ISA Insights Strategy Analysis by LaSalle

Briefing

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Big numbers with big implications: The real estate investable universe in 2023

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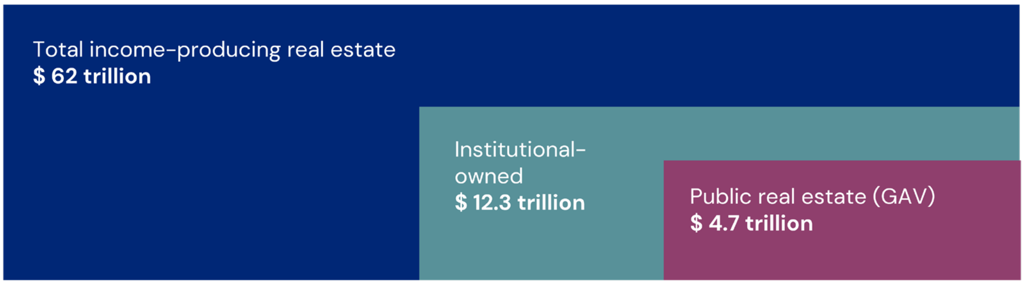
In an uncertain market, it is tempting to prioritize cyclical questions such as the risk of recession and the path of interest rates over structural topics with longer-run implications. But challenging periods in real estate markets can also be attractive times to build exposure to the asset class.[1] Questions about how to build portfolios do not diminish in importance just because bond market volatility makes front-page news. In our view, one of the most useful starting points for approaching portfolio construction is having a sense of the size of the real estate investable universe and its subcomponents. This is why we regularly update our estimates of the real estate investable universe and have done so consistently since 2005.

We first shared our latest estimates for the size of the global real estate universe in the 2023 edition of [ISA Portfolio View](). As described there, the vast scale of real estate as an asset class is among the key pillars supporting the case for including property in multi-asset portfolio. But putting a thoughtful number on the size of the asset class is easier said than done. We believe it is worth the effort because quantifying the size and distribution of the market – rather than just a subset covered by a particular index or data source – helps investors sharpen their thinking on target allocations by asset class, geography and investment structure. A full description of our methodology, data sources and summary table by country is available [here](), and we are glad to provide additional detail upon request.

We estimate market size, defined as aggregate gross asset value, for three nested segments, shown below. The largest and most comprehensive estimate is for all property held for the income it provides, inclusive of all types of owners (except owner-occupiers) and all quality levels. Using a separate methodology, we also estimate real estate owned by institutional investors, and by one particular type of institutional investor – those whose equity is publicly traded.

[1] Vintages around the time of market disruption tend to outperform, according to LaSalle analysis of data from the INREV Global IRR Index through Q4 2022. See page 30 of our ISA Portfolio View for a more complete discussion of this analysis.

LaSalle 2023 global real estate universe - Estimated size by ownership type



Source: LaSalle estimates based on data from Oxford Economics, Bloomberg, NCREIF, MSCI, Investment Property Forum (UK), National Bureau of Statistics of China, US Bureau of Economic Analysis, US Federal Reserve, Company financial statements. These estimates are as of mid-year (Q2) 2023. All values USD.

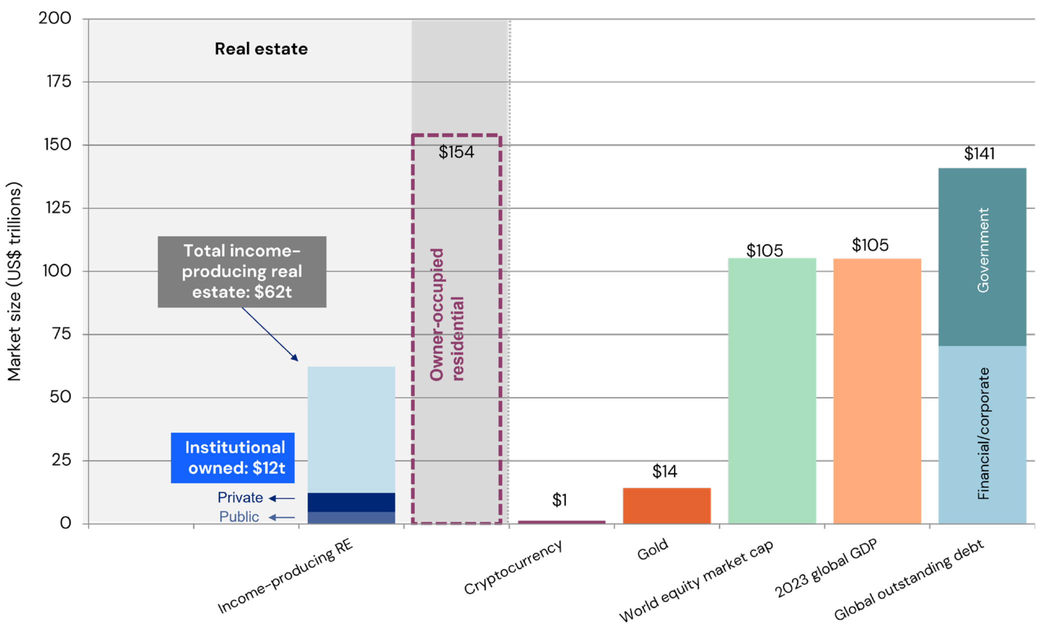
Our analysis shows that one fifth of global real estate is owned by institutional investors, and 40% of that institutional ownership is by listed companies. The estimates also break down market size by country, property type and city, using a methodology combining several bottom-up and top-down sources.

We take a closer look in this Briefing at three key findings from the real estate universe analysis: (1) global income-producing real estate has recently ebbed to a below-average size relative to GDP, (2) real estate value has a fairly even distribution across the three major global regions and (3) those regions differ significantly in how real estate is distributed across metros, implying different optimal diversification strategies.

1 Real estate is large, but at a cyclical ebb

Figures in trillions can be so enormous that they lose some meaning – so it is helpful to put those numbers in context. An illuminating comparison is to put income producing real estate alongside other asset classes like stocks and bonds, as shown in the graph below.

Investable universe comparison versus other asset classes

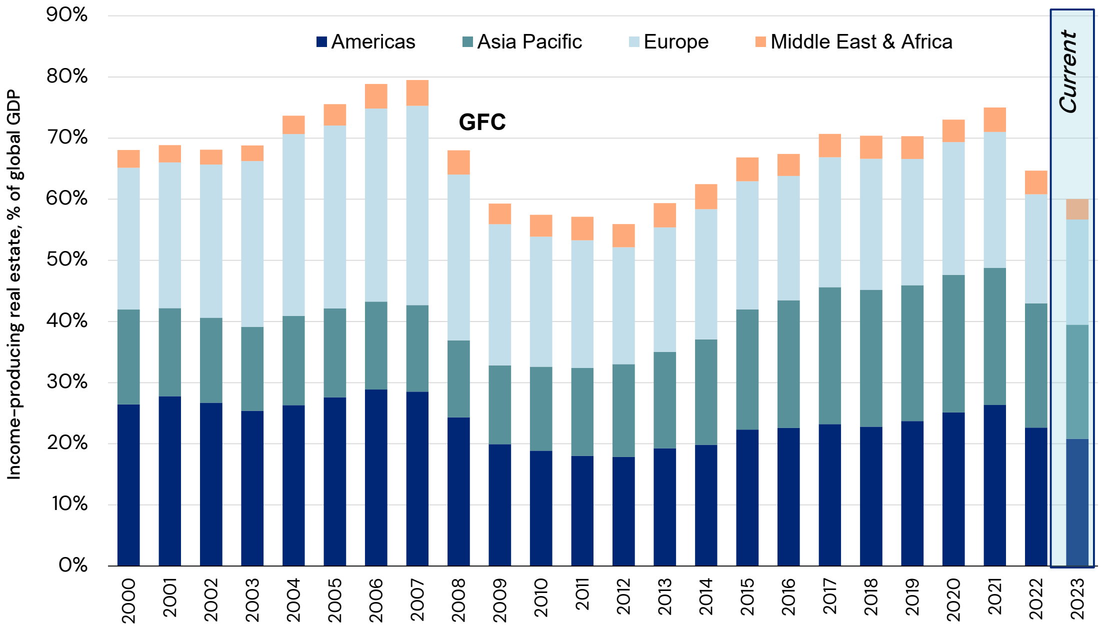


Source: LaSalle estimates based on data from Oxford Economics, Bloomberg, NCREIF, MSCI, Investment Property Forum (UK), National Bureau of Statistics of China, US Bureau of Economic Analysis, US Federal Reserve, Company financial statements. These estimates are as of mid-year (Q2) 2023.

These estimates show global real estate is a smaller sibling to stocks and bonds but very much in the same family of major asset classes. Notably, owner-occupied residential real estate, which is not included in LaSalle's real estate estimates, is significantly larger in size than all income-producing property, and even larger than the global fixed-income market.

Another useful comparator, shown below, is against global GDP. We estimate that real estate is equal to 60% of global GDP in 2023. This puts it at a low ebb relative to recent history. This is consistent with the historic pattern of real estate comprising a higher share of GDP late in expansions and then a lower share of GDP in repricing episodes. Currently our real estate market size estimate is near previous cyclical lows as a share of GDP seen in 2009-2012. Since 2000, our real estate market size estimates have averaged 68% of global GDP.

Income-producing real estate value as share of global GDP



Source: LaSalle estimates based on data from: Oxford Economics, Bloomberg, NCREIF, MSCI, Investment Property Forum (UK), National Bureau of Statistics of China, US Bureau of Economic Analysis, US Federal Reserve, Company financial statements. These estimates are as of mid-year (Q2) 2023.

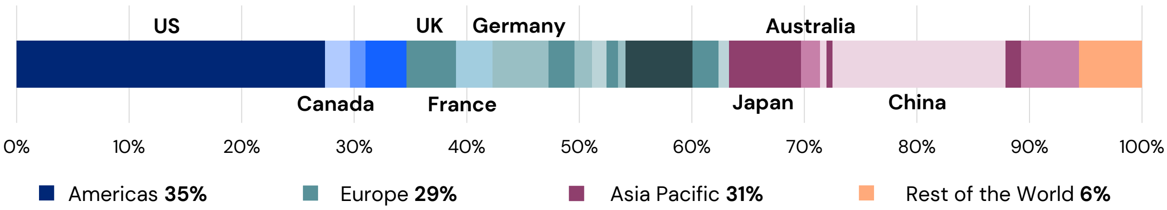
2 Still a global asset class

A second key finding from LaSalle's universe estimates is the relatively even split in value observed between the three major regions of the Americas, Asia Pacific and Europe. We estimate that 35% of income producing property is in the Americas, 31% in Asia Pacific, and 29% is in Europe. We believe these estimates from LaSalle's real estate universe analysis better reflect the true opportunity set than other splits based on simple GDP or real estate indices, which can sometimes be lopsided based on where coverage is greatest or which types of investment fund products predominate. For example, 67% of the MSCI Global Property Fund Annual Index AUM is in North America.[2]

[2] Source: MSCI. Data as of 2022 (most recent available).

The split above suggests an even distribution of opportunities by region. At the same time, our national estimates also show global diversification can be achieved with a small number of countries. The eight countries with the most institutional-invested real estate together account for 70% of the invested universe. A focus on these larger countries – as well as multi-country funds – can enable investors to efficiently achieve diverse exposures, while also managing the challenges that come with differences in market practices, currency, regulation and building market knowledge.

Income-producing real estate universe by country



Source: LaSalle analysis of data from Bloomberg, NCREIF, MSCI, Oxford Economics, United Nations.

3 Big regional differences in universe at city level

Our third notable finding emerges when zooming in one level further from the national level to individual cities. Cities and their surrounding metropolitan areas form the underlying building blocks of the real estate universe; they are often the basic level of analysis investors have in mind when comparing market allocations.

LaSalle estimates institutional real estate market size are for the entire metropolitan (metro) market – including the principal city and its suburbs that are economically connected to it, adopting official metropolitan area definitions from national statistical agencies where available.

Real estate held in institutional investor portfolios is highly concentrated in the largest metros, and these local market size estimates highlight the degree of that concentration. The 40 largest metropolitan real estate markets account for 58% of all institutional property. Some of the world's largest metro areas dwarf many individual countries when it comes

Largest 20 metros by institutional real estate asset value

Office, industrial and retail property only, 2023 estimates

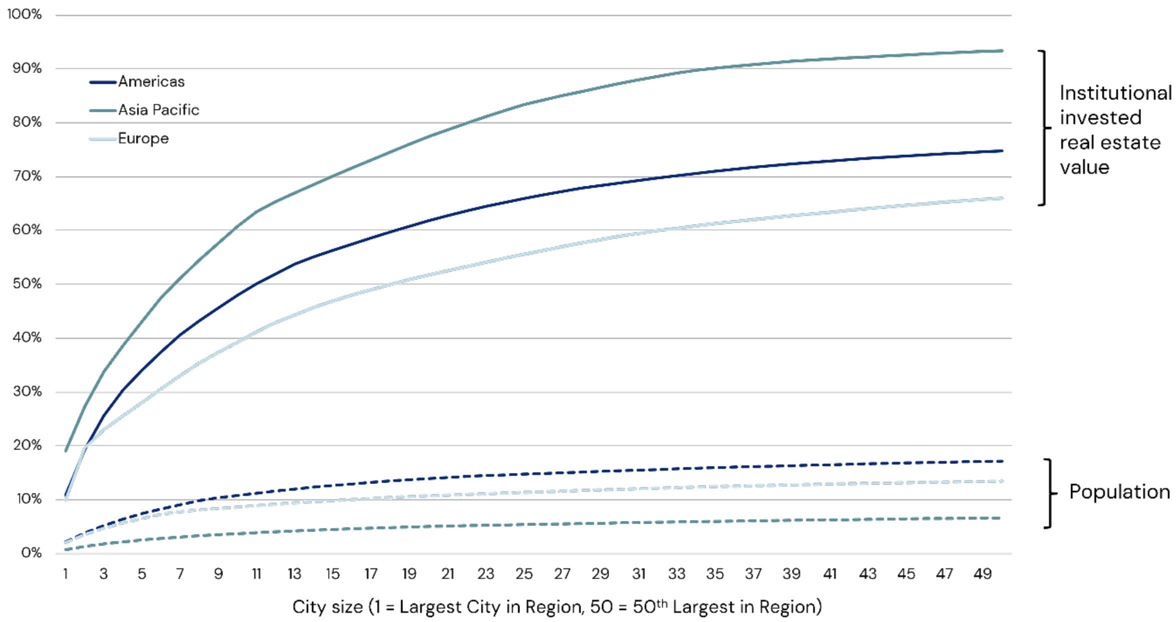
Rank	Metro area	Institutional-owned real estate estimate (billions)
1	Greater **Tokyo**	$487
2	**New York** Combined Statistical Area	$396
3	**Los Angeles** Combined Statistical Area	$311
4	**Paris** / Ile de France	$280
5	Greater **London**	$273
6	San Francisco **Bay Area**	$232
7	**Hong Kong**	$211
8	**Washington DC** Metro	$174
9	**Singapore**	$165
10	**Boston**-Cambridge Metro	$136
11	**Seoul** Capital Area	$125
12	Greater **Toronto** Area	$122
13	**Chicago** Metro	$116
14	**Shanghai** Urban Agglomeration	$114
15	**Sydney** Greater Capital City Area	$112
16	**South Florida** (Dade, Broward, Palm Beach)	$96
17	Metropolregion **Munich**	$95
18	**Beijing** Urban Agglomeration	$93
19	**Seattle**-Tacoma Metro	$88
20	**Guangzhou** Urban Agglomeration	$87

Source: LaSalle analysis of data from JLL, Oxford Economics, Bloomberg, NCREIF, MSCI, Investment Property Forum (UK), National Bureau of Statistics of China, US Bureau of Economic Analysis, US Federal Reserve, Company financial statements, LaSalle Global Solutions. These estimates are as of mid-year (Q2) 2023. All values USD.

to institutional real estate ownership. Our latest estimates show that there is likely more institutional-owned real estate in Greater Tokyo than in all but three of the 201 countries covered in our estimates.

The metro market size distribution varies considerably across regions, with important implications for portfolio strategy. Institutional real estate ownership in Asia Pacific is more concentrated in its largest metros than in any other region. And its real estate is far more concentrated in a few cities than its population. In Asia Pacific, 18 metros account for 75% of institutional property, whereas the equivalent metro total is 52 in the Americas. In Europe, real estate is the most dispersed across cities, reflecting its more fragmented quilt of different jurisdictions. Over 100 European metros must be amalgamated to account for 75% of the regional total. Such dispersion makes the task of setting target markets even more complex, which is where tools like the recently released [LaSalle European Cities Growth Index (ECGI)]() can help.

Cumulative proportion of regional total, by city size rank, 50 largest metros in each region



Source: LaSalle analysis of data from JLL, Oxford Economics, Bloomberg, NCREIF, MSCI, Investment Property Forum (UK), National Bureau of Statistics of China, US Bureau of Economic Analysis, US Federal Reserve, Company financial statements. These estimates are as of mid-year (Q2) 2023.

These differences impact investment strategy and approaches to diversification. Asia Pacific's concentration of large institutional markets implies that investors may be able to achieve diversification by investing in fewer metros, but that it is also a region where each "bet" on geo-market allocation matters more. In Europe and North America, investors are more active across a larger number of medium-sized markets, offering diversification benefits as well as challenges in terms of access and efficiency.

LOOKING AHEAD

- The real estate universe is massive – it constitutes a meaningful portion of all global investable assets across asset classes – and therefore is a key piece of diversified mixed asset portfolios. Its ratio to global GDP is now below its long-term average, near past cyclical lows seen on this measure. Over a ten-year horizon, we expect real estate to grow as a share of GDP.
- The real estate universe is evenly dispersed by region (though concentrated by country and city). A globally balanced portfolio would give roughly a one-third weighting each to North America, Asia Pacific and Europe.
- The concentration of institutional real estate in highly transparent countries and in major metro areas implies that investors can achieve a good degree of diversification with a small number of countries and moderate number of metro markets, with differences across regions.
- Investable universe estimates can help investors devise "neutral weights" for markets and sectors, which they can then adjust based on structural considerations (e.g., tax status) and their views of relative value. We look forward to sharing our outlook and strategic recommendations for 2024 real estate investment in our upcoming *ISA Outlook 2024*, the first installment of which will be released on November 14.