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Thailand Press Release ข่าวประชาสัมพันธ์

Date: 16 April 2014
Source: Website ThaiPR.NET
http://www.thaipr.net/finance/539719

Global Fund Assets to Top $100 Trillion on Real Estate Boom, PwC Says

Global fund assets are projected to grow by 60% to $101.7 trillion by 2020, fuelled by the shift toward individual retirement plans, a surge in high-net-worth individuals in emerging markets and growth in sovereign wealth fund (SWF) assets, PwC says.

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. This will prompt institutional investors to raise allocations in real estate more than in other asset classes, according to Real Estate 2020: Building the future, a report from PwC.

As the industry's opportunities grow, so too will assets invested in the sector.

Sira Intarakumthornchai, Chief Executive Officer of PwC Thailand, said that the broad asset management sector globally will see assets under management (AuM) grow from $63.9 trillion in 2012 to 101.7 trillion by 2020, driven by asset growth in pension funds, sovereign wealth funds and among high-net-worth customers.

Pension funds will account for most of the growth in assets, rising 6.6% a year to $56.5 trillion by 2020. Sovereign wealth funds are set to grow by more than 70% to $8.9 trillion in 2020, mainly driven by the Middle East and Africa. High-net-worth individuals will increase their assets by almost 50% to $76.9 trillion.

Meanwhile, the global stock of institutional-grade real estate is expected to grow by more than 55% to $45.3 trillion by 2020, from a total of $29 trillion in 2012. By 2030, it will expand further to $69 trillion.

The expansion will be greatest in emerging economies, where economic development will lead to better tenant quality – and, in some countries, clearer property rights – propelled by population growth and increasing GDP per capita. This will play out across housing, commercial real estate and infrastructure.

“The real estate industry is currently undergoing fundamental changes that we expect will significantly reshape the landscape in 2020,” Sira said.

“What we’re seeing is a growing trend of institutional investors raising allocations in real estate. Real estate funds and sovereign wealth funds will find the assets under their control swell, and there will be a growing need to finance urbanisation.”

Norway’s $180 billion oil fund, the world’s largest sovereign wealth fund, for instance, has targeted raising its property allocation significantly by 2015, compared to the previous year.
Private capital will play a critical role in funding the growing and changing need for real estate and its supporting infrastructure. They will also become an important partner of governments.

Intense competition for prime real estate will force real estate managers and investors to seek out new opportunities for yields. Yet the growing and changing real estate world will present a far wider range of risks.

Developing Asia-Pacific leads growth

According to Sira, new wealth from emerging economies will intensify competition for prime assets, as evidenced by the rapid pace of construction activity. The volume of building activity will expand the world’s inventory of institutional-grade real estate.

According to the report, global construction is expected to almost double to $15 trillion by 2025, up from $8.7 trillion in 2012. Emerging markets in Asia will be the fastest growing region for construction between now and 2025, followed by Sub-Saharan Africa.

Total investable real estate in developing Asia-Pacific countries, including Thailand, will surge by 140% to $10.2 trillion by 2020, from 4.3 trillion in 2012. This growth will outpace developed Asia-Pacific nations (37%), USA and Canada (38%) and Europe (27%), among others.

“The growing middle class in emerging markets combined with an ageing global population will boost demand for specific types of real estate. Subsectors such as agriculture, education, healthcare and retirement will be far bigger by 2020,” Sira added.

Thai Market Outlook

Looking at real estate investment prospects in Thailand, Sira said he expected the growing appetite among domestic institutional investors to continue over the long term on the back of rising inflation and low interest rates.

Thailand’s central bank cut its benchmark one-day repurchase rate by 25 basis points to 2% last month to support growth as the economy suffers due to prolonged political unrest in Bangkok. Headline inflation is expected at 2.5% in 2014, compared with 2.2% in 2013.

Investment in real estate, particularly in prime office buildings, would draw interest due to its higher yields in line with rising inflation.

However, the outlook for housing investment will remain murky in the short term, hurt by the economic slowdown and political jitters. Consumer confidence has fallen, reflected in fewer bank loans and delays in new projects.