Knight Frank

Asia-Pacific Residential

Where next for Asian residential investors?

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Highlights.

With countries coming out of Covid-19 lockdown, we are starting to see more activity across the key markets in Asia.	Asian investors, which made up significant demand in many global residential markets, are now increasingly looking both domestically around the world for opportunities.	Supported by low interest rates, currency fluctuations and some discounts, we believe that the cross-border activity will grow over the coming months.	Many investors are looking for stability, diversity and developed markets, Singapore, Australia and the UK are likely to be three of the markets most heavily in demand.

Regional and global residential markets have been severely disrupted over the last four months, with lockdowns and aggressive social distancing rules significantly hindering market activity with viewings unable to be conducted. In some markets, show flats have been closed and developers have postponed launches.

However, with lockdowns being eased, we are now starting to see activity return, with a number of markets seeing a strong uptick in enquiries and potential activity. With the importance of Asian buyers and investors, not only in their domestic markets but also in markets overseas, likely to be hugely influential, it is worth considering where they could be going next in their residential property purchases.

This paper will take a look at current regional Asian market performance, then drill down into two key regional markets, Singapore and Hong Kong. In addition, it will look at current activity in two of the most important destinations for Asian capital: London and Sydney. It will then consider some of the key themes, drivers and factors that could influence buying behaviour and destination choice into the second half of 2020 and beyond.

How have Asian markets performed year-to-date?

With the COVID-19 outbreak staring to take hold only around mid-March, with the exception of China, its impact on the Asia-Pacific residential prices has yet to be fully felt. Hence, the region's Q1 2020 price performance across its major gateway cities was rather resilient with most markets recording either stable or improving rates of price growth.

While Q2 2020 has been a quiet quarter with limited transactions as most markets were under lockdown, the month of June has so far seen enquiries and sales volumes pick up in a number of markets as most of the region entered into their easing phase.

However, given the expected price weakness going forward and considering the historic performance, including previous recoveries from recessions, we next explore what the outlook for the residential sector could look like and where are the potential opportunities?

Residential Price Growth	YoY % change (Q1 2020)	YoY % change (2019)
Hong Kong	-0.9%	5.5%
Singapore	2.4%	2.7%
Shanghai	2.4%	2.3%
Mumbai	0.1%	-3.5%
Tokyo	2.8%	2.0%
Sydney	11.6%	4.9%
Average	3.1%	2.3%

SOURCE: KNIGHT FRANK RESEARCH

Hong Kong.

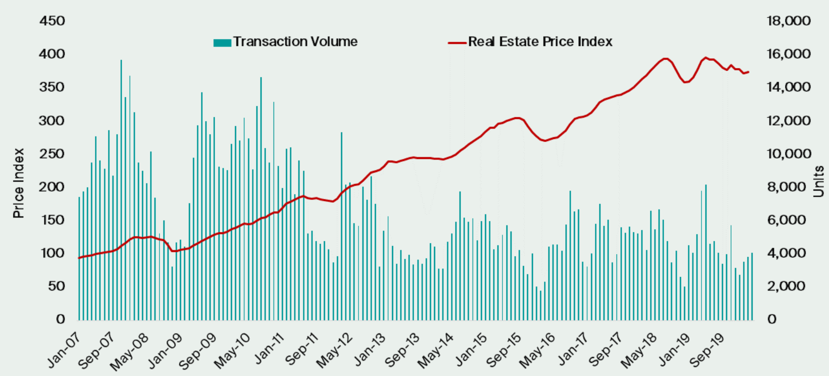
Resilience despite strong headwinds

Hong Kong's housing market has faced two major challenges since mid-2019 when the ongoing social unrest erupted, followed by the COVID-19 outbreak. However, housing prices within the financial hub have remained relatively resilient, largely supported by low interest rates and the government's relaxation of mortgage caps for first-time home buyers in October 2019.

Prices since the recent peak, in June 2019, had fallen 5.8% to the trough in February. Comparing this to Hong Kong's experience during the Global Financial Crisis (GFC), the market witnessed a peak to trough decline of 17.2% in the second half of 2008. Furthermore, as the government begins to resume public services and ease restrictions on travel and social distancing, Hong Kong's residential market sentiment has gradually improved with prices rising 0.4% month-on-month in April.

This highlights that despite the weak economic conditions, buyer demand remains resilient as potential buyers previously on the side lines are gradually re-entering the market with many taking advantage of the current downturn to bottom-fish on expectations for a market rebound once the COVID-19 outbreak abates. Some recent notable deals done include a 2,657 sqft house at 1 Shouson Hill Road East, which was sold for HK$198 million (HK$74,520 per sq ft), and a 5,128 sq ft house in Mont Rouge, Kowloon Tong, selling for HK$350 million (HK$68,253 per sq ft); showing that the deep-pocketed buyer appetite in the city remains strong.

Hong Kong Residential



SOURCE: KNIGHT FRANK RESEARCH, RATING AND VALUATION DEPARTMENT

Singapore.

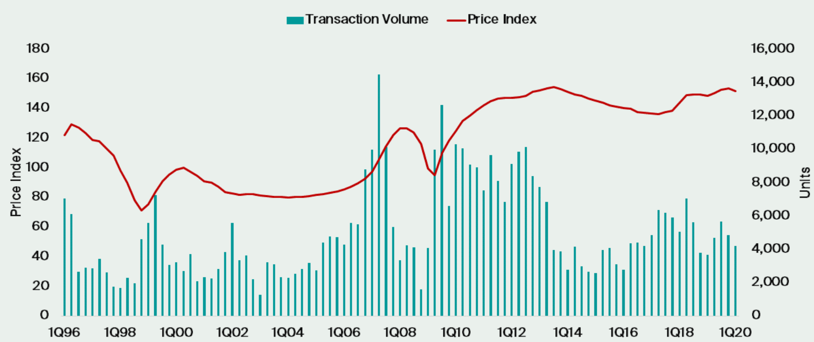
Steady ship despite new potential transaction lows

Looking back to the GFC, the Urban Redevelopment Authority's overall price index for private residential properties decreased by 24.9% from its price peak in Q2 2008 to its trough in Q2 2009. During this same period, private residential sales in Singapore dropped to a low of 1,627 transactions in the fourth quarter of 2008, which continues to be the worst quarterly property sales performance until now. When we look at the post-GFC recovery, prices recovered swiftly to its pre-GFC peak only one year later in Q2 2010.

Looking at the residential market currently, prices are near their recent peak in Q4 2019 having only fallen 1% since. However, the residential market Q2 2020 has been severely impacted by Singapore's circuit breaker, and we expect the possibility of further price weakness and potentially a new quarterly transaction historical low since the GFC.

Going forward, a significant drop in property prices during the current COVID-19 outbreak is unlikely to happen, when compared to the 24.9% peak to trough decline seen over a 12 month period during the GFC, given that both market conditions are vastly different. Underlying demand continues to remain resilient, as witnessed by the 1.0% price decline since Q4 2019, despite Singapore's slowing economy from the US-China trade tensions and the softer economic outlook in Q1 2020 when COVID-19 hit the country. Furthermore, most developers have sufficient reserves to tide through this difficult period and we do not foresee significant price reductions on primary homes, unlike during the GFC.

Singapore Residential



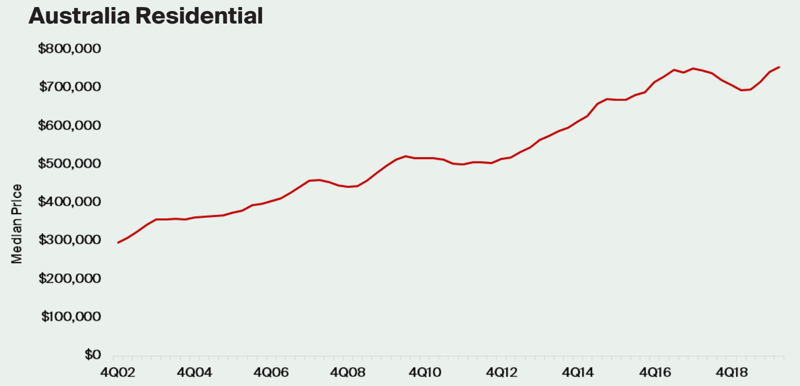
SOURCE: KNIGHT FRANK RESEARCH, URBAN REDEVELOPMENT AUTHORITY

Australia.

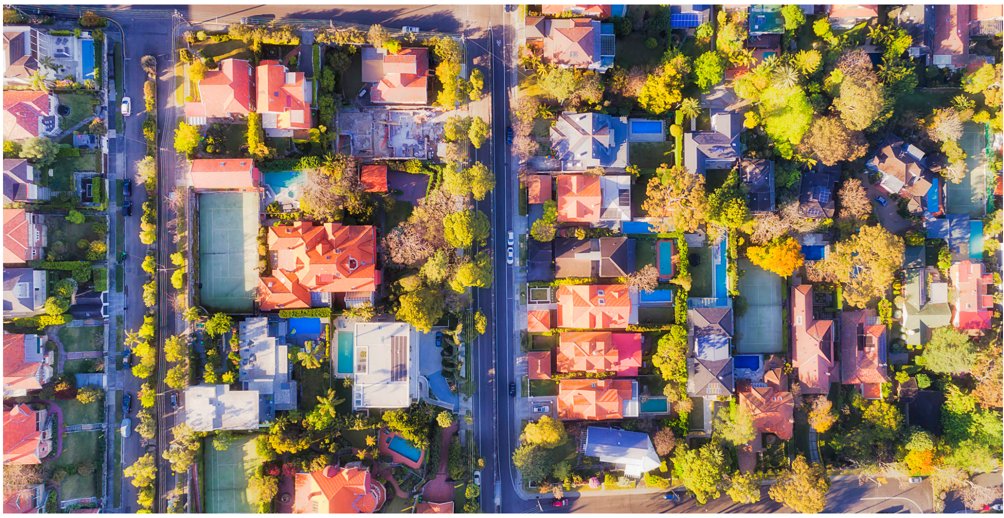
Getting back on its feet

Australia's residential market remains on the path to recovery boosted by a credit environment which continues to ease with historical low interest rates, currently at 0.25%, combined with the recently launched federal HomeBuilder Scheme. As a result, this has supported median residential price growth which have risen 8.6% year-on-year in Q1 2020; reaching a new historical high just 12 months from its recent trough.

With Australia now seeing the light at the end of its COVID-19 outbreak, the government has started to ease its lockdown restrictions and allowing more economic and social activities to take place. This, coupled with the record low interest rates mentioned previously, should firm market sentiment against the forecast economic headwinds which should lead to a positive market recovery by the end of 2021.



SOURCE: KNIGHT FRANK RESEARCH, AUSTRALIAN PROPERTY MONITORS



London.

Heading out of troubled waves into calmer seas

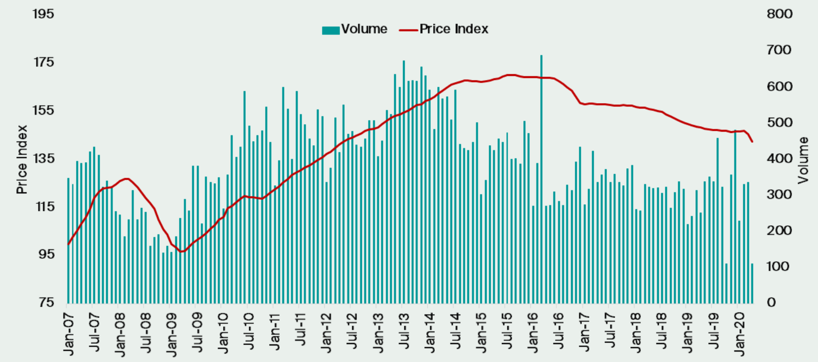
The residential market in prime central London has seen many disruptive factors over recent years, from the stamp duty reforms in 2014 and 2016 to Brexit. The uncertainty surrounding Brexit and the volatile political situation meant prices and transaction volumes became more subdued.

However, given London's continued global appeal there has been growing pent-up demand as new buyers register to a greater extent than new properties have come onto the market.

As political uncertainty receded following the general election in December 2019, prices saw an uptick at the beginning of 2020 for the first time since 2015.

When we look back at the prime central London market during the GFC, prices fell 24% from peak to trough over a 12-month period. Comparing this to the current market performance, prices have fallen by only 17% from their August 2015 peak to the latest May 2020 reading. They still remain at 11% above the pre-GFC peak.

Prime Central London Residental



SOURCE: KNIGHT FRANK, LONRES

Prior to COVID-19, the market was rebounding given a renewed confidence following the decisive general election in December. As restrictions begin to lift and activity resumes we have seen a surge in new buyer registrations. The pent-up demand from lockdown and previous years, combined with the fact that some areas have seen their prices correct by as much as 25% since the peak and currency advantages could place London at the beginning of a new cycle.

Key themes and drivers going forward

1) Economic stimulus

Most of the Asia-Pacific gateway markets have seen their governments implement various fiscal and monetary relief policies to minimize the impact of COVID-19 on their economies. The most relevant being lowering interest rates which would on one hand lower borrowing costs for existing owners and minimize distressed sales and making it more affordable for buyers who had been waiting on the side lines. Furthermore, with many economies forecasting their GDP's to contract this year, we believe the low interest rate environment will persist for some time and will be a positive tailwind for the residential markets within the region. cycle.

2) Travel restrictions

The travel restrictions introduced across the region have had an impact on those looking at cross-border purchases. The restrictions have meant that as markets slowly start to recover, the only way to view is via virtual methods. While the travel restrictions will continue to be a brake on demand until they are truly lifted, the reality is that many Asian investors are prepared to buy off-plan without visiting the project.

3) Education

Education has always been an important driver of property purchases for Asian investors. Traditionally the US, UK and Australia have been key markets for study, whether it be secondary or tertiary education. Due to the COVID-19 pandemic, many are now postponing sending their children for the September intakes as they look at local education or have taken the opportunity to take a "gap year". While this is likely to have an impact in the next year, many investors looking at buying for their children's use are often planning many years in advance and purchasing property years before they go overseas for education.

4) Currency

Currency continues to be driver for property purchasers, with fluctuations potentially providing significant discounts in local currency. Since COVID-19, there has been significant depreciation of the Australian dollar and the UK pound. Although both have recovered to some extent, future fluctuations as the full economic impact of COVID-19 is more clearly understood could provide opportunities for Asian investors.

5) Risk diversification

With the volatility witnessed in the stock, bond and commodities market over the past several months, and the toll of COVID-19 on the global economy expected to last for some time, interest in real estate, especially residential due to its wider accessibility, will see greater interest as a risk diversification tool for investors. As such, we believe this should drive more interest into residential markets, especially within the key Asia-Pacific gateway cities where there is a larger population of high-net worth individuals.

What next?

Stable markets likely to be the priority

In terms of internal enquiries, we have seen Asian investors continue to look for stable markets, with Singapore and Japan among those most in demand. Outside of Asia, the UK remains an important destination although Australia and the US have also continued to see interest. The latter is likely however to depend on the on-going and rapidly shifting US-China tensions which could especially impact Chinese buyers.

Economic downturns provide challenges and opportunities

Going forward, with much of the future still uncertain and the economic toll of the COVID-19 outbreak continuing to pile on; there will be further macro headwinds impacting the residential markets across the major global gateway cities. However, while this is generally negative news, we believe this also creates a buying opportunity for investors as some of their market fundamentals remain resilient.

Asian buyers likely to remain key global buyers

The last ten years has seen Asian buyers emerge as key purchasers of residential property around the world. Investment diversification, wealth preservation, education, lifestyle and business remain key drivers of this activity. As Asia emerges from COVID-19, and with the region set to see some of the strongest growth over the coming years, Asian buyers in major gateway markets will continue to be a major market trend.

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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