GLOBAL

9 KEY TRENDS INFLUENCING INVESTOR STRATEGIES IN 2021 & BEYOND

CBRE RESEARCH

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EXECUTIVE SUMMARY

CBRE's 2021 Global Investor Intentions Survey paints a broadly positive picture of recovery from the abrupt pandemic-induced downturns in the Americas, EMEA and Asia-Pacific commercial real estate investment markets.

Driven by a strong global economic recovery and abundant dry powder, investors intend to deploy more capital worldwide this year—a trend that has CBRE forecasting 15% to 20% year-over-year growth in 2021 global real estate investment volume.

In addition to detailing investors' favored strategies, sectors and markets, this year's survey provides insights on several macro themes:

- With the pandemic-induced adoption of mass remote working by many companies and heightened workplace health and safety concerns, debate is intensifying about **The Future of Work** as many occupiers reassess the size of their office portfolios. Investors are responding by directing capital to high-quality office assets providing durable long-term income streams and by intensifying their efforts to attract and retain creditworthy tenants by enhancing their amenity, wellness and flex space offerings.
- Investor, occupier and end-user demand is sharpening the focus on **Environmental, Social and Governance (ESG)** considerations throughout all stages of the investment process. With many countries committed to reaching carbon neutrality by 2050, real estate assets that are not upgraded accordingly run the risk of becoming obsolete.
- Low interest rates and the search for yield are contributing to a much stronger **Alternatives** sector globally. Lifestyle and consumer habits are driving robust investor interest in data centers, health care facilities and senior housing assets.

Besides the survey findings, this report is enhanced by the latest observations, analysis and on-the-ground market intelligence from CBRE's senior business leaders in the Americas, EMEA and Asia-Pacific. It presents their perspectives on the survey findings and how these trends will influence landlord and investor behavior in 2021 and beyond.

THE 9 KEY TRENDS

1

Office investment will increase as more workers return to the office.

2

Amenities and building enhancements that support health and safety are important investment considerations.

3

Investors are willing to adapt properties to meet occupier requirements, impacting underwriting significantly.

4

Investors are strengthening the appeal of the office with flex space offerings and experience services.

5

ESG is informing decision-making.

6

As more investors seek ESG data on their potential asset acquisitions, poor-performing assets may see price discounts.

7

Investors are moving farther out on the risk spectrum in search of higher returns.

8

Operational real estate is attracting capital, but sophisticated management is required to succeed.

9

Investment in the hardest hit asset classes is set to return.

THE FUTURE OF WORK

KEY TRENDS INFLUENCING INVESTOR STRATEGIES 2021 & BEYOND

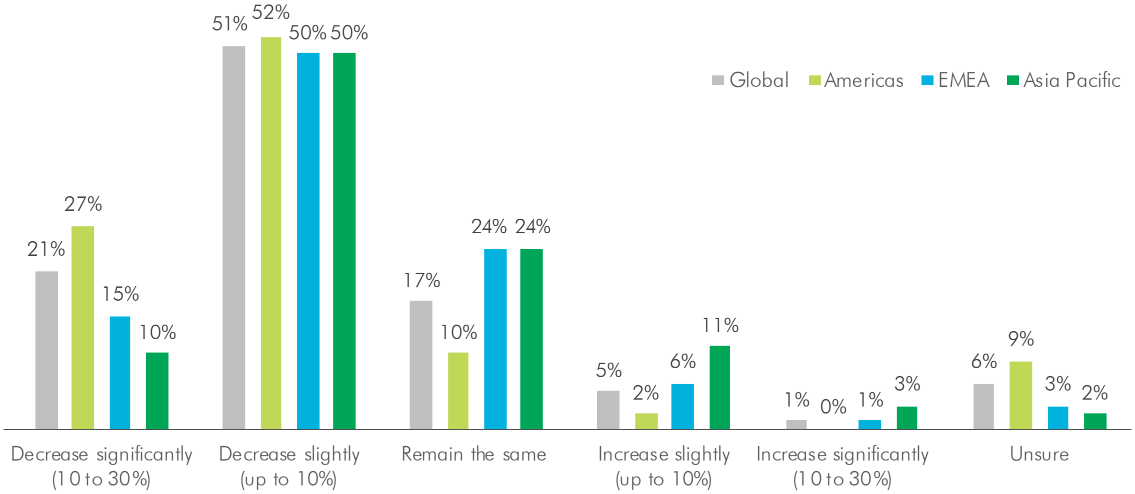
KEY TREND

1

Office investment will increase as more workers return to the office.

Approximately half of survey respondents from all three regions expect a slight decrease in office demand over the next three years. Americas investors are less optimistic, as many believe that remote working will become a long-term structural shift. Asia-Pacific investors are the most optimistic, with 14% indicating they expect a slight or significant increase in office demand, driven by a growing service sector and physical constraints on remote working.

Figure 1: Investors' Views on Office Demand Over Next Three Years



Source: CBRE Global Investor Sentiment Survey 2021

In the Americas, demand for office space has evolved over the course of the pandemic. At the outset, there was real concern that employees would not return to the office, heightening fears about a potential slump in demand.

With many office workers now recognizing that remote working challenges their productivity, the tide is slowly starting to turn. As employees' confidence in workplace safety grows amid the decline in infections and an increase in vaccinations, CBRE believes office investment will increase proportionally.

> **"The story today in the U.S. is significantly different from what it was six months ago. With more companies appearing likely to return to a centralized working environment of some sort, investors and lenders across the country are warming to the office market.**
>
> BRIAN STOFFERS
> Global President,
> Debt & Structured Finance, CBRE

KEY TREND

2

Amenities and building enhancements that support health and safety are important investment considerations.

"If your asset doesn't provide high-quality amenities, collaborative environments and flex space, [...] its primary appeal to tenants will be low rents. That's going to cause a real bifurcation in the value of assets.

CHRIS LUDEMAN
Global President,
Capital Markets, CBRE

High-quality assets with creditworthy tenants and long-term leases have seen very little dilution in value since the pandemic began. While investors had long recognized the need to amenitize their assets to attract high-quality tenants, the pandemic-driven uncertainty about the future of office demand means it has become essential for the best properties to have a comprehensive amenity offering.

The pandemic has also sharpened investors' focus on ensuring the health and safety of their tenants' employees as they return to the office. Consequently, as investors evaluate potential acquisitions, building features like power systems, elevator access and air-filtration quality are becoming more important investment considerations than ever before.

CBRE expects a hub-and-spoke office distribution system to become the norm for many corporate occupiers, characterized by locations in both the U.S.'s largest cities and in high-growth secondary markets. Investment capital will follow this trend.

The economic rebound in EMEA is several months behind the U.S. While investors in many countries—most notably Denmark, Norway and Switzerland—have been very active this year, some are struggling to understand how and where to commit capital into a sector where occupancy is at risk. Frequent infection resurgences in certain countries have also hindered investment activity.

This has led to a bifurcation of office investment demand, characterized by a strong appetite for high-quality CBD assets providing long and durable income streams and diminished interest in properties with shorter income streams that require more intensive asset management and improvements.

However, with flexible working and hub-and-spoke office models already gaining some traction in EMEA prior to the pandemic, CBRE expects that decentralization will continue, especially in markets with sizeable tech and life sciences clusters. Investors should therefore not neglect secondary markets.

"We are seeing robust investor demand for well-tenanted, long-leased and ESG-compliant offices. These are now the crucial differentiating factors. While there is still a future for secondary offices, investors will insist on substantial pre-pricing of these assets before committing capital to them.

CHRIS BRETT
Head of Capital Markets,
EMEA, CBRE

KEY TRENDⓘ

KEY TREND 3

Investors are willing to adapt properties to meet occupier requirements, impacting underwriting significantly.

Building owners are conscious of the need to adapt their properties to meet occupiers' future requirements, such as more food & beverage, wellness and open-space amenities. Flex offerings also are becoming more important.

There has also been an increase in the availability of debt for office assets, with lenders prepared to increase loan-to-value ratios in some cases.

While Asia-Pacific investors pulled back from the office sector at the onset of the pandemic, their appetite for the sector has returned to pre-pandemic levels with a return to the workplace. CBRE has observed a flight-to-quality trend in Asia-Pacific, with secondary assets still underperforming. Central business districts continue to attract investors, but the movement toward suburban locations likely will accelerate in some of the region's larger cities.

Investors in Asia-Pacific clearly see a need to address tenant demand for flex space. Property owners are now taking on greater risk by forming partnerships with flex operators to share any profits or losses from flex space offerings. Other strategies include management agreements, whereby landlords provide capital investment and receive all revenue from flex offerings, while operators obtain management fees.

"Investors will seek assets that provide the best opportunities to retain and attract tenants for income growth. High-quality, well-located office properties will be keenly sought after. More thought will be given to the volume and implementation of capital expenditure in purchase underwriting.

TOM EDWARDS
Global President,
Valuation & Advisory Services, CBRE

KEY TREND

4

Investors are strengthening the appeal of the office with flex space offerings and experience services.

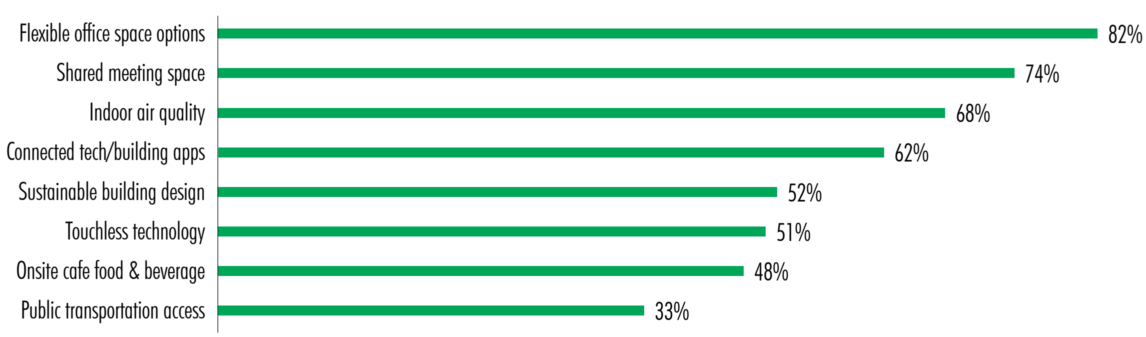
"As landlords explore how to reimagine their office buildings to strengthen community, collaboration and connectivity, flex space is a key part of the conversation. While several different operating models likely will take flight as we emerge from the pandemic, an increasing number of landlords are approaching CBRE to provide advice and help deliver flex solutions.

EMMA BUCKLAND
Global President,
Property Management, CBRE

As the industry continues to reimagine the future of office work and how it will impact demand, landlords and investors worldwide are intensifying efforts to lure employees back to the workplace by strengthening the appeal of the office.

Along with flex space offerings, popular tenant-retention strategies include introducing tenant-experience mobile apps, improving indoor-air quality and enhancing the sense of community among building occupants.

Figure 2: Most In-Demand Building Attributes in Future



Source: The Future Of The Office Survey, Cbre Research, September 2020

ESG COMPLIANCE

KEY TRENDS INFLUENCING INVESTOR STRATEGIES 2021 & BEYOND

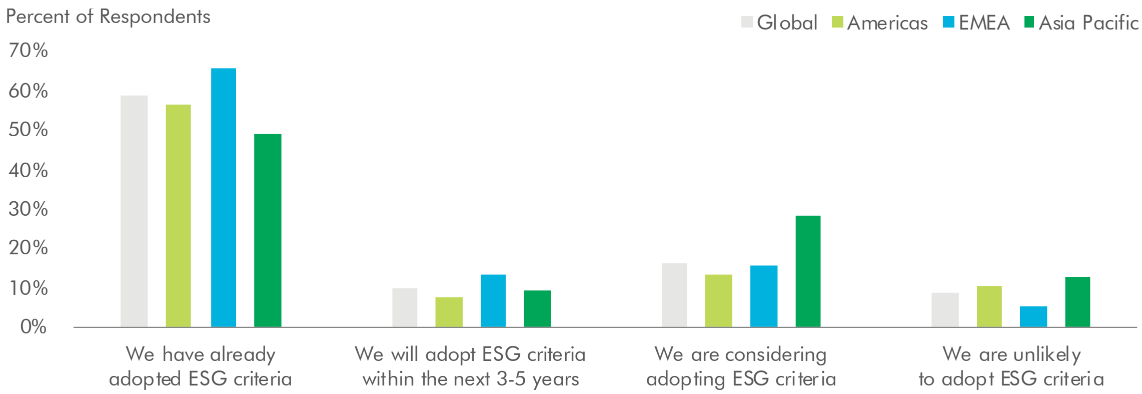
KEY TREND

5

ESG is informing decision-making.

More than half of survey respondents are adopting ESG criteria for their prospective real estate investments, with EMEA leading adoption due to regulatory advancements. Adoption of ESG criteria is most common among real estate funds, pension funds and investment managers.

Figure 3: ESG Adoption Among Investors



Source: CBRE Global Investor Sentiment Survey 2021

This finding mirrors CBRE's on-the-ground observations of an increased emphasis on ESG compliance across all regions. ESG is increasingly important for due diligence by fund managers to raise and deploy new capital from investors. Tenants are also amplifying the need for ESG-compliant assets to meet sustainability targets and attract and retain the best employees.

Investors are increasingly adopting sustainability measures at all stages of the property lifecycle, from acquisitions, to leasing, to asset management. Many investors are performing ESG due diligence on their prospective acquisitions, inserting green lease clauses and addressing CapEx and OpEx application on the management side.

> **"There is a strong desire and mandate for institutional capital to be ESG compliant. While European capital has always been way ahead in this regard, ESG is now permeating the Americas and will become increasingly important in Asia. CBRE expects to see a greater preponderance of investors including ESG in their investment criteria.**
>
> CHRIS LUDEMAN
> Global President,
> Capital Markets, CBRE

On the operational front, while increased regulatory requirements are a key driver of ESG adoption in many markets, property owners are increasingly setting clear strategies and implementation plans for their ESG goals and objectives, which influences how they operate their assets.

While measures such as renewable energy generation and recycled water systems involve significant upfront investment, not all require a multi-year payback period. Initiatives targeting human behavior and waste management can have a big impact on emissions reductions at relatively little cost.

> **"ESG credentials will be a key value driver for new building design and development. We are already seeing occupiers, investors and lenders incorporating ESG into their assessments of the quality of office space and how it is managed.**
>
> TOM EDWARDS
> Global President, Valuation & Advisory Services, CBRE

KEY TREND

6

As more investors seek ESG data on their potential asset acquisitions, poor-performing assets may see price discounts.

As investors hone their focus on ESG, property management will be critical for the delivery of operational strategy that fosters tenant engagement and the reduction of daily carbon emissions.

Owners will increasingly be expected to provide granular data on ESG aspects of building performance—such as indoor air quality, power consumption, water usage and waste management—to help tenants identify opportunities that drive sustainable performance.

The fact that buildings with strong ESG performance tend to be newer high-grade assets, which are already highly valued, means the sustainability premium is hard to pinpoint. However, many markets are beginning to see potential price discounts due to poor ESG performance, including energy inefficiencies and climate risk exposure, such as flooding, drought and heat stress. The threat posed by natural hazards has also prompted some observers to propose the inclusion of resilience into ESG criteria (ESG+R).

"Instead of the building certifications of today, ESG data will be the passport of the future for buildings. This data will enable occupiers and investors to make informed decisions on the asset performance according to the benchmarks and frameworks that are critical to their business.

JULIE TOWNSEND
Executive Director, Head of Environmental Consultancy, UK, CBRE

"When we think about the real estate lifecycle, it's clear that the ESG conversation is one that involves all of us. All parties working together—the landlord, the occupier, the property manager and the supply chain—is absolutely key in ensuring we jointly reach our ESG goals.

EMMA BUCKLAND
Global President,
Property Management, CBRE

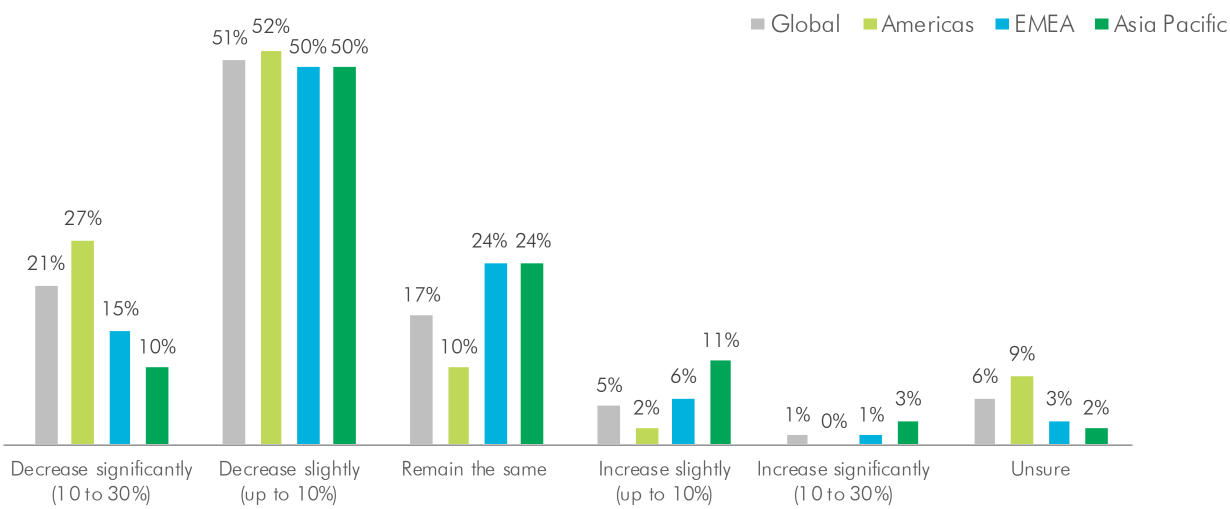
ALTERNATIVES

KEY TREND
7

Investors are moving farther out on the risk spectrum in search of higher returns.

CBRE's survey uncovered strong interest in alternative asset classes, with more investors indicating a healthy appetite for data centers, cold-storage facilities and co-living residences compared with last year. CBRE's discussions with investors indicate that their increasing desire for portfolio diversification is fueling more demand for alternatives globally.

Figure 4: Alternative Sector Preferences



Source: CBRE Global Investor Sentiment Survey 2021

In the Americas, CBRE is seeing more investment in alternative real estate sectors. Student housing has proven more resilient than had been expected at the onset of the pandemic, while investor interest in self-storage assets is also growing.

Across Europe, health care facilities and data centers are attracting global investor demand, whether through lease length covenant strength or simply as a diversification option. Demand for data centers is particularly expected to strengthen over the course of 2021, with hubs in major cities across EMEA set to be the clear winners. Life science assets and cold storage facilities are also popular.

KEY TREND

8

Operational real estate is attracting capital, but sophisticated management is required to succeed.

Data centers in Asia-Pacific are also attracting robust demand, with yields for this sector having compressed significantly over the past 24 months. Further compression is expected as investors gain a greater understanding of business operations and income risks. The main investment route remains for investors to form joint ventures with operators—an approach that provides higher returns than pure brick-and-mortar deals.

Legislation addressing data privacy and security concerns continues to fuel end-user demand for local and regional data center solutions. Demand in China and Indonesia is robust, with large markets set to grow even larger based on infrastructure and construction costs. Growth is strong in Sydney, Tokyo, Hong Kong and Singapore.

Despite stronger investor interest, several obstacles remain to investing in alternatives. Since many of these asset classes are relatively new, they lack the long and reliable data sets of more established sectors. The fact that most operators are start-ups or small businesses can also negatively impact their covenant strength.

With alternative assets often including operational elements, investors must consider if they want the risk exposure to potentially high returns or look more traditionally at long-term lease structures with more income certainty and less volatility.

While opinions vary as to the precise percentage of core strategies allocated to alternatives, there is a clear shift toward higher allocations to alternatives—a trend that will continue to gather momentum as these asset classes mature.

"Asia-Pacific investors considering alternative assets often encounter a small investable universe. This requires investors to take on development risk and go farther out on the risk spectrum to build high-quality portfolios.

GREG HYLAND
Head of Capital Markets,
Asia Pacific, CBRE

"One of the biggest challenges in investing in alternatives is skill sets and knowledge required of investors, managers and service providers. Expanding into these more management-intensive specialties requires more than just basic real estate knowledge. The higher returns are there in large part because of the stronger and smarter management that is needed to succeed.

TOM EDWARDS
Global President, Valuation &
Advisory Services, CBRE

KEY TRENDS 9

Investment in the hardest hit asset classes is set to return.

While ESG, alternatives and the future of work will be among 2021's most prominent investment themes, CBRE also expects the return of demand for sectors that have been hardest-hit by the pandemic.

In the Americas, retail assets with curbside service, drive-thru features and experiential components are ideally positioned to serve the e-commerce, click-and-collect and multi-omnichannel environment that has been accelerated by the pandemic.

Demand for power centers, strip centers and lifestyle malls in dynamic southern markets with strong population growth like Atlanta, Tampa and Phoenix continues to grow. Restaurant, grocery and food & beverage assets are expected to perform particularly well.

EMEA is beginning to see real price discovery in both primary and secondary retail shopping centers and out-of-town retail parks, which is providing investors with the confidence to return to the sector. Another encouraging sign in recent months has been the increased willingness among some lenders to provide debt for retail assets.

The EMEA region is also seeing a bounce back in hotel investment demand but with a notable shift in buyer composition. There is a large amount of private equity seeking long-held family owned properties rarely made available for sale. Hotel specialists are focusing on preferred markets where pricing discounts are now available.

Asia-Pacific has seen a very strong recovery in demand for hotel assets in select markets, backed by a belief among investors that substantial pent-up demand for leisure travel will be released with the eventual relaxation of travel restrictions.

> **"The velocity and volume of retail deals in the U.S. has recovered significantly, with some teams and markets already having transacted higher volumes this year than they did for all of 2020. As the market is not yet fully informed of what values can and should be, it's a very fluid environment for pricing and a great time to enter the asset class.**
>
> JOHN MORRIS
> Executive Managing Director, Americas Industrial & Logistics and Retail Leader, CBRE

FOR MORE INFORMATION

Please download CBRE's 2021 Global Investor Intentions Survey.

FOR MORE INFORMATION ABOUT THIS REGIONAL REPORT PLEASE CONTACT

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INVESTOR INTENTIONS SURVEY 2021

CBRE RESEARCH

This report was prepared by the CBRE Americas Research Team, which forms part of CBRE Research—a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate.

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