Knight Frank Asia-Pacific

Asia-Pacific Real Estate Outlook

2021: Navigating The Post-Pandemic Recovery

Trends to Watch

We entered 2020 with cautious optimism as Asia-Pacific property markets remained relatively healthy and the phase one trade deal was signed between the US and China. Then COVID-19 struck, throwing markets into turmoil, and with it, knocking many of our previous forecasts off-course. This year has been dominated by the pandemic, with activity and performance of the various real estate asset classes linked to just how they have been impacted by the virus. As this report highlights, geographies and property types have all been influenced by lockdowns, restrictions, and the ensuing economic weakness. However, as we now look towards 2021 and the potential recovery it may bring, here are six trends that give a sense of what lies ahead.

1 Work-from-home experiment will leave a lasting impact

Corporates across most of Asia-Pacific are now re-examining what the new workplace will look like following an extended period of forced working from home. While some considerations are purely cost driven, corporates are undoubtedly thinking differently about how the workplace can effectively meet their employees' needs. Workplace strategy will vary across the region based on sector, market, and cultural nuances. On balance, we do not believe that working from anywhere will overwhelm the traditional office, although some elements of flexible working will become more mainstream.

2 Logistics driven by e-commerce and supply chain security

The industrial and logistics markets across Asia-Pacific have been a bright spot in 2020, with our forecasts both in the occupier and investment market pointing to a repeat in 2021. The growing adoption of 5G, enhanced by IoT devices, will help drive efficiencies, attracting more customers online while offering a host of new functions to logistics companies. Meanwhile, increased concerns around supply chain resilience and manufacturing security will continue to drive activity around the region with certain sectors such as biomedical shifting from 'just in time' to 'just in case'.

3 Investors circling for distress may be disappointed

While there have been some commercial assets traded at a modest discount in recent months, the optimistic view of a recovery in 2021 means that those looking for a bargain may have to move up the risk curve to find distress. With more uncertainty around the road to recovery back to pre-COVID levels, sectors such as hospitality and retail will be where these opportunities will lie.

4 Monetary policy to remain supportive of residential markets

Residential markets have surprised many on the upside especially in markets like Singapore and Hong Kong SAR where new launches continue to see healthy demand; despite weakening economic conditions. With low interest rates and policy makers unlikely to dampen buoyant markets, we expect 2021 to continue to be a positive year for most of the region's markets.

5 Real estate to contribute to the 'Green Recovery'

China's plan to go carbon-neutral by 2060 is a major statement that will impact real estate. With the built environment responsible for up to 40% of carbon emissions, expect it and others to increasingly look at decarbonising real estate through legislation and standards. Developers, end-users and creditors who are all placing a greater emphasis on Environment, Social, and Governance (ESG) and sustainability will place going green higher on the agenda.

6 US-China relations to continue to be important for the region

Behind the rhetoric, bilateral US-China investment and trade continues to be of huge significance to both countries and the region. While the President-elect may utilise different tactics, such as re-engaging with multilateral institutions and agreements, the broad US policy of being tough on China is likely to continue. If the change in tactics leads to a slight thawing of tensions, this could reduce uncertainty and boost sentiment domestically and throughout Asia-Pacific.

Markets and Sectors to Watch in 2021

Prime Residential

Prices are expected to rise moderately next year, driven in part by the continued low interest rate environment. The easing of restrictions and re-opening of economies will further reduce the uncertainties surrounding the labour market, while the re-opening of borders will see the gradual return of high-net worth foreign buyers.

Markets to watch in 2021

Auckland Prime Residential:

- Low interest rates and loose lending requirements drove growth in 2020 and are likely to persist in 2021
- Growth will continue in 2021 but at a more moderate pace, given the likelihood of loan policy tightening to maintain market balance

Singapore:

- Domestic demand remains resilient heading into 2021
- Further easing and resumption of travel will see return of foreign buyers

Prime Office

Improving economic conditions will bring about some relief for the office market as more workers return to the office and firms determine their new workplace strategies, which will lead inevitably to reduced space requirements, adding further to supply headwinds. Expect Asia-Pacific prime office rents to decline -3% to 0%.

Markets to watch in 2021

Singapore:

- Singapore continues to solidify its position as the main gateway to access Southeast Asian markets and a natural choice for firms looking to locate their regional head offices
- An expected decrease in rents between -10 to -5% next year presents attractive entry points for occupiers

Hong Kong SAR Prime Office:

- Remains one of the main gateways for accessing the Chinese mainland
- Rents to decline another 10% in 2021, as economic recovery remains slow

Prime Industrial

Expect the momentum gained this past year to continue into 2021 as fundamental drivers remain in place, coupled with the continued growth of online retail consumption at the expense of traditional brick and mortar.

Markets to watch in 2021

Bangkok Logistics:

- Sector remains resilient despite challenging economic conditions and recent social unrest
- Limited supply growth in the coming years
- 2021 to benefit from resumption of production, growth of e-commerce and growing importance of last-mile logistics

India Warehouse:

- Warehouse sector continues to evolve to cater to institutional requirements
- Demand remains resilient, supported by limited Grade A warehouse supply within key markets
- E-commerce demand expected to more than double from now till 2022, driving warehouse demand growth

Capital Markets

Activity expected to slowly improve on the back of the resumption of international travel, but transaction activity will mostly be focused on the 'safe haven' core markets within the region.

Markets to watch in 2021

Australia Commercial

- Office assets in Sydney and Melbourne will continue to be highly sought after by investors given Australia's strong prospects for economic recovery, long-term growth potential, and 'safe haven' characteristics

Asia-Pacific Warehouse

- Investors to continue investing into warehouses given the growth expectations for e-commerce within Asia-Pacific

Specialist Sectors

Alternative real estate in the living sectors expected to see more interest as investors looking to diversify beyond core office assets turn to 'living sectors' such as student housing and senior living, given their proven stable recurring income flows.

Markets to watch in 2021

Bengaluru Student Housing

- Largest university student population expected to grow further on the back of government policy
- Highly fragmented market, generally low quality, and not suitable for student needs (e.g. off-campus, lacking security)
- Bengaluru is a key employment hub and has the greatest number of universities in India

Senior Living

- Senior living expected to garner more interest from developers and investors. During 2021, aging population concerns will rise up the agendas of regional governments

"2020 has been an unpredictable year for the Asia-Pacific real estate markets and one whose repercussions will be felt for years to come. In many ways, COVID-19 has accelerated trends already underway such as the growth in online retail, flexible working and more resilient supply chains. We expect these trends to continue apace even after COVID is brought under control in most markets."

Kevin Coppel
Managing Director
Knight Frank Asia-Pacific

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Prime Residential

2020 Wrap Up: Surprising Resilience Despite Obvious Challenges

Many had expected residential markets across Asia-Pacific to stumble given the unprecedented challenges brought on by the pandemic as viewings ceased and show suites closed, pushing buyers to the side lines for several months in most markets. This, coupled with the region entering recession and heightened job insecurity should have all but sealed the fate for the sector this year.

However, while overall volumes did contract significantly initially, demand proved to be more resilient than expected as several markets reported quick recoveries of transaction volumes as months of lockdown saw pent-up demand build.

In the table below, our COVID-19 sentiment survey of our local teams showed a monthly decline of transaction activity across the region in March which has gradually lifted through to October. For example, Singapore reported primary non-landed home sales almost doubling monthly from May to July following the easing of its 'circuit breaker' restrictions. Similarly, new home sales in the Chinese Mainland were quick to rebound back to normalised levels with monthly sales rates equal to that of 2019.

Transaction Volume Activity Improved Across The Region

COVID-19 Sentiment Survey - Residential Transaction Activity							
Market	March		May		July		October
Sydney	↓		→		→		→
Melbourne	↓		↓		↓		→
Auckland	→		→		↑		↑
Jakarta	↓		↓		↓		↓
Singapore	↓		↓		↑		→
Kuala Lumpur	↓		↑		↑		↓
Bangkok	↓		→		→		↓
Manila	↓		↓		→		→
Phnom Penh	→		↓		→		→
Tokyo	↓	→	↓	→	→	→	→
Seoul	↓		↑		↓		→
Taipei	↓		→		↑		↑
Shanghai	↓		↑		↑		↑
Beijing	↓		↑		↑		↓
Guangzhou	↓		↓		↑		↑
Shenzhen	↓		↑		↓		↑
Hong Kong SAR	↓		→		↓		→
Mumbai	↓		→		→		↑
Delhi	↓		→		→		↑
Bengaluru	↓		→		→		↑

Source: Knight Frank Research

Comparably, prices across Asia-Pacific were surprisingly resilient, with 12 out of the 22 prime markets tracked by Knight Frank recording either stable or increasing prices year-on-year for 2020 (based on our data as at Q3 2020) with an average price increase of 1%. The main driver behind this result is the current low interest rate environment across the region as governments took aggressive steps to ease monetary policy to minimise the economic fallout from the pandemic. Examples of such policies include the PBOC reducing its reserve rate requirement for its banks several times this year, releasing roughly US$250 billion (c.2% of GDP) of credit into its economy, while others such as the Reserve Bank of Australia brought its benchmark interest rate to a record low of 0.1% via three interest rate cuts.

***12 out of the 22** prime markets tracked by Knight Frank recorded either stable or increasing prices year-on-year for 2020*

Asia-Pacific Prime Residential YTD 2020 Price Growth

Region	Market	Prime Residential YTD 2020 Price Growth (%)
Australasia	Sydney	0.0%
	Melbourne	-1.1%
	Brisbane	-0.7%
	Perth	0.7%
	Gold Coast	1.3%
	Auckland	16.0%
East Asia	Shanghai	4.4%
	Beijing	1.5%
	Guangzhou	1.0%
	Shenzhen	8.9%
	Hong Kong SAR	-5.5%
	Taipei	0.7%
	Tokyo	0.3%
	Seoul	2.5%
India	Bengaluru	-1.4%
	Mumbai	-1.3%
	NCR	-0.1%
ASEAN	Jakarta	-1.2%
	Kuala Lumpur	-3.7%
	Singapore	-3.4%
	Bangkok	-6.3%
	Manila	10.2%
Average		1.0%

Source: Knight Frank Research

2021 Outlook

Heading into 2021, our expectations are for a repeat of 2020's performance with stable to moderate price growth in 17 out of 22 markets, underpinned by continued low interest rates. Furthermore, most markets across the region are starting to re-open and ease their COVID-19 restrictions (as long as new infection cases remain low) which should reduce the risk of a rapid rise in unemployment. The re-opening of borders will also bring back high-net-worth foreign buyers who have largely been absent this year, benefitting markets such as Singapore, Australia and New Zealand. All in all, these factors should act as a floor for market sentiment in the coming year and bring more confidence as economies start to recover.

Asia-Pacific 2021 Prime Residential Forecast

Region	Market	2021 Residential Price Growth Forecast
Australasia	Sydney	→
	Melbourne	→
	Brisbane	→
	Perth	→
	Gold Coast	→
	Auckland	↑
East Asia	Shanghai	↑
	Beijing	↑
	Guangzhou	↑
	Shenzhen	↑
	Hong Kong SAR	↓
	Taipei	→
	Tokyo	→
	Seoul	↑
India	Bengaluru	→
	Mumbai	→
	NCR	→
ASEAN	Jakarta	↓
	Kuala Lumpur	↓
	Singapore	↑
	Bangkok	↓
	Manila	↓

Source: Knight Frank Research

***17 out of 22** markets tracked by Knight Frank are expected to see stable or increasing prices in 2021*

2021 Opportunities

Auckland Prime Residential

Auckland's prime residential market has been remarkably strong throughout 2020, up 16% year-to-date according to our estimates. Key drivers have been low borrowing costs, looser lending requirements, and an economy in recovery post COVID-19; supported by both healthy end-user and investor demand. Heading into 2021, these supportive fundamentals will likely remain in place. However, growth is expected normalise, given the likelihood of some tightening of lending requirements to maintain market balance. Our expectations are for prices to rise between 2% to 4% next year.

Singapore Prime Residential

Singapore's prime residential market has weathered the COVID-19 storm relatively well, relying largely on domestic demand and low interest rates. New sales volume in the private residential market has been buoyant since the lifting of some 'circuit breaker' restrictions in June but have since eased slightly toward the end of 2020 as pent-up demand was satisfied. Nonetheless, with expectations of further easing in Phase 3 of the 'circuit breaker' as well as the potential resumption of some international leisure travel and the subsequent return of foreign buyers, we see potential upside for demand to remain healthy in the coming year. We expect prices to remain stable, moving in the range of -1% to 4% in 2021.

“Markets are expected to further strengthen in 2021 as economic conditions improve across Asia-Pacific, supported by a period of low interest rates next year. The anticipated lifting of border restrictions during 2021 should see the return of foreign investors particularly in key gateway markets such as Tokyo, Hong Kong SAR, Singapore and Sydney.”

Victoria Garrett
Head of Residential
Knight Frank Asia-Pacific

Prime Office

COVID-19 Office Sentiment Survey - Market Balance

The COVID-19 pandemic has brought about unprecedented challenges for the office sector with large swathes of the population confined to working from their homes and many corporate occupiers forced to reimagine their workplace strategies. Furthermore, corporate real estate strategies are now being brought to the front and centre of leadership agendas in order to navigate the post-COVID world.

With Asia-Pacific economies entering recession in 2020, occupiers across the region have generally delayed major corporate real estate decisions, hampering demand. Whilst some are already taking action by reducing their footprints as they incorporate more remote working solutions into their workplace strategies, many continue to adopt a wait-and-see approach. Landlords have also shifted their asset management strategies by putting the level of building occupancy as the top priority, leading to some moderating of rents to attract or retain occupiers as markets shift in favour of tenants.

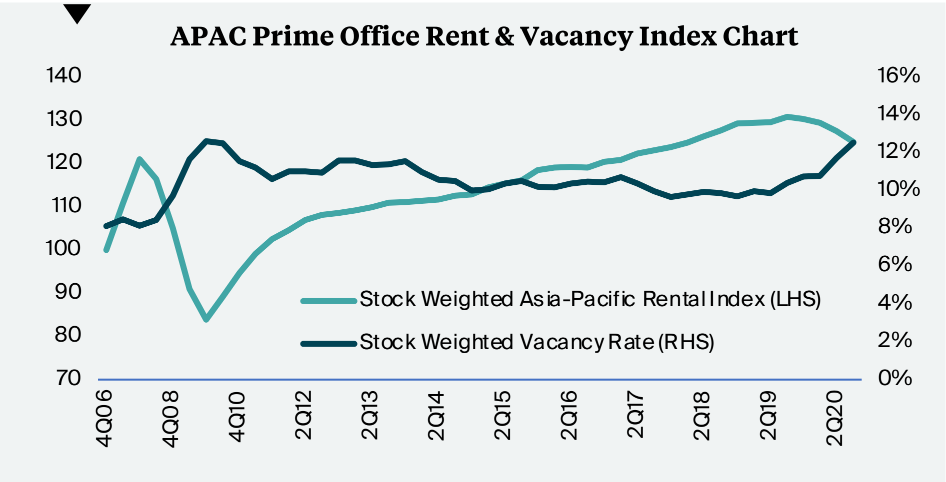
COVID-19 Sentiment Survey – Office Market Balance Table

COVID-19 Sentiment Survey - Office Market Balance							
Markets	March		May		July		October
Sydney	Tenant		Tenant		Tenant		Tenant
Auckland	Tenant		Tenant		Tenant		Tenant
Jakarta	Tenant		Tenant		Tenant		Tenant
Singapore	Tenant		Tenant		Tenant		Tenant
Kuala Lumpur	Tenant		Tenant		Tenant		Tenant
Bangkok	Landlord		Landlord		Balanced		Balanced
Manila	Balanced		Tenant		Tenant		Tenant
Phnom Penh	Tenant		Tenant		Tenant		Tenant
Tokyo	Balanced	→	Landlord	→	Balanced	→	Balanced
Seoul	Balanced		Balanced		Tenant		Landlord
Taipei	Balanced		Landlord		Landlord		Landlord
Shanghai	Tenant		Tenant		Tenant		Tenant
Beijing	Tenant		Tenant		Tenant		Tenant
Guangzhou	Tenant		Balanced		Tenant		Balanced
Shenzhen	Tenant		Balanced		Tenant		Tenant
Hong Kong SAR	Tenant		Tenant		Tenant		Tenant
Mumbai	Balanced		Balanced		Balanced		Balanced
Delhi	Balanced		Balanced		Balanced		Balanced
Bengaluru	Balanced		Balanced		Balanced		Balanced

Source: Knight Frank Research

With the lack of activity, office rents across the region for 2020 fell 4.0% year-on-year, which was in-line with our -5% to -3% growth expectations. The trend was led by Hong Kong SAR which fell 13.6% year-to-date as a result of prolonged challenges for its economy due to the US-China trade tensions and social unrest in early 2020, followed by the pandemic. Similarly, vacancy across the region softened as expected, rising 1.8% to 12.6%. This was led by Shanghai which rose 6.7% to 20.1% in the past year as demand softened significantly and at the same time around 2 million sqm of new space was added to the market in H2 2020.

Prime Office rents for Asia-Pacific fell 4.0% year-on-year while vacancy rose 1.8% to 12.6% in 2020



Source: Knight Frank Research

2021 Outlook

Improving economic conditions expected in 2021 will bring about some relief for the office market as more workers return to the office and firms finalise their new workplace strategies – e.g. keep the status quo, more remote working, distributed hubs, fewer dedicated desks and more innovation spaces etc.

Although the extent will vary across the region due to sector, market specifics, and cultural nuances, we anticipate many firms will adopt some form of extended work-from-home or work-from-anywhere practice resulting in some downsizing and consequent savings in occupancy costs. However, we also expect that the main office will continue to serve as a meeting focal point for employees who require face-to-face interactions to meet their work objectives. The returned space will not only push up vacancies but also bring more supply to the market in the form of sub-leasing.

There is also likely to be a shift in how a typical office is configured in the near future, with less emphasis on dedicated workstations and a move towards more innovation and collaborative spaces (e.g. in-house cafes, larger pantries, more meeting rooms, open desk seating areas etc.); which could also see more unutilised space returned to the market.

However, the major headwind facing the Asia-Pacific office sector in 2021 will come from new supply as several markets such as Jakarta, Manila, Shanghai, Beijing and Bengaluru have large supply development pipelines which are due for completion over the coming years. On average, these markets are expected to see 20 to 30% of existing stock potentially complete by 2022. Some markets, such as Manila and Bengaluru, have the benefit of low existing vacancies that will enable them to absorb much of the supply shock, but others such as Jakarta, Shanghai and Beijing, with their higher vacancies, are expected to face a prolonged challenging period.

Taking stock of all these, our expectations are for Asia-Pacific prime office rents to decline between -3% to 0% in 2021, with 13 out of 22 of our local teams forecasting conditions to decline in their markets next year. However, prime grade office asset values should remain relatively stable despite the rental decline, given their more resilient lease profiles, and the fact that yields will be buffered by the low interest rate environment.

Asia-Pacific 2021 Prime Office Forecast

Region	Market	2021 Office Market Forecast
Australasia	Sydney	↓
	Melbourne	↓
	Brisbane	↓
	Perth	↓
	Auckland	↓
East Asia	Shanghai	↓
	Beijing	→
	Guangzhou	→
	Shenzhen	↓
	Hong Kong SAR	↓
	Taipei	↑
	Tokyo	→
	Seoul	→
India	Bengaluru	↑
	Mumbai	→
	NCR	→
ASEAN	Jakarta	↓
	Kuala Lumpur	↓
	Singapore	↓
	Bangkok	↓
	Phnom Penh	→
	Manila	↓

Source: Knight Frank Research

Expect Asia-Pacific Prime Office rents to decline between -3% to 0% in 2021

2021 Opportunities

Singapore Prime Office

Singapore continues to solidify its position as the main gateway to access Southeast Asian markets and a natural choice for firms looking to locate their regional head offices. We have seen this trend occur in recent years especially from the tech industry where giants such as Alibaba, Amazon, and Google have chosen the to locate their regional headquarters in Singapore. This trend is expected to continue - for example, ByteDance (creator of TikTok) recently announced plans to invest several US$ billion to build its beachhead in Singapore.

With rents expected to decrease between -10 to -5% in 2021, average Grade A rents in Singapore may fall to as low as S$8.50 psf pm by the end of 2021, a c.20% decline from its recent end-2019 peak. For firms looking to enter the Southeast Asian region or solidify their presence, Singapore's office market will present attractive entry points in 2021, not only from a rental but also a supply perspective, with several high-quality, low-commitment new buildings entering the market in the next few years.

Hong Kong SAR Prime Office

Despite recent challenges, Hong Kong SAR will continue to be one of the region's key business hubs and one of the main gateways to access the Chinese Mainland; coupled with attractive free market policies and a low tax regime. Hence, it is expected to remain a magnet for both multinationals looking to access the Chinese Mainland as well as Mainland corporates looking to access Asia-Pacific and global markets.

Despite its key position, we expect Hong Kong SAR Grade A office rents to continue to trend downwards in 2021 as a result of COVID-19 and slow economic recovery, declining potentially at around 10% as compared to the 15% decline seen in 2020. This, however, is predicated on the normalising of relations between the US and the China.

In a similar vein to Singapore, the expected decline in Hong Kong SAR office rents in the coming year will present an attractive entry opportunity for occupiers looking to strengthen their existing footprint or move to a more premium location. With no major new supply expected to complete before 2022, rents in Hong Kong SAR could quickly stabilise once economic conditions start to show sustained improvement.

“While leasing activity has picked up in H2 2020 as markets have eased restrictions, we continue to see downward pressure on office rents. Whilst this trend will likely carry over into 2021, core markets such as Singapore and Hong Kong SAR will present attractive opportunities in the short to medium term for occupiers looking to strengthen their footprints before a likely stabilisation and improvement in economic conditions.”

Tim Armstrong
Head of Occupier Services and Commercial Agency
Knight Frank Asia-Pacific

Prime Industrial

2020 Wrap Up: Momentum to Continue in 2021

The prime industrial sector has been the biggest beneficiary of the pandemic this past year with lockdown and movement restrictions in many markets prompting a huge shift to online retail activity. Much of this will be permanent and result in higher online retail sales growth and penetration rates across the region, regardless of market maturity.

Online Retail Penetration and Growth in 2020 (selected markets)

Market	Est. end-2020 online retail penetration	Est. online retail growth in 2020 (% YoY)
Chinese Mainland	33%	12%
Japan	12%	20%
Australia	15%	13%
India	5%	8%
South Korea	30%	20%

Source: Knight Frank Research

This sudden surge in e-commerce activity caught some logistics operators off-guard, meaning they had to scramble to find more space to keep up with the burgeoning demand or risk major supply disruptions in an industry where customer experience and on-time delivery is crucial. Furthermore, there is a lack of quality warehouse supply suitable for e-commerce players, especially within the emerging markets. As a result, despite the challenging economic environment, prime warehouse rents across the Asia-Pacific region have generally remained stable or increased throughout the year.

COVID-19 Industrial Sentiment Survey – Asking Rents

COVID-19 Sentiment Survey - Industrial Asking Rents				
Markets	March	May	July	October
Sydney	→	→	→	→
Auckland	→	→	→	→
Jakarta	↓	→	→	↓
Singapore	↓	↓	↓	→
Kuala Lumpur	→	→	→	→
Bangkok	→	→	→	→
Manila	→	→	→	→
Phnom Penh	→	→	→	→
Tokyo	→	→	→	↑
Seoul	→	→	→	↑
Taipei	↓	→	→	→
Shanghai	↓	↓	→	↑
Beijing	↓	↓	→	→
Guangzhou	↑	→	↑	↑
Shenzhen	↑	→	→	↑
Hong Kong SAR	↓	→	→	→
Mumbai	↓	↓	→	→
Delhi	↓	↓	→	→
Bengaluru	↓	↓	→	→

Source: Knight Frank Research

2021 Outlook

We expect the momentum gained this past year to continue over the coming 12 months as most of the fundamental drivers of 2020's solid performance remain in place, including the continued growth of online retail. Furthermore, many consumers were forced to adapt to e-commerce platforms for their household necessities during lockdown periods. We expect these consumers to continue to utilise these platforms even as lockdowns ease, adding more demand for warehouse space.

The rise in e-commerce demand is also a good leading indicator for the potential rapid growth of the data centre sector within Asia-Pacific, especially within Southeast Asia (ex. Singapore) where it remains in its infancy. As the middle class in South East Asia grows, there will be a boom in technology and data consumption over the medium to long term. Southeast Asia will be a region that data centre investors, occupiers, and solution providers find hard to ignore, which will in turn further boost demand for the prime industrial sector.

Taking all these together and looking forward to 2021, across the 17 markets tracked by Knight Frank, we are expecting all to see either stable or improving rents in the coming year, which should lead to further asset price appreciation.

Asia-Pacific 2021 Prime Industrial Forecast

Region	Market	2021 Industrial Market Forecast
Australia	Sydney	→
	Melbourne	↑
	Brisbane	→
East Asia	Shanghai	↑
	Beijing	↑
	Guangzhou	↑
	Hong Kong SAR	→
	Taipei	↑
	Tokyo	↑
India	Bengaluru	→
	Mumbai	→
	NCR	→
ASEAN	Jakarta	→
	Kuala Lumpur	→
	Singapore	↑
	Bangkok	→
	Manila	↑

Source: Knight Frank Research

In 2021, industrial rents are forecast to remain stable or improve in all 17 Asia-Pacific markets tracked by Knight Frank

Supply of quality warehouse space remains a hurdle for most markets within the Asia-Pacific region, especially among emerging economies where quality infrastructure on a broad scale needed to support efficient supply chains remains immature. However, things are starting to change with the introduction of widespread programs such as Chinese Mainland's Belt and Road initiative (BRI) and the business community adopting the China Plus One strategy by diversifying their manufacturing sources into the Indochina markets.

Evidence of this can be seen from the BRI channelling US$26.2 billion worth infrastructure investments into the Indochina markets since the BRI's inception in 2014. This capital has fuelled large initiatives such as Thailand's Eastern Economic Corridor project which has facilitated the more efficient movement of goods between the southern port cities and Bangkok.

2021 Opportunities

Bangkok Logistics

While most Southeast Asian industrial markets are expected to do well in 2021, Bangkok's logistics segment stands out given the resilience it has shown in 2020, despite the challenging economic conditions and recent social unrest, as compared to its regional peers. For 2020, Bangkok's logistics rents remained stable year-on-year at THB157.2 psm per month, driven mainly by landlords electing to grant rental deferments or rebates for their existing tenants instead of decreasing rents. Growth in supply is expected to remain limited in the coming year as developers opt to focus on improving the performance of their current stock over launching new projects. Going forward, Bangkok's logistics sector should see an improvement in 2021 as production resumes, supported by the continued growth of e-commerce and increasing importance of last-mile logistics.

India Warehouse

The level of institutional interest for India's warehouses has elevated its quality from simple sheds to modern logistics facilities that facilitate inventory management, secondary packaging, cross-docking and extracting products in the least possible time. Demand for warehouses has remained relatively resilient this year, falling only 11% year-on-year, as compared to the 44% CAGR recorded from FY17 to FY20. This was led in part by the limited supply of Grade A warehouses in key markets such as Bengaluru and Hyderabad. Going forward, India's warehouse sector is expected to remain comparatively less impacted by the ongoing pandemic due to rising e-commerce demand which is expected to grow from US$70 billion in FY19 to an estimated US$160 billion by 2022.

"The outlook for industrial markets heading into 2021 remains positive as the growth of online shopping will buoy demand for warehouse space, last-mile distribution centres, and data centres."

Tim Armstrong
Head of Occupier Services and Commercial Agency
Knight Frank Asia-Pacific

Capital Markets

2020 Wrap Up:
Safe Havens in Demand

2020 has proven to be a challenging year for the capital markets across the Asia-Pacific region as domestic movement and international travel restrictions hampered investor activity. Overall commercial transaction volumes YTD October fell 33% YoY to US$106 billion compared to the same period last year. While the decline was led by the traditionally popular markets within the region such as Hong Kong SAR and Singapore, down 56% and 69% respectively, the drop in transaction volumes was not systemic across the region as some bright spots did emerge.

Asia-Pacific Markets Commercial Transactions (YTD)

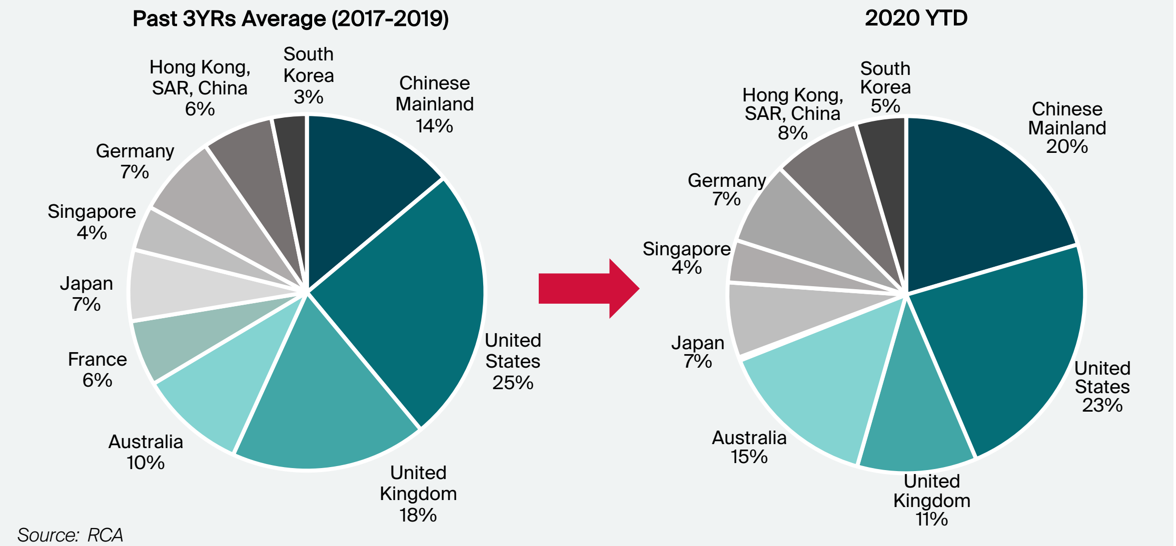
Source: RCA

South Korea has outperformed this year, recording year-on-year commercial transaction volume change of 3% to US$19.5 billion as at the end of October 2020, when compared to the same period last year. This was driven mainly by healthy domestic and cross-border investor demand from the pre-pandemic period. Notable deals so far this year include the US$782 million paid for SG Tower and US$675 million for Doosan Tower; both office assets are located in Seoul and were acquired by local investors.

2020 also saw the flight to safety trend continue with Asia-Pacific investors focusing on traditional cross border 'safe haven' markets such as Sydney and Melbourne. For example, year-to-date cross-border commercial investments by Asia-Pacific investors into Australia accounted for a 15% share of all Asia-Pacific outbound investments, a 50% increase over the average 10% share recorded over the past three years. Two notable deals so far this year within Australia were GIC's US$433 million majority acquisition of Rialto Towers in Melbourne in June and Link REIT's US$418 million purchase of 100 Market Street in Sydney. Similarly, the Chinese Mainland also saw its share increase this year, mainly due to by several large transactions by Singaporean investors.

Australia saw a 50% increase of its share of Asia-Pacific investor outbound investments in 2020 compared to the past three years.

Asia-Pacific Cross Border Transactions Breakdown



Source: RCA

Lastly, cap rates have remained relatively stable throughout the year for the commercial markets across Asia-Pacific, as the continued availability of cheap credit has eased financing concerns for asset owners.

2021 Outlook

While COVID-19 will remain a key concern heading into 2021, investment activity across Asia-Pacific is expected to improve slowly as international borders reopen and travel resumes; Singapore recently opened up an air-travel-bubble with Hong Kong SAR which requires no quarantine for all travellers. However, we expect transaction activity will be mostly focused on the 'safe haven' core markets within the region as investors look to de-risk their portfolios, boosting volume growth and keeping cap rates stable in 2021 for these markets.

2021 Opportunities

Australia Commercial

Australia is one of the main beneficiaries of capital seeking 'safe havens' within the region given the depth of its market, its relative transparency and upside potential from further cap rate compression. We believe office assets within the central and suburban business districts of Sydney and Melbourne will continue to be highly sought after by investors given Australia's strong prospects for economic recovery and long-term growth potential. Furthermore, given the appetite Asia-Pacific investors have shown for Australian assets in 2020, and expectations for yields to largely remain stable or compress in certain sectors, we believe this is a trend that is likely to continue in 2021.

APAC Cap Markets Forecast

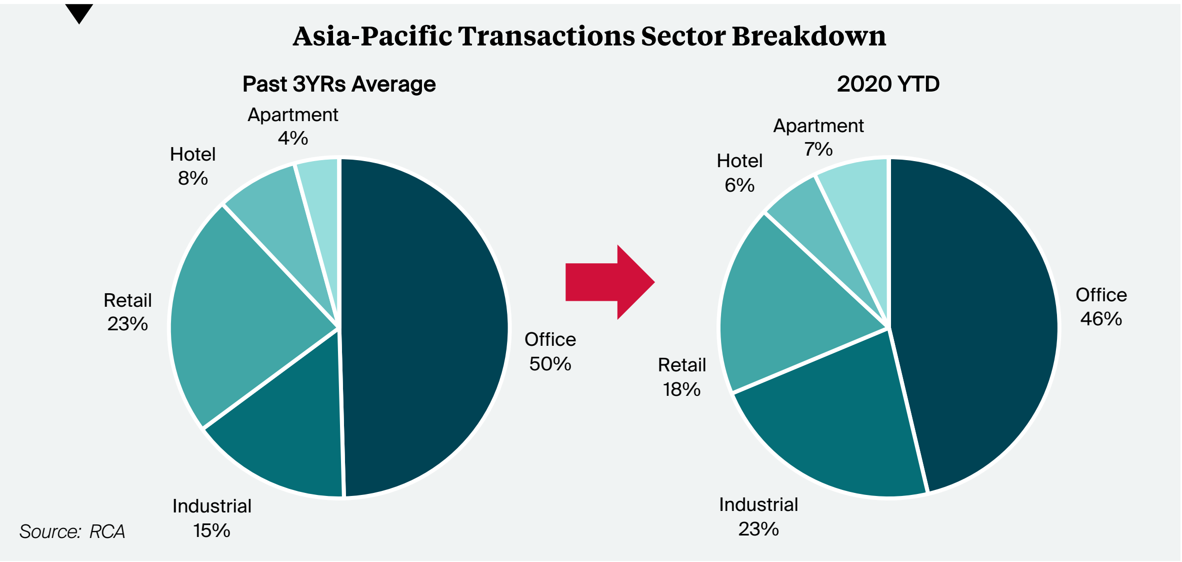
Region	Market	Sector	2021 Commercial Yield Forecast
Australia	Sydney	Office	→
		Warehouse	↓
	Melbourne	Office	→
		Warehouse	↓
	Brisbane	Office	→
		Warehouse	↓
	Perth	Office	→
East Asia	Shanghai	Office	↓
		Warehouse	↓
	Beijing	Office	↓
		Warehouse	↓
	Guangzhou	Office	→
		Warehouse	↑
	Shenzhen	Office	→
	Hong Kong SAR	Office	→
		Retail	→
		Warehouse	→
	Taipei	Office	→
		Warehouse	→
	Tokyo	Office	→
		Retail	↑
		Warehouse	→
India	Mumbai	Office	→
		Warehouse	→
	Bengaluru	Office	→
		Warehouse	→
	NCR	Office	→
		Warehouse	→
ASEAN	Manila	Office	↑
		Retail	↑
		Warehouse	↓
	Bangkok	Office	↓
	Phnom Penh	Office	↓
	Kuala Lumpur	Office	→
		Retail	→
		Warehouse	→
	Singapore	Office	→
		Retail	→
		Warehouse	→
	Jakarta	Office	→
		Retail	→
		Warehouse	→

Source: Knight Frank Research

Asia-Pacific Warehouse

The industrial sector - and by extension warehouses - has seen exceptional interest from investors in 2020 with transaction volumes involving industrial assets climbing to US$30 billion as of end October, which accounted for a 23% share of all commercial transactions. This was a c.50% increase from its 15% three-year historical average share. This healthy level of interest is expected to continue well into 2021 as investors continue to jump on the e-commerce growth bandwagon for Asia-Pacific.

Industrial investments' share of commercial transaction volumes has increased by 50% in 2020.



"While COVID-19 has dampened investor appetite in the short-term, we expect a reversal in the new year. By any yardstick, capital flows from Asia to Australia have gained momentum as investors focus on resilient markets and assets. With stable long-term growth prospects, Australia will continue to attract strong cross-border interest from Asian investors."

Neil Brookes
Head of Capital Markets
Knight Frank Asia-Pacific

"With interest rates expected to remain low in 2021 as governments focus on restarting their economies, the low borrowing costs and looser credit environment will counter weaker fundamentals and support any potential decline in asset prices generally across the region."

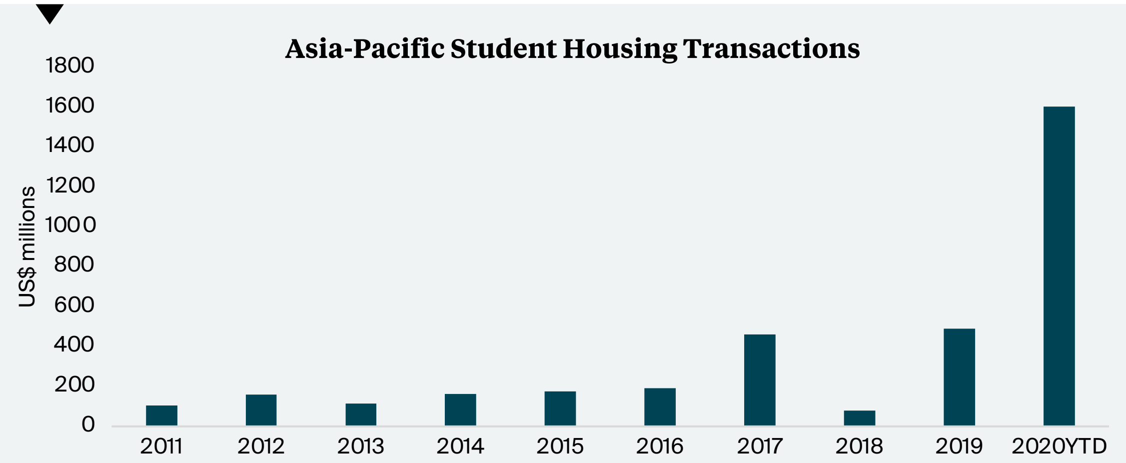
Thomas Lam
Head of Valuations and Advisory
Knight Frank Asia-Pacific

Specialist Sectors

2020 Wrap Up: Rising Interest in Living Sectors

Although alternative living sectors such as multi-family, student housing, and senior living within the Asia-Pacific region have been on investors' radar for many years, the lack of quality opportunities and limited market depth have been major obstacles for investors to fully maximise their growth expectations. Furthermore, the more attractive opportunities available in Europe and the US have attracted capital away from Asia-Pacific, resulting in lower volumes compared to other Western markets in the last few years.

In 2020, however, we saw some green shoots appear with the US$1.36 billion Urbanest student housing portfolio transaction by an AXA, APG and Allianz joint venture in Australia and Blackstone's US$2.8 billion Japan residential acquisition from Anbang Insurance. Notably, Urbanest was the largest student housing deal done within Asia-Pacific on record and this alone was more than the combined transaction volumes over the past five years, highlighting a level of confidence not seen before from the established institutional investor base.



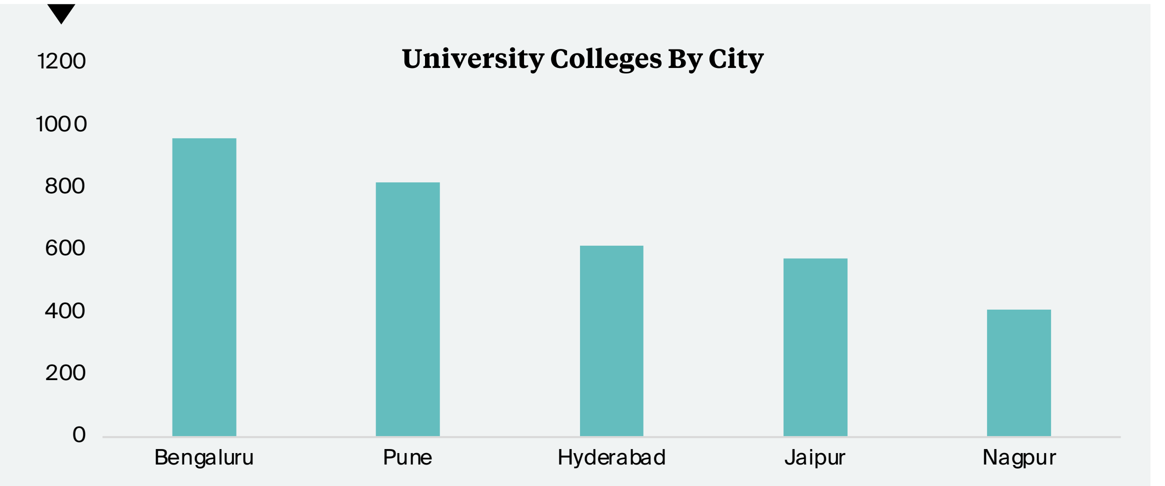
Source: RCA

2021 – Opportunities

Bengaluru Student Housing

India's student housing sector remains at an early stage despite the country having one of the largest student populations globally; current estimates stand at around 34 million undergraduates enrolled at universities across the country. The student population is expected to increase further in the coming years following the government's target to have 30% of all 18 to 23 year olds enrolled in higher education in an effort to upskill its labour force as the economy evolves; further fuelling demand.

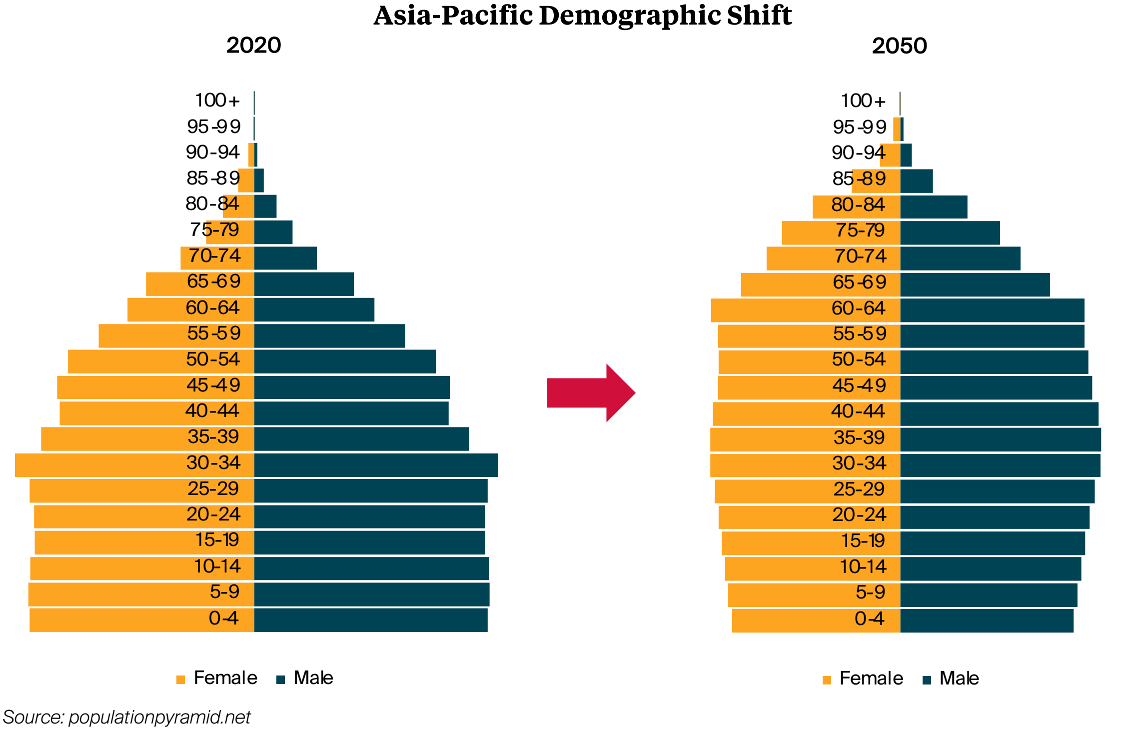
On the supply side, the student housing market is highly fragmented, run by private owners, often off-campus, and with poor quality stock with few value-adds such as WiFi, security, or laundry service. This will create significant opportunities for purpose-built student accommodation for both developers and investors, especially in India's 'Silicon Valley' Bengaluru, which has the highest concentration of universities and is the primary destination of inbound migration over the past decade.



Source: Knight Frank Research

Developed Market Senior Living

The potential growth of the senior living sector within Asia-Pacific has been at the top of investors' minds for many years, given the rapid aging of the population within developed markets such as Japan, Australia and Singapore and dwindling demographic dividends from the one-child policy in the Chinese Mainland. Over the coming 30 years, the demographics across the major Asia-Pacific economies will shift drastically as their population aged over 60 is expected to double, from 6% of the population in 2020 to 12% in 2050.



Source: populationpyramid.net

This shift will create opportunities in major cities where housing prices have outpaced income growth such as the developed Chinese Tier-1 cities. For example, many families in the Chinese Mainland are now faced with a growing challenge of supporting up to four generations under one roof which could be unsustainable as housing prices increase and families are forced to move further outside the city to afford a suitably sized home. This is where senior living could potentially flourish: by providing an alternative care solution in close proximity that would ease the burden on families caring for their elders.

"As investors look for opportunities to diversify their portfolio and adopt a defensive strategy, we expect them to pay more attention to specialist sectors such as multifamily, senior living and student housing, given their healthy long-term fundamentals."

Emily Relf
Director, Capital Markets
Knight Frank Asia-Pacific

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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