JLL Research Report

Global Capital Flows

Global investment remains resilient despite building macroeconomic and geopolitical uncertainty

Highlights

- After two consecutive quarters of declines to start the year, investment in global commercial real estate picked up in the third quarter, with year-on-year* investment rising by 13% to US$205 billion. This brings year-to-date activity to US$550 billion, 1% better than the same period last year.

- Asia Pacific continues to see record-breaking growth while mega-deal activity resulted in outperformance in the Americas – year-to-date investment in each region is up by 10% and 9% respectively. Meanwhile, despite pockets of growth scattered throughout EMEA, a slowdown in core markets, namely the UK and Germany, has contributed to a 13% decline in regional volumes through the first three quarters of the year.

- Despite building investor caution and selectivity, activity in the office sector has not slowed significantly with year-to-date volumes just 1% lower than the elevated levels seen during the same period in 2018. While investment has slowed considerably in historically strong office markets such as the UK and Hong Kong, due to ongoing uncertainty, liquidity remains strong in other markets, such as the U.S. and Singapore, where occupier fundamentals remain stout.

- Two U.S. tech hubs, San Francisco and Silicon Valley, are among the ten most liquid real estate markets in the world. Both markets have seen an upswell of investment this year, primarily in the office sector.

- Cross-border inflows to Berlin now stand at record-highs, with year-to-date investment by foreign groups already greater than any full-year total on record. On the other side of the globe, Sydney has also seen elevated inbound investment with US$3.5 billion placed by foreign investors through Q3 2019.

- Outbound capital flows from Spanish investors stands at its highest year-to-date level in the current cycle, with US$2.5 billion deployed so far this year. The Americas has been the biggest target for these cross-border flows, attracting US$2.0 billion, or 81%, of the total.

- Although real estate equity investment has slowed considerably this year in the UK, lending activity remains buoyant. Total originations in H1 2019 increased by 4% compared to the same period in 2018.

- Looking forward to the rest of 2019, we expect investment in global commercial real estate in 2019 to moderate by 0-5%, to roughly US$750 billion. Even though Asia Pacific continues to outperform, and activity has surprised on the upside in the Americas, the global decline will be primarily driven by weakness in EMEA, with activity projected to dip in all major sectors.

Direct commercial real estate transaction volumes

U.S.$ billions	YTD 2018	YTD 2019	% Change
Americas	225	245	9%
EMEA	204	176	-13%
Asia Pacific	117	128	10%
Total	**545**	**550**	**1%**

*Source: JLL | *Year-on-year refers to Q3 2019 vs Q3 2018*

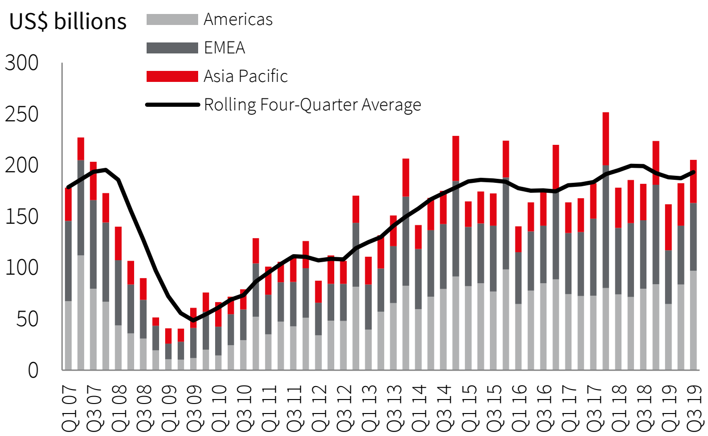
Global & regional

The Americas and Asia Pacific drive global growth

Global real estate markets reverse course in Q3 2019

After two consecutive quarters of declines to start the year, investment in global commercial real estate picked up in the third quarter, rising by 13% to US$205 billion. This brings year-to-date investment to US$550 billion, 1% higher than the same period last year.

Direct commercial real estate transaction volumes



Source: JLL

Activity rises in the Americas and Asia Pacific

Quarterly investment in the Americas rose to its third highest level on record in Q3 2019, bringing year-to-date activity to US$245 billion, 9% better than the same period last year. Much of this growth was driven by the sale of a large industrial portfolio in the U.S. Meanwhile, year-to-date investment rose in both Brazil and Canada as investors targeted offices in core markets. Strong capital value growth and falling vacancy in Sao Paulo, and robust occupier fundamentals in Toronto, Montreal and Vancouver, have supported the uptick in office investment in both countries.

Continuing the trend seen so far this year, transaction volumes in EMEA dipped by 1% in the third quarter, falling to US$66 billion. This, combined with the relatively slow first half, brings year-to-date activity to US$176 billion, 13% lower than the same period in 2018. Currency movements have also played a role as regional volumes for the year are down just 8% in Euro terms. Investment continues to lag in the UK, where Brexit-related uncertainty is weighing on investor sentiment. Nevertheless, there are some pockets of outperformance, with year-to-date investment rising in France, Sweden and Italy, in addition to some of the region's smaller markets.

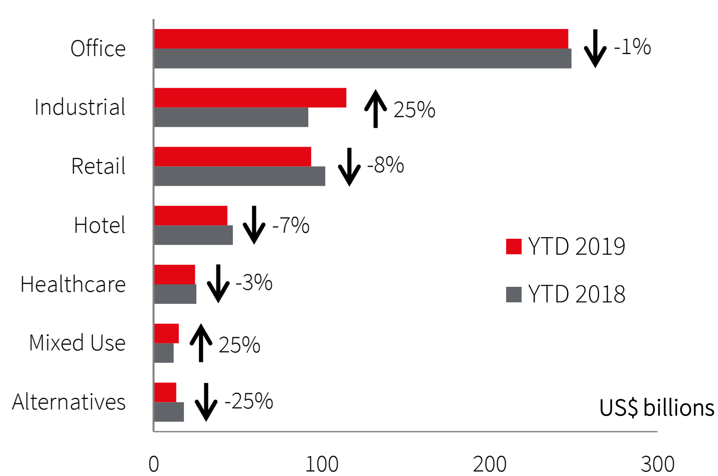
Asia Pacific continued its superlative performance with Q3 2019 representing the best third quarter on record as year-on-year investment rose by 18% to US$42 billion. Year-to-date activity now stands at US$128 billion, a new high and 10% better than the same period last year. Driving this increase is the region's largest market, China, where activity remains elevated thanks in large part to the strong start to the year. Regional growth has also been supported by the robust recovery in Singapore, where year-to-date activity now stands at an all-time high. While South Korea did not improve its performance from last year, liquidity is on par with the record levels seen in 2018.

Office investment remains resilient

Despite building investor caution and selectivity, global investment in the office sector has not slowed significantly, with year-to-date volumes just 1% lower than the elevated levels seen in 2018. While investment has slowed considerably in historically strong office markets such as the UK and Hong Kong, due to ongoing uncertainty, liquidity has strengthened in other markets where occupier fundamentals remain stout.

In the U.S., technology-oriented markets such as Silicon Valley, San Francisco, Boston and Seattle are seeing the strongest growth in office investment. These markets have also benefited from heightened leasing activity, which has supported greater investor demand. Similarly, the office market in Singapore has seen a surge in office investment this year, with volumes rising by over 175%, bolstered by strong rental growth and net absorption.

Global transaction volumes by sector



Source: JLL

Cities

Innovation hubs attracting investment

Two Bay Area markets break into the top 10

Two U.S. tech hubs are among the most liquid real estate markets in the world so far this year. Both San Francisco and Silicon Valley broke into the top-ten, due to an upswell of investment this year, with year-to-date volumes rising by 39% and 188% respectively.

Unsurprisingly, activity in both markets has been overwhelmingly concentrated in the office sector, which accounted for 80% of all liquidity across both markets. While domestic investors remain the predominant source of capital, cross-border purchasers are playing an increasingly large role. Groups from Europe and Asia, along with global funds, have been active in both markets, with Jamestown's acquisition of Levi's Plaza in San Francisco for US$823 million the largest cross-border office acquisition in the U.S. during the third quarter.

Most liquid cities

Rank YTD 2018	Rank YTD 2019	City	YTD 2019 (US$ bn)
2	1	New York	**18.3**
3	2	Paris	**18.0**
4	3	Seoul	**15.4**
6	4	Tokyo	**15.2**
7	5	Los Angeles	**15.2**
8	6	Shanghai	**14.4**
1	7	London	**13.6**
17	8	Singapore	**13.2**
12	9	Silicon Valley	**10.1**
32	10	San Francisco	**8.9**

Source: JLL

Healthy occupier fundamentals have underpinned investor appetite for office assets in both markets. Vacancies are in single digits and at their lowest point in the current cycle, driven by demand from technology and co-working tenants. This has helped boost rents with San Francisco boasting rent growth in excess of 16%, making it one of the three best global performers this year. Little risk exists of oversupply in the near term as current development pipelines amount to just 4% and 9% of existing stock in San Francisco and Silicon Valley respectively. In this environment, both markets look primed to continue their strong performance.

Cross-border inflows to Berlin hit all-time high

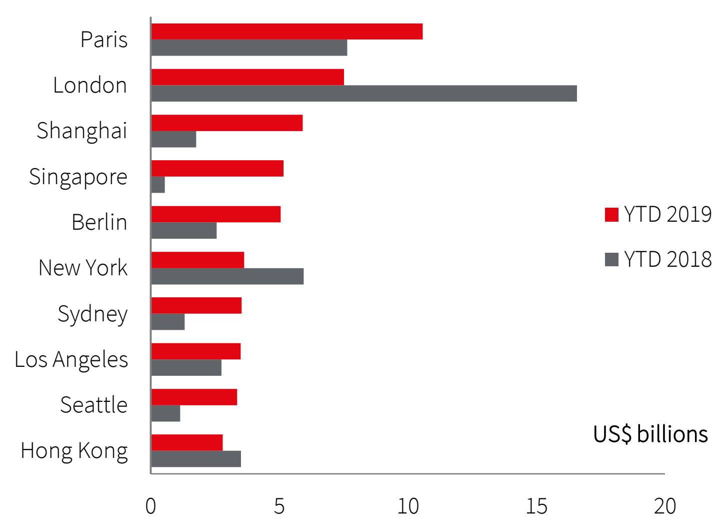
Building off its exceptional performance from the first-half, Berlin continued to attract foreign capital during the third quarter and year-to-date inflows now stand at US$5.5 billion, more than any other full-year total on record.

While cross-border investment in the first half of the year was driven primarily by global funds and investors from the UK and U.S., the third quarter saw a number of acquisitions by groups from Israel. Family offices representing high-net-worth individuals were the most active sources of Israeli liquidity, with more than US$1.2 billion in acquisitions in Q3 alone.

On the other side of the globe, year-to-date cross-border capital inflows to Sydney are 88% higher than the same period last year, with US$3.5 billion invested by foreign investors. The market has seen a number of large-scale transactions this year, the biggest being Blackstone's US$1.1 billion acquisition of a portfolio of office assets from Scentre Group in the second quarter.

The third quarter saw foreign investment into Sydney coming primarily from Canadian pension funds and Singaporean groups. All of this capital was allocated to the office sector, which has attracted 96% of all cross-border investment in Sydney so far this year. Although sustained demand from domestic and foreign investors alike has helped prime office yields compress, the Reserve Bank of Australia cut rates for the third time this year in September, to a record low of 0.75%. These cuts have helped improve yield spreads and are providing potential for some pockets of yield compression moving forward.

Top 10 largest recipients of cross-border investment



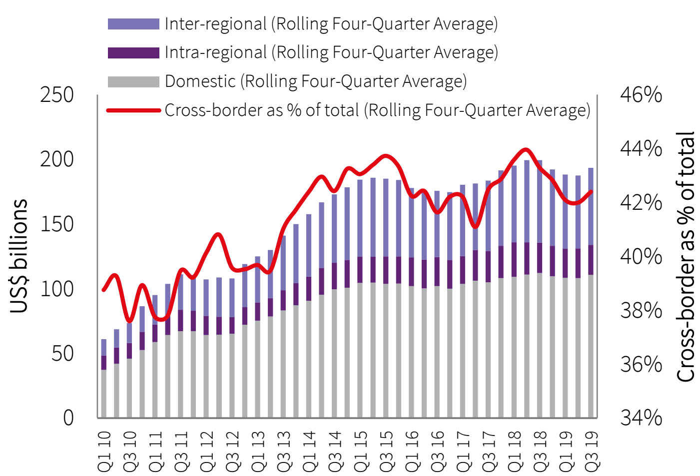
Source: JLL

Cross-border activity picks up in Q3

Large-scale transactions boost cross-border flows

After falling for four consecutive quarters, global cross-border activity ticked back up in Q3 due primarily to an acceleration in large-scale transaction activity. The third quarter saw US$20.9 billion in cross-border transactions of US$500 million or more. This compares to a quarterly average of just US$12.1 billion between Q1 2018 and Q2 2019. While a single industrial deal in the U.S. accounted for just under two-thirds of that activity, and is driving the overall uptick, large-scale purchases in the third quarter proliferated across EMEA and Asia Pacific as well, spanning the office, retail, hotel and alternatives sectors.

Global transaction volumes by type



Source: JLL

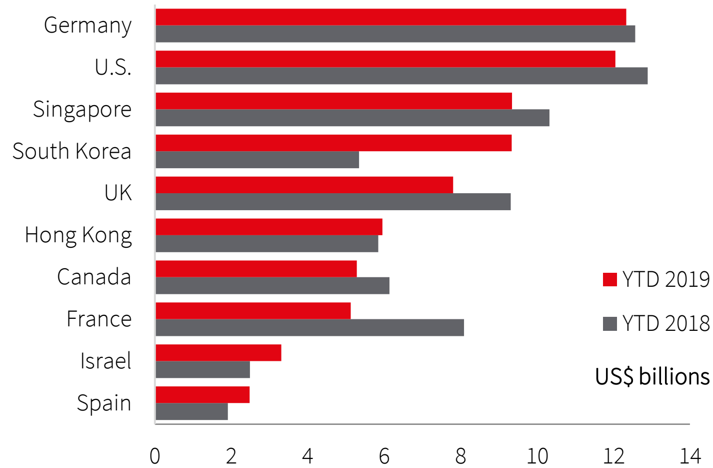
Spanish investors look abroad

Outbound capital flows from Spanish investors stands at its highest year-to-date level in the current cycle, with US$2.5 billion deployed so far this year. The majority of this capital targeted the Americas, with the U.S. emerging as the largest beneficiary of this heightened liquidity this year, receiving 67% of all Spanish outbound investment.

The single biggest cross-border investor from Spain in 2019 has been Ponte Gadea. In particular, the family office has been active in expanding its U.S. portfolio. Notably, the group acquired a core, single-let, office block in Seattle during the first quarter.

Spanish capital was also active in other markets in the Americas, with the greatest liquidity seen in Latin American and South American markets, due to the sale of a large data-center portfolio.

Top 10 cross-border purchasers by source of capital



Source: JLL

Blackstone completes the world's largest private real estate transaction

The third quarter saw the closing of the largest-ever private real estate transaction globally, with Blackstone's purchase of a portfolio of U.S. industrial assets from investment manager GLP. The transaction totals US$18.7 billion, with Blackstone's global opportunistic strategy set to acquire US$13.4 billion worth of assets, while the remainder are to be held by its non-listed REIT, Blackstone Real Estate Income Trust. The transaction comes on the heels of several other acquisitions executed in the U.S. industrial sector in 2018.

Notable transactions, Q3 2019

Property name	Location	Sector	Sale price (US$ mn)	Purchaser	Purchaser source of capital
GLP Portfolio	U.S.	Industrial	18,700	Blackstone	Global
Duo Tower	Singapore	Office	1,146	Allianz & Gaw Capital	Germany & Hong Kong
Tour Majunga	Paris	Office	1,011	Mirae Asset Daewoo	South Korea
Levi's Plaza	San Francisco	Office	823	Jamestown	Germany
Vita Portfolio	UK	Alternatives	740	DWS	Germany

Source: JLL

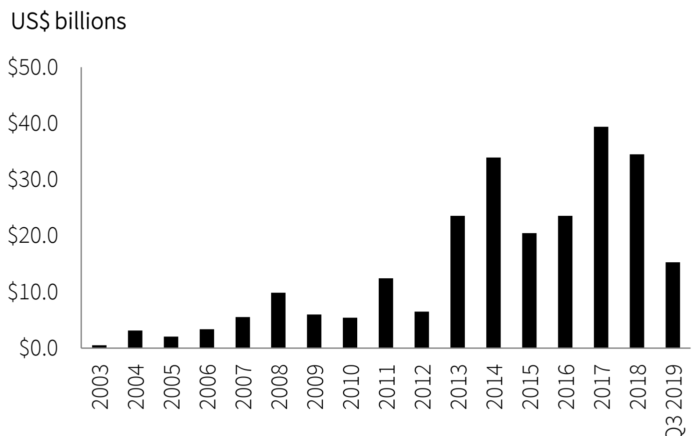
Debt markets

Debt strategies in focus as investors search for yield

Debt funds in the market seek significant volume of capital

Global fundraising for private closed-end real estate debt funds totaled US$15.3 billion through the first three quarters of the year. While this is less than the average volume raised through the first three quarters during the past five years, appetite for debt strategies remains healthy. There are 100 debt funds currently in the market, seeking an aggregate US$36.2 billion, which is more than the volume raised in 2018. Over half of these funds have already held an interim close, and have raised 65.2% of the total capital they are targeting, highlighting the continued investor appetite for debt strategies.

Global debt fundraising by private closed-end real estate funds



Source: Preqin

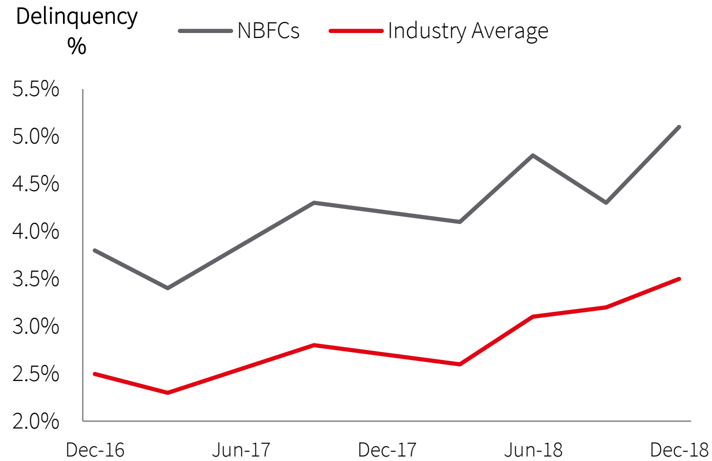
Concerns remain over shadow banking sector in India

Last year's default by infrastructure development and finance firm IL&FS has resulted in increased scrutiny into non-bank financial companies (NBFCs) in India. These firms have contributed significantly to credit growth in recent years, accounting for about 17% of all commercial real estate loans during the 2018-2019 Indian fiscal year.

The size of NBFCs is spurring concern over the health of their loan books. As of the end of 2018, relative delinquency levels on all loan types, including property loans, are higher for NBFCs than the industry average. This has resulted in financing difficulties for the sector as lenders, mainly banks and mutual funds, have become increasingly apprehensive about supplying credit.

The credit crunch faced by NBFCs has led to a reduction in lending, with issuance dropping by 19% and 31% during the third and fourth quarters respectively of the 2018-2019 Indian fiscal year.

Relative delinquency levels in loans against properties



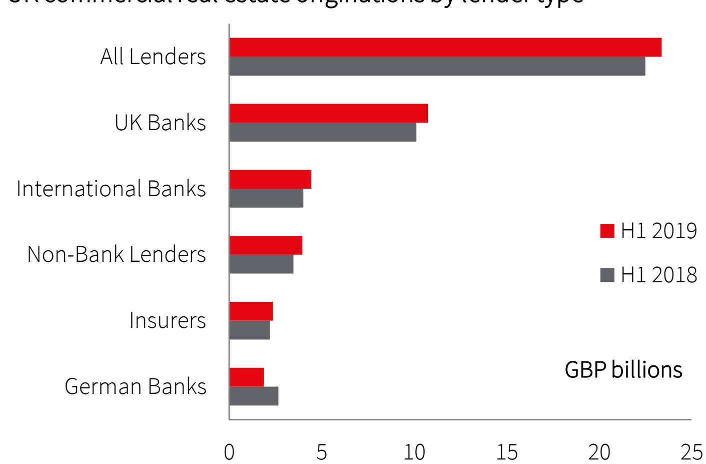
Source: Reserve Bank of India, TransUnion, CIBIL

Real estate debt and equity markets diverge in the UK

Although commercial real estate investment in the UK was down by 34%, in U.S. dollar terms, during the first half of the year, lending activity was up during the same time period. According to data from the Cass Commercial Real Estate Lending Survey, H1 2019 originations in the UK increased by 4% relative to the same period in 2018.

Lending growth in the UK was driven primarily by non-bank lenders, such as debt funds, insurers and banks, both domestic and international. The biggest pull-back in lending volumes came from German banks, who decreased lending by 30% during the first half of 2019.

UK commercial real estate originations by lender type

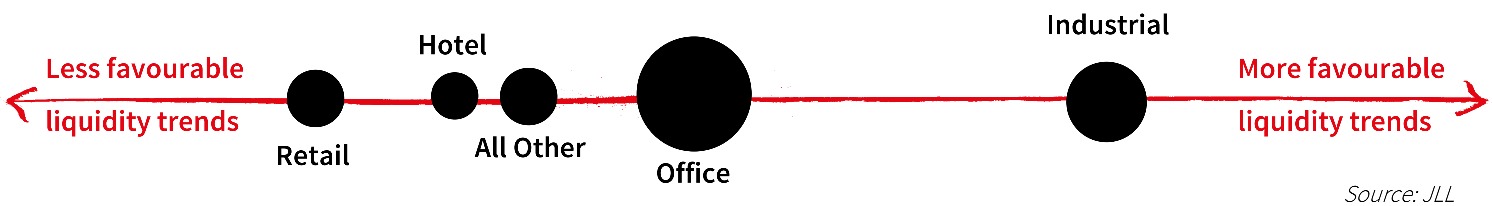


Source: Cass Commercial Real Estate Lending Survey

2019 global market *Outlook*

2019 expectations continuum by property sector

Bubble sizes proportional to total sector liquidity



Source: JLL

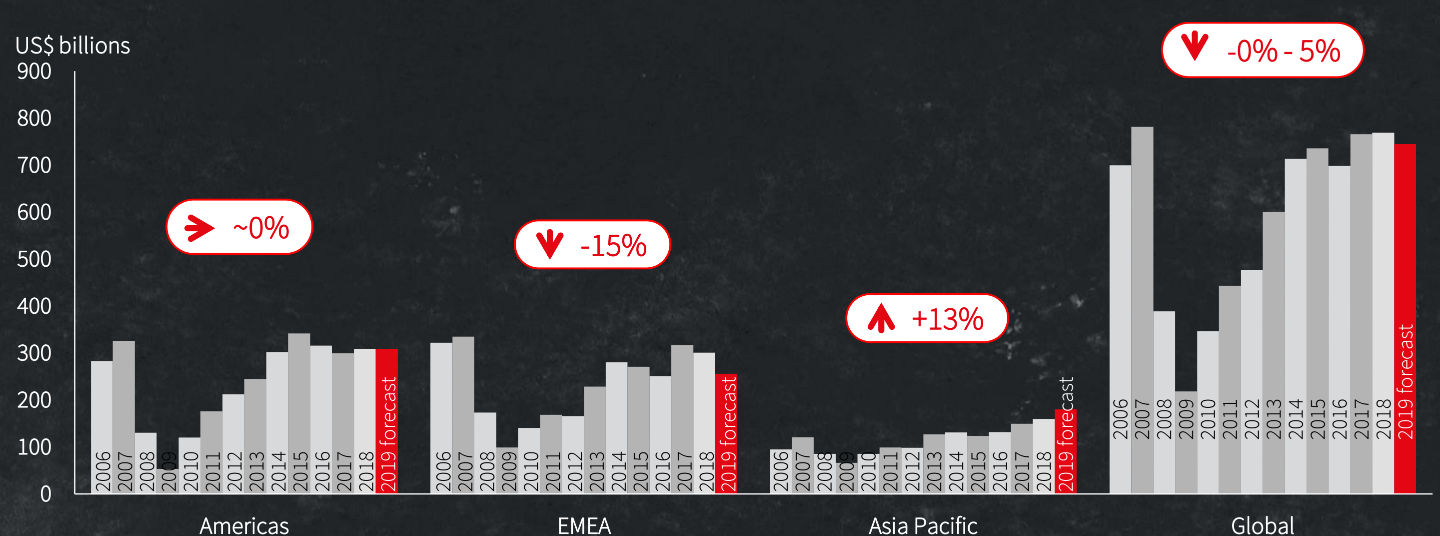
EMEA expected to drive decline in global investment

It is expected that 2019 will yield the lowest rate of global macroeconomic growth since 2010. Political and economic uncertainty also remain prominent with issues such as Brexit and U.S.-China trade tensions still unresolved. Weakness in activity indicators, particularly manufacturing, are giving investors pause while questions remain about the effectiveness of both conventional and unconventional policy responses by central banks to potential shocks. Headwinds are building for expectations of any increase in global growth in 2020.

Notwithstanding these risks, global commercial real estate is well positioned to continue its strong performance. Returns for private real estate remain stable while public real estate continues to outperform other major asset classes at the global level. With the volume of capital held by funds that is yet to be deployed near all-time highs, investors, though increasingly cautious and selective, remain keen to access the sector, evidenced by the healthy liquidity trends this year.

In this environment we expect investment in global commercial real estate in 2019 to moderate by 0-5%, to roughly US$750 billion. With Asia Pacific continuing to outperform, and activity surprising on the upside in the Americas, the global decline will be primarily driven by weakness in EMEA, with activity projected to dip in all major sectors.

Direct commercial real estate transaction volumes



Source: JLL

Notes and methodology

Direct real estate investment	Refers to the purchase of individual commercial property assets or portfolio of assets (or shares in special purpose vehicles that own assets) **Includes:** • Transactions over US$5 million • Sectors covered are office, retail, hotels, industrial, mixed use, healthcare, and alternatives • The data includes property company M&A, including REIT formations, where the following conditions are met: • The transaction is essentially a real estate transaction • Significant assets over and above the real estate assets (e.g. workforce, intellectual property, 'goodwill', etc) are not transferred • 70% + of revenues come directly from rental income • Transactions involve a significant change of ownership • The transaction must be at 'market price' • Only includes the percentage sold to new investors at the IPO price **Excludes:** • Entity-level transactions; development deals; and multifamily residential investment
Entity-level transactions	Refers to corporate acquisitions, where significant assets over and above the real estate assets are transferred (e.g. workforce, intellectual property, 'goodwill', etc.). An example of this is REIT privatisation 'transaction churn' where a company sells real estate assets to a majority-owned subsidiary
Development deals	Refers to transactions categorised as 'forward funded' development and 'land' transactions
Americas	Detailed coverage of the direct real estate investment markets in Brazil, Canada, Mexico and the United States, and partial coverage of Argentina, Chile, Colombia, Costa Rica, Panama and Peru
Europe	Varying coverage of the direct real estate investment markets in Austria, Belgium, Bulgaria, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Israel, Luxembourg, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey and the UK
Middle East and Africa	Varying coverage of the direct real estate markets in Bahrain, Kuwait, Lebanon, Qatar, Saudi Arabia and the UAE In Africa we cover South Africa, with varying coverage across the rest of the continent
Asia Pacific	Varying coverage of the direct real estate investment markets in Australia, China, Hong Kong, India, Indonesia, Japan, Macau, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Vietnam and Thailand
Exchange rates	Transaction values are converted into US$ at the average daily rate for the quarter in which the transaction occurred
Grossed-up figures	Volumes are grossed-up to reflect market coverage

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