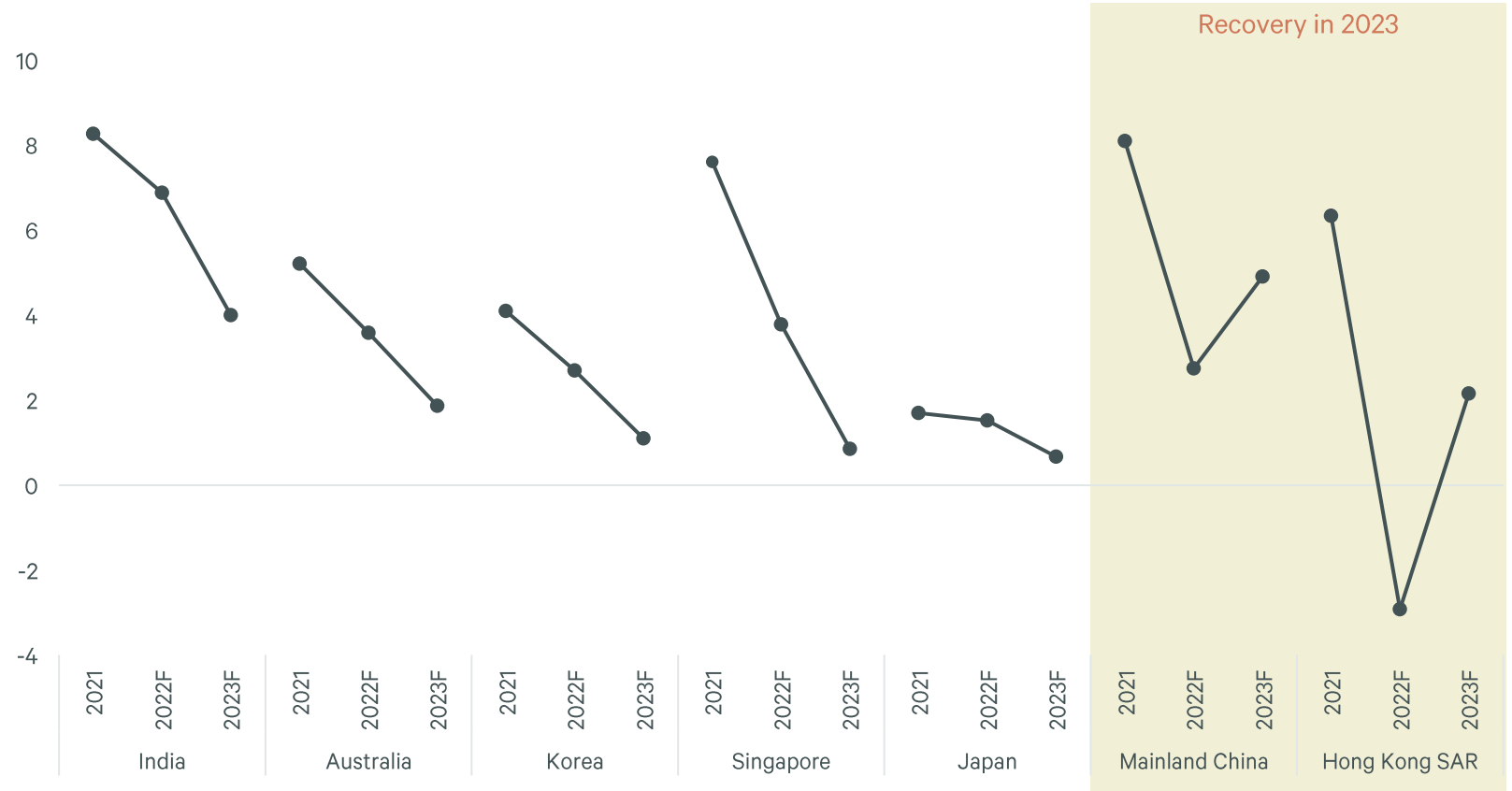


Regional  
Trends:  
Asia Pacific

Asia Pacific real GDP y-o-y growth (%)

# China's re-opening to compensate for weaker regional growth

- While Asia Pacific is expected to avoid a recession, several markets are likely to experience significantly slower growth.
- The sharpest decline in growth is expected in India and Singapore, which will suffer from slower manufacturing and export activity.
- With China having abandoned its zero-covid policy, CBRE expects a material increase in economic activity to commence in spring of this year.
- Labor markets in Asia Pacific are expected to remain tight in 2023 as unemployment rates stay at pre-pandemic levels.



Source: CBRE House-View, January 2023

## Benchmark rates continue to rise but increases will decelerate in 2023

- Most Asia Pacific markets are expected to witness further increases in lending rates in H1 2023.
- China and Japan will be the exceptions as they retain a dovish monetary stance.

### Reference Rates – Asia Pacific

Reference rates for debt lending (as of 14<sup>th</sup> February 2023)

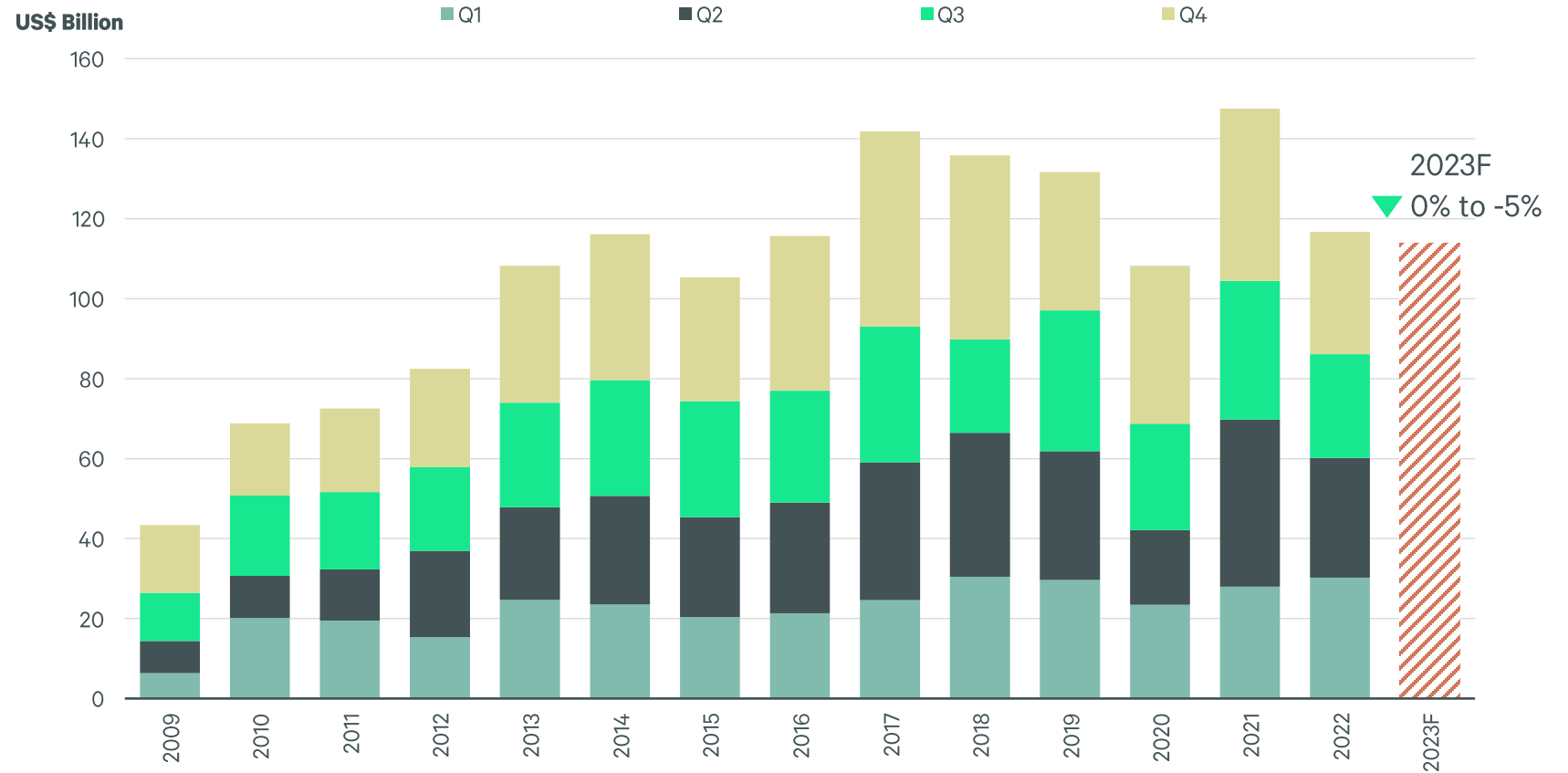
	Reference Rate	Current (%)	Change since 2022 (bps)
China	1-year Loan Prime Rate	3.65%	-15
Japan	3M TIBOR	0.075%	+0.7
Taiwan	1-year deposit	1.70%	+91
Hong Kong	3M HIBOR	3.43%	+317
Thailand	3M Minimum Lending Rate	7.05%	+81
India	Repo Rate	6.50%	+250
Vietnam	1-year Deposit	7.40%	+190
New Zealand	3M Bill	5.10%	+414
Singapore	3M SORA	3.21%	+302
Australia	3M BBSW	3.47%	+339
Korea	3M KORIBOR	3.52%	+213

Source: Macrobond, CEIC, CBRE Research, February 2023

# Investment activity expected to accelerate in H2 2023 when interest rates stabilize

- Further interest rate hikes and weaker economic growth in most major Asia Pacific economies ensured most investors remained on sidelines in 2022.
- Commercial real estate investment in 2022 totaled US\$116.7 billion, down 21% y-o-y.
- CBRE expects investment sentiment to improve once there is firm evidence that inflation and interest rates have peaked, likely in H1 2023.
- Full-year investment volume is forecasted to fall within a range of 0% to 5% compared to 2022 levels.

## Asia Pacific regional investment volume

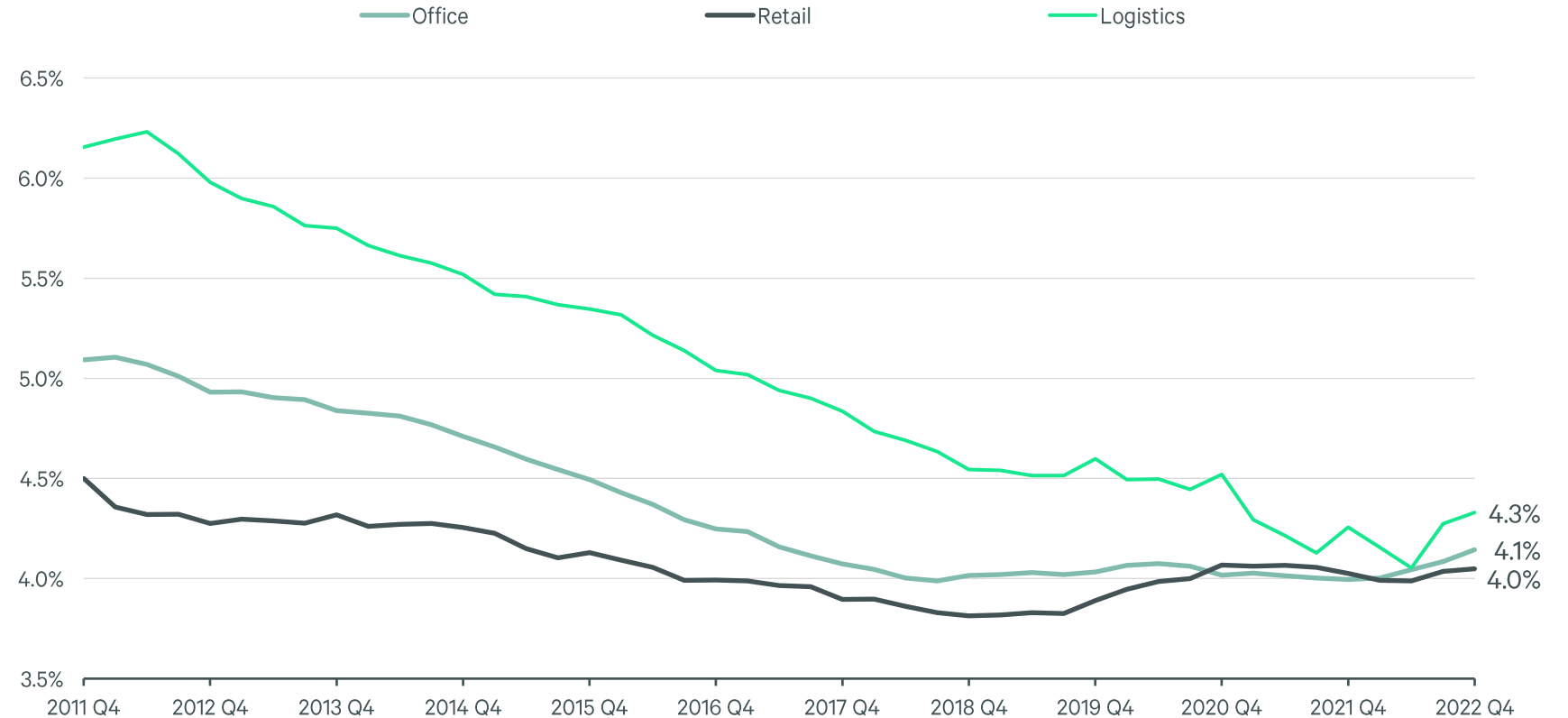


Notes: Transactions include deals above US\$10 million in the office, retail, industrial, mixed-use, hotel and other commercial sectors. Residential and development sites are excluded  
 Source: MSCI Real Assets, CBRE Research, Q4 2022.

# Further prime yield expansion needed to match higher cost of capital

- Yields are likely to decompress further over the next six months, especially in markets undergoing more aggressive monetary tightening.
- While logistics assets will remain most sought after, yield expansion in the sector is forecasted to eclipse that for office and retail.
- Investment in retail has yet to rebound but retailers are now displaying stronger expansionary sentiment.
- With mild office yield expansion making core investments less attractive amid the current high interest rate environment, office investors are advised to focus on other factors such as rental reversion.

## Asia Pacific prime yields

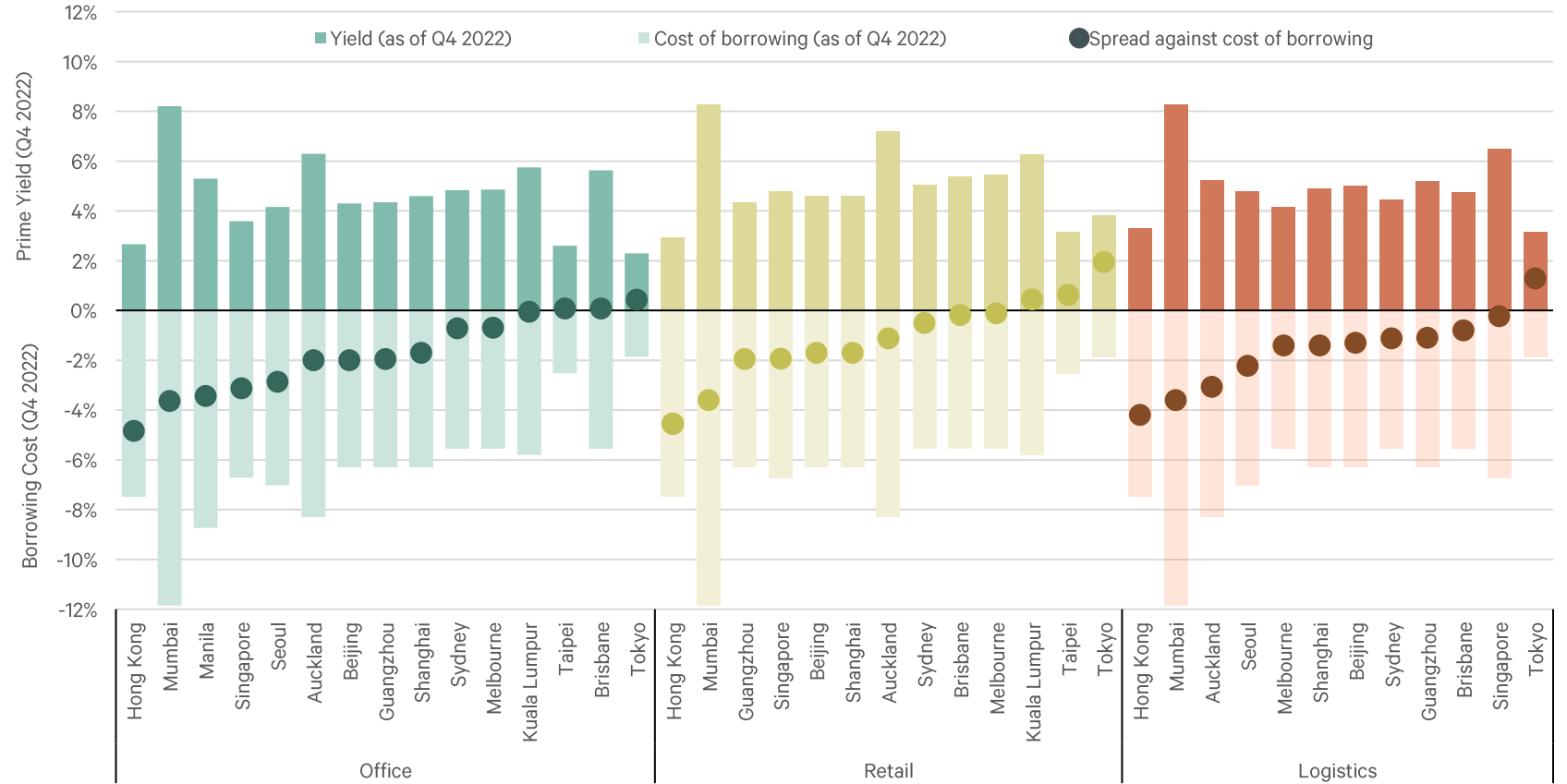


Source: CBRE Research, February 2023

# Negative carry remains in place with insufficient yield expansion

- As of the beginning of 2023, most markets in Asia Pacific (ex. Japan) are experiencing negative carry.
- CBRE expects cap rate expansion in Asia Pacific to be in the range of 75-150 bps during this peak to trough cycle.
- With interest rates having risen by 250 – 400 bps in 2022, yield expansion will be insufficient, meaning that real estate underwriting will remain challenging.

Asia Pacific prime yields relative to borrowing costs (by city)

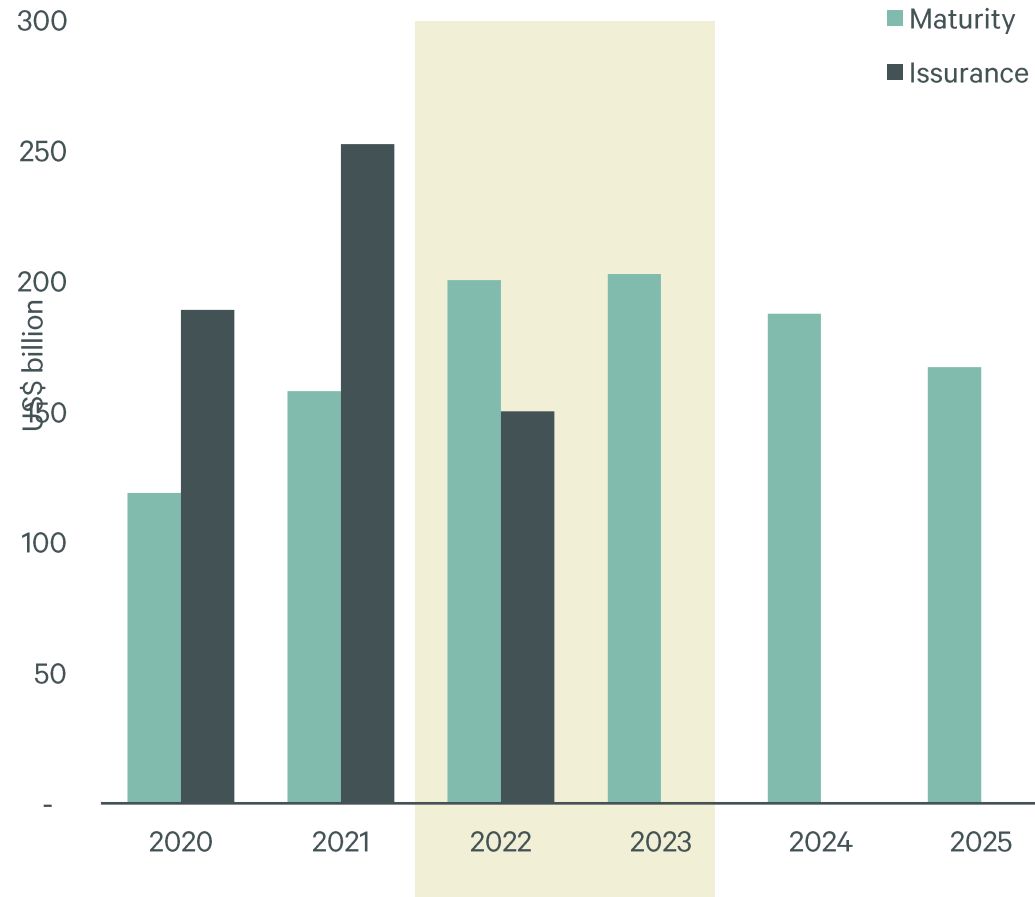


Notes: Transactions include deals above US\$10 million in the office, retail, industrial, mixed-use, hotel and other commercial sectors. Residential and development sites are excluded

Source: Macrobond, CBRE Research, February 2023

Chinese developers remain under significant refinancing pressure

Chinese developers' bond issuance and maturity by year



Source: Capital IQ, CBRE Research calculation, January 2023.

Global Property Market Faces \$175 Billion Debt Spiral

[\[link\]](#)



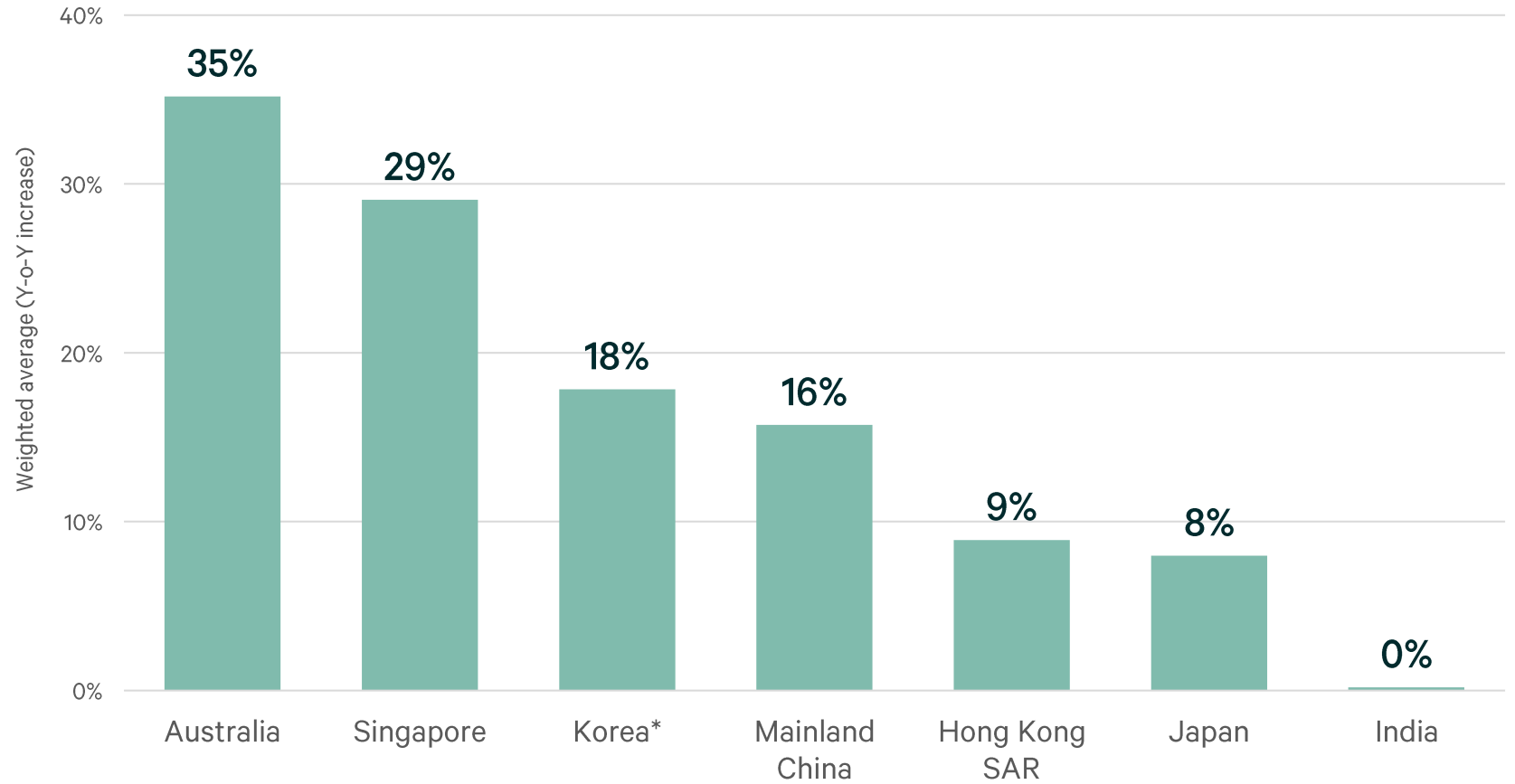
Legoland Korea Developer's Default Flags Property Risks



Evergrande's mega project Ocean Flower island with a total area of 381 hectares

**Asia Pacific listed real estate companies' interest rate expenses**  
 Change from 2022-2023F Y-o-Y (%)

Some debt-burdened landlords may offload assets to improve balance sheets



Source: Capital IQ, CBRE Research February 2023

Note: 142 listed real estate companies with a market cap of US\$1bn+ in Asia Pacific were analysed

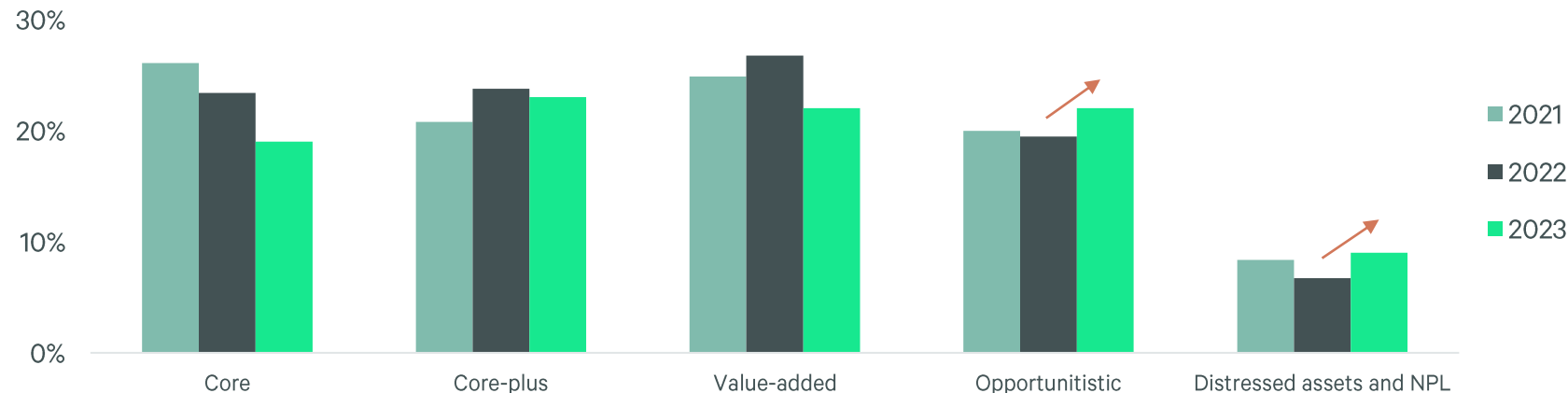
\*Korea – no listed real estate companies with a market cap below US\$1bn, so all listed real estate companies for the market were included



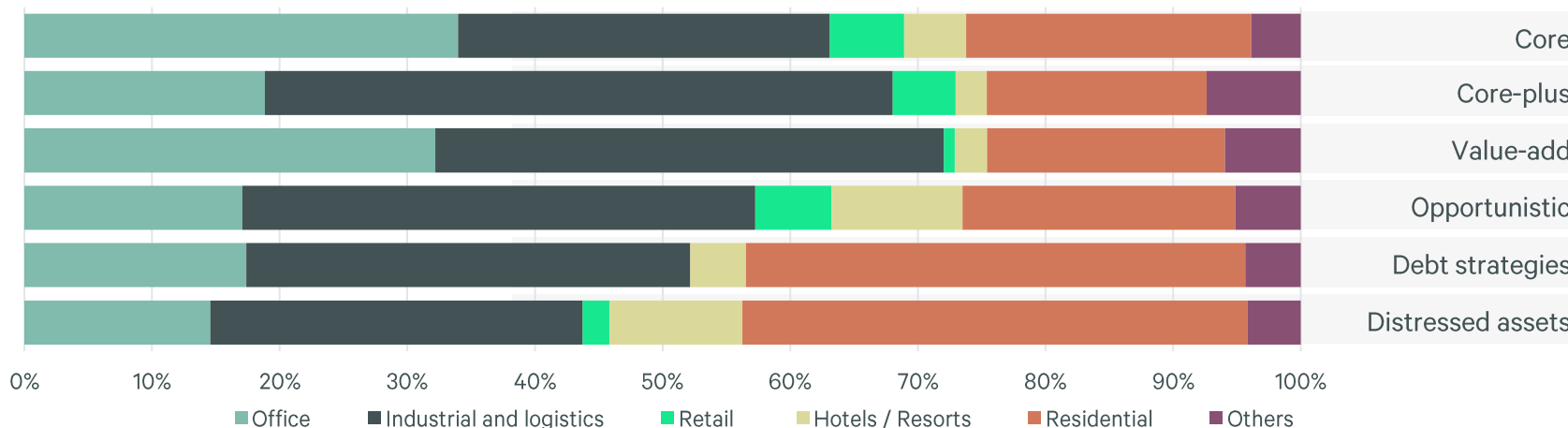
# Growing interest in opportunistic and distressed assets/non-performing loans

- Opportunistic strategies along with distressed assets and non-performing loans will attract more attention among investors in Asia Pacific this year amid rising hopes of dislocated assets becoming available.
- Investors focusing on opportunistic and distressed assets are more interested in logistics and residential properties, respectively.
- Core and value-added investors identified office as their preferred asset class due to its liquidity and cyclical features. Offices accounted for 50% of total investment volume in 2021, supported by a return to the office that is well ahead of the other regions.

Preferred investment strategy in 2023



Preferred sector by investment strategy in 2023



Source: 2023 Asia Pacific Investor Intentions Survey, CBRE Research, January 2023

### Investors' preferred sector for investment in 2023

# Logistics assets remain most popular; residential attracts more interest

- CBRE's 2023 Investor Intentions Survey uncovered a strong rise in interest in the residential sector, especially for multifamily and build to rent properties, with Japan, Australia and China the primary markets of focus.
- As offices are most susceptible to economic change, interest in this asset class weakened relative to previous years. However, high-quality prime offices in CBDs will remain sought after due to limited future supply and strong demand from corporations seeking to create attractive working environments to lure employees back to the office.



Source: 2023 Asia Pacific Investor Intentions Survey, CBRE Research, January 2023

# Most investors seek discounts for retail properties; fewer intend to bid higher for logistics

- Amid weaker interest in retail assets, expectations for price discounts are the highest among all sectors.
- Investors believe they would need to see a price drop in Grade A offices and potential for rental growth to make investments viable due to high cost of financing.
- Just 11% of investors said they would be willing to bid above asking price for logistics assets, down from 2022's figure of 35%. Capital values in this sector have already increased significantly and occupier demand is now stabilizing. CBRE expects income growth to increasingly originate from rental growth as cap rates will move out in the range of 10 bps to 90 bps in 2023.

Investors' pricing expectations in 2023 (by sector)

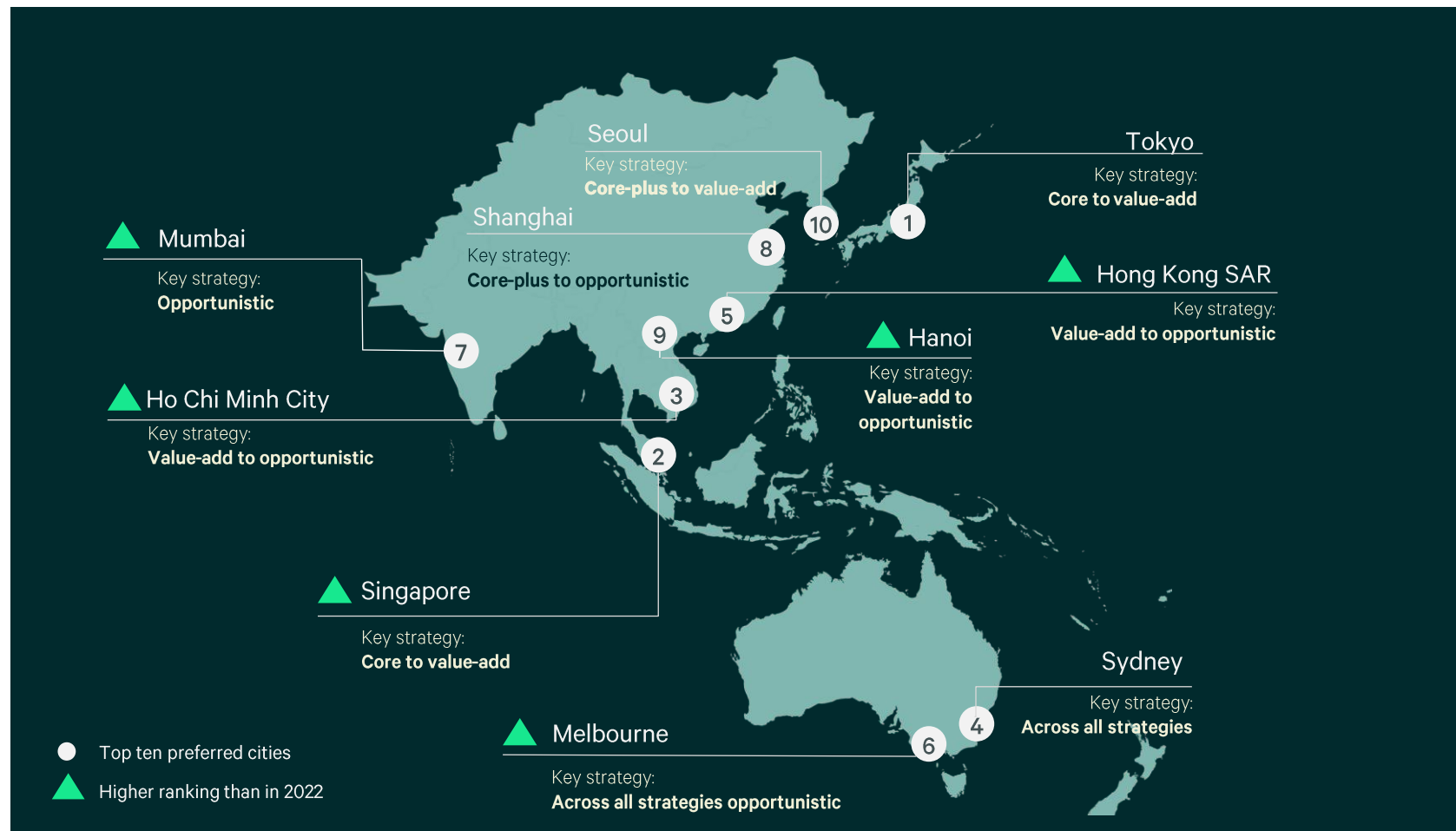


Source: 2023 Asia Pacific Investor Intentions Survey, CBRE Research, January 2023

# Tokyo remains top city for cross-border investment; Ho Chi Minh City ranks in top three for first time

- Tokyo retained its position as the most preferred city for cross-border investment for a fourth consecutive year as it is the only market with positive carry across all sectors.
- Singapore continues to be a focus for core and value-added investors due to its strong market fundamentals.
- Ho Chi Minh City ranked in the top three for the first time, while Hanoi was also named in the top 10 as Vietnam continued to benefit from its status as a China-plus One destination.

## Top 10 cities for investment and preferred strategy



Source: 2023 Asia Pacific Investor Intentions Survey, CBRE Research, January 2023

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