SPOTLIGHT
Savills Research

Asia Pacific - August 2020

A Mid-Year Regional Roundup

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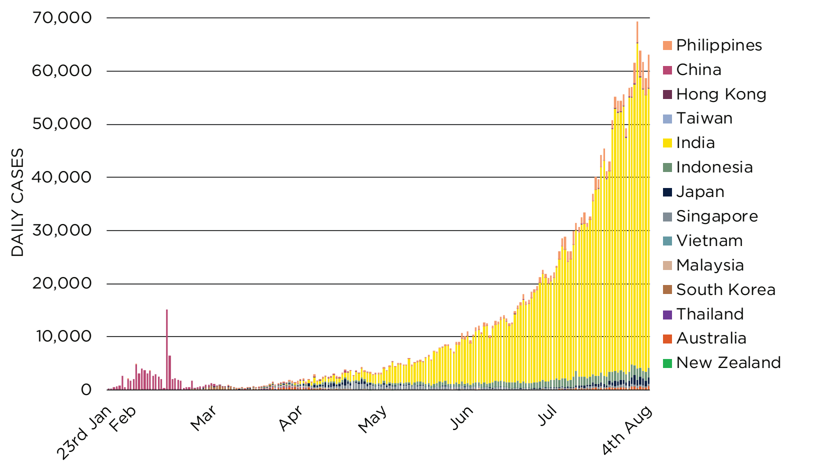
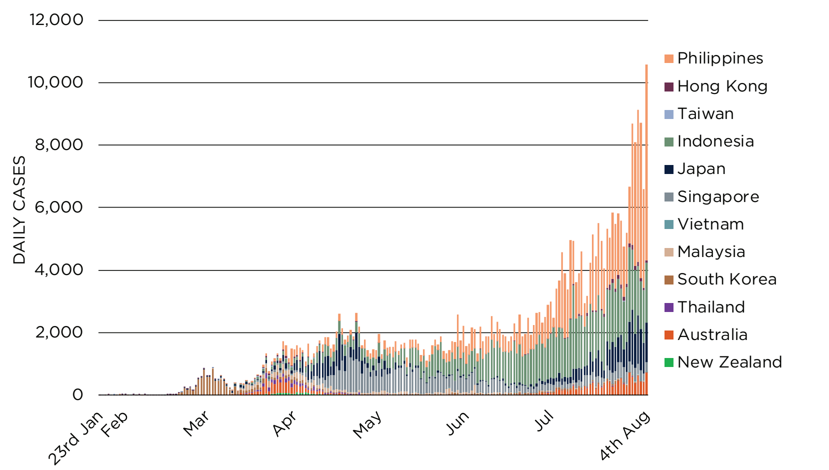
A mid-year regional roundup - Opportunities ahead

GRAPH 1: COVID-19 Daily Infections (Including China and India), 23rd January to 4th August 2020



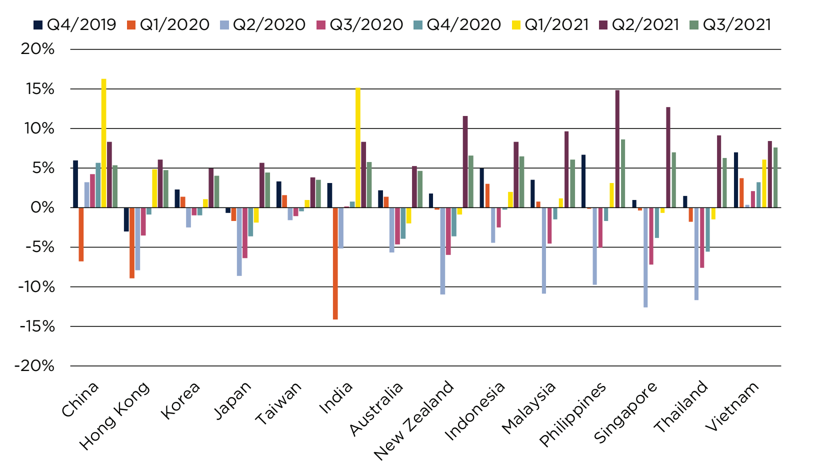
Source Johns Hopkins University

GRAPH 2: COVID-19 Daily Infections (Excluding China and India), 23rd January to 4th August 2020



Source Johns Hopkins University

GRAPH 3: GDP Growth Rates, Q4/2019 to Q3/2021



Source FocusEconomics

A CHALLENGING FIRST HALF

Most regional economies experienced their first widespread COVID-19 outbreaks during the first three months of the year and outcomes have varied widely since. Some have struggled to bring the virus under control (India, Indonesia and Singapore) while others appear to have successfully contained it (Taiwan, South Korea and New Zealand). More areas are also reporting further spikes (often at a city rather than a country level), pushing back hopes of a strong second half recovery. Examples include Hong Kong, Australia (Melbourne), Japan (Tokyo), Vietnam (Danang).

The economic damage is proving to be extensive with only China and Vietnam expected to post modest positive growth this year of 1.5% and 2.7% respectively[1]. Southeast Asia, Australia and New Zealand suffered most in the second quarter as a result of domestic lockdowns and the disruption of international supply chains. Most, if not all, regional economies are expected to report positive year-on-year growth from the first half of next year, however.

As economies have weakened, unemployment has seen a marked uptick across the region. Latest data suggests that Australia, New Zealand, Hong Kong, India, the Philippines, Malaysia and Indonesia have all experienced a big jump in rates. Standout figures include Australia at 7.4% (June), India at 11% (June) and the Philippines at 17.7% (April). It may be that as wide-ranging support for businesses is eventually withdrawn more firms will be forced to close or downsize with negative implications for occupier demand across all real estate asset classes.

With travel restrictions still in place regional tourism has all but ground to a halt. Many hospitality and retail sectors throughout APAC have come to rely heavily on mainland Chinese tourists over the last few years and their absence is being felt particularly in Hong Kong, Singapore and Thailand. In China itself, the swift recovery in domestic tourism, which represented about 6% of the country economic output last year, is going a long way to counter the lack of international arrivals and some sub-markets are booming. Hainan island in Southern China is a good example with the number of tourists up 43% YoY in July and spending on duty-free shopping up 234% to

1 Source: FocusEcomomics

US$317 million.

In terms of Asia-Pacific real estate investment volumes into income-producing properties (rather than development sites), the second quarter saw a small decline of 2.4% QoQ from the first quarter, but year-on-year, deals fell by 37% with the retail (-61%) and hotel (-60%) sectors hardest hit. It is worth noting however, that land sales rose by 101% quarter-on-quarter but with a heavy China bias as the country accounts for the lion's share (97%) according to RCA data.

Opportunities are starting to emerge as the regional economies recover gradually from the pandemic. Real estate transactions picked up in Q2, and the industrial sector is leading the comeback with a large number of data centre portfolio deals in the pipeline.

TABLE 1: Date Of First Confirmed COVID-19 Case

MARKET	FIRST CONFIRMED CASE
China	31st Dec*
Thailand	13th Jan
Japan	16th Jan
South Korea	20th Jan
Taiwan	21st Jan
Hong Kong	23rd Jan
Singapore	23rd Jan
Vietnam	23rd Jan
Australia	25th Jan
Malaysia	25th Jan
Philippines	30th Jan
India	30th Jan
New Zealand	28th Feb
Indonesia	2nd Mar

Source John Hopkins University

*On 31st December 2019, the WHO China Country Office was informed of cases of pneumonia of unknown etiology detected in China. A novel coronavirus was eventually identified.

TABLE 2: Regional Unemployment Rates, 2019 to 2021

%	2019	2020 (FORECAST)	2021 (FORECAST)
Asia-Pacific (ex. Japan)	3.67	5.10	4.50
ASEAN	3.59	5.70	4.60
Vietnam	2.16	3.15	2.39
Philippines	5.08	10.53	7.87
Indonesia	5.28	7.09	6.07
Malaysia	3.30	4.66	3.99
Thailand	0.99	2.76	1.84
Singapore	2.30	3.43	2.77
China	3.62	5.04	4.49
India*	7.60	8.50	9.80
Taiwan	3.73	4.16	3.99
Korea	3.80	4.34	3.99
Japan	2.40	3.30	3.20
Hong Kong	2.90	5.42	4.70
New Zealand	4.10	7.14	7.03
Australia	5.17	7.34	7.14

Source FocusEconomics

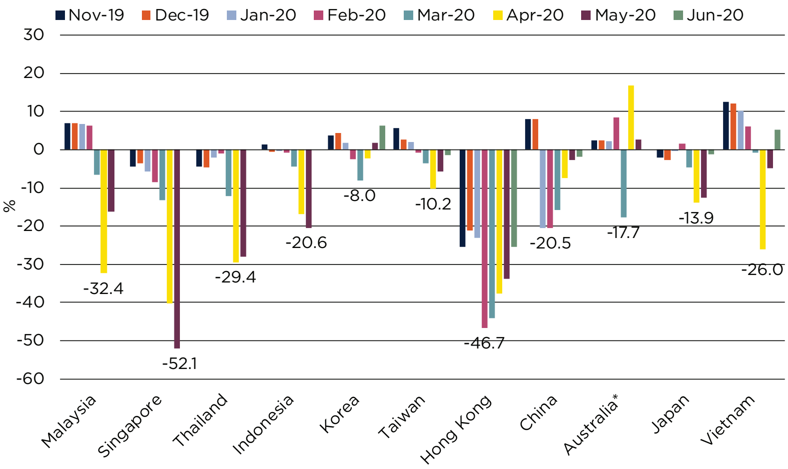
*India unemployment rate forecast figures are from Trading Economics.

TABLE 3: Regional Hotel RevPAR, December 2019 and June 2020

CITY	REVPAR IN USD		
	DEC 2019	JUN 2020	CHANGE FROM DEC 2019 TO JUN 2020
Singapore	173	51	-70.6%
Incheon & Seoul	109	31	-71.0%
Hong Kong	75	31	-58.8%
Shanghai	58	31	-46.5%
Sydney	135	29	-78.3%
Taipei	155	26	-83.4%
Hanoi	102	25	-75.9%
Beijing	60	22	-64.0%
Metro Manila	80	21	-74.1%
Tokyo	160	18	-88.7%
Mumbai	106	18	-82.9%
Ho Chi Minh City	82	15	-81.5%
Jakarta	44	12	-72.8%
Bangkok	98	12	-88.0%

Source STR

GRAPH 4: Retail Sales (YoY Change %), November 2019 to June 2020



Source Trading Economics
* Australia retail sales changes are on a MoM basis.
# June figures for Malaysia, Singapore, Thailand, Indonesia and Australia have not been released yet.

Volumes generally have yet to hit 2008/09 lows and substantial amounts of unallocated capital to the real estate sector suggest that they may not (see later). The much-anticipated wave of fire sales has yet to materialize but a lot will depend on the shape of recovery later this year or next.

HOTELS

The hotel sector has endured a horrible first half with occupancy rates in most markets below 35%. In terms of RevPAR[2] substantial falls were noted across the board but worst affected have been Ho Chi Minh (-81.5%), Mumbai (-82.9%), Bangkok (-88.0%) and Tokyo (-88.7%). Investment volumes in the second quarter stood at a post-2014 low of US$1.05 billion across 30 transactions with Japan accounting for over half (US$564.8 million/eight transactions). Government support and a lack of over-leveraged assets means that investors may have to be patient over the second half, but distressed deals will emerge as assets will need to be repositioned or redeveloped. The relaxation of restrictions on travelers will obviously be key to recovery (talk of travel bubbles remains just talk) but doubts persist over future demand for business travel as well as the willingness of mainland Chinese to venture overseas given the troubled geopolitical environment.

RETAIL

Running a close second to hospitality as the region's worse affected sector, retail markets have slumped. In common with elsewhere in the world, any spending which is offline, discretionary or tourism related has suffered particularly badly. On a more positive note more locally driven markets have fared better (although rising unemployment is a concern), and China, Japan, Korea, Taiwan and Australia can be included in this category. While luxury spending has suffered, there were already signs of recovery in some regional markets in the late second quarter (especially true in China), and most retailers acknowledge that Asia is still the future for luxury brands. For now, as travel is restricted, landlords in many regional markets are having to refocus trade and tenant mix around domestic spending and offerings less affected by online sales such as, for example, F&B, one off concepts, pop ups and personal services.

OFFICES

In first tier Asian cities with a high proportion of office-based employment, housing densities, multi-generational

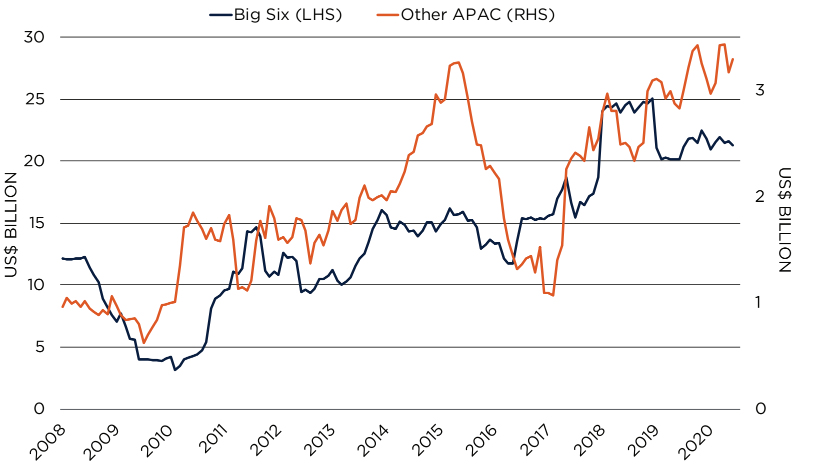
2 RevPAR: Revenue per available room

TABLE 4: Regional Grade A Office Vacancy Rates, Q4/2019 v Q2/2020

CITY	VACANCY RATE		
	Q4/2019	Q2/2020	CHANGE FROM Q4/2019 TO Q2/2020
Beijing	12.7%	13.6%	0.9%
Shanghai	14.0%	14.7%	0.7%
Hong Kong	4.7%	6.0%	1.3%
Taipei	3.7%	3.1%	-0.6%
Tokyo	0.2%	0.4%	0.2%
Seoul	8.8%	6.9%	-1.9%
Singapore	4.4%	5.7%	1.3%
Kuala Lumpur	19.3%	24.3%	5.0%
Jakarta	29.3%	30.0%	0.7%
Hanoi	12.8%	10.4%	-2.4%
Ho Chi Minh City	1.4%	4.4%	3.0%
Sydney	2.6%	4.7%	2.1%
Melbourne	2.1%	5.6%	3.5%
Bangkok	5.6%	7.9%	2.4%

Source Savills Research and Consultancy

GRAPH 5: Asia Pacific Industrial Investment Volumes (12-month Rolling Volume), 2008 to 2020



Source Real Capital Analytics

occupancy and modern transport infrastructure (among other reasons) all count against working from home, although we can expect some adoption, especially from MNCs. Any hint of a structural shift in demand for this historically dependable asset class is causing alarm though. The more pressing issue has become the solvency of the corporate sector as earnings fall and headcounts are reduced. Scaling down an existing office or closing altogether are favoured options as relocation means committing to further capital expenditure. Although reservoirs of demand remain as technology and financial services firms continue to take-up space while many companies are being kept alive by government handouts, vacancies have inevitably begun to trend up though increases over pre-COVID levels have so far been muted. Cities facing elevated vacancy include Hanoi (10%), Beijing (14%), Shanghai (15%), Kuala Lumpur (24%) and Jakarta (30%). First half rents saw small rises in Taipei, Tokyo, Seoul and Ho Chi Minh while Sydney, Hong Kong and Shanghai all recorded heavier declines.

LOGISTICS

Cap rates in this sector have moved in rapidly over the past five to ten years and protracted trade wars and COVID have done little to diminish enthusiasm. As manufacturing has relocated away from China, Southeast Asia and India are drawing the attention of investors. On-shoring meanwhile has seen a return of interest in Japan and cities such as Tokyo and Osaka. Logistics demand in China itself is being driven more by domestic consumption and growth in e-commerce and has by no means fallen out of favour - logistics volumes over the first half of 2020 accounted for 80% of 2019's total. COVID has also increased demand for e-commerce and pushed it into a broader range of products from (traditionally) fashion to groceries, medicines and other perishables. This shift is in turn driving demand for cold supply chains as well as last minute or urban logistics. Geographically, secondary markets are becoming more popular with investors and these include Taiwan, New Zealand and some Southeast Asian countries. In core markets the focus is much more on modern, recently developed facilities. Recent government measures have included spending on infrastructure and this may present longer term opportunities.

DATACENTRES

With Asia-Pacific's share of this market destined to overtake Europe and the US (powered by China and India) this relatively new asset class is coming into its own. Front line markets include Tokyo, Sydney, Hong Kong and Singapore with first tier China, second tier Japan, Mumbai and Jakarta fast risers. Developers and investors face plenty of hurdles given the need for sufficient and uninterrupted power (preferably from green energy sources), access to submarine cables and plenty of domestic fibre networks. Other issues include data protection, land availability and levels of government support. In the longer-term China is likely to emerge as Asia's largest market, closely followed by Japan. Data centres are increasingly being seen as a relatively defensive asset class with appeal to global institutions. The regional transaction volume recorded in the first half of 2020 (US$0.74 billion) already bypassed the 2019 total (US$0.70 billion), and a couple of large portfolio deals are now in the pipeline, accounting for more than US$1.56 billion.

GOVERNMENT MEASURES

As elsewhere in the world, regional governments and their central banks have stepped up fiscal and monetary stimulus to mitigate the worse effects of the downturn. Interest rates are now at record lows while financial help is being targeted at healthcare, businesses (especially ailing industries such as aviation and the F&B sector), households (often with cash payouts or tax holidays) and infrastructure programs. The aim has been to boost consumption, stem unemployment and head off widespread bankruptcy but also to build back 'stronger and greener' and encourage the advance of new economy industries. This approach goes some way to explaining why distressed opportunities have been slow to materialise as both occupiers and investors have been shielded thus far from the worst effects of the crisis and so a lot will now depend on the resolve of governments and their central bankers.

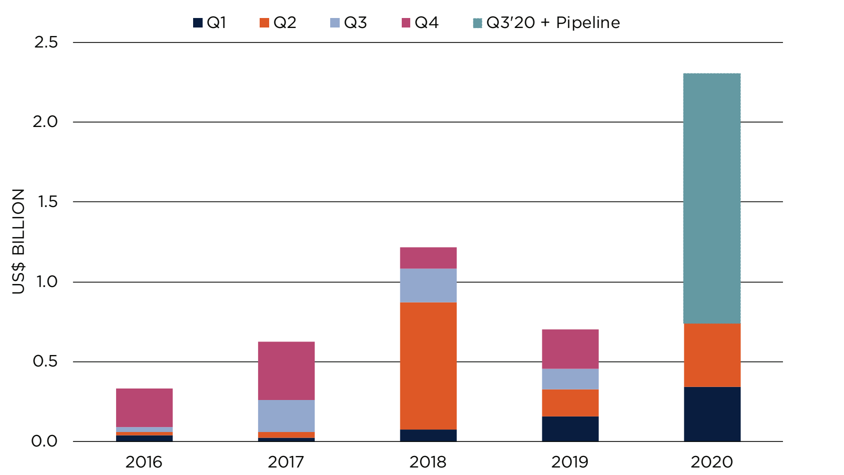
Over the past six months a raft of measures has been introduced to stem the spread of the virus with varying degrees of success. Setting aside their efficacy, most have had negative consequences for economies and in terms of cross border trade, tourism and capital flows, travel restrictions have been particularly harmful. Further spikes in infection have set back any widespread relaxation, but some progress has been made and closely monitored 'air bridges' are opening up for business travelers. Major routes so far include China-Korea, Singapore-Malaysia/China, India-UAE and Indonesia-UAE with discussions ongoing regarding Japan-Thailand/Vietnam and Korea-Taiwan/Thailand/Vietnam.

Trade tensions have been another unwelcome consideration for investors, particularly between the US and China. Whether an era of relatively unfettered globalisation is giving way to a re-globalisation as trade relationships are reset more in line with geopolitical interests or whether this is just a temporary setback is open to debate. What we do know is that what started as a trade dispute has now broadened to include technology and finance and assumed a political dimension especially in the case of Hong Kong. Figures suggest though that real estate funds have lost none of their appetite for China as foreign funds joined returning domestic buyers over the first half of 2020 to close a raft of deals across a broad range of cities and sectors.

THE REAL ESTATE INVESTMENT LANDSCAPE

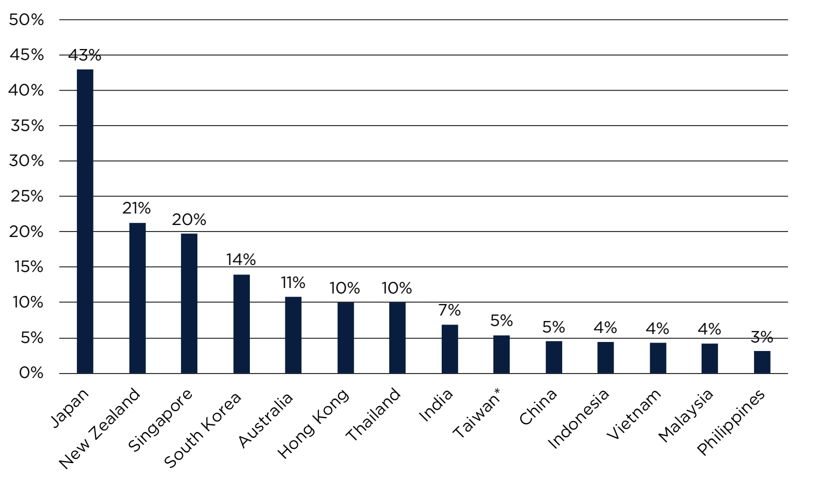
Perhaps the best evidence of the uncertainty of the times is that the price of gold has risen by over a third since the beginning of the year and real estate, as practitioners never tire of reminding everyone, is traditionally

GRAPH 6: Asia Pacific Data Centre Investment Volumes, 2016 to 2020



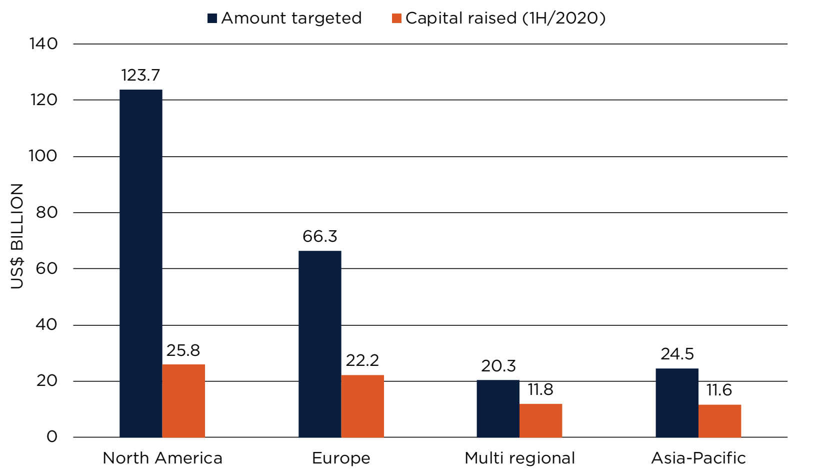
Source Real Capital Analytics

GRAPH 7: Fiscal Stimulus Packages As A Share Of GDP, 30th July 2020



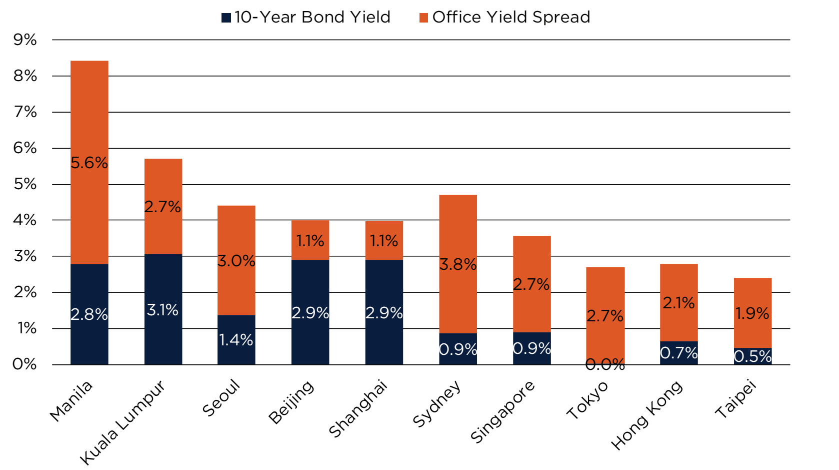
Source : IMF; Taiwan data is extracted from Taiwanese government press releases

GRAPH 8: Geographical Focus Of Capital Raised And Amount Targeted By Private Real Estate Funds, 1H/2020



Source PERE

GRAPH 9: Prime Office Yield Spreads To Risk-free Rate, Q2/2020



Source Savills Research and Consultancy

seen as a safe haven asset. With risk free rates at near zero, the appeal of returns from the asset class are also attracting investors, and funds raised globally this year reflect the positive sentiment. According to PERE, global real estate funds attracted an aggregate US$71.4 billion in 1H/2020, and the bulk of the capital was raised for opportunistic (37%) and value add (31%) funds. APAC real estate funds recorded their largest year-on-year growth in 1H/2020 at US$11.6 billion raised, well ahead of the US$3.3 billion 1H/2019 figure.

After China, which had a reasonably active second quarter in terms of deal volumes, Japan (still the region's biggest market in the first half) attracted significant amounts of cross-border capital from both the US and Europe. Multi-family housing proved to be a particularly sought-after asset class. Elsewhere, only South Korea really stands out, posting a significant number of smaller deals with more under negotiation presaging an active second half. Sectors attracting the attention of investors and end-users include offices and retail and full year 2020 volumes are likely to come in slightly ahead of 2019.

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