



# Emerging Trends in Real Estate®

Asia Pacific 2019




**Emerging Trends in Real Estate®**  
**Asia Pacific 2019**

A publication from:



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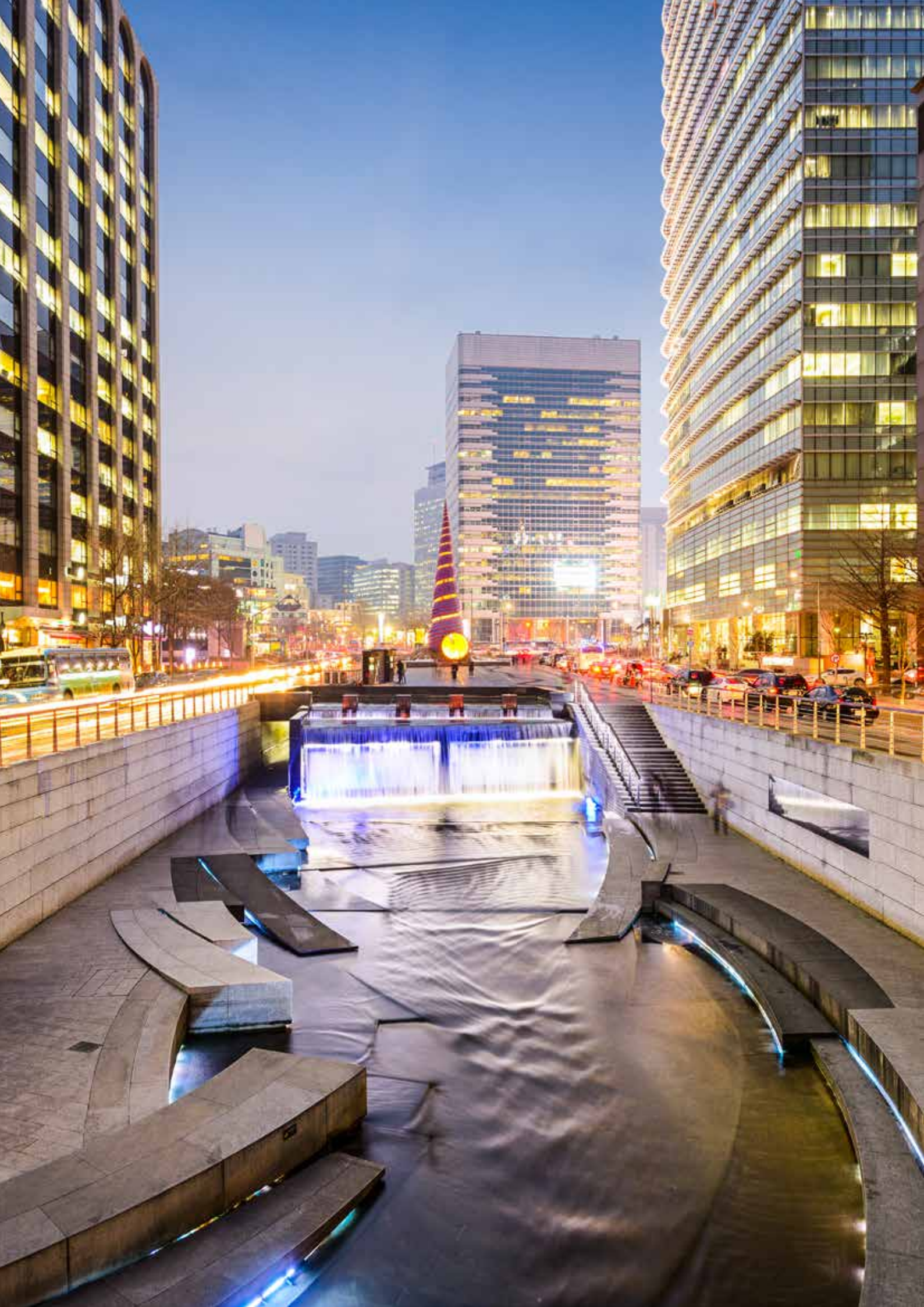
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# Executive Summary

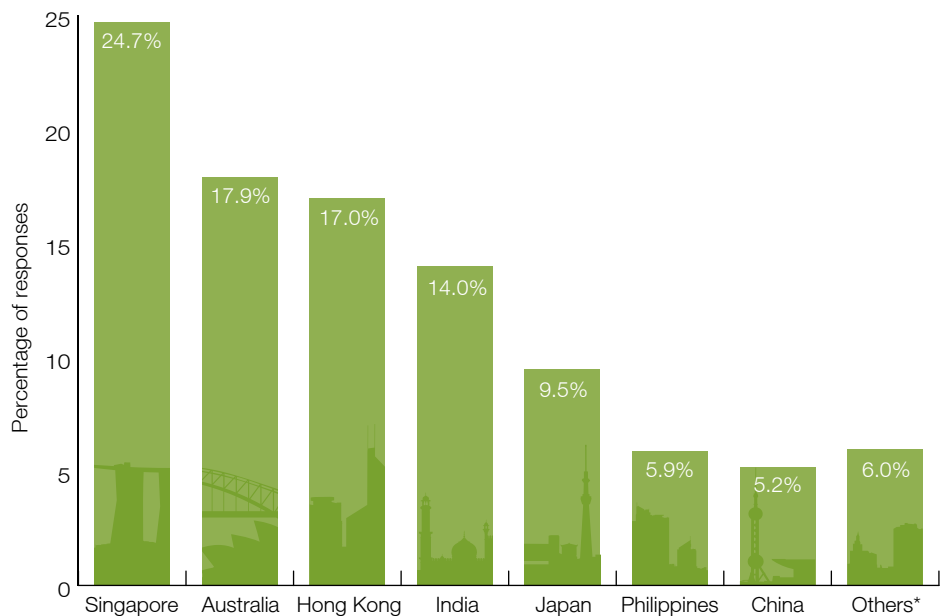
After nine years of relentless expansion, Asia's real estate markets are facing rising headwinds. An impending trade war, rising interest rates, tighter access to credit, and buyer fatigue at sky-high prices for both commercial and residential properties are causing investors to question whether the long bull cycle may be reaching its peak: "The market's wobbling like a jelly on a plate," as one investor put it. "We're at historic highs across the board."

That said, market fundamentals in 2018 remain robust. Transactions for the year are at record levels and pricing is strong, sustained by ever-growing volumes of institutional capital piling up in Asia's biggest economies.

For now, then, the music continues, and although some investors are looking to sell down their holdings and reposition, the sheer weight of capital looking to find a home in real estate means that prices may not fall significantly even if other indicators turn south.

As a result, and as in previous years, investors must consider more varied strategies than in the past to get money into the market.

## Survey Responses by Country/Territory



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

\*Includes Germany, Indonesia, Malaysia, South Korea, Taiwan, Thailand, United Arab Emirates, United Kingdom, United States, and Vietnam.

In the current environment, developed markets have the broadest appeal. Australia, therefore, remains the most popular choice, in part because the fundamentals remain sound—relatively high yields and good prospects for rental increases. In addition, the country’s deep and liquid markets offer a port in a storm. Japan has many of the same features.

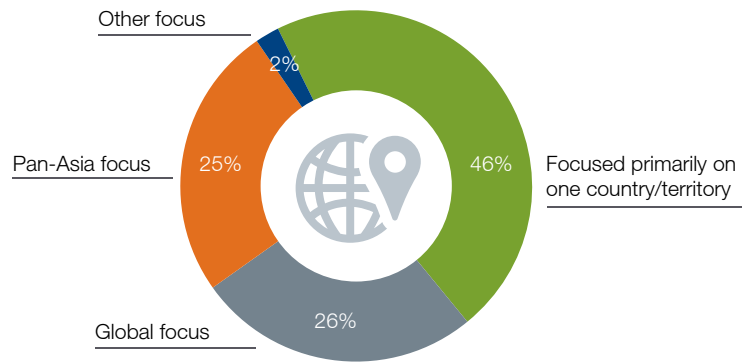
But with competition for assets in gateway cities meaning they are now out of reach of increasing numbers of investors, there is more readiness to look further afield.

That means, for a start, that emerging markets such as Vietnam and India continue to attract attention. And riskier strategies are again go-to bets, with value-add and “develop-to-core” both popular approaches. The latter normally requires greater attention to the land plot, construction quality, and partner than simply location. Higher-yielding plays such as logistics and data centres also fit the bill.

This greater taste for risk is reflected in the higher returns that investors are targeting this year. More than half (53 per cent) of those surveyed are targeting annualised gains of 10 per cent and above by the end of 2019. Last year, only two in five investors (41 per cent) had the same high returns in mind.

At the same time, some investors are considering how markets would look in the event of a downturn. Most obviously, this implies more distress, which has been thin on the ground in recent years. Already, some distress opportunities have appeared in markets including India, China, Indonesia, and even Japan. In addition, transaction volumes would drop,

### Survey Responses by Geographic Scope of Firm



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

although prices may not fall much given the huge amounts of liquidity currently in circulation. A correction would also mean more expensive debt as well as restricted access to debt, together with a flight-to-safety mentality that would tend to support mature markets, as noted above. Finally, there would be a likely reversal of capital flows in emerging markets.

Otherwise, several modern-day concepts are gaining traction. Over the last few years, coworking and shared workspaces have taken off in Asia, lending a tech edge to the stodgy serviced-office sector and promising better returns for landlords. Doubts remain about the viability of current operating models, however.

Co-living, on the other hand, has obvious appeal in Asia’s ultra-high-cost residential environment. Asia’s gateway cities are

perfect Petri dishes to explore how co-living works in an Asian context, although tenants in co-living complexes are not always focused on cost-saving.

In terms of capital flows, meanwhile, the ongoing buildup of liquidity across Asia continues to see huge amounts of money being sent cross-border to be invested in foreign real estate assets, despite a tightening of the regulatory crackdown in China that has resulted in steep declines in outgoing flows in 2018. Other capital, in particular from Singapore and the United States, has stepped up in its place. Strong outgoing flows in Asia seem certain to continue given in particular huge new reserves of capital from Japan that are expected to join the mix in 2019.

Bank debt remains readily available for real estate investors in most markets,

although impending interest rate hikes and tightening lending terms are expected to restrict access going forward. As a result, more debt funds are being formed, in particular looking at opportunities in China and Australia. Mezzanine debt returns more than bank finance and is also seen as safer than buying actual real estate—an important safety net if markets correct.

REIT markets have turned in a fairly stagnant performance in 2018—an unsurprising consequence of the upward trajectory in global interest rates as capital transitions to higher-yielding

sovereign bonds. Singapore REITs slightly underperformed other large regional REIT centres. Amongst emerging markets, India finally looks set to kick-start its domestic REIT industry with the launch of a large portfolio of business properties early in 2019, more than four years since regulators introduced domestic REIT legislation.

Finally, this year’s investment prospect rankings reflect the enduring appeal of the slow-but-steady returns offered by gateway cities in developed markets, with Melbourne, Sydney, Tokyo, and Osaka to

the fore. All these cities offer relatively high returns relative to local interest rates and sovereign bonds. Singapore continues to benefit after its rebound from last year’s lows, while Shanghai and Shenzhen also put in respectable performances considering especially government moves to restrict availability of debt capital to developers.

## Notice to Readers

*Emerging Trends in Real Estate® Asia Pacific* is a trends and forecast publication now in its 13th edition, and is one of the most highly regarded and widely read forecast reports in the real estate industry. *Emerging Trends in Real Estate® Asia Pacific 2019*, undertaken jointly by PwC and the Urban Land Institute, provides an outlook on real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas, and other real estate issues throughout the Asia Pacific region.

*Emerging Trends in Real Estate® Asia Pacific 2019* reflects the views of individuals who completed surveys or were interviewed as a part of the research process for this report. The views expressed herein, including all comments appearing in quotes, are obtained exclusively from these surveys and interviews and do not express the opinions of either PwC or ULI. Interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers, and consultants. ULI and PwC researchers personally interviewed 89 individuals and survey responses were received from 373 individuals, whose company affiliations are broken down below.

Private property owner or developer .....	24%
Real estate service firm (e.g., consulting, financial, legal, or property advisory) .....	24%
Fund/investment manager .....	22%
Homebuilder or residential developer .....	10%
Institutional equity investor .....	6%
Bank lender or securitised lender .....	3%
Other entities .....	11%

Throughout the publication, the views of interviewees and/or survey respondents have been presented as direct quotations from the participant without attribution to any particular participant. A list of the interview participants in this year’s study who chose to be identified appears at the end of this report, but it should be noted that all interviewees are given the option to remain anonymous regarding their participation. In several cases, quotes contained herein were obtained from interviewees who are not listed. Readers are cautioned not to attempt to attribute any quote to a specific individual or company.

To all who helped, the Urban Land Institute and PwC extend sincere thanks for sharing valuable time and expertise. Without the involvement of these many individuals, this report would not have been possible.



# Chapter 1: Calling the Top?

“Both in terms of rent and capital values around the region, we’re near the top of the cycle.”

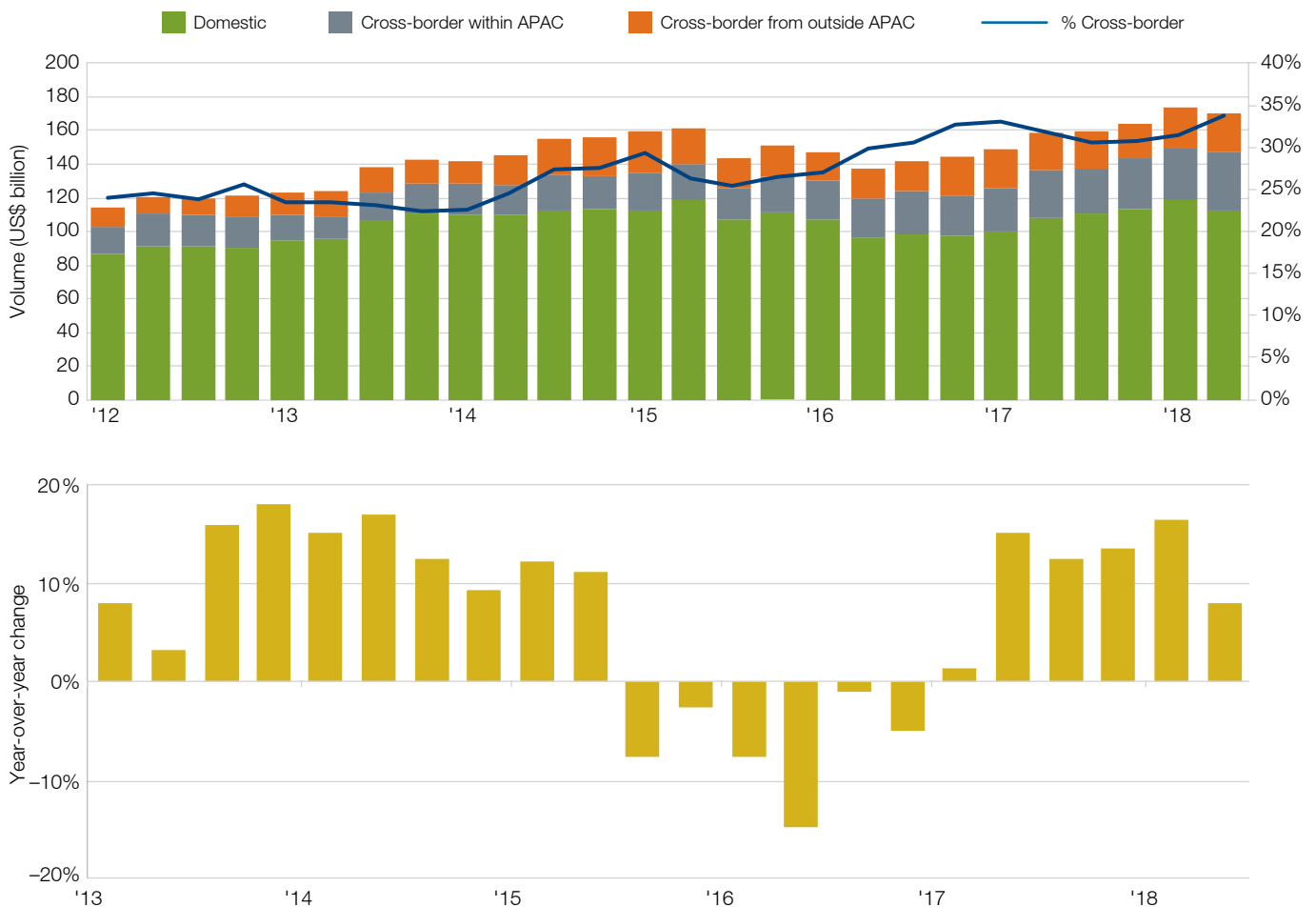
Barring an errant 18-month spell through the end of 2016, cross-border transaction volumes in Asia have known only one direction since the financial crisis: up. Central banks ensured money was easy, if not quite free, and property markets joined equity markets in climbing to new highs.

Over the last year, though, real estate investors in Asia have begun to think again. Across the region, upwardly spiralling prices, compressed cap rates, and ominous macro and geopolitical indicators have fund managers and asset owners wondering whether the markets have finally

peaked, and if so, how they should react. To be certain, the same question has been nagging investors in Asia for years—but this time, alarm bells are ringing louder than ever.

Despite a few pockets of weakness, real estate fundamentals in Asia have yet to show significant signs of decline. In fact, buoyed by a number of big-ticket deals, commercial transaction volumes reached an all-time high on a rolling 12-month basis in the first half of 2018, according to analysts Real Capital Analytics (RCA).

Exhibit 1-1 Asia Pacific Investment by Source of Capital



Source: Real Capital Analytics.

In Hong Kong, huge sums paid in a couple of flagship deals involving Mainland Chinese investors propelled the city to the top of the charts (second worldwide only to the New York City metro area), despite its reputation as a market where stock rarely trades.

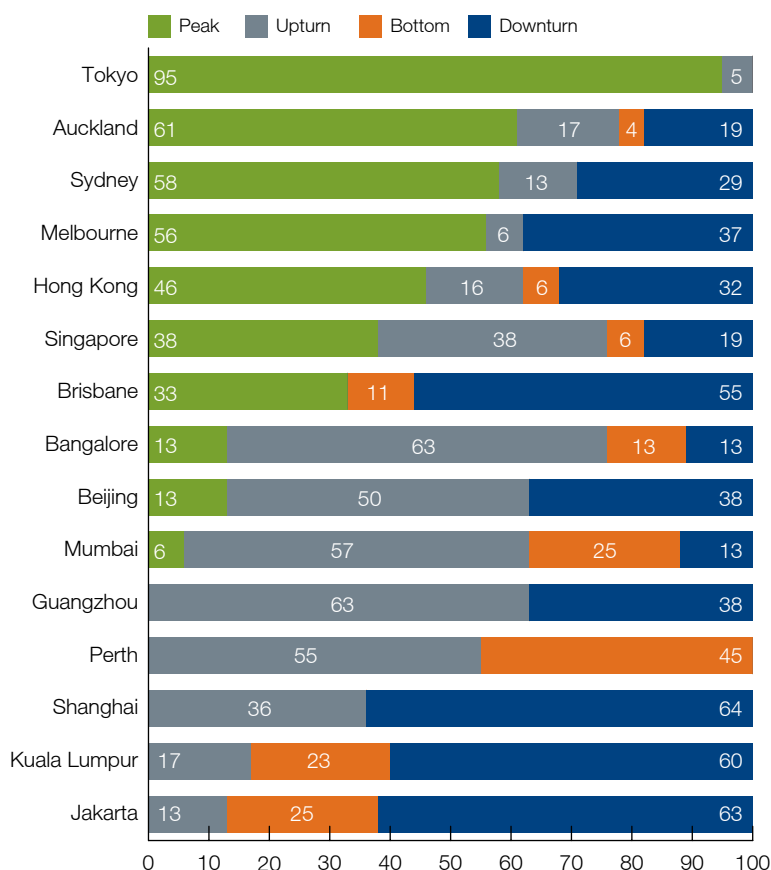
Otherwise, spending by domestic institutions saw both Tokyo and Seoul also registering high volumes, with deal flow in the latter up 66 per cent over the same period in 2017. Sydney, Shanghai, and Melbourne were the other Asian markets among the global top 30, rounding out a shopping list of gateway cities for core investors in search of Asian assets.

Perhaps unsurprisingly, those markets also dominate our survey findings of the most attractive markets for regional investment and development (see chapter 3). Cap rates, meanwhile, have continued to compress, especially in Australia and South Korea.

But while neither transaction statistics nor the profitability forecast in our 2019 survey (see page 10) betray particular signs of weakness, interviewees across Asia voiced a consistently negative theme that markets were at or near a cyclical peak, with some investors who don't have to stay invested indicating they were looking to sell properties into the current strength.

In Hong Kong, one opportunistic investor commented that “The market’s wobbling like a jelly on a plate at the moment. Nothing is making us collapse or melt, but nothing is making us rise, but it’s hard to see where the markets are going to go from here—we’re at historic highs across the board.”

**Exhibit 1-2 Property Cycle—Percentage of Respondents Perceiving Market Conditions to Be in Various Stages of the Cycle**



Source: RICS.

In Sydney, a residential developer said: “With U.S. 10-year bond [yields] rising, you’d have to say we’re at the top of the cycle, so cap rates are only going to go one way—out—in most people’s opinion. Someone said to me the other day that if you look at the real estate cycle as a clock, the prime commercial market seems to be stuck at 11:30.”

And in Japan—a perennial favourite for core investors—one foreign fund manager observed: “I do think Japan is definitely coming in for a correction. When yields are down so much that you start to see very small regional banks coming to Tokyo to try to finance real estate directly as

opposed to being part of a syndicate for one of the megabanks, to me that means you’re nearing the top, and something has to give.”

As a result, investors are looking over their shoulders for some event that might spark a downward move. In previous years, the consensus was for a “black swan”—some unknown unknown—to be the catalyst, as happened in 2008. This time, though, some mundane event seems a more likely cause—rising interest rates, falling bond or stock prices, fallout from trade wars, or simply investor fatigue at waiting for a turning point to arrive.

In many ways, the lack of a cataclysmic event marking an end to the current long bull market would probably be seen as healthy, indicating a return to a normal cyclical dynamic with consequences more predictable (and probably less severe) than those of a black swan. In any event, more than a few investors seemed to welcome the return of the bear, where deals would proliferate and probably pay more than they do currently. As one fund manager put it: “I wake up every morning saying, ‘Please let there be stress,’ which is a nice way of saying we need to get some distress back in the market.”

Exhibit 1-3 Sales Volumes for Most Active Global Real Estate Markets, First Half of 2018

2017 Rank	H1 2018 Rank	Market	Sales Volume (US\$ million)	Year-over-year Change
1	1	NYC Metro	\$26,034	23%
7	2	Hong Kong	\$19,681	89%
3	3	London Metro	\$17,476	7%
2	4	LA Metro	\$15,867	4%
5	5	SF Metro	\$11,188	-7%
6	6	DC Metro	\$10,663	24%
9	7	Tokyo	\$9,276	11%
4	8	Paris	\$8,479	19%
13	9	Chicago	\$8,182	42%
8	10	Dallas	\$8,012	-12%
21	11	Seoul	\$7,785	66%
12	12	Atlanta	\$6,233	-8%
26	13	Phoenix	\$5,984	59%
24	14	Seattle	\$5,722	27%
11	15	Amsterdam/Randstad	\$5,662	-6%
19	16	Miami/South Florida	\$5,208	-21%
18	17	Houston	\$4,915	-9%
14	18	Boston Metro	\$4,621	-45%
20	19	Sydney	\$4,346	-2%
25	20	Denver	\$4,226	9%
28	21	Toronto	\$3,944	32%
31	22	Munich	\$3,775	18%
17	23	Rhine-Ruhr	\$3,706	-37%
10	24	Shanghai	\$3,687	-48%
22	25	Frankfurt/Rhine-Main	\$3,499	-32%
30	26	Philly Metro	\$3,227	17%
15	27	Berlin-Brandenburg	\$2,920	-51%
34	28	Austin	\$2,891	-27%
32	29	Melbourne	\$2,852	50%
35	30	San Diego	\$2,769	21%

Note: Includes office, industrial, retail, apartment, hotel, senior housing, and elderly care real estate.

Source: Real Capital Analytics.

## China: Key Themes

With GDP growth in China ticking down to its lowest rate since the global financial crisis and senior officials making uncompromising statements about the need to curbing further home price rises, Mainland markets end 2018 in subdued mood and a sense that change is in the air. “In China right now, the macro view is that the way most private-equity investors have made money in the past is not how they’re going to make money in the future,” one special-situations investor said.

As usual, government policy mandates have been enforced by imposing limitations on credit for both developers and retail buyers. As a result, according to the head of a family office that invests exclusively in China: “We are seeing residential prices softening significantly.” The impact of the measures is being felt in other parts of the industry too. Whether residential, commercial, or industrial, “the clampdown on government credit to real estate companies is happening.”

Adding to these problems, land in major cities has become prohibitively expensive,

forcing many developers onto the sidelines. “Government pricing is now just too high,” one investor said. “The basis doesn’t work.” Starved of capital, developers now also have less money to replenish land banks.

Increasingly, therefore, land at auction often goes unsold, previously a key source of revenue for many local governments. That is causing some authorities to resort to drastic action. “There are signs that government auctions are now coercing companies to make bids, because companies are not wanting to do that,” the family office head said.

## Opportunistic Entry

Opportunistic investors may look for other ways of purchasing land. One special-situations investor is targeting stabilised returns of 13 per cent in China. “We are very focused on developing something that is better than the tenant is expecting at a lower cost than they expected,” the investor said. That is achieved by working with local partners to drive secondary-market plot prices as low as possible, perhaps because the seller is distressed,

or located in a less fashionable area used as spillover for back-office purposes. Then international expertise provides global property standards and financial management, while the local partner contains labour and operating costs.

The flood of institutional capital that has built up in China at least provides an exit for investors willing to take development risk. “Build to core” is the play. “In all of our markets, there’s a shortage of quality yielding institutional assets for local institutional investor as well as foreign investors,” the investor said. That provides the exit for development or value-add projects. As a result, “we are looking to create institutional-quality assets to sell into that market.”

Returns in the low teens are attainable for opportunistic plays in China, particularly for value-add projects with a hands-on approach and a strong local partner. The choice of product and partner is the key determinant of profit margins, rather than the choice of market. “I don’t see a massive differential these days between Shanghai, Beijing, Shenzhen, Guangzhou,

## Big Money Chases Slow Growth

Fears of an impending cyclical reversal come as liquidity in the market reaches an all-time high, with capital from some of the world’s largest institutional investors—mostly based in Asia—continuing to pour into regional property assets as investors seek to boost income beyond what regional or global bond markets can offer. Having resisted real estate investment in the past as an illiquid and alternative asset class, they now increasingly view it as a mainstream portion of their portfolios.

As a result, allocations to property that in the past were considered aggressive at 5 per cent to 8 per cent of assets are now done with rigueur, with some investment managers reporting that the biggest institutions

are pushing that figure well north of 10 per cent. “There are trillions of dollars lined up wanting to get invested in real estate, massive amounts of capital,” one opportunistic investor said. So “there’s a lot of money pushing the market up, but not great expectations of [rental] growth.”

With so much capital now in play, the search for core investments in Asia is tougher than at any point since the global financial crisis. According to one core investor: “Obviously, the pricing is where it is—it has made our lives more difficult, and requires a lot of work to get one investment done vis-à-vis what it was five years ago. But as an insurance company, we are a longer-term investor with certain unique features and the ability to hold things long-term.”

For European or North American institutions such as pension funds and insurance companies, Asian assets offer better returns than they can earn at home. In particular, if they are comparing the excess return from prevailing rental rates over the local cost of borrowing, markets in Japan and Australia are attractive options.

Institutional buyers enjoy a number of competitive advantages over private-equity players. In particular, investment yields are not necessarily seen as the main consideration, allowing the big funds to look to other factors, including long-term capital appreciation, diversification of assets, and provision of a safe haven in the event of a global economic downturn.

Chongqing, Wuhan—they're all monstrous multimillion-square-foot markets," one pan-Asia opportunistic investor said. "There's a lot of business in all of them, and I don't think you'd really worry too much about being in one place or the other."

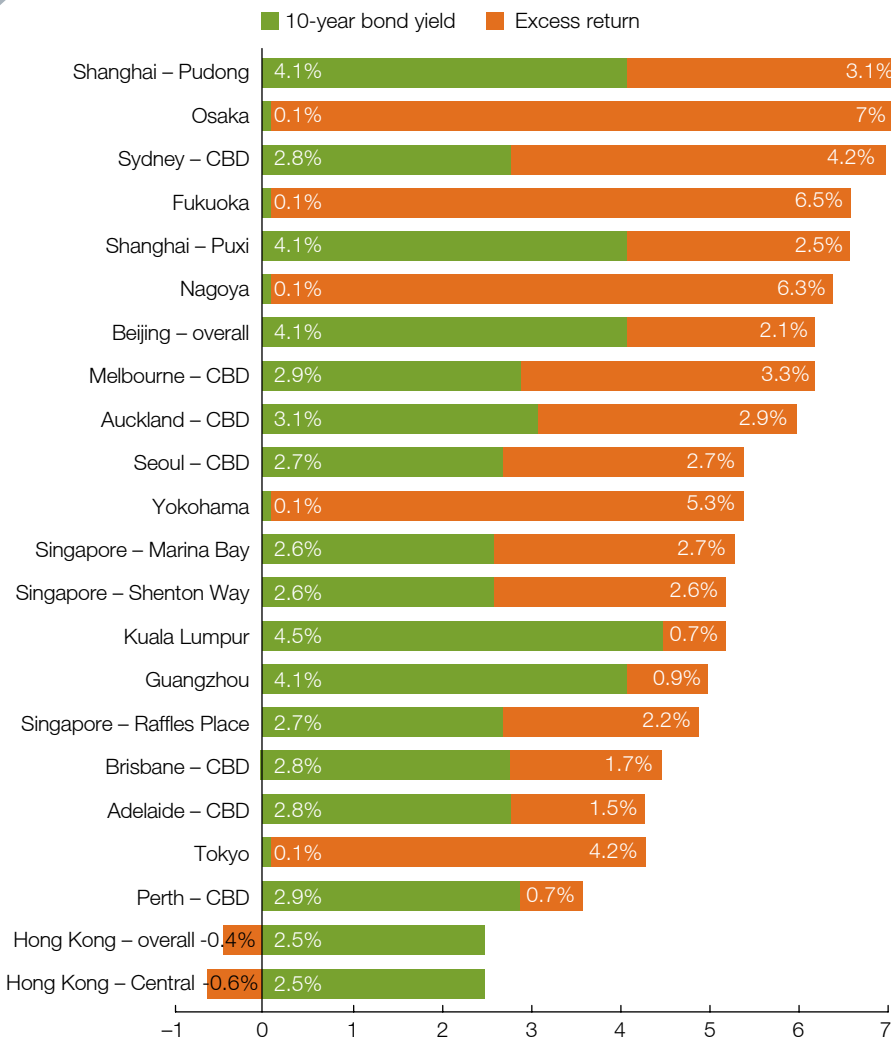
Competition is fierce, though, particularly as the clampdown on overseas property purchases "means there's more money in China trying to get itself invested. And often they're less-sophisticated investors with

a different perception of risk," the investor said, "so you've got to be very aggressive and very quick to get in as a foreigner to buy."

Beijing's drive to reform China's bloated state-owned enterprises (SOEs) may indirectly provide support to real estate investors. Pushed to become more efficient, SOEs are offloading noncore portions of their businesses, which may no longer fit with the parent's core operations.

Big developers are therefore sometimes spinning off smaller parts of their business that have experience as niche operators, providing opportunity for overseas investors to provide capital and operational expertise. Through restructuring, "you've got groups that are not natural owners of these assets looking to sell," the special-situations investor noted. "In the past, big developers weren't interested because it was too small an opportunity."

Exhibit 1-4 Office Sector: Projected Total Annual Return, 2018–2022



Note: Projected compound annual return. Excess return equals rate of total income plus capital appreciation over the local 10-year sovereign bond rate.

Source: DWS, as of July 2018.

In addition, because pension funds and insurers can operate with little or no leverage, rising interest rates are less of a risk, nor are they subject to the limited life spans of private-equity funds, allowing them to "play it through cycles," as an investor at a large insurance company put it.

Asian institutions investing in their domestic markets enjoy further advantages. They are, of course, more familiar with local conditions. In addition, they are exempt from a range of factors such as currency-hedging costs, foreign-exchange restrictions, fees and charges aimed at overseas entities, as well as the expense of moving money internationally. As a result, "it's very difficult to compete with local capital for core assets," the investor said. "Almost by definition, if you're layering in the cost of tax and currency hedging, your cost of capital is going to be higher than the domestic competition for the same assets."

## Will Cap Rates Reverse?

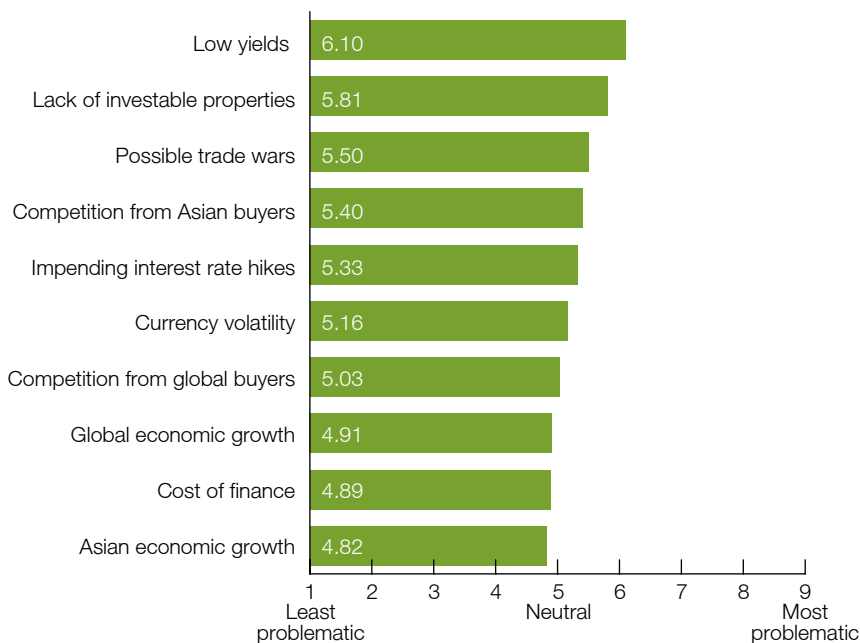
The glut of institutionally held core capital circulating in regional gateways is now forcing more yield-sensitive investors to travel ever further afield in search of deals. This means not only that assets are harder than ever to find, but also that cap rates continue to be prohibitively tight.

The one difference this year, however, is that—with the possible exception of Australia—there is a growing consensus that yield compression may finally have reached its limit. As one investor said: “We still have more money chasing assets than assets available, which is why cap rates—which in my view should have been moving out some time ago—are still stubbornly low. But I wouldn’t say they’re compressing anymore. They probably were six months ago, but I think now—though I say this every year—cap rates have bottomed out.”

This is not to say, however, that cap-rate compression is about to reverse anytime soon. Rising interest rates in the United States are starting to filter through to the Asia Pacific region, which means logically that cap rates there should begin to move out too—partly because investors’ cost of capital is higher and partly because alternative investment types (such as bonds) thereby become more appealing.

Still, as the investor pointed out: “You have to wonder whether the capital markets’ supply-and-demand equation will permit cap rates to rise, because if you want to buy a building, you have to make the owner an offer he can’t refuse that is always better than the next man’s, and there are plenty of next men in the markets. My bet is that any change is going to be pretty slow. You might see a different reaction in the residential sector because it’s sentiment driven, but the commercial markets will be very much dependent on

Exhibit 1-5 **Most Problematic Issues for Real Estate Investors**



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey.*

whether buyers will keep buying at these levels. And I think they will, because a lot of these private-equity funds have to—you don’t get paid for keeping cash in the bank.”

One factor that may make a difference around the margins is slowing activity by Chinese investors, as regulatory restrictions on capital moving out of China tighten further. In some locations (in particular Australia and Hong Kong), this has caused something of a vacuum because Chinese buyers have been generally more willing to push the envelope in terms of pricing, especially at the top end of the market. Japanese insurers and pension funds are now beginning to step into that void, but they are still early and small in their allocations.

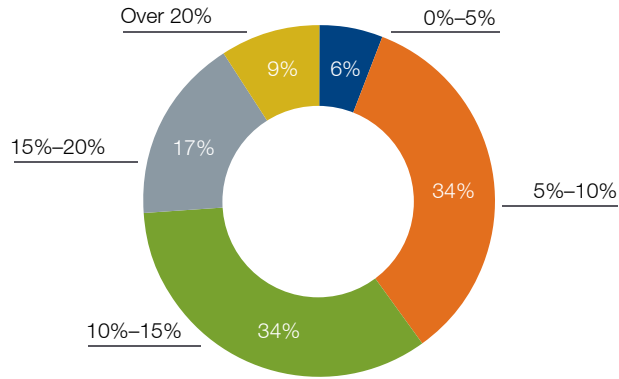
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## Strategies Evolve

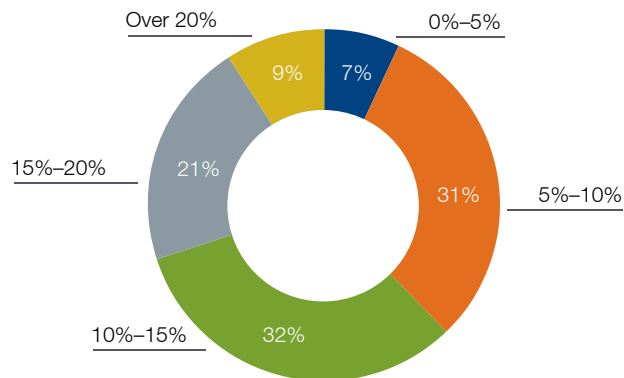
Ongoing competition among investors to place capital is in turn continuing to shape how investors approach the sourcing of assets. As a result, buyers today are more likely to be very site-specific, working from the ground up rather than the top down. One European institutional investor said that his company still starts with a macro viewpoint and an analysis of “megatrends” such as the emergence of Asia’s middle class and the rapid digitisation of the region. Increasingly, however, it is having to drill down to specific cities, and then subsectors of cities to find deals—the individual asset, based on issues such as land-acquisition prices, construction quality, and market segmentation—that makes much more difference than the top-down view: “There’s a lot more figuring out of investments as opposed to in the past where we used a broad brush, and said ‘Let’s invest in office in Tokyo, done.’ ”

If core prices are now too high for many investors to buy, what are the alternatives? For some—and probably increasingly so—the answer is nothing at all. Many funds are now sitting on growing reserves of unused capital, hoping for a reversal in the market to offer up buying opportunities. For those with a more opportunistic mandate, however, or who are duty-bound to deploy capital, the obvious option is to migrate to riskier strategies and markets. More investors now have little choice but to go down this road in order to deploy capital. As a result, and although yield compression inevitably means that buyers today must assume more risk for a given return, our survey still suggests a skew higher in return expectations. Some 21 per cent of investors now target returns of 15 to 20 per cent in the 2019 survey, up from 17 per cent in 2018 (see exhibit 1-6).

Exhibit 1-6 Investors’ Targeted Returns between End of 2017 and End of 2018

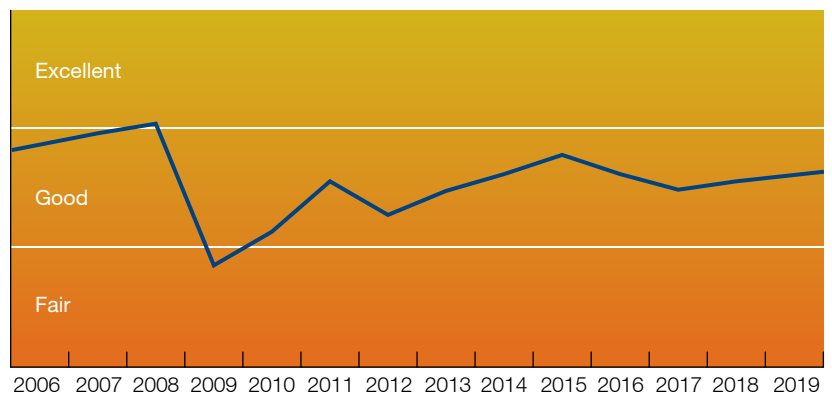


Investors’ Targeted Returns between Now and End of 2019



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

Exhibit 1-7 Real Estate Firm Profitability Trends



Source: *Emerging Trends in Real Estate* surveys.

## Japan: Key Themes

Perhaps surprisingly, Japanese cities have migrated upward in this year's investment prospect rankings to near the top of the table, following a couple of years when investors questioned whether local markets had run out of steam. Their resurgence is likely a reflection of the fact that Tokyo in particular is one of the few destinations in the Asia Pacific region where institutional investors can find a deep and liquid pool of assets to trade.

Tokyo promises stabilised, high-quality office assets that have delivered better-than-expected returns in the last couple of years. "We expected flat-ish rents over 2017 and '18, but have been surprised by 3 per cent to 7 per cent [increases]," the Asia CEO of one European developer said. Yields have generally fallen around one percentage point over the last five years, due to strong capital value growth. Still, many of the best buildings in the Japanese capital are closely held by Japanese corporations, or trade between the developer and its sponsored REIT. Even the buildings that change hands often do so behind closed doors, without coming

to any market that a foreign investor can breach.

One unique aspect of the Japanese market is that returns can be outsized due to the low cost of borrowing (i.e., sub-1 per cent), access to relatively high amounts of leverage, and the availability of seven- to 10-year fixed-rate financing, which basically locks in a minimum level of return from the outset. In the Asia Pacific region, only Hong Kong promises lower annual total returns on office property than Tokyo, according to DWS. But with the risk-free (i.e., Japanese government bond) rate at only 0.1 per cent, Tokyo's annual 3 per cent cap rate offers a handsome yield spread over both cost of capital and the local sovereign. That said, investors are reporting that borrowing rates may be set to inch up, and in practical terms may indeed already have done so given new bank policies imposing upfront fees on lending.

Last year saw investor focus turn away from office and towards the residential market, which offered slightly higher yields together with lower volatility. Yields have now compressed drastically, however, and

despite a revival in Japanese wage growth providing a slight lift to rents, investor interest in residential has waned as the supply of suitable properties dries up.

According to one investor active in the sector: "I think part of it is that lenders are concerned about pricing. They're saying, 'Do we want to do something below a 3 cap?' I've always thought the 3 per cent level was going to be a hurdle in Tokyo. People were suggesting it could go to a 2, but once it does, when you start to look at that price per square metre on the building, it's higher than you're selling individual condos for—obviously that doesn't support your strategy for making money."

As a result, some investors are now rotating into B-grade office. According to one fund manager: "If you're looking at B-grade and below-market rents, I think that's still a good play. Probably still defensive for all intents and purposes, but I'm more comfortable with tenants who pay 20,000 yen or less per *tsubo* because I can raise their rents a bit and still make it work for me, and I can also find tenants to take that space even in a downturn. In

## Value-Add Ticks the Boxes

Although there are many ways for investors to assume more risk, the most popular today is perhaps the ongoing shift toward value-add noted in last year's report, focusing especially on providing more flexibility, better user experience, and improvements through better design and technology—whatever it takes to drive income growth from the property.

A large, shiny office space may have shophouses nearby that would attract tech entrepreneurs, given the right overhaul. Old police stations can become retail and arts venues. Shopping centres down on their luck can regain a relevant position by adding courier-pickup operations, coworking space, and gyms.

On one level, this strategy is an obvious response to the lack of core product, as well as unprecedentedly high prices. At the same time, squeezing extra efficiency from buildings in Asia is an obvious play given that:

- So many have inherent inefficiencies—from physical shortcomings, tenant mix, or business use issues—that might be addressed.
- Long-term structural shifts in the economy and in demographics are changing the ways that work, living, and retail spaces are being used, creating new opportunities to reposition assets.
- There is a multitude of buildings in Asian cities now past their prime. Asset enhancement therefore fits well with an overarching theme of urban regeneration that continues to gain momentum across the region.



Tokyo, that stuff is trading high-3s/low-4s basically.”

Those focused on higher yields continue to look to secondary cities, though even here yields are being squeezed. According to one locally based fund manager:

“Osaka basically has become overheated, particularly for residential, which is below a 4-cap now. We’re not players at that level, but for office you’re seeing cap rates at 4.5-ish, which is one of the reasons it still makes sense—Osaka office is probably a good story still because rents are relatively low.”

Prices in Nagoya and Fukuoka, meanwhile, “have gone up and don’t make sense to us,” the fund manager added. “So my view for the non-Tokyo markets is that you just

have to be cautious; it has to be driven by location and quality. But the difference compared to 10 years ago is liquidity. Those markets have developed their own characteristics. All of them have their own economic base, so the liquidity will remain, which was the biggest issue before. When there was a correction they suffered from liquidity issues, but I don’t think that’s going to be the case again.”

Regional retail, meanwhile, is another story. Developers may still build speculative office space in big cities, but the same does not apply to retail. Big-box operators have a formidable understanding of regional demographics, and target only sweet-spot locations. That can work—for the brave. “Regional retail is a pretty polarising strategy,” said the Asia CEO of a regional

brokerage, although Middle Eastern sovereign funds have been buyers. “The city centres of those four or five cities will be fine, but the regions around them are facing terminal and irrevocable decline.”

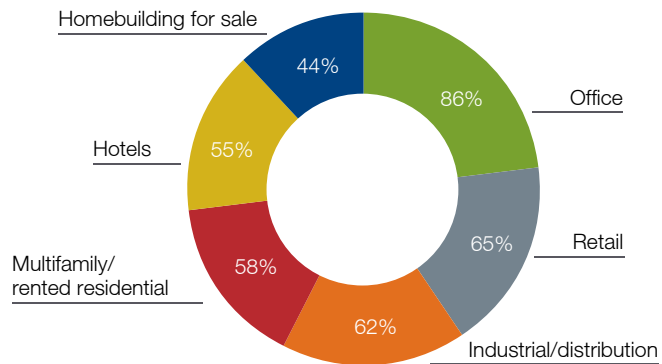
Play those numbers right, though, and operationally the investment works. “The yield is there, the coupon is there, you’re hitting return targets—probably better on many other investments throughout the world,” the broker said. But your capital may be stuck, surely with your shopping centres finding few buyers of the assets. The math then works only if your rental yields and renewals have covered your initial investment. “Do you want to be the one left standing when the music stops? The exit is blurry.”

Still, it is important not to see value-add as a panacea. Investors must pick and choose the right asset, and an intimate knowledge of local markets is often needed to understand whether it can succeed.

In Tokyo, for example, some foreign investors have made headway converting grade-C buildings to grade B, or updating lower-grade office buildings to meet current requirements for earthquake resistance or fireproofing. This is not a straightforward exercise, though. “If you are just showing up to do it, [you should] pack up and go home, it’s not going to happen,” one Tokyo-based consultant said. “If you find one building to do that in a year, wonderful. There are groups that have been there since the mid-1990s and have always had a presence and are looking to do the same thing. Has that strategy been played out 10 years ago? Absolutely.”

The difference between first-class space and properties built in the wake of Japan’s property bubble is now too stark for the tactic to work. Disaster proofing has

**Exhibit 1-8 Broad Sectors in Which Investors Are Now Active or Plan to Be Active in 2019**



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey.*

become so expensive that it is often easier to start over than attempt to upgrade to current standards. “It’s grade C because it’s super-old, or the floor plate is too small, or the location is subpar,” the consultant

said. “I can’t conceive of a situation where putting a fresh coat of paint and lipstick on a building isn’t better than knocking it down and rebuilding it.”

### Build-to-Core Strategy Aims at Institutions

Development is another strategy now increasingly on investors' radars, especially with so many institutional investors in the market. The overall dearth of core properties in Asian markets, combined with an apparently limitless hunger for core product, means that build-to-core strategies have become a go-to option even for risk-averse investors who would normally regard development risk as a bridge too far.

As a result, build-to-core projects, particularly office space in underserved markets such as India or even Seoul, have become common. "If we want a scalable presence in India, is the stock going to be there for the next five, 10, 15 years?" one core investor asked. "If the answer is no, you may want to start developing those."

Call them accidental, even reluctant developers. The temporary goosing to returns from delivering a successful property is highly desirable, though the ultimate goal is to own a largely risk-free building for decades. "You get rewarded

for the risk, but then you are left with the core portfolio at the end," the investor explained. "At the end of the day, what we're chasing is income-producing assets."

The Indian market is another destination ripe for development projects: "The market is becoming institutional very quickly," commented one opportunistic investor, and "development of office is where you want to be, selling into that. The demand for office investments over there is very, very strong, and prices have gone up significantly over the last two or three years."

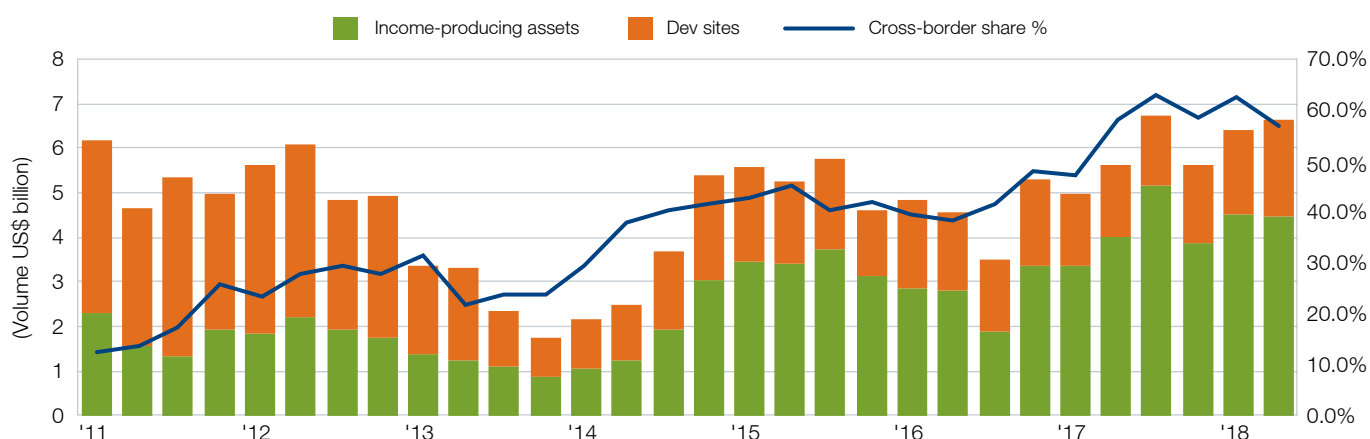
The objective is to produce assets of the right quality to outperform what's already in the market. "The market is oversupplied pretty much across all sectors across China," another special-situations investor said. "But in the right markets in the right cities in the right assets, the product is not there." Development will therefore fill that gap.

Interestingly, the same investor feels that China's biggest cities are now

hitting a level of market maturity that is equivalent to that in cities such as London and New York City. With effectively no land in city centres left to sell, and with surrounding areas already developed for miles around, the natural response is for planners and developers to focus instead on opportunities to buy dilapidated, underperforming, or outdated city-centre assets and either reposition or redevelop them.

For China, this marks the first time that the outlet for ever-growing price pressures in downtown areas is to redevelop for urban regeneration purposes rather than head for the expansive suburbs and make new space. This promises to open a new paradigm of city-centre development opportunities for foreign funds that is not contingent on buying land in competition with big domestic developers at government auctions. "We are working with partners to develop real estate that's not being met by current supply and is now in demand," the special-situations investor explained, referring to one such project. "The sophistication of the end users has advanced beyond the property that's available."

Exhibit 1-9 India Volume by Property Type



Source: Real Capital Analytics.

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## Return of Distress?

Finally, and given especially the perception of an approaching turn in the cycle, investors are once again eyeing the potential for distress plays in Asian markets. With the possible exception of China, such opportunities have been thin on the ground for several years, and although fund managers are by now well aware that distress in an Asian context is not as easy to exploit as it is in the West, the potential for higher returns is one that will be hard to pass up for fund managers sitting on sometimes large stockpiles of dry powder (see chapter 2, “Stress and Distress” for more).

Interestingly, the topic of distress was a recurrent theme during this year’s interviews:

- In Japan, one locally based investor recounted how smaller regional banks had been approaching fund managers in Tokyo asking them to bid on the banks’ nonperforming loan (NPL) portfolios—the first significant indication of distress in Japan in several years.
- In Indonesia, foreign consulting firms were reported to be advising local banks on selling off their real estate NPLs.
- In India, domestic banks recently shut down provision of debt capital to mid-market residential developers as they reassessed their portfolios following default by a large nonbank financial institution. According to one locally based interviewee: “In the last few years, residential sales haven’t picked up, so the developers have survived by refinancing—paying off bank A by borrowing from bank B or a nonbank financial institution. That game of musical chairs has temporarily come to a standstill.” As a result, many mid-tier developers are being now forced to consolidate or put their land banks on the market in order to meet debt obligations.

- In Australia, Chinese developers have been unable to complete some deals after regulators tightened controls on capital exports from China. This is not exactly a distress scenario, although it does involve a forced divestment. According to one local developer: “The deals I’m seeing so far probably wouldn’t involve losing money—pricing is good and it’s just a financing issue. But ultimately, if the market continues to slide even moderately, there might be a pricing adjustment as well.”

## Emerging Markets Still a Draw

More adventurous investors have long eyed Asia’s emerging markets as a potential source of higher returns. Though not for the faint of heart, emerging-market investment is increasing as economies grow and the base of investable assets grows with them. According to one consultant: “It’s all ASEAN at the moment—they’re all interested in the Philippines, Indonesia, Malaysia, Thailand. And Vietnam is hot, hot, hot.”

Another reason for the uptick of interest is that developing economies may benefit from the budding trade war between the United States and China. According to one Manila-based developer: “The Philippines is a largely domestic market that doesn’t export a lot, so trade issues don’t usually affect us. But we could soon see more Chinese companies shifting operations here to avoid U.S. tariffs.” Interviewees operating in several emerging-market countries reported that this process was already underway, with demand in local industrial and business parks surging as Chinese companies take up space. In this way, the trade war has proved a catalyst for a process already underway. As one consultant put it: “I think logistics was going to be big in all those markets anyway because they’re all underserved—if you pick one sector, they’re always going for this one. I can’t talk enough about logistics with people, it’s the ‘in’ subject.”

*“I think logistics was going to be big in all those markets anyway because they’re all underserved—if you pick one sector, they’re always going for this one. I can’t talk enough about logistics with people, it’s the ‘in’ subject.”*

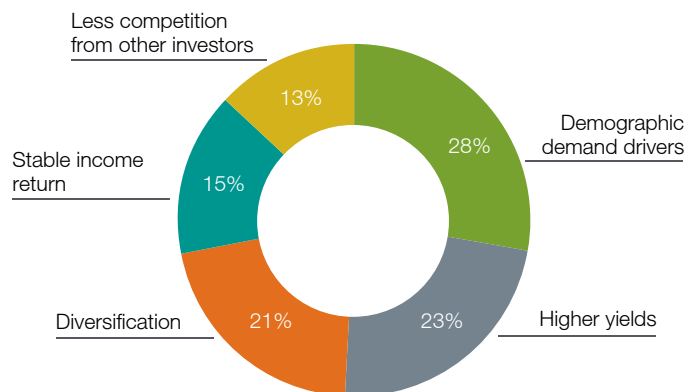
**VIETNAM** continues to be a major focus for emerging-economy investors, with Ho Chi Minh City ranked as the highest such market (at number seven) in our investment prospect poll. Vietnamese gross domestic product (GDP) growth of 6.8 per cent is the highest in the region, with strong activity from both Chinese and Japanese manufacturers.

Housing has historically been the focus for foreign investors in Vietnam, usually in partnership with a local developer. In addition, a number of deals have occurred over the last year, with foreign investors buying into the platforms of local developers. Market segmentation has now shifted from the high to the middle part of the spectrum, as urbanisation leads to ongoing demand for housing in large urban centres. Ho Chi Minh City alone has projected demand for new housing amounting to some 400,000 units per year. Worker-focused housing has widespread appeal, therefore. One interviewee pursuing an opportunistic strategy was focused specifically on the 55 per cent to 65 per cent income percentile, translating to homes that in Ho Chi Minh City cost around US\$80,000. Quite simply, “that’s what they can afford,” he said.

In the past, logistics facilities in Vietnam did not factor as a priority for investors, despite a booming manufacturing sector and generally poor existing infrastructure. That is changing now, though, boosted by regulatory changes that allow foreign enterprises to operate more freely in the sector.

**INDONESIA** has been on the radar of emerging-market investors for years, with Jakarta nominated as our survey’s number-two investment prospect destination as recently as 2015. Its stock has fallen more recently, however, as a result of an ongoing glut of office and residential supply. While the market overall remains soft, there is currently significant foreign investor interest in the logistics sector, according to a one locally based consultant, due to a massive undersupply of modern facilities. Even here, however, activity remains muted given the high prices demanded for industrial land in established industrial parks. Other potential areas of interest for private-equity

Exhibit 1-10 **Reasons for Investing in Niche Sectors**



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey*.

investors are in NPLs (investors must be wary of scams) and also in picking up bulk purchases of residential units directly from developers with a view towards potentially converting them to serviced apartments.

### Niche Sectors Still in Demand

Meanwhile, higher-yielding alternative asset classes also continue to gain traction:

**LOGISTICS** continues to be a go-to theme, given preexisting structural shortages and vast new demand driven by e-commerce retailing. This is perhaps the only sector where investor opinions were uniformly bullish, and unsurprisingly the sector once again tops our sector survey rankings. Developer willingness to build new facilities without precommitments from tenants is testament to the strength of the market.

Investment allocations to the sector have risen significantly in 2018, with action centred on major cities in China, as well as Australia and Seoul. One fast-growing trend is the emergence of last-mile delivery hubs, again as a means of tapping e-commerce growth. This implies demand for inner-city distribution centres, with investors looking in particular at underused and lower-grade office, retail, and industrial spaces near city centres. It also boosts demand for new technology, in particular automated storage and retrieval systems that can improve delivery speeds.

This year, logistics infrastructure in emerging markets has also become a focus, given a near-complete lack of modern stock and fast-growing manufacturer sectors. Demand is booming in Vietnam, Indonesia, and especially India, where the mid-2017 introduction of a nationwide goods and services tax (GST) has revolutionised how goods are delivered across the country. With the government now also accorded infrastructure status to warehousing projects, “there is a huge pipeline of demand for large build-to-suits because there is hardly any ready-built demand,” according to one local investor. “So, the name of the game today is to buy land and construct, or if you can pick up a brownfield site that already has the approvals, then take it up and construct. It is one of those rare sectors where the demand side is completely outstripping supply. With an approved piece of land, for every good parcel there are least two or three tenants waiting.” As another investor commented: “Find me a more compelling asset class than logistics in northern India—I’d take that gamble all year long.”

**DATA CENTRES** were previously shunned by real estate investors as too specialist, but have since emerged as another in-favour niche. Debate continues as to where they fit in an investment portfolio (as infrastructure, tech, or real estate?), but the returns on offer have today gradually eroded these concerns.

The “big four” markets for data centres so far are Singapore, Tokyo, Hong Kong, and Sydney, in declining size. In Asia, this is where the “cloud” actually exists. Prices have stabilised, and the high price of land is encouraging the redevelopment of low-end buildings and the repurposing of brownfield sites.

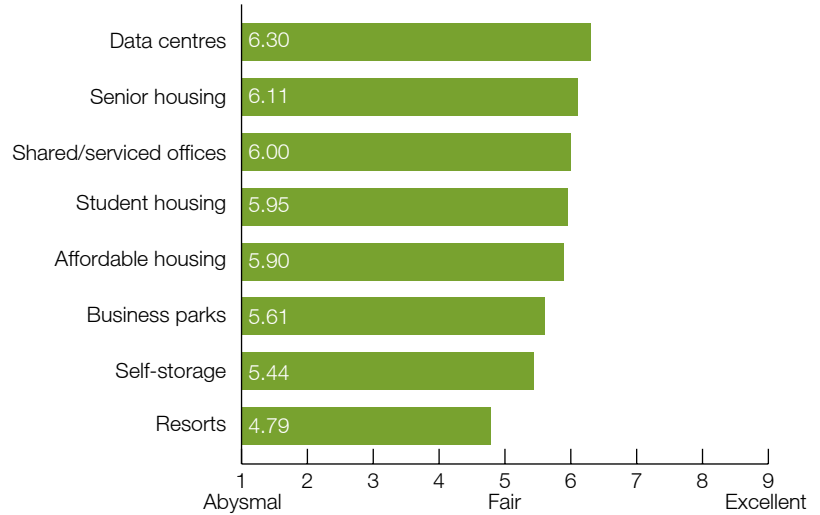
That said, the fastest-growing opportunity is probably in China, which continues to see rapidly rising demand for network services but which suffers from chronic shortage of infrastructure. “It’s a pretty unique opportunity that has economics not associated with the product elsewhere,” one opportunistic investor in China said. Cash yields in the low teens are achievable, comparing favourably to Shanghai office space, for example, which currently provides sub-4 per cent returns.

While undersupply exists across the board, the investor noted, there is a particular shortage of data-centre space to support growing cloud data, an area where all of China’s biggest private entrepreneurs—Alibaba, Tencent, and Baidu first among them—are looking to capitalise. Beijing has only added to the shortage by requiring that all Chinese data be stored domestically.

China’s data-centre industry also features significant barriers to entry. Licensing is problematic, as is the acquisition of adequate power supply from China’s electricity network. Operators with the right permissions in place can therefore afford to be selective in their choice of investors.

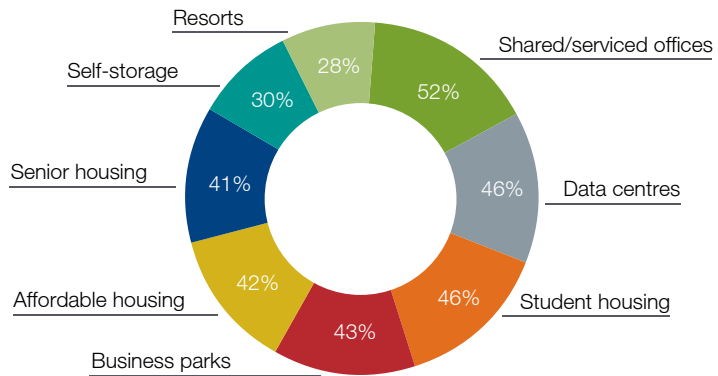
Still, institutionalisation of data centres in other Asian nations is also inevitable, proponents say, just as Asia’s digitisation is itself unstoppable. South Korea is by many measures the most-wired nation on the planet. And in emerging markets such as India and Southeast Asia, increasing numbers of rural or low-income residents continue to migrate online, usually via cellphone data networks.

**Exhibit 1-11 Prospects for Niche Property Types in 2019**



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

**Exhibit 1-12 Niche Sectors in Which Investors Are Now Active or Plan to Be Active in 2019**



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

Growth of the data-centre industry in those locations is now fragmented and fraught with regulatory difficulties. But there remains great scope for rapid expansion of the industry across Asia going forward.

### Worker Housing Cuts Commutes

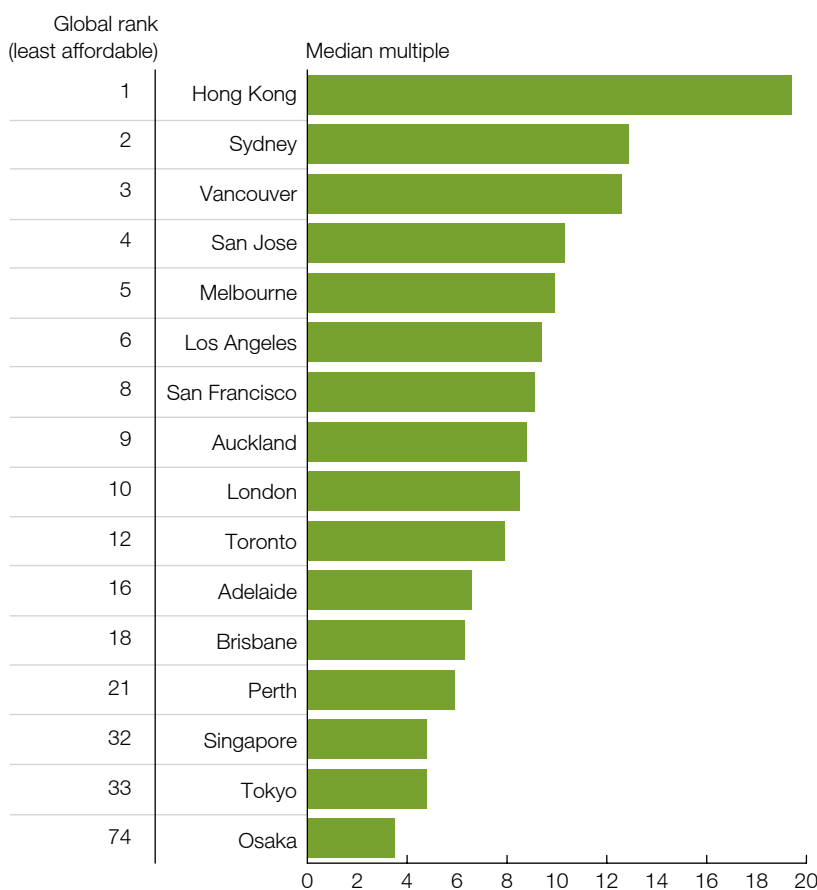
The ongoing process of urbanisation in countries across Asia brings with it higher wages and better standards of living as workers migrate to higher-paying jobs in the cities. At the same time, however, the urban sprawl resulting from rapid population growth means the commute to inner-city jobs has become problematic. Worsening gridlock on the roads of Manila, Jakarta, Bangkok, and beyond is therefore creating demand for worker or dormitory-style housing located nearer to workplaces, thereby eliminating the need to travel. Nor is commuting the only problem—market segmentation is also an issue, according to one investor keen on such facilities. At the moment, “a lot of [the existing housing] is just wrong—wrong size, wrong position, wrong marketing—there’s no access to public transport, you just can’t make it work.”

The Philippines has emerged as a promising market in this space because many workers live, for example, a long way from where many new business process outsourcing (BPO) operations are being built. “There are some guys doing some really smart things with worker housing in and around Manila and Clark,” said one investor, “but it’s very small-scale—getting the scale you need with the transparency you need and the returns you need is hard. It’s a bit bitty.”

### Government Policies Boost Affordable Housing

The unprecedented rise in Asian housing costs resulting from a long period of ultra-low interest rates has resulted in the introduction of a variety of new policies by Asian governments aimed at restraining home price growth, most obviously through levying new taxes. While these have had limited impact in containing upward movement in home prices, in some cases government housing policies have proved strikingly successful. In particular, the use of subsidies, provision of land and infrastructure, and the removal of red tape in planning and approval processes by authorities in a few emerging economies has led to the creation of booming new markets in housing for low-to-middle-income earners, often via projects located on greenfield sites outside metropolitan areas that connect to the inner city by new rapid transit facilities.

**Exhibit 1-13 Least-affordable Housing Markets in the World**



Note: Median multiple is the median house price divided by median household income.  
Source: Demographia.

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This type of housing was formerly neglected by local developers due to their preference for higher-margin housing at the top end of the market. However, with prospects for high-end housing much subdued as a result of overbuilding and/or high prices, growing numbers of investors—both local and foreign—are now looking at options in the “affordable housing” niche, aiming at a demographic somewhat higher up the pay scale than subsistence workers.

In Indonesia, for example, a presidential manifesto has mandated construction of a million units of affordable housing per year since 2015, with some 2.4 million units created by the end of 2017, according to official figures. The government recently created a catalyst for the programme by removing the minimum loan-to-value (LTV) requirement for mortgage lenders, allowing buyers in principle to obtain 100 per cent mortgages. It is also reportedly considering use of 3-D printing to create new affordable housing stock. The dynamics of that market have been addressed in previous issues of this report.

India is another market where the government has ambitious plans to create tens of millions of low-cost housing units. Authorities have provided a range of incentives to facilitate the process by way of lower taxes, public/private partnerships, alternative technologies, and higher floor/area ratios, together with subsidies on interest rates, approvals, infrastructure provision, and land conversion processes. As ever in India, bureaucratic inefficiency has meant that the number of completed units has not been as high as originally forecast, but major progress has been made nonetheless. Over the last 12 months, a number of large foreign investors have announced plans to participate in the sector, either directly or via an Indian affordable housing fund.

According to one local player, the major logjam for foreign investors in this area is with land acquisition, conversion, and approval risk, which can take years to address. In the past, he said, “foreigners have suffered in this sector not because of lack of demand, or their ability to develop, or because their tech was not up to the

mark. It was because they thought they’d be able to acquire land and get approval in a year. It actually took them more than three, so all their business plans went out the window.” The government now has plans to help facilitate these processes by offering foreign investors access to government-owned land reserves that already have approvals in place.

### **Co-living – Template for the Future?**

Rising housing costs in major markets across Asia have translated to ever-smaller living spaces as developers continue to cut unit sizes. One consequence of this is the rise of co-living facilities in the most expensive urban areas. As in the West, these generally comprise a hotel-room-sized living area paired with access to communal spaces such as a kitchen, a living room, break spaces, a rooftop, and a gym.

Hong Kong, the least affordable city in the world according to Demographia’s annual ranking, is ideally suited for co-living facilities. The concept is aimed at young university graduates heading into their first jobs who want a living space outside the often-crowded family home. Low-grade hotels are often good candidates for converting to co-living spaces. The downside is that the capital expense is relatively high for what is largely an experimental concept, especially if it is expensive to modify back into a hotel or office space should the co-living concept prove unviable. “In very high-cost markets like Hong Kong, there’s no reason why you couldn’t make money on it,” one investor said of the strategy. “But it’s expensive to fail.”

Co-living spaces in Asia differ in various ways to the model that has evolved in the West. In China, for example, where co-living has been embraced enthusiastically, tenants are not drawn simply on the grounds of cost. While they are usually a younger demographic, they often have plenty of money, tend to be highly educated, feature a high proportion of females, and are in general drawn by the convenience, safety, and trendy neighbourhoods where such facilities are often located.

Facility management, meanwhile, tends to be very app-based, partly because Chinese millennials are so adept at using handsets, and partly because it offers operators a way to capture an entire value chain of related services. As a result, virtually everything connected with the co-living lifestyle in China can be done using an app, from property searches, to contractual issues, to maintenance requests, to door-to-door removal services. The bigger players even offer online interior design options selling proprietary ranges of furniture.

One reason why co-living may prove a hit in Asia is that small living spaces are already the norm. Users are therefore probably swapping one cramped space for another, but gain their independence into the bargain. Ease of use is another factor. According to one Tokyo-based investor: “I think for singles the co-living concept is going to be the norm going forward, but I don’t think it’s about having the shared kitchen and common areas as much as it is about flexibility. So you have flexible lease structures, you have furnished units, you make it easier for people to get in and get out, and instead of four to five months’ upfront deposits, agency fees, and everything else, you pay just one month and you have it furnished. It just makes it easy.”

### **Multifamily – Slow but Steady**

Asia’s build-to-rent markets continue to make inroads, though progress is slow in an environment where institutional involvement in multifamily developments (outside Japan, anyway) is practically nonexistent. Still, the market in China has seen rapid growth over the last couple of years, incentivised by government policies requiring developers to allocate a percentage of all newly built projects to the rental market. Private-equity funds—many of them foreign—are now actively involved in China’s multifamily markets, where the biggest operator currently controls upwards of 500,000 rooms and the total stock nationally now amounts to some 1.66 million units, according to press reports.

### Australia: Key Themes

With Melbourne and Sydney occupying two of the top three places in this year's *Emerging Trends* investor prospects survey, Australia remains the single most popular investment destination in the Asia Pacific. Unsurprisingly, fundamentals remain strong. In the first half of 2018, prime office rents in Sydney and Melbourne registered growth of 12.5 per cent and 10.7 per cent respectively over the same period in the previous year, according to JLL.

Already-low vacancy levels continue to decline, and with very little new supply in the pipeline, pressure on rents seems set to continue, with projected increases of more than double the long-term average of 4.5 per cent—among the highest in the region. What's more, an experimental push several years ago by some larger tenants to decentralise by shifting a percentage of staff to suburban locations appears now to have ended—accounting firms and the

“big four” banks have reversed their policy and reverted back to the central business district (CBD) after they encountered problems in attracting and retaining staff. This is putting further pressure on occupancy rates.

Although yields in Australia continue to compress (into the low 4s for opportunistic and just under 5 per cent for portfolio deals, according to one locally based investor), they remain higher than those in other Asia Pacific gateways, further boosting the appeal for international investors. Finally, cap-rate “leakage” in the form of hefty tenant incentives that tend to distort the actual level of local yields is also falling.

As usual, however, the real problem in Australia lies in actually getting money into the market. Although activity by Chinese buyers has ebbed in 2018 due to problems moving capital out of China, other foreign institutional buyers (especially American) have been happy to take their place.

The result is that foreign buyers currently account for some 40 per cent of all transactions for prime assets in Australia. According to one local investor: “The issue that's forcing domestic REITs and funds out of that market is because [their] cost of capital can't compete—it's basically foreign capital displacing local capital.”

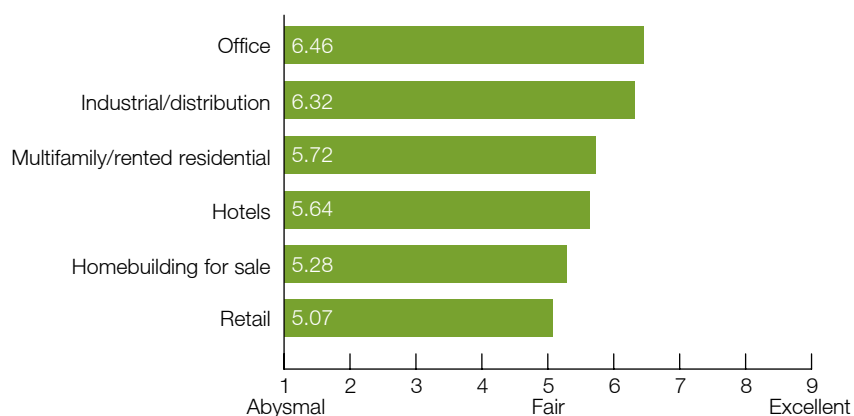
Why is Australia such a magnet for foreigners? It's that “we just tick the boxes for global mandates—the fact that Australia is triple rated ticks one box, and its prime commercial, so that ticks another box. It's also just a weight of capital issue, and the fact that they're still getting a good risk spread premium even on those [tight] cap rates.”

Another way for both foreign and local capital to access the market is via unlisted funds, where core exposure is now coming available. The driver for this is that Australian superannuation funds and other institutions with large holdings of local property are compelled to sell if capital

Such rapid growth, however, brings with it predictable growing pains. Rental operators have failed to comply with government edicts to develop new rental units, instead renting existing apartments from owners, sprucing them up, and subletting at a premium, sometimes double, to what they previously fetched.

Beyond that, the emergence of an institutional market for rental properties in China (and indeed in Asia generally) faces a fundamental challenge. “The problem is that the yields are unattractively low,” said one China specialist, with investors facing returns as low as 2 per cent. “It means you have to take a longer-term view that you can develop a platform and grow yield in a line over time.”

Exhibit 1-14 **Prospects for Commercial Property Types in 2019**



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.



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values increase (as they have), leaving them with greater exposure to real estate than their allocations allow. “It’s an opportunity we haven’t seen in the last six or seven years,” said one Sydney developer. In the past, open-ended funds “have had queues to get in. What we’re seeing now is the ability for offshore investors to finally be able to access some of these funds via the secondary units that are available.”

With so much capital targeting core assets in Sydney and Melbourne, other cities are now getting more attention. The appeal is limited, though, given the volatile nature of these markets. Both Perth and Brisbane currently have vacancy rates in the 20 per cent range, and migration to these locations has also slowed dramatically. According to one local player: “It’s probably more of a theory than an ongoing trend. Weight of capital is forcing people into those markets because they can’t find other places to put their money. They’re not necessarily looking for better returns, though they’ll demand them, [they’re] just

looking for places to put their capital. But it’s pretty cautious capital in those markets [because] they tend to be more cyclical.”

On the residential side, activity has slowed as home prices inch lower. According to one local residential developer, home price declines have been led by a softening investment market caused by “progressive taxes that have disincentivised foreign buyers, and by a strategic progressive reduction in investors’ loans.” Beyond that, “product is also drying up because the rationing of credit means that developments don’t go ahead, so we’re seeing a progressive decline in supply for that market as well.” As a result, “I think we’ve seen the peak in terms of the delivery cycle. It’s really about how long will it take to gear up again, since inevitably there’s going to be a trough over the next 18 to 36 months. It takes a long time to wind up, though probably people will persist with approvals to get ready in the event that the market comes back.”

This year, Chinese money has become less apparent in local residential projects, partly due to tightening of controls for capital exiting China and partly because Mainland developers are now more familiar with Australian markets. According to one Sydney-based developer: “[Chinese capital] is playing now in all aspects, some of it buying urban land for development later—some B-grade office for development later—they have an appetite for all sorts of asset classes more in line with the Australian market.”

Over the long term, the government will probably have to reduce the cost basis to bring scale to a fragmented industry. “If land is priced well, you’re going to have interested buyers,” the investor said. “And if you build a business across cities, you have the ability to build a good brand name in micro apartments, rentals, shared communities, things of that nature.”

Meanwhile, compounding matters, breakneck growth is creating cash-flow complications that only add to the pressure of low margins. At least seven Chinese rented-flat operators are reported to have failed in 2018.

In other markets, growing pains are also evident. In Australia, recently introduced tax breaks have sought to provide a measure of support, but progress so far has been minimal. According to one Sydney-based developer: “A lot of local players are talking about multifamily, and we have some of the U.S. players in the market here with mandates. But the tax concessions haven’t really addressed the issue, so we’re not seeing any real investment. Some of the larger developers will just build strata apartments or condos and hold them for rent, just to practice and get into that market. But when you’re competing for the same block of land against a residential

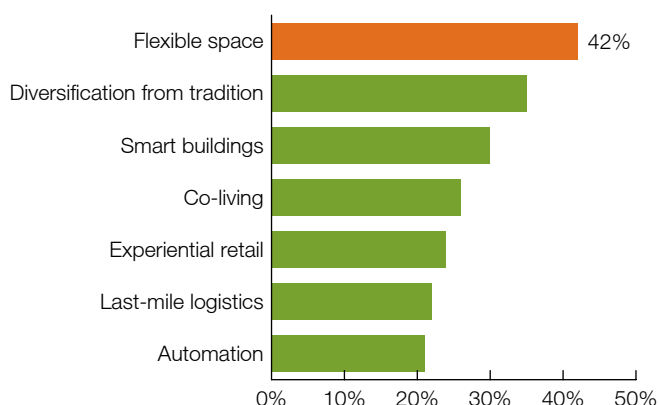
developer, build-to-rent doesn’t get close—it can’t compete to buy the land. Part of that is because the tax concessions aren’t working and also the zoning isn’t specific, so there’s no advantage from a zoning point of view.”

A more activist approach from government that provides real incentives for developers to pursue multifamily projects will be needed before the industry can gain traction. The same applies elsewhere across the Asia Pacific.

**Coworking Questions Remain**

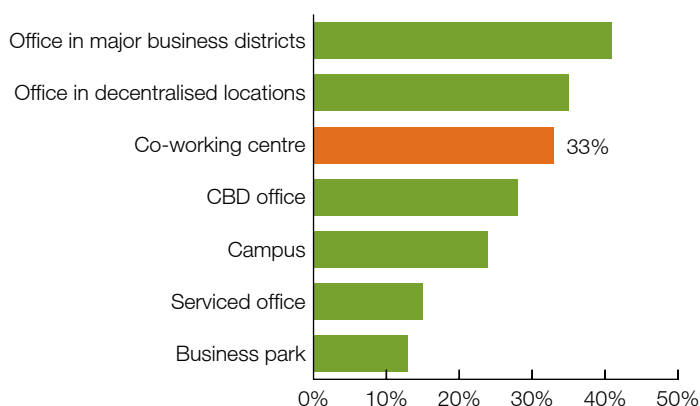
Over the last three years, the shift globally towards adoption of coworking and, more generally, open workspace environments represents probably the most rapid evolutionary change the commercial office sector has ever seen. Rollout of WeWork-style spaces has been exponential in every major market across the Asia Pacific and shows no sign of leveling off. “It’s like a weed,” one Tokyo-based investor described it. “You can’t kill it, it just keeps growing.”

**Exhibit 1-15 Occupier Trends That Investors Believe Have the Most Impact on Real Estate Value**



Source: CBRE.

**Exhibit 1-16 Locations Where Occupiers Intend to Increase their Space over the Next Two Years**



Source: CBRE.

But while the inherent advantages of open workspaces—more efficiency, lower costs, higher worker satisfaction—mean that the format is here to stay, opinions differ about the sustainability of the business model and the industry’s path forward. Since most major operators remain privately held, their finances remain opaque, but enough can be inferred to conclude that industry finances in general do not stack up. According to one landlord in China: “We have a building that we have leased to a very famous coworker that is paying equivalent of 200 yuan per square foot. The going rate in the area is only 180, maybe 170 yuan. I don’t see how they can go out and find a subtenant who is willing to pay more than 200 yuan and walk away with a profit.”

That implies that when industry growth and venture capital funding eventually slow, a reckoning will come. “At some point, clearly we’re going to go through a change in the cycle,” a fund manager in Japan commented. “There’s going to be some level of correction, and no one has any idea how [the industry] is going to handle that. I personally don’t know if it works in a down market.” That is because in a downturn, some of the tenants that rent space from coworking operators on a monthly basis are likely to walk away, leaving operators—who are probably renting space from landlords on a five- to 10-year basis—holding the bag.

One popular idea is that landlords will eventually step into the operator role themselves, developing in-house coworking brands extending across their portfolios, and designating a certain portion of their buildings as flexible workspace available for use by tenants on an on-demand basis. Indeed, globally, some are already adopting this approach.

But whether asset managers in general have the skillset to play this role is, in turn, open to question. According to one fund manager: “Let me be not the first one to call foul on that—most asset managers aren’t capable of taking it over and providing the same level of service [as coworking operators]. Because if they were, they wouldn’t rent to WeWork, they’d just go do it themselves.”

A different solution, then, may prove to be a partnership between landlords and coworking operators, with the latter providing design and operational services directly to building owners. Alternately, operators may buy entire buildings (as Airbnb is already doing within its own niche) and become asset managers themselves.

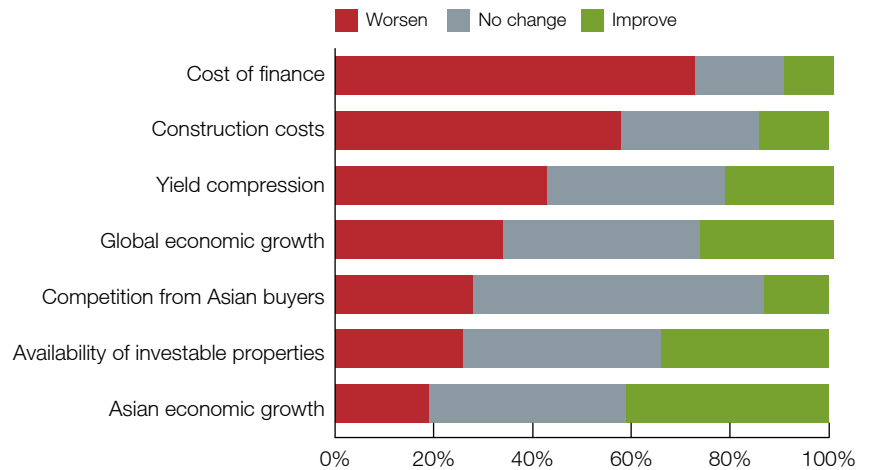
Very likely, a variety of models are going to emerge. The only thing for sure is that the industry is certain to evolve.

### Rate Hikes Loom

Slow but steady increases in U.S. interest rates are playing an incrementally more important role in determining capital flows worldwide. The Federal Reserve Bank is widely predicted to introduce a fourth 25-basis-point rate rise for 2018 in December, with two further rate hikes projected for 2019. The threat of higher interest rates did not emerge as a particular concern for most investors in our survey, however, with the cost of finance ranking next to bottom amongst a list of potentially problematic issues (see exhibit 1-5). “I don’t think people are expecting interest rates to blow out,” one opportunistic investor said. “But everybody is looking to see what the next slap across the shoulders is going to be.”

Because rising interest rates in the United States make American fixed-income assets more attractive, capital is beginning to leave emerging markets to seek a home in the United States. There are various (and potentially profound) implications to this shift, although the effect will vary from market to market. The biggest impact is likely to be felt in emerging markets, where currencies are depreciating against the dollar. As a result, India, Indonesia, and the

Exhibit 1-17 Projected Change in Economic Factors, Next 3–5 Years



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey*.

Philippines have all raised interest rates in order to support their currencies and fight inflation.

Rising interest rates could have a significant impact on real estate markets in Southeast Asia, where cheap capital from domestic banks has been one of the drivers of the regional development boom. One Manila-based developer identified higher rates as “one of the big concerns locally,” noting that they could prove beneficial for foreign investors who have for years struggled to compete in local markets because their hurdle rates make them uncompetitive compared with the cost of financing via local banks or bonds.

Japan is also facing the prospect of higher rates. The government has been engaged in unprecedented fiscal and monetary easing since 2013 that has depressed domestic interest rates to around zero. However, there is now a growing conviction in the market that the Bank of Japan (BoJ) may finally move slowly to increase the cost of capital. BoJ purchases of Japanese government bonds (JGBs) have been quietly tapering in recent months, and a Goldman Sachs report in October suggested that quantitative easing could fall to 2013 levels by the end of 2019.

According to one Tokyo-based fund manager: “If you look at Japanese companies, they have record profits and record amounts of cash on their balance sheets. So the corporations now can start to pay more for debt, and [rates] don’t need to be at zero because they have cash on the balance sheet they can use to service it. So if the BoJ is going to look at when they start to tweak rates up a bit, I don’t think they’re going to find a better time than now.”

Meanwhile, the Australian dollar has also weakened against the U.S. dollar, and is expected to weaken further. However, the Reserve Bank of Australia has left interest rates unchanged for more than two years and is not expected to raise rates until the second half of 2019 at the earliest.

Finally, while Hong Kong is a largely equity-driven real estate market, interest rates there have just begun to rise, too. A bigger concern, however, is the Hong Kong dollar’s peg to the U.S. dollar, which means that local assets are becoming less attractive to Mainland Chinese buyers as the renminbi continues to head south against the U.S. dollar.

# Chapter 2: Real Estate Capital Flows

“Investors coming to the Asia Pacific are fundamentally under-allocated to Asia and understand that the fundamentals are dramatically stronger in this region.”

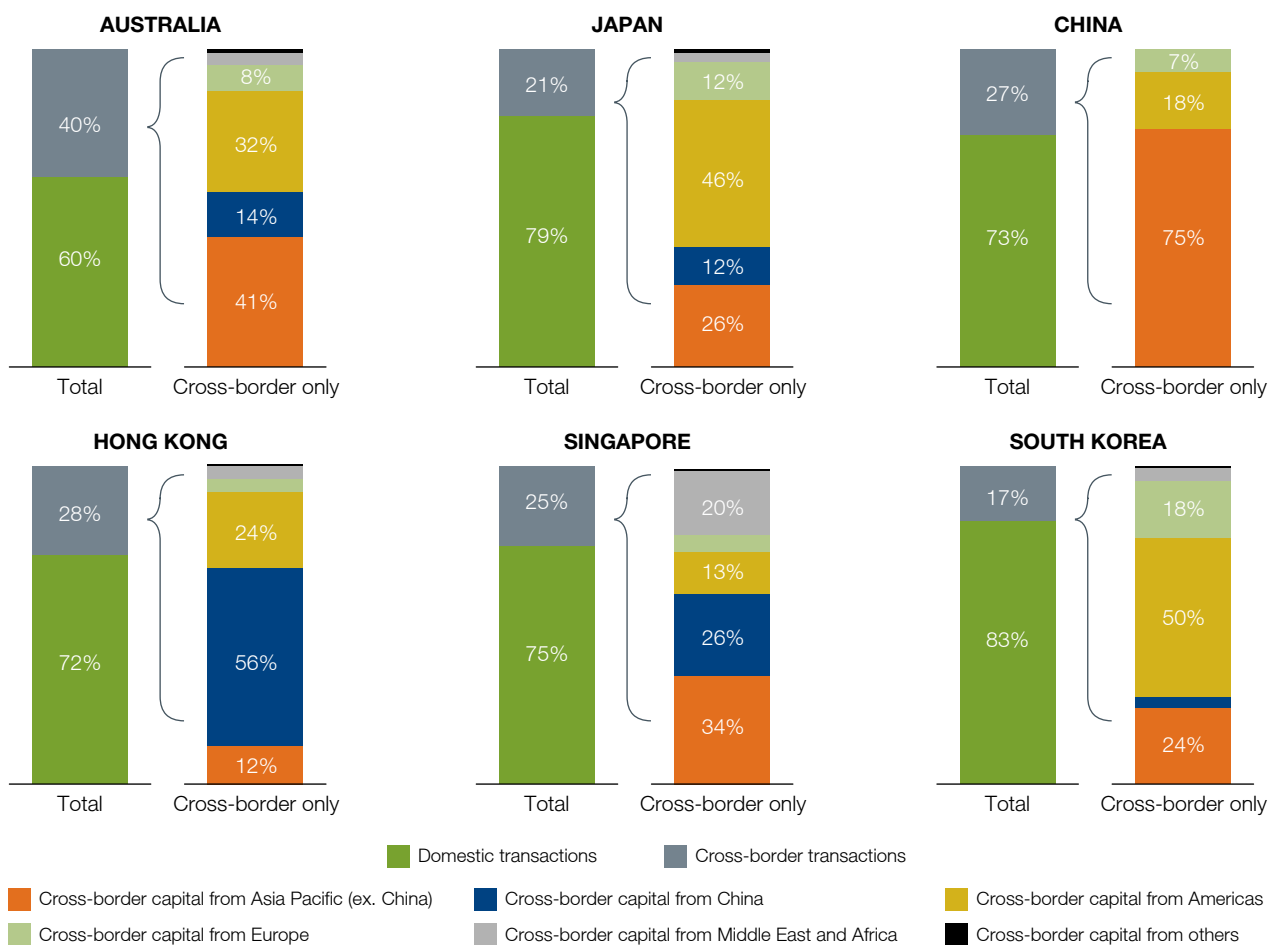
As a percentage of commercial real estate investment in the Asia Pacific, cross-border capital is now at the highest level in a decade. According to Real Capital Analytics (RCA), in the year ending June 2018, some 34 per cent of transactions involved funding from cross-border sources, coming from either within Asia or globally, compared with 32 per cent in the same period in 2017.

A notable feature of the most recent capital flows has been growth in investment from the United States, which RCA data show totalled US\$8.6 billion during the year.

Japan was the most popular destination, followed by Hong Kong (although this figure was inflated by a single large deal) and Australia.

However, as usual, local investors continue to be the dominant source of cross-border investing in the region, with intraregional flows reaching a record US\$34.3 billion during the year—more than two and a half times the total for the same period a decade ago. That said, outgoing flows from China have slowed dramatically in 2018, largely as a result of domestic regulatory restrictions.

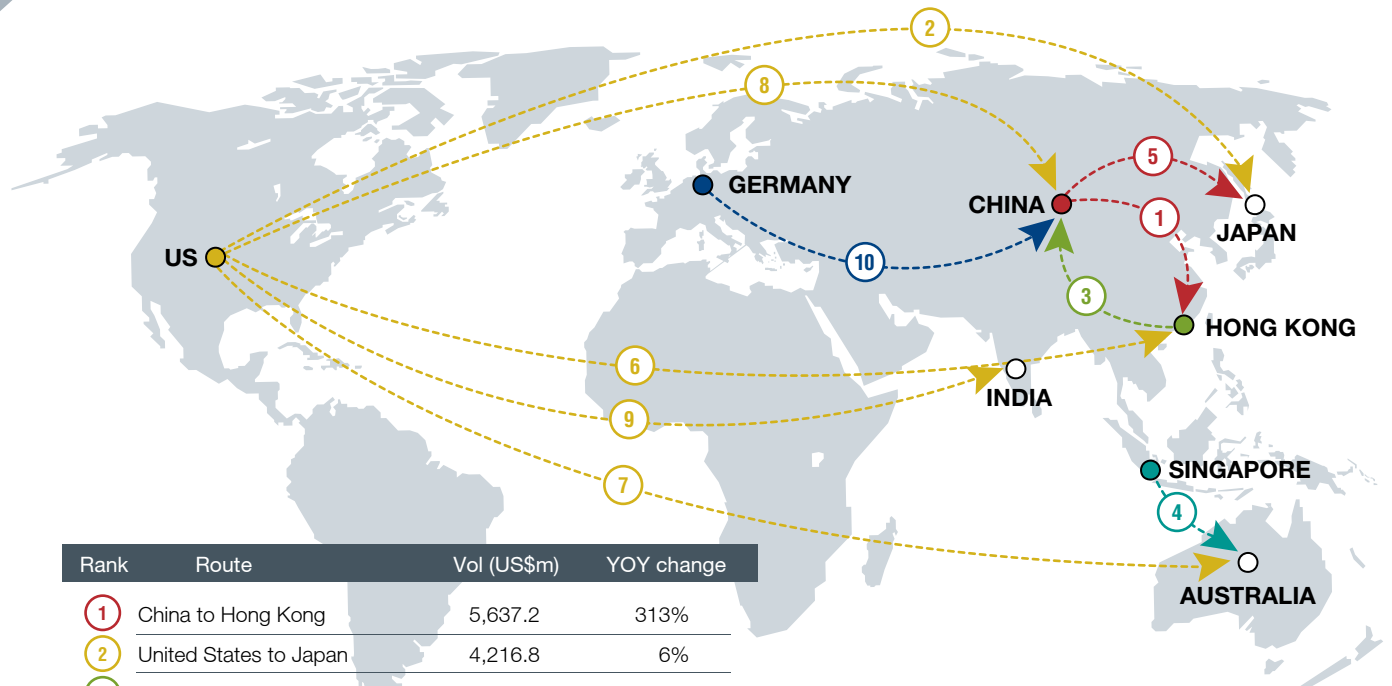
Exhibit 2-1 Transaction Volume by Buyer Profile (Average of 2012–1H 2018)



Note: Based on independent reports of income properties and portfolios, US\$10million or greater. Income properties include the following property types: apartment, office, retail, industrial, and hotel.

Source: Real Capital Analytics.

Exhibit 2-2 Major Capital Flows within Asia Pacific



Rank	Route	Vol (US\$m)	YOY change
1	China to Hong Kong	5,637.2	313%
2	United States to Japan	4,216.8	6%
3	Hong Kong to China	3,708.6	-40%
4	Singapore to Australia	3,316.2	32%
5	China to Japan	3,298.5	8%
6	United States to Hong Kong	3,250.9	781%
7	United States to Australia	3,117.6	33%
8	United States to China	2,095.5	32%
9	United States to India	1,840.0	489%
10	Germany to China	1,582.2	—

Note: Apartment, hotel, industrial, office, retail, and senior housing transactions included. Entity-level deals included. Development sites excluded. Data are for the 12 months to 31 June 2018.

Source: Real Capital Analytics.

While domestic capital still dominates purchasing in all markets (the long-term market share of cross-border capital varied between 17 per cent in South Korea and 40 per cent in Australia), global capital is more evident at the top end of the market. According to one U.S. investment manager: “If you were to focus on deals of \$100 million and above, I believe you would see more overseas institutional capital in these markets. It is harder to get data from a decade ago, but the average [today] of around 25 per cent of deals being cross-border capital was under 20 per cent then.”

Australia remains the most cosmopolitan market in the region, with offshore capital

“flowing thick and fast” into major cities, according to one Australian developer. This is “driven by numerous factors, but Australia is a triple A-rated country, so it’s always going to attract institutional money. We’re also seeing Asian high-net-worth capital from Singapore and Hong Kong chasing prime assets.”

In contrast, outbound capital from Australia remains subdued, perhaps unsurprisingly considering the outperforming domestic market and lingering memories of bad experiences for Australia investors in international markets following the global financial crisis. At present, outbound investment is limited to a small number of large developers, the

largest superannuation funds, and Australia’s sovereign funds. This may be set to change, however, given how fast superannuation fund capital is piling up—an increase of some 7.5 per cent annually dwarfs that of the stock of domestic core assets, which is growing at less than 2 per cent annually, according to JLL.

Foreign-exchange movements and hedging costs have also become significant factors in 2018. One large global fund said that currency effects wiped a percentage point off third-quarter performance of its global real estate fund. At the same time, there are also benefits—both Japan and Australia are now both more attractive to U.S. dollar-denominated investors than a year ago.

## Japan's Great Wave

Japanese institutions control some of the biggest pools of investment capital in the world, but have so far been slow to join the outbound exodus seen elsewhere in the region. Again, this may be set to change, however. In September, Japan's Government Pension Investment Fund (GPIF), which manages the world's largest pool of retirement savings with close to ¥156 trillion (US\$1.4 trillion) in assets, awarded its first mandate for global real estate investment—a move expected to pave the way for the nation's smaller pension funds to follow suit.

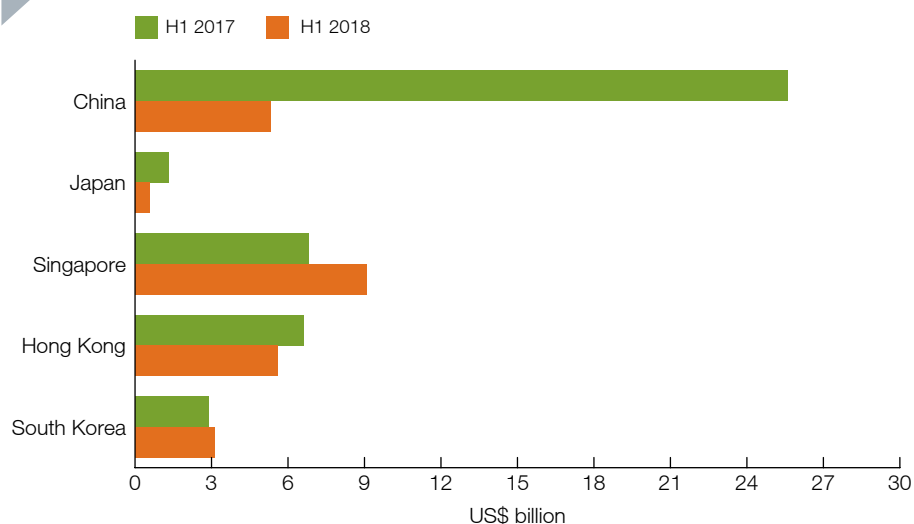
The Japanese shift offshore has been forced on them by the need to improve returns. Their default strategy of buying low-yielding Japanese Government Bonds (JGBs) has now become untenable because JGBs currently yield next to nothing and local institutions need to grow assets to match upcoming liabilities as Japan's population begins to age rapidly.

GPIF did not reveal the size of the mandate, or its target real estate allocation, but it has a 5 per cent allocation to alternatives, including real estate, private equity, and infrastructure. Even assuming an allocation of just 1 per cent, that would result in investments of some US\$14 billion to the sector.

"This is huge," said one fund investment manager. "Their pot of capital is enormous, so it will be billions of dollars over time, and the rest of the public pension funds and small corporate pension funds will follow their lead; GPIF will set a benchmark. However, I wouldn't get too excited about anything happening with any huge amount of speed."

In contrast to the wave of Chinese investment that appeared between 2013 and 2017 and which was characterised by substantial investments in direct property, Japanese institutions are expected to focus more on indirect investment and adopt a more measured approach. GPIF awarded its mandate to a large global fund with a multimanager strategy and also appointed a Japanese gatekeeper to oversee the account. Other Japanese institutions are expected to adopt a similar approach.

Exhibit 2-3 Asian Outbound Investment



Source: Real Capital Analytics, CBRE.

Forging relationships with gatekeepers is therefore likely to be crucial for international fund managers seeking access to Japanese institutional capital.

According to one Japanese investment manager, the Japanese initially will "start out with too many managers with a little bit of money," each provided with mandates as small as US\$50 million. "After they see performance, they'll narrow it down and start becoming a little bit more selective with larger investments."

Still, the Japanese will not be looking to shoot the lights out. Initial targets are U.S. core open-ended funds, since these offer both diversification away from Asia risk, and a measure of security and liquidity. "We've seen very little interest anywhere further up the risk curve," one capital-raiser said. Once the cost of currency hedging is included, returns from such funds will be low single digits—small potatoes maybe, but an order of magnitude better than returns on the JGB.

In the Asia Pacific, investing in regional core funds is more problematic, partly because most pan-Asian core funds already have a significant allocation to Japan and partly because the Japanese are seeking to diversify to markets beyond their own backyard. Some investment in Asia is occurring, however, as Japanese institutions follow the path blazed by

domestic developers, particularly into Southeast Asian markets. According to one Japan-based investment manager: "Many times, when you see the big developers [invest in] assets, it is only partially from their balance sheet—for the most part, it is actually Japanese pension funds behind them."

The last time that Japanese investors ventured outside Japan was during the bubble of the late 1980s, when late-cycle buying led to huge losses. However, "a repetition of the bubble won't happen this time as most investors now are very disciplined compared to the past."

## China's Tide Retreats

Several years ago, Chinese real estate investors took to the world stage by making dramatic but sometimes poorly underwritten flagship purchases of large trophy assets and development sites. Today, however, times have changed: the Chinese government has reined in exuberant investments and in some cases compelled the sale of recently bought assets. In addition, regulatory restrictions have greatly reduced Chinese outbound capital flows.

CBRE data show Chinese outbound investment in the first half of 2018 of just US\$5.26 billion, compared with US\$25.6 billion for the first half of 2017 and

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US\$35.41 billion for the whole of 2017; if this decline is repeated in the second half of 2018, Chinese outbound investment will fall to its lowest level since 2013.

RCA data, meanwhile, show Chinese net investment in the United States averaged less than US\$100 million per quarter in the second half of 2017, and that the Chinese became net sellers for the first time in the second quarter of 2018. Chinese retrenchment has been felt in Asia Pacific markets, too, particularly in Australia and Hong Kong, where the volume of commercial property transactions fell by some 65 per cent year-on-year in the third quarter of 2018 to US\$2.5 billion, according to CBRE.

“The China tap is substantially off, but we’ve seen pockets of interest in different sectors that are aligned with government policy,” said one fund manager. “So, there’s still an appetite for sectors like senior living and real estate associated with medical or life sciences. Where we’re seeing the tap totally shut is speculative or trophy investments.”

However, Chinese investment in overseas real estate is unlikely to dry up altogether, even if restrictions remain in place. Firstly, sovereign funds such as China Investment Corporation are not affected by the restrictions, and will continue to invest abroad. Furthermore, Chinese companies that operate overseas can still invest in properties for their own occupation. Investment in infrastructure projects for industry-oriented facilities, such as industrial parks, technology parks, or warehousing and logistics parks, is also continuing.

Chinese investors are also looking at real estate platforms as a proxy for real estate investment, said one manager. “There’s still appetite to invest in platforms to take stakes in management companies, and we’ve seen quite a lot of inquiries about opportunities for Chinese investors to do that.”

Perhaps the most significant clarification related to overseas investment was the “offshore carve-out,” which stipulates that Chinese companies may invest in

overseas real estate as long as neither debt nor equity capital is provided by a Chinese company or individual. This raises the possibility that Chinese investors can recycle capital already invested overseas and use offshore debt to continue their real estate businesses.

For now, the big question is when Chinese outbound investment will recover. “It’s anyone’s guess,” said one investment manager. “We constantly have this discussion internally. It is very clear that Chinese institutions, especially insurance companies, want to be exposed to the real estate sector and right now, their real estate holdings, as a percentage of overall assets, are at 1 or 2 per cent at most. We were optimistic this would last for a year or two, and then in a very gradual way they would begin to open up again. I would like to still believe that is the case.”

## Singapore and Hong Kong Take Up the Slack

CBRE data show Singapore as the largest source of Asia Pacific outbound investment in the first half of 2018, with US\$9.06 billion of capital deployed. Starved of yield and opportunities at home, Singapore real estate investment trusts (REITs) and developers have been buying overseas, especially in Australia, Southeast Asia, and Europe. In addition, Singapore acts as a through port for capital from throughout Southeast Asia and indeed globally, performing the same function that Hong Kong does for Chinese capital. The favoured destination for Singaporean capital in the first half of 2018 was Europe, according to CBRE, with US\$3.4 billion of investment.

London was the destination for as much as 26 per cent of Asian outbound capital in the first half of 2018, with both Singaporean and Hong Kong investors active in the British capital, shaking off concerns over the United Kingdom’s impending departure from the European Union.

### South Koreans Turn to Europe and Debt

Investors from South Korea continue to be major outbound investors but have to some extent changed their strategies due to concerns over currency and returns.

Currently, the high cost of hedging against the U.S. dollar can cut two percentage points off returns from South Korean equity investments in U.S. real estate. However, Korean institutions are able to invest in real estate debt without foreign exchange hedging. As a result, in the first half of 2018, Koreans became the largest single foreign investor in U.S. real estate debt. The preference for debt is also a reflection of a belief among Korean investors that with U.S. markets now late in the cycle, debt investments offer more downside protection in the event of a correction.

A more favourable foreign-exchange (FX) environment is also pushing South Korean institutions to invest in Europe. As one investment advisor said: “We’re seeing a lot more interest in Europe from Korean institutions. Currency hedging is an interesting dynamic, because there’s actually an FX premium for [Koreans]

investing in euro-denominated markets.” In recent years, European investment from South Korean institutions has shifted away from the United Kingdom into continental Europe, with Germany, France, and Belgium preferred destinations.

Finally, and in a move that may be indicative of future plans of other Asian institutions, South Korean capital has begun looking for higher returns by moving up the risk curve. For now, this is restricted to the domestic market, where the historical preference has long been for single-asset vehicles or club deals focused on core assets. This is beginning to change, however. “Korean investors tend to follow a few leaders. We expect over time more institutions to take a closer look at the domestic value-add market,” the investment advisor added.

### U.S. Investors Up the Pace of Asian Investment

Already the number-one source of cross-border capital globally, activity from U.S. investors increased 20 per cent year-on-year in the first half of 2018, RCA data show, with US\$28.6 billion placed. The share of Asia Pacific-bound capital rose

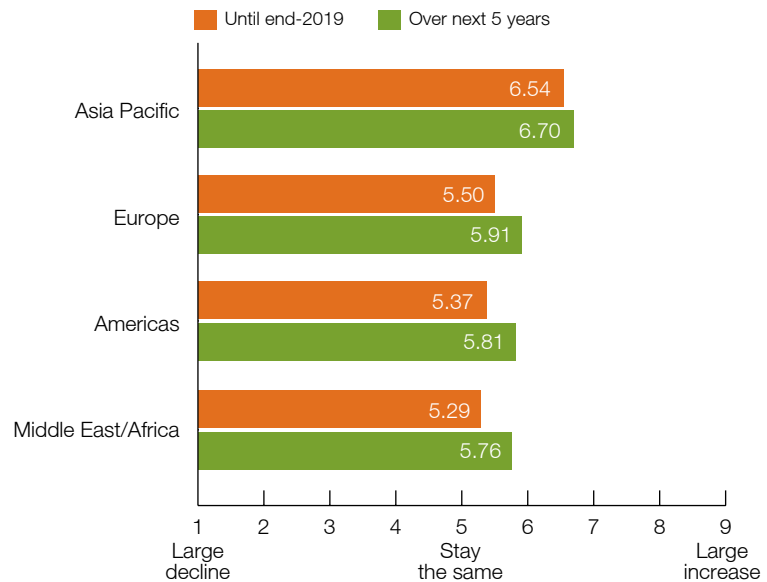
significantly to 30 per cent of the total, up from 17 per cent the previous year.

The biggest change saw U.S. investors increasing activity in China and Australia, with capital flows rising 215 per cent and 138 per cent respectively. Unusually, U.S. investors have also made significant investments in Hong Kong, and were also responsible for most of the overseas capital placed in Indian real estate, with US\$1.84 billion of investment in the first half of 2018—a fivefold increase.

Notwithstanding this, Japan remains the biggest Asia Pacific market for U.S. investors, with flows of US\$4.2 billion. Asia’s largest developed market remains a particular favourite for core pan-Asian funds run by U.S. investment managers. “The Japanese allocation of these funds is 30 to 40 per cent because there are not that many areas in these regions that can be called core,” one Japan investor said. “The funds are dollar based, so there is a currency hedge when they invest in yen, and presently this hedge is a 2 per cent premium. They are aggressive because of the magic that leads to a 3 per cent-yielding Japanese asset becoming 5 per cent when the hedge is added.”



Exhibit 2-4 Change in Capital Flows into Asian Markets, by Region



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

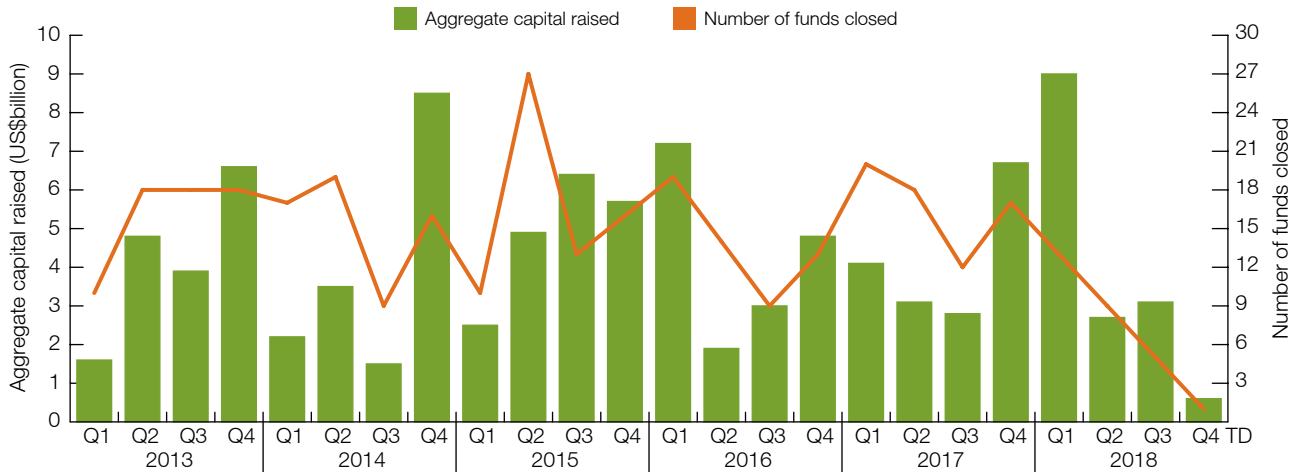
## Fundraising

The first quarter of 2018 was a record one for Asia Pacific real estate fundraising, with US\$9 billion of equity raised across 13 funds, according to fund industry analysts Preqin.

Much of this capital was committed to a single well-known opportunistic fund, in line with a trend identified by Preqin showing the bulk of equity raised for real estate funds in recent years migrating to the top 10 managers. At the same time, however, the Cornell University/Hodes Weill 2018 Institutional Real Estate Allocations Monitor showed increasing allocations towards real estate in general and more investors than ever expressing an interest in the Asia Pacific region.

Average target allocations to real estate increased to 10.4 per cent in 2018, according to Preqin, up 30 basis points (bps) from 2017 and are up approximately 150 bps since 2013. Nearly half (47 per cent) of the 208 investors surveyed said they planned to invest in Asia, with 36 per cent saying they would invest in Australia. Interest in Australia remains unchanged since 2016, while the percentage of investors interested in Asia has grown from 43 per cent in 2017.

Exhibit 2-5 Quarterly Asia Pacific–Focused Private Real Estate Fundraising (Q1 2013–Q4 2018)



Source: Preqin.

Managers raising pan-Asia Pacific funds say that most of their investors are U.S. pension funds and endowments, followed by Middle Eastern capital and European pensions and insurance capital. Asia Pacific investment, from institutions and family offices, is relatively small but growing.

One fund manager explained the investor breakdown for his regional fund: “The mix of investors coming to Asia has broadened and includes a number of relatively new players from within Asia Pacific. U.S. and Middle Eastern investors account for nearly three quarters, with 15 per cent from Asia Pacific and 10 per cent from Europe.”

Interviewees report that raising capital for China-focused vehicles is now tougher than getting institutional cash into pan-Asian funds, which typically invest mainly in Japan and Australia. The recent trade war between China and the United States has exacerbated this problem, reinforcing longstanding concerns over China’s ever-shrinking yields. In the words of one China investment manager: “There is a higher risk premium put on investment in China which is not necessarily commensurate with the returns available.”

Exhibit 2-6 Time Horizon for Investing



Source: Emerging Trends in Real Estate Asia Pacific 2019 survey.

Asian high-net-worth capital is hard to pin down, but interviewees report growing interest in real estate both within and outside the Asia Pacific region from high-net-worth sources. One capital raiser said: “We’re seeing family offices directly putting capital into opportunistic strategies because it gives them exposure to things that they just can’t do themselves. We’re also seeing private banks raise meaningful Asian family office capital for opportunistic strategies around the world.”

Despite the volume of capital invested in the Asia Pacific over the past decade, together with improvements in transparency and economic outperformance, many investors remain convinced risks remains higher than in Western markets. One fund manager noted: “It’s funny talking to our IR [investor relations] people, who cover global pension funds: the funds are much happier about our European and U.S. activities, where returns are a lot lower than in Asia where a lot more has been invested.”

One growing trend reported by managers is the inclination for co-investment alongside a fund, something particularly favoured by family offices and fund-of-funds investors. Investing in the fund gives access, but co-investment will offer more control and lower fees.

Meanwhile, recent capital raising for Asia Pacific real estate funds is adding to the region’s existing pool of uninvested capital. So-called dry powder is more of a problem for European and U.S. real estate, but is

also piling up in the Asia Pacific. Prequin data currently show US\$34 billion of dry powder for the region—less than half the US\$70 billion available for Europe and a small fraction of the US\$184 billion available in North American markets.

### Banks Becoming More Cautious

Overall, while bank debt available for Asia Pacific real estate investment remains plentiful, interviewees report that lenders have tightened lending terms. There are currently few markets where banks are overstretched, but lenders and regulators are also beginning to apply the brakes.

A manager of one pan-Asia real estate fund said: “Availability of debt is generally good across the region. It has tightened in Australia most dramatically, driven by the regulator and the big four’s exposure to real estate. We are also seeing a little bit of tightening in Singapore and some other places. Japanese lenders are getting a little bit picky; the leverage and the cost haven’t changed, but they are getting a little bit pickier regarding sponsors and asset profiles. But the banks are actually acting relatively rationally; I would say the debt market is actually the most rational of all markets in response to this late cycle.”

According to a Hong Kong-based debt adviser: “Core CBD office will get debt all day, every day. The area the market has concerns about is where there’s some reversionary story or if the asset is not

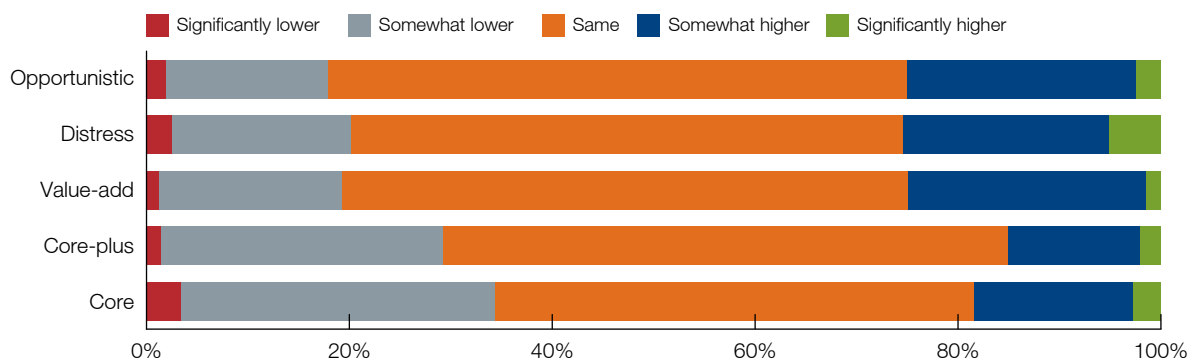
prime, or if it is retail. If there’s something unusual about the asset, then you’re unlikely—unless it is a relationship deal—to get debt from a mainstream bank.”

Australia’s “big four” lenders have been gradually pulling back on commercial real estate lending since 2016, and regulatory pressure means that this is unlikely to change. This has led to a tightening of underwriting standards, significant reductions in the leverage of loans, increases in loan pricing, and reduced availability. “It is definitely harder to get finance and there’s a range of bank-imposed measures: in some cases, they might have a restriction on a certain area because of fears it is oversupplied or because they feel overexposed to that area. The conditions on lending have become almost prohibitive, and banks in reality are not looking to do a great deal of lending,” says one Australian investor.

Japan, with interest rates close to zero and a large banking sector, still offers cheap and plentiful debt, at least for prime assets. However, while the megabanks remain keen lenders, smaller regional banks are being relatively cautious, especially in the wake of a recent scandal involving fraudulent real estate lending at a local bank.

In addition, while rates remain low on paper, lending terms are tightening. According to one Japanese-based fund manager: “What’s happening is that the rates haven’t changed very much,

Exhibit 2-7 Change in Targeted Returns Compared with 2018



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

but LTVs have. Everyone's trying not to bump rates but basically lowering LTVs to manage risks. So you're still below 100 bps all in, but banks and some life companies are now charging upfront fees as opposed to none, and they're also offsetting some of the LTVs with an upfront fee as well."

India has also experienced a pullback in bank lending in 2018. In what one local consultant described as a "tumultuous" period in the second half of the year, the depreciation of the Indian rupee—combined with declines in the local stock market, uncertainties over international interest rate movements, and the debt

defaults of a prominent local finance company—resulted in "the availability of debt capital for real estate becoming very scarce," as banks moved to reassess market risk. This has had a knock-on impact for local developers who have been unable to refinance existing debt, with sometimes-calamitous consequences for their solvency.

Exhibit 2-8 Asia Pacific Indicative Financing Terms: Core Assets

	Hong Kong	Seoul	Singapore	Shanghai (RMB)	Sydney	Tokyo
3-month interbank rate (%)	2.10	1.80	1.65	4.35*	1.95	0.05
Typical margin (bps)	80	150	100	1.3x	180	70
All in cost of debt (%) (variable)	2.90	3.30	2.65	5.65	3.75	0.75
Typical LVR (%)	40	40–60	40–60	30–40	40–55	50–70
Transactional yield (%)	2.7	4.5	3.6	3.3	4.6	2.9
Yields spread over debt cost (bps)	-20	120	95	-235	100	215
Cash-on-cash yield (%)	2.6	5.7	4.6	2.0	5.8	6.1
Interest coverage multiple	2.3	2.7	2.7	1.7	2.5	6.4

Note: Prime transactional yields for all markets (except equivalent yields for Australia and cap rate for United States), represent JLL's "market view" based on a combination of market evidence where available and a survey of expert opinion. Debt costs are based on investment-grade borrowers, core stabilised assets fixed pricing on typical market maturities.

\*China prime lending rate.

Source: JLL, as of October 2018.

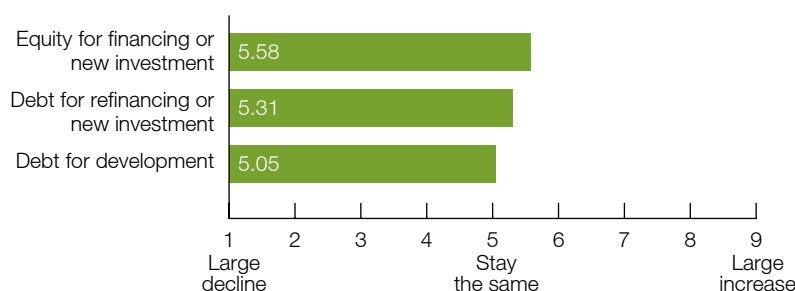
### New Lenders Still Emerging

Nonbank financing is becoming an increasingly popular option across the region. According to one Hong Kong-based consultant: "Because banks are perceived to have let the side down in some markets and in other markets they are perceived to be too highly regulated, we're noticing a lot more people going to sources other than banks to get debt."

This trend is particularly evident in Australia, where the pullback of the four main domestic banks from real estate lending has opened up opportunities for both smaller banks and nonbank lenders, targeting in particular residential development. It is estimated that each 1 per cent reduction in lending by the big four banks leaves a gap of A\$2.7 billion of debt funding.

Japanese lenders are also reported to be more active in Australia, often lending to Japanese developers involved in Australian

Exhibit 2-9 Change in Availability of Debt and Equity Finance



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey*.

projects. A report from JLL suggested that Japanese banks in Australia would be prepared to extend 10-year loans with a loan-to-value of up to 65 per cent. Some respondents said that both French and Chinese banks are also looking at lending in Australia.

More significant has been the growth in Australia's nonbank lending market.

A number of platforms have recently been created by investment managers, superannuation funds, and insurers. One Australian investor commented: "Over the last 12 to 18 months, there's been significant growth in the nonbank lending sector. It's basically pools of high-net-worth money pulled through investment management firms. Super Fund money is there, but I think it's starting to withdraw,

too.” The type of debt finance on offer varies, but the investor noted: “What we’re finding is there’s a reluctance to do any mezzanine debt, so generally they’ll have a first-ranking mortgage and they’ll do a blended debt. Mezzanine is ridiculously, prohibitively, expensive [because] so many people got burnt on mezz in the last cycle.”

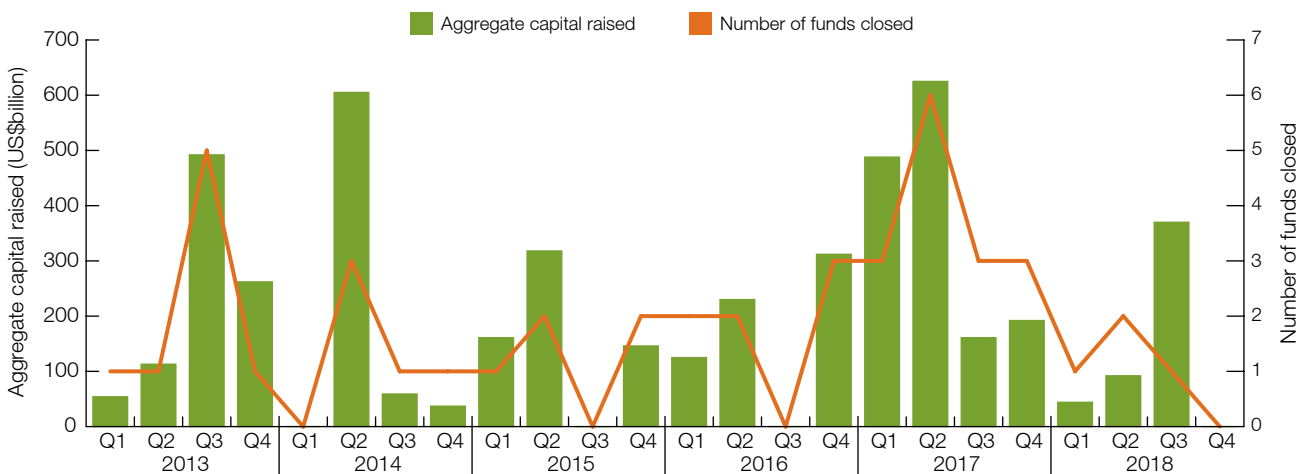
Asia debt funds also have been growing in popularity in the past 12 to 18 months, simply because “a lot of the equity funds can’t find equity plays, and anyway they don’t want to at these prices; they’d rather lend to someone else who is prepared to [buy]. I think they also see it as being a bit more secure in terms of being a short-

term investment—if you set up a five-year fund, you’re really constrained in terms of going in and out of big chunky properties; whereas if you lend money for three or four years, you know at the end of that period you’re going to get the money back because the [buyer] has to refinance.”

However, debt has so far proved a more popular play in Western markets than in the Asia Pacific region. Of the US\$32 billion raised for such vehicles globally in 2017, according to Preqin, only US\$1.47 billion was raised for the Asia Pacific, with only US\$570 million raised for the region in the first half of 2018, Preqin reports.

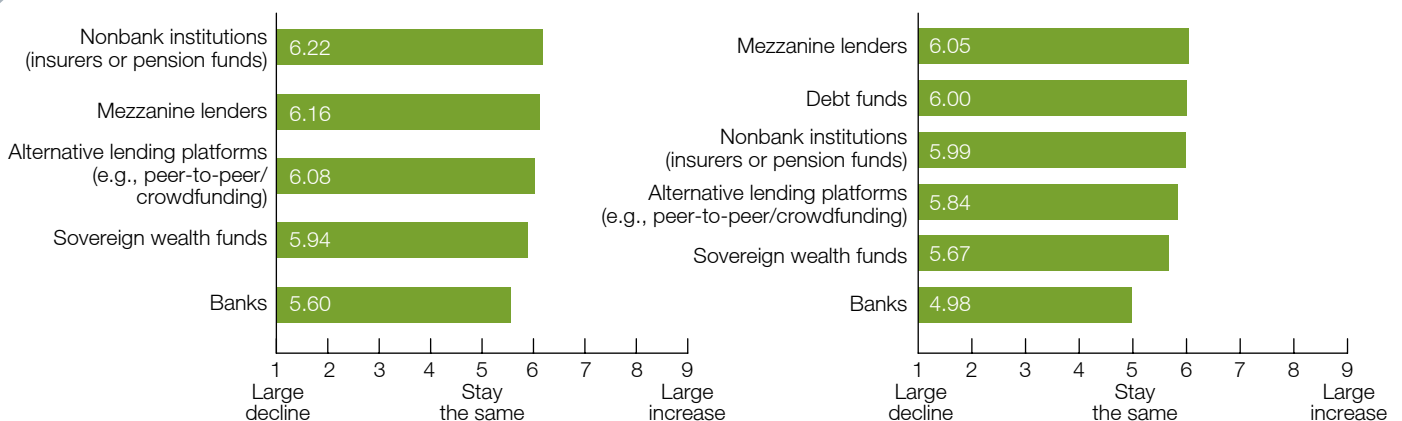
Over the long term, another potential source of alternative funding may come via the tech sector, which in some regional markets is beginning to roll out consumer finance products. In particular, observers have noted how quickly China’s largest e-commerce companies have moved to diversify into financial services, with some also projecting development of consumer mortgage products. As one property advisor commented: “In China we use Alipay, ApplePay, and the like to buy groceries and even [pay] utility bills and rent. I think the next thing will be for them to get into residential mortgages. Of course, the issue then will be, when does the government get involved and start regulating?”

Exhibit 2-10 Quarterly Asia Pacific–Focused Private Real Estate Debt Fundraising (Q1 2013–Q4 2018)



Source: Preqin.

Exhibit 2-11 Availability of Debt by Type of Lender: 2018, 2019 surveys



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

Source: *Emerging Trends in Real Estate Asia Pacific 2018* survey.

## Debt Opportunities in China

The real estate cycle in China has long been regulated by the government, which tends to step in when it feels the market—particularly the residential market—is either overheating or needs stimulus.

Since mid-2016, China's policy to de-lever has reduced the availability of debt, particularly nonbank finance, in order to improve financial stability and reduce the nation's overall debt-to-GDP ratio. This deleveraging has squeezed a large number of real estate developers, especially in the private sector.

One result of this is that Chinese developers without access to offshore finance have been targeted by overseas private-equity groups offering mezzanine loans. As such, private-equity real estate companies are acting as lenders of last resort to local developers. According to one private-equity player: "We're funding residential development projects in the satellite cities of Tier 1 cities. The companies we are talking to, in the past, were relatively small by China standards. Now, they are billion-dollar companies borrowing at mid-teens or higher interest rates who could have borrowed at half that cost 12 to 18 months ago."

This business relies on a regular cycle of tightening and loosening by the Chinese authorities, but there are now early signs the U.S./China trade war might end the opportunity, as China loosens domestic credit policy to combat the effects of U.S. tariffs on its exported goods. In October, the People's Bank of China announced it would cut the reserve requirement ratio for most domestic banks by 100 bps in order to support domestic liquidity, lower financing costs, and stimulate growth. The measure will inject some RMB750 billion (US\$107 billion) into the economy, CBRE research estimates.

## Stress and Distress

As liquidity falls and banks regionally begin to tighten lending terms, more stressed and distressed assets are beginning to appear on Asia Pacific markets. This is welcome news for investors—not only because it

offers new opportunities for profit, but also because it marks a return to a normalised (and fundamentally healthier) real estate cycle.

China is one market where developers are now feeling the pain. However, interviewees suggested that domestic specialists in the sector would be most likely to take advantage of any windfall. China is predicted to have as much as RMB85.5 billion (US\$13.6 billion) in real estate nonperforming loans (NPLs) by the end of 2018, according to China Orient Asset Management. Most likely, however, the majority of these will end up on the balance sheets of state-backed asset management companies and sold to local players, as has happened in previous years.

As one locally based investment manager said: "There are lots of people looking at China NPLs because it's a large-scale opportunity. The really large managers are set up for this and have acquired servicing businesses in China. So far, though, it's been slim pickings for international investors—there hasn't been the wave of deals people have expected."

Even if NPL portfolios become available, the manager does not believe that they will offer easy profits. "China is a very big market. Your NPL portfolio will be backed by hundreds of assets, not particularly located in one city or in one province. And your service provider probably only specialises in particular cities or provinces. It will be very challenging work."

Stress is emerging in other markets, too. In Australia, for example, several Chinese developers may now find themselves unable to complete deals for land bought in previous years. According to one local developer, "I think the biggest issue over the next eight to 12 months will be people who have optioned-up sites. They'll have paid a call option in the event that they'll get a planning outcome, then they'll start development within two years and settle on the land. But I think you'll find a lot of people in that position no longer have the means to settle because of their own rationing of finance. People will then come

onto the market to step into other people's options—that will probably accelerate over the next six to eight months."

Japan is another market that interviewees cited as at risk—this time as a result of an impending rise in consumption tax coupled with a potential trade war should the U.S. government follow through on threats to impose tariffs on Japanese autos. According to one Tokyo-based investor: "Right now, I see a lot of cracks out there and I don't think it will take much for those to get wider. I think it'll be before the Olympics, because next year the consumption tax is going to hurt and the chances of the USA coming after them on auto tariffs is high. So [we have] to wait and see what happens over the next 12 or 18 months."

Finally, developers in India also are feeling the pain as banks tighten access to credit. In particular, many mid-level residential players are now gasping for air as they seek to refinance debt. With banks unwilling to front more cash and with access to the equities markets also constrained by newly imposed regulatory requirements, mid-tier developers may be forced to divest land banks in order to pay back loans. So far, however, foreign investors have been slow to take the bait, although at least one major foreign player has recently announced an intention to pursue this theme. According to one local adviser: "This is the time to put your megadollars to work—you could scoop up the market if you have a smart team. But because some had their fingers burned in the past, they're now being overcautious. Anyway, as the political dust settles over the next six to 12 months, there are going to be a lot of opportunities."

## Bonds Lag as Beijing Tightens Liquidity

China property developers face a refinancing mountain in 2019 after a difficult period for onshore and offshore bond issuance.

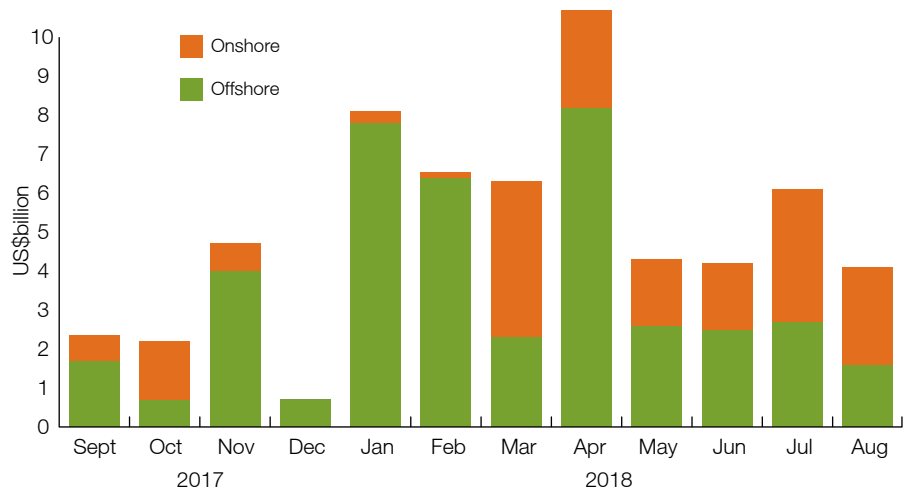
Developers are estimated to have US\$23 billion of onshore and offshore bonds to refinance in the first quarter of 2019 after sluggish bond sales since late 2017. In summer 2018, a number of large developers pulled onshore bond issues, with observers blaming regulatory pressures. However, the environment improved quickly, and in August, developers managed to issue RMB42 billion (US\$6 billion) of onshore bonds, according to Bloomberg data.

A report from rating agency Moody's Investors Service said that the top 50 rated developers will have about US\$18.5 billion of offshore bonds and US\$36.9 billion of onshore bonds maturing or becoming due over the next 12 months. "Most of these companies will have adequate liquidity to meet their obligations given their cash holdings, cash generation from property sales, and our expectation that they will maintain access to funding," the report said. However, refinancing risks are set to increase for some small developers, as their credit quality and subsequently their access to funding will weaken as property sales slow in the next 12 months.

The outlook for offshore bond issuance also looks weak going forward. In September, one local developer broke an unwanted record by issuing US\$280 million in 2.25-year bonds paying a 13.7 per cent coupon—a record for China bond issues in 2018. Other developers are paying considerably higher coupons in the second half of 2018 compared with previous years.

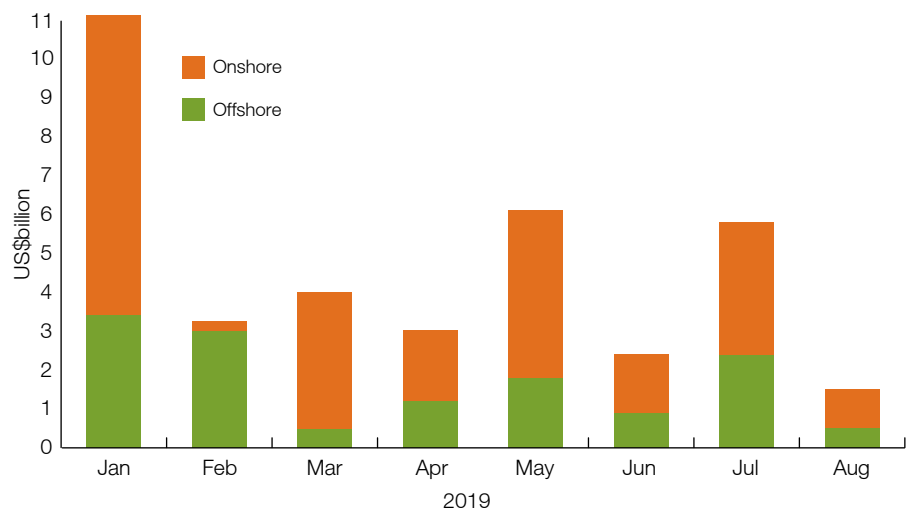
According to JLL corporate finance, the average cost of offshore debt for Chinese developers was 100 bps higher in mid-2018 compared with the previous year. That's if they can get away new issues at all. China's National Development and Reform Commission, which approves corporate debt issuance, was reported to have virtually stopped granting new quotas for offshore bond sales since April 2018,

Exhibit 2-12 Bond Issuance by Rated China Property Developers



Sources: Bloomberg, Wind, Moody's Investors Service.

Exhibit 2-13 Rated China Developers Refinancing Needs



Sources: Bloomberg, Wind, Moody's Investors Service.

meaning that most offshore bond issues since then have come from developers that had not taken up full quotas granted earlier.

Onshore bond issuance is likely to be used by some developers to refinance offshore borrowing. Some analysts believe that restrictions will be loosened in 2019, since Beijing does not want swathes of insolvent

property developers any more than an overheating residential market.

Since 2016, issuance of mortgage-backed securities (MBS) has been on the rise in China, generally through "quasi-REIT" structures. DBS Real Estate estimates that RMB66 billion (US\$9.5 billion) of commercial MBS were issued in 2016 and

2017, while more than RMB200 billion (US\$28.7 billion) of residential MBS were issued from 2014 to 2017.

However, DBS believes these structures do not offer much potential for foreign buyers of real estate debt. Valuations for China MBS have been very aggressive. In addition, DBS describes China's system of credit ratings as a "black box" and notes that the interest coverage ratio for some bonds was scarcely above 1x.

Nonetheless, the bank believes "CMBS can keep growing rapidly, given its simple structure," suggesting also that this would be of more benefit to private companies with low credit ratings and good-quality assets.

### REITs

Asia Pacific REIT performance was modest in the first nine months of 2018, with a nine-month return of 1.89 per cent for the MSCI AC Asia Pacific REITs Index, which tracks both developed and developing market REITs.

Performance for the region's three major REIT markets was in line with the overall trend, with Singapore REITs slightly underperforming the market. In contrast, U.S. REITs have outperformed considerably in recent years, unsurprisingly given that U.S. growth has outstripped that in Asia REIT countries. According to MSCI, Asian REIT yields average 4.24 per cent. Asian REITs spent US\$10 billion on acquisitions in the first half of 2018, according to CBRE research, in line with 2017.

Total market capitalisation of Asia Pacific REITs is less than half that of the United States, though this gap will narrow when China and India develop REIT markets. Progress towards this has been glacial, however.

In India, the market is still waiting for the first REIT initial public offering (IPO), despite the fact that the Securities and Exchange Board introduced REIT legislation as long ago as 2014. That said, a number of REIT IPOs are in the pipeline, in particular the landmark US\$680 million offering by Blackstone Group and its Indian partner

Embassy Group's 33 million-square-foot business park portfolio, which will be Asia's largest REIT by gross floor area (GFA). Originally slated to be launched in 2018, the IPO is now expected in early 2019.

The upcoming REIT is generally considered to be both well subscribed and conservatively priced. It is targeting a 6.5 to 7 per cent yield, which on the face of it would create challenges in a market where yields are usually significantly higher. Interviewees expect, however, that the REIT will be promoted as a growth opportunity offering opportunity for asset price growth.

Still, as one interviewee put it: "One REIT will not a market make." So far, only one other prospective Indian REIT has been registered, and property owners generally are in no rush to securitise portfolios. According to one Indian investor: "We're never going to be first. We're going wait, and let this thing grow. Our portfolios are doing really well. We could hold them for another five or six years, and just clip very high yields."

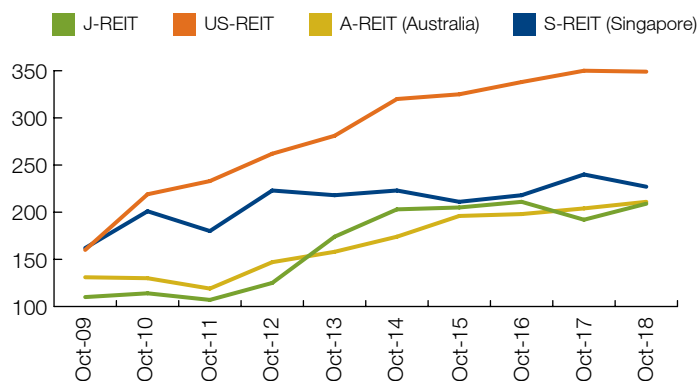
Meanwhile, China has been experimenting "quasi-REITs" for nearly two decades. However, these vehicles have so far been largely nonlisted and have also consisted of debt, rather than equity securitisations. The Asia Pacific Real Estate Association estimates that there are around 30 quasi-

REITs in existence. However, none of them resembles the REIT model familiar to investors around the world.

One potential way to kick-start China's REIT sector may be via rapid growth in the residential rental platforms. The government has now prioritised the creation of a long-lease rental apartment sector, providing investors a raft of incentives, including land supply and tax incentives. In April 2018, the China Securities Regulatory Commission and the Housing Ministry issued a note encouraging securitisation of rental properties, stating that Beijing soon intended to launch a pilot programme for equity REITs.

However, while Chinese government support for the rental residential properties has now driven significant capital into the sector from both Mainland and overseas investors, the dynamics of China's real estate market make it hard for the finances of a prospective C-REIT industry to stack up. Yields for China investment properties currently average just 2 to 3 per cent, well below the cost of debt. At these levels, China REITs would be unable to come close to the yields offered by peers around the region unless the market was repriced. In addition, China has yet to devise a legal structure and tax framework for REITs that will satisfy prospective managers.

Exhibit 2-14 Global REIT Comparison



Note: Tokyo Stock Exchange REIT Index (J-REIT), FTSE NAREIT All Equity REITs Index (US-REIT), S&P/ASX 200 A-REIT Index (A-REIT), FTSE ST REIT Index (S-REIT).

Sources: Bloomberg, DWS, as of October 2018.



## Singapore

In the nine months to September 30, 2018, the S&P REIT Index lost 1.2 per cent in local currency terms, although one-year returns were still positive at 6.56 per cent.

However, relative to the wider Singapore equity market (the main STI index returned -10 per cent in the same period), S-REIT performance has been positive. The IPO market has been quiet, although a few S-REIT IPOs have been trialed.

Meanwhile, the US\$448 million listing of one new Singaporean REIT offering an 11-office portfolio in the United States underlines a key emerging trend in the S-REIT sector. The higher yields available in the United States, Europe, and Australia are attractive to Singaporean investors.

Higher offshore yields are also a factor driving S-REITs to invest in other markets. "REITs have been going offshore for a while," said one manager. "The availability of stock to be securitised here is limited, and people have reservations about selling

assets because usually they are tightly held to a great extent, save for strata and smaller spaces, which are not really REIT-type purchases. Going forward, the offshore push is where we are putting our emphasis."

The Singapore REIT market has also begun to see consolidation amongst smaller REITs, the main driver being the need to gain size and liquidity; broadly speaking, a REIT needs market capitalisation of at least S\$1 billion in order to get on institutional investors' radars and generate liquidity in the stock. Investors also hope that fewer sponsors in the market will also mean stronger sponsors.

Smaller Singapore REITs have been trading at substantial discounts to net asset value. In principle, this ought to make acquisitions easier. However, Singapore's external management model makes the process tougher, said one S-REIT manager. "Several of the REITs do not have strong enough sponsorship. However, there has been a bit of a standoff, because we have an externally managed system, and in a

lot of cases the pricing or the manager is an obstacle. But REITs need to gain scale quickly, so mergers should continue. It goes without saying that it will benefit Singapore for the REIT market to thin out the ones that do not contribute."

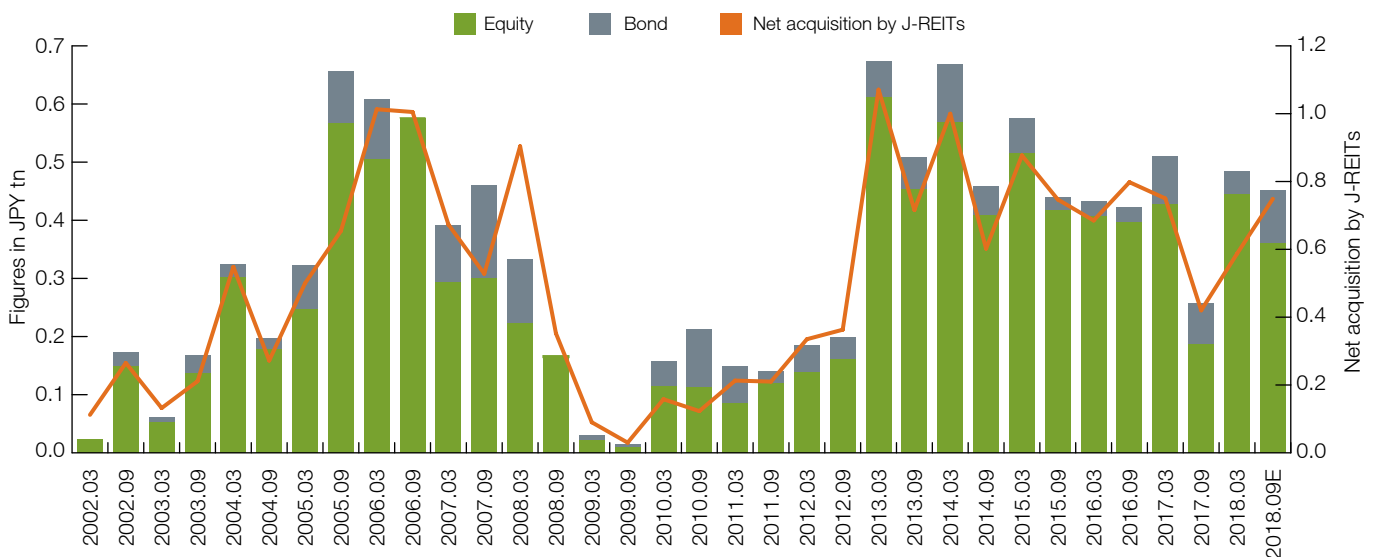
## Japan

Japanese REITs have performed strongly in 2018, with the S&P Japanese REIT Index returning 9.3 per cent and sponsors taking advantage of the market to raise new equity.

Data from DWS show ¥364 billion (US\$3.23 billion) of capital raised through public offerings from J-REITs in the first half of 2018 and ¥38 billion (US\$3.4 billion) raised via two IPOs. J-REITs remain an attractive investment in Japan given that the spread between their average yield of 4.1 per cent and yields for 10-year government bonds was a healthy 404 basis points in June 2018. That compares to just 126 bps for U.S.-based REITs.

J-REIT activity has also bounced back in 2018. With ¥1.024 trillion (US\$9 billion)

Exhibit 2-15 Capital Raising and Transactions by REITs in Japan (6 months rolling average)



Sources: ARES, DWS, as of October 2018.

of acquisitions, J-REITs represented some 57 per cent of all Japanese real estate transactions in the first half of 2018. However, some observers of J-REIT behaviour have been concerned by the ongoing use of short-term debt in the industry, as well as recent patterns of buying and selling. One investor commented that J-REITs have become net sellers in the second half of 2018. “They are selling off a bunch of properties because their prices are high. We are seeing them selling low-yielding assets, really core assets, and buying higher-yielding properties such as regional or older assets. These have very high cap rates, but I would say they are not ‘REIT-able’ because of age and location.”

Nonetheless, interviewees involved in the sector said that they were not changing strategy and would continue to focus on buying mature assets from their sponsors.

### Australia

Office and logistics REITs in Australia have been the focus of fierce bids in the past 12 months, a reflection of the attractiveness of their underlying assets to international capital.

The interest in A-REITs from overseas investors comes because recent weakness in the Australian dollar makes them cheaper in U.S. dollar terms and because they offer an otherwise rare opportunity to acquire portfolios of prime Australian assets. Merger offers are also being driven by A-REITs’ inability to buy new assets in the open market. Those trading at small premiums or discounts to net asset value will be most prone to approaches from foreign investors or their listed peers.

Despite the merger-and-acquisition (M&A) excitement, performance for the sector has been weak in 2018, with the S&P Australia REIT Index down 2.2 per cent in the nine months to September 2018, marginally underperforming the wider real estate index (–1.3 per cent) and the S&P ASX 200 (–2.07 per cent). Investors have become focused on the narrowing spread between

domestic 10-year bond yields and the A-REIT dividend yield, which had narrowed to 178 bps by the end of September 2018, having been above 200 bps earlier in the year.

One Australian investor believed that A-REITs could be beneficiaries of a future downturn in the market due to the strength of their balance sheets. “A-REITs are all trading well. If you look at the average REIT now compared to the GFC [global financial crisis], the average REIT [then] was probably trading at a 18x multiple and had gearing of 50 per cent. The average REIT now is trading at a 10 to 12x multiple and has gearing of 20 per cent. So they’re all very low geared—in fact, most of them are set up for opportunity should opportunity arise—and if the market does start to fall and overseas institutions drop out, they’re in a good position to buy.”

### Hong Kong

Hong Kong is known for its dynamic real estate market, but not for the vitality of its REIT sector. Apart from one very large REIT—the largest and only internally managed REIT in the Asia Pacific region—the Hong Kong REIT sector has seen little excitement since the first REITs appeared in 2005.

Nonetheless, in line with rising values in the city, Hong Kong REITs returned 6.7 per cent in the nine months to September 2018, according to S&P, although the sector is trading at a hefty 40 per cent discount to net asset value. Furthermore, it recently registered its first-ever hostile bid, with one fund manager seeking to take over a Hong Kong-listed REIT holding assets in the United Kingdom and China.

Further M&A activity is unlikely given that other externally managed Hong Kong REITs have strong sponsors unlikely to cooperate.

Managers complain that the Hong Kong REIT code lags Singapore in both flexibility and investor-friendliness, and that this has hampered the launch of new REITs. This is

supported by the fact that since Link REIT floated in 2005, Hong Kong has seen just 10 further REIT IPOs, while Singapore—which saw its first REIT IPO in 2002—now has some 50 listed trusts.

# Chapter 3: Markets and Sectors to Watch

“Moving to value-add is a great strategy—you can stay on the risk spectrum in a city that you already know and do something a little more interesting.”

Asia’s markets today are increasingly bifurcated, with hard-core core investors continuing to chase flagship office buildings they know are highly if not fully priced. The lack of easy targets is pushing investors and developers with flexible mandates into value-add and opportunistic strategies, as well as secondary markets.

Office space has long been the asset class of choice for investors across Asia. However, industrial and distribution space are almost equally as popular, as modern warehouse and logistics facilities roll out around the region, driven by the relentless rise of e-commerce.

“Logistics continues to be the flavour of the day, month, year. Whatever you want to say, it continues to be the standout opportunity,” one commercial broker says.

It’s worth noting that four of the top five cities in our investment prospects rankings (those in Australia and Japan) share two important characteristics: they provide a good yield spread over the cost of debt and/or sovereign bonds, and they offer deep, liquid, and mature core markets, where investors can take a measure of comfort that assets will continue to trade and yields will remain healthy even during a downturn. The other member of the top five—Singapore—offers these same features up to a point, but its appearance in the number-two position is more an indication of its status as a countercyclical play, with investors looking for further gains after its markets bottomed last year. Singapore office looks set for rental growth over the coming year.

Otherwise, rising rates, tighter credit, and trade-war tensions have forced investment rankings lower for all Chinese cities considered in the 2019 survey. However, on the proviso you can secure land and a strong local partner, development in

Shanghai and Shenzhen still looks good. Foreign funds with a mandate to invest in China in order to diversify their global real estate holdings are still buyers, and the market is backstopped by huge amounts of domestic liquidity, with local insurance companies in particular continuing to build portfolios and likely to remain active buyers for years to come.

Most interviewees cite India as a current opportunity or a market they would like to enter, although for now the foreign investment base consists mainly of big institutional players in the game for the

long run and unconcerned about potential short-term volatility. This year, Indian retail and industrial/logistics assets are higher up the shopping list than office space.

Ho Chi Minh City, meanwhile, continues to be the top emerging market, and is particularly strong in the development stakes, ranking second behind only Melbourne. It is also the hottest market for acquisitions in virtually every sector: office, retail, and residential, while second behind only 2020 Olympics host Tokyo for hotels.

Exhibit 3-1 City Investment Prospects, 2019

	Generally poor	Fair	Generally good
1 Melbourne			5.89
2 Singapore			5.88
3 Sydney			5.87
4 Tokyo			5.86
5 Osaka			5.70
6 Shanghai			5.70
7 Ho Chi Minh City			5.69
8 Shenzhen			5.46
9 Seoul			5.44
10 Guangzhou			5.33
11 Bangkok			5.30
12 Beijing			5.23
13 Mumbai			5.23
14 Hong Kong			5.16
15 Jakarta			5.09
16 Bangalore			5.05
17 New Delhi			5.03
18 China – second-tier cities			5.01
19 Manila			4.99
20 Auckland			4.97
21 Taipei			4.90
22 Kuala Lumpur			4.89

Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

Exhibit 3-2 City Development Prospects, 2019

	Generally poor	Fair	Generally good
1 Melbourne			5.79
2 Ho Chi Minh City			5.72
3 Sydney			5.69
4 Tokyo			5.67
5 Shanghai			5.53
6 Osaka			5.52
7 Shenzhen			5.50
8 Singapore			5.48
9 Mumbai			5.38
10 Bangkok			5.29
11 Guangzhou			5.23
12 Seoul			5.22
13 New Delhi			5.19
14 Bangalore			5.14
15 Jakarta			5.14
16 Beijing			5.10
17 China – second-tier cities			5.06
18 Hong Kong			5.03
19 Manila			5.03
20 Taipei			4.99
21 Auckland			4.98
22 Kuala Lumpur			4.90

Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

## Leading Buy/Hold/Sell Recommendations



### Office

**Buy** Ho Chi Minh City and Tokyo

**Sell** Taipei and Auckland



### Retail

**Buy** Ho Chi Minh City and Bangalore

**Sell** Kuala Lumpur and Auckland



### Residential

**Buy** Ho Chi Minh City and Mumbai

**Sell** Taipei and Kuala Lumpur



### Industrial/distribution

**Buy** Bangalore and Mumbai

**Sell** Taipei and Kuala Lumpur



### Hotels

**Buy** Tokyo and Ho Chi Minh City

**Sell** Taipei and Beijing

## Exhibit 3-3 Historical Investment Prospect Rankings

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Melbourne	1	2	16	3	5	13	10	7	9	9
Singapore	2	3	21	11	9	7	3	1	1	5
Sydney	3	1	9	2	4	5	4	3	6	6
Tokyo	4	7	12	1	1	1	13	16	12	7
Osaka	5	10	15	4	3	9	22	21	19	18
Shanghai	6	4	6	9	6	2	2	2	2	1
Ho Chi Minh City	7	5	4	5	13	19	18	10	11	13
Shenzhen	8	6	5	18	19	10	16	-	-	-
Seoul	9	19	17	7	7	15	14	19	16	4
Guangzhou	10	8	10	20	20	6	15	6	8	12
Bangkok	11	16	8	19	16	11	6	14	17	19
Beijing	12	11	11	14	10	8	7	5	7	3
Mumbai	13	12	2	13	11	22	20	15	3	8
Hong Kong	14	13	18	15	21	18	11	13	4	2
Jakarta	15	14	7	6	2	3	1	11	14	17
Bangalore	16	15	1	12	17	20	19	9	10	14
New Delhi	17	20	13	16	14	21	21	12	5	10
China – second-tier cities	18	17	20	22	22	12	8	-	-	-
Manila	19	18	3	8	8	4	12	18	20	20
Auckland	20	9	14	10	15	17	17	20	18	16
Taipei	21	22	22	17	18	16	9	8	13	11
Kuala Lumpur	22	21	19	21	12	14	5	17	15	15

Source: *Emerging Trends in Real Estate Asia Pacific* surveys.

Note: – = no data.

# Top Five Markets



## TOKYO

Tokyo's move up to fourth reflects what has always made it a favourite for institutional buyers: cheap finance, attractive leverage, a good spread over interest rates, and a large stock of investment-grade assets.



## OSAKA

Slightly higher yields in Japanese secondary destinations have appeal for those stopped out of opportunities in the nation's capital



## SINGAPORE

Sentiment for commercial property continues to improve as the market rebounds from cyclical lows.



## MELBOURNE

Offers a constrained office supply pipeline; a good yield spread over the cost of debt and sovereign bonds; a deep, liquid, core market; and good prospects for rental growth.



## SYDNEY

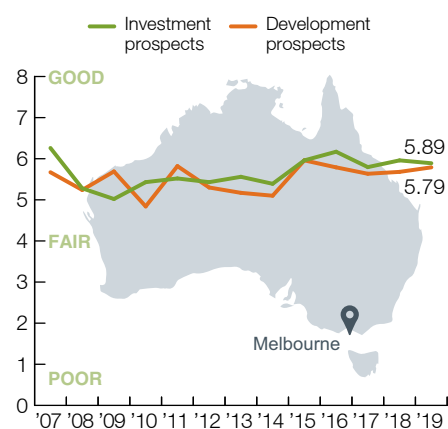
Still a favourite of global investors due to relatively high returns and as a safe-haven play. Buyer competition helps sustain pricing, while low vacancies and growing demand suggest rents will continue to rise.

## Top Investment Cities

**Melbourne (first in investment, first in development).** Used to playing second fiddle to Sydney, Melbourne this year narrowly outstrips it in our 2019 survey as the best prospect in the Asia Pacific region for both investment and development. Apart from reasons already set out above, another factor in Melbourne's ascent in the rankings is that, unlike Sydney, its office supply pipeline is constrained. With vacancies shrinking rapidly, this is likely to provide upward momentum to rents.

During 2018, rental growth has been "phenomenal" in both cities. Yields have compressed but are still attractive by international standards, running around 4.5 per cent for prime office or prime retail, and 5.5 per cent for good industrial space. Prices are slightly more reasonable in Melbourne, again explaining the shift in the center of attention.

Both Australian cities are core markets at heart, but with the number of investable assets significantly lower than in Japan there is strong competition to place capital, especially with so many international players looking to buy. Logistics and big-box retail also have their fans, but investors are wary of the "barbell effect" in which only dominant regional malls and specialty local retail space win at the expense of mid-market and neighbourhood shopping centres.



The surge in interest from Chinese developers and investors has disappeared in 2018 as Beijing clamped down on overseas purchases. Chinese transaction

volume in Australia shrank 60 per cent in 2017, according to Cushman & Wakefield, and has only continued to fall in 2018. At the same time, though, U.S. pension funds have increased their allocations, and pressure seems set to continue given that Japanese pension funds and insurance companies have newly started to allocate to overseas real estate. Although their initial focus will probably be primarily on markets in the West, Australia is likely to be one of the first ports of call in the Asia Pacific region.

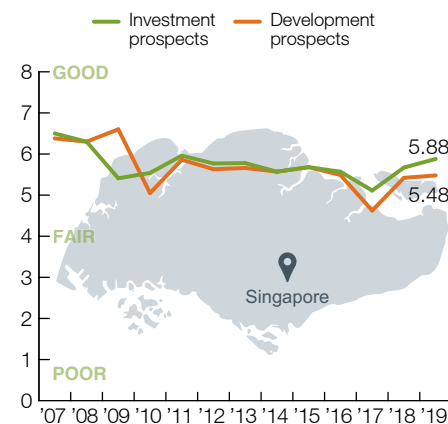
Melbourne is actually the weakest market in Australia when it comes to residential property, with home prices turning down in January and falling all year. They were off 4.9 per cent for 2018 through October, according to CoreLogic, a real estate data provider. The fall in home prices is largely a result of the tightening of bank credit for both developers and consumers, reflecting concern among both regulators and Australia's big four banks that the market has become overheated. Over the long term, however, ongoing migration patterns are a positive for residential real estate, so a prolonged downturn seems unlikely.

**Singapore (second in investment, eighth in development).** The improvement in Singapore's office market has seen the city-state comprehensively rerated by respondents, after falling to 21st place in our 2017 report.

Office rents have been rising strongly since then due to a lack of supply and rebounding demand from tenants. Co-working and other flexible office space operators have become amongst the biggest leasers of office space, while tech firms have also been active in the market.

A number of major office deals have been sealed in the past 12 months, with domestic investors the biggest buyers. However, one fund manager active in the market says: "It is possible the market is overly bullish towards the office sector, as 2019 could be a challenging year for the Singapore economy and new supply is expected in 2020 and 2021." While the CBD will see no supply until 2020, decentralised office markets will see new office openings next year.

The residential market has been exceptionally resilient, despite cooling measures being in place for several years.



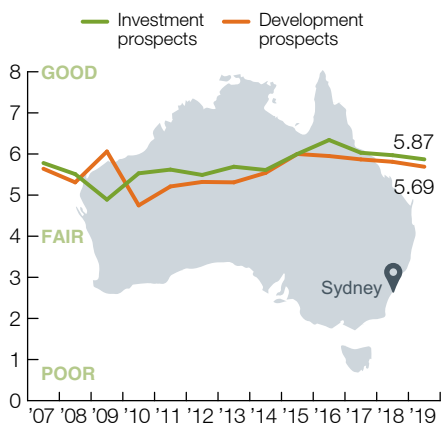
In response to increasing prices, the Singapore government imposed further regulatory cooling steps in July 2018, which slowed the market to a crawl in the following months. Over the next 12 months the outlook for the residential market remains clouded as both developers and homebuyers have become more cautious as a result of the government tightening policies.

Meanwhile, rents and yields for prime retail space have been firming across the city after years of poor performance as Singapore landlords struggle to adapt to new models of retailing. Solid economic growth and high visitor numbers have supported the market in 2018.

The logistics market continues to be plagued with oversupply, which has suppressed rents, but there are signs that excess space is now being taken up, and rents are predicted to improve slightly in 2019.

**Sydney (third in investment, third in development).** Office vacancies are low in both Sydney and Melbourne, running around 4 per cent. Only Hong Kong's downtown Central district and major cities in Japan now have tighter commercial markets in the Asia Pacific region. Meanwhile, rental growth at an annual pace of 20 per cent or more in Sydney has been remarkable.

While Sydney is Australia's largest office



market, it is also the default option for both domestic and international investors, meaning far more capital is chasing assets than the market can accommodate. Higher institutional allocations to real estate inevitably mean portfolio managers put Sydney on their destination list. A JLL estimate suggests there is A\$6.30 of capital chasing every A\$1.0 of Australian office product, with the Sydney office market accounting for 55 per cent of institutional transactions nationwide.

Sydney's office market, dominated by the big four banks and other financials, is diversifying. Big tech firms are moving in, with Amazon.com's Australian headquarters occupying space previously taken by Commonwealth Bank, Allianz, and Caltex.

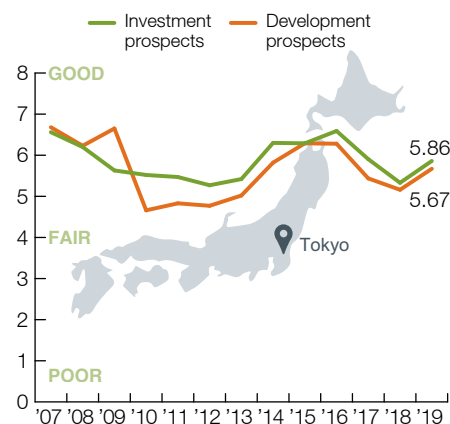
It has generally older office stock than in Melbourne, which is encouraging the redevelopment of aged buildings with a central location. Blocks that were tall at 18 or so floors in the 1960s are now being demolished and rebuilt at double the height. There's repurposing, too, with plenty of office towers converted into apartments—and at least one residential tower is being retained as the core of a "new" office skyscraper.

Home prices have fallen for more than a year in Sydney. Housing remains some of the least affordable on the planet, and is characterised by a strange dynamic in which the city is growing in absolute population due to immigration and internal migration, but seeing a loss in the population of local-born Sydneysiders moving to the suburbs or to other cities in search of larger, affordable homes.

### Tokyo (fourth in investment, fourth in development).

Investors last year suggested Tokyo might be running out of gas, but its rise in the rankings in this year's survey suggests that buyers are not deterred. While assets are keenly priced, for many large institutional funds the city has enduring appeal, offering by far the largest number of investable properties, together with cheap finance, attractive leverage, and rising rents. For an institutional fund manager looking for reliable yield and a safe place to park funds, Tokyo ticks all the boxes.

High prices are forcing prospective buyers to pay a lot more attention to specific ward and location within Tokyo, with more focus this year on B-grade assets that offer some room for asset management enhancement together with a lower rental threshold that means it will always be able to draw tenants.



Last year's focus on the residential sector market appears now to have faded after cap rates fell sharply and the supply of available assets dried up. Logistics space is another popular play, either purchasing portfolios or looking to develop individual facilities, particularly in build-to-suit situations.

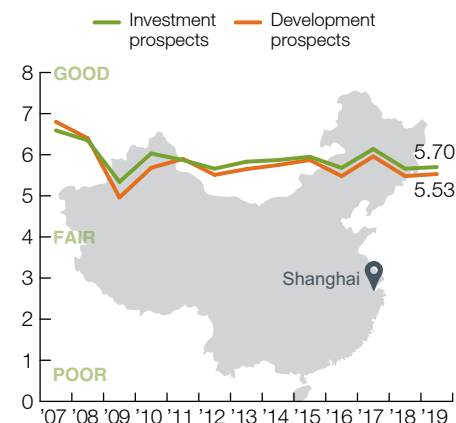
Interest in hotels, whether high-end or three-star, has been intense in the run-up to the 2020 Olympics, but the bloom appears now to have come off. According to one locally based fund manager: "We're hearing hotels are about to come for sale, whereas before people were trying to buy them aggressively because of the Olympics—now they're finally realising that

the Olympics are a two-week event. We're even hearing some hotel development projects that were on the board are now being scrapped."

### Shanghai (fifth in investment, fifth in development).

Shanghai, as the most liquid of the Mainland Chinese markets, always presents trading and investment opportunities no matter how tight the market. Despite some Shanghai office assets trading at cash yields of 4 per cent or less, the city is also first port of call for foreign investors seeking core assets as a means of diversifying their global portfolios. Given that local insurers flush with cash continue to plough capital into the top end of the market, cap rates promise to continue to trend downwards.

Given high prices in city-centre locations, opportunistic foreign investors continue to look at possibilities in noncentral locations. Value-add is also a theme now becoming increasingly popular in Shanghai, although anecdotally such projects have proved difficult to pursue.

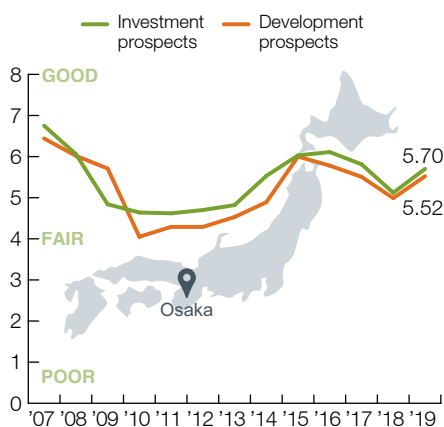


China's attempts to deleverage its economy saw credit hard to come by throughout 2018, with banks given guidance not to lend for acquisitions of real estate in the first half of the year. Further restrictions have been applied to overseas and local bond sales, as well as the ability to buy project companies that own land. That has hit Tier 2 and Tier 3 cities particularly hard, although it remains tough to come by money for investment in Shanghai and other Tier 1 cities, too. The resultant squeeze on developer finances opens up new opportunities for

foreign investors, either by providing debt or potentially by participating in distress situations, although historically this has not been a fruitful exercise for foreign capital in China.

Towards the end of 2018, there were signs that Shanghai was turning the taps back on with credit in response to the gathering trade war with the United States. Should the Chinese economy enter a deep or prolonged downturn, real estate is likely to benefit from further credit easing.

**Osaka (sixth in investment, sixth in development).** The lack of reasonably priced core assets in Tokyo continues to push investors into regional Japan, where local economies are now more mature, providing some assurance to investors that liquidity will not drop off in the event of a correction. Osaka, as Japan's second-largest city, continues to be popular. One head of Japan real estate says that while office rents in Tokyo are approaching 11 o'clock, they're still only at 8:30 a.m. in Osaka and other regional cities.



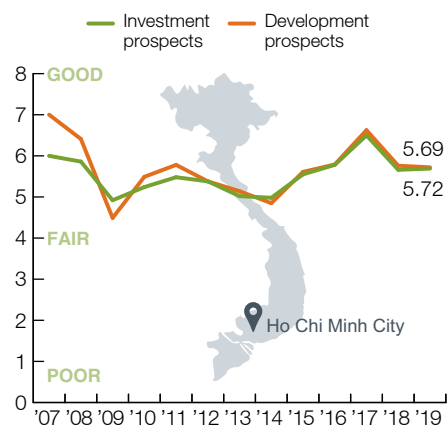
With office cap rates at some 4.5 per cent (compared to sub-4 per cent in Tokyo), yields still have room to run, especially given that rents in Osaka remain low. With supply lacking, the city is probably the top market beyond the capital. On the residential side, cap rates in Osaka have compressed to below 4 per cent, at which point they now sit at similar levels to residential yields Tokyo. Although recent wage rises across Japan have given a boost to residential rents, a likely increase in the consumption tax to 10 per cent will probably end prospects for any further rent

rises and prove a drag on the sector going forward.

Osaka remains a very tight market—there are fewer sellers of office and residential assets than just about anywhere in Asia, according to the survey. Not surprising, then, that transaction volume is a fraction of that in Tokyo, similar to Guangzhou in China.

Office vacancy rates are the lowest in Asia for all of Japan's secondary markets. Osaka and also Nagoya, Yokohama, and Fukuoka have very little space available, and little on the way, either. However, prices of office assets in these destinations are now high and provide little relative value compared with those in Tokyo, according to one investor.

**Ho Chi Minh (seventh in investment, second in development).** Vietnam's biggest city and business capital continues to rate as the most-attractive emerging market destination for investment and (especially) for development. The population is young, incomes are on the rise, and growth is forecast at an annual 6.6 per cent for each of the next three years by Standard & Poor's. For opportunistic investors, there are plenty of plays.

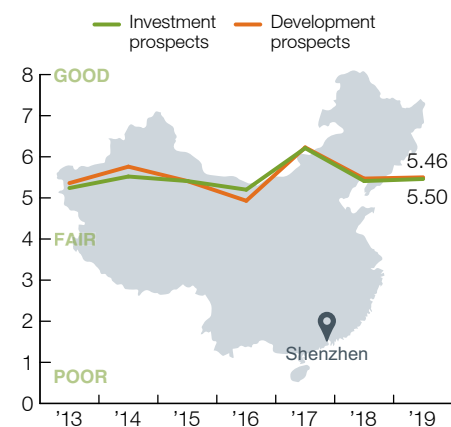


Incomes are three times the national average, so housing affordability is much higher, encouraging aggressive investors to target mass-market, middle-class homes. Modern office space is in short supply, too, leaving rents far higher than, for instance, Bangkok, and encouraging investment into commercial property, which investors say

has great potential. There is basically no logistics space countrywide that's up to international standards, but this is a sector investors are watching since there's also little indication that the economics work for the rents such facilities would charge at this stage.

The Vietnamese government encourages foreign investment, and imposes fewer barriers to foreign participation in the real estate sector than other Southeast Asian developing markets. Foreign capital is supplemented by the reshoring of money by Viet Kieu, the overseas Vietnamese population. Finally, Vietnam has always been a strong tourism destination, and is witnessing a boom in visitors from neighbouring China, leading to extensive hotel development along the coast.

**Shenzhen (eighth in investment, seventh in development).** The growth of the tech sector has turned Shenzhen into China's Silicon Valley, which has drawn startups and the venture capital chasing them. Incomes are higher than anywhere in China, drawing ambitious university graduates, and decent office space is at a premium. That all bodes well for the long-term prospects for Shenzhen property.



Recently, official influence over the property market has also been higher here than anywhere in the country.

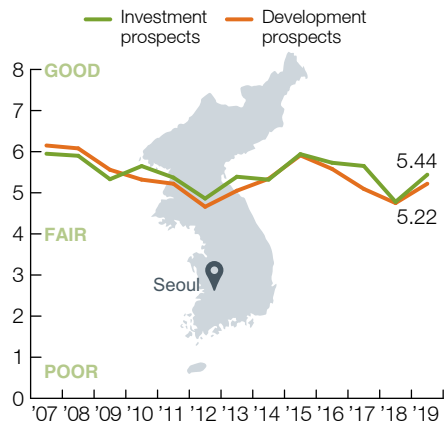
Developers are showing increased price sensitivity when it comes to their land banks, bidding only on attractively priced lots. The government is loath to open commercial land to public bidding and has preferred to tailor-make auctions for



companies that agree to put a specific operation in place.

The project of branding the Pearl River Delta as the “Greater Bay Area” has been aided by infrastructure such as the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge, which both opened in the second half of 2018. The bridge improves access to factories in the less-developed western side of the Pearl River Delta, driving up prices for raw land.

**Seoul (ninth in investment, 12th in development).** The Korean capital is a seller’s market, with new office buildings in hot demand. Core commercial assets can sell at yields of 4 per cent to 5 per cent, with a line of buyers in wait. The shortage of core opportunities is prompting some international interest in core-plus and value-add space.

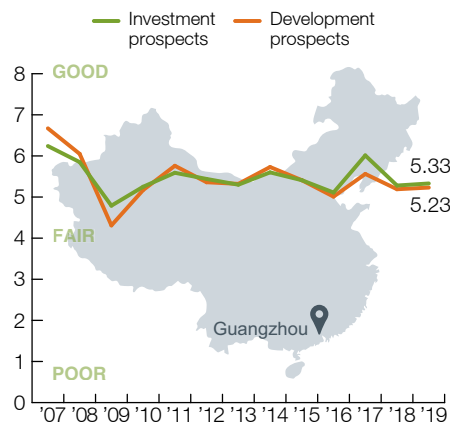


Office transaction activity is running at a record rate, with some of Korea’s *chaebol* conglomerates selling properties for the first time, having been long-term landlords. Owner/occupiers have also been willing to monetise real estate holdings. The Bank of Korea nudged them along by starting to raise rates, slowly, at the end of 2017 after six years of stasis. That has opened the door to European, North American, and intra-Asian buyers.

Korea’s strong showing as an exporter also rewards investors willing to look beyond office into the logistics space. There are multiple large, modern facilities in the development pipeline as the

industry matures and becomes more institutionalised. Slow growth in jobs and the very strong growth in e-commerce make retail challenging as an investment, particularly on high streets, while geopolitical concerns and tensions with China have made the performance of tourist-focused real estate assets wildly unpredictable.

**Guangzhou (10th in investment, 11th in development).** The lack of transactions available in prime locations has forced investors into decentralised deals if they want to do business in Guangzhou. It’s a relatively active market overall, comparable in trading volume to Beijing. Office dominates the conversation, although there’s also been interest in en-bloc retail deals for malls with potential for repositioning and improvement in the tenant mix.

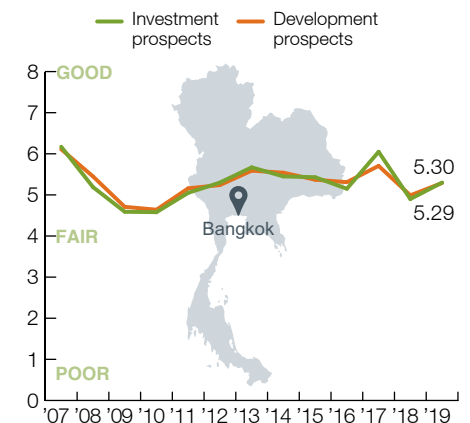


The opening up of the greater Pearl River Delta area should provide opportunity for aggressive investors willing to move into the western portion of the delta. That area has long been a backwater compared with the lightning-fast development of the eastern delta region through Shenzhen and Hong Kong, where real estate is fast becoming too expensive to justify industrial uses anymore. Guangzhou is at the pinnacle of the entire delta, and set to benefit whichever way development goes.

As in Shenzhen, developers are nervously waiting to see if the government will put into action its proposal to bar presales on off-plan apartments. Metro-line extensions and road improvements are opening up suburbs that are being claimed into a sprawling metropolis.

**Bangkok (11th in investment, 10th in development).** The occasional military coup does not seem to derail the Thai economy or frighten tourists, but it does tend to discourage cross-border real estate investors. That said, the city has risen in popularity this year and remains one of Asia’s most vibrant and liveable cities.

Bangkok is also set to benefit from a huge wave of infrastructure investment, which is expected to transform public transport and open up a number of new locations for real estate investment and development. Low vacancy and limited new supply of office space are creating a market biased in favour of landlords. Office rents climbed 9 per cent in the 12 months to June 31, 2018, with solid demand from the financial services and fast-moving consumer goods (FMCG) sectors. Less than 250,000 square metres is due to be added to office stock by 2023, only 5 per cent of existing space.



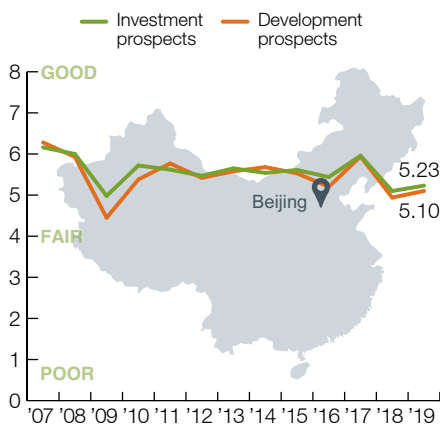
Retail, on the other hand, is seeing substantial new supply, with close to 700,000 square metres slated for 2018 alone. Nonetheless rents have risen, albeit marginally, in the 12 months to mid-2018, with demand supported by increased visitor numbers.

There is a growing population of professional expats in Bangkok that is supporting growth in the city’s serviced office market. Increased visitor numbers means the hotel sector has performed well, with stock expected to increase by 27 per cent by 2023.

New residential supply was high in 2017, slowing the market somewhat and

prompting developers to delay launch of new projects. They are also increasingly targeting foreign buyers, as residents from Hong Kong and Singapore look for cheaper cities to invest savings.

**Beijing (12th in investment, 16th in development).** The Chinese capital has few land lots left for purchase in prime parts of the city, though plots that do come to market tend to attract plenty of bidders. The Beijing government has effectively shut down new development opportunities within the third and fourth ring roads, pushing developers into the far suburbs to do business. This makes it “very hard to access opportunities that make sense,” one developer said.



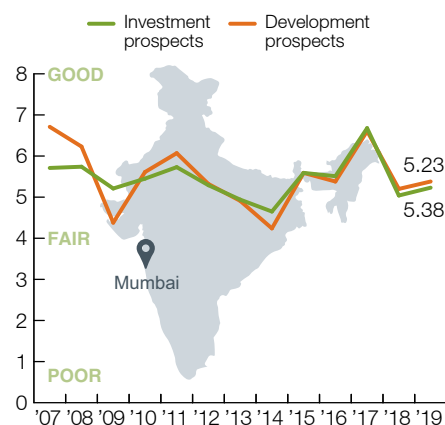
The Beijing government’s delayed response to the initiation of a trade war with the United States has made large Chinese companies reticent to purchase. Uncertainty over future constraints on exports has in some cases put office expansion plans on hold, while slowing Chinese growth is in some cases forcing corporate consolidations.

Several older hotels are currently being redeveloped into office towers. Retail space in the capital has also been trading actively. Tight credit has meant “cash is king,” and has made foreign partners more popular than they were in a market previously dominated by locals.

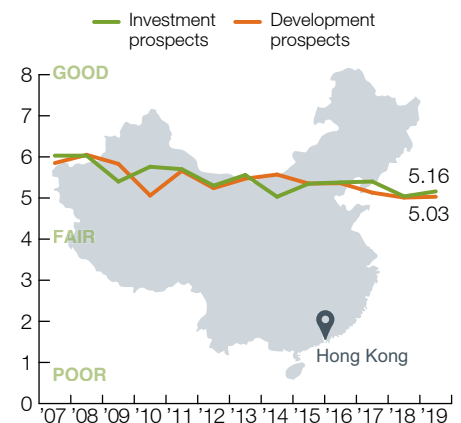
**Mumbai (13th in investment, ninth in development).** As more of a financial hub than a technology centre, Mumbai’s office market is less oriented towards IT-

led business parks and special economic zones than is the case in Bangalore and Delhi. Still, India’s rapidly growing capital markets mean demand for high-quality offices is booming in Mumbai, so despite apparently high vacancies, ongoing shortages of modern office stock mean new supply tends to be absorbed quickly. Activity is not confined to the CBD, with strong leasing momentum also surfacing in fringe areas. As in other Asia Pacific markets, Mumbai is seeing strong growth in coworking assets. In fact, according to one local consultant, “almost 15 per cent of office space absorption across large cities in India is now accounted for by coworking operators”.

There is also significant activity in Mumbai’s retail sector. Although high-end malls continue to perform well if properly managed, mid-tier facilities are in general poorly positioned and often unprofitable given that increasing numbers of Indian consumers are migrating online. Some malls are therefore attempting to revive their businesses by buying back strata space sold in previous years, vacating malls and then refurbishing to create more experiential environments. These efforts follow the example set by some large foreign asset managers who in the last 18 months have partnered with local developers with the intention of revamping well-located but poorly performing assets in retail portfolios across the country.



**Hong Kong (14th in investment, 18th in development).** Hong Kong is the most expensive real estate market in the world, with residential and office values at their highest-ever levels and retail space that is



still expensive despite two years of falling rents and values.

High prices make it hard for investors to get the underwriting to add up, but there is a core of regional and international investors that has been active throughout the current cycle, either carefully timing strata office acquisitions or taking on value-add office, retail, and mixed-use projects.

One such fund manager said that despite rocketing prices, “Hong Kong cap rates are no lower now than they have been since any time in the last 10 years, since the global financial crisis,” making the case for adding value through refurbishment and repositioning. While Hong Kong’s prime Central offices are tightly held and attracting world-record rents, the city has a seemingly inexhaustible supply of B- and C-grade offices ripe for improvement.

At the top of the market, Mainland China financial services companies continue to move to Hong Kong and to demand the best space, while multinationals find themselves moving to fringe or decentralised areas. Coworking operators, both international and home grown, are also taking more office space.

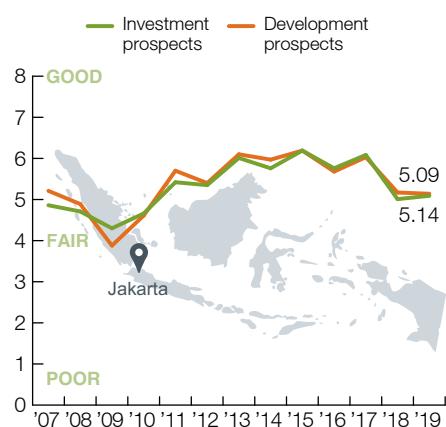
Given their lower profitability, a number of hotels are now being converted to office space. Some hotels are also being converted to co-living spaces for students or young professionals.

The retail sector appears to be bottoming after two years of plummeting rents and values, and a number of foreign private

equity investors have already bought into the recovery. Rents are not yet rising, however, and it remains to be seen if Mainland spending will support the city's many luxury brands.

There are growing signs of weakness in the residential market, with developers cutting asking prices of new launches. However, underlying demand remains strong in the mass market. The U.S.-China trade war might subdue appetite for super-luxury properties in the short term.

**Jakarta (15th in investment, 15th in development).** A fourth year of record new supply in the Jakarta office sector continues to depress fundamentals. While the higher quality of new supply means it will usually draw tenants (with coworking operators especially active), the impact overall is strongly negative, with office vacancies approaching an extraordinary 35 per cent in mid-2018, according to JLL. As a result, Jakarta is the only major city in the Asia Pacific to see significant declines in capital values and rents in the year to mid-2018, continuing a trend in place since the beginning of 2015. In addition, there is little activity in trading of stabilised assets. Not only is the market generally tightly held, but local owners are reluctant to take a haircut on values even if declining rents and capital values imply they should.



Residential markets are also suffering from oversupply, especially at the top end, and transactions remain soft. A healthy market has sprung up in the affordable housing sector, however, with strong demand and construction of new supply booming. With the moratorium on new retail supply still in place, there is little activity in this sector

either, resulting in a quiet market all round.

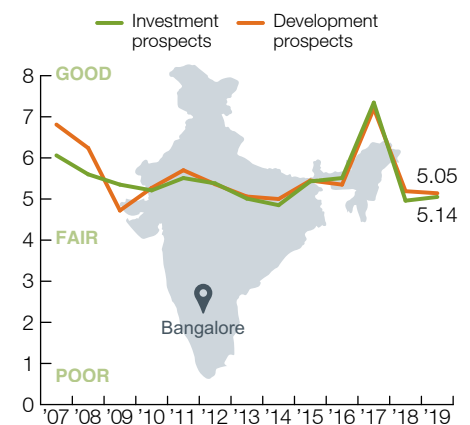
Private-equity investors continue to show interest in Indonesia, however, and are looking at various options. One possibility is to buy bulk lots of unsold residential stock that developers continue to hold on their books with a view to converting it to serviced apartments. A number of deals of this type were struck in 2018. Another option is to convert these units to co-living facilities on the premise that slowing job creation and wage growth will lead to further softness in residential sales and a corresponding increase in demand for rentals.

The logistics sector has also drawn significant foreign investor interest given growth in e-commerce and a structural shortage of modern logistics space. However, barriers to entry are problematic. According to one local consultant: "The reason why logistics warehousing hasn't gone completely bonkers is because the industrial land price is too high—basically people who want to build sheds can't buy the land at a price to make it work for them." As a result, activity in the sector has dropped dramatically. According to a recent report from brokers Cushman & Wakefield, Jakarta industrial land sales were down 60 per cent year-on-year in the first half of 2018.

**Bangalore (16th in investment, 14th in development).** IT continues to be the driver for Bangalore, with the focus of growth now shifting to the Outer Ring Road and other areas that used to be on the periphery. However, the city's office/business park story has now been in play for a number of years, and while uptake remains strong, concern is mounting over market saturation, peaking growth, and rising rents, especially as AI and other technological solutions begin to cannibalise the business process outsourcing (BPO) industry that has been such a strong driver of demand in recent years. Nonetheless, new tenants continue to arrive in force. Bangalore's already low vacancy rates declined further to 3.3 per cent in mid-2018, despite some 5.1 million square metres of new supply, according to JLL. With take-up expected to remain some of the highest in the Asia Pacific (totaling a

projected 25 million square feet between 2018 and 2020), fears of stagnation may be overblown.

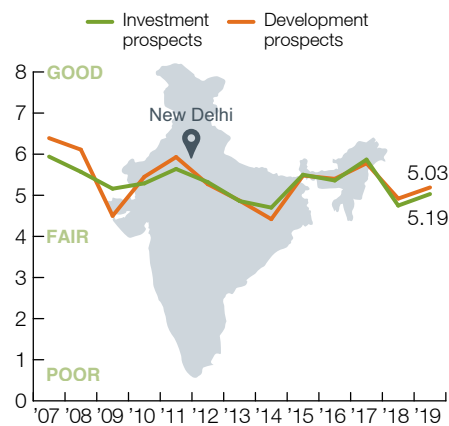
As one locally based consultant said: "Growth rates in Bangalore are certainly not the same, the infrastructure story has struggled to keep up, and pollution levels have increased. But the cluster effect is so pronounced, especially from a tech perspective, that even today large IT companies looking at specialised skill sets find it very hard to avoid it. So while Hyderabad's emergence has stolen some of Bangalore's thunder, it continues to be the top draw for office occupiers."



Meanwhile, good-quality retail in Bangalore continues to perform well, as does the logistics sector. "Wherever you have land, there are enough takers asking to commit," said one local investor.

**New Delhi (17th in investment, 13th in development).** Markets in Delhi have a reputation for being more speculative than in other parts of India, making them more volatile on both the upside and downside. There also tends to be more of a focus on the residential sector, where developers have recently been subject to a regulatory campaign aimed at shaking out longstanding industry malpractices. As a result, mid-market developers "continue to be the big pain point" in the Delhi area in 2018, with frequent reports of developer defaults or arrests. Moreover, as local banks further tighten access to developer finance in the second half of 2018, distress has become apparent among some small and medium-sized development companies in the area.

On the commercial side, prospects are more positive. Office space continues to perform well across the board, with yields in the area of 8 per cent for quality assets, according to JLL. In particular the sub-district of Noida “has been a star performer across the country,” according to one local investor, with more than 10 per cent year-on-year growth in grade-A IT park and office space absorption following the government’s announcement of a new airport for the area and other ongoing improvements to local transportation infrastructure. With grade-A space still renting for around US\$0.80 per square foot per month, it represents a “sure-shot equity investment opportunity.”



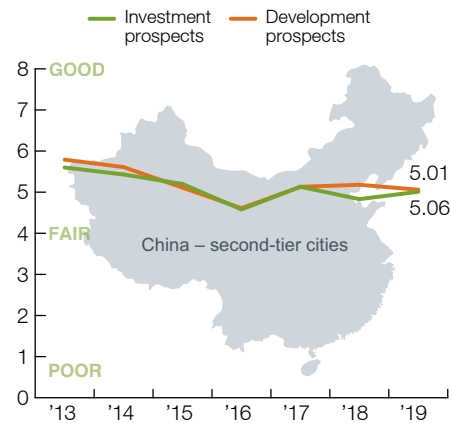
**China’s second-tier cities (18th in investment, 17th in development).**

Confidence is particularly shaky in China when you move beyond the four Tier 1 cities. The slimmer the existing institutional stock, the more investors and developers rely on the local government to ensure an affordable stream of land and supply. That is not happening, as provincial and municipal officials adapt to tighter restrictions from Beijing. Liquidity is poorest in these secondary cities, with banks hamstrung by new lending policies, the bond markets tough to access, and trust banks and the “shadow banking” system closed off.

Yet if you believe China will be the new champion of free trade, active along and building new Silk Roads, the industrial heartland is likely to get the biggest boost from China’s rise. Cities such as Chongqing, Chengdu, and Wuhan approach 20 million people each, making

them “secondary cities” with populations around the size of the Netherlands.

“If you’re brave, that’s where you should be investing,” one family-office head with holdings in Chongqing said. “They’re like Leeds in the U.K. or Kansas City in the U.S.” Only 40 times that size.

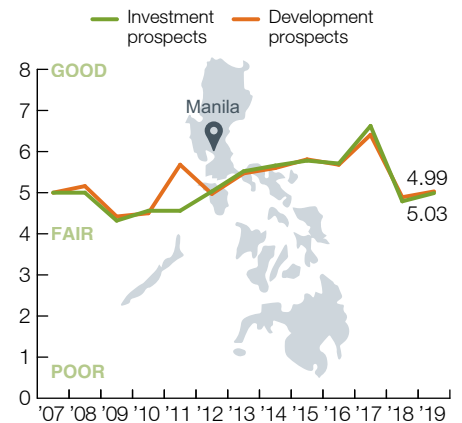


The Chinese cities are crying out for international-grade office, industrial, and retail space. The challenge is delivering that at the right price point, while avoiding the oversupply that often exists in lower-quality space. Product differentiation and branding will be key, requiring deep understanding of the specific city in question.

**Manila (19th in investment, 19th in development).**

The steep fall in sentiment in last year’s survey towards Manila has persisted this year. The problem is probably partly one of optics, because fundamentals continue to be strong. Office rents and capital values have risen relentlessly, vacancies have fallen to a low 2 per cent, yields are in the area of 8 per cent, and strong absorption of new stock continues based on activity from the online gaming and BPO industries.

At the same time, however, foreign investors are deterred by domestic political concerns, regulatory barriers to entry that restrict foreign equity interests in local property assets to a maximum of 40 per cent, and most recently by potential economic consequences of capital outflows caused by rising interest rates both domestically and in the United States.



What’s more, one fundamental issue that has long acted as an indirect barrier for foreign capital remains in place—local asset markets are overflowing with cheap domestic capital. Foreign players who demand risk-adjusted returns in the high teens are therefore priced out of the market by local banks offering financing at 2.75 per cent.

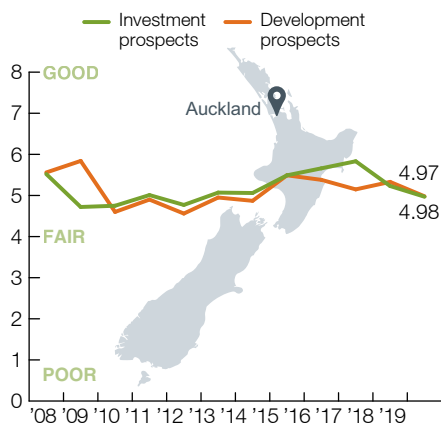
Still, local developers are now increasingly open to working with foreign players in order to leverage operational expertise as well as their international connections. In addition, good opportunities are increasingly available for investors able to find reliable local partners and to think out of the box, in particular by targeting alternative or emerging sectors. While growth in the BPO industry has now levelled off as automation and artificial intelligence (AI) technologies eat into market share, new opportunities are opening up in other areas. The government’s infrastructure push is one theme. Another is the logistics and industrial park sectors, not only because of the shortcomings of existing facilities, but also because Chinese manufacturers are increasingly moving operations into Asian emerging markets in an effort to avoid the fallout of an impending trade war with the United States.

**Auckland (20th in investment, 21st in development).**

Although the market in Auckland is small, it is in many ways perfectly formed. While New Zealand’s far-flung location ensured for years it remained off the radar, investors from Australia, Singapore, China, and the United States

warned to the theme when they realised demand was strong, yields were high, and supply was tight and in many cases dated.

Today, however, rising rents and (especially) capital values mean the New Zealand investment story has become somewhat worn. Given the limited size of the opportunity, international investors in the commercial space have cornered much of the higher-quality stock and developable land in the city centre. Cap rates have continued to compress in the first half of 2018, with prime assets in Auckland transacting in the area of 5.5 per cent, according to CBRE. Although foreign investor activity continues to be strong, at these levels, there is limited scope for downward pressure on yields.

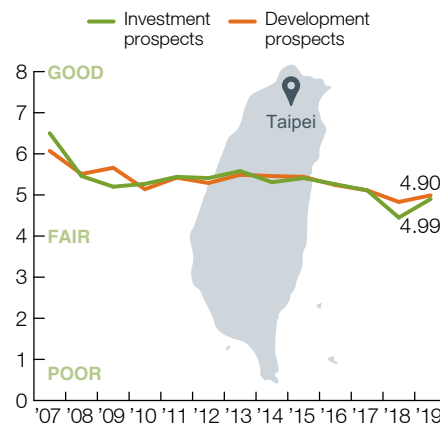


At the same time, supply shortages and (according to some) an influx of foreign capital have seen residential prices in Auckland double over the last 10 years, sparking a backlash from authorities and resulting in tight restrictions on foreign buyer purchases (Australians and Singaporeans excepted).

As a result, Auckland has plunged in this year's investment prospect rankings. Although office is as usual the go-to sector, industrial assets have also seen strong demand, driving vacancies down to under 1 per cent.

**Taipei (21st in investment, 20th in development).** Taipei has now been rooted to the bottom of the survey table for several years, largely as a result of a domestic investment environment

that forced local institutional investors to channel their capital into domestic assets, pushing yields down to some of the lowest in Asia and taking most investable properties off the market. While that scenario has now changed—local institutions are now compelled to invest offshore—the longstanding repercussions to the domestic investment landscape remain in place. Taipei therefore remains unpopular with cross-border investors, who prefer not to compete with local institutions whose buying keeps yields at around 2.5 per cent.



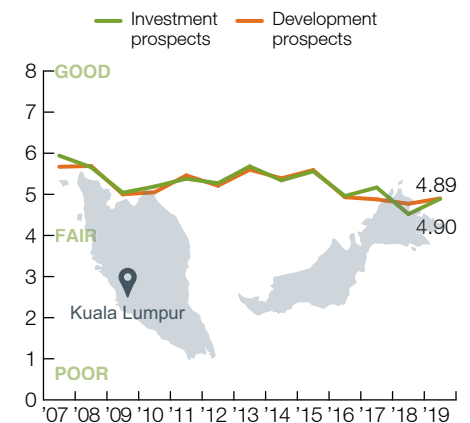
Transactions of any sort were thin on the ground in 2018, with most buyers being owner-occupiers. With rental growth predictions of around 2 to 3 per cent in 2018, there has been little to interest investors. The Taiwan economy has been fairly strong, with GDP growth of 3 per cent expected for 2018 and unemployment below 4 per cent. Office demand comes mainly from the financial and technology sectors.

Taiwan's insurers have been able to invest offshore for several years, but their acquisitions have slowed dramatically as the lengthy approval process required has made it almost impossible for them to compete with more nimble buyers.

Authorities recently announced a number of public/private partnership projects involving both new development and regeneration located on government-owned land near major transit hubs in the capital. These projects may offer a rare opportunity for foreign investors to participate in the local market.

A surge in visitors from Mainland China in 2016 has not been maintained. As a consequence, the hotel sector has suffered and Taiwan is now trying to promote itself as a MICE (meetings, incentives, conferences and exhibitions) destination and also to boost US visitor numbers.

**Kuala Lumpur (22nd in investment, 22nd in development).** Kuala Lumpur office rents have been falling in 2018 and with 20 million square feet of new supply due to hit the market by 2020, the short-term outlook remains gloomy. Demand is weak, but there has been some interest from both local and global co-working companies.



Prime retail rents continue to increase, although modestly, due to the effect of huge supply. There is a gulf in rental performance between established prime malls and new centres. In 2017, five new malls totalling close to 3 million square feet of retail space were opened in 2017 and there is a significant number of large shopping centres and boutique malls currently being constructed. A number of overseas developers are active in the retail and mixed-use development space.

The residential market has also been affected by politics; however, a rising population, low unemployment, and fairly robust growth mean underlying demand is strong. Supply was high up to 2017 but has slowed in 2018 and observers expect a modest upturn if 2019 sees a return to political stability.





**Property Types in Perspective**

**OFFICE**

Office remains the target of choice for investors into Asia. The vast majority (86 per cent) of survey respondents are already active in the asset class, or intend to be.

Office provides stable yields, the promise of capital gains, and demand linked to the generally strong economics of the region. Core locations in gateway cities are still seen as bullet-proof choices, and above all other assets, office buildings provide the opportunity to put a large amount of money to work in one go.

The worry is that it is taking larger and larger amounts of money to do so. You have to have a very long time horizon, as insurers and pension funds do, to stomach some of the low yields and high capital values on offer. Even then, those players are far pickier than they might previously have been, micro-managing location selections and building choice. They may expand their search beyond the primary business district to find the right opportunity.

Nimble owners and investors say there are still trading opportunities, and cheap land if you know how to look and have capable and trustworthy local connections. Value-add, opportunistic, and development plays provide entryways into markets where locals may pay over the odds for prestige assets.

With far more money looking for access into Asia than there are core assets available, “develop to core” is a popular strategy even for the most risk-averse investors.

**Expected best bets:** Singapore’s correction is over, and rents are rising, with vacancies down. There may be a window of solid opportunity to develop core office space, with big-money backing. Office-rental growth has been stellar in Sydney and Melbourne, and while no one has called the top of the market, participants question how long that can go on. The resource-reliant markets of Perth and Brisbane share Singapore’s counter-cyclical pattern, and have started to see

foreign-backed deals pick up again.

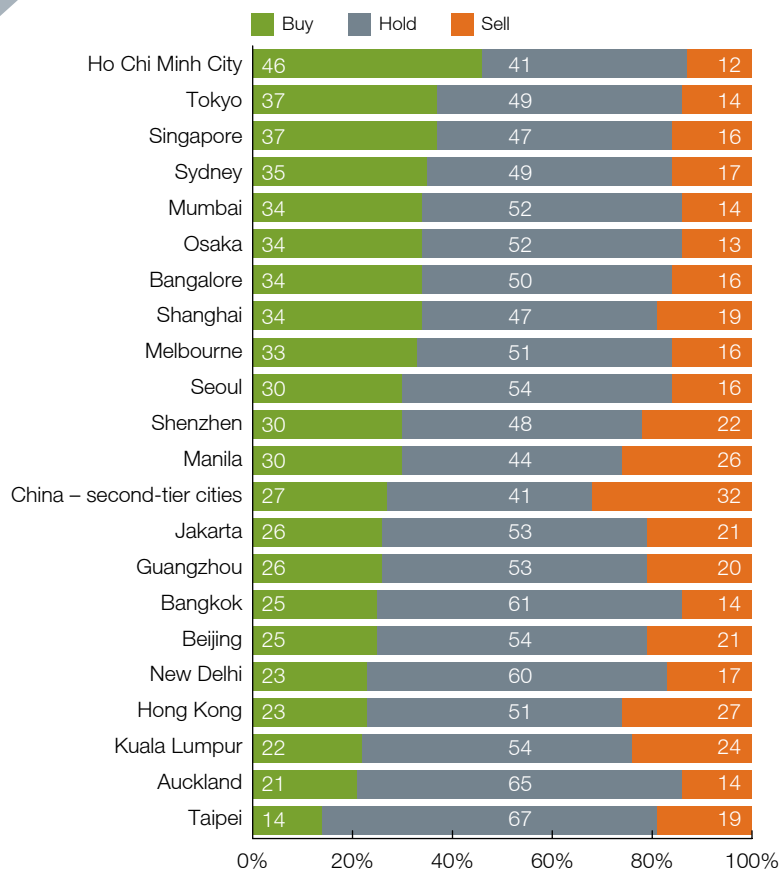
Ho Chi Minh City is again the standout development market, although the size of the opportunity is small. Opportunists say Vietnam has many merits, particularly when it comes to the young, energetic workforce. With a lack of high-quality office space, it’s lazy thinking to call this “China in miniature.” But there’s no doubt that the command-driven economy makes life easier, particularly under a newly business-friendly administration. Vietnam’s government, in contrast to China, needs the money provided by foreign investment, and is far more welcoming to outside players at the moment.

Many an investor has said that Japan is really only one market: Tokyo. Its popularity remains as steady as its monetary policy is easy. But the country’s steady economic expansion and stable politics—Prime

Minister Shinzo Abe is the longest-serving post-war leader—is encouraging exploration into other markets. Run down the list of Japan’s largest cities by population, and you’ll find the top targets for commercial investment and development, proponents arguing that these metro giants are the beneficiaries as rural and provincial Japan ages and is hollowed out.

With credit tightening raising questions about the direction of the Chinese economy, India has attracted significant big-money backing. Business-park development is creating whole new suburbs around cities such as Mumbai and Bangalore, although it pays to keep tabs on where new university graduates are heading, bringing second-tier cities such as Pune into the conversation. India’s transparency has gotten a boost from the implementation of new real estate laws that

**Exhibit 3-4 Office Assets Buy/Hold/Sell Recommendations for 2019, by City**



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey.*



are raising developer practices closer to international standards.

## RESIDENTIAL

Ho Chi Minh City sits atop the shopping list for residential investors, with mass- and mid-market housing seen as the sweet spot. This is a pure development play for now, and a fragmented market where it's hard to build scale.

Southeast Asia's strong demographics are also driving residential interest in Jakarta, Manila, and Bangkok. As incomes rise, affordability improves and stimulates the need for middle-class housing through the region that is often lacking in quality stock at the right price point.

Tokyo's office market is a stalwart choice for institutional investment. But rental residential property is ascending in interest, with Japan the only nation in the region to boast sufficient depth in the market for big players.

It takes a brave buyer to be bidding on residential lots of land in China at the moment. Under Beijing's directive to keep prices in check, regional and municipal governments have sought administrative means of controlling the market, leading to highly unpredictable operating environments.

**Expected best bets:** Ho Chi Minh City and to a lesser extent Hanoi are both attractive for residential development. Their similar size, at 7 million people in the metro area, ranks them only behind Jakarta and Bangkok in Southeast Asia. A stable economy growing at a forecast 6.6 per cent in 2019 is similar to China's growth, with fewer current political complications.

The small size of the existing investable stock in Southeast Asian cities means choice of local development partner will be the critical component in any deal. Jakarta and Manila may be "ones to watch" for a lot of overseas investors, who are interested but not yet active. The right product should entice backers with an appetite for risk.

Mumbai is the pick of the residential markets in India. This requires strong

country-specific expertise, though, and a lot of global investors favour other asset classes in the country, particularly logistics space, but also retail. Residential developers face tighter constraints on how they can generate cash flow from projects under development, which favours the biggest players and may cause bankruptcies among weak developers.

For developed markets, Tokyo sustains institutional interest and is the top residential play, with Osaka a close second. Japanese development standards are world-class, but this a market dominated by massive developers with brand names that already carry cachet—and more than likely don't need foreign financial backing. International investors may look to pick up existing portfolios from proven developers. There is some scope for holiday or investment property targeted at foreign buyers, since Japan is now virtually alone

in Asia as having no restrictions on foreign homeownership.

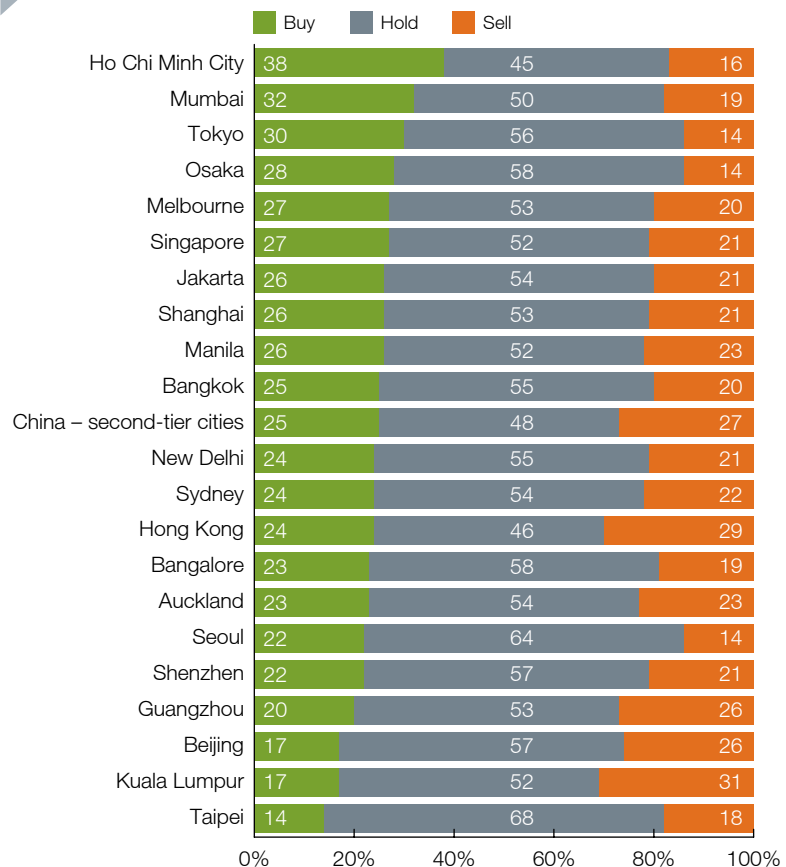
Home values have turned down in Sydney and Melbourne, and there's gloomy talk of a prolonged downturn. Affordability is even farther stretched in Hong Kong, where the selloff in equity markets has dented already shaky sentiment due to rising U.S./Hong Kong interest rates.

## RETAIL

The retail sector continues to be tough for landlords and the retailers themselves, as they try to adapt to tech-driven changes in shopping habits, such as e-commerce and mobile payments.

Retail remains at the bottom of the preferred sector rankings and for 16 of the 22 cities. The percentage of sellers is higher than the percentage of buyers, more than for any other property sector.

Exhibit 3-5 Residential Assets Buy/Hold/Sell Recommendations for 2019, by City



Source: Emerging Trends in Real Estate Asia Pacific 2019 survey.

Some retail landlords argue that Asia, especially China, is dealing with the e-commerce challenge better than developed markets in the West because retail real estate is a newer concept in Asia. The argument goes that the development of the mall in China came at the same time as the development of online shopping. Furthermore, Asia was ahead of the curve in having more F&B in malls and having that F&B offer at the heart of the development.

One retail landlord notes that U.K. and U.S. shopping centres “have the restaurants on the fringe, or in one particular corner, and I think that is killing it because people go there for the food, go there for the socialising. But if you put it at the fringe, it is not driving traffic to the mall.”

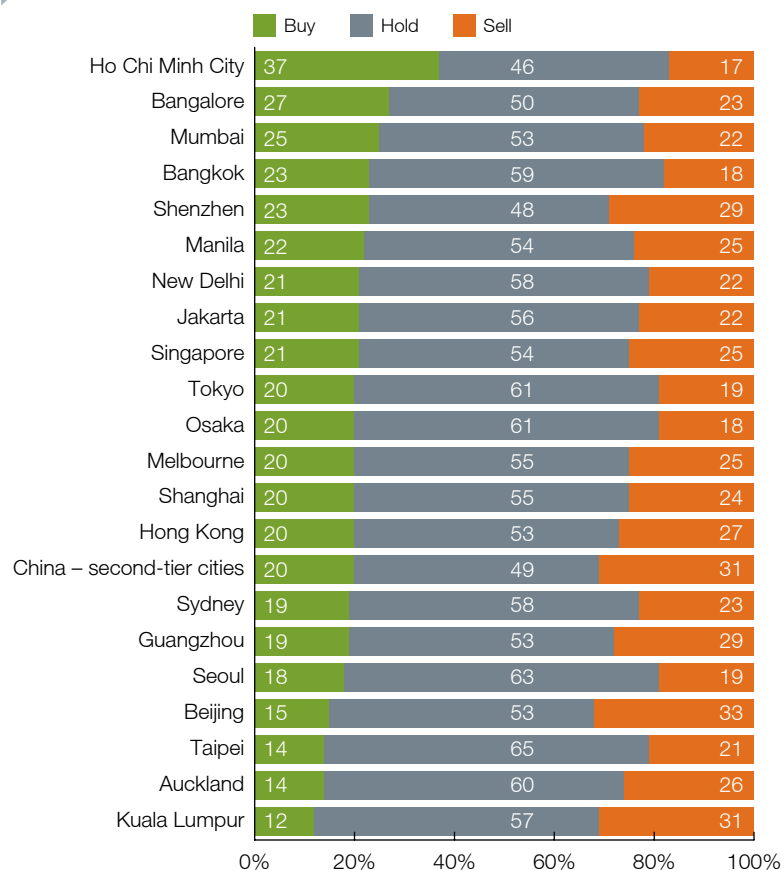
Perhaps reinforcing this viewpoint, retail in Pacific cities, which has been modelled on the U.S. mall, dropped dramatically down the buy/sell/holding rankings, with Auckland falling 13 places and Melbourne and Sydney both dropping in popularity.

Nonetheless, over the past decade, Asia has probably seen more ill-conceived retail development than any other region, although this is changing as landlords recognise the need for specialist management of retail assets. Branding and community building have become crucial to the success of a shopping centre.

The fickleness of millennial shoppers is a headache for retail developers, who have to match the drawn-out process of bringing a mall to market with ever-changing shopping habits. “Five years is a long time in retail; in fact, five months is a long time in retail. When something goes out of fashion, or something goes in fashion, we need to make sure we have the flexibility to adapt.”

**Expected best bets:** Ho Chi Minh City is once more the favoured location for investing in retail real estate, yet as in previous years it is unlikely that much cross-border capital will flow into the sector. This is perhaps just as well, as Cushman & Wakefield estimates more than 600,000 square metres of new retail space will be completed by 2020, equivalent to half the city’s existing retail supply.

**Exhibit 3-6 Retail Assets Buy/Hold/Sell Recommendations for 2019, by City**



Source: *Emerging Trends in Real Estate Asia Pacific 2019 survey.*

Bangalore and Mumbai are also favoured and large global investors have been putting capital into retail projects in these and other Indian cities. India saw huge retail supply over the past decade, much of it badly located and badly managed; investors see this as an opportunity to add value with better asset management.

Both Tokyo and Osaka are receiving some interest; not many are buyers of retail there, but the buyers outweigh the sellers. The outlook for Japanese retail looks shaky though; the delayed GST increase that is due next year is expected to undermine the retail market, which had benefitted from rising wages and tourism numbers.

**INDUSTRIAL/LOGISTICS**

Despite giving up its top spot to offices as survey respondents’ preferred sector,

logistics remains extremely popular with investors in Asia Pacific real estate. As with all sectors, respondents have become more cautious over the past year, with some buyers becoming holders.

While the services on offer may seem straightforward, the sector is dominated by a relatively small number of specialist regional and global operators able to scale up aggressively and digest big chunks of capital from global pension and sovereign investors. The ability to build relationships with national and global third-party logistics companies is as essential for success as the ability to source land and develop to the right specification.

Cap rates for modern warehousing stock have compressed dramatically over the past decade and those involved in the

sector claim they ought to move in further, with one developer stating: “Our mature Japanese warehouses are 99 per cent let and that only dropped a few percentage points in the GFC. With the income stability the sector offers, it should not trade at a discount to other sectors.”

The U.S.-China trade war could affect industrial space in China, but respondents said the main driver of the Mainland logistics market today is domestic consumption and e-commerce, which is also the case across the region.

The next move in logistics development will be away from large out-of-town distribution centres and towards smaller facilities nearer to or in the centres of cities, in order to satisfy demand for “last mile” delivery.

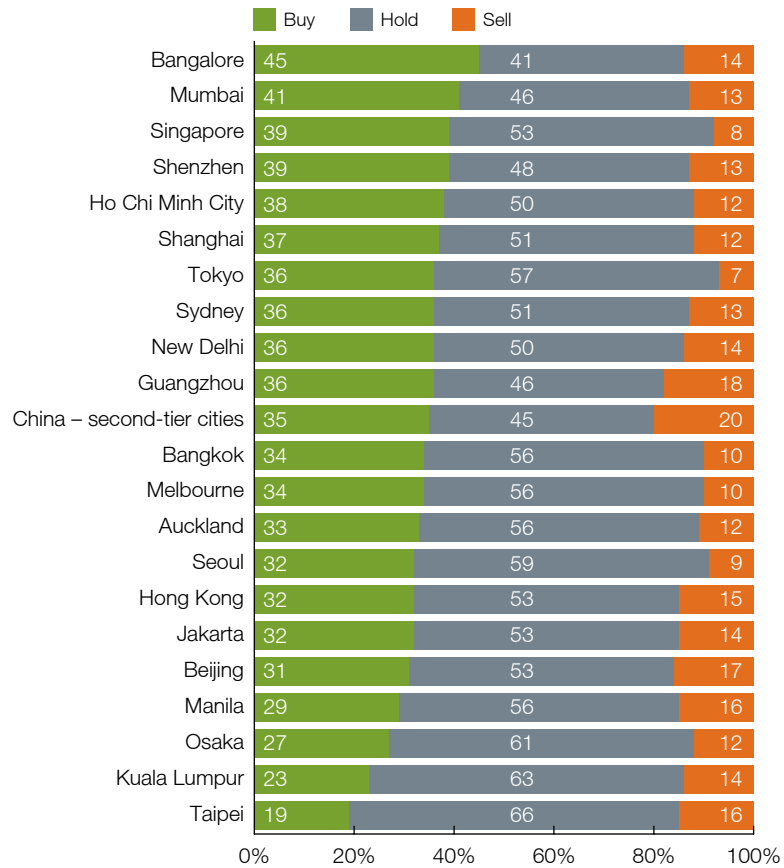
China and Japan are the largest logistics markets in the region, but the past 12 to 18 months has seen growing interest in India and in Southeast Asia, where there is minimal modern warehousing available.

Another trend is for logistics owners to provide an increasing range of services to tenants, such as machinery and technology solutions. An ostensibly simple sector is therefore rapidly gaining in sophistication and becoming more of an operating business, providing real estate as a service.

**Expected best bets:** The Indian cities of Mumbai and Bangalore shot to the top of the buy/hold/sell rankings, rated a “buy” by 41 per cent and 45 per cent of respondents respectively. India has seen substantial investment in the sector in the past year or so, following a number of legislative measures that have boosted its attractiveness. Chief of these was the national Goods & Services Tax, which replaced a bewildering array of local taxes that prevented the development of nationwide distribution networks. Nonetheless, investors in Indian warehousing will find land supply and a lack of infrastructure a headache, although the government has pledged to deal with the latter.

China’s larger cities remain amongst the top picks as—despite a decade

**Exhibit 3-7 Industrial/Distribution Assets Buy/Hold/Sell Recommendations for 2019, by City**



Source: *Emerging Trends in Real Estate Asia Pacific 2019* survey.

of development—it is fundamentally undersupplied with modern logistics space. Players in the market are either very local or large regional or global sector specialists, who can seal deals with both city governments and international 3PLs.

Ho Chi Minh City also ranks highly and is expected to benefit as manufacturers move industrial facilities out of China, due among other things to fears over the China-U.S. trade war. International capital moved into Vietnamese logistics and industrial in 2018, with private-equity players backing local developers.

Tokyo continues to be a popular choice for the sector, but contrasts with Osaka, which is digesting short-term oversupply that has led to vacancy rates of around 12 per cent, according to Savills research.

## HOTEL

Increasing tourism in both developed and developing markets is keeping the hotels sector on investors’ radar screens. Investor demand for hotels remained solid in 2018 as total investment volumes rose 17.8 per cent year-on-year to US\$11.9 billion for the 12 months ending June 2018, according to CBRE data.

The most significant driver of tourism in the Asia Pacific region remains China; its sheer size and therefore the spending power of its emerging middle class mean Chinese tourists are in demand in many nations. A number of countries, including Japan and the Philippines, are progressing the development of integrated casino resorts, where the clientele is expected to be mainly high-spending Chinese gamblers.

The United Nations World Tourism Organisation expects Asia Pacific tourist numbers to rise again in 2018, and according to CBRE, Asia Pacific hotel occupancy increased 120 bps to 71.3 per cent over the 12 months to end-June 2018. However, mature markets such as Hong Kong, Singapore, Sydney, and Tokyo saw occupancy above 80 per cent, CBRE said.

Nonetheless, a lot of investor attention is focused on developing tourism markets, seen as an opportunity to create value. One regional adviser says: “Everybody wants to be in tourism and leisure because it is seen as a way of kick-starting economies. It is a way of developing less well-developed areas because you can be in a remote area, but if you have a really nice beach or some fantastic scenery you will get tourists.”

In the first half of 2018, the biggest gains in visitor numbers came in Vietnam, which saw arrivals rise 28 per cent year-on-year to 7.8 million thanks to a combination of increased marketing and relaxation of visa rules for several countries. Thailand also saw visitor numbers grow 12.5 per cent in the same period, with most of the growth coming from China.

Japan has also seen a substantial rise in visitor numbers over the past five years and is expected to continue to see strong growth through 2020, when the Tokyo Olympics are held. Visitors to Japan are now often coming for the second or subsequent time and are now more likely to visit cities other than Tokyo and Osaka and to travel independently.

**Expected best bets:** Tokyo topped the list of preferred cities for hotels this year, although many observers consider that it is too late to get into to the hotel sector there. While the Olympics will improve all tourism numbers, the long-term growth of tourism to Tokyo is limited by the capabilities of its airports, both of which are close to capacity. On the other hand, Osaka and regional cities could still see substantial growth.

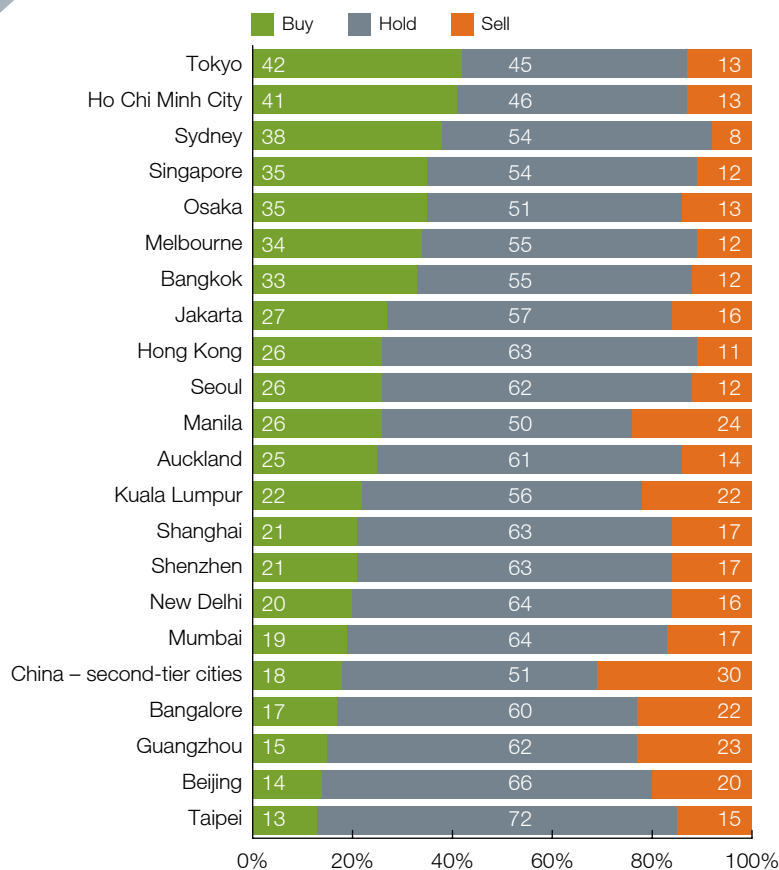
Ho Chi Minh City remains a popular choice, even though Tokyo took the top spot, and the growth in visitor numbers to Japan suggests there is underlying growth to support the city as a target for hotel investors. However, the small size of the city and the lower capital values mean that most will struggle to deploy capital there.

Singapore shot into the top five cities for hotel investment this year, but it has already seen a number of new hotels developed over the past few years, which

suggests the best time to invest in the sector there has passed.

Sydney remains undersupplied with hotels and existing assets have been taken out and converted to serve the booming office and residential sectors. It will be hard for hotel investors to compete with potential redevelopers for some time, at least in core areas of the city. However, Sydney lacks five-star and good-quality four-star hotels, so there ought to be opportunities in the future.

Exhibit 3-8 Hotel Assets Buy/Hold/Sell Recommendations for 2019, by City



Source: Emerging Trends in Real Estate Asia Pacific 2019 survey.

# Interviewees

Dougie Crichton

Richard Price

## **Actis**

Brian Chinappi

## **AD Investment Management Co. Ltd.**

Kenji Kousaka

## **ALE Property Group**

Andrew Wilkinson

## **Allianz Real Estate**

Rushabh Desai

## **AMP Capital**

Tim Nation

## **Angelo Gordon**

Jon Tanaka

## **Aqualand Australia**

John Carfi

## **ARA Trust Management (Cache) Ltd.**

Daniel Cerf

## **AXA Real Estate Investment Managers Japan KK**

Yoshihiko Hayafuji

## **Bank of America, Merrill Lynch**

Ben Boyd

## **Bank of Melbourne**

Jim Serafim

## **Blackstone**

Chris Tynan

## **Brookfield Asset Management**

Niel Thassim

## **Capbridge Investors KK**

Ken Fridley

## **CBRE**

Henry Chin

## **Charter Hall**

David Harrison

## **Colliers International**

David Faulkner

John Kenny

## **CRE REIT Advisers, Inc.**

Tsuyoshi Ito

## **CVS Lane Capital Partners**

Lee Centra

## **Daiwa House Industry Co. Ltd.**

Tetsuo Suzuki

## **Far East Organization**

Philip Ng

## **Fort Street Advisers**

Richard Hunt

## **Fukuoka Realty Co. Ltd.**

Etsuo Matsuyuki

## **GenReal Property Advisers**

Ankur Srivastava

## **Goldman Sachs Asset Management Japan**

Katsuhiko Ishikawa

## **GPT**

Matthew Faddy

Nick Harris

## **Grosvenor Asia Pacific**

Ben Cha

## **Hodes Weill**

Alfredo Lobo

## **Hon Kwok Land Investment Co. Ltd.**

James Wong

## **Hulic Co. Ltd.**

Yoshito Nishikawa

## **Infrared Capital Partners**

Stuart Jackson

Hans Kang

## **Ingenia Communities Group**

Simon Owen

## **ISPT**

Darren Shultz

## **Japan Post Bank Co. Ltd.**

Yuki Ogawa

Hiroyuki Tanaka

## **Japan REIT Advisors Co. Ltd.**

Norimasa Gaun

## **JLL**

Fergal Harris

Megan Walters

## **JPMorgan Asset Management (Japan) Ltd.**

Tetsuya Karasawa

## **Kenedix Inc.**

Hikaru Teramoto

Takahiro Uchida

## **Keppel REIT / Keppel Capital Holdings Pte. Ltd.**

Paul Tham

## **LaSalle Investment Management**

Chris Chow

Mark Gabbay

## **Lendlease**

Tarun Gupta

## **Link Asset Management Ltd.**

Eric Yau

## **Mapletree Investments Japan K.K.**

Norihiro Matsushita

## **Mitsubishi Corp. – UBS Realty Inc.**

Katsuhisa Sakai

## **Mitsubishi Estate Co. Ltd.**

Tetsuji Arimori

## **Mitsubishi Jisho Investment Advisors, Inc.**

Eriko Kato

## **Mitsubishi UFJ Trust and Banking Corporation**

Hiroyuki Seki

## **PAG Asia**

Jon-Paul Toppino

## **PAG Investment Management Ltd.**

Naoya Nakata

## **Pamfleet**

Andrew Moore

## **PGIM Real Estate**

Benett Theseira

## **Professional Property Services**

Nicholas Brooke

## **Property Council of Australia**

Ken Morrison

## **PropertyLink**

Stuart Dawes

## **Savills**

Chris Mancini

## **SCA Property Group**

Anthony Mellowes

## **Scentre Group**

Peter Allen

## **Starr International Investment Advisors (Asia)**

Alison Cooke

## **Swing Property**

Richard Johnson

## **TH Real Estate**

Chris Reilly

## **The Blackstone Group Japan KK**

Wataru Goto

## **The Net Group**

Raymond Rufino

## **Tishman Speyer**

Ryan Botjer

## **Tokyu Land Capital Management Inc.**

Yutaro Tanaka

## **Touchstone Holdings Co. Ltd.**

Fred Uruma

## **UBS**

Grant McCasker

## **Wee Hur Holdings Ltd.**

Goh Yeow Lian

## **Wing Tai Holdings Limited**

Cheng Wai Keung

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## Global Real Estate Leadership Team

### **Craig Hughes**

Global Real Estate Leader  
London, United Kingdom

### **K.K. So**

Asia Pacific Real Estate Tax Leader  
Hong Kong, China

### **Paul Walters**

Asia Pacific Real Estate Assurance Leader  
Hong Kong, China

### **Gang Chen**

China Real Estate Tax Partner

### **Jane Reilly and Josh Cardwell**

Australia Real Estate Leaders  
Sydney, Australia

### **Bhairav Dalal**

India Real Estate Tax Leader  
Mumbai, India

### **Brian Arnold**

Indonesia Real Estate Leader  
Jakarta, Indonesia

### **Jennifer Chang**

Malaysia Real Estate Leader  
Kuala Lumpur, Malaysia

### **Hiroshi Takagi and Hideo Ohta**

Japan Real Estate Leaders  
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The Urban Land Institute is a global, member-driven organisation comprising more than 42,000 real estate and urban development professionals dedicated to advancing the Institute's mission of providing leadership in the responsible use of land and creating and sustaining thriving communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 80 countries.

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Front cover photo: Sino-Ocean Taikoo Li Chengdu is a retail-led, mixed-use development around a bustling open-plan, lane-driven mall and grade-A office tower.  
Image courtesy of Swire Properties Ltd.

Page 49 image: The Interlace by OMA/Ole Scheeren.  
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- Indicates which property sectors offer opportunities and which ones to avoid.
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- Discusses which metropolitan areas offer the most and least potential.
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