The new march of money

World real estate is a global stage on which a variety of economic and monetary acts are played out. Some actors have access to large amounts of equity, others to cheap debt. Many players in recent years have been operating under much looser monetary conditions than in previous decades so money has become cheaper and opportunities have been presented in those countries where asset prices were hit by domestic recession.

This means that cross-border activity in real estate has generally grown since the global financial crisis of 2008. The proportion of deals done where buyers originate in different countries has increased from a low 17% in 2009 to 20% in 2015. Over the same period, cross-border volumes have grown by 334% from $65 billion to $217 billion.

In this issue of Around the World in Dollars and Cents, we have taken a look at how much real estate there is in the world and how much of that is available for investors, both domestic and cross-border. For the first time we have included agricultural in our assessment, so we are presenting a complete cross-sector picture that includes residential and commercial assets.

We then take a look at how asset values are distributed across global regions and how recent flows of money from one region to another may be in the process of changing this. Differences in monetary conditions and investor practices in global regions are then examined. The results have important and profound implications for global real estate trends.

Looking to the future of world real estate, we study the investing intentions of the equity-rich private sector and see that some money is becoming not only footloose but also more adventurous in the asset classes it is willing to invest. This is a theme that has been picked up by many of our researchers around the world who have each given their tips for real estate investment in 2016 and beyond.
What price the world?
Real estate in the global asset universe

Worldwide real estate assets comprise nearly 60% of the value of all global assets, including equities, bonds and gold

We estimate that the value of all developed real estate in the world amounts to approximately $217,000,000,000,000 (217 trillion US dollars, see fig. 1). This covers retail property, offices, industrial, hotels, residential, other commercial uses, and agricultural land.

The world owns real estate assets of nearly three times its annual income, 2.7 times the world’s GDP and represents an important store of national, corporate and individual wealth. It accounts for roughly 60% of all mainstream global assets. The value of all gold ever mined (in parts of Asia).

In recent years, quantitative easing and resulting low interest rates have suppressed real estate yields and fuelled high levels of asset appreciation globally. Investment activity and capital growth have swept around the major real estate markets of the world and led to asset price inflation in many instances. We estimate that around one-third of the value of the global real estate market identified here is readily investable at scale (see fig. 2), with the remaining $145 trillion not being publicly traded in any meaningful way. Most of it, even in the commercial sector, is owner-occupied or owned by small and private entities.

Of the $72.5 trillion of commercial and residential real estate that we count as “investable”, around $1.05 trillion or 1.45% was traded in big ticket deals of over $10 million in the 12 months to Q3 2013. This represents average annual growth in global capital values of 1.77% per annum but covers a range of experiences, from high-growth in the US to negative or no growth in parts of Asia.

This year we have included for the first time the value of agricultural land, at an estimated $26 trillion, of which about $7.8 trillion (around 30%) is corporately and institutionally invested. Most agricultural land is owned by non-investing entities, operators and occupiers, especially in emerging economies where this is a sector with great potential for further growth and investment. If the land is owned by non-investing entities, it is likely to be non-investable.

Not included in the global calculation is the value of local commercial properties: workshops, workspaces, shops and small business premises that are not part of the high quality commercial real estate universe that constitutes global property markets, but which are important components of economic growth and prosperity, especially in emerging markets.

They are almost impossible to value at a global level but have huge potential for future investment as economies mature and real estate markets develop within them, adding to the global stock.

Overall, the most important component of global real estate value is the homes that people live in. By far the biggest proportion of these are owned by the people who inhabit them, which makes this sector the least concentrated, in terms of ownership, and most closely tied to the fortunes of ordinary people. There are approximately 2.5 billion households on the planet and those in developed economies occupy housing at much higher price points than those in less developed economies. We estimate that the median value of the dwellings occupied by all these households is $45,000.
The value of the world’s real estate is unevenly distributed across the globe. Western nations contain the lion’s share of asset value, while less developed nations contain the least.

The dominance of real estate in Western economies is most noticeable in commercial markets, where nearly half of the total asset value resides in North America and over a quarter in Europe (see fig. 2). Asia and Australasia contain 22% of commercial asset value, leaving just 5% for South America, the Middle East and Africa. Part of the reason that the US market is so big is because it is the most mature. The US market is much more transparent across the globe. Western real estate is unevenly distributed because they are traded in informal and opaque markets, often not recorded at a national, let alone international scale. Many workspaces and even retail spaces have not been priced into commercial property markets will develop in these new frontiers in the same way as they have in the west and parts of Asia.

Currently, many commercial premises in the less developed parts of the globe are informal, small-scale, flexible workspaces and shops. These have not been priced into overall asset value in this publication because they are traded in informal and opaque markets, often not recorded at a national, let alone international scale. Many workspaces and even retail spaces of this type are often mixed with residential property, either in buildings, blocks or neighbourhoods. The norm in nations which have not experienced widespread car ownership and suburban built environments is mixed-use and live-work space.

There is a real tension between two possible future built environment development scenarios in the nations which have not yet seen widespread, large-scale development in their cities. Recent development in China and other parts of Asia has shown that it is often easier, cheaper and faster to demolish existing structures to make way for large-scale developments. Improvements in infrastructure, land reclamation and investment in public transport lead to rising land values that exclude all but the large-scale and corporate players from participation. Landmark, world-class ‘trophy’ projects often involving named ‘architects’ are also beloved by politicians and planners alike, so they take priority over the smaller-scale integrated neighbourhood developments.

There is a big question mark, however, as to whether big-box, energy-hungry office blocks or retail malls will remain the universally preferred types of business accommodation in the 21st-century digital age and where the economy is developing along different lines to the late 20th-century Western experience. Wherever the future development model adopted, the creation of new commercial real estate markets in Asia, Latin America, MENA and Africa is a potentially huge market. If the quantity and value of commercial space in these regions were to reach the current global average per head of population, the total value of commercial real estate globally would rise by 54%.

Residential real estate value is slightly more evenly distributed than commercial, broadly in line with the size of affluent populations (see fig. 1). China accounts for nearly one-fifth of the world’s population. Having said this, the weight of value is still in the West: 25% of the world’s total residential asset value is in North America and Europe, 37% in Asia and 9% in Latin America and the Middle East, while less developed economies is most noticeable in commercial real estate markets in Asia, Latin America, MENA and Africa is a potentially huge market. If the quantity and value of commercial space in these regions were to reach the current global average per head of population, the total value of commercial real estate globally would rise by 54%.

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Residential real estate is huge. A growing middle class and growing home ownership in areas of economic growth will increase the size of residential property as an asset class. If residential property in Middle Eastern, African and Asian countries were to move towards the global average per head of population, this would increase global residential asset values by 32% or $52 trillion.

There are big prizes for the super-opportunistic investor. While emerging economies will always be seen as high risk, the fundamentals of economic growth with strong demographics will undoubtedly increase demand for housing, workspace and retail/leisure space in population centres. This will create compelling opportunities for those able to deploy capital into the right types of real estate – the highest demand locations of the most stable nations.

FIG. 1. Global population v total residential value

FIG. 2. Global population v total high quality commercial real estate

Sources: Savills Research/Oxford Economics

- Asia & Pacific
- China & Hong Kong
- Europe
- Latin America
- Middle East and Africa
- North America

Global population

Total high quality CRE

Global population
How will tighter monetary conditions impact global real estate investment?

Yolande Barnes looks at the implications of rising interest rates

The world of real estate investment seems to have fallen into two halves since the global financial crisis (GFC) of 2007-08. In one, investors are accessing debt and making leveraged purchases and in the other, investors are using equity, seeking income and/or security. This means that there are significant differences in both the timescales of investments and the hurdle rates.

This division between the equity-rich and the equity-poor has a geographical component. North American real estate deals tend to be more highly leveraged than Asia Pac deals, as we found in our analysis of a sample of big-ticket ($10 million plus) deals in 2015. Figure 1 (opposite) shows the loan to value ratios found and how they differ between geographies.

Leveraged investors will clearly be more constrained by monetary conditions than equity investors. Interest rates will impact on equity investors as well, inasmuch as their opportunity cost of funds will be affected. However, temporary disparities between these and the income or total returns on their property holdings will be more easily carried than by highly leveraged investors who need to service interest.

As an example, the effects of leverage on performance can be seen in China on developers. Figure 2 (opposite) shows the impact of gearing on relative outperformance and underperformance. This is despite the fact that borrowing rates have reduced substantially over the past year in China.

In the post-GFC world of low interest rates and constrained lending, equity has been searching for a home and asset price inflation has been inevitable. Low and even negative bond yields in some countries have meant that the opportunity cost of funds are low. As a result, investment in high-yielding jurisdictions has been particularly attractive. In prime locations of major cities, which are favoured by overseas investors, yield compression has been rapid and pronounced, sometimes taking yields to record lows as competition for trophy assets in safe havens has led to higher prices and lower cap rates.

The highly leveraged investor has found it increasingly difficult to compete unless there is a clear value-add component to their purchase. Leveraged US funds buying into London, for example, have tended to be opportunistic and shorter term while some Asian and Middle Eastern investors have looked for longer-term holds for income growth and/or longer-term capital growth.

In a world where borrowing costs and opportunity costs are returning to ‘more normal’ conditions, both equity investors and leveraged funds are likely to refocus on yield levels and the potential for income growth. However, there is still a level of ‘global real estate arbitrage’ to be completed between equity investors targeting lower hurdle rates and high-yielding jurisdictions. The variety of net effective income returns across world cities illustrates this.

Higher-risk emerging markets may be expected to remain higher yielding but economic recovery and growth in transparent, developed markets may yet see further yield compression, especially where rental growth is expected. We expect global cross-border capital flows in real estate to continue to reflect a pattern of relatively cheap money at source and higher yields at destination coupled with a global search for rental growth. As such, many of our value-add and opportunistic researcher tips for 2016 and beyond are focused on secondary (and lower grade) property, second-tier locations (which have seen lower levels of investment in the past seven years). We also focus, especially, on new and alternative asset classes where the weight of investor money has not yet had such a dramatic impact as on the mainstream asset classes.
Will the US continue to zig while the rest of the world zags?

Heidi Learner explains why further monetary tightening may be likely in the US

As we approach the eighth year since the start of the global financial crisis, there is little sign that monetary policy has returned to normal, even with the recent announcement by the Federal Reserve to raise rates by 0.25% to 0.5%. No other major central bank has raised rates in close to a decade and bond yields globally remain “extremely low” (see fig. 1). Inflation-adjusted policy rates are negative across most developed countries and in some places, such as Switzerland, even nominal base rates are negative.

Quantitative easing may have come to an end in the US and the UK, but asset purchases by other central banks continue. The European Central Bank is buying a set amount of assets per month, while the Bank of Japan is targeting a set increase in the monetary base for as long as necessary. Low oil prices and, in some cases, currency strength and soft import prices, have dampened global inflation pressures and the rest of the world continues to foresee weak growth prospects. Yet in the US, all 17 Federal Reserve Board members expect further “policy firming” in 2016. Was the time really right for a rate rise?

Nominal exports as a percentage of nominal GDP growth in the US have risen from 9.8% in 1980 to 13.5% in 2014, so external growth is an important source of US GDP growth. However, export growth can be damaged by a strong dollar. Analysis from the Federal Reserve Bank of New York shows that when the impact on exports and imports is considered, a 10% appreciation of the US dollar in one quarter shares 0.5 percentage points off GDP growth the next year. If the strength of the dollar persists, an additional 0.2 percentage point reduction occurs in the subsequent year, too. While this decline is not trivial, a 0.7 percentage point pullback in growth over two years is unlikely to thrust the US back into recession. Would further dollar appreciation be enough for the Fed to persistently deviate from its 2% inflation target and avoid further rate rises?

This is possible if monetary tightening provokes an upward spiral of capital flows that serves as the catalyst for further dollar strength. The strong dollar does not appear to be curbing domestic inflation away from the transmission of oil prices. From July 2014 to March 2015, the real dollar effective exchange rate index rose by almost 12%. Over the same period, import price inflation (less petroleum) fell by a cumulative 1.8% (see fig. 2). But the US CPI (less energy) rose by a cumulative 1%. This suggests that lower import prices are a minor factor affecting inflation.

In November, the CPI for all items (less food and energy) rose 2%, the largest 12-month increase since May 2014. Most categories in the service sector have shown acceleration over the past three months versus the past 12 months, suggesting that inflation pressures may be brewing.

Longer-term inflation breakthroughs have begun to stabilise, even though the Fed’s measure of five-year inflation remains close to post-recession lows. Importantly, the Fed’s Chair, Janet Yellen, recently highlighted in a speech that the restraint on inflation imposed by economic slack is now relatively modest. It would have been a mistake for the Fed to delay a rate hike due to concerns over further US dollar strength, especially given policy lags.

We believe that a very slow return to more normal monetary conditions has now begun in the US and will continue in 2016, with implications for central banks around the globe.

2.7%

FIG. 1 Looser monetary policy everywhere

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<tr>
<td>US</td>
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<td>AUSTRALIA</td>
<td>5.73%</td>
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Source: Bloomberg

FIG. 2 Strong dollar impacts on US inflation have weakened, freeing the Fed to hike base rates

- CPI: All Items less energy (% change, YoY)-LHS
- Import Price Index: all imports excluding fuels (% change, YoY)-LHS
- Real trade-weighted value of the USD (reversed, % change, YoY)-RHS

Source: BLS/Federal Reserve

Around the world in dollars and cents © Savills.com

Around the world in dollars and cents © Savills.com
Where is the smart money going?

Using the Savills Wealth Briefing survey, we find out which cities are set to see the most investment from HNWI in the coming years.

We asked wealth advisors to identify the sectors and regions in which their clients intended to buy, hold and sell real estate in the next five years. The aggregated results are shown opposite (see fig. 2).

**REAL ESTATE INVESTMENT INTENTIONS: CITIES**

Gateway global cities remain buys, despite very strong recent performance and plateauing prices in some of them. Important global centres of business such as London and Dubai lead the pack, and reflect the trend for UHNWI and HNWI to invest in the cities in which they are active in business, visit often or, simply, know.

The results of our survey also reveal a broadening of purchasing intentions to other centres. Madrid, Manchester, Barcelona and Chicago are all emerging as net buys. This reflects a global trend in a crowded investors’ market towards higher yielding secondary property, second-tier cities and alternative assets.

European cities exhibiting this trend include Amsterdam, Oslo, Brussels and Berlin.

In Asia, Tokyo looks set to see more UHNWI and HNWI investment as market recovery gathers pace. Singapore is a buy along with neighbouring Johor Bahru, a nod toward the strategic benefits of the neighbouring Malaysian city. Cities in emerging economies also feature on shopping lists for the next five years. Manila is a pick in the Philippines, Vientiane as Laos’ economic centre, and Phnom Penh, Cambodia’s fast-growing capital.

In Latin America, Mexico City is a buy among UHNWI and HNWI, while smaller Querétaro, a safe, business-friendly city with a historic heritage site, is a buy. In Argentina, Mendoza, the largest wine-producing centre in Latin America and gateway to the Andes, stands out as a city of choice in the region.

In the US, UHNWI and HNWI investors are set to concentrate in certain pockets: the Pacific Northwest, California, Texas, parts of the south-west and north-east, along with Toronto and Cape Town, are net holds. While there has been plenty of foreign investment into income-producing assets on the continent (such as land and mining), African cities have yet to experience the same levels of inward investment seen into other regions. African cities are likely to see more acquisition activity – especially beyond the five-year horizon of our survey.

Overall, the world still offers a big field for global real estate investors to play in. Private investors and quasi-private equity like sovereign wealth funds will often point the way to where corporate money and institutions follow.
The past eight years in detail

Global trading in real estate since the financial crisis of 2008 has seen four distinct phases: downturn, bounce back, cooling and stability (excluding Chinese land deals and joint ventures, see fig.1).

IN THE AFTERMATH of the GFC, investment activity was substantially reduced, especially in North America, where it fell by 84% from $418 billion in 2007 to an average annual figure of $93.7 billion over this period.

As Asian volumes fell, EMEA took over as the region with the highest real estate trading volumes during this period – averaging $151.8 billion per year – while Asian trading volume fell the least (6%), buoyed by stronger economic growth in China and Asia Pacific countries and a growing appetite for real estate.

Globally, and especially in North America, institutions that had been dominant buyers in 2007 reduced their trading volumes by 79% in the downturn. This impacted all the major real estate asset classes equally, except for development land, which was held up because it was being traded in large quantities in China.

The market share of owners, users and operators increased during the downturn period as their reasons for trading were less investment-motivated and therefore less affected by recession in these markets.

The biggest recovery in transaction volumes was in markets that had been hit off a particularly low base. Over and above growth rates was led by Europe as they had been. The slowdown in volume during this phase was slightly higher during this phase than in other sectors.

The number of hotel deals also rose by the fourth quarter. Investment volumes were showing annual rises by the fourth quarter.

THE IMPACT OF quantitative easing during this period was profound and continued to last for more than five years. Low interest rates and expectations of lower yields resulted in increasing expectations of significant value inflation in a range of commodities and asset classes, not least real estate. The end of the last quarter of 2009 marked the beginning of this turnaround in global stock markets.

World-class real estate markets quickly in a range of commodities and asset classes, continued to last for more than five years. Low interest rates and expectations of lower yields resulted in increasing expectations of significant value inflation in a range of commodities and asset classes, not least real estate. The end of the last quarter of 2009 marked the beginning of this turnaround in global stock markets.

THE COOLING PERIOD relates to a period of much slower rates of growth in the volume of big real estate trades. Average global volumes were still slightly higher during this phase than they had been. The slowdown in volume growth rates was led by Europe as investors, particularly institutions and REITs/REOCs, became somewhat more concerned about alternative or niche. It also marked a period of much lower market share in the office markets. The volume of office trading simply did not bounce back to the same extent as other sectors.

Hotels and industrial property showed the strongest rebound, while the apartment market started a sustained increase in market share, which has since not abated. Volumes in residential property increased by 15% as some buyers took advantage of bulk deals from distressed owners and developers. The number of hotel deals also increased by 221% over the same period, for similar reasons. This period, therefore, marked the beginning of a maturing process for some sectors.

Around the world in dollars and cents

The amount of global investable real estate traded at its highest level since 2008 – a recovery that’s taken place over four specific phases

A total of $8.1 trillion of global investable real estate has been traded since the beginning of 2007 in the form of big ticket ($10 million-plus) deals. Of those deals, $2.2 trillion worth were made up of Chinese development land deals. This represents 3.7% of all global real estate and 11.1% of all tradable investment stock.

Just under 1% (0.9%) of the world’s investable real estate stock trades in big ticket deals each year.
The biggest cross-border capital flow in real estate during 2015 was from North America into Europe at $75 billion. This was more than double the volume of deals done in North America by North Americans ($32bn) and was also bigger than the amount invested in Europe by Europeans ($68bn).

North America was the biggest buyer of world real estate overall in 2015, spending $121 billion, 74% of which ($89bn) was outside the region. APAC came a close second in total global terms at $112 billion, with 47% of cross-border spending ($53bn) focused on its regional Asian markets.

Europe received a total of $183 billion into its real estate markets in 2015, 63% of which originated overseas.

FOR THE PAST three years there has been a period of steady growth in global real estate trade volumes, particularly in North America and EMEA, which have grown by 62% and 65% respectively. Annual North American volumes have been $322 billion, compared to their 2007 peak of $418 billion. Annual EMEA volumes have averaged $246 billion, compared with $355 billion in 2007.

Asia Pacific (APAC) has seen much more subdued rates of growth in average annual trading volumes — at 18% over the same period — partly as a result of slower economic growth in China. Having said this, APAC volumes are the closest of any world region to their $160 billion 2007 peak, having averaged $155 billion during the stability phase.

Hotels and apartments have continued to grow as sectors during this period but development sites have shown weak growth (even without counting the sharp demise in Chinese land deals).

This period of stability has particularly favoured those investing institutions whose participation in deals has increased by 69% during the latest stable growth phase of Q4 2012-Q3 2015.

For the past three years there has been a period of steady growth in global real estate trade volumes, particularly in North America and EMEA, which have grown by 62% and 65% respectively. Annual North American volumes have been $322 billion, compared to their 2007 peak of $418 billion. Annual EMEA volumes have averaged $246 billion, compared with $355 billion in 2007.

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The sector seesaw

The demand for offices is markedly lower since the downturn, but this drop is mirrored by an increased appetite for residential property.

The impact of world capital flows and new types of money in global real estate since 2008 has shown up in changing investment volumes in different asset classes. Offices are still the largest traded asset class but have fallen out of favour in relative terms. Since 2008, offices observed the biggest drop in trading of 6%, although it is still the most dominant asset class with more than a third of total trading volumes at 36%. Some of this fall is due to lower availability resulting from less frequent trading and grade A stock being locked up in long-term portfolios.

The drop is partly the result of falling institutional appetite as well as changes in working practices, which have altered occupier behaviour and threatened the performance of some locations and building types.

Meanwhile, an appetite for residential property has burgeoned among both private investors and REITs—an trend that is likely to continue as it is supported by growing occupier demand from both Generation Y in developed economies and a growing middle class in emerging ones. Residential investment market share has nearly doubled since the downturn, and is currently hovering at 18%. Growing investment in this sector outside as well as inside the US by institutions is also likely to fuel greater future transactional activity in apartments. Office and residential exhibit a weak inverse correlation trend, suggesting that money has transferred from one sector to the other fairly efficiently.

In addition, demand for retail property is underpinned by similar demand characteristics as a result of new housing development creating the need for new neighbourhood services.

Consumer spending also increases in line with urbanisation, wealth creation and growth in the number of middle class consumers, fuelling retail demand and the prospects for growth in the sector globally. The retail sector has also shown some resilience, growing its market share by nearly 4% over the past seven years. We expect to see increasing transaction numbers in the coming years as well.

The steadiness of the industrial sector belies a big difference between logistics warehousing, closely allied to the retail sector and dated manufacturing units. The global growth in e-tailing means there is more investor interest in logistics in many parts of the globe and this has offset what might have otherwise been declining appetite for out of town manufacturing and workplaces.

FIG. 1 Investment market share – 2008 v 2015

Source: RCA/Savills Research
Global real estate tips
Savills’ experts reveal the next real estate hotspots

THE FOLLOWING section of this report explores in more detail what and where the future playgrounds might be for a wide variety of investors.

Over the next five years we are likely to see further recovery in those markets that were hit by the economic downturn, particularly Europe. Stable prices but lower transactional activity seem to be on the cards for core prime cities that have been fully invested in recent years. Meanwhile, small cities that are succeeding in the tech economy, as well as those where strong economic growth is expected nationally or locally, are likely to see increased transaction levels.

Smaller US cities and key European cities are likely to be the mainstay of this trend, while India seems the most likely country to benefit from growth in emerging markets. However, barriers to real estate investment are still a feature in many jurisdictions. Anti-foreign investor regulation and legislation will reduce cross-border activity, as will high levels of corruption and lack of transparency in some places.

Geopolitical factors will also dampen appetite in certain regions, notably the Middle East, although conflict and displacement may boost the appetite for outward, ‘safe-haven’ cross-border activity, and for some of the more stable real estate and cities within the region.

Turn the page for our tips
Australia is known as ‘the lucky country’ because it is blessed with an abundance of natural beauty and resources, and all the amenities the first world has to offer. And with these great endowments come great opportunities.

The Australian dollar has devalued against the US dollar over the past five years, which means real estate looks 36% cheaper to overseas buyers (see fig. 1). It also means that cross-border investment is inward rather than outward, and Australia is well-placed to attract overseas currency.

Demographic change is one of those opportunities. Over the next 30 years, Australia’s population of over-65s is forecast to grow from 3 million people to 9 million. There is a very strong real estate opportunity here. Demand from international students would show a preference for universities in the US, but the exchange rate has essentially put a ‘36% off’ sale tag on tertiary education in Australia. With its universities ranked highly in the world, demand has begun to skyrocket. Student accommodation is currently estimated to be 10% of the total demand, Melbourne is the third-largest international student city in the world behind London and New York.

The other compelling element of the exchange rate is that Australia has become cheaper for overseas visitors. While the tail-end of the Global Financial Crisis is still having an impact on tourism worldwide, Australia has gone from being an expensive place to visit to somewhere that could be considered reasonably priced, or even good value. We would expect to see more international visitor numbers in the near term too.

In the short term, we expect to see an incredible increase in the number of Chinese visitors, encouraging us to recommend long-term plays for Australian tourism assets. Starting in first-visit destinations such as Sydney and Melbourne, we believe Asia-Pacific visitors will later branch out into other pursuits, or return visits. This is where the forecasting risk increases as Chinese tourism is still in its infancy. A new-found penchant for sunshine and ocean pursuits might bode well for the Gold Coast, growth in snow pursuits would benefit ski resorts, while a search for the wilderness and outdoor sports might make the right real estate in the Northern Territory look attractive.

Tourism property takes the form of resorts and hotels, and can be found in locations across the country. In the short term, with the currency not purchasing as much foreign money as it once did, Aussies are more likely to holiday at home. That trip to Hawaii, Las Vegas or New York is now 36% more expensive so a domestic break starts to look more appealing. The resorts of Queensland and northern New South Wales, as well as the state capitals, have much to offer and ought to expect to see greater occupancy from locals.

The development of real estate to cater for these huge potential markets will require cutting-edge intelligence and a highly tuned responsiveness to this fast-growing sector of Asian tourism.

The vast majority of immigrants are under 35 and have skills that are either in short supply, or are going to become scarce because of the high number of older workers who are leaving the workforce and heading into retirement.

This creates ongoing demand for residential property, retail goods and services, which feeds into logistics, warehousing and manufacturing, and demand to occupy office property. The two cities set to benefit the most from this trend are Melbourne and Sydney.

As the population of these two cities is set to double over the next 35 years, long- and short-term property opportunities abound. Perth, Brisbane, Adelaide and Canberra will also see the benefits of this trend.

Demand from a growing population will impact many types of real estate.
Chinese real estate markets started slowly in 2015 (as fig 1), but investment picked up in response to falling interest rates (five-year loans were down 165 bps in 12 months to 4.9% in October 2015). The large issuance of domestic bonds at comparatively lower coupon rates, along with other supportive measures from the government, also meant lower costs on development debt finance.

Domestic purchasers continue to dominate the Chinese market, although some international investors have been building war chests in anticipation that slower economic growth will create pockets of distress and buying opportunities. Others hope to unlock new opportunities in niche markets using approaches learned in other international markets. So far, most investment has focused on the first-tier cities, particularly Shanghai. Here, we present some alternatives for these investors.

**CORE TIP**

**PREMIUM GRADE A OFFICES IN SHANGHAI’S LUJIAZUI AND BEIJING’S FINANCIAL STREET – LONG-TERM HOLD**

Shanghai’s office market fundamentals look weak because significant volumes of new supply are expected, but much of this is located in decentralised and non-prime locations. Prime locations, especially in Lujiazui, will see limited supply but we expect demand to be strong from financial institutions that are expanding rapidly on the back of the Shanghai Free Trade Zone policies. Beijing’s Financial Street has similar characteristics, with limited new supply and strong demand from financial institutions. Both these markets represent some of the most expensive commercial real estate at close to the top of their current rental cycles.

**So far, most investment has focused on first-tier cities, particularly Shanghai**

Nevertheless, these areas are unlikely to be dislodged in the mid to long term and present tremendous long-term value – if the assets can be prised away from current owners.

**CORE-PLUS TIP**

**GRADE B OFFICE PROJECTS IN SHANGHAI AND BEIJING – SHORT TO MEDIUM TERM**

One of the mainstays for core-plus investors is the investment in slightly dilapidated office buildings in central locations and spending some capital to bring them closer to Grade A standards. We think this will hold true in 2016. Although certain failures in the original design may be impossible to overcome (low ceilings, for example), relatively simple value-add steps can sometimes increase rents and capital values by 10% to 20%. Building maintenance, while improving, continues to fall far short of international standards. This means buildings that are sometimes only ten years old appear much older, and there is potential to add value by improving this.

**CORE-PLUS TIP**

**EQUITY INJECTIONS TO LOGISTICS OPERATORS – LONG TERM**

Logistics have been a favourite of investors for the past two years on the back of the rapidly growing e-commerce market and demand from third-party providers. The market is dominated by a handful of international and domestic players who have established large market shares and made it difficult for other investors to make inroads – apart from in the more specialised logistics fields. Investors still looking to get into these markets are partnering with some of the mid-size developers to provide the capital to grow rapidly and carve out more market share. Alternatively, equity injections into some of the larger players has also been a route for larger investors. Developers focusing on leading cities with scarce land supply will be better positioned in coming years as only limited new supply is expected. However, lower-tier cities are expected to see burgeoning supply in the coming years.

**OPPORTUNISTIC TIP**

**RESIDENTIAL DEVELOPMENT IN CENTRAL/MATURE LOCATIONS OF SECOND-TIER CITIES – SHORT TERM**

The residential market can be extremely fraught in China, with policy changes throwing curveballs to developers and investors alike. Recent policies and interest rate reductions have stimulated demand, especially in first-tier cities, pushing prices in leading cities to new heights. Smaller cities, however, are still plagued with oversupply that will take several years to digest.

Nevertheless, opportunities are once again presenting themselves in second-tier cities that have started to see prices rise on the coat-tails of rapid price growth in first-tier cities. Land premiums have started to rise but continue to remain affordable when compared to the irrational prices that residential land is selling for in first-tier cities. Our top picks include Hangzhou, Nantong, Wuhan and Suzhou.

**ALTERNATIVE TIP**

**NICHE MARKETS – ESPECIALLY ELDERCARE AND HEALTHCARE – LONG TERM**

There is a lot of money floating around in China at the moment; however, a large portion of this is passively invested, as is chasing traditional asset classes all the way to the top of the market cycle. The smart money, however, is looking at mid- to long-term plays in niche markets. These can be tricky areas as there are few established players and business models are still in a state of flux – and some of these industries have had false starts in the past. For brave investors, niche sectors represent the best bet for higher returns. Key sectors to look out for are eldercare and healthcare. Rising incomes and an ageing population, as well as a cracking state system that cannot accommodate the growing needs of a burgeoning urban population, are creating unprecedented demand against extremely constrained supply. The state is opening up the sector to competition, which creates a number of opportunities for private companies.
Economic recovery, a rapidly expanding tourist industry and the forthcoming Olympics are a few of the factors driving the Japanese real estate markets.

**OPPORTUNISTIC TIP HOTELS AND HOSPITALITY – MEDIUM TERM**

Japan’s hospitality sector is in a good position to profit from a growth in tourism, especially from mainland China. For example, average daily hotel room rates (ADR) have already grown by 40% over the past three years in Osaka and by around 20% in Tokyo. We expect this trend to continue as the Tokyo 2020 Olympic Games draw closer and Japan’s global profile increases. That said, investors in this space need to be nimble and must be prepared to risk disruptive events that could dramatically change the outlook of the industry. These include both natural and man-made disasters. In addition cap rates have compressed significantly of late, so entry costs can be high. However, income growth should justify this as we expect ADRs to rise even further.

**VALUE-ADD TIP LOGISTICS – MID TO LONG TERM**

The logistics sector has been enjoying strong demand in Japan. E-commerce currently accounts for just 5% of all Japanese commerce, compared with 15% in the UK and 10% in the US, so there is considerable scope for growth. We think that Japan’s widely reported ageing demographic will help e-commerce to grow. This has an impact on the logistics sector, which is instrumental in fulfilling orders in the face of what should be significant future demand for the convenience of home delivery. Japan’s supply of logistics warehouses will increase substantially over the next year so there may be a temporary softening in values over the short term, possibly offering buying opportunities. In the mid to long term, we expect a substantial growth in demand for the right premises in strategic locations that are able to service the changeable needs of e-commerce delivery and returns.

**CORE (STABLE INCOME) TIP GRADE B OFFICES – MEDIUM TERM**

There are opportunities in core locations such as Tokyo, Osaka and Nagoya for investors who are looking for income. Grade B offices should continue to provide stable income streams to core investors. Potentially rents could even increase. Considering the ultra-low funding costs in Japan – the yield carry (NOI – borrowing costs) is currently an attractive 3% to 5% – cash-on-cash returns should be comfortably higher.

**CORE-PLUS TIP GRADE A OFFICES – MEDIUM TERM**

Despite Grade A rents in Tokyo having risen steadily for consecutive quarters since Q2 2012, the rental average remains approximately 40% below the previous cyclical high of 2007. This not only mitigates downwards risk but indicates that the market has an upside potential. In combination with strong occupier demand and reduced availability, the recovery in rents is expected to continue although tenants will tend to be price-sensitive in the event of any economic uncertainty. Recent uncertainty in the global economy has made property investors cautious, although slow but steady growth is expected in the rental market.

Japan’s widely reported ageing population could help e-commerce to grow.
The property industry in Vietnam enjoyed a good 2015. Following on from the government’s monetary policy of 2013-2014, Vietnam’s macro-economic conditions are now the best they’ve been for some time. Almost all asset classes have rebounded, most notably the residential sector. Legal reforms, meanwhile, continue to transform industry practices. Vietnam performs counter-cyclically to the region, and in 2015 it outperformed its regional peers. This trend is set to continue in 2016, although some headwinds persist.

VALUE-ADD TIP
VIETNAM LANDED RESIDENTIAL DEVELOPMENT – LONG-TERM CAPITAL GROWTH

Rapid urbanisation, a fall in household occupancy and a young population will continue to underwrite residential property demand in Vietnam through 2016 and beyond. In the short term, economic fluctuations represent the main risk, but the growing middle-class demand for new homes will be a long-term phenomenon, as long as the economy continues to perform. Amended housing laws now allow for foreign investment in this sector. The landed residential markets in Ho Chi Minh City and Hanoi enjoyed strong supply and good absorption in 2015. Products are now diversified and oriented towards consumers, with developers vying for market share and producing villas and townhouses with ‘cradle-to-grave’ facilities, including healthcare and tertiary services for the aged. This asset class also benefits greatly from improvements in infrastructure and new links, drawing the ‘mortgage belt’ closer to the city.

OPPORTUNISTIC TIP
VIETNAMESE RESORTS – LONG-TERM TOTAL RETURNS

More than half of the world’s tourists come from China and Russia, and Vietnam’s long coastline and good weather are in close proximity to both countries. Hospitality development throughout the country kicked off with fervour in 2015 and will deliver world-class product, supported by great coastal locations, quality golf courses and international architecture in outstanding destinations in 2016 – from Halong and Danang in the north to Nha Trang and Phu Quoc in the south.

More than two-thirds of the country’s tourists are domestic Vietnamese travellers. The second generation of hospitality development will leverage initial success by developing second homes and resort accommodation.

OPPORTUNISTIC TIP
VIETNAM RETAIL – LONG-TERM TOTAL RETURNS

Retail development has been feverish as foreign and local developers compete in this rapidly changing environment. Year-on-year growth in retail sales stood at 9.1% in September 2015, one of the highest rates globally. Little wonder that there has been so much M&A activity in retail. Alongside the strong Vietnamese retailers, many foreign developers are now rolling out their formats. In 2016 there will be more contemporary space added, with new retail formats to be tested such as the Takashimaya/Saigon Centre in Ho Chi Minh City.

Throughout 2016 there will be a range of coastal homes available all over Vietnam from affordable levels to global prestige quality.

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Diverse, multi-speed Europe continues along the path to recovery with growing demand for real estate in major cities. ‘Tech cities’ such as Berlin and Dublin have outperformed as they attract a young, well-educated workforce.

**CORE/CORE-PLUS TIP**

**SHOPPING CENTRES IN GROWING CITIES – SHORT TERM**
Prime, dominant shopping centres with strong catchment areas will remain winners in the retail scene. They will continue to attract shoppers and visitors; whether they generate sales on site or online, retailers will want consumer exposure via these leisure, lifestyle and experience destinations. London, Paris, Munich, Madrid, Berlin and Moscow are expected to show strong population growth over the next decade and, importantly for retailers, to retain a high share of affluence.

**CORE/CORE-PLUS TIP**

**PRIME SUSTAINABLE WORKSPACE – MEDIUM TERM**
Innovation sectors are expected to grow quickly over the next decade in Dublin, Madrid, London, Barcelona and Warsaw. This should attract a talented workforce so buy prime ‘green’ offices in these and other innovative/smart cites. Occupiers will be focused on attracting human capital and the top talent wants smart, sustainable cities with a good lifestyle. Investing in flexible, sustainable buildings favoured by a 21st-century workforce is essential, as this will be a key parameter for innovative companies that have corporate social responsibility high on their agenda.

**VALUE-ADD TIP**

**HOSPITALITY AND MIXED USE IN EUROPEAN HERITAGE CITIES – MEDIUM TERM**
People like to visit and live in cities that have history, creativity, tourist attractions, lively, mixed-use city centres, a diverse retail offering and leisure activities. There are several of these in Europe that are attractive in this respect, and in many of them there are historic buildings in attractive locations that are not being used to their full potential. Refurbishments and conversions, and the use of new technologies, can add value to such properties. In London, Madrid, Milan, Vienna, Paris, Stockholm and Amsterdam, an increasing number of buildings are being converted from offices to residential homes or hotels, and are being redesigned and reused for retail, cafes and restaurants. The ‘old continent’ offers many opportunities for imaginative re-use, innovation and hospitality.

**OPPORTUNISTIC TIP**

**MICRO-APARTMENT DEVELOPMENTS IN HIGH DEMAND CITIES – SHORT TERM**
The rising number of single households, smaller households, immigrants and students in big cities – as well as ageing populations – where conventional housing supply is limited, is translating into demand for affordable micro-living.

Investments in student housing and micro-apartments in cities with large student communities, as well as to rapid urbanisation trends, is something that is already happening in the UK, the Netherlands and Germany, and accounts for a rising share of investment activity. In the future this can continue to focus on the megacities of Europe (London, Paris, Berlin, Madrid and Munich) but also in growing innovation hubs such as Dublin, Barcelona, Amsterdam and Stockholm. In this sector there could be two options: to focus on affordable accommodation for the mid to low incomes, or on high-end accommodation for higher income professionals or students.

**VALUE-ADD TIP**

**LOGISTICS IN EUROPE – SHORT TERM**
E-commerce in Europe grew 22% last year, creating a higher demand for warehousing space and distribution networks. Investment and development opportunities abound in warehouses that can service the changing needs of the e-commerce sector in Europe, primarily in megacities such as London, Paris, Berlin and Madrid.

Depending on the type or scale of the logistics space and its role in the supply chain, logistics premises may be located within the regions of these urban centres (urban logistics) or in well-positioned and well-connected Eastern European locations where land and labour costs are lower, for example in Poland and Romania.

The sector is evolving and being driven by the growth of e-commerce, technological evolution and innovations in logistics, so demand is varied but is expected to grow significantly. We expect rents and values to be driven up for the right property in the right locations.
The stateside market is looking buoyant, and a global search for yield makes investing in a range of US real estate an increasingly attractive proposition in key locations from east coast to west.

Tipster: Keith Decoster, Director of Research, USA

The market is heated up. As sellers cash out in gateway markets and alternative asset classes have competition for assets in secondary, unit and per key is at near-record levels.

Pricing per square foot, per San Francisco and Chicago – have fallen. Boston, Washington DC, Los Angeles, the gateway markets – Manhattan, commercial real estate in the US is emerging markets on the increase, turbulence and capital outflows in quality properties is a challenge. With safety and a bit of yield. However, finding investors seeking or patient capital – there is no tsunami of money, dry powder or what you will – a wall or abundance of assets in need of repositioning and developers looking for or conversion projects.

The US real estate market has an abundance of assets in need of repositioning and developers looking for investors. As they proceed deeper into secondary and tertiary markets, or into alternative assets, they run the risk of digestion too many exotic assets. Knowing which projects will be successful in the long term requires good advice and detailed local knowledge in such a varied and granular landscape.

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Understanding the local scene, alongside key drivers, is critical
The displacement of traditional space users has been accelerated by a rash of developers to convert older office buildings and some industrial product to creative office space, luxury condos and hotels. Pricing in TAMI-fuelled submarkets such as Santa Monica, and River North and Midtown South (Manhattan) has spiralled higher, so opportunities to achieve both NOI growth and capital appreciation are in more peripheral sections, such as Downtown Los Angeles, Playa Vista and El Segundo. In Orange County, California and the Peninsula (between Silicon Valley and San Francisco) very limited new construction and growing demand for larger blocks is turning buildings that were considered distressed assets a few quarters ago into ‘value-add’ gold mines.

US SECONDARY WAREHOUSES AND DISTRIBUTION PRODUCT – SHORT TO MEDIUM TERM

As recently as a year ago the industrial sector, even at the heart of the supply chain, was still undervalued, but it is now a core investment. The fundamentals underlying it are, in many ways, the strongest of all of the asset classes. Multiple demand drivers continue to support steady leasing in warehouse and distribution facilities. These include surging e-commerce sales and the scramble to reduce ‘click to delivery’ times, strong import activity and household income growth resulting in rebundling housing and auto sales. The sector is the most supply-starved asset class – net absorption in warehouses totalled 141 million sq ft in the first three quarters of the year, but only 130 million sq ft is currently under construction. Low supply prevails, not only in logistics and distribution hubs such as Los Angeles and Miami, but also in secondary and tertiary markets such as Portland, Oregon and Oklahoma City.

Investors have recently increased their focus on ‘final mile’ logistics and third-party logistics (3PL) facilities within a day of large urban centres in locations such as northern New Jersey, Long Island and southern California. As space in primary markets tightens, further rental growth has spread out to the edge of logistics/distribution hubs. There is increasing willingness to enter secondary markets, while competition for assets has intensified. Cap rates in Orange County, for example, average 4.6% and 5.1% in NYC boroughs, but more out to more than 7% in Salt Lake City and Atlanta.

GARDEN APARTMENT PORTFOLIOS IN SUNBELT AND WESTERN MARKETS

The multi-family market was the first asset class to gain momentum when the recovery started and it remains a favourite target of core and core-plus investors, so布尔曼, Manhattan and San Francisco, and even Washington DC and Los Angeles. Garden apartment buildings in south-eastern and south-western markets are priced at a fraction of the high and mid-rise product in urban areas. Most millennials are still priced out of the housing market, so metro areas with a growing number of recent college graduates, such as Phoenix, Austin, Denver, Atlanta and Washington DC, have a steady base of apartment-dwellers. Rental growth has picked up in many of these markets, particularly in proximity to mass transit, retail and other attractions. These cities may also offer value-add options to update older apartment buildings and loft buildings, particularly in the high-demand urban core. Value-add purchase and upgraded, older garden apartment buildings built several cycles ago has the strongest upside potential, although investors need to watch out for competing supply in some markets, where there can be thousands of additional units in the development pipeline.

OFFICE AND FLEX BUILDINGS IN SECONDARY AND TERTIARY ‘TECH MARKETS’

The quest for tech talent and innovation has led some big employers to secondary and tertiary markets, such as Austin, Nashville, Salt Lake City and Minneapolis. Acquisitions and investments fund extensive hiring initiatives, spurring strong demand for office space. They can also make a big splash in markets that have a limited amount of institutional grade flex and office product.

Secondary and tertiary markets cannot offer all of the attractions of the 24-hour cities/gateway markets, but they generally have enough talent and a cool/authentic vibe that tech and creative sector companies covet. Some are set in university towns or former ‘company towns’ with a high percentage of educated professionals. This includes tertiary markets such as Huntsville, Alabama, as well as Knoxville, Tennessee and Albuquerque, New Mexico. Even Nashville’s music and entertainment sector has fostered entertainment start-ups (as well as being on a growing list of smaller cities like San Luis Obispo, New Haven, Connecticut) that have a burgeoning healthcare start-up scene. Cap rates for workspace in these cities are usually in excess of 7% and can be over 9%.

CITYSCAPE FROM REUNION TOWER, DALLAS

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UNDERSERVED/OUTMODED RETAIL IMPROVEMENTS IN GENTRIFYING COMMERCIAL DISTRICTS AND INNER SUBURBAN EDGE

Retail product has not always been adequately developed alongside new residential and office development in some older commercial corridors and close-in suburbs. Older 1980-1990s buildings could gain higher rent and foot traffic with building improvements to serve new and growing populations. There is also a gap in luxury high-end retail in ‘new tech’ markets with increasingly affluent younger residents.

PLACE-MAKING

Part of the appeal of many cities is their unique and authentic culture, but as investors from China, Canada and Europe increase their stakes in major US developments, it may seem to validate the notion that the ‘world is flat’. However, the increasing number of people and businesses in the US are pushing against homogenisation, or the ‘cookie-cutter/chain-store’ settings often associated with suburban subdivisions and strip malls. The overwhelming mantra or catchphrase among suburban planners and developers is creating ‘live/work/play settings with a sense of place’. The authenticity much prized by the millennial tech generation may be tough to build but it pays dividends. Replicating the ‘cool and edgy’ vibe of SoMa, the Meatpacking District in Manhattan or Downtown Austin and Nashville, may be impossible in suburban locations but urban amenities or the creation of a town centre, even in suburban markets, offer businesses and residents a lot of convenience, not to mention higher property values.

It doesn’t take a development the size of Hudson Yards in Manhattan to spur value-add and opportunistic buys. Renovations to industrial business parks or corporate campuses can enhance the value of properties surrounding these facilities.
World farmland markets are attracting significant investment activity. Demand for land is underpinned by growing global food and energy needs.

**CORE-PLUS TIP**
**US CORN BELT – LONG TERM**
The Corn Belt is ideal for the private or smaller scale investor. It offers scale and the ability to aggregate land investments to create large farming units focusing on corn and soybean production. Illinois, Indiana and Ohio are the states which present the best opportunities. The Corn Belt benefits from the class A soils and relatively little of the climatic volatility that is typical of the US midwest. The best opportunities lie in identifying under-performing farms. Long-term gains in asset performance can be achieved by increasing crop yields, using technology such as hybrid seeds and highly mechanised production. This productivity gain is, over time, capitalised into the land value, despite short- to medium-term commodity price volatility.

**VALUE-ADD TIP**
**UK RURAL ESTATES – LONG TERM**
A diversity of assets (agricultural, residential, commercial and, more recently, renewable energy) helps to spread risk and high-quality rural estates with a range of assets within one property fit this bill. The Savills Estate Benchmarking Survey, which has surveyed rural estates across the UK since 1996, shows they have delivered a steady upward performance in both gross and net incomes, which has reduced exposure to commodity price volatility.

UK properties are an attractive proposition to high net worth individuals as they are safe shelters for wealth and a tax-efficient way of transferring wealth from one generation to the next. They also offer a range of ownership benefits, from residential to sporting, and the long-term investment performance of rural estates is comparable to most alternative assets, with an annualised total return of 10% over the past 30 years. The economic outlook for rural estates remains positive, despite weaker short-term agricultural prospects.

**OPPORTUNISTIC TIP**
**CENTRAL EUROPEAN FARMS – LONG TERM**
Achieving top performance in a farming operation and adding value along the supply chain is key to maximising investment returns. This is especially so in the emerging markets, including central Europe, where farming businesses have been inefficient (small and fragmented) and under-resourced (capital and skills). However, many of these regions have significant resources in terms of land, water and labour. Agriculture in the EU also benefits from subsidies. If farming operations can achieve the scale and adequate resources to perform in the top quartile, then this increase in performance will translate into stronger capital values.

Farmland values in the emerging markets have, historically, shown the strongest capital growth. Although the current fall in commodity prices will lead to some pressure on average farmland values in the short term, we believe that the right product in the right place can offer real opportunities for toplong-term investment performance, underpinned by the fundamentals of food and energy security.

**OPPORTUNISTIC TIP**
**AGRICULTURAL INVESTMENT IN SELECTED AFRICAN COUNTRIES – LONG TERM**
Africa continues to grow in economic significance and is playing an increasingly important role in the global economy. Agriculture and, more specifically, land, are Africa’s greatest assets.

Africa is often seen as a homogenous region. However, there are significant ‘growth corridors’ developing in southern and eastern Africa that not only unlock significant opportunity to acquire large productive farms that are likely to significantly increase in capital value over time.

Performance will depend on the enterprise and location, and the level of capital required to develop the farm to full operational capacity. External infrastructure and access to markets are key to maximising financial returns so this may be an investment that is best made alongside infrastructure investments or improvements.

*Source: Savills Research using Eurostat & various data/estimates*
Our researchers operate alongside experienced practitioners in established and functioning markets, but the world is a bigger place than these key centres alone and the real fun comes in predicting which markets our next generation of researchers will be sitting in 20 years from now. Looking at a broader time horizon, some of the biggest changes and developments in the world of real estate are likely to happen either outside or on the edge of their current geographies. Some of the most exciting opportunities for investors will be in places many of us have not yet heard of.

Indulging a taste for the exotic, and even extreme, my three tips are opportunistic – for those willing to take a long-term position they are high on the risk curve.

**OPPORTUNISTIC TIP: URBAN LAND AND EDGE CITY LAND IN GROWING (BUT AS YET OBSCURE) AFRICAN CITIES – LONG TERM**

Africa is huge, but while many eyes are focused on the megacities of Lagos and Nairobi, the continent’s huge potential for economic growth will likely play out in cities most people in the northern economies have never heard. Oxford Economics forecasts that 7 of the 10 fastest-growing cities in the world to 2030 will be in Africa (three are in Tanzania, two in Malawi). Cities where real estate opportunities are likely to arise are in fast-growth areas such as Kigali in Rwanda, Dar Es Salaam in Tanzania and Addis Ababa in Ethiopia, while countries experiencing a peace premium and prosperity will also be favoured (see fig. 1).

However, a word of caution: opportunities may not be conventional. Institutional, Western-style holdings such as big-box, plate glass offices do not always perform well in challenged, emerging and hot countries with unreliable power supplies). The purchase of land for expansion or redevelopment, as well as small retail, workshops and logistics with the potential for appropriate development and redevelopment, could play out better. Participation in the purchase of land rights in slum areas that are ripe for pacification and gentrification by their occupants may also be an area for investigation. Real estate capital will be needed for the development of neighbourhood commercial uses in these areas. Western-style legal systems and transparent property markets will make some locations more attractive for both main residences and second homes – to perform a wealth storage function in the region’s safer countries.

Dubai is well-placed to service not only those with wealth in the Middle East, but also its own growing middle class. Falling oil revenues threaten wealth creation in many parts of the Middle East, although Dubai has never been oil-reliant and started to diversify its economy many years ago, putting it in a better position to ride out the storm. It is likely to continue to attract businesses that want to trade with the West and its economy is forecast to grow strongly. The hybrid nature of the city as both a business and tourist destination means it has the potential to attract both residents and leisure/lifestyle second-home owners. These are more likely to come from within the region in the coming years, although we are cautiously optimistic for high quality, low and mid-rise sustainable housing and resort developments.

**Source:** Savills.com

**FIG. 1 Growth in GDP (% year on year)**

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It is striking just how similar some of our tips across the world are, despite the fact that they have originated in different markets and among different researchers operating in completely different geographies. This clearly shows that there are global forces at work that act as a heavy hand on the tiller of local markets.

Foremost among these global forces is simply the nature of money. The impact of looser monetary policy almost everywhere, low inflation, low interest rates and quantitative easing cannot be overstated. Every global region seems to be reporting asset price inflation, particularly in the core prime markets.

Added to this is the creation of wealth in an increasing number of emerging economies, as well as ageing populations that have more invested equity in the developed world. All this means that there is more capital at large, seeking both capital appreciation and, increasingly, income.

The other theme to emerge from our researcher's prognoses is the dawning of the digital age and the impact it is having on the built environment. The importance of logistics to service the needs of e-commerce has been identified in every region. Meanwhile, the more subtle effects of a changing workforce are beginning to be identified in some key cities, in North America especially.

If the first industrial age was about proximity to raw materials, the manufacturing age about proximity to capital, the digital age is different again. Entrepreneurial tech industries are all about proximity to talent so successful locations are those that are capable of attracting this human capital.

New corporations and enterprises can no longer attract their workforce to homogenous out-of-town buildings where there is no other human interaction or activity. Their city has therefore become a commercial entity for them, a unit of currency in the digital age that will either attract or repel their human capital.

All this supports the three pillars of real estate investment for the next decade, which regular readers of our other publications will have seen rehearsed before. They are:

1. THE RISE OF SECONDARY AND TERTIARY MARKETS
2. THE RISE OF SECOND-TIER CITIES
3. THE RISE OF ALTERNATIVE ASSET CLASSES AND LOCATIONS

This will make for an interesting, varied and increasingly global real estate investment market in the coming decade. Our global researchers will enjoy exploring and explaining this new landscape in 2016 and we would like to wish all our readers a happy, successful and prosperous year.
Around the world in dollars and cents

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