Knight Frank Asia-Pacific

Asia-Pacific Outlook Report 2022

Optimism and Opportunities Ahead

Key Trends To Shape 2022

Back on Growth Trajectory as the World Transitions to Endemic Phase

Economies in the Asia-Pacific (APAC) are back in positive territory after shrinking by an average of 1.5% in 2020. The region is expected to grow by over 6% in 2021 to remain the world's fastest growing region, sustaining a trend that is expected to be maintained well into the decade.

Fig. 1 - Broadening Recovery in APAC

2022 Forecasted GDP Growth rates for APAC

>8%
India

6-7%
Malaysia, Philippines, Vietnam

5-6%
Cambodia, Indonesia, Chinese Mainland

4-5%
Australia, Thailand

3-4%
Japan, Singapore, South Korea, New Zealand, Taipei, Hong Kong SAR

Source: IMF WEO, S&P, Knight Frank Research

Economies that have been hampered by lockdowns in 2021 – particularly Southeast Asia's emerging markets, Australia and Japan – will likely exhibit above trend growth while the rest will revert to longer-term averages.

Supply constraints, power shortages, and increased policy intervention in the **Chinese Mainland**, already weighing on momentum, are expected to persist into 2022, with growth projected to slow dramatically from over 8% in 2021. The market is one to watch as the region's largest economy remains a huge source of demand.

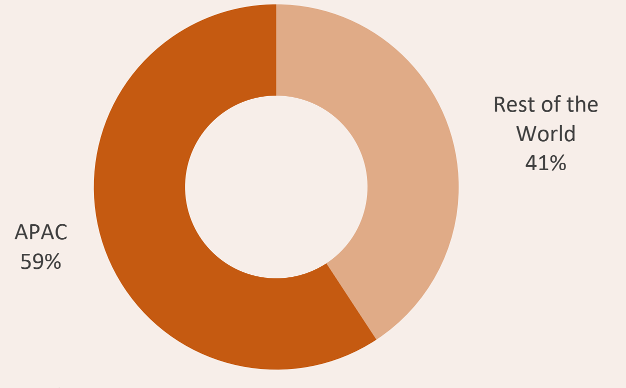
Structural Fundamentals Intact

While a resurgence in caseloads has crimped growth forecasts, reflecting the uncertainty caused by the fast-moving Delta variant, APAC's structural fundamentals have stayed resilient, underpinned by external trade.

Foreign Direct Investments (FDI) remain an important growth driver for the region and the revival of inflows to pre-pandemic trends is also crucial for the world's supply chain. The region continues to be an attractive investment destination, evidenced by the strength of FDI into APAC. Of the top 20 investment destinations globally, Asia-Pacific economies make up 8. This is because the Chinese Mainland remains the most attractive destination for FDI, accounting for 9% of the total FDI volume globally. Meanwhile, the Southeast Asia (SEA) region will also continue to benefit from the supply chain readjustments, attracting higher levels of FDI in years to come.

Fig. 2 - FDI inspires optimism for recovery beyond the pandemic

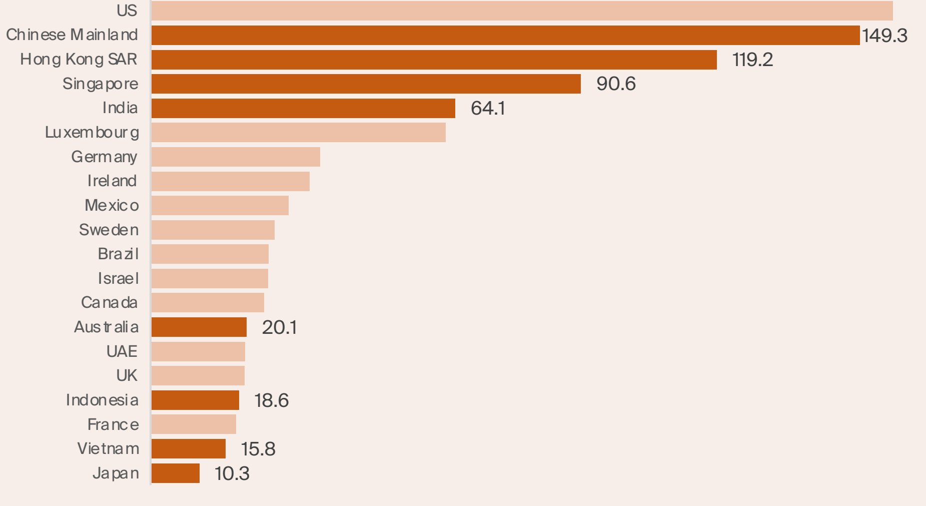
% regional FDI inflow of total global, 2020



Source: UNCTAD, Knight Frank Research

Fig. 3 - APAC destinations are top draws for FDI

FDI Inflows, market breakdown, US$bn, 2020



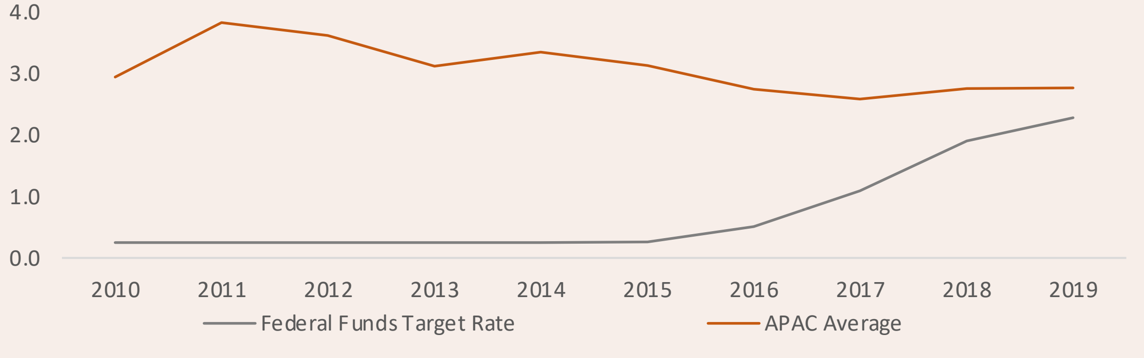
Source: UNCTAD, Knight Frank Research

Interest Rate Rises to Remain Benign for APAC

Inflationary pressures due to supply chain disruptions have compelled central banks in the West to respond. It is now almost certain that the Federal Reserve System (Fed) will roll back support late into the year and will look to hike rates in the second half of 2022. Historically, differing economic objectives have in the past driven divergence in monetary policy adjustments between the region and US. While several economies in the region – New Zealand, Singapore and South Korea – have moved to combat inflationary pressure, we expect interest rate rises in APAC to remain benign.

Fig. 4 - US and APAC interest rates - not always in sync

Interest Rates (%)



Source: Macrobond, Knight Frank Research

The region, particularly its emerging markets, are in a better position to mitigate the impact of the Fed's tightening, having built up significant currency reserves. This will give the region some space to chart its own monetary policies without severely denting recovery prospects.

While the pandemic's trajectory could still evolve, the world and the region are better equipped to cope with challenges from new variants, as vaccinations and development of oral medication for COVID-19 continue to gather pace. We expect most governments to move beyond lockdowns and transition to an endemic stage. This will set the tone for the region's real estate markets to benefit from a reopening and recovery theme.

Fig. 5 - Building pandemic resilience

Change in GDP Growth Forecast vs. Vaccination Rate

Note: vaccination rates as of 31st Oct 2021; quadrants reflect average values.

Source: IMF WEO, Macrobond, Knight Frank Research

The IMF noted that a key reason that is driving divergence in growth rates is early access to vaccines, with vaccination rates providing some explanation for the above trend growth for those economies in the top right quadrant. However, fiscal support and health policies are also driving heterogeneity in recovery trajectories.

> *One of the biggest dichotomies that has emerged over the past year has been the growing divergence between commercial property prices and rents. On one hand, commercial property prices have strengthened, even above pre-pandemic levels. Yet vacancy rates are now higher than during the Global Financial Crisis. Occupiers actively in the market are benefiting from incentives and rental discounts, albeit this window of opportunity is starting to narrow.*

Kevin Coppel
Managing Director
Asia-Pacific

Residential Sector

Resilience borne from strong desirability and under supply

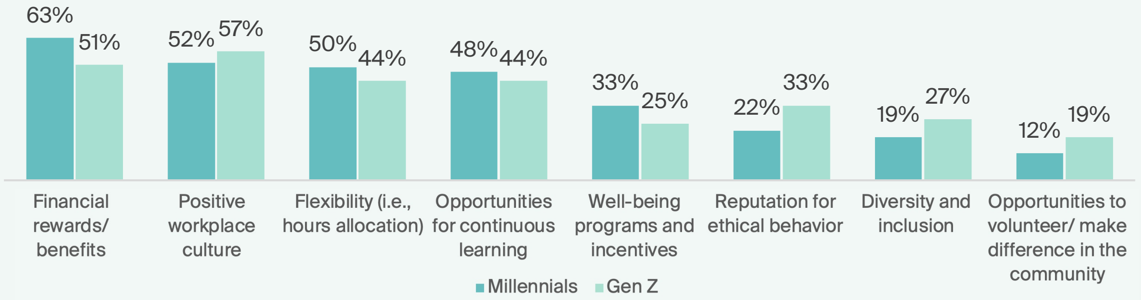
Talent Reshuffling - Live Anywhere, Work Everywhere

Post-COVID-19, as companies revisit their international expansion strategies and cross-border business practices, workers are re-evaluating their personal purpose as well as individual and family priorities. This has serious implications for their geographic, work preferences, and travel habits.

Traditionally, greater financial rewards and benefits have been the primary way to win the war for talent but that has been changing. The millennial and Generation Z population have been gradually pivoting their preferences towards softer factors such as positive workplace culture, flexibility, and opportunities for continuous learning.

Fig. 6 - Positive workplace and flexibility next most important to pay for young workers

% "very important" when choosing to work for an organisation



Source: Deloitte, Knight Frank Research

Some key gateway markets have done well in building corporate cultures that are attractive to prospective talent. For instance, Australia, New Zealand, Singapore, Japan, and South Korea have been ranked the top destinations for a tech job relocation in APAC, according to a survey conducted by *relocate.me.*

Developing SEA markets are also making progress in this regard, with Malaysia and Thailand ranking 6th and 7th destinations respectively. However, increasing adoption of remote working may mean that people no longer need to live in high-cost locations to land jobs with companies based there.

Fig. 7 - Gateway APAC markets top the chart for desired tech job relocations in 2020-2021

Top 7 voted APAC countries for most desired relocation

Source: Relocate.me, Knight Frank Research

Given that remote work opens companies up to hiring a completely new pool of talent, it results in a more distributed workforce. Homebuyers' preferences after restrictions lift in 2022 and beyond will skew towards attracting a more international workforce. This will have long-lasting impact on residential prices and rental trends across many gateway markets in the region.

According to the findings of Knight Frank's Global Buyer Survey 2021, health and mental well-being is the name of the game for APAC homebuyers in the post-pandemic world. Good air quality, green space, and good healthcare are top drawers location-wise, and property features that aid in making the work-from-home experience better for individuals will be sought after. These factors explain Australasia's position on the ranking for tech relocation, as their cities generally offer more residential space for home buyers compared to the more compact cities that came later in the list.

Fig. 8 - Ease of WFH, health and well-being top factors for APAC homebuyers

The top 5 factors for APAC homebuyers when choosing where to live once restrictions end

PROPERTY FEATURES	
Access to high-speed broadband	78%
A home study/office	67%
More outdoor space	63%
More indoor space	60%
Flexible living/multiple use rooms	60%
LOCATION FEATURES	
Good air quality	70%
Proximity to green space	69%
Access to good healthcare	64%
Good views (ocean, mountain, skyline, etc)	51%
Proximity to restaurants, gyms, retail and cultural amenities	49%

Source: Global Buyer Survey, Knight Frank Research

While urban centres continue to appeal to homebuyers and renters who are attracted by city living, less expensive neighbourhoods with larger apartments could see a lift in demand and prices going forward, as daily commute to work is no longer the norm.

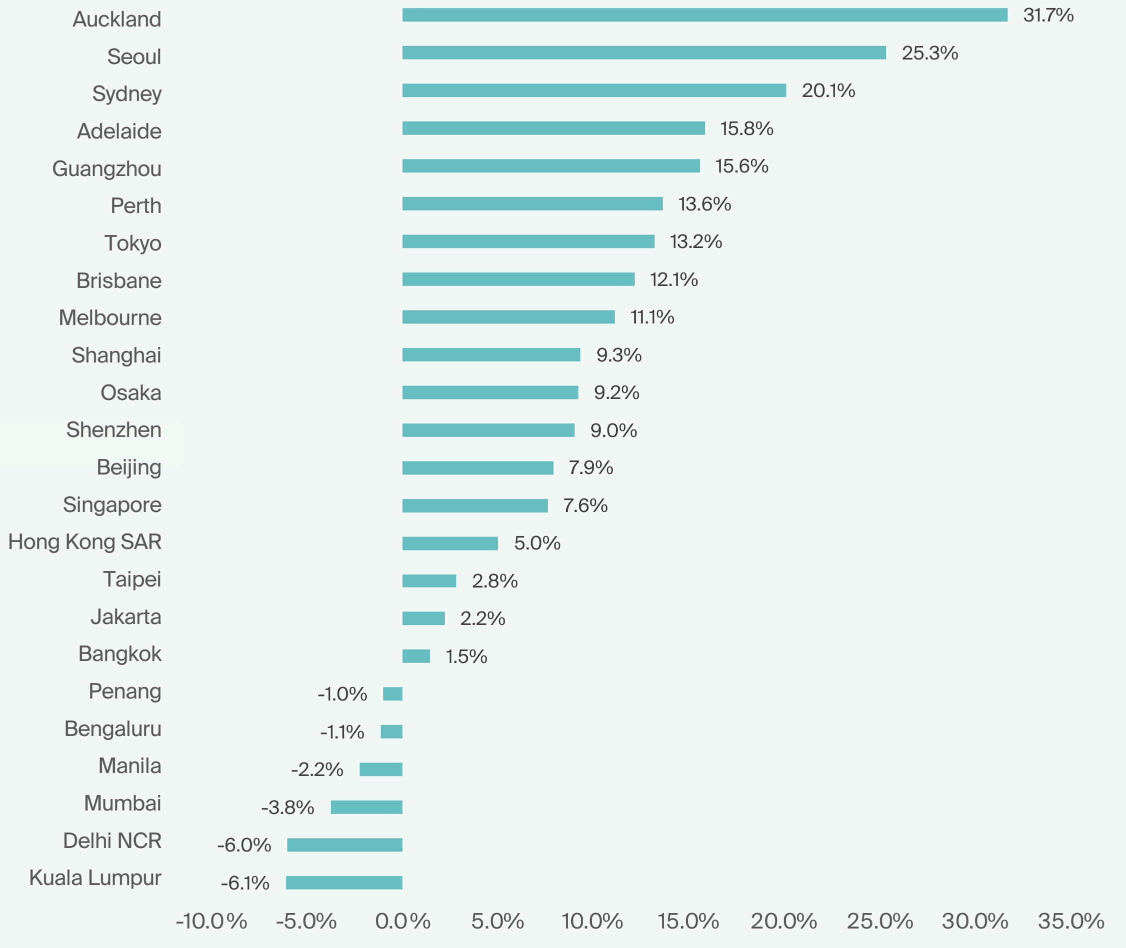
Heating Residential Markets

Record low interest rates and a lack of available supply due to construction delays sustained the bull run in 2021. While affordability concerns continue to grow, fear of missing out continues to drive mainstream prices north in the region. Of the 24 APAC cities tracked by Knight Frank, 18 have experienced positive price growth, with 9 even growing at double digits since the beginning of COVID-19.

Supply constraints, both long-term and due to the pandemic, and low interest rate environments have contributed significantly to this capital value growth. The strong price growth in the mainstream markets have begun attracting policy attention in parts of the region. There are concerns from prospective buyers that implementation of additional taxes or stamp duty could impede plans and increase costs significantly.

Fig. 9 - 18 of 24 APAC cities saw price growth since COVID-19 began

% capital value change, 31st Dec 2019 vs 30th Sep 2021



**Data as of 31st October 2021*
Source: Macrobond, Knight Frank Research

Markets to Watch

Sydney	Sydney's price growth continues to be forecasted as one of the fastest in the region, fuelled by desirable living conditions, ample employment opportunities in tech, and the impending re-opening of borders for foreign buyers.
Auckland	The prime residential segment in Auckland continues to be a hotspot of activity, as its popularity among expats for its quality of life and ease of doing business trumps expensive prices.
Hong Kong SAR	With potential re-opening of borders, Hong Kong's mainstream residential segment will continue to perform well, while there could be more purchasing power coming from the Chinese mainland.

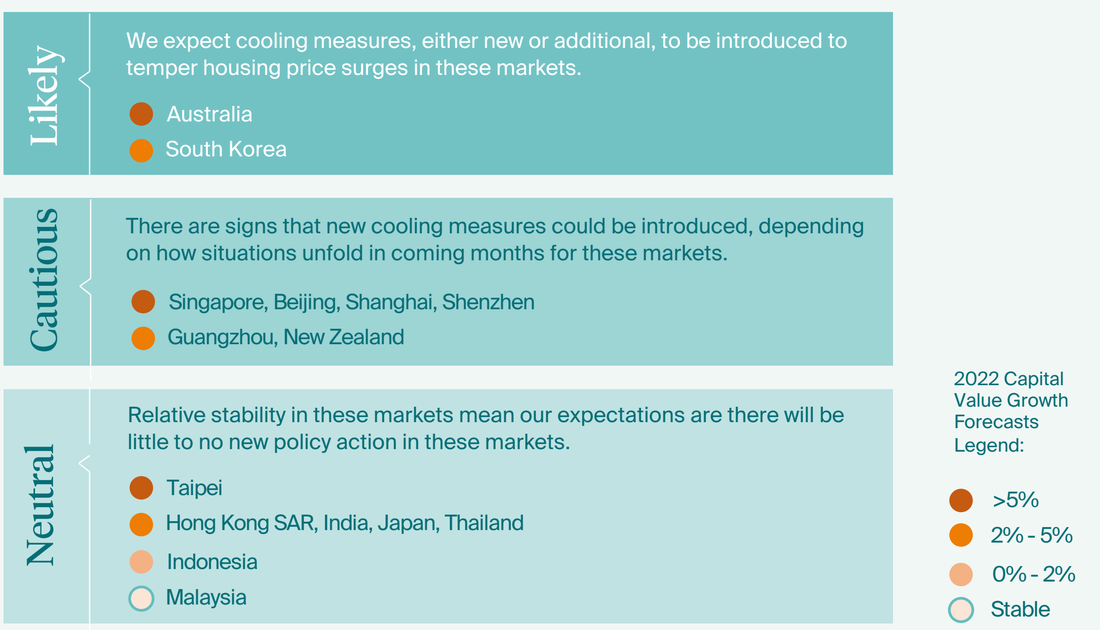
Residential Market Outlook

Going into 2022, we expect capital appreciation to continue its sustained momentum. The lack of stock in the mainstream markets is not going to be alleviated in next 12 months, and the continued low interest rate environments will boost sale and rental activity. Appetite for home purchases will also see improvements from foreign buyers, as more travel restrictions are being lifted across APAC. Pent-up demand for properties in key safe-haven markets will result in further price growth. Overall, residential prices across the region are expected to grow approximately 3-5% in 2022.

Potential government interventions could kick in to hamper demand in some markets, but the likelihood is not even. While most of the APAC markets are unlikely to see cooling measures, some markets where prices have moved ahead of fundamentals such as Australia and South Korea could potentially see some additional measures to ensure the stability of the residential market. Cities offering larger home sizes and better amenities will be a key factor in homebuying decisions in view of the great talent reshuffling around the region, as health and well-being, and flexible work arrangements are being prioritised by this group.

Fig. 10 - Some policy action expected in heated markets, but region generally to remain neutral

Likelihood of policy intervention and forecasted residential capital value growth



> *Residential markets across the Asia-Pacific region could continue to strengthen in 2022 as the region starts to recover in the endemic phase. With more quarantine-free travel lanes reopening, foreign buyers could return to key gateway markets sooner than expected. Now is the best time for domestic buyers to pick up their dream homes in view of the potential policy interventions that could hamper purchasing prospects in 2022.*
>
> *Victoria Garrett*
> *Head of Residential*
> *Knight Frank Asia-Pacific*

Office Sector

Reboot and Recovery

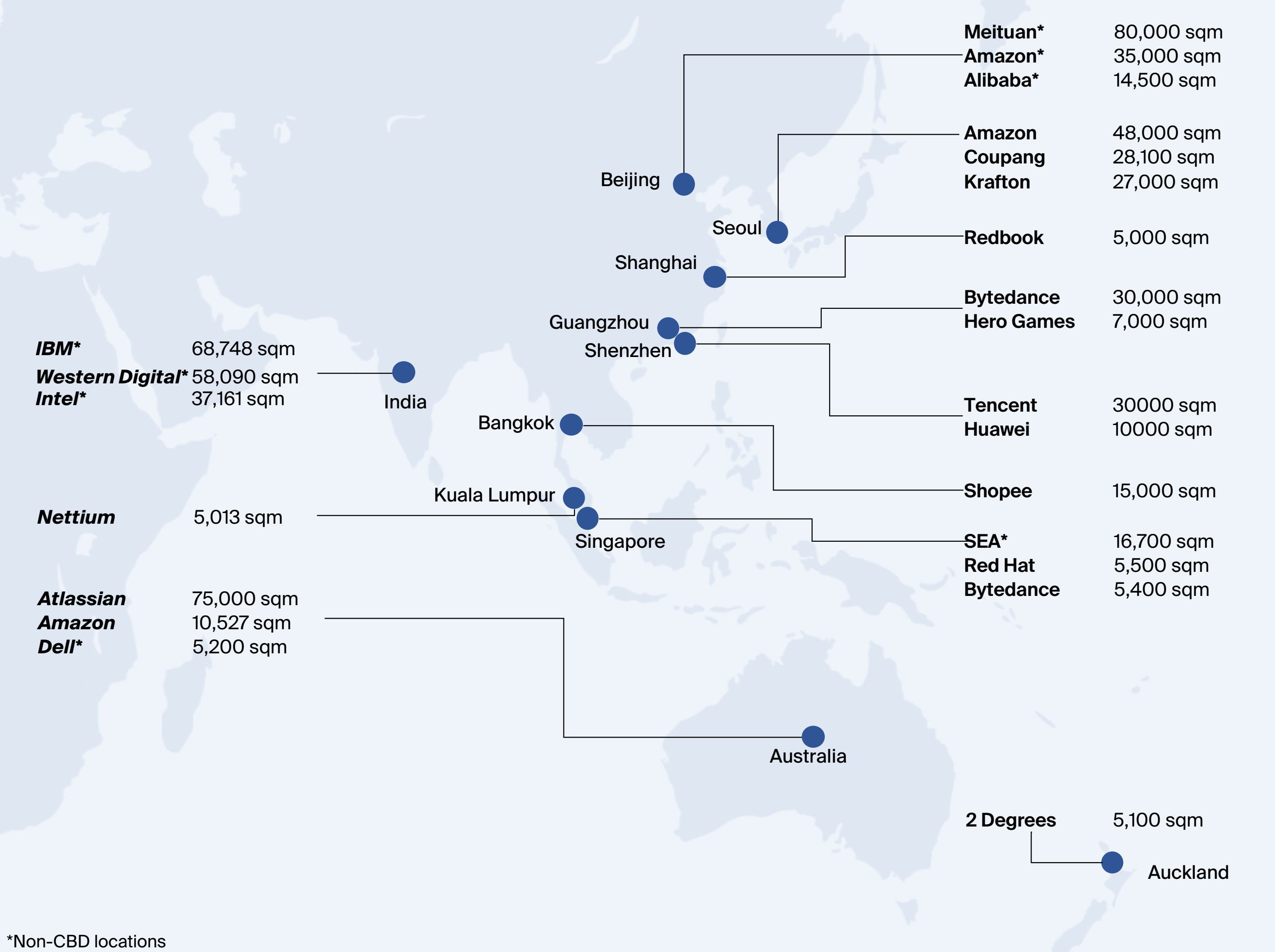
Tech – A Pillar of Strength

Despite the pandemic's impact on workplace strategies and overall office occupancy, the tech sector has been the pillar for leasing demand across the region in 2020 and 2021. The period of restricted movement and social isolation has only increased demand for the sector as more digital services are sought after.

Across the region, tech companies have been noted to take advantage of softening rents to expand their office footprints in both the Central Business Districts (CBD) and decentralised locations. In tech heavy markets, such as Singapore and Sydney, these occupiers have backfilled spaces vacated by financial firms and driven down shadow spaces.

Fig. 11 - Major tech sector leasing activities in 2021

Lease deals of 5,000 sqm or more



*Non-CBD locations

Source: Knight Frank Research

According to Knight Frank's Innovation Led Cities Index, APAC is represented in the top 20 most innovative cities by Tokyo, Melbourne and Sydney with their deep talent pools and business-friendly environments. The research has indicated that in innovation-led cities, tech and life sciences businesses are looking for an educated workforce, attracting and retaining population and wealth needed for well-functioning commercial real estate markets.

Agility and flexibility are also key aspects of the tech sector. With health and well-being at the top of the agenda, tech companies have been accommodative in terms of hybrid working and remote working policies to meet the changing needs of mobile tech talent. These policies offer tech talent healthier environments and better affordability, resulting in the surge in occupier interest in the second-tier or secondary CBD locations. Suburbs and campus-like hubs are alternatives that can offer more open spaces and targeted amenities to achieve this objective.

One such beneficiary of the changing workplace dynamics is the co-working or flexible office space which is thriving on job growth in the tech sector and digital economy. Tech companies are looking for more flexible work models when offices reopen. On demand co-working spaces are also increasingly popular amongst tech companies.

Rebirth of Co-working in a Hybrid Future

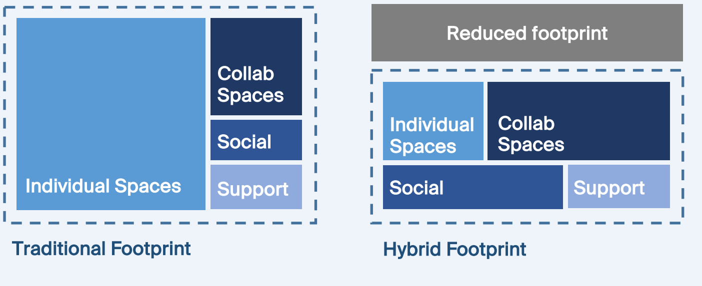
Greater autonomy, zero commutes—the world's greatest work-from-home experiment has shown that remote working has its benefits. However, the loss of social interaction in communal workspaces, which are vital to promoting collaboration, facilitating mentoring and fostering corporate culture, is also increasingly apparent.

As we beat a path towards full normalisation, it is becoming clearer that the future of work lies somewhere in between the work-from-home and office extremes. The democratisation of work is also becoming central in the war for talent as workers demand some aspect of control of where to work while the potential for a reduced office footprint cannot be overlooked.

Fig. 12 - New typology of space mix & planning

Hybrid Theory

The future of the office is an ecosystem, connected with technology, and distributed across the city. Hybrid working sits across the spectrum of options in the ecosystem in which each occupier will evolve its own optimal space mix to provide various levels of experience and choice for its workers.



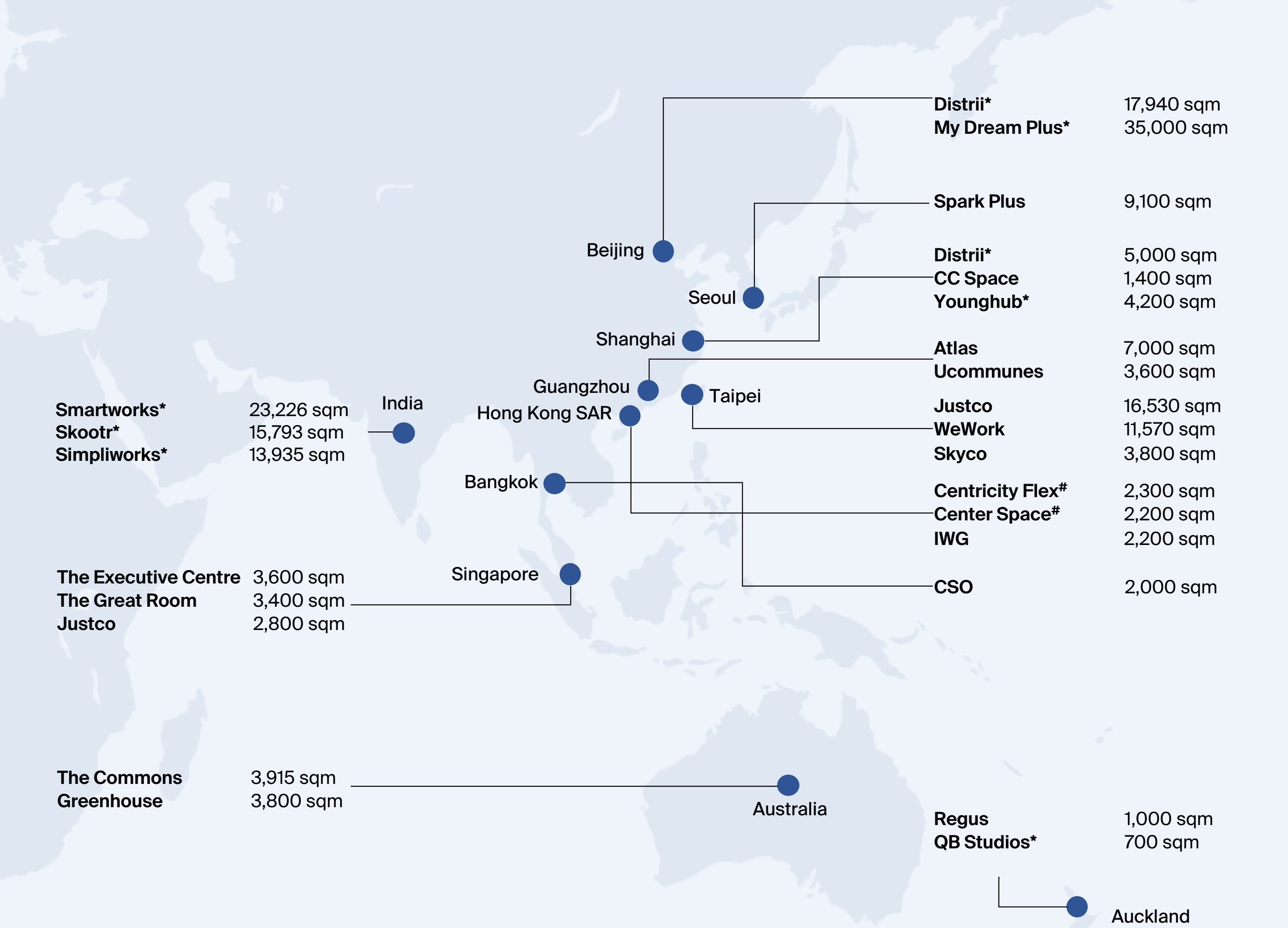
Source: Knight Frank Research

As we evolve towards a hybrid future, the emergence of third spaces to fill the gap between the home and office will also be part of the future of work. Surveys have also shown that homes cannot function as optimal work environments for workers in younger age groups. With lingering economic uncertainty, occupiers in the mid-term will also be compelled to opt for flexibility in approach. In many instances, co-working spaces are a viable alternative.

Major co-working players such as IWG and WeWork continue to see a rapid adoption of the hybrid working model across all major markets including in Asia. For instance, global enterprise memberships at WeWork increased from 42% in the last quarter of 2019 to 51% by mid-2021. Companies of all sizes are seeking more flexible real estate solutions as well as empowering their people to work closer to home in co-working spaces like Regus and Spaces for a better work-life balance.

Fig. 13 - Major co-working openings/leases in 2021

Co-working Leases/Openings across the Region in 2021



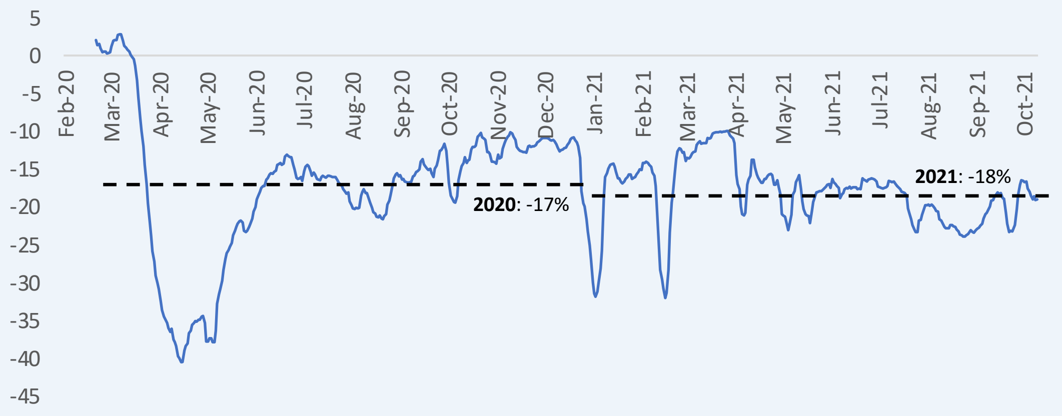
*Non-CBD locations
#Developer operated

Source: Knight Frank Research

Driven by the desire for increased flexibility, workplace utilisation in APAC averaged at around 18% below pre-pandemic level, which translates to approximately 4 days a week, based on Google Mobility Data, which is approximately 1% lower than in 2020. With the millennial workforce emerging as the largest group across all demographics in the coming decade, the office market is seeing a shift towards agility and flexible workspace and is gravitating towards high-specification premium Grade-A buildings. Physical offices continue to be a core element of corporate premises to promote collaboration, learning and interaction.

Fig. 14 - The battle with COVID-19 puts further strains on workplace utilisation even in 2021

Workplace utilisation vs. baseline (6-week period between 1st Jan 20 – 20th Feb 20)



Source: Google Mobility, Macrobond, Knight Frank Research

"Well over two million customers have been added to our network so far in 2021 and the biggest enterprise deals have been signed in our 30-year history. In the last quarter alone, we have seen accelerated uptake of enterprise customers such as NTT and Standard Chartered using our co-working and drop-in services as the ongoing shift towards the hybrid model with employees splitting their time between home, a local workspace and a global HQ continues at pace."

Fatima Koning
Group Chief Commercial Officer at IWG

Markets to Watch

Hong Kong SAR	Recentralisation trend is bolstering CBD office leasing activity, with many occupiers taking advantage of prime spaces being let out at a discount rental rate.
Singapore	There is a greater proliferation of co-working spaces, especially in non-traditional office spaces.
India	Climbing vaccination rates and forecasted expansion in the IT sector will accelerate the market's momentum into 2022.

Office Market Outlook

Fig. 15 - Regional stock to rise by 9% in 2022
Existing Stock vs New Stock

Source: Knight Frank Research

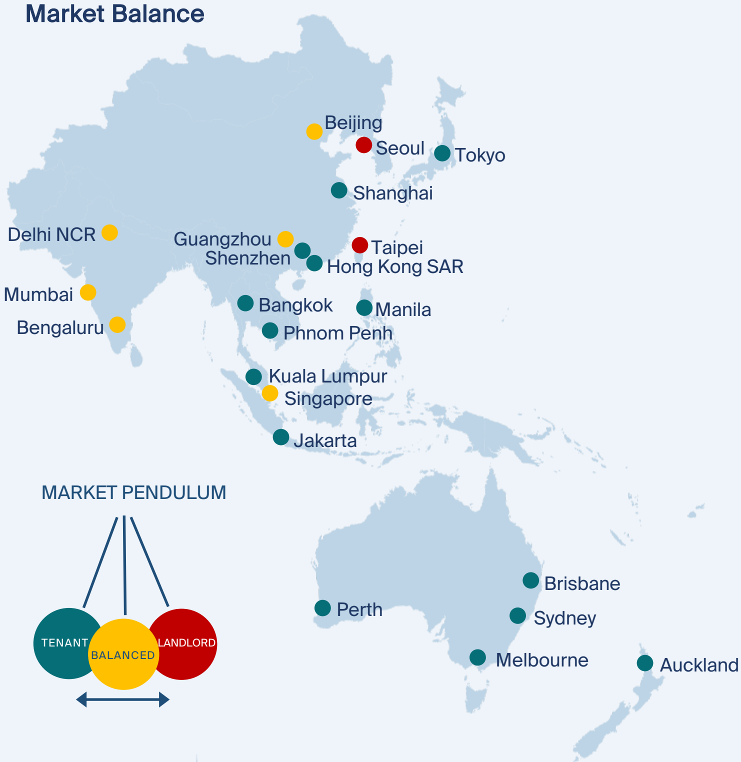
Although the level of new supply remains manageable across the region, vacancies are still expected to rise from the current 13-14% to 14-16%. However, with a broadening economic recovery and more governments across the region shifting away from a zero-Covid strategy, leasing demand is expected to strengthen with the tech sector expected to remain a key driver of leasing activity.

While the rental downcycle has bottomed out in some markets, the recovery remains uneven for now. As conditions in the region's office market continue to favour tenants, a flight-to-quality trend will persist through most of 2022. With broad based rental growth likely to remain elusive for now, occupiers should capitalize on the current window to secure better lease terms or re-evaluate requirements in supply heavy markets, before the recovery gains further traction.

Fig. 16 - Uneven recovery for the office sector across the region

The Asia-Pacific Office Occupier Overview 2022

Market Balance



Rental Outlook

Decreasing

- Auckland
- Bangkok
- Guangzhou
- Jakarta
- Kuala Lumpur
- Manila
- Shenzhen
- Tokyo

Stable to Increasing

- Bengaluru
- Mumbai
- Phnom Penh
- Sydney
- Taipei

Increasing

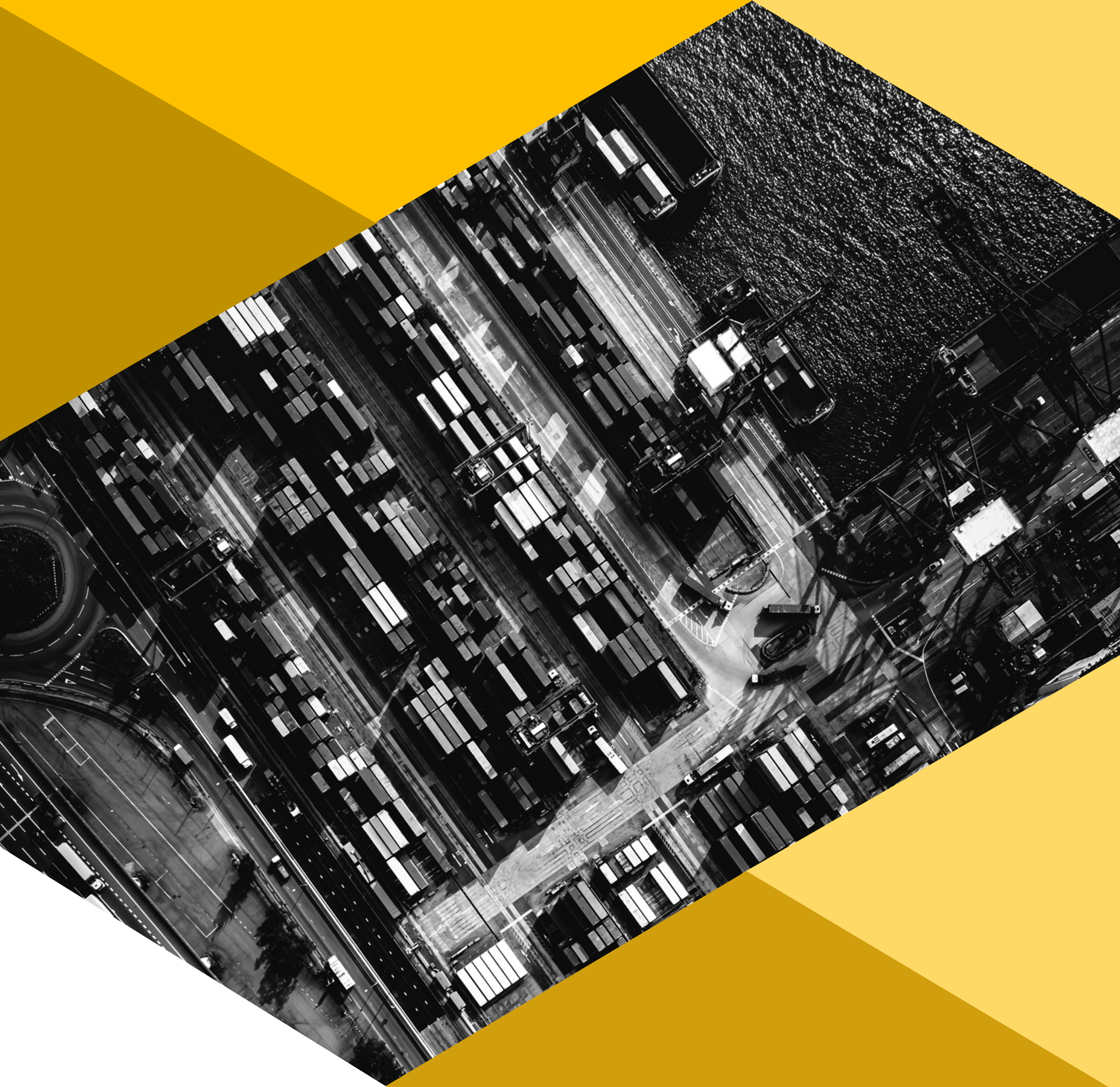
- Beijing
- Brisbane
- Hong Kong SAR
- Melbourne
- Perth
- Seoul
- Shanghai
- Singapore
- Delhi NCR

Shanghai	Taipei	Shenzhen
Highest Rental Growth	Tightest Vacancies	Highest Supply
4-5%	3.0%	2.6 million sqm

Source: Knight Frank Research

“We are seeing an increased commitment to hybrid flexible workspaces as a part of occupiers’ strategies as we transition towards a COVID-endemic Asia-Pacific. Occupiers are recognising the impact of flexibility in enabling employee engagement and cost optimisation.”

Tim Armstrong
Global Head of Occupier Strategy and Solutions



Logistics Sector
Another Strong Year Ahead

The logistics sector looks set to continue riding on the dynamics that have been accelerated and reinforced by the pandemic. With fundamentals propelling the adoption of e-commerce likely to persist beyond the outbreak, we believe that the sector is still in the early stages of maturity and is expected to enjoy an extended cycle of growth that is just beginning to assume momentum.

Fig. 17 - Sustained e-commerce momentum

** based on Gross Merchandise Value*

Source: eMarketer, Euromonitor, e-Conomy SEA 2020

Reimagining Supply Chain Strategies

From extreme weather events and natural disasters to geopolitical tensions, the world's supply chains remain vulnerable to potential disruption. The outbreak of the pandemic has underscored how delicately balanced these are and their critical role in maintaining macroeconomic stability. As e-commerce continues to gain a foothold in economies, supply chains are also becoming more globalised and complex.

The upshot is that traditional just-in-time models that once governed inventory management and prioritised cost efficiencies are no longer viable, giving way to just-in-case strategies. Aside from the sustained adoption of e-commerce, the evolution of supply chain strategies will also drive long-term demand for logistics spaces.

Fig. 18 - Trends underpinning logistics demand

RESILIENCE

- Inventory Buffers
- Diversifying Supply through Multi-Sourcing /Nearshoring

SPEED

- Urban Logistics/Last Mile Connectivity
- Adequate Warehouse Capacity
- Omni-Channel Distribution/Fulfilment

TECHNOLOGY

- Automated Warehousing Systems
- Enhanced Supply Chain Transparency

IN SEARCH OF RESILIENCE

Integrating resilience into supply chain models remains complex and each firm will establish its approach across a spectrum of strategies to optimise this against costs, according to where they lie on the value chain, product segment as well geographical dependencies.

Against this backdrop, planning for larger buffers and diversifying supply sources will remain central, which will increase the logistics footprints of companies.

NEED FOR SPEED

The Amazon effect on the retail industry has upped competitive pressures for e-commerce players and in many cases, this entails compressing times between orders and deliveries.

This means setting up operations with the necessary hardware that can stockpile inventory to fulfil orders and establishing a last-mile urban logistics network that can respond to customers' higher expectations for same day deliveries.

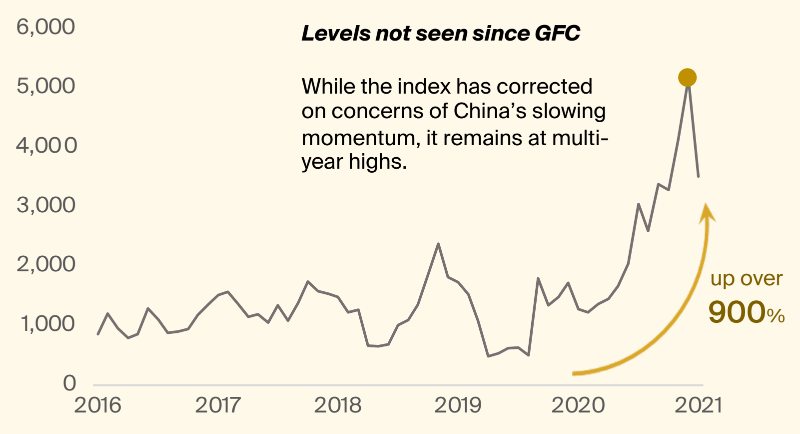
TECHNOLOGY

Automated and well-sited logistics facilities will be in demand. Technology remains a key enabler for companies to establish end-to-end supply chain transparency and achieve the optimum balance between cost and efficiency with flexibility and resilience.

Source: Knight Frank Research

Fig. 19 - Shipping costs surge

Baltic Dry Index



Source: investing.com

A Hedge Against Surging Transportation Costs:

A confluence of factors from recovering demand, rising fuel prices, and port congestion have resulted in surging transportation costs, which further highlights supply chain vulnerabilities.

As structural shortages in shipping capacity cannot be resolved in the short term, costs will remain elevated. The expansion of warehouse space to reduce the frequency of restocking makes sense as real estate costs are unlikely to rise with the same magnitude.

Markets to Watch

Australia	Sustained e-commerce growth, disruptions to supply chain and ongoing supply constraints are going to contribute to rental growth in 2022.
Malaysia	Demand continues to be fuelled by e-commerce players and last-mile logistics service providers.
Chinese Mainland	Cold chain logistics is a key driver for demand of logistics space.

Logistics Market Outlook

Despite completion of close to 9 million sqm of supply, vacancies in the region are likely to remain on a tightening trend due to strong demand and active pre-leasing commitments. With the pivot towards e-commerce occurring on a global scale and the network effects of supply chains, the synchronicity of factors will mean demand will stay elevated across the region in the mid-to-long term. These conditions will also reverberate across different classes of logistics facilities.

Fig. 20 - Regional stock to rise by 12-13% in 2022
Existing Stock vs New Stock

Source: Knight Frank Research

Is Higher Rental Growth the New Reality?

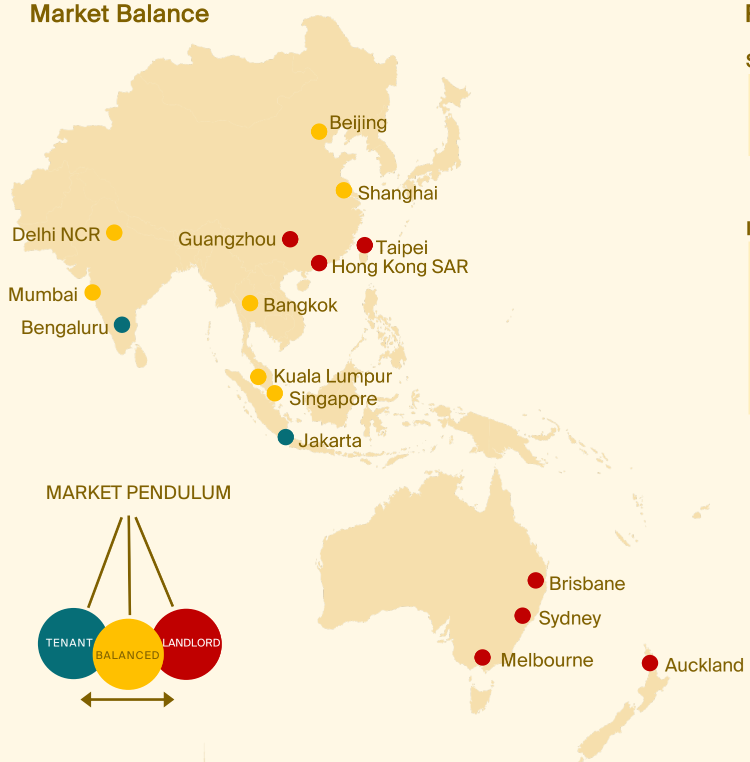
Despite economic uncertainty induced by a resurgent infection wave, logistics market rents were observed to have remained resilient in 2021 with the stay-at-home trend propelling e-commerce demand. As occupiers remain highly cost sensitive, the logistics sector is not known for its rental growth potential.

However, as access to land banks are still constrained, supply is unlikely to keep up with growing demand. With rental growth anticipated to accelerate in some markets, we expect rents to increase by an average of 2-3% in 2022 with those in the region's developed markets rising at a faster clip of 4-5%. The strength of demand noted as well as higher land values will increasingly bring occupier costs into sharper focus in the longer term.

Fig. 21 - Positive fundamentals to persist

The Asia-Pacific Logistics Overview 2022

Market Balance



Rental Outlook

Stable

- Bengaluru
- Bangkok
- Kuala Lumpur

Increasing

- Auckland
- Beijing
- Brisbane
- Guangzhou
- Hong Kong SAR
- Jakarta
- Melbourne
- Mumbai
- Delhi NCR
- Shanghai
- Singapore
- Sydney
- Taipei

Auckland	Melbourne	Brisbane
Highest Rental Growth	Highest Supply	Highest Supply Growth
10%	1.3 million sqm	189%

Source: *Knight Frank Research*

> *The quest to develop more resilient supply chains in the new normal will elevate demand for modern logistics facilities in the region to another level. This adds a new dimension to the already strong suite of demand conditions that e-commerce is propelling and will further intensify pressure on available options. Across the region, we are projecting rents in 2022 to increase. With supply unlikely to keep pace in the short-to-medium term, rental growth can be expected to accelerate.*
>
> *Tim Armstrong*
> *Global Head of Occupier Strategy and Solutions*

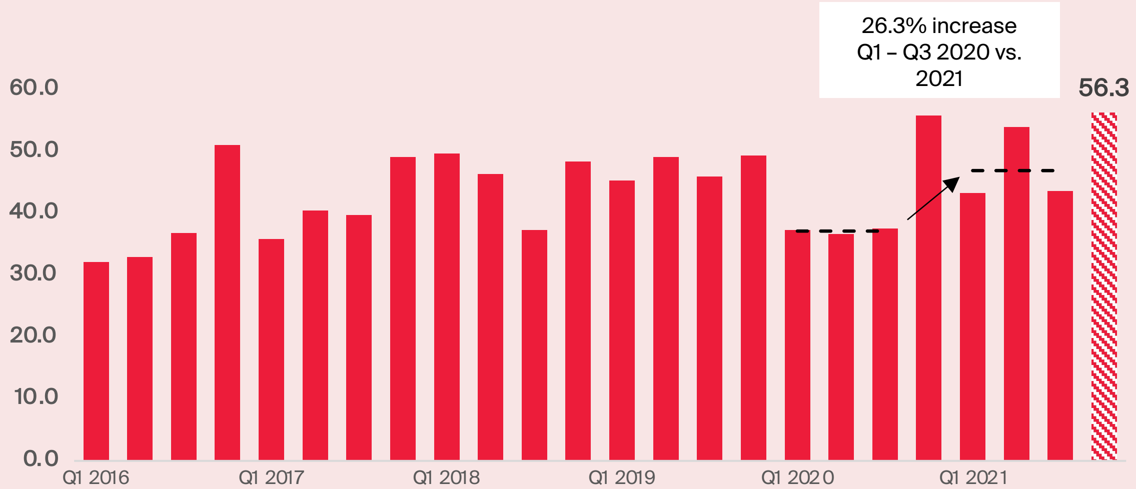
Capital Markets
Record 2022 in the Making

Interest Rates to Shape Deal Flows

The APAC region has been on a recovery trajectory since 2020, with transaction volumes in the first three quarters on an upward trend, rising 26.3% year-on-year (YoY). Q4 is currently forecasted to be on pace with that of the last quarter of 2020, which could bring the year 2021 to a near-record level despite travel curbs and lockdowns. APAC outbound volumes also saw significant growth, rising 39.0% during the same period.

Fig. 22 - Asia-Pacific transaction volumes on recovery trend in 2021

Overall APAC Commercial Transaction Volumes, US$bn



Data as of 10th November 2021

Source: Knight Frank Research, Real Capital Analytics

The scale of distressed opportunities and size of discounts, envisioned to be immense in the early stages of the pandemic, have so far been limited. The weight of capital, betting on the region's long-term structural fundamentals, has clearly put a floor to prices. With rentals declining at a faster clip, yields have remained stable to marginally compressing, suggesting that acquisitions will not come at basement bargains. Logistics has clearly outperformed as investors raised allocations to the defensive asset class. The deal for Blackstone's Milestone Logistics portfolio in Australia was sealed at a tight 4.5% yield with assets on the country's East Coast done at below 4%.

APAC Inbound

APAC inbound volumes have cooled significantly, falling by about 25% in the first three quarters of 2021. The main contributor to lacklustre APAC inbound volumes is due to the drop in transaction volumes into Japan. The market saw a 44.3% drop in transaction volume in Q1-Q3 2021 YoY. The Japanese market has always been popular for its apartment sector, and the fall in volumes for the market is reflected in the over 80% decline in overall APAC inbound volumes into the apartment sector. The historically top sector, office properties, saw a US$2.0 bn decline in inbound volumes in 2021.

APAC Outbound

The key driver for APAC's outbound capital growth is the increase in Singaporean outbound transactions in the first three quarters of 2021. The market reached US$13.1 bn, growing 2.4 times from 2020.

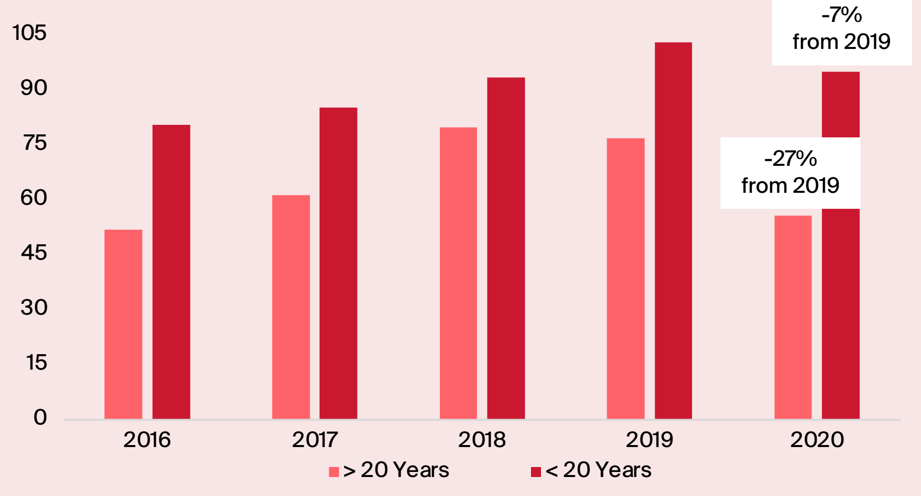
Of the top ten markets for APAC outbound capital excluding intra-regional investments, nine recorded an increase in volumes during the period. The top two markets grew significantly, with the US seeing a 108.9% increase to US$11.2bn and the UK growing 98.9% to US$4.9bn during the period.

When Old is No Longer Gold

The COVID-19 pandemic, in its protracted state, has put a spotlight on many real estate assets' strengths and weaknesses. Investors are increasingly shunning older assets regardless of geographies and focusing on assets that provide resilient income streams.

Fig. 23 - Out with the old, in with the new

APAC Commercial transaction volume, broken down by age of building, US$ bn

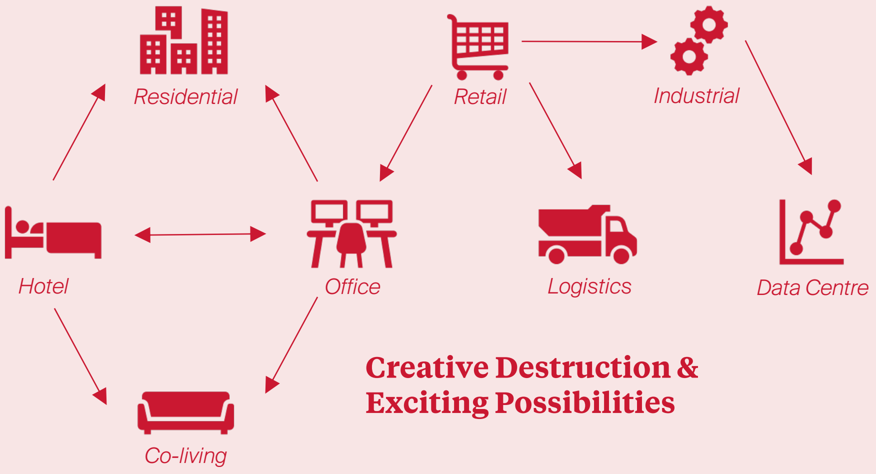


Source: Real Capital Analytics, Knight Frank Research

Investors are becoming much less interested in assets older than 20 years old

Increased occupier focus on healthy buildings will continue to lead to the obsolescence of the older buildings with outdated specifications and poor indoor air quality. Demand for this type of asset is fast shrinking amongst investors as occupiers adopt a "flight-to-quality" to newer and premium assets.

Fig. 24 - The realm of possibilities in the repurposing journey



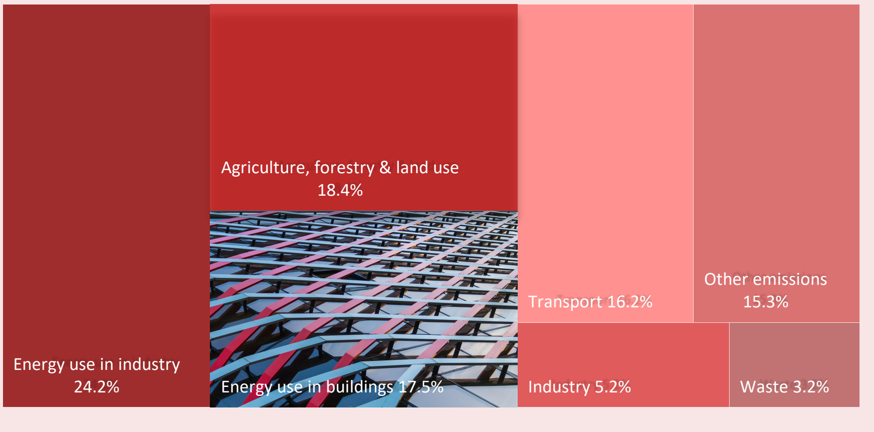
Source: Knight Frank Research

Urgency for Sustainable-Led Developments Mounting

There is now mounting urgency from all fronts of the real estate industry (investors, policymakers, corporates, etc.) to transform itself and meet sustainability needs. Sustainability is an increasingly global focus for real estate investors, and we expect this to spur capital flows towards green-rated buildings and buildings which have the potential to be made 'green' over the coming year.

These pressures are translating into tangible rewards for those willing to take the first step. According to our ***Active Capital*** research, we found that buildings with higher levels of green-building accreditation commanded a greater premium on sales price. In Australia, buildings with a National Australian Built Environment Rating Scheme (NABERS) of 5+, the highest rating, commanded a premium of 17.9%. Prime office buildings in Central London that have a BREEAM rating of Excellent also enjoy 10.5% premium.

Fig. 24 - Energy use in buildings is third biggest contributor of global greenhouse emissions
Share of greenhouse gas emissions (%)



Source: OurWorldinData.org, Climate Watch and the World Research Institute

Markets to Watch

Singapore: Office	Improving fundamentals and Singapore's safe-haven destination status will remain attractive for core funds to increase allocations into.
Australia: Last Mile Logistics	The shift in logistics trends linked to the pandemic is generating new demand for compact or micro fulfilment centres.
Japan: Multifamily Residential	Stability across the property cycle and better risk-adjusted returns will make it a sector to watch in 2022, especially for core capital allocation.

Capital Markets Outlook

Investment activity in APAC will be fuelled by business confidence, the gradual removal of travel restrictions and the significant weight of capital that remains attracted to the real estate sector. As both domestic and offshore investors remain deeply interested in the APAC region, transaction volume is expected to see a 20% uplift in 2022, leading to a bumper year similar to pre-pandemic levels, in line with the broad economic recovery theme in the region.

We will see the office sector as the target for potentially more than 60% of inbound investment into the APAC region. While there is a clear rise in investor allocations to sectors which benefit most from structural changes such as logistics and data centres, the office sector remains a stalwart investment. The industrial and retail sectors are forecast to enjoy broadly similar levels of investment interest in 2022, with retail experiencing a shorter-term bounce, while industrial is forecast to continue its upwards trend in interest over the next few years.

Since 2013, the US has ranked as the most active capital source in the APAC region by volume but lost out in the number of deals to Singapore in the first half of 2021. 2022 will continue to see US and Singapore fight for the top spot of capital spend in the APAC region.

Singapore's sovereign wealth fund will continue to deploy capital at a vast scale throughout the region, from prime offices in Australia CBD to logistics in the Chinese Mainland, while South Korea's National Pension Service is expected to continue ramping up its capital deployment to overseas assets, targeting key gateway cities in the region with global partners. We will continue to see a resurgence of the S-REITs in 2022, as share prices reach pre-pandemic levels and they compete to place capital. Huge firepower arising from fund consolidations could boost investment activity in the next 12 months.

> *"Economies forging a path towards the next phase of endemic living will set the stage for a sustained resurgence of cross-border investment into real estate. Competition for assets will remain intense as investors look to deploy record dry powder accumulated, which will keep yields down. There will be ample scope for investors to turn creative in the new normal and look towards value-add or opportunistic plays to generate greater levels of alpha. Yields compressing in Europe to record lows, rental growth is stagnant – investors are looking to Asia for growth opportunities."*
>
> *Neil Brookes*
> *Global Head of Capital Markets*

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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