Exploring the motivations of investors in real estate

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Introduction

Neil Slater
Global Head of Real Assets

Our investors are motivated to achieve a range of outcomes, with multiple factors influencing their decisions. From setting asset allocations, to navigating financial and economic market conditions, the considerations are infinite. Some of the big challenges have some degree of commonality and yet few investors can find a silver bullet to deliver their desired outcome in the long run. For many investors in real estate, their allocation is just part of a broader suite of investments that create an outcome that is greater than the sum of its parts.

Investors have a significant opportunity to fulfil a broad spectrum of objectives through real estate allocations. While rented buildings offer a simple capital and income return for those investing in the physical property, there are many other ways that investors can access returns derived from underlying properties.

In the following paper, there are three common factors that are influencing our clients' decision-making process. These are:

1. **Risk, reward and return dynamics.** This is the most important factor as the investor risk and return requirement ultimately has to be met for an allocation to deliver for the client. Real estate has the benefit of offering both capital and income returns. This key quality means it has a low correlation with both bonds and equities, and can offer the diversification benefits many investors are looking for. However, every access point to the asset class carries differing levels of risk exposure, and not every fund is a suitable solution.
2. **Scale.** Not all investors have the funds needed to accumulate their own diversified balanced portfolio. Others don't have the in-house expertise to source assets, develop them, and manage a strategy over time. They need to rely on specialist managers to do that. As a result, some vehicles will work better for some than for others.
3. **Market performance drivers.** The market matters – all of the contributors to this paper talked of the fundamentals underpinning the decision-making within their vehicles. Tenant demand; supply pipelines; liquidity; climate risk; environmental, social and governance (ESG) factors; and other regulations all influence performance and investors' appetite. Without understanding what is driving fundamental real estate risk and returns, investor motivations will not be met.

Of these three factors, risk appetite is the aspect that dictates the route into real estate for many investors. Long-term investments or liability-matching capital with a low risk appetite might prefer direct, long-income funds. They may also prefer credit funds with lower volatility characteristics but with less liquidity. Those with higher risk appetites or greater liquidity needs could find more appropriate opportunities in the indirect parts of the real estate universe.

In this paper, we have asked our teams to consider market conditions and what drives their clients to invest in their vehicles. There are several key options for investors covered by this paper and by the abrdn real estate business.

- **Direct funds or segregated accounts** offer institutional investors long-term options across different geographies, sectors or risk profiles, but with generally lower levels of liquidity.
- **Listed real estate funds** offer investors more liquidity but more volatile performance. They are correlated more closely with equity markets in the short term, but with the performance of directly held assets over the long term.
- **Closed-ended, listed, real estate trusts** (mainly real estate investment trusts (REITs)) offer investors direct access to underlying portfolios of assets (balanced or specialist) and asset management expertise.
- **Multi-manager vehicles** provide investors with access to underlying real estate returns, but with the ability to trade in and out of funds at the unit price, which moves independently to underlying valuations.
- **Commercial real estate debt** is increasingly offered by non-bank lenders. This offers investors another way to gain exposure to real estate assets, but with a more predictable cashflow and a diversified source of risk.

Direct, non-listed, real estate funds and segregated accounts

Veronica Gallo Alvarez
Head of Core European Funds

- Typical investors: institutions, private investors, wealth managers and international capital.
- Investible universe size: $11 trillion.
- The purest form of real estate investing, with direct access to the underlying asset performance.
- Range of risk strategies available, from long-income funds to opportunistic vehicles.
- Physical assets carry obsolescence risk because of major structural change, but there are also opportunities.

Direct real estate allows institutions, pension funds, insurers and private investors to access long-term consistent cashflows from rental agreements with tenants. Asset values can also appreciate over time with active management, and increase or decrease through market forces. The markets move much more slowly than equities, as valuations are carried out on a monthly, quarterly or annual basis. This has a smoothing effect on returns. Direct real estate sits between bonds and equities in terms of risk, offering both income and growth characteristics, and a range of risk-and-reward styles to suit investors' objectives. Liquidity can vary depending on the fund structure, the depth of the investment market, and because of the real estate cycle. Direct investments are most suited to long-term investors.

As we know, 'past performance is not a guide to future results' and the drivers of real estate are changing faster than ever. The pandemic accelerated technological, regulatory and behavioural change at an unprecedented speed. This is a huge moment for physical assets as they are not easily or cheaply adapted to become future-fit.

Direct real estate funds need to move with the times. People are increasingly opting for rental housing, and workers want offices that are collaborative spaces and full of amenities. Families and companies are consuming differently now, which is resulting in new chains of distribution. Standing still in a world of change is not possible.

The asset class faces challenges on the pathway to becoming sustainable and future-fit too. ESG is increasingly the number one factor in deriving both risk and reward (brown discounts and green premiums are increasingly evident) for direct real estate. New legislation, such as the Sustainable Finance Disclosure Regulation (SFDR) around minimum energy performance certificates (EPCs) and the potential new EU Energy Performance of Buildings Directive, will accelerate the need for landlords to decarbonise and meet net-zero targets.

We believe these challenges are also an opportunity to create value for our clients in different ways: repositioning the portfolios to be ready to capture future growth and focusing on structural themes that will provide resilience in the long term. This includes investing to create future-fit real estate, or investing in opportunities generated by tenants' requirements and the lack of development financing.

So how are investors reacting to this? We have noticed a clear shift in investors' appetite towards thematic and specialist investment strategies (such as residential or living strategies; logistics; and risk strategies, such as value-add offices). We also see our clients becoming more sophisticated from a risk perspective, often choosing to allocate a proportion of their capital across the risk spectrum (including long-income funds) and to specialist strategies. Long-income funds offer a lower level of volatility and a more stable cashflow. This can be appealing for insurance clients, in particular, given Solvency II capital requirements (SCR). You can read more about this **here**. Others are seeking more interesting opportunities with higher risk-and-return profiles.

International investors often look at direct property investments and funds to add diversification to their existing domestic portfolios. Some are looking at long-term fund allocations and others are more tactical in their approach, taking advantage of mispricing across global markets. From a tactical perspective, cross-border investors can be motivated by relative value from different cycles, currency effects, the cost of debt from one country to the next, and the overall return potential from individual assets or from funds. Many of our clients are interested in scale and opportunities to 'step-in' to debt or equity shortfall situations alongside other investors, if the return potential and entry price are attractive enough. Many look to engage with overseas managers with local presence, access to pools of co-investment, scale, in-house expertise and a pipeline of opportunities, as this is not necessarily cost effective for them to establish themselves. Transaction fees, structuring costs and tax are more important factors for many of these investors, given the complexity of investing internationally – although these factors can be overcome with the right expertise.

abrdn offers a suite of multi-sector portfolios across the UK and Europe, providing different risk profiles to our clients. We offer counter-cyclical, long-income strategies; core portfolios that provide resilient and moderate returns; core-plus portfolios that seek to extract higher returns through active asset management; value-add strategies that focus on creating value from higher risk assets; and sector-specific investments. All our strategies are research-driven, following a thorough investment process. There is a particular focus on ESG and structural themes, which we believe are increasingly important motivations for our investor base too.

Private-market vehicles

Nic Baddeley
Investment Manager,
Private Markets

- Low correlations with other private- and public-market assets.
- Real estate provides access to thematics and long-term drivers of growth.
- Predictable real estate cashflows can be used to balance other risk positions in the portfolio.

As a multi-asset private-market portfolio manager, real estate as an asset class is attractive for three main reasons. Firstly, it has a low correlation with other asset classes, both public and private. Secondly, it can clearly be linked to one of our three key drivers of long-term growth. Finally, core real estate assets can have broadly predictable cashflow profiles, allowing us to service future capital calls from our other investments.

To expand on the first point, both the value-add and opportunistic real estate segments have a low historic correlation with the other asset classes in our portfolios, in both the public and private universes.[1] Most interestingly, real estate has a low correlation with other 'real asset' classes, namely infrastructure and natural resources, despite having similar inflation protection characteristics. This means an allocation to real estate in our portfolio can have a diversifying effect, which improves the overall risk/return profile.

Secondly, real estate can be linked to one of our three key drivers of long-term growth. These are three trends, not linked to business and economic cycles, that we expect to drive long-term investment performance. By aligning our investments to these trends, we will benefit over the seven-year period our funds aim to outperform over. The three trends are technological disruption, sustainability, and demographic shifts. While technological disruption and sustainability can be linked to real estate (e.g. data centres to support the shift to cloud computing, and sustainability-aware building practices), it is demographic shifts where we see the largest potential. This megatrend manifests itself in an ageing Western population, a rising Asian middle-class, and increased urbanisation globally. This means increased demand for assisted-living assets in the West, logistics warehouses to support ecommerce spending in Asia, and fringe central business district (CBD) properties globally, which are accessible to real estate investors.

Finally, we have made commitments in our portfolios to investments in other assets classes, through primary fund investments in private equity, venture capital, and private credit. A real estate investment that pays a regular predictable yield is vital in our portfolios. We can gain from capital growth from the asset, but also know that cash will be coming back at regular intervals, which we can use to service future capital calls from other asset classes.

[1] Source: abrdn, Preqin, Bloomberg, period from December 2000 to December 2021.

Listed real estate and REIT funds

Valerie Jacob
Fund Manager,
Indirect Real Assets

- Typical investors: institutions, private investors, wealth managers and international capital.
- Total global REIT market cap: $1.9 trillion (according to FTSE EPRA NAREIT, February 2023).
- Long-term link to real estate performance but short-term volatility is higher.
- Overshoots the direct market peaks and troughs, creating opportunities through mispricing.
- Opportunity to rebalance portfolios to capture thematic trends as they emerge.

Funds investing in listed real estate property companies (often REITs) offer investors a more liquid, but more volatile option to direct real estate. Data shows that the correlation between direct real estate returns and listed real estate market performance is very weak on a short-term basis (the short-term correlation with equities is stronger). The relationship strengthens over longer durations, though, given the importance of real estate fundamentals in driving REIT performance. The listed market provides a fairly accurate guide to turning points in the direct market, with a six- to nine-month lag.

The current market uncertainty and significant dispersion in performance are creating a wealth of opportunities for active listed real estate investors. There are three key reasons why we believe 2023 will be a stronger year for funds investing in listed real estate.

Firstly, current expectations of a Federal Reserve (Fed) 'pivot' in 2023 bode well for the listed sector's performance in 2023. Secondly, history shows that listed real estate tends to perform well following the end of a rate-hiking cycle. Thirdly, REIT values have adjusted ahead of the direct real estate market and stocks are now trading at large discounts to spot net asset values (NAVs). Our estimates suggest that valuations for the pan-European real estate sector already reflect an average 20% drop in asset values. This is above what we expect to be reported by companies as the listed sector tends to exaggerate direct valuation moves on the way up and on the way down. The listed pan-European listed sector currently offers an attractive entry point for long-term investors.

But not all REITs are equal and opportunities vary significantly by region, sub-sector and company. In the short term, vulnerable balance sheets remain the number one risk in the listed real estate sector. Declining asset values will push up loan-to-value (LTV) ratios. This will force some companies to cut dividends, dispose of assets – possibly at a discount to their current valuation – or even raise new equity to avoid breaching their debt covenants. We have seen some examples of this balance-sheet remediation and it is likely to accelerate in 2023.

These events create volatility but also opportunities. Debt refinancing will also result in higher interest rates and will affect cashflow growth. Companies that cannot capture inflation in their rental income – either through indexation, reversion or market growth – will be particularly sensitive to changes in cashflows. On the positive side, we expect companies with strong balance sheets to take advantage of weaker prices for direct assets and invest to enhance their returns.

Structural market disruptors, such as demographic change, ecommerce, onshoring, and sustainability are expected to further polarise sector performance. REITs exposed to the right assets will be able to benefit from increased demand, income growth and rising asset values.

These structural trends and the pricing backdrop offer exciting new opportunities for active thematic investors. Although passive investments (such as benchmark trackers with low management fees) have been popular in recent years, the drivers of performance have shifted so significantly in real estate that investors should think twice about accepting index performance. Active investing across themes can target growth areas and help investors to avoid the downside risks in many listed property companies.

Indirect real estate, multi-manager funds

Mark Wilkins
Head of Real Estate
Multi-Manager

- Typical investors: institutions, private investors, wealth managers and international capital.
- Multi-managers provide efficient exposure to global real estate and with greater liquidity than direct investments.
- Opportunity to invest at a greater discount and at higher investment yields than before.
- Greater volumes of secondaries are anticipated in the early part of 2023.

Multi-managers offer investors diversified exposure to real estate by providing access to closed-ended, real estate funds. This allows investors the opportunity to gain exposure to both specialist sectors and managers, with a smaller equity exposure than would typically be required directly. Units of these funds are traded on the secondaries market and often at a discount to NAV, with unit prices moving independently to underlying asset valuations.

Against the current context of falling real estate capital values, existing portfolios are likely to experience poor performance in the short term. As a result, we would expect to see an increase in volumes throughout the early part of 2023.

However, this scenario will provide unique opportunities, particularly for funds that have recently launched, or are in the process of launching. These funds should be able to target investments at a greater discount and higher income yield than have historically been available. They should also be well-positioned to benefit from a future recovery in real estate pricing.

As a result, we expect to see some exciting investment prospects, particularly for funds targeting stressed and distressed situations. This is borne out by the number of fund launches we are seeing across several developed markets globally. These vehicles are likely to target debt and equity investment, with a focus on good-quality real estate. There is an increased focus on those sectors that are supported by structural and demographic growth drivers (such as senior living, residential, data centres and the specialist industrial/logistic sectors). Operational real estate continues to come into greater investor focus and we expect demand for these sectors to increase in the year ahead.

Traditionally, the sector has been monopolised by institutional investors, and wholesale clients have been unable to readily access private real estate markets. But this appears to be changing. The wholesale market is diversifying into global real estate in search of attractive returns, predictable incomes and the low correlation.

In light of this, all major opportunistic global managers (including Blackstone, Brookfield and Fortress) are focused on raising equity from wholesale investors, and particularly clients of wealth managers and private banks. They are trying to gain access to what is likely to be an exciting short-term opportunity, as discounts adjust once real estate capital values feed through to fund NAVs.

Real estate multi-managers often screen hundreds of investment opportunities across the globe each year and provide investors with the opportunity to access not only fund investments, but also co-investments, clubs and secondaries. This provides greater scope for real estate investors.

Closed-ended, listed, multi-sector strategies

Jason Baggaley
Deputy Head of Real Estate Value-Add Funds

- Typical investors: institutions, private investors, wealth managers and international capital.
- Efficient route into active asset management of large assets, specialist skills and portfolio construction.
- Share price movement can overshoot underlying asset values, which creates opportunities.
- Best prospects are in logistics and living sectors, and more vehicles will be allocating outside traditional commercial sectors.

Diversified REITs can offer investors the ability to gain a broad exposure to real estate, without the high cost and low liquidity that investment in direct real estate demands. As the name suggests, these professionally managed funds have provided a diversified exposure to more traditional real estate sectors. But as the real estate market changes, funds have been targeting greater weightings in alternative and operational sectors of the market.

While performance can be more volatile than direct investments (because of share price movements), investors are often motivated by the distribution yields. REIT legislation requires funds to distribute at least 90% of the net rental income to investors. This can be appealing for private investors and wealth managers who are looking for cash returns for their clients.

Given negative news and falling real estate capital values in the second half of 2022, it is not surprising that many retail investors were not actively investing and that fund flows were negative. What has been remarkable, though, is the speed of correction in the UK commercial property market. Global real estate has re-rated to reflect increased gilt yields and higher interest rates. Even though the interest-rate cycle might be reaching its peak, further price corrections are expected in the first half of 2023.

The greatest movement in values has been within the logistics sector, but we expect prices to stabilise during the first quarter of 2023. Offices have further to fall over the course of 2023 as structural pressures weigh on the sector. Retail has historically been negatively affected during a recession so caution is required in this sector, despite the high yields.

Despite the obvious challenges, there are some positive signs and attractive opportunities. Two sectors stand out: living and logistics.

A positive supply/demand dynamic remains in the logistics sector. Supply is likely to remain restricted in the medium term, given limited development and the advent of 'onshoring' in response to disrupted supply chains. Rental value growth remains likely, particularly for good-quality accommodation. And the rapid repricing of logistics assets should allow this sector to perform well over the next three years.

Within the UK, many cities have a shortage of purpose-built student accommodation (PBSA) and demographic trends suggest growing demand for university places over the next few years. Similarly, good-quality private rented accommodation is in short supply and there is an increasing number of people trying to rent. This may be in response to a desire for greater flexibility or because they simply cannot afford to buy – an issue currently exacerbated by the cost-of-living crisis.

As the economic environment has weakened, there have been significant discounts to NAVs in the real estate investment company sector, which have often outpaced direct real estate capital value declines. As a result, the unique opportunity to invest in the real estate sector, at wide discounts and at higher yields than were previously possible, is likely to attract retail investors in 2023. While this relates to the current market cycle, it clearly highlights one of the key motivations for our investors – timing.

Closed-ended, listed, specialist strategies (logistics)

Phil Redding
Fund Manager, Tritax

- Typical investors: institutions, private investors, wealth managers and international capital.
- Investors benefit from specialist management expertise, large opportunities and high-quality portfolios.
- Modern logistics buildings offer strong ESG credentials and benefit from structural demand trends.
- Liquidity, diversification, scale and price transparency are the key motivations for investors in listed logistics funds.

There are a number of reasons why investors target logistics. Some are attracted to the resilient income that larger-scale logistics offers, which comes from long-dated leases to large and robust customers. Others are seeking the associated value growth that comes from owning assets that are in short supply. For a growing number of investors, modern logistics assets are some of the strongest assets to own in terms of ESG credentials. Investors in logistics are achieving exposure to a real asset that has strong and enduring structural support.

We all recognise that the way we live, work and consume is changing – and logistics is at the heart of this change. When you factor in increasing geo-political uncertainty, supply chains must also become more flexible and resilient. Again, this increases the long-term demand for logistics space.

Owning logistics assets through listed funds that are run by a specialist manager provides the additional benefits of liquidity, diversification, scale and price transparency. This enables investors to carefully manage their exposure, by easily and cost-effectively reweighting their holding as required. Investors can also benefit from the associated cost-efficiency that is inherent to a well-run listed vehicle that specialises in such assets. Tritax's competitive advantage comes from our reputation and our relationships within the logistics property market.

The occupational market for logistics is in good health, with demand outstripping supply in most places. This is because companies are making long-term decisions around their supply chains, given the importance to their businesses. The need for companies to optimise, reinforce, and de-risk their supply chains to boost productivity and to ensure efficiency and resilience remains a key driver of demand.

This has resulted in higher levels of take-up, strong market fundamentals and healthy rental growth. Market fundamentals will not be immune to the weakening macro-economic backdrop in the future. But coming from a position of exceptional strength, and supported by long-term structural trends, we believe they will remain healthy by historic standards and attractive to investors.

Living real estate sectors

Marc Pamin
Head of Residential Real Estate

- Typical investors: institutions, private investors, wealth managers and international capital.
- Long-term cashflows, with diversified demand drivers compared with commercial sectors.
- Invests in the private rented sector, shorter-term lets, senior living, student accommodation, and co-living .
- Regulation is changing, so underwriting cashflows accurately is crucial.

Investible 'living' real estate sectors have developed at an extraordinary pace in Europe in recent years. Private rented residential (PRS) and build-to-rent (BtR) are only two aspects of a much bigger story. The private rented cornerstone of the market is joined by purpose-built student accommodation (PBSA), serviced apartments and various forms of co-living. The key thing is that the sector offers something for all investors across the risk spectrum. Some investments provide risk exposure to underlying leasing conditions, while some operational forms of residential involve long-term, index-linked rental contracts with operators.

Most European countries are seeing a gradual increase in bespoke multi-family accommodation, as it evolves to become an important component of housing supply. But other than Germany, the Netherlands, parts of the Nordics, and Switzerland, most countries are still at an early phase of the rented housing market evolution.

Institutional investors are a growing part of the residential investment market, as the required portfolio scale becomes more obtainable. In Europe, residential real estate has moved from a 0% allocation in the INREV European funds ODCE index in 2018 to 15% in 2022. This shows that it is not just specialist investors who are targeting this space – residential is now seen as a major component of the investible market for balanced funds too.

The global megatrend of urbanisation was significantly tested during the pandemic. Since the vaccine roll-out and the removal of restrictions, people have flooded back to urban areas to live, work and play. With comparably high interest rates, particularly for development financing, the demand/supply imbalance of rental stock continues to widen. Forecasts suggest even fewer homes will be developed.

This can only mean two things for residential. Firstly, the tenant churn in assets will fall. This means that households will stay in their apartments, given the lack of alternatives or because they are protected by partial rent control. Secondly, rents will increase in the free-market segment and in areas with constrained supply. This will encourage even more capital into the sector and showcase that investing in residential can offer low volatility and resilience. Rent regulation is an ongoing factor, but we believe that if properly implemented, it will support the long-term sustainability of cashflows from the sector.

For PBSA, senior living and co-living, the demographic changes in Europe's population will also play a big role in the outperformance of these segments. There is simply not enough suitable space for an ageing population in Europe. After a financial or economic crisis, student enrolment in universities typically increases too. In a sector that already has a huge imbalance of demand over supply, universities are turning students away because of the lack of housing.

The modern and efficient buildings behind the living universe offer great opportunities for investors. They can access long-term, index-linked cashflows with strong diversification benefits, when compared with commercial real estate. Demographic shifts and urbanisation trends can offer returns in a stable and resilient asset class.

Commercial real estate debt

Neil Odom-Haslet
Head of Commercial Real Estate Lending

- Typical investors: institutions, private investors, wealth managers and international capital.
- Consistent, quarterly cashflows.
- Diversifies risk, yet backed by underlying real estate assets.
- Appealing yields, relative to other fixed-income assets, especially in the wake of re-pricing in real estate.

Commercial real estate debt funds allow investors to buy into consistent cashflows from interest paid on loans that are secured against commercial real estate assets. The cashflows are not influenced by changing real estate market conditions in the same way that rental payments can be for direct real estate investments. Instead, the risk underwriting is based on the quality and nature of the underlying asset, the tenants, and the creditworthiness of the borrower.

The current market environment is creating an increasingly attractive opportunity for commercial real estate debt across senior and mezzanine strategies. Against a backdrop of a steep decline in capital values in the second half of 2022 and a material increase in interest rates, this will lead to distress across loan portfolios – particularly for refinancing in 2023 and into 2024.

Faced with this sharp decline in capital values and significant increases in interest rates, traditional bank lenders are now focusing their time and capital on refinancing existing loans and repairing their balance sheets. As a result, there is a weaker appetite for new lending opportunities. This lower level of competition (bank lenders still account for 60% of the UK lending market) has already led to a reduction in LTV ratios and an increase in loan margins. LTV ratios have reduced from approximately 60% to 50%, while pricing has increased by 15 to 25 basis points (bps) for the best-in-class deals, and significantly (75 to 150 bps) thereafter.[2]

Non-bank lenders, with no portfolio distress and with capital to lend (such as abrdn), will be able to capitalise on the lower levels of competition to secure attractive deals, which can offer a compelling risk-adjusted return. This diversity of capital sources is now an established feature of the lending market in the UK. It should ensure that capital is available to support real estate acquisitions in almost all market environments, albeit at a price.

From the non-bank lenders' perspective, lending at lower leverage levels against an asset that has already reduced significantly in value presents an attractive opportunity from a risk perspective. Increased margins and significantly higher base rates combine to deliver a level of total return that is significantly higher than long-term averages.

Investors are increasingly attracted to the asset as it offers diversification from traditional fixed-income products. It is defensive, asset-backed and provides quarterly coupons. Given these factors, we currently see strong interest from investors in strategies targeting investment-grade senior loans in the UK.

[2] Source: Bayes Business School H1 2022 report.

The perspective from Asia

Paul Lee
Head of Direct Real Estate, Asia Pacific and Korea

- Where there is risk there is opportunity – strategies to match prospects across the region.
- A deep investment market, supported by institutional capital, REITs and private investors.
- Top picks: Seoul and Singapore offices, long-term logistics, and mature Japanese residential.

The broad range of economic development in the Asia-Pacific region provides investors with multiple opportunities to invest across the risk spectrum, and to gain exposure to broad thematic growth. From the emerging markets of India and South-East Asia to the core markets of Australia, Japan and South Korea, investors have options to meet all risk budgets and to access important investment themes.

The Asian market is reacting to shifting policy and economic conditions, and investors have a wealth of opportunities to explore across the region. We believe there are particularly interesting opportunities emerging in South Korea, Japan, Singapore and Australia.

South Korea is a relatively mature market for institutions and private investors. The depth of the market means it is finding a way through the recent shortfalls in debt and equity in the market. Values have started adjusting in the wake of the higher rate environment. This has opened up very unusual short-term opportunities in debt markets with high borrowing costs. The Seoul office market is the most liquid and mature sub-market in South Korea, which also carries supportive underlying market conditions: low supply, strong occupier demand, and limited new supply. Pricing is correcting and quality assets are slowly appearing in the market at a discount.

As for Japan, the story for investors continues to be dominated by monetary policy – but we believe the fundamentals will drive allocations here. We expect Japanese real estate to maintain robust yields, but the sector outlook is asymmetric. While its weaker occupier market could lead the office sector to a price correction in the next few years, logistics and residential are better positioned. They are backed by stronger occupier demand and the defensive qualities of residential, which will continue to attract capital. Logistics and Tokyo multi-family assets, supplemented by some selective allocations to regional cities, seem the most compelling investment areas in the next couple of years.

While the near-term outlook for Singapore has turned more cautious, we remain bullish on the longer-term fundamentals. Pro-business initiatives timed to boost Singapore's position as a global business and private wealth hub will underpin further upside. The removal of older city-centre office stock for redevelopment into residential and hospitality space will also be beneficial. Moreover, we think Singapore offices could be a strong candidate for investors seeking assets that are more defensive against higher inflation (occupier fundamentals help to keep pricing power in the hands of landlords), market volatility and geopolitical risks.

In Australia, the investment market is mature and transparent, and the tenant base is international. Urban industrials in New South Wales and Victoria remain attractive, given the underlying fundamentals. The national vacancy rate for industrials and logistics has hit a record low of 0.6%. This chronic undersupply of space, along with pent-up demand from the ecommerce sector, has led to significant rental growth over the past few years.