Global Investor Intentions Survey 2016

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Investors remain positive, but are more cautious

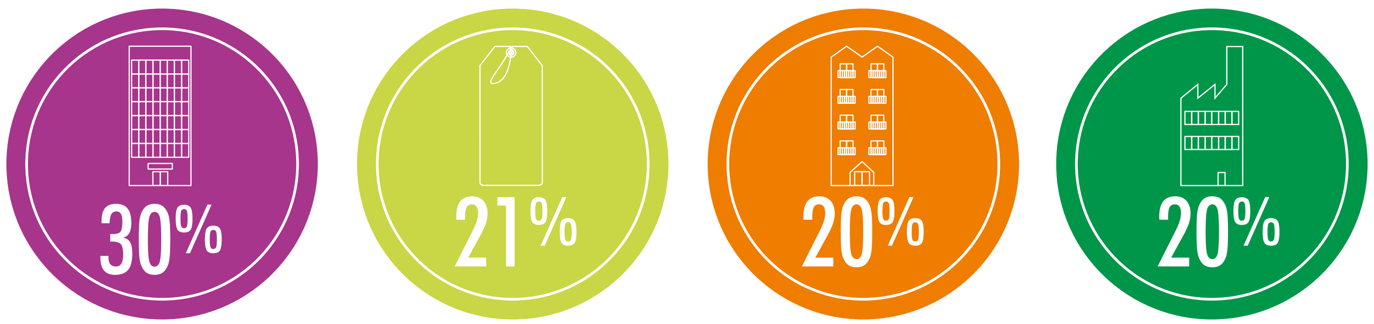
say their investment activity will be the same or greater in 2016 compared to 2015

of capital potentially available to deploy into property in 2016

report their risk tolerance will be the same or lower from last year

concerned about health of either global or local economy

Office most favored asset type, appetite for retail and multifamily growing



Office

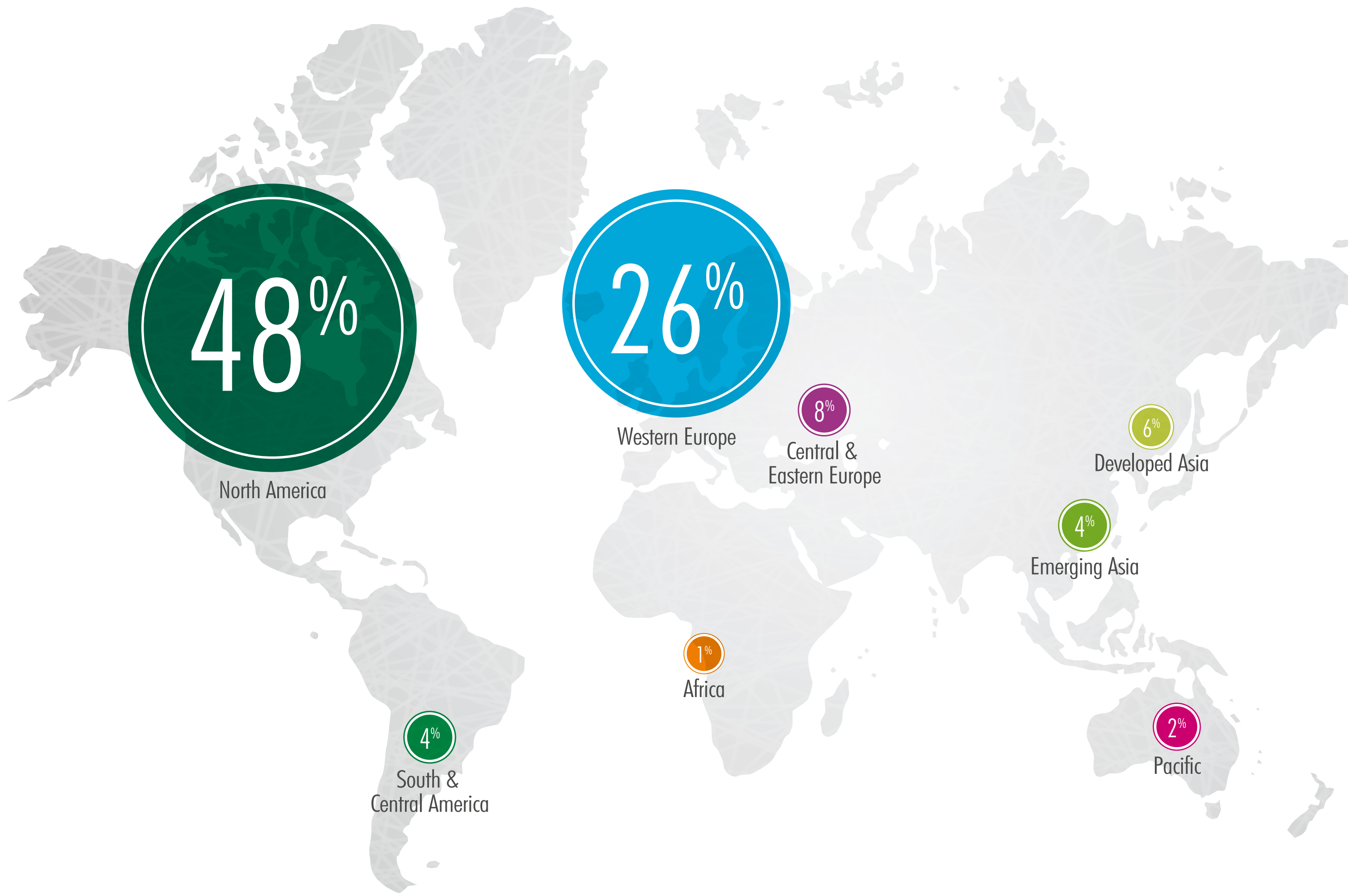
Retail

Multifamily

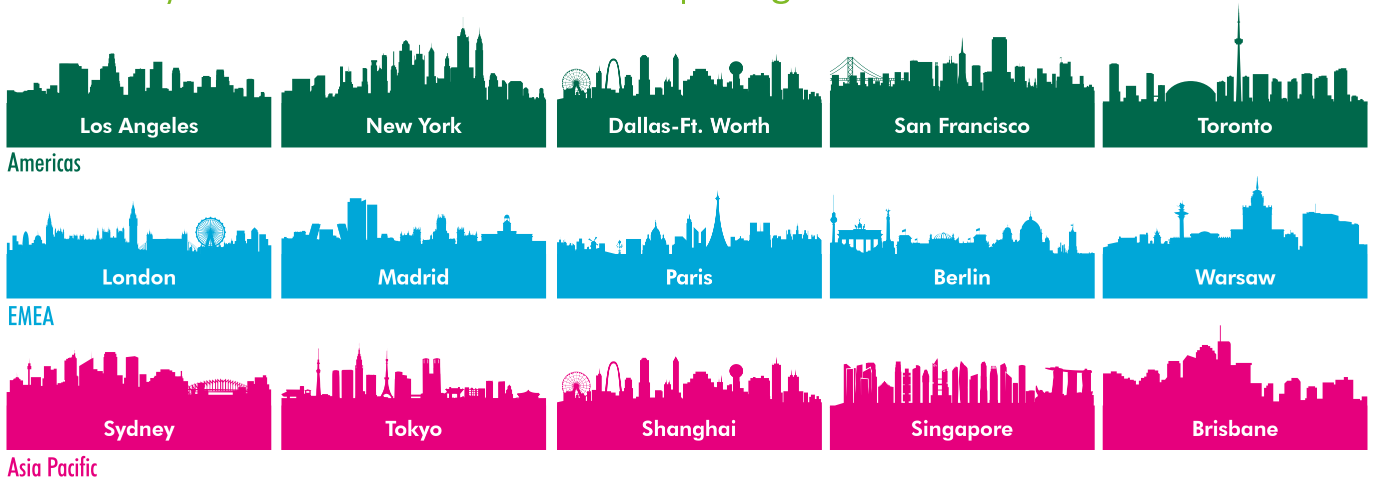
Industrial and Logistics

Source: CBRE Investor Intentions Survey, 2016.

North America, Western Europe preferred regions for global investors



Gateway and core cities are the top targets



Source: CBRE Investor Intentions Survey, 2016.

Executive summary

We believe that 2016 will be another active year for the global real estate investment market, with capital flows likely to increase 3% to 6% from 2015 levels in local currency terms

CBRE's 2016 Global Investor Intentions Survey, reflecting the input of more than 1,250 major investors worldwide, shows that **investors are still strongly expansionary, with 82% of respondents indicating that their investment activity will be the same or greater compared to 2015.**

Investors continue to find real estate appealing, chiefly due to the relatively higher returns and stability on offer. **Our survey suggests that there is more than US$1 trillion of capital targeting commercial property investment in 2016, which should help support current pricing levels.**

Investment strategies are shifting amid concerns about the health of the global economy, which is by far the top worry for investors. **Not surprisingly, 2016 looks likely to be a "risk-off" year, with investors reporting they are more focused on core assets** and less likely to seek secondary, value-add and alternative opportunities.

North America and Western Europe, two of the stronger pockets of the global economy, are the most popular destinations among survey respondents. By contrast, Asia Pacific looks less attractive to investors, no doubt reflecting concerns about the China slowdown, the murky outlook for other emerging markets and overbuilding in some locations.

In terms of cities, investors continue to express a strong preference for gateway core cities. In EMEA, **London topped the list but it is much less popular than in previous years.** If the major German cities are grouped together, they are slightly ahead of London.

In the Americas, Los Angeles, New York and Dallas-Ft. Worth were named the top three most preferred targets. **In Asia Pacific, two Australian cities — Sydney and Brisbane — were among the top five most preferred cities.**

Interest in cross-border investment remains strong, with two in five respondents stating that they are seeking opportunities outside their home region. This is especially true of Asia Pacific-based investors, who are more likely to invest outside their home region compared to their colleagues in the Americas and EMEA.

In terms of asset classes, **office remains the most popular property type globally, though interest is down a bit compared to last year.** There is a notable uptick in interest for retail and multifamily assets from 2015.

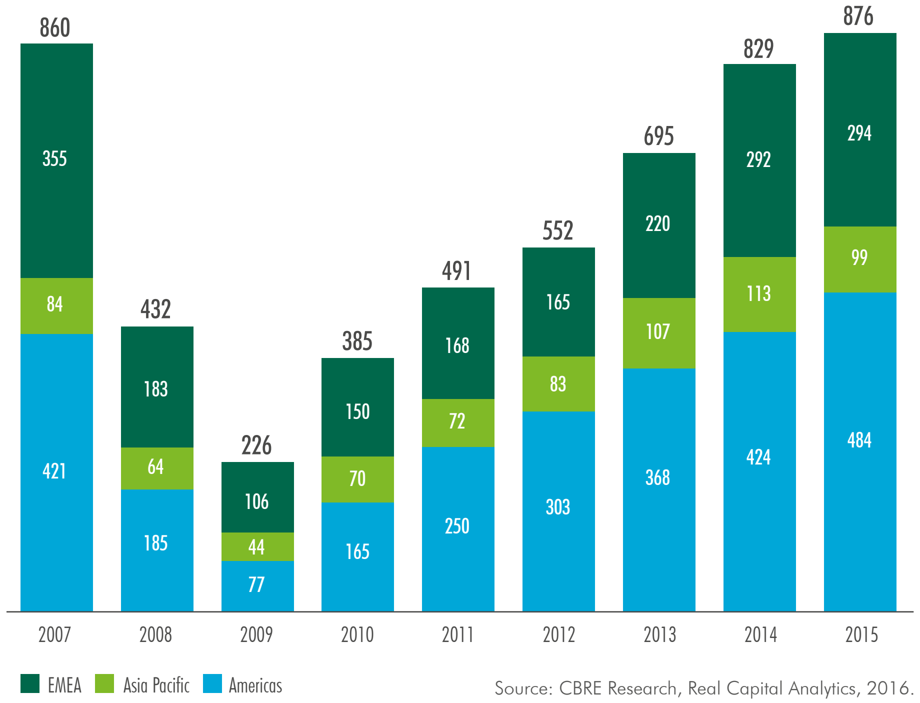
Capital flows

Global real estate investment at historic levels

In 2015, total global real estate investment reached another post-crisis peak. Capital flows into world property rose by 5.7%[1] in U.S. dollar terms (Figure 1) and 12%[2] in local currency terms.[3] As in 2014, a combination of strong capital inflows and slightly below-trend economic growth saw capital value growth outpace rent value growth by some margin (Figures 2 and 3). Only in the U.S. did we have a sense of rent pressure building across the whole property market.

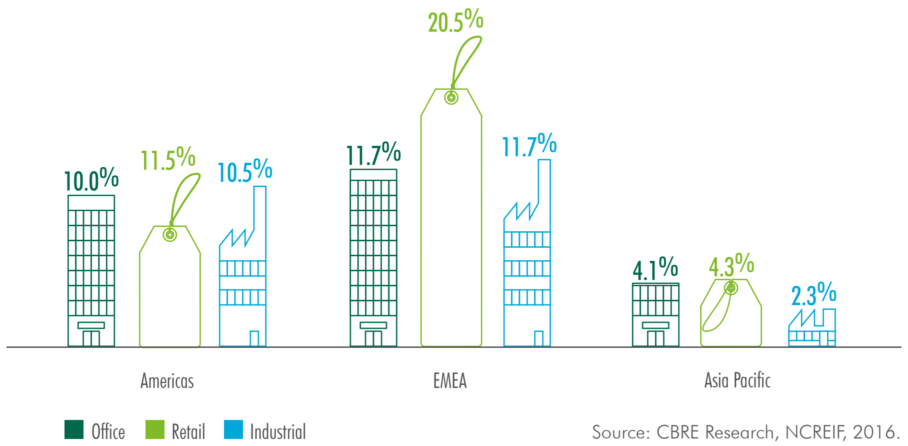
In EMEA, only the prime high-street retail sector saw above-trend rental value growth. In Asia Pacific, rental pressure eased back quite rapidly, although the region recorded capital value growth in 2015.

Figure 1: Capital flows into global real estate (US$ billions)



Source: CBRE Research, Real Capital Analytics, 2016.

Figure 2: 2015 prime capital value growth (annual change)



Source: CBRE, Research, NCREIF, 2016.

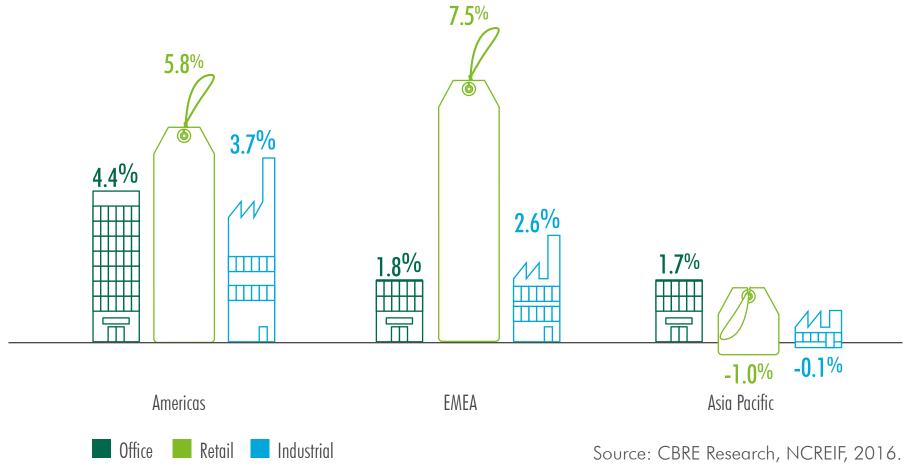
[1] In 2014, global capital flows increased 19.4% in U.S. dollar terms.
[2] In 2014, global capital flows increase 19.2% in local currency terms.
[3] Currency movements mask a strong year in EMEA, with flows up 15% in local currency terms and accentuate a weaker year in Asia Pacific, where flows were down only 3.7% in local currency terms.

What is the economic outlook for investment flows in 2016?
The International Monetary Fund records total gross capital flows across the world economy. Figure 4 shows that these flows, which include portfolio investment and direct investment into companies and fixed capital (buildings, factories, mining facilities, machinery), are very highly correlated with real estate capital flows.

In magnitude, real estate capital flows are 10% of total global flows. Over the last six years, real estate flows have grown by a compound rate of 25% per annum, while total global flows have grown by only 22% per annum. In the last four years, real estate capital flows have substantially outpaced total global flows.

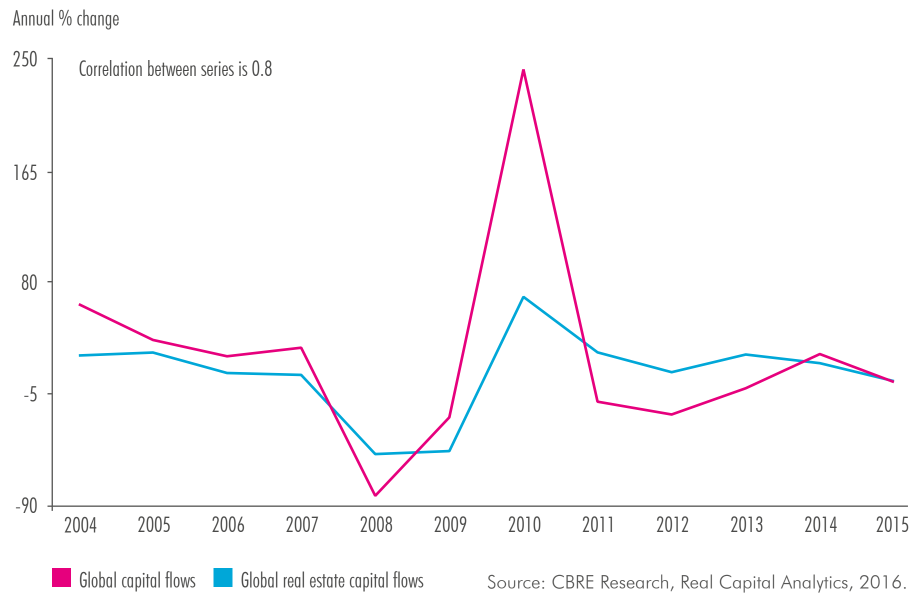
There is no single economic variable that comprehensively explains trends in real estate capital flows, which is one of the reasons we carry out our survey of investor intentions. However, there are several key economic factors that can portend future trends in real estate investment activity, but in different ways at different times.

Figure 3: 2015 prime property rent growth (annual change)



Source: CBRE Research, NCREIF, 2016.

Figure 4: Real estate capital flows in context



Source: CBRE Research, Real Capital Analytics, 2016.

- OECD GDP growth has the strongest individual correlation with global capital flows (0.4). GDP growth in the developed world not only affects tenant demand through corporate growth, but it also has a strong influence on sentiment. Oxford Economics expects OECD GDP growth to come in at 1.9% in 2016 (versus 2% in 2015) and the OECD itself is expecting 2.2% growth. These numbers suggest that growth in investment volumes might be slightly weaker in 2016 than 2015, but will certainly be positive.

- The cost and availability of credit to the real estate sector is another key driver of capital flows. Although central banks in the U.S. and the U.K. have signaled that they are worried about real estate lending, and there are some indications that corporate lending conditions are tightening in the U.S.,[4] CBRE professionals suggest that debt capital is available and competitively priced for core real estate.

- Sentiment is important, but very difficult to measure in conventional economic terms. World stock market growth is correlated with capital flows, but the relationship is much less strong than with GDP growth and only marginally significant. The current market turmoil will probably act to dampen sentiment, despite the case for real estate remaining quite solid.

If the economics are reasonably positive for real estate capital flows in 2016, what does the survey suggest? A forecast based on last year's survey responses suggested that real estate capital flows would increase in 2015 by 10% to 15%. The actual number was 12% in local currency terms. The results of this year's survey suggests an increase of 3% to 6% in capital flows in 2016, which is in line with the 4% forecast we published in our 2016 Global Real Estate Market Outlook based on in-house data.

[4]Lombard Street Research, Macro Picture, February 18. 2016.

Investor intentions

Investors still expansionary, but more cautious

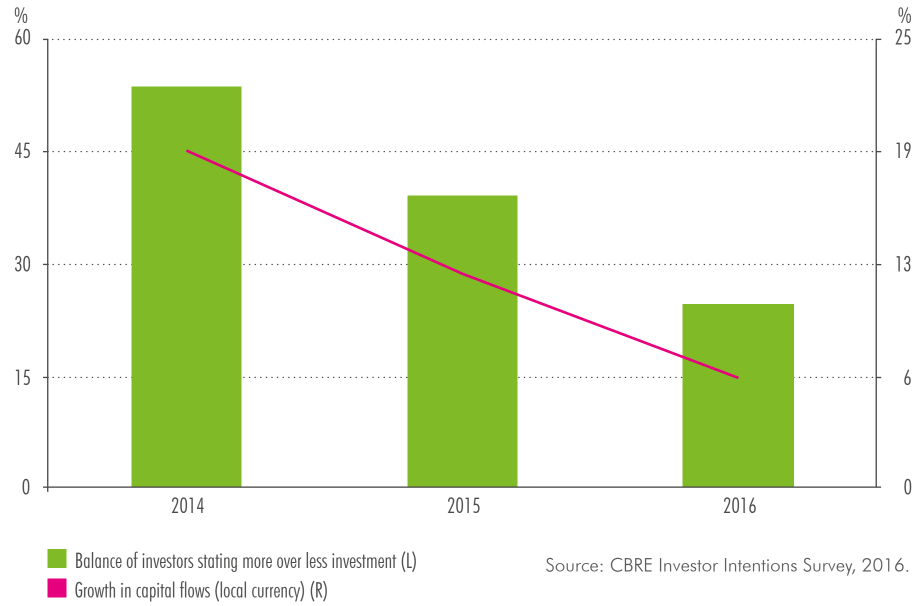
This year, we again asked: In 2016 do you intend your purchasing activity to be higher or lower than 2015, or the same? We deduct the percentage of respondents indicating lower from the percentage indicating higher to create a balance. Figure 5 shows the balance, alongside the percent change in global investment flows. At 25%, this year's balance is much lower than the last two, but it is still positive, and is consistent with single-digit growth in capital flows.

In order to determine regional differences, we compared the regional results to the global total. Figure 6 shows that, compared to the global average, U.S.- and Asia Pacific-based investors are feeling a little less inclined to increase their activity levels relative to last year. In fact, there is some indication that some Asia Pacific-based investors are scaling back their activity. By contrast, EMEA-based investors plan to be more active in 2016.

Fully 82% of global investors indicate that their activity will be the same or greater this year than in 2015. This is down from 86% in 2015 and 93% in 2014, but it is not indicative of widespread concern about the short- or medium-term performance of real estate as an asset class. More likely, it reflects some concerns about pricing, the direction of U.S. interest rates and current volatility in equities.

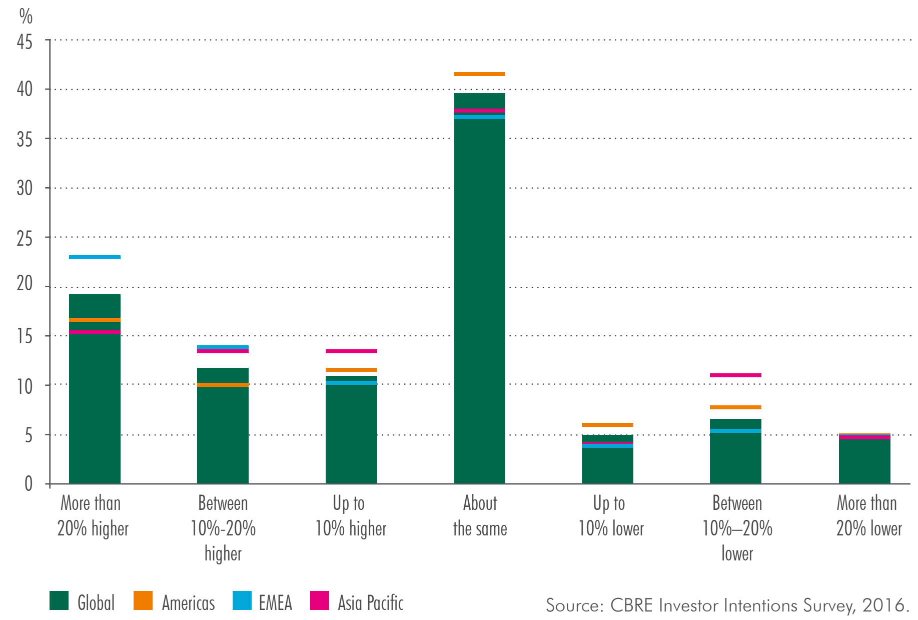
We also asked investors how much capital (gross acquisitions) would they deploy in real estate purchases in 2016. On the basis of their answers, we estimate that there is US$1.16 trillion of planned real estate capital expenditures. To put that in context, the global total of actual commercial property investment in 2015 was US$874 billion. If we are correct that the amount of capital deployed into global real estate in 2016 will be 6% higher than in 2015, that implies US$929 billion of gross expenditures, or 79% of planned expenditures. It seems likely that this volume of expenditure will be enough to maintain support for global real estate prices.

Figure 5: Investor sentiment and capital flows



Source: CBRE Investor Intentions Survey, 2016.

Figure 6: Purchasing activity relative to 2015



Source: CBRE Investor Intentions Survey, 2016.

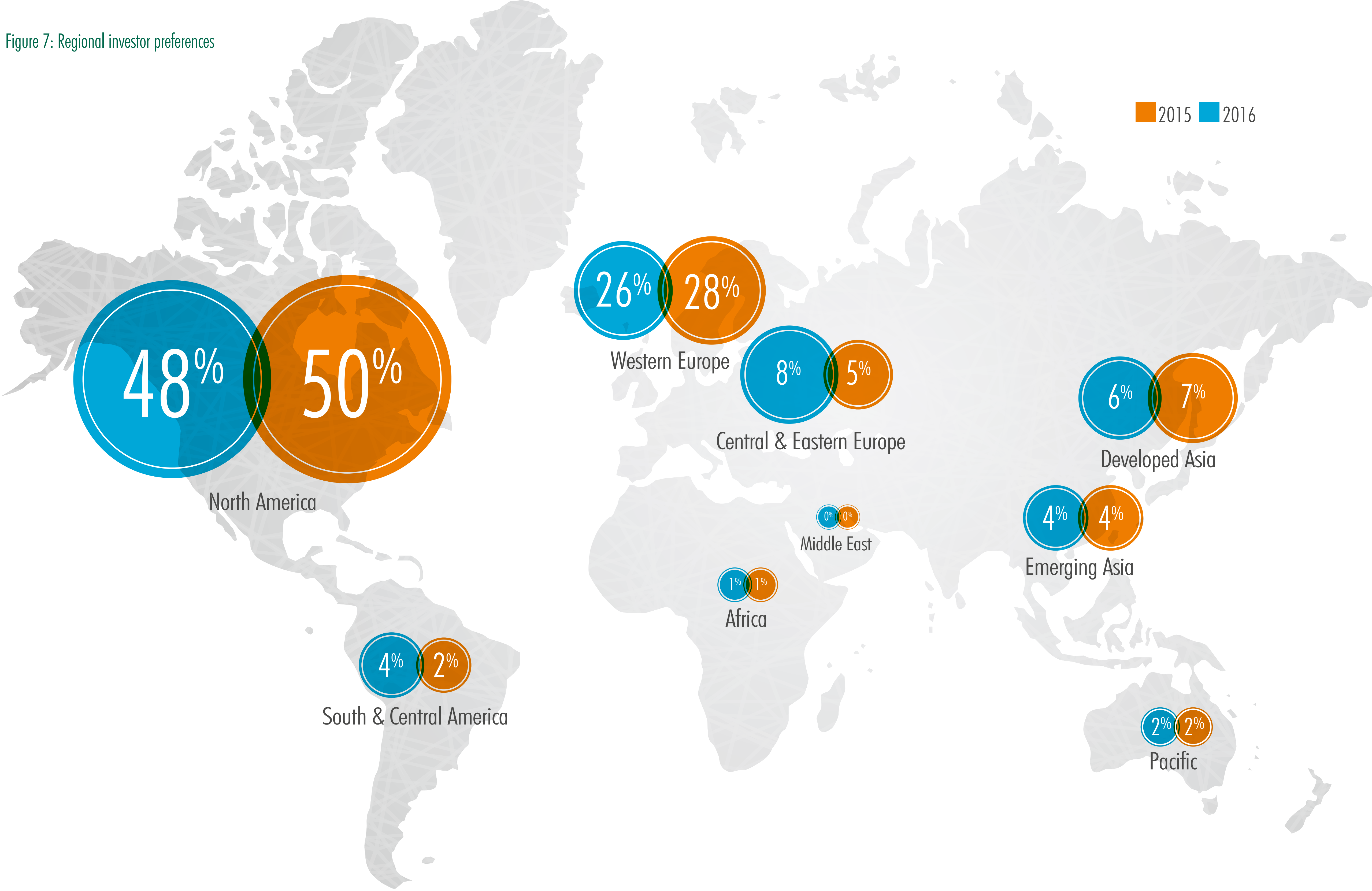
Preferred region

North America, Western Europe top destinations

Globally, we find that North America is the most popular destination for investment, with Western Europe the second most popular (Figure 7). These results are very consistent with the relative sizes of the investable property markets in these locations. They are also very similar to the 2015 results apart from an increase in interest in Central and Eastern European markets, due, no doubt, to the pace of economic recovery in that region and relatively attractive pricing.

The results of our survey enable us to separate the responses of those investors that have the intention to invest outside their region from those that do not (Figure 8). Here we see a clear home bias in investor preferences. EMEA-based investors see Western Europe as the most attractive location, and when moving outside their core areas, see value in Central and Eastern Europe.

Figure 7: Regional investor preferences



Source: CBRE Investor Intentions Survey, 2016.

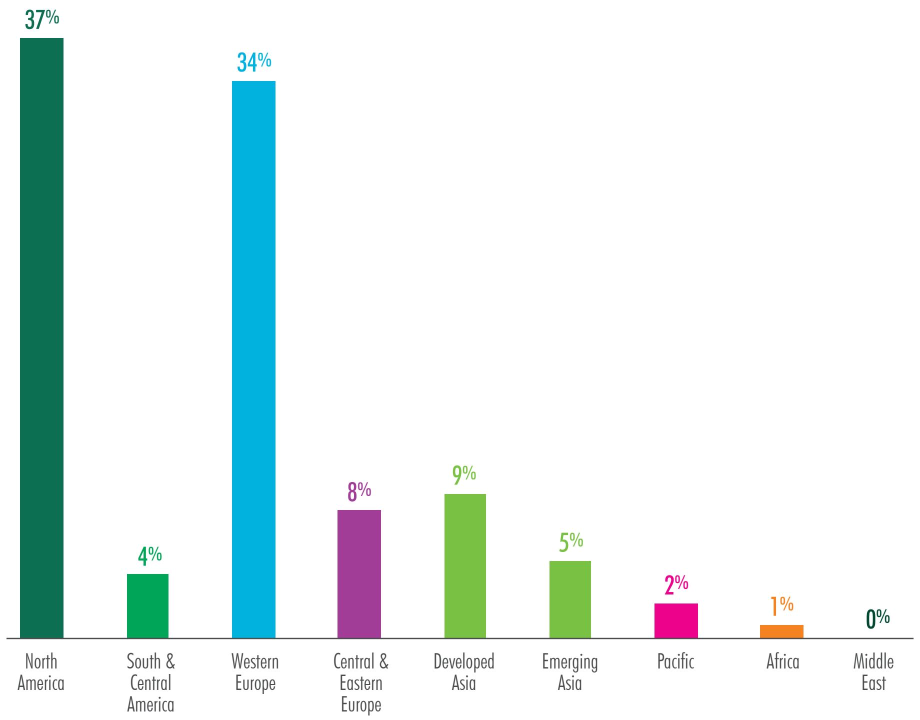
Cross-border investment

Foreign investors will remain highly active

If we focus on the investors that are most important for driving cross-border capital flows, the 36% of the sample that are planning to invest outside their home region, a slightly different picture emerges (Figure 8). It is clear that global investors see North America (37%) and Western Europe (34%) as broadly equal in the extent to which they offer the most attractive investment opportunities. If we add in Central and South America and Central and Eastern Europe, the two regions are equal at 41%. Sixteen percent of globally focused investors see profitable opportunities in Asia Pacific.

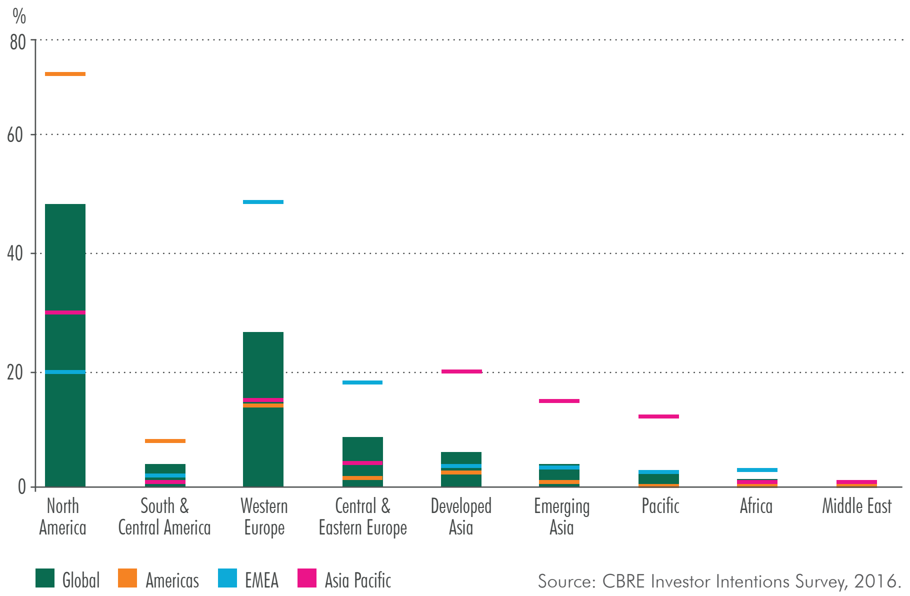
Despite the slowdown in emerging markets, 18% of globally focused investors still regard these regions as having the most profitable opportunities. Investors based in the Americas have a clear preference for Central and South America (6% see as having the most profitable opportunities as opposed to 2% of EMEA global investors and 1% of Asia Pacific global investors). EMEA-based investors have a relative preference for Central and Eastern Europe 19% as opposed to 2% of Americas-based global investors and 3% of Asia Pacific-based global investors) and Asia Pacific investors have a very strong relative preference for emerging Asia (17% see it as having the most profitable opportunities, relative to 3% of Americas-based global investors and 1% of EMEA-based ones). It will be very instructive to follow Asia Pacific investors as they open up new markets in that fast-growing region.

Figure 8: 2016 cross-border investor intentions



Source: CBRE Investor Intentions Survey, 2016.

Figure 9: Regional investment preferences



Source: CBRE Investor Intentions Survey, 2016.

Global Investor Intentions Survey 2016

Preferred cities

Gateway and core cities remain most popular choice

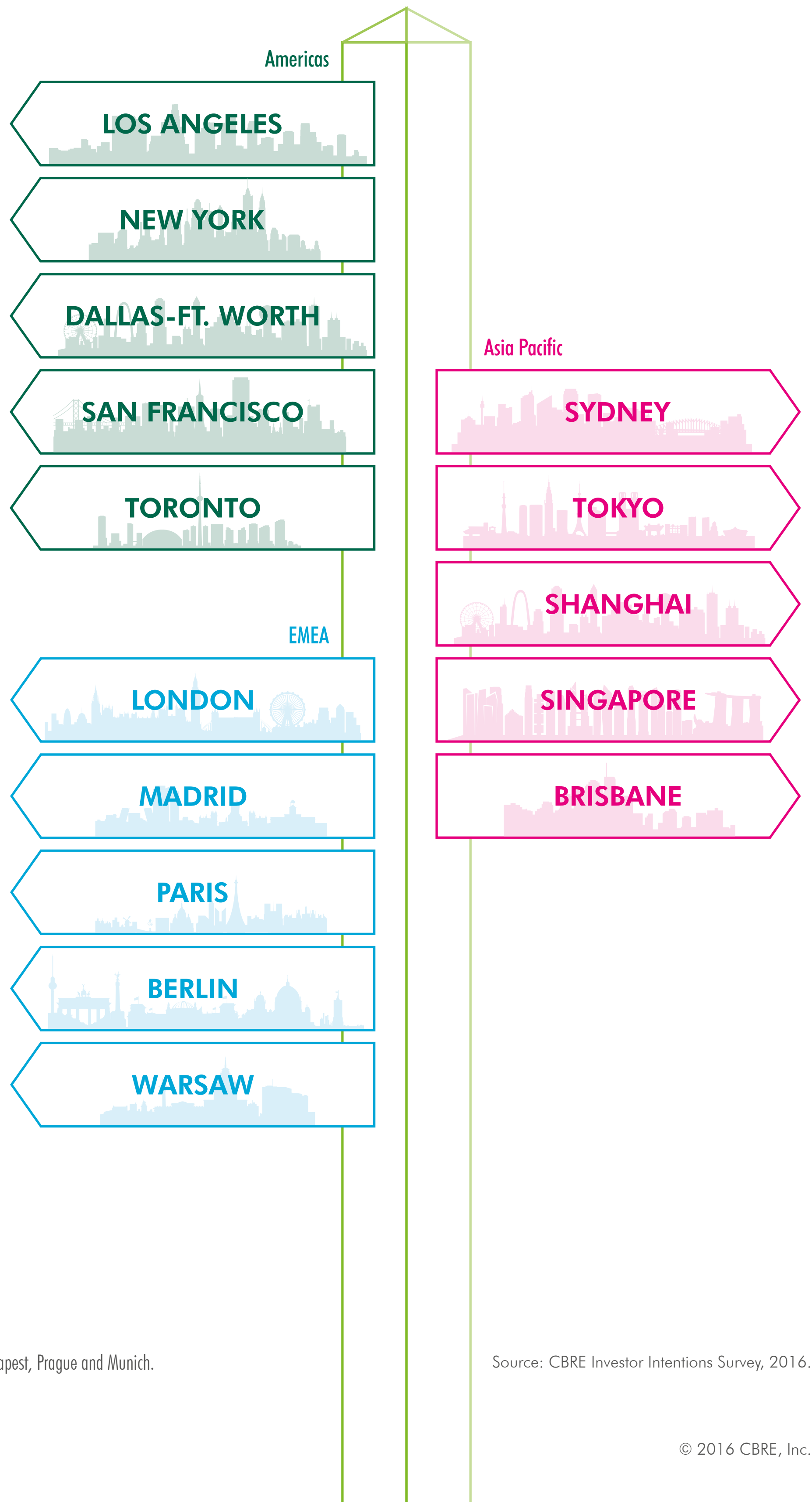
By virtue of the way our survey is set up, we are not able to say on a truly global basis what the most popular cities for investors are. However, we can report on the most popular cities by region. Figure 10 shows the top five most popular cities within our three regions.

In EMEA, London topped the list, but it is much less popular than in previous years. If the major German cities are grouped together, they are slightly ahead of London. Further, cities outside the top 10 destinations in EMEA[5] have, as a group, moved up sharply in the rankings in 2016 and would be the top destination by quite a distance if they counted as one place.

In the Americas, San Francisco fell from the top spot replaced, by Los Angeles, which is just above New York in popularity. Toronto appears in the top five destinations having been outside this group in 2015.

In Asia Pacific, Sydney and Tokyo are the most popular destinations, exchanging places since 2015. Notably, there are now two Australian cities among the top five: Sydney and Brisbane.

Figure 10: Top target cities by region



Source: CBRE Investor Intentions Survey, 2016.

[5] London, Madrid, Paris, Berlin, Warsaw, Amsterdam,Milan, Budapest, Prague and Munich.

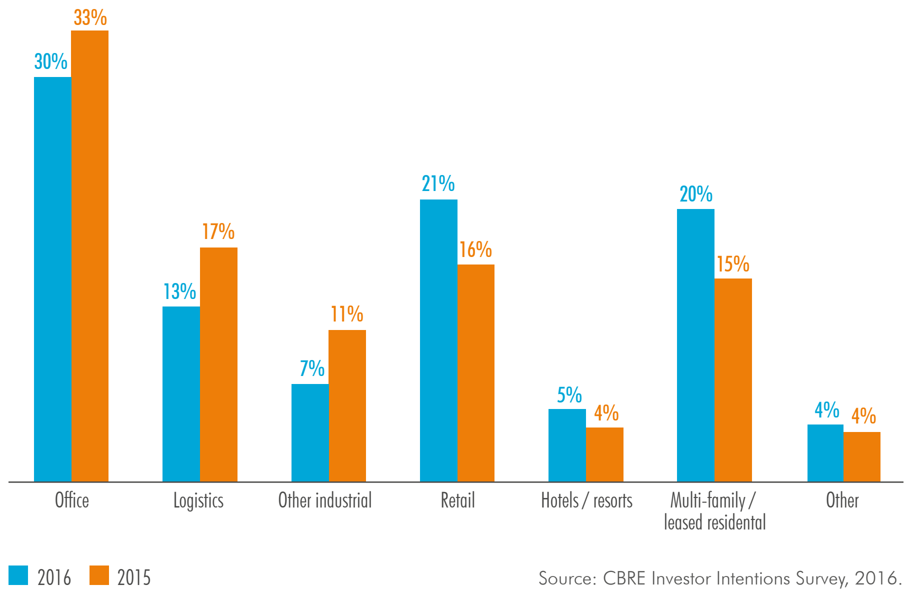
Preferred sectors

Office most favored, retail and multifamily more attractive

There are some changes in the broad sectors that investors are targeting in 2016 relative to 2015. Office and logistics have declined slightly in popularity (Figure 11). Meanwhile, retail and multifamily assets seem more attractive to investors. Relative to their share of the global investable universe, it would still seem that the greatest pricing pressure is on the industrial and logistics and multifamily sectors. Industrial and logistics represent 9% of the global market size, but is preferred by 20% of investors. By contrast, residential is 18% of the global market, but is required by 20% of investors.[6]

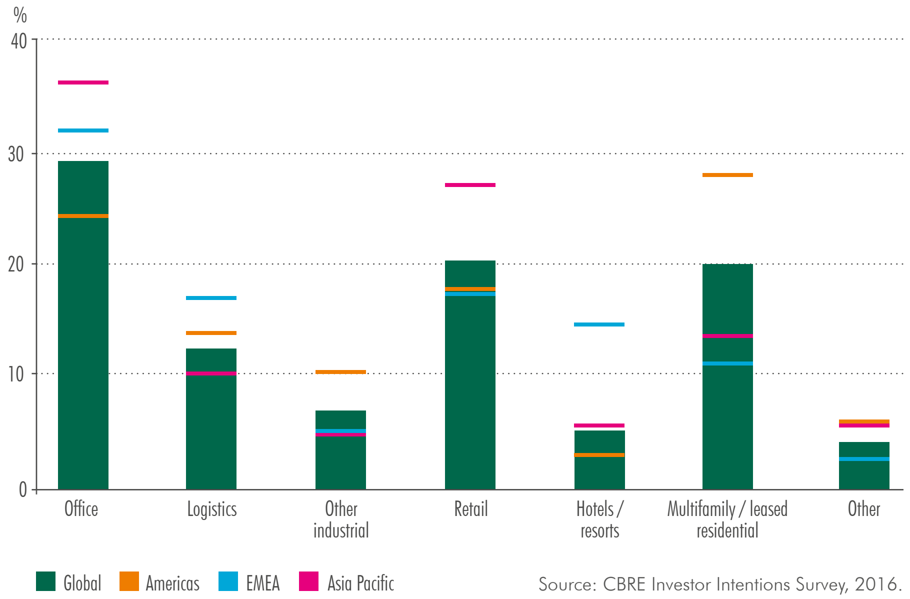
There are some interesting regional preferences to note. Relative to the global average, EMEA-based investors are more interested in office and retail, Americas-based investors have a preference for multifamily, and Asia Pacific-based investors seem more focused on hotel and resorts assets (Figure 12).

Figure 11: Sector preference



Source: CBRE Investor Intentions Survey, 2016.

Figure 12: Sector preference by region



Source: CBRE Investor Intentions Survey, 2016.

[6] Real Estate Investment Market Size, IPD / MSCI Research, September 2014.

Alternative investments

Investors less keen on alternative assets

Fifty-five percent of investors in our survey are already invested in real estate alternatives and the same proportion is actively pursuing investments of this description.

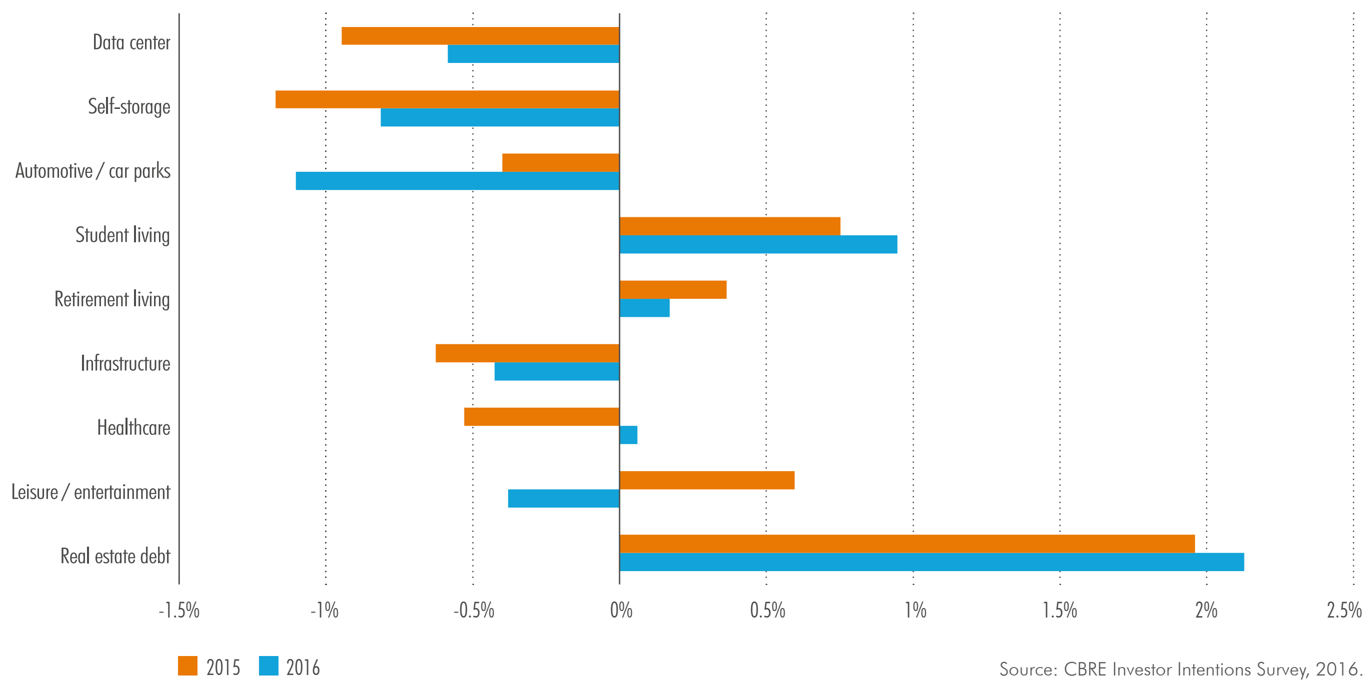
Figure 13 shows the preferences of investors actively pursuing alternative real estate opportunities in 2016 compared to 2015. In this question, respondents are allowed to specify multiple subsectors, so the total of the percentage responses sums to 114%. This could be indicative of a more targeted approach by investors, but it seems more likely that there is a general decline in interest in alternatives. As a result of the uneven sample sizes, the result have been standardized and normalized to show the change in the relative interest year-over-year.

The subsectors showing the biggest declines in interest are leisure and entertainment and automotive and car parks. There is a mild increase in interest in healthcare, self-storage and data centers.

Debt, retirement living, infrastructure and student living all essentially show the same level of investor interest in 2016 relative to 2015.

In terms of regional differences, Americas-based investors are relatively less interested in alternative opportunities than the overall group. By contrast, EMEA-based investors are still enthusiastic about alternatives, in particular student accommodation. Asia Pacific-based investors have a relative preference for real estate debt, self-storage and data center assets within the set of real estate alternatives.

Figure 13: Changing preferences for alternative sectors



Source: CBRE Investor Intentions Survey, 2016.

Investment vehicles

Direct ownership most preferred, funds more popular

Investors again indicated that their preferred exposure to real estate is direct, either on their own or in a partnership or joint venture. However, funds are a viable alternative among 35% of investors. REITs are a route to real estate for 19% of investors, but this is noticeably down from last year, presumably due to stock market volatility.

Regionally, Asia Pacific investors have relatively less interest in 2016 in direct or partnership investing. Investors in the Americas have a strong relative preference for partnerships and joint ventures and EMEA investors have more interest in funds than the global average.

The non-institutional investor group in our survey (listed property companies, private equity firms, private individuals, private property companies and REITs) have a notable aversion to investing in funds, otherwise there are few differences between investor types in the way the prefer to deploy capital in real estate.

Investor motives

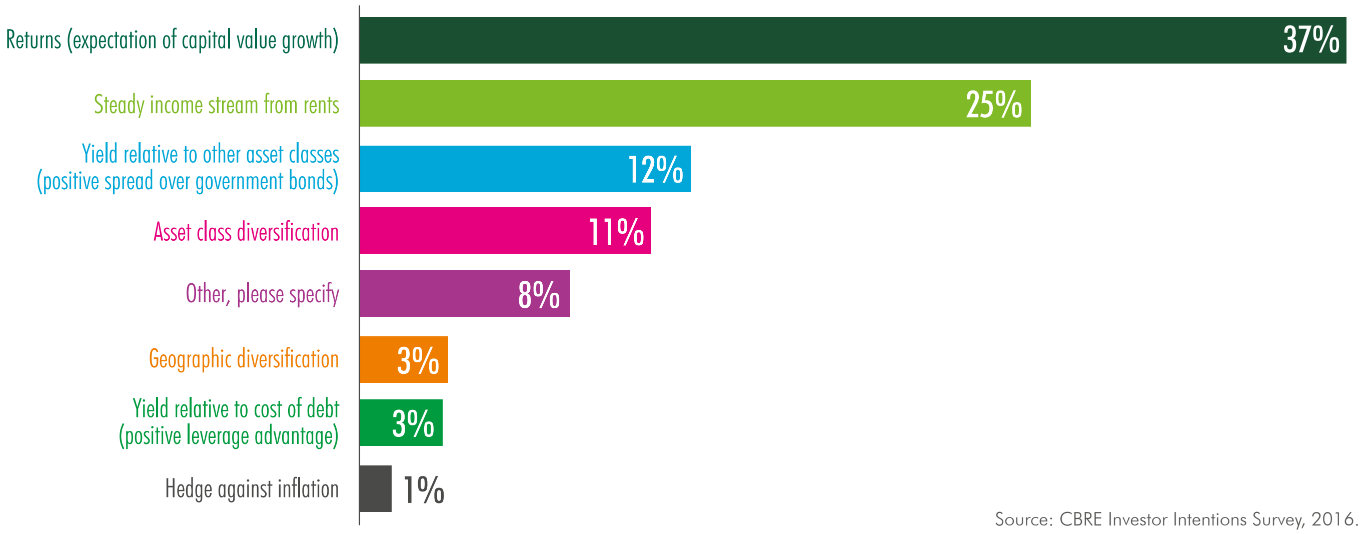
Property returns appealing in low-yield world

The single most important motivation for investment in real estate is the expectation of capital gains: 37% of respondents state this is their main reason for investing in the sector (Figure 14). Americas-based investors are more interested in this component of return than those of other regions.

This said, 25% of global investors mention the steady income from rents and a further 15% say yield relative to debt or other asset classes as their top motive. EMEA-based investors have a relative preference for income and yield. Asset class diversification is most important for 11% of investors, but only 3% state that geographic diversification is important.

As interest rates in some areas of the world head into negative territory and are set to remain lower for longer in others, we suggest returns will continue to attract capital even if there is only modest rental growth.

Figure 14: Main motivations for investing in real estate



Source: CBRE Investor Intentions Survey, 2016.

Risk tolerance

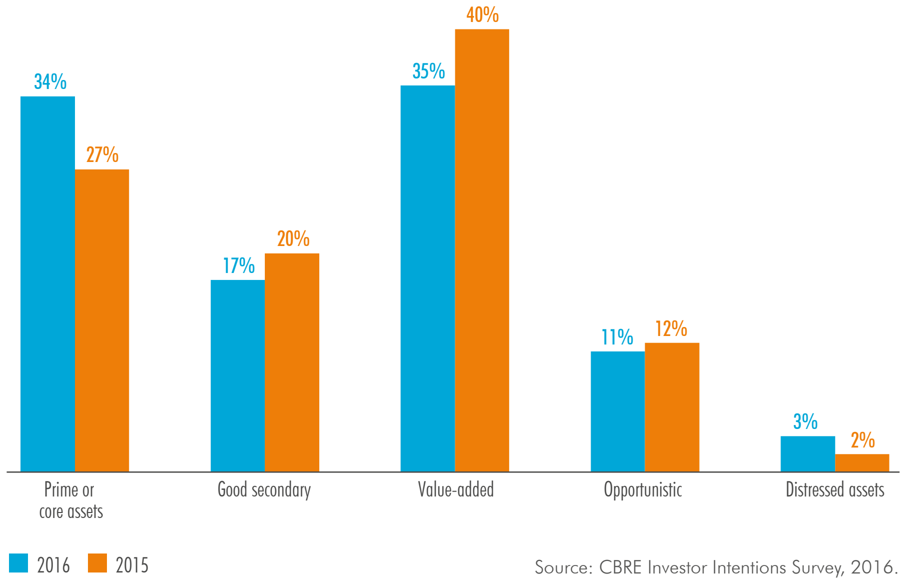
Investors taking "risk-off" approach

One of the most notable features of this year's survey is a jump in demand for core assets and a decline in interest in good secondary and value-add properties. If 2015 was a "risk-on" year, 2016 seems to be shaping up to be "risk-off" in real estate (Figure 15).

Interestingly, it is EMEA investors, who are mildly more bullish than the global average, that have a relative preference for core assets. Presumably they want core assets in Western Europe's non-Tier 1 cities. Investors from the Americas are relatively more interested in value-add assets. Asia Pacific-based investors are taking a stronger interest in distressed situations.

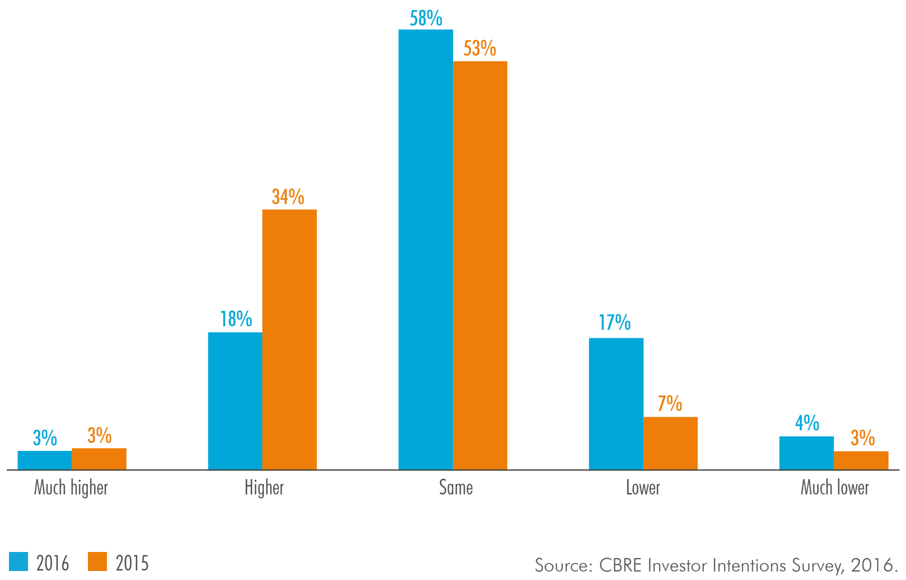
We asked investors directly about their risk appetite for secondary assets compared to last year. Only 21% said higher this year, down significantly from 37% last year (Figure 16). By contrast, 21% lower compared to 10% last year. If this plays out, it is likely that the spread between prime and secondary yields will begin to widen, following several years of compression.

Figure 15: Investor risk preferences



Source: CBRE Investor Intentions Survey, 2016.

Figure 16: Investor preferences for secondary assets



Source: CBRE Investor Intentions Survey, 2016.

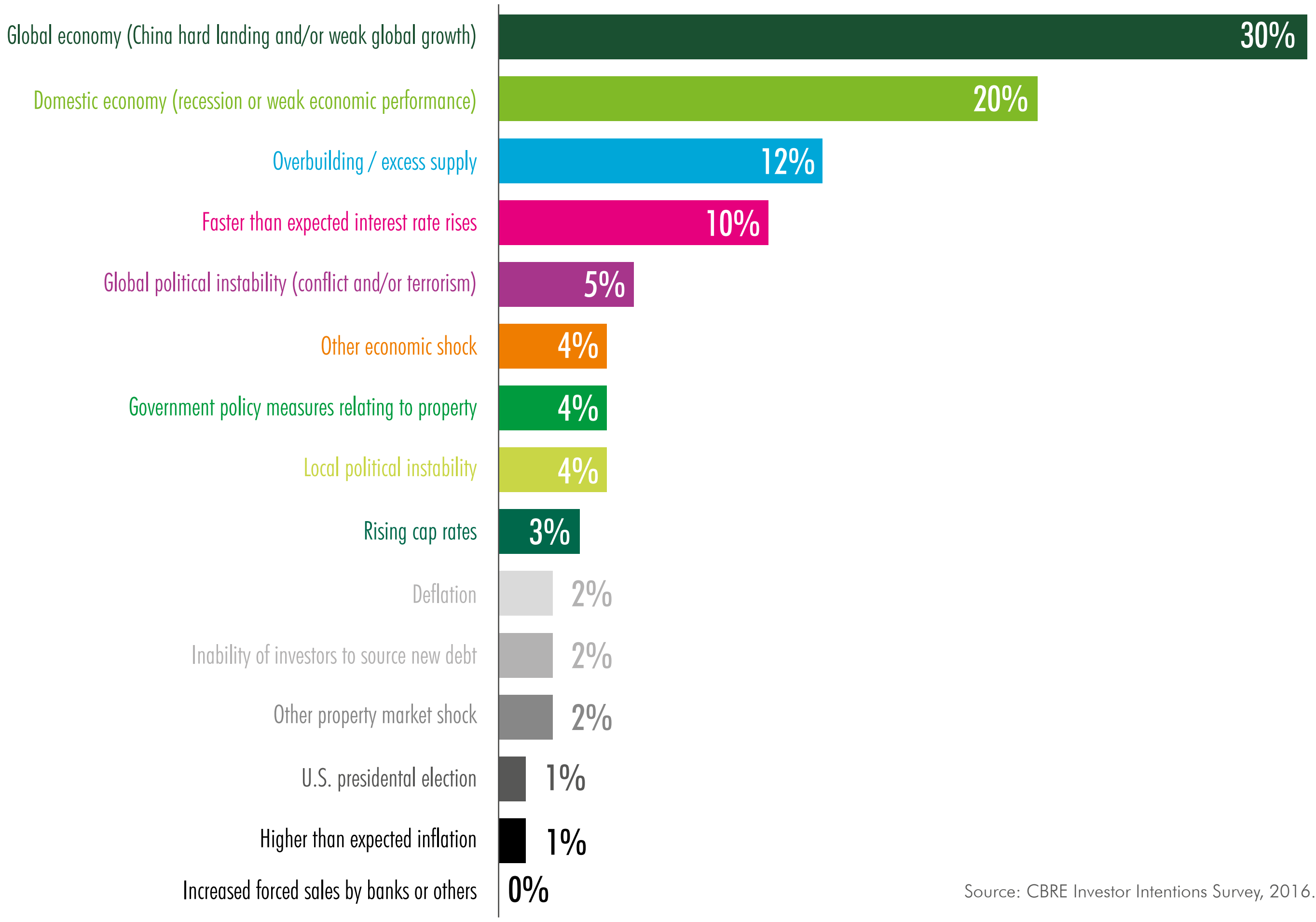
Investor concerns

State of economy top of mind

The performance of the global and regional economy is by some margin investors' main worry this year. Half of investors are worried about some combination of global economic weakness, a hard landing in China or some slowdown in their domestic economy.

Global political instability concerns only 5% of investors, though this is much higher in EMEA, which has the Syrian war on its doorstep and some concerns over a new cold war with Russia and a possible "Brexit." Investors in Asia Pacific are slightly more concerned with overbuilding. Very few investors are concerned with specific property market events and only 3% are worried about rising cap rates.

Figure 17: Investors' main concerns



Source: CBRE Investor Intentions Survey, 2016.

Conclusion

Despite some headwinds, expect 2016 to be another active year

Taken as a whole, the results of our 2016 suggest that investors will be somewhat more conservative and cautious this year compared to 2015. However, overall they remain in expansion mode and will continue to actively pursue property investment in 2016.

With property fundamentals expected to improve further in 2016—largely thanks to declining vacancy, rising rents and relatively limited new development pipelines in most locations—threats to the property markets will come from external factors such as a financial crisis in emerging markets, a "hard landing" in China or a severe downturn in equity markets. While these issues will likely dominate business headlines for the foreseeable future, we do not believe that they are strong enough to derail the global economy, which we expect to remain positive.

As such, we believe that 2016 will be another active year for the global real estate investment market, with capital flows likely to increase 3% to 6% from 2015 levels in local currency terms, certainly a slower pace compared to the double-digit growth seen in recent years, but strong enough to maintain positive momentum in the real estate capital markets. However, there will be some regional variations, with activity likely to be slower in Asia Pacific markets and, possibly, highly priced markets that have seen strong yield compression.

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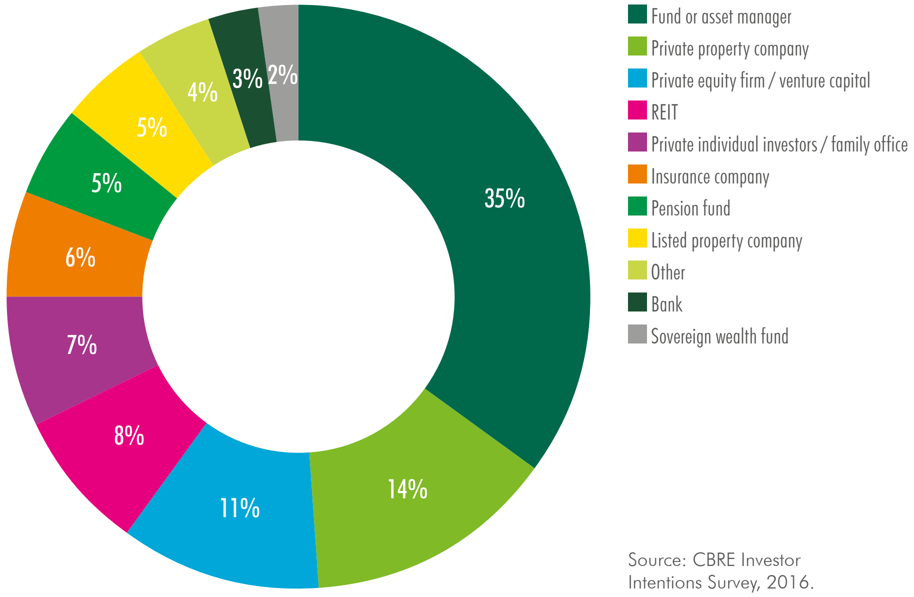
About the survey

This year, we had 1,255 respondents to our survey, more than in any previous year. The responses came from a broad spectrum of investor types (Figure 18) with institutional investors, namely pension funds, insurance companies, fund or asset managers, sovereign wealth funds and banks, forming 50% of the sample. There is a small regional variation in the samples. In EMEA, the number of fund and asset managers is higher than in Asia Pacific and the Americas, and private property companies are a lower proportion. Other than that, the regional samples are similar.

There was not a great deal of difference in response by type of investor organization, but where we do, that is pointed out in our commentary. The global results that we report are based on a weighted average of the regional results. The weights are based on the long-run share of global capital flows from each region as a percentage of the total: the Americas, at 50%, Asia Pacific, at 14%, and EMEA, at 36%. As mentioned above, the regional differences we highlight are relative to the weighted global average.

Figure 18: Investor composition



Source: CBRE Investor Intentions Survey, 2016.

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