2025 Private Markets Outlook

A new era of growth

BlackRock

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Mark Wiedman
Head of Global Client Business

Welcome letter

Where are private markets headed? What will they look like in 2030?

Those are questions clients have posed since the rate shocks ended forty years of ever-declining rates. Are the brightest days in private markets behind us?

We think no – that the brightest days are ahead. Everywhere we see clients seeking long-dated, profitable assets to match their long-dated liabilities.

Industry estimates show private markets growing from US$13 trillion today to more than US$20 trillion by 2030.[1] Here are four drivers we see.

Private markets allocations will continue growing across all client segments, especially wealth. Allocations to private markets in wealth management remain in their infancy—just 1-2% for individual investors and nearly zero for defined contribution systems globally. Even modest increases will drive growth. To help meet private markets demand from U.S. wealth advisors, we are partnering with Partners Group to provide advisors with access to private equity, credit, real assets, and liquid alternatives within a model portfolio. And in 2025 we are excited to bring more BlackRock institutional products to clients in Europe, Asia, and the Americas.

Private credit and infrastructure will grow fastest. Together, they make up about 20% of private markets today, but by 2030 we expect this share to grow to 30%. Private credit is being fueled by the growing comfort and need for CFOs to diversify their funding beyond banks, and by trillions of dollars in loans migrating from bank balance sheets to longer-dated liability investors like insurance, pensions, and wealth. Infrastructure, meanwhile, is driven by the fiscal constraints of states with aging populations, the AI and data center revolution, and the energy transition.

Source: 1. Preqin, September 2024, Carne Atlas, August 2024.
There is no guarantee that any forecasts made will come to pass.

We expect annual energy investment to rise from US$2.2 trillion today to over US$3 trillion by decade's end. Our confidence in the growth of these sectors is what's behind our acquisitions this year of HPS Investment Partners* and Global Infrastructure Partners, making us one of the top private credit firms in the world, and the #1 infrastructure player.[1] In markets where scale brings direct benefits to investors, we are proud to be bringing these excellent capabilities to our clients.

Client needs are driving industry consolidation. Investors increasingly prefer to work with a smaller set of branded, scaled, multi-product providers that can deliver solutions across their whole portfolios. That's true in public markets, where 77% of all net money went to five global firms between 2019 and 2023;[2] we are one of them. And now private markets are following the same trend. The top six private markets firms captured 22% of flows in 2019, 42% in 2023, and 63% in the first half of this year.[3] We think that trend will continue in private markets, and it's our aspiration to be one of those, too.

Fog will give way to transparency. Compared to the radical transparency in public markets, we face the fog of private markets. But as clients allocate more to private markets, they're demanding better data to drive investment decisions, capital formation, risk management, and portfolio construction. To meet these needs, we acquired eFront in 2019—our tech platform for managing client portfolios across public and private assets—and Preqin—the world leader in private markets data—earlier this year.

Thank you for exploring our Private Markets Outlook as we turn to 2025. We look forward to serving you across your entire portfolio.

Sources: 1. Infrastructure Investor 11/1/2024. 2. Simfund for US MFs, GBI for global ETFs, Broadridge for non-US MFs; as of Dec. 2023. Reflects Mutual Funds and ETFs; excludes money market funds, closed end funds, Wealth SMAs, private markets and FoFs. Excludes China, India funds. 3. Preqin for industry gross fundraising, as of Jun'24, public filings for private markets competitors, as of Q2, 2024.

*Transaction projected to close in 2025.

Key takeaways

- The brightest days for private markets are still ahead, driven by higher investment activity, elevated-but-lower financing costs and greater demand for long-term capital.
- Industry estimates project private markets could grow from US$13 trillion today to more than US$20 trillion by 2030. We believe private debt and infrastructure will grow the fastest.
- Private debt continues to expand globally, and into new avenues of finance, with wide performance dispersion depending on borrower size and sector.
- Investors can access the transformative possibility offered by artificial intelligence through infrastructure, as well as debt, private equity and real estate.
- A series of profound changes in the world's demographics, energy demand, digital technology and supply chains continue to propel investment across private markets.
- Deal activity is rising in both the M&A and IPO markets, which should drive more exits and distributions across private equity.
- Many real estate valuations are nearing their bottoms, creating opportunities, though price recovery will take time, with wide dispersion among sectors and regions.

Authors

Adebayo Ogunlesi
Chairman & Chief Executive Officer of Global Infrastructure Partners, a part of BlackRock

Brent Patry
Head of Equity Private Markets

Adam Ryan
Chief Investment Officer, Multi-Alternatives

Amanda Lynam
Head of Credit Macro Research

Mark Everitt
Head of Research, Equity Private Markets

Introduction

The new world that investors face is one shaped by increasingly intersecting mega forces, which drive long-term growth. And this presents a new climate for private assets.

Fundamentals across private markets remained resilient throughout 2024, setting the stage for growth, as a new phase in private markets begins. This new phase is marked by elevated investment activity, a rise in exits, lower financing costs and more demand for long-term capital.

A more favorable rate environment helped energize IPO and M&A activity, with implications across private markets. Dry powder remains on the sidelines, but we see new investment and exit activity accelerating in 2025 as prices find clearing levels.

Even amid a rise in distributions, investors will likely remain focused on the capital requirements and overall liquidity of their portfolios. As such, secondaries will continue to be an integral part of portfolio-management toolkits.

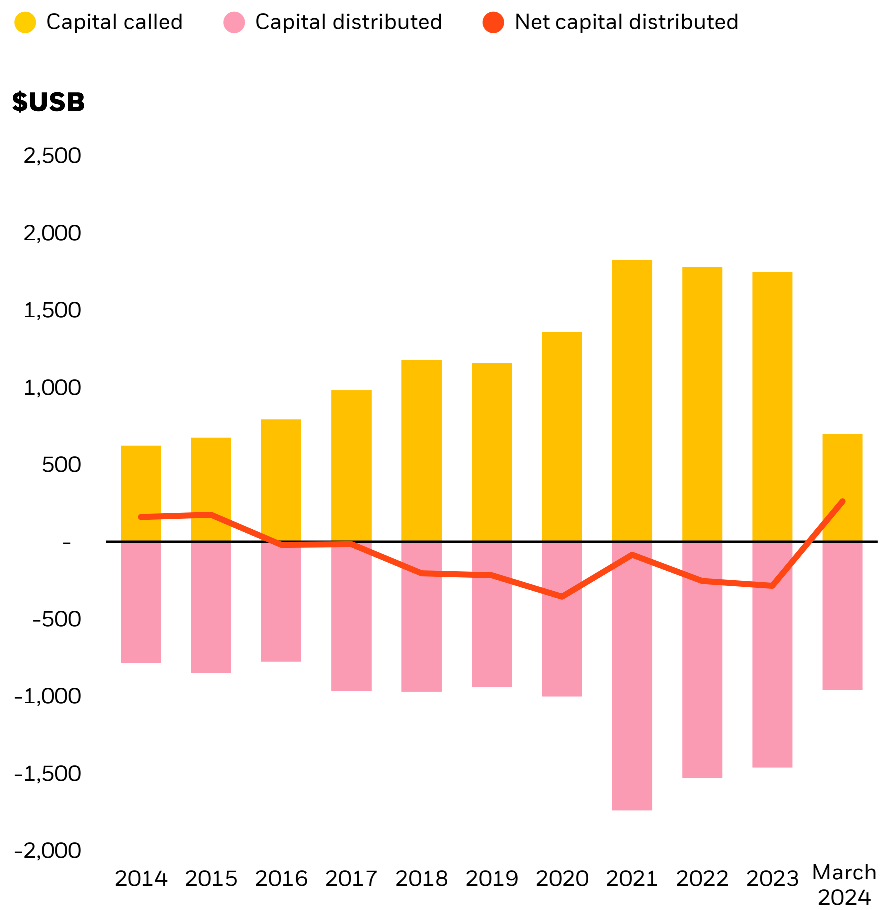
Global divergence in economic growth seems possible, with the U.S. at the forefront. At the same time, a resurgence of distributions and deal activity should enable the recycling of capital and allow for fundraising to rebound.

It's a volatile environment with secular shocks becoming more common, where private markets are well positioned by their long-term investment lens. Geopolitics remains at the top of investors' minds. The recent U.S. elections were just one of more than 70 elections in 2024 in which half of the world's population went to the polls, with potential implications into 2025 and beyond for policy, geopolitical tensions, trade, supply chains and energy security.

A new wave of investment into the real economy should help transform markets, as more companies stay private for longer. One major growth area is AI, which presents a range of opportunities across all private asset classes.

Distributions make a comeback

Breaking an eight-year streak, distributions have started to outpace capital calls.

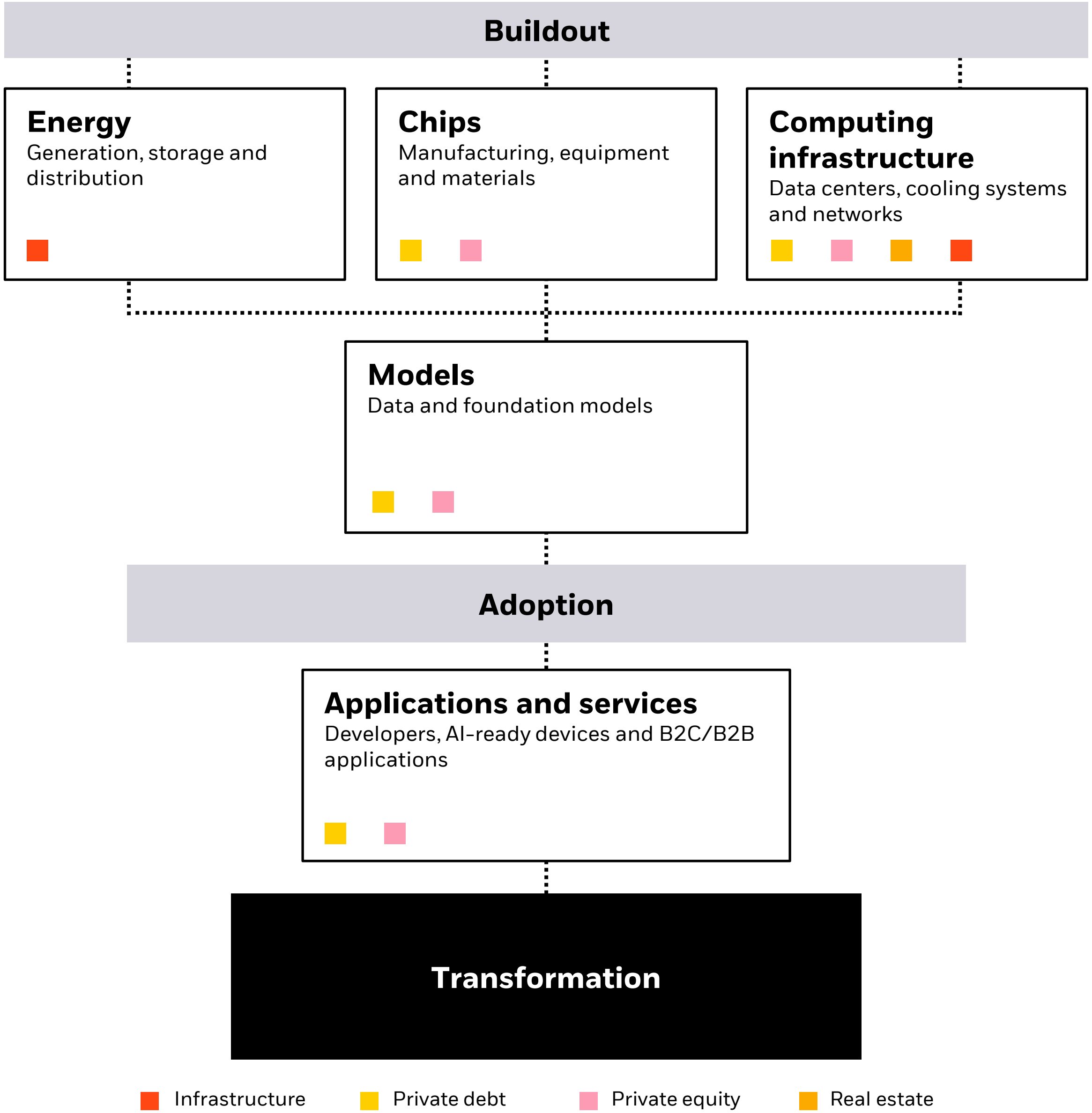


Source: BlackRock, Preqin Annual Capital Called & Distributed across Private Capital 2014 – 3/31/2024. Latest data available at the time of publication. Data accessed on 11/7/2024.

Capturing the AI opportunity

Artificial intelligence has the potential to reshape economies. We are still at the beginning of a transformative investment cycle for AI, spanning development, adoption, and transformation. The opportunity set will evolve over time across both public and private markets. While today's headlines are dominated by tech giants, they represent the tip of the iceberg. We believe private markets are key to the AI 's investment story and offer access to the entire value chain.

In the initial phase, the key cost components include developing new data centers, generating sufficient power and increasing the chip supply. The next layer of investment will contribute to the expanding capabilities of AI. Finally, early-stage growth companies are likely to drive AI adoption in non-traditional sectors, potentially becoming acquisition targets for larger firms. For investors, this presents an opportunity to engage with potentially transformative AI use cases before they go public.



For illustrative purposes only.
The set of examples for each category is not comprehensive.

New frontiers

Private markets are evolving rapidly and becoming more accessible to a broader range of investors. Governments and regulators around the world have taken an interest in giving defined contribution plans more access to private markets. In the wealth space, private banks and asset managers are creating new ways for high-net-worth individuals to invest in private assets.

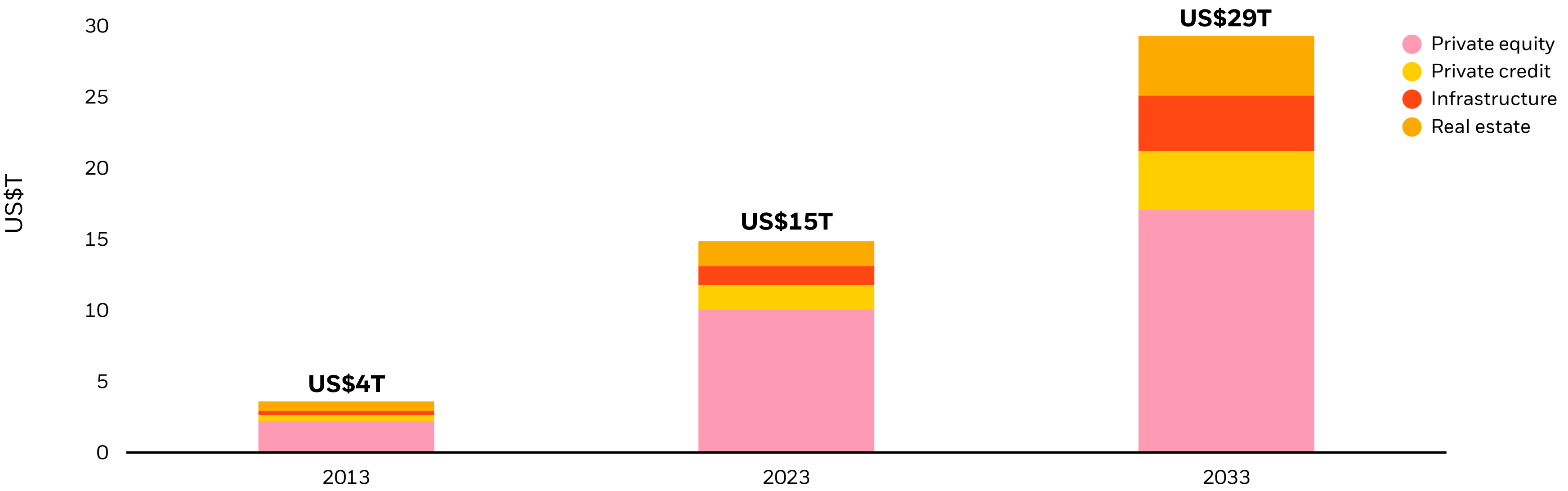
This democratization comes with challenges. These emerging vehicles require new processes. Ensuring that private markets are effective within the portfolios of these new investors calls for portfolio construction expertise to build diversification, while providing a degree of liquidity.

Solving these challenges requires a broad suite of tools. Modelling is essential to predict cashflows, manage liquidity and optimize holdings. Equally important is finding the right mix with public-market assets to provide liquidity and mitigate the J-curve often seen in private markets.

We are still in the early stages of this new phase in the private markets, with rapid developments in product design, regulatory frameworks, as well as the tools and solutions for clients.

Poised for growth

Private capital is forecast to continue its rapid growth into the next decade.



Source: Partners Group analysis of Preqin data as of Q1 2023. Private Equity inclusive of Venture Capital. There is no guarantee that any forecasts made will come to pass.

Infrastructure

The AI infrastructure growth cycle

The race to develop next generation AI technology continues to accelerate.

As the technology advances and adoption levels grow, AI's potential to transform industries and daily life is becoming increasingly apparent. To support this rapid growth in AI adoption, substantial investment in supporting infrastructure, particularly data centers and power, is crucial.

Global Infrastructure Partners
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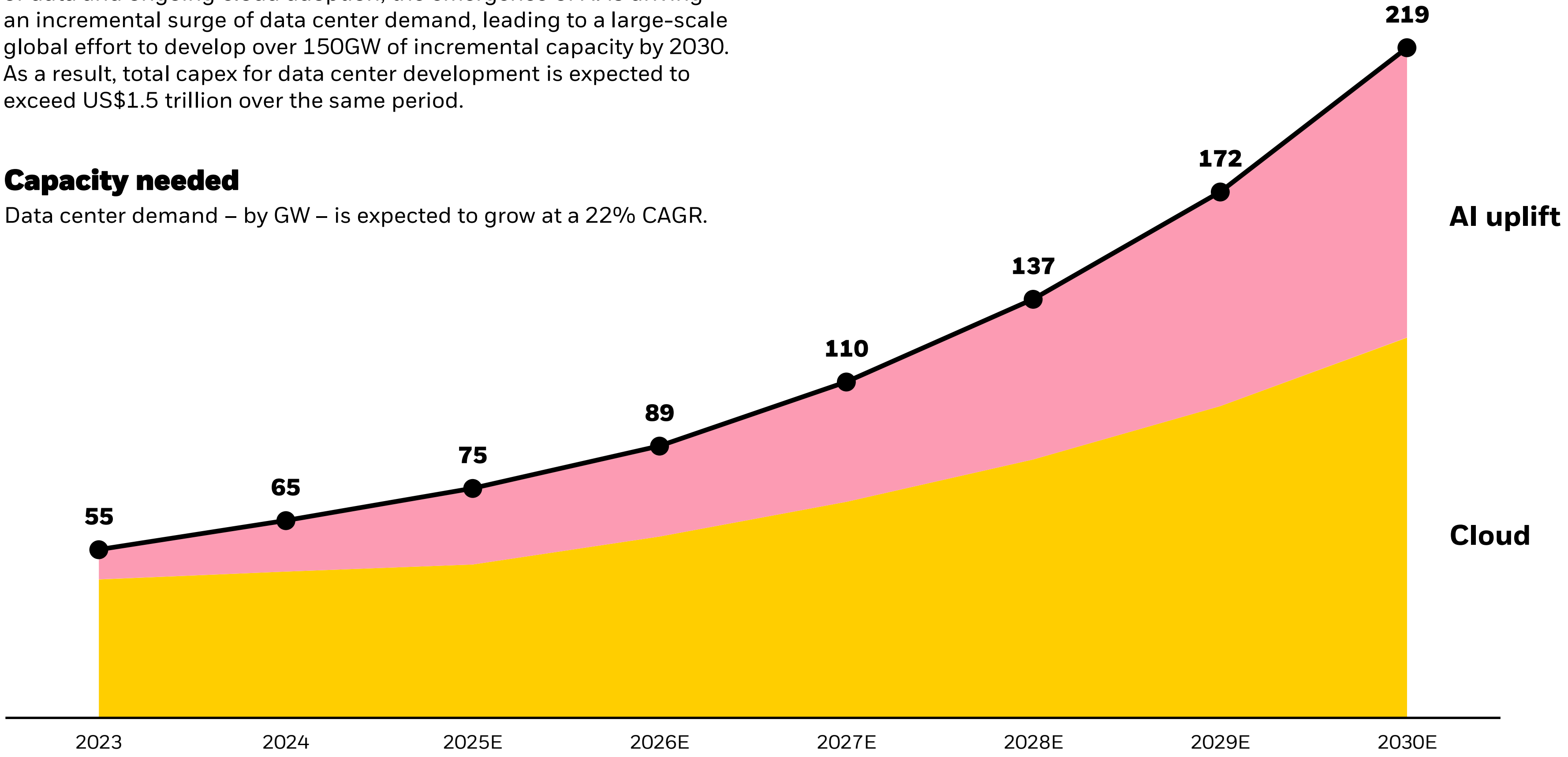
Accelerating trend

AI requires unprecedented levels of computational power, and data centers are the critical infrastructure enabling this by hosting the servers responsible for AI training and inference.

While data center demand is already robust due to the rapid growth of data and ongoing cloud adoption, the emergence of AI is driving an incremental surge of data center demand, leading to a large-scale global effort to develop over 150GW of incremental capacity by 2030. As a result, total capex for data center development is expected to exceed US$1.5 trillion over the same period.

Capacity needed

Data center demand – by GW – is expected to grow at a 22% CAGR.



Source: McKinsey Data Center Demand Models, RBC BlackRock Investment Institute, BNEF, Grid Strategies, Goldman Sachs Research. Note: There can be no assurances that any forecasts or estimates will materialize.

Demand rises

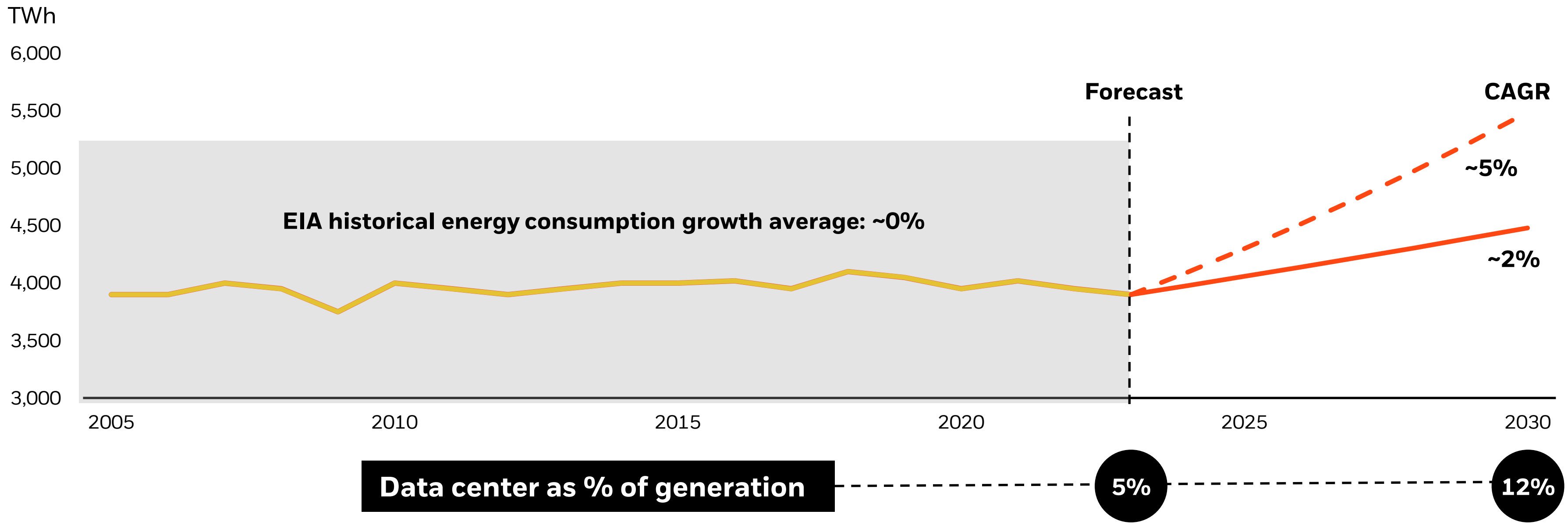
Power is a key component of data center operations, as the servers they house require significant energy for compute and processing. Data centers housing graphics processing units utilized for AI applications require even more power, often 10-15x that of traditional cloud deployments. According to McKinsey forecasts, U.S. data centers could require approximately 600 TWh of electricity by 2030, a three-fold increase versus 200 TWh in 2023.

As a result, the need for additional power generation and transmission infrastructure will only intensify. In response, many data center operators are increasingly forming partnerships with power producers and exploring "behind-the-meter" solutions, generating their own off-grid power through solar, wind, natural gas, and even nuclear energy.

Given the massive investment required to meet growing AI data center demand and the complexity of integrating power and data center development capabilities, we believe this is an opportunity set ripe for experienced infrastructure investors across digital infrastructure and energy.

New generation

Data center energy requirements are expected to represent more than 50% of U.S. electricity growth.



Source: McKinsey Data Center Demand Models, RBC BlackRock Investment Institute, BNEF, Grid Strategies, Goldman Sachs Research. Note: There can be no assurances that any forecasts or estimates will materialize.

Private debt

A wider addressable market

Private debt continues to cement its status as a sizable and scalable asset class for a wide range of long-term investors. But there is plenty of room for growth. At US$1.6 trillion[1] in global AUM, the asset class accounts for 10% of the US$16.4 trillion alternative investment universe. The momentum behind the growth of private debt is being driven by a few major factors.

Private debt is taking on more fundings previously executed in the public markets, which increasingly focus on deals that are prohibitively large for most middle-market companies. Companies are also relying on private lenders more for financing as they stay private for longer. And they have come to value the certainty of execution and flexibility that private debt provides. At the same time, banks are more selective in how they use their capital. Lastly, investors have an increased comfort and familiarity with the asset class.

In 2025, we expect more performance dispersion, requiring granular credit selection. This year's vintages should benefit from additional clarity on the monetary policy front, with our base case of supportive growth in the U.S., alongside a still-attractive backdrop of yield support.

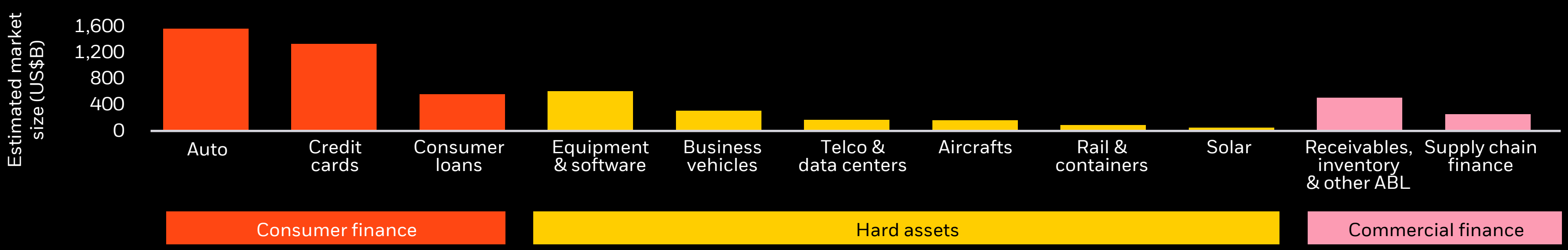
The definition of private debt continues to expand as private debt investors start to participate more in asset-backed finance, a US$5.5 trillion segment in the U.S. alone, according to Oliver Wyman.[2] Asset-backed financing encompasses debt related to consumer spending, hard assets, commercial financing and intellectual property, among other categories.

The current market share of asset-backed finance held by private lenders is estimated at roughly 5% today,[2] and private lenders are poised to fill in the gaps left by banks, as they have within corporate credit and real estate. We expect this trend to accelerate in 2025, alongside growing appetite for such private-debt investments globally, most notably from U.S. insurers.[3]

Private debt is also becoming more global. While North America represents more than 60% of total private debt AUM,[4] Europe and Asia-Pacific have been growing. Today, these regions are more reliant upon bank financing, suggesting a significant opportunity for private debt to expand, similar to the funding diversification that has taken place in the U.S. Regional expertise is essential to navigating these markets, which are fragmented in terms of competition and pricing, offering their own idiosyncratic risks.

New horizons

As an asset class, private debt is expanding to take on parts of the far-larger U.S. specialty financing market, based on Oliver Wyman's market sizing.



Source: 1. Preqin, September 2024. 2. "Private Credit's Next Act," April 2024 by Huw van Steenis and colleagues, Oliver Wyman. The Oliver Wyman analysis and estimates were aggregated from a range of sources including, but not limited to: Federal Reserve Board (Z1 tables, G19, G20 and H8); Federal Reserve Bank of New York; Federal Reserve Bank of Dallas; Bureau of Transportation Statistics (BTS); Dealogic; Conning, Inc., Conning Esoteric ABS Strategy Fact Sheet – used with permission; Finsight.com; Structured Finance Association; Boeing (Commercial Aircraft Finance Market Outlook); Secured Finance Network; Equipment Leasing and Finance Association; Morgan Stanley Research; CACIB Research; company reports and disclosures. 3. "Asset-backed finance: Unpacking the structural shifts," Blackrock, May 2024. 4. Preqin, November 2024.

Deepening dispersion

One of the main themes we see persisting into 2025 is dispersion, but not widespread market disruption. This applies to liquid corporate credit, commercial real estate, and even the financial strength of the U.S. consumer—and private debt is no exception.

While many developed market central banks have begun a process of normalizing monetary policy, interest rates remain elevated by historical standards. In the U.S., for example, we expect monetary policy normalization – rather than easing – which suggests corporate borrowers will continue to navigate an environment marked by a higher cost of capital (at least relative to the post-financial crisis era).

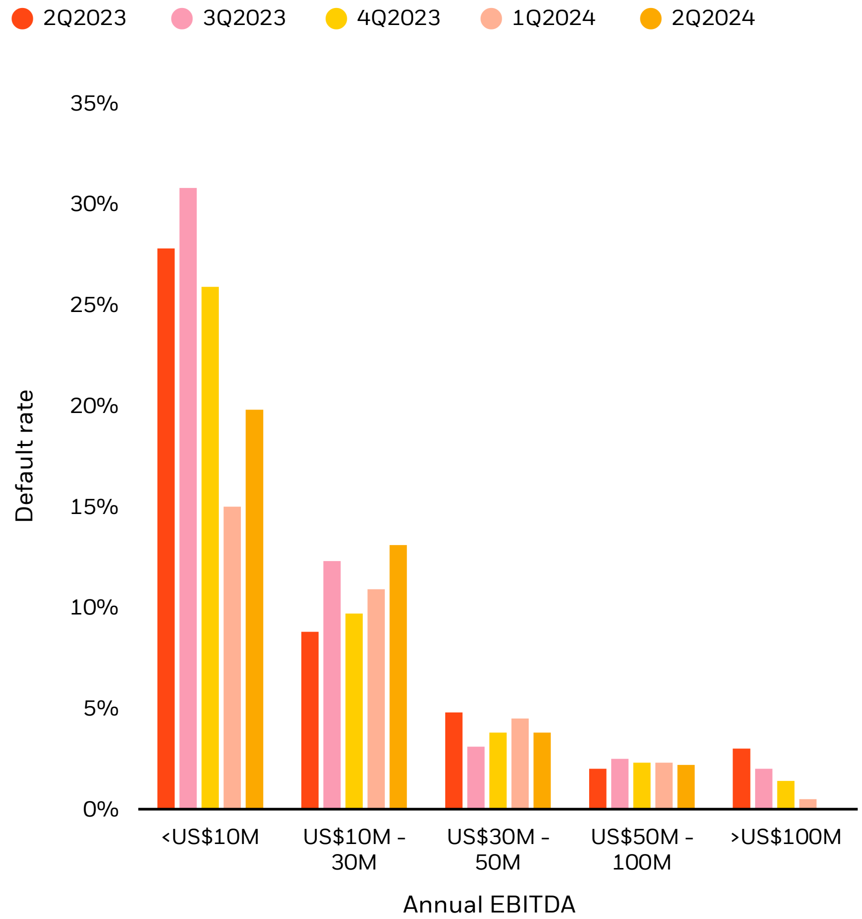
In aggregate, corporate borrowers in the private debt market have demonstrated notable resilience. But that resilience is not equal in all parts of the market. Covenant defaults declined to 2.6% over five consecutive quarters ending June 30, 2024, according to the size-weighted covenant default rate for the Lincoln International Proprietary Private Market Database, which includes 5,200 U.S. companies. But the instance-weighted default rate, which illustrates the stress faced by smaller borrowers, tells a different story. It ended the same period at 7.5%, up from 6% a quarter before.

In terms of covenant default rates, dispersion by sector should continue. Each industry faces its own unique set of growth drivers and headwinds, creating different degrees of cyclicality, pricing power, operational agility, and financial flexibility. For example, the consumer sector has generated higher covenant default rates in recent quarters as consumers contend with higher inflation.

Finally, trends among vintages will also be important to monitor in the year ahead. Relative to more recent vintages, we expect to see increased amendment and covenant default activity among the vintages that were formed in an environment of exceptionally low interest rates.

Defaults by size

One area where dispersion is apparent is in the covenant default rates among companies of differing sizes.

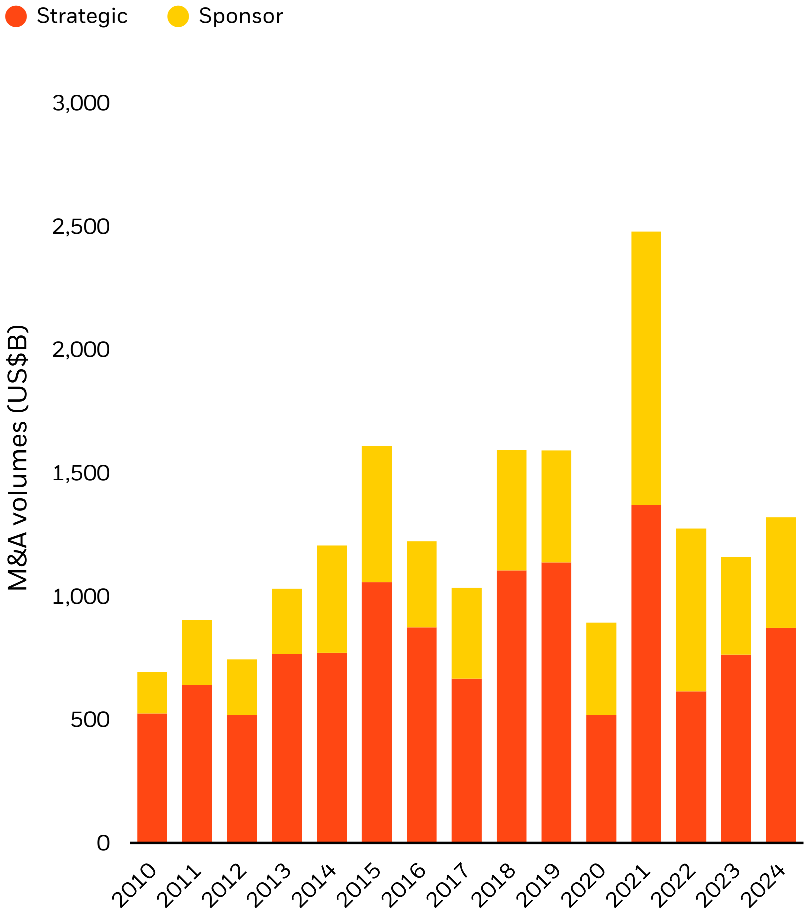


Source: BlackRock, Lincoln International Valuations & Opinions Group Proprietary Private Market Database. As of 2Q2024. Note: A default is defined as a covenant default and not a monetary default. The analysis was performed based on a size-weighted approach, which considered the total net debt balance for each of the portfolio companies that had a defaulting security in the respective quarter.

Focus on growth

Deal watching

As the macroeconomic picture clarifies, M&A should make a comeback in the coming year.



Source: BlackRock, Dealogic (ION Analytics.) Strategic and sponsor M&A announced by North American acquirers, by year-to-date period. Captures deals valued at US$100m or more, at announcement. Excludes cancelled and withdrawn deals. As of October 22, 2024.

We expect 2025 to be a dynamic investing environment, with higher fiscal spending and deficits, along with structurally higher inflation and interest rates relative to the post-financial-crisis era. As numerous policy and economic questions play out, the most important factor will be the growth backdrop.

The elevated pace of growth, which has prevailed in the U.S. for much of 2023 and 2024, has been a significant contributor to the resilience of private debt, as well as borrowers' ability to navigate a higher-cost-of-capital environment.

For private debt investors, robust economic expansion can reduce the risk of a significant increase in defaults and credit losses. Such an expansion is also a key input for the forward path of monetary policy, in our view. For example, slower – or fewer – Federal Reserve rate cuts relative to market pricing, because of strong economic activity can likely be easily digested by the liquid and private credit markets – and may be a welcome development for yield-based investors in floating rate products. By contrast, slower – or fewer – rate cuts because of reaccelerating inflation would be a much less favorable backdrop for credit, in our view, especially if coupled with weaker economic activity.

The current environment is one with scope for M&A activity to accelerate as the broader macro backdrop becomes clearer – notably the path for monetary policy in the U.S. and Europe. That clarity may support plans to move ahead with more strategic and sponsor-related transactions. A rebound in sponsor-related M&A, which has lagged the recent recovery in strategic volumes, should provide an opportunity for private debt managers to deploy available capital.

Credit – both liquid and private – is a growth-sensitive asset class. Within private debt, this factor is most critical for speculative-grade credit rated below investment grade.

Even amid growth and expansion, investors should remain conscious that dispersion will likely remain the case across private debt, highlighting the importance of granular credit selection and structural protections.

Private equity

Deal activity revives

We see the tide turning for private equity in 2025, spurred by a more supportive rate environment and a restart of M&A and IPO activity. In our opinion, this will lead to a lot more activity across private equity as firms look to deploy dry powder.

Positive trends in deal activity support this opinion. While still below the pandemic peak of 2021, deal activity in 2024 is up by 21% compared to 2023 and outpacing the pre-pandemic average by 45%.[1] Sentiment remains cautious for new deals, though high-quality deals remain well-bid, achieving strong valuations. A more active exit market, coupled with an increased focus from GPs on returning capital, is offering relief to investors seeking distributions. Last year saw a turning point with distributions overtaking capital calls for the first time in eight years.[2]

To manage the slower exit environment of recent years, both LPs and GPs have turned to alternative liquidity structures to meet their liquidity objectives. These include managed fund structures, mid-life recaps, NAV facilities, strip sales and structured continuation vehicles, among others. New structures will continue to rapidly evolve, as new investors enter the market, notably in wealth. These investors are largely accessing private assets through evergreen fund structures and ELTIFs.

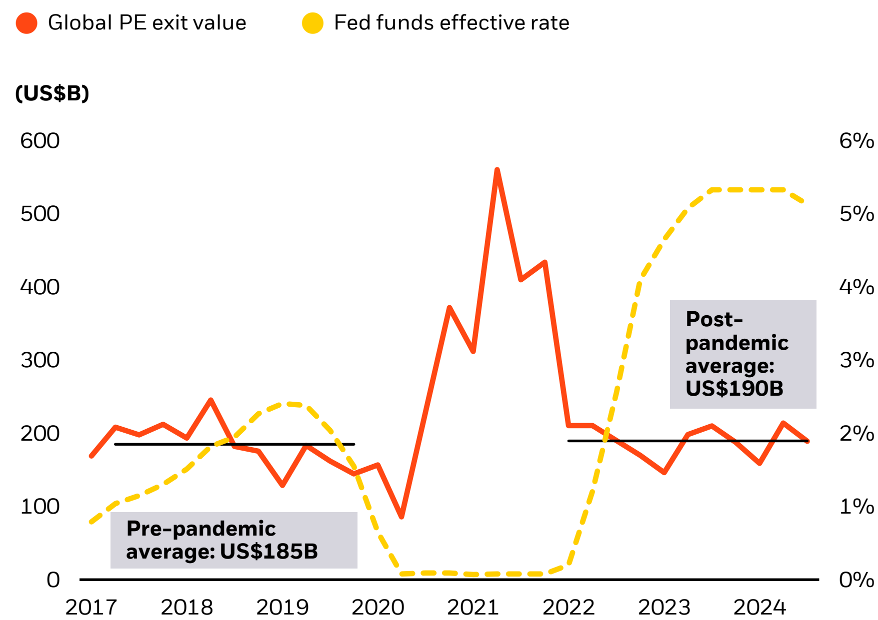
A feature of the PE market has been more carveout and take private deals. In 2024, carveouts' share of buyout activity has continued to rise as larger corporations strategically streamline their operations. At the same time, take-private deals remain attractive despite high public-market valuations.

On the whole, corporate fundamentals remain resilient. More than 60%[3] of private companies posted earnings growth, while 82% of the PE Buyout companies tracked by Capital IQ are profitable, versus just 46% in the Russell 2000 Index.[4] Given the uncertain economic environment, we believe that managers who can add value and improve the operating performance of their portfolio companies will be the ones driving returns in the years ahead.

Sources: 1. Pitchbook Q3 2024 Global PE First Look. Changes quoted are based on YTD 9/30/24 figures annualised. Pre-pandemic average encompasses2016-2020. 2. Preqin, Annual Capital Called and Distributed. Accessed on 8/312024. 3. LTM EBITDA Lincoln Financial, Lincoln VOG Proprietary Private Market Database, as of Q2 2024. © 2024 Lincoln Partners Advisors LLC. All rights reserved. Used with permission. Third party use is at user's own risk. 4. Capital IQ, BlackRock as of 12/31/23. Represents companies with annual revenues greater than US$100 million. 5. FRED Economic Data, Pitchbook Q3 2024 Global PE Report. Pre-pandemic average : Q2 2017-Q4 2019. Post-pandemic average : Q1 2022 – Q3 2024. 6. Pitchbook Q3 2024 Global M&A Report. 2024 refers to YTD Q3 2024 figures. 7. Pitchbook's Q3 2024 Venture Monitor. 8. BlackRock, Dealogic, all IPOs excluding SPACs and deals under US$50m November 2024.

Stabilizing exit values

In private equity, global quarterly exit values are settling in near their pre-pandemic average.[5]



M&A and IPOs[7]

M&A rebounded in 2024, with activity up 28%, led by the technology sector.[6] IPO activity is up year-on-year by 39% in the Americas and 28% in EMEA, with 51 offerings to market in the first three quarters of 2024 representing US$26 billion in proceeds.[8] The activity levels in the third quarter delivered the highest sponsor-backed proceeds since 2021.

Approximately 70% of IPOs launched above their issue price, with an average return of 25%. Venture-capital-backed IPO activity remains muted as the market continues to prefer large, stable companies with positive cash flow.

Attractive entry points

Valuations in private equity continue to track below public markets, representing an attractive entry point for investment. While public markets have repriced quickly, private equity valuations have been slower to adjust.[1] In 2024, we saw private valuations increase from 2023 levels due to highly attractive assets hitting the market. Looking ahead, we expect valuations to become clearer as more volume hits the market.

The rate environment should provide further support for valuations in PE, as higher availability and lower cost of credit drive dealmaking. Compared against the same time a year ago, financing and access to credit have grown with the return of the syndicated loan market and increased capital available from private debt funds.

The growing adoption of secondaries by both LPs and GPs seeking liquidity continues to result in a buyer's market for secondaries.

This environment favors buyers. There's less than two years of estimated dry powder available to deploy[2] and 10+% discounts to NAV available for buyers of the asset class. Lower rates may lead to tighter pricing for secondary deals, but smaller discounts don't necessarily mean lower returns. Better visibility to exits can support the overall return expectations for secondaries.

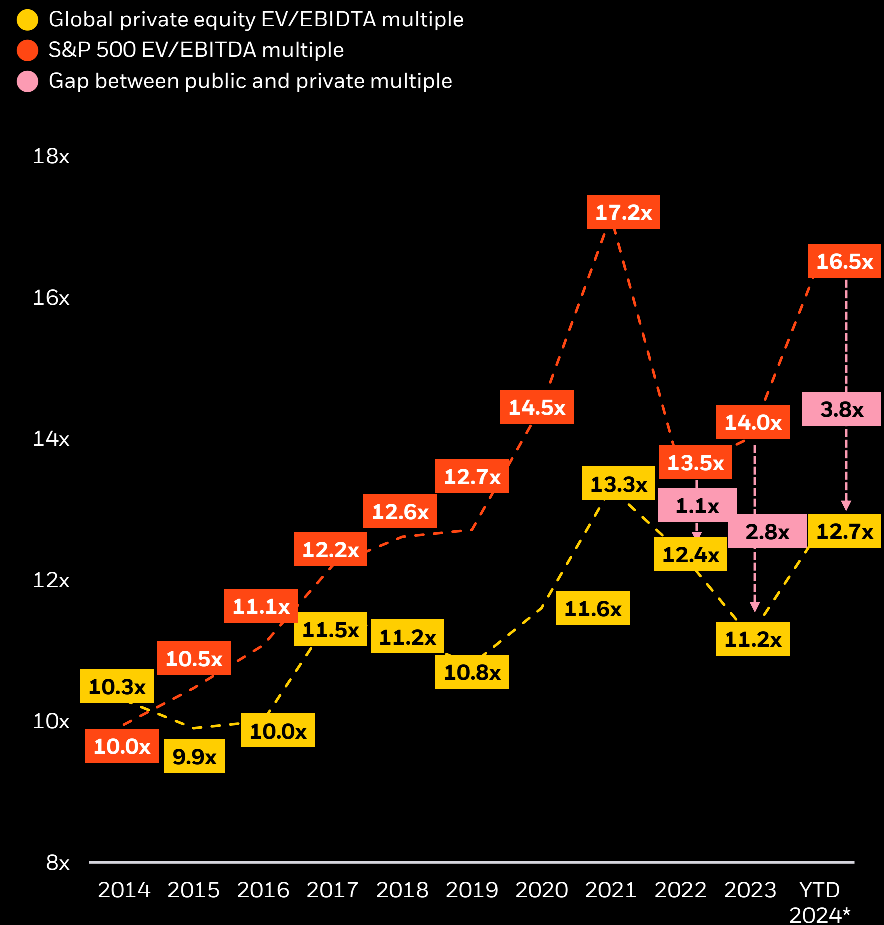
Mid-life recapitalizations are another trend that our investors have been watching, accounting for roughly 4% of transactions in 2024, up from 1% in 2017.[3] These transactions are becoming more mainstream, offering investors liquidity with growth and balance-sheet optimization.

Among sectors, we continue to see opportunities across healthcare, specifically take-private deals and corporate carveouts. We favor businesses positioned to capitalize on structural shifts such as the rise of value-based care, the pharma value chain, and new healthcare technology. And we believe AI will fuel LBO activity among incumbent businesses with data that can be tapped with large language models.

Businesses across the APAC region continue to benefit from the rewiring of global supply chains and strong domestic capital markets. While buyout transactions are gaining popularity, the region continues to offer solid growth companies trading at attractive valuations.

Private discounts[1]

Purchase price multiples for private deals continue to be attractive relative to public markets



Sources: 1. S&P Capital IQ, Pitchbook. Private Equity Multiple is for the 12 months ended 9/30/2024, S&P 500 Multiple is as of 31 October 2024. 2. Jeffreys Global Secondary Market Review, July 2024. 3. Pitchbook; as of 10/3/2024. Includes global private equity recapitalization deals.

Middle-market buyout's moment

A return of deal activity could bode well for the middle-market buyout sector. These investments, deals with a value of US$25 million to US$1 billion,[1] present an attractive opportunity, particularly the upper half of this market. We view the middle market as the sweet spot where lower leverage and a focus on operational growth converge to create an attractive backdrop for investment activity in 2025.

Middle-market companies have traditionally been too small to pursue IPOs, making them prime targets for acquisition. Today, we see more companies in this space pursuing the acquisition of other middle-market firms, either as strategic acquisitions or as part of an inorganic growth strategy. As companies navigate the new economic environment and assess their strategic needs, we anticipate an increase in corporate carve-out activity, where investors can acquire non-core divisions with proven business models and untapped value-creation potential.

The more favorable M&A landscape in the U.S., fuelled by potential deregulation under a new administration, could add further momentum.

Meanwhile in Europe, the abundance of founder-owned businesses, coupled with middle-market companies' need to expand into new products and geographies, or through tuck-in M&A strategies, further bolsters the likelihood of more middle-market dealmaking.

In a period of reduced yet persistently elevated interest rates, middle-market companies, with their lower leverage levels, are well-positioned to sustain organic operational growth while benefiting from the slightly lower rate environment in the year ahead.

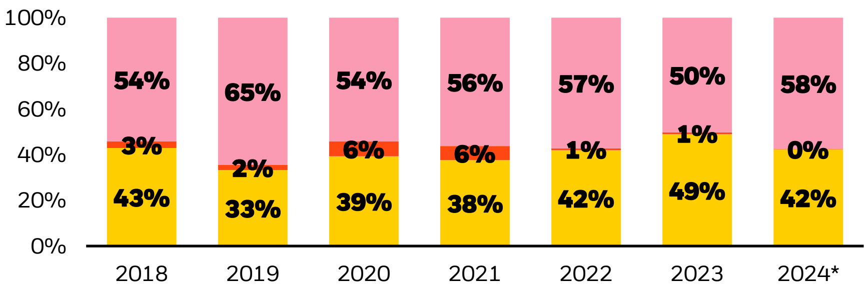
The upper half of the U.S. middle market - transactions exceeding US$500 million - stands out with clear winners and market leaders emerging, characterized by strong growth and robust ROIC profiles. With European public markets currently trading at a discount, take-privates and corporate carve-outs are appealing, particularly within this segment.

The middle market represents only one promising opportunity in an exciting time for private equity, as activity rises in both the M&A and IPO markets, driving more exits and distributions, and leading, in turn, to new investments.

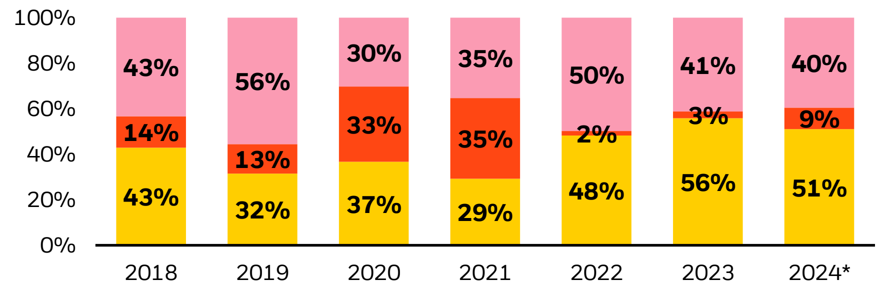
Less IPO-centric

Buyouts and acquisitions make up a far higher share of middle-market exists relative to the broader PE market.

US PE middle-market exit value[2]



U.S. total PE exit value[3]



Buyout (sponsor acquisition) Public listing Acquisition (strategic)

Sources: 1. "Everything You Need To Know About Middle Market Private Equity " (United States Private Equity Council). As of 11/2/2023. 2. Pitchbook Q2 2024 US PE Middle Market Report. *2024 figures as of 30 June 2024. Middle market defined as companies that have US$25m to US$1billion in PE backing. 3. Pitchbook Q3 2024 US PE Report, using 2024 figures up to Q2 2024.

Real estate

Shifting winds

After a challenging two-year downturn, we believe the real estate sector is now poised to benefit from a number of economic tailwinds, with both cyclical and structural trends at play in the sector.

We've seen sentiment improve, with an uptick in bidding interest. The new cycle will likely look very different compared to the period following the global financial crisis, with a relatively higher cost of capital and further dispersion between winners and losers.

Being a levered asset class, real estate performance is heavily influenced by interest rate movements and debt availability. The start of the easing cycle has marked an inflection point, though pricing will not respond immediately to last year's rate cuts.

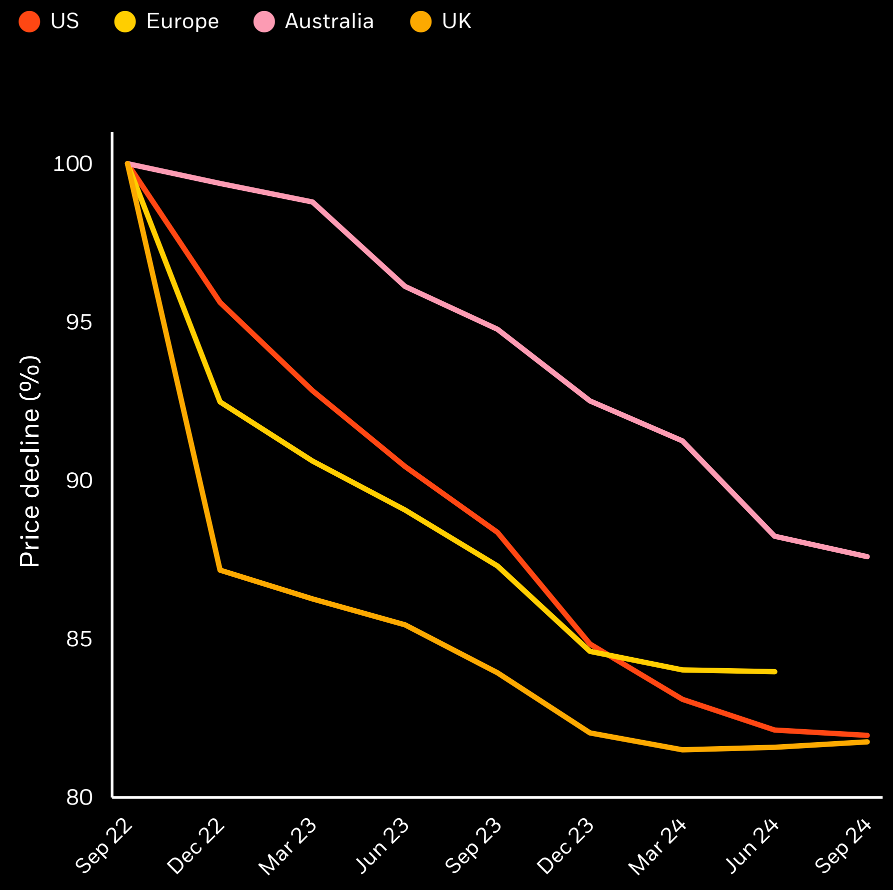
Unlike prior real-estate cycles, fundamentals have been relatively solid outside of the office sector, thanks to a tight labor market in many developed economies globally. We have also seen income growth hold up relatively well in many sectors, such as U.S. industrials and U.S. apartments.

We have already started to observe improved valuations across our high-conviction sectors, especially in residential, industrial and logistics. Transaction pricing for many key sectors has stabilized or even risen, indicating many markets are likely at or slightly past the bottom of the cycle. The U.S. office sector is still the most uncertain with the highest level of negative sentiment, though many European and APAC cities are largely returning to pre-pandemic occupancy levels.

Although the correction has not been as significant on the whole in APAC, as measured by appraisal values, there are still opportunities in select markets. For example, the repricing in Sydney logistics has been as significant as that observed in London, and even more significant than markets such as Los Angeles and Paris.

Levelling off

After several quarters of price declines, global property prices show early signs of a rebound.

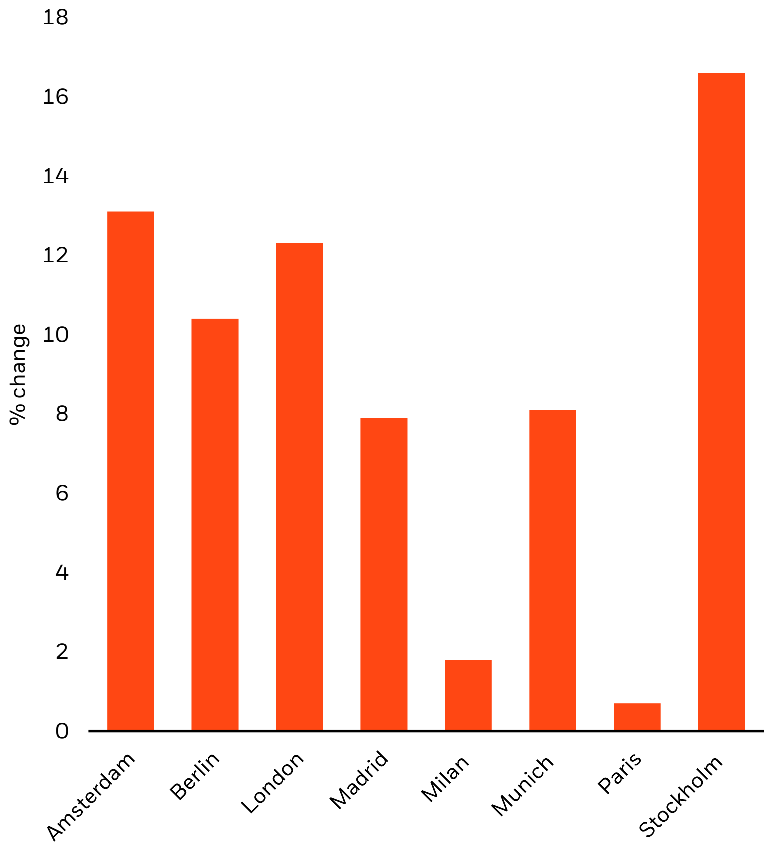


Source: MSCI. US, UK, Europe, and Australia value decline figures based on September 2022 = 100%, data as of September 2024.

Thematic prospects

More households

While the overall populations may remain stable, demographic changes are driving a projected rise in the number of households in major European cities.



Source: Oxford Economics Forecasting (projection range - 2023-2033), March 2024, Growth in Household Numbers. There is no guarantee that any forecasts made will come to pass.

In real estate, a rising tide does not lift all ships. We expect dispersion in performance both within and between sectors and markets. There will be a widening gap between the winners and losers in the new real estate cycle, which will also create greater potential for alpha generation.

In a world of higher volatility, the most successful real estate investors will align their strategy to long-term structural trends around aging demographics in developed countries, properties to facilitate e-commerce and new trade partners, as well as a heightened demand among tenants for energy-efficient buildings. For example, investments into logistics facilities continue to benefit from the increasing digitization of daily life, the rewiring of supply chains and the reality of geopolitical tensions.

The residential sector allows investors to tap into shifting demographic trends, as millennials forming families will need larger-format rentals, and Baby Boomers will need aging-friendly living situations. More broadly, a persistent undersupply of affordable housing stock equates to strong demand for rentals.

One example of demographic-driven opportunities is residential property in Europe. While population growth may be slowing in Europe over the medium term, household formation is increasing. This is driven by the growth of single-person households, which is driving new demand in key European cities where residential supply remains constrained.

Enhancing the energy efficiency of buildings is also a major trend. What was once labelled a compliance-driven exercise is now imperative to delivering operational efficiency, cost savings and lower rates of depreciation in many markets.

Within housing, we favor markets with stable or growing populations and diverse industry bases. In the U.S., those are mostly concentrated in Sunbelt markets. We project housing supply to fall off starting in the second half of 2025, which sets up the sector well for strong rent growth in 2026 and after.

Pacific possibilities

We believe the Asia-Pacific region offers a compelling cyclical and structural opportunity. Global real estate investors can benefit from strong regional growth, differentiated markets delivering uncorrelated performance and access to sectors still early in their evolution. Investing in the region can enable investors to capture growth, without adding risk.

The most liquid markets—Australia, Japan, Singapore and New Zealand—benefit from the outsized growth and offer lower risk than investors tend to associate with the broader region. Real estate investors in these countries can take advantage of structural trends that have already played out in the U.S. and Europe, but have yet to fully play out in APAC. These include the demand for self-storage properties and life sciences facilities

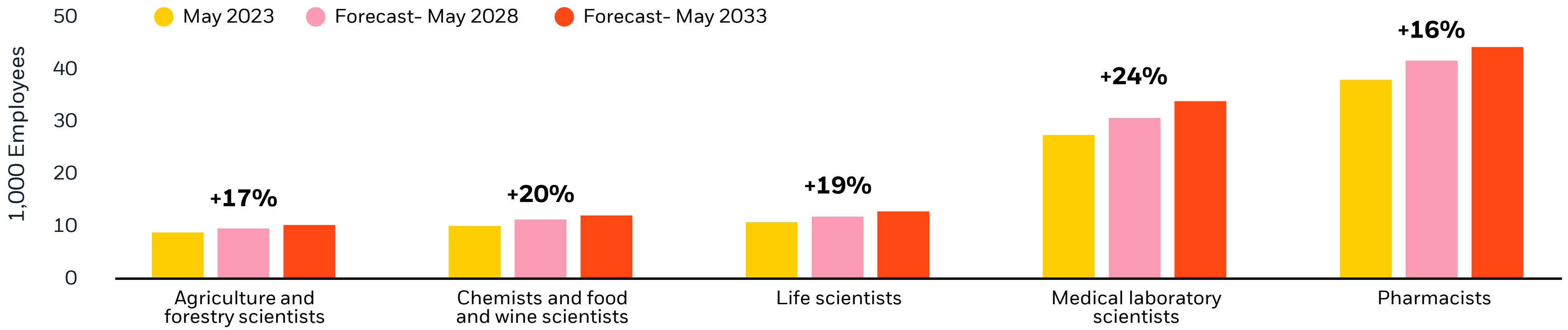
Investors with global expertise can gain an early-mover advantage. We call this strategic approach "benefitting from the APAC lag." But capitalizing on these opportunities requires local knowledge to successfully execute. For example, investor allocations to life sciences facilities have grown significantly in both the UK and the U.S. in recent years. As the sector has matured, we have seen rents settle at a 40% premium to grade-A office in some markets[1]. Australia's life sciences sector on the other hand, is only in its infancy and well supported by strong population growth and ageing demographics, increased healthcare expenditures, persistently high university quality, as well as high and growing public and private investment.

Specifically, we believe there is an opportunity in the growth of an institutionalised life sciences real estate sector in Australia, especially given the shortage of purpose-built space in a market with rapidly increasing growth and a deep and growing demand pool.

Life sciences in the APAC region is one of many examples, like small-format European urban housing, of opportunities that an experienced real estate investor can uncover as the broader asset class begins its long rebound.

Primed for growth[2]

Employment in Australian life sciences is projected to grow steadily, requiring new labs, facilities and offices.



Sources: 1. JLL, BlackRock, November 2024. Capital Markets deals comparable to difference in rents. 2. JLL, BlackRock, November 2024. Maturity is defined as how developed the corporate life sciences real estate market is – capital market activity and assets versus life sciences corporate market maturity which makes reference to number of life sciences corporations and employees. There is no guarantee that any forecasts made will come to pass.

Conclusion

We see 2024 as having been a transitional year, progressing towards a new post-pandemic normal. As IPOs, M&A activity and the leveraged loan markets rebound, dry powder across private capital dropped by 11%, from the 2023 high of US$4.2 trillion.[1]

Infrastructure continues to be propelled by structural mega forces, such as demographic divergence, digital disruption and AI, a fragmenting world, the future of finance and the low-carbon transition.

Private debt continues to expand, taking on a larger share of deals that previously belonged to banks and public markets. Looking ahead, we expect 2025 to be a favorable investing environment for private debt.

Private equity is set to benefit from the current rate-cutting environment even if rates settle at a higher level for longer, bringing further support for valuations as deal activity rebounds. Meanwhile, cyclical and structural tailwinds are driving the opportunities within real estate. We believe valuations are turning around across many real estate markets, while fundamentals remain solid.

Given these trends and opportunities, we continue to believe in the power of constructing a portfolio that thoughtfully includes both private and public markets.

Driving forces

The continued expansion of private markets is being driven by several trends.

Companies staying private for longer

- The median time a "unicorn" stays private is 10.7 years, up from 6.9 years in 2014[2]

New fund structures, broader access

- Retail-focused (ELTIFs, LTAFs) and fully-funded solutions
- Evergreen fund structures

Market development

- Asset-backed finance market growing in private debt
- Regional market growth, in places like India

Structural forces

- New technologies require early-stage investment
- Real estate is evolving to meet the needs of a changing world

Sources: 1. Preqin Dry Powder, US$4,239.5bn as of December 2023, US$3,763bn as of November 2024. 2. PitchBook and Morningstar, "Unicorns and the growth of private markets," March 2024.

Contributors

Sarah Afqir
Umair Akhter
Dominique Bly
Jennifer Delaney
Colin Dodds
Simon Durkin
Alexa Fater
Mark Gonzales
Salman Khan
Jack Kirrelly
Mustafa Riffat
Chloe Soar
Jeff Spiegel
Alex Symes
Celine Tan
Sergio Velez
Ne'Tika Wade
Christa Zipf

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