# ULI Asia Pacific Thought Leadership Webinar Series: The Latest Capital Flows and Trends in Asia Real Estate Markets with DLA Piper

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DLA PIPER

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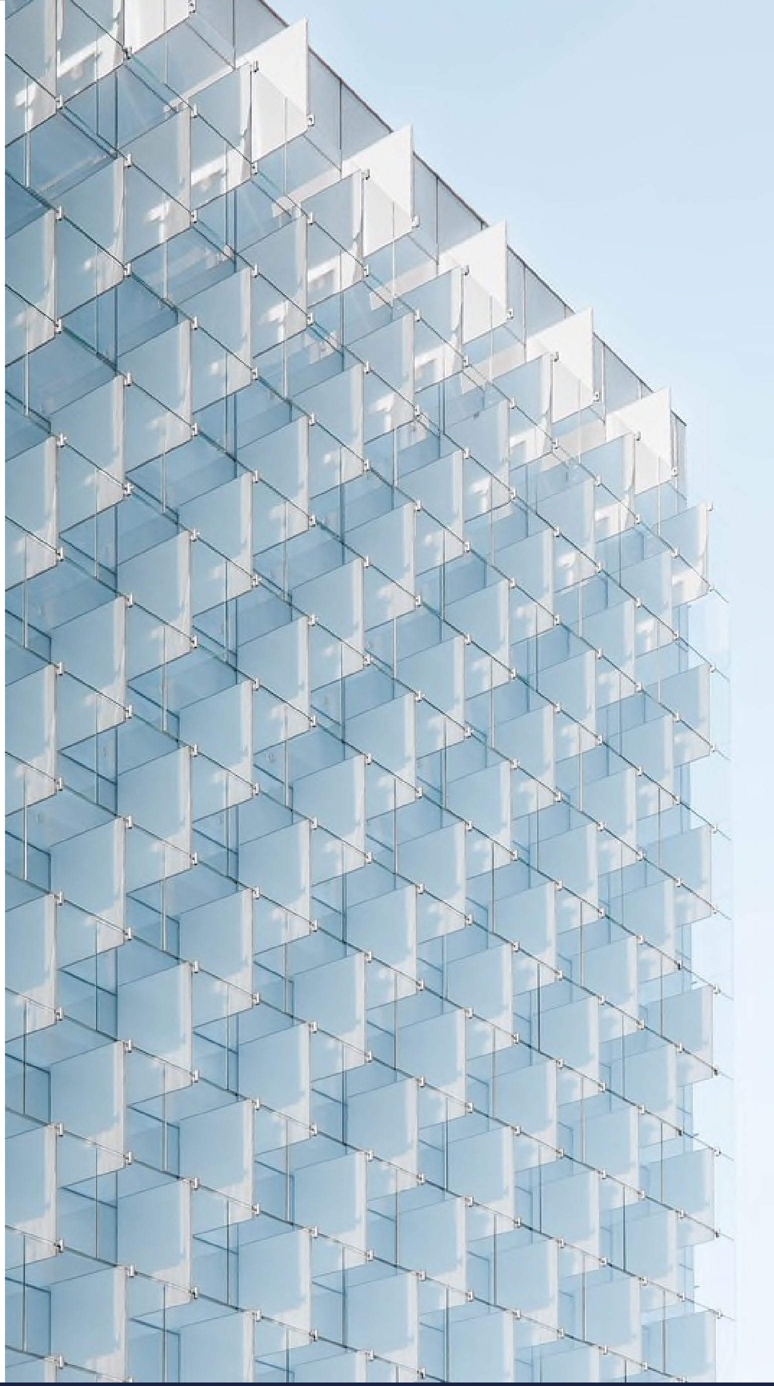
# Introduction

## Overview of the Drivers of Trends

- Sheer weight of Capital
  - Robust economic growth
  - Influx of capital
  - GFC
- Where in the cycle
- Political + economic uncertainty
- US/China trade conflict
- Fundamentals are still robust
- Cost of borrowing
  - Still very low
  - Is it on the up trend
- Cash is cheap / Cash flow is expensive
- Search for higher return v Appetite for risk
- Very strong competition
- Impact on Technology – shared workspace
- Preference for transparent markets
- Rule of Law markets



# Winning Investment in Asia

- Singapore
- Tokyo
- Emerging countries
  - Vietnam
  - India
- Australia
  - Sydney
  - Melbourne
- Seoul
- China
  - Greater Bay Area
- Hong Kong

# Winning Sectors - Trends

**Office**

- Consistent demand
- Technology enabled
- Flexible space
- Tenant led
- Smart use of space
- Operating model being scrutinised
- Build to core / value add strategy to achieve the return

**Logistics**

- Have overperformed
- Technology enabled to improve supply chain and operational efficiency
- Demand for urban logistics space
- Still under supplied

**Co-living / co-working**

- Obvious appeal in an ultra high cost residential environment

**Retail**

- Maintain physical presence
- Enhanced service offerings
- Need to incorporate sustainable features

## Singapore

- 2017 rated 21st now top spot
- All time low vacancies for offices a glut absorbed
- Foreign capital
- Benefit from the situation in Hong Kong
- 62% surge in deals since the HK situation

## Tokyo

- Very low interest rate
- Best returns
- Ease of transaction
  - Title
  - Transparency
- No currency issue or repatriation controls
- Tax efficient structure
- Difficulty in sourcing
- Strong local competition

### Hidden opportunities

- Technology enabled e-commerce modernization
- Ahead in relation to strategies for aging demographics

## Vietnam

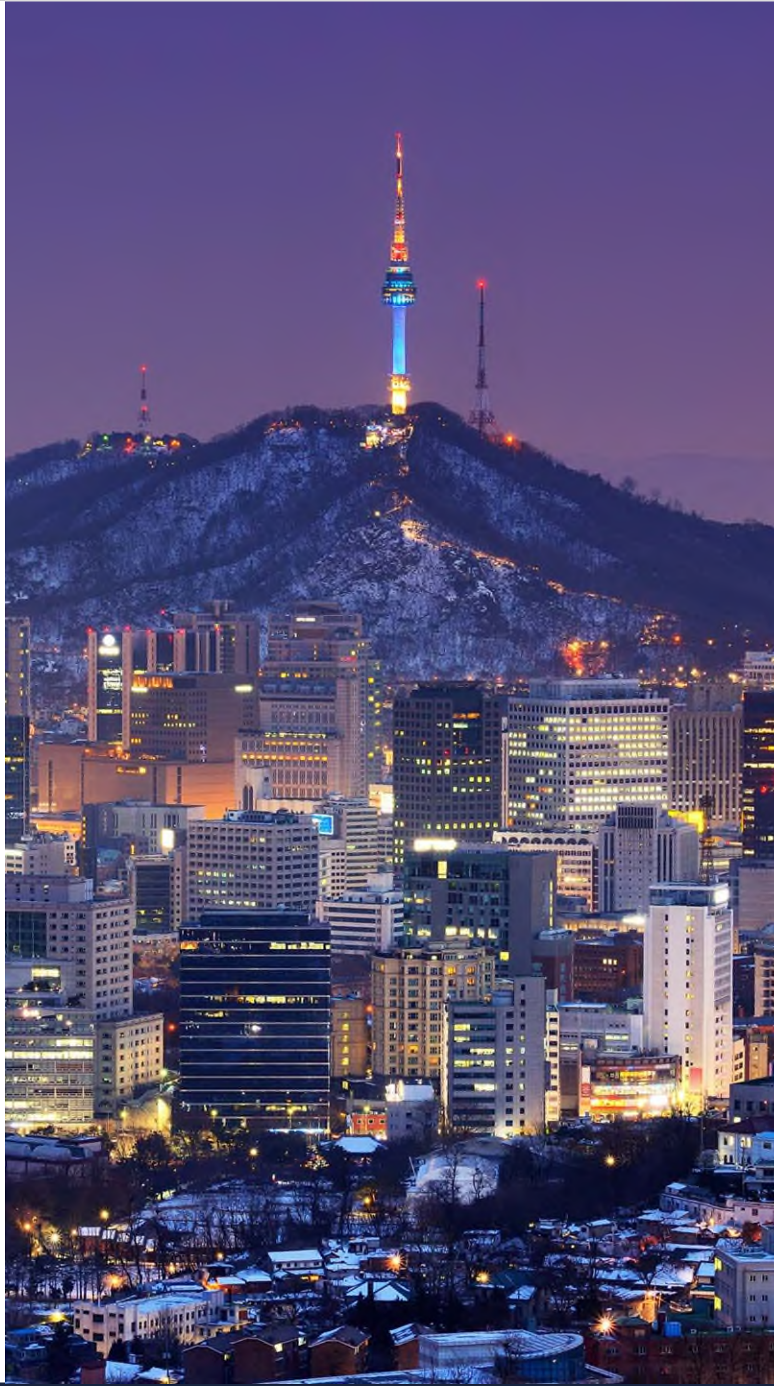
- Alternative to China
- GDP growth target: 6.6% - 6.8%
- Low unemployment – 2.16%
- Demand a cross all asset classes
  - Mid end residential
  - Flexible workspace
  - Logistics
  - Hotels

## Seoul

- Most liquid city
- Commercial property is robust
- 2 types of capital

  a) Insurance companies
  - Constrained by regulators
  - Safe capital
  - Prefer real estate debt

  b) Mutual / Pension Funds
  - Can go up the risk curve



## Sydney

- Long time favourite
- Continues to deliver
- Liquid, stable, high return markets
- Low vacancies
- Depressed A$ adds to appeal

## Melbourne

- Popular for same reason
- Cheaper than Sydney

## China

- Shanghai + Beijing remains strong
- Domestic capital
  - Shanghai – Active
  - Beijing – Strong
- Logistics a winner
- Impact of the trade war
  - Manufacturing and trade affected
  - Office will soften
  - Retail rents stay flat

### Greater Bay Area

- Grade A offices in Shenzhen expected to double from 7M $m^2$ to 14M $m^2$ in the next 5 years
- Shenzhen
  - High tech advanced manufacturing, Fintech
- Tencent, Ping An, China Merchants

## Hong Kong

- Commercial Property deals fell by 1/3 from July to September this year
  - Third quarter shows lowest deal volume since 2017
  - Retail suffers the most
  - 66% drop in hotel occupancy
  - Co-living propping the H&L sector a little
  - Domestic investors
    - Family office, developers, HNW may still be confident of the city’s ability to recover

# Conclusion

- Asia must be part of any investment strategy for diversity and growth
- Low interest rate to remain
- Search for value and return
- Not at the end of the cycle
- Trade war may still linger but will cause uncertainty
- Politics do impact
- Embrace technological disruptions and convert to opportunities

# Contact

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# Thank you