News release

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| *Date* | Embargoed until 00.01 hrs GMT, Thursday 27 February 2014 |
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**Global investable real estate to grow by more than 55% to US$45 trillion by 2020**

**London, 27 Feb 2014**‑‑Rapid urbanisation and demographic changes, especially within emerging markets, will lead to substantial growth in the real estate investment industry over the next six years, according to *Real Estate 2020: Building the future*, a new report from PwC. At the same time as the industry’s opportunities grow, so too will assets invested into the sector.

The report predicts that the global stock of investable real estate will rise by more than 55% to around $45.3 trillion by 2020, from a 2012 total of $29.0 trillion and will expand again by a similar proportion by 2030. The expansion will be greatest in emerging economies, where economic development will lead to better tenant quality and, in some countries, clearer property rights and will play out across housing, commercial real estate and infrastructure.

The report also finds that private capital will play a critical role in funding the growing and changing need for real estate and its supporting infrastructure.

Intense competition for prime real estate will force real estate managers and investors to seek out new opportunities for yield. Yet the growing and changing real estate world will present them with a far wider range of risks, which they must be equipped to manage.

Kees Hage, global real estate leader at PwC, said:

“The real estate industry is at the centre of rapid economic and social change, which is transforming the built environment. Already thousands of people migrate from country to city across Asia, the Middle East, Latin America and Africa, attracted by the wealth of these new economies. By 2020, this migration will be firmly established. Cities in these regions will swell and some entirely new ones will spring up.

“Meanwhile, the growing middle class and ageing populations in these emerging economies are increasing demand for specific types of real estate such as affordable housing, retirement accommodation, gated communities outside cities for families and smaller urban apartments without kitchens or car parking for young professionals.

“As real estate is a business with long development cycles, now is the time to plan for these changes.”

Other changes in real estate by 2020 will include:

* A huge expansion in cities, with mixed results. By 2020, the 21st century’s great migration to the cities will be well underway. Cities will swell across the fast-growing countries of Asia, Africa, the Middle East and Latin America. Even the developed Western countries will be urbanising, albeit at a slower pace. Come 2020, cities will be competing fiercely with each other. But while some cities will become centres of wealth creation in a multipolar world, others are likely to fail. Those that emerge as their region’s leading cities are likely to provide opportunities for attractive returns.
* Growth in emerging markets will ratchet up competition for real estate assets and competition between real estate organisations.
* Sustainability will transform design of buildings and developments, presenting opportunities and risks for real estate asset managers.
* Technology will disrupt real estate economics: growth in online shopping will continue to reduce the need for retail space but shorter delivery times increase the need for warehouse space close to customers. And as workers increasingly work from home or satellite offices, the need for office space will decrease. For developers, technology advances will make eco-efficient building more practical. Technology even has the potential to transform real estate asset managers’ own operations allowing them to make far more use of telecommuting, while also embracing data management techniques such as data warehousing.
* Real estate capital will take financial centre stage. Private capital will play a critical role in funding the growing and changing need for real estate and its supporting infrastructure. Just as asset managers, real estate funds and sovereign wealth funds will find the assets under their control swell, so there will be a growing need to finance urbanisation. Private real estate capital will become an important partner of governments. Real estate managers will need to leverage the full range of financing possibilities to take on new types of risk, often with long-term investment horizons.

***Real estate managers will need to respond and adapt…***

* Real estate managers will need to think more globally as global investable real estate will expand substantially, especially in emerging economies.
* Real estate managers will need to understand the underlying economics of cities: Fast-growing cities will present a wider range of risk and reward, ranging from low risk/low yield in advanced economy core real estate, to high risk/high reward in emerging economies. The greatest social migration of all time – chiefly in emerging economies – will drive the biggest ever construction surge. The real estate investment community can deploy urbanisation strategies ranging from higher risk opportunistic development, to lower risk prime investment. But no matter which approach they choose, they’ll need a clear strategic view of why a city will be successful.
* Factor technology and sustainability into asset valuations: Some buildings without competitive sustainability ratings will suffer a ‘brown discount’. Technology will disrupt real estate economics, increasing the danger of obsolescence.
* Decide where and how to compete: Competition for prime assets will intensify further. New wealth from the emerging economies will intensify competition for prime assets. Real estate managers will need to think laterally, while concentrating more than ever on the basics of local knowledge and tenant demand.
* As the nature of real estate investment changes, becoming more global and specialist, more risks will emerge. Risks will include those of partnering with local developers or governments in emerging economies, as well as risks associated with regulation and tax in an ever more globalised industry. Real estate managers will need to assess these opportunities to reflect the broader range of risks.

Kees Hage, global real estate leader at PwC, said:

“Global megatrends will change the real estate landscape considerably over the next six years and beyond. While these trends may already be evident, there’s a natural tendency to underestimate how much the real estate world will have changed by 2020. By 2020, real estate managers will have a broader range of opportunities, with greater risks and new value drivers.

“The changing landscape will have major implications for real estate investment and development. It will increase the size of the asset pool, yet change the nature of investment opportunities.

“Success factors for the future will include: a global network with local knowledge and good government relations, specialist expertise and innovation, and a focus on cost management and scale. And above all there is a need to have the right people: to attract, retain and invest in them.

“The response to the coming changes in the real estate industry that we’ve identified will require considerable thought in order to form a winning strategy. The successful real estate managers of 2020 will have already started to shape their responses to some or all of these changes.”

**Notes to Editors**

1. Developing Asia-Pacific figures relate to the following countries: Bangladesh, Bhutan, Brunei Darussalam, Cambodia, China, Fiji, India, Indonesia, Kiribati, Lao P.D.R., Malaysia, Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nepal, Palau, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Timor-Leste, Tonga, Tuvalu, Vanuatu, Vietnam, Asia-Pacific figures relate to the following countries: Australia, Hong Kong, Japan, Korea, New Zealand, Singapore and Taiwan
2. Europe figures relate to the following countries: Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, San Marino, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom

To download a copy of *Real Estate 2020*, please visit www.pwc.com/RE2020

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