News Release

Malaysia among Top 10 recipient of cross-border capital in the Asia Pacific

9 July 2019, Malaysia – Knight Frank, the independent global property consultancy, today launches the 2019 edition of its flagship report, *Active Capital*. The report delves into the sources and destinations of cross-border investments in commercial real estate and highlights five themes shaping the next phase of global real estate investment: late cycle investing, capital gravity, the reinvention of capital, 'nownership' and the value of data.

Asia-Pacific inbound capital

Between Q1 2018 and Q1 2019, **China** remains the largest recipient of cross-border capital in Asia Pacific as the Middle Kingdom's economic prowess continues to attract attention from foreign investors. This is followed by developed Asian economies such as **Australia**, **South Korea**, **Japan** and **Singapore**, as these matured economies are commonly viewed as safe havens in the eyes of key investors such as REITs, private equity firms and hedge funds.

James Buckley, Executive Director of Capital Markets at Knight Frank Malaysia said, "Malaysia saw an 18% year-on-year increase in cross border capital in first quarter 2019, placing it in the top 10 countries in Asia Pacific. Overseas investors are carefully watching the progress of the new government who have made some encouraging progress in tackling corruption and cutting costs, particularly the renegotiation of Chinese backed infrastructure projects. With high supply in the office and retail sectors, we are particularly focused on alternative real estate sectors such as car parking, educational and logistics investment properties where the fundamentals are stronger. We have also seen good demand from overseas groups for hospitality assets. We anticipate that there will be increasing repositioning opportunities for older office buildings where increasing vacancy may lead owners to consider alternative uses."

Top 10 routes of cross-border capital into Asia Pacific

Destination Market	12-months to Q1 2018 (US$ bn)	12-months to Q1 2019 (US$ bn)	% Change
Mainland China	9.1	14.3	56%
Australia	11.2	13.1	17%
South Korea	2.3	5.7	147%
Japan	11.7	4.3	-64%
Singapore	2.6	3.9	49%
Hong Kong	8.1	3.9	-52%
India	3.9	2.6	-34%
Taiwan	0.0	1.2	7218%
New Zealand	0.9	1.2	31%
Malaysia	0.6	0.7	18%

Source: Knight Frank/RCA

Into extra time

The report discusses the implications for real estate investors in the late cycle environment, arguing that many markets will not see returns hit recent highs.

“With ongoing trade tensions and heightened economic uncertainties, many Asia-Pacific central banks have opted for a more dovish stance on their monetary policies as economies start decelerating. In the past six months alone, five Asia-Pacific central banks have cut their benchmark interest rates following weaker than expected Q1 2019 GDP growth,” said **Nicholas Holt, Asia-Pacific Head of Research, Knight Frank**.

“While this will support real estate pricing, given the stage in the cycle, investors searching for higher returns are increasingly pivoting towards alternative assets and fringe markets,” **Holt** added.

The Residential Lifecycle

The global residential sector had undergone some transformation in recent years, especially in developed countries, as occupiers across all-age groups began to adopt an asset light model, preferring to rent rather than owning their residence. This occurs as the modern society favors flexibility and experience of living over the possession of tangible assets. This has resulted in the proliferation of co-living spaces.

Allan Sim, Executive Director of Capital Markets at Knight Frank Malaysia said, “In some developed Asian markets such as Hong Kong and Singapore, with the scarcity of land as well as high property prices, developers see the opportunity to fill the gap with co-living spaces targeting young professionals.

“In Malaysia, as the co-working trend continues to gain traction, the idea of co-living which shares similarities with co-working is expected to take shape, especially in well-connected business districts. Challenges in the property market have also prompted developers to be more creative in generating expected revenue, resulting in the emergence of developments with co-living elements. For example, co-living spaces such as Co-Coon Co-Living KL by Tan & Tan Developments Berhad and the incoming Lyf Raja Chulan Kuala Lumpur by The Ascott Ltd are beginning to make inroads into Malaysia.

“The demand for co-living spaces, which is intertwined with co-working, is poised to grow in the mid-term given rapid urbanisation coupled with the shift in lifestyle habits especially among the millennial generation,” **Allan Sim** added.

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Notes to Editors

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