

## 2023 Trends to Watch in Real Assets

In late 2022 investment in commercial real estate tumbled and returns decelerated, presenting new challenges for investors. The outlook at the start of 2023 is uncertain but key influences on the trading, pricing and performance of property can be identified.

So, here are five important trends we believe the market should watch in 2023.

### 1 – Price expectations key for market liquidity

Deal volume has fallen globally as increased capital costs forced investors to re-evaluate incentives for buying commercial real estate. To drive deal liquidity back to normal levels, sellers and buyers of property would need to re-align on price expectations.

### 2 – Multiple lenses on a fast-moving market.

As transaction activity declines in the early stages of a downturn, so too does the supply of datapoints and comparable evidence for valuations. This means it is especially important to look at pricing movements using a variety of measures.

### 3 – A return to fundamentals.

Global real estate returns slowed late in 2022 as yield compression waned. Without the benefit of yield impact to accelerate returns, managers may need to increase their focus on fundamentals such as tenant retention and increasing rental income to underpin investment performance.

### 4 – Finding resilience in a down market.

Style factors such as yield and leasing quality have shown cyclical investment performance in the past. Considering these and other factors might help investors understand how their portfolios are positioned for a possible down market.

### 5 - Abstract climate risk becomes a financial reality

A deal price premium has started to emerge for office buildings with sustainability ratings in some cities, though, as yet, research does not show that building emissions impact performance returns. Still, the risk of high emissions affecting a building's value should start to be taken into account.

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