

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.

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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.

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