AFIRE INTERNATIONAL INVESTOR SURVEY

2024

UNDERWRITTEN BY HOLLAND PARTNER GROUP

CONTENTS

ABOUT AFIRE

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 more than 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.

About the cover: "Water's Soul," an 80-foot-tall polyester resin fiberglass sculpture, designed by Spanish artist Jaume Plensa, along the Hudson River Waterfront Walkway in Jersey City, New Jersey. Fall 2023. Photo by Tony Reynes.

Please contact Benjamin van Loon, Communications Director, bvanloon@afire.org, for hi-res graphics, data sets, reprints, and other uses.

NOTE FROM CEO

For more than thirty years, the AFIRE International Investor Survey has gathered the opinions of AFIRE members, comprised of 180 institutional investors, pension funds, asset managers, and other leading global organizations from two dozen countries with approximately US$3 trillion AUM.

The results of this pulse report taken in the first months of 2024 should help clarify the goals, challenges, and issues facing the international commercial real estate investor in the US. The survey was administered by the AFIRE staff and Research Committee.

After a year of higher interest rates, limited transactions, lowered office valuations—and some bank failures—there is ample reason for institutional investors to be cautious.

A consensus that office buildings have lost 40% of their value in the last year can dampen anyone's spirits, and the US Federal Reserve hasn't lowered interest rates, yet . . . even as they continue to tease a possible easing over the next year. It is an uncomfortable truth that demand for office space has been down for some time, and it's difficult to know how that will evolve. More than 65% of respondents believe there is more change to come before we know what office use will look like in the years to come.

But the distress felt by portfolio holders is also cause for investor optimism. Almost 90% of respondents believe there will be a notable increase in assets returned to banks and therefore potential discount opportunities. And even as office is uncertain, the demand for housing, logistics, and alternative real estate assets continues to grow.

There are also signs of growing optimism. Many investors, perhaps in a soft voice, assert that 2024 could become an extraordinary "vintage" for new investments.

Geopolitical tensions are seen as a significant risk, as are the rising costs of insurance premiums—not just in Southern Florida or California, but throughout the country. Despite the acute shortage of affordable housing, obstacles such as zoning, building codes, NIMBYism, and higher costs require investors to proceed carefully.

Interestingly, despite understandable uncertainty about the 2024 US presidential elections, less than five percent of respondents seem to have different business strategies depending on the outcome of that election.

Despite a challenging and uncertain environment, global institutional investors are committed to carefully continuing their cross-border activities. Proceed with caution.

Gunnar Branson, CEO
March 8, 2024

EXECUTIVE SUMMARY

For more than thirty years, the AFIRE International Investor Survey has gathered the opinions of AFIRE members, comprised of more than 180 institutional investors, pension funds, asset managers, and other leading global organizations from twenty-five countries with approximately US$3 trillion AUM.

The results of this bi-annual process produce this benchmark opinion report; a useful tool for understanding the goals, challenges, and long-term thinking underscoring the international view of commercial real estate opportunities in the US.

This report, underwritten by Holland Partner Group, our longtime survey sponsor, providing a snapshot of what global real estate investors are thinking *right* now for cross-border investment. Based on the diversity of ideas presented in this report, 2024 will be a major year of change—not only for the real estate industry, but for the world, as inflationary pressures continue to stress many consumers, roiling wars push on anxious borders, and investors look for increasingly creative ideas to capture alpha.

This survey was conducted in January 2024 by the AFIRE team and broader Research Committee. And new for this report, AFIRE has partnered with Ferguson Partners, a global professional services firm specializing in executive and board recruitment, to capture the direct insights of several AFIRE members. Their verbatims are included throughout this document.

Collectively, the findings reported here underscore the importance of ongoing cross-border collaboration and conversation—especially in a world still processing the immediate and after-effects of the pandemic, likely the biggest global disruption over the past fifty years.

RESPONDENTS SAY:

60%
Believe the pandemic has permanently altered culture and live-work preferences.

68%
believe more time is needed before baseline office use can be re-established.

57%
say housing affordability is the most important real estate issue in the next five years.

84%
signal growth potential in US real estate, outpacing all other regions by more than 30%.

58%
cite zoning, regulations, and costs as the biggest barriers to housing affordability.

KEY THEMES:

Top US Cities
Los Angeles, Washington, DC, Seattle, Dallas, and New York on top.

Changes in US Markets
Economics, work habits, and costs are changing cities.

Evolving Asset Trends
Office and retail are undergoing a major transformation.

Insurance Costs
Prices are rising across the board, but some regions will be hit worse.

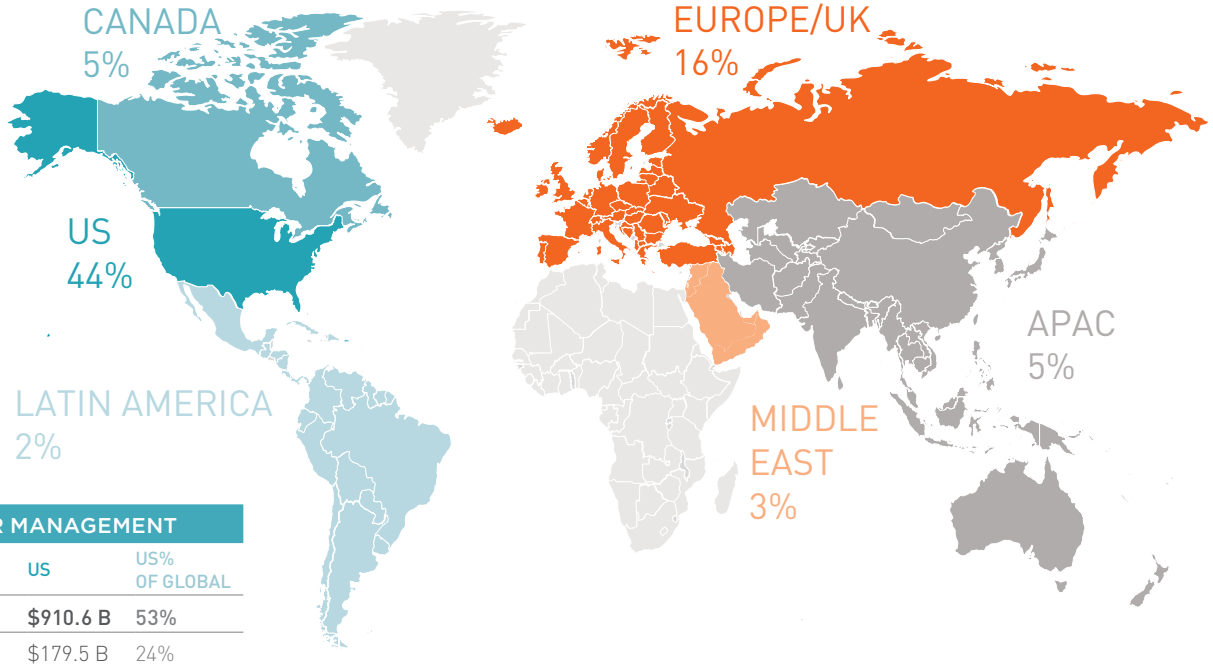
RESEARCH OVERVIEW

Members of AFIRE represent more than 180 organizations from 25 countries, with approximately US$3 trillion in assets under management (AUM) in the US, with an overall membership profile that includes general and limited partners, including institutional investors, fund and investment managers, family offices, publicly listed companies, and related services.

This survey was conducted for the month of January 2024 using a dual online methodology, providing survey invitations and a generic survey registration option. The research collected more than eighty unique responses from AFIRE members and non-members who are responsible for global real estate investment activities within their organizations.

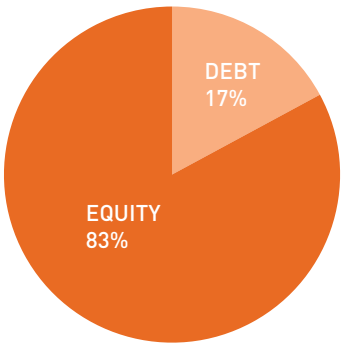
This survey has gathered and aggregated anonymized insights from respondents and was administered by the AFIRE staff and research committee. Ferguson Partners, a global professional services firm specializing in executive and board recruitment, also conducted a series of one-on-one interviews with a selection of survey respondents. Highlights from those conversations are also included in this report.

At the time of this survey, respondents were largely concentrated on real estate equity, with few planning to decrease their amount of both equity and debt in 2024. Gains in equity will increase in 2024, just ahead of planned increases in debt.

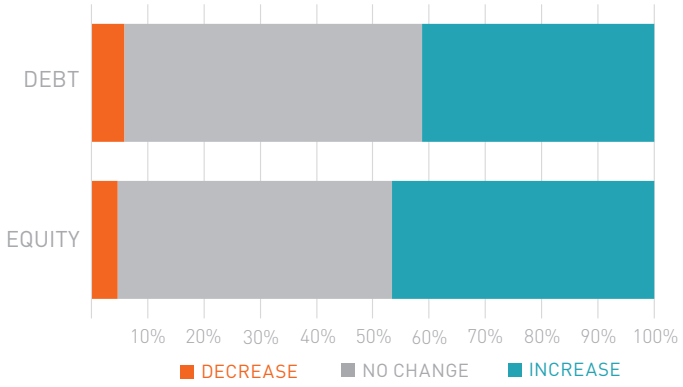


ASSETS UNDER MANAGEMENT			
	GLOBAL	US	US% OF GLOBAL
ALL	$1.7 T	$910.6 B	53%
NON-US	$743.5 B	$179.5 B	24%
US	$934.8 B	$684.7 B	73%

AT THE END OF 2023, APPROXIMATELY HOW MUCH OF YOUR INVESTMENT PORTFOLIO WAS FOCUSED ON REAL ESTATE DEBT AND/OR EQUITY?



WHAT DEBT AND/OR EQUITY CHANGES DO YOU ANTICIPATE IN 2024?



EXECUTIVE INSIGHTS
2024 OUTLOOK

During the survey period of January 2024, AFIRE's research partners at Ferguson Partners conducted a series of one-on-one interviews with a selection of survey respondents, providing a deeper dive into the topics assessed in the online questionnaire.

The interviews have been anonymized and relevant statements are included throughout this report.

The general profile of the respondents includes Chief Investment Officers, Managing Directors, and other with fiduciary responsibility for US commercial real estate investment decisions on behalf of global capital. Topics of note generally fell into four categories:

GEOGRAPHIC AND MARKET TRENDS

"European markets face significant economic and geopolitical challenges, leading to cautious investment strategies."

"North American markets, particularly the US and Canada, are anticipated to have more activity in value-add and opportunistic investments."

"Political, environmental, insurance, and ESG factors increasingly influence market selection."

PROPERTY SECTORS

"The big themes to watch are e-commerce, onshoring, supply chain, digitization, AI, energy efficiencies, bioscience, biotech, and work-from-home."

"The office and retail sectors are transforming, with a decreasing demand for office space but an emphasis on quality."

"The housing market shows a rising demand for multifamily and single-family rentals, focusing on affordability."

OBSTACLES TO AFFORDABILITY

"Regulatory challenges and NIMBYism are significant barriers to housing development, with regulatory complexity creating barriers and challenges."

"Innovative solutions and collaborations are necessary to meet housing demands and affordability."

"Local policies related to rent control and permits are vital in addressing the housing supply and demand imbalance."

CLIMATE CHANGE, ESG, AND SUSTAINABILITY

"Climate change and sustainability considerations are increasingly integral to investment decisions, particularly in high-energy sectors.

"EU regulatory compliance is shaping asset valuation and capital expenditure, reflecting broader sustainability initiatives."

"Insurance costs and availability, influenced by climate risks, pose growing challenges, highlighting the importance of insurability in high-risk regions."

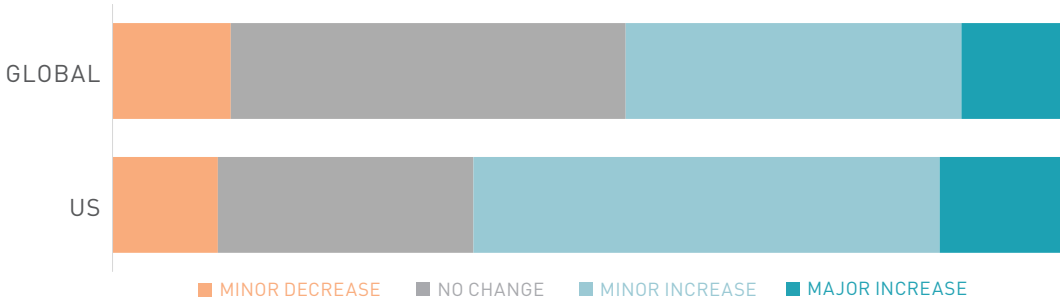
2024 REAL ESTATE ALLOCATIONS

Collectively, at the end of 2023, survey respondents had the majority of their global real estate investments in the US (55%), followed by Europe and the UK (28%), and Canada (8%). Separating out the non-US-based respondents, we see slightly more diversification, with roughly 29% of assets in the US, just behind continental Europe (33%).

The difference between 2023 allocations and 2024 intentions is negligible. The US, Europe, and the UK may see slightly fewer allocations, with slight increases planned for APAC countries (increase of 3%).

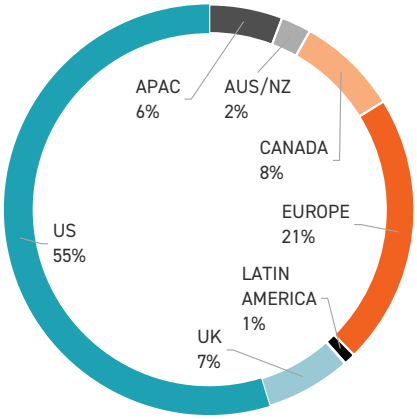
Despite these modest changes of geographic distribution, investors are largely planning on increased allocations in 2024, compared to 2023. Allocations to US real estate (60% net increase) will be greater than allocations to real estate in other regions (35% net increase).

WHAT ARE YOUR EXPECTATIONS FOR REAL ESTATE ALLOCATIONS IN 2024, COMPARED TO 2023?

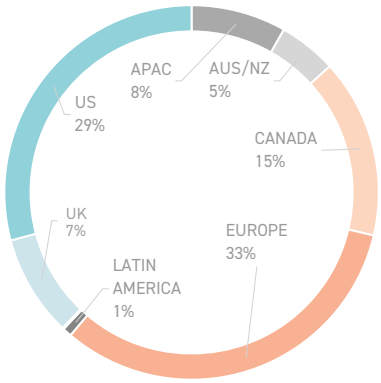


WHAT WERE THE APPROXIMATE ALLOCATIONS OF YOUR GLOBAL REAL ESTATE INVESTMENTS IN 2023?

2023 ALLOCATIONS (ALL)

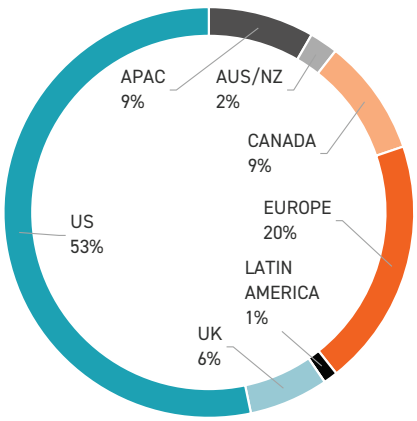


2023 ALLOCATIONS (NON-US INVESTORS ONLY)



WHAT ARE YOUR INTENDED ALLOCATIONS FOR YOUR GLOBAL REAL ESTATE INVESTMENTS IN 2024?

2024 INTENTIONS



"In the private market environment, there is always a significant lag affect between interest rate hikes and valuations readjusting."

US CITIES
FRESH BOOKS

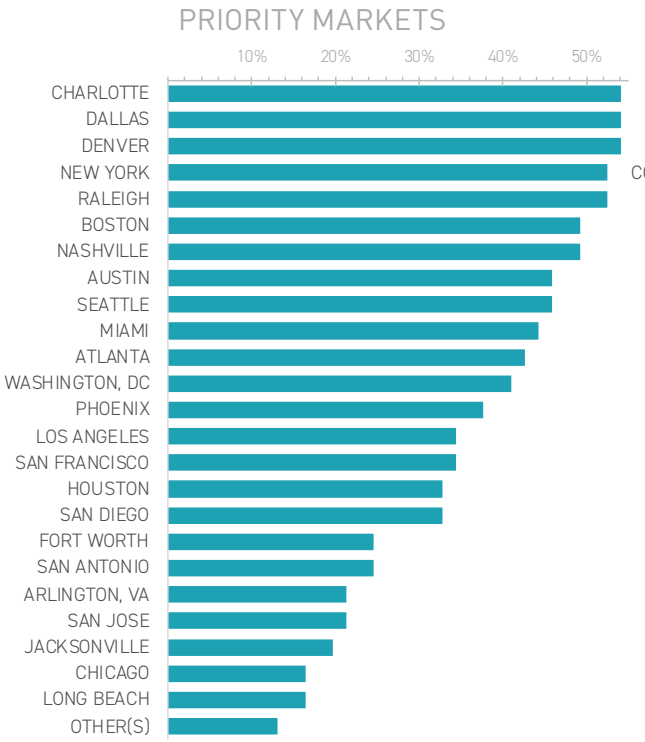
Compared to previous surveys, this questionnaire included several questions about investors' views of US cities. There are limitations to simply asking which cities an investor likes, because theses and mandates differ by organization.

As such, the survey first asked respondents to rank cities on a hypothetical scenario: if you were starting with fresh books, in what US cities would you prioritize your investments, and how would you concentrate your assets in those same markets?

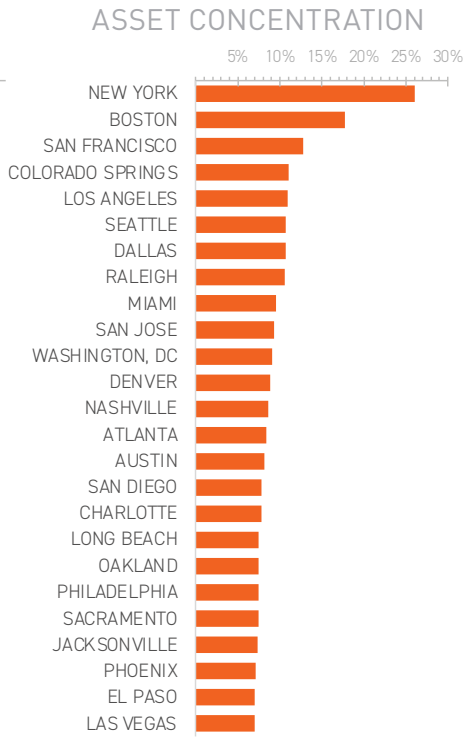
Interestingly, several Sun Belt markets make the top ten "fresh books" markets, with Charlotte and Dallas topping the list, ranked equally alongside Denver. New York and Raleigh rank second, followed by Boston, Nashville, and Austin. Meanwhile, investors would still concentrate their assets in the gateway markets of New York, Boston, and San Francisco.

The asset mix in this hypothesis varies greatly by market, as well. Multifamily investments are priority across the board (and heaviest in smaller markets), with trophy office assets prioritized in New York, Boston, and San Francisco, and logistics assets favored in Los Angeles, Colorado Springs, and Charlotte.

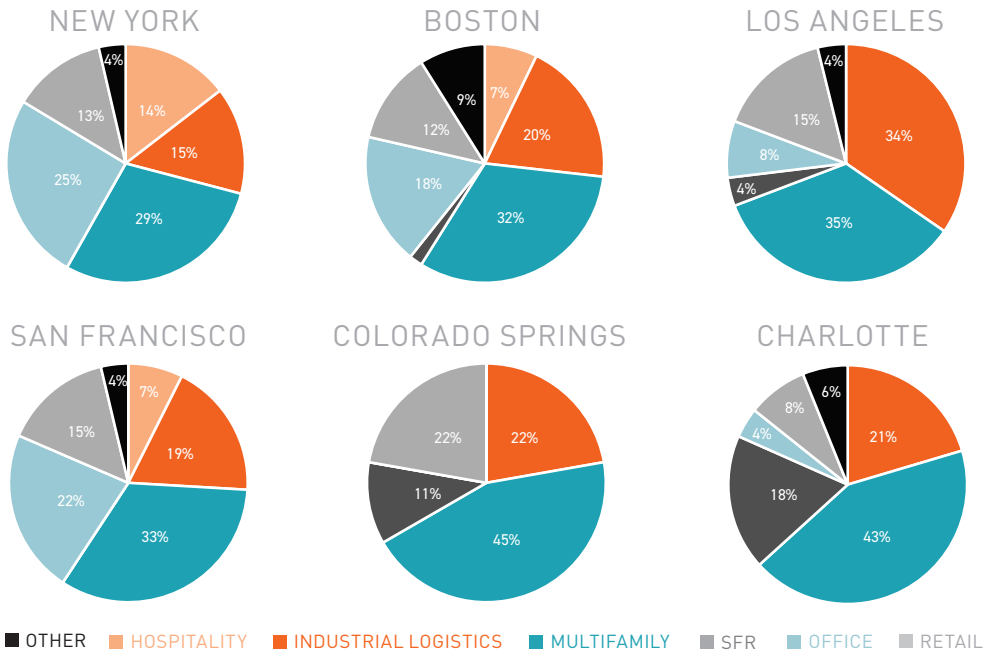
IF YOU WERE STARTING WITH FRESH BOOKS, IN WHAT US CITIES WOULD YOU PRIORITIZE YOUR INVESTMENTS?



AND HOW WOULD YOU CONCENTRATE ASSETS IN THOSE MARKETS?



BASED ON THIS HYPOTHETICAL SELECTION, WHAT WOULD BE YOUR APPROXIMATE ASSET MIX IN THESE MARKETS?



US CITIES
ACTIVE MARKETS

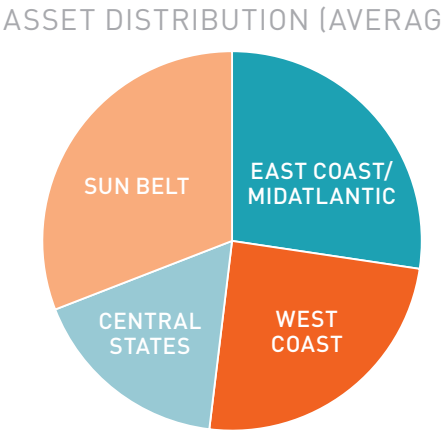
After asking respondents to choose cities based on a "fresh books" scenario, the survey asked members to rank the markets where they primarily owned or managed assets by the end of 2023.

Los Angeles and Washington, DC topped the list of the most active markets in 2023—partially due to growth in those regions and their exposure to broader favorable technological and infrastructural trends (e.g., data centers and industrial/logistics) supporting outside investment. Seattle, Dallas, and New York round out the top five.

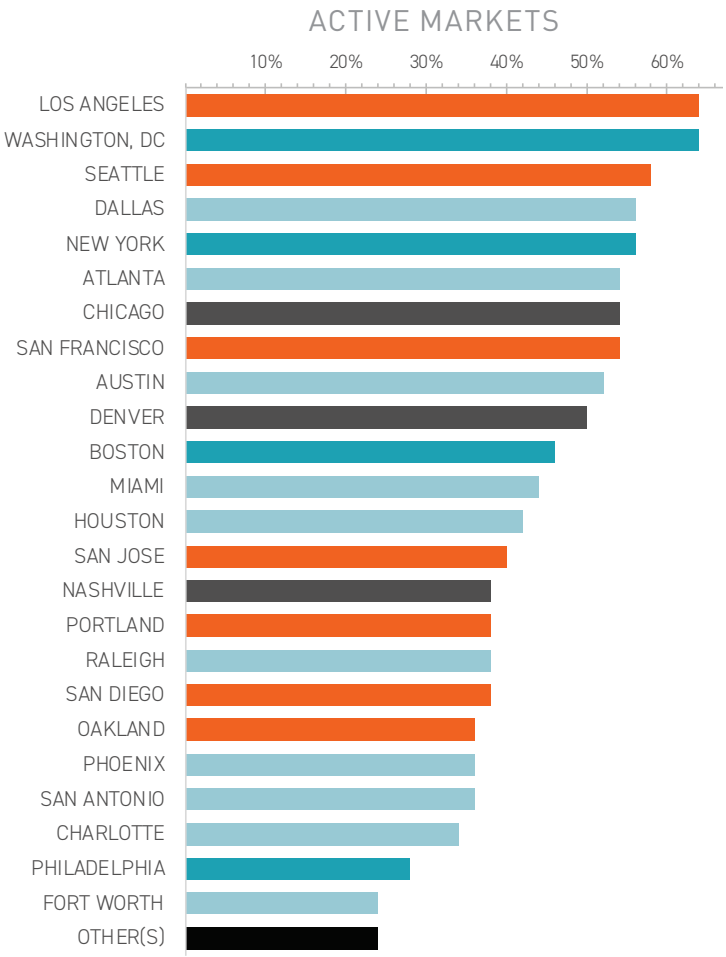
Even as these markets were the most active in 2023, respondents were still the most active in Sun Belt markets, on average, followed by the East Coast and West Coast, respectively.

These numbers are likely to change in 2024, as investors plan for more increases in Sun Belt markets (e.g., Dallas and Atlanta), and several reductions in Central State markets—especially Chicago.

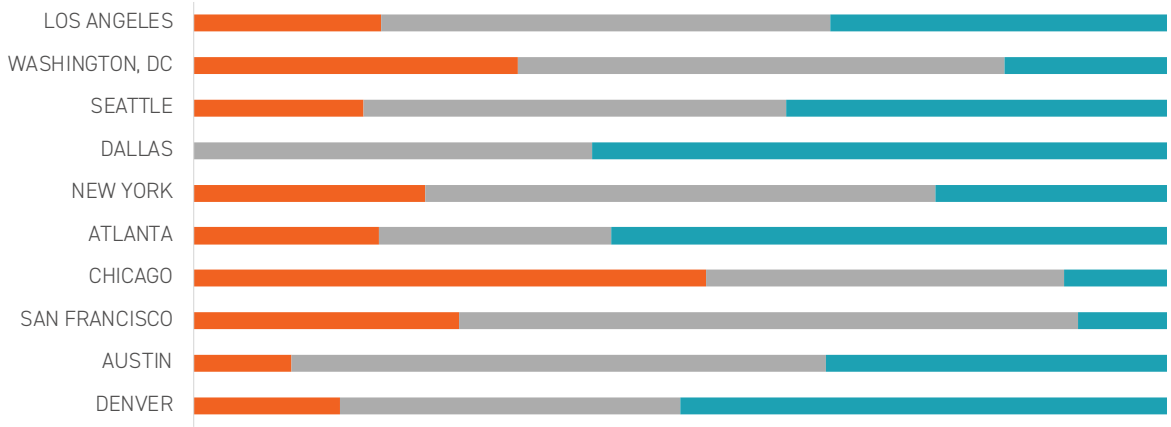
WHAT IS THE APPROXIMATE SPREAD OF YOUR ASSETS ACROSS THESE MARKETS?



AT THE END OF 2023, IN WHAT US CITY OR CITIES DID YOU HAVE OR MANAGE ASSETS AND INVESTMENTS?



IN WHICH OF THESE SAME MARKETS DO YOU PLAN TO DECREASE, HOLD, OR INCREASE EXPOSURE THROUGH 2024?



US PORTFOLIOS

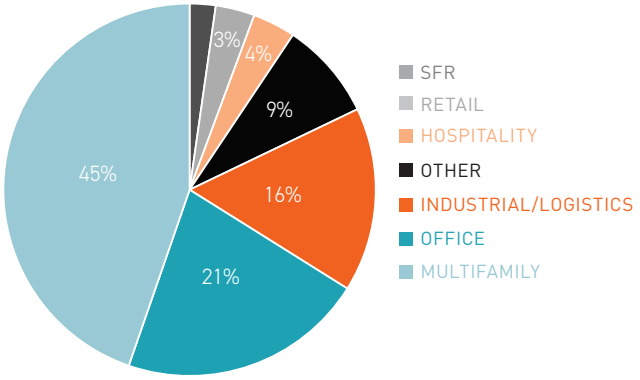
As an extension of asking respondents about "actuals" in US cities, the survey had respondents detail their portfolio distribution across all asset types in 2023. At 45%, multifamily is the most dominant asset type across all investor portfolios, followed by office (21%) and industrial/logistics (16%). Hospitality, retail, and single-family rental (SFR) account for a collective 9% of all portfolios—similar in scale to alternative real estate product types, such as data centers, medical office, life sciences, and other niche types.

The share of office is likely to diminish in 2024, as respondents indicate plans for major decreases—and only minor increases. Multifamily and SFR will continue to grow, but the largest share of "major increase" is planned for alternative real estate product types, especially as investors gain more niche expertise for emergent types.

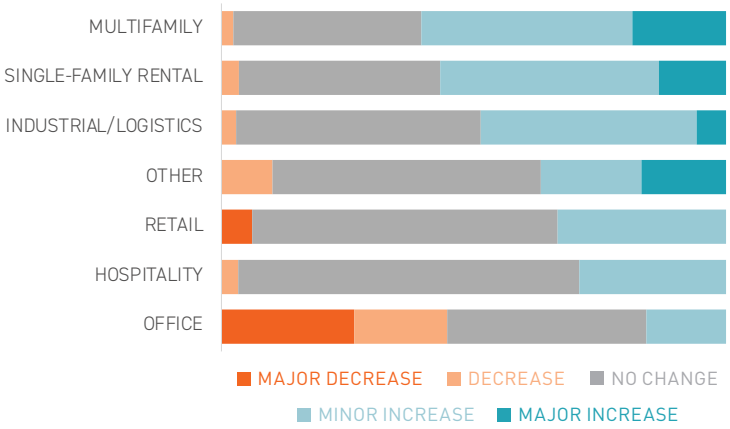
Any growth or reduction in these asset types will ultimately depend on supply and demand predictions. Investors forecast the greatest demand increases in multifamily, SFR, industrial, and alternative asset types—outpacing supply in almost all cases, except for industrial, where some respondents predict a sticker shock with predicted rent increases, thus reducing some demand.

Office supply and demand are both expected to decrease in 2024, as work-from-home (and work habits in general) continue to evolve. The fewest fluctuations in supply and demand are expected to occur in retail, partially because of inflationary pressure on consumers.

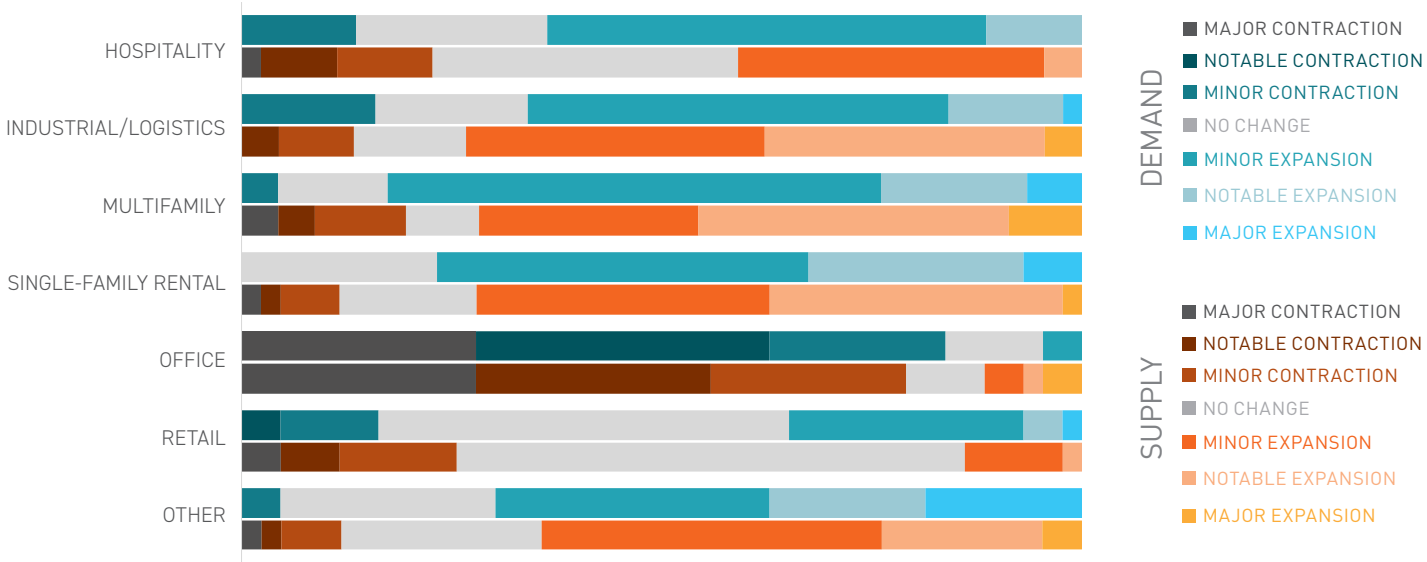
AT THE END OF 2023, WHAT WAS YOUR ORGANIZATION'S APPROXIMATE US PORTFOLIO DISTRIBUTION FOR THE FOLLOWING PRODUCT TYPES?



AND OVER THE NEXT 18 MONTHS, WHAT CHANGES DO YOU EXPECT IN YOUR PORTFOLIO?



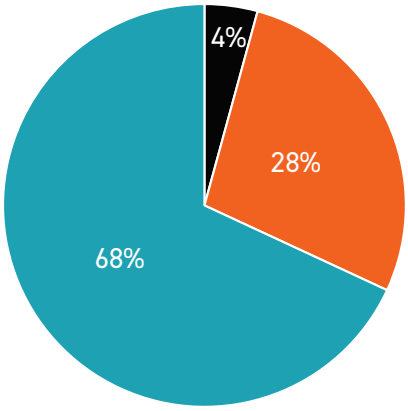
HOW MUCH WILL SUPPLY AND DEMAND FOR THE FOLLOWING PROPERTY



CURRENT AND FUTURE TRENDS

In this section of the survey, respondents were asked to indicate their agreement, disagreement, or non-opinion on a series of statements on several real estate-adjacent topics.

WHAT ARE YOUR VIEWS ON THE CURRENT MODEL OF OFFICE USE?



We will return to **PRE-PANDEMIC OFFICE USAGE,** similar to 2019, within the next decade.

We have **SETTLED INTO THE MODEL OF OFFICE USE** that will be in place for the next decade.

There is **MORE CHANGE TO COME** before a new baseline can be established.

DO YOU AGREE, DISAGREE, OR HAVE NO OPINION ON THE FOLLOWING STATEMENTS?

Our organization has different business strategies prepared depending on the outcome of the 2024 US PRESIDENTIAL ELECTIONS.

The most important issue in US real estate over the next five years will be HOUSING AFFORDABILITY AND AVAILABILITY.

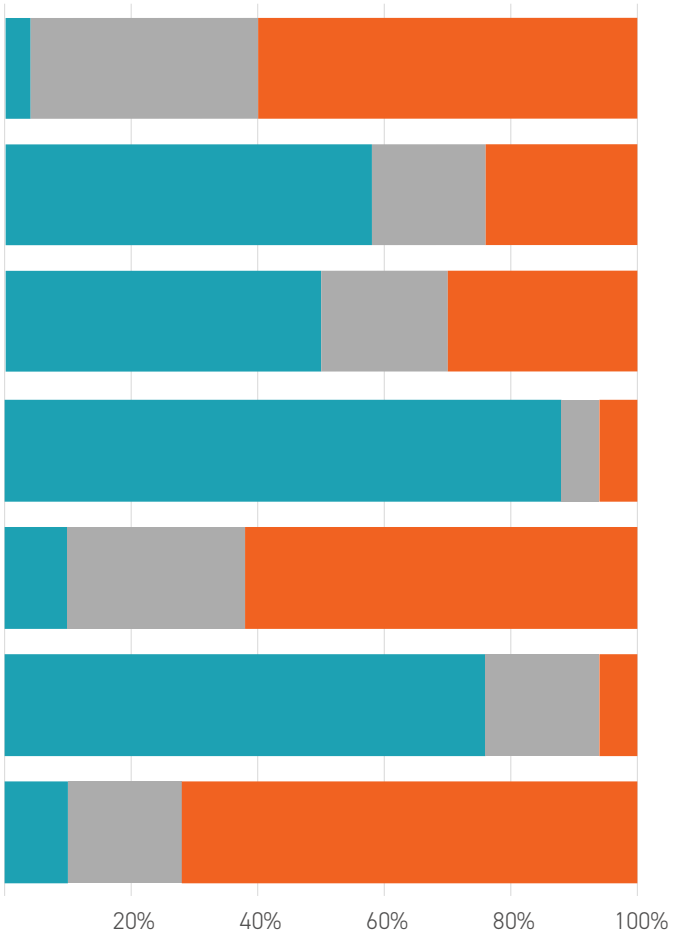
GLOBAL POLITICAL TENSIONS and resulting economic stresses are the greatest threats to cross-border investment in 2024.

There will be a notable increase in DISTRESSED ASSETS and assets returned to lenders in 2024.

Re: climate costs and risks, POPULATION in southern states will decrease and northern states will increase over the next decade.

A clear SUSTAINABILITY STRATEGY is a competitive advantage for a real estate investors, owners, operators, and developers.

The industry is appropriately PRICING CLIMATE RISKS in its pro formas and valuations.



GEOPOLITICS AND GROWTH

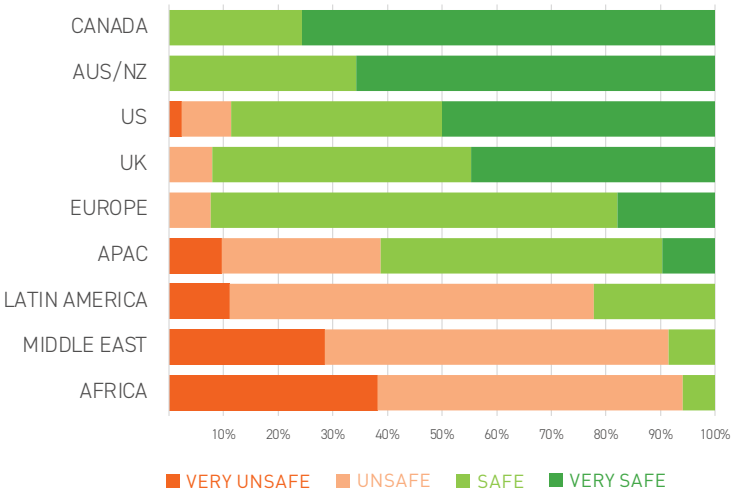
The Counselors of Real Estate® recently ranked "political unrest and global economic health" as the top issue affecting real estate in 2024.* Similarly, these have been the ongoing topics discussed by several of AFIRE's keynote guests at the association's executive conferences over the past several years. What does fiduciary responsibility look like when war encroaches on borders?

In this context, the survey asked respondents to rank the regions they consider to be the safest for real estate investment, referencing the transparency of various regimes, absence of political conflict, openness to cross-border investment, and other criteria.

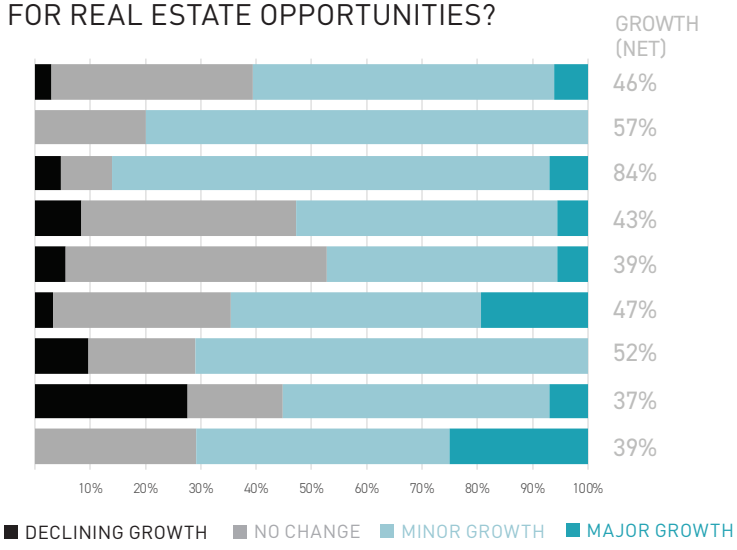
Respondents rank Canada, Australia, and New Zealand as the safest global regions for investment, though these same regions show only "average" promise for growth in real estate investment opportunity. The US ranks third as a safe region—but first in terms of potential growth, with 84% of responses forecasting minor and major growth, outpacing the next "promising" region (New Zealand) by nearly 30%.

Any lack of safety in the US can be credited to the current political climate, especially as a contentious election year dominates the national imagination. As detailed on the previous page, investors do not seem to have distinct plans for different US presidential election outcomes, but a comment from one respondent looms:

WHAT DO YOU CONSIDER TO BE THE CURRENT SAFEST REGIONS FOR REAL ESTATE INVESTMENT?



AND WHICH REGIONS DO YOU BELIEVE SHOW THE HIGHEST PROMISE OF GROWTH FOR REAL ESTATE OPPORTUNITIES?



"Depending on the outcome of the Presidential election, how might that change the US stance on NATO and EU? This will be a game changer for the economic landscape."

* "Top Ten Issues Affecting Real Estate: 2023-24," Counselors of Real Estate, accessed [Date Accessed], https://cre.org/external-affairs/2023-24-top-ten-issues-affecting-real-estate-narrative/.

HOUSING AND AFFORDABILITY

Questions of supply and demand for housing are often a chicken-and-egg cycle. Growth attracts investment, which attracts more growth. But a place can't grow if it's not affordable for most people.

The lack of affordable housing, and available housing in general in the US, has been well documented. We are several decades away from having the right amount of housing to support growth, based on current trajectories. As detailed elsewhere in this survey, there is a great investor appetite for both multifamily and single-family housing in the US, but several large obstacles preventing a boom in the sector.

Zones in this chart indicate the prevalence of responses for what are the most significant obstacles for affordable housing in the US. Zoning and regulatory challenges top the list, followed by anti-development ideology (i.e., "not in my backyard"/NIMBYism) and the actual availability and cost of land (often exacerbated by these same factors).

Nearly 30% of respondents ranked zoning and regulation as the top barrier to housing creation, followed by around 28% of respondents indicating both land costs and construction costs as the second-most significant barrier. NIMBYism follows, largely as an extension of the same ideological myopia that makes 2024 such a noisome election year.

WHAT ARE THE MOST SIGNIFICANT OBSTACLES FOR ADDRESSING HOUSING AFFORDABILITY AND AVAILABILITY IN THE US?

"NIMBYism affects entitlements and threats of rent control dissuade investment."

"Those places that have long queues to get permits are falling behind in terms of housing supply relative to demand."

"Markets that have taken away rent control and changed regulatory pathway for permits have had increasing supply."

INSURANCE COSTS

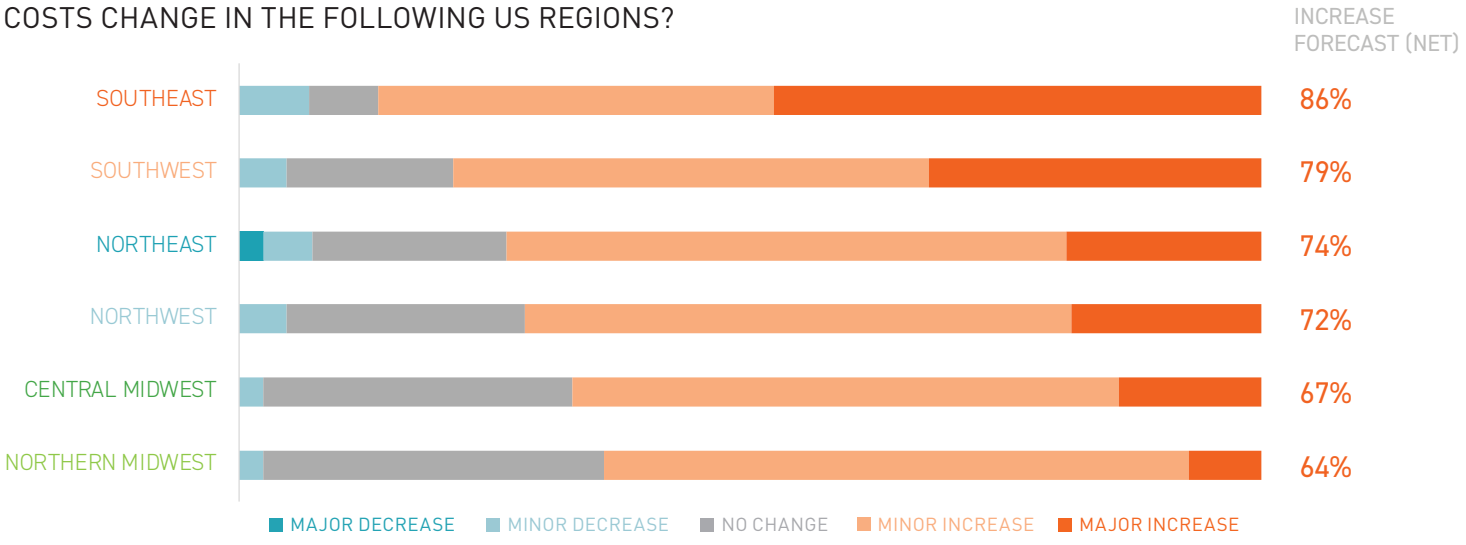
In conversations across commercial real estate, including in AFIRE's award-winning Summit Journal, there is continued fomenting about repricing, revaluations, and distress—all of which present a unique opportunity for the next generation of real estate investment to use potential savings to invest in both building and infrastructure resilience.

At our current later stage of climate change, it has become a cliché to point to the insurance business as the canary in the coal mine. But the canary flies different depending on where it is within the mine. As such, the survey asked investors to rank where investors will feel the worst pressure from insurance changes. Not surprisingly, the southeast (e.g., Florida) is at the top of the list, with 86% of respondents forecasting increases in insurance costs.

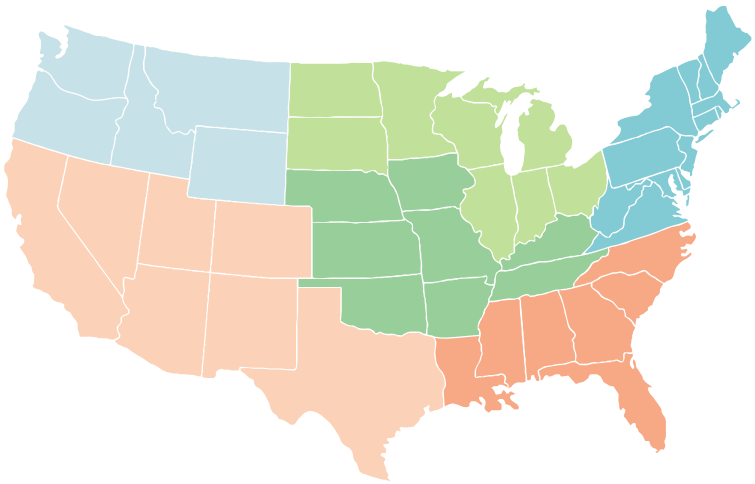
This isn't far ahead from the rest of the Sun Belt (79%), and increases are predicted across the board. The central and northern midwestern regions have the least amount of insurance increases expected (67% and 64% forecasting increases, respectively), but price increases will still be felt across the board.

At the same time, these rankings also correspond to the relative climate resilience of these same regions. Those more protected from severe climate events, such as sea level rise or forest fires, fare better in the current insurance environment—and may also fare better in the long run.

OVER THE NEXT 18 MONTHS, TO WHAT EXTENT WILL INSURANCE COSTS CHANGE IN THE FOLLOWING US REGIONS?



"There's a growing insurability risk of these high-growth regions; 45% of Americans live in communities that are subject to major climate risks."



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General Inquiries
+1 202 312 1400
info@afire.org

Membership and Sponsorships
Lexie Miller
+1 202 312 1403
lmiller@afire.org

Meetings and Events
Asmait Tewelde
+1 202 312 1404
atewelde@afire.org

Media and Publications
Benjamin van Loon
+1 202 312 1405
bvanloon@afire.org