GLOBAL CAPITAL MARKETS

Insights & Outlook

Global Capital Flows | September 2024

PAST 12 MONTHS CROSS-BORDER ANALYSIS

Investment volumes maintain a subdued trajectory in Q2, in line with 2023.

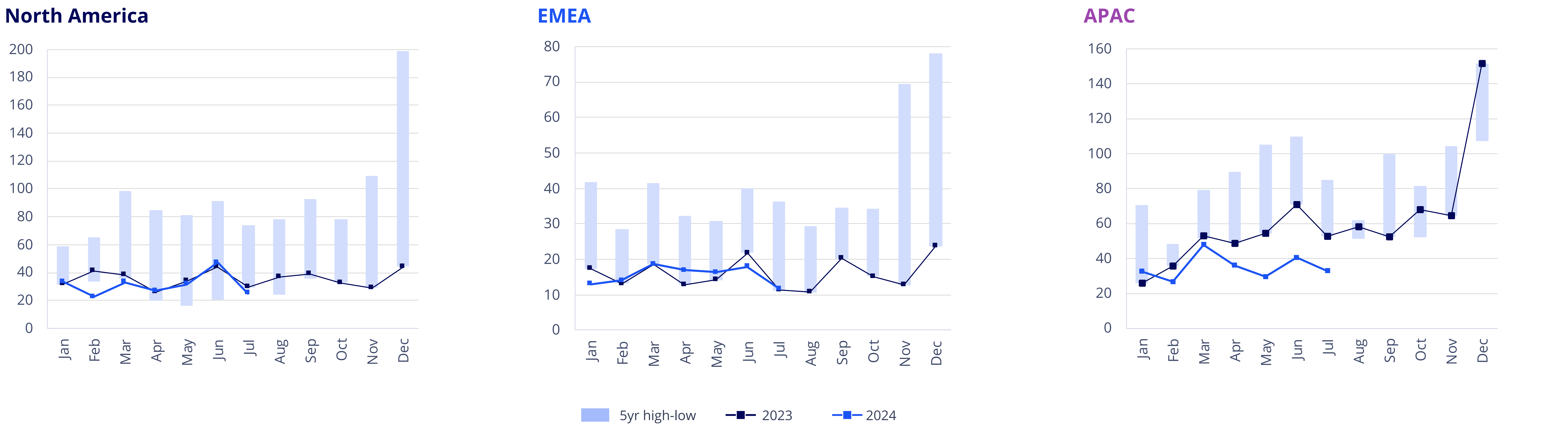
Investment volumes have stayed at the lower end of the five-year average through Q2 2024, as the market continues to stabilise. Despite greater certainty around rates and pricing, and expectations that capital values have largely bottomed-out, global deal flow for all asset types was 18% down on the same period (H1) in 2023.

As the charts below depict, there are clear regional differences. In North America, volumes are almost directly in line with activity recorded over the first half of 2023, particularly in Q2, hovering just above the five-year minimum. Overall, activity is only 7% down on the previous year.

The EMEA region depicts a very similar trend, with volumes nudging just above those of 2023 during Q2. Figures for July reflect the typical summer lull in activity, and year-on-year, volumes for the region are only 5% below those of 2023. A clear reflection of stability in the regional market.

In APAC, transaction volumes have declined throughout 2024. Despite Q1 activity matching the previous year, Q2 saw volumes drop 29% below 2023 levels and significantly below the five-year minimum, despite trending upwards in June. This is primarily due to a 30% decline in land/development site transactions across APAC, with sales in China falling 40% year-on-year.

Figure 1. Monthly Regional Investment Flows, US$ bn, All Sectors



Source: Colliers, MSCI Real Capital Analytics

EMEA remains the top destination for global capital targeting standing assets, with growing interest in the UK.

Figure 2. Top 10 Global Cross-Border Capital Destinations - Standing Assets: 12 Month Rolling, US$ mn

COUNTRY	CROSS-BORDER TOTAL	CROSS-BORDER GLOBAL	CROSS-BORDER REGIONAL	% OF TOTAL Q2 2024	5-YEAR AVERAGE
United Kingdom	20,618	15,259	5,359	▲ 17.4%	14.7%
United States	17,050	10,197	6,852	▼ 14.4%	16.8%
Germany	9,908	5,618	4,290	▼ 8.4%	10.9%
Japan	9,249	4,886	4,362	▲ 7.8%	5.6%
China	7,307	85	7,222	▲ 6.2%	5.0%
France	6,118	3,414	2,704	▼ 5.2%	5.7%
Spain	5,348	2,606	2,742	▲ 4.5%	3.8%
Australia	4,863	1,653	3,210	▼ 4.1%	4.8%
Canada	3,836	2,004	1,832	▲ 3.2%	1.8%
Netherlands	3,564	1,806	1,758	▼ 3.0%	4.7%

▲▼ *Higher/lower than 5-year average*

Source: Colliers, MSCI Real Capital Analytics

APAC dominates the market as a key location for land and development sites, with seven of the top ten markets.

Figure 3. Top 10 Global Cross-Border Capital Destinations - Land/Development Sites: 12 Month Rolling, US$ mn

	COUNTRY	CROSS-BORDER TOTAL	CROSS-BORDER GLOBAL	CROSS-BORDER REGIONAL	% OF TOTAL Q2 2024	5-YEAR AVERAGE
1.	China	36,480	70	36,410	▼ 77.0%	79.8%
2.	Singapore	1,929	0	1,929	▲ 4.1%	1.3%
3.	India	1,492	272	1,220	▲ 3.1%	1.3%
4.	United Kingdom	1,317	1,259	59	▲ 2.8%	2.0%
5.	Germany	1,231	775	456	▲ 2.6%	1.8%
6.	Australia	928	262	666	▲ 2.0%	1.7%
7.	Vietnam	912	0	912	▲ 1.9%	0.9%
8.	United States	638	372	266	— 1.3%	1.3%
9.	Malaysia	327	135	192	▲ 0.7%	0.6%
10.	Japan	273	148	125	▼ 0.6%	1.5%

▲▼ *Higher/lower than 5-year average* — *No change*

Source: Colliers, MSCI Real Capital Analytics

Inflation and interest rates are moving in the right direction.

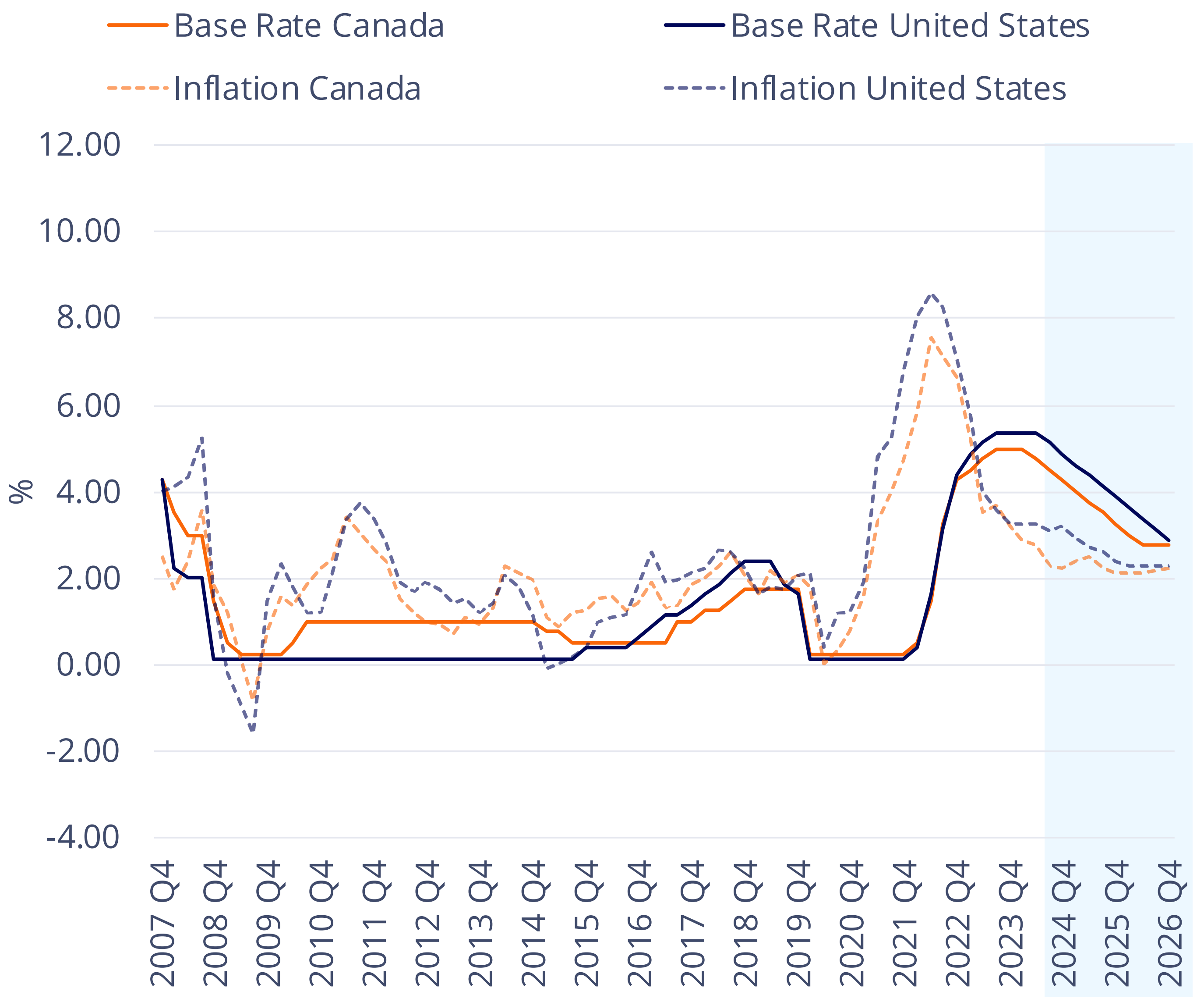
Shifts in interest rates and inflation remain the key drivers of market stability, and these core factors continue to improve. Headline inflation across all regions has fallen quarter-on-quarter, to a tighter 2-3.25% range. UK inflation saw the sharpest decline, almost halving to 2.2% by July. In Canada, the Eurozone, and APAC, inflation fell by about 50 basis points, bringing inflation more in-line with policy target rates.

U.S. inflation remains persistent at 2.9% (CPI) as of July and is expected to stay around this level through 2024 before easing in 2025. This led the Fed to signal that a 25bps rate cut is forthcoming in September, possibly 50bps depending on labour market conditions.

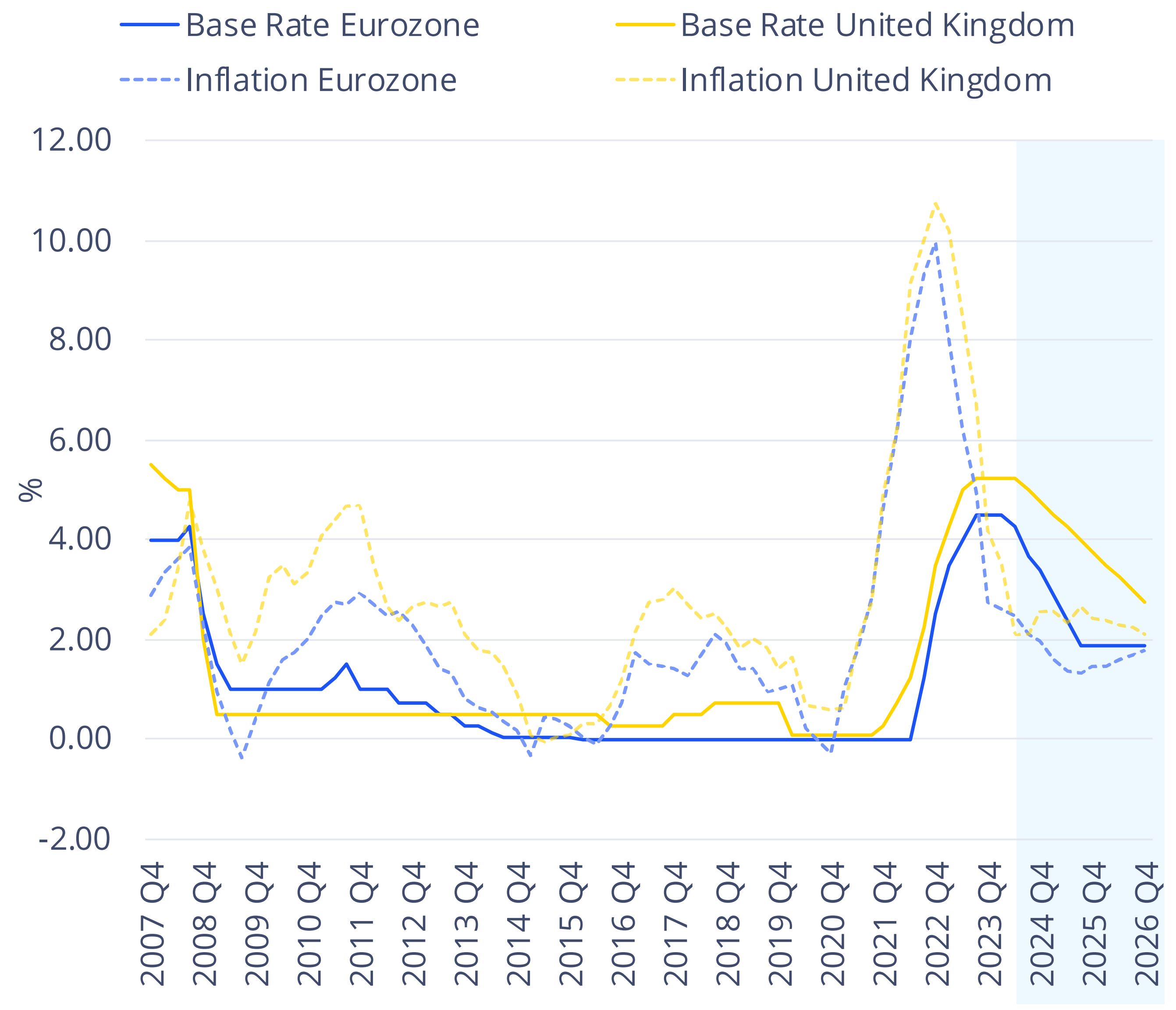
Unusually, the Fed has been behind other major central banks, not least in terms of timing, and we could see more aggressive interest rate cuts outside of the U.S. during 2024. The ECB is likely to cut rates by 25bps in September, with further cuts by year-end. Sharp declines in UK inflation prompted an earlier than expected cut in August, and an unexpected fall in services inflation in July could prompt the BoE to introduce more cuts by year-end.

Figure 4. Inflation and Interest Rates (as of August 2024)

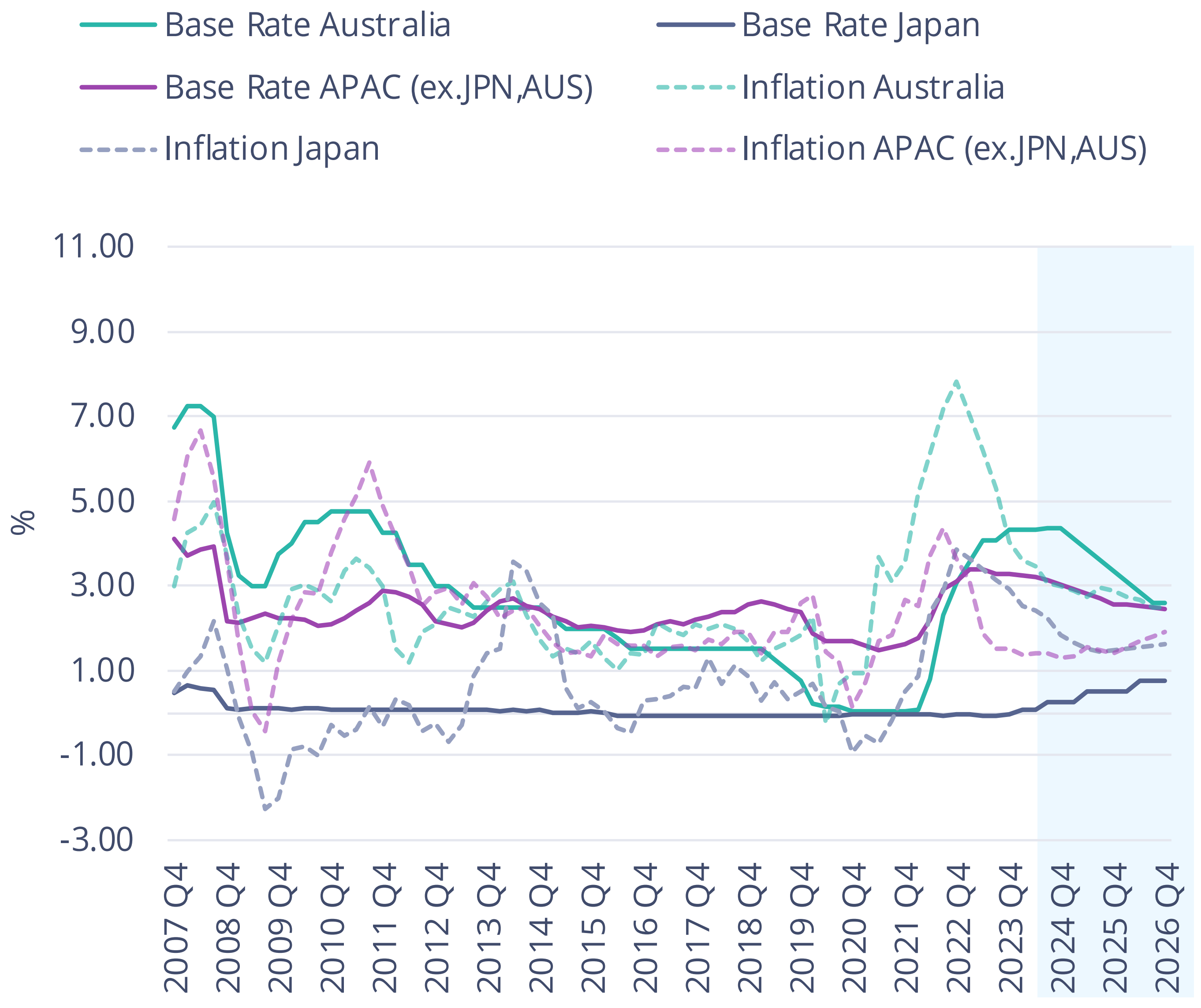
North America



EMEA



APAC



Source: Colliers, Oxford Economics

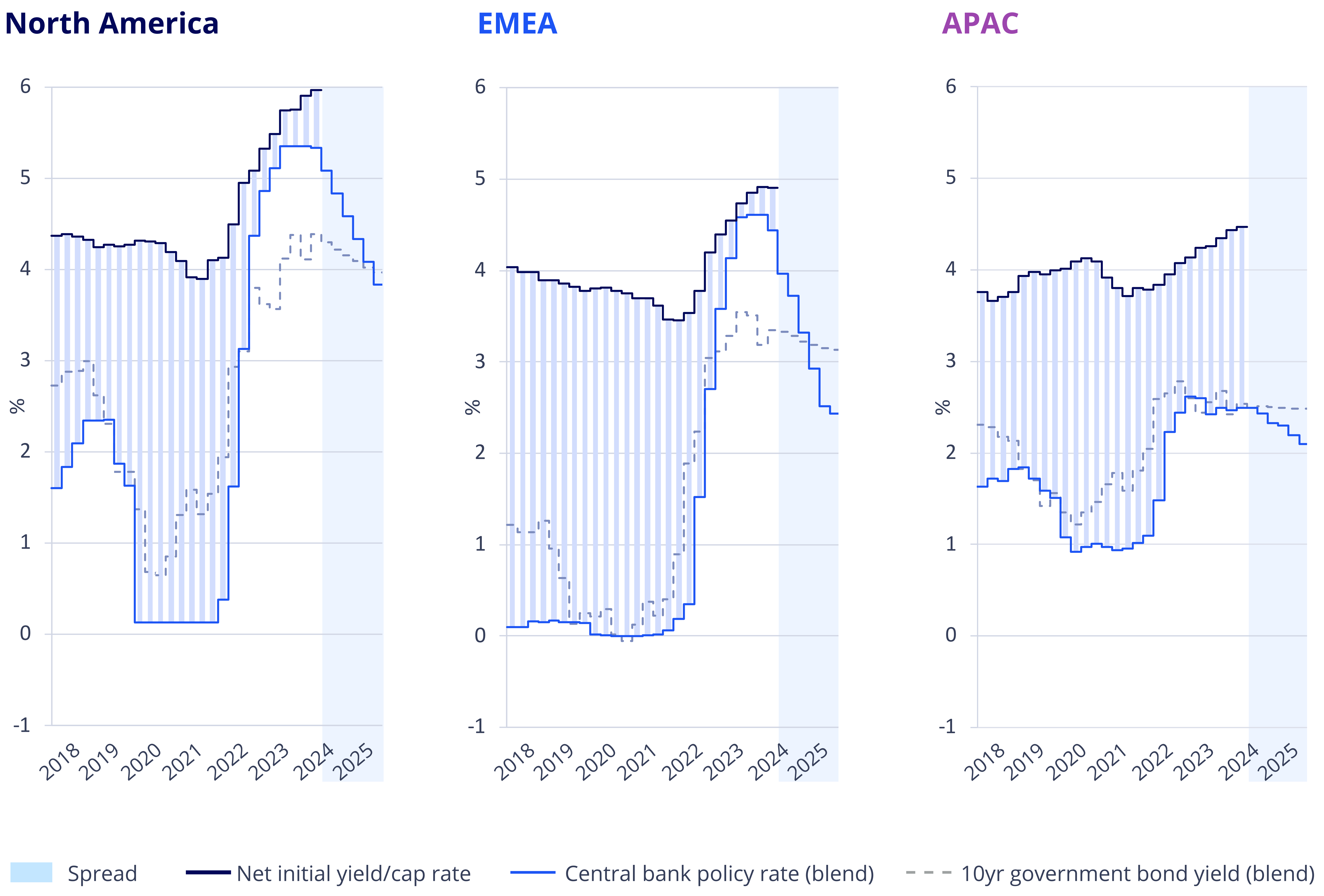
Spreads remain tight, but rate cuts will see spreads improve by the end 2024.

In APAC, Japan's central bank raised borrowing costs for the first time in 17 years, meaning no countries are left with negative interest rates. The BoJ key interest rate was lifted -0.1% to 0%-0.1% as core inflation rose to 2.6% year-on-year, from 2.2%. This prompted a rapid 12% appreciation in the Yen to the U.S. dollar, and a 12% drop in the Nikkei. Global stock markets reacted, with the Cboe Volatility Index (VIX) hitting its largest one-day spike ever.

We expect other moments of market volatility resulting from the normalisation of global interest rates, but the path to recovery remains on target.

Global rate cuts signal positivity for real estate markets. While 2024's market gains will be moderate, 2025 will see a much greater spread to yields emerge, opening up more of the market to buyers and vendors as valuations adjust.

Figure 5. Yield/Cap Rate Spreads, % (All Sector Average)

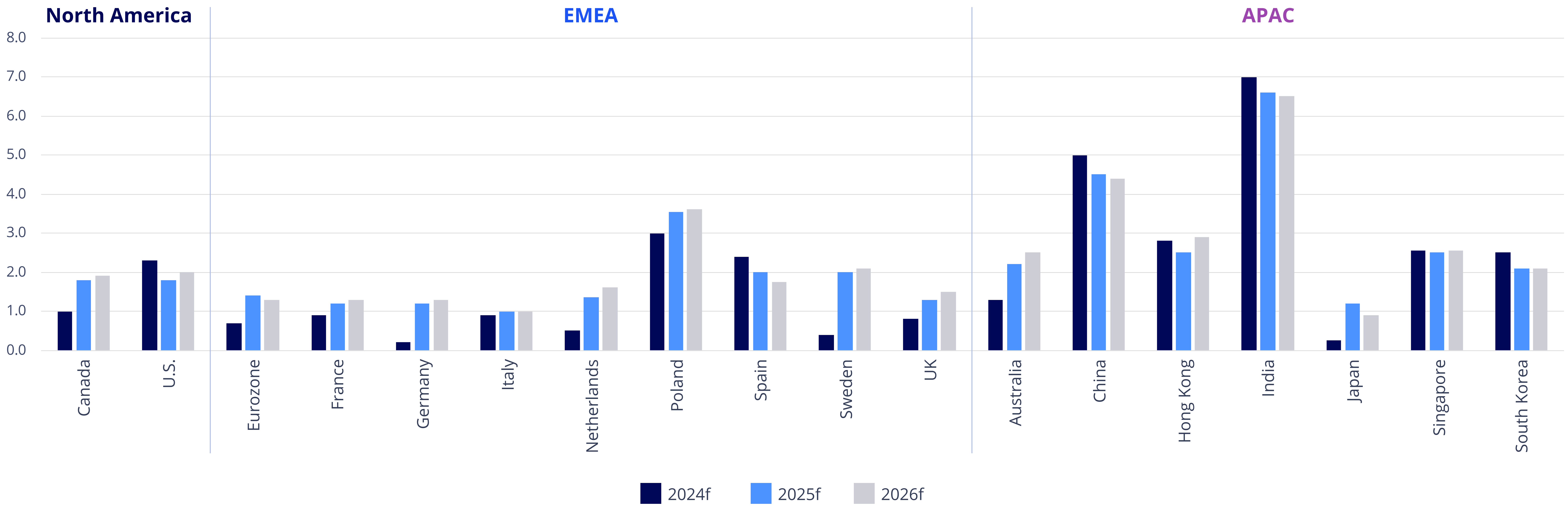


Source: Colliers, OxfordEconomics, Macrobond, Factset

Economic growth forecasts are moderate, but improving.

Yield/cap rate compression is unlikely over the remainder of 2024, bar in some active sectors and liquid locations. There should be instances of further compression in 2025. In part this will depend upon the probability of rental income, which is less prevalent given the moderate economic outlook. That said, most major global economies have put the idea of recession behind them, with GDP rates improving year-on-year. Importantly, GDP growth forecasts for developed economies show a general improvement in 2025 and again in 2026, no doubt supported by subsequent rate cuts. For major developing economies such as China and India, the growth picture remains very robust, but points to a gradual normalisation of GDP growth rates over the same period.

Figure 6. Real GDP Growth Forecast, % (2024-2026f)

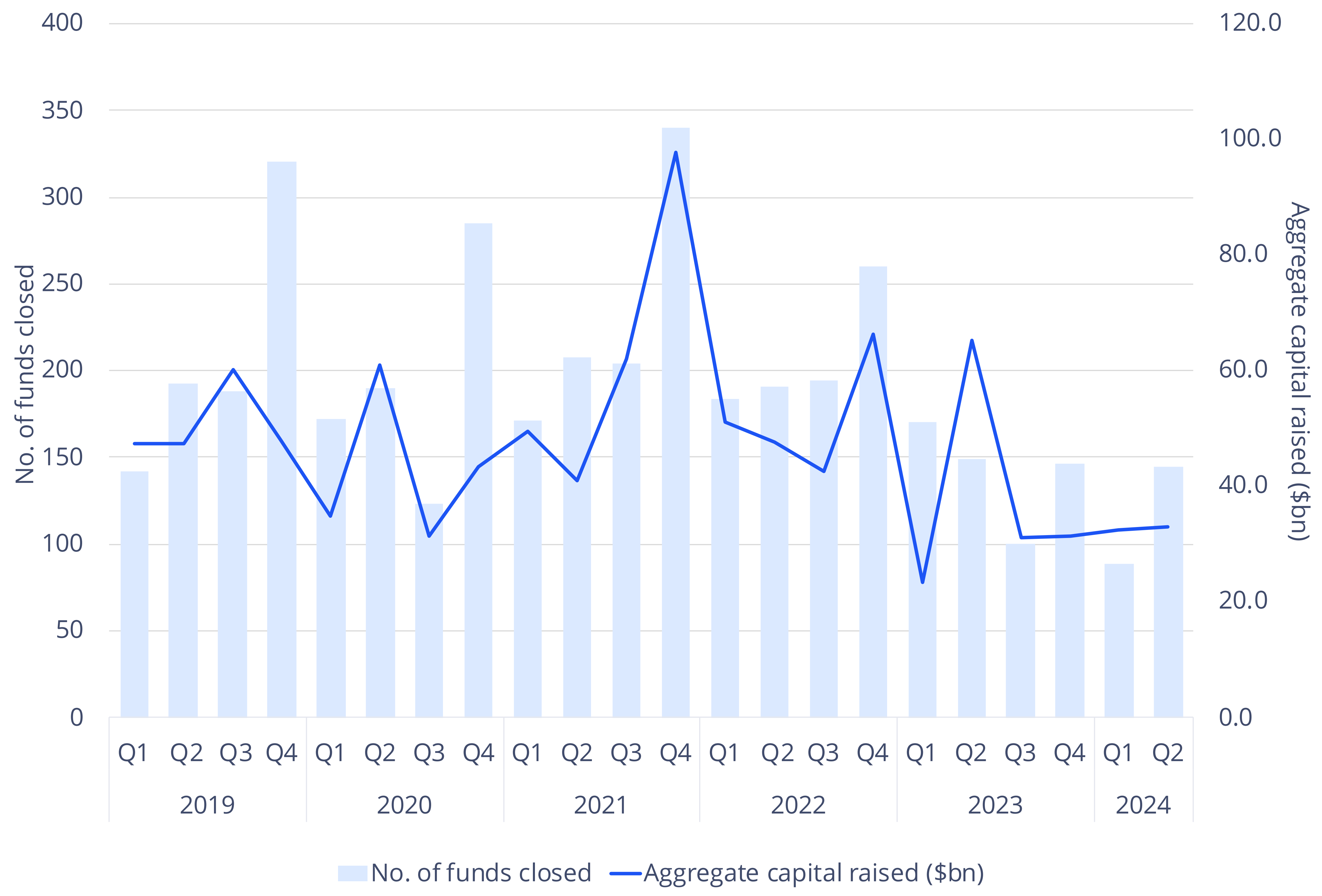


Source: Colliers, OxfordEconomics, Macrobond, Factset

Global CRE fundraising levelling off.

As real estate investment drivers improve, appetite is also rising. Global fundraising levels stabilised further in Q2 2024, as the number of fund closings and aggregate capital raised increased to a 12-month high. Figures from Preqin show that fundraising in Q2 increased by $0.6 billion to $33 billion in total.

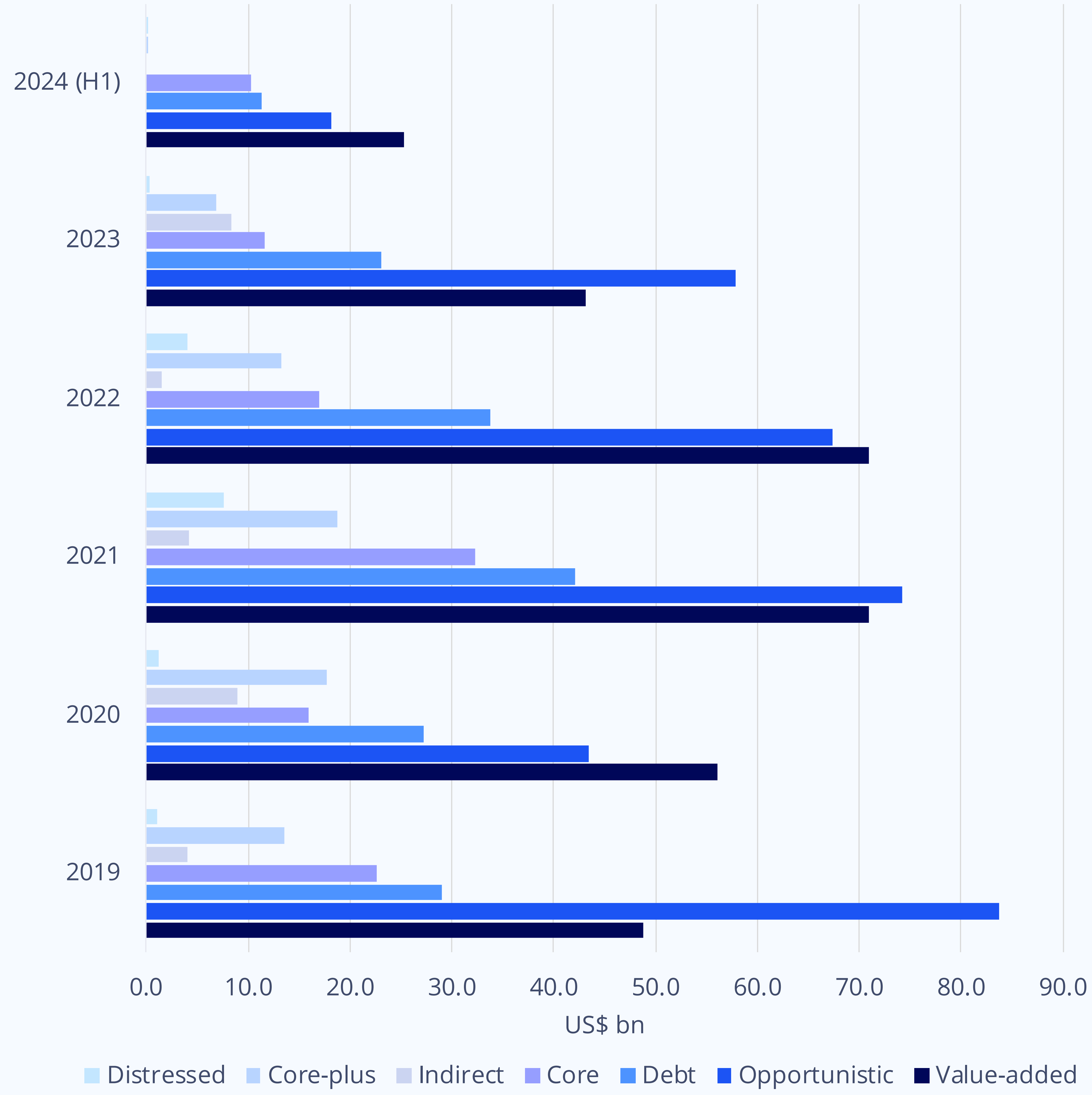
Figure 7. Global Quarterly Closed-End Private Real Estate Fundraising, Q1 2019 – Q2 2024



Source: Preqin Pro

While these levels remain low, the type/strategy of funds being raised point to investors calling the bottom of the market. Core and debt strategies accounted for 16% and 17% of fundraising, with core fundraising significantly above its 5-year average (10%), while interest in value-add and opportunistic funds declined.

Figure 8. Global Fundraising by Strategy, 2019 to H1 2024

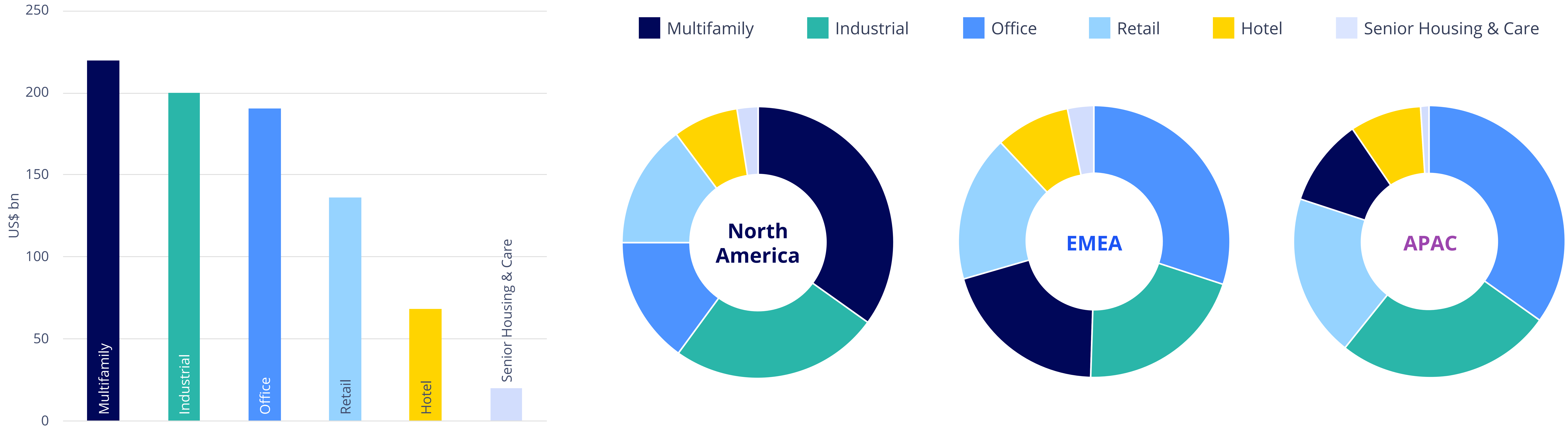


Source: Preqin Pro

Multifamily investment leads globally, but industrial and offices remain strong.

By sector, investors clearly remain in favour of beds and sheds ahead of more traditional office and retail commercial assets. Of global real estate funds raised in 2024, 42% has been raised for industrial focused funds, 30% for hotels and 19% for beds (based on the latest Preqin local fundraising data). This is relativity consistent with investment activity across global regions over the last 24 months, with multifamily and industrial the leading sectors for transactions. Strong hotel fundraising suggests a continued renaissance for this sector in particular, as real incomes improve and travel starts to surpass pre-Covid levels.

Figure 9. Global Investment by Sector, last 24 months



Source: Colliers, MSCI Real Capital Analytics

The U.S. continues to dominate and has expanded its reach relative to the five-year norm.

Figure 10. Top 10 Global Cross-Border Capital Sources: 12 Month Rolling, US$ mn

	COUNTRY	CROSS-BORDER TOTAL	CROSS-BORDER GLOBAL	CROSS-BORDER REGIONAL	% OF TOTAL Q2 2024	5-YEAR AVERAGE
1.	United States	32,623	30,204	2,418	▲ 27.6%	24.4%
2.	Singapore	11,019	3,898	7,121	▼ 9.3%	9.6%
3.	Canada	9,368	3,076	6,291	▼ 7.9%	10.6%
4.	Hong Kong	8,221	580	7,641	▲ 7.0%	4.5%
5.	United Kingdom	6,517	1,180	5,336	▼ 5.5%	6.8%
6.	France	5,565	1,244	4,321	▼ 4.7%	4.9%
7.	Germany	4,859	1,016	3,843	▼ 4.1%	8.2%
8.	Japan	4,533	2,449	2,084	▲ 3.8%	1.6%
9.	Switzerland	3,296	555	2,740	▼ 2.8%	3.4%
10.	China	3,161	451	2,710	▲ 2.7%	2.3%

▲▼ *Higher/lower than 5-year average*

Source: Colliers, MSCI Real Capital Analytics

Contacts

Global and Asia Pacific Leaders

Luke Dawson
Head of Global & EMEA
Capital Markets
+44 7821 636148
luke.dawson@colliers.com

Chris Pilgrim
Managing Director
Global Capital Markets, Asia Pacific
+65 8952 6064
chris.pilgrim@colliers.com

Lachlan MacGillivray
Managing Director
Retail Capital Markets, Asia Pacific
+61 413 053 919
lachlan.macgillivray@colliers.com

Country Leaders

John Marasco
Managing Director
Office Capital Markets, Australia
+61 412 211 033
john.marasco@colliers.com

Adam Woodward
Head of Office Capital Markets
Australia
+61 414 568 276
adam.woodward@colliers.com

Gavin Bishop
Managing Director I&L,
Head of I&L Capital Markets, Australia
+61 401 146 051
gavin.bishop@colliers.com

Robert Papaleo
National Director, Capital Markets
Residential, Australia
+61 418 327 574
robert.papaleo@colliers.com

Karen Wales
Head of Hotels
Transaction Services, Australia
+61 405 227 152
karen.wales@colliers.com

Jimmy Gu
Deputy Managing Director
Capital Markets, China
+86 138 1796 1312
jimmy.gu@colliers.com

Jason Yang
Deputy Managing Director
Capital Markets, China
+86 158 0096 0634
jason.yang@colliers.com

Thomas Chak
Executive Director
Capital Markets, Hong Kong
+852 2822 0593
thomas.chak@colliers.com

Stanley Wong
Senior Executive Director
Capital Markets, Hong Kong
+852 6012 1595
stanley.wong@colliers.com

Piyush Gupta
Managing Director
Capital Markets, India
+919820321806
piyush.gupta@colliers.com

Mike Broomell
Managing Director, Indonesia
+62 81 2103 0605
mike.broomell@colliers.com

Hisakazu Iso
Deputy Managing Director
Head of Capital Markets, Japan
+81 3 4572 1305
hisakazu.iso@colliers.com

Richard Kirke
International Sales Director
Capital Markets, New Zealand
+64 21 299 3120
richard.kirke@colliers.com

Julius Guevara
Senior Director
Capital Markets and Investment
Services, Philippines
+63 917 585 7540
julius.guevara@colliers.com

Bastiaan VB
Managing Director, Singapore
+65 9163 0494
bastiaan.vb@colliers.com

Sungwook Cho
Managing Director
Head of Capital Markets, South Korea
+82 2 6325 1904
sungwook.cho@colliers.com

Derek Huang
Deputy Managing Director
Capital Markets, Taiwan
+886 917 250 002
derek.huang@colliers.com

Tysen Kamin
Deputy Managing Director,
Capital Markets & Investment
Services, Thailand
+66 2 656 7000
tysen.kamin@colliers.com

Research Leads

Damian Harrington
Head of Research,
Global Capital Markets & EMEA
+44 7867 360489
damian.harrington@colliers.com

Joanne Henderson
National Director Research,
Australia
+61 2 9257 0286
joanne.henderson@colliers.com