Global Market Insights

January 2025

Have the global markets reached a turning point?

After eight consecutive quarters of negative returns, the Global Real Estate Fund Index (GREFI) returned to positive territory Q3 2024, recording its first positive quarterly returns since Q2 2022. This marks a potential turning point for the industry, even as uncertainties linger. Investors appear cautiously optimistic about what lies ahead, buoyed by stabilising values, improving fundamentals, and renewed capital flows.

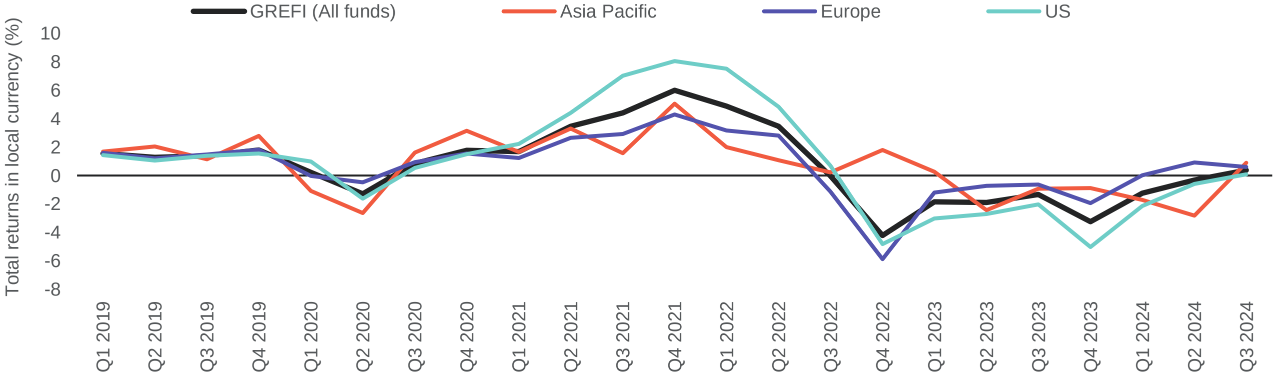
GREFI posted a total return of 0.38% in Q3 2024, suggesting that markets may be nearing the end of a challenging period defined by elevated interest rates, valuation adjustments, and geopolitical uncertainties. Asia Pacific led the three regions for the quarter, with fund performance climbing to 0.90%. Much of this improvement was driven by renewed investor confidence in markets like Australia and Japan, where robust fundamentals and favourable spreads helped attract capital. Europe followed with a 0.59% return, underpinned by the relative stability of its core funds, which continued to outperform non-core strategies. Meanwhile, North America recorded a modest 0.08% return as investors cautiously re-engaged with the market after a period of significant repricing.

This positive development in the global markets is underpinned by notable shifts in market dynamics. Across all regions, valuations have stabilised following substantial declines over the past two years. In the US, real estate values fell by an average of 25%, while Europe and Asia saw declines of 21% and 15%, respectively. These adjustments, though painful, have created fresh opportunities for investors who believe the market has reached a turning point.

However, the path to recovery is far from uniform. Markets are also experiencing a growing divergence in performance across asset classes, regions, and strategies, with best-in-class assets and favoured sectors rebounding strongly while others continue to struggle. Industrial and logistics properties remain in high demand, benefiting from structural shifts in supply chain dynamics and e-commerce growth. Residential assets also retain their appeal, supported by undersupplied housing markets in key regions. In contrast, office properties in many markets face persistent challenges as shifting workplace trends and tenant preferences weigh on demand.

Looking ahead, the outlook for 2025 remains cautiously optimistic. Moderating interest rates, though slower than previously expected, may ease liquidity constraints and support yields, encouraging more investors to re-enter the market. However, geopolitical tensions and inflationary pressures continue to pose significant risks. While the simultaneous return to positive performance across all three regions in Q3 2024 is encouraging, recovery is expected to remain uneven. Investors should focus on resilience and long-term strategies to navigate a landscape defined by both opportunities and persistent volatility.

Figure 1: GREFI total returns by region



Source: *Global Real Estate Fund Index Q3 2024*

Investment Intentions Survey highlights varying appetites

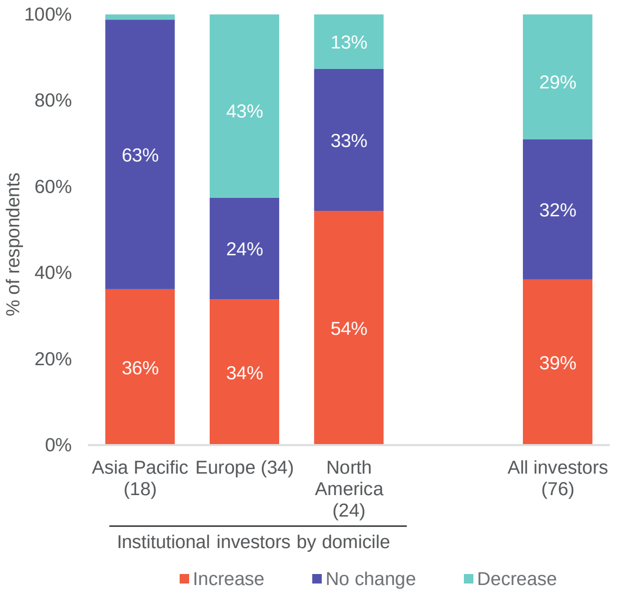
The Investment Intentions Survey 2025, conducted jointly by ANREV, INREV, and PREA, offers a detailed perspective on how institutional investors from different regions are positioning their portfolios amid ongoing market shifts. Representing over $1 trillion in real estate assets under management, the survey provides particular insights into expected regional allocation changes over the coming two years by investors from North America, Europe, and Asia Pacific.

Investor intentions for global real estate allocations over the next two years reveal notable regional contrasts. North American investors are the most optimistic, with 54% planning to increase allocations and only 13% expecting to decrease, reflecting confidence in market recovery globally. By contrast, European investors are the most cautious, with only 31% intending to expand and 33% planning to reduce their exposure, possibly owing to geopolitical and economic uncertainties. Asia Pacific investors adopt a balanced approach, with 38% looking to increase allocations but the majority (63%) choosing to hold steady, emphasising stability as investors await clear signs of improved conditions.

Despite a cautious global outlook, allocation intentions reveal insights into capital destination preferences as well. The United States emerges as the most attractive destination for future capital, with 53% of investors globally planning to increase allocations there and only 16% expecting to reduce. North American investors lead this enthusiasm, driven by confidence in and familiarity with their own home market. Asia Pacific investors are net bullish across all regions, indicating their intent to diversify globally, while European investors appear less optimistic about their own home market relative to the other two. This signals a potential move toward more globally diversified portfolios among European institutions. Crucially, while only slightly more than a third of global investors plan to increase allocations, a notable 85% still expect to deploy capital in 2025, underscoring the enduring importance of real estate as a core asset class for institutional investors around the world.

For more information on investor intentions in the coming year, please refer to the ANREV/INREV/PREA Fund Investment Intentions Survey 2025.

Figure 2 : Expected changes in global real estate allocation over the next two years (weighted by AUM)



Source: *ANREV/INREV/PREA Investment Intentions Survey 2025*

Global Research Committee's Review

Last July, the Global Research Committee noted a shift toward positive real estate market sentiment. Valuations in the US and Europe had rebased by up to 30%, with new supply limited by the pandemic and elevated construction costs. Central banks began rate cuts, and markets anticipated four more in H2. While the signals were directionally accurate, stubborn inflation and geopolitical risks have since tempered sentiment. Rate cuts have paused, with uncertainty, government debt, and inflation expectations keeping risk-free rates high.

The Global Real Estate Fund Index reported positive total returns in Q3 2024, supported by real estate's strong income return despite rising dispersion across sectors and assets. Offices remain a drag on global returns but may offer opportunities in the new cycle. In the US and Australia, employees are returning to offices in earnest, while Europe's energy transition adds regulatory uncertainty that is difficult to price.

The Committee notes that dispersion in sector- and country-specific funds highlights the diversification benefits of a balanced investment approach. Across regions, income returns drive long-term performance, with asset management expected to deliver growth in this cycle over rapid yield compression. Investor intentions increasingly feature operational real estate and alternative sectors, including data centres, living sectors, childcare, and life sciences.

Cautious optimism aptly describes today's market. Fundamentals remain strong globally, but geopolitical headwinds and structural megaforces suggest a K-shaped rather than V-shaped recovery. Nevertheless, markets have likely reached their cyclical bottom, with investors preparing for a promising new cycle.