



21 February 2022

Global Research

# Global Real Estate Perspective - Highlights

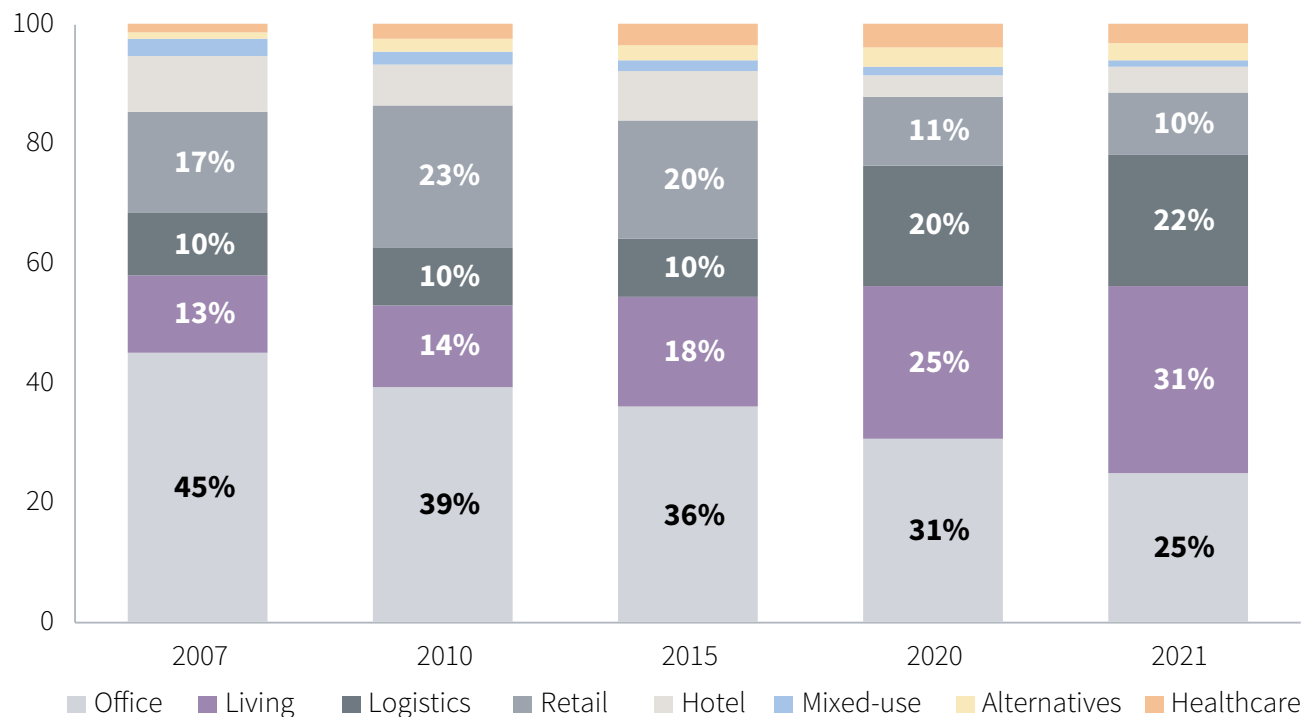
Investor and Corporate

# Summary

## Global Capital Flows

- Global capital markets recovered strongly during 2021 with annual investment activity surging by 54%. Although the emergence of Omicron highlights persistent uncertainty, the pandemic's impact on real estate capital flows is increasingly limited. Cross-border flows accelerated to their highest quarterly level on record during Q4 2021. Global investors continue to be a consistent and growing source of capital, reaching all-time highs in Q4 and for the full-year 2021.
- Robust leasing and operational performance for logistics, living and alternatives assets underscores the favorability of growth sectors and accounted for 56% of investment volumes during 2021. The office and retail sectors, heavily disrupted by the pandemic, have seen activity stabilize and improve but their share of activity remains dampened.
- Diversifying buyer pools and the re-emergence of cross-border investors has bolstered competition for on-market product, which has resulted in stable, elevated bidding intensity. The focus on scale is benefitting bidding intensity for portfolio transactions in a pronounced fashion. Lenders continued to re-emerge from the sidelines throughout 2021, leading to favorable debt terms for prospective investors.

## Share of transaction volumes by sector, 2007–2021



Source: JLL, February 2022

## Work Dynamics

- Corporate clients are shifting toward a long-term transformation and are putting aside continuous adjustments to their return-to-office plans. However, there are still many uncertainties to face in 2022 and further resilience will be needed. There are many factors now influencing corporate decision-making, including the pace of vaccination, remote-working capabilities, health and wellness, and talent.

## Sustainability

- 2021 concluded with the keenly anticipated global climate summit, the 26<sup>th</sup> Conference of the Parties (COP26) in Glasgow. The conference was said by many to be a critical moment to set the world on pace to align policies to the Paris Agreement, adopted in 2015, which would limit global warming to a maximum of 1.5 degrees Celsius over pre-industrial levels. While there wasn't a clear path to meeting the Paris Agreement, there were a number of important developments around access to capital, global carbon pricing, transparency and

the harmonizing of global reporting standards, and investments into tech and innovation, to name a few. Since the conference, 89% of global emissions are now covered by a net-zero target in force or in discussion, up from just one-third back in January 2020.

- 2021 also reminded us that the effects of climate change are here. For example, Canada broke its all-time temperature record with an extreme heat wave; Hurricane Ida was the fifth costliest weather event in world history; Germany experienced the most financially damaging weather disaster in European history with devastating summer floods; and lastly, July was earth's warmest month in recorded history.<sup>1</sup> Storms and extreme climate events are growing in frequency and intensity, sending the clearest of signals that action is required today. All this said, the world will be looking to COP27 in November this year for evidence of action and even deeper climate commitments.





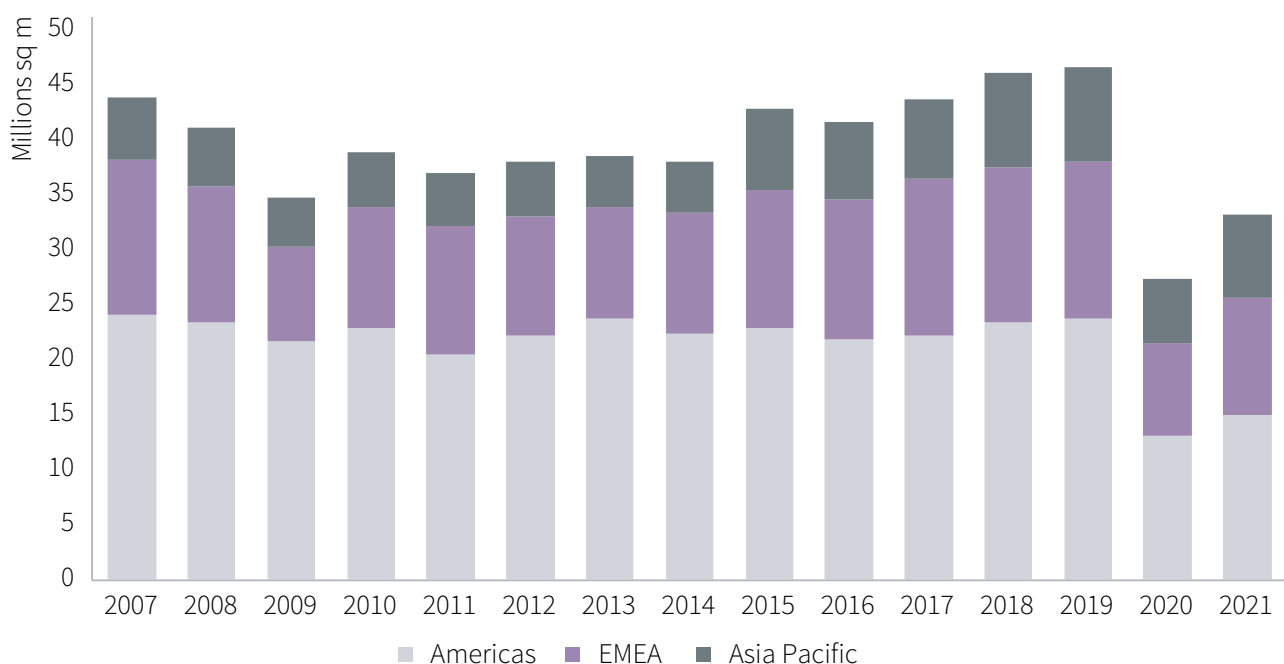
## Office Sector

- Despite the emergence of the Omicron variant, the office market continued its recovery in Q4 2021. Quarterly global leasing volumes were up 51% on a year ago and 2021 was 21% higher overall than 2020. Even so, leasing volumes in many places have not yet returned to pre-pandemic norms. Asia Pacific was the only region to be back above Q4 2019 volumes in the final quarter of 2021 (+7%), while Europe (-12%) and the U.S. (-23%) remain below 'normal' levels. Quarterly net absorption in Q4 was positive across all three regions for the first time since the onset of the pandemic (Q1 2020).
- While tenant-friendly conditions prevail across most markets, the continued corporate emphasis on wellbeing, quality and sustainability has supported resilient pricing levels among premium office spaces. Concessions are still elevated but in many markets seem to have plateaued and are now starting to decline. The global vacancy rate halted its upward trajectory in Q4 and stabilized at 14.6%.

## Retail Sector

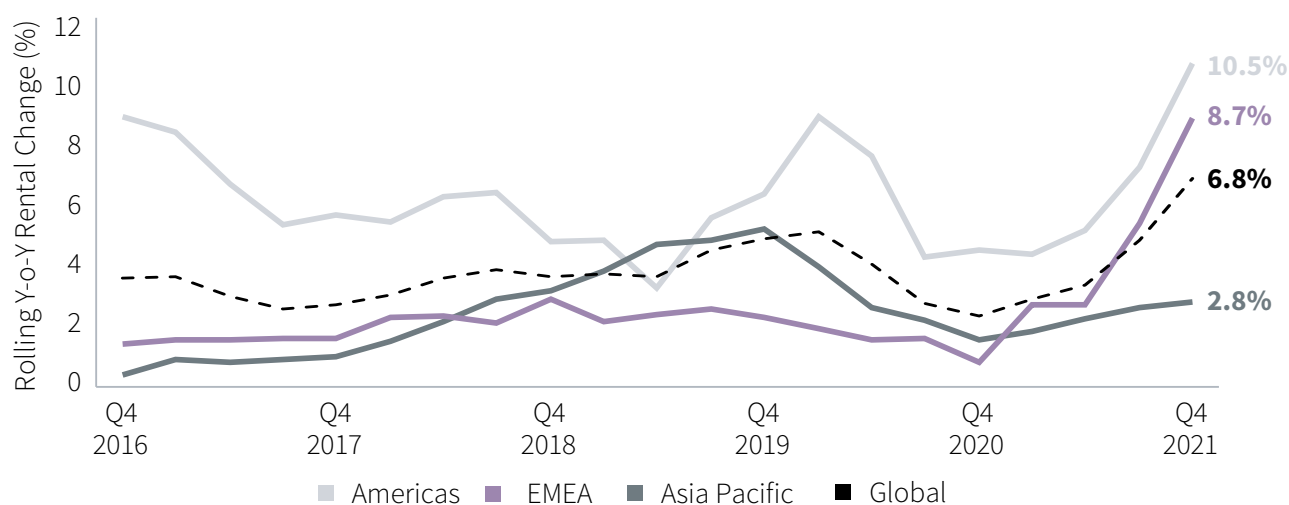
- The 2021 festive season started well in November with many countries reporting strong sales growth – notably driven by an increase in spending in physical stores in some of the world's most mature retail markets – before losing steam in December as both Omicron case numbers and restrictions increased.
- Leasing activity in Q4 was impacted by renewed restrictions in several markets but remained well above 2020 levels, with healthy retailer demand for prime locations in the best cities. Fitness specialists and F&B operators are among categories looking to grow their physical footprint, while demand is strengthening for space in power centers, retail parks and local neighborhood destinations as some retailers anticipate that the hybrid working model will more permanently shift demand closer to people's homes.

### Global office gross leasing volumes, 2007–2021



24 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific  
Source: JLL, February 2022

## Logistics annualized rental change, Q4 2016–Q4 2021



U.S. based on 55 city markets; Europe based on 10 national markets; Asia Pacific based on 31 city markets (staggered starting point for some markets)  
Source: JLL, February 2022

## Logistics Sector

- Persistently high levels of demand, combined with tight supply, saw logistics rents accelerate across all three regions in Q4. In both the U.S. and Europe, rents increased at an annualized rate of around 10% amid record low levels of vacancy, with aggregate vacancy rates sub-4% in both regions.
- Supply, land availability and entitlement issues will be hot topics in 2022, with the demand/supply imbalance exacerbated by a continuing scarcity of land. In the short term there are risks to current leasing momentum as leasing decisions are put on hold due to a shortage of the right space. Additional supply will be required to help unleash the latent demand being held back.

stayed sluggish as several countries implemented lockdowns and travel restrictions following a surge in COVID cases. The pace of Asia Pacific's recovery continues to depend on travel restrictions, but some countries have started to announce a relaxation, so an improvement is expected in 2022.

## Living Sector

- Investor demand remains buoyant across the living spectrum globally as structural factors continue to drive portfolio reallocation to the sector. Total Living investment in Q4 was US\$163 billion, with quarter-on-quarter growth in the Americas (+80%) and EMEA (+16%) and a decline in Asia Pacific (-48%).
- Multifamily maintained its status as the most liquid asset type in the U.S. in Q4. Fundamentals also showed no signs of cooling off. Urban markets' recovery progressed while rental gains in U.S. suburban markets persisted, contributing to quarter-on-quarter growth in national effective rents of 13.8% in Q4. Investor attention and deal execution within the multifamily sector in Europe continued unabated with two of the sector's largest ever deals completed in Germany in the quarter. Institutional investors kept active across the Living sector in Asia Pacific in Q4 with institutional investors focusing on Japan and Australia.

## Hotels & Hospitality Sector

- The recovery in lodging demand continued to favor leisure resort destinations as leisure demand proved more resilient in the face of the pandemic. Urban markets witnessed a gradual upturn in performance as business and group demand ticked up slightly.
- In the U.S., lodging demand improved in Q4 boosted by leisure demand, although a full recovery is still hampered by the delay in the return of business travel. Europe's performance



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