

ASIA PACIFIC

REGIONAL INVESTMENT OPPORTUNITIES

BACKDROP

- Led by a swift rebound in China, the region's economy is already back in expansion mode and is expected to record a rapid pace of growth in 2021 as life returns to normal.
- Real estate space demand is improving. There is an expanding focus on occupancy of high-quality space, although occupiers remain cost conscious.
- Real estate values fell only moderately in 2020, and opportunities linked to a cyclical pickup in demand and rents or through longer-term structural trends are becoming re-established.



Across Asia Pacific, favorable demographics and declining housing affordability provide institutional investors with opportunities to participate in the early growth of the nascent rental housing sector.

KAI YIP

Author, 2021 Global Outlook
Vice President, Asia Pacific Investment Research, PGIM Real Estate

Given our assessment of the outlook for the Asia Pacific economy and real estate market, we identify the following opportunities as being among the most attractive on a risk-adjusted basis over the next 12 months.

INVESTMENT OPPORTUNITIES

● ACCELERATED CHANGE

Logistics and Cold Storage

A further push toward online retail on the back of the pandemic means that the secular demand for logistics remains strong.

- The pandemic has fueled an acceleration in the transition to e-commerce by increasing opportunities in logistics as retailers and logistics operators expand their supply chains.
- And even with concerns about supply, logistics assets in submarkets that are close to large population hubs and situated on transport nodes with strong connectivity will remain defensive.
- We are also seeing increasing demand for climate-controlled and cold-chain facilities, because of the strong growth of online grocery sales across major markets.

● ONGOING TAILWINDS

Residential Sector

As gateway city populations continue to grow, demand for housing — either buying or renting — will benefit from the re-urbanization trend.

- As COVID-19 restrictions are lifted, long-term trends will become re-established, pointing toward further growth in city center populations.
- Strong housing demand underpins a positive outlook for housing markets across the region. Rental demand is also boosted because affordability has dropped due to rising house prices in recent years.
- Outside Japan, the rental housing sector remains relatively nascent. Investors could benefit from being early movers in cities such as Sydney and Melbourne, as well as in tier one Chinese cities.
- In younger cities with high expatriate populations, such as Hong Kong and Singapore, co-living projects are alternatives to single-unit developments.

China Deleveraging

Tighter domestic credit growth policies are creating opportunities across equity and debt.

- China has recorded a swift economic recovery since the second half of 2020 and is set to return to trend growth.
- Domestic policy making is focusing on managing credit growth, with the real estate sector in need of deleveraging.
- Loan defaults are rising, and distressed assets are coming to the market against the backdrop of a tightening domestic lending market, paving the way for capital injections from international investors.

● SHORT-TERM REPOSITIONING

Grade A Offices

Office demand has turned the corner, and the sector offers an attractive cyclical opportunity as staff return to workplaces.

- Net absorption is increasing, and occupancy is expected to start rising, with tech companies acting as a catalyst for demand.
- Rental corrections in the past year have made grade A office rents more affordable in most major markets. The supply pipeline remains relatively slow.
- Tenants are increasingly focusing on quality, which is pointing toward a focus on grade A space, with markets such as Singapore, Hong Kong, Sydney and Melbourne set to recover after a sharp correction in 2020.

Hotels

A bruised hospitality sector offers a compelling countercyclical opportunity ahead of an expected gradual recovery in demand.

- Hotel performance is down significantly, reflecting an almost complete absence of international tourist demand.
- However, long-term prospects for the hotel sector remain strong.
- The market currently lacks liquidity, which opens up an opportunity for investors that are willing to ride out short-term weakness.

Visit pgimrealestate.com/globaloutlook for global theme definitions and additional regional investment opportunities as well as to explore the full 2021 Global Outlook report.

IMPORTANT INFORMATION

PGIM is the primary asset management business of Prudential Financial, Inc (PFI). PGIM Real Estate is PGIM's real estate investment advisory business and operates through PGIM, Inc., a registered investment advisor. Registration as a registered investment advisor does not imply a certain level or skill or training. PGIM, their respective logos as well as the Rock symbol are service marks of PFI and its related entities, registered in many jurisdictions worldwide. PFI of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.

In the United Kingdom, information is issued by PGIM Limited with registered office: Grand Buildings, 1-3 Strand, Trafalgar Square, London, WC2N 5HR. PGIM Limited is authorised and regulated by the Financial Conduct Authority ("FCA") of the United Kingdom (Firm Reference Number 193418). In the European Economic Area ("EEA"), information is issued by PGIM Real Estate Luxembourg S.A. with registered office: 2, boulevard de la Foire, L1528 Luxembourg. PGIM Real Estate Luxembourg S.A. is authorised and regulated by the Commission de Surveillance du Secteur Financier (the "CSSF") in Luxembourg (registration number A00001218) and operating on the basis of a European passport. In certain EEA countries, information is, where permitted, presented by PGIM Limited in reliance of provisions, exemptions or licenses available to PGIM Limited under temporary permission arrangements following the exit of the United Kingdom from the European Union. These materials are issued by PGIM Limited and/or PGIM Real Estate Luxembourg S.A. to persons who are professional clients as defined under the rules of the FCA and/or to persons who are professional clients as defined in the relevant local implementation of Directive 2014/65/EU (MiFID II).

PGIM Real Estate Germany AG is a German Capital Management Company with a respective license pursuant to sec. 20, 22 of the German Capital Investment Act (Kapitalanlagegesetzbuch-KAGB). In case PGIM Real Estate Germany AG markets or distributes units or shares in external investment funds, i.e. investment funds for which PGIM Real Estate Germany AG does not provide the collective portfolio management within the meaning of Directive 2011/61/EU or, respectively, the KAGB, such marketing or distribution is performed in accordance with sec. 20 para. 3 no.6 KAGB. PGIM Real Estate Germany AG is not responsible for the collective portfolio management (including portfolio and risk management) within the meaning of Directive 2011/61/EU or, respectively, the KAGB, with regard to the respective investment funds in this case. It is also not responsible for the content of any marketing material (including prospectus, Offering Memoranda etc.) provided by the fund manager or other third parties. PGIM Real Estate Germany AG will not examine or assess the individual situation of any prospective investor and does not provide any personal recommendations, including recommendations related to tax issues, to prospective investors relating to transactions in the respective investment funds. Where relevant, prospective investors should seek advice from qualified third parties before they take an investment decision.

The information provided in the document is presented by PGIM (Singapore) Pte. Ltd.), a Singapore investment manager that is registered with, and licensed by the Monetary Authority of Singapore. In Hong Kong, information is provided by PGIM (Hong Kong) Limited, a regulated entity with the Securities & Futures Commission in Hong Kong to professional investors as defined in Section I of Part I of Schedule I (paragraph (a) to (i) of the Securities and Futures Ordinance (Cap.571). In Australia, information is issued by PGIM (Australia) Pty Ltd ("PGIM Australia") for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). PGIM Australia is a representative of PGIM Limited, which is exempt from the requirement to hold an Australian Financial Services License under the Australian Corporations Act 2001 in respect of financial services. PGIM Limited is exempt by virtue of its regulation by the Financial Conduct Authority under the laws of the United Kingdom and the application of ASIC Class Order 03/1099. The laws of the United Kingdom differ from Australian laws.

These materials represent the views, opinions and recommendations of the authors regarding the economic conditions, asset classes, securities, issuers or financial instruments referenced herein. Distribution of this information to any person other than the person to whom it was originally delivered and to such person's advisers is unauthorized, and any reproduction of these materials in whole or in part or the divulgence of any of the contents hereof without prior consent of PGIM Real Estate is prohibited. Certain information contained herein has been obtained from sources that PGIM Real Estate believes to be reliable as of the date presented; however, PGIM Real Estate cannot guarantee the accuracy of such information, ensure its completeness or warrant such information will not be changed. The information contained herein is current as of the date of issuance or such earlier date as referenced herein and is subject to change without notice. PGIM Real Estate has no obligation to update any or all of such information, nor do we make any express or implied warranties or representations as to its completeness or accuracy or accept responsibility for errors. These materials are not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or any investment management services and should not be used as the basis for any investment decision. Past performance is no guarantee or reliable indicator of future results. No liability whatsoever is accepted for any loss whether direct, indirect or consequential that may arise from any use of the information contained in or derived from this report. PGIM Real Estate and its affiliates may make investment decisions that are inconsistent with the recommendations or views expressed herein, including for proprietary accounts of PGIM Real Estate or its affiliates.

The opinions and recommendations herein do not take into account individual client circumstances, objectives or needs and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients or prospects. No determination has been made regarding the suitability of any securities, financial instruments or strategies for particular clients or prospects. For any securities or financial instruments mentioned herein, recipients of this report must make their own independent decisions.

Conflicts of Interest: Key research team staff may be participating voting members of certain PGIM Real Estate fund and/or product investment committees with respect to decisions made on underlying investments or transactions. In addition, research personnel may receive incentive compensation based on the overall performance of the organization itself and certain investment funds or products. At the date of issue, PGIM Real Estate and/or affiliates may be buying, selling or holding significant positions in real estate, including publicly traded real estate securities. PGIM Real Estate affiliates may develop and publish research that is independent of and different from the recommendations contained herein. PGIM Real Estate personnel other than the authors, such as sales, marketing and trading personnel, may provide oral or written market commentary or ideas for PGIM Real Estate's clients or prospects or proprietary investment ideas that differ from the views expressed herein. Additional information regarding actual and potential conflicts of interest is available in Part II of PGIM's Form ADV.

Coronavirus: Occurrences of epidemics, depending on their scale, may cause different degrees of damage to national and local economies that could affect the value of the Fund and the Fund's underlying investments. Economic conditions may be disrupted by widespread outbreaks of infectious or contagious diseases, and such disruption may adversely affect real estate valuations, the Fund's investments, and the Fund and its potential returns. For example, the continuing spread of COVID-19 (also known as novel coronavirus) may have an adverse effect on the value, operating results and financial condition of some or all of the Fund's investments, as well as the ability of the Fund to source and execute target investments. The progress and outcome of the current COVID-19 outbreak remains uncertain.

These materials are for informational or educational purposes. In providing these materials, PGIM (i) is not acting as your fiduciary and is not giving advice in a fiduciary capacity and (ii) is not undertaking to provide impartial investment advice as PGIM will receive compensation for its investment management services.