Research
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Global Real Estate Perspective - Highlights

Investor and Corporate

JLL SEE A BRIGHTER WAY

Overview

Outlook improving despite mixed conditions

Global economic conditions remain mixed, but growth has proved to be resilient with forecasts revised up as the year has progressed. Falling inflation and an easing monetary policy environment, combined with solid labor markets, should deliver further improvements to the outlook through the second half of the year and into 2025.

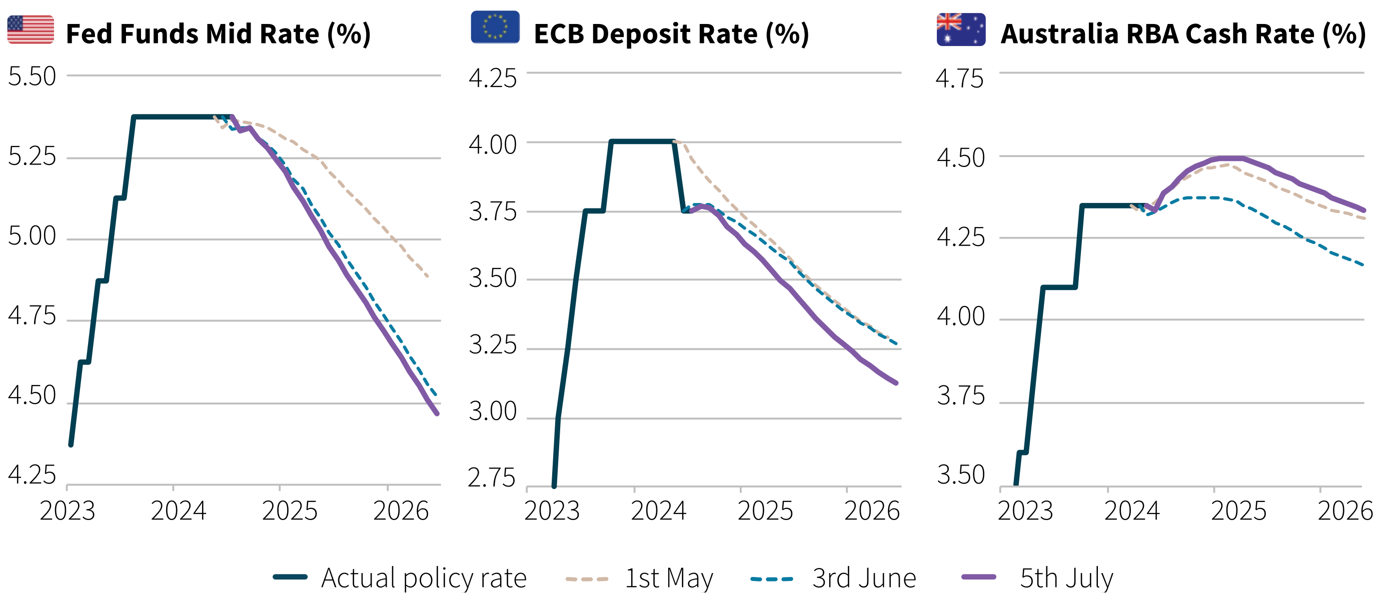
Global Capital Flows

Interest rates

Improved sentiment at mid-year balanced by continued interest rate uncertainty

Investor sentiment is more positive at mid-year compared to late 2023, as many of the largest markets are anticipating easing monetary policies by year-end. Between persistent uncertainty around the timing of interest rate shifts and geopolitics, risks remain highly dynamic and could introduce volatility and impact market sentiment in the second half of the year. Notwithstanding the risk of further stalling, momentum is expected to pick up as the year progresses, and there have been early signs of an inflection point in real estate markets. Dry powder levels continue to be high, most recently at US$393 billion, and while core institutional capital is still selective, numerator and denominator pressures on allocations have begun to subside, and capital deployment is improving for debt and higher-yielding strategies.

Financial markets' forward expectations of policy rates



Source: Refinitiv, JLL. Based on OIS rates. As of July 2024

Pricing dynamics

Pricing is stabilizing in most markets globally

As the real estate market nears an inflection point, there are signs of progress. Over the first half of the year, bidder activity in aggregate is increasing significantly, boosting Global Bid Intensity to more normalized levels, although market conditions differ due to the higher rate environment. Real estate markets globally have undergone significant price adjustments from peak 2022 levels with few exceptions, largely driven by the rising cost of capital. Pricing is now stabilizing at levels observed since the start of the year. Investor propensity to transact is greater in markets where price adjustments are more transparent, and there are early signs of yield compression for in-favor sectors in parts of the U.S. and Europe. In Asia Pacific, pricing adjustments are coming through most quickly in Australia and South Korea to date.

Debt markets

Availability and cost of debt improving further at mid-year

Debt market conditions continue to improve and broaden, as origination volumes stabilize and pricing comes in further. Markets saw spread compression during the first half of 2024, albeit to varying degrees, across the U.S. and parts of Europe and Asia. Lender confidence remains varied and is strongest for in-demand sectors. Confidence is also broadening for larger loans and beyond newer-vintage, top-tier assets. In the elevated rate and constrained transactional environment, loan workouts and refinancings continue to be a focal point. Loan originations have stayed balanced and diversified across various lender types. The most material shift, however, has been the rebound in CMBS issuance in the U.S., which has seen substantial growth so far in 2024. This market has become one of the most constructive for CMBS issuance since 2021 and is supporting larger transactions, refinancings and less in-favor assets.

Investment activity

Closed deal activity stable in Q2; strategic deals re-emerging globally

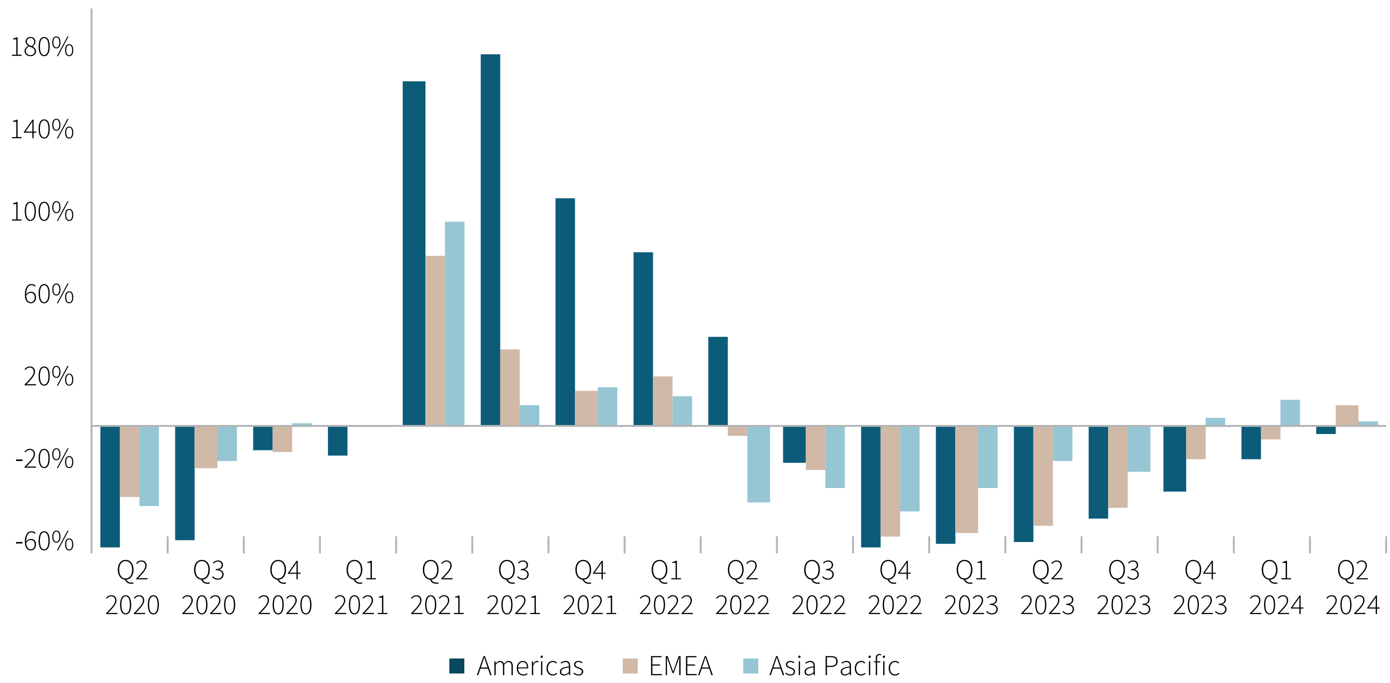
Improved market sentiment was evident in closed transaction activity during the second quarter. Globally, direct investment volumes were stable year-over-year, reaching US$155 billion in Q2. This brought first-half volumes to US$287 billion, reflecting a year-to-date decrease of a moderated 4%. Investment volumes were 4% lower year-over-year in the Americas but posted modest gains in EMEA and Asia Pacific during the quarter, an early signal for growth. Strategic transactions, including those of scale, are re-emerging in the markets globally, in particular for living strategies. Recent significant transactions have also been announced in the logistics and data center sectors across the regions. These transactions represent important barometers for the market and are expected to spur more activity.

Sector dynamics

In-demand sectors driving early recovery

Divergent sectoral dynamics remain, and investors are most focused on deploying capital to growth-oriented sectors such as living, logistics and alternative property types. Hotels and retail are also seeing improvements given strong fundamentals, with both sectors recording gains in investment activity in the first half of the year. Diversification is still a top priority in the current investment climate, and the extent of these shifts will vary globally in the coming years, influenced by differences in the investible universe, risk profile and sector forecasts.

Investment volumes annual change by region, Q2 2020 – Q2 2024



Source: JLL, July 2024

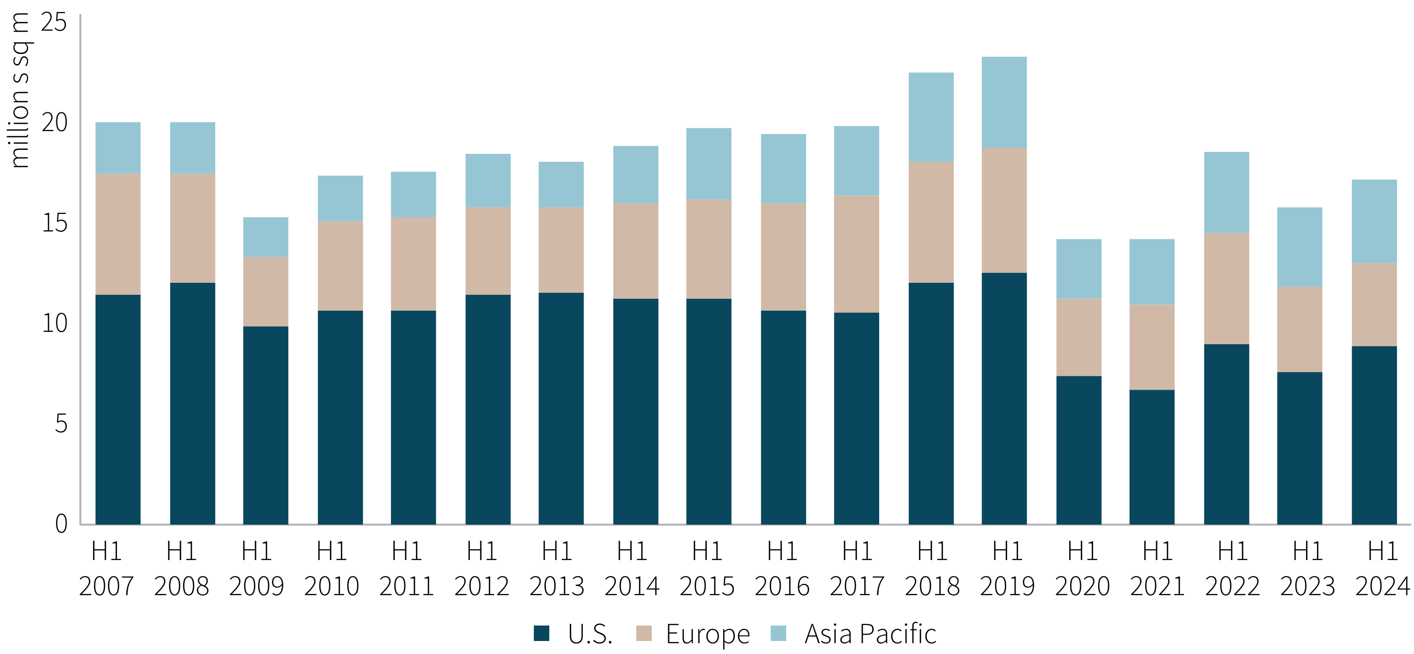
Property Sectors

Offices

Gradual recovery in demand continues

Global office leasing activity continued to strengthen from subdued 2023 levels during the second quarter, with volumes 10% above levels from a year earlier. Performance was mixed across regions as a brighter economic outlook and stabilizing hybrid work policies contributed to increases in the U.S. (+19% year-over-year) and Europe (+4%), while volumes edged lower (-2%) in Asia Pacific amid cost concerns and lower availability in several key markets. Slowing occupancy losses in the U.S. and positive absorption in Europe and Asia Pacific in Q2 helped global net absorption reach its highest level since the start of 2022.

Global office gross leasing volumes, H1 2007 – H1 2024



23 markets in Europe; 50 markets in the U.S.; 22 markets in Asia Pacific
Source: JLL, July 2024

The global vacancy rate inched higher to 16.6%, rising by 10bps across all three regions. New completions in 2024 are set to fall slightly from last year to 15.2 million square meters before declining an additional 18% next year, as higher construction costs and limited financing slow the development pipeline. New groundbreakings have fallen to their lowest level on record in the U.S. over the last 12 months and supply will also slow in Europe going into 2025, although new deliveries will stay above historic averages in Asia Pacific. Overall vacancy is expected to continue rising, but as leasing activity gradually improves further and tenants focus on upgrading their portfolios, availability for in-demand space and locations is decreasing in many markets.

Logistics

Varied performance as fundamentals recalibrate

Industrial absorption across the globe was varied during the second quarter as volumes rose in EMEA and Asia Pacific following a slow start to the year, but stalled in North America. Vacancy rates across all three regions remain elevated, largely due to record-high deliveries over the previous 12 months. Rental growth is still positive but is beginning to plateau given steadily increasing supply and evolving market dynamics.

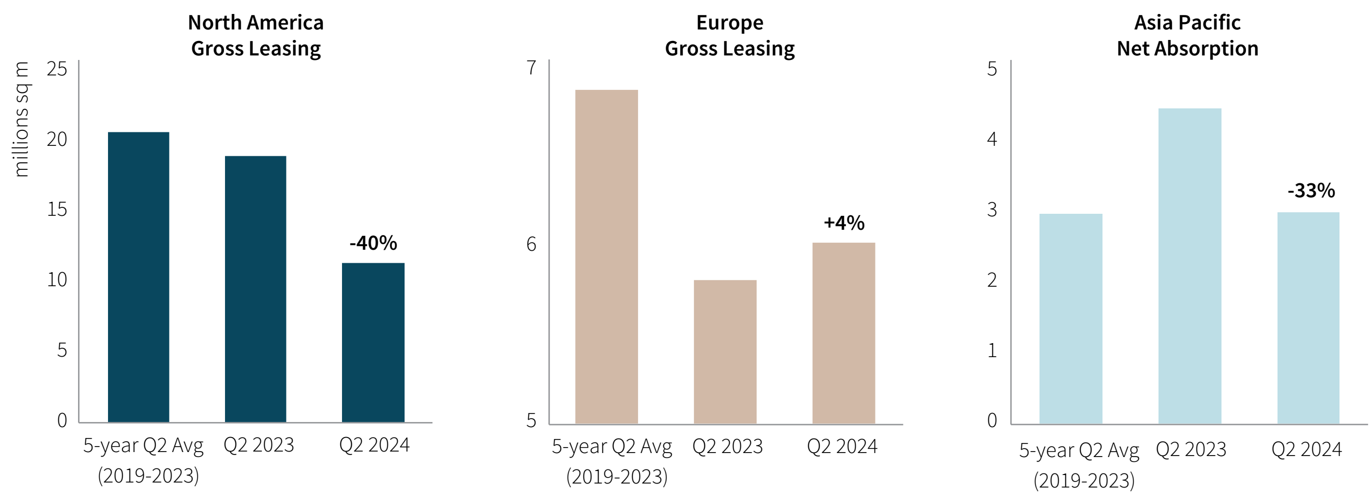
Occupiers are continuing to exercise caution when making leasing decisions. U.S. industrial absorption during Q2 was level with the previous quarter, bringing the year-to-date total to 54% below H1 2023. However, European leasing markets showed signs of slowly emerging from their lull during the second quarter, reflected in leasing volumes increasing by 12% over the quarter and by 4% year-over-year across the region. In Asia Pacific, quarterly net absorption rebounded, rising by 20% from a very slow start to the year. At 2.9 million square meters, Q2 absorption was on par with the five-year quarterly average, although it was still 33% below record 2023 levels.

Retail

Global retail leasing markets show resilience

Consumer demand across major markets globally is holding up despite retail spending growth softening from the above-average rates seen over the last two years. While conditions differ by market, retail spending in many mature retail markets is likely to pick up in the second half of 2024 and strengthen in 2025, driven by the return of rising real disposable incomes, international tourism and an anticipated increase in economic activity. With a limited supply of space in the best locations, prime rents are expected to gradually edge upwards in many markets over the remainder of the year before broadening further through 2025 in line with strengthening consumer demand.

Regional logistics demand, Q2 2023 – Q2 2024



North America: based on 55 city markets in the U.S. and 9 city markets in Canada; Europe: based on 13 national markets; Asia Pacific: based on 35 city markets.
Source: JLL, July 2024

Retail leasing markets remain active, although limited available supply is holding back demand in some locations. In the U.S., net absorption jumped 53% quarter-over-quarter in Q2, but declining deliveries and construction starts mean that the major challenge in coming months will be for retailers to find quality space in desirable locations. In Europe, leasing continued to rise in the quarter as retailers look beyond the current slowdown in spending. Activity is also expanding, albeit selectively, outside prime destinations with limited available space. Demand also remains healthy across most Asia Pacific markets, as increasing numbers of international visitors contribute to strong foot traffic in many prime urban areas.

Living

Larger deals drive continued living investment market recovery

Signs continue to build of a strengthening global living investment market. The U.S. saw the return of bigger-ticket transactions in Q2, while yield stabilization in Europe has also contributed to the return of larger deals. Overall investment volumes in the U.S. living sector were up 16% compared with the previous quarter, and EMEA living investment nearly doubled its Q1 figure. Asia Pacific investment was also up on the first quarter, albeit on much lower volumes compared to the other two regions. Living investment activity will continue to strengthen throughout 2024 as global markets stabilize and central banks implement modest rate cuts.

Overall, US$22 billion in U.S. multi-housing volumes closed in Q2, up from US$19 billion in Q1. Living alternatives in the U.S. are continuing to ride momentum as they offer additional income diversification from the broader rental multi-housing market. In Europe, living markets now account for the largest share of direct investment across the region, with investment volumes rising by 13% on the same period last year. In Asia Pacific, structural drivers continue to be stronger, although elevated global interest rates weighed on activity during the second quarter, which improved on the first quarter but was still 27% lower than the previous year.

Hotels & hospitality

Global hotel performance begins to normalize

Global hotel revenue per available room (RevPAR) stayed high through the first five months of 2024 at 13.2% above 2019 levels. Though performance remains robust, demand has begun to normalize in many markets as growth relative to 2019 has slipped over the past three months, driven by lower consumer savings, particularly across the United States.

While accelerating business travel and strengthening international demand have mitigated some of these declines, the Americas saw performance drop for the first time in nearly two years in Q2, with resort and leisure-heavy destinations experiencing the largest falls. In Asia Pacific the reopening of all borders in late 2023 has yet to spur as much travel as expected; YTD RevPAR is still sitting 11% below 2019, although performance is predicted to recover to pre-pandemic levels by year-end. Hotel demand in EMEA remains strong, with RevPAR growth outpacing all other regions. We expect European RevPAR to increase even further in the coming months, driven by the Paris Olympics which is anticipated to generate record demand for the city and surrounding markets.

To find out how we can support your global real estate market strategy with research insights and strategic advice, please contact one of the members of the global research team.

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