Knight Frank

OPPORTUNITIES AS INTEREST RATES STAY LOWER FOR LONGER

Country	Sector	Yield	12 Month Outlook	Current Yield Spread	10Y Average Spread
China Tier 1	Office	4.7%	Unfavorable	1.6%	2.3%
	Retail	5.5%	Unfavorable	2.3%	2.4%
	Industrial	5.5%	Stable	2.3%	2.5%
Seoul	Office	4.5%	Stable	3.1%	2.1%
Hong Kong	Office	2.8%	Stable	1.6%	1.1%
	Retail	2.7%	Unfavorable	1.5%	1.0%
	Industrial	3.4%	Stable	2.2%	1.2%
Tokyo	Office	3.6%	Favorable	3.2%	2.9%
	Retail	4.5%	Stable	4.1%	2.9%
	Industrial	4.5%	Stable	3.6%	3.6%
Philippines	Office	5.9%	Favorable	1.2%	2.3%
	Retail	7.1%	Stable	2.4%	2.1%
Thailand	Office	6.5%	Stable	5.0%	3.8%
Kuala Lumpur	Office	6.5%	Unfavorable	3.2%	2.4%
	Retail	6.5%	Stable	3.2%	2.3%
Greater KL [(1)]	Industrial	6.8%	Favorable	3.4%	3.4%
Singapore	Office	4.0%	Stable	2.3%	1.5%
	Retail	4.7%	Stable	3.0%	3.0%
	Industrial	6.2%	Unfavorable	4.4%	4.3%
Indonesia	Office	6.5%	Unfavorable	-0.8%	0.2%
	Retail	8.0%	Stable	0.7%	1.9%
Sydney	Office	4.6%	Favorable	3.6%	2.4%
	Industrial	5.5%	Favorable	4.6%	4.0%
Melbourne	Office	4.7%	Favorable	3.7%	2.7%
	Industrial	6.3%	Favorable	5.3%	4.2%
Perth	Office	6.5%	Favorable	5.6%	4.1%
	Industrial	6.8%	Favorable	5.8%	4.3%
India	Office	8.6%	Favorable	1.9%	2.2%

Source: Knight Frank Research, Investing.com
(1) Greater KL covers Federal Territory of Kuala Lumpur and State of Selangor

While interest rates across the region have gone down, the likelihood of this correlating with similar cap rate compressions are unlikely given that 1) overall yields currently are at or near their all-time lows and 2) growth prospects aren't exactly promising as general economic growth begins to cool. Nonetheless, pocket of opportunities for investments are available in certain markets and sectors where asset yields remain at an acceptable spread to borrowing costs and supply demand fundamentals remain in favour of growth.

Australia Commercial: Australia's commercial sectors, office and industrial, remain an attractive investment proposition for many investors given their relatively higher yields compared to other global developed markets and favourable growth prospects. Office rents continue to rise in Sydney given its chronic undersupply situation while Melbourne continues to benefit from strong occupier demand.

For the industrial sectors, the constant rise of e-commerce demand and drive to improve supply-chain efficiencies continues to support robust demand for prime industrial space. Furthermore, the weight of expected capital flows into the commercial sectors is predicted to drive asset yields down further in 2020.

Seoul Office: Seoul's office sector remains an attractive destination for capital given its continued relative attractive yields compared to other Asia-Pacific developed office markets, availability of core trophy assets and diversification play. This is further supported by healthy growth prospects given the rapid expansion of its technology sector and co-working operators coupled with limited supply especially within its major CBDs.

RATE CUTS. ONE FOR ALL, ALL FOR ONE

As the global economy continues to cool, the US Federal Reserve (Fed) took the initiative to lower its benchmark interest rate range by 50 basis points over two back to back cuts in the second half of 2019 to hedge against further risks to the US economy. With the Fed taking this lead, it paved the way for many other Asia-Pacific Central Banks to enact similar cuts to support their own economies; all markets with the exception of Malaysia and Japan took steps to lower their interest rates over the past 6 months.

Australia/New Zealand: The Reserve Bank of New Zealand (RBNZ) cut interest rates by 50 basis points to a low of 1% during the period, much to the surprise of the market which had been expecting a milder 25 basis point cut. Similarly, the Reserve Bank of Australia (RBA) also took a more dovish stance to its interest rate policy by cutting 50 basis points over two cuts to an all-time low of 0.75%; citing the need for further stimulus to support employment growth and return inflation to its target range.

Southeast Asia: Apart from Malaysia, who had already cut its rates in the first half of the year, all the major markets in Southeast Asia took proactive steps to lower their interest rates over the past six months. Singapore, who manages its interest rate via a currency basket, lowered the slope of its S$ Nominal Effective Exchange Rate (S$NEER) thereby reducing the rate of its currency appreciation and the rate of interest rate increase.

Indonesia cut its interest rates for four straight months, 25 basis points each time, bringing its 7-day reverse repo rate down to 5% as Southeast Asia's largest economy recorded a surprise trade deficit in September.

The Philippine central bank cut its benchmark borrowing rate twice, 25 basis points each, within the past six months to the current 4%, jolting its economy which recorded a better than expected 6.2% GDP growth in 3Q. Lastly, the Thai central bank similarly cut its interest rates twice, 25 basis points each, to the current record low of 1.25% in an effort to tame its appreciating currency.

China: Impacted by its cooling market, the China's People's Bank of China (PBOC) has made several steps to revitalize its economy. It cut its reserve rate ratio (RRR) by 50 basis points in September, potentially releasing Rmb900 billion in liquidity or around 1% of China's GDP. This was followed a 5-basis point interest rate cut which brought its benchmark borrowing rate down to 2.5% in November.

South Korea: South Korea cut its interest rates twice, 25 basis points each, during the past six months; bringing its interest rates down to the previous 2017 record low of 1.25%; the export heavy Korean economy has been heavily impacted not only by the US-China dispute but also its own trade dispute with Japan.

India: Having already cut interest rates in the first half of the year, the Indian central bank maintained its easing stance and cut rates yet again in October, lowering its interest rates by 25 basis points to 5.1% as its economy loses momentum. In total, the Indian authorities have cut its borrowing rates by 135 basis points this year.

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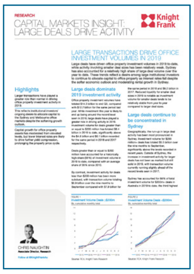

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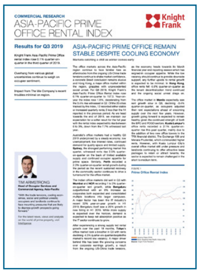

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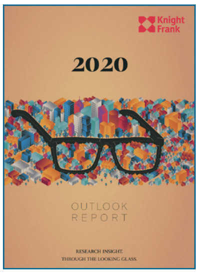

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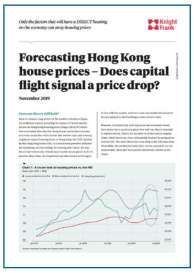

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