ACTIVE CAPITAL

Knight Frank

ACTIVE CAPITAL

THE SUSTAINABLE ACCELERATION

Every year, Active Capital offers a unique perspective on the outlook for global real estate investment: from our forecasts of capital flows to our analysis of the most pressing strategic considerations, this research is designed to help you understand the myriad of forces at play.

Built upon thousands of data points, machine learning, and purpose-built modelling processes, our findings are combined with ‘on the ground’ insights from our brokers and advisors around the world. In doing so, we bring you a truly evidence-based outlook.

This year, as the world works against the clock on a climate recovery plan, the themes encompassed within ESG have never been of greater importance. With the wider industry accounting for 40% of global carbon emissions, real estate must play a critical role in safeguarding our future. But what are the implications for investors? What follows are some of the report’s highlights.

FORECASTING GLOBAL CROSS-BORDER CAPITAL FLOWS

Last year, our Capital Gravity model predicted that in 2021, the US would be the top destination for global cross-border real estate capital, followed by the UK, Germany, Australia, and France. As we watch the US and the UK vie for the top spot, followed by Germany, Australia, and France, we can see that our model passed its predictive test.

Now, 2022 is forecast to be a record year for global cross-border real estate volumes. Indeed, as the world learns to live with the pandemic, we could see an extended period of resurgence in global real estate investment.

The US, the UK, France, and the Netherlands are predicted to be top destinations for capital. In terms of sectors, we expect a strong year for office investment.

UK offices are forecast to be a top destination for capital from the Americas, while globally, the office sector is expected to welcome over half of all cross-border investment volumes.

Investment managers and private equity (particularly from the US and Canada) are forecast to be major players in the logistics market, with a focus on the EMEA region. Hotels are also likely to see a record year in 2022, with particular interest from private equity investors, who could contribute to almost half of volumes next year, targeting the US and the UK. 2022 is forecast to be a record year for global cross-border real estate volumes.

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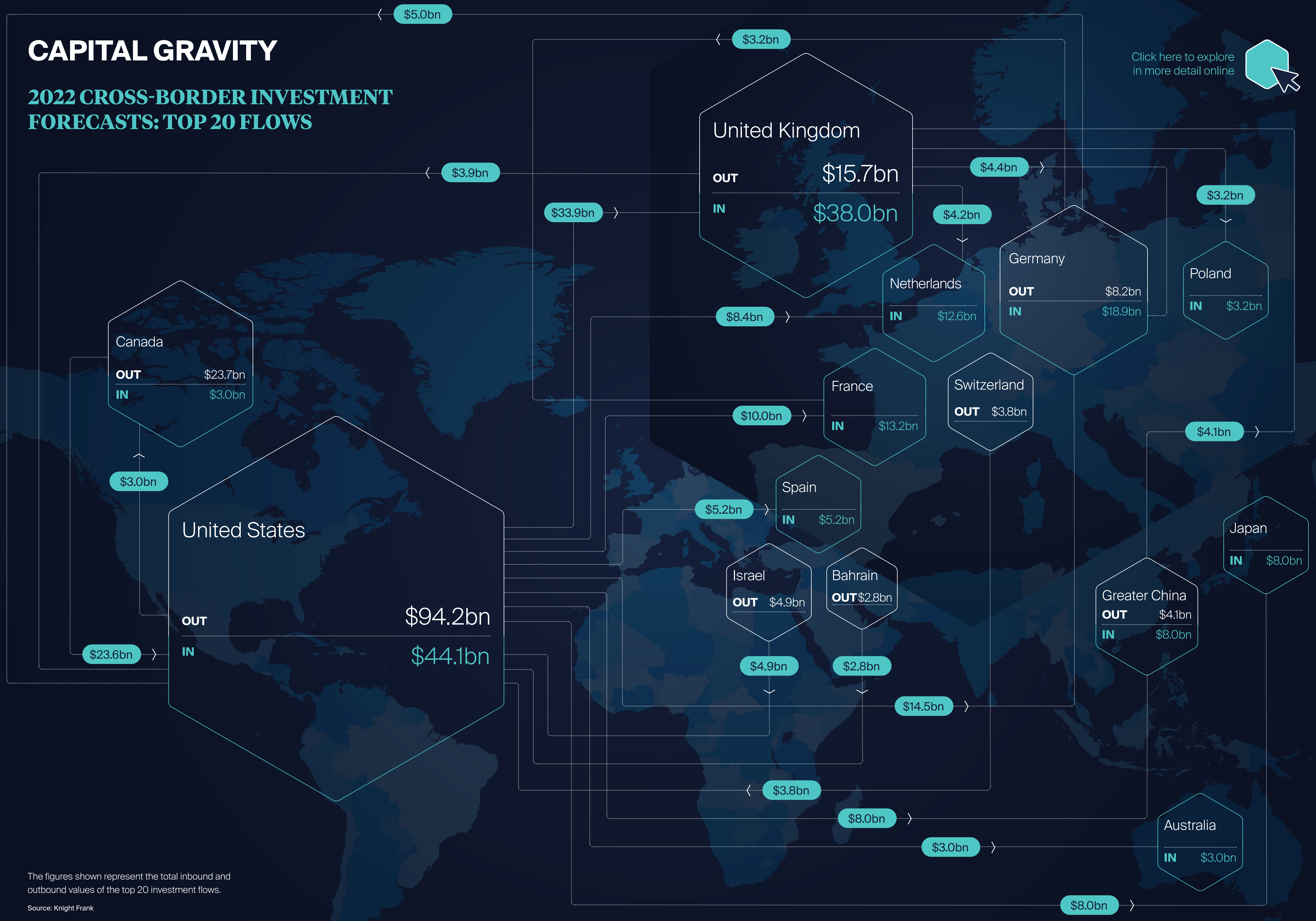
CAPITAL GRAVITY

2022 CROSS-BORDER INVESTMENT FORECASTS: TOP 20 FLOWS



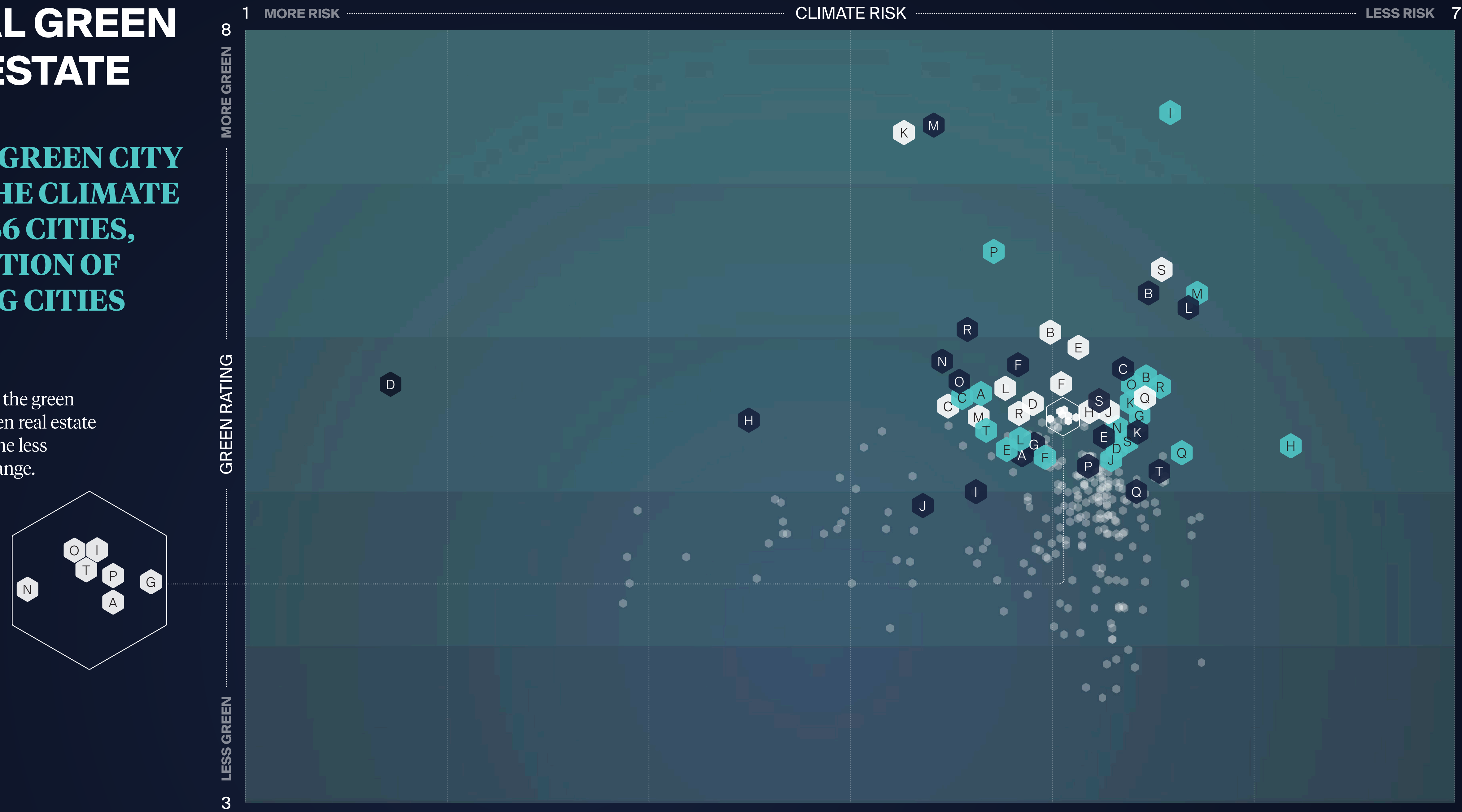
The figures shown represent the total inbound and outbound values of the top 20 investment flows.

Source: Knight Frank

THE TOP REGIONAL GREEN CITIES FOR REAL ESTATE

WE HAVE PLOTTED THE GREEN CITY SUB-SCORES AGAINST THE CLIMATE RISK SCORES FOR ALL 286 CITIES, HIGHLIGHTING A SELECTION OF THE TOP GREEN SCORING CITIES FOR EACH REGION.

The scores are between zero and ten. The higher the green score, the more these cities are supportive of green real estate benchmarks. The higher the climate risk score, the less exposure the city has to the effects of climate change.



Sources: Knight Frank, Corbane et al. (2018), EARTHDATA, Florczyk et al. (2018), GBIG, Harris et al. (2014), Lloyd's and Cambridge Centre for Risk Studies, Oxford Economics, THE World University Rankings

LEADING GREEN CITIES BY REGION

THE AMERICAS

- A Akron, OH, United States
- B Atlanta, GA, United States
- C Boston, MA, United States
- D Charlotte, NC, United States
- E Chicago, IL, United States
- F Cincinnati, OH, United States
- G Columbus, OH, United States
- H Grand Rapids, MI, United States
- I Kansas City, MO, United States
- J Montreal, Canada
- K New York, NY, United States
- L Orlando, FL, United States
- M Philadelphia, PA, United States
- N Portland, OR, United States
- O Seattle, WA, United States
- P Syracuse, NY, United States
- Q Toronto, Canada
- R Vancouver, Canada
- S Washington, DC, United States
- T Worcester, MA, United States

EMEA

- A Bergen, Norway
- B Berlin, Germany
- C Bern, Switzerland
- D Cambridge, United Kingdom
- E Dublin, Ireland
- F Glasgow, United Kingdom
- G Hamburg, Germany
- H Istanbul, Turkey
- I London, United Kingdom
- J Lublin, Poland
- K Madrid, Spain
- L Milan, Italy
- M Moscow, Russia
- N Munich, Germany
- O Oslo, Norway
- P Paris, France
- Q Saint Petersburg, Russia
- R Stockholm, Sweden
- S Warsaw, Poland
- T Zurich, Switzerland

ASIA PACIFIC

- A Bangkok, Thailand
- B Beijing, China
- C Chengdu, China
- D Chongqing, China
- E Delhi, India
- F Guangzhou, China
- G Hangzhou, China
- H Hong Kong SAR, China
- I Kuala Lumpur, Malaysia
- J Nagoya, Japan
- K Nanjing, China
- L Seoul, South Korea
- M Shanghai, China
- N Shenzhen, China
- O Singapore, Singapore
- P Suzhou, China
- Q Tianjin, China
- R Tokyo, Japan
- S Wuhan, China
- T Xi'an, China

THE SEARCH FOR SUSTAINABLY LED CITIES

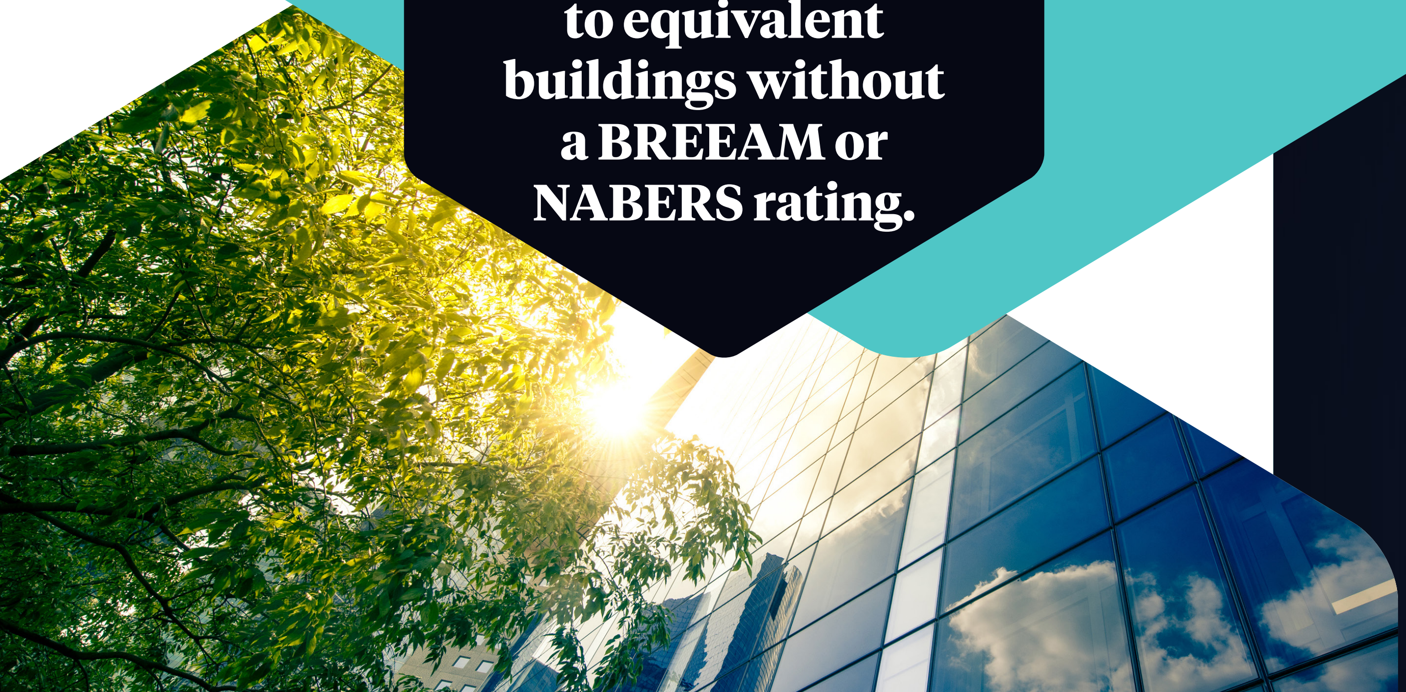
Based on our unique index of the considerations most applicable to real estate investors, London, Paris, New York, Seoul, and Tokyo sit as the top five global sustainably led cities. These cities benefit from a range of factors, such as declining carbon emissions per person; well-developed public transport networks; and a relatively high number of green-rated buildings.

It is also notable that all of these cities also have universities which are benchmarked against the UN Sustainable Development Goal 11, the strength of research into and contribution to sustainable cities and communities.

However, while all these cities are making strides in supporting carbon reduction (at least on a relative per person basis), none are immune to climate risks. In fact, of our sample of 286 global cities, none scored much above 6 out of ten for resilience against climate risks such as extreme weather events.

Investors, almost universally, need to be accounting for the risks of increased weather events and broader climate risk in the future.

We found an 8-18% sales price premium for green-rated buildings compared to equivalent buildings without a BREEAM or NABERS rating.



QUANTIFYING GREEN BUILDING VALUE

The importance of ESG in real estate has been widely publicized. But the precise impact that sustainability credentials have on a building's value is less well understood. Using hedonic price modelling, we have been able to identify the different building, lease, time, and locational factors which contribute to sales price for prime office buildings in London, Sydney, and Melbourne. By using this methodology, we have been able to identify the contribution to sales price that is uniquely from a building's green rating.

We found that prime Central London office buildings with a BREEAM Excellent rating enjoy a 10.5% premium on sales price compared to equivalent unrated buildings, while those with a BREEAM Very Good rating enjoy a 10.1% premium.

In addition, prime office buildings in Melbourne and Sydney with a NABERS rating of 5+ enjoy a 17.9% premium on sales price compared to equivalent unrated buildings, while those with a lower NABERS rating enjoy an 8.3% premium.

Finding positive results for office markets at opposite ends of the world indicates that demand for green buildings is an international phenomenon and one that is likely to grow in significance.

THE GLOBAL RISE OF SUSTAINABLE FINANCE

Sustainable financing continues its meteoric rise, supported by central bank and government incentives around the world.

EMEA remains the global centre, supported by ECB and Bank of England incentivisation, and we are seeing more and more examples of sustainable financing across this region.

Asia-Pacific is quickly catching up, with, for example, the Chinese Central Bank offering incentives to the wider banking system to provide discounted loans to corporates making headway with emission reduction initiatives. However, in the real estate sector, sustainable financing is still much less developed than EMEA.

We see a similar story in the Americas, although Canada has seen evidence of sustainable real estate loans, and in the US, Fannie Mae has started green financing against multifamily residential.

Discover the insights https:
www.knightfrank.com/active-capital

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