DTZ INSIGHT

Available capital reaches new peak record level

Great Wall of Money

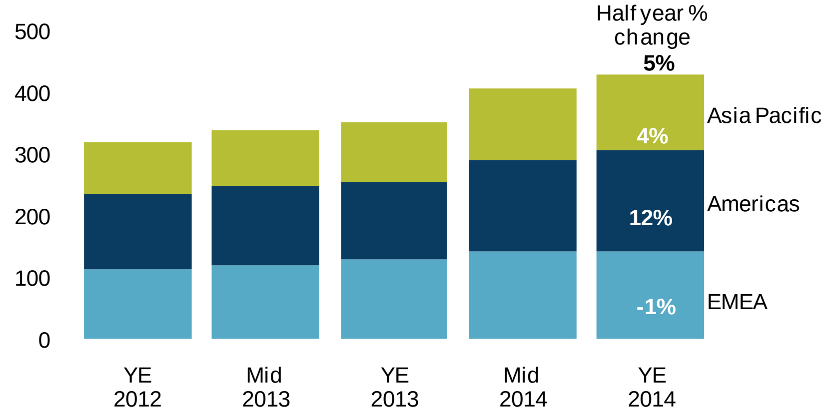
20 April 2015

Contents

- Total available capital grew 5% over the last six months to reach a new record USD429bn (Figure 1). But the rate of growth is beginning to slow.
- Capital targeting the Americas rose 12% to USD166bn, with 4% growth in Asia Pacific. The strengthening of the dollar led to a 1% fall in capital targeting EMEA, despite an increase in Euro terms.
- The increase in available capital has been supported by increased equity raising by firms as aggregate target gearing ratios remained flat globally.
- Funds continue to diversify across property types. Funds targeting multiple markets also increasing, but single country funds still dominate.
- The US continues to attract the largest share of capital, followed by the UK and China. Both Japan and Germany sit in the top five.
- Listed companies have continued to increase their share of newly raised capital, with most (45%) raised in Asia Pacific, including China, Japan and Hong Kong. A further third has originated in North America.
- Continued growth in newly raised capital reflects the relative attractiveness of commercial real estate globally. Funds are rushing to reach and early close and new raising has slowed as the relative attractiveness is set to diminish.
- With improving liquidity, we expect investor demand to drive higher volumes of activity across all regions, with capital deployed expected to exceed new raising over the next twelve months.

Figure 1

Available capital by region, 2015, USD bn



Source: DTZ Research

Authors

Kasia Sielewicz
Capital Markets Research
+44(0)20 3296 2322
kasia.sielewicz@dtz.com

Cristine Lai
Capital Markets Research
+852 2507 0181
cristine.yt.lai@dtz.com

Contacts

Nigel Almond
Head of Capital Markets Research
+44(0)20 3296 2328
nigel.almond@dtz.com

Overview

This is the eleventh edition of our Great Wall of Money Report. It tracks the amount of newly raised capital targeting commercial real estate globally. The analysis draws on data from over 2,500 listed and unlisted funds, with separate estimates made for institutional sources based on our Money into Property database. Our methodology for estimating available capital is unchanged on previous reports[1].

New Capital Available

Available capital at new record

The amount of new capital targeting commercial real estate globally in 2015 rose 5% over the last six months to reach a new record USD429bn (Figure 2). The pace of growth has slowed compared to the 15% growth recorded at mid 2014.

The strongest growth was recorded across the Americas led by the US, where we have seen a 12% increase in new capital which now totals USD166bn. Capital targeting Asia Pacific rose 4% to USD122bn. In contrast, EMEA registered a 1% drop in capital to USD141bn.

Currency movements undermine Europe

The drop in capital targeting EMEA reflects the strength of the dollar against the Euro over recent months. In Euro equivalents capital rose by close to 12%. However, over the last six months currency movements have meant that in dollar terms one Euro is worth 12% less, wiping out any gains. Given much of the capital has been raised locally, currency movements are unlikely to impact. Equally, Europe is potentially more attractive for dollar denominated investors.

Equity rising as gearing remains stable

As target gearing remains flat, growth in capital is being driven by increased equity. Available equity rose 11% in the Americas to USD70bn with a 5% increase to USD55bn in Asia Pacific. Despite staying flat, EMEA continues to attract the highest amount of equity at USD72bn. Gearing therefore becomes the differentiating factor (Figure 3).

Globally, and across all regions, aggregate gearing remained flat. EMEA continues to see the lowest target gearing. At 49% it was broadly unmoved, underscoring the conservative approach of investors to the region. Anecdotally we do see banks and other non-bank lenders willing to offer higher levels of gearing compared to the recent past. The Americas continues to see the highest gearing levels at 58%, and 55% across Asia Pacific.

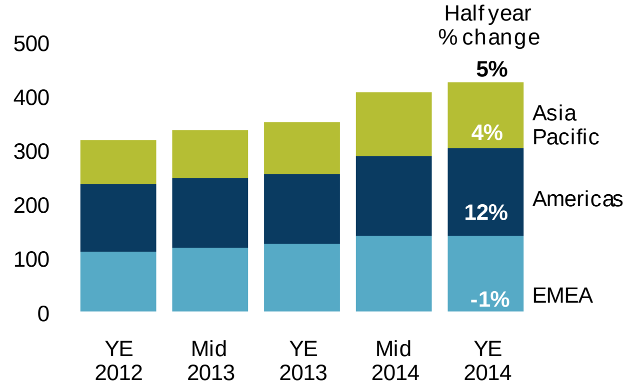
Funds rush to deploy

Over the past year we have seen funds seeking an early close in order to deploy capital more quickly. Raised capital reached a new record USD408bn, a 13% increase on six months ago and 34% increase on a year ago (Figure 4). We have seen a decline in the level of new raising, though this may underestimate the total as funds continue to see additional closings. Recent QE announcements, especially in Europe could lead to additional inflows.

[1] See DTZ Insight The Great Wall of Money, Opportunities becoming more time limited, 6 October 2014.

Figure 2

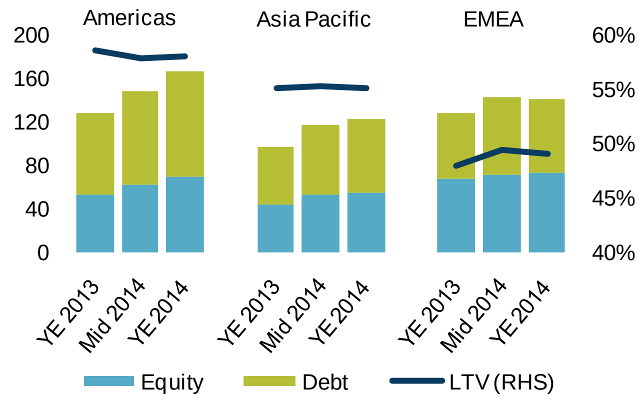
Available capital by region, USD bn



Source: DTZ Research

Figure 3

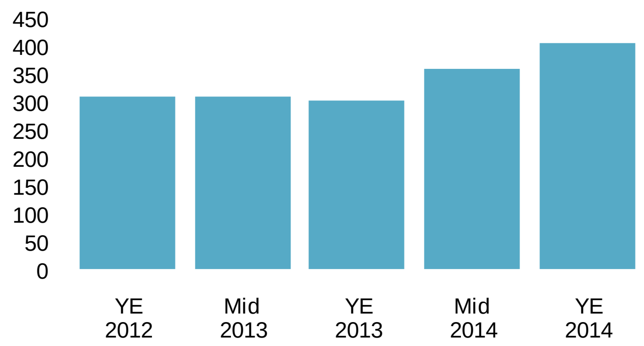
Available equity, debt (USD bn) and target leverage (%)



Source: DTZ Research

Figure 4

Raised capital, USDbn



Source: DTZ Research

Investment target

Growth in single property types

The majority of capital raised is by funds targeting multiple property types. Over 70% of funds are targeting more than one property type, although this has shrunk from close to 80%. Funds targeting a single asset type have grown to 29% (Figure 5).

Of those funds targeting as specific type, residential continues to attract the highest share (23%), followed by Industrial (19%) and retail (18%). A higher proportion (14%) of funds are also targeting other asset classes, underscoring growing interest in these more niche sectors, where tapping into specialist market knowledge can currently offer an edge.

Growth in diversified strategies

The proportion of funds targeting multiple geographies rebounded to 41% at the end of 2014. This reverses the downward trend that we have seen over the past couple of years (Figure 6). Single country funds still predominate, capturing 59% of the capital. Of these, the US continues to attract the highest share of activity (42% of single country targets). A further 29% is targeting individual markets across Asia Pacific, with 23% targeting the EMEA region. Asia Pacific has increased its share of single country capital, rising from 27% to 29% in the past twelve months.

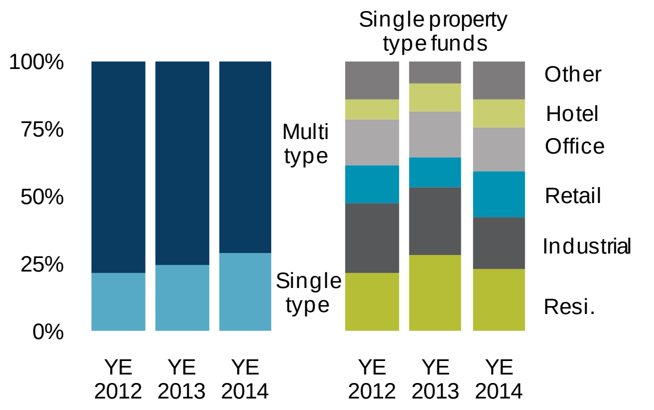
US, UK and China main targets

Based on known country targets and estimates using recent transactional activity, we have estimated the amount of capital targeting the major markets. Unsurprisingly those markets with the largest value of stock held by investors are attracting the highest volume of capital.

The US attracts the largest share with an estimated USD145bn of new capital targeting the market (Figure 7). The UK is next attracting close to USD47bn, with China also attracting a similar amount. Given the UK's commercial real estate market[2] is one-fifth the size of the US, it attracts a significant amount of capital, and underscores the high level of liquidity in the UK[3]. Japan (USD29bn) and Germany (USD24bn) are fourth and fifth. Just outside the top five, France attracts just over USD23bn, with Australia USD15bn. The remaining markets across the global attract less than USD10bn.

Figure 5

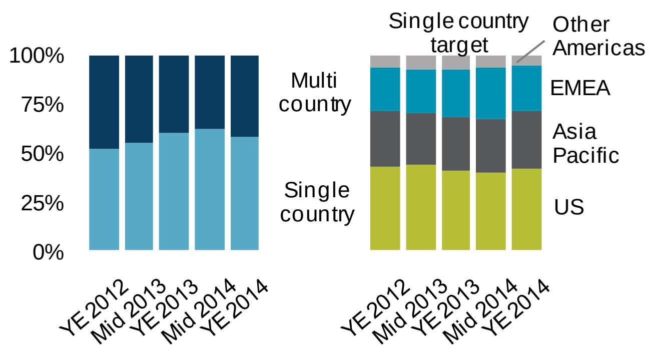
Target Property type



Source: DTZ Research

Figure 6

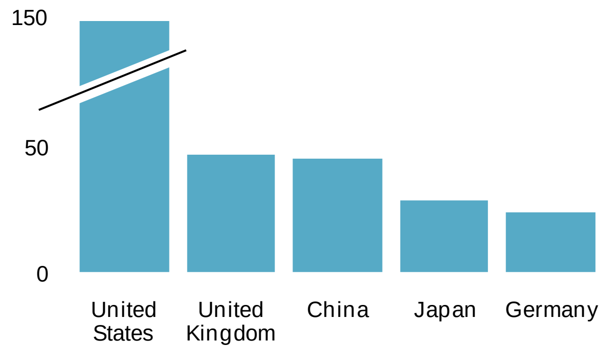
Target region



Source: DTZ Research

Figure 7

Estimated capital targeting top five markets, USD bn



Source: DTZ Research

[2] See DTZ Money into Property, International investors drive liquidity, June 2014

[3] See DTZ Insight, European Liquidity, UK remains Europe's most liquid markets in 2014, March 2015

Investor type & style

Listed sector continues to expand

Unlisted funds maintained their share of raised capital at 60%, and stabilising the recent downward trend in their market share (Figure 8). Their high share is not surprising given their continued domination of investment activity across all regions.

Listed companies have continued to increase their market share reflecting the rise in new issuances. A high proportion of equity raised was by listed companies in Asia Pacific (41%), and mostly in China, Japan and Singapore, and excludes any raising to shore-up balance sheets. A further third has been raised in North America. Just 23% is from EMEA based companies, which is dominated by UK and German companies, but also Spain, where a number of new listed REITs are targeting the growing opportunities, especially from the bad bank, as the market recovers. There has been little change in the share of other investor types.

Demand from global opportunity funds

Close to half (45%) of raised capital is from opportunity funds (Figure 9). This reflects a higher share (59%) raised by globally focussed funds. Close to half the raised capital in Asia Pacific is also targeting opportunistic investments, with many focussed on China and India. Relatively fewer opportunity funds are targeting the Americas, where valued-add funds (40%) dominate, which is in line with previous reporting. Europe still attracts a relatively higher share of core funds, at 31%, compared to the overall average of 20%. With a strong weight of demand and strong yield compression in the region, those funds with large outstanding balances may struggle to deploy capital.

Outlook

Relative attractiveness drives growth

The growth in new capital reflects the continued relative attractiveness of commercial real estate globally (Figure 10). As bond yields remain at near record lows in many markets, investors are turning to real estate for its relatively high income yield and prospect for capital growth.

Opportunities remain time limited

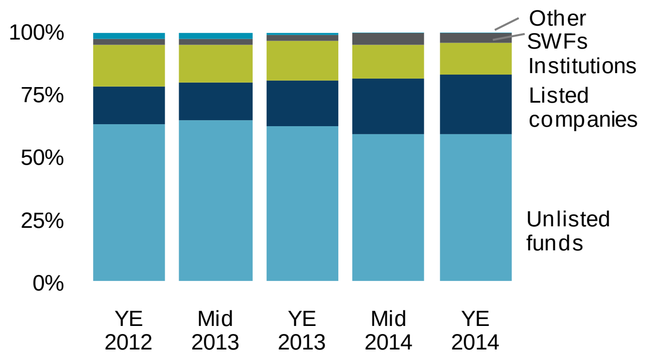
As we move forward, and expectations of rises in bond yields, the relative attractiveness of commercial real estate is expected to diminish, especially across Europe and the US. In contrast we expect a modest improvement across Asia Pacific, although by 2018 the scores in each region will be hovering just above the neutral 50 mark.

For investors the challenge is accessing product. Strong demand and limited supply is already pushing yields towards record low levels at the prime end of the market, with secondary yields following. The ability for investors to identify opportunities will be crucial. In Europe alone, we have identified over USD500bn of assets held beyond their average hold period[4]. With improving liquidity, we expect investor demand to drive higher volumes of activity across all regions, with capital deployed expected to exceed new raising over the next twelve months.

[4] See DTZ Insight, European Hold Periods, EUR472bn assets held longer than average, March 2015

Figure 8

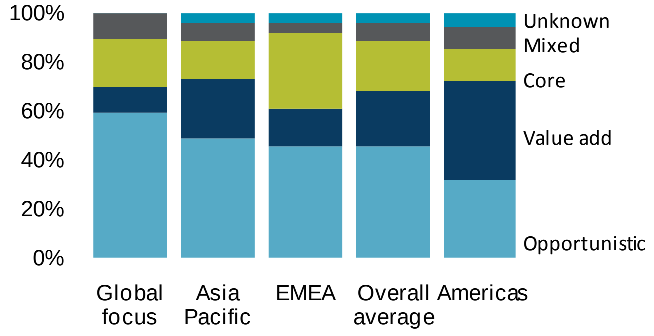
Available capital by investor



Source: DTZ Research

Figure 9

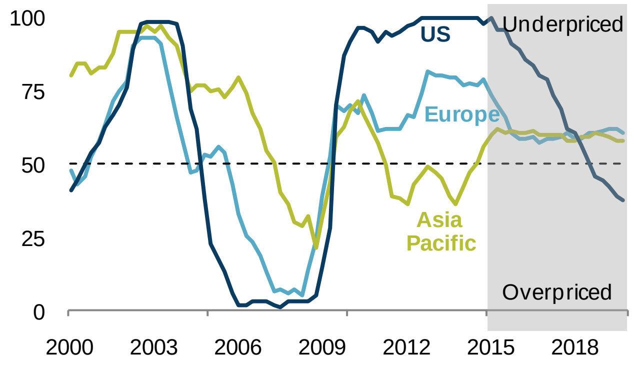
Investment style by region



Source: DTZ Research

Figure 10

DTZ Fair Value Index™ projections



Source: DTZ Research

DTZ

Global
Tod Lickerman

Global CEO

tod.lickerman@dtz.com

EMEA
John Forrester

EMEA CEO

john.forrester@dtz.com

Greater China
Edward Cheung

Greater China CEO

edward.kc.cheung@dtz.com

Asia Pacific
Stuart Roberts

Asia Pacific CEO

stuart.roberts@dtz.com

US
Joe Stettinius Jr

Americas CEO

joe.stettinius@dtz.com

EMEA
Paul Boursican

Head of International Capital Markets EMEA

+44 (0)20 3296 2019

paul.boursican@dtz.com

Asia Pacific
Gary Hollis

Head of Capital Markets Asia

+65 6393 2328

gary.hollis@dtz.com

Americas
Noble Carpenter

President, Capital Markets, Americas

+(1) 212 318 9745

noble.carpenter@dtz.com

EMEA
Magali Marton

Head of EMEA Research

+33 (0)1 4964 4954

magali.marton@dtz.com

Greater China
Andrew Ness

Head of Greater China Research

+852 2507 0779

andrew.ness@dtz.com

Asia Pacific
Dominic Brown

Head of Asia Pacific Research

+61 431 947 161

dominic.brown@dtz.com

US
Kevin Thorpe

US Chief Economist

+1 202 266 1161

kevin.thorpe@dtz.com

To see a full list of all our publications please go to www.dtz.com/research

Global Headquarters
77 West Wacker Drive
18th Floor
Chicago, IL 60601 USA
phone +1 312 424 8000
fax +1 312 424 8080
email info@dtz.com