News Release

For Immediate Release

APAC commercial property transactions fall 14% in Q2, activity may ramp up as investors deploy capital in Q3

Singapore – Commercial transaction volumes in Asia-Pacific fell 41%[1] year-on-year to US$55bn in the first six months of 2020, according to analysis by Knight Frank's Asia-Pacific research team. In Q2, transactions were down 14% compared to Q1 across the region.

"The physical restrictions on movement and economic uncertainty has had a material impact on capital markets in the first half of 2020," according to **Neil Brookes, Head of Capital Markets, Asia-Pacific**. "Deal activity has been sporadic at best as investors adopted a wait-and-see approach in the first half of this year, with equity-based investors in particular seeking a discount before entering the market."

"However, as economic activity resumes in some markets in the region, investors are now exploring options to deploy their capital. Even under challenging circumstances, there is ample capital seeking medium to long-term investment opportunities in the region, particularly in core, safe-haven markets," **Brookes** added.

Singapore

In Singapore, domestic commercial transaction volumes fell 87% year-on-year in 1H20 to US$0.55bn. However, cross-border transactions were less affected by the pandemic, with US$7bn transacted to overseas investors - just 12% lower than for the same period last year. For outbound Singaporean capital, Australia remains a key market: cross-border transaction volumes from Singapore were up 72% year-on-year in 1H20, though volumes remain low at US$1.39bn.

"Singaporean government-linked companies have remained active investing in Australia this year, executing their long-term strategies of moving into core logistics and office assets," observed **Brookes**. "Accommodative monetary policies will ensure that institutional-grade assets with strong tenant covenants and long-term leases will continue to be in demand."

Daniel Ding, Head of Capital Markets for Land & Building, International Real Estate & Industrial, Knight Frank Singapore, shared, "With the amount of dry powder available, what most investors are waiting for is for the level of uncertainty to ebb before deploying. The amount of interest in overseas gateway cities like Tokyo, London and Sydney could mean cross border transactions can be expected to pick up once international business travel is reinstated."

Hong Kong

In Hong Kong, outbound capital investing into commercial assets fell 66% year-on-year in 1H20 to US$3.1bn. However, in Q2 alone, transaction volumes were up 48% quarter-on-quarter compared to the first three months of this year, suggesting a strong appetite for overseas assets.

---

[1] Based on data compiled from Real Capital Analytics on 6 July 2020

"Despite the globalisation of COVID-19, we have seen Hong Kong outbound capital continue to explore real estate investment opportunities, with London and Eastern seaboard Capitals in Australia continuing to be the most popular locations. Hong Kong investors continue to show a keen interest in diversifying their portfolios overseas. Once travel restrictions lift, we expect that Hong Kong outbound investment will increase." according to **Paul Hart**, Executive Director, Head of Commercial, Greater China.

Emerging trends

Corporates adopt sale & leaseback

According to **Brookes**, "Companies, institutions and governments are increasingly selling real estate assets and leasing them back, as a way of shoring up their balance sheets in the face of the economic volatility caused by the coronavirus. Enquiries have spiked from companies that own their corporate real estate across many sectors, including automotive, electronics, media, retail and technology."

Private capital steps up

Knight Frank analysis reveals that Asia-Pacific focused private equity funds had an estimated US$38bn of capital ready to deploy in Asia-Pacific as at December 2019, well above the US$5bn that was raised in 2007 and 2008 before the Global Financial Crisis. For ultra-high-net-worth individuals and family offices in the region, investment into commercial properties rose by 69%[2] in the period from 2017 to 2019, compared to the three years prior.

Brookes commented, "Many buyers are waiting for distressed opportunities to arise, expected later in the year as the economic impact of the virus hits home. While some vendors are offering discounted pricing on assets, this varies significantly depending on sector, grade and location."

Opportunities in prime industrial

Certain property sectors have maintained deal momentum across the region. The industrial sector recorded a 11% drop in transaction volumes year-on-year in the last quarter, compared to a drop of 44% across all other sectors. "Industrial is most insulated as investors are keen to deploy capital into logistics facilities and data centers that have increased in importance during this period," said **Brookes**.

Asian REITs remain globally competitive

Singapore REITs have witnessed a drop in share prices of around 7% year-to-date, compared to their counterparts which saw a sharper drop of around 34% in Europe and 25% for UK-listed REITs. "This puts them on a competitive advantage, with Singapore-based groups acquiring assets in Australia, Japan and the UK recently," **Brookes** observed.

Ends

For further information, please contact:
danielle.yong@asia.knightfrank.com
+65 9128 1477

[2] Based on data compiled from Real Capital Analytics on 4 March 2020