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Europe & APAC Cross-Border Capital Opportunities

INSIGHTS FROM INVESTOR-DRIVEN CONVERSATIONS ON THE CURRENT ALLOCATION OF GLOBAL CAPITAL

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GRI Club

SUMMARY

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"When we look at the strong, well-established fundamentals of the European markets and add in the recent growth and evolution of the emerging Asia-Pacific markets, particularly in India, we see that the landscape for cross-border real estate investment between these two regions offers significant opportunities.

European real estate investors are drawn to APAC due to its high growth potential, opportunities for diversification, strong rental growth, and emerging markets, while substantial Asian capital is ready to seize opportunities in the European markets, attracted by its stable and transparent markets, prime real estate assets in major cities, strategic locations, and high-quality infrastructure.

But it's not all plain sailing. Besides the mutual difficulties in establishing local connections and accessing regional knowledge in uncharted markets, investors in both directions face several challenges, with European investors seeing constraints from capital recycling and allocation issues, as Asian investors encounter liquidity challenges.

Despite these hurdles, the outlook at this milestone event was largely positive about the prospects of an improved investment environment as conditions stabilise and investors increasingly pursue chances to diversify their portfolios and leverage the unique strengths of each region to achieve better risk-adjusted returns."

GUSTAVO FAVARON
CEO & Managing Partner, ***GRI Club***

INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potential using the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following the conversations that took place at the first edition of the "Europe & APAC: Cross Border Capital Opportunities" event, hosted collaboratively by GRI Club Europe and GRI Club India, alongside co-host Apex Group Ltd.

The forum brought together senior investors, lenders, operators, and real estate leaders to discuss capital flow trends between these two major regions and fund management strategies for overcoming challenges.

CLICK HERE TO ACCESS ALL THE EVENT PHOTOS

CROSS-BORDER CAPITAL BETWEEN APAC & EUROPE

» EU to APAC Deal Flow

The need for diversification and the search for new growth opportunities are primary drivers for European interest in APAC. Investors are cautious but recognize the potential for significant returns in these markets. The challenges lie in navigating geopolitical uncertainties and ensuring accurate asset pricing to stimulate transaction activity.

Attracting international capital to China, particularly from European and U.S. funds, presents its own set of challenges and opportunities. Historically, China has seen substantial international investment, but recent geopolitical tension and market losses have led to a reduction in foreign capital flows. Despite these setbacks, China remains one of the largest economies globally, with higher growth prospects compared to other regions.

Top Market Picks

The interest in APAC markets is multifaceted, with opportunities drawing European investors despite certain hesitations. Japan, a traditionally strong performer, is now viewed with caution due to perceived overvaluation in some areas, although expectations of a 10% value reduction in Tokyo office properties over the next year, driven by anticipated market corrections, could create a unique window for investors seeking to capitalise on lower prices.

Australia and Korea, however, are seen as having significant opportunities. Australia's demographic story, vacancy rates, and structural changes present a compelling case for investment, especially in cities like Sydney.

The Korean market, especially Seoul's office sector, is renowned for its exceptional strength, characterised by low vacancy rates and high occupancy levels. The country's logistics sector offers secondary opportunities for astute investors even with high vacancies, highlighting the broader potential within the market.

» APAC to EU Deal Flow

Navigating Uncertainty in European Real Estate

The influx of Asian capital into the UK and European real estate sectors presents a blend of hurdles and prospects. Interest from new private wealth investors in the APAC region is on the rise, yet accessing premier funds remains a significant obstacle.

Currently, the market is marked by low transaction volumes and persistently high interest rates. Early hopes for potential rate cuts have diminished, and the disparity between buyer and seller price expectations remains a major barrier.

In the UK, the market has experienced relatively rapid repricing, yet valuation discrepancies persist, causing frustration and stagnation. Brokers and agents often face conflicting valuations, further impeding market activity.

For the market to regain momentum, asset values must reflect realistic prices, and motivated sellers need to be open to accepting lower offers. Investment committees must balance internal dynamics and fiduciary duties to align with present market realities. While some areas have shown improved sentiment, secondary market repricing remains unclear.

Regional differences also play a crucial role in market dynamics. European markets have experienced fewer transactions and less aggressive revaluation, leading to greater uncertainty. The political landscape and upcoming elections in Europe add to these challenges, resulting in less transparency and greater unpredictability.

Although European real estate, particularly in logistics and living sectors, stands out as a promising avenue for APAC investors, understanding the current state, investor sentiment, and future prospects of these markets is crucial for navigating and capitalising on emerging opportunities.

APAC Advances

The maturity of APAC markets, with their established local investment teams, reduces the necessity for European asset managers to secure investments directly. APAC investors can now manage their investments independently, signalling a more competitive and sophisticated landscape.

Driven by strategies to diversify and seek new growth markets in the wake of China's market slowing down, APAC investors are increasingly looking towards Europe to diversify their portfolios, with distress and value-add opportunities in major cities like London, Paris, and Berlin being a key focus.

There is a noticeable emergence of new private wealth and institutional investors from APAC actively seeking opportunities in European real estate, highlighting the dynamic nature of APAC investments, which are not limited to traditional institutional funds but also include significant private capital.

A preference for joint ventures and strategic partnerships over traditional fund structures among investors from APAC was observed, reflecting a strategic approach to entering and navigating the European market.

European Evaluation

The UK was noted to present significant opportunities through the deregulation of office-to-residential conversions under Permitted Development Rights (PDR). This deregulation offers a more flexible and lucrative investment avenue compared to new build developments.

Future targets for APAC investment include Spain, Italy, and Poland, indicating a broadening interest in various European countries. One notable market is Warsaw, which is seen as an emerging area of interest due to its strategic position as a connection between Asia and Europe.

The growing interest from Chinese companies in setting up warehouses and factories in Poland due to this outlook and its lower labour costs underscores this trend. However, caution is advised in selecting specific micro-locations within Poland, as some areas face an oversupply risk.

However, challenges remain in the form of geopolitical and economic uncertainty in Europe. Accurate valuation and market stabilisation are critical for facilitating APAC to EU investments. The need for realistic pricing that reflects market conditions is emphasised as a key factor for recovery in transaction activity.

Emerging Trends and Opportunities

In recent years, the global real estate investment landscape has seen a significant shift towards private credit and strategic partnerships, such as separately managed accounts and joint ventures, rather than traditional fund investments.

This trend is particularly pronounced in Japan, Australia, and the broader Asian markets, where private wealth investors are increasingly turning their attention to real estate. These investors show a strong interest in direct real estate investments, driven by the desire for greater control and potential for higher returns.

Despite their growing presence, several factors, including a herd mentality and reluctance to be first movers, have slowed the deployment of capital. However, when these investors do engage, their impact is notable - as demonstrated during recent bidding wars in London seeing numerous bids from private wealth capital originating from Asia Pacific and the Middle East.

Private credit has also attracted considerable interest, particularly from APAC investors. This can be appealing due to its potential to mitigate currency impacts and provide stable returns in a volatile market.

The UK has emerged as a leading destination for direct investment in Europe, with notable expansions in both real asset equities and private credit. The market has rebalanced swiftly over the past 12 to 18 months, creating a more transparent and active environment for direct investments. This rapid adjustment, coupled with established investment opportunities, has made London a focal point for Asian capital.

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» A Cautiously Optimistic Future

The European market's recovery is expected to be gradual, with inflation and interest rates remaining key concerns. Political pressures may prompt central banks to cut rates, necessitating adjustments in capital market strategies to cope with a new era of volatility and inflation. As confidence builds, liquidity will return, providing a more stable foundation for market activities.

Despite financing challenges, rising default rates do not necessarily impede recovery. Historical patterns show defaults lag behind recovery, and motivated sellers, along with consensual sales, will bring assets to the market. Bank leniency, particularly in Germany, supports this process by offering flexible credit terms that facilitate transactions.

Refinancing will be essential in stimulating transaction markets. The current "extend and pretend" strategy seen across Europe is expected to transition to genuine refinancing, unlocking private credit funds ready to capitalise on distressed assets.

Interest in ESG property funds is also growing, driven by the desire to showcase prestigious investments and meet regulatory demands such as the proposed EU carbon tax. Compliance with ESG standards is becoming crucial, with asset managers repositioning properties to adhere to new regulations.

Additionally, asset allocation is expected to shift from bonds to real assets. The inverted US yield curve suggests an overabundance of bond purchases rather than an impending recession, prompting a sector rotation towards real estate. This change is likely to increase interest in infrastructure investments, where investor sentiment remains strong.

Although summer slowdowns in Europe may delay some activities, transaction volumes are expected to rise in the second semester, compared to the first half of the year. Sentiment is gradually improving - albeit cautiously - as the quality of real assets is recognised, and investors look forward to a market shift towards tangible growth opportunities in real estate.

INDIA: RISING STAR FOR CROSS-BORDER CAPITAL?

» India’s Trillion-Dollar Real Estate Potential

Currently valued at approximately USD 477 billion and accounting for around 7% of GDP, India’s real estate market is poised to reach a trillion dollars and 14% of GDP by 2030, making it a significant contributor to the country’s economy - which itself is expected to grow from almost USD 4 trillion to 7 trillion in the same timeframe.

Rapid advancements in infrastructure, including extensive road and rail networks, are contributing significantly to this outlook, bolstered by direct benefit transfer programs and digitisation efforts. A recent JLL-Propstack report shares that between USD 67 to 73 billion will be required in construction finance alone to support the growth of the sector until 2026.

Significant regulatory changes have also shaped the market, most notably the introduction of RERA in 2017. This regulation imposed entry barriers and required comprehensive online documentation and certification for developments, enhancing transparency and accountability, and making the market more attractive to institutional investors.

Underlining the impact of these changes, domestic investment by high-net-worth individuals (HNIs) and family offices is increasing, paralleled by foreign investments. According to JLL India, foreign investors injected USD 3.1 billion into the Indian real estate sector in the first half of 2024, comprising 65% of total institutional investments.

The capital market is experiencing significant evolution with the ascent of domestic venture firms and robust participation from the mutual fund and unit trust industries in real estate. Government policies supporting pension fund investments in regulated products such as REITs are diversifying avenues for domestic capital.

The widespread adoption of smartphones and affordable internet access has also democratised access to the financial markets, evidenced by the opening of around 15 million new trading accounts in the last two years.

With evolving regulatory frameworks, increasing transparency, and innovative investment avenues, the Indian real estate sector not only promises substantial growth potential but also demonstrates resilience in navigating global economic shifts.

» Regulatory Evolution Fuels Investor Confidence

One of the most notable transformations in the Indian residential real estate market has been the unprecedented increase in transparency, particularly following the implementation of the RERA (Real Estate Regulatory Authority) regulations.

Developers in India are now subject to more stringent disclosure norms compared to markets such as the UK, UAE, or the US. Prospective buyers can easily access comprehensive information online, including unit availability, sale prices, and project permissions, fostering a more open and trustworthy market environment.

Additionally, Indian business leaders within the global community consistently express positive sentiments about the government's role in driving economic development. This favourable perception underscores the supportive environment for investments in emerging sectors like the data centre industry, positioning India as a promising area for growth and development.

Praise for Prime Minister Modi's administration reflects the positive impact of government policies on the business environment. Despite initial apprehensions during elections, investors have observed a robust regulatory and economic framework that remains stable.

The establishment of numerous property funds and discussions surrounding India's inaugural tokenised property fund in Gift City signal growing confidence in the market, with these regulated sectors offering a stability that mitigates concerns over political fluctuations. Institutional investors, in particular, find reassurance in the consistent regulatory environment, which is less susceptible to abrupt government changes.

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» Finding Opportunities

Attracting investments from major domestic and international players, the country presents a diverse and dynamic landscape for investors, offering substantial potential for returns across various regions and asset classes - but where to find these opportunities?

India categorises its more than 4000 cities into three tiers based on population size and real estate market development, with Tier 1 being the largest and most developed, Tier 2 experiencing rapid growth, and Tier 3 being less developed but showing notable signs of progress.

- **Tier 1 cities** are classified by the Reserve Bank of India as those with a population of over 1 lakh as per the 2001 census, and they feature well-developed real estate markets, social amenities, and established businesses, making them the costliest property markets in the country.

- **Tier 2 cities** have populations between 50,000 and 99,999, are fast-developing, and have rising real estate markets, but are cheaper than Tier 1 cities; there are 97 Tier 2 cities including Amritsar, Bhopal, and Jaipur.

- **Tier 3 cities** have populations between 20,000 and 49,999, with underdeveloped realty markets and infrastructure, needing more investment for growth; some of the prominent Tier 3 cities are Etawah, Roorkee, and Udaipur.

While the core investment areas in India are concentrated across the eight Tier 1 cities of Delhi, Mumbai, Bangalore, Hyderabad, Pune, and Chennai, Tier 2 and 3 cities have seen impressive growth in recent years, particularly following the COVID pandemic. The resulting surge in remote work trends has fueled the movement of professionals from the top cities to less developed markets, opening new opportunities for investors in the process.

This expansion creates a potential market encompassing 50 cities, each developing modern infrastructure for various asset classes. These emerging Tier 2 and 3 markets are becoming increasingly attractive to large multinational corporations (MNCs) looking for opportunities to meet the growing demand for diverse asset classes, such as co-working and co-living spaces, across these regions.

Ongoing urbanisation and rising per capita income are key drivers of these changes, making more cities viable for real estate development. This shift is particularly evident in micro-markets where previously vacant properties are now in demand, highlighting significant changes in demographics and income levels.

» Main Asset Classes Shaping Indian Real Estate

Residential

Making up 80% of the country's total real estate market, India's residential sector predictably exhibits significant variation across property types and locations. The sector has seen a steady influx of capital over the last 10-15 years, raising about a billion dollars from third-party investors and deploying it across key cities in India.

Unlike Western markets where loans can extend up to 25 years, Indian mortgages typically span only five to six years, indicating a preference for shorter loan tenures. Luxury properties, typically priced between USD 5 to 10 million, are predominantly bought outright, with only 20-30% financed through mortgages, reflecting cultural preferences for both home-ownership and using personal funds.

In the post-COVID era, India has witnessed a notable surge in demand for spacious and upscale living environments, particularly in the mid to semi-luxury housing segments. This trend underscores a growing preference for experiential living, now extending beyond the top cities to those in Tier 2. This shift is fueled by the flow of professionals relocating to their hometowns due to remote work opportunities.

Buyers are increasingly prioritising larger, more modern homes equipped with extensive amenities, mirroring a general shift towards enhanced living standards and comfort. This has significantly boosted the luxury housing segment, which now comprises 21% of all residential units sold across the top seven Indian cities in the first quarter of 2024.

Although middle-income housing remains the largest and fastest-growing sector in urban centres across India, emerging asset classes like co-living and student housing are also gaining ground, catering to the country's youthful population. Purpose-Built Student Accommodation (PBSA) developments, particularly in cities like Hyderabad and Bangalore, offer attractive investment opportunities with high yields, supported by institutional backing and strong demand from universities and corporations for reliable housing solutions.

For more insights into the Indian residential market, **click here** to check out our full report on the discussions that took place at GRI Club India's forum **"Catalysts for Residential Real Estate"**.

Offices

India's office sector is exceptionally vibrant, boasting positive absorption rates that surpass those of many global cities, with more than 40 million square feet absorbed annually. This starkly contrasts with Europe and the US, where many cities have been experiencing negative absorption rates. Such momentum makes India's office sector a highly attractive asset class for investors.

The current market size for Lease Rental Discounting (LRD) in commercial offices alone is approximately INR 472,000 crore, with expectations for this segment to grow by 30% in the next three years, indicating a substantial opportunity for lenders.

Post-COVID, the trend of professionals working from their hometowns has created abundant demand for new infrastructure in these areas. This shift drives the need for offices, including shared spaces and small offices, across various locations.

Cities like Bangalore, Hyderabad, and the NCR are at the forefront of these trends, demonstrating significant net absorption in prime office spaces and highlighting the sector's immense consumption potential going forward.

For more insights into the Indian office market, **click here** to check out our full report on the discussions that took place at **GRI Offices India 2024**.

Retail

India's retail market in India is experiencing significant growth, including the increasing presence of international brands and the expansion of domestic players. The sector is set to benefit from the nearly 41 million square feet of new retail developments that are expected to become operational between 2024 and 2028 across the top seven cities.

Gross leasing in India's top seven retail markets reached 62.98 million square feet in early 2024, a 26.4% increase compared to the previous year. This surge is indicative of a robust retail environment, with technology companies and flexible space operators leading leasing activities.

This is contributing to a diverse and vibrant retail environment focused on catering to the evolving consumer preferences seen post-COVID, such as the greater emphasis on experiential retail. This has led to an increase in demand for well-located, high-quality spaces that offer more than just shopping by incorporating dining and entertainment options.

Logistics & Warehousing

India's logistics and warehousing sectors are experiencing significant growth in Tier 2 and 3 cities, fueled by the rise of ecommerce, technological advancements, and internal migration patterns. With increasing online shopping trends, there is a heightened demand for efficient supply chain solutions and last-mile delivery capabilities. This trend has necessitated the expansion of warehousing spaces across strategic locations to ensure faster delivery times and enhanced customer satisfaction.

Since regulatory standardisation in 2017, the warehousing and industrial sectors have gained substantial traction, becoming highly sought after by institutional capital as a result of a more stable and predictable environment for investments.

There is a notable trend towards upgrading warehouses from B and C grade to A grade, driven by the increasing demand for high-quality, institutional-grade warehousing facilities. This evolution reflects a broader trend towards enhanced efficiency and quality in industrial infrastructure, further solidifying these sectors as prime targets for investment.

Data Centres

India is emerging as a pivotal hub for data centres, driven by its longstanding reputation as a technological powerhouse, the growing presence of hyperscalers such as Amazon, Google, and Microsoft, and new data localisation laws mandating that all of the vast amounts of data generated within the country must be stored locally.

The significant investments being made by the biggest industry players highlight the ample opportunities on offer, but patience and a long-term outlook are essential in this market, as establishing data centres is a lengthy, complex, and costly process that involves site and operator selection, land acquisition, infrastructure assessment, water and power supply considerations, and much more.

India has already made commendable strides in addressing the substantial energy consumption and infrastructure needs of data centres. The country currently boasts a surplus in power supply, with data centre capacity at approximately 0.9 gigawatts, poised to expand to meet projected 2 gigawatts demand by 2026.

Although coal still dominates at 60%, India's energy landscape is evolving rapidly, with renewable sources now contributing 40%, aligning with global sustainability goals. Enhancements in the reliability of India's power grid have significantly improved stability, while modern grid integration and combined infrastructure efforts further bolster power supply consistency.

Check out **GRI Club's comprehensive report** on **Data Centres** by **clicking here**.

GRI Club

REAL ESTATE

Founded in 1998 in London, GRI Club currently brings together more than 17,000 senior executives spread across 100+ countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking, and business generation.

GRI Club Members also have access to our exclusive online platform to learn more about other members and their companies, correspond, schedule meetings, and receive unrestricted access to all GRI Club content.

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