The Knight Frank Asia Pacific Capital Markets report provides an in-depth look at the performance of the region's major capital markets, examining the macroeconomic backdrop, key markets trends and investment performance affecting the region.

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Asia-Pacific Capital Markets

H1 2020

HEADLINES

44%	Office	Increase	Divergence
OYEAR-ON-YEAR DECLINE IN COMMERCIAL TRANSACTION VOLUMES IN H1	ACCOUNTED FOR HALF COMMERCIAL VOLUMES	IN TERMINATED DEALS IN H1	BETWEEN PRIME AND SECONDARY YIELDS

Neil Brookes

HEAD OF CAPITAL MARKETS ASIA-PACIFIC

"Despite current circumstances, there is ample capital seeking medium to long-term real estate investment opportunities within the Asia Pacific, particularly in core, safe markets like Australia and Singapore. Accommodative monetary policies will ensure that the best-located assets, with more robust tenant profiles, will continue to be in demand."

Investment activity slowed significantly in H1

To combat the economic fallout brought on by the COVID-19 pandemic, central banks across the region moved quickly and aggressively by easing their monetary policies; some now having their benchmark interest rates at historical lows. Australia's RBA cut its cash target rate twice in March bringing it down to a record low of 0.25%. While in China, the Chinese government lowered its reserve requirement ratio for small banks by 1% over the same period, releasing roughly US$79 billion worth of capital into its system.

However, despite providing a more conducive credit environment and extending the timeline for cheap credit, the Asia-Pacific commercial transaction volumes nonetheless still contracted 44% year-on-year to US$52 billion in the first half of 2020; led mainly by **Singapore** and **Hong Kong** whose transaction volumes were down 67% and 75% respectively. While office remained the most favored asset class during the period, accounting for 50% of all deal activity, the proportionate share of the other commercial asset classes saw shifts. Retail saw its share of transaction volumes shrink to 19% compared to its 24% five-year average, while industrial transactions now account for 16% of transaction volumes – up from its 14% average over the past five years. This comes as no surprise as the logistics sector has emerged as a clear winner amidst the rise of e-commerce and now the pandemic as there is now a greater need for more warehousing space to support the flood of e-commerce transactions as consumers are forced to stay home.

Rise in terminated deals

The disruption and uncertainty brought on by the pandemic has also led to a number of terminated deals across the Asia-Pacific in the first half of 2020. During the period, a total of 12 ongoing commercial deals above US$10 million in various stages of completion were noted to have been terminated; a slightly higher figure when compared to the 11 deals terminated in 2019. Office assets accounted the largest proportion of the terminated deals, accounting for a third, while geographically South Korea recorded the most terminations, accounting for half of all the terminated deals.

Lower risk markets seeing benefit

While commercial transaction activity was established previously to have declined significantly during the period, there were some bright spots during the period led predominantly by investors seeking out risk diversification opportunities within the region. One such example was cross border Singaporean capital acquiring assets in Australia, which increased 71% year-on-year to US$1.39 billion during the period, with notable deals such as GIC's US$430 million stake purchase in Melbourne CBD's Rialto Towers and Peakstone's US$360 million acquisition of 45 Clarence Street in **Sydney** CBD.

Potential performance divergence between Prime and Secondary

The anticipated upcoming economic weakness will have differing impacts on various industries, and hence will expose commercial real estate and their values to varying degrees of pressure. Assets with strong tenant agreements, long weighted average lease expiries and tight vacancies will better weather future headwinds compared to those assets facing increased tenancy risks. Hence our expectation for prime yields to remain relatively stable as compared to their secondary counterparts which could see their yields push out as leasing risks mount.

ASIA-PACIFIC COMMERCIAL YIELDS

CITY	SECTOR	YIELD	YIELD FORECAST
SHANGHAI	OFFICE	4.4%	↑
	RETAIL	4.5%	↑
	INDUSTRIAL	5.1%	↓
BEIJING	OFFICE	4.5%	↑
	RETAIL	5.0%	↑
	INDUSTRIAL	5.5%	↓
SEOUL	OFFICE	4.5%	↑
HONG KONG	OFFICE	2.8%	→
	RETAIL	2.6%	↓
	INDUSTRIAL	2.9%	→
TOKYO	OFFICE	3.4%	→
	RETAIL	4.6%	↑
	INDUSTRIAL	4.5%	→
MANILA	OFFICE	5.9%	→
	RETAIL	7.1%	↑
BANGKOK	OFFICE	6.5%	→
KUALA LUMPUR	OFFICE	6.5%	→
	RETAIL	6.8%	↑
	INDUSTRIAL	7.0%	→
SINGAPORE	OFFICE	4.0%	→
	RETAIL	4.7%	→
	INDUSTRIAL	6.2%	→
JAKARTA	OFFICE	6.5%	↑
	RETAIL	8.0%	↑
SYDNEY	OFFICE	4.4%	↑
	INDUSTRIAL	5.5%	↑
MELBOURNE	OFFICE	4.7%	↑
	INDUSTRIAL	6.3%	↑
INDIA (TIER-1 CITIES)	OFFICE	8.6%	→
	RETAIL	8.4%	↑
	INDUSTRIAL	8.8%	→

SOURCE: KNIGHT FRANK RESEARCH

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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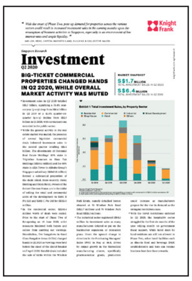

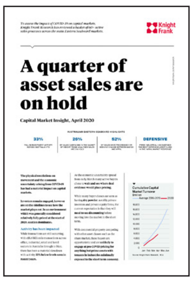

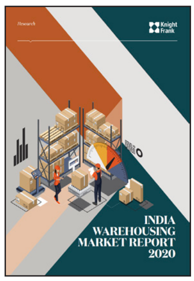

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