

AFIRE INTERNATIONAL INVESTOR SURVEY MID-YEAR PULSE REPORT

FALL 2021

UNDERWRITTEN BY HOLLAND PARTNER GROUP



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AFIRE is the association for international real estate investors focused on commercial property in the US.

AFIRE is an essential forum for real estate investment thought leadership – AFIRE members gather throughout the year to help each other become Better Investors, Better Leaders, and Better Global Citizens through conversations, research, and analysis of real estate capital markets, cross-border issues, policy, economics, technology, and management. Representing the “who’s who” in the global real estate investment industry, AFIRE membership is exclusive to principals and senior executives.

For thirty years, AFIRE has produced this annual international investor survey as a tool for investors, regulators, and the media to understand the goals, challenges and impacts of international investments on US real estate opportunities.

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ADAPTING TO THE FUTURE / OCTOBER 2021



No matter your age or experience, 2021 has shaped up to be a year that nobody will ever forget.

On one hand, it has been a year of miracles, with effective vaccines developed and deployed faster than ever, as a critical tool for combatting the ongoing pandemic. But it has also been a year of continued disappointment, with new virus variants, uneven vaccination rates, closed borders, and bitter politics.

People have continued to adapt in creative ways. When AFIRE members were surveyed in March 2021 for our Annual International Investor Survey, on which this current survey is based, there was an overall sense of optimism based on the speed of these adaptations and the hope that the danger of the pandemic would soon pass. When this current “pulse” survey was sent in August 2021, the outlook had evolved, reflecting a greater emphasis on risk aversion and more concern for critical issues across business, real estate fundamentals, and social and political trends.

A closer look at the subtle changes provides an up-to-date snapshot of how the global institutional real estate investor community is thinking about the future: still optimistic, still focused, but even more careful—a shift that is certainly warranted during these challenging times.

AFIRE Research Committee Chair Will McIntosh of USAA Real Estate led the development of a pulse survey to refine and bring more dimension to the sentiment detailed in the original annual survey. AFIRE Future Trends Committee Chair and CEO of Chairman of Holland Partner Group Clyde Holland also volunteered his financial support and his powerful insight as a determined futurist.

The rest of the committee—Peter Grey-Wolf, Zeb Bradford, and David Roll—worked through every step of the survey process. Byron Carlock, Real Estate Practice Leader for PwC US, and the full PwC Research group were an important part of the team, as well.

AFIRE had its first in-person meeting in September and is planning more in-person events in the months to come. We may have to wear masks and prove vaccination, but we can get together. We can learn. We can adapt. And we will.

- Gunnar Branson
CEO, AFIRE



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As investors, there are things we can control. We can develop our teams, our approaches to decision-making, and forge dynamic strategies. It is a given that we do our homework. Solid data and processes are the foundation of great outcomes.

However, there are also things we can't control, as we learned with the COVID pandemic, geopolitical shifts, and changes in technology—forces that challenge even our most considered investment strategies.

Since the pandemic struck in 2020, what was unthinkable became normal. Social unrest, global recession, and political uncertainty kept all of us challenged and searching for information that will define our future.

Throughout my career, I've been fortunate to be challenged by smart and innovative colleagues around the world and enjoy relationships with people and communities that I trust. I believe our first step should be to ask questions, listen to each other, and be willing to change our minds when new or better information is provided. Accomplishing this enables us to productively harness the trends that will drive our future.

The process of bringing together our best thought leaders and challenging each other to chart the most productive path forward is embodied in our new report. Many thanks to our AFIRE staff, the AFIRE Research Committee and Future Trends Committee, and PwC Research team.

Holland Partner Group is proud to sponsor this report as it represents the best of who we are together.

- Clyde Holland
Chair, AFIRE Future Trends Committee
CEO and Chairman, Holland Partner Group



EXECUTIVE SUMMARY

For thirty years, the AFIRE International Investor Survey has gathered the opinions of AFIRE's members to construct a useful tool for investors, regulators, and the media to understand the goals, challenges, and impacts of international investments on US real estate opportunities.

The initial 2021 International Investor Survey was conducted March 2021 and released April 2021. With the guidance of the AFIRE Research Committee and the diligent work of the PwC research team, this year's member research project was adapted to meet the needs of the "new normal," thus warranting a mid-year sentiment "pulse," or follow-up, to the Q1 2021 survey. Conducted August 2021, this follow-up allows comparisons in attitudinal changes over the past several months, especially as the vacillating trajectories of the pandemic have forced constant adaptation to strategies and core investment philosophies.

In addition to increased worries about the virus over the past several months, concerns about cybersecurity issues have jumped ahead of those related to increased taxes or inflation (p. 5). The optimism expressed by investors in the March 2021 survey continues to hold, though it is now through a lens of heightened caution. For example, increased reliance on technology has heightened uncertainties in areas as diverse as office demand (p. 6), geopolitics (p. 7), and risk-related spending (p. 10). Until these emergent risks can be quantified and mitigated, this will likely remain high on investors' worry list.

Alternately, most of the uncertainty at the beginning of the year around office usage and deurbanization has declined (p. 6), especially as companies return to the office and cities gradually come back to life. However, investors have decreased their overall "appetite" for new office acquisitions to a level below that of retail (p. 8)—though as office usage stabilizes and reorganizes over the next year, this number will change. For now, there remains continued enthusiasm for less traditional investments such as data centers, life science properties, and even cold storage.

Overall, the mood of US real estate investors appears to be one of "cautious enthusiasm"—and appropriately so. This is a time of rapid change that is difficult to predict. It doesn't hurt any investment strategy today to take these forces into account, nor to take advantage of the positive forces afoot.

METHODOLOGY

The information contained in this report was collected in an online survey, comprised of quantitative and qualitative questionnaire, conducted throughout August 2021. The survey gathered insights from 76 respondents across 12 countries and was administered by the research team at PwC LLP, which managed data collection and aggregation of results.

CYBERSECURITY IS A TOP CONCERN

Reporting 79% net concern, investor concerns related to cybersecurity have substantially increased compared to March 2021—now ranking higher than taxes and inflation (p. 6)

WORRIES ABOUT DEURBANIZATION HAVE MEANINGFULLY DECLINED

More than half of respondents in March 2021 indicated deurbanization as a key concern, though this number has meaningfully declined to less than 40% (p. 6)

APPETITE FOR US OFFICE AND RETAIL HAS DECREASED

Respondents believe appetites for office and retail have decreased over the past two years (81% and 84% respectively)—though this does not indicate inactivity (p. 9)

ECONOMIC AND POLITICAL RISKS ARE TOP-OF-MIND FOR NEXT DECADE

More than 60% of respondents ranked US economic recession as the most significant factor affecting US investments over the next decade, followed closely by global recession (53%) (p. 8)

CLIMATE CHANGE WILL DOMINATE MIGRATORY TRENDS

Nearly 70% of respondents believe that events related to climate change will pose a greater threat to investment than reverse urbanization (migration from US cities) (p. 11)

DIVERSE TALENT AND LEADERSHIP WILL BE CRITICAL FOR THE FUTURE

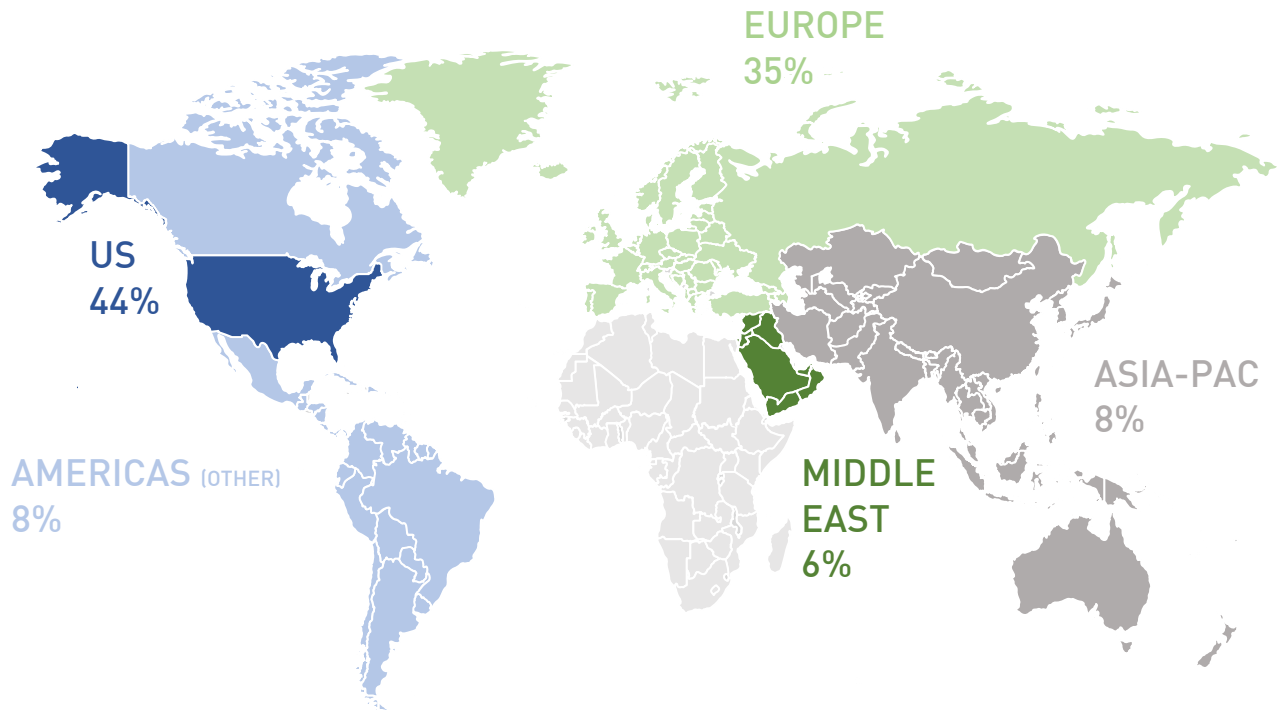
More than 80% of respondents agree that the US real estate workforce will need to become more diverse in order to manage future risks within and beyond the industry (p. 11)



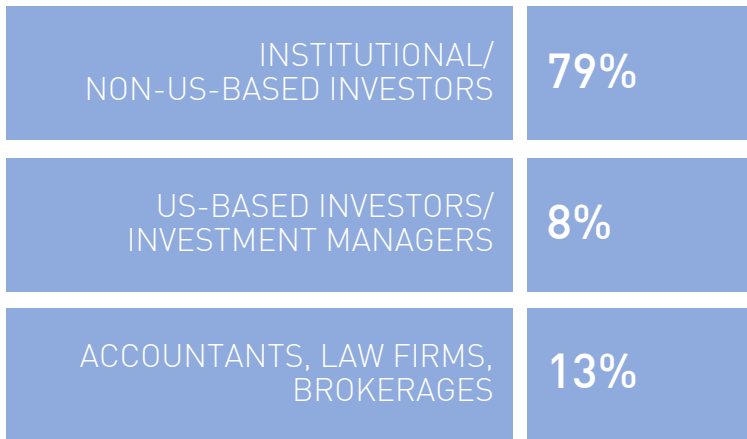
RESPONDENT PROFILE

Members of AFIRE represent nearly 190 organizations from 23 countries, with approximately US\$3 trillion in assets under management (AUM).

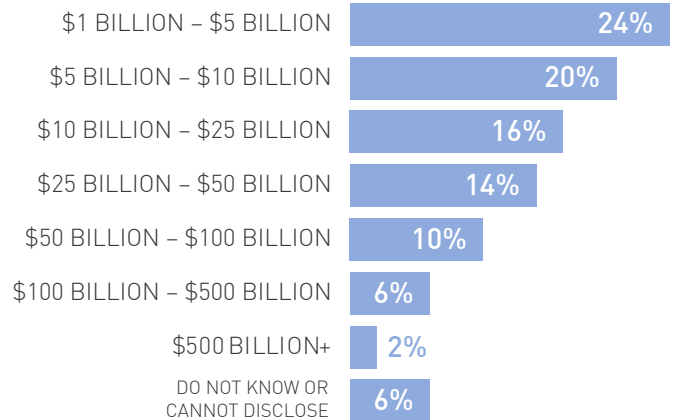
This mid-year pulse survey collected insights from 76 executives representing unique organizations within and beyond the AFIRE membership. Regional participation in the data collection was broadly in line with AFIRE's overall membership profile, which includes institutional investors, fund and investment managers, family offices, publicly listed companies, and related services.* More than half of the respondents to this August 2021 pulse survey also participated in the annual survey, conducted in March 2021.



RESPONDENT COMPANIES PRIMARY ACTIVITIES



+ ASSETS UNDER MANAGEMENT



* Due to rounding, some charts in this report may not total to 100%.



INVESTOR CONCERNS / BUSINESS CLIMATE

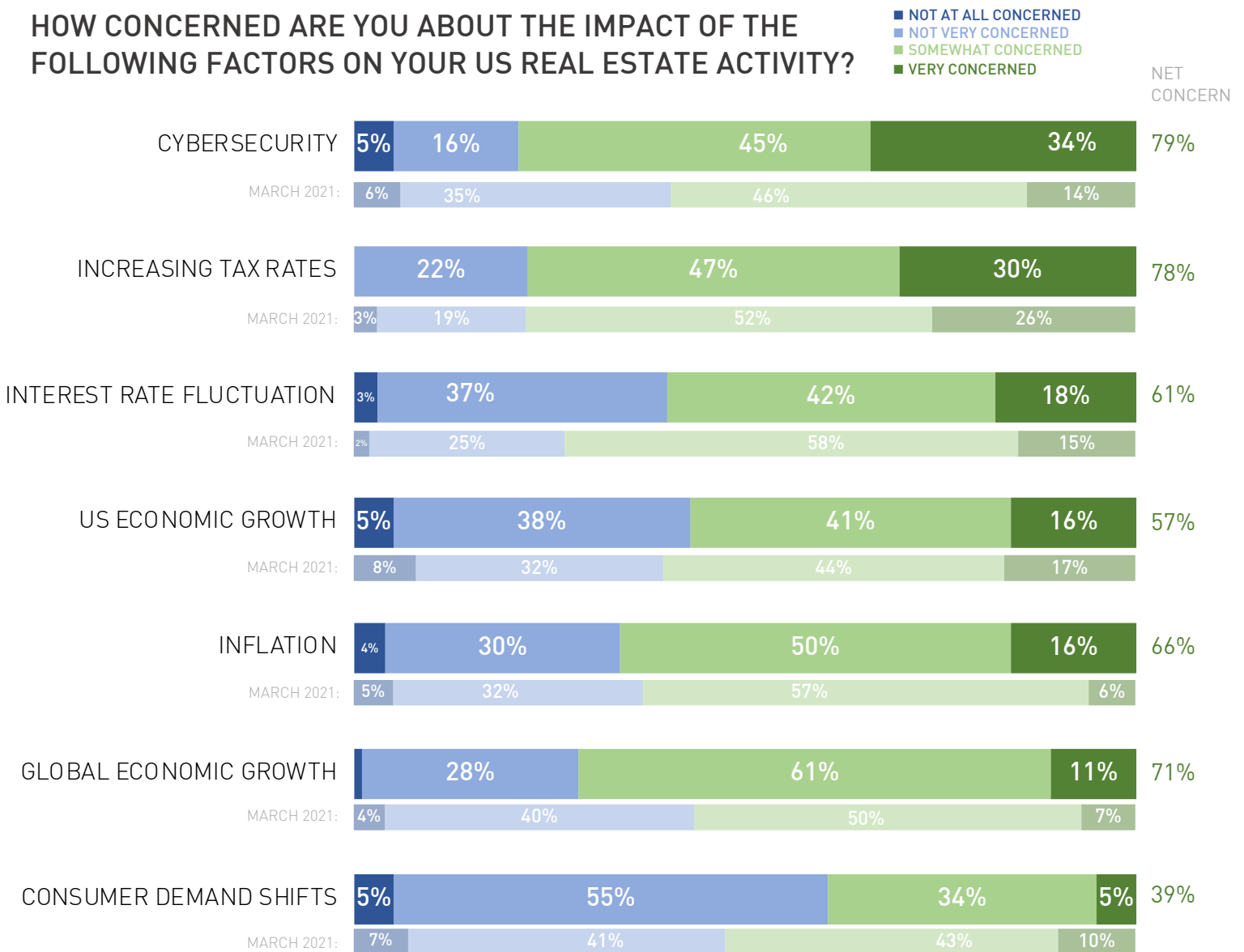
To compare changes in attitudes related to the general business climate, respondents were asked to rate their concern about seven key business factors. In March 2021, increasing tax rates ranked as a top concern (78% net concern), followed by interest rate fluctuation (73%), and inflation (63%).

While concerns about increasing tax rates have not meaningfully changed over the past several months (remaining at 78% net concern), and concerns about inflation have grown slightly (from 63% to 66%), cybersecurity has skyrocketed to the top of the list, ranking at 79% net concern, up from 60% earlier this year.

These concerns are interrelated. For example, concerns about economic conditions (e.g., interest rate fluctuations, inflation, and economic growth) have mostly subsided in recent months, perhaps reflecting the stabilization of pandemic-related uncertainties as the world becomes more organized in its fight against COVID-19.

Similarly, the subsidence of some of these uncertainties (e.g., shifts in consumer demand) has correspondingly heightened concerns in other related areas, especially around cybersecurity, which has become even more integral to consumer confidence through and beyond the pandemic.

HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING FACTORS ON YOUR US REAL ESTATE ACTIVITY?





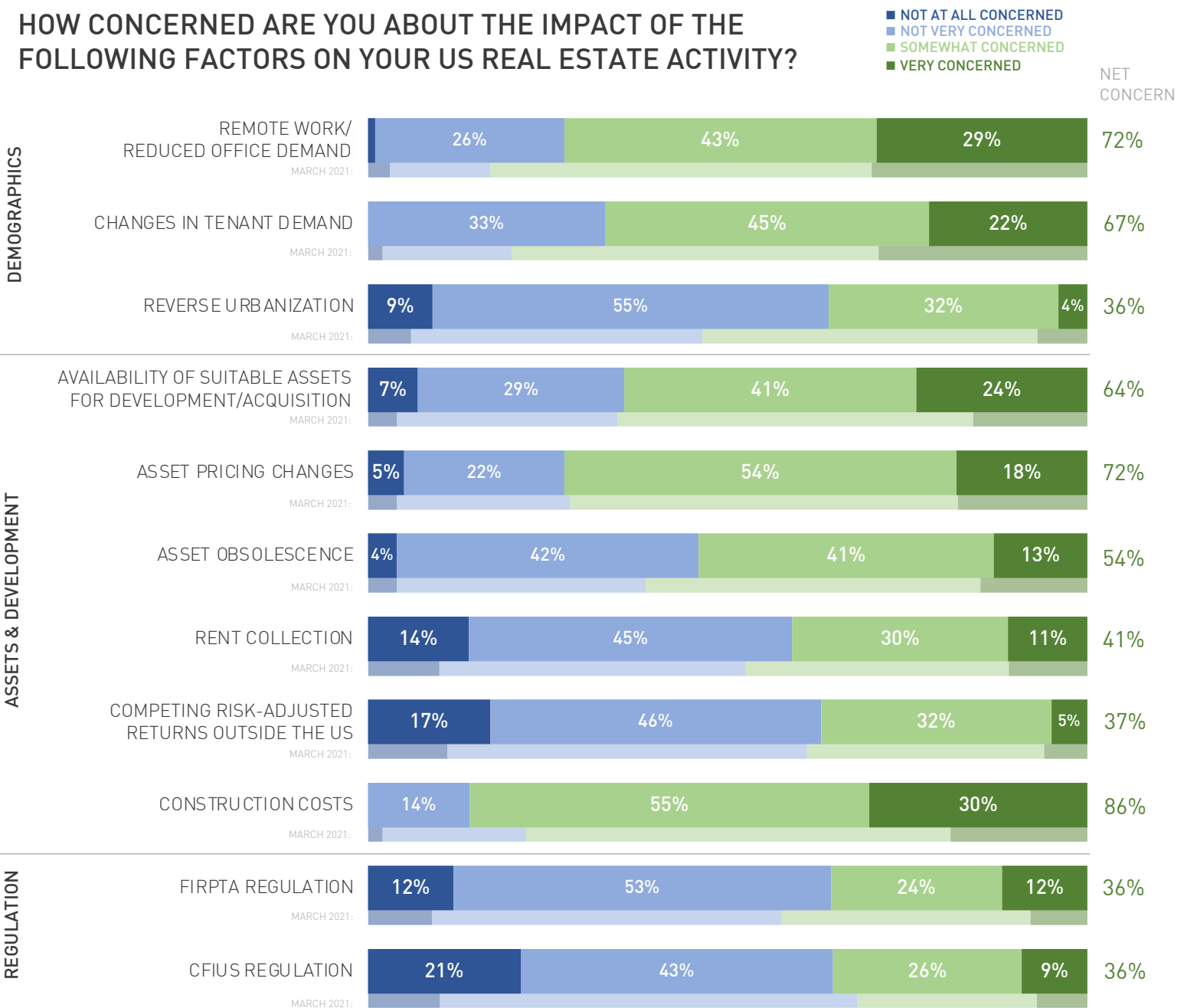
INVESTOR CONCERNS / REAL ESTATE

Investor concerns about real estate fundamentals across demographics, asset types, and regulation have declined over the past several months.

The most substantial declines have occurred around remote work/office demand (72% net concern, down from 83%) and changes in tenant demand (67%, down from 80%), reflecting market adaptation to prolonged pandemic conditions.

Concerns about migration out of cities has also seen significant decline (36% net concern, down from 53%), while concerns around rent collection, asset pricing, obsolescence, and/or availability have remained notably stable. And even as most concerns have declined or stayed the same, construction costs have grown to the area of greatest concern (86%). This trend could continue, especially in the face of ongoing supply chain challenges.

HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING FACTORS ON YOUR US REAL ESTATE ACTIVITY?





INVESTOR CONCERNS / SOCIAL AND POLITICAL

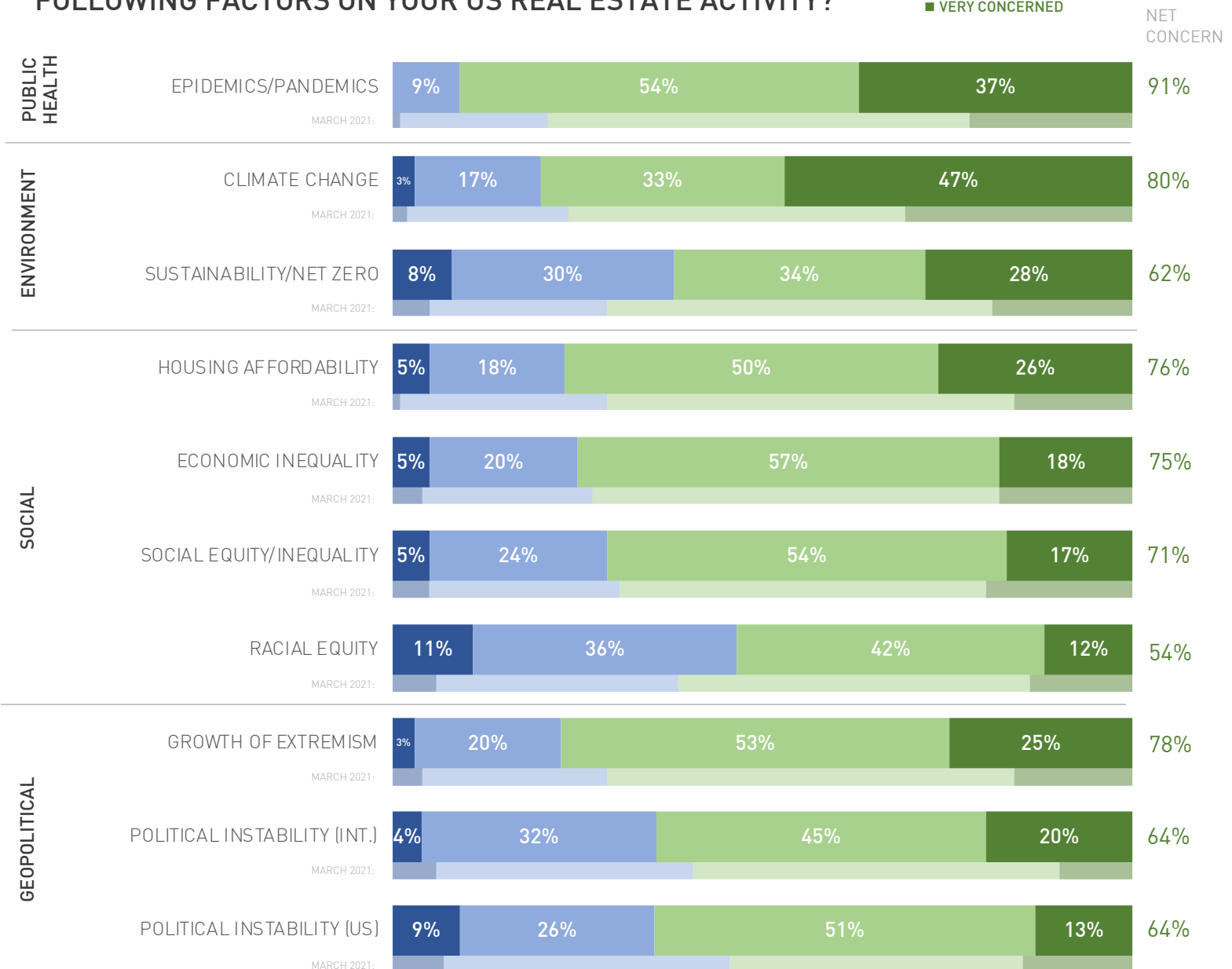
In March 2021, public health issues topped the list of social and political concerns for investors (79% net concern). COVID vaccines were beginning to roll out, and there was some collective optimism that the world was past the worst of the pandemic.

However, the Delta strain upended that optimism by mid-year, and markets battered down for a prolonged pandemic, as reflected by the increase to 91% net concern for pandemics—nearly universal.

Concerns around climate change, affordable housing, and economic and social inequity also saw slight increases in concern, though concerns about pathways towards progress in these areas (e.g., sustainability and racial equity) saw moderate declines. However, concerns related to political instability and extremism, globally and in the US, have increased over the past several months.

HOW CONCERNED ARE YOU ABOUT THE IMPACT OF THE FOLLOWING FACTORS ON YOUR US REAL ESTATE ACTIVITY?

■ NOT AT ALL CONCERNED
 ■ NOT VERY CONCERNED
 ■ SOMEWHAT CONCERNED
 ■ VERY CONCERNED



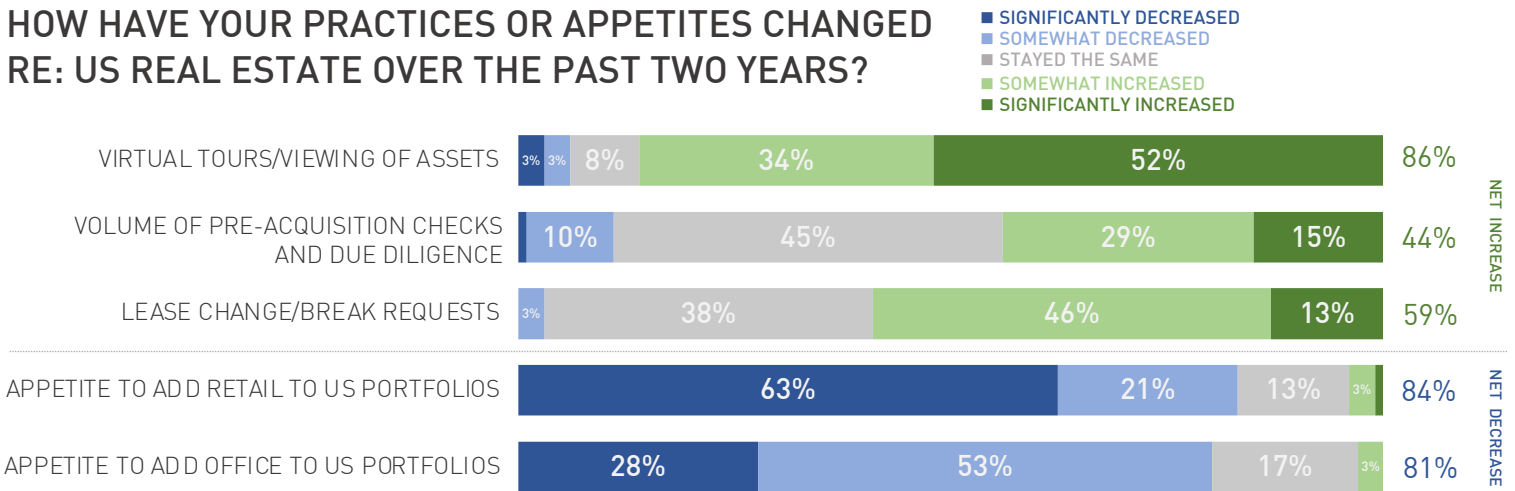


RISK MANAGEMENT / KEY TRENDS

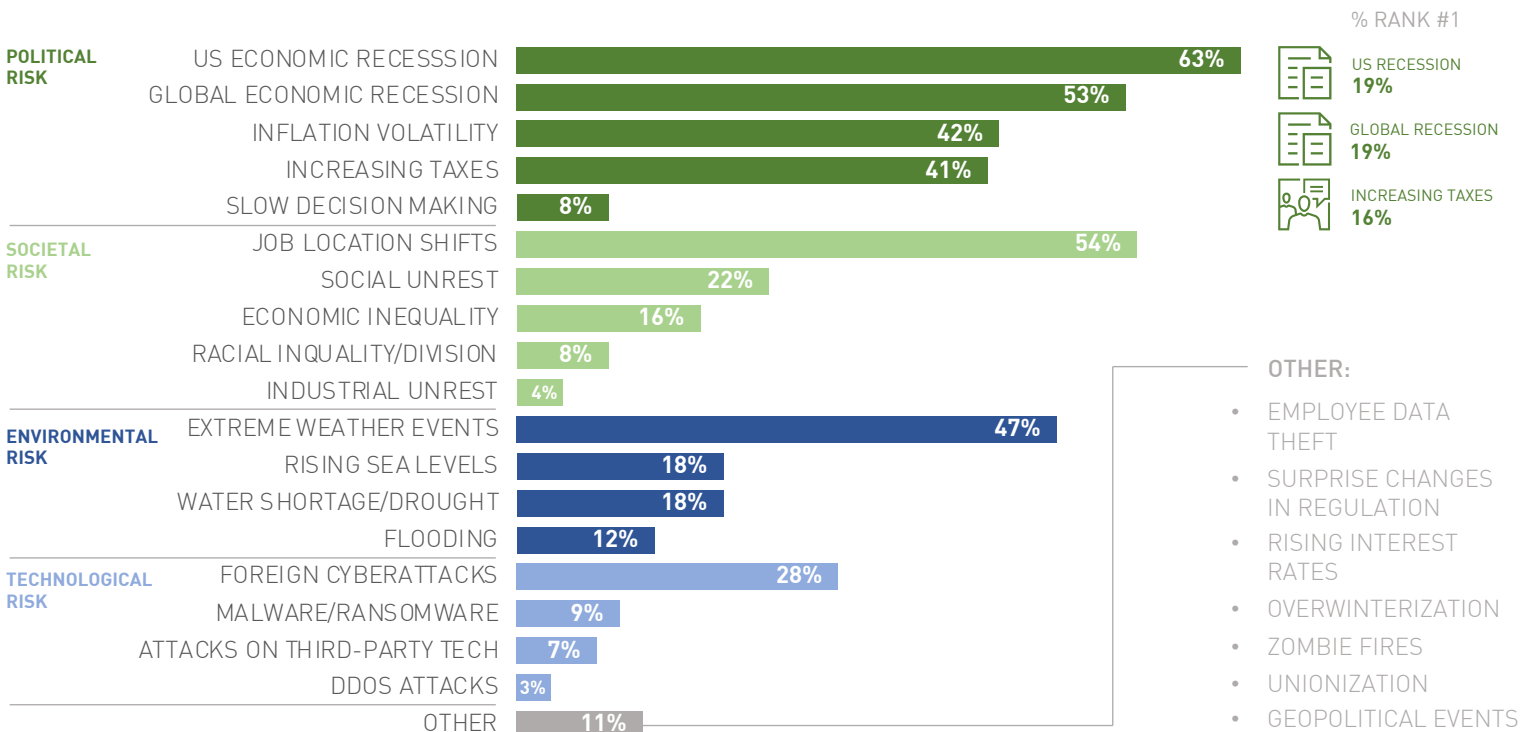
In the face of evolving concerns across business, real estate, and socio-political conditions, risk management has become increasingly critical, especially as our dominant areas of risk—including those related to political, social, climate, and technological concerns—also threaten to be novel in their manifestation (e.g., large-scale climate events, malicious ransomware, disease strains, etc.)

This prioritization of risk management has seen notable changes in standard real estate practices (*top chart*), such as due diligence and lease negotiation processes, as well as appetites for adding retail and office assets to US portfolios (net decrease of 84% and 81%, respectively). Similarly, political and economic risks are forecasted to have the greatest impact on US real estate over the next decade (*bottom chart*).

HOW HAVE YOUR PRACTICES OR APPETITES CHANGED RE: US REAL ESTATE OVER THE PAST TWO YEARS?



FACTORS FORECASTED TO HAVE GREATEST IMPACT ON US REAL ESTATE INVESTMENT IN NEXT 5-10 YEARS:





RISK MANAGEMENT / EXTENTS & IMPACTS

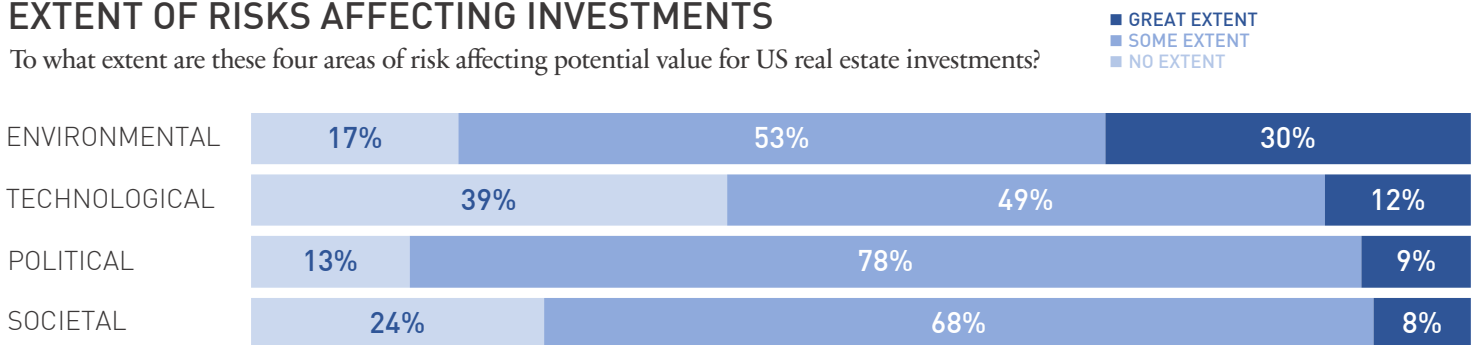
The primary risks detailed in this survey focus on four key areas: (1) **environmental risk** (e.g., rising sea levels, weather events, etc.); (2) **technological risk** (e.g., phishing, malware, ransomware, etc.); (3) **political risk** (e.g., changing tax landscape, regulatory changes, etc.); and (4) **societal risk** (e.g., civic unrest, labor issues, etc.).

Respondents were asked to rank how these risks affect their investments, organizations, and long-term strategies.

Environmental risks rank the highest almost universally across all three areas, with 83% stating that these risks will affect potential investment value and nearly 60% forecasting climate-related threats to their assets and operations. And consistent with sentiments expressed elsewhere, political issues pose similar degrees of risk, with 87% finding value affected and 75% forecasting a threat to assets and operations.

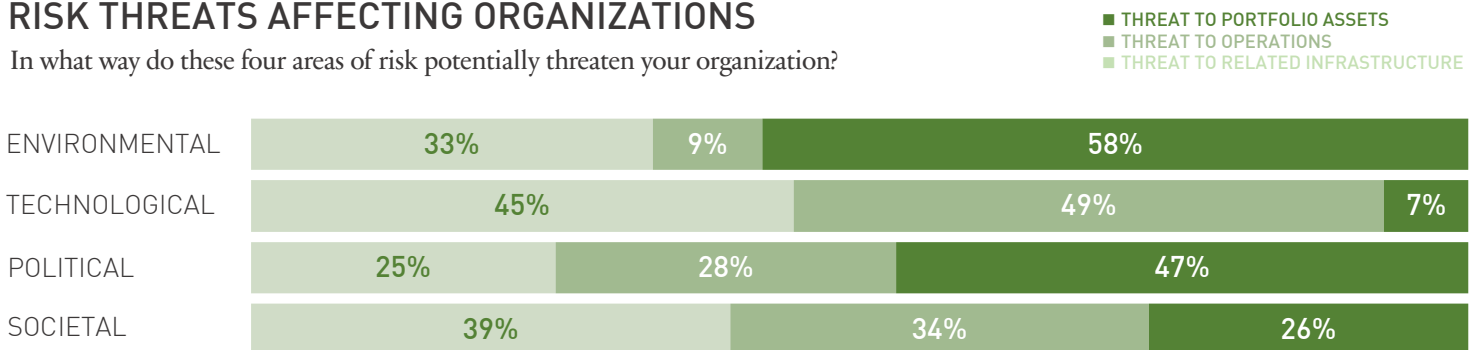
EXTENT OF RISKS AFFECTING INVESTMENTS

To what extent are these four areas of risk affecting potential value for US real estate investments?



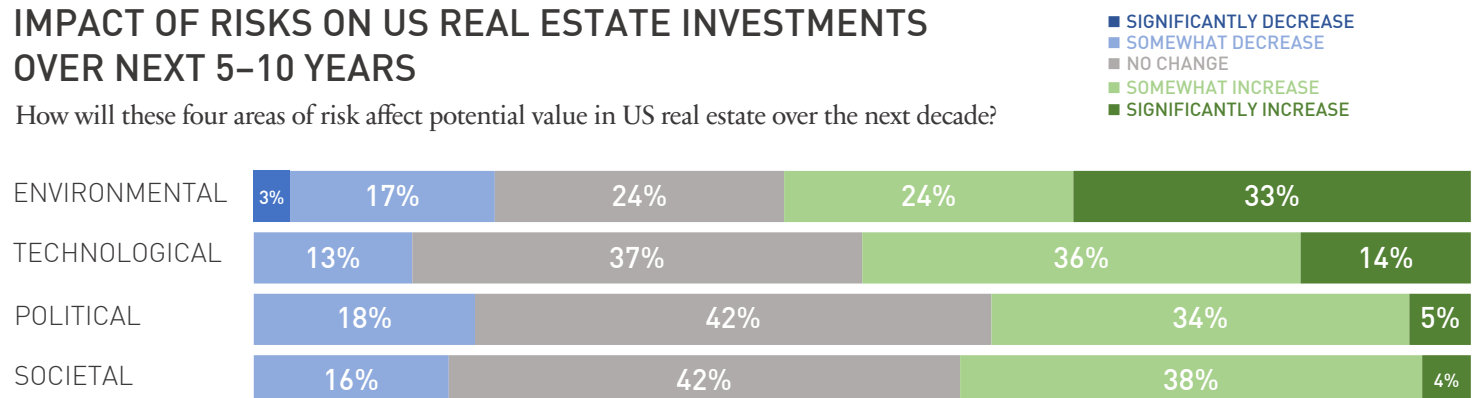
RISK THREATS AFFECTING ORGANIZATIONS

In what way do these four areas of risk potentially threaten your organization?



IMPACT OF RISKS ON US REAL ESTATE INVESTMENTS OVER NEXT 5-10 YEARS

How will these four areas of risk affect potential value in US real estate over the next decade?





RISK MANAGEMENT / EXPENDITURE & OUTLOOK

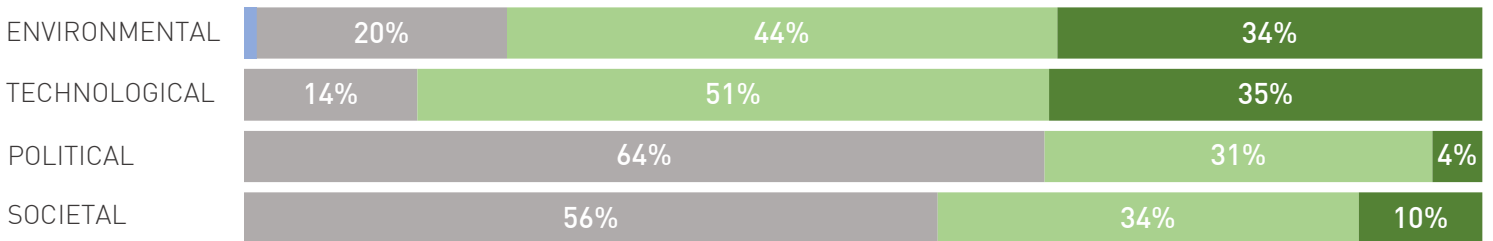
Because environmental risks rank among the highest areas of concern for investors, respondents also signaled an 78% net increase in risk management expenditures over the next decade. This is led by a forecasted 86% increased in technology and cybersecurity-related spending over that same period. Alternately, anticipated extra spending for political and societal risks is more modest, perhaps reflecting to their more immaterial nature.

These increased expenditures are an extension of how respondents are forecasting broader technological, cultural, and consumer changes over the next decade. For example, 85% of respondents anticipate an ever-accelerating application of technology in the industry, as well as a greater demand for technology. And no matter the nature of risk, most respondents (79%) also expect higher insurance premiums in all areas.

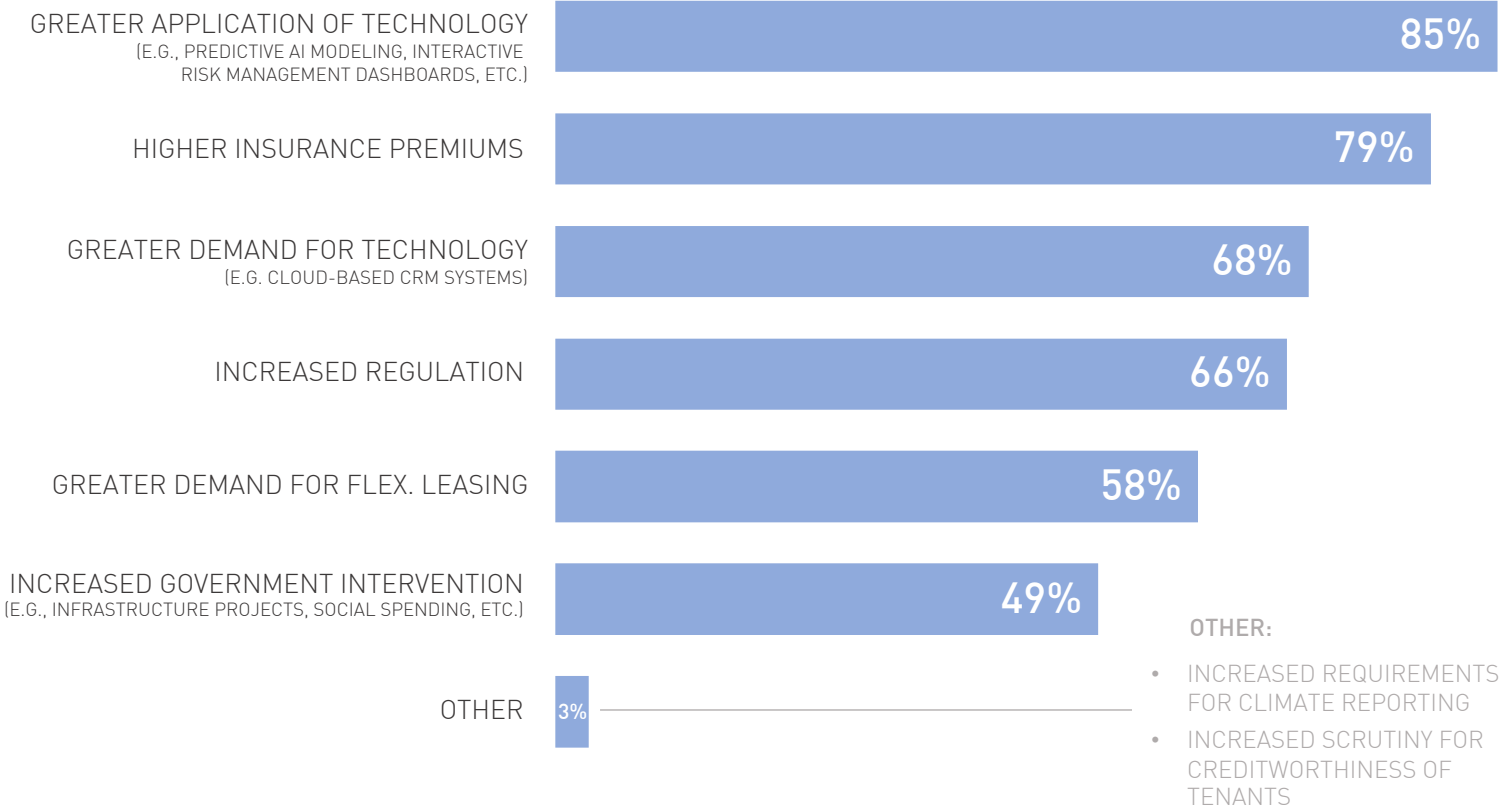
CHANGE IN EXPENDITURE TO MANAGE RISK

How will your organization change its expenditures to manage these risks over the next 5–10 years?

■ MODERATE DECREASE
■ NO CHANGE
■ MODERATE INCREASE
■ SIGNIFICANT INCREASE



ANTICIPATED CHANGES TO US REAL ESTATE RISK MANAGEMENT OVER NEXT 5–10 YEARS





FUTURE TRENDS / OPINIONS & FACTORS

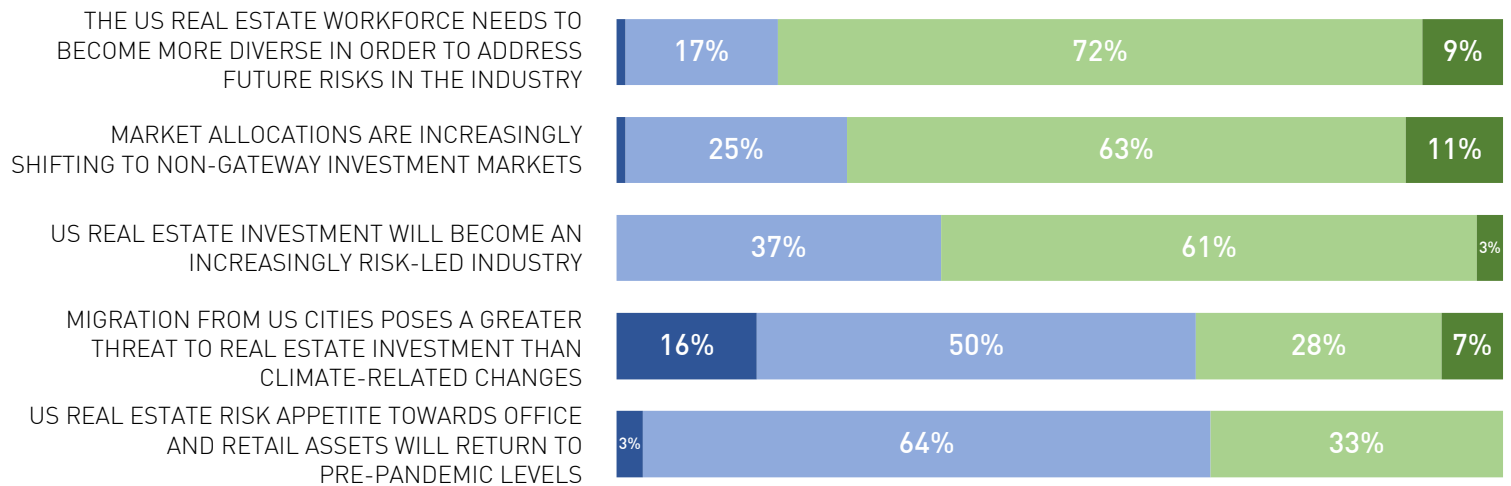
AFIRE's Future Committee is comprised of leaders within the association's global membership and focuses on trends that will help understand the future of real estate investing beyond the visible horizon. For this section of the survey, respondents rated "future factors" likely to have the most significant impact on their investments for the next decade.

Political issues and climate change will be top-of-mind for investors in over the next decade. The connection between workforce diversity and risk management (with 81% agreed) will be critical to future performance, as will the ongoing prioritization of allocations in non-gateway investment markets (74% agreed).

FUTURE TRENDS IN REAL ESTATE

To what extent do you agree or disagree with the following statements?

■ STRONGLY DISAGREE
 ■ DISAGREE
 ■ AGREE
 ■ STRONGLY AGREE



KEY FACTORS FOR US REAL ESTATE OVER THE NEXT TEN YEARS

What changes will shape US investor risk policies over the next decade? (Number of respondent mentions by theme:)





ABOUT OUR UNDERWRITER



Founded in 2000, Holland Partner Group (HPG) based in Vancouver, Washington, is a fully integrated real estate investment company. HPG principals' development and acquisition volume exceeds US\$15 billion, representing 50,000 apartment homes located in the Western United States' most sought after markets.

Our company accomplishes our investment objectives in strategic alignment with our capital partners through our five integrated operating companies, including development, construction, acquisition, redevelopment, and property management.

Our vertically integrated focus has developed the real estate industry's most consistent and reliable delivery platforms. Our combined business volume is expected to exceed US\$2 billion annually through our 750-member team.

To learn more, visit hollandpartnergroup.com.

ACKNOWLEDGEMENTS

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ABOUT AFIRE



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Dialogue fostered by AFIRE is designed to help members gain competitive advantage through strategic and operational thought leadership, and to help improve the global real estate investment industry.

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