2024 Private Markets Outlook

Opportunities in
mega forces

BlackRock

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Embracing a changing world

Despite the continuing uncertainty facing investors amid higher rates, inflation, and volatility, at BlackRock we are identifying and embracing the big, structural changes that are reshaping our world: the mega forces.

We believe these mega forces – digital disruption and AI, the low-carbon transition, demographic divergence, the future of finance and geopolitical fragmentation – offer major investment opportunities. And we see private markets as uniquely positioned to benefit from the shifts that are already under way. Whether it's infrastructure's importance to the transition or the role of real estate in helping societies adapt to demographic change, private capital will be essential.

In the following pages our investors outline the opportunities – and the risks – presented by the mega forces. They also give their insights on the past year in their asset classes and where they see markets heading in 2024.

It's important to note the variety of these asset classes. Private markets are sometimes viewed as a single investment option, but as this Outlook shows, they span different sectors, geographies, investment styles, and risk appetites. There is no one type of "private asset" and the key to a successful portfolio is recognizing the differences and choosing the right option for an investor's needs.

Edwin Conway

Global Head of Equity
Private Markets

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Opportunities ahead

Broad shifts in the economy and financial markets have positioned private markets to grow in the year ahead.

Mega forces are reshaping our world today and in the future. These trends have been a defining factor for private markets, and private assets will continue to play a large role in the transformation already underway.

One of those shifts is with the banks. We see the banking system scaling back to reduce the loans on their own balance sheets, with lending standards tightening.

The opportunities this creates begin in private debt, but broaden to an increased reliance on equity financing, as well as other ways for private markets players to partner with banks.

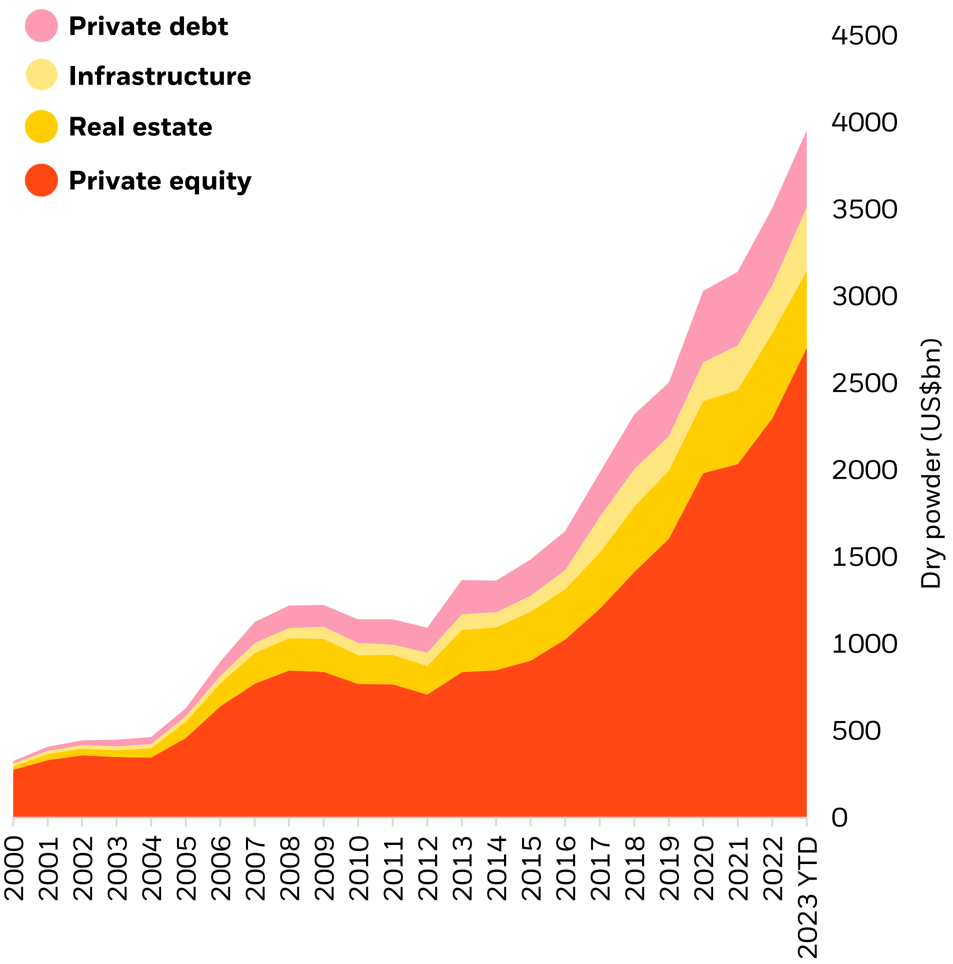
Companies are also staying private for longer. This implies a more prominent place for private markets in the broader economy – they can provide more flexible and faster financing for companies that might shy away from public markets amid tougher macro conditions. In client portfolios, private markets can provide more targeted exposures to different sectors.

Heading into 2024, we see less capital chasing investments. Fundraising has been more challenged, and investors continue to be very selective. While dry powder in some asset classes and regions decreased in 2023 – infrastructure in North America stands out – the overall amount of money on the sidelines has grown.

As a result, assets are on track to reprice to what should be attractive entry points for new vintages that can invest in higher-quality companies and in parts of the capital structure that offer more protections. Across private assets, deal structure will continue to be a focal point going into 2024.

On the sidelines

Dry powder is increasing as investors remain selective



Source: Preqin and BlackRock; Data as of October 30, 2023; Dry Powder is the "available capital to fund managers for investment, i.e. committed capital that has not yet been called for investment."

Mega forces

In the following pages, our investment teams take deep dives into individual mega forces. While the mega forces create opportunities across all asset classes, here are some specific examples:

Infrastructure

Low-carbon transition

Clean energy infrastructure, along with electrification, is essential to the transition to a low-carbon economy.

Private debt

Future of finance

Structural shifts in public financing markets have provided private debt with an opportunity to expand its addressable market.

Private equity

AI/digital disruption

There's a strong opportunity set in the tech sector with companies that have recurring revenue streams, for example cloud computing and software.

Real estate

Demographic divergence

The shift across different cohorts creates opportunities across sectors, such as student housing, multi- and single-family rentals, and medical offices.

In real estate, it's an opportune time for investors with dry powder to take advantage of the market dislocation by acquiring high-quality properties at valuations not seen for almost a decade. In infrastructure and beyond, the transition to a low-carbon economy is opening up a host of new investment opportunities.

Even amid so many encouraging signs, allocators in private markets have experienced headwinds. Overall, dealmaking has slowed, leading to an environment where capital calls are outpacing distributions, which are often delayed.

Higher rates have placed new stress on borrowers, making a manager's capabilities in selecting and structuring private debt more critical than ever. And uncertainty around interest rates has led to lower deal activity as buyers and sellers disagree on valuations.

At some point in 2024, we expect at least a partial reopening of the IPO markets, which should increase exit activity in the private equity space.

That said, private markets investors are used to pivoting. If IPO activity does not return, investors have been active in developing other options for exits, for example secondaries.

The longer rates remain high, the greater the impact on interest costs. We expect companies with higher quality revenues, effective cost management and stable capital structures to outperform. And as inflation eats at corporate margins, it may drive more consolidation, take-privates and other related deals.

Across private asset classes, the ongoing volatility and widespread uncertainty has led to attractive valuations for quality assets in this year's vintages, making it a good time to invest for the future.

Private markets also offer unique ways to access the growth offered by the range of large-scale transformations that the mega forces represent. And those mega forces inform our long-term approach to identifying the best opportunities and biggest risks in private markets.

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Key takeaways

- While the markets remain volatile, the ongoing shifts to the broader economy and investing landscape have poised private markets for growth.
- The mega forces reshaping our world drive many of the opportunities we see across different private asset classes.
- Continued volatility and persistent inflation has highlighted infrastructure's resilient cashflows, while the essential nature of many assets mean it is less tied to economic cycles than other asset classes.
- While private debt continues to grow, the higher cost of capital will drive dispersion. A nuanced and defensive approach will be critical in 2024.
- In private equity, high interest rates are driving cash-strapped companies to seek more equity financing, while low transaction volumes are creating attractive situations for buyers in the secondary market.
- While real estate values are resetting, there are attractive opportunities in several property types, including industrial and logistics, necessity retail and some types of residential.

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Infrastructure

A story of resiliency

As an asset class, infrastructure is having a moment. Stubbornly high inflation, along with the recent volatility in stock and bond markets, has revealed the inherent strengths of many infrastructure investments.

Being essential to the economy and our daily lives, infrastructure offers cashflows that are less tied to economic cycles than other asset classes. Infrastructure assets often have long-term, inflation-linked contracts that can span decades – a significant advantage in a volatile environment.

Long-term structural trends support infrastructure investment in the years and decades ahead. The world is in transition, requiring a reconfigured energy system and investment across all sectors to decarbonize. Digital infrastructure is expanding around the globe, increasing demand for fiber broadband, cell towers and data centers.

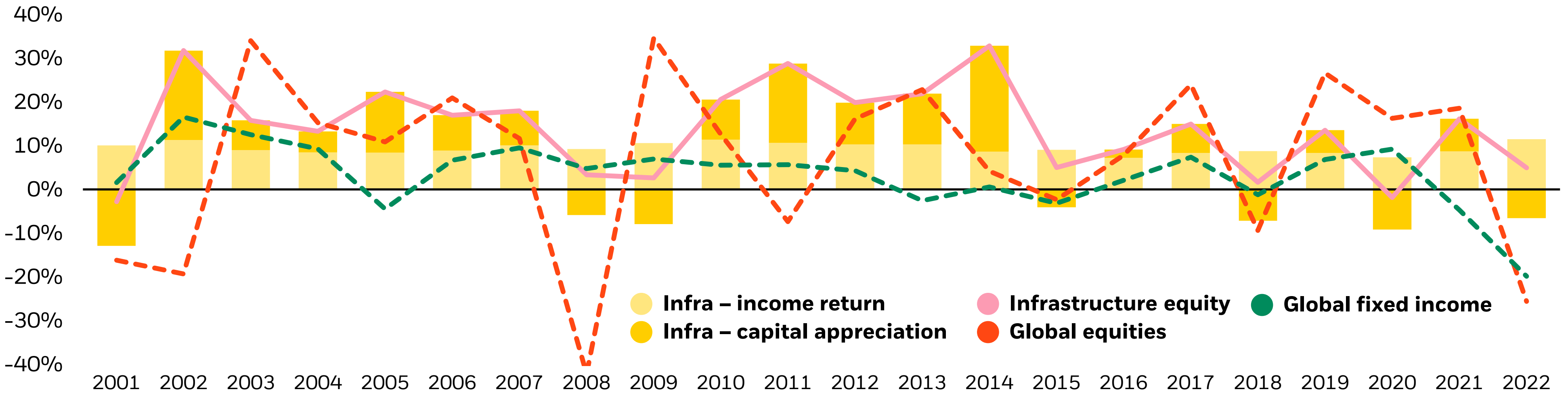
Supply chains are also being decoupled and rewired as geopolitical fragmentation accelerates ongoing trends toward onshoring, nearshoring and friend-shoring. This is driving fresh investment in key logistics infrastructure such as railways and ports.

The asset class has a host of tailwinds, but managers cannot be complacent. The cheap financing that used to bolster returns is gone, forcing managers to use additional levers to create value and be active owners. They also need to be more selective. We expect greater dispersion in manager returns ahead.

The macro backdrop has also made for a slower year of fundraising. In the secondaries market, we're seeing discounts for the first time. For those with capital to spend, there is an exciting window of opportunity to buy quality assets at lower entry points with attractive structures.

Steady across market cycles

Infrastructure assets have shown resilient income and capital appreciation



Source: BlackRock, September 19, 2023 with data from Bloomberg and EDHEC. Notes: The yellow stacked area shows the breakdown of the EDHEC Infra300 index into income return and capital appreciation. Direct infra is represented by the EDHEC infra 300 index; Global Equities is the MSCI ACWI Global Equities and Fixed Income is BBG Barclays Global Aggregate Index. Infrastructure figures in the graph have been calculated using averages through the year to account for lagging data and valuation figures. **Past performance is not indicative of future results. All investing is subject to risk, including possible loss of money invested. Performance results will vary. Accordingly, performance may be higher or lower than results cited. Index returns are for illustrative purposes only.**

Infrastructure 2.0

While infrastructure has been resilient over the past year, the bigger story may be the opportunities coming in the years ahead.

'Infrastructure 2.0' encompasses forward-looking structural trends, such as the transition to a low-carbon economy, which is one of the largest investment opportunities across private markets today (read more about it on the next page).

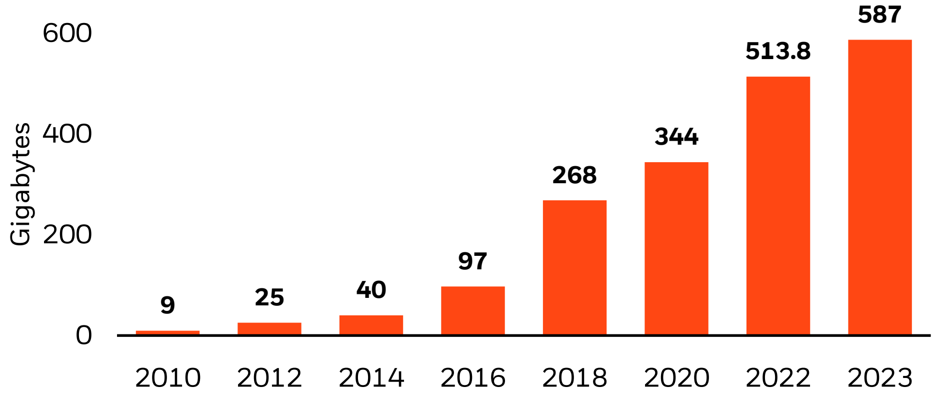
The world is also becoming more digital by the second, and that transformation requires physical infrastructure. The more people connected to high-speed internet there are, the more fiber needs to be in the ground. The more mobile data we transmit, the more wireless towers we need to build. With every click we are creating data, driving demand for storage infrastructure such as data centers.

Infrastructure is also moving closer to the end user as governments prioritize self-sufficiency and security. The result of a shifting geopolitical balance is that energy and industry are becoming more local. We expect continued investment in domestic industrial infrastructure and the onshoring or near-shoring of critical industries.

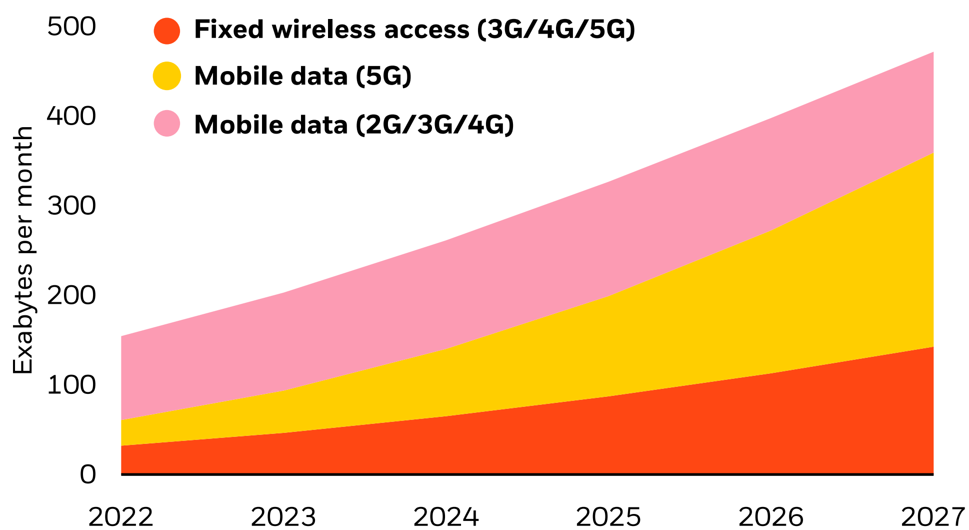
Sweeping, once-in-a-generation policy advances are among the key drivers of these trends. While the Inflation Reduction Act in the U.S. made headlines in 2022 with its billions of dollars of incentives, the actual impact is only now starting to be seen. Beyond the direct financial support for many infrastructure projects, the legislation also supports favorable financing costs for many new assets and technologies.

In Europe, the effects of the EU Green Deal Industrial Plan and REPower EU are starting to be felt in terms of day-to-day business. Technology advances continue to lower costs and establish the necessary maturity to build large scale infrastructure 2.0 projects.

U.S. household data consumption



Global mobile data traffic



Sources: Top: FCC annual broadband performance report; Bottom: Ericsson, 2023

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Mega force: The low-carbon transition

The transition to a low-carbon economy is one of several mega forces reshaping markets and the broader economy. And while it will impact nearly every asset class, it's particularly meaningful for infrastructure.

Looking ahead, the BlackRock Investment Institute Transition Scenario predicts that the adoption of low-carbon energy sources will jump as the relative costs of these sources continue to drop. It could spur an average of US$4 trillion a year of capital investment in the global energy system through 2050, up from just over US$2 trillion a year now, with low-carbon sources making up about 70% of the world's energy by 2050.

Energy storage, electrified transport, and alternative fuels for aviation and shipping should all continue to see technological advances that lower costs and increase efficiency. We're thinking about the opportunity set both in terms of global scale and local demand. Companies are tracking their emissions more tightly, and in new areas such as their buildings. While the transition to a low-carbon economy is an investment opportunity, it's also a lens through which to look at investing and risk.

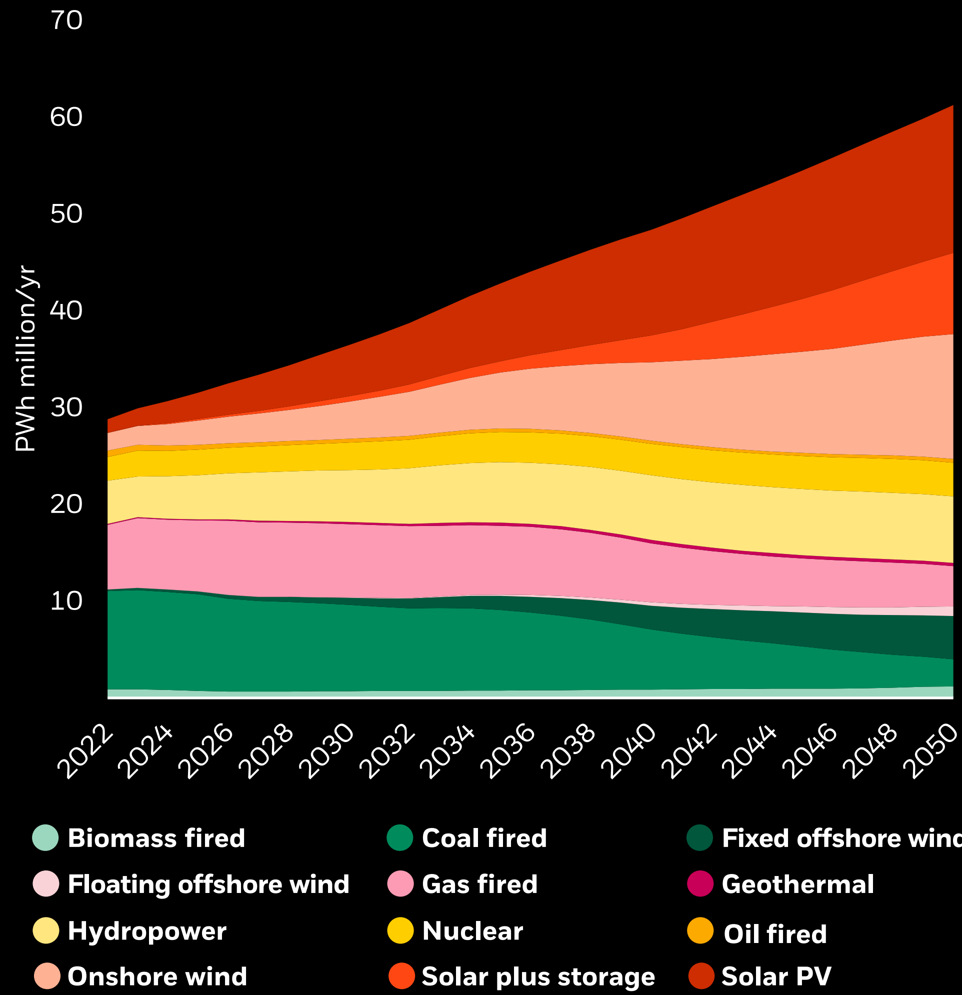
The transition itself is so large that taking advantage of it requires investors to have a view on where costs are landing, where technologies are heading, and how dynamics between value-chain segments are evolving. While the transition affects infrastructure directly, and often first, it's important to take a whole-portfolio view toward it.

Batteries *are* included

Electrification – the replacement of combustion with electricity – is a major trend across transportation, power generation, and beyond. And as the pace of electrification accelerates, batteries and other energy-storage systems are becoming more essential. The entire battery value chain – from mining to refining to manufacturing, and through deployment in vehicle charging and energy-grid support, as well as recycling and second-life applications – is poised for meaningful growth.

The world's electricity

The mix of energy sources will shift dramatically as demand grows



Source: GlobalData, 2023.

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Private debt

Dispersion, not disruption

Private debt continues to grow and cement its status as a sizable and scalable asset class for a wide range of long-term investors. Totaling more than US$1.6 trillion globally, as of March 2023[1], it represents roughly 12% of the US$13 trillion alternative investment universe.

The broad term "private debt" encapsulates a wide range of strategies including direct lending – which is the largest strategy by assets under management – distressed, opportunistic, mezzanine and venture.

The addressable market in private debt has expanded significantly over the past decade, as banks and public lenders have moved away from the middle market. As a result, direct lenders have funded larger deals, and investors now increasingly turn to private debt to access the income opportunities presented by middle-market companies.

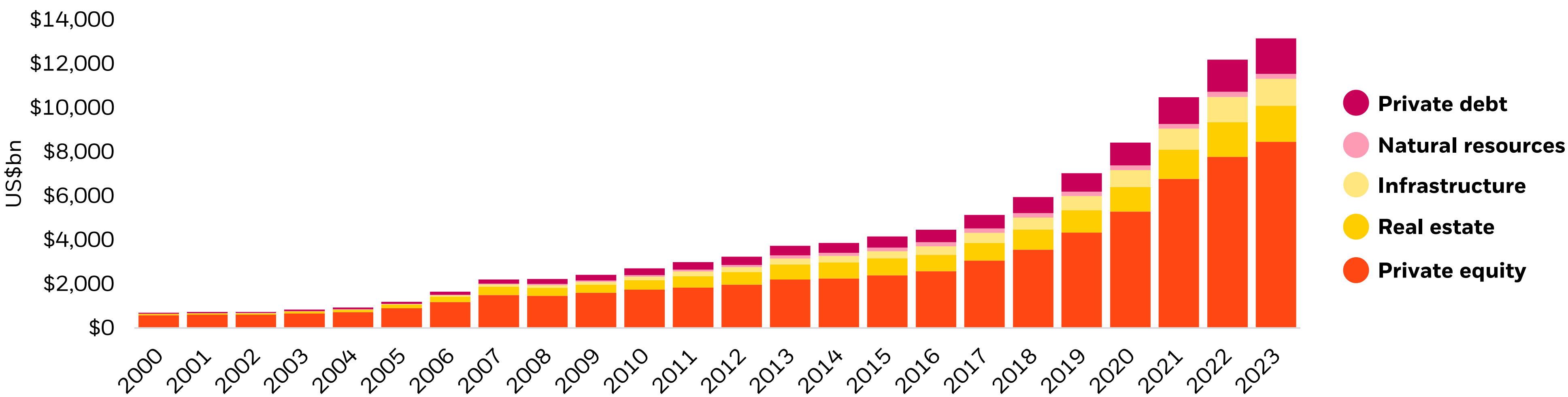
While direct lending is the largest private debt strategy, the "mix shift" of private debt fundraising can vary from year to year. The macroeconomic backdrop plays a role in determining which strategies investors favor, as economic downturns can present opportunities for deployment in strategies such as distressed lending.

In 2024, the higher cost of capital is likely to impact sectors and firms differently, due to their varying degrees of pricing power, business strength, and capital-structure management. This backdrop will be an important driver of dispersion, not disruption, across asset classes, sectors and issuers.

A nuanced and defensive approach to investing, including structural protections, granularity in underwriting and credit selectivity, will be critical in 2024 for maintaining attractive all-in yields, especially in areas such as senior direct lending.

An increasingly essential asset

Private debt now represents 12% of alternative assets under management (unrealized value and dry powder)[2]



Source: 1. Preqin 2. BlackRock, Preqin. As of each calendar year-end. 2023 is as of March 2023 (most recent available). To avoid double counting of available capital and unrealized value, fund of funds and secondaries are excluded.

Headwinds and tailwinds

Within private debt, the U.S. commercial real estate market is showing a notable degree of dispersion. Some subsets of the asset class – specifically the office sector – are facing a perfect storm of well-telegraphed headwinds.

The challenges include a "higher-for-longer" interest rate environment, which makes refinancing more expensive, sizable maturity walls over the next few years, tighter lending standards from banks, and post-pandemic shifts in the utilization of assets, such as offices.

At the same time, however, we expect many real estate debt categories such as industrial, self-storage, hotel and non-mall retail to benefit from solid business fundamentals, demographic trends, strong demand, and structural shifts, such as online shopping and inventory building to improve supply chain resilience.

Broad opportunities

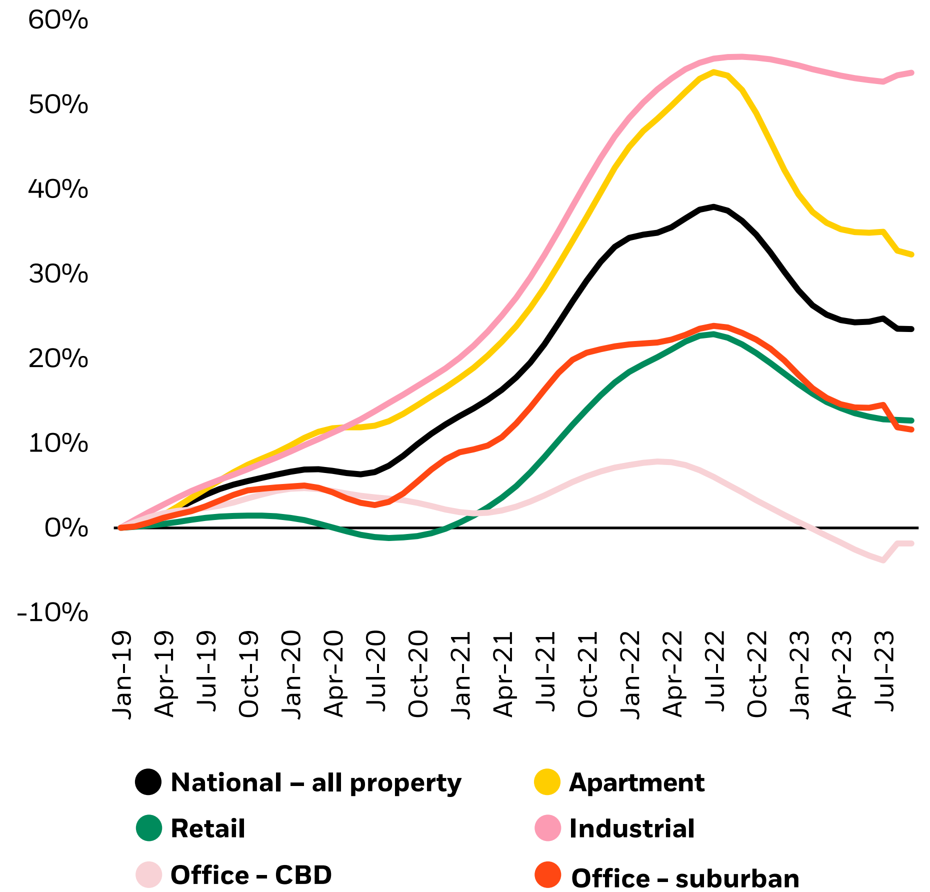
Middle-market firms are increasingly turning to the private debt markets as a viable path for funding, driven by a range of factors including tighter bank lending standards and structural shifts in the public markets to serve larger borrowers.

More borrowers are running "dual track" processes, simultaneously assessing both the public and private markets for their needs. One sign of this is the number of direct lending deals to refinance broadly syndicated term loans. As of Sept. 30, Pitchbook LCD tracked at least six such transactions in the first nine months of 2023, totaling nearly US$12 billion in aggregate.

As the private debt market continues to grow in size, its capability to compete directly with the public debt financing markets will likely expand. That wider landscape of available deals will allow the private debt market to expand its addressable market of borrowers, further supporting the growth of the asset class.

Different paths

Commercial real estate property prices since 2019



Source: Chart shows cumulative percent change in the level of the U.S. National Real Capital Analytics Commercial Property Price Indices (RCA CPPI), since January 2019. Source: BlackRock, Real Capital Analytics, Bloomberg. Captures data through September 30, 2023. The RCA CPPIs are transaction-based indices that measure property prices at a national level. CBD = Central Business District. **The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.** Index performance returns do not reflect any management fees, transaction costs or expenses.

Mega force: The future of finance

Tectonic shifts are underway in the U.S. financial sector, which are changing the markets for deposits and credit. A key beneficiary of this structural shift, in our view, is the private debt market.

We see the potential for the global private debt market to reach US$3.5 trillion in AUM by year-end 2028, up from US$1.6 trillion globally, as of March 2023. The drivers of this growth expectation include:

Borrower preferences for customized funding solutions, certainty of execution, and the flexibility of a long-term borrower/lender relationship.

Investor desires for diversification in the context of a whole-portfolio allocation, with opportunities to introduce structural protections, depending on the strategy.

Structural shifts in the public markets, which are now serving larger borrowers, leaving public debt-market deal sizes prohibitively large for most middle-market companies.

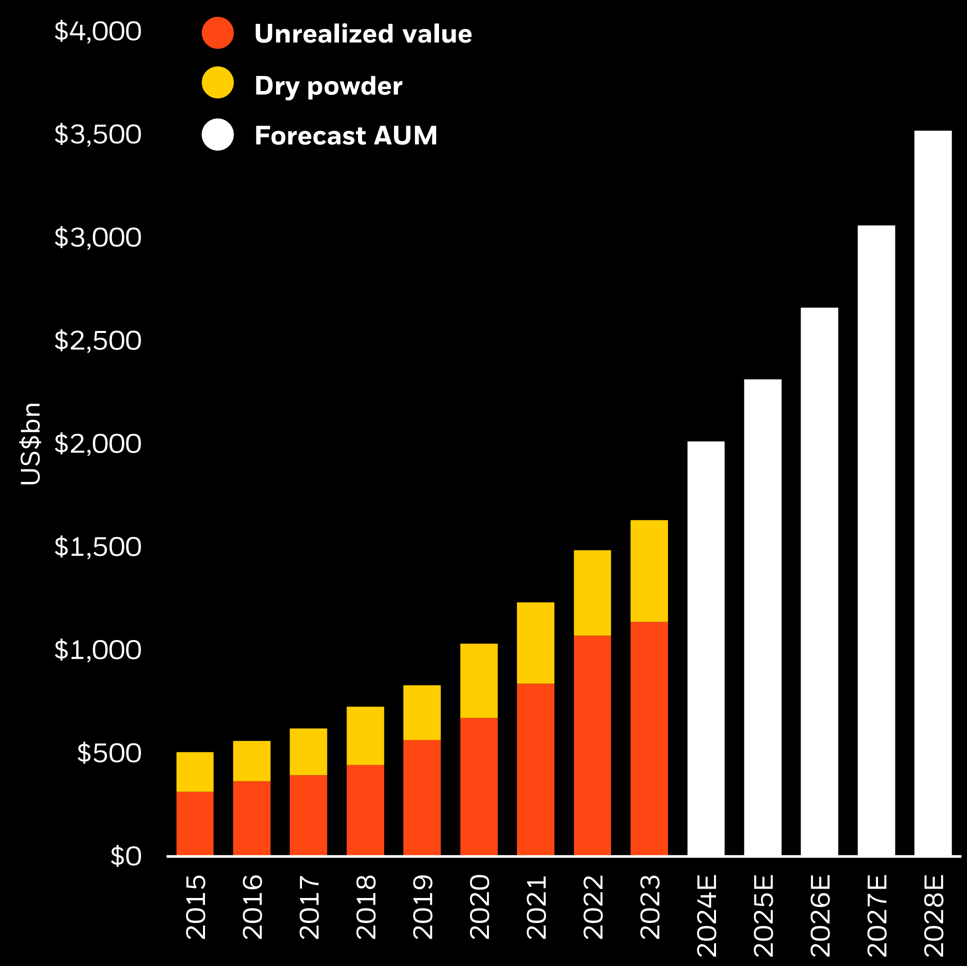
A continued contraction in bank credit availability should allow for a further expansion of private debt's "addressable market" of borrowers.

Generally, private debt loss rates have compared favorably with the public markets. In the second quarter of 2023, trailing 12-month loss rates for USD Leveraged Loans and USD High Yield were 1.68% and 1.62% respectively, versus 0.69% for direct lending, according to the Cliffwater Direct Lending Index.

Source: BlackRock, Moody's, Cliffwater. For the CDLI, we show annual and trailing 12-month realized loss rate data for 2Q2023 (most recent available for the CDLI). We assume a 40% recovery rate for HY and a 60% recovery rate for leveraged loans, to arrive at estimated loss rates given the Moody's issuer-weighted, trailing 12-month default data. The HY and leveraged loan loss rates reflect the universe of HY bonds and leveraged loans tracked by Moody's. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future result. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index.

Steady growth

Private debt's expansion is poised to continue in the years ahead



Source: BlackRock, Preqin. Historical (actual) data from Preqin, as of each calendar year-end, through March 31, 2023. 2024E to 2028E are BlackRock estimates.

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Private equity

Adjusting to a new era

Private equity is in a period of adjustment amid the new era of higher rates and market uncertainty. We remain positive, however, on the asset class given its historical outperformance during times of market volatility, and signs that near-term opportunities could be attractive for buyers with access to capital. This new era is characterized by some key themes.

Deal activity. Rising rates, inflationary pressure, economic and geopolitical uncertainty and a correction in the broader public equity markets have driven slower deal activity. Year-over-year deal count declined by as much as 65% in 2022 and another 40% in 2023[1].

Valuations. The correction in the public markets is beginning to translate to moderately lower private equity valuations. After rising steadily since the global financial crisis, valuations declined in 2023 to 11.2x EBITDA – albeit on significantly lower deal volume – from a peak of 11.9x in 2022[1].

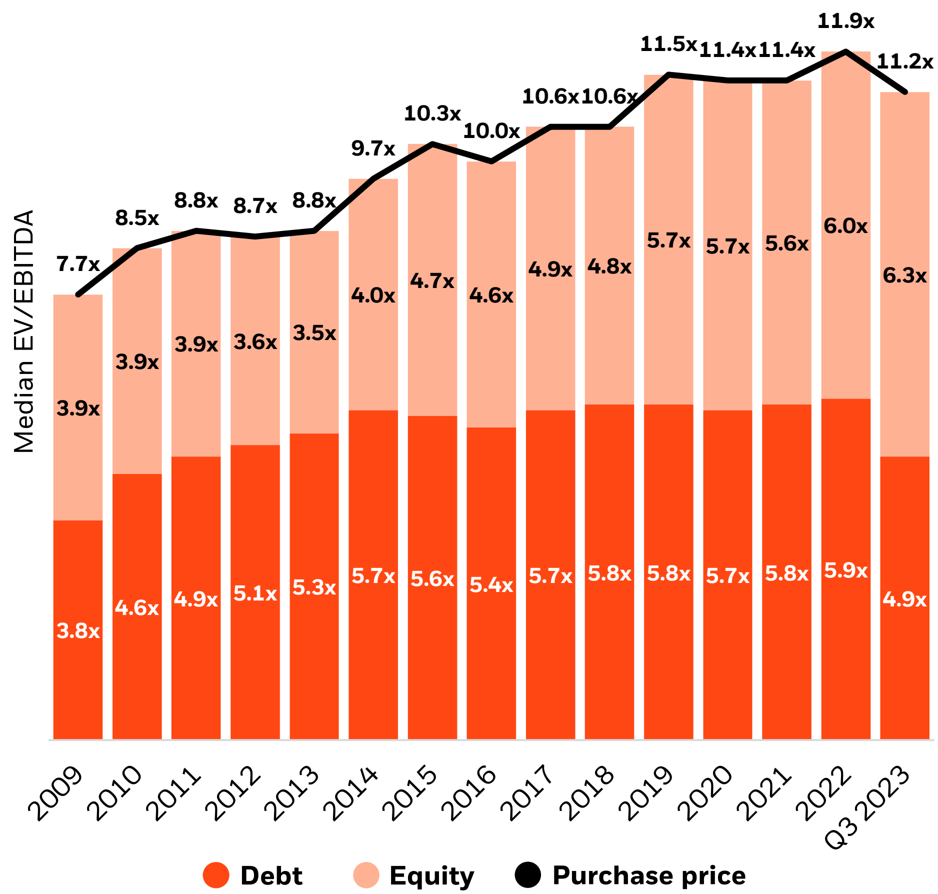
Types of transactions. While overall deal volumes have fallen from their 2021 peaks, the private equity market has not shut down completely as firms turn their attention to add-on acquisitions and take advantage of depressed public equity valuations to execute take-private transactions. In particular, public-to-private transactions accounted for about 21% of aggregate deal value through the year compared with 15% over the past five years[2].

Equitization of transactions. Less availability and higher cost of debt has forced private equity buyers to increase equity contributions to complete transactions. While equity as a percent of total capital has been growing in recent years, 2023 is at the time of writing the first time that the average equity contribution is meaningfully more than 50%[1,3].

Demand for quality. Economic headwinds and rising costs of capital have re-focused private equity buyers on industry-leading companies with strong cashflow and return on capital. Higher quality sectors like technology and healthcare that have proven more resilient are priorities for investment.

Valuation dip

Private equity valuations have fallen slightly from their previous highs[1]



Source: 1. Bank of America, S&P LCD Leveraged Buyout Quarterly Review & Pitchbook as of September 2023; figures based on United States leveraged buyouts. 2. Source: Pitchbook LCD. Includes all Total Sources (loans, secured debt, unsecured debt, sub debt, and equity) involved in leveraged buyouts. Reflects latest available data as of September 30, 2023. 3. Contributed equity includes common equity, preferred stock and rollover equity, as well as holding company debt and seller note proceeds downstreamed to operating company as common equity.

A good time to buy

We are optimistic deal activity will accelerate in the near-term and produce attractive returns for private equity buyers with access to capital. This suggests that now is an attractive time to invest in the asset class.

Motivated sellers. With little to no access to the IPO market and low buyside sponsor demand, the last two years have resulted in well-below-average exit deal volume. Aggregate exit volume in 2022 and 2021 of US$956 billion is less than 65% of the two-year average[1].

Access to debt. As rate increases slow, we have started to see signs of life in the syndicated loan market in the fourth quarter. Along with large inflows to private debt, this is contributing to a more favorable borrowing environment.

Increase in corporate divestitures. As large companies navigate economic uncertainty and evaluate strategic needs, we expect an increase in corporate carve-out activity. These deals are opportunities to acquire non-core divisions with proven business models and untapped value-creation potential.

Valuations. Volatility in the public equity markets and a higher rate environment will continue to put pressure on valuations. The leveraged loan index implies rates have more than doubled since December 2021, forcing buyers to price deals more conservatively to preserve returns[2].

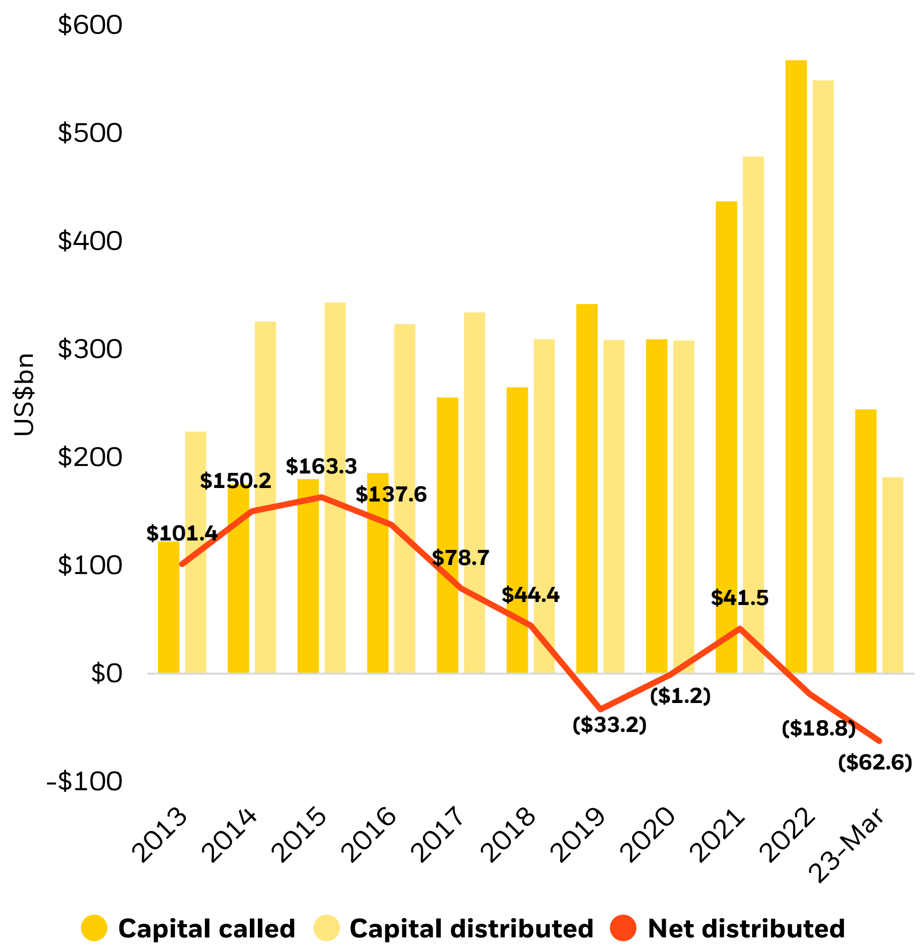
Creative structuring. Private equity owners are increasingly considering minority sales and structured capital raises to meet the need for realizations and contend with maturing capital structures in a deal-challenged environment. This presents attractive risk-return dynamics for buyers.

Growing need for secondaries. The shortage of exit opportunities has left an estimated 75% of private portfolios net-cash-flow negative[3]. As a result, limited partners are turning to the secondaries market for liquidity and to meet distribution requirements.

In the secondaries market, we're seeing a continued oversupply of opportunities driving further discounts. Specifically, we see attractive valuations in the growing mid-sized secondaries market, which includes transactions that fall under the radar of larger managers, or are too big for some of the smaller pools of capital to invest in.

Demand for liquidity

Current trends create favorable buying conditions, notably in secondaries[4]



Source: 1. Deallogic, data as of October 31, 2023. 2. LCD News and Bloomberg, data as of October 27, 2023. 3. PJT Partners - Secondary Investor Roadmap Series, July 2023. 4. Preqin, data as of March 31, 2023.

Mega force: Artificial intelligence

The impact of artificial intelligence may begin in technology, initially separating companies with an AI strategy from those without one, but we believe this will be a horizontal force with wide-reaching impact.

AI and its use cases are regular topics in the conversations we have with boards and management teams of portfolio companies. Many view it as an efficiency booster, while others are using AI to transform their business models entirely.

Conversational and generative AI applications, such as ChatGPT, are increasingly integrated into mission-critical workflows for companies. As a result, we see significant near- and medium-term investment opportunity in companies whose products and services can easily and effectively employ AI applications.

Expanding the opportunity set

AI continues to be an opportunity for investment in disruptor companies, as traditional venture and growth investing would suggest. But generative AI also has the potential to shift the balance of power back to incumbents. We have already seen it in software, where AI investment by industry leaders has left many startups with steeper catch-up curves.

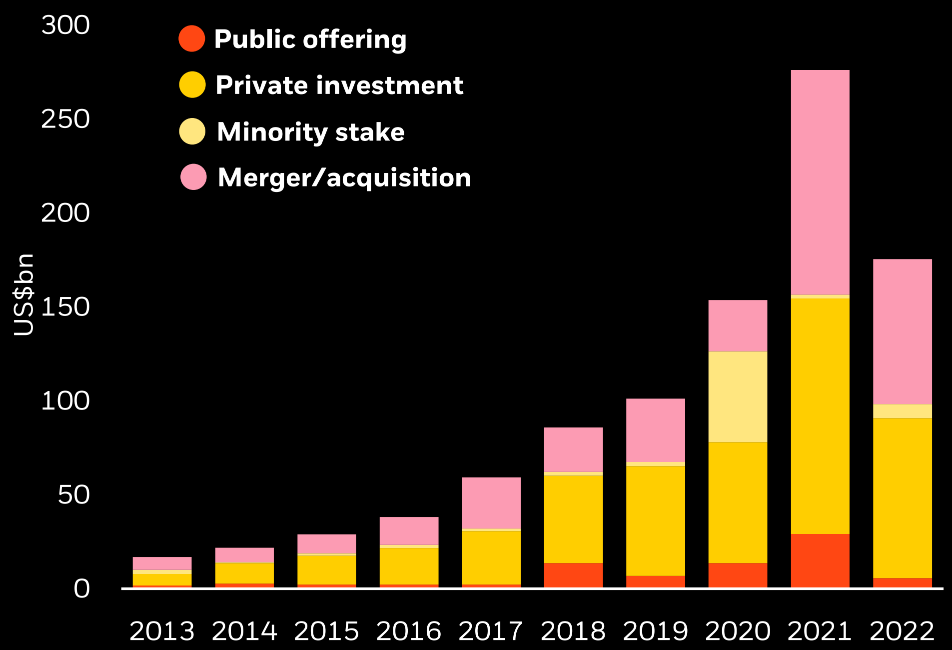
AI applications are also emerging in our investments in healthcare, business services, and consumer, particularly as we see more consumer engagement with generative AI products. It also has potential for industrials with mission-critical services. Across sectors, AI has the power to enlarge the investment opportunity set.

Hype warning

Given the intense media attention around AI, more businesses than ever are advertising themselves as AI-powered. The technology and its applications are new and evolving and require deeper diligence to verify those claims. When researching a company's AI solutions, it makes sense to explore what potential barriers to entry related to AI their competitors might face.

New players

After years of being dominated by private equity investment, AI is seeing broader attention and activity from other investors



Source: NetBase Quid via AI Index Report, 2023.

AI and the investment process

The role of AI in the investment process is rapidly evolving, as firms continue to explore where and how it can deliver value and efficiency, while minimizing risk for their businesses and clients. At BlackRock, we currently employ AI and large-language models to develop predictive, not reactive, approaches to deal flow.

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Real estate

Value in volatility

The window of opportunity is opening up for real estate investors.

Globally, valuations are still adjusting down from their 2022 peaks, as a result of higher inflation, interest rates and volatility. This dislocated environment allows investors to purchase high-quality assets at attractive prices, and often below replacement cost. And bid-ask spreads are starting to narrow as investors command higher risk premiums across the board.

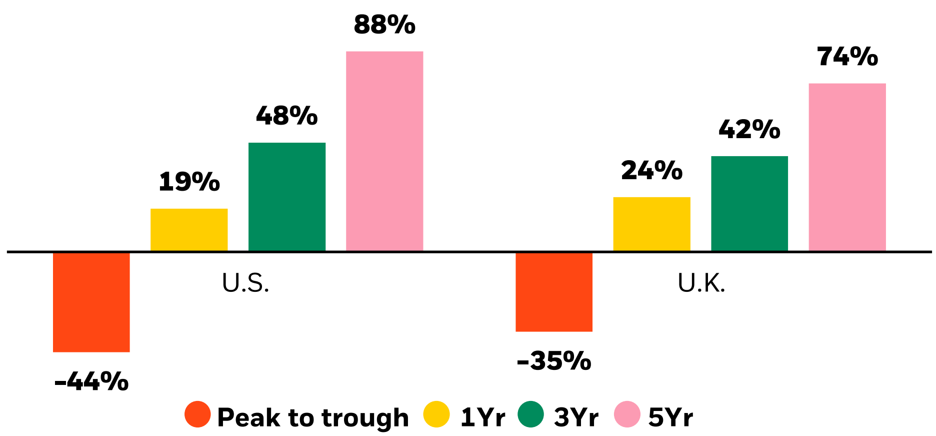
Historically, the real estate asset class tends to perform well after periods of dislocation. And we believe this environment of repricing amid steady market fundamentals represents a great opportunity. There are, however, strong headwinds. Transaction volume globally is down 57% year-over-year[1], largely due to the higher cost of capital. In the near term, limited financing availability will likely contribute to an environment that's very different from the low-rate world that followed the global financial crisis.

As banks continue to adapt to the changing regime, the restrictive financing environment should continue. This creates an opportunity for non-bank lenders, such as insurance companies and debt funds, to step in – creating varied capital availability by sector and market. Historically, a less-liquid environment favors investors who rely on little or no leverage.

For the next few years, wide dispersion in performance across sectors, markets, and asset quality will create opportunities to deliver alpha. Dispersion has defined the asset class since mid-2022, when interest rates started to affect the private markets, and will likely be a major investment theme in 2024. Going forward, we believe that asset selection is key, though location remains critical. And investors looking to deploy dry powder should consider higher-quality properties, which have tended to outperform during the early stages of past real estate market recoveries.

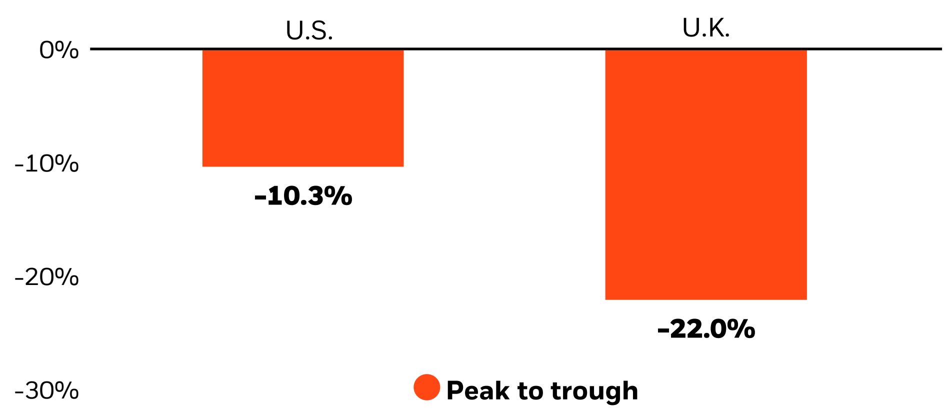
Opportunities in uncertain times

Global real estate returns during and in the years after the GFC[2]



Repricing in action

Recent fluctuations offer potential opportunities for investors[3]



Source: 1. MSCI, as of June 30, 2023 2. MSCI U.K. Quarterly Property Index, NCREIF Index, peak to trough GFC: 1Q2008-1Q2010, 1Q2010 starting for cumulative returns. MSCI, PMA, NCREIF and BlackRock, 3. U.K. data is from the MSCI U.K. Property Monthly Index as of September 2023. U.S. data is from The NCREIF Property Index as of June 30, 2023. **The figures relate to past performance. Past performance is not a reliable indicator of current of future results.**

Finding pockets of promise

Income growth and yield will be more important for real estate investors in the dislocated market we see emerging. That places a premium on cash-flow durability and rent pricing power.

There are areas that investors should monitor closely – for example, we have started to see excess supply in some high-growth apartment markets in the U.S., putting fundamentals for these areas in question.

More broadly, supply should be less of a risk over the medium term. Developers are facing higher costs of capital in both the equity and debt markets, which could slow down new development dramatically. Meanwhile, we expect new logistics supply to remain limited in some markets, such as leading cities in Australia and New Zealand, given geographic layout and land zoning.

The Asia-Pacific region provides a good example of the degree to which higher interest rates are weighing down the sales market. Among its neighbors, Japan is an outlier, given its relatively low interest rates. As a result, including land deals, real estate transaction volume in Japan is only down 9% year over year, compared with a 30%[1] decline for the whole APAC region.

Even amid slow capital markets, there are trends on the ground that support several property types. Industrial and logistics properties continue to be attractive across regions. In the U.S., Europe and some APAC markets, residential also offers strong potential for growth. And necessity retail in the U.S. is also screening well because of its attractive entry points and low supply.

In addition to the cyclical opportunity resulting from corrected valuations, we see the mega forces driving dispersion in performance, given trends including demographic shifts, the rewiring of supply chains, and the transition to a low-carbon economy.

Positioning for the future

Sectors and regions poised for outperformance

United States

- Apartments in key suburban locations
- Necessity retail close to metropolitan areas
- Logistics hubs near major cities

Europe

- Industrial and logistics facilities that benefit from e-commerce and nearshoring
- Residential and office-to-residential conversion
- Life sciences facilities in university and knowledge centers

Asia-Pacific

- Last-mile logistics in supply-constrained locations
- Living and hospitality sectors
- Niche sectors, such as childcare facilities

Source: 1. MSCI, as of June 30, 2023.

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Mega force: Demographics

Two giant generational groups are moving to new phases of life, driving real estate trends[1]

Millennials enter peak earning and consumption

Between now and 2040, the 35-54 age cohort will grow:

- ↑22% Australia
- ↑12% U.S.
- ↑11% Sweden

Driving growth in

- Suburban housing
- Single-family rentals

- Childcare centers
- Retail parks

- Industrial and last-mile logistics

Baby boomers retire

Between now and 2040, the 65+ age cohort will grow:

- ↑72% South Korea
- ↑42% Australia
- ↑28% U.S. and Europe

Driving growth in

- Destination retail
- Senior housing

- Medical office
- Hospitality

The aging of two enormous generational cohorts – Millennials and Baby Boomers – is having profound effects on the global real estate market.

As the world's 1.8 billion Millennials[1] form families, there will be more demand for larger-format apartment units and single-family, suburban houses across the globe. One major market shift for this generation is that homeownership is relatively unaffordable globally. This has made renting an increasingly attractive option, and will likely be a tailwind for the residential rental sector.

Family formation years also tend to be a period of high consumption and income growth. As Millennials enter this phase, they will increase demand for necessity retail in high-traffic areas. They will also drive growth for industrial properties as they spend increasing amounts through e-commerce.

Millennials also stand to bolster niche sectors such as childcare centers, especially when structured as triple-net leases to mitigate inflation risks for investors and operators.

At the same time, the aging of the world's Baby Boomers as a "Silver Wave" will create significantly higher demand for certain sectors. Retirees enjoy travel, boosting the appeal of destination retail and hospitality properties. As they age, they'll also increase the global need for medical office space.

Certain multi-family or other age-restricted housing communities can also be attractive. To harness this mega force successfully, investors need an acute understanding of the particular social, economic and cultural trends in specific regions, countries and micro-locations.

Source: 1. Oxford Economics and BlackRock, as of September 2023. **There is no guarantee that any forecasts made will come to pass.**

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