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Transparency and strategy

Implications of the JLL / LaSalle Global
Real Estate Transparency Index (GRETI)
for real estate investors

October 2024

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JLL / LaSalle Global Real Estate Transparency Index (GRETI) 2024




Research
Global | August 2024
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Global Real Estate
Transparency Index, 2024

Transparency in a time of transition

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 **JLL** SEE A BRIGHTER WAY

JLL and LaSalle have released the Global Transparency Index (GRETI) every two years since 1999. In this ISA Focus report, we look at the key conclusions of the 2024 report, focusing on their **implications for real estate investment strategy**.

Key conclusions of the JLL/LaSalle GRETI 2024 report

- Real estate transparency is more critical than ever **in times of uncertainty**
- Leading markets pulling further ahead: The **most transparent markets are pulling ahead** and positioned to lead into the next cycle
 - Asia-Pacific was the region showing the most improvement in the transparency rankings. Singapore joined the top ranks
 - Europe tops the transparency rankings
 - Continued advances in top North American markets
- Key transparency themes to watch
 - An expanding real estate investment universe
 - **Debt market transparency** in the spotlight
 - Digitization and AI push the boundaries of transparency but raise new risks
 - **Sustainability** transparency accelerating as reporting and risk requirements reach a critical stage
 - Legal and **compliance transparency**: Money laundering and beneficial ownership regulations rising up the agenda

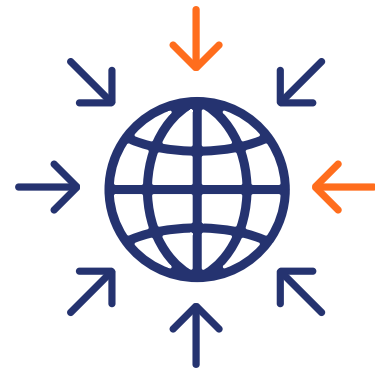
Throughout this ISA Focus report, we refer to pages in the GRETI report with a parenthetical citation in red: **(GRETI p. ___)**

Seven key investment implications of the GRETI



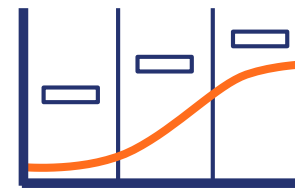
Fair value implications

Transparency is one driver of liquidity and thus risk, impacting required returns – p4



Reaffirms conviction in established markets

The most transparent markets getting more so, affirming the appeal of core developed markets – p5



Emerging sectors make gains

Improving transparency in specialty sectors as they “go mainstream” – p6



Debt markets transparency

Increased data availability in lending markets enhances the investment opportunity – p7



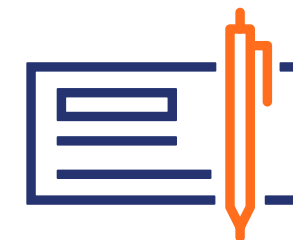
Sustainability transparency

Differential progress on green regulatory and reporting regimes carry investment implications – p8



Drivers in Asia-Pacific

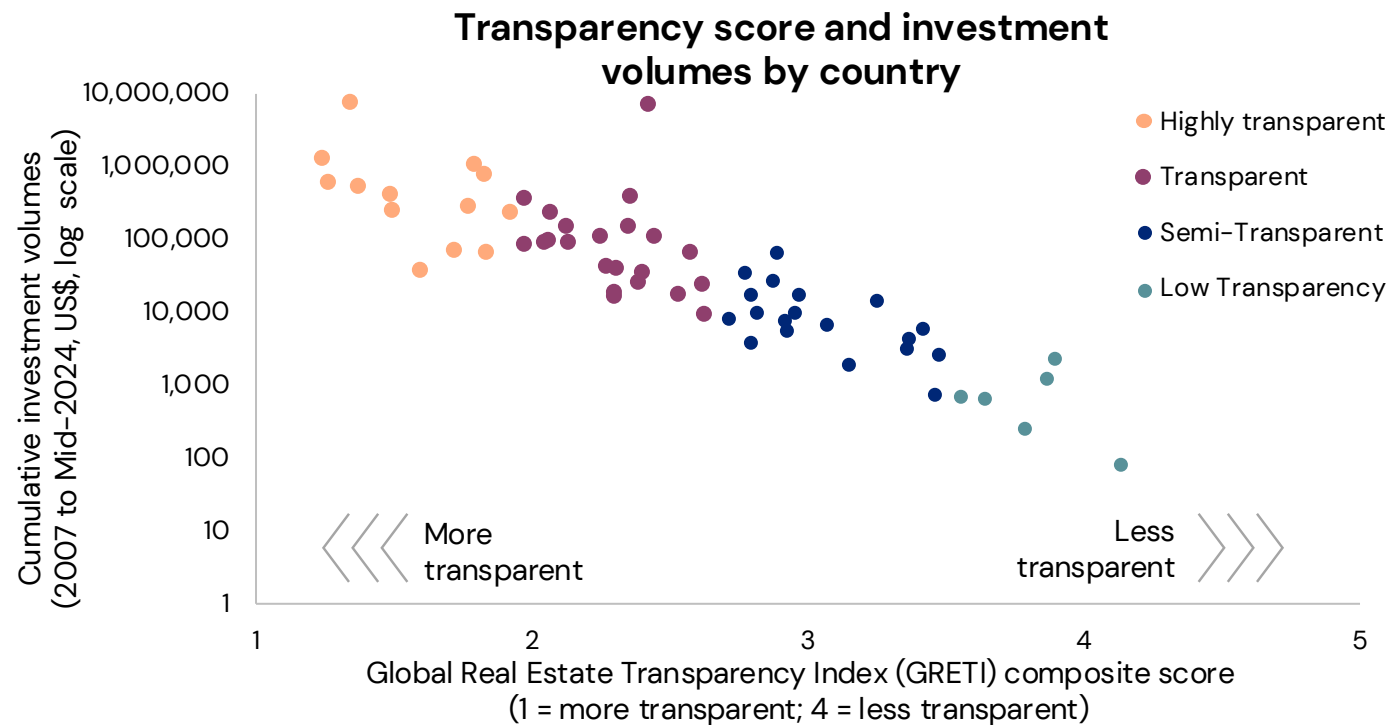
Asia-Pacific posts largest regional transparency gains, deepening conviction on the region – p10



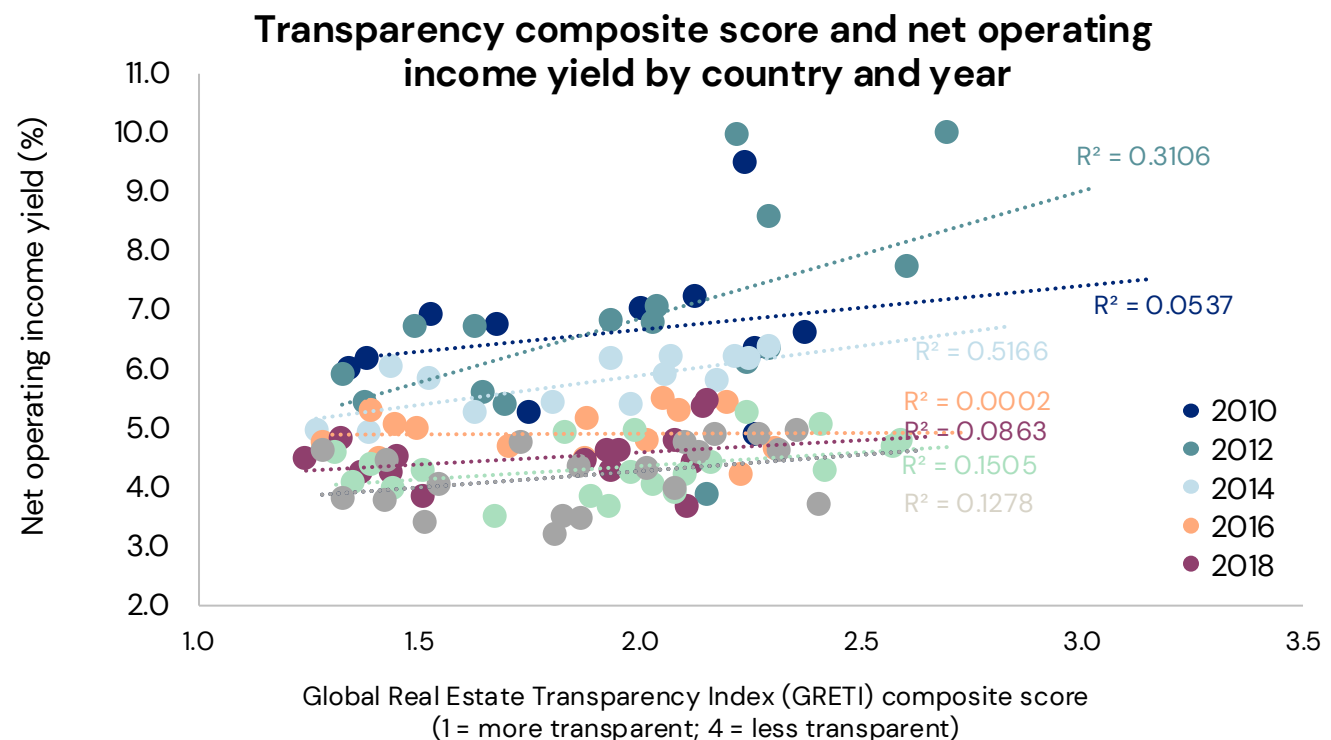
Compliance and legal transparency

Diversity in legal regimes requires resources to manage complexity – p11

Transparency correlated with liquidity, likely a risk factor priced by the market

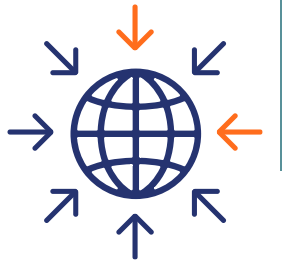


- Transparency is **one (of many) factors driving liquidity**. Data availability allows investors to measure occupier market conditions, pricing and performance. Transparency can thus help investors build confidence and, at the margin, facilitate the process of buying and selling real estate assets.
- Transparency scores are **positively correlated with cumulative transaction activity** across markets. However, several countries' level of transactions deviate significantly from the level consistent with their GRET score alone, suggesting that other factors, such as cyclical forces, are also at play.
- Transparency is negatively correlated with yield levels across markets. This suggests that **higher transparency may be a driver of lower required returns across markets**. Indeed, illiquidity risk is often identified as one of the features of real estate that causes investors to require additional return for investing in real estate rather than bonds. However, transparency factors are likely also co-linear with other risk factors, meaning that transparency isn't the only factor at play.

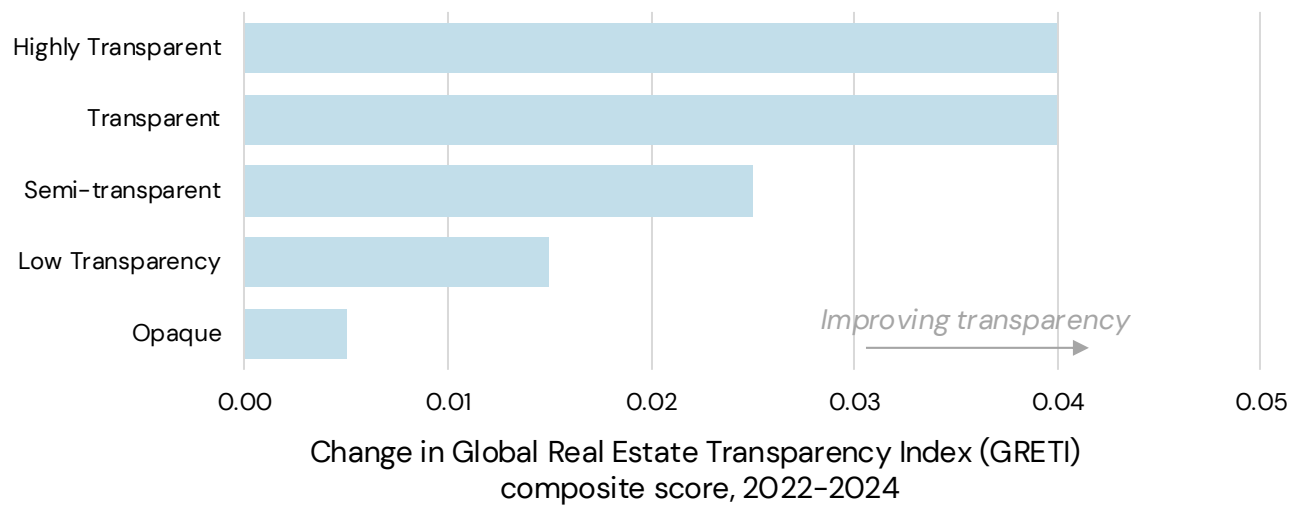


Sources: MSCI Global Quarterly Property Index, JLL/LaSalle Global Real Estate Transparency Index (2010-2024)

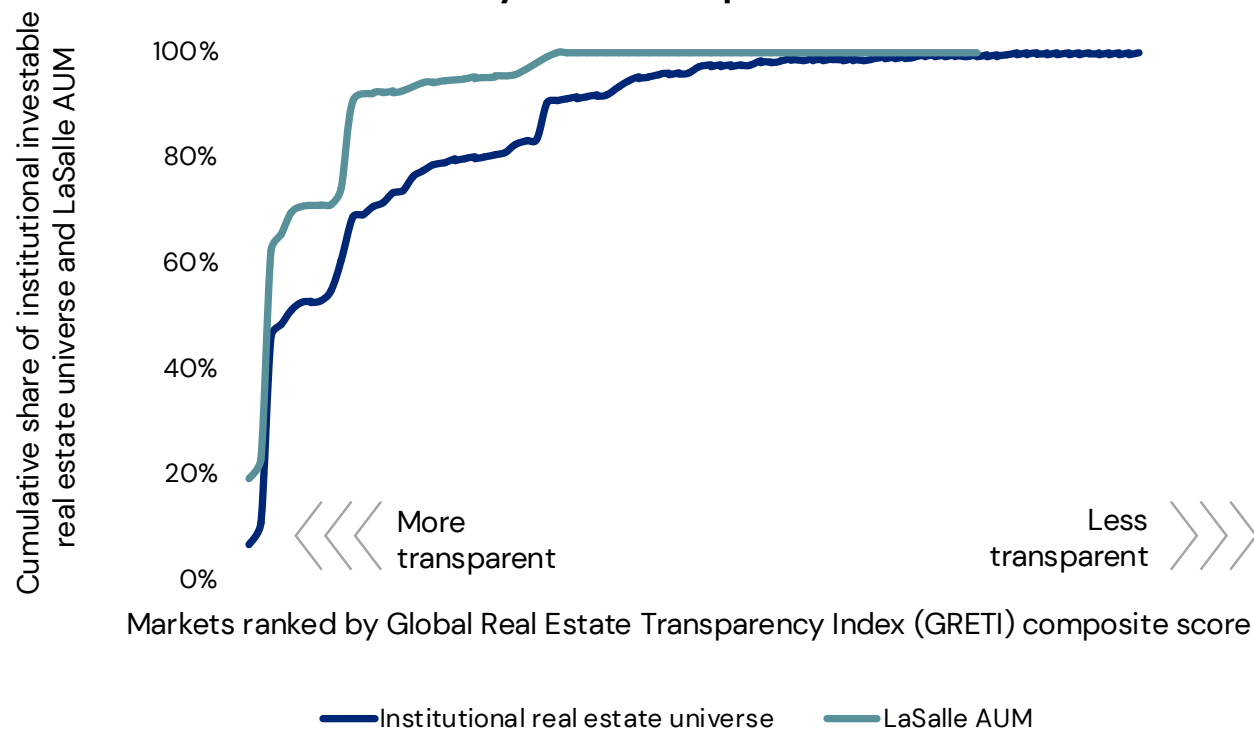
GRETI results confirm conviction in established markets



Transparency improvement by tier



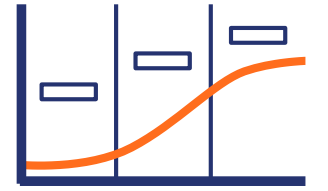
Institutional investable real estate universe and LaSalle AUM by GRETI composite score



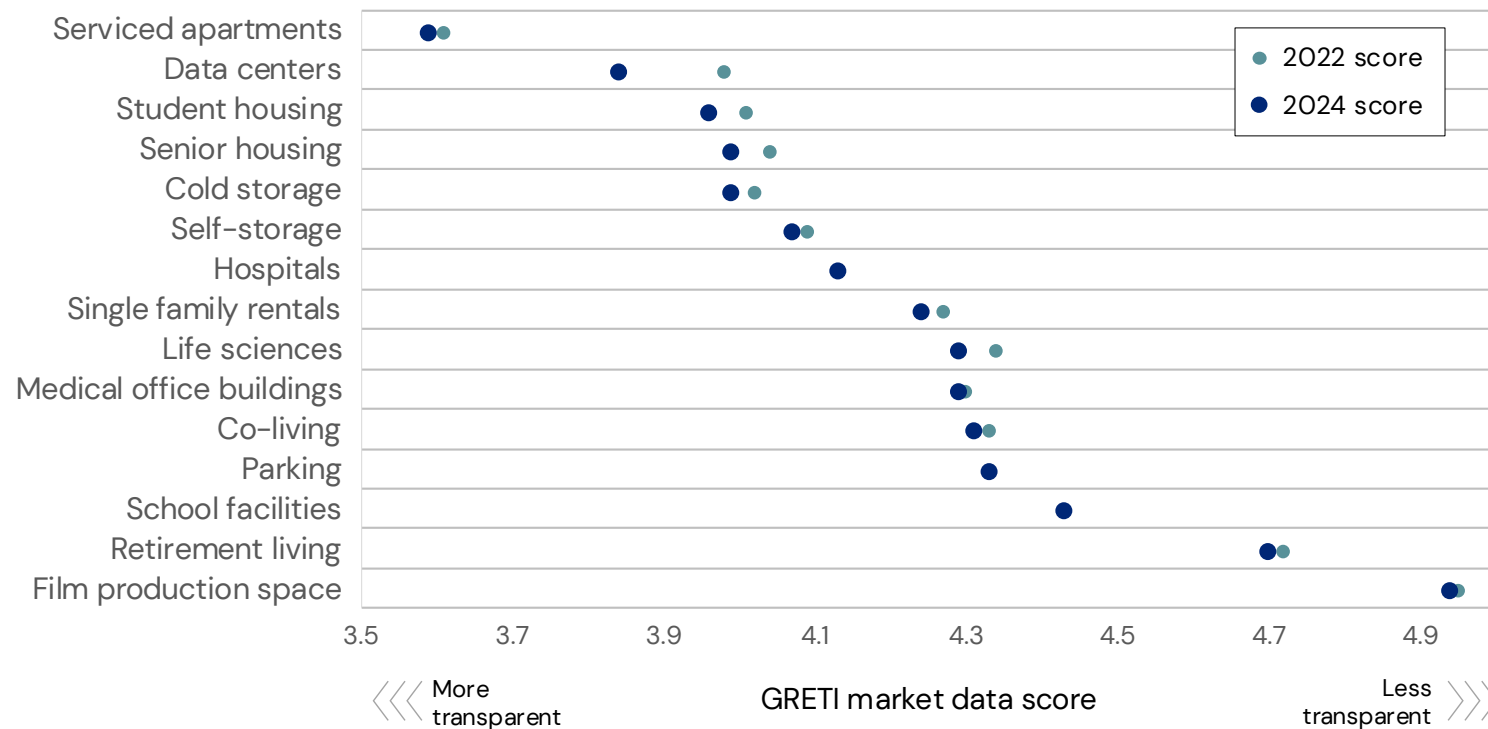
- One of the main conclusions from this year's edition of GRETI is that **transparency gains were concentrated in the most transparent markets (GRETI p. 14-15)**. Highly Transparent and Transparent markets saw, on average, roughly twice as large an improvement as compared to all other categories. In other words, Low Transparency and Opaque markets saw very modest (if any) improvement in their scores. This observation only strengthens LaSalle's existing conviction in the most transparent markets.
- **LaSalle's assets under management (AUM) are disproportionately invested in the most transparent markets globally.** As shown on the lower left, LaSalle's AUM displays a clear skew towards countries that score highly in terms of overall transparency institutional real estate universe market size estimates. In other words, our investments are weighted more to these transparent markets than is the overall market.
- If transparency is indeed a meaningful driver of risk spreads (see prior page), a lack of transparency improvement may be a **headwind to the narrowing of emerging country real estate return premia**, one of widely made arguments for emerging market investment. That said, we do see a strong case for emerging sector investment, and this, by contrast to emerging country investment, is well supported by the GRETI results (see next page).

Source: LaSalle AUM as at Q1 2024, GRETI 2024, LaSalle's Investible Universe (updated 9/24)

Increasing specialty sectors' transparency key part of journey from emerging to core



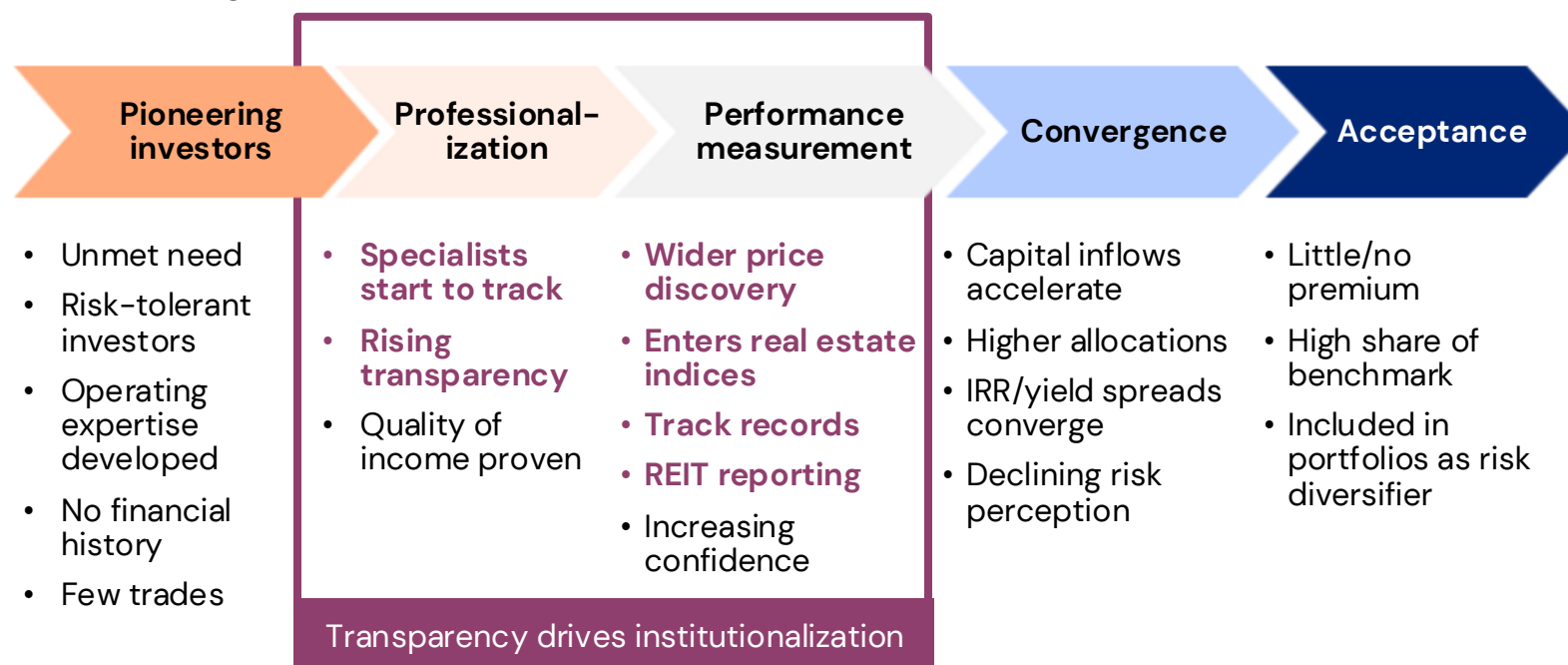
GRETI market data score by specialty sector
[89 country average]



- **Transparency on operating and pricing fundamentals in specialty sectors is improving**, but remains considerably lower than in more established property types (GRETI p. 21-25). Over one-third of countries continue to lack any reliable data outside the “traditional” sectors.

- **Improving transparency is one of the key drivers of sector institutionalization** in LaSalle’s Going Mainstream framework. The illustration to the lower left highlights (in purple) factors that are related to increasing transparency in the stages of sector maturation.

LaSalle “Going mainstream” institutionalization process drivers



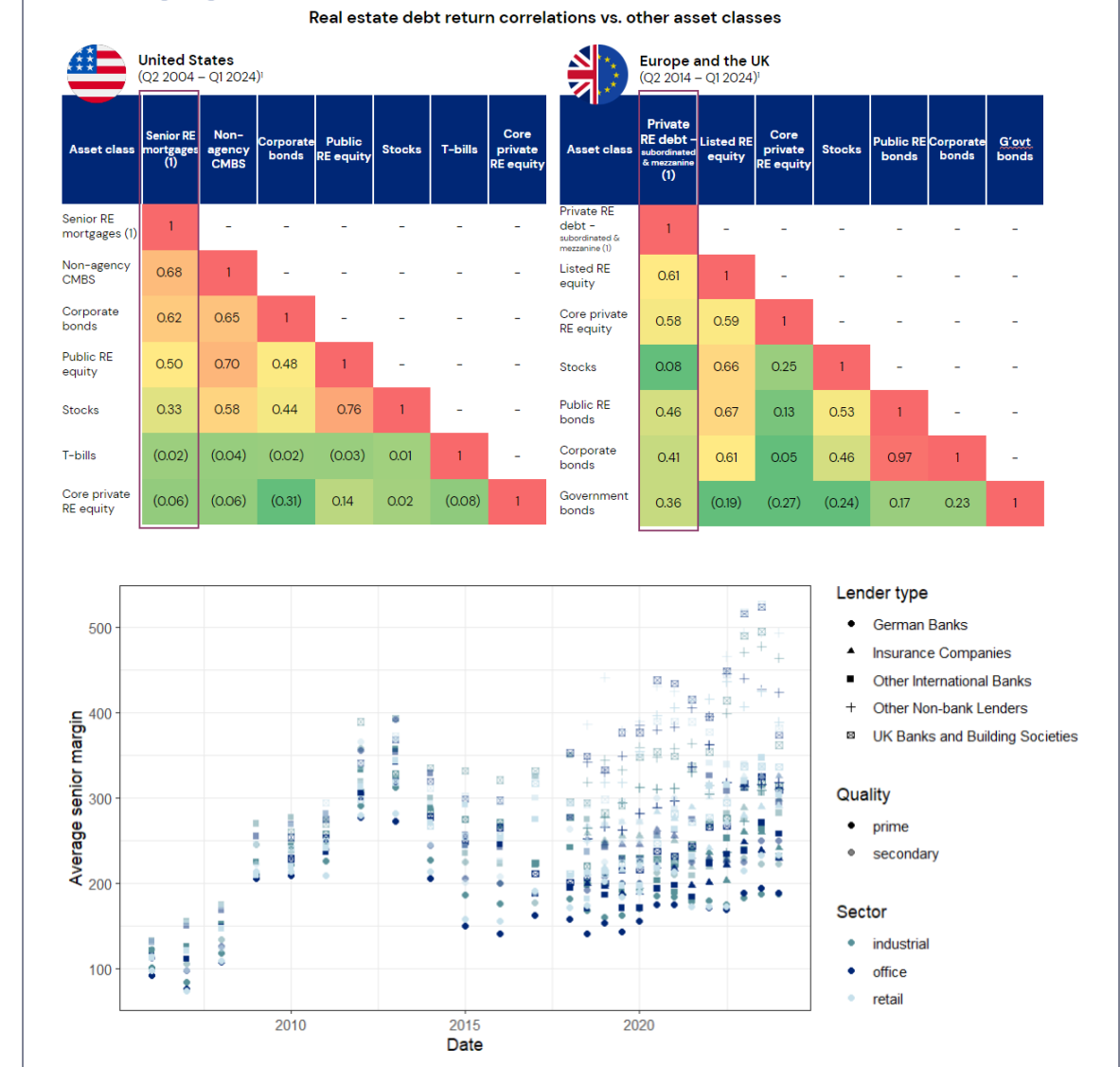
- We expect alternative sectors to continue to experience increasing transparency around factors like pricing, fundamentals and investment returns. This is likely to occur both in the form of **an expanding universe of transparent sectors** (e.g., new sectors and sub-sectors become transparent in the US) and in terms of **sectors that are transparent in some markets becoming more so in others** (e.g., European living sectors seeing the emergence of US-style time series on operating fundamentals).

Debt market transparency supports already attractive investment opportunity



- The GRETI report's discussion of debt market transparency (GRETI p. 26-28) highlights how, all else equal, **increasing non-bank lender market share could theoretically represent a threat to transparency**. This is because non-banks are not subject to the same regulatory reporting requirements as banks.
- Thankfully, **recent initiatives to increase debt market transparency have made significant progress**. For example, NCREIF and the Commercial Real Estate Finance Council (CREFC) have initiated a trial index in the US to track the performance of open-end debt funds, MSCI has released an inaugural private debt fund index in Europe, and published surveys and data on lending markets and financing terms have been initiated or expanded in several countries including France and Germany.
- Transparency is important to the development of the real estate debt market** because debt investments' risk-return characteristics can vary significantly based on the business plan for the underlying real estate (core, value-add, opportunistic) and the debt tranche's position within the capital stack (senior mortgage, mezzanine).
- Even absent these initiatives, it is worth noting that **clarity over specific collateral makes CRE debt in some ways inherently more transparent than unsecured corporate credit**. An investor can readily ask "what would I do if I owned this collateral and what is a reasonable outcome?", which is not possible with corporate bonds.

Examples of debt market analyses that were previously impossible due to lack of data availability:



For a comprehensive overview on the debt investment opportunity in the US and Europe:



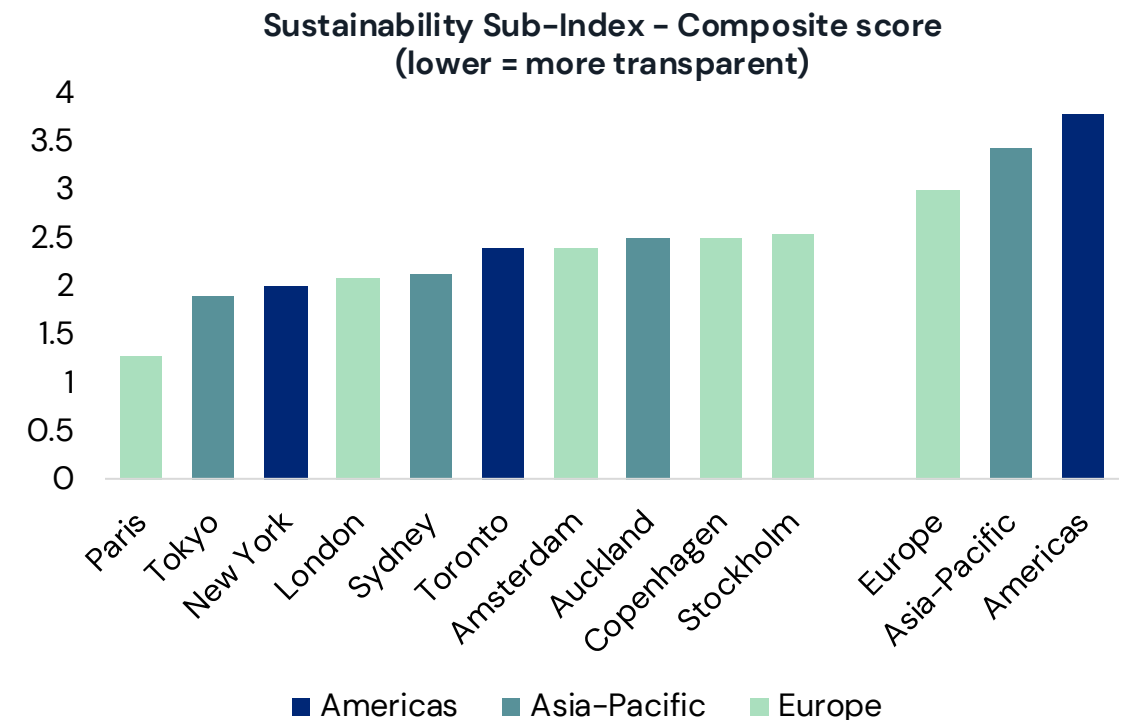
[ISA Focus: Investing in Real Estate Debt](#)

Increasing sustainability transparency highlights risks and opportunities



- The **largest driver of increased transparency** scores in this year's GRESI came from the **sustainability component** (GRESI p. 35-37). At an aggregate regional level, Europe leads in sustainability transparency, followed by Asia-Pacific and the Americas. However, there are highly transparent markets from a sustainability perspective in every region.
- Investors that fail to understand, gather data on and report on sustainability related metrics could **put their investments at risk**. For example, investors unable to report on the energy performance of their properties could see reduced liquidity, as a lack of data transparency can slow down transaction processes and be viewed as a source of risk for potential buyers.
- Task Force on Climate-Related Financial Disclosures (TCFD)-aligned **reporting requirements** are becoming increasingly common, as seen at the country level in the UK and Japan, for example.
- At the **metro market level**, sustainability-related regulations, like Local Law 97 in New York, or the PLU Bioclimatique regulations in Paris, are impacting owners.
- At LaSalle, we continue to upgrade our energy data infrastructure to track energy usage and associated emissions across our global portfolio. Additionally, we conduct energy assessments to identify opportunities for aligning our buildings and portfolios with a more sustainable future.

Source: GRESI 2024



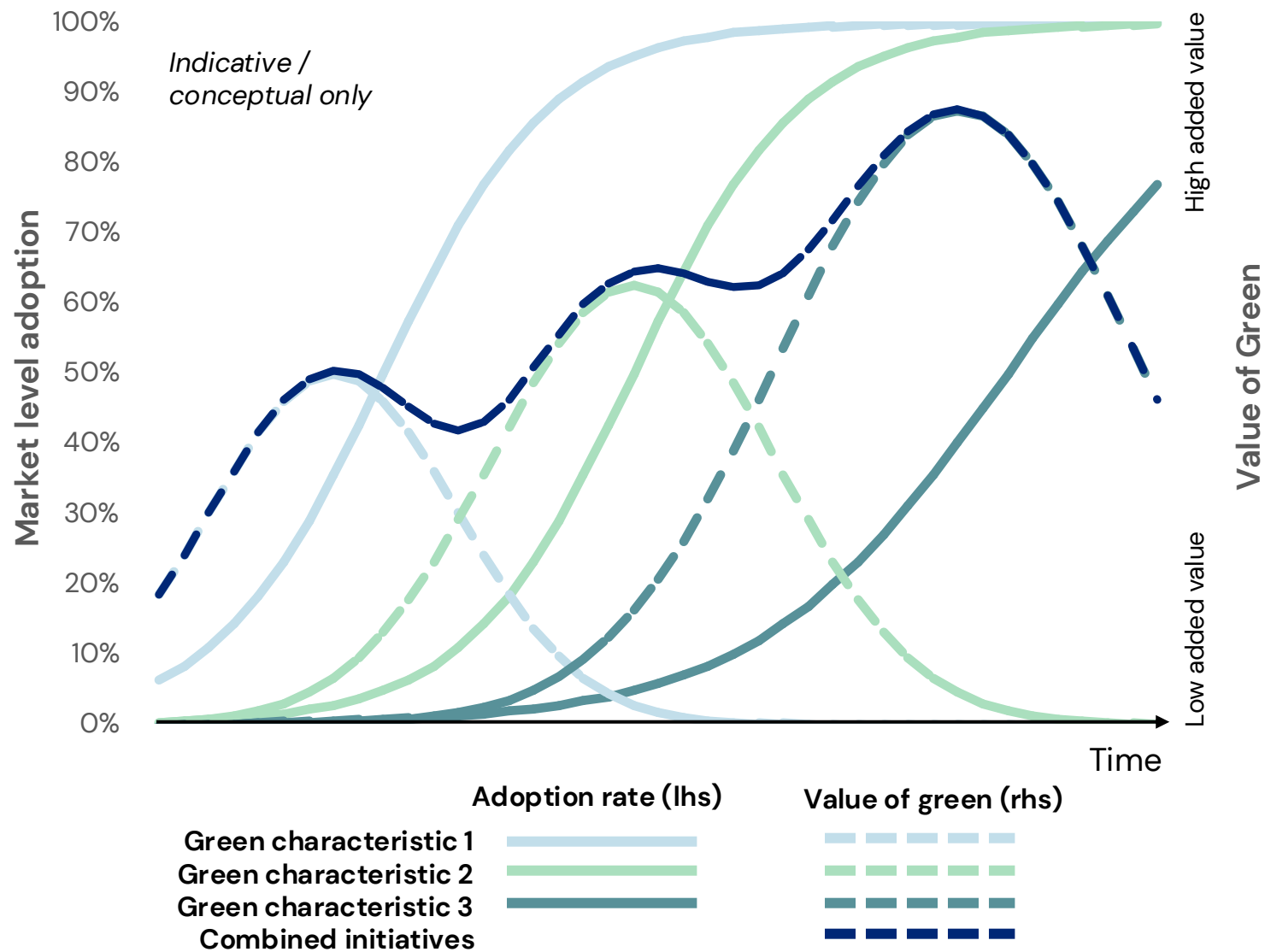
LaSalle sustainability transparency thought leadership

- One of the key dimensions of sustainability transparency relates to evidence that green factors are influencing investment outcomes. The [LaSalle Value of Green](#) report tracks the emerging evidence and our recent [“In Search of Climate Wisdom”](#) briefing updates these findings.
- We are incorporating physical climate risk evaluations throughout our investment process, from market evaluation to acquisitions to asset management and hold/sell analyses. For more detail on integrating climate risk to business decision making, we recommend our paper, produced with ULI, titled [“Physical Climate Risks and Underwriting Practices in Assets and Portfolios”](#).

LaSalle's Value of Green framework closely tied to transparency factors



Value of Green diffusion framework



- LaSalle's Value of Green diffusion framework describes a **process of growing adoption, transparency and acceptance** of real estate sustainability considerations. We observe that green characteristics such as modern technical features or certain expectations of measured efficiency tend to move:
 - from being **rare and unvalued**;
 - to being a **"nice to have"** that drives a measurable green premium;
 - and eventually become standard **"table stakes"** – meaning buildings that lack the feature come to be priced at a discount and may become increasingly illiquid.
- Improving transparency around sustainability factors, such as new reporting requirements, measurement technology and data standards are **likely to accelerate the pace at which sustainability-related factors are priced into real estate.**

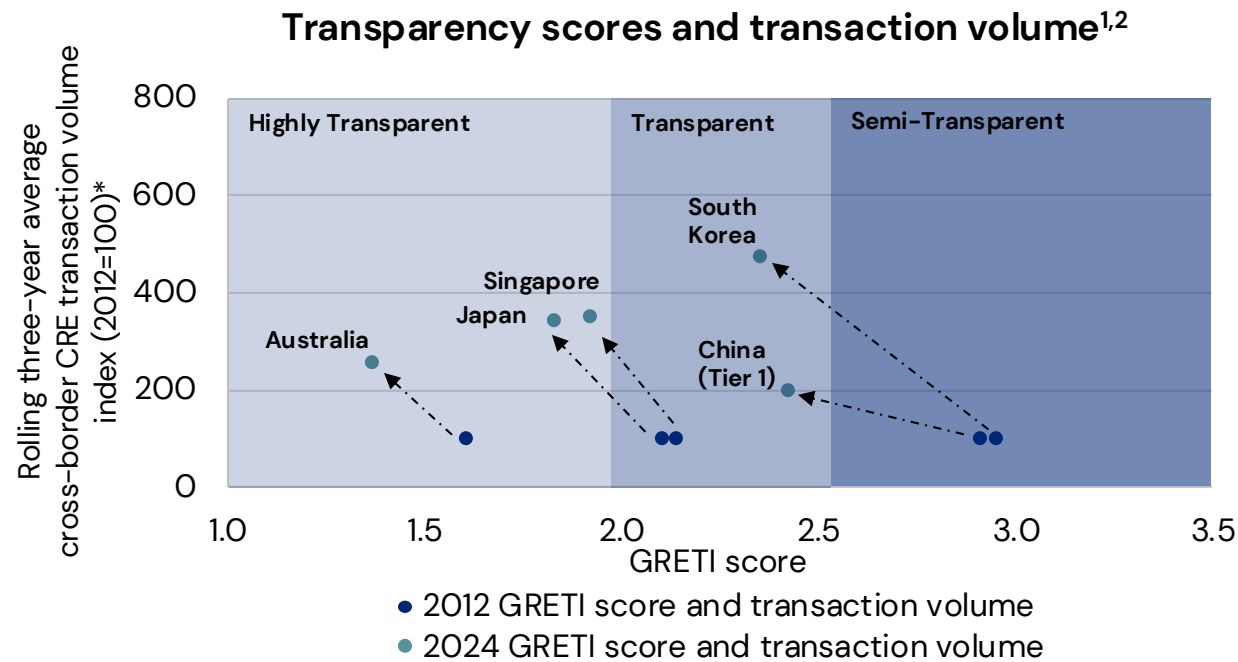
For a full discussion of this framework and other factors behind the Value of Green:



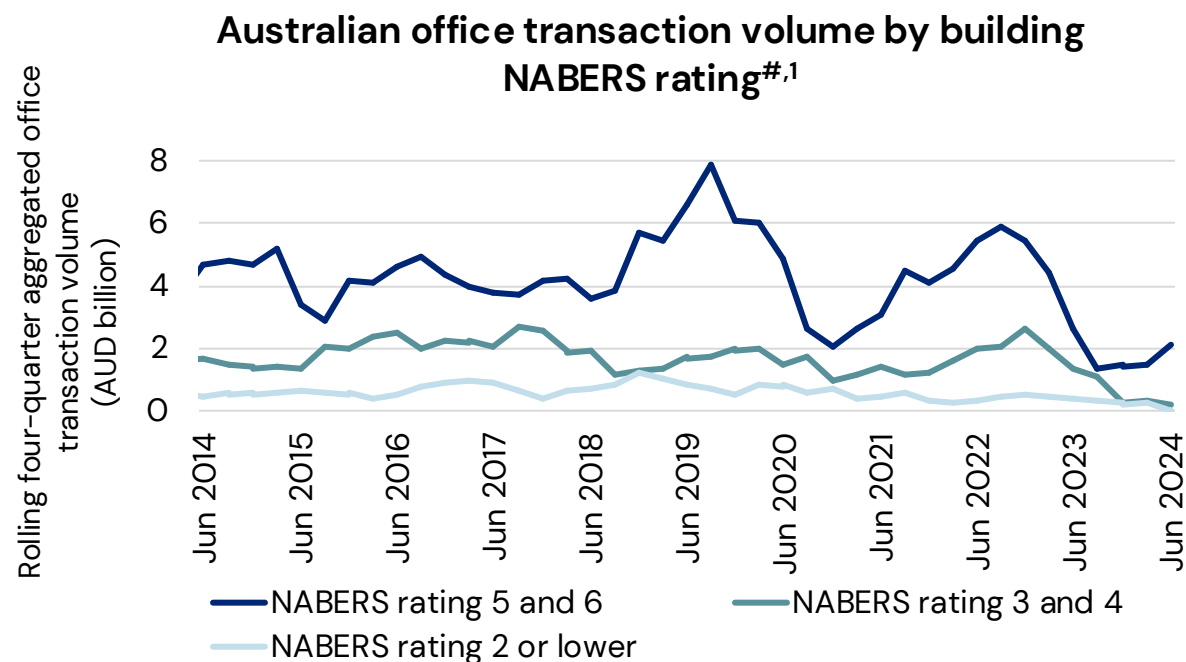
[ISA Focus: The Value of Green](#)

Source: LaSalle research proprietary framework

Largest transparency gains in Asia-Pacific



- Asia-Pacific markets recorded the greatest average transparency improvements of any region (GRETI p. 16-17). Improved transparency is likely one of several factors driving increased real estate transaction volumes, especially among cross-border investors, in many Asia-Pacific markets.
- A good example is South Korea, where the improved availability of market fundamentals data has enabled investors to make more informed decisions. Cross-border real estate investment flows into South Korea grew by 3.7 times from 2012 to 2023, according to MSCI RCA.



- One of the key drivers of improvement in the region's GRETI scores has been **enhanced sustainability transparency**. For example, in 1999 the National Australian Built Environment Rating System (NABERS) was introduced to rate building environmental performance. In 2010 the Australian government introduced minimum NABERS standards for its new leases, and many corporate occupiers followed suit. These policies drove tenant demand bifurcation, which has been mirrored by bifurcation in investment activity (see chart at left).
- Most global investors' allocation to Asia Pacific real estate is currently less than the region's share of the global real estate market size. **As the region's real estate transparency continues to improve, market liquidity for real estate is also expected to improve.** This could encourage investors to increase their allocation to Asia Pacific real estate to at least a neutral weight position.

Note: *The commercial real estate transaction volume data includes office, industrial, retail, hotel and multifamily rental deals, but excludes development sites and niche property types, e.g., self-storage. Transaction volume data for 2023 is applied to draw the relationship with the GRETI score 2024, as the full year of transaction volume data for 2024 is not yet available.

#NABERS refers to the National Australian Built Environment Rating System.

Sources: 1) MSCI Real Capital Analytics, data downloaded as of August 8, 2024; 2) JLL/LaSalle Global Real Estate Transparency Index (2010-2024)

Significant variation in legal transparency



Wide diversity in beneficial ownership and money laundering regulations

Money laundering and ownership regulations (GRET1 p. 38-39) have been moving up the political agenda, highlighting a clear push around the globe to enhance existing rules. While this is a welcome change, the combination of tighter rules and the lack of consistency in approach between jurisdictions creates operational challenges which will require additional resources to maintain compliance with the various regulations.

Below are some key challenges related to evolving regulations and how LaSalle navigates them as a global business:

Key Challenges

- Variation in regulations down to the country level
- Obligations getting more detailed
- Closer vigilance and oversight required to stay ahead of changing regulations
- Regulations placing increased liabilities on companies & individuals
- Management of ownership databases inconsistent, even in the most robustly regulated markets
- Privacy rules & client concerns also raising need to store data securely

Navigating evolving regulations

- Resourcing is key – important to have highly experienced staff to collate and report on findings
- At LaSalle we have a team of 43 legal and compliance professionals, with an aggregate of 549 years of experience, to help navigate this complex environment.
- Requirements vary enough by county to make a globally, or even regionally consistent approach difficult. Whilst global policies help frame our approach, this will need to be tailored down to the county level when it comes to collating and distributing data
- Maintaining robust data management platforms and processes are therefore a key part of what we do.

Source: GRET1 2024, LaSalle

Transparency differentials a key consideration in global real estate investment strategy

LOOKING AHEAD >

- A lack of transparency can be considered a driver of higher risk, possibly in its own right or because it is correlated with other important risk factors. Investors should therefore consider transparency factors when setting required returns (“hurdle rates”); in other words, **transparency is linked to fair and relative value determinations.**
- The findings of the 2024 GRETI point to improvement in the transparency of the already more transparent markets, while emerging markets see stagnation. This **supports our conviction that the most attractive investment opportunities exist in the already more developed markets,** rather than in emerging countries.
- That said, improving transparency in emerging sectors points to **opportunity in property types that are “going mainstream.”** Investors may benefit from the yield compression that comes alongside a reduced assessment of risk, which can be driven by transparency improvements in emerging sectors. Geographies undergoing transparency improvements, such as parts of Asia-Pacific, may also see a similar impact.
- Increasing transparency in segments of the market, such as in the lending market and around sustainability, support the case for specific investment strategies such as debt investment and brown-to-green value-add.

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