BlackRock Alternatives

2023 Private Markets Outlook

A new era for investors

BlackRock

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In turbulence, optimism

Edwin Conway

Global Head,
BlackRock Alternatives

Investors had little reason to love 2022.

It was a year that brought market upheavals, geopolitical instability and economic conditions that few could have foreseen.

Although 2023 is expected to bring with it some turbulence, at BlackRock Alternatives the outlook for the new year is one of cautious optimism.

Near-term uncertainty presents an opportunity for investors to achieve their long-term objectives, by continuing to invest in durable global trends such as the transition to a low-carbon economy, ever-expanding technology adoption and emerging demographic shifts.

More and more companies are turning to the private markets for their capital and financing needs, enlarging the field of potential investments. And history tells us that even through periods of turmoil private assets can perform well on an absolute and relative basis.

While we acknowledge the challenges that may come, we're nevertheless optimistic that a worldwide network of relationships, rigorous selection process and sophisticated risk analytics can deliver the best in private markets for clients, no matter the market cycle.

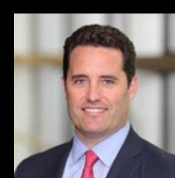
Contents

Key takeaways

- A new era of higher inflation, rates and volatility has roiled public markets, creating opportunities for upcoming vintages across private markets.
- The role of private assets in a portfolio is becoming more important than ever, as many are uniquely poised to take advantage of significant global trends.
- Private credit continues to expand as public financing retreats and more companies seek capital.
- Infrastructure should benefit from continued investment in sustainable energy and energy security. It can also play a role as a non-correlated inflation hedge.
- In private equity, we see lower valuations, increased buyout, carveout and M&A activity, and more quality portfolios for sale in the secondary markets.
- Real estate values are resetting in response to changing tenant demand and higher financing costs, which is leading to disparate returns among regions, sectors and property types.

Authors

Lynn Baranski
CIO and Co-Head, BlackRock Alternatives Private Equity Partners



James Keenan
CIO and Global Head, BlackRock Alternatives Credit

Mark Everitt
Head of BlackRock Alternatives Investment Research and Strategy

Anne Valentine Andrews
Global Head, BlackRock Alternatives Infrastructure and Real Estate

Introduction

Geopolitical conflicts. Energy crisis. Soaring food prices. Turbulent markets. New opportunities?

The past year was one of constant turmoil for investors, with few safe havens. It also presented tailwinds for private markets investors.

The decades-long "Great Moderation" of low inflation, low rates and globalization has given way to a new era of high inflation, rising rates and supply-driven economies.

The environment is complex and uncertain. Many developed nations are bracing for the possibility of recession. And climate change is both an imminent threat and an ongoing systemic challenge, as it shifts from the abstract to global temperature records and extreme weather changes.

But we see short-term uncertainty as an opportunity to continue investing in long-term megatrends, such as the net-zero transition – investors will play a pivotal role in redirecting capital flows to finance the transition to a low-carbon economy. We also see accelerated global technology adoption, growth in healthcare, and demographic shifts driven by changing lifestyles and preferences.

Availability and flexibility mean companies are turning to private markets for capital, creating opportunities to acquire high-quality assets at attractive multiples.

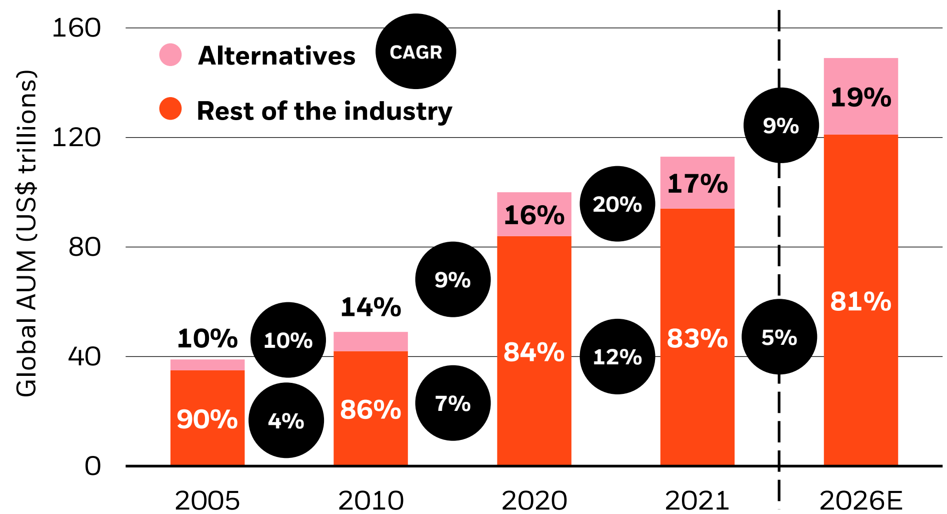
While the denominator effect has led private markets allocations to rise relative to public holdings, we encourage clients to view their portfolios through a forward-looking lens. We believe upcoming fund vintages are well-positioned to take advantage of new market dynamics.

In **private equity**, we see the opportunity to invest in persistent cashflows at attractive multiples. Resilient industries like healthcare and inflation-fighting technology offer different ways to play multiple cycles.

In **infrastructure**, the energy crisis, combined with the transition to a low-carbon economy, highlight the need for investment in affordable, viable and clean technologies.

Greater prominence

Alternatives are becoming a bigger part of the investing landscape



Source: BCG Global Asset Management, May 2022 (BCG analysis of data from Strategic Insight; P&I; ICI; Preqin; HFR; INREV). The figures relate to past performance. There is no guarantee that any forecasts made will come to pass. CAGR represents compound annual growth rate.

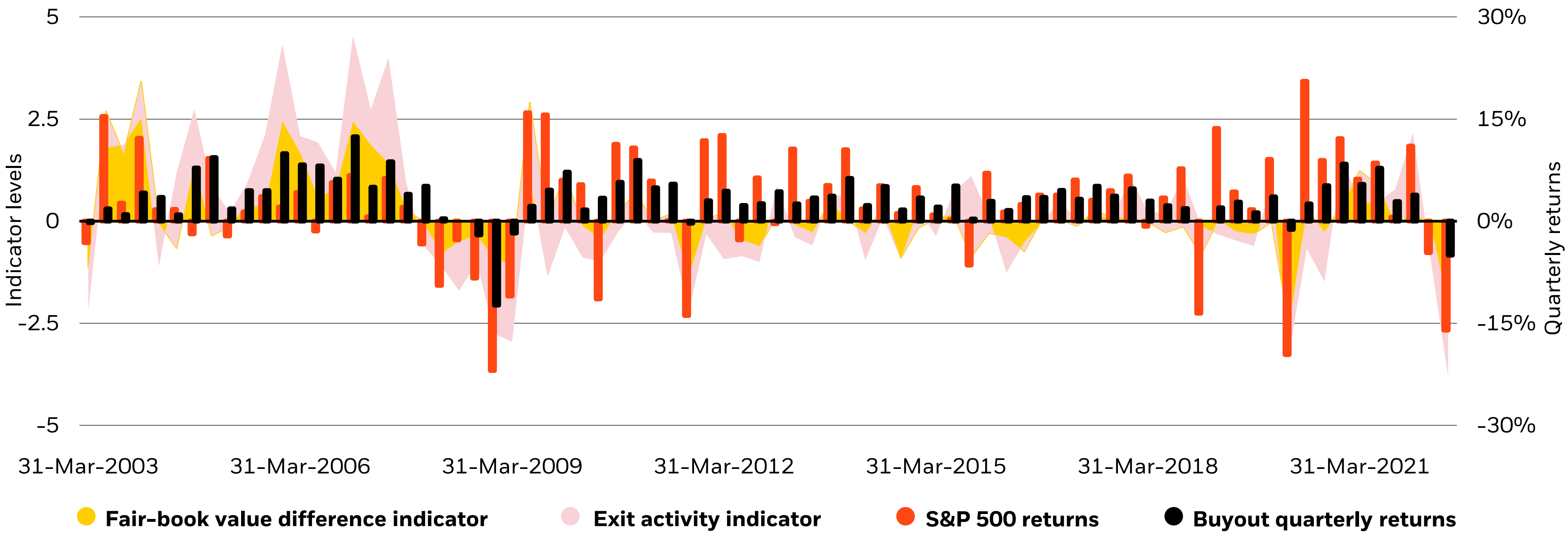
Past performance is not indicative of current or future results.

Portfolio view

If the correlation between stocks and bonds has fundamentally changed, portfolio construction processes should also evolve. During the Great Moderation, the narrative for private markets focused on yield premiums in a low-rate world. But we believe the focus should now include both the active and additive nature of private markets, based on the strength of asset selection, resilience through economic cycles, and protections in the form of investment structuring.

Positive signals

PE exits at below prior valuations are a potentially strong indicator of above-average future returns



Source: Preqin, June 2022. Exit activity indicator based on buyout distributions as a % of NAV from cashflow data Q1 2000 to Q2 2022, for funds primarily focused on North American region.

The figures relate to past performance. Past performance is not indicative of current or future results.

The structure of these investments will be integral to mitigating the risks related to technology innovation, windfall taxes, price volatility and regional policies.

In **real estate**, the demands of shifting demographics, deglobalization, and energy-efficient buildings have not gone away, even as investment has slowed. We expect further asset repricing in 2023, but we believe that investors who can identify the regional and thematic sweet spots will find a compelling opportunity set.

Spreads in **private credit**, coupled with rising interest rates, have increased potential returns. But there are questions about the ability of corporates to afford the higher costs. We believe the value of underwriting standards and structures have never been higher in managing the risk of investments through language stipulating the asset revenue/spread adjustments, seniority of investment risk, and covenants allowing earlier intervention and restructuring.

We see support of private equity sponsors and the flexibility of private debt providers as key to ensuring that companies' capital structures are optimized for the right ratio of equity to debt. Where this is not the case, an opportunity for special-situations and distressed may return.

Our private markets deal-flow pipeline has been consistent, with the third quarter at a similar level to the same period in 2021, partly a result of wider usage of private credit as well as accelerated investment in infrastructure.

We believe private assets offer potentially greater risk-reward. Considering that the investment period of a new fund vintage can extend from one to three years, the prospect of lower entry valuations is an attractive quality right now.

The focused nature of private market portfolios, which have relatively few investments, contribute to a wider return dispersion and place a premium on manager selection.

Private assets can be used for a number of purposes in a portfolio, and in a complementary manner alongside public holdings.

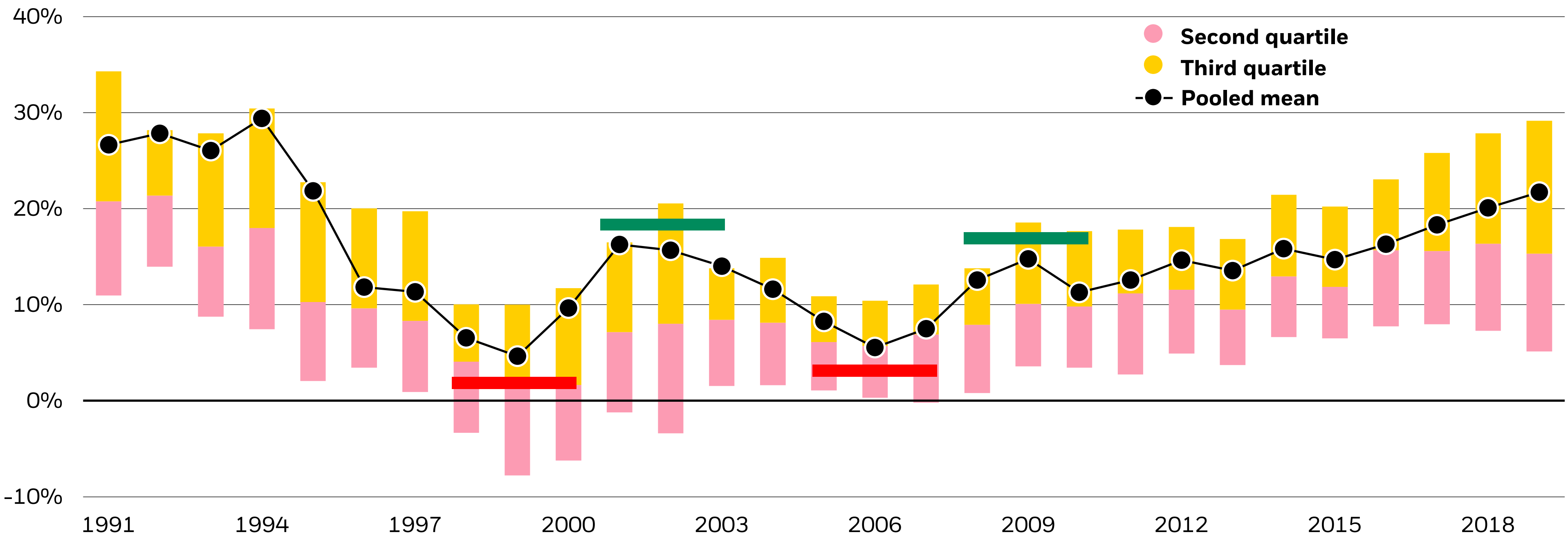
The sheer breadth of private market investments – from defensive to opportunistic credit, early- to late-stage private equity – allow for defensive income-seeking or long-term growth, with a diverse number of fundamental drivers of return.

We're also starting to see higher-quality secondary market opportunities, as some investors are forced to sell portfolios. Given the long lead time between deciding to sell a private equity asset and the sale, we expect more of these opportunities in 2023.

In the following pages, our investment teams further outline their views of the market, the key themes for the year ahead, and how private assets can support a portfolio that is both resilient and opportunistic in the new market regime.

Vintage years

Private equity vintages that invest during downturns tend to outperform



Source: eFront Insight Research Benchmark, 1991 – Q2 2022. The Quartiles Analysis represents the Insight Research Benchmark pooled mean and quartiles for the selected sample. The breakpoints between quartile sections represent the IRR for the fund(s) in the sample at the 25th and 75th percentiles.

The figures relate to past performance. Past performance is not indicative of current or future results.

Infrastructure

Accelerating transitions

Abrupt changes to the global economy are widening the scope for infrastructure investment strategies in 2023 and beyond. From roads to airports and energy infrastructure, these assets are essential to industry and households alike, and can benefit from macro trends such as the energy crunch and digitization.

Infrastructure has the potential to diversify returns and provide stable cashflows. Assets like power plants and toll roads are often funded through long-term contracts, helping to insulate them from economic cycles, and have CPI-linked costs and prices – making them a hedge against the effects of inflation. And infrastructure debt providers are responding to rising rates by shifting from fixed-rate to floating-rate loans.

The transition to a low-carbon economy continues to drive an enormous buildout in renewables, while energy-supply disruptions in Europe are creating opportunities to add resilience to the power network.

Globally, digital and telecom infrastructure continues to ride a long boom, bolstered by ongoing trends to work and shop at home. And investments in airports, ports and toll roads are slowly recovering after the impact of the pandemic and staggered border re-openings.

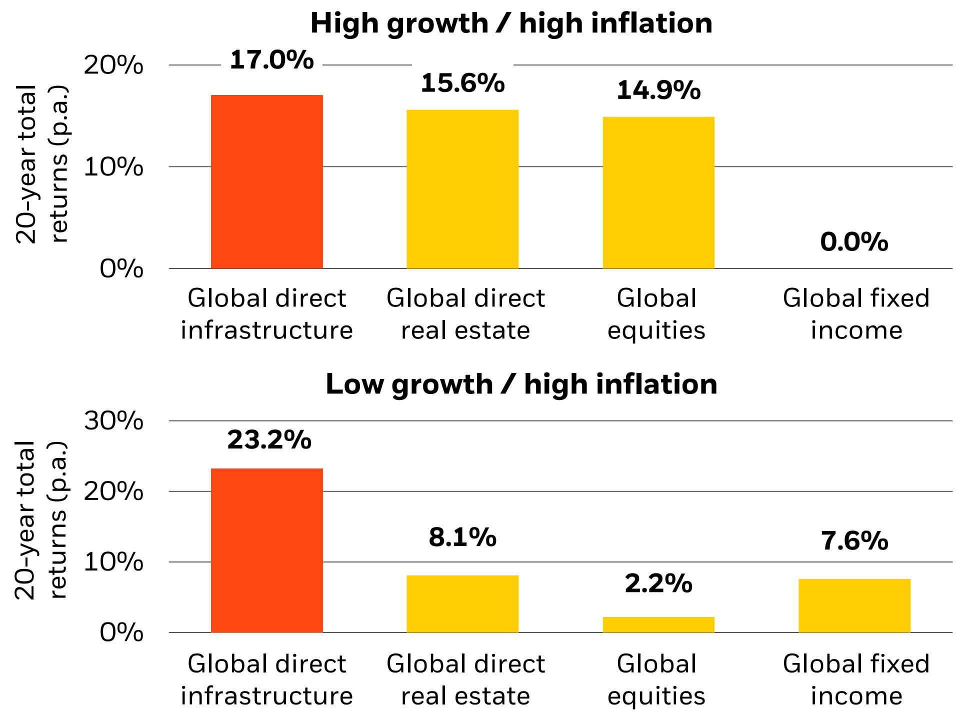
But infrastructure isn't without risks. Regulators in Europe have shown a willingness to impose price caps on energy, which can inhibit returns. At the same time, a possible recession, coupled with higher labor, materials and financing costs, have the potential to stall projects around the globe.

Portfolio view

Infrastructure sits at the heart of the transition to a low-carbon economy and the urgent near-term need for energy resilience. Investors are additionally drawn into infrastructure for its steady, inflation-mitigating return characteristics.

Ahead of inflation

Infrastructure has historically fared well during inflationary environments



Source: Bloomberg, Barclays (Global Fixed Income), MSCI (Global Equities), GREFI (Global Direct Real Estate), EDHEC (Infrastructure: All equity); as of 30 June 2022 (data since 2000). You cannot invest directly in an unmanaged index. High growth periods are when U.S. GDP > 2.5% and high inflation periods are when US CPI > 2.5%.

The figures relate to past performance. Past performance is not indicative of current or future results.

A new global landscape is accelerating key trends in infrastructure, driving investments to develop renewable capacity, decarbonize traditional sectors and add resilience to energy supply chains.

Global and local drivers

In the **United States**, recent policy shifts are markedly improving infrastructure fundamentals.

The *Inflation Reduction Act* and other new legislation are expected to boost investment for new technologies such as hydrogen and carbon capture, add debt capital for transport sectors, promote public-private partnerships and speed approvals for large-scale infrastructure projects such as transmission-grid upgrades.

In **Europe**, there is intensifying demand for greener and more resilient infrastructure. The entire region is pushing urgently to decarbonize power production, electrify motor vehicles and establish greater energy independence by transitioning away from imported fossil fuels and into renewable generation and power storage.

From an infrastructure standpoint, Europe is at an inflection point when it comes to reliance on digital communications for commerce and work. But it's also at the heart of a possible global slowdown in 2023, which could test many of these trends, or be an opportunity to incubate new technologies and business models.

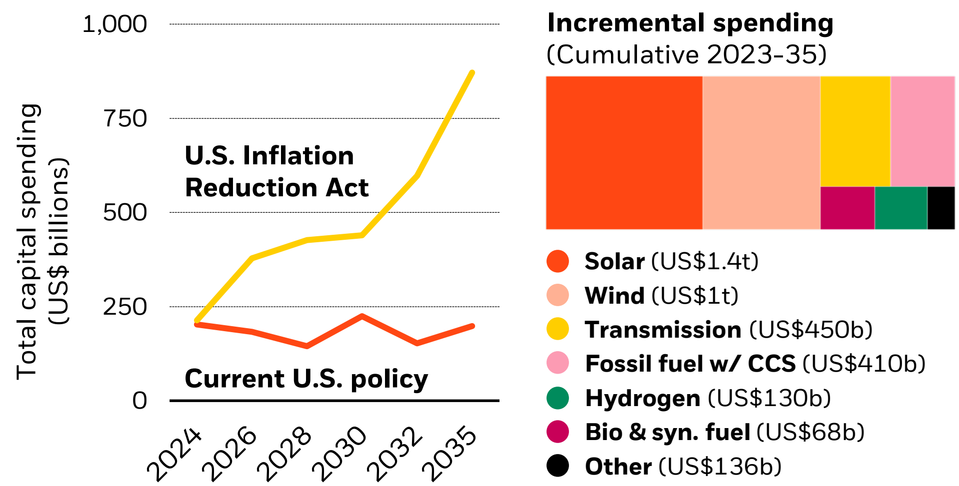
In the **Asia-Pacific** region, the outlook remains relatively firm given stronger growth and lagging infrastructure supply. The renewables rollout is still accelerating, led by the more mature markets in Australia, Japan, South Korea and Taiwan.

Energy exporters in Southeast Asia and Australia are being bolstered by high energy prices, providing an opportunity to add greener capacity ahead. The transport sector is showing a staggered rebound, reflecting the uneven pace of border reopenings across the region.

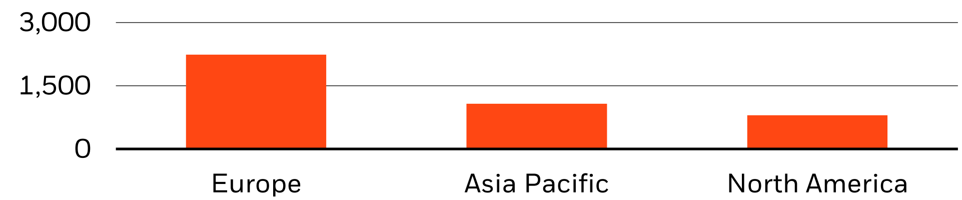
While common themes apply across the globe, there is a clear need for regional infrastructure approaches that reflect local policy changes, economic needs and community concerns.

Unlocked by policy

Estimated investment in U.S. energy supply infrastructure



Number of climate-related energy policies by region



Source: (above) REPEAT Project as of August 2022. The chart shows projections of capital investment based on analysis of the Bill's potential impacts by repeatproject.org. It does not include impacts on clean energy components, batteries, electric vehicles or criteria l minerals. The analysis should be considered approximate and may be updated or refined by subsequent analysis. (below) IEA and BlackRock Data Strategy & Solutions, as of October 28, 2022. *Energy policies included with status of "planned", "in force" or announced". CCS refers to Carbon Capture & Storage. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The implications of a global transition

The global transition to low-carbon economies is accelerating as a growing number of countries create incentives for investments to decarbonize sectors including energy and transportation.

The scale of this change – US$125 trillion of new investments by 2050, according to the IEA – represents a major opportunity for infrastructure investors around the world.

Renewable power is high on the list, with wind and solar likely to be the key contributors. But segments such as batteries, hydrogen and carbon capture are becoming more technologically feasible and commercially viable. Nuclear remains on watch for cost and technological reasons.

We believe this is a timely window to electrify the transport sector, with the shift toward electric vehicles and the wider rollout of charging infrastructure.

Investments in sustainable energy benefit from powerful tailwinds, but many technologies must first ramp up in scale to be effective. While we see significant opportunities, we are taking a diversified approach across many sustainable technologies.

Select renewables and regions	Usage from 2020 to 2050 (equivalent production capacity)		
	North America	Europe	Asia-Pacific
Solar power (■ = 50,000 3MW solar panels)	**To add** 376,900, 3MW solar panels	**To add** 91,400, 3MW solar panels	**To add** 1.06 million, 3MW solar panels
Wind power (■ = 25,000 6MW wind turbines)	**To add** 136,600, 6MW wind turbines	**To add** 119,300, 6MW wind turbines	**To add** 361,300, 6MW wind turbines
Natural gas (■ = 1,000 combined cycle plants)	**To cut** 3,000 combined cycle gas plants	**To cut** 1,500 combined cycle gas plants	**To add** 1,300 combined cycle gas plants
Electric vehicles (■ = 5% of cars on the road being electric)	**To grow** EV usage from 2% in 2020 to ~70% in 2050 (target)	**To grow** EV usage from <4% in 2020 to 80% in 2050 (target)	**To grow** EV usage from ~4% in 2020 to >50% in 2050 (target)

Source: U.S. Energy Information Administration, International Energy Agency, Reuters, European Environment Agency, BlackRock Alternatives (November 2022). There is no guarantee that any forecasts made will come to pass.

Private credit

Calm amid the storm

Rising rates, inflationary pressures and economic uncertainty offer a few unique advantages for private credit investors.

The increase in interest rates in many countries has caused turmoil in the capital markets. But it could be a boon in private credit because of the flexibility of capital to react to changing market conditions.

And while there's the risk of higher default rates, that can be mitigated through disciplined investment selection and deal structuring, which is easier in private arrangements and can provide opportunities for rescue financing.

We see non-cyclical businesses such as segments of healthcare, along with software, technology, consumer staples and business services as better insulated from inflationary pressures.

These firms can usually pass a greater portion of cost increases to customers, helping to maintain profitability through the cycle. They are also attractive investments because they often come with lower loan-to-value (LTV) ratios.

In opportunistic credit, investors are increasingly able to extract more equity participation from companies who prefer credit to raising dilutive down rounds of equity capital.

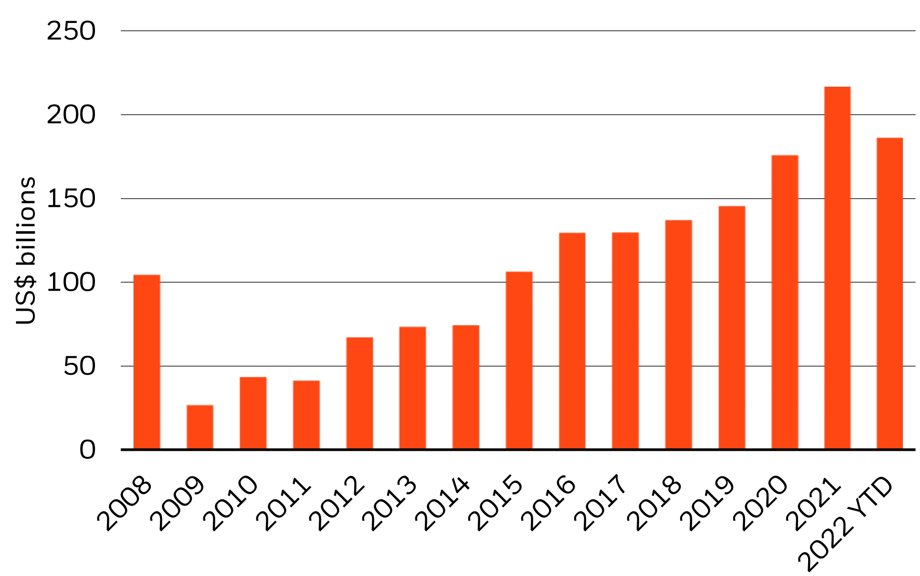
With the added benefit of higher rates, wider spreads and larger call protections, the risk-return profile of private credit as an asset class may well be more attractive than it has ever been.

Portfolio view

Amid a significant repricing in traded markets, investors are assessing the value of taking illiquidity risk. Private credit offers greater certainty of higher levels of contractual cashflows (as we show on page 14), as well as other features that can help hedge the effects of economic turbulence on other asset classes.

Growing interest

Annual private credit fundraising continues to increase



Source: Preqin, October 2022.
The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Private credit has expanded as banks have withdrawn from lending, largely as a result of regulatory changes. While the past year's turmoil has shaken markets, companies continue to require financing – and they are increasingly turning to private lenders. But should conditions further deteriorate, we expect dispersion between industries. Some business models may not financially work at a higher cost of capital, for example.

Regional views

Rule changes in the **United States** have left banks with a lower appetite for smaller, less-liquid credit issuance.

Acquisitions of distressed or underperforming companies by stronger peers should create opportunities for lenders to invest in well-covered (collateralized) assets with an element of complexity that will likely require unique financing solutions. At the same time, public capital markets remain closed to many growth-oriented companies, leading them to seek private solutions.

A reduction in **Europe** of approximately US$2 trillion in bank lending[1] since the financial crisis, largely due to regulatory changes, has led companies to increasingly rely on non-bank lenders.

We expect the European Central Bank's gradual rate increases to inflict less distress on borrowers when compared with the U.S. Federal Reserve's aggressive hikes. In the U.K., however, the prospect of more rapid rate increases relative to Continental Europe could be an opportunity for more situation-driven strategies.

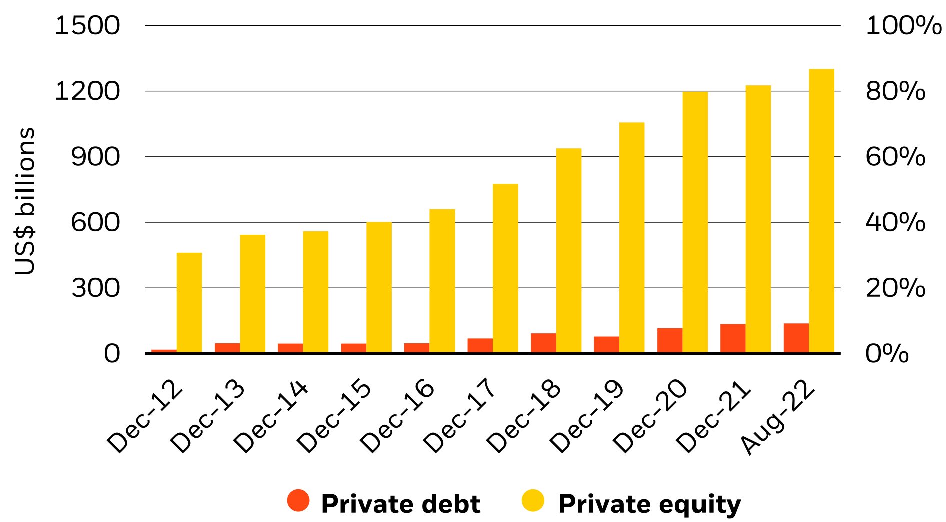
Since mid-2021, volatility and illiquidity in **Asia**'s public debt markets have led to a slew of credit events related to redemptions, particularly in Chinese high-yield.

Investor confidence in public debt markets is low, leading to a meaningful decrease in high-yield and leveraged-loan issuance, with a corresponding increase in private credit deal flow. And public debt markets in economies such as India do not exist, creating more private credit opportunities, including large-cap companies that are high on the credit-quality curve.

The amount of dry powder in both private equity and private credit – more than US$1 trillion – suggests that many companies should continue to have access to funding through a downturn. Those that struggle, however, may prove attractive investments for opportunistic or distressed strategies, which have about US$136 billion ready to invest, according to Preqin.

Staying dry[2]

There's considerable dry powder in both private credit and private equity



Sources: 1 Bank for International Settlements, November 2022. 2 Preqin, August 2022.
The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Making illiquidity pay

Even in a rising interest-rate environment, the illiquidity premium offered by private credit is an important way to find additional yield, while taking on comparable risk.

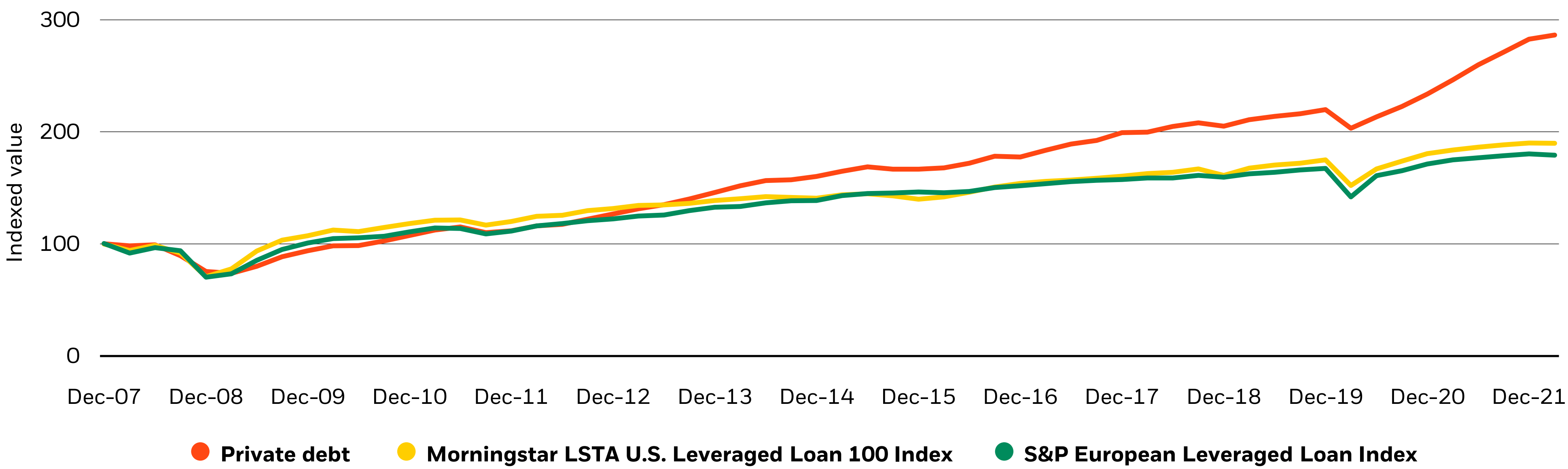
The premiums offered by private credit may widen or narrow over time based on macroeconomic conditions and trends in the capital markets.

But on a like-for-like basis, private senior and unitranche loans may potentially deliver a premium estimated to be 150bps and 300bps, compared to publicly traded (leveraged) loans.

That premium can be significantly wider for opportunistic, distressed and subordinated debt.

While there isn't a general default rate for private credit, we have seen lower defaults, lower loss rates and higher recovery rates than are reflected in the indices for both high-yield bonds and bank loans.

Private credit has delivered outsized returns over leveraged loans through a range of market conditions.



Source: Private debt: Preqin, data to March 31, 2022. LSTA Index: Aladdin, data to March 31, 2022 . ELLI index: Morningstar, data to March 31, 2022.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Private equity

Seizing the moment

Volatility creates opportunity – and few can execute better on that opportunity than private equity investors.

There are opportunities across PE, through direct selection, co-investments, secondaries, and traditional primary fund commitments.

And as the transition to a low-carbon economy comes further into focus in the private markets, the opportunity set is expanding.

Given the current backdrop, the next 12 to 18 months will be about patient capital and selectivity, as buyers capitalize on changing market dynamics.

We are seeing more acquisitions by our portfolio companies to take advantage of lower average purchase-price multiples to drive top-line growth and economies of scale.

For new investments, we anticipate more take-private and corporate carveout deals as companies refocus on core businesses in fragmented industries.

The new environment has led PE buyers to adjust how they calculate risk and structure transactions. More general partners are building buffers into the capital stack, as negotiating leverage increasingly shifts away from companies toward investors.

While the increased cost of debt could slow deal activity in the short term, the demand for strategic capital to help GPs execute on transactions will grow. This dynamic opens the way for a proactive and opportunistic direct co-investment strategy for managers with ready capital and experienced teams.

PE multiples remain below public equity and offer attractive entry points. And companies raising capital are offering investors concessions for downside protection in the form of liquidation preference or senior securities.

Entry and exit prices in 2023 will be a function of the persistence of cashflows. And companies with resilient, recurring cashflows will be among the most attractive.

Where to look now

Sectors and themes in focus

Recession-resilient industries and companies

Business critical

- Enterprise software with must-have products that help businesses reduce costs

Defensive plays

- Essential healthcare equipment & services (i.e. cataract surgery)
- Stay-at-home entertainment
- Consumer staples

Strong tailwinds

- Space spending
- Defense companies with Department of Defense contracts
- Cybersecurity

Climate technology in venture capital and growth equity strategies has been a bright spot amid a broader reset in risk appetite. A favorable policy backdrop has accelerated investment into this space by countries, companies, and investors, creating attractive return opportunities.

Spotlight on secondaries

The secondary market continues to show strong momentum as both LPs and GPs seek out liquidity options.

The need for liquidity was evident in 2022 (a record first half for secondary volumes) and we expect it to continue.

On the LP side, with the broad decline in public equities and fixed income, many investors are finding themselves overallocated to illiquid asset classes. This denominator effect is exacerbated by a slowing exit environment, driving LPs to pressure their GPs for realization events.

As traditional exit paths weaken, GPs are turning to the secondary market for support. With less than one year of dry powder available today, further dislocations are expected to further improve what is an already attractive buying opportunity.

Our approach to the secondary market in 2023 is focused on maintaining a wide sourcing funnel across both traditional and non-traditional transactions. Having a flexible strategy that can pivot to find value across all transaction types remains important as opportunities present themselves throughout 2023.

A well-constructed secondary strategy will offer the ability to deploy capital rapidly and efficiently, while also providing risk mitigation through diversification across regions, sectors and GPs.

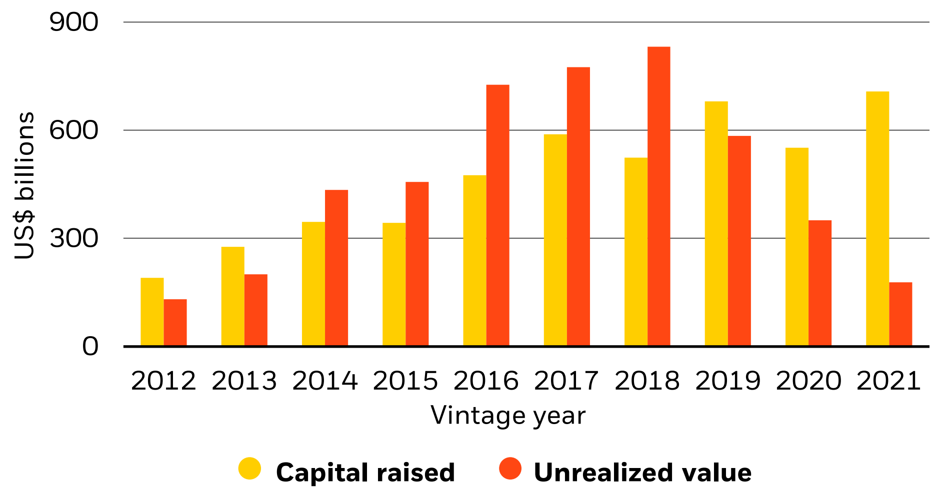
Portfolio view

Beyond the potential benefits of diversification and decreased volatility, private equity has consistently demonstrated superior risk-adjusted performance relative to other strategies, as we show on pages 6 and 18. It's also an opportune moment in the secondary market, as both LPs and GPs seek out liquidity options.

Secondary opportunity

Nearly US$5 trillion has been raised by PE funds in the past decade

PE fundraising and unrealized value by vintage year[1]



US$132 billion

2021 secondary deal volume[2]

US$94 billion

Dedicated secondaries dry powder (Q2 2022)[3]

<1 year

Worth of dry powder available[4]

Source: BlackRock. All dollar figures in USD. 1 Preqin Historical Fundraising and Assets Under Management search tools as derived on 30 June 2022. 2 Jefferies Global Secondary Market Review, July 2022 3 Includes all alternative asset classes except hedge fund side pockets. 4 Bain Global Private Equity Report 2022, March 2022. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Doing better in tough times

History has shown that private equity delivers stronger returns than public stocks, in terms of absolute and relative performance.

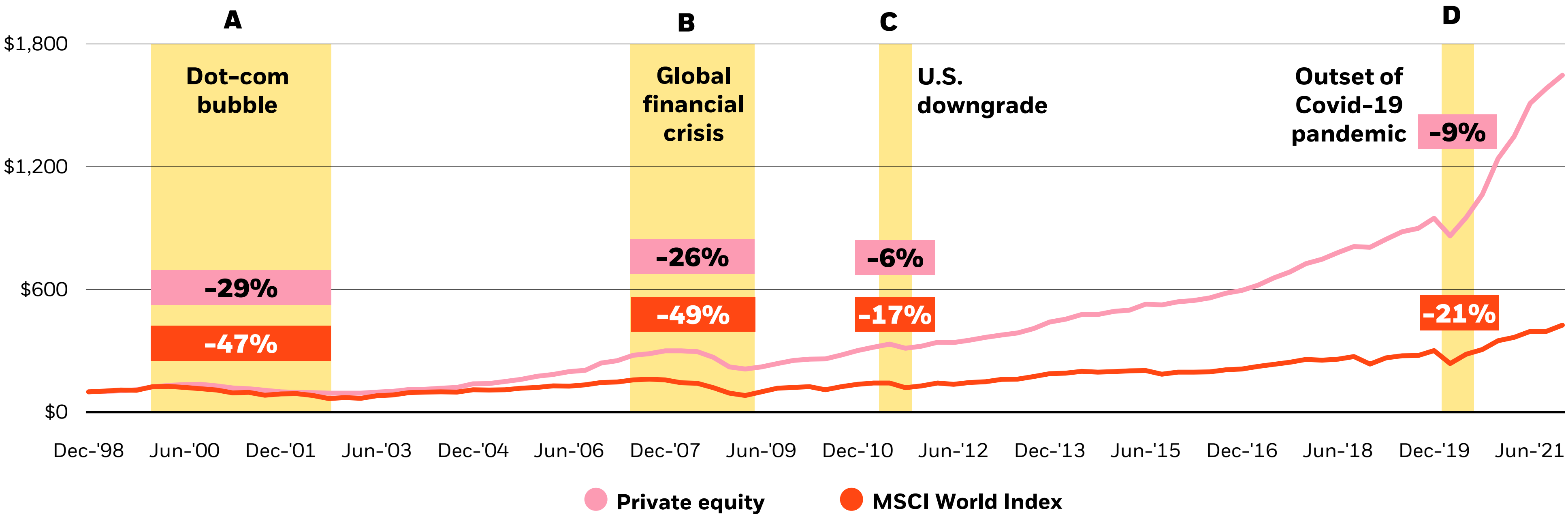
The best vintages typically follow recessions, and PE outperforms by a greater alpha during periods of distress (see also chart on page 6).

Direct allocations, which allow for focused deal selection and portfolio building, are well situated to benefit from times like these.

We also underscore the key tenets of our investment philosophy – discernment, price discipline, and deep sector expertise – when looking at both direct investments and fund managers across the primary and secondary markets.

When investing in primary funds, we focus on management teams who have successfully managed through market cycles, who have sector-focused teams, and who can identify attractive opportunities during market dislocations.

Private equity and public index returns during tumultuous markets



Source: Private equity: Burgiss, and MSCI World total return index for public equities. Private Equity data sourced from Burgiss covers vintages 1999-2019 as of 31 December 2021. Private equity strategies include: Buyout, VC (Late), VC (Generalist), and Expansion Capital. All dollar figures are USD. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Time periods defined as follows A) Apr-00 to Sep-02 B) Oct-07 to Mar-09 C) Jul-11 to Sep-11 D) Dec-19 to Mar-20.

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

Real estate

Changing foundations

Real estate is in a state of adjustment, as the drivers of tenant demand shift markedly and investors adjust their portfolio allocations.

Occupancy levels across sectors are still high – something that could change as we get deeper into the economic cycle. And valid questions persist about how profoundly the rise in interest rates will disrupt property prices, especially if occupancy rates drop.

Logistics remains a bright spot, supported by a broad increase in demand spurred initially by online shoppers and reinforced by a need for larger inventory holdings and more resilient supply chains.

Work-from-home arrangements are changing office-demand patterns to varying degrees in different regions, driving landlords to invest in convenience, amenities and sustainability to encourage a broader return to the office.

Retail sectors remain challenged by the shift out of brick-and-mortar shopping and slowing consumer spending. We remain constructive on necessity-based retail.

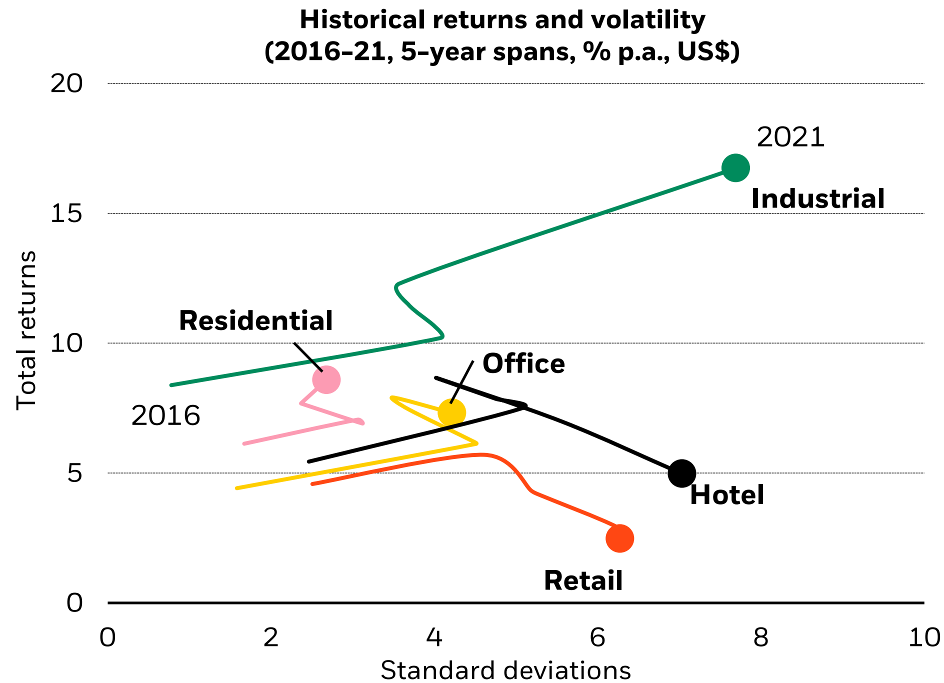
Living sectors are coming to the fore. Multifamily investments provide resilient income streams, particularly in areas of population growth. There are also demographic trends bolstering demand in niche real estate segments, such as student housing, childcare and senior living.

Portfolio view

In real estate, there is a widening gap between sectoral winners and losers. As inflation rises, indexed rental leases can offer an important hedge. Higher rates are inducing distress for unhedged owners and discounts for ready buyers.

Sector divergence

Real estate sectors offered investors disparate returns and volatility



Source: MSCI IPD, BlackRock Alternatives (November 2022).
The figures relate to past performance. Past performance is not a reliable indicator of current or future results.

There is a fundamental shift in real estate demand drivers unfolding right now, affected by where and how we work, shop and play. Logistics and living sectors remain key points of focus for investors.

Global variations

Global real estate trends are playing out in each region, with subtle variations around the world.

In the **United States**, 2023 will look different than 2022 as investors grapple with higher costs of capital and the impact on asset prices. Demand is largely stable, but an economic slowdown could filter through to real estate fundamentals, especially in markets with supply pressures.

Low-levered buyers have the advantage of less competition in most markets, and will likely focus on cashflow resilience and asset quality. While sector selection has been key in recent years, we expect more specific asset selection to be a driver of returns in 2023.

In **Europe**, the real estate market is working through a price-discovery phase, as wide bid/ask spreads and rising financing costs limit liquidity.

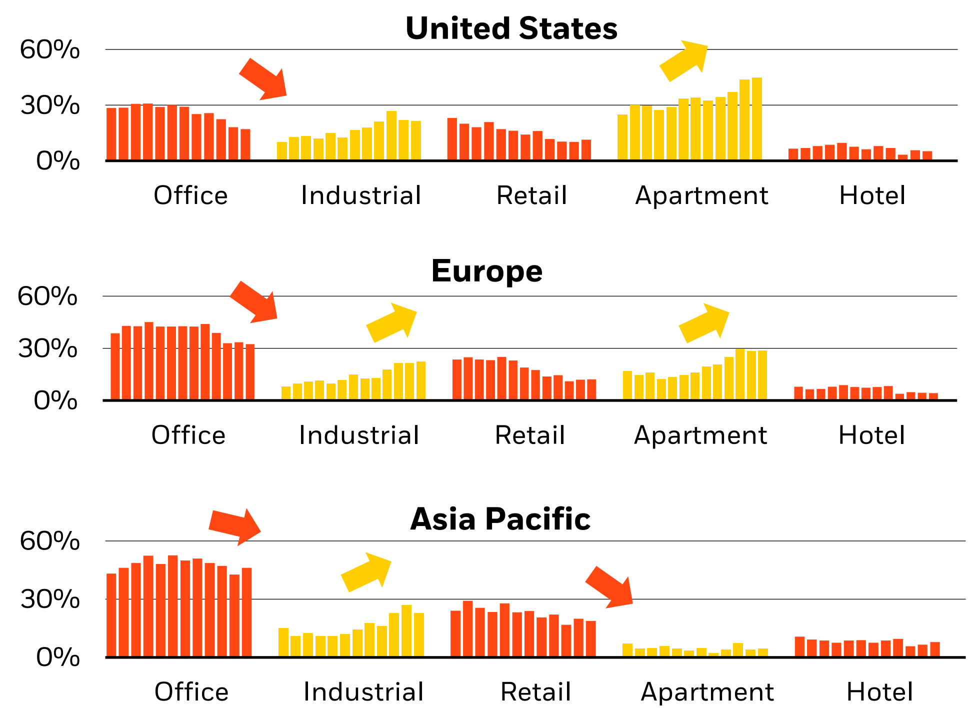
On the whole, values are moving down, led by relatively faster adjustments in the U.K. Unlike previous cycles, occupier demand remains strong for the best assets and locations. This offers some protection against valuation declines, and positions the most prime assets to perform well in the upcycle. Tenants will be more selective post-pandemic, making market and asset selection more critical than ever.

In the **Asia-Pacific** region, the downdraft of the global economy is reducing confidence as well as tenant demand. The work-from-home trend seems to be passing more quickly in Asia, as office workers' return is driven by local business culture and smaller home sizes.

The logistics boom is still unfolding with surging demand, though asset prices are softening slightly on the back of higher funding costs. Asset managers are actively implementing CPI-linked leasing contracts to hedge against inflation across sectors.

A change in focus

Activity across real estate fluctuates (Transaction share 2011-22 YTD)



Source: Real Capital Analytics, BlackRock Alternatives (November 2022)
The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.

The drivers of real estate returns are changing in 2023 as occupancy trends respond to the mixed demand outlook and rental incomes rise with inflation, while yield spreads tighten with higher funding costs.

The real estate market landscape

The global real estate opportunity set for 2023 and beyond varies considerably across regions and sectors, reflecting local demand and supply drivers.

The logistics sector continues to stand out in terms of fundamental demand growth, as online distributors move their inventory strategies from just-in-time to just-in-case in order to ensure that they avert costly supply-chain disruptions.

The shift away from the office is a much more powerful trend in the U.S. than other regions, especially Asia. But across the globe, we expect a major churn in office tenants, with a focus on prime properties that can offer more amenities to entice white-collar workers back.

The need for multifamily housing in the U.S. and Europe is already high, and may be pushed even higher as rising interest rates and persistently elevated home prices force more would-be homebuyers to rent.

- United States
- Europe
- Asia Pacific

Relative returns expectations	**Relative volatility expectations**		
	Lower		Higher
Higher	Los Angeles apt.	West Coast apt. Major market ind.	
	U.K. student housing Nordic logistics	France/U.K. logistics	London office
		Australia ind. Singapore office	
	South & Southeast apt.	East Coast apt.	South ind.
	Japan office	Japan logistics Australian office	U.K. retail Germany logistics
Lower	Grocery-anchored retail	Northwest apt.	San Francisco office U.S. malls
	German retail		Hong Kong office

Source: BlackRock Alternatives (November 2022). There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

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