EXCESS LIQUIDITY IS SHAPING INVESTMENT FLOWS IN ASIAN REAL ESTATE
SAYS *EMERGING TRENDS IN REAL ESTATE® ASIA PACIFIC 2018*
Survey from ULI, PwC Names Sydney and Melbourne as
Top Real Estate Investment Markets in APAC

HONG KONG (November 20, 2017) – Of all the influences shaping investment flows in Asian real estate it is excess liquidity that is having the biggest effect, according to *Emerging Trends in Real Estate® Asia Pacific 2018*, a real estate forecast jointly published by the Urban Land Institute (ULI) and PwC. Local sovereign and institutional funds bearing stockpiles of accumulated cash are buying property, both regionally and globally, creating competition for assets that is changing investment patterns in fundamental and often unexpected ways.

Changes include the realignment of traditional risk/return classifications, changing expectations over returns, the convergence of core and opportunistic investors on the value-add space, and investor migration into alternative asset classes and new markets that in the past were of little interest, including data centers, affordable housing projects, build-to-rent (or co-living) facilities and student and senior housing.

Other areas of focus include a boom in co-working facilities, concerns about how the Asian retail sector will weather e-commerce challenges, an ongoing exodus of money from Asian institutions into international markets.

This year's investment prospect rankings reflect the growing divergence between investment strategies as buyers pursue either growth- or yield-driven approaches. Cities that are the biggest gainers in this year's survey are those where investors seek to maximize returns via rental growth (Sydney and Melbourne), those that look for returns that are safe and low, but still higher than yields on sovereign bonds (Tokyo), or those that tap long-term secular growth in emerging markets (Vietnam). In addition, there was a resurgence in investor sentiment toward Singapore, which appears to have found a market bottom in both the office and residential sectors. In terms of prospects for individual property types, logistics assets take pole position this year, with investors showing renewed confidence in a story of long-term structural undersupply.

"The survey results for this year's *Emerging Trends in Real Estate® Asia Pacific* report show that there is an increasing divergence between investors adopting growth-driven strategies and those happy with yields that are low but still higher than sovereign bonds," said Dr. Seek Ngee Huat, Chairman, ULI Asia Pacific and Chairman, Global Logistic Properties. "Sydney and Melbourne appeared at the top of this year's rankings as they combine the appeal of a stable investment environment with a combination of relatively good current yields and the prospect of strong rental growth going forward."

"The unprecedented growth in capital outflows from Asian markets in 2017 almost double the outflow witnessed during the same period in 2016, with US$45.2 billion in outbound capital directed into global property assets," said KK So, Asia Pacific Real Estate Tax Leader, PwC. "While the extent of the impact of the progressive tightening of Chinese capital controls in August 20017 remains unclear, the consensus is that overall outflows may not see a meaningful decline given firstly that sovereign and state investors will probably be unaffected and secondly that there is already a substantial body of Chinese-owned capital held outside mainland China that is not subject to the rules."

Emerging Trends, which is being released at a series of events across Asia over the next several weeks, provides an outlook on Asia Pacific real estate investment and development trends, real estate finance and capital markets, and trends by property sector and metropolitan area. It is based on the opinions of more than 600 real estate professionals, including investors, developers, property company representatives, lenders, brokers and consultants.

The top five markets for investment and development in 2018:

- **Sydney (first in investment, first in development)** – Sydney's appeal lies in the fact that it is a major city in a mature economy combining a reasonably deep and liquid market of core assets with a better-than-average yield.
- **Melbourne (second in investment, third in development)** – Melbourne's appeal is similar to Sydney's — a mature market, high-quality core assets, and relatively good yields by Asian standards.
- **Singapore (third in investment, sixth in development) –** After two years of declining rents caused by a sluggish economy and a glut of supply, the promise of a market bottom in Singapore's office market has caused its ranking to soar from next-to-market bottom last year to third in this year's table.
- **Shanghai (fourth in investment, fourth in development)** – Shanghai is seeing an increase in transactions driven partly by surging demand from domestic buyers who are unable to export capital due to a regulatory crackdown, and partly by foreign core funds flush with new capital they need to deploy.
- **Ho Chi Minh City (fifth in investment, second in development)** – With an economic trajectory thought to be similar to an early-day China, Vietnam is seeing large regional developers and an increasing number of private equity funds betting it will offer up a repeat of the Mainland China experience in terms of property price inflation.

Other top trends from the *Emerging Trends* survey include:

- **A stronger showing by Tokyo.** Declining prospects for rental growth accounted for last year's decline in the rankings for what had previously been a top performer. While these concerns continue, Japan has become a destination for yield investors due to the healthy spread between current yields and the country's super-low sovereign bond prices.

Leading buy/hold/sell ratings for the various asset classes are as follows:

- **Office**—buy Ho Chi Minh City, sell Taipei.
- **Residential**—buy Ho Chi Minh City, sell Seoul.
- **Retail**—buy Ho Chi Minh City, sell Taipei.
- **Industrial/distribution**—buy Shenzhen, sell Taipei.

The full report is available on: http://bit.ly/2zWdy7c

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