Real Estate
Outlook 2023-2025

Challenging times ahead

Bouwinvest Real Estate Investors

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Global Real Estate at Crossroads

During the three-year period through 2025, Europe will be characterised by slower economic growth, higher interest rates and elevated uncertainty. The tightening - or even negative - spread between real estate yields and government bond yields - a proxy for the risk-free rate - will lead to asset repricing across Europe, potentially generating opportunities for non-leveraged investors. Residential and logistics real estate markets continue to be better placed than offices and retail due to fundamental occupier demand drivers, while niche segments generate interesting opportunities.

In the U.S. the southern sunbelt states are expected to outshine other parts of the country due to migration patterns, a tax-friendly environment, expanding workforce and greater affordability. Various niche sectors across North America, including data centres, life science and medical office buildings, self-storage, and manufactured housing, are already quite mature and point to the way forward for the future development of real estate markets elsewhere in the world.

Within the heterogenous Asia-Pacific region, Australia is cementing its status as a safe haven. Singapore, meanwhile, is expected to see its relative attractiveness increase versus Hong Kong while a zero-Covid-19 policy, a troubled property sector and geopolitical tensions have added a risk premium in China. Japan is one of the few international markets where policy interest rates remain low and therefore the spread between the risk-free rate and real estate yields remains stable.

All regions globally are heading in the same direction: towards more energy-efficient, circular and sustainable buildings together with increased reporting and disclosure requirements.

For more information on trends and developments regarding ESG, please see 'Bouwinvest Netherlands Outlook Report 2023-2025'.

Europe

Rising risk of economic recession pressures property markets

Executive summary:

The 2023-2025 outlook period will be characterised by slower economic growth, higher interest rates and economic uncertainty.

The tightening - or even negative - spread between real estate yields and 10-year government bonds - a proxy for the 'risk-free rate' - will lead to asset repricing, potentially generating more opportunities for non-leveraged investors.

Fundamental occupier demand drivers for residential and logistics real estate are better than those for office and retail properties, while niche segments may generate attractive opportunities.

Macro-economic trends

Russia's invasion of Ukraine in February 2022 has sparked an energy crisis in Europe and put many countries on a track towards a potential recession (see chart). The war follows hard on the heels of the Covid-19 pandemic which has caused structural shifts and disruptions to supply chains worldwide and led to a surge in e-commerce and working from home (WFH). While the pandemic was gradually controlled in the second half of 2021, energy and food prices were already starting to climb. Political sanctions and additional supply-demand imbalances since the Russian-Ukraine war have fuelled inflation further to double-digit numbers not seen since the 1970s.

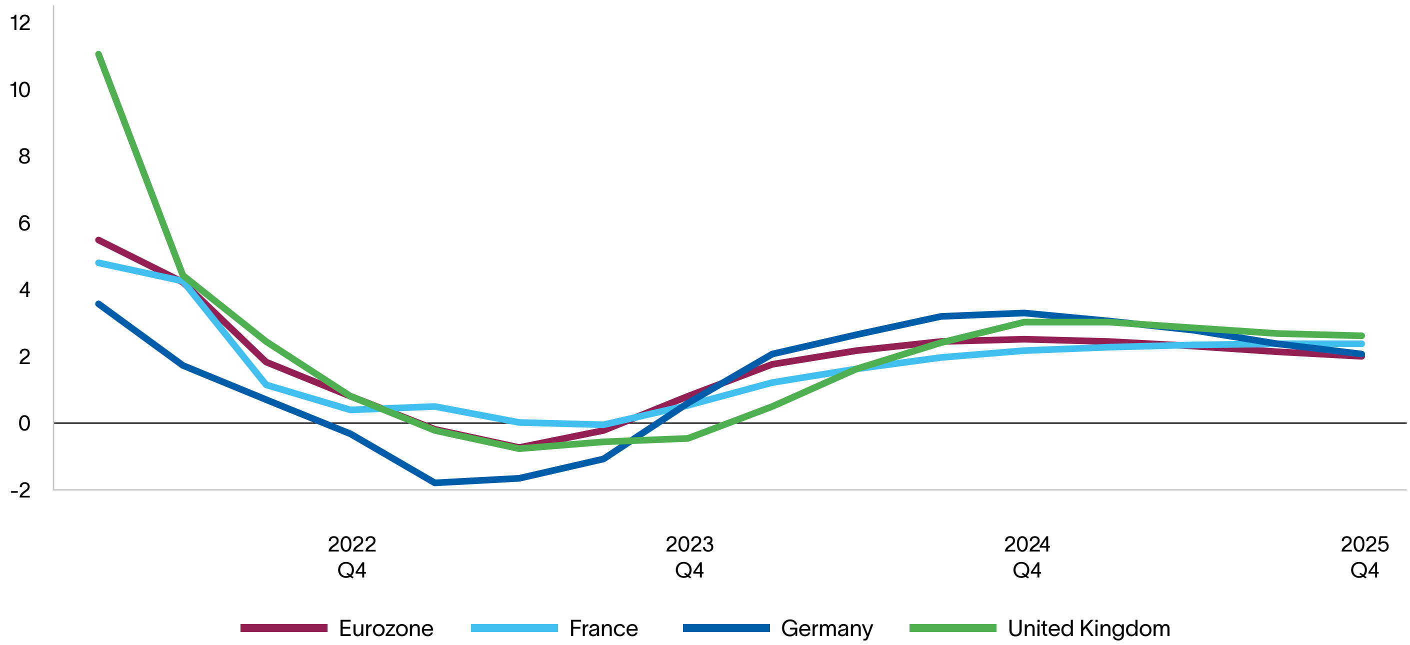
In its bid to combat inflation, the European Central Bank raised benchmark interest rates in the Eurozone by 50 basis points (bps) in July 2022, the first rate increase since 2011. This was followed by a further rate increase of 75bps in August 2022 - the highest single hike since the launch of the euro in January 1999 - and an additional 75bps rise in October 2022. Further rate increases are anticipated.

Other European central banks followed a similar trajectory, and in some cases at an even faster pace. The Swedish central bank raised its rates by a cumulative 150bps in the 10 months to October 2022 and the Danish central bank by 125bps. The UK likewise increased its benchmark interest rate by a cumulative 200bps during this period, with the latest rate hike to date of 75bps occurring on 3 November 2022.

The resultant rise in the cost of debt and the tightening spread between average real estate yields and the risk-free rate will lead to asset repricing, potentially generating opportunities for non-leveraged investors, who may be better placed than leveraged buyers with refinancing commitments. The U.S. has so far raised its interest rates even more aggressively, leading to a weakening of the exchange rates of the euro and pound sterling. This could make Europe and the UK more attractive for American real estate buyers.

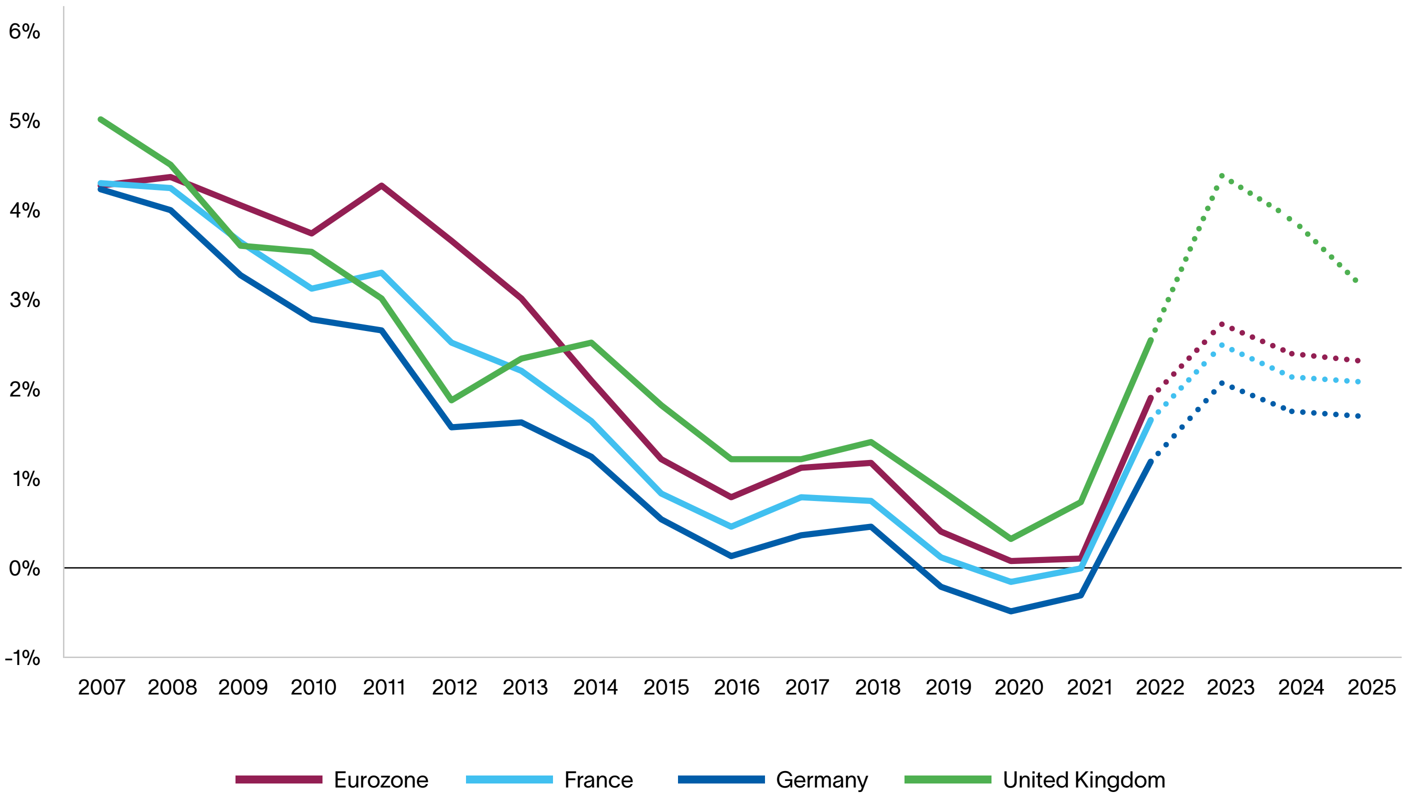
GDP growth forecast for various European countries and the Eurozone

Source: Oxford Economics, baseline scenario (October 2022)



Expected 10-year government bond yields for selected countries

Source: Oxford Economics, baseline scenario (October 2022)



Grandaire, Berlin

Real Estate Market: Sector Focus

Macro-economic context

The Russia-Ukraine conflict, the economic impact of the energy crisis, high inflation and rising interest rates have resulted in a sharp downturn in real estate markets, led by the listed property sector. The non-listed real estate market generally lags its listed counterpart by six to nine months and the first signs of a decline became visible in valuations for non-listed properties in Q3 2022. We expect more downward revisions to valuations in the next six to eight quarters, driven by rising interest rates. Should economic conditions deteriorate further, vacancy levels will go up and rental growth will slacken, accelerating a flight to quality among investors. Transaction levels and development activity have already slowed, highlighting supply-demand imbalances, particularly in the prime office, logistics and residential markets.

Residential

Most fundamentals still look favourable for the rental residential market. The residential sector as a whole is a beneficiary of the ongoing trend of urbanisation in major cities across Europe. Wealth tends to be concentrated in larger urban centres with better employment opportunities where the average age of the working population is lower than in regional and more remote communities. Demand for living assets remains strong in most urbanised areas due to demographic growth and the rising number of households, boosted by immigration and the expanding number of younger and older people living alone.

The volume of new housing developments is also falling due to increasingly stringent environmental rules, shortages of materials and rising labour costs. Demand continues to outstrip supply, especially in the affordable segment. If the number of new-build projects continues to decline, the valuations of existing stock may hold up relatively well.

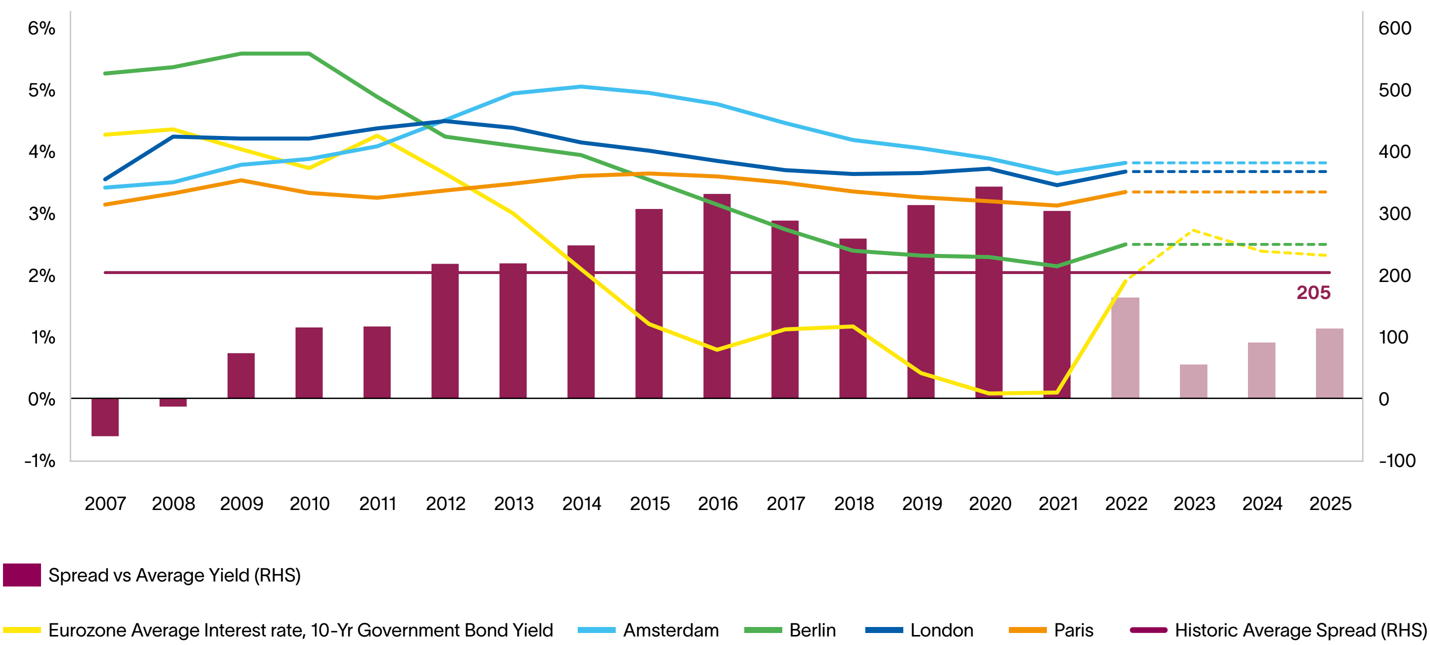
Increases in mortgage rates mean home ownership will move out of reach of a growing group of people, forcing them to turn to the rental market for accommodation that fits their budgets.

Residential real estate is seen as a relatively good inflation hedge as most rental contracts are index-linked but, in our view, it will not be possible to pass on the full level of consumer price rises to tenants. Governments in many countries are implementing measures to offset energy price hikes or cap rental increases to support the purchasing power of people living in social housing and other low- to middle-income tenants.

Rising 10-year government bond yields will simultaneously pressure spread levels and yields will move out. This is demonstrated in the graph below which tracks the expected development of residential net initial yields against 10-year government bond levels for the leading European gateway cities.

Net Initial Yield Gap European Gateway Cities Residential

Source: Oxford Economics, baseline scenario (October 2022), Green Street (Q3 2022)



Office

Europe's highly diverse and heterogeneous office market is currently experiencing a great deal of uncertainty. Rental growth and yield spreads vary significantly between prime, sustainable office assets and secondary stock. Office job numbers are growing but increased working from home (WFH) is likely to have a strong effect on structural demand.

Well-located, sustainable, prime CBD offices with good connectivity, access to diverse labour pools (particularly the young and highly skilled) and agglomeration benefits, will remain attractive. Such grade A assets can play an important role in maintaining a common corporate culture, personal skill development and networking. Nevertheless, we expect minimal real rental growth during the outlook period, even at the leading prime locations.

Like residential properties, office rental contracts also generally have an inflation-linked component. However, persistently high inflation has already started to affect the affordability of index-linked rental properties and office tenants that are under pressure may seek to renegotiate their leases. The European office market is characterised by a large variety of rental contracts and if rental increases are staggered, for example, inflation cannot be passed on fully.

At the time of writing, there is little market evidence of repricing of privately owned prime offices, but we estimate that average-quality office values may have fallen by roughly 15% by the end of Q4 2022 since their peak at the end of 2021. This amounts to a yield expansion of about 50bps. A yield correction is also on the cards for prime offices in Europe, but the increase is likely to be more moderate. Broker reports indicate that prime yields already started to move out in some locations between Q1 2022 and Q2 2022, with German cities leading the pack at +30bps. French and Spanish cities posted quarter-on-quarter yield increases of between 15 and 25bps.

As risk-free rates are up and expected to remain elevated between 2023 and 2025, we believe office capital values could soften further during the outlook period, and we estimate prime yields in Europe will move out by another 50bps. This would amount to a value loss of around 10% to 15% before stabilization and recovery takes place. Office transaction volumes in Europe already fell by over 20% during Q2 2022 compared with the same year-earlier period.

Logistics

Covid-19 had a surprisingly positive effect on European logistics markets with the accelerated adoption of online shopping more than offsetting the economic turmoil. Now that the pandemic appears to be largely under control, the pace of e-commerce growth has eased, but is still positive and the potential for further expansion remains strong as consumers' service expectations continue to evolve and drive demand for logistics properties.

Global supply chain disruption following the pandemic and ongoing geopolitical tensions are also fuelling a supply chain reconfiguration with a greater emphasis on 'onshoring' over 'just-in-time.' This is boosting domestic demand for logistics real estate and helping to ease wider supply chain pressures.

European economic support programmes running until 2027 and totalling €1.1 trillion (focusing largely on infrastructure improvements) are expected to provide another boost to the sector.

The volume of new supply coming to market is meanwhile decreasing due to both rising construction costs and a reluctance among municipalities to issue land for new logistic space. We expect this latter trend to continue in the coming years, with Germany and France currently showing the most resistance to new greenfield developments.

As a result, nominal rental growth, although slowing down, is expected to remain positive during the outlook period at a figure just shy of 3.0% per annum.

Capital values of prime logistics properties are forecast to decline by an average 7-8% in Q4 2022 compared with Q4 2021 levels. A steeper fall is expected to take place in most markets in 2023, with values potentially shedding another 10%. This should be seen as a correction rather than a downturn, however, as capital values are still significantly higher than they were two years ago.

The keenly priced yields for prime UK and German logistics will most likely soften first, with a relatively larger effect on their capital values in the coming period. Yields in other European markets have not tightened quite as sharply but are also expected to ease in response.

Retail

The retail sector is still recovering from the Covid-19 pandemic and the accelerated penetration of e-commerce. Online retail sales as a percentage of total retail turnover currently averages 12% in Europe (with large regional differences) and this figure is expected to rise to approximately 21% by 2027.

Consumer confidence, meanwhile, is at an all-time low due to sky-high inflation and declining consumer purchasing power. Market rents are therefore expected to remain under pressure for the time being. The gap between contractually agreed rents, which are rising in tandem with consumer price index (CPI) increases, and market rents is widening.

The redevelopment and repurposing of outdated or obsolete retail properties continue apace. Capital values are expected to weaken further, despite signals that the bottom of the market may have already been reached. Neighbourhood and food-anchored retail centres (convenience) in growing catchment areas are better placed and continue to perform well.

Niches

Institutional real estate investors are expected to continue their gradual and managed shift from core, traditional real estate sectors to more investments in niche and growth market segments.

The European healthcare market, for example, is viewed as being fundamentally well-positioned due to ageing societies and increased life expectancy in most European countries. Supply shortfalls characterise both the senior housing market (accommodation for well-off pensioners, assisted living) and nursing homes (high-level care accommodation). The market is becoming increasingly professional through the financial support of institutional investors and the growing experience and expertise of local operators, pointing to enormous potential for investment opportunities in this niche segment. Long leases offer (partial) inflation protection while the yield gap between regular residential investments and senior housing, in particular, is still quite significant, offering opportunities for future value growth.

Student housing is also seen as an attractive niche segment, especially during this current period of economic uncertainty and/or recession, due to a growing influx of students combined with low supply levels. Demand for student housing has been relatively inelastic compared to GDP movement in the past and that situation is not expected to change. This market is also becoming increasingly professional through the support of institutional investors and the growing experience and expertise of local operators and is set to generate further investment opportunities.

North America

Limited impact of economic headwinds **on real estate markets**

Executive summary:

The U.S. and Canada are relatively well-placed in an international context.

The southern sunbelt states are set to outperform due to migration patterns, a tax-friendly environment, expanding workforce and greater affordability.

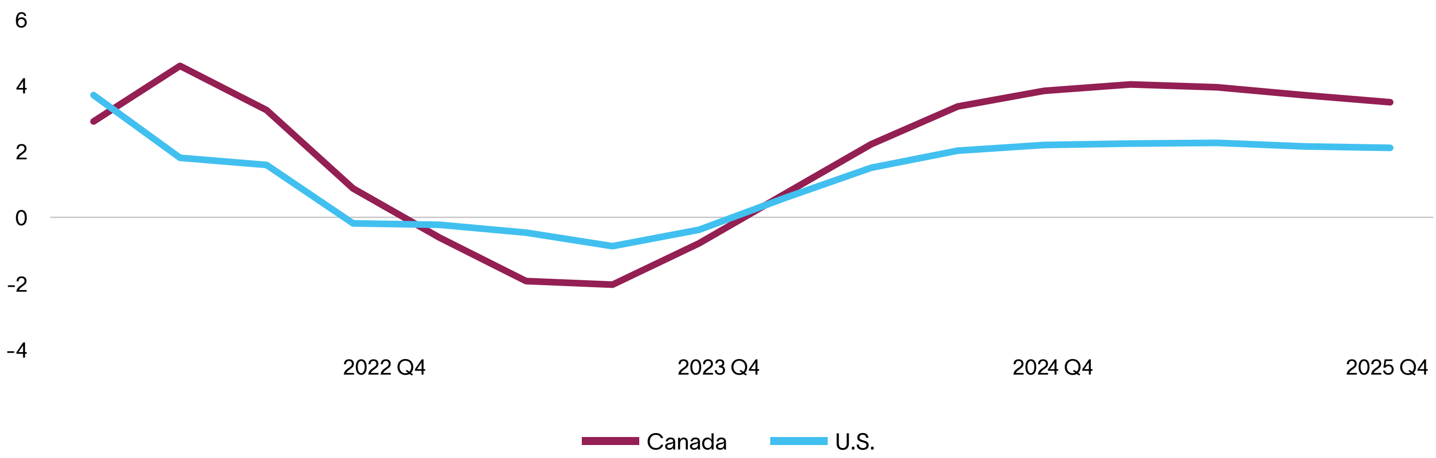
Various niche sectors are more mature and point to the way forward for the development of real estate markets elsewhere in the world.

Macro-economic trends

The direct impact of the Russian war in Ukraine on the U.S. has been limited as the country is virtually energy independent, but soaring inflation, higher interest rates and weaker consumer and producer confidence will nevertheless lead to slower economic growth. Rapid monetary policy tightening will likely push the whole of North America into a downturn during the final quarter of 2022 with recovery expected in late 2023. The U.S. and Canada are, however, well-placed compared to many other international markets, and continue to be viewed as a safe haven.

GDP Growth North America

Source: Oxford Economics, baseline scenario (October 2022)

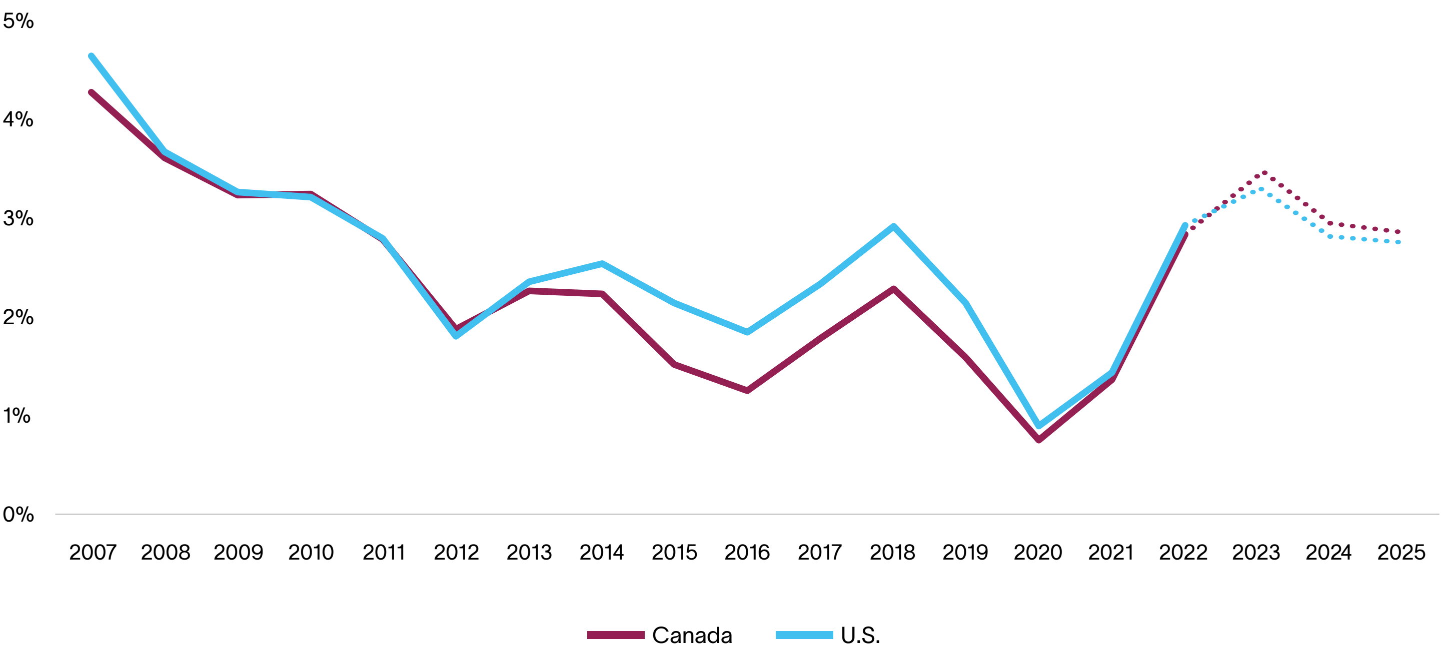


High inflation fuelled by climbing commodity and food prices is dictating monetary policy and, in October 2022, the Fed raised interest rates for the sixth consecutive time in a year by 75bps to 3.75% - 4.00%. This translates into a cumulative 375bps during the first nine months of 2022, driving borrowing costs to a multi-year high. More rate increases are expected. The country remains politically divided after the mid-term elections in November 2022 and polarisation is increasing, leading to potentially volatile policy making.

After a surprise 100bps hike in July 2022, the Bank of Canada raised interest rates by a further 75bps in September and 50bps in October, bringing the policy rate to 3.75%. The Bank of Canada intends to press forward with further tightening to rein in inflation.

Interest rate, 10-Yr Government Bond Yield

Source: Oxford Economics, baseline scenario (October 2022)



Clarion, U.S.

Real Estate Market: Sector Focus

Market context

Commercial real estate markets in the U.S. are undergoing a period of price discovery in response to rising interest rates and underwriting has become more challenging due to greater market volatility. Transaction volumes have slowed as a result. The extent of valuation changes will depend on various factors such as: risk profile, (asset-specific) lease terms, local market fundamentals and sector characteristics.

Residential

Demand for properties in the residential sector continues to outstrip supply in most urban areas due to fundamental demand drivers such as population and household growth, urbanization, an ageing society and strong immigration flows. While it is difficult to assess the direct impact of rising social inequality on real estate markets, an increased focus on affordable housing should generate opportunities.

The sunbelt states in the south are expected to outperform the north-east and mid-west 'rust-belt' states due to migration patterns, a tax-friendly environment, and the greater affordability of housing.

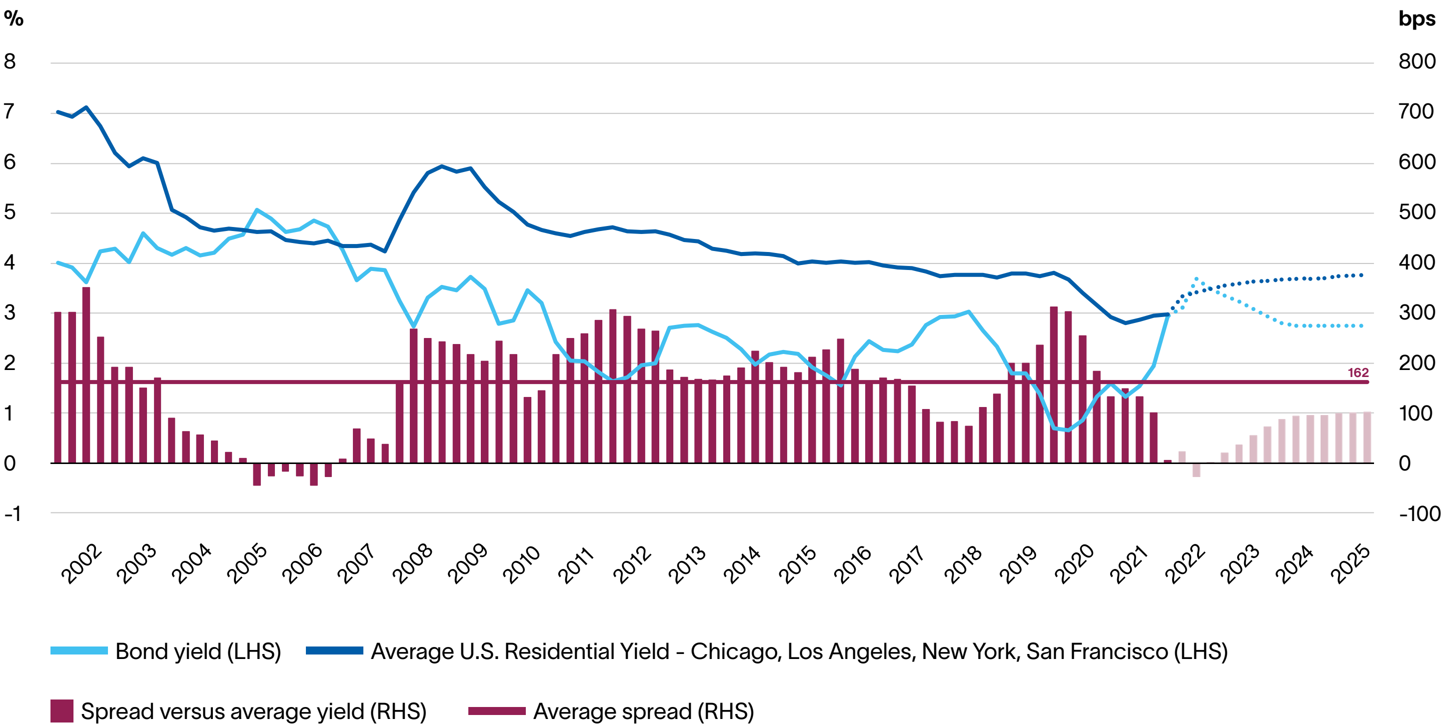
Several challenges warrant close monitoring, however. Persistently high U.S. inflation is diminishing the affordability of index-linked rental accommodation. Rent controls are uncommon, except in some coastal states, but the public debate on regulating more rental housing is heating up.

Construction costs are climbing on the back of wage and raw materials price hikes, creating additional risks for early-stage housing schemes. At the same time a decline in the volume of new developments could shore up the valuations of existing stock.

As in Europe, the long-term average spread between residential real estate and risk-free government bond yields is above current spread levels (see graph below). The rising cost of debt and the narrowing gap between real estate yields and the risk-free rate is expected to result in asset repricing, potentially generating opportunities for non-leveraged investors.

Yield spread U.S. Residential

Source: Oxford Economics, baseline scenario (October 2022), Green Street, MSCI



Office

As in Europe, working from home (WFH) has become a structural demand challenge in the U.S., leading to a flight to prime, well-located and sustainable office buildings as well as repricing due to higher interest rates. Another trend that is also visible in the U.S. is a shift from mono-culture office areas to more diverse, mixed-use, multi-tenant locations.

Sustainability is not completely top of mind on the U.S. political agenda which is focused more on social inclusion. The corporate and international investor community is, however, acknowledging the need for more sustainable buildings. Individual cities rather than the national government are leading the U.S. on this topic.

The year-on-year decline in transaction levels in Q2 2022 was minimal, but we expect volumes to fall more sharply in the coming period. Prime office values at East and West Coast locations dropped by over 5% in H1 2022 and we expect this trend to continue in the second half of the year with a further decline of roughly 10-15%.

Prime offices in the sunbelt cities appear to be better positioned due to migration patterns and rising employment and the drop in values is expected to be confined to around 5% over 2022. During the outlook period we expect East and West Coast office values to shed roughly an additional 10% while pricing in the Sunbelt cities and Miami will, for the most part, remain relatively steady. Yields are expected to move out by around 30bps over the outlook period.

Logistics

The sector continues to be buoyed by fundamental demand drivers such as e-commerce, supply chain reconfiguration and government (infrastructure) investment programmes. Rental growth is therefore expected to remain positive during the outlook period, rising approximately 3% on average per annum during 2023-2025.

The growth of e-commerce is expected to slow, however, due to the fading pandemic and an expected economic recession. We expect the volume of new leasing transactions to be more sluggish than in the exceptionally strong years of 2020 and 2021. E-commerce giant Amazon, the largest corporate user of logistics space in the U.S., has indicated that it will sublease a significant part (10%) of its warehouse space. New logistics supply may exceed demand in the coming years but increasing regulatory pressure from governments in markets such as the Inland Empire in southern California and New Jersey is curtailing the supply of new greenfield developments.

Prime capital values are estimated to drop around 5% below Q4 2021 levels at end-2022, with the exception of Los Angeles and the adjacent Inland Empire, where growth is expected to persist until the year-end. Average capital growth during the outlook period is forecast to be slightly negative due to softening yields. The sharpest drop is foreseen in 2023 ahead of a stabilization in subsequent years.

Retail

The shopping centre market in North America was hit hard by the Covid-19 pandemic which accelerated the already visible negative trend. A partial recovery took place in 2022, but the outlook period is expected to be challenging due to high inflation, low consumer confidence and a weaker economic outlook.

The sector will need to adjust to a changing retail environment and growing online shopping. Online retail sales as a percentage of total turnover continue to rise, currently accounting for around 15% in the U.S. This figure is expected to increase to approximately 21% by 2027.

Department stores are struggling, and closures are likely to continue. This will lead to further redevelopments of anchor-tenant retail space. Rental growth in this segment of the retail market is expected to be negative, while investment activity and values will remain pressured. Neighbourhood and food-anchored convenience centres in growing catchment areas are better placed.

Niches

Niche real estate segments in the U.S. are relatively well-established compared to other major regions in the world. Examples of relatively developed and mature niche sectors include data centres, life science and medical office buildings, and self-storage.

The single-family rental housing sector is well positioned to expand during the outlook period thanks to the migration of millennials who are flocking to the suburbs, especially in cities such as Austin, Dallas and Raleigh where job growth has been the highest in the country in the past two years. The rental growth outlook for this segment is therefore positive.

Higher investments in niche markets go hand in hand with several potential threats including operational complexity, potential governmental interference, data transparency (or lack thereof), availability of product and low(er) liquidity.

Asia Pacific

Well-positioned but not immune

Executive summary:

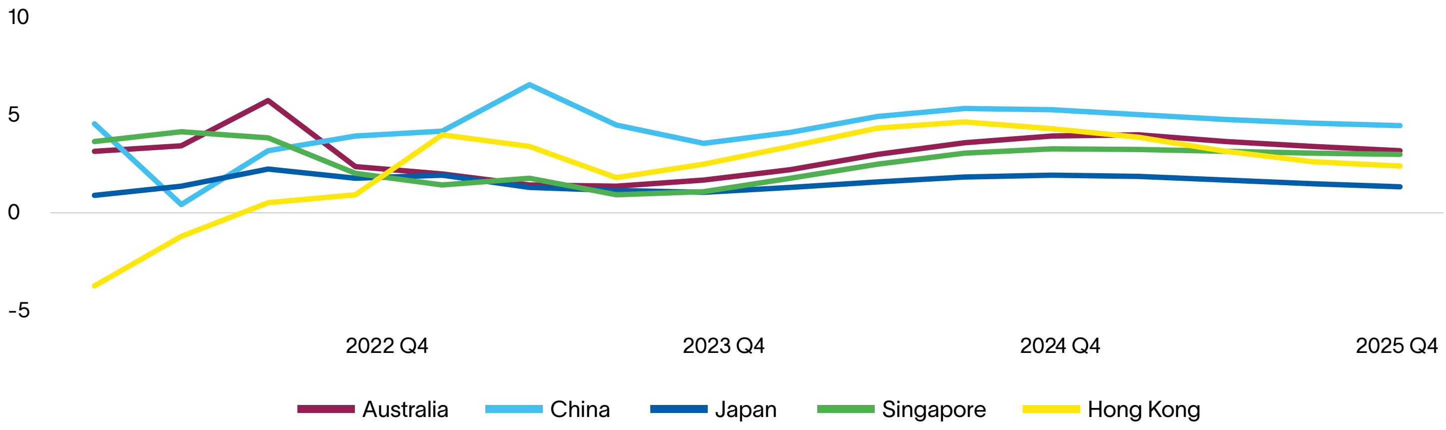
- Overall, the Asia-Pacific real estate market looks well-placed compared to other global markets.
- Australia is cementing its status as a safe haven in the region.
- Singapore's relative attractiveness to Hong Kong is expected to increase.
- Higher interest rates are less of a concern in Japan where the spread between the risk-free rate and real estate yields remains stable.
- A zero-Covid-19 policy, a troubled property sector and geopolitical tensions have led to a risk premium for China.

Macro-economic trends

The Asia-Pacific region is expected to grow faster during 2023-2025 compared with the U.S. or EU with a lower risk of recession. Within the region, and for the first time in decades, it is expected that Australia and Singapore will record higher quarterly GDP growth figures in Q3 and Q4 2022 than China. During the outlook period, China is expected to recover and follow its growth path but at a slower pace (see chart below).

GDP Growth Asia Pacific

Source: Oxford Economics, baseline scenario (October 2022)

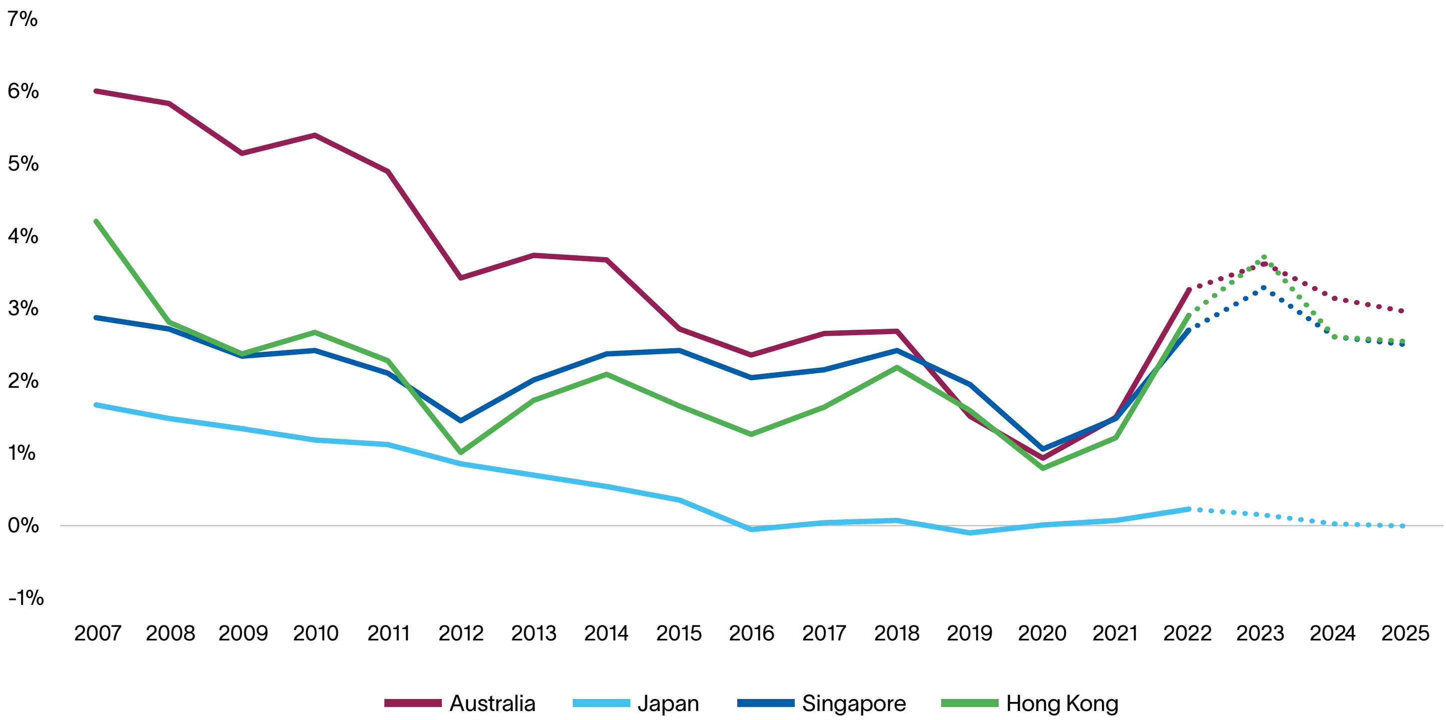


Rising inflation and higher interest rates are a concern for all Asia-Pacific markets, with the exception of China and Japan. Japan is keeping a lid on interest rate growth and its benchmark 10-year government bond rate remains close to zero. The spread between property yields and the risk-free rate is therefore intact. However, the Bank of Japan's persistently low interest rate policy means that the exchange rate of the yen against the USD is now at a 50-year low.

China usually props up its economy with direct measures such as infrastructure spending or fiscal support rather than adjustments to its interest rates. The one-year prime loan rate is currently 3.65%.

Interest rate, 10-Yr Government Bond Yield

Source: Oxford Economics, baseline scenario (October 2022)



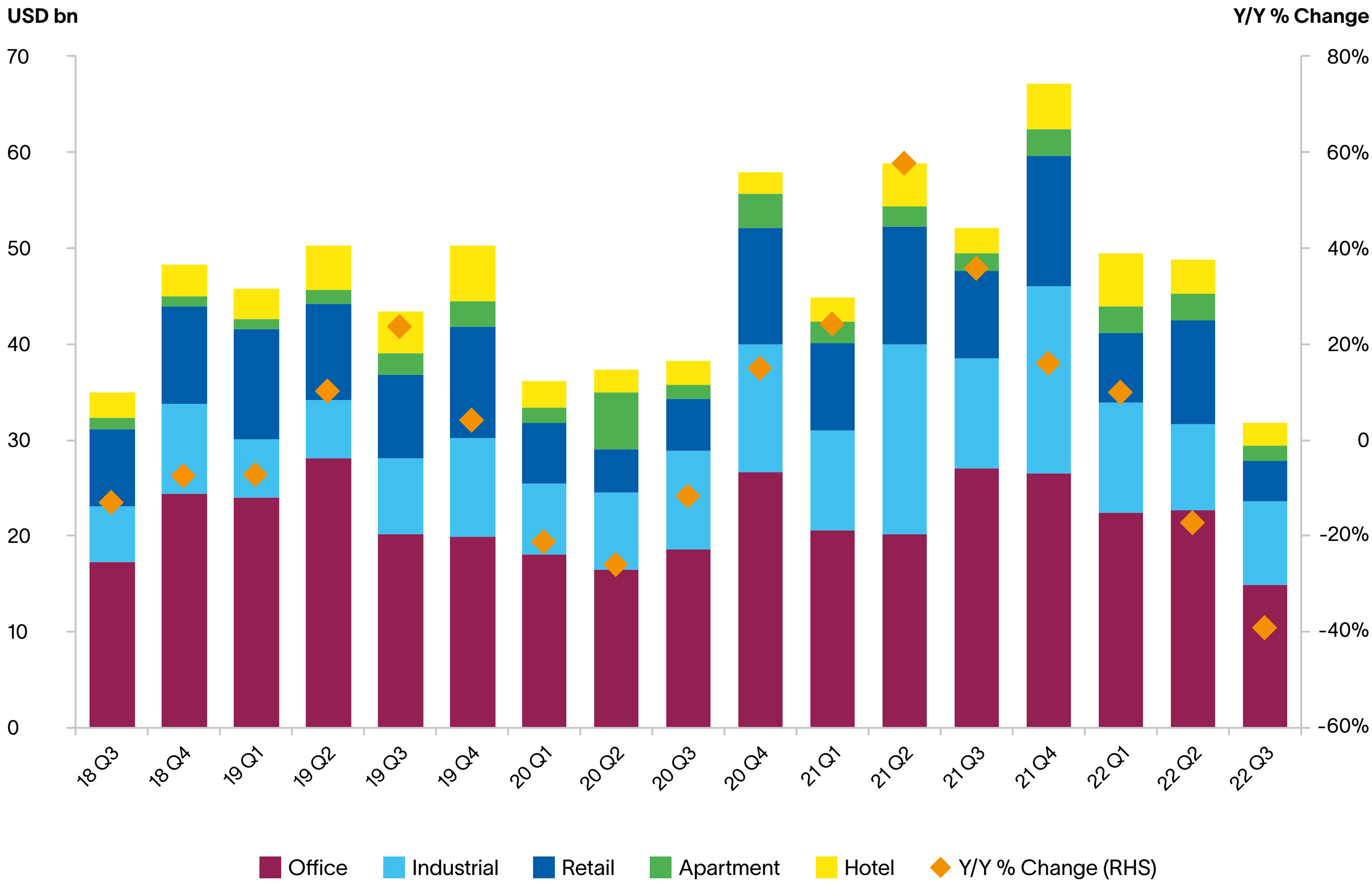
Real Estate Market: Sector Focus

Market context

The Asia-Pacific region is very heterogeneous and property performance differs widely per country and sector, but there are some noteworthy similarities and differences compared to Europe and the U.S. Similar to both these regions, the current financial conditions are pressuring yields in most markets in the Asia-Pacific region and transaction volumes are falling in this part of the world too (see graph).

Transaction Volumes APAC

Source: MSCI adapted by Bouwinvest, October 2022



While inflation is lower compared to Europe or the U.S., rising commodity and construction costs are impacting the development market, squeezing developers' profit margins, and causing land values to fall.

In contrast to Europe and the U.S., Covid-19 is still a major concern in China and while the geopolitical tensions surrounding the Russia-Ukraine conflict do not appear to be directly impacting the real estate market, tensions surrounding China and Taiwan are of concern, as is the ongoing trade war between China and the U.S. As China works through its real estate market challenges, for example its over-leveraged property developers, we believe the market will be subject to a real estate risk premium due to the abovementioned geopolitical issues.

The value of real estate properties in Japan is expected to remain fairly stable over the outlook period and yields may even compress slightly. Property prices in Australia, Hong Kong, Singapore and South Korea are expected to fall in H2 2022 and 2023 as the risk-free rate rises and yields continue to correct. Australia looks attractive over the longer term, i.e. after 2023, as property performance forecasts are stable and positive, cementing its position as a safe haven in the region.

Residential

Many of the fundamental demand drivers for residential real estate in Europe and the U.S. are visible in the Asia-Pacific region as well, but Asia Pacific stands out due to the long-term trend of its growing middle class. By 2030, the region will account for 66% of the global middle-class population compared with 30% in 2009. This increase will accelerate the existing trend of urbanization, which means that population and economic growth will be higher in large cities, including the surrounding metropolitan areas, compared with national averages. This could lead to interesting residential real estate opportunities.

In some markets such as Australia, Hong Kong and China, sales volumes and prices are falling in the owner-occupier residential market due to rising mortgage rates. Development land values are expected to decline as a result.

Market conditions in cities like Singapore and Sydney remain very tight, with demand expected to exceed supply, even without factoring in greater immigration flows in both countries, more international students and shifts in inter-state migration patterns in the case of Australia.

Build to rent (BTR) strategies in Australia are gaining traction, and supply is set to grow rapidly in relative terms over the outlook period. In absolute terms, however, BTR is still very rare and forms a very limited part of the overall stock.

The accessibility and affordability of some cities are cause for growing concern. We believe that metropolitan areas that strike a balance between demographic growth and a safe, affordable, sustainable urban environment will remain attractive for real estate investment.

Offices

Working from home (WFH) is also a structural demand challenge in the APAC region, but we believe the phenomenon will have only a minor impact due to small(er) living quarters, cultural reasons, and a return-to-office sentiment. Prime CBD office locations will therefore remain an attractive investment opportunity.

The diversity and heterogeneity of the Asia-Pacific region is reflected in its office sector and rental growth and yield spreads vary substantially. We expect to see the strongest rental growth momentum in Singapore, and in Seoul to a lesser extent, due to rising demand from companies relocating from Hong Kong, for example, and a relatively tight supply of grade A offices.

Japan is looking less favourable in terms of rental growth due to rising vacancy rates relative to available supply. Increasing supply is pressuring rents for larger office buildings in particular. Space reductions among tenants could indicate a shift towards more mobile workstations, which typically implies a need for less workspace per employee.

Transaction levels in Q2 2022 rose by 10% compared with the same year-earlier period, but we expect a decline in transactions will become visible in the second half of the year. Office values and prime net yields have remained steady since Q4 2021, but office capital values are seen softening from H2 2022 for several quarters before stabilization and recovery take place. This will, in our view, happen earlier in the APAC region than in the European and U.S. office markets.

Logistics

Fundamental demand drivers such as e-commerce growth, supply chain reconfiguration and government (infrastructure) investment programmes are generally expected to continue during the outlook period. Vacancy rates in the more mature markets are very low and rental growth is forecast to remain positive in the three years to end-2025 at approximately 2.5% per annum.

Q2 2022 valuations put capital values of prime logistics assets in the APAC area 5% above Q4 2021 levels, but a turning point is expected in the second half of 2022. A decline of around 5% is forecast for 2023 due to stable net yields in Japan. Excluding Japan, the capital value decrease is expected to be closer to –7.5% in that year. Stabilization is anticipated to occur in 2024-2025, with capital growth averaging 1% per annum for the region as a whole during this period.

Retail

The shopping centre market has also been pressured in the APAC region, but bricks-and-mortar retail in Asia appears to be more resilient relatively speaking than in other parts of the world.

First, there is less shopping centre space per head in (emerging) Asian markets than in the U.S. or Europe. Second, the growing middle class in Asia, together with rising wages, are boosting consumer spending and (online) retail sales. Third, Asia has been quick to adopt omni-channel retailing - combining a broad online product offering with high-standard in-store customer service experience - and to include food & beverage, entertainment and leisure in its facilities.

Modern Asian shopping centres are, moreover, generally built as part of a mixed-use scheme including residential, office and hotels, which ensures footfall and embeds the centre into the community. Finally, climate change and more humid weather conditions have turned shopping centres into preferred meeting places in Hong Kong and Singapore, for example.

The region is, however, far more heterogeneous than North America or Europe and some cities and markets, for example in Australia, are experiencing excess supply of shopping centre space. This market has seen values decline by approximately 15% to 30% between the peak of the market in Q1 2019 and Q2 2022. A fall in the number of Chinese tourists has also affected retail turnover figures in APAC, especially Hong Kong. Even if the number of tourists from mainland China do pick up, softening economic growth and pressure on China's real estate market could lead to a decrease in spending.

Niches

Niche real estate sectors are not yet as developed in Asia Pacific as they are in the U.S. or Europe, but there are pockets of investment opportunities, nevertheless.

Relatively strict Covid-19 measures in the APAC region meant that students were unable to travel abroad during 2020 and 2021, but now that most borders have fully reopened the mid- to longer-term outlook for purpose-built student accommodation looks significantly more promising. For example, longer-term fundamentals for Australia remain strong: its universities are highly rated in global rankings, (domestic) enrolments are rising and supply shortfalls still exist. Further institutionalization and consolidation are expected in this niche segment of the market.

Asia's institutional data centre market is relatively immature and is still developing. Key structural demand drivers include e-commerce growth, working from home, online gaming, video streaming, data storage, cloud computing, internet of things and IT outsourcing. The sector received a boost from the Covid-19 pandemic and thrives in an environment of stable rules and regulation, and a well-connected digital infrastructure that is safe in terms of climate risk. Data security and control are becoming increasingly important and advanced APAC countries are well-placed for growth in this segment. A potential risk is negative public opinion on the green credentials of data centres due to their high energy usage.

A growing need for senior housing with care facilities is evolving in the region, and is particularly acute in Japan, due to the ageing of society and rising life expectancy.

Finally, the Asia-Pacific region is increasingly being seen as a 'core' region and already accounts for one-third of the global investable real estate universe. A growing number of emerging countries in the region such as India, Vietnam and Indonesia continue to develop their economies and real estate markets, although the number of institutional investors active in these countries is still very limited.

Want to find out more about investing **with Bouwinvest?**

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