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

Asia-Pacific Property Value Movement Report

Autumn 2021

58%
OF ALL SECTORS ACROSS 22 MARKETS SAW VALUES REMAINING STABLE OR INCREASE IN H1 2021

High-tiered Industrial
CONTINUED OUTPERFORMANCE EXPECTED IN H2 2021

Australia & New Zealand
HIGHEST PROPORTION OF SECTORS WITH INCREASING OR STABLE VALUES IN H1 2021

Stabilizing
69% OF SECTORS EXPECT VALUES TO RISE/STABLE IN H2 2021

DELTA VARIANT DRAGS ON SENTIMENT

Markets endured a jittery start to the year as recovering economic activity lifted price pressures. In a throwback to the taper tantrum that engulfed markets in the region in 2013, benchmark yields on 10-year Treasuries surged 80 bps to pre-pandemic levels – reaching its highest in over a year in March – as markets wagered how long the Fed can maintain its loose monetary policies amid a recovering economy and rising commodities. However, this has since reversed as the emergence of the fast-moving delta variant heightened risk aversion as the Fed continued to signal a dovish stance on paring back bond purchases.

While safe-haven core markets have been resilient, the region's emerging markets of **India** and **Southeast Asia** have experienced the brunt of the fallout from the delta variant as authorities struggled to control infection surges. Repeated bouts of lockdown and inadequate access to vaccines have taken its toll, as values in more than half of its sectors softened in H1 2021 with conditions to remain challenging in H2 2021.

Prime Residential

Government fiscal stimulus and the low interest rate environment have boosted values in most gateway cities. The pandemic has also arguably bolstered the importance of homes as the hunt for upgrades is the most common factor cited for new home purchases in Knight Frank's Global Buyer Survey. Rents, however, generally remained soft against a fragile economic backdrop, compressing prime residential yields in the region.

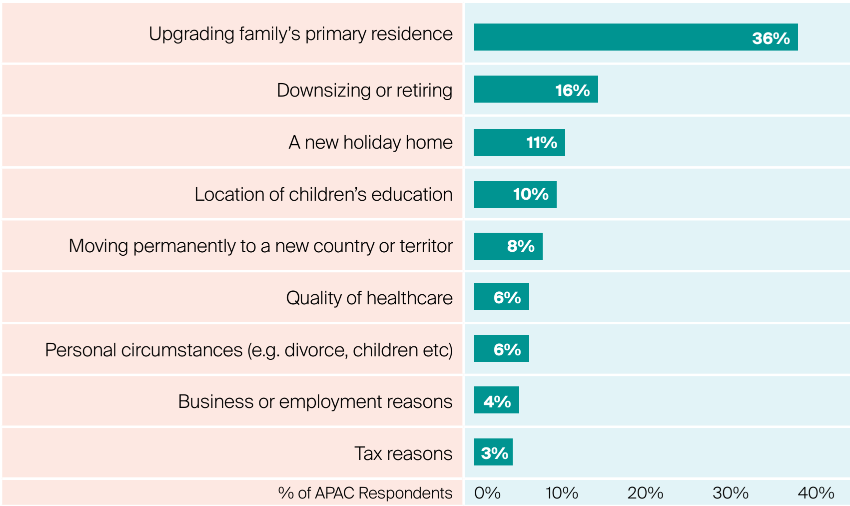
The continued economic recovery seen in **Chinese Mainland, Hong Kong SAR, Australia, Singapore** and **New Zealand** have fuelled domestic buying as locals play catch-up with foreign buyers still facing restrictions given the continued border closures. Despite a recent raft of cooling measures, three Asian cities – **Shanghai, Guangzhou** and **Seoul** – had the highest year-on-year price growth in Q2 2021, occupying the top five spots in the Prime Global Cities Index.

Notably, **Shenzhen** bucked the overall positive trend in East Asia as price fell after a series of cooling measures. These included delinking home location from

Christine Li
Head of Research, Asia-Pacific

"The forward-looking nature of real estate markets has meant that values have held better across the region, even while rentals have declined at a faster clip. The scale of distressed opportunities and size of discounts, envisioned to be immense in the early stages of the pandemic, have, so far, disappointed. The massive monetary and fiscal measures have been effective, as with forbearance from banks, but the weight of capital, betting on the region's long-term structural fundamentals, have put a floor to prices. Asset repurposing will also gather pace as an alternative strategy as owners look to pivot into sectors that are more likely to be more defensive and relevant in the new normal, rather than ride out an uncertain recovery."

When buying my next house, my main motivation will be.....



Source: Knight Frank Global Buyer Survey - 2021

school admission (xuequfang) in light of the government's vision that homes are 'for living in, not for speculation'. Price growth in other major Chinese Mainland markets such as **Beijing, Shanghai** and **Guangzhou** are expected to decelerate as the government tightens scrutiny on its housing markets.

Similar concerns were echoed in **South Korea**, as the country's central bank hiked its key policy rate by 25bps to 0.75% in August – the first major economy to tighten in the pandemic era - flagging rising household debt and home prices to be a bigger risk on economic growth, rather than the resurgent pandemic.

High-tier Industrial

The region's data centres and logistics facilities in the High-tiered Industrial segment continue to benefit as structural pandemic plays. **Values for industrial properties were seen to be stable or expected to increase across the region.** Underpinned by strong take-up levels and a constrained market, occupier demand in the region's warehouse markets have remained robust in the first half of 2021, driven by e-commerce tailwinds as consumers and businesses continued to pivot online. Defying the unfortunate resurgence of infection caseloads in the region, rents for prime warehouses across Asia-Pacific remained largely unchanged, falling by a marginal 0.1% year-on-year in H1 2021.

The sector is primed to ride on the megatrends that are likely to sustain post COVID-19. The need for more resilient supply chain networks with optimal last-mile capabilities will continue to feed demand for industrial properties, which will translate into rising values in the short- to- mid-term. As allocations towards the more defensive logistics sector increase, yields will continually compress under the weight of capital.

Prime Office

The Asia-Pacific Prime Office markets lost much of its recovery gains generated in Q1 2021 as many countries were caught by a resurgence of infections, with varying degrees of movement restrictions reinstated. While many economists still expect GDP growth to remain positive for the full year, it is nonetheless a setback for the office market, further hampering what could have been the potential normalisation of market conditions.

Conditions in the Prime Office market were mixed as investors digested differing views on the permanence of the work-from-home trend. **Values of prime offices in the region have largely remained resilient**, having incorporated sustainability features and flex spaces prior to the pandemic, the adoption of which has gained prominence since the pandemic. The sector is expected to continue to firm with more markets projecting values to stabilize in H2 2021. While the use of offices will continue to evolve amid the adoption of hybrid work modes, physical spaces are unlikely to be entirely supplanted as it remains critical to fostering collaboration and corporate identities.

Prime Retail

Prime Retail continued to face structural challenges, due to the ongoing disruption to shopper traffic as well as from the continued penetration of e-commerce platforms. The repeated lockdowns across several markets in the region also weighed on the values. However, sentiment is observed to have improved from H2 2020, with more markets expecting values to stabilize in the latter part of 2021. The more optimistic outlook suggests a recovery supported by lifting of social restrictions as vaccinations rates increase.

Retail markets in **Beijing** and **Shanghai** stood out with values expected to rise in H2 2021. GDP on the Chinese Mainland rose at a record 18.3% pace year-on-year in Q1 2021, signaling a retracement to pre-pandemic growth trends. With an economic plan that focuses on domestic demand, fundamentals in both cities have firmed as occupancies moved higher on the back of a more active leasing market as well as a lower completion pipeline due to construction delays. Increased acquisitions were observed in the country, with headline-grabbing deals such as Ping An Insurance's stake in Raffles City developments and Brookfield's acquisition of Mosaic-branded malls – of which both included Beijing and Shanghai in its portfolios.

High-end Hospitality

Sentiment in the hard-hit hospitality market remained subdued with three-quarters of the markets expecting conditions to remain challenging in H2 2021, mirroring conditions in the first half. The resurgence in caseloads have delayed a recovery as authorities closed off state boundaries to contain infections, which further stymied domestic tourism. In regions where COVID-19 was less severe, staycation demand had helped luxury and upper upscale hotels to survive during the challenging period.

Yields have compressed as average daily rates plunged amid the travel restrictions, suggesting that hotel acquisitions will not come at basement bargains. Across large swaths of the industry, asset owners are still looking to tap into the huge pent-up demand that is likely to emerge once travel restrictions gradually lift. However, we expect at least a two-to-three year recovery period for a return to pre COVID-19 levels.

CONCLUDING REMARKS

The region's backdrop will remain conductive to real estate investments, as prime investable stock remains keenly sought after in light of increasing acquisitions. With capital remaining abundant while financing costs across most of the region maintained at or near record lows, **we expect asset values to continue holding up**, which could firm further as the gathering pace of vaccinations shore up occupier markets in the region.

Regions such as **Chinese Mainland** and **Hong Kong SAR, Singapore** and **South Korea** could see earlier recovery given their relatively controlled COVID conditions. We also noticed landlords' holding power were being pressurised in certain regions after a prolonged lockdown period, which could represent opportunities for new investments.

ASIA-PACIFIC VALUE MOVEMENT DASHBOARD

MARKETS		Prime Residential		Prime Office		Prime Retail		High-tier Industrial		High-end Hospitality	
	CITY	VALUE MOVEMENT	FORECAST	VALUE MOVEMENT	FORECAST	VALUE MOVEMENT	FORECAST	VALUE MOVEMENT	FORECAST	VALUE MOVEMENT	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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