For Immediate Release

Investors becoming more strategic but continuing to deploy capital in Asia Pacific

Investment opportunities still exist in markets and sectors with strong fundamentals, but strategic thinking and a more granular approach is required, say experts in recent webinar.

ASIA PACIFIC, September 12, 2022 – INVESTORS are having to "look laterally" to find opportunities for growth in the current market but can still successfully deploy capital, experts say, as ongoing uncertainty in the macroeconomic environment slows early-year momentum.

Speaking at a recent Cushman & Wakefield webinar, panelists from leading investment houses said rising interest rates and an inflationary environment had caused a 'pause' in the market as investors re-weighted their portfolios within the current conditions.

Averaging-in the way forward

Despite the slowdown, investor sentiment was leaning towards a cautious resumption of deal flow to Asia Pacific later in 2022 once global players from the United States and Europe had adjusted to the current conditions, said Regional Director, APAC Capital Markets at Cushman & Wakefield and webinar moderator Gordon Marsden.

"It is true that there are a large number of different economic circumstances ahead of us and trying to work out what that means for growth, interest rates and inflation is quite difficult right now," Marsden said.

"But our panelists took the view that if the choices at each end of the scale are either to pause, or to invest in everything right now, then neither of those decisions is smart. Instead, we need to average-in over time."

Alternatives and sub-classes providing opportunities as traditional classes slowly recover

A survey of investor sentiment taken before and during the webinar showed that alternative asset

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classes, once considered a 'hard to get into, hard to get out of' investment proposition, remained a key focus as traditional sectors continued their subdued recovery from the pandemic.

"What we are seeing is an increased granularity in sub-classes and sub-sub-classes such as data centres, cold chain, and infill and last-mile logistics as investors look for growth areas within alternative asset classes – essentially alternatives within alternatives," Marsden said.

Asked how they would split USD 1 billion across different sectors, investors voted to allocate more to logistics than to office, with a significant additional allocation to alternatives including data centres – a sector with solid tailwinds that is under-supplied – and multifamily. Despite softening yields, over 35 percent believed the logistics sector remains fundamentally undersupplied, with a further 30 percent expecting positive but slower growth within the sector.

Industrial allocation increases in Greater China

The focus on industrial and logistics was particularly evident in Greater China, where it was the largest sector by investment volume in Hong Kong SAR in H1 2022. In mainland China, industrial/logistics is currently the second-largest sector by investment volume, accounting for approximately 25 percent of the total investments in the first half of this year – up from around 10 percent in 2020 and 2021, and only 2 percent in 2019, according to Cushman & Wakefield data.

Living sector as inflation hedge

Diversification within the living sector was also evident as compressed yields forced investors to think more strategically and look beyond traditional multifamily properties for growth. In Japan, the ageing population was identified as a demographic tailwind for senior living accommodation while strong policy support prompted another investment firm to focus its attention on the childcare industry in Australia.

"The rising significance of the living sector should not be underestimated. Diversity within the sector allows for different investment strategies. Furthermore, the frequent lease renewal opportunities can act as a hedge against inflation, providing a blend of near-term inflation protection and longer-term growth opportunities," said Dr Dominic Brown, Head of Insight and Analysis, APAC at Cushman & Wakefield.

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Emerging markets
Geographically, India was ranked by just over 60 percent of respondents as their preferred emerging market (excluding mainland China) in which to invest. On a first- and second-place preferred basis, Vietnam was the emerging market of choice, taking almost 80 percent of the votes, just ahead of India's 75 percent.

Respondents were polarized in their opinions on other emerging markets, with markets featuring in first and second positions almost as frequently as in the last two positions. According to Marsden, the results again suggested a granularity of approach, where specific strategies in specific markets – for example tourism in Thailand, or data centres in Malaysia – may defy the broader market.

Flight to lower-risk strategies
As investors adjust to the higher interest rate environment Marsden said that there was an evident move away from more opportunistic strategies.

"Just over 50 percent of investors indicated that they considered the best risk/return today to be in value-add Tier 1 opportunities," he said; emerging economies placed second with just under 20 percent of the vote.

Despite the more cautious approach, Marsden expects sectors and markets in Asia Pacific with strong fundamentals will continue to attract attention from local and global investors.

"Investors who are focusing on the long-term in sectors and markets that are fundamentally under-supplied and/or have solid tailwinds are less concerned about the current volatility," he said. "They are having to search harder for opportunities, but they are still there."

The views expressed in this release originated in the Cushman & Wakefield webinar [Unlocking Strategy in a Changing Environment (webinar replay)]

A summary of the webinar is available in [Unlocking Strategy in a Changing Environment (report)]

Webinar panelists:

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