This report aims to provide asset owners and investors the latest perspectives and insights on the performance of property asset values across Asia-Pacific.

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Asia-Pacific Property Value Movement Report

2021

53%
OF ASIA-PACIFIC REAL ESTATE SECTORS SAW VALUES DECLINE AS OF H2 2020

Industrial & Residential
VALUES HAVE BEEN RESILIENT

Australia & Chinese Mainland
RECORDED THE MOST NUMBER OF SECTORS RECODING VALUE GROWTH

Cautiously Positive
EXPECTATIONS FOR 2021 ACROSS MOST SECTORS

NAVIGATING THE POST-PANDEMIC RECOVERY

After a challenging first half of 2020 with the pandemic reaching its peak and leaving a trail of battered economies in its wake across Asia-Pacific, things took a turn for the better towards the end of 2020 as many countries started to keep the outbreaks under control and cautiously reopen their economies. Yields across the region kept mostly stable supported by the low interest rate environment and available liquidity. As a result, real estate asset values across the region showed signs of recovery with more markets reporting asset price appreciation across certain sectors in H2 2020.

Thomas Lam
Head of Valuation & Advisory Asia-Pacific

"We expect e-commerce to continue its growth trajectory. High-tier industrial assets and data centres will lead the recovery in 2021."

This can be seen in the office sector where only 12 of the 22 markets we track recorded asset value declines, down from 13 in H1. Furthermore, optimism surrounding asset values for the region has improved with 7 markets expecting values to decline over the coming six months, down from 11 back in H1.

Lastly, the pandemic has also brought about a shift in the way we see and use real estate via changing consumption patterns and occupiers reviewing their corporate real estate strategies; all of which have technology as a central driving force. In doing so, this shift to incorporate more technology into real estate will also act as a support in preserving real estate asset values.

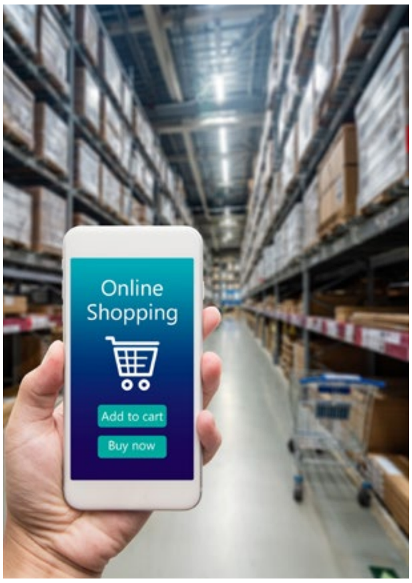
Prime Residential

The residential sector across Asia-Pacific turned out to be more resilient than expected with only 6 out of the 22 markets we track reporting reductions in value in H2 2020. Key factors behind this have been the low interest rates across the region, ample liquidity in the market and improved optimism towards the year end on the vaccine roll out. Outperforming markets in 2020 include **Auckland**, **Shenzhen** and **Seoul** who reported annual prime residential price growth of 17.5%, 13.3% and 11.7% respectively.

The prime residential sector's resilience reflects a steady underlying domestic demand within the Asia-Pacific. Going forward, the market is expected to experience another surge of growth once borders reopen and foreign buyers re-enter the market, further building upon the existing supportive fundamentals.

High-Tier Industrial

Asia-Pacific's high-tier industrial sector continued its strong performance in H2, with 21 of 22 of the markets we track recording stable or increasing asset values. The value increases recorded in H2 came from similar markets as in H1 including Shanghai, **Shenzhen, Taipei, Tokyo** and **Seoul**. A noticeable we observed is the relatively large tech-exposed economies such as Shenzhen, Taipei and Seoul which have benefited from the boom in technology consumption because of the pandemic.



Looking at the wider trend, with e-commerce expected to continue its growth trajectory – our estimates put average e-commerce growth across Asia-Pacific at 14% growth year-on-year in 2020, demand for high-tier industrial assets is expected to remain robust over the near term. Within the region, **Chinese Mainland, New Zealand, Seoul, Taipei**, and **Manila** are expected to see the biggest improvements in values.

Prime Office

With economies gradually reopening and people getting back to the office across the major markets in Asia, asset values across the region generally saw an improvement with 11 markets recording value declines in H2 as compared to 13 in H1. Furthermore, several of the 11 markets, namely **Shanghai, Shenzhen, Hong Kong SAR, Kuala Lumpur** and **Jakarta**, were being impacted by pre-existing conditions prior to the pandemic such as excess supply or political uncertainties. According to the Asia-Pacific Prime Office Rental Index, 2020's annual rents were down 4.9% year-on-year across the region.

However, as the broader economy recovers, office asset values are expected to improve in lock step, as seen from our forecasts with only 7 out of 22 markets expecting asset value declines in H1 2021, down from 11 just six months prior. In terms of rental growth, we are forecasting average rents across Asia-Pacific to contract between -3% and 0% in 2021. While we do not discount the potential impact shifting corporate real estate strategies will have on asset value growth for offices within the region, we believe a two-tiered market will start to form with higher grade assets embedded with new technologies being more resilient to asset value fluctuations as compared to their lower graded peers.

Prime Retail

The retail sector continues to be hamstrung by the pandemic as both non-discretionary and discretionary consumption patterns gravitate towards online platforms, driving the continued rapid growth of the online retail trade industry. For 2020, despite online penetration rates varying widely across the region, e-commerce sales were generally strong throughout the region with an average growth rate of 14%.

With challenges on both fronts, lower demand brought on by the pandemic and continued e-commerce disruption, both the overarching near and long-term prospects for the retail sector is challenging, unless retailers and landlords act quickly to adapt and innovate. We have seen this with the advent of strategies such as Digital Native Vertical Brands (DNVBs) where the retailer prioritizes its direct relationship with the customer in a more intimate manner, and therefore able to weave its digital as well as tailor the offering to consumption patterns attuned to emerging trends such as ESG. Centres having more of such tenants will be able to stay relevant, in our opinion, over the longer term and be better able to maintain their asset values.

High-end Hospitality

With travel restrictions still in force globally, asset values within the high-end hospitality sector continued to contract in H2 2020 as average daily rates (ADR) across the region fell between 10% to 20% and occupancy never crossing more than 50%. Hampering this has been the various efforts by governments to build travel bubbles or restricted re-openings of their tourism industries. The most notable example was the Singapore – Hong Kong green lane that was due to open in late November 2020 being delayed due to a resurgence of infections.

While domestic travel and using hotels as quarantine sites for returning residents have been able to inject some much needed cashflow, the high-end hospitality sector is going to remain challenged over the coming six months. There is, however, optimism for travel to restart in H2 2021 when a greater percentage of the population has been vaccinated which should kick-off the much-awaited recovery for the sector.

Online retail penetration rates in Asia-Pacific region

MARKET	EST. END-2020 ONLINE RETAIL PENETRATION	EST. ONLINE RETAIL GROWTH IN 2020 (% YOY)
CHINESE MAINLAND	33%	12%
SOUTH KOREA	30%	20%
AUSTRALIA	15%	13%
JAPAN	12%	20%
SINGAPORE	10%	11%
VIETNAM	8%	8%
INDONESIA	6%	13%
INDIA	5%	8%
MALAYSIA	5%	17%
THAILAND	4%	11%
PHILIPPINES	2%	17%
AVERAGE		**14%**

Source: Knight Frank

CONCLUDING REMARKS

While things are gradually improving for the real estate sectors across Asia-Pacific, it is still a cold start for many economic engines within the region and will take some time for them to return to normality. However, this faster recovery does make Asia-Pacific an interesting prospect for potential investors especially given the current low interest rate environment. We believe the markets in **Chinese Mainland** along with traditional safe havens such as **Australia** and **Singapore** present the best risk reward opportunities presently. While rents in certain sectors such as office, retail and hospitality will remain under pressure over the coming six months, yields should continue to remain stable and balance out and minimize any significant movements in asset values.

ASIA-PACIFIC VALUE MOVEMENT DASHBOARD

MARKETS	CITY	Prime Residential VALUE MOVEMENT	Prime Residential FORECAST	Prime Office VALUE MOVEMENT	Prime Office FORECAST	Prime Retail VALUE MOVEMENT	Prime Retail FORECAST	High-tier Industrial VALUE MOVEMENT	High-tier Industrial FORECAST	High-end Hospitality VALUE MOVEMENT	High-end Hospitality FORECAST
AUSTRALIA	Sydney	→	→	↓	→	↓	↓	→	→	↓	→
	Melbourne	→	↑	↓	↓	↓	↓	↓	→	↓	→
	Brisbane	→	↑	↓	→	↓	↓	↑	→	↓	→
	Auckland	↑	↑	↑	→	→	→	↑	↑	↓	↓
	Christchurch	→	↑	→	→	↓	→	↑	↑	↓	↓
EAST ASIA	Beijing	→	→	→	↓	↓	↓	→	→	↓	→
	Shanghai	↑	↑	↓	↓	↓	→	↑	↑	↓	↓
	Guangzhou	→	↑	↓	→	↓	↓	→	↑	↓	→
	Shenzhen	↑	↑	↓	↓	↓	↓	↑	↑	↓	→
	Hong Kong	→	→	↓	↓	↓	↓	→	→	↓	↓
	Taipei	↑	↑	↑	↑	↓	↓	↑	↑	↓	↓
	Tokyo	→	→	→	→	↓	→	↑	→	↓	↓
	Seoul	↑	↑	↑	→	↓	↓	↑	↑	↓	→
INDIA	Mumbai	↓	→	↓	→	↓	↓	→	→	↓	↓
	NCR	↓	→	↓	→	↓	↓	→	↑	↓	↓
ASEAN	Singapore	↑	↑	→	→	↓	↓	→	↑	↓	↓
	Kuala Lumpur	↓	↓	↓	↓	→	↓	→	→	↓	↓
	Penang	→	↓	→	→	↓	↓	↑	↑	↓	↓
	Jakarta	↓	→	↓	→	↓	→	→	→	↓	↓
	Bangkok	↓	→	→	→	↓	→	→	→	↓	↓
	Manila	→	→	→	→	↓	↓	→	↑	↓	↓
	Phnom Penh	↓	↓	→	↓	→	→	→	→	↓	↓

Source: Knight Frank

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

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