CONTENTS

INTRODUCTION 02
EXECUTIVE SUMMARY 03
AVAILABLE CAPITAL 04
TARGET PROFILE 08
INVESTOR PROFILE 12
OUTLOOK 16
CONTACTS 18
INTRODUCTION

WELCOME TO THE LATEST ISSUE OF CUSHMAN & WAKEFIELD’S GREAT WALL OF MONEY REPORT. SINCE THE DEPTHS OF THE GLOBAL FINANCIAL CRISIS (GFC) IN 2009, WE HAVE BEEN TRACKING THE AMOUNT OF NEWLY RAISED CAPITAL MOVING ACROSS GLOBAL REAL ESTATE MARKETS. IN THIS LATEST REPORT, WE LOOK AT THE CURRENT WALL OF MONEY AND CONSIDER THE IMPLICATIONS.

While this cycle continues to see an extraordinary level of capital targeting real estate around the world, the pace of growth appears to have moderated. As the real estate cycle enters a stage of maturity in many key markets, investor focus has shifted from raising new funds to identifying and deploying capital already allocated to the sector.

Growth in the real estate sector over the last 10 years has been impressive, but real estate still lags behind the bond and stock markets in market capitalisation terms. We see significant potential for further maturity and growth in the sector as investors continue to seek out opportunities in new cities, sectors and platforms.

While core real estate strategies remain highly attractive, demand tends to outstrip supply in many key markets, pushing down cap rates (yields) and challenging investors. Unable to find enough existing core assets, investors are targeting development or redevelopment projects that create core assets in top markets. On the risk-return spectrum, this ‘build-to-core’ portfolio strategy falls in the core-plus category, achieving a higher return than core and at a risk level significantly below value-add and opportunistic. Such ‘build to core’ strategies should prove fruitful both for investors selling into the current demand wave as well as strategic portfolio positions looking for solid, long term returns.

We expect 2017 to be marked by ongoing competition to place capital and source attractive opportunities. In addition to new strategies for investment, we continue to expect new sources of capital to be unlocked around the world from countries such as China, Malaysia, Taiwan, and South Africa.

Further details on who and what is behind the great wall of money is contained in the report, alongside further details on what to look out for in global real estate capital markets.
EXECUTIVE SUMMARY

01 The Great Wall of Money targeting global real estate is in retreat – for the first time since 2011 - due to a decline in available debt

02 More equity is targeting the Americas than EMEA for the first time on record

03 Lower levels of available debt, reflecting a drop off in loan originations, reduced the total wall of money available for investment

04 Investors are more focused on deploying unspent or recently raised equity than creating new vehicles

05 Fund strategies are increasingly focused on single geography or property types, reflecting desire for targeted exposures. However, notable exceptions exist where the global reputation of the fund manager allows a broader investment scope

06 ‘Build to core’ and value-add strategies are filling the gap left by the high demand and low supply of core assets
AVAILABLE CAPITAL

AVAILABLE CAPITAL DROPS BACK FROM 2016 RECORD DUE TO A FALL IN AVAILABLE DEBT

The total global wall of money (debt and equity) targeting direct real estate in 2017 fell for the first time since 2011 to $435bn, a 2% drop over 2016. However, current levels are the second highest on record, reflecting the extraordinary rise in capital targeting the sector in this cycle.

Capital targeting EMEA shrunk 9% in US dollar terms to $130bn, whilst the Americas grew 2% to $173bn and Asia posted a marginal increase to $132bn.

The drop in available capital comes at a time when global investment activity also slowed. According to Real Capital Analytics, the value of real estate assets traded in 2016 was down 4% at $1.37tn, led by a 21% fall in EMEA, a 10% drop across the Americas, whilst APAC recorded a 13% rise.

One of the most striking trends in global real estate is the growth in capital targeting Asia Pacific. For the first time we see more capital targeting APAC than EMEA reflecting the maturity and growth of opportunities across the region as well as attractive long term return prospects. New investment opportunities include residential, warehouse and shopping centre investments across China, India, Southeast Asia and Australia.

**TOTAL CAPITAL AVAILABLE FOR INVESTMENT BY REGION AND YEAR, USD BN**

<table>
<thead>
<tr>
<th>Year</th>
<th>EMEA</th>
<th>Americas</th>
<th>Asia Pacific</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
<td>250</td>
<td>100</td>
</tr>
<tr>
<td>2014</td>
<td>75</td>
<td>150</td>
<td>100</td>
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<tr>
<td>2015</td>
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<td>2016</td>
<td>75</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>2017</td>
<td>75</td>
<td>150</td>
<td>100</td>
</tr>
</tbody>
</table>
US TRUMPS EMEA FOR MOST AVAILABLE EQUITY

For the first time, we see more equity available across the Americas ($79bn) than EMEA ($72bn). The wall of money targeting the US has been building steadily as institutional investors have bumped up their allocations to the highest levels in history, and offshore investors swarm to park money in high quality US assets. Furthermore, the reflationary environment coinciding with Donald Trump’s election is drawing increased focus to asset types offering inflation protection. Many types of real estate leases offer potential portfolio protection against inflation; and, we see this as a likely tailwind supporting further allocations to well positioned asset types.

The fall in available equity to be invested across EMEA in 2017 is largely a reflection of a strong dollar. When EMEA equity volumes are viewed on a euro equivalent basis, available equity was flat at €69bn. With close to 80% of funds targeting Europe reporting in either euros or pounds, the currency context of reported volumes is a key component. Europe continues to show strong signs of recovery and economic growth which should continue to support allocations to the region.

Reflecting growing investor demand, Asia Pacific registered a strong 7% rise in available equity to $65bn. We expect to see this growth continue as investors pursue the higher, long run growth potential associated with the region. New sectors and geographies are attracting global capital and adding to the supply of investable stock. From strategies targeting core offices in India to the development of warehouses in China, the region is increasingly offering opportunities across the risk return spectrum.
DEBT LEVELS DOWN GLOBALLY

The amount of debt available for global real estate in 2017 is down on 2016, reflecting a drop off in loan originations. Banks and alternative lenders saw a large rise in new debt origination from 2014-2016, but this trend appears to have moderated in 2016 alongside a slowdown in investment transaction volumes.

The lending market seems relatively unchanged with moderate loan-to-value (LTV) ratios trending marginally lower. The lack of funding for development remains a key challenge. Lenders are also lending against a narrower range of asset type than in the past, suggesting that recent regulatory changes may be inadvertently driving concentration risk amongst lenders. There is a clear distinction between prime and secondary real estate loans with fewer lenders willing to quote margins for secondary property.

The average LTV globally is c. 50%, underscoring reduced risk of loan books in breach of financial covenant or default. EMEA continues to have the most conservative average LTV levels at 44%, down from 48% a year ago. In sharp contrast to the US, the European funding model continues to be dominated by commercial banks with a relatively small but growing source of alternative lenders.

LTV BY TARGET REGION AND YEAR, USD BN
The amount of new equity that funds are currently seeking to raise in the market is on the decline (19% globally), with the Americas and EMEA reporting the sharpest falls.

The reduction in new equity raisings is not a surprise as funds seek to focus on deploying capital against the backdrop of strong competition and scarcity of product. That said, we have seen a number of funds return to the market over the past few months; notably, the global blockbuster managers who have been particularly successful in raising and deploying capital. Blackstone is reported to be targeting a second $5bn Pan Asia Fund having deployed 70% of capital in its first Asia fund, while Morgan Stanley is reported to be targeting €2bn of equity for a new global fund.

### Available Equity for Investment by Year and Target Region – Raised vs Raising, USD BN

![Graph showing available equity for investment by year and target region](image-url)
TARGET PROFILE

DIVERSIFIED FUND STRATEGIES DOMINATE; RESIDENTIAL REMAINS PREFERRED SINGLE EXPOSURE

The majority of real estate capital remains targeted at diversified strategies not single sector exposures. However, this balance of preference is changing with single sector strategies up 55% over the last three years.

TARGET PROPERTY TYPE – 2017

Of funds targeting a single property type, residential remains the clear preference. US funds targeting the domestic, multi-family sector continue to be sought after despite a long run of exceptional returns post GFC. In Europe, the primary target markets for residential fund strategies are Germany, the Netherlands and parts of the Nordic region. Investors are particularly attracted to the supply/demand imbalance driven by population growth in many residential markets across European capital cities. The scale of opportunity for residential investment across Europe is only beginning to open up as the sector moves to a more institutionally compatible level of organisation and management. While still a long way off the maturity of the US multi-family sector, it is hard to ignore the opportunity in the European residential sector.

Across Asia Pacific, China continues to dominate the residential fund offering. Despite the market hitting new highs in 2016, the central government has worked to maintain investor sentiment while clearing an oversupply of units in smaller cities.

The growth in funds targeting single property types partly reflects growing interest in assets that require more specialist asset management, or where collective investment allows investors to target assets with a larger lot size, e.g. shopping centres. This trend is expected to increase as more investors target alternative asset classes ranging from car parks to hotels and healthcare.
NORTH AMERICA REMAINS THE LEAST GLOBAL REGION WITH DOMESTIC INVESTORS REPRESENTING CLOSE TO THREE QUARTERS OF CAPITAL. BY WAY OF CONTRAST, CLOSE TO 40% OF NEW CAPITAL RAISED AND TARGETING ASIA PACIFIC AND EMEA IS DERIVED FROM OUTSIDE THEIR RESPECTIVE REGIONS. THAT SAID, WE DO SEE A MARGINAL INCREASE IN INTRA-REGIONAL ACTIVITY COMING AT THE EXPENSE OF DOMESTIC FLOWS. OVERALL, WE EXPECT LEVELS OF CROSS BORDER INVESTMENT TO REMAIN STRONG WITH THE SOURCES AND TARGETS CONTINUING TO EVOLVE AS INVESTORS REACT TO A HIGHLY COMPETITIVE MARKET.

FOCUS ON SINGLE MARKET STRATEGIES CONTINUES TO GROW

Single country funds have increased in popularity, representing 61% of available capital, as investors look to more targeted exposures. The Americas has retained the highest market share, despite slipping year on year, but will be interesting to watch as we move into the latter stages of the market cycle. Both Asia Pacific and EMEA, which are arguably in earlier stages of the market cycle, have seen their respective shares rise over the year.

TARGET GEOGRAPHY 2017

<table>
<thead>
<tr>
<th>Region</th>
<th>Single</th>
<th>Multiple</th>
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</thead>
<tbody>
<tr>
<td>AMERICAS</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>ASIA PACIFIC</td>
<td></td>
<td>34%</td>
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<tr>
<td>EMEA</td>
<td>25%</td>
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</table>

The United States understandably (based on market capitalisation) takes top slot in the ranking of total available capital. The top European markets are also the biggest by investable market size and include the ‘Big 3’ of Germany, France and the UK. Less obvious are the four APAC markets which register in the top ten single country target markets – China, Japan, Australia and India.

We can estimate the amount of overall capital targeting major markets by making allocations based on capital flows over the last three years. Of course, this is a simple method to gauge interest and does not take into account shifting investor preferences as cycles mature and prospective returns get squeezed.
Based on our analysis, the US is likely to remain the most targeted investment market in 2017. Although investment activity has slowed during 2016, the Great Wall of Money targeting the region remains high with many investors still undersubscribed to the sector vis-a-vis investment intentions.

China is expected to remain the second most targeted country with a majority of capital committed from domestic funds. There are also a number of overseas funds, including a number domiciled in the US, seeking a foothold in China as rapid economic development provides a growing investment base.

We expect relatively less capital to target the UK as some investors take a ‘wait and see’ approach against the uncertain political and economic backdrop of Brexit negotiations. Liquidity has dropped in the wake of the EU referendum vote, and we could see some capital diverted to other markets. The City of London (financial district) has been impacted by expectations of falling financial and business service employment in the event of an exit from the single market. The cautious outlook towards London office exposure has been characterised more in terms of transaction delays rather than pricing adjustments. That said, some investors are keenly waiting on the side lines for more product to come to market in the event of pricing weakness.

Japan remains Asia’s second most targeted market, but fourth globally, and continues to attract a strong level of capital. Similar to the US, the majority of capital targeting Japan is domestic reflecting the strength of the local J-REIT capital base and a strong home bias on the part of investors. In an interesting twist, the biggest change to Japan’s capital base is the growth of other Asian investors. Japan’s property market is luring more attention from pan Asian regional investors keen to reap capital gains or achieve high yields not available at home with a long-term view of holding their assets. No doubt a weaker Yen and the upcoming Tokyo Olympics 2020 is generating some enthusiasm, but we expect this to be an enduring trend.

Germany also continues to see strong levels of demand from investors attracted to its strong economic performance and relative ‘safe haven’ status and could benefit from some capital being diverted away from the UK. The challenge, especially for core funds, is accessing suitably priced stock.
### AVAILABLE CAPITAL BY TARGET COUNTRY 2017, USD BN

<table>
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<tr>
<th>Country</th>
<th>Available Capital (USD BN)</th>
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<td>United States</td>
<td>23</td>
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<td>China</td>
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<td>UK</td>
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<td>Japan</td>
<td>48</td>
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<tr>
<td>Germany</td>
<td>154</td>
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<td>Hungary</td>
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<td>Czech Rep.</td>
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<td>France</td>
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<td>Australia</td>
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The pie chart shows the top 5 target countries for available capital in 2017, with the United States leading by a significant margin.
INVESTOR PROFILE

FUND TYPES

UNLISTED FUNDS REMAIN THE DOMINANT SOURCE OF CAPITAL, BUT LISTED COMPANIES ARE FLOURISHING

Unlisted funds remain the dominant source of capital in global real estate markets accounting for over half of available debt and equity raised. North America is responsible for over half of capital raised, reflecting the dominance of the multi-billion dollar global funds. European fund managers account for close to one third of total capital raised with a majority of fund strategies targeting opportunities within the EU.

AVAILABLE CAPITAL BY FUND TYPE

2016

- Unlisted funds: 56%
- Listed companies: 23%
- Institutions: 16%
- Other: 5%

2017

- Unlisted funds: 54%
- Listed companies: 26%
- Institutions: 15%
- Other: 5%
Listed companies now represent over a quarter of capital targeting the market in 2017. During the course of 2016 over $100bn of fresh equity was raised by listed companies, over 20% higher than in the previous year. The majority of equity was raised in the Americas and Asia Pacific with EMEA remaining a developing market on the listed stage.

Two key themes have been evident: first, private equity real estate funds have taken REITs private, and second, REITs have looked at M&A as a way to grow. Mature capital markets have helped facilitate consolidation in the REIT sector where M&A provides an alternative to growth. Mature or established markets like the US, Japan, Singapore and Australia have generally led the way, but fundraising has also been significant in emerging REIT markets like Spain, Ireland, China and Mexico. High quality assets such as those owned by many REITs remain attractive in a world where drivers such as technology and demographics are changing the way people work and live.

Sovereign wealth funds (SWFs) were generally less active players in the market during 2016. In particular, countries with SWFs funded by oil and gas exports have seen a fall in their funding status alongside the decline in the oil price, as governments seek to protect their budgets against declining revenues. That said, it is hard to generalise the role of many oil revenue based funds. Most were built with a long term perspective in mind and, no doubt, will find ways to navigate the current period of depressed commodity prices.
Across EMEA, many opportunity funds were raised in the GFC targeting expected distress, particularly across Southern Europe, Ireland and the Netherlands. With Europe’s markets showing a strong recovery we have seen less new equity committed to these funds; thus, a further reduction in available capital is likely.

Capital focused on the Americas continues to target the US and Canada core to value add spectrum. Against a backdrop of a normalisation in interest rates, this likely reflects greater focus on quality and secure income over added risk in the current cycle.

Investors continually struggle to find the right asset allocation mix along the efficient frontier — looking for the highest expected return at a given level of risk. Windows for successful higher returning, opportunistic strategies are mostly confined to the early part of a cycle when investors tend to be more cautious after addressing problems at market nadirs. As such, and against a backdrop of a maturing global cycle, we expect to see the focus shift more towards core (and, in particular, build to core) strategies in coming years.
AVAILABLE CAPITAL BY FUND STYLE AND TARGET REGION 2017

- **Global**
  - Opportunistic: 9%
  - Value Add: 23%
  - Core: 13%
  - Mixed: 8%
  - Total: 55%

- **Asia Pacific**
  - Opportunistic: 10%
  - Value Add: 15%
  - Core: 22%
  - Mixed: 11%
  - Total: 53%

- **EMEA**
  - Opportunistic: 27%
  - Value Add: 44%
  - Core: 16%
  - Mixed: 39%
  - Total: 100%

- **Americas**
  - Opportunistic: 21%
  - Value Add: 39%
  - Core: 16%
  - Mixed: 34%
  - Total: 100%
OUTLOOK

WITH THE GREAT WALL OF MONEY TARGETING REAL ESTATE AT NEAR RECORD LEVELS, INVESTORS NEED TO REMAIN FOCUSED BUT AGILE. KEY CHALLENGES FOR 2017 INCLUDE IDENTIFYING ATTRACTIVELY PRICED STRATEGIES AND MOVING SWIFTLY TO SECURE EXPOSURE IN A FIERCELY COMPETITIVE MARKET.

In recent years, a breakdown in the risk/return relationship has continued to reward investors holding lower risk, higher quality assets. We expect this relationship to normalise and investors will start to see lower returns for lower risk strategies and vice versa. In particular, we expect that investors will be increasingly rewarded for investing outside of core markets and sectors particularly where there are structural change factors driving demand.

We expect an ongoing focus on ‘build-to-core’ strategies targeted at establishing modern assets that over the long term can outperform older, existing buildings in competing for tenants and achieving higher occupancies and potentially better rents.

The interconnectedness of markets, either through infrastructure or clusters of knowledge, will be differentiating factors for investors as they look for longer term growth. Those investors with a flexible investment strategy will have a competitive edge in the current market.

No doubt, an ongoing challenge for investors will be the sourcing of product. In recent years, a number of strategies have been held back by a lack of product. Investors, in some cases, have been reluctant to release stock as they are unable to reinvest at suitable returns. We expect this trend to continue although active traders are expected to release assets as they seek to book profits, especially where markets are in advanced stages of the cycle.

With prime yields across many markets reaching new levels, we are not surprised to see a reduction in the level of fresh capital being raised. With uncertainties pervading markets around the world, we are likely to see managers focus more on deploying capital than raising fresh funds. That said, we do still expect to see pockets of fresh announcements targeting specific strategies for niche funds and continued diverse strategies for larger established blockbuster funds.
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NOTES

• Available capital is the amount of capital (equity + debt) we estimate to be available for investment in any one particular year.

• Available equity is the amount of equity we estimate to be available for investment in any one particular year.

• Raised refers to the amount of equity or capital that has been raised and is readily available for investment immediately.

• Raising refers to equity or capital that an investor is seeking to raise and will be available for investment at a later period.

• Loan to value ratio is calculated as debt as a percentage of debt + equity.

SOURCE

All information in this report has been sourced by Cushman & Wakefield research.

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Our approach to calculating the amount of available capital is consistent with previous reports and available on request. The research draws on details of over 3,000 individual vehicles and other investors globally. We utilise transaction data from Real Capital Analytics to track investment activity by investors. Additionally, the research draws upon our Money into Property database to provide more detail on institutional investment.

In addition to our own data monitoring, a number of third party databases and news services are used in this report including, but not exclusively: ANREV, Asia Property, Bloomberg, Co Star, Euro Property, INREV, IPE, Property Week, Property EU, Real Capital Analytics and Reuters. Data has also been drawn from individual company websites and press releases where appropriate.