

# News Release

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## Asia Pacific real estate markets show signs of recovery

**Singapore** – Activity is returning to real estate markets in Asia-Pacific as key markets exit lockdown, according to the latest research by Knight Frank. Markets that returned to ‘relative normality’ earliest are seeing the most activity, with Mainland China, South Korea, Taiwan and New Zealand leading the way.

According to a sentiment survey of Knight Frank brokers and researchers in 18 markets, the industrial sector remains the most resilient, with 33% reporting an increase in leasing activity in May, compared to only 13% in March. For corporate occupiers, large-scale expansion and relocations remain on hold.

Pent-up demand, accommodative monetary policies and lower asking prices have bolstered the residential sector which is recovering at a faster pace than the commercial sector in the region, according to the report. Capital markets investment volumes were down 52% year-on-year in the first five months of 2020, though sale and leasebacks have gathered pace as owner-occupiers look to their portfolios as a source of capital.

“Markets in Asia-Pacific which saw an earlier onset of the Covid-19 pandemic are setting the blueprint for the reopening of real estate markets globally. Residential markets are generally recovering more quickly than commercial sectors, although industrial, e-commerce and prime office is holding up compared to retail and hospitality assets which are encountering headwinds,” said **Kevin Coppel, managing director, Asia Pacific**.

“The pandemic has accelerated real estate trends already in motion over the last few years, including offices as hubs of creativity, collaboration and innovation rather than centres for administration and retail moving toward consumer services and experiences. For commercial real estate investors, the flight to quality and core assets is expected to gather pace in the year ahead,” said **Coppel**.

### *Sector performance in May*

#### **Office**

- Leasing activity fell in half of the 18 markets tracked in May
- Asking rents remain relatively stable across the Asia-Pacific region
- Half of the markets in the Asia-Pacific remain in favour of tenants

Commenting on the office market, **Tim Armstrong, head of occupier services & commercial agency, Asia Pacific**, said: “With most APAC markets in the easing phase of their lockdowns, there is room for cautious optimism that transaction activity will start to pick up soon. However, there are still obstacles to manage in the weeks ahead. For example, one thing we are watching is the amount of sub-lease space and surrender space that is coming onto the market, which has the ability to increase supply and put downward pressure on rents.”

### **Industrial**

- Industrial leasing activity has picked up significantly across the region
- Strong demand has shifted market conditions into a more balanced state
- Medical and pharmaceutical manufacturing demand to drive further market growth

“The industrial sectors across Asia-Pacific continues to be a bright spot amidst Covid-19, with the demand growth being driven from e-commerce, medical, and pharmaceutical manufacturing,” according to **Armstrong**.

### **Capital Markets**

- Commercial transaction volumes down 52% year-on-year in first five months of the year
- Sellers are starting to lower their asset pricing
- Yields across the region expected to expand in 2020

With corporate balance sheets under pressure, sale and leasebacks present an attractive solution to ease capital stress for the vendor while representing a lower risk investment opportunity, the report states.

“As more companies and occupiers look to release capital so they can direct investments back into their core businesses, we expect to see more sale and leaseback opportunities come to the market,” according to **Neil Brookes, head of capital markets, Asia Pacific**.

A broker sentiment survey (pg.12) found that since March, more sellers are lowering their asset pricing, with half of Knight Frank capital markets brokers reporting a decline in asset pricing in May compared to one third in March. However, the demand for well-let core assets remains strong.

“Despite current circumstances, there is ample capital seeking medium to long-term real estate investment opportunities in Asia Pacific, particularly in core, safe-haven markets like Australia and Singapore. Accommodative monetary policies will ensure that the best-located assets, with more robust tenant profiles, will continue to be in demand,” added **Brookes**.

### **Residential**

- Easing lockdowns have started to bring life back to the market
- Asking prices have generally stayed stable given ample liquidity and healthy balance sheets
- Certain luxury buyers are starting to return to the market

“With interest rates remaining low for the foreseeable future and further easing of lockdowns by governments in the Asia-Pacific region, we anticipate residential markets to record a slow pace of recovery during the second half of this year,” observed **Victoria Garret, head of residential, Asia Pacific**.

“Despite current headwinds, our teams are forecasting a return to positive price growth in 2021 once the virus is contained. The volatility of equity markets is already prompting some high-net-worth-individuals to rebalance their investment portfolios, giving greater weight to property assets. Prime residential markets in the region could benefit from this shift,

remaining relatively more resilient compared to other asset classes in the face of a worldwide pandemic," **Garrett** concluded.

### **Ends**

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### **Notes to Editors**

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