A Bird's Eye View of Global Real Estate Markets: 2011 Update

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Research

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Executive Summary

- Pramerica Real Estate Investors' global universe of commercial real estate – which encompasses 55 developed and developing nations – grew to $23.9 trillion in 2010, up 7.3% from $22.3 trillion in 2009. Solid economic growth, particularly in the developing nations, propelled the expansion.[1]
- The US continues to have the largest concentration of institutional grade real estate and the total size of its market will continue to grow. However, like many developed nations, its share of the global total is slowly slipping. The US's share of the global total is 27.5%, down from 28.8% in 2009. Other developed nations such as Germany, France and the UK also lost market share in 2010, while the shares increased for developing nations such as China and Brazil.
- Distribution of institutional grade real estate is forecast to move toward the Asia Pacific region, whose share of the market grew to 25.8%, up from 23.6% in 2009, and is projected to grow to 36.7% in 2020. Meanwhile, the share of the US/Canada region is expected to drop to 26.5% in 2020 from 30.5% today and Europe's share is expected to decline to 28.2% in 2020 from 36% today. The shares of Latin America and the Gulf Cooperation Council (GCC) are small and will remain stable.
- China and the US will produce about half (49.6%) of the global growth of institutional real estate over the next decade. China is the top contributor (29.4%), as its $1.4 trillion market is projected to grow six-fold to $8.4 trillion in 2020. The US market is forecast to grow 20.2% to $11.4 trillion, from $6.6 trillion today. Russia (4.4% of global growth), India (4.3%) and Brazil (3.8%) round out the top five contributors to growth.

Real Estate Investment Universe

Executing an international investment strategy in commercial real estate requires solid information on the size and growth potential of global markets. To that end, this report updates our forecast of the size of commercial real estate markets in Pramerica's global universe of 55 countries, which encompasses countries with 4.9 billion people that produce $58.5 trillion of gross domestic product (GDP), or 94% of the global total, and represents $23.9 trillion of institutional-grade commercial real estate (Exhibit 1).

[1] All population and GDP data in this report come from the Economist Intelligence Unit as of February 2011. The exception is countries in the Gulf Cooperation Council, where data is from the International Monetary Fund as of November 2010. All calculations related to commercial real estate markets are by Pramerica Real Estate Investors Research.

Exhibit 1: Global Universe of Real Estate Markets

		Pop. (M)	GDP (US$B)	GDP Per Capita (US$)	Inst. Grade RE (US$B)
Asia Pacific	Australia	22.2	1,243	55,970	559
	China	1,312.0	5,697	4,340	1,424
	Hong Kong	7.1	220	31,060	198
	India	1,184.0	1,600	1,350	271
	Indonesia	243.0	707	2,909	155
	Japan	126.8	5,520	43,530	2,484
	South Korea	49.5	996	20,110	415
	Malaysia	28.3	235	8,320	73
	New Zealand	4.4	139	31,820	63
	Philippines	99.9	200	2,000	39
	Singapore	5.1	227	44,760	204
	Taiwan	23.2	428	18,450	173
	Thailand	67.5	316	4,680	81
	Vietnam	87.8	104	1,180	17
Europe	Austria	8.4	378	44,910	170
	Belgium	10.6	470	44,230	212
	Bulgaria	7.4	52	6,920	15
	Czech Republic	10.2	193	18,910	79
	Denmark	5.6	304	54,670	137
	Finland	5.3	242	45,320	109
	France	62.9	2,606	41,410	1,173
	Germany	83.0	3,318	40,000	1,493
	Greece	11.0	301	27,370	135
	Hungary	9.9	130	13,200	47
	Ireland	4.2	205	49,190	92
	Italy	60.1	2,065	34,360	929
	Netherlands	16.6	783	47,220	352
	Norway	4.9	420	85,390	189
	Poland	38.1	471	12,340	167
	Portugal	10.6	230	21,610	98
	Romania	21.4	155	7,220	46
	Russia	141.7	1,465	10,340	489
	Slovakia	5.4	88	16,160	34
	Spain	45.9	1,420	30,930	639
	Sweden	9.4	469	49,840	211
	Switzerland	7.8	528	67,320	237
	Turkey	73.3	725	9,890	239
	Ukraine	45.5	127	2,790	27
	United Kingdom	62.2	2,273	36,530	1,279
Latin America	Argentina	40.5	372	9,190	120
	Brazil	193.3	2,013	10,420	674
	Chile	17.1	197	11,510	68
	Colombia	46.9	285	6,070	80
	Ecuador	14.2	56	3,960	14
	Mexico	112.5	1,005	8,930	320
	Peru	30.0	157	5,230	42
	Venezuela	28.6	205	7,170	61
US/Canada	Canada	34.0	1,559	45,850	702
	United States	309.6	14,598	47,160	6,569
Gulf Cooperation Council	Bahrain	1.1	22	19,641	11
	Kuwait	3.6	117	32,530	66
	Oman	3.0	54	18,041	22
	Qatar	1.7	127	74,423	71
	Saudi Arabia	27.1	438	16,150	170
	United Arab Emirates	5.1	240	47,407	135
Total/Weighted Average		**4,890.7**	**58,492**	**32,835**	**23,876**

Economist Intelligence Unit, International Monetary Fund, Pramerica Real Estate Investors Research, data for 2010

In this report we will forecast growth of commercial real estate markets over the next 20 years for individual countries. To highlight larger trends, we also group the countries in several ways, including by region and risk bloc. These groupings illustrate differences in growth based on geography, level of economic development and market maturity.

The countries are divided into five regions: Asia Pacific, Europe, Latin America, the US/Canada and the GCC. There is a vast divergence in the countries in terms of their population, the level of economic development and the size of the economy. China is the most populous country, with 1.3 billion residents, followed closely by its Asian neighbor India, which has a 1.2 billion population. The smallest countries are Bahrain (1.1 million) and Qatar (1.7 million). In terms of GDP, the US is by far the biggest economy ($14.6 trillion), with China ($5.7 trillion) recently taking over the second spot from Japan ($5.5 trillion), which fell to third. Bahrain ($22 billion) has the smallest economy. Norway remained the top country in GDP per capita ($85,390), followed by Qatar ($74,423), while Vietnam had the lowest ($1,180).

Our forecasts about institutional grade real estate are based on readily available and simple data, such as GDP and GDP per capita (GDH), which is a good proxy for a country's level of economic development. To calculate the value of commercial real estate within each country, we start by classifying the country as developed or developing, depending on whether it meets a GDP per capita threshold. Our GDP per capita threshold started at $20,000 for the year 2000 and is adjusted annually based on the US inflation rate. To meet the criteria of a developed country, the GDP per capita threshold level was $25,319 in 2010 and is forecast to rise to $33,299 in 2020 and $45,894 in 2030.

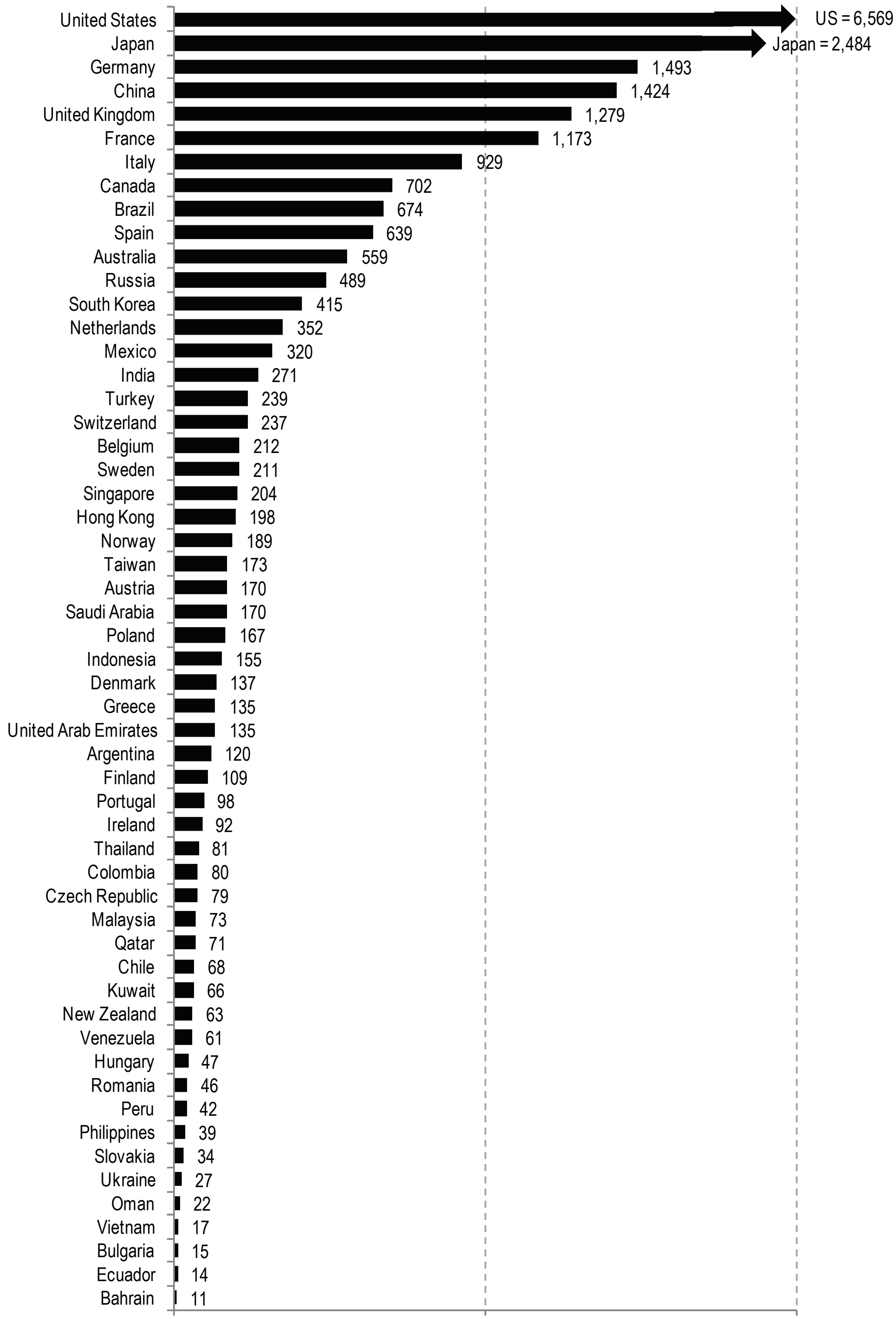
For developed countries whose GDP per capita is above our threshold level, we calculate the value of institutional quality real estate as 45% of national GDP, which is consistent with our experience. However, to determine the size of institutional-grade real estate markets in developing countries we have to make adjustments because only the more affluent segments of the population in those countries have the wherewithal to use institutional-quality real estate. To account for that, we devise an adjustment factor to arrive at the size of commercial real estate markets in developing countries. The adjustment factor for the developing countries equals (country GDH/threshold GDH)$^{1/3}$.

To illustrate, if country "A" had a GDP per capita of $10,000 in 2010, we would use the adjustment factor (10,000/25,319)$^{1/3}$ or 0.73 to 45% of GDP to derive the value of institutional grade real estate. For a per capita GDP level of $5,000, the adjustment factor we use is 0.58 and for $20,000 it is 0.92.

The upshot is that in developing countries, the proportion of commercial real estate as a share of GDP is smaller for countries with lower per capita GDP. For example, in Mexico, where GDP per capita is $8,930, commercial real estate constitutes 32% of GDP. In China, where GDP per capita is $4,340, commercial real estate constitutes 25% of GDP.

In Exhibit 2, we break down our universe's $23.9 trillion institutional grade real estate market by country. We adjusted upward the value of the real estate market in seven countries that have very high population densities. Hong Kong and Singapore were adjusted upwards by 100%. The UK and four of the GCC countries (Bahrain, Kuwait, Qatar and United Arab Emirates) were increased by 25%.

Exhibit 2: Estimated Size of Institutional-Grade Real Estate By Country (US$B)



EIU, IMF, Pramerica Real Estate Investors Research

The US commercial real estate market stands well above the rest at $6.6 trillion, with Japan a distant second at $2.5 trillion, followed by Germany ($1.5 trillion), China ($1.4 trillion) and the UK ($1.3 trillion). The biggest change in 2010 comes from China, which climbed to fourth from sixth in our 2009 survey. China's commercial real estate increased in size by more than 20% from 2009, when it was just shy of $1.2 trillion. The rise stemmed from the large increase in GDP in China. The countries with the smallest institutional grade real estate markets were Bahrain ($11 billion) and Ecuador ($14 billion).

Globally, commercial real estate market values remain concentrated in a few countries (Exhibit 3). Overall, 55% of the total value of commercial real estate is concentrated in the top five countries, 73% is in the top 10 and 82% is in the top 15. The US (27.5%) remains first by virtue of its large GDP, which is nearly triple the size of the second-largest economy of China, but its share of the global total is shrinking. When we first published this analysis in 2003, the US's share of the global total was 36.4%, but it fell to 28.8% in 2009 and now stands at 27.5%. Although the absolute size of the US commercial real estate market is expanding, the relatively faster GDP growth of developing countries has enabled those countries to expand their share of the global total. This is particularly true of China, whose share of the global real estate market rose to almost 6% in 2010 from 1.5% in 2003.

Exhibit 3: Country Concentrations of Commercial Real Estate

		Country Share	Cumulative Share
1.	United States	27.51%	27.51%
2.	Japan	10.40%	37.92%
3.	Germany	6.25%	44.17%
4.	China	5.96%	50.14%
5.	United Kingdom	5.36%	55.49%
6.	France	4.91%	60.40%
7.	Italy	3.89%	64.29%
8.	Canada	2.94%	67.23%
9.	Brazil	2.82%	70.06%
10.	Spain	2.68%	72.73%
11.	Australia	2.34%	75.07%
12.	Russia	2.05%	77.12%
13.	South Korea	1.74%	78.86%
14.	Netherlands	1.47%	80.34%
15.	Mexico	1.34%	81.67%
16.	India	1.14%	82.81%
17.	Turkey	1.00%	83.81%
18.	Remaining Countries	16.19%	100.00%

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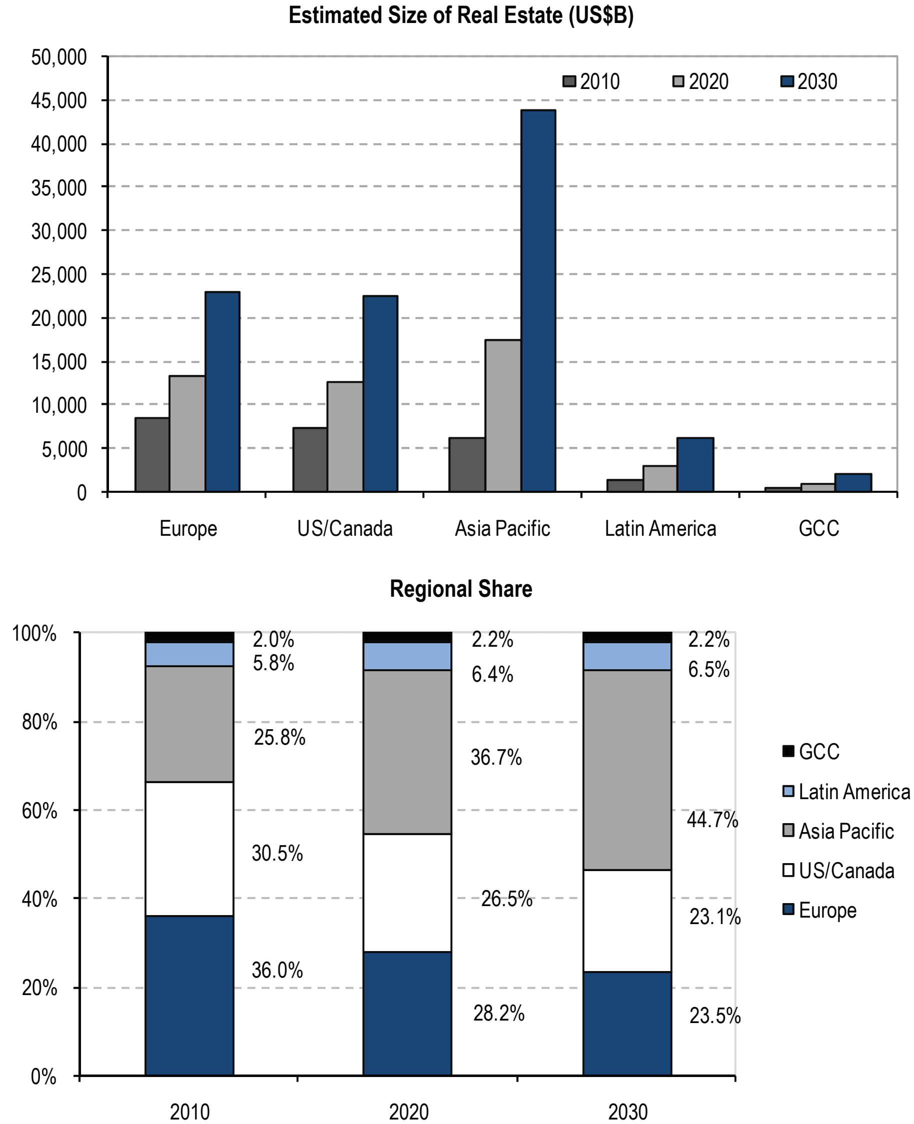
Regional Distribution

The regional distribution of commercial real estate is set to change significantly over the next two decades, with the share of the Asia Pacific region growing at the expense of Europe and the US/Canada (Exhibit 4). With $6.2 billion of institutional grade real estate (25.8% of the global total), Asia Pacific is the third-largest bloc behind Europe ($8.6 trillion, or 36%) and the US/Canada ($7.3 trillion, or 30.5%). However, Asia Pacific is forecast to grow at an 11% annual rate over the next decade, which would increase its size to $17.5 trillion, or 36.7% of the global commercial real estate market. With rapid growth in China as the main driver, Asia Pacific is forecast to grow 10.3% annually over the next 20 years, bringing the size of its commercial real estate market to $43.7 trillion, or 44.7% of global total.

On the other hand, the shares of Europe and the US/Canada are expected to shrink. Europe's share of the global total is forecast to drop from 36% today to 28.2% in 2020 and 23.5% in 2030. To be sure, the European market will keep growing – the size of the market is projected to rise to $13.4 trillion in 2020 and $23 trillion in 2030. The main reason for the drop in Europe's share is that – even though there are several emerging markets – the continent is dominated by large mature markets that will have lower growth rates than their developing counterparts.

Exhibit 4: Shift in the Regional Distribution of Real Estate



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Like Europe, the US/Canada bloc is forecast to increase in size while its share drops over the next two decades, although the decline in share is not as drastic as Europe's. The US/Canada bloc is projected to be $12.6 trillion (26.5% of the global total) in 2020 and $22.6 trillion (23.1%) in 2030. The shares of the Latin American and GCC blocs are expected to rise slightly, but combined they are projected to represent less than 9% of the global total through 2030.

Developed vs. Developing

Another way we classify our universe is to collapse the countries into seven risk blocs, based on geographical distribution, the level of economic development and market maturity. The universe is broadly grouped into two categories, developed and developing. The developed markets are: Developed Europe, Developed Asia Pacific and the US/Canada. The developing category consists of: Developing Europe, Developing Asia Pacific, Latin America and the GCC. Each bloc contains between two and 16 countries.

The largest regional risk bloc by size is Developed Europe ($7.5 trillion), which represents 31.2% of global commercial real estate value. Anchored by Germany ($1.5 trillion), the UK ($1.3 trillion) and France ($1.2 trillion), this bloc also contains the developed economies of Austria, Belgium, Denmark, Finland, Greece, Ireland, Italy, Netherland, Norway, Portugal, Spain, Sweden and Switzerland. The size of the commercial real estate market in the Developed Europe bloc is forecast to rise to $10.4 trillion by 2020, but its global share will fall sharply to 21.8%.

Exhibit 5: Real Estate Distribution by Risk Bloc

	2010		2020		2030	
	Real Estate (US$B)	% of Total	Real Estate (US$B)	% of Total	Real Estate (US$B)	% of Total
Developed Europe	7,455	31.2%	10,392	21.8%	16,454	16.8%
Developing Europe	1,143	4.8%	3,027	6.4%	6,583	6.7%
Developed Asia Pacific	4,097	17.2%	6,570	13.8%	11,476	11.7%
Developing Asia Pacific	2,059	8.6%	10,914	22.9%	32,277	33.0%
Latin America	1,377	5.8%	3,046	6.4%	6,322	6.5%
US/Canada	7,271	30.5%	12,628	26.5%	22,571	23.1%
GCC	475	2.0%	1,041	2.2%	2,150	2.2%
All Developed Nations	18,823	78.8%	29,589	62.1%	50,502	51.6%
All Developing Nations	5,053	21.2%	18,029	37.9%	47,333	48.4%
Global Total	**23,876**	**100.0%**	**47,618**	**100.0%**	**97,834**	**100.0%**

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The US/Canada is the second largest risk bloc with a 30.5% share ($7.3 trillion) of global real estate. Developed Asia Pacific, anchored by Japan ($2.5 trillion), accounts for 17.2% ($4.1 trillion) of the global real estate universe. The other countries included in this bloc are Australia, New Zealand and the Asian Tigers of Hong Kong, Singapore, South Korea and Taiwan. Commercial real estate in Developed Asia Pacific is projected to grow to $6.6 trillion in 2020 and $11.5 trillion in 2030, while its overall share will drop to 13.8% in 2020 and 11.7% in 2030.

Overall, developed countries account for $18.8 trillion, or 78.8% of the global real estate market. However, the rapid growth forecast for the developing countries, particularly in Asia, will lead to a big change in the distribution between developed and developing markets. In 2020, the split between developed and developing countries is forecast to be 62/38 and the proportion is projected to almost even out (52/48) by 2030. Developing Asia Pacific, anchored by China ($1.4 trillion) and including India, Indonesia, Malaysia, Philippines, Thailand and Vietnam, is ranked fourth with an 8.6% market share. But it is expected to grow rapidly from $2.1 trillion in 2010 to $10.9 trillion in 2020 and to $32.3 trillion by 2030, when it is forecast to be the largest risk bloc. At that point, Developing Asia Pacific's commercial real estate market is projected to be nearly $10 trillion larger than the second-largest risk bloc, the US/Canada.

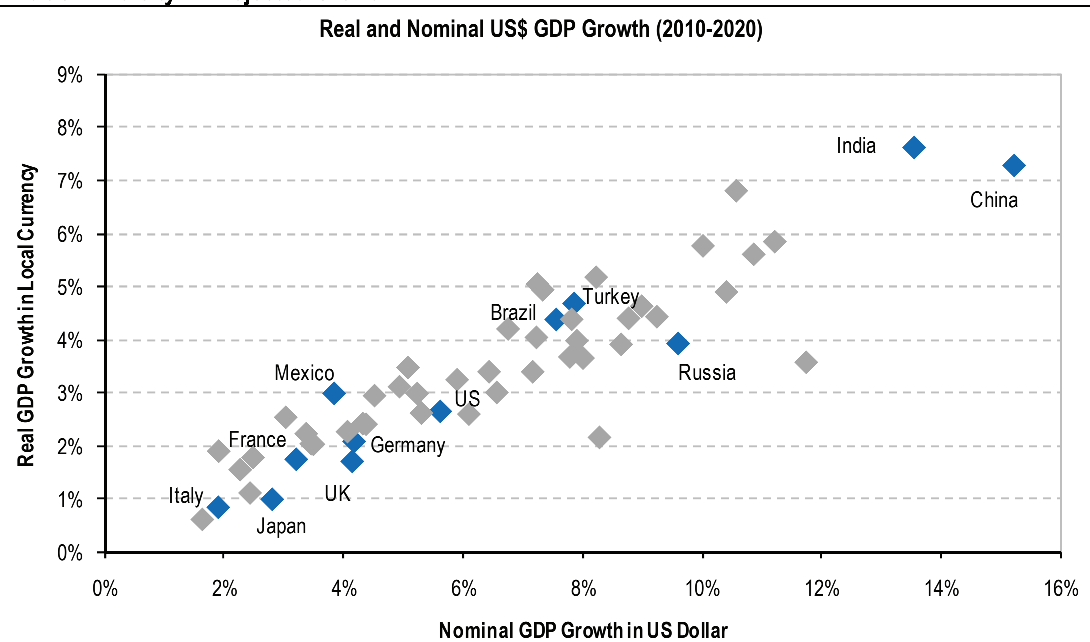
Developing Europe – which consists of Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia, Slovakia, Turkey and the Ukraine – is projected to grow, but not nearly at the pace of Developing Asia. Developing Europe accounts for $1.1 trillion (4.8% of the global total) of institutional real estate, and is forecast to increase to $3 trillion (6.4%) by 2020 and to $6.6 trillion (6.7%) by 2030. Russia is the largest market in Developing Europe.

Latin America – comprised of Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru and Venezuela -- accounted for $1.4 trillion (5.8%) of institutional grade real estate in 2010. The bloc's share is forecast to grow very slightly to $3 trillion (6.4%) in 2020 and to $6.3 trillion (6.5%) in 2030. Brazil ($674 billion in 2010) is the largest real estate market in this bloc. The GCC countries of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates make up a bloc accounting for $475 billion (2%) of global real estate. The share of this bloc is expected to be stable at 2.2% over the next two decades.

A Key Country Perspective

The growth patterns of the risk blocs are largely driven by the forecast growth rates of the key countries in each bloc. Exhibit 6 charts the forecast real GDP growth rates between 2010 and 2020 in the 55 countries in Pramerica's universe. We label the six largest developed countries – the US, Japan, Germany, France, the UK and Italy – and the six largest developing countries: China, Brazil, India, Russia, Mexico and Turkey. In general, the developing countries are forecast to have the highest growth rates over the next decade. China and India are projected to have real GDP growth rates of more than 7% annually until 2020. Between 2010 and 2020, three other key developing countries – Russia, Brazil and Turkey – are each expected to grow at a real rate of 4% or more, while Mexico is forecast to grow at a 3% annual rate.

Exhibit 6: Diversity in Projected Growth



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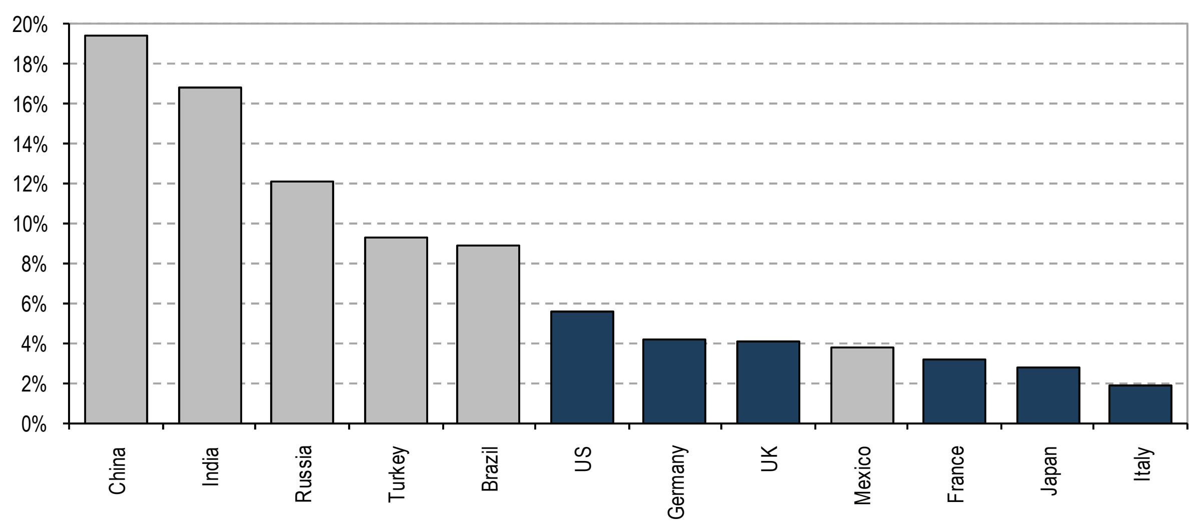
The developed countries are projected to grow at a much slower pace over the same period. At 2.6% annually, the US has the highest real GDP growth rate among the largest countries. The forecast calls for

2.1% annual real GDP growth in Germany, and less than 2% growth for the other four key developed economies. The weakest growth rates are forecast for Italy (0.86%) and Japan (0.99%).

The horizontal axis of Exhibit 6 shows the nominal US-dollar denominated GDP growth rate, which reflects the effects of inflation and currency trends in relation to the dollar. For international investors, the nominal US dollar growth rate is relevant because it reflects the impact of a country's economy on global investments. Over the next decade, China is projected to have the highest nominal growth rate, in excess of 15% annually, with India second at 13.5%. Fast nominal growth is also forecast in Russia (9.6%), Turkey (7.9%) and Brazil (7.5%) over the next decade. Among the key developing countries, Mexico (3.8%) is projected to have the lowest nominal growth rate. Among larger economies, the US (5.6%) has the highest forecast nominal growth rate. The other five key developed economies are projected to grow at nominal rates of 4% or less over the next decade.

The value of institutional grade real estate in developing countries is projected to rise, corresponding to the growth in GDP (Exhibit 7). The growth is fastest in China, whose commercial real estate market is projected to expand at a 19.4% clip over the next 10 years, followed by India, which has a projected growth rate of 16.8%. The steep growth in commercial real estate projected for the developing countries is due to factors that include vigorous economic growth, urbanization and the rapid growth in the size and economic productivity of the consumer class.[2] The projected rate of growth for commercial real estate in developing countries is less than 6%.

Exhibit 7: Annualized Growth of Institutional Grade Real Estate in Select Countries, 2010-2020



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Almost half of the growth of commercial real estate over the next decade will be contributed by just two countries: China and the US. China's steep growth makes it the dominant contributor (Exhibit 8). China is projected to contribute $6.9 trillion to the sector's growth over the next decade, contributing almost 30% of the increase in global real estate during that span.

[2] Consumer class refers to the segment of the population with the economic wherewithal to use institutional quality real estate. Please refer to: "Sizing Up the Emerging Markets: 2010 Update," November 2010, by Manidipa Kapas and Youguo Liang, Pramerica Real Estate Investors.

Exhibit 8: Contributors to Global Growth of Commercial Real Estate

		Real Estate in 2010 (US$B)	Growth over 2010-2020 (US$B)	Contribution to Global RE Growth
1.	China	1,424	6,988	29.4%
2.	United States	6,569	4,791	20.2%
3.	Russia	489	1042	4.4%
4.	India	271	1011	4.3%
5.	Brazil	674	907	3.8%
6.	Japan	2,484	792	3.3%
7.	Germany	1,493	757	3.2%
8.	United Kingdom	1,279	640	2.7%
9.	South Korea	415	611	2.6%
10.	Canada	702	567	2.4%
11.	France	1,173	433	1.8%
12.	Indonesia	155	409	1.7%
13.	Australia	559	347	1.5%
14.	Turkey	239	343	1.4%
15.	Singapore	205	269	1.1%
16.	Argentina	120	239	1.0%
17.	Taiwan	173	234	1.0%
18.	Poland	167	218	0.9%
19.	Others	5294	3156	13.3%
	TOTAL	**23,882**	**23,752**	**100.0%**

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Institutional real estate in the US is projected to grow by $4.8 trillion between 2010 and 2020, contributing 20.2% to global growth. Even though the US's growth rate trails developing markets such as China and India, its size ensures that the absolute growth in dollar value is close to China's and far greater than India's. After the US, the other top three major contributors to global growth are the developing countries of Russia ($1 trillion, 4.4% of the global total), India ($1 trillion, 4.3%) and Brazil ($907 billion, 3.8%). In our 2009 survey, India ranked fifth and Brazil ninth in this metric, but they climbed up the ladder due to higher projected growth rates. Italy, Spain and Mexico all dropped from the list due to slower forecast growth and were replaced by Singapore, Argentina and Taiwan.

Closing Thoughts

That developing nations will grow at a faster pace than developed nations is not a novel concept. In fact, our first study of the subject was published in 2003. However, that does not diminish the need to continually monitor the topic and keep abreast of how the changing forecasts could impact the commercial real estate market.

One reason it is important is the increasing global nature of commercial real estate. It is easier than ever for investors to reach across global boundaries. Global platforms are likely to have a decisive edge over competitors going forward because they will be able to take advantage of a wider variety of opportunities, while investors with a more parochial mindset will be limited to opportunities in a particular niche.

What's more, our data demonstrates that the projected increase in the market share of developing nations has risen, rather than diminished, over time. For example, based on 2009 numbers, Asia Pacific's share of the global institutional real estate total was projected to rise to 33% by 2019, putting the region's share of the market roughly on par with that of Europe. But one year later, revised growth projections indicate that in

2020, Asia Pacific's global market share will be 36.7%, while Europe will be second at 28.2%. Clearly, the trend is showing no sign of abating.

To be sure, the numbers are forecasts based on rates of economic growth, and much can happen that would disrupt the projected changes in market share. And there is more to investing than economic growth rates. Developed nations have large and stable markets, and will grow significantly in coming decades. Developed nations will also continue to be better than developing nations in critical areas such as investment infrastructure and stable political environment. Going forward, however, the size and scope of the developing world will create an environment in which commercial real estate investors will be well-served to have the ability to operate in all regions of the world.

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