HSBC Asset Management

Is Geography History? Three Challenges to Urbanization and Real Estate Investment

August 2024

For professional clients only.
This is a marketing communication.

Key takeaways:

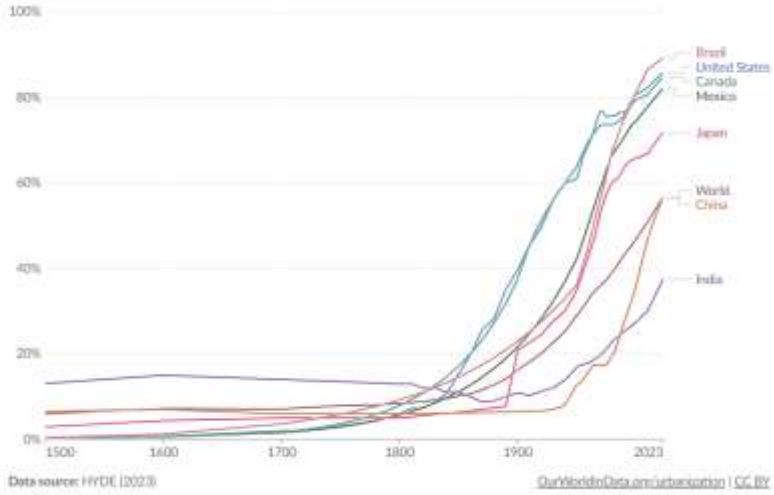
- Urbanization has accelerated over the last two hundred years and is expected to continue. Around 90% of the world's population is expected to be urban by 2050, up from 16% in 1900 and around 55% today.
- The agglomeration effects associated with the clustering of business and services, together with the economies of scale from urbanization, have generated increased wealth per capita. Real estate investments have generally benefited from these trends.
- But cities face three challenges, which could negatively impact property values:
    - demographic trends (particularly ageing and declining populations);
    - the impact of technological advancements, such as remote working and ecommerce; and
    - the need to live sustainably in the face of the human-induced climate change.
- We believe these challenges neither weaken the long-established trend towards urbanization, nor undermine the potential to secure attractive returns from real estate. But we envisage increasing polarity between those sectors and geographies that perform well, and those that are at risk and are likely to underperform.
- Importantly, real estate in urban areas – a major source of greenhouse gas emissions – has the potential to offer solutions through more sustainable building practices and lower emissions per capita that are associated with well-planned urban areas.
- The gap between real estate winners and losers is expected to widen. Investment strategies and asset selection should incorporate the expected impact of these changes within a robust pricing model.

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Urbanization: a key driver behind real asset returns

Urbanization, defined as the increase in the proportion of people living in towns and cities, has accelerated over the last two hundred years or so as people moved from rural to urban areas. In 1800, it was estimated that around 8% of the world's population lived in towns and cities. By 1900, this proportion had doubled to 16%. Today, over 55% of the world's population live in urban areas, with the proportion in some countries exceeding 80%. The United Nations[1] suggest that by 2050, around 90% of the world's population will be urban. The following chart shows trends for selected countries.

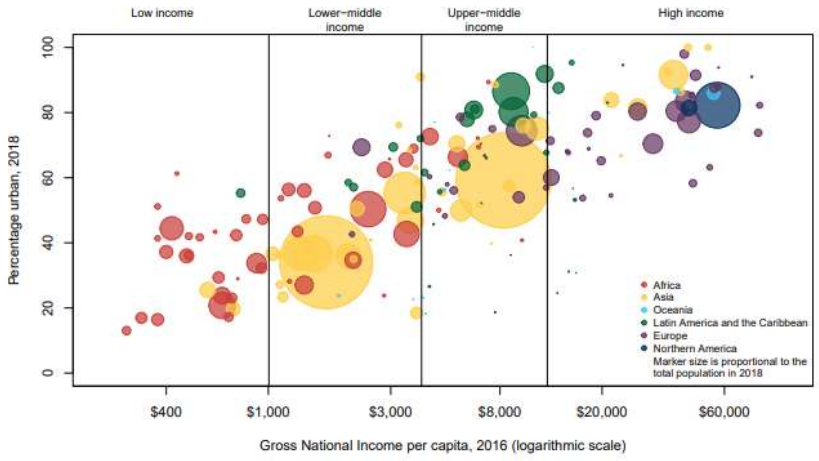
Figure 1: Share of the population living in urbanized areas, 1500 to 2023



Goldewijk et al (2010) Long-term dynamic modeling of global population and built-up area in a spatially explicit way: HYDE 3.1 https://journals.sagepub.com/doi/10.1177/0959683609356587
https://ourworldindata.org/urbanization#urbanization-over-the-past-500-years

The process of urbanization is complex, involving significant social, economic and political forces. The pace and pattern of urbanization varies between countries and by income groups within countries. Despite such variations, the increase in urban populations is generally seen as being positive for economic growth and poverty reduction. Most high-income countries exhibit relatively high levels of urbanization as the chart below shows.

Figure 2: Percentage of population living in urban areas by income group and country, 2018.



Source: United Nations, Department of Economic and Social Affairs, Population Division (2018) World Urbanization Prospects

Urban areas develop due, in part, to the benefits of agglomeration that arise from the clustering of businesses, services, education provision, and leisure facilities. Towns and cities generally comprise a younger, more educated population. Agglomeration effects and economies of scale create a positive relationship between urbanization and

[1] United Nations, Department of Economic and Social Affairs, Population Division (2019). World Urbanization Prospects 2018: Highlights (ST/ESA/SER.A/421)

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Gross National Income per capita, illustrated above. That said, challenges exist to ensure that the positive aspects of urbanization are shared in a sustainable and equitable way.

As more people live and work in urban areas and income per capita rises, the price of real estate also generally increases. The impact varies depending on factors like the responsiveness of supply to changes in demand but, overall, urbanization is seen as a positive force behind real asset performance. And geographical proximity is at the heart of agglomeration economies and urbanization.

However cities and, therefore, urban real estate face three significant challenges:

- Demographic trends, notably the declining fertility rate and ageing population in many developed economies;
- Technological developments, including increased hybrid working seen in many countries, which accelerated post Covid-19; and
- Sustainability and resilience to the impact of climate change.

This report explores each of the above and seeks to answer the following questions:

1. Do these trends threaten the process of urbanization and, therefore, real asset values? Put another way, do they undermine the importance of geographical proximity?
2. Can we identify cities and sectors that are likely to respond well or be vulnerable to these trends?

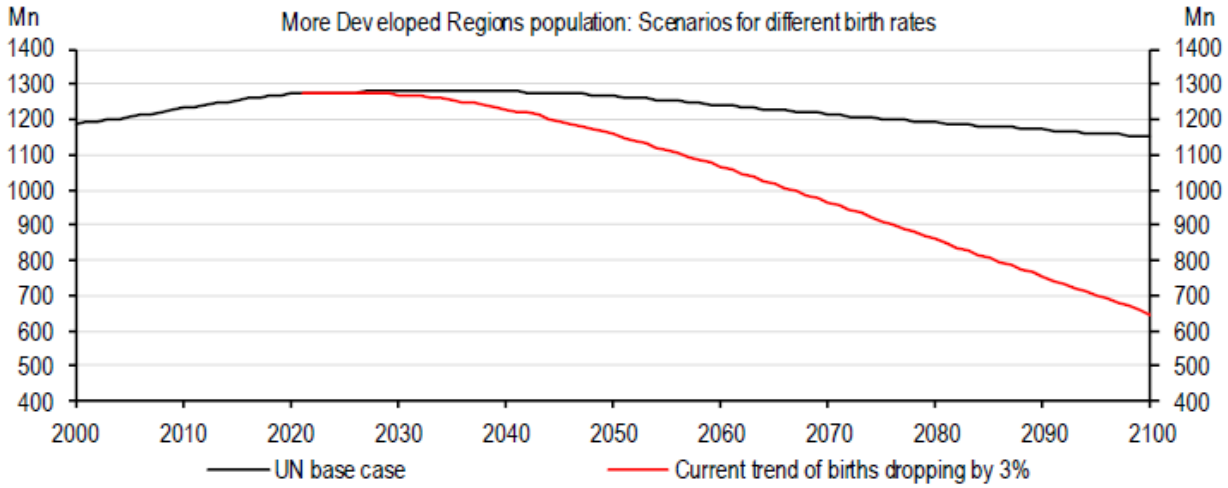
Demographics

The HSBC Global Research team has been monitoring global demographics for several years, drawing on the range of data and studies from individual countries and organisations such as the United Nations and OECD. A recent report flagged the following:

> "Back in 2022, we suggested that if nothing changes, the world's population could be on course to halve by the end of this century. Birth rates had been dropping by 3% per year in many economies and that trend was showing no signs of stopping despite policymakers trying to stem the tide.
>
> However, the data for 2023 suggest that things have gotten worse. Much worse. The aftermath of the COVID-19 pandemic was expected to see a rebound in birth rates across the world – but the opposite is happening."[2]

This research suggested that if the 3% annual drop in birth rates continues, the population in the developed world could roughly halve by the end of the century.

Figure 3: A sharp drop-in birth rates could be a seismic challenge in the developed world



Source: HSBC Global Research estimates based on current trend, UN Population Division

[2] HSBC Global Research, "The baby bust intensifies: how bad could it get?", 21 January 2024

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Key drivers of the declining birth rates, highlighted in a previous HSBC Global Research[3] report, include:

- Health and healthcare changes, including wider access to contraceptives and impacts of obesity, pollution, and dietary habits on fertility rates
- Improved education and increased female workforce participation, leading to later motherhood and smaller families.
- Elevated house prices and affordability challenges, leading to couples postponing children because of the time needed to buy a family home. For example, a study[4] suggested that a 10 per cent increase in house prices in England between 1996 and 2014 led to a 2.8% increase in births for owner occupiers and a 4.9% decrease in births among renters, resulting in a 1.3% fall in birth rates overall. The results imply that local residential property market conditions can potentially impact the age structure and population dynamics of different countries.
- The wider costs of raising a family.
- Lasting impacts of previous population control policies. For example, China's one-child policy has caused deep-rooted changes in cultural attitudes.

Implications

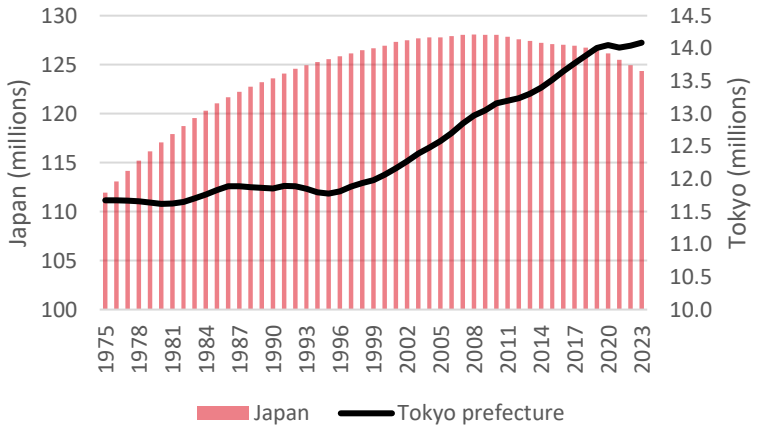
Demography has a huge impact on real estate demand. Ageing populations, changing birth rates, and migration significantly influence the demand for different property types in different locations.

A falling birth rate might be expected to impact negatively real estate markets overall, reducing demand for property, with negative consequences for real estate prices. However, not all property types or locations are affected equally, and a fall in a country's overall population does not necessarily mean its major cities will decline.

Japan provides a good case study of an ageing population and changes in where people live. Japan was the first non-western country to experience a decline in fertility after the second world war. Between 1947 and 1957 its fertility plummeted from 4.5 to 2.0 children per woman at the same time as the mortality rate also declined sharply. As a result of these changes, society has significantly aged such that the proportion of the population aged over 65 has risen from 4.9% in 1950 to 29.5% by 2020.[5]

From 1950 to 2020, Japan's population increased by 53%, well below the world's 207% increase. However, Tokyo's population rose by 232% over the same period. Even more recently, as Japan's population has been in decline since 2010, Tokyo's population has continued to grow. Thus, the proportion of Japan's population living in Tokyo rose from 14% to 30%.

Figure 4: Japan and Tokyo populations



Source: United Nations, Department of Economic and Social Affairs, Population Division (2018)

[3] HSBC Global Research, "The big baby bust: fewer babies, slower growth", 22 August 2022
[4] Aksoy CG "Short-term effects of house prices on birth rates", EBRD Working Paper No. 192, September 2016
[5] See Ogawa, N and Matsukura, R, paper downloaded from https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/unpd_egm_200508_09_ogawa.pdf

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

The experience from Japan is that, despite an ageing and shrinking population, Tokyo has been able to capture a larger share of the overall population. This continues to support occupier fundamentals across property types including residential, retail, office and logistics property.

Ageing populations, particularly in developed markets with safety nets and significant housing equity, are driving up demand for a variety of residential subsectors such as senior housing. And ageing societies have more complex medical needs, from highly specialised lab space to healthcare facilities.

Therefore, whilst ageing (and declining) populations pose economic challenges, they also create opportunities in sectors such as life sciences and senior housing. For some locations and for certain property types, the implications are clearly positive. The implications for real asset investors include the following:

- Cities suited to an elderly population by offering appropriate residential property, healthcare, leisure, and cultural facilities, supported by accessible transportation networks, can be expected to thrive.
- Countries that have experienced robust house price appreciation and have high levels of owner occupation could be expected to see inward migration into cities that cater for elderly populations, supported by the wealth created through the housing market.
- Property sectors that are likely to benefit include senior housing, healthcare and well-located mixed-use developments incorporating residential, retail, and leisure facilities. Cities characterised by a high dependency ratio may experience positive price appreciation for well-located residential property that suit workers with caring roles for the very young or elderly.
- By contrast, towns and smaller cities that do not provide a suitable environment for an ageing society could well experience depopulation and long-term decline. The gap between winners and losers from demographic trends can be expected to widen.

Technology

Technology has always impacted how people live, businesses operate and, therefore, how real estate is used. The COVID-19 pandemic in recent years is, however, notable for at least two reasons. First, it had the effect of accelerating long-standing trends, forcing change over a much shorter timescale than would have otherwise occurred. Second, its nature caused interactive effects from one sector to another. For example, increased remote working led to changes in demand for residential property, both by location and by the attributes sought by purchasers, such as space suited to homeworking. The table below illustrates the impact from a range of key technologies on the main real estate sectors.

Technology	Offices	Retail	Industrial	Apartments	Data Centres	Self-Storage
Remote Working	Reduced demand as more employees work from home.	Potential decrease in demand for physical stores as e-commerce rises.	Increased demand e-commerce and associated warehousing space.	Increased demand as people seek more living space for home offices.	Increased demand due to higher reliance on digital infrastructure for remote work.	Increased demand for storage as households declutter to make space for home office.
Artificial Intelligence (LLM)	Net reduction in demand certain white-collar roles replaced.	Enhanced customer experience may support consumer demand for tech-integrated stores.	Increased demand for AI-powered logistics and manufacturing, to reduce inefficiencies.	Limited impact	Increased demand to support AI processing and data storage.	Enhanced operating model through AI-driven customer service.
Autonomous Vehicles	Limited impact	Potential decrease in demand for retail centres with car parking.	Increased demand for automated logistics and distribution centers.	Potential increased demand for apartments in urban areas as less need for parking.	Increased demand to handle data from autonomous vehicles in edge facilities.	Limited impact
Robotics	Limited impact	Increased demand for stores with robotic customer service and inventory management.	Increased demand for warehouses with robotic automation.	Limited impact	Increased demand for data centers to support robotics operations and data processing.	Limited impact
Lifescience R&D	Increased demand for specialized office spaces and labs.	Limited impact	Limited impact	Limited impact	Increased demand to store and process large amounts of research data.	Limited impact

Source: HSBC Asset Management. For illustrative purposes only

But changes are complex and are vary significantly. The impact of working from home on office occupancy varies significantly by location for a range of economic, physical, legal and cultural reasons. For instance, occupancy rates are far lower in San Francisco and other West coast cities, where the dominant tech sector quickly embraced remote work, compared with other US cities with more diversified economic bases, along with different working cultures and experiences during Covid. Asian cities have been less impacted by remote working due to cultural and social factors, such as a stronger office culture and smaller apartments.

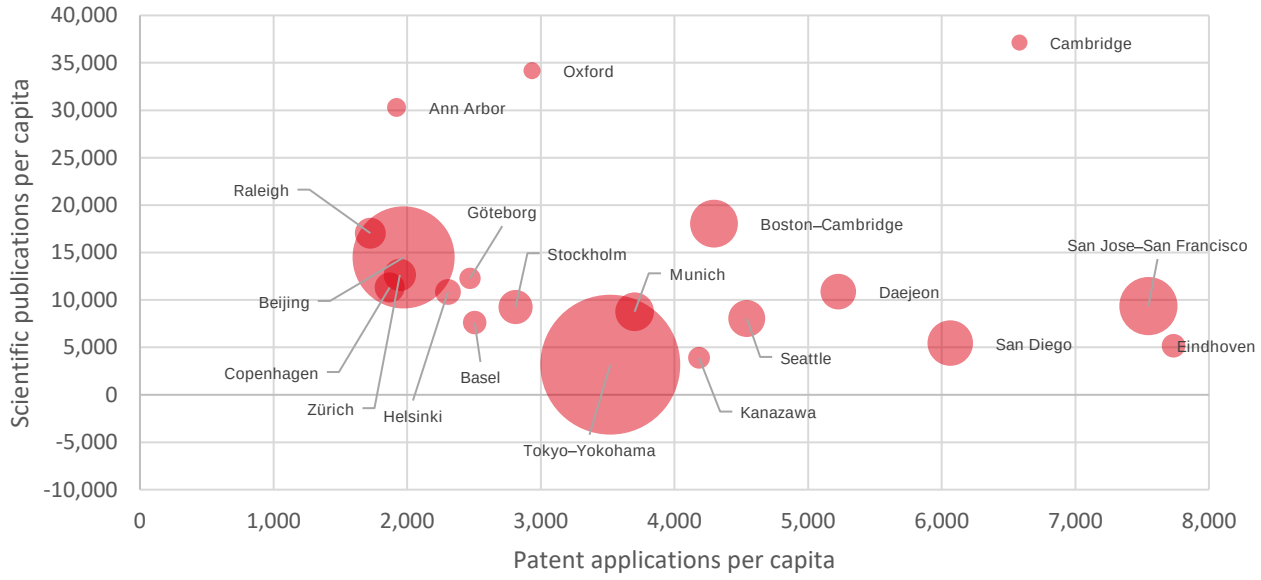
Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Implications

The implications of technology on real estate are significant. Historically, new technologies have supported the growth of industry and jobs, typically higher up the value chain. However, given the speed and complexity of technological development today, this trend is no longer guaranteed. One way of summarising the potential impact is to distinguish between creation of new technology and the effects of its widespread adoption.

Real estate plays a pivotal role in the creation of new technology. Companies involved in research and development tend to cluster in specific locations, particularly near high-ranking research universities. In addition to providing these innovative companies with suitable office/lab space, adjacent sectors such as residential, logistics, and retail also benefit as growing workforces need places to live, shop and be entertained. According to the 2023 global innovation index, the top 10 most intensive science and technology clusters are listed below, based on patents filed and academic citations per capita.

Figure 5: Patent applications and scientific applications per capita



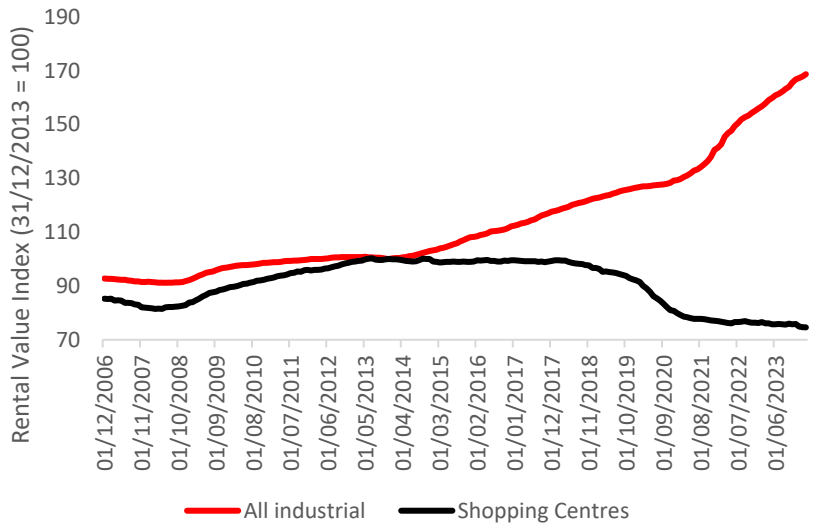
Source: World Intellectual Property Organization, Global Innovation Index 2023. Size of bubble denotes population size.

These clusters, as the source of innovations linked to emerging and growing fields of research such as AI and life sciences, are likely to benefit more than the wider economy and with it experience greater demand pressures on all types of real estate, driving up rents and capital values.

Certain real estate sectors clearly benefit from the adoption and use of technology whereas others will suffer. An obvious example would be the contrasting performance of physical shopping centres and warehouses. As online retailing has increased, physical retail has declined. For instance, in the UK, online retail sales account for 26% of total sales by volume. The chart below shows rental values in UK shopping centres and industrial sectors (predominantly warehousing). Between the end of 2013 and March 2024, UK shopping centre rental values fell by 25%, while industrial rental values rose by 68%. This disparity can largely be attributed to technological changes that have significantly altered UK retail habits.

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Figure 6: UK shopping centre and industrial rental values, indexed.



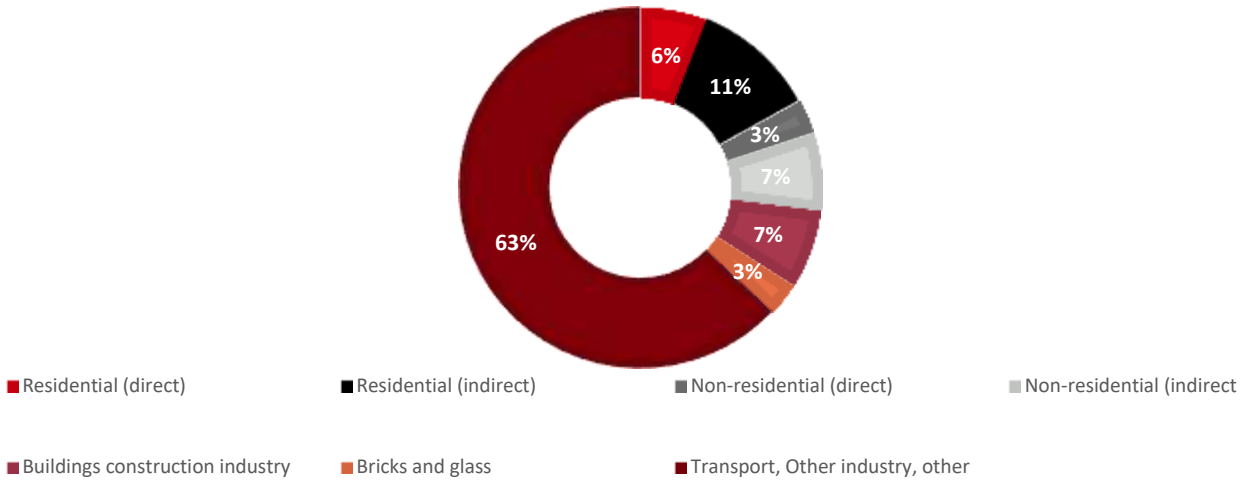
Source: MSCI UK Monthly Index, as of end Q1 2024

The pace of change is accelerating. Again, we can expect a widening gap between those real asset investments that are likely to benefit from and support technological advances, and those that will suffer from them.

Sustainability

Energy demand from residential and non-residential buildings account for some 20% of total energy consumption; the buildings construction industry adds a further 4% points. The built environment contributes 37% of total energy-related carbon emissions[6], making property a major contributor to climate change. As urbanization increases, especially in the developing world, so does the demand for floorspace, energy, and resulting carbon emissions.

Figure 7: Emissions by sector, 2022



Source: United Nations Environment Programme (2024). Global Status Report for Buildings and Construction: Beyond foundations: https://doi.org/10.59117/20.500.11822/45095
Note: Buildings construction industry refers to materials used in construction, including concrete, steel and aluminium. Other materials shown separately

[6] United Nations Environment Programme (2023). Building Materials and the Climate: Constructing a New Future.

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

UN Sustainable Development Goal 11 aims to make cities inclusive, safe, resilient, and sustainable. Acknowledging that cities represent the future of global living, the UN recognises more needs to be done to meet the demands of rapid urbanization. In 2022, only half the urban population had convenient access to public transport. Many cities face issues like urban sprawl, air pollution, and limited public spaces[7].

At the same time, the world is already experiencing ever-more extreme weather events. Climate change is increasing water-related risks, including flooding, droughts, and water pollution. Between 1980 and 2021, over 70% of disasters in OECD countries were water-related[8].

A complex and fast-evolving set of laws, regulations and targets are developing in response to the climate emergency driven by intergovernmental organisations (such as the UN), national, regional and local governments, regulators and industry bodies.

Implications

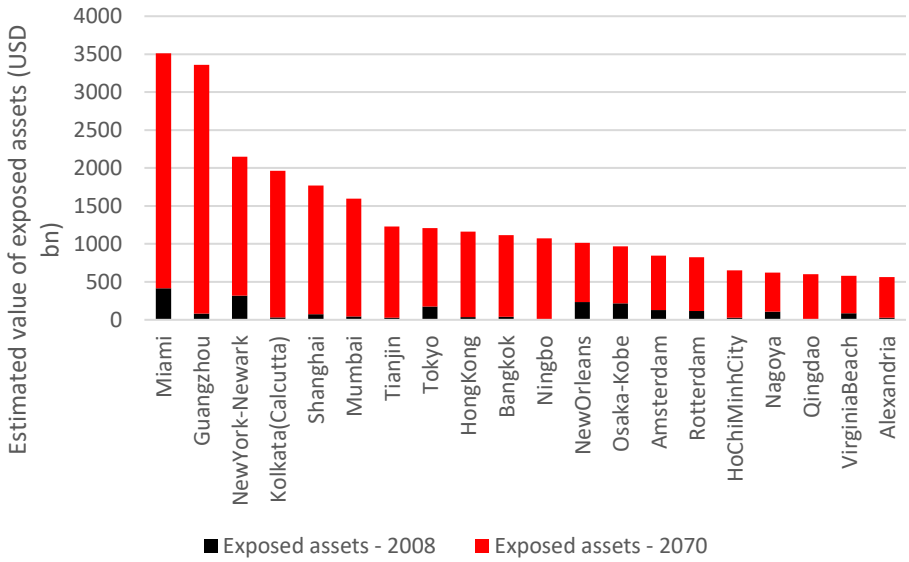
The implications of climate change for real asset investments are huge. Climate change can impair real asset performance through various events, including:

- *Flooding*. Rising sea levels and more frequent torrential rains affect both coastal and inland urban areas.
- *Droughts*. Limited access to drinking water and sanitation.
- *Heatwaves*. Intensifying heatwaves and wildfires can damage properties, even those that might be considered resilient to high temperatures (e.g, those with air conditioning).
- *Extreme wind*. Damage from severe wind events.

As extreme events become more common, ageing existing transport and infrastructure facilities, including sewerage systems and other utilities, are facing enormous challenges particularly in cities facing growth pressures.

Avoiding exposure to cities most vulnerable to the impact of climate change – or ensuring due diligence to minimise its consequences – is therefore crucial for a responsible real assets strategy. Significant efforts have been made to identify cities at the highest risk, such as the OECD's identification of port cities exposed to the effects of climate change based on work undertaken in 2008 with predictions for asset exposure in 2070.

Figure 8: Top 20 world port cities ranked by asset exposure for current conditions and future socio-economic situation.



Source: Nicholls RJ et. Al. (2008) Ranking of port cities with high exposure and vulnerability to climate extremes, OECD Working Paper No. 1

[7] United Nations (2023) The Sustainable Development Goals Report, Special Edition, UN

[8] Kaspersma, Judith, Alex Mauroner, Pan Ei Ei Phyoe, 2023. Addressing Water-Related Disasters in an Era of Multiple Crises: Lessons from Global Responses to COVID and Climate Change. HELP report based on data from the International Disasters Database, Centre for Research on the Epidemiology of Disasters

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

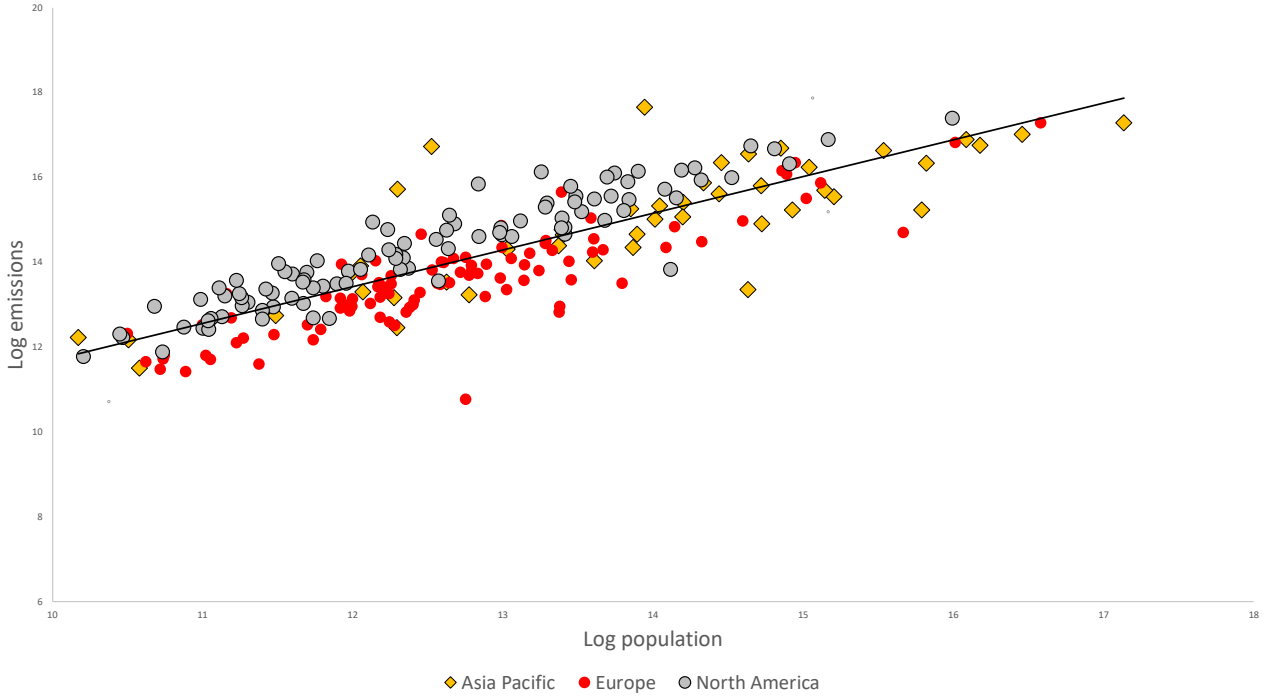
As noted above, real assets can also be a source of greenhouse gas emissions during construction, operation and from embodied carbon during the entire lifecycle of a building. Efforts are being made in many parts of the world to encourage occupiers, developers, and investors to favour more sustainable buildings. There are, however, significant variations in national (and, sometimes, federal) legislation aimed at making buildings more sustainable, as well as a myriad of national and global 'green building' certifications.

Real estate can therefore also form part of the solution by limiting harmful emissions and providing efficiencies in terms of net GHG emissions per capita. It is widely known that the effects of agglomeration lead to a positive relationship between the degree of urbanization and income and wealth per capita. What is less well understood is that infrastructure-related facilities (such as transport and supply networks, roads, water and so on) also exhibit economies of scale. This means that larger cities require less provision of such facilities per capita than smaller cities. Taking the prevalence of petrol stations as an example, West[9] suggests that a doubling in population size leads to systematic savings of around 15 per cent per capita in the number of petrol stations required. In other words, with each doubling of population size, a city needs roughly 85 per cent more petrol stations and not twice as many, which might have been expected.

The effective saving becomes meaningful when examining the requirements of very large cities: to service one hundred times as many people requires an increase of only around fifty times as many petrol stations per capita. His work, and that of others such as Bettencourt[10], showed that these effects occur systematically across different forms of infrastructure and across different countries.

We extend this scaling effect by examining the population and emissions data from 239 cities globally as shown in the chart below. The analysis shows remarkably similar economies of scale as those presented in the academic literature when applied to infrastructure provision (roughly a 13.5 per cent saving for each doubling in population size, slightly lower than 15 per cent reported previously). In other words, the emissions per person of a city of around 5 million people is just over 50 per cent of a city of 50 thousand people. And if future urban development is undertaken in a more sustainable way – through more environmentally-friendly building practices and greener transportation policies, for example – it is reasonable to expect even more dramatic emission reductions per person.

Figure 9: Total emissions and population by city



Source: *Emission intensity data from Carbon Disclosure Project (2023)* The trend line shows the line of best fit across all observations, with a slope of 0.866 (significant at the 1% level) and an R-squared of 0.72

[9] West, G (2018) "Scale: The Universal Laws of Life and Death in Organisms, Cities and Companies", Orion
[10] Bettencourt, LMA (2013) The Origins of Scaling in Cities, *Science* 340, 1438-1441

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

This analysis, which was based on 239 cities globally, showed wide geographic differences, however. The emissions per head of population were generally higher in North America due to a bigger scaling factor (of around 1) compared with both Europe and Asia Pacific. The benefits of lower emissions per person associated with larger cities were far therefore less evident in North America than elsewhere.

Although critically important, sustainability is far more than about providing accommodation that is resilient to the effects of climate change. Indeed, the UN's Sustainable Development Goal (SDG) 11, "Sustainable Cities and Communities"[11], incorporates strong social dimensions including access to safe, affordable housing and basic services, and protecting cultural and natural heritage. Real estate can therefore play an important role in improving both environmental and social goals.

Conclusions: winners and losers

The process of urbanization has occurred over centuries and across all main geographies. United Nations estimates suggest this will continue, with around 90% of the world's population expected to live in urban areas by 2050. Real asset values – including both property and infrastructure – have benefitted from urbanization as agglomerations create efficiencies and increase wealth per capita.

However, it is legitimate to question whether demographic trends (such as an ageing population), technological advancements, and the need for sustainable living threaten the urbanization and the value of real assets. Put another way, do these forces weaken the benefits of urbanization and render geographical proximity history?

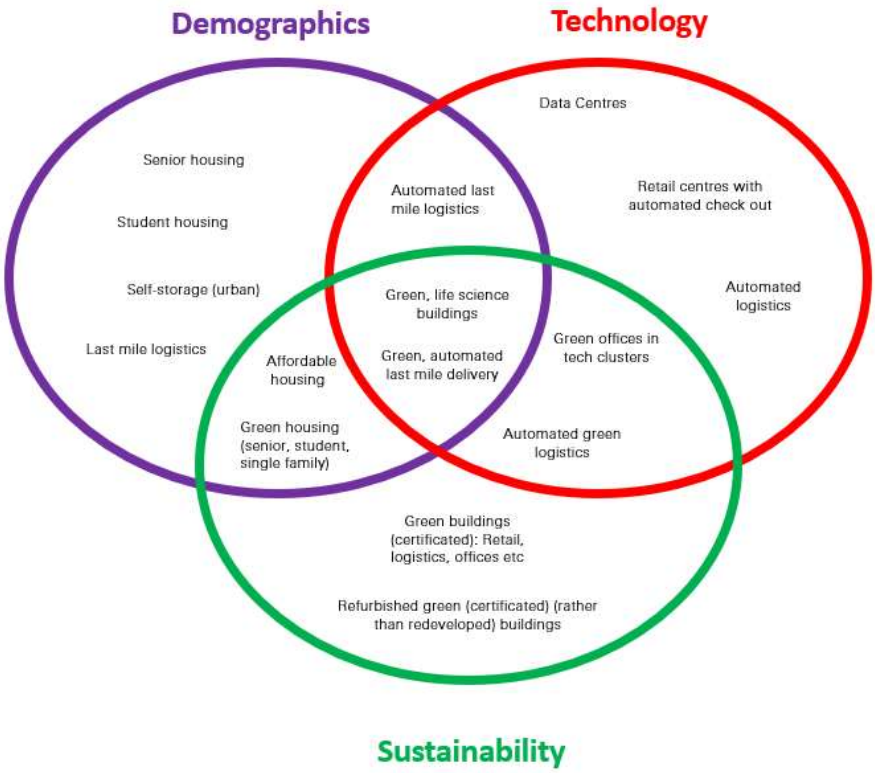
We believe these three challenges neither weaken the trend towards urbanization nor undermine opportunities for attractive returns on real asset investments. This view comes with important caveats, however:

- Demographic changes, technological advances and the imperative to live more sustainably will significantly impact real asset investments, creating both risks and opportunities. For example, ageing, inefficient offices in poor locations with limited opportunities for profitable alternative uses can be expected to suffer from weak tenant and investor demand. Similarly, towns and smaller cities that do not provide a suitable environment for an ageing society could well experience depopulation and long-term decline. By contrast, well-located, environmentally friendly buildings, whether offices, residential or life science investments, can be expected to benefit from stronger demand as occupiers and investors factor in more attractive assumptions for future growth, depreciation and risk.
- Similarly, cities that proactively address climate change (such as limiting air pollution and providing flood defences) and that offer accessible mass transport are likely to outperform those that do not address global warming or provide efficient public transport.
- The pace of change is likely to accelerate, with the impacts of the three trends, both positive and negative, being felt over shorter time periods. The gap between real assets that benefit from these trends and those that will suffer is expected to widen. Investment strategies and individual asset selection should incorporate the expected impact of these changes.
- A sound approach to pricing and evaluating prospective returns is essential. Identifying attractive sectors or geographies is not enough. Careful assessment to determine whether prevailing market prices adequately reflect the outlook for future rents, depreciation and capital expenditure is required to ensure prospective returns are satisfactory. Without this, investors risk paying too much, resulting in disappointing returns. Similarly, opportunities to improve sub-standard buildings through refurbishment or comprehensive redevelopment should be supported by robust analysis and realistic assumptions.
- Some sectors and geographies are likely to benefit from all three trends. For many others, investors should expect trade-offs: Data Centres are likely to benefit from technological trends (and, to some extent, demographic changes) but require huge energy consumption and are a growing source of greenhouse gas emissions. The diagram below seeks to illustrate the approximate positioning of different real estate sectors relative to the three trends outlined in this report.

[11] United Nations (2023) The Sustainable Development Goals Report, Special Edition, UN

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Figure 10: Real estate sectors and the three challenges



Source: HSBC Asset Management. For illustration only

Our processes (market research and investment strategies) have adapted to reflect the themes outlined in this report. Where the data allows, we have widened our research coverage, for example, adding several logistics markets, along with senior housing, self-storage, and data centres. Sustainability forms an important part of our decision-making process as we believe that assets with strong sustainability credentials are likely to perform better in the long run than those that fail to take account of such factors.

Any forecast, projection or target when provided is indicative only and is not guaranteed in any way. Past performance does not predict future returns.

Key Risks

Risk Considerations. There is no assurance that a portfolio will achieve its investment objective or will work under all market conditions. The value of investments may go down as well as up and you may not get back the amount originally invested. Portfolios may be subject to certain additional risks, which should be considered carefully along with their investment objectives and fees.

- Illiquidity: An investment in the strategy is a long term illiquid investment. By their nature, the Strategy's investments will not generally be exchange traded. These investments will be illiquid.
- Long-term Horizon: Investors should expect to be locked-in for the full term of the investment.
- Economic Conditions: The economic cycle and prevailing interest rates will impact the attractiveness of the underlying investments. Economic activity and sentiment also impacts the performance of underlying companies, and will have a direct bearing on the ability of companies to keep up with interest and principal repayments.
- Valuation: These investments may have no or a limited liquid market, and other investments including those in respect of loans and securities of private companies, may be based on estimates which cannot be marked to market until sale. The valuation of the underlying investments is therefore inherently opaque.
- Strategy Risk: Investments into this Strategy may, among other risks, be negatively affected by adverse regulatory developments or reform, credit risk and counterparty risk. The credit market bears idiosyncratic risks such as borrower fraud, borrower bankruptcy, prepayment risk, security enforceability risk, subordination risk and lender liability risk.
- **Investor's Capital At Risk:** Investors may lose the entirety of invested capital.
- General Real Estate Risk: an investment in real estate may be affected by various matters, including, but not limited to, vacancies following expiry or termination of leases or licenses leading to reduced occupancy rates, the property manager's ability to collect rents or license fees, competition for tenants, fluctuating local real estate conditions, changes in government regulations relating to land use and zoning, environmental, occupational and safety matters, existence of uninsured or uninsurable risk, natural disasters, acts of war or terrorism. Property markets can be cyclical.
- Third-Party Risk: governance of underlying assets remains the responsibility of third-party managers. Regular assessment is undertaken for third-party manager approval.
- Exchange Rate Risk: investing in assets denominated in a currency other than that of the investor's own currency perspective exposes the value of the investment to exchange rate fluctuations.
- Concentration Risk: funds with a narrow or concentrated investment strategy may experience higher risk and return fluctuations and lower liquidity than funds with a broader portfolio.
- Real Estate Risk: property can be difficult to buy and/or sell quickly and the Fund Manager of underlying investments may apply a deferral on redemption requests. The value of property is generally a matter of the valuer's opinion rather than fact.
- Derivative Risk: the value of derivative contracts is dependent upon the performance of an underlying asset. A small movement in the value of the underlying can cause a large movement in the value of the derivative. Unlike exchange traded derivatives, over-the-counter (OTC) derivatives have credit risk associated with the counterparty or institution facilitating the trade.
- Operational Risk: the main risks are related to systems and process failures. Investment processes are overseen by independent risk functions which are subject to independent audit and supervised by regulators.
- Leverage Risk: Where leverage is used, it will be subject to the risks normally associated with debt financing, including the risk that cash flows will be insufficient to meet required payments of principal and interest and the risk that indebtedness will not be able to be refinanced at all or on favourable terms.
- Credit Risk of Tenants: Adverse changes in the operation of a real estate asset, or the financial condition of any tenant, could have an adverse effect on the ability to collect rent payments and, accordingly, on the ability to make distributions to Investors
- Exit Risks: Investments are made with the assumption that an exit will be made through a sale. There is no guarantee that favourable market conditions will prevail when a sale is contemplated. The process of exiting from an investment may take longer than anticipated.
- Tenure Risk: An investment in real estate has a long investment period and is only suitable for investors who have a long term investment horizon.

Important Information

For Professional Clients and intermediaries within countries and territories set out below, and for Institutional Investors and Financial Advisors in the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. The performance figures contained in this document relate to past performance, which should not be seen as an indication of future returns. Future returns will depend, inter alia, on market conditions, investment manager's skill, risk level and fees. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Asset Management at the time of preparation and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. This document is not contractually binding nor are we required to provide this to you by any legislative provision.

All data from HSBC Asset Management unless otherwise specified. Any third-party information has been obtained from sources we believe to be reliable, but which we have not independently verified.

HSBC Asset Management is the brand name for the asset management business of HSBC Group, which includes the investment activities that may be provided through our local regulated entities. HSBC Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group). The above communication is distributed by the following entities:

- In Argentina by HSBC Global Asset Management Argentina S.A., Sociedad Gerente de Fondos Comunes de Inversión, Agente de administración de productos de inversión colectiva de FCI N°1;
- In Australia, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws;
- in Bermuda by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;

- in Chile: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- in Colombia: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- in Finland, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- in France, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- in Germany by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin (German clients) respective by the Austrian Financial Market Supervision FMA (Austrian clients);
- in Hong Kong by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission. This video/content has not be reviewed by the Securities and Futures Commission;
- in India by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- in Italy and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- in Malta by HSBC Global Asset Management (Malta) Limited which is regulated and licensed to conduct Investment Services by the Malta Financial Services Authority under the Investment Services Act;
- in Mexico by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- in the United Arab Emirates, Qatar, Bahrain & Kuwait by HSBC Global Asset Management MENA, a unit within HSBC Bank Middle East Limited, U.A.E Branch, PO Box 66 Dubai, UAE, regulated by the Central Bank of the U.A.E. and the Securities and Commodities Authority in the UAE under SCA license number 602004 for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority. HSBC Bank Middle East Limited is a member of the HSBC Group and HSBC Global Asset Management MENA are marketing the relevant product only in a sub-distributing capacity on a principal-to-principal basis. HSBC Global Asset Management MENA may not be licensed under the laws of the recipient's country of residence and therefore may not be subject to supervision of the local regulator in the recipient's country of residence. One of more of the products and services of the manufacturer may not have been approved by or registered with the local regulator and the assets may be booked outside of the recipient's country of residence.
- in Peru: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- in Singapore by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. The content in the document/video has not been reviewed by the Monetary Authority of Singapore;
- in Switzerland by HSBC Global Asset Management (Switzerland) AG. This document is intended for professional investor use only. For opting in and opting out according to FinSA, please refer to our website; if you wish to change your client categorization, please inform us. HSBC Global Asset Management (Switzerland) AG having its registered office at Gartenstrasse 26, PO Box, CH-8002 Zurich has a licence as an asset manager of collective investment schemes and as a representative of foreign collective investment schemes. Disputes regarding legal claims between the Client and HSBC Global Asset Management (Switzerland) AG can be settled by an ombudsman in mediation proceedings. HSBC Global Asset Management (Switzerland) AG is affiliated to the ombudsman FINOS having its registered address at Talstrasse 20, 8001 Zurich. There are general risks associated with financial instruments, please refer to the Swiss Banking Association ("SBA") Brochure "Risks Involved in Trading in Financial Instruments";

- in Taiwan by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- in the UK by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- and in the US by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.
- In Uruguay, operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Uruguayan inspections or regulations and are not covered by warranty of the Uruguayan state. Further information may be obtained about the state guarantee to deposits at your bank or on www.bcu.gub.uy.

NOT FDIC INSURED ◆ NO BANK GUARANTEE ◆ MAY LOSE VALUE

Copyright © HSBC Global Asset Management Limited 2024. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of HSBC Global Asset Management Limited.

1046-24; EXP 31.08.2025