

GLOBAL TRENDS IN REAL ESTATE - OUTLOOK & IMPACT

API, Cape Town

September, 2024

 **JLL** SEE A BRIGHTER WAY



The next real estate cycle has already started

Macro

Interest rate trajectory is benign

- *The central bank narrative has shifted substantially in just 6 months.*
- *Interest rates will move a lot in next 12 months, but bond markets have priced much of it already.*
- *This will support a modest compression in real estate yields from 2025 in core markets*

1

Improving global growth outlook

- *Momentum building through 2024 into 2025 and 2026 as lower inflation supports a recovery in real income growth, and lower interest rates reduce the headwinds facing the economy.*
- *H2 2024 is the start of the new real estate cycle, though nuances remain*

2

Risk and uncertainty will remain elevated

- *Financial markets, geopolitics, domestic policy shifts, evolving future of work, and climate and AI disruption will create complexity for real estate strategies*

3

Capital will prioritise long term income over short term value

Capital

Investment momentum is returning **1**

- *The next cycle sees a gradual recovery in investment.*
- *Expect 10% growth YoY in 2024 and 2025*
- *The market will be smaller in the next cycle - c80% of the size of the previous cycle*
- *Emerging non-core sectors will increase in relevance*

No lack of capital **2**

- *Funds of scale and with higher-yielding strategies have the first-mover advantage*
- *Core capital will lag but come back in scale*
- *Deployment strategies will change: Direct vs. Indirect, Focus on operators and M&A*

Less leverage and less volatility **3**

- *Market is responding to much more stable bond markets but with higher financing costs.*
- *Forecasting is more certain with less revisions.*
- *Total returns driven by income over capital value growth*

Timing matters **4**

- *Window of opportunity for maximum returns is closing as market bottoms out and moves into recovery cycle.*
- *Market has re-priced but less distress than was anticipated 12 months ago.*

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Sector & Geo

Risk and opportunity in obsolescence

- *Office overall will likely continue to be challenged in western markets*
- *Lower asset values will drive mix of offensive and defensive strategies to reposition assets*

1

Supply shortages for in-demand assets

- *Demand concentration will persist for high-quality space for core property sectors*
- *Competition for buildable land keeps supply tight*

2

Free cash is king

- *With less of a kicker from CV growth, winners will be those who can manage leakage and optimize cash-on-cash returns*
- *Understanding CAPEX is an advantage*

3

The impact on Africa

Africa

Demand for long income

- *Capital looking for structural drivers that hold through the cycle.*
 - *Demographics*
 - *Undersupply*
 - *Income growth*

1

Portfolios will become more balanced

- *Allocations shift as geo and sector concentration risk comes back into focus.*
- *From “offices and retail” to “beds and sheds” to balanced portfolios.*
- *Infrastructure related allocations will grow*

2

Re-engagement in growth markets

- *Innovation economy and supply chain rebalancing will drive growth and demand into a new set of geographies*
- *Emerging economies could benefit from this disruption*

3

Thank you

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