A Cushman & Wakefield Capital Markets Research Publication

THE GREAT WALL OF MONEY

2016

INTRODUCTION

Welcome to the twelfth issue of Cushman & Wakefield's The Great Wall of Money, where we have been tracking the amount of newly raised capital across the globe and the factors driving this since the depths of the Global Financial Crisis in 2009.

In this edition, we have found that available capital has now reached a new high of US$443 bn – with no limits to where this capital is flowing. Indeed, as all regions are targeted by this great wall of money, investment levels will likely reach record or near record levels in an increasing number of markets.

As global equity markets face increased turbulence and uncertainty, factors such as quantitative easing and lower for longer interest rates in many locations will help sustain the relative attractiveness of commercial real estate, helping to bolster the continued flow of equity into funds. Capital will continue to seek the large and liquid markets of the US, China, UK, Japan and Germany. Further, as investors seek to diversify across markets, we expect the strong momentum of cross border flows to continue.

For further information or to join the discussion, please contact the Cushman & Wakefield research or Capital Markets teams.

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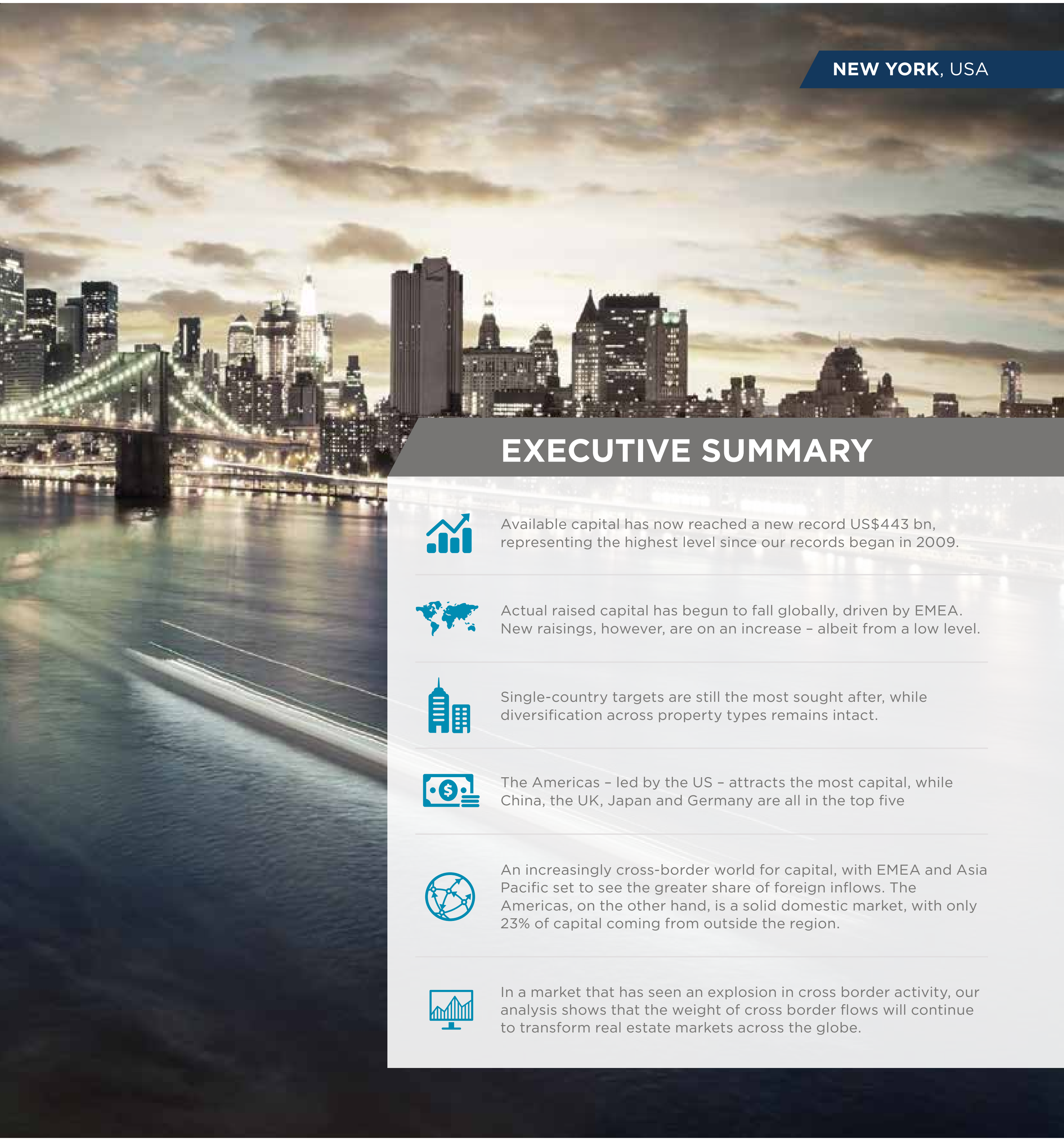

NEW YORK, USA

EXECUTIVE SUMMARY

- Available capital has now reached a new record US$443 bn, representing the highest level since our records began in 2009.

- Actual raised capital has begun to fall globally, driven by EMEA. New raisings, however, are on an increase – albeit from a low level.

- Single-country targets are still the most sought after, while diversification across property types remains intact.

- The Americas – led by the US – attracts the most capital, while China, the UK, Japan and Germany are all in the top five

- An increasingly cross-border world for capital, with EMEA and Asia Pacific set to see the greater share of foreign inflows. The Americas, on the other hand, is a solid domestic market, with only 23% of capital coming from outside the region.

- In a market that has seen an explosion in cross border activity, our analysis shows that the weight of cross border flows will continue to transform real estate markets across the globe.

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AVAILABLE CAPITAL AT A NEW RECORD

Demand for commercial real estate investments held strong throughout 2015. Markets across the globe will continue to transform as we move into 2016, with a record US$443 bn of capital targeting commercial real estate globally: a 3% increase on a year ago representing the highest amount recorded since our analysis started in 2009 (Fig 1).

With investment activity approaching record levels in some markets, the pace of growth in capital raising is slowing. Indeed, 2015's 3% increase is much weaker than the 21% growth recorded in 2014 and reflects how active investors have been in putting their capital to work in an increasingly buoyant market.

Growth in available capital was recorded across the three regions. Asia Pacific led the charge with an 8% increase to US$131 bn, bolstered by the closing of a number of funds during the course of 2015. Despite this increase, however, the region attracts the least amount of capital. Both EMEA and the Americas saw capital expand by less than 2%. Across EMEA, we now see US$143 bn of new capital, with the Americas still attracting the greatest amount at US$169 bn.

GEARING LEVELS SUBDUED

Gearing levels have remained broadly unchanged, albeit edging down a notch across all regions (Fig 2). EMEA continues to see the lowest gearing, averaging 48%, with gearing across Asia Pacific at 54% and the Americas marginally higher at 57%. The low levels of gearing not only reflect conservative terms offered by lenders but also discipline from investors. We would not be surprised to see activity above these levels – though clearly it highlights that both investors and lenders are disciplined on risks.

RAISED CAPITAL ON DECLINE

Rising capital is also a reflection of more equity flowing into funds. Indeed, with the EMEA region having the lowest gearing, it continues to attract the highest amount of equity (US$75 bn), a 3% increase on a year ago. An additional US$73 bn is targeting the Americas – up 5% over the same period – while the US$61 bn coming to Asia Pacific demonstrates a much stronger 11% increase (Fig 2).

Fig 1: **AVAILABLE CAPITAL BY REGION (US$ bn)**

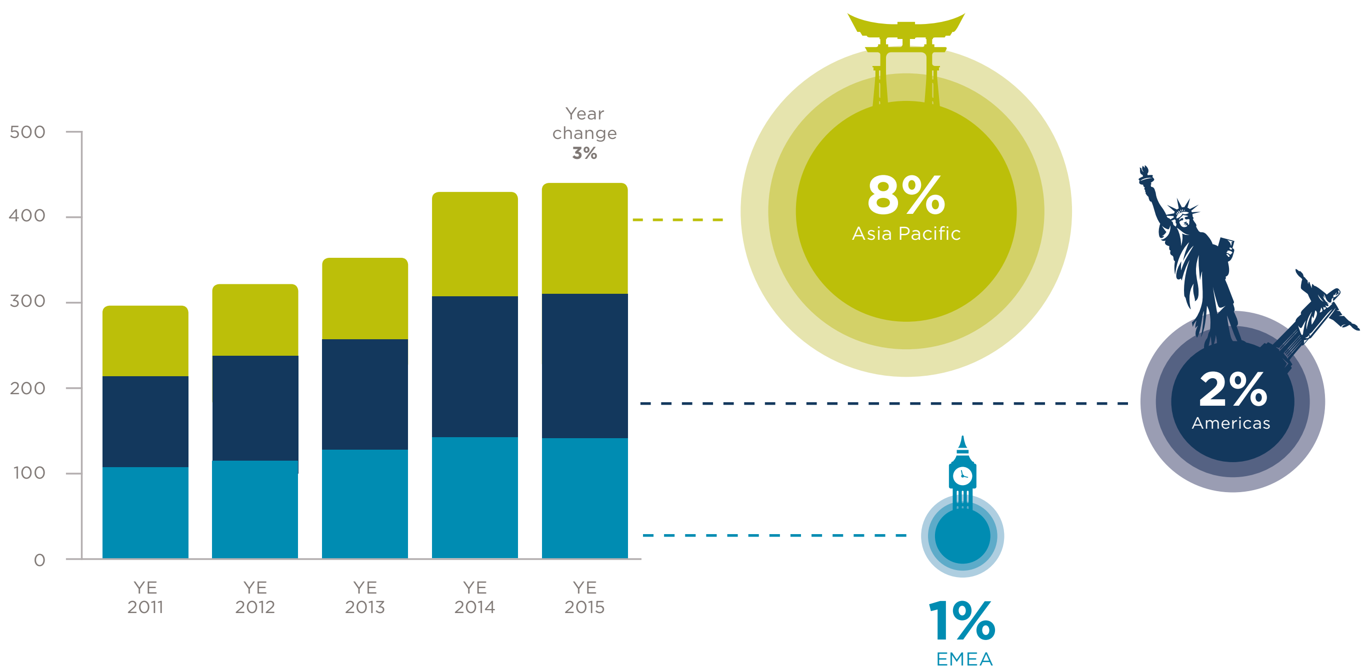
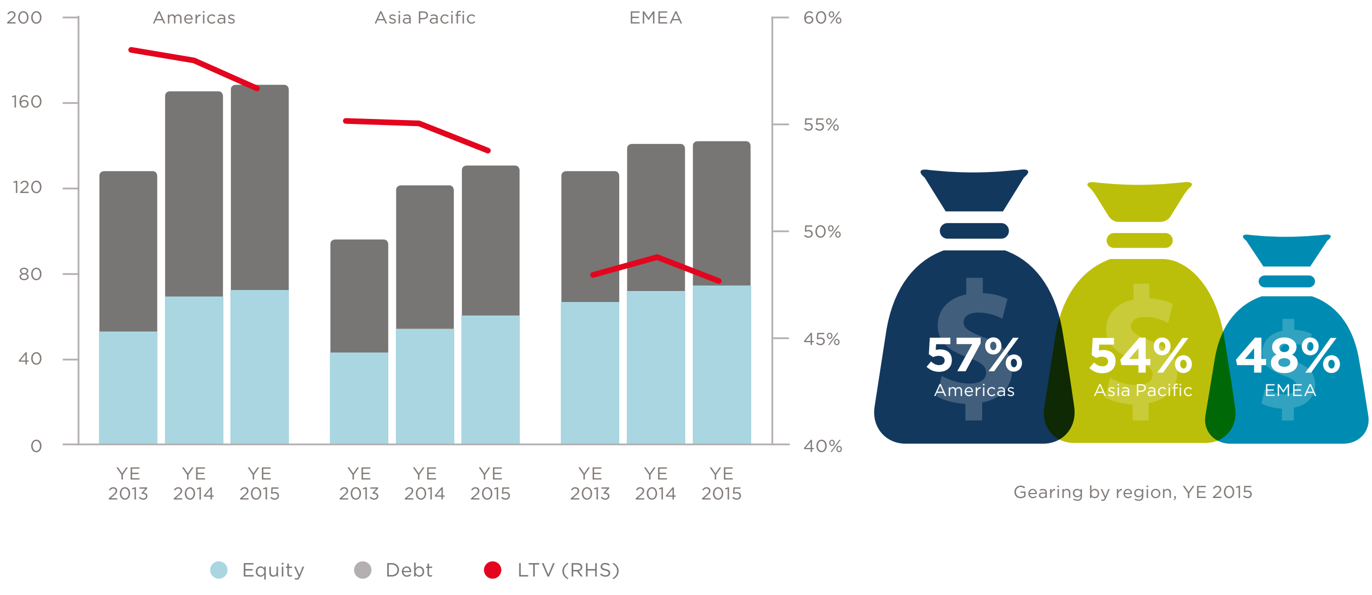


Fig 2: **AVAILABLE EQUITY, DEBT BY TARGET REGION (US$ bn) AND TARGET LEVERAGE (%)**



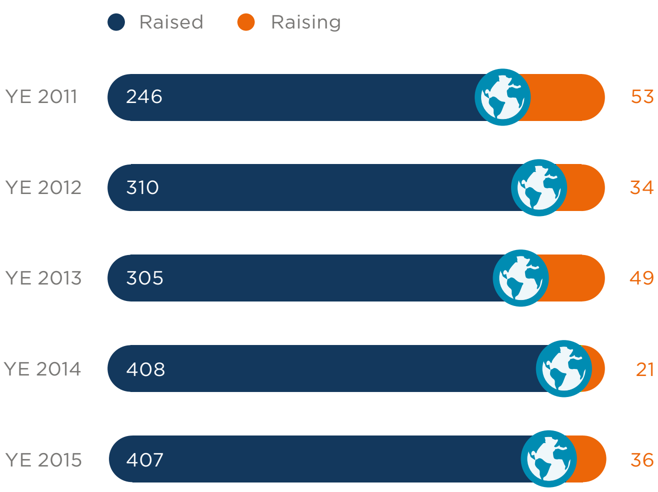
NEW RAISINGS ON INCREASE AGAIN

In a step change from last year, actual raised capital has started to decline – albeit by less than 1% from US$408 bn to US$407 bn (Fig 3). This indicates that funds that have raised are focused more on deploying their capital. This is especially true for EMEA, where raised capital fell 4% over the year to US$131 bn. In contrast, Asia Pacific saw a modest rise of 3%, and the Americas was up less than 1%. Some of this growth reflects the closing of funds during 2015.

Nevertheless, the amount of capital currently being raised has increased over the past year, up from US$21 bn to US$36 bn. Here we see a greater interest in global mandates, with Asia Pacific and EMEA also seeing a pick-up in activity. The increase in raising reflects a recent flurry of announcements from well-established multi-billion funds such as Blackstone, whom have excelled at deploying significant amounts of capital throughout 2015 and are returning to the market with another fund.

In EMEA, M&G has recently closed on a €265 mn long lease fund, while in Asia Pacific, we have seen further money flow into a number of Chinese logistics funds. It is clear that investors are not dissuaded from investing in real estate, and the flow of fresh equity remains. Anecdotally, we also see more money flowing into segregated accounts, some of which are not fully captured by these figures.

Fig 3: **RAISED VERSUS RAISING CAPITAL (US$ bn)**



INVESTORS STILL DIVERSIFYING ACROSS ASSET TYPES

Investors continue to diversify across asset types, a trend consistent with previous analysis. Over 70% of available capital is targeted at multiple asset types, with variations evident across regions (Fig 4).

In North America, a higher proportion of funds are targeting a single asset type compared with Europe and Asia Pacific. There is also a higher incidence of funds with a single asset target in the Middle East, albeit with a relatively small portion of available capital. Not surprisingly, most of the globally focused funds have a diverse strategy.

Of the 28% of capital aimed at single sectors, residential/multi-family continues to attract the most at 23%, with a majority of this targeting the US. We do now see more funds seeking Europe – notably Germany and the Netherlands, with both markets having a relatively larger rented sector. In Asia, China is the main target and could benefit from recent policies helping to stimulate growth. An additional 19% of capital is focused on retail and a further 18% on industrial, with many of these funds targeting Asia Pacific and again China in particular. At 14%, there remains a strong share seeking other assets, which is in line with trends seen a year ago. Much of this is targeting leisure and healthcare, predominantly in North America.

SINGLE-COUNTRY FOCUS STILL DOMINATES

Over half (58%) of investors are concentrated on a single geography – almost unchanged on the 59% share a year ago – whereas multi-country funds represent 42% of capital. Across the regions, we see variations in strategies: indeed, more single-country funds are active in the Americas and Asia Pacific compared to EMEA. This is evident when we see that 48% of capital with a single-country mandate is aimed at the Americas, a further 30% at Asia Pacific and the remaining 22% at EMEA (Fig 5). These proportions have changed little over the last couple of years, notwithstanding Asia Pacific gaining marginally at the expense of EMEA.

We can estimate the amount of capital that may target a specific geography, based on how much is focused on a specific country as well as the recent trends in capital flows for regional and globally sourced capital. This shows an estimated US$148 bn of new capital is targeting the US and underscores the recent dominance of the US in driving investment activity (Fig 6).

The continued weight of capital should drive investment activity higher, albeit driven towards growth cities. The US sits well ahead of other markets, while China is the next major market capturing an estimated US$57 bn of capital, targeting both standing investments as well as development land.

Fig 4: **TARGET PROPERTY TYPE**

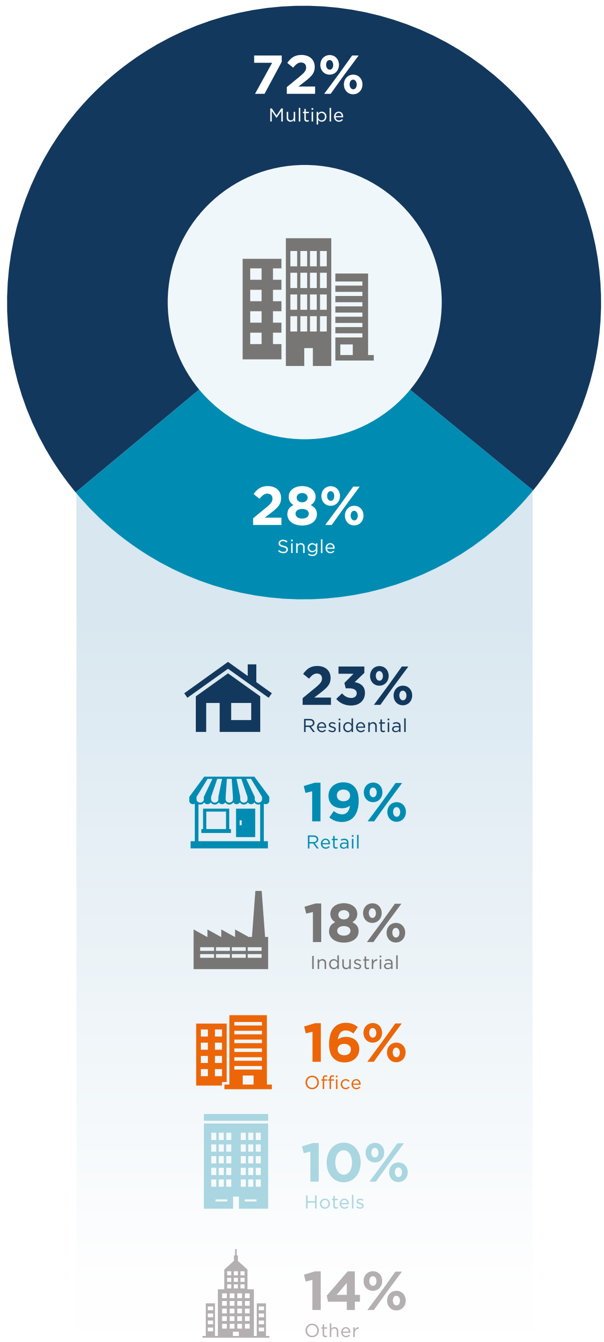
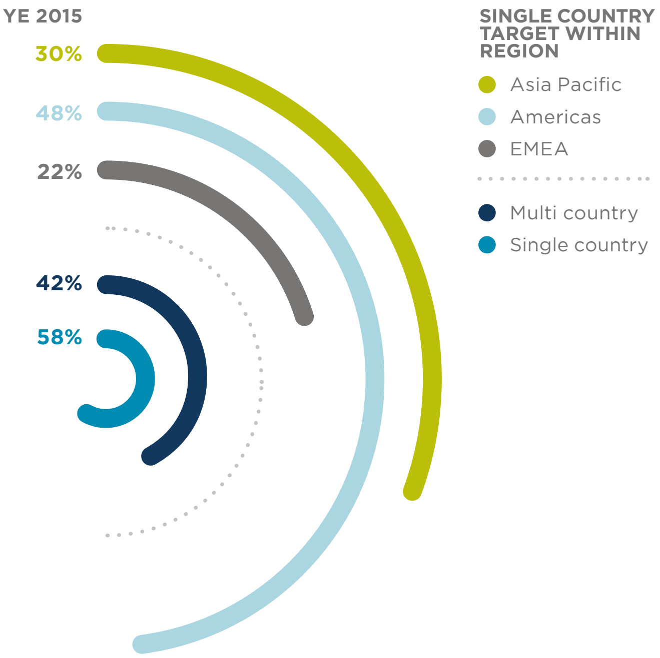


Fig 5: **TARGET GEOGRAPHY (BASED ON FUNDS RAISED)**



Over half of this raised capital is from investors domiciled in China, with the remainder mostly from North American funds but also some additional capital in the rest of Asia Pacific and Europe. For example, Dutch Pension fund manager PGGM was recently reported to have committed an additional US$160 mn to the Redwood China Logistics Fund. Indeed, PGGM is one of a number of global institutions investing in this fund, demonstrating the growth potential as funds seek to increase their weighting to this major market – further amplified by the loosening of policy which is likely to stimulate the economy and provide increased opportunities for investors.

Following on from the UK at US$26 bn and US$25 bn Japan and Germany, respectively, are set to attract the next highest amount. No other markets are anticipated to receive over US$20 bn: France is likely to see US$19 bn, followed by Australia with US$17 bn. Across EMEA, we also see more capital flowing into the Nordics, with an estimated US$15 bn reaching this region. Over half of this is focused on Sweden, which despite its size is one of the most liquid markets globally.

Overall, we see a clear linear relationship between available capital and market size, underscoring how the volume of available capital is not significantly over-or-under-weighted on particular markets. Those markets that are relatively smaller, such as Spain and Italy, attract relatively smaller amounts of capital.

APAC & EMEA TO BENEFIT FROM STRONG CROSS-BORDER FLOWS

We are also able to consider future flows by comparing the domicile of the fund and the target region. In a market that has seen an explosion in cross-border activity, the weight of cross-border flows will continue to transform real estate investment across the globe. Excluding globally targeted funds – which by their very nature will be cross-border – we estimate that the Americas is set to achieve the greatest amount of domestic investment, with 71% of available capital raised domestically, while nearly a quarter of raised capital is set to come from outside the region, predominantly from European investors.

Most notably, we see a high proportion (over 40%) of capital targeting both Asia Pacific and EMEA from outside their respective regions, with North American sourced capital dominating in both cases. While Asian and EMEA funds are deploying a higher proportion of raised capital in their own regions, we do see a significant amount flowing across regional borders. Global and Asian opportunities remain key targets for European capital, while Asian money is set to diversify across markets globally, following the trend of many Asian institutions in recent years. Of course, this analysis ignores the original source of equity flowing into individual funds. We see both European and American capital flowing into a number of Asian domiciled funds that are seeking to deploy capital in their home market or region, particularly as investors look to diversify away from home markets and benefit from the expertise of local investment managers. Therefore, in reality, the flows of capital are greater than our analysis suggests.

INVESTOR TYPE

Over half of available capital (56%) is in the hands of unlisted funds. Although this investor type does dominate, their share has been gradually shrinking over the last two years (Fig 7). We see this as a positive trend, with funds increasingly looking to put their capital to work. During the second half of 2015, we saw increased investment activity from funds as they feel the pressure to meet their investment targets.

Listed companies have broadly maintained their share at around 23%. We see little variation in the targets of these funds, with Asia Pacific the most sought after, followed by North America and EMEA. China and Japan remain the primary focuses in Asia Pacific, with the UK, Germany and Spain set as the main targets across EMEA. Institutions have seen their share of capital increase to 16%, up from 12% a year ago. This increase is partly a reflection of the more detailed analysis we have undertaken of Asian institutions, with Chinese insurance companies set to deploy over US$70 bn globally in the next five years and Taiwanese insurers an additional US$10 bn in new capital.

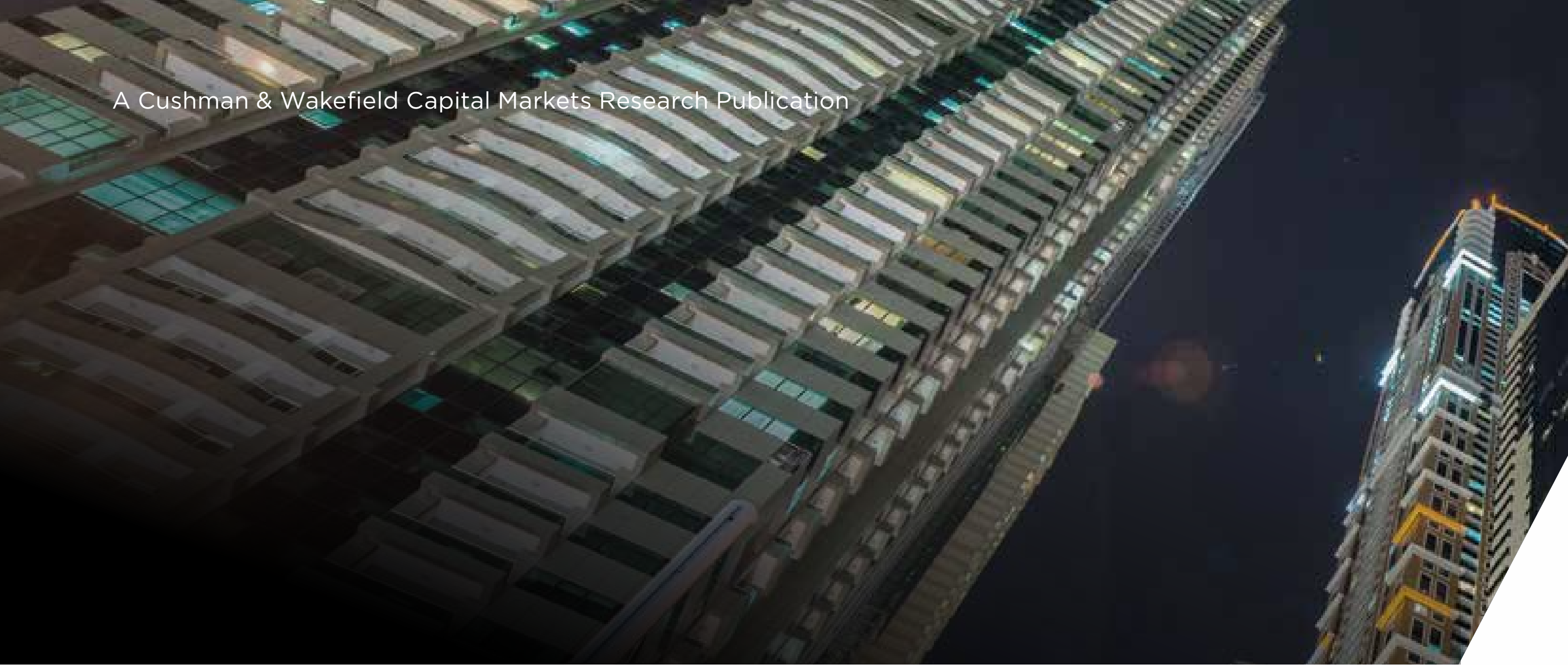


Fig 6: **AVAILABLE CAPITAL BY COUNTRY (US$ BN)**

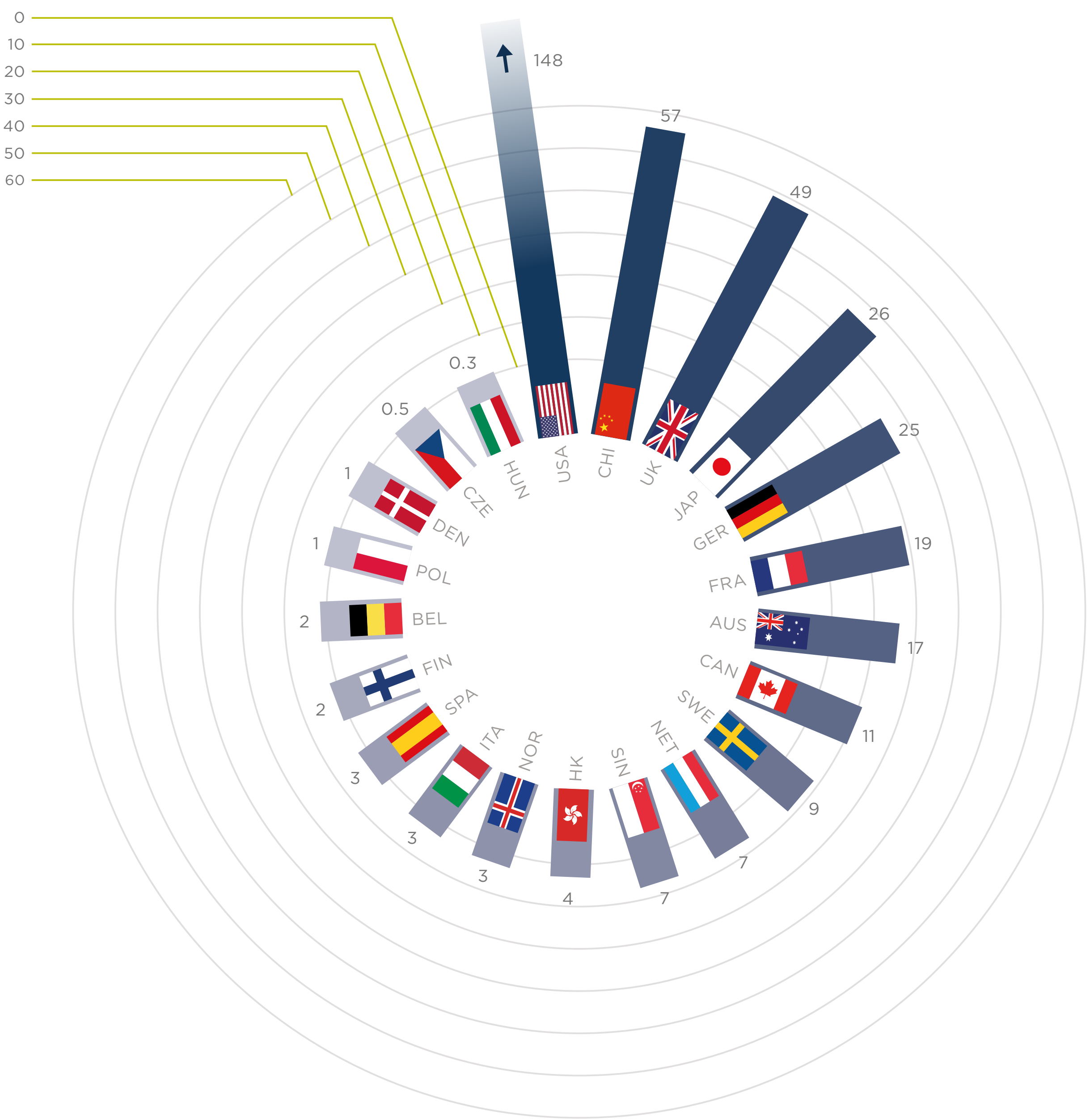


Fig 7: **AVAILABLE CAPITAL BY INVESTOR TYPE**

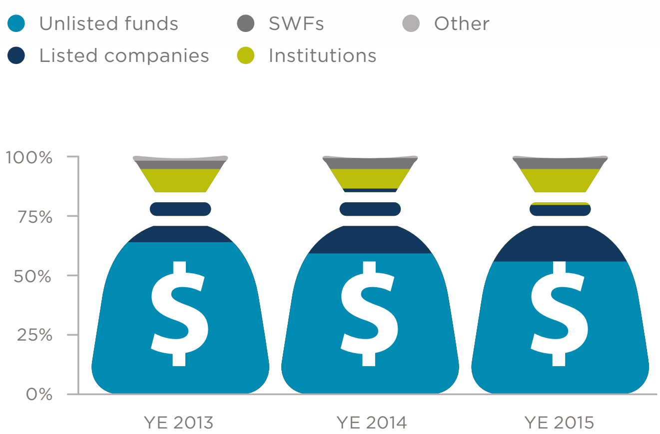
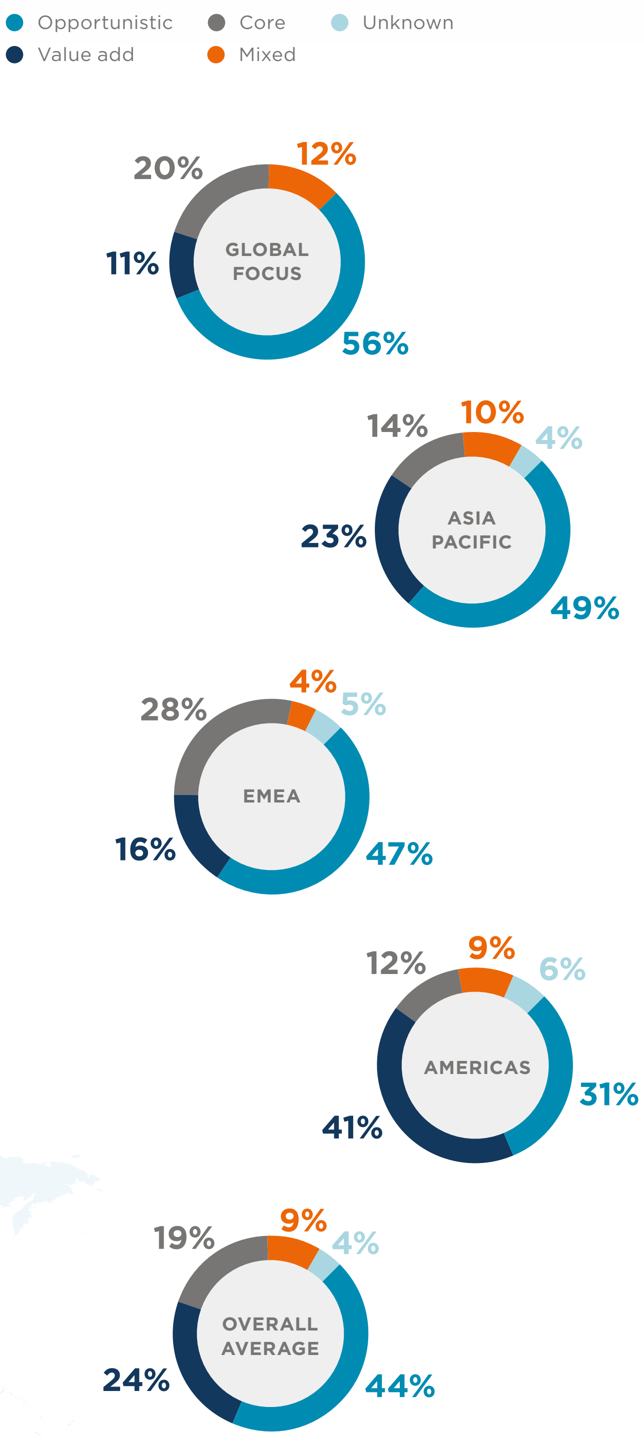


Fig 8: **INVESTMENT STYLE BY REGION**



FUND STYLE

Our analysis of the unlisted funds, representing over half of available capital, allows us to consider the style of the investment vehicle and the target region. Globally targeted funds are focused on opportunistic strategies at 56% of available capital, allowing them to invest across a multitude of platforms and asset types. A further 20% is aimed at core strategies, while just 11% is for value-add strategies (Fig 8).

Funds targeting both Asia Pacific and EMEA have a greater weighting towards opportunistic strategies (49% and 47%, respectively). Across EMEA, we have seen a number of funds raised to target more distressed opportunities across a range of markets, whereas in Asia Pacific, this capital is aimed towards the more emerging or developing markets such as China and India – although not exclusively. However, this is where the similarities end. In EMEA, there is a greater share of funds targeting core (28%), whereas in Asia Pacific, there are more with a value-add strategy (23%). The Americas attracts a far higher proportion of funds with value-add strategies (41%), with opportunistic a further 31% and core strategies constituting just 12%.

Over 40% of capital targeting both Asia Pacific and EMEA is set to come from outside their respective regions

OUTLOOK

Momentum will remain with the market, with a lower-for-longer interest rate environment and further QE in some regions continuing to maintain the relative attractiveness of commercial real estate.

Continued volatility in equity markets is also supporting flows of capital into direct markets. As a result, we anticipate record levels of new capital for investment in commercial real estate, supporting the 4.2% growth in investment activity predicted for 2016.

The strong weight of capital will maintain competition for the best assets, helping to maintain a downward pressure on yields; therefore, access to and availability of product will be key. We do expect more product to come onto market through portfolio restructuring and profit taking, although for some the ability to reinvest will be crucial.

Growing uncertainty will create divided opinions on pricing, and those funds with a more flexible strategy and approach to pricing and allocation are likely to be winners. Some funds may need to review or adjust strategies since their initial raise, given the speed of movement in pricing over the past 12 months. Equally, those funds adept at securing off-market opportunities will also be more successful in deploying capital. With a broad range of investors and investment styles, there should be plenty of capital to flow around.

Going forward, this market environment will eventually lead to lower levels of inflows into funds. We are already seeing net flows into certain funds beginning to tail, albeit remaining positive, with some funds also seeking to maintain marginally higher liquidity buffers. As such, the trends we currently see in the reduction of raised capital will continue as investors focus on deploying their capital. At the same time, while we expect to see further flows of new capital, the increase is unlikely to be significant, and some funds may be pulled or move ahead at a lower target. Equally, we do not expect a significant ramp up in new capital raising, in part due to the growing market uncertainty.

With opinions on markets becoming increasingly divergent, we expect to see a further transformation in the way in which capital is placed. We are likely to see segregated accounts as investors place capital with preferred managers. Joint venture and platform deals are likely to increase in prominence as a way of placing capital more easily in the market.

We anticipate record levels of new capital for investment in commercial real estate, supporting the 4.2% growth in investment activity predicted for 2016.

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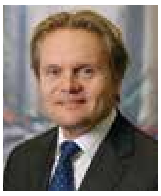

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ABOUT THE REPORT

This report has been prepared using data collected through our own research as well as information available to us from public and other external sources, including company websites. The methodology for collating and analyzing the data is consistent with our approach in previous reports to allow a like for like comparison.

In respect of all external information, the sources are believed to be reliable and have been used in good faith. However, Cushman & Wakefield cannot accept responsibility for their accuracy and completeness, nor for any undisclosed matters that would affect the conclusions drawn. Certain assumptions and definitions used in this research work are given within the body of the text. Information on any other matters can be obtained from the Research and Capital Markets teams of Cushman & Wakefield.

SOURCES

In addition to our own data monitoring, a number of third party databases and news services are used in this report including: ANREV, Asia Property, Bloomberg, Estates Gazette, Euro Property, INREV, IPE, Property Week, Property EU and Reuters.

ABOUT CUSHMAN & WAKEFIELD

Cushman & Wakefield is a leading global real estate services firm that helps clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms with revenue of $5 billion across core services of agency leasing, asset services, capital markets, facility services (C&W Services), global occupier services, investment & asset management (DTZ Investors), project & development services, tenant representation, and valuation & advisory. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

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