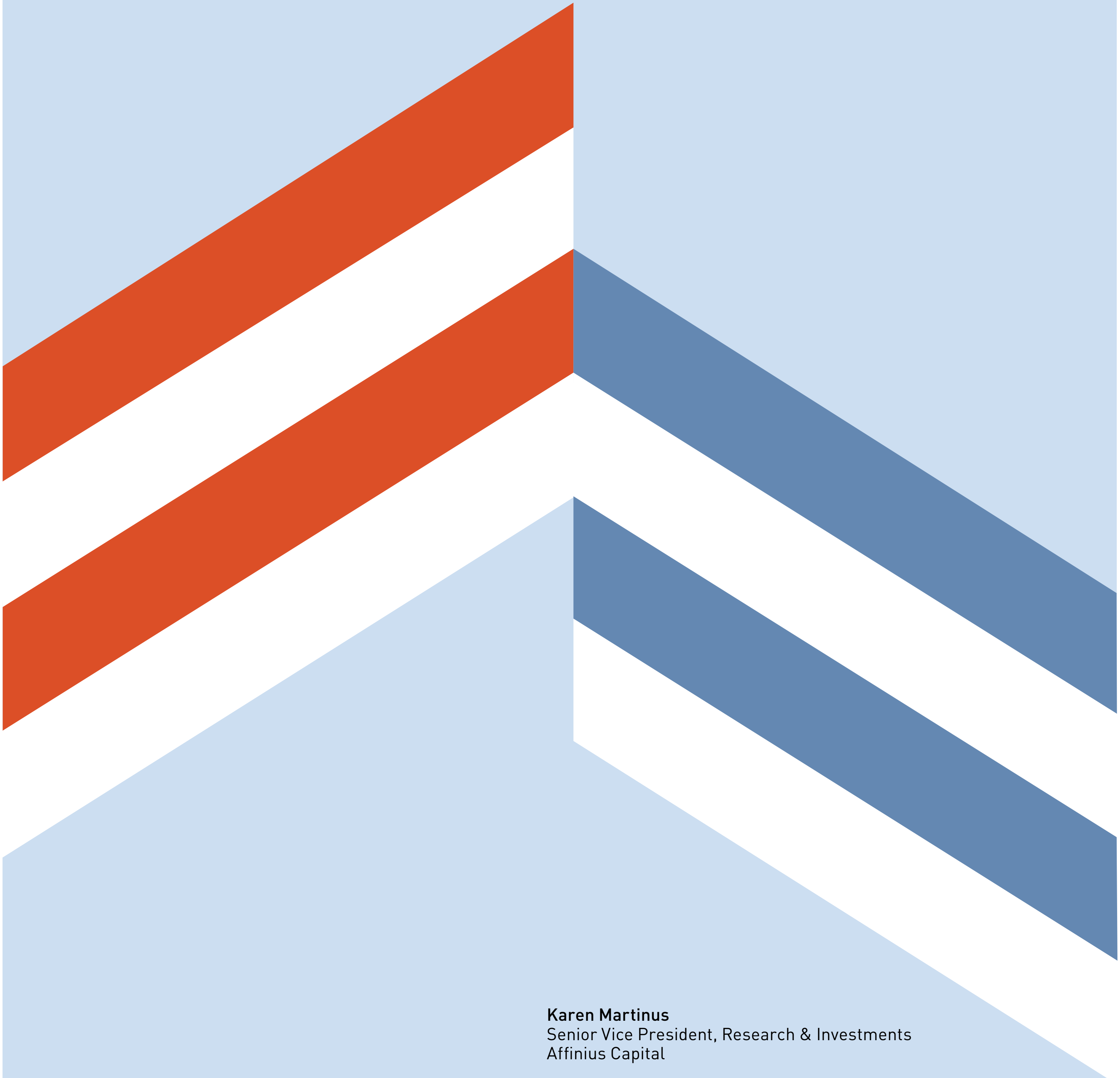
COMPELLING OPPORTUNITIES



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The US is the largest global commercial real estate market and remains an attractive target for investors. Past return performance, favorable growth and demographics, a strong legal infrastructure, and a diverse asset base have historically attracted foreign investors, and we expect this trend to continue.

Overseas investors continue to look to the US amid a hunt for diversification and enhanced yield. This article examines recent investment activity and explores our view on why now, more than ever, may represent a good opportunity for foreign investors to invest in US real estate.

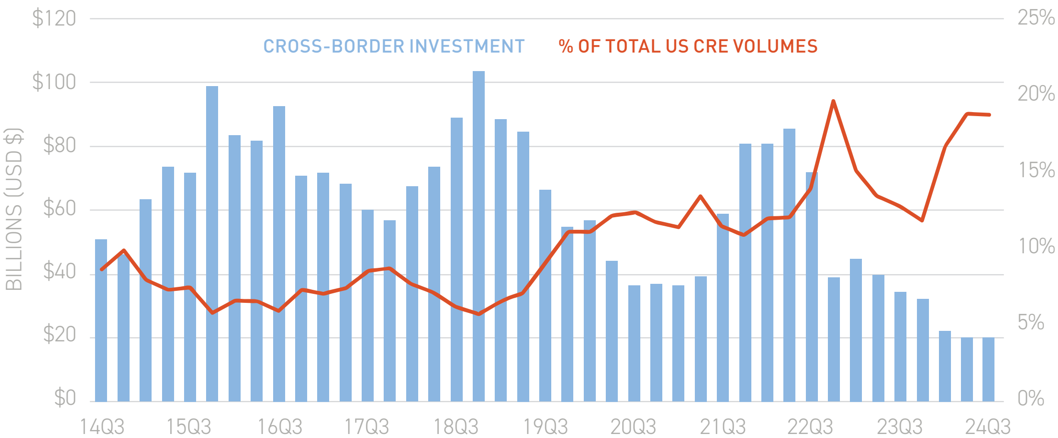
FOREIGN INVESTMENT DOWN, BUT NOT OUT

The volume of cross-border investment into the US fell sharply in 2024. Acquisitions by foreign investors totaled $20.2 billion for the year to Q3 2024, down 41% from the pace set in 2023 and 59% behind the 15-year average *(Exhibit 1)*.

The decline in cross-border activity was much sharper compared to total US CRE investment volumes which declined 14% year-over-year in the twelve months to Q3 2024.[1] While cross-border investment volume has remained limited, there are some positive signals in the latest trends, and resultant opportunities ahead.

The US remains one of the most active destinations for foreign capital in the world. Recently, the US CRE investment market is showing tentative signs of recovery from the slowdown sparked by elevated inflation and higher interest rates. The Federal Reserve has recently cut rates by 100 basis points, ODCE/NPI returns were positive in Q3 2024 for the first time since Q3 2022, and valuations (outside of office) appear to have bottomed. REIT sectors experienced a rebound in 2024, as most property sectors now trade near or at a premium to NAV, compared to a year ago, when all sectors were trading at substantial discounts to NAV.[2]

EXHIBIT 1: US CROSS-BORDER INVESTMENT AND SHARE OF TOTAL US CRE INVESTMENT



Source: MSCI Real Assets, as of October 2024

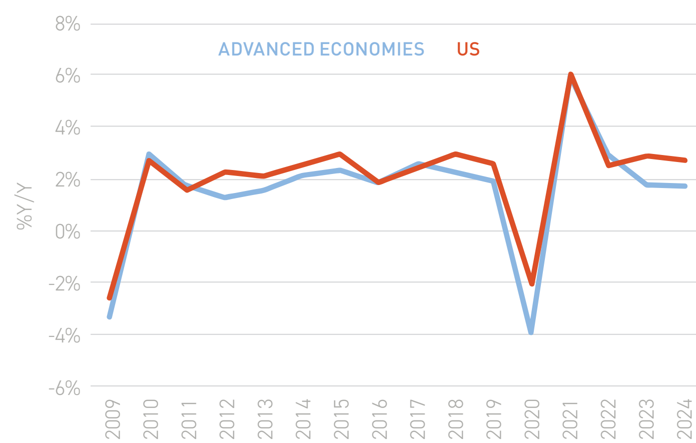
US FACES BETTER ECONOMIC PROSPECTS

Since 2009, US GDP growth has largely outperformed other advanced economies. The outperformance over the past two years has been especially stark—a trend that is expected to continue into 2025 *(Exhibit 2)*.[3] Continued healthy employment growth and moderating inflation are expected to have a positive effect on US economic activity over the next few years, and accordingly, growth forecasts have been revised upwards for both 2026 and 2027.[4]

Conversely, the imposition by the US of targeted tariffs on specific economies, particularly China, Mexico, and Canada (and to a lesser extent the European Union), could have an adverse effect on growth, particularly on exposed sectors such as car manufacturing. More broadly, measures of risk such as the Economic Policy Uncertainty Index remain elevated after a period of disruption from the pandemic, the surge in inflation, and fraying geopolitics.[5] In an investment environment with greater risk, investors are likelier to seek dollar-denominated real assets, particularly given the US dollar is still the overall reserve currency of the world.

In our opinion, the long-term demand drivers for US CRE remain attractive on a broad basis, and the outlook for fundamentals remains healthy.

EXHIBIT 2: GDP GROWTH: US EXPECTED TO OUTPERFORM ITS ADVANCED ECONOMY PEERS



Source: Moody's, Oxford Economics, November 2024

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ATTRACTIVE OPPORTUNITIES FOR INVESTMENT

Cross-border investors still view US CRE as a stable, safe investment. According to the 2024 Investment Intentions Survey from PREA, Asian investors favor the US for out-of-region investments. European investors have a slightly larger allocation to global strategies, however these may have a significant US element.[6] The current market dynamics are setting up for a period of new opportunities that well-capitalized, prudent investors will be able to capture, leading to a period of outsized performance relative to peers. In light of the ongoing market volatility, our conviction around the intersection of real estate and technology has grown even stronger.

We see significant opportunities within logistics, data centers, and housing. The industrial market fundamentals remain strong, owing to accelerating tailwinds associated with e-commerce, on- and near-shoring, and a shift from "just-in-time" to "just-in-case" inventory levels.

Leasing activity reached 621.4 million square feet in the nine months to Q3 2024, up 5.2% compared to a year ago, and on track to finish 2024 with the third-highest annual total on record. The e-commerce share of total non-auto retail sales—a key indicator of demand for warehouse space—increased for the seventh consecutive quarter to a record-high 23.2%.[7] Even with the acceleration, there is still scope for expansion of online sales, compared to a more digitally mature market such as China, where almost 40% of the country's retail sales come from e-commerce.[8]

In addition, evolving rental housing needs among a broad demographic coalition, combined with inadequate housing supply, has given rise to enduring investment opportunities across the rental housing spectrum. A combination of demographic trends, lifestyle choices, and the challenges of home ownership will continue to fuel strong demand for rental properties. Despite some excess supply over the last two years, which resulted in rental softening, the long-term fundamentals in housing remain compelling.

The rapidly increasing demand for digital storage is expected to change the data center landscape for many years to come. Some of the largest companies for cloud computing, including AWS, Microsoft, Meta, and Google are US-based, and are expected to be significant drivers of data center demand in the coming years. The demand for data is expected to be substantial, presenting a strategic advantage for platforms ready to serve major cloud providers and hyperscalers with a vertically integrated investment platform.

We believe private real estate debt also presents an attractive proposition, at a time when traditional lenders have withdrawn from more complex situations due to regulatory and financial pressures. We believe there continues to be an opportunity for alternative lenders to fill this void, create velocity, and capitalize on the robust demand in the commercial lending sector.

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RELATIVE PERFORMANCE

The long-term demand drivers for US CRE remain attractive on a broad basis. Over the last thirty years, private core real estate, as measured by the NCREIF ODCE Fund Index, has generated compelling absolute returns; but more importantly, the strongest risk-adjusted returns for investors based on a Sharpe ratio of 0.74.

The high-quality nature of CRE holdings that produce solid levels of current cash flow due to long-term, in-place lease agreements with creditworthy tenants combined with appreciation in the residual value of the assets has the ability to drive compelling performance. With greater clarity on future asset values anticipated, foreign buyers should become much more active as buying opportunities emerge.

EXHIBIT 3: PRIVATE CRE PROVIDES STRONGEST RISK-ADJUSTED RETURNS – HISTORICAL TOTAL RETURNS BY ASSET CLASS AS OF 9/30/2024

ANNUALIZED TOTAL RETURNS	US CORPORATE BONDS	US EQUITIES	US REITS	NFI-ODCE INDEX
5-YEAR	0.3%	16.0%	5.1%	2.1%
10-YEAR	1.8%	13.4%	8.0%	5.2%
30-YEAR	4.7%	10.8%	9.9%	7.0%
VOLATILITY	4.7%	16.5%	19.6%	6.2%
SHARPE RATIO*	0.53	0.51	0.38	0.74

Sources: Bloomberg LP, NCREIF, Affinius Capital Research; based on 30-year time period

DIVERSIFICATION

The US is well positioned for sustained growth over the next decade, particularly as compared to parts of Europe and Asia that are faced with shrinking populations. The working age population (15–64) has been declining in Japan for some time, started to go negative in Europe beginning in 2011, and began to go negative in China in 2019. But in the US, growth in the working age population remains positive.[9]

The US one of the most transparent developed markets globally, supported by a strong and deep private service sector market and coupled with leading academic institutions that all underpin reliable pricing and real-time information for global allocators. Powerful diversification benefits can be achieved by spreading investments across different regions and markets.

Despite the significant home bias within existing real estate portfolios, the US remains in focus for out-of-region capital deployments. Any investor needs to decide about the merits of a US real estate allocation given their own portfolio composition and objectives.

But now, more than ever, one would do well not to ignore the positives. Given the relative liquidity and political stability, we believe the US will continue to attract foreign investors. The US economy is not immune from potential headwinds, but post-election there is a renewed confidence from businesses about the lower-tax, deregulatory, pro-growth mantra of the new administration that could help stimulate economic growth over the next several years. Given these factors, and amidst the uncertainty in global markets, one would do well not to ignore the positives for the US as a compelling investment opportunity at this moment in time.

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ABOUT THE AUTHORS

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NOTES

[1] MSCI Real Assets. Data as of October 22, 2024

[2] Green Street as of January 2025

[3] Oxford Economics. Key Themes 2025: Global resilience gives way to uncertainty. November 13, 2024

[4] Oxford Economics. What Trump 2.0 means for the global economy. November 6, 2024

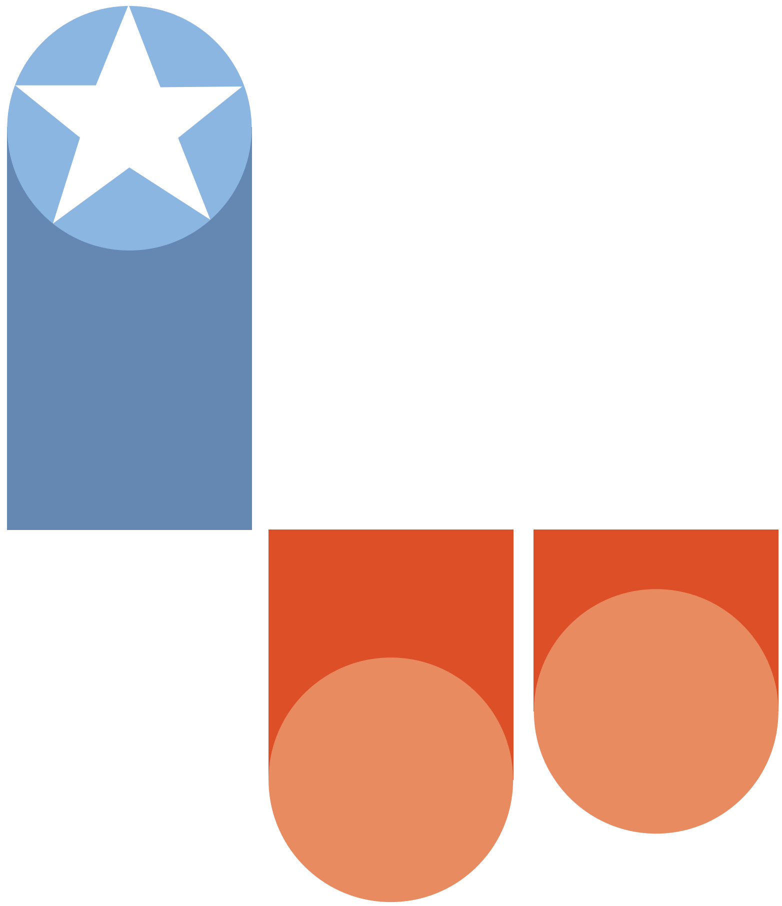
[5] https://www.policyuncertainty.com/

[6] PREA, 2024 Investment Intentions Survey

[7] CBRE, US Industrial Figures Q3 2024

[8] HSBC, China e-commerce, 12 March 2024

[9] Our World in Data, November 2024



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