

Asia-Pacific Tomorrow

Part 1

The Horizon report covers real estate trends in the Asia-Pacific region, including growth prospects in residential, office, logistics, capital markets, and living sectors.

knightfrank.com/apac-horizon



Horizon: Asia-Pacific Tomorrow report discusses the major themes influencing the real estate markets in the region. The report also provides an outlook on the year 2024, highlighting some of the challenges that are expected to arise and, more importantly, some of the opportunities available across different sectors such as residential, office, logistics, capital markets, and living sectors.

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Outlook 2024

Based on our research, these are the challenges and opportunities for 2024



ECONOMY

Challenges: A cautious global outlook with significant downside risks, and the debt-laden property sector in the Chinese mainland remains a wildcard for the region.

Opportunities: Growth acceleration in 2024 will be driven by Southeast Asia's resilience and potential growth upgrades due to Chinese government policies.



RESIDENTIAL

Challenges: The slower-than-expected rebound of the Chinese economy affects market sentiment in the Chinese mainland and Hong Kong, where government efforts to boost demand have yet to offset the supply-demand imbalance.

Opportunities: Benefiting from demographic tailwinds, the residential market is poised for growth as a burgeoning urban population and a robust economic climate create a steady demand for housing.



OFFICE

Challenges: The shift of occupiers to ESG-compliant buildings, will potentially lead to the obsolescence of ageing office stock. Chinese mainland, India, Ho Chi Minh City, and Bangkok face mounting supply, causing downward rent pressure and higher vacancy rates due to soft market sentiments.

Opportunities: The opportunity lies in ESG-compliant office spaces, particularly in newer, well-equipped buildings, which attract top talent and align with sustainability trends.



LOGISTICS

Challenges: High inflation and interest rates are curbing spending and growth, impacting trade. This, combined with the normalisation of the e-commerce market, poses challenges to logistics occupier markets.

Opportunities: Supply chain reshuffling and "friend-shoring" with an increased supply chain diversification, and nearshoring trends moving production closer to Southeast Asia and India, mitigating disruption risks.



CAPITAL MARKETS

Challenges: A decline in transaction volume with high financing costs, global economic uncertainty, the mismatch between seller and buyer price expectations, and slow repricing are affecting sentiments.

Opportunities: The living sectors present an opportunity for investors due to their resilience and defensive characteristics influenced by demographic shifts, evolving lifestyles, and technological advancements.

Asia-Pacific Real Estate Riding the Wave

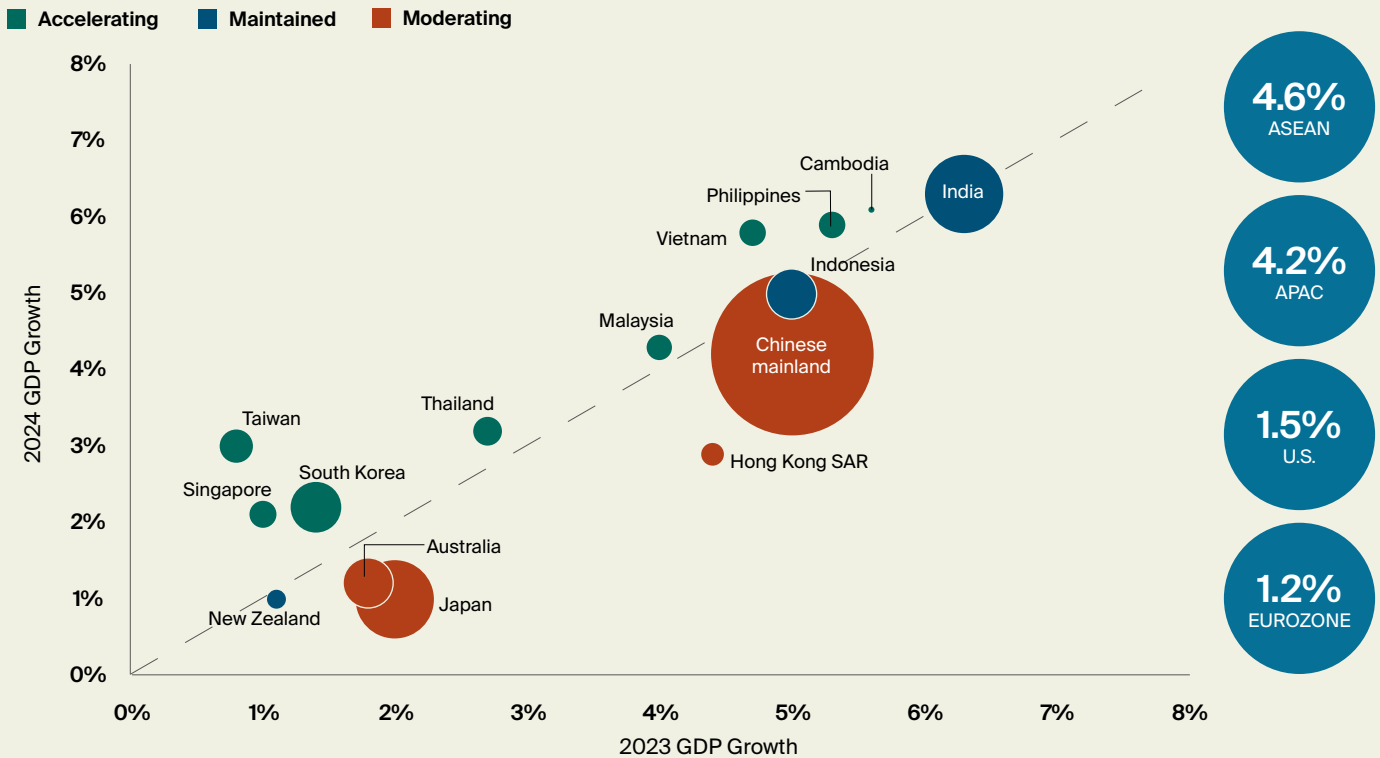


AN UNDERWHELMING 2023

After a challenging 2022, there was much hope for a better 2023. The year started propitiously with the Chinese mainland abandoning its zero-Covid policies. However, this economic momentum was short-lived, with challenges stemming from troubles in the property sector. Additionally, 2023 underscored the significant strains associated with a rapid rate hike cycle, resulting in multiple bank failures in the US and the takeover of Credit Suisse.

On a global scale, the recovery from the pandemic remained rocky, unsettled by the prolonged hiking cycle initiated by the Federal Reserve (Fed), and further complicated by the emergence of geopolitical conflicts. However, there were still some positives. Odds of a soft landing in the US have increased, while growth in the Asia-Pacific region quickened to 4.6% in 2023, albeit from a low base.

Figure 1: APAC Leads 2024 GDP Projections (Territories)



Note: compared to 2023; bubble dimension indicates size of economy
Source: IMF WEO Oct 2023

SUSTAINED RESILIENCE IN 2024

Despite a cautious outlook for the global economy with prominent downside risks, growth in the region's economies is still expected to accelerate in 2024. Forecasts from the International Monetary Fund's World Economic Outlook reaffirm Asia-Pacific (APAC)'s position as the fastest-growing region in the world.

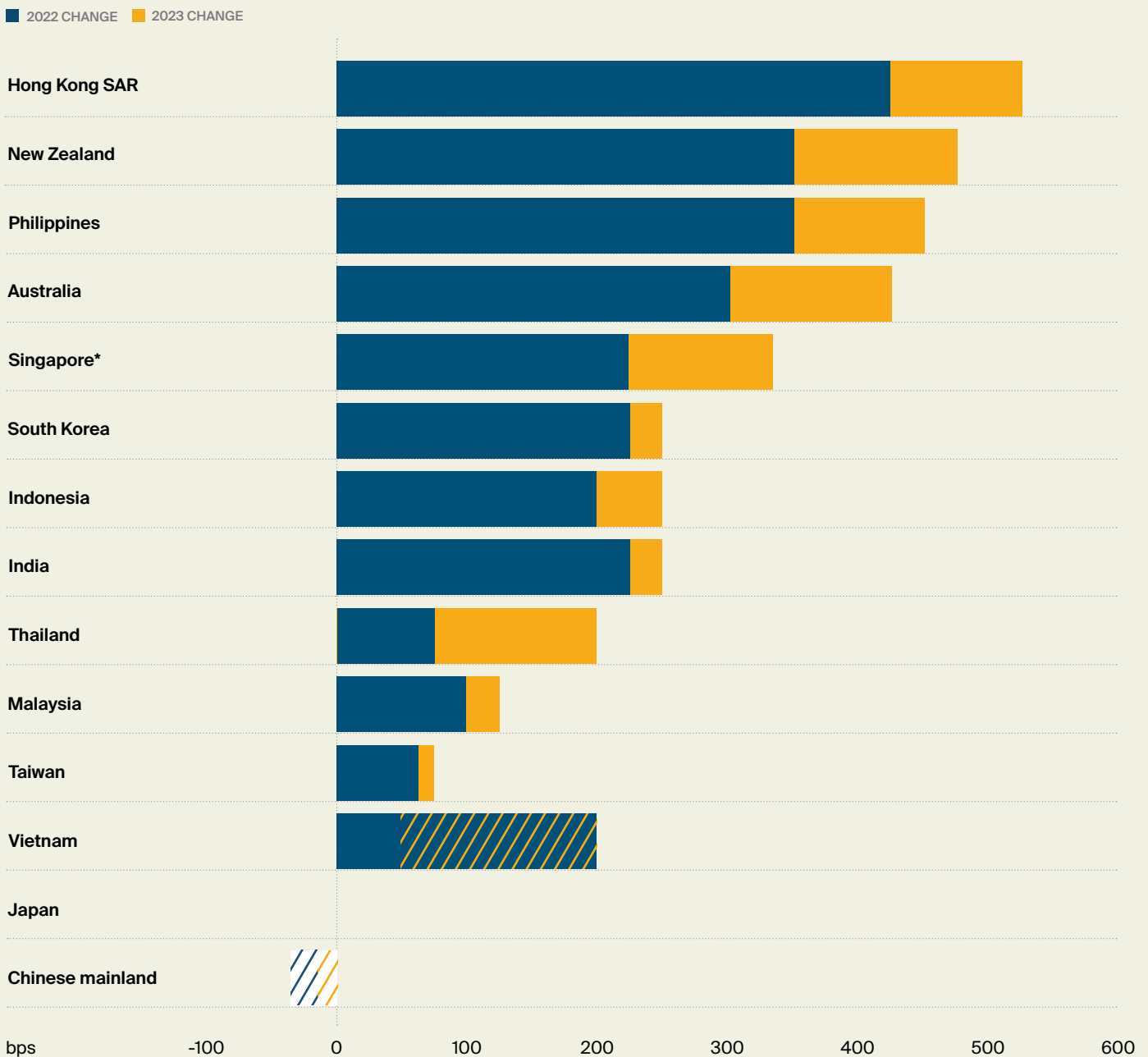
The synchronised monetary tightening cycle that took off in

2022 slowed in 2023. While the appreciating greenback compelled several central banks in the region to raise interest rates in the final quarter of 2023, overall, central banks in the region are expected to be less hawkish in 2024.

Growth across over two-thirds of the region's major economies is expected to remain stable or accelerate, powered by a resilient Southeast Asia (SEA). However,

the region's expansion will still underperform 2023 levels, weighed down by flagging momentum in the Chinese mainland. Evidently, the country remains a wildcard for the region. With the Chinese government turning more accommodative amid a rollout of policies to kickstart growth, any pickup in economic momentum will undoubtedly lead to forecast upgrades for the region.

Figure 2: End of Hiking Cycle (Territories)



Note: Shaded bars indicate decrease

*Singapore Overnight Rate Average
Source: Macrobond, Knight Frank Research (as of 14 Nov 2023)

REVISITING STRUCTURAL THEMES IN THE ASIA-PACIFIC REGION

With markets adapting to the higher-for-longer interest rate environment, investors will re-align investment activity with asset and property market fundamentals, recognising that long-term income visibility is essential for sustaining returns and navigating financing pressures. This will cast a spotlight on the region's secular trends.

Asia-Pacific's long-term economic and demographic fundamentals remain intact. In most of the crucial drivers that power real estate fundamentals, the statistics remain heavily tilted towards Asia-Pacific. We identify five megatrends that will continue to propel the region's real estate markets, that are key to capturing its long-term growth dynamics.



KEVIN COPPEL
Managing Director,
Asia-Pacific

“With favourable demographics, improvements in infrastructure, on-going investments in technology and its status as an economic powerhouse, the Asia-Pacific region offers immense potential across various geographies and asset classes. The dynamism of the Asia-Pacific real estate market, coupled with these powerful structural tailwinds, makes this an opportune moment to embrace its potential.”

1

CROSSING THE DIVIDE

According to World Data Lab, over half of the region will be middle class sometime in 2024. Among the 113 million that will join the ranks of the global middle class, over 80% will be in Asia. It marks a watershed moment, in which, for the first time, less than half of the region will be below the poverty line (Figure 3).

2

URBAN TRANSFORMATION

The region's demographic challenges are well-known. A declining number of marriages and the resultant fall in birth rates – a consequence of rapid economic progress – will see population growth slow through the decades ahead. However, its urban population will continue to grow, fuelled by the ongoing trend of rural-to-urban migration (Figure 4).

3

HIGHEST CONCENTRATION OF URBAN POPULATION

Asia-Pacific already is home to the majority of the world's urban residents. By the end of the decade, the region's cities are expected to increase by close to 300 million (Figure 5).

4

WORLD'S LARGEST WORKING-AGE COHORT

Paired with conducive policies, the young, fast-growing labour pools in South Asia and most parts of Southeast Asia are expected to fuel the region's competitive advantage continually (Figure 6).

5

MAGNET FOR FOREIGN INVESTMENTS

Foreign direct investment (FDI) inflows from UNCTAD show a tectonic shift in investments towards Asia-Pacific following the pandemic. While inward FDI fell by 12.4% globally in 2022, those into the region have bucked the trend to rise by close to 8%. The region now accounts for 55% of global inward FDI in 2022 (Figure 7).

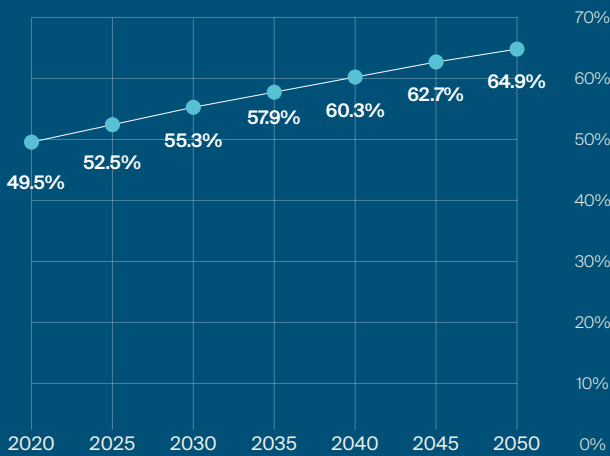
Figure 3: 80% of New Middle Class Entrants in 2024 will be from Asia



¹World Data Lab

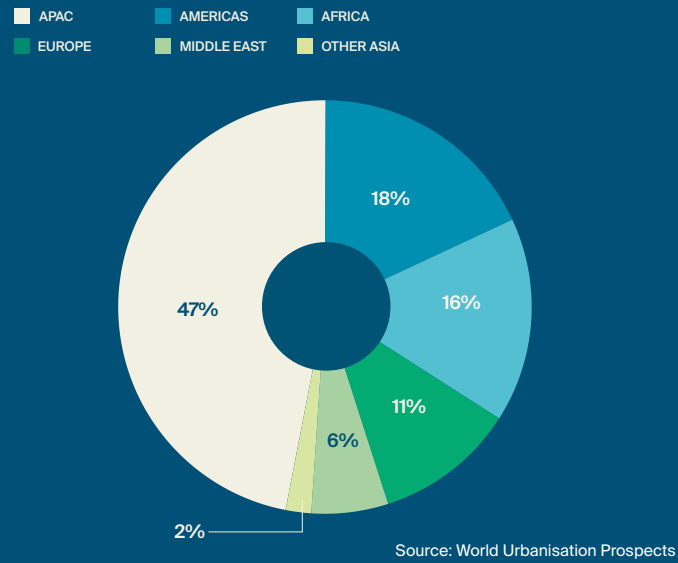
Source: Visual Capitalist

Figure 4: APAC's Sustained Urbanisation Trend



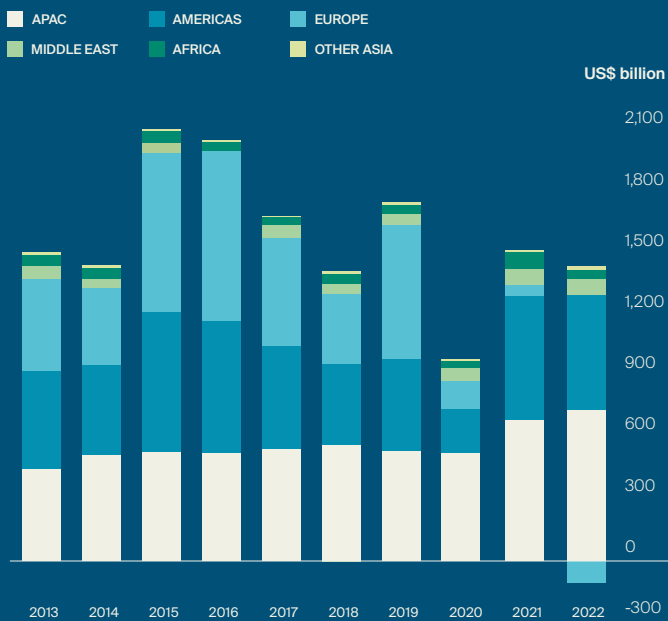
Source: World Urbanisation Prospects

Figure 5: Half of the World's Urban Dwellers



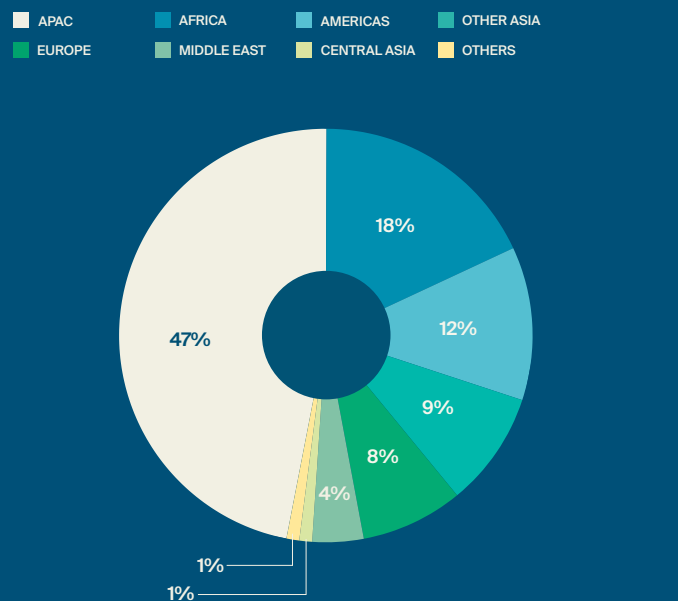
Source: World Urbanisation Prospects

Figure 7: FDI Coming into the APAC Region



Source: United Nations Conference on Trade and Development (UNCTAD)

Figure 6: Over Half of the World's Workforce² will be in APAC in 2030



²Defined as population aged 15-64

Source: UN Population Division



RESIDENTIAL SECTOR

Benefitting from demographic tailwinds

According to Euromonitor International, by 2030, some 33 megacities, including 19 in Asia-Pacific, will hold more than 10 million people each. Given a booming economic powerhouse, highly favourable demographics (as shown in Figures 5 and 6), and rising urbanisation rates (Figure 4), residential market in the Asia-Pacific region will continue to thrive in the coming decade.

Nevertheless, the short-term landscape is marked by price volatility. Following interest rate hikes, home sales reversed from the pandemic-era boom, resulting in pockets of home price corrections. Caution continues to prevail in the higher-for-longer interest rate environment, but limited housing supply and robust household formation are expected to prevent property prices from further slides across the region.

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PRICE CORRECTION SIGNIFICANTLY Milder than Anticipated

As accurately predicted at the start of 2023, the magnitude of the price correction is expected to be much smaller compared to previous crises. Prime Asia-Pacific housing prices experienced only a slight correction of 0.5% year-on-year (YoY) in 2023. The market's resilience reflects ongoing pent-up housing demand and a swift recovery when interest rate hikes were put on hold. It is anticipated that the region will return to mid-single-digit growth in 2024 as sentiments recover, and investor confidence is restored.

The slower-than-expected Chinese economic recovery has dampened market sentiment in the **Chinese mainland** and **Hong Kong SAR**. While both governments have eased several cooling measures, such as lowering down payments and halving stamp duties to stimulate demand, the results have yet to materialise due to supply outstripping demand. These markets have a mixed outlook but with potential value-buy opportunities.

Despite the cautious stance by both the developers and buyers, the property market in South-East Asia is expected to remain stable in 2024 (Figure 8). In **Malaysia**, most recent launches are tailored to meet the needs of owner-occupiers, while investors are cautiously assessing and strategically navigating the

market for optimal opportunities. **Manila** stands out as the most robust residential market, projecting a 5.9% growth in 2024, supported by strong employment growth in fintech and startups. In **Singapore**, investors are remaining on the sidelines after prices reached historic highs amid a subdued economic outlook. A window of opportunity exists for local high-net-worth individual (HNWI)³ buyers in the prime residential market due to curtailed foreign buyer activity. Property prices in **Bangkok** and **Jakarta** are moving sideways, influenced by concerns about economic growth and higher interest rates.

The bright spots emerged in **Australia, New Zealand, and India**. In Australia and New Zealand, immigration and limited supply have helped to reverse the sentiments arising from higher mortgage rates. Auckland and Sydney are both poised for a further 5% growth in prices in 2024.

Mumbai is expected to see a 5.5% increase in prime residential prices in 2024, driven by high demand and strong economic growth. Homebuyers are increasingly investing in India due to the favourable dynamics around the enhanced need for homeownership, stable mortgage rates and increasing property prices.

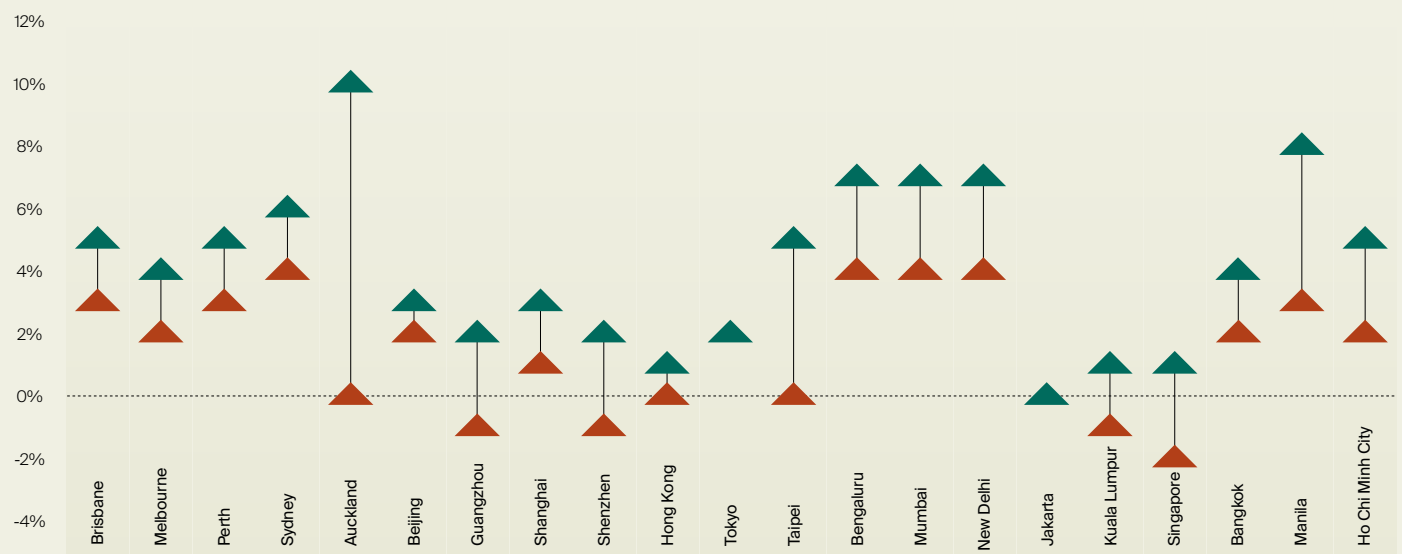
On the rental market front, the

expectation of rental increases is consistent across the board, except for the Chinese mainland market. It is still grappling with a slower economic recovery as it adapts to the endemic phase. In Hong Kong SAR, the rental leasing market is bolstered by the return of expatriates, strong demand from Chinese top talents and a surge in non-local students. In Australia, strong immigration and the ongoing chronic undersupply of new standalone homes and high-rise towers being built are likely to keep rental growth in double-digits in the near future across the majority of cities.



³ HNWI refers to someone with a net worth of US\$1 million or more, excluding their primary residence

Figure 8: APAC Prime Residential Price Forecast 2024



Source: Knight Frank Research

Factors contributing to price resilience include:

1. **The absence of economic shocks in the market.** As soon as interest rate hikes are paused, buyers who had remained on the side-lines re-entered the market. Distressed sales are not evident, and historically, low unemployment rates have bolstered wage growth.

2. The pandemic-induced “rightsizing” and immigration/relocation has further fuelled **robust rental demand**, constraining the supply of housing available for sale. Coupled with a shortage of construction labour, residential prices showed resilience, particularly in the key gateway markets.



AFFLUENT MILLENNIALS RISE OF BRANDED RESIDENCES

Our survey of over 900 Knight Frank clients worldwide reveals that more than one in three international prime buyers (39%) are willing to pay a premium for a branded residence. In Australasia and Asia, this figure rises to 45% and 43%, respectively (Figure 9). The primary motivation for acquiring a branded residence is the provision of services and amenities, followed by the property's high-yield

potential and, in third place, the management and maintenance of the building, according to Knight Frank's Branded Residences Report 2022.

CONCEPT OF LUXURY

These properties offer an array of high-end services and amenities, including concierge services, access to spa and fitness facilities, fine dining, and more. What sets branded residences apart is that buyers are not merely acquiring a home; they

are embracing an entire lifestyle that's intimately connected to the brand.

THE GROWING POPULARITY OF CO-LIVING SPACES

Co-living spaces provide a flexible and cost-effective housing solution for young professionals and students, and they're gaining popularity in major Indian cities such as **Mumbai, Delhi, and Bangalore.**

Figure 9: Branded Residences Survey Result

Q: Would you be willing to pay a premium to purchase a property in a branded residences development?
Amongst those who said **yes**:



Source: Knight Frank Research, Branded Residences 2022



RESIDENTIAL HOTSPOTS

Australia

PRIME RESIDENTIAL

Limited stock putting a floor under luxury prices

Hong Kong SAR

RESIDENTIAL LEASING

Influx of mainland Chinese under various talent attraction schemes

India

MID TO HIGH-END RESIDENTIAL

Resilient domestic economy keeps sentiments buoyant



CHRISTINE LI
Head of Research,
Asia-Pacific

“In the Asia-Pacific residential market, high interest rates and inflation haven’t deterred price resilience. Fuelled by a robust economy, growing affluence, and robust immigration, the market remains buoyant. Affordability concerns are prompting more to opt for renting, outshining property prices in many markets.”



OFFICE SECTOR

The backbone of 'office-first hybrid' strategy

As the debate between the best form of work arrangements settles down, we can conclude that overall, most occupiers in Asia-Pacific have adopted an 'office-first hybrid' strategy, which prioritises in-person work and collaboration in a traditional office setting as the standard mode of operation. In view of this new workplace equilibrium, the demand-supply dynamic in Asia-Pacific is in the best position to support occupiers.

EMPHASIS ON NEWER AND ESG-CERTIFIED BUILDINGS

The ongoing 'flight-to-quality' trend, driven by companies seeking premium facilities to attract top talent, aligns with the return to offices in the region. The emphasis on newer and ESG (Environmental, Social, Governance)-certified buildings is crucial, as firms strive to create environments that seamlessly facilitate work, reflection, and collaboration, ultimately enhancing wellness and productivity. The less mature office market in Asia-Pacific presents an advantage, allowing the development of state-of-the-art office buildings with modern facilities without the concurrent risk of obsolescence, a preference gaining traction among occupiers in the region.

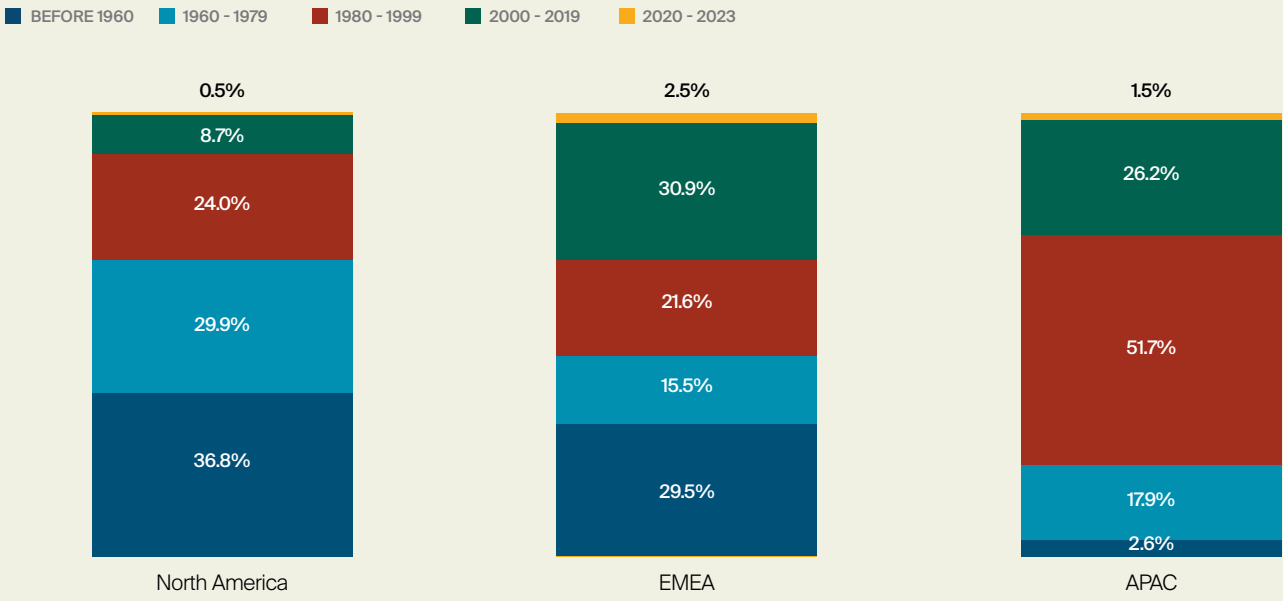
Most of these CBD (Central Business District) office buildings in Asia-Pacific are newer (Figure 10), which suggests that they are more likely integrated with the latest technologies that enhance user experiences. Obsolescence is also minimised as retrofit works are less complicated and cost-effective to implement.

From Knight Frank's (Y)OUR SPACE 2023 survey, more employers in Asia-Pacific are now aware of the future of work and acknowledged the shift in focus from the physical aspects of the workspace towards health and wellness (Figures 11 & 12).

Read more about Knight Frank's (Y)OUR SPACE 2023 Asia-Pacific insights here

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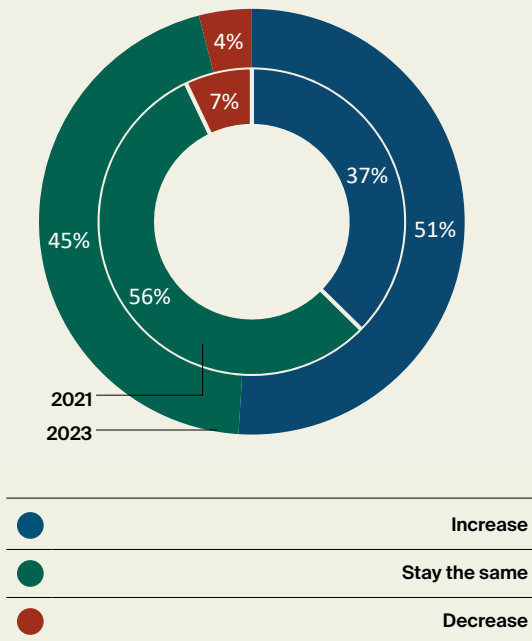
Figure 10: Proportion of CBD Office Buildings by Completion Year



Source: MSCI Real Capital Analytics, Knight Frank Research

Figure 11: 51% of respondents are expected to raise the quality of space within their portfolio, up from just 37% from two years ago.

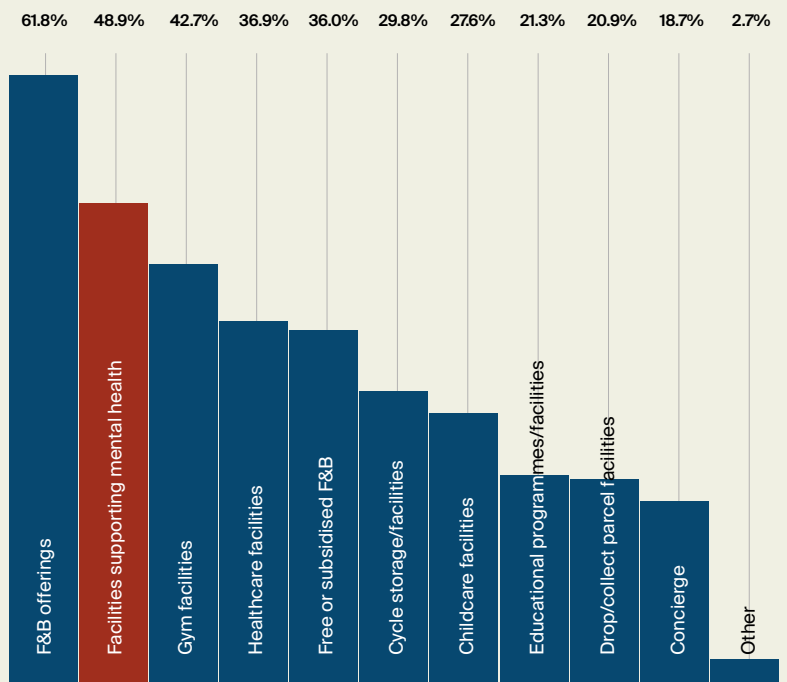
Q: Over the next three years, quality of space within our portfolio will increase, stay the same or decrease?



Note: 2021: Inner Pie; 2023: Outer Pie
Source: (Y)OUR SPACE 2021/23, APAC cut

Figure 12: Facilities supporting mental health are deemed more important than access to gym facilities.

Q: What services/ amenities do you think your staff will demand from their workplace over the next 3 years? (Select all that apply)



Source: (Y)OUR SPACE 2023, APAC Cut

Moreover, with a surge in the completion of prime office buildings in Asia-Pacific over the past few years, alongside the emphasis on ESG and pressure to comply with its regulations, many new developments were prompted to incorporate innovations that improve the 'E' and 'S' aspects during the planning stage. As such, these buildings were usually completed with ESG accreditation since the application for such endorsements could be made during construction. For existing buildings which have yet to be ESG-certified, landlords are also embracing the sustainability trend and taking the necessary steps to keep their buildings competitive.

Therefore, with the continuous 'flight to quality' and 'flight to green' trend transpiring, Asia-Pacific stands out as the best option for workplace

transformation due to their up-to-date building technologies and availability of prime, ESG-compliant spaces that cater to company requirements.

ACCESS TO A VALUABLE TALENT PIPELINE

While the 'war for talent' intensifies globally, the situation in Asia-Pacific is relieved by its availability of a working population (Figure 6). Further, with a sizeable portion of them residing in urban areas (Figure 5) and a literacy rate averaging around 94%, the region boasts a valuable talent pipeline characterised by youth and skill.

Thus, Asia-Pacific becomes an enviable location for multinational corporations to set up base in as the issue of manpower is minimised. This also ensures that there is a constant demand for occupying space as they will be the greatest source of

workspace users.

However, this attractive workforce comes with a caveat – their relationship with work has shifted, and only organisations that engage in active listening and address the needs and concerns of their employees will then keep their retention rate high. For instance, Deloitte's 2023 Gen Z and Millennial Survey revealed that the pursuit of increased environmental sustainability and social impact is influencing choices related to both lifestyle and career. Therefore, a portfolio of majority ESG-accredited occupying space, among other sustainable initiatives, is imperative to cater to the younger workforce, especially since both Gen Zs (born 1996-2012) and millennials (born 1980-1995) will each form a quarter of Asia-Pacific's population by 2025.

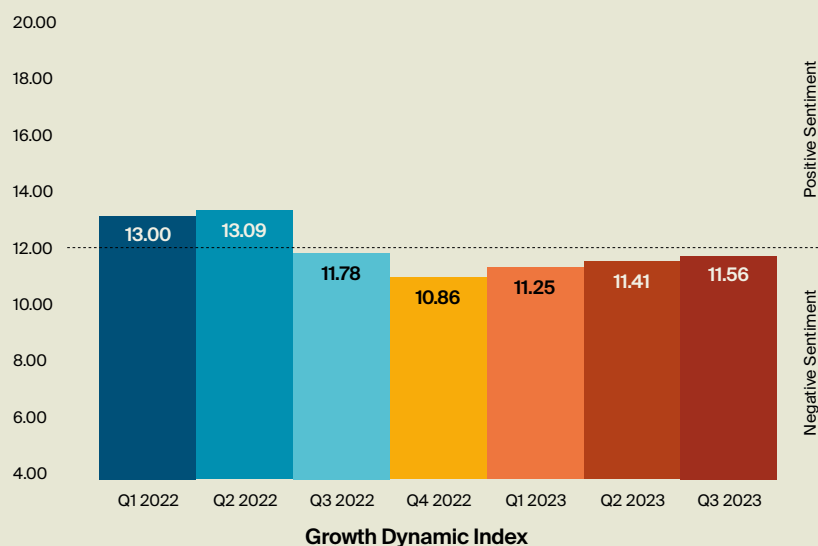
PRIME OFFICE MARKET OUTLOOK

PROMINENT EMERGENCE OF A TWO-SPEED MARKET

Multiple evidence indicates a bifurcation in the Asia-Pacific office sector. On one hand, we are observing occupiers with some financial capabilities taking advantage of the softening leasing market to relocate to newer and ESG-compliant buildings to enhance the employee experience and fortify ESG credentials; on the other, occupiers are being financially prudent towards portfolio planning amidst the prevailing headwinds and expansionary sentiments remained subdued.

Growth in headcount and capital expenditure (CAPEX) is highly contingent on the macroeconomic situation for the latter, and with economic turmoil stubbornly brewing on, companies continue to be conservative. This is supported by the Q3 2023 Knight Frank | Cresa Corporate Real Estate Sentiment Index (Figure 13) – a unique index assessing the short-term (6 month) outlook of corporate real estate leaders in relation to the growth, portfolio, and workplace dynamics – where growth dynamics have seen three consecutive quarters of improving sentiment, although they remain negative.

Figure 13: The Knight Frank | Cresa Corporate Real Estate Sentiment Index
Sub-index performance (Q1 2022 - Q3 2023)



Growth Dynamic	Score	QoQ Movement
Global Economic Growth	2.52	↓
Company Revenue Growth	3.17	↓
Company Headcount Growth	2.80	↑
Company Capital Expenditure Growth	3.06	↑

Scores >3 represent positive sentiment and <3 represent negative sentiment

Source: Knight Frank | CRESA Research (APAC & EMEA Cut)



Although almost 11 million sqm of prime Grade A stocks will be delivered in 2023, we are expecting 10 million sqm more in 2024, indicating an increase of about 5.8% on the current volume of stock (Figure 14). Part of these are still backlogs from construction delays.

Approximately three-quarters of new supply in 2024 will be in the Chinese mainland and India, with Ho Chi Minh City and Bangkok also set to receive a substantial volume of new stock. Given the soft market sentiments, rents for these markets will be under downward pressure, and drive vacancy upwards. The only markets to display slight optimism are the Australian cities and Seoul, where prime rents for these cities are estimated to hold.

Among the Australian office markets, market conditions vary, with

the largest markets of Sydney and Melbourne experiencing elevated vacancy rates, while sentiment is more positive in Brisbane and Perth. In Sydney and Melbourne, prime assets in the core CBD precincts are performing well and experiencing rental growth, but high supply is weighing on performance in other parts of the market. In Brisbane and Perth, occupier demand has been stronger, resulting in falling vacancy rates and prime rents are expected to continue rising.

Meanwhile, in Seoul, strong return-to-office policies continue to drive low vacancies.

Overall, the market conditions for the Asia-Pacific prime office sector will continue to favour tenants in 2024, with the vacancy rate to trend upwards to 14.4% - 18.3% from the current 13.9%.

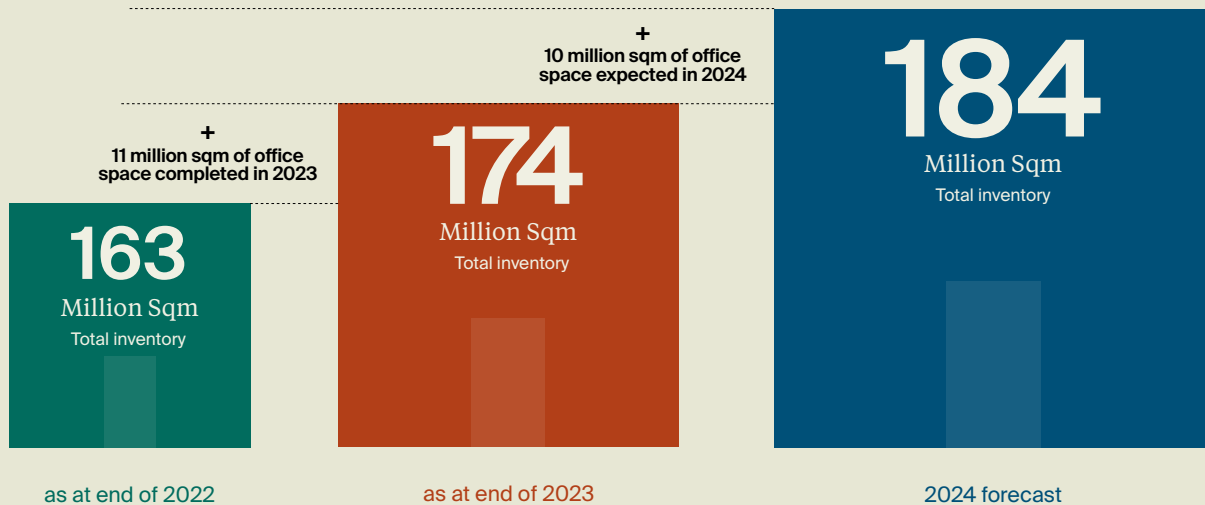


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Figure 14: Regional Stock to Rise by 5.8% in 2024

Existing Stock vs New Stock



Source: Knight Frank Research

Office Occupier Markets 2024 Outlook



TIM ARMSTRONG
Global Head of Occupier Strategy and Solutions

"Despite strong employment rates and stabilised office attendance in the Asia-Pacific region, it has yet to translate to the rise in office demand. For 2024, while the trends of 'flight-to-quality' and 'flight-to-green' persist, the enthusiasm for expansion will be restrained. Tenants will continue to approach portfolio planning cautiously due to the difficult macroeconomic conditions. However, it also proves to be a good time to review portfolios to capitalise on softer rents."



OFFICE HOTSPOTS

Brisbane

SUSTAINED STRONG DEMAND FOR PRIME, PREMIUM SPACES

Auckland

LOW VACANCY RATES IN WELL-AMENITISED, CORE CBD BUILDINGS

Taipei

'FLIGHT-TO-QUALITY' RENDER TOUGH COMPETITION FOR PRIME SPACES



2023 MARKET PENDULUM

- Tenant
- Balanced
- Landlord

12-MONTH RENTAL OUTLOOK

DECREASING ▼

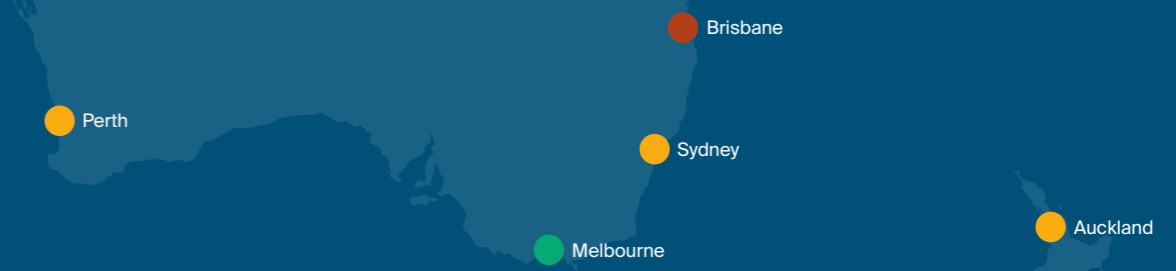
- GUANGZHOU
- SHENZHEN
- BEIJING
- SHANGHAI
- HONG KONG SAR
- BANGKOK
- PHNOM PENH
- HO CHI MINH CITY

STABLE ▬

- MELBOURNE
- TOKYO
- BENGALURU
- DELHI-NCR
- MUMBAI
- KUALA LUMPUR
- JAKARTA

INCREASING ▲

- BRISBANE
- PERTH
- SYDNEY
- AUCKLAND
- SINGAPORE
- TAIPEI
- SEOUL
- MANILA



Source: Knight Frank Research



LOGISTICS SECTOR

More neutral occupier conditions

Slowing global demand has weighed on the region's exports in 2023. Going into the second half of 2023, factory activity in the region is losing steam as macro uncertainties and rising input costs weigh on momentum. Growth in total trade will be weaker, as compared to 2022. Inflation has sapped consumption appetite in Europe and the US, while the Chinese mainland's loss of economic momentum has led to slower manufacturing order books.

Figure 15: Average APAC Manufacturing Purchasing Managers' Index



OCCUPIERS REMAIN CAUTIOUS

Occupier activity levels continue to be impacted by a combination of economic uncertainty, inflationary pressures, rising interest rates and normalising e-commerce. While economic headwinds have induced caution in logistics occupier markets, prime logistics spaces remained supported by resilient demand across the region. There remains strong competition for industrial development land, particularly in strategic locations close to major cities.

Optimisation of the sector's logistics footprint has driven demand for modern facilities. Preference for institutional-grade facilities in core areas and last-mile locations continued to fuel leasing activity in the region, while China+1 strategies also saw ongoing expansions by major manufacturers in SEA. Businesses are expected to maintain reduced inventory levels and streamline their supply chains, leading to a moderation in sector demand.

The great supply chain reboot

With the pandemic in the rearview, e-commerce demand growth has waned. However, online retail and the need for more distribution capacity are not the only sources of occupier demand growth. Disruptions from geopolitical tensions, lingering concerns from the pandemic and environmental themes are redefining the region's logistics footprint, which are key to addressing emerging trends and mitigating supply chain disruptions that can continue to fuel occupier demand.



ELECTRIFICATION OF CONSUMER TRANSPORT

With climate change a growing imperative in the region, Asia-Pacific will be at the forefront of the adoption for EVs (Electric Vehicle). According to McKinsey, the Chinese mainland will become the largest EV market in absolute terms, with a 60% adoption rate representing over 40% of new EVs sold worldwide by 2030. As sales of EVs rises rapidly, the demand for batteries and electric powertrains will surge in tandem, which the current supplier base centred on conventional engines, are not equipped to meet. Diversifying manufacturing capabilities and the supply of core components will also be critical. Building an EV ecosystem will have a profound impact on automotive supply chains in the region.



MULTIPLICITY OF SOURCES

The need to preserve margins gave rise to China+1 strategies; it became necessary amid COVID-induced disruptions and heightened geopolitical tensions. Now, it has turned strategic as continued geopolitical rivalry places some of these offshoring trends into reverse, accelerating the growing trends of reshoring and friend-shoring of manufacturing facilities, particularly those involving critical technologies and components. While the Chinese mainland's dominance is unlikely to be fully supplanted, the need to build in more redundancies across entire supply chains will continue to shape logistics networks in the region. The extra layer of security will require additional infrastructure and logistical capabilities.



PRIME LOGISTICS MARKET OUTLOOK

DEVELOPMENT ACTIVITY RAMP UP IN 2024

The development pipeline, which has remained crimped, has expanded in the latter half of 2023, which will spill over into 2024 (Figure 16). This will ease the tight supply conditions in the region. The bulk of new supply will be delivered in Chinese mainland markets, where over 17 million sqm are expected to be completed in Beijing and Shanghai.

RENTAL GROWTH SET TO MODERATE

Overall rents in Asia-Pacific have maintained their upward trajectory across the current market cycle, which is expected to remain sustained in 2024. However, rental growth will moderate to between 1.5% - 3.4% in 2024, down from the close to 10% increase in 2023. Moreover, with fundamentals varying across the region, there will be significant dispersion among markets.

The Pacific markets of Australia and New Zealand are expected to experience the strongest rental growth in the region, at 5.0% - 9.0%. While the development pipeline remains substantial across Australia's Eastern Seaboard at approximately 3 million sqm, close to 50% of the pipeline is already pre-committed. Limited availability will continue to drive broad-based rental growth with lower incentives. Tenant demand remains underpinned by strong population growth and a substantial infrastructure and construction pipeline.

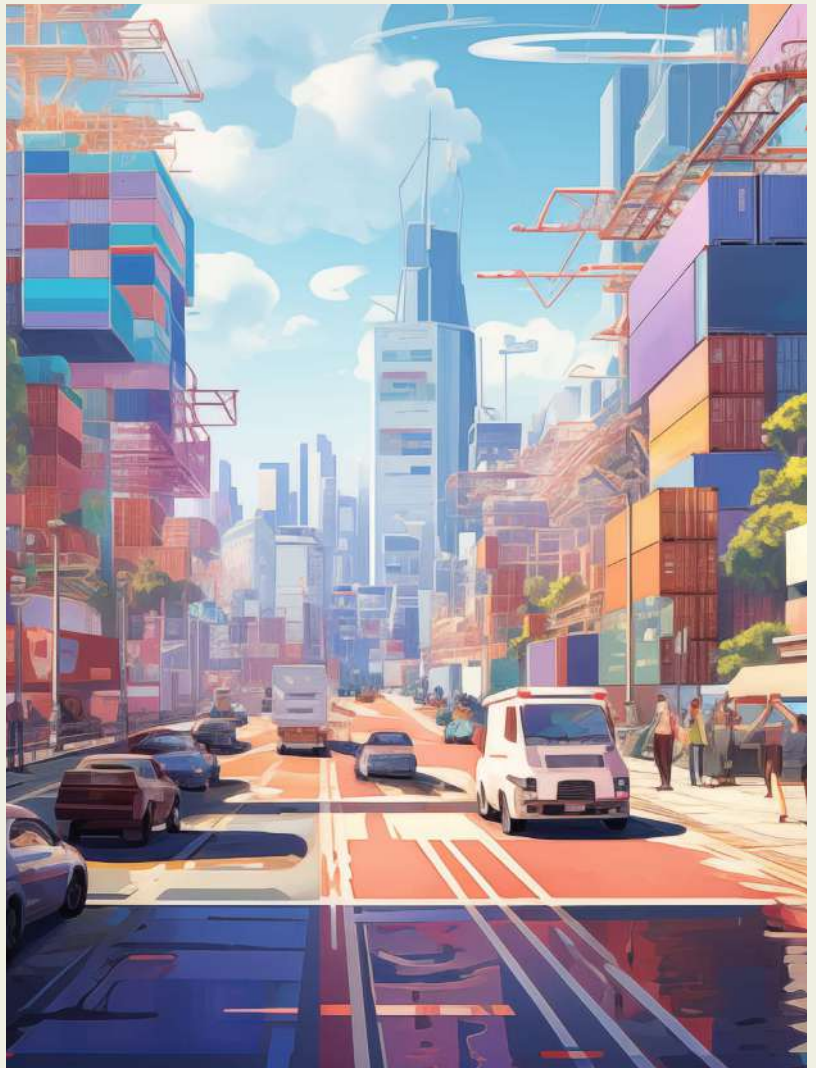
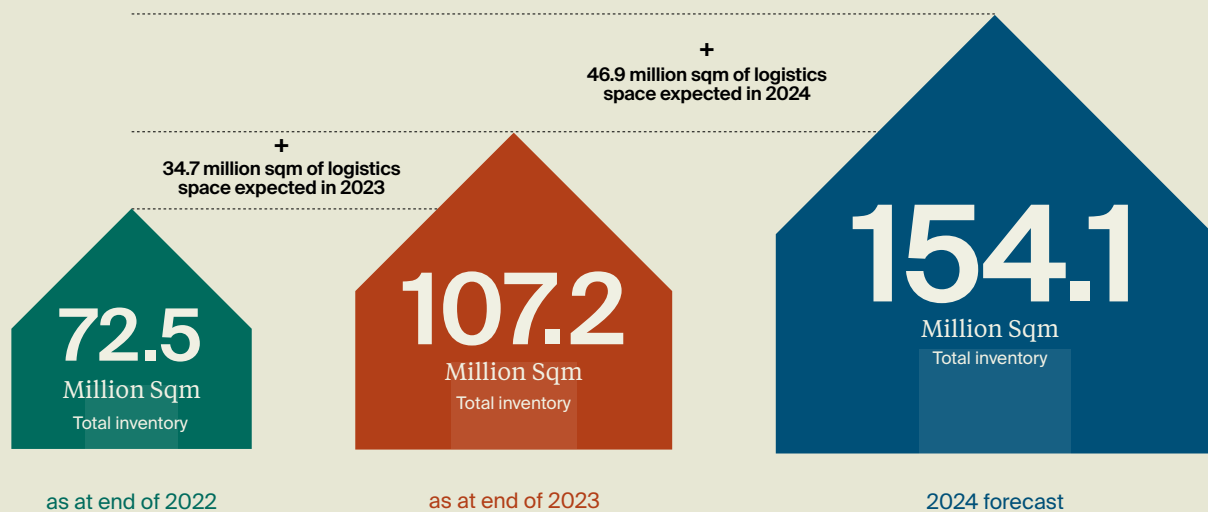


Figure 16: Regional Stock to Rise by 43.7% in 2024

Existing Stock vs New Stock



Source: Knight Frank Research

Logistics Occupier Markets 2024 Outlook

We expect market conditions to transit to more neutral conditions as 2024 progresses.



TIM ARMSTRONG
Global Head of Occupier Strategy and Solutions

“Despite a continuous gradual moderation of logistics demand, we still saw strong rental growth in 2023 on the back of limited supply. However, record new supply completions in 2024 will begin to ease the supply-constrained market conditions, and rental growth is expected to slow down as demand levels off. Occupiers may look to re-strategise and locate their spaces in newer precincts to minimise last mile delivery and be closer to consumers.”



LOGISTICS HOTSPOTS

Taipei

RESHORING OF TECHNOLOGY-CRITICAL PROCESSES

Tier-1 Indian Cities

DECENTRALISATION OF GLOBAL SUPPLY CHAINS

HCMC

Metropolitan Area

MAIN BENEFICIARY OF CHINA+1 NEARSHORING STRATEGIES



Delhi NCR

Mumbai

Bengaluru

Bangkok

Ho Chi Minh City

Greater Kuala Lumpur

Singapore

Greater Jakarta

Beijing

Shanghai

Taipei

Hong Kong SAR

Manila

Brisbane

Sydney

Melbourne

Auckland



2023 MARKET PENDULUM

- Tenant
- Balanced
- Landlord

12-MONTH RENTAL OUTLOOK

DECREASING ▼

BEIJING
SHANGHAI

STABLE ■

GREATER KUALA LUMPUR
GREATER JAKARTA
HO CHI MINH CITY
HONG KONG SAR
BANGKOK

INCREASING ▲

AUCKLAND
BRISBANE
MELBOURNE
SYDNEY
BENGALURU
DELHI-NCR
MUMBAI
MANILA
SINGAPORE
TAIPEI

Source: Knight Frank Research



CAPITAL MARKETS SECTOR

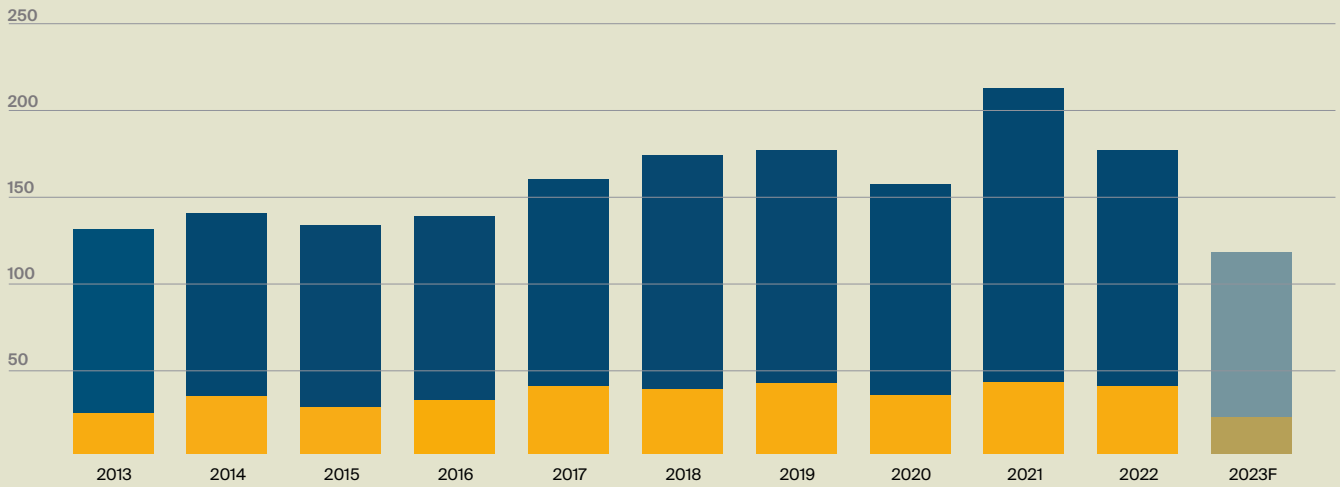
Slow price discovery impeding transaction activities

The confluence of higher financing costs, global economic uncertainty, a misalignment between seller and buyer price expectations and slow repricing persists as challenges to the Asia-Pacific investment market, leading to a 53.4% contraction in overall transaction volume for the first three quarters of 2023. Given the significant challenges in the macroeconomic landscape, 2023 is likely to close with the lowest total volume for the first time (Figure 17).

Figure 17: APAC Real Estate Investment Plunges to a Record-Low

Investment Volume (US\$ billion)

■ CROSS-BORDER ■ DOMESTIC



Data download at: 2 Nov 2023
 Inclusive of pending deals/excludes land
 Source: MSCI Real Capital Analytics, Knight Frank Research

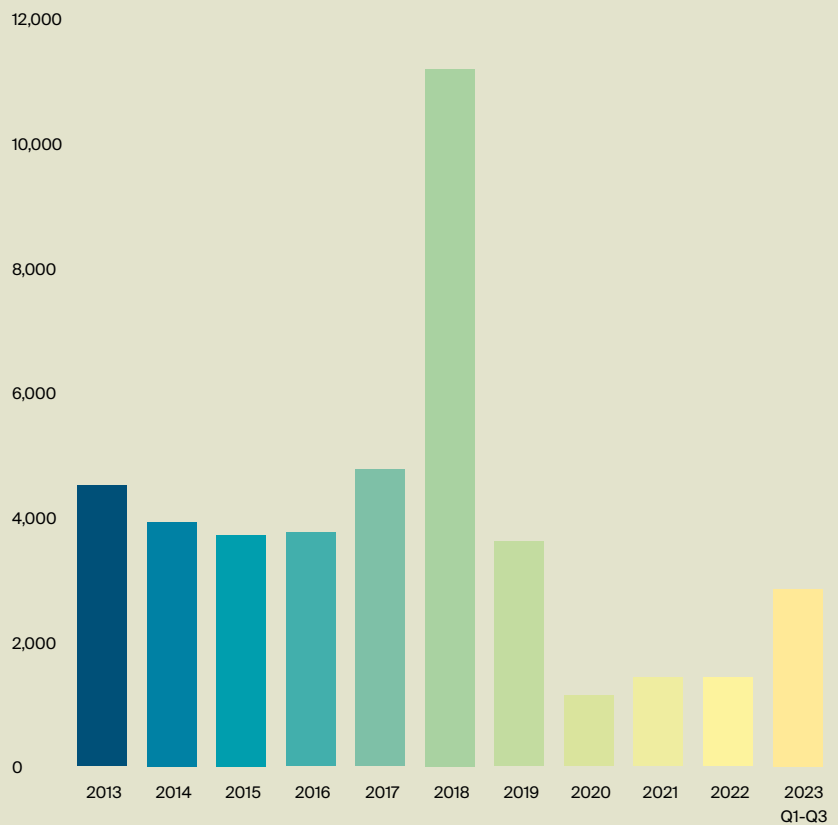
The extensive withdrawal observed from both domestic and international investors suggests a continued reluctance to deploy capital in the current high-interest-rate environment. The yield spread has tightened to an extent where certain markets are experiencing negative risk premiums.

INCREASED INTEREST FROM HIGH-NET-WORTH INDIVIDUALS

Nevertheless, one group of investors has been proactive in commercial real estate (CRE) investment, and that is the HNWIs. As noted by the Knight Frank HNW Pulse Survey, and investment volume recorded (Figure 18), Asia-Pacific HNWIs have raised exposure to CRE in 2023. Driving decision-making was simply the pursuit of capital preservation rather than chasing yields, and with ample cash reserves, the reliance on debt to fund acquisitions is eradicated, allowing these HNWIs to move quickly to secure assets at competitive prices. In the higher-for-longer interest rate environment, we expect private capital to remain a driving force in the Asia-Pacific CRE market.

Figure 18: 2023 Volumes On Track to be Highest in Five Years

APAC HNWIs Investment Volume (US\$ million)



Data download as at: 24 Oct 2023 Inclusive of pending deals/excludes land

Source: MSCI Real Capital Analytics, Knight Frank Research

Opportunities continue to prevail in times of crisis

In the current inflated environment, competition is thinner as investors are waiting on the side lines for headwinds to die down. Refinancing risks have also caused some assets to be put up for distressed sale. However, with the right strategy and opportune time, investors are still able to get their hands on favourable assets that offer capital appreciation and positive rental reversions, especially in thematic sectors such as living sectors, life sciences, and data centres. Some examples can be found in Figure 19 below.



Figure 19: Entry Opportunities for APAC

Several deals have taken place in APAC since the interest rates hike, and they embodied one or more of the aforementioned factors

	TYPE	DATE COMPLETED	PREVIOUS TRANSACTED PRICE	CURRENT TRANSACTED PRICE	BUYER	SELLER
	Retail	Feb 2023	US\$ 652 million (50% stake; Jul 2012)	US\$ 790.5 million (50% stake)	Frasers Centrepoint Trust, Frasers Property	Mercatus
	Office (Grade A)	Feb 2023	-	US\$ 714 million (Distressed sale)	PAG, Mapletree Investments	Goldin Financial Holdings
	Build-to-rent	Jun 2023	US\$ 231 million (Jun 2019)	US\$ 152 million (56% stake)	Mitsubishi Estate, Clean Energy Finance Corporation	Mirvac
	Data Centre	Sep 2023	-	US\$ 358 million	Mapletree Industrial, Mapletree Investments	SKYY Development

Source: Knight Frank Research, MSCI Real Capital Analytics,
Image Source: Wikipedia, Mingtiandi, ADP Consulting, Kansai Construction Site News

48%

of respondents showed a preference for core strategies for investments in 2023, the highest level since 2014.

Source: ANREV Investment Intentions Survey 2023



MARKET TURBULENCE PROMPTING TRANSITION IN FAVOUR OF CORE ASSETS

Volatility in the market has impelled investors to seek stability and kept risk appetite to a low, prompting core assets to be in favour. As shown by the ANREV Investment Intentions Survey 2023 (Figure 20), nearly half of the respondents showed a preference for core strategies for investments in 2023, the highest level since 2014.

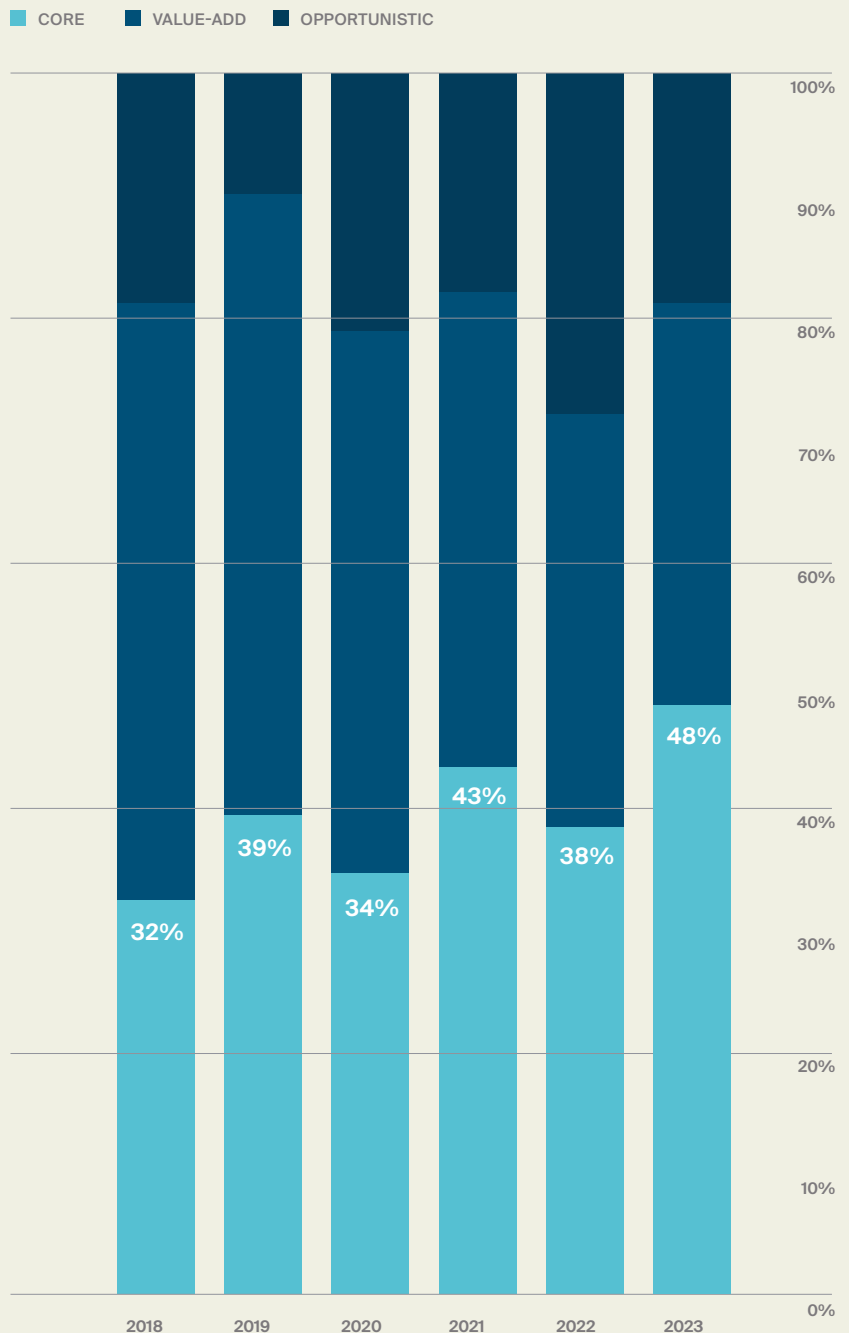
The shift to a core strategy was expected since these assets are known

for their stability, lower risk profiles, long-term appreciation, stable cash flow and inflation hedge, which are amplified in the current inflationary environment.

As interest rates are likely to stay elevated till the end of 2024/early 2025, although some central banks in the region started lowering rates to boost economic growth, we forecast investors to keep their interests high in core assets to reduce portfolio risks.

Figure 20: Risk-on Stance to a Risk-off Approach

Preferred Investment Style by Year



Source: ANREV Investment Intentions Survey 2023

INVESTMENT IN LIVING: THE LEADING FOCUS FOR INVESTORS

An asset class that has seen investors ramping up capital allocation, albeit a difficult economic landscape, is the living sectors.

While not completely impervious to economic conditions, the living sectors have demonstrated its resilience. Broadly defined to include various real estate types where individuals reside at different stages of their lives,

such as student housing, co-living spaces, multi-family properties, and senior living facilities, the sector boasts defensive characteristics influenced by demographic shifts, evolving lifestyles, and technological advancements.

The nascent asset class is no stranger to investors as the market cap reached US\$ 6 billion a decade ago, with Japan commanding the

lion's share of capital due to it being the only established multi-family market in the Asia-Pacific region. Given the lack of multifamily rental products in the region, investors are also exploring development options, particularly in the Australian build-to-rent (BTR) market, where it has quickly gained interest (Table 1).

Table 1: Most Favoured APAC City/Sector Combinations by Year

	#1	#2	#3
2023	Sydney - BTR	Melbourne - BTR	Sydney - Office
2022	Tokyo - BTR	Sydney - Industrial Tokyo - Industrial	Seoul - Industrial
2021	Sydney - Industrial	Melbourne - Industrial	Tokyo - BTR
2020	Melbourne - Office	Sydney - Office	Tokyo - BTR
2019	Melbourne - Office	Sydney - Office	Sydney - Industrial
2018	Sydney - Office	Melbourne - Office	Sydney - Industrial

Source: ANREV Investment Intentions Survey 2023



EMILY RELF

Head of Living Sectors,
Asia-Pacific

“Given the substantial demand for rental housing, there is a compelling argument for BTR to help rectify the imbalance between housing demand and supply. Investors and developers could now make significant capital investments, while the community can benefit from a much-needed relief from Australia's chronic housing shortage. The living sectors are also poised for significant expansion in the region, capitalising on the opportunities presented by shifting demographics and affordability concerns.”

With strong migration, the Australian residential market is currently severely undersupplied to house the increased population. The high prices have also rendered affordability a question for many. Thus, people turn to BTR to solve their housing needs.

In a bid to accelerate the rate of development of the BTR sector, the Australian Government announced a reduction in the withholding tax rate, from the current 30% to a more favourable 15%, for eligible fund payments originating from managed investment trusts to foreign residents, specifically tied to build-to-rent properties, effective from July 1, 2024.

The anticipated reduction in the withholding tax rate has been met with enthusiasm across the industry. Based on our research, BTR developments could witness a surge in completion, with as many as 55,000 BTR units delivered by 2030, almost seven-fold the existing inventory.

Another up-and-coming living sectors market would be from the Chinese mainland. Although the sector is still in its formative stage, it holds significant growth opportunities owing to its vast population of 1.4 billion and the challenges that families and young professionals encounter when purchasing apartments. The situation is made worse by a rapidly ageing population and an increasing number of young people choosing to remain unmarried. 2022 saw a significant decline in marriage registrations, with only 6.83 million recorded, marking the lowest figure in 43 years.

Read more about Knight Frank Australia's Breaking the Shackles: the Rise of BTR here

DISCOVER MORE

Up-and-Coming Living Sectors Market in Chinese Mainland

Some institutional players have already forayed into the nation, capitalising on the aforementioned factors, and strategically gaining first mover advantage.

BAOSHAN POWERLONG APARTMENT

Internationally, PGIM Real Estate, a US investment manager, expanded its APAC rental housing portfolio by acquiring a 500-apartment building in Shanghai from its developer, Hong Kong-listed Powerlong.



PGIM said “Sitting on top of the Metro Line, the apartment building is within Baoshan Powerlong City, a buzzing commercial hub with a regional shopping mall, office blocks and hotels. Its location and high-quality fittings and furnishings are expected to meet the long stay living needs of young professionals.”

CONTEMPORARY TIMES ELDERLY CARE COMMUNITY

Domestically, China Taiping Insurance acquired a senior living property in Beijing. The project was certified LEED (Leadership in Energy and Environmental Design) Gold, making it the first of such development to achieve this level of accreditation.



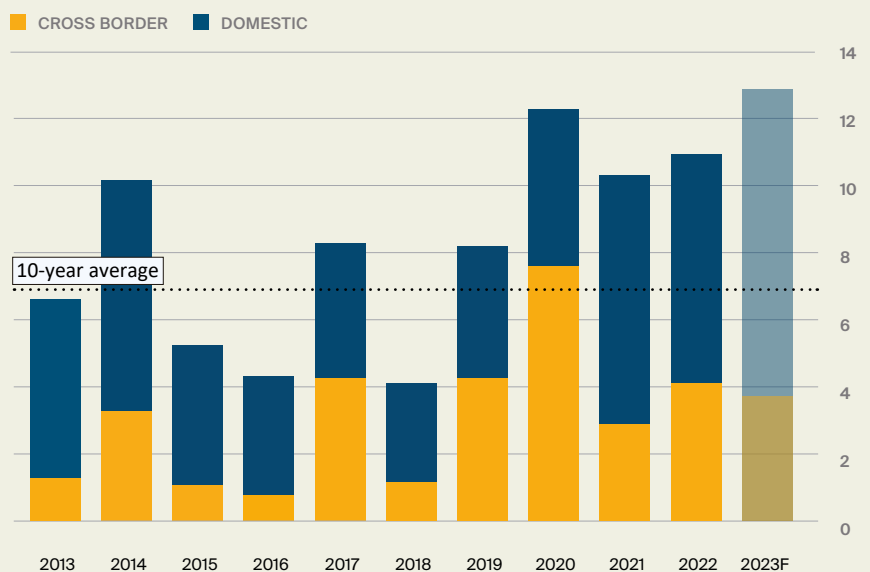
The project plans to build 1,387 retirement apartments, including 561 in the first phase and 826 in the second phase, with approximately 2,200 beds. It will also be equipped with a medical centre of approximately 4,000 sqm, as well as restaurants, entertainment, commercial and other supporting facilities.

Image Source: Baidu, Fang

In summary, recent shifts in trends have gradually altered the perspective regarding the Asia-Pacific living sectors industry, and expansion is expected to accelerate. Opportunities in this segment prevail, appealing to investors seeking fresh asset classes to enhance their portfolio diversification. With substantial deals in the pipeline, the total Asia-Pacific multi-family investment volume for the year is set to surpass the previous high in 2020 (Figure 21), with domestic activities dominating the scene.

Figure 21: APAC Living Sectors Investment Gains Speed

Living Sector Investment Volume (US\$ billion)



Source: MSCI Real Capital Analytics, Knight Frank Research
Data download as at: 2 Nov 2023
Inclusive of pending deals/excludes land

Outlook

Global economic uncertainty and high interest rates will continue to weigh on investment activities through 2024, and conditions will likely improve towards the end of the year, where we expect rates to decline, but remain higher than history. Consequently, Asia-Pacific investment volume will unlikely rebound until some sort of stabilisation in rates is achieved and bid-ask spreads narrow.

Real estate investors in the Asia-Pacific region continue to possess substantial equity and are demonstrating increased flexibility in their investment approaches. Those who can adapt quickly have successfully broadened their investment strategies. They are now focusing on growth sectors and geographical areas within the real estate market, including living sectors and new economy assets.

As traditional lenders turn restrictive in an uncertain global economy, financing gaps emerging in the higher-for-longer environment has created favourable conditions for the region's private credit market to grow. The expansion of private credit opportunities – among the four quadrants of real estate investing – will further develop real estate capital markets in the region. Further, regional diversification will remain a fundamental strategy for Asia-Pacific investors. Long-term fundamental growth engines will prolong resilience for the diverse Asia-Pacific region.



NEIL BROOKES

Global Head of Capital Markets

“The sharp rise in bond yields has shifted the investment landscape and altered the appeal of different asset classes. However, despite the challenging macro backdrop, there remains ample capital waiting to be deployed. As markets have come to grips that central banks will unlikely ease policy for some time, assets will continue to re-price in the region. Opportunities for private credit and attractive entry points for assets are likely to emerge in the higher-for-longer environment, which will continue to favour long-term private investors with a low reliance on debt.”

2024 SECTOR INVESTMENT POTENTIAL

Potential for investment based on growth and risk characteristics

AUSTRALASIA

CITY	CORE	CORE PLUS	VALUE-ADD	OPPORTUNISTIC	REPURPOSING
SYDNEY	Logistics	North Sydney Prime Offices	Brown to green strategies in office and logistics	Co-living development	Obsolete commercial to mid-rise residential along train lines
	CBD Offices	BTR			
BRISBANE	Logistics	Middle Ring brownfield Logistics	Brown to green strategies in office and logistics	Office precincts surrounding new Cross River Rail Stations	Underutilised sites near growing medical precinct
	CBD Offices				
MELBOURNE	Logistics	City Fringe Office	Geelong and Avalon industrial	Developers re-balancing portfolios	Obsolete secondary offices
	CBD premium offices	BTR			
PERTH	Logistics	West Perth Offices	Southern Industrial corridor	Re-development plays around resources and new metals	Rezoned land for increased residential density
	CBD Offices				
AUCKLAND	Industrial	Industrial	Industrial, Office	Office	Office

EAST ASIA

CITY	CORE	CORE PLUS	VALUE-ADD	OPPORTUNISTIC	REPURPOSING
SHANGHAI	Office	Retail	Business Park	Senior Living	Hotel to Office
		Logistics	Hotel	Data Centre	Hotel/Office to Multi-family
			Multi-family	Hospitality	
BEIJING	Office	Retail	Business Park	Senior Living	Retail to Office
	Logistics	Hotel	Multi-family	Data Centre	Hotel to Office
				Hospitality	
GUANGZHOU	Logistics	Retail	Hotel	Data Centre	Hotel to Office
	Business Park	Office	Multi-family	Hospitality	
				Senior Living	Hotel/Office to Multi-family
SHENZHEN	Logistics	Retail	Hotel	Data Centre	Hotel to Office
	Office	Business Park	Multi-family	Hospitality	Hotel/Office to Multi-family
				Senior Living	
HONG KONG	Logistics				Hotel to long-term rent apartment/co-living/student accommodation
	Data Centre				
TAIPEI	Office	Logistics	Industrial Land	Street Shop	Hotel
SEOUL	Office	Logistics	Hotel	Data Centre	Office Remodelling
			Retail	Residential	Convert cold warehouse to dry warehouse
TOKYO	Multi-family				
	Hotel				

INDIA

CITY	CORE	CORE PLUS	VALUE-ADD	OPPORTUNISTIC	REPURPOSING
NCR	Office		Residential		
	Warehousing				
MUMBAI	Office		Residential		
	Warehousing				
BENGALURU	Office		Residential		
	Warehousing				

SOUTHEAST ASIA

CITY	CORE	CORE PLUS	VALUE-ADD	OPPORTUNISTIC	REPURPOSING
SINGAPORE	Industrial	Industrial	Office	Office	Office
			Residential	Residential	Retail
KUALA LUMPUR		Industrial	Worker's Accomodation	Data Centre	Obsolete Office Buildings
JAKARTA	Industrial	Warehouse	Warehouse	Retail	Retail
	Residential				
MANILA	Office		Data Centre		
HO CHI MINH CITY	Office	Industrial	Retail	Social Housing	Retail
		Logistics			

Source: Knight Frank Research

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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Australian Horizon



Rise of Super Wealth Hub Series: Singapore Edition



YOUR SPACE 2023



Active Capital 2023

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