SPOTLIGHT
Savills Research

Asia Pacific Investment

A look at the key trends shaping Asia Pacific real estate investment in 2024

A 'HIGHER FOR LONGER' INTEREST RATE ENVIRONMENT MADE INVESTORS WARY LAST YEAR

In 2023, a number of macroeconomic challenges emerged on a global and regional scale, ranging from the effects of a tightening interest rate cycle to the slowing Chinese economy and the repercussions of conflicts in Ukraine and the Middle East.

The Asia Pacific real estate investment markets were not immune and struggled as risk-averse sentiment affected all sectors and geographies. Total commercial real estate investment in Asia Pacific plummeted by 32.0% YoY to US$128.7 billion in 2023 but remained ahead of both European (-50.9% YoY) and American markets (-54.4% YoY).

China retained its position as the largest investment market in the region in 2023, overseeing deals totalling US$34.7 billion, a 24.7% YoY decrease. Investment activity was mainly propelled by well-funded long-term investors, domestic end-users, and insurance companies and the presence of distressed and refinancing-required properties, lead to a rapid price adjustment, even in tier-1 cities.

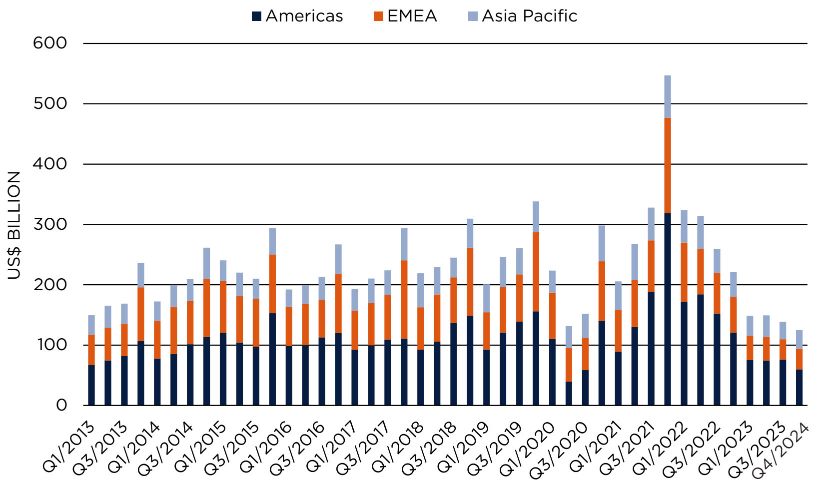
According to our research, Grade A office prices in the Core CBD market in Shanghai fell by over 10% YoY in 2023. This correction has been reflected in asking prices as Blackrock is currently looking to sell a pair of Shanghai office buildings in Putuo district at a 30% discount to their 2017 purchase price according to reports.

Bolstered by ultra-low interest rates and a depreciating yen, Japan was one of the top-performing markets worldwide this year, with total transactions falling by only 19.0% YoY to US$31.9 billion. In contrast, South Korea and Australia experienced a slowdown in momentum due to higher borrowing costs and a greater bid-ask spread, down 48.8% and 56.6% YoY respectively. Several large-scale retail deals in Q1/2023 cushioned Singapore's market which saw a modest 6.3% YoY decline in volume.

Meanwhile, supported by a few large office transactions, Hong Kong SAR's total volume saw a small uptick of 1.2% YoY due to a low base effect, but was still nearly 70% below its 2018 peak. Malaysia was the only market to witness a substantial growth during the year, reporting a 226.8% YoY rise owing to two major office deals and one industrial transaction completed in Q4/2023.

On a sub-market level, most investment capital in the Asia Pacific region flowed into mature investment markets including Tokyo, Shanghai, Seoul, Singapore, Hong Kong SAR, and Sydney.

GRAPH 1: Total Property Transaction Volumes by Region, Q1/2013 to Q4/2023



Source MSCI Real Capital Analytics, as at 16 January 2024
Notes Preliminary data for Q4/2023
Office, retail, industrial, residential, hotel, and senior housing & care property transactions included. Entity level deals included. Development sites excluded. Based on independent reports of properties and portfolios $10 million and greater. Data believed to be accurate but not guaranteed.

TABLE 1: Top 12 Asia Pacific Markets By Investment Volume, 2023

RANKED BY 2023	MARKET	VOLUME (US$ BILLION)	YOY
1	China	$34.7	-24.7%
2	Japan	$31.9	-19.0%
3	South Korea	$18.2	-48.8%
4	Australia	$15.8	-56.6%
5	Singapore	$9.5	-6.3%
6	Hong Kong SAR	$7.2	+2.5%
7	Taiwan	$4.4	-26.3%
8	India	$3.3	-16.0%
9	Malaysia	$1.7	+226.8%
10	New Zealand	$0.6	-64.9%
11	Indonesia	$0.6	+11.7%
12	Vietnam	$0.3	-58.2%

Source MSCI Real Capital Analytics, as at 16 January 2024
Notes Preliminary data for Q4/2023
Office, retail, industrial, residential, hotel, and senior housing & care property transactions included. Entity level deals included. Development sites excluded. Based on independent reports of properties and portfolios $10 million and greater. Data believed to be accurate but not guaranteed.

DEFENSIVE ASSETS HAVE BEEN IN DEMAND BUT YIELDS HAVE BEEN SLOW TO RISE

Sector-wise, the office market remained the most active asset class with the highest trading volume in 2023, despite registering a 47.6% YoY drop, with investments accruing to US$43.8 billion. Transaction activity was led by Chinese real estate developers' asset auctions and prime property transactions taking place in Seoul and Tokyo.

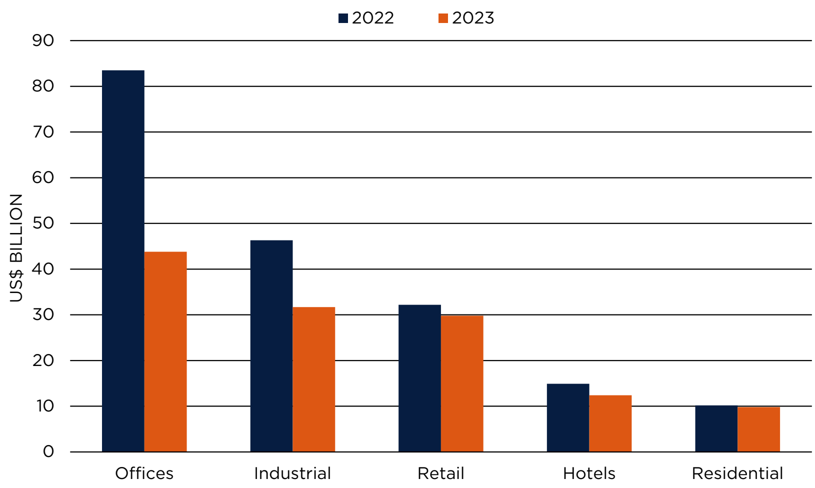
However, in the high-interest rate environment, many regional office markets saw negative yield spreads, diverting more funds to other asset classes. Office transactions, which accounted for around 50% of the total regional volume before the pandemic, dwindled to 35% in 2023.

Industrial and logistics properties have been favoured by investors in recent years, with acquisition prices rising and yields falling from 5.6% in 2019 to 5.0% by the end of 2023. However, due to diminishing returns and a scarcity of tradeable assets in the market, investments in this sector fell by 31.6% YoY to US$31.7 billion in 2023.

The residential, retail and hotel sectors performed relatively better among Asia Pacific's asset classes in 2023, recording only mild declines. Notably, the residential market in Australia, the retail markets in Singapore and China, and the hotel market in Japan, all benefited from several large portfolio deals.

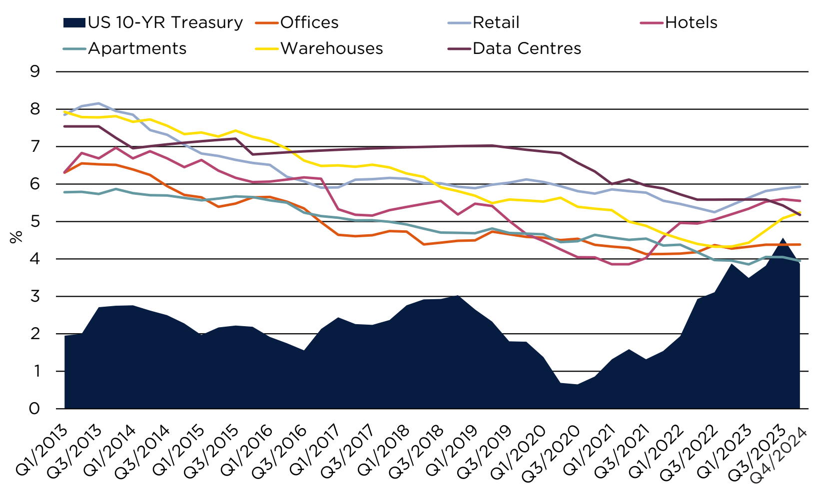
As high interest rates and a global economic slowdown persist, the road to recovery may well prove to be a bumpy one in 2024. Nonetheless, Asia Pacific remains an attractive investment destination.

GRAPH 2: Asia Pacific Investment Volumes by Asset Class, 2023



Source MSCI Real Capital Analytics, as at 16 January 2024
Notes Preliminary data for Q4/2023
Office, retail, industrial, residential and hotel properties included. Entity level deals included. Development sites excluded. Based on independent reports of properties and portfolios $10 million and greater. Data believed to be accurate but not guaranteed.

GRAPH 3: Yields by Asset Class, Q1/2013 to Q4/2023



Source Oxford Economics, MSCI Real Capital Analytics, Savills Research & Consultancy

Deals have included the sale of a 56% stake in Mirvac's build-to-rent portfolio to a JV of Mitsubishi Estate and Clean Energy Finance Corporation for US$1.2 billion in Australia in June, Link REIT's purchase of Jurong Point for US$1.6 billion in Singapore in March and Swire Property's acquisition of the remaining 50% stake of the prime mixed-used project, Taikoo Li in Chengdu for over US$1.8 billion from its debt-burdened partner Sino-Ocean Group. Finally, a US$900 million divestment of Daiwa House's 27 resort hotels in Japan to a consortium of SC Capital Partners, ADIA and Gold Sachs Asset Management was registered in July.

UNCERTAINTY CLOUDS MARKET OUTLOOK IN 2024

Looking ahead, the global economy is poised to slow further, particularly in Europe and North America, with GDP growth falling to 0.6% and 2.0% YoY respectively in 2024. This, combined with a gradual demand shift towards service industries, will likely dampen demand for exports in Asia Pacific. The economic deceleration of China also implies a diminished impetus for the broader regional economy.

Moreover, as many Asia Pacific nations have been rolling back pandemic-induced stimulus measures aimed at domestic demand, as well as embarking on interest rate hikes, growth has begun to slow. Additionally, as 2024 will be one of the biggest electoral years in global history, with 65 elections worldwide potentially affecting 40% of the global population, economic and political uncertainties are bound to intensify.

Asia Pacific will host 10 elections, including Bangladesh, Taiwan, Pakistan, Indonesia, Cambodia, South Korea, India, Mongolia, and the Maldives. The most notable, though, will be the US Presidential race, with implications for Asia Pacific in terms of geopolitical tensions and economic policy.

According to Oxford Economics, Asia Pacific's GDP growth is projected to moderate from 4.3% in 2023 to 3.5% in 2024. Inflation rates across most regional economies are also forecast to continue easing in 2024 and remain within central bank targets. Overall, countries may achieve 'soft landings' with comparatively weaker rental growth momentum across industries and regions.

Inflation and central bank interest rates in many key Asia Pacific economies remain near historical highs in the short term, however, with interest rates now peaking, the first pre-condition for stability has been met. Higher interest rates and relatively high inflation will become the norm. More certainty around interest rates and borrowing costs should help to facilitate a floor in pricing, however.

DEFENSIVE ASSETS WITH GROWTH PROSPECTS A FOCUS IN 2024

Investor sentiment is cautious while driving funds away from core sectors such as offices towards higher growth prospects in quality logistics, cold storage facilities and data centres. The Asia Pacific region has witnessed an unprecedented surge in e-commerce activity in recent years, leading to a widespread undersupply of major logistics hubs. The tight vacancy environment in the logistics and warehouse sector has rendered them a stable and defensive asset class, drawing in capital from mature markets like Japan, South Korea, Australia, and Singapore, to developing markets such as India, Malaysia and Vietnam. Another sector of interest is data centres. Not only has the sector benefited from long-term supply shortages, but developments in artificial intelligence in addition to 5G and online retail has further stimulated demand for large-scale facilities.

Meanwhile, assets characterised by inflation resistance and flexible lease terms will be another investment focus. Residential in all its forms is the largest real estate sector globally, accounting for one-third of all global transactions in 2023. This sector, which includes multifamily rental, student housing, senior housing, and co-living, will continue to appeal in 2024.

The multi-family sector in Australia and Japan is enjoying low vacancy rates and stable rental income, which will continue to attract capital, particularly from institutional investors. Many multi-family acquisition opportunities emerged in Japan last year, leading to large portfolio deals such as the AXA IM Alts's purchase of a 33-property apartment portfolio for US$459 million. Looking ahead, we believe more opportunity will surface in the short term as numerous funds near the end of their lifespans.

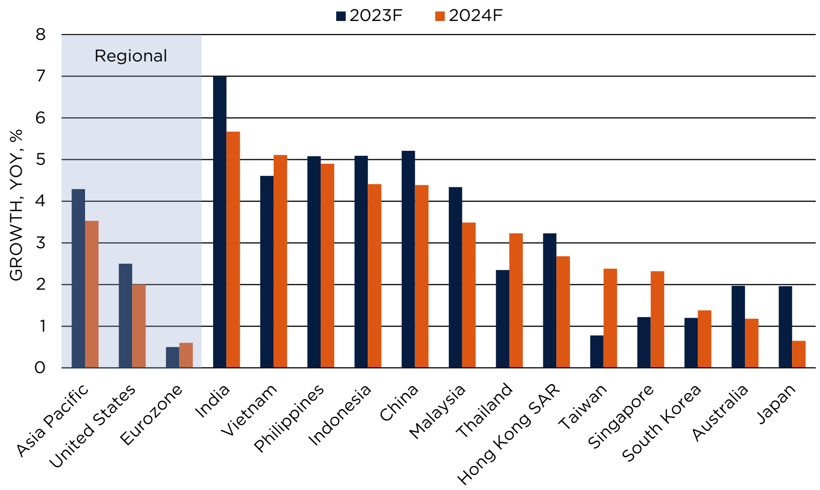
The rising number of international students in Australia has also sparked interest in the purpose-built student housing (PBSA) market. Blackstone have signaled confidence in the sector with their Q4 acquisition of the Brisbane located Student One portfolio quoted at an initial yield of 5.50% for US$322 million.

Other investment potential lies in mainland China. While price volatility and economic uncertainties curb purchasing intent, rental demand is being stimulated. On top of which, the market is also being supported by government subsidies for long-term rental apartments, favourable loan policies, and less developable land in tier-1 cities. As such, we believe that revamping existing residential assets into long-term rental projects may be some developers' and investors' priority in the near term.

Nonetheless, the fundamental drivers of ageing populations in developed markets (senior housing) and the youth of India and Southeast Asia (multi-family, student accommodation) should support the 'living' sectors in the long run. We have seen more institutional investors moving into this field. For example, Alta Capital acquired Goldman Sachs' and Warburg Pincus' stake in a student housing platform, Good Host Spaces, for US$320 million in October 2023, making this the largest-ever student housing deal concluded in India.

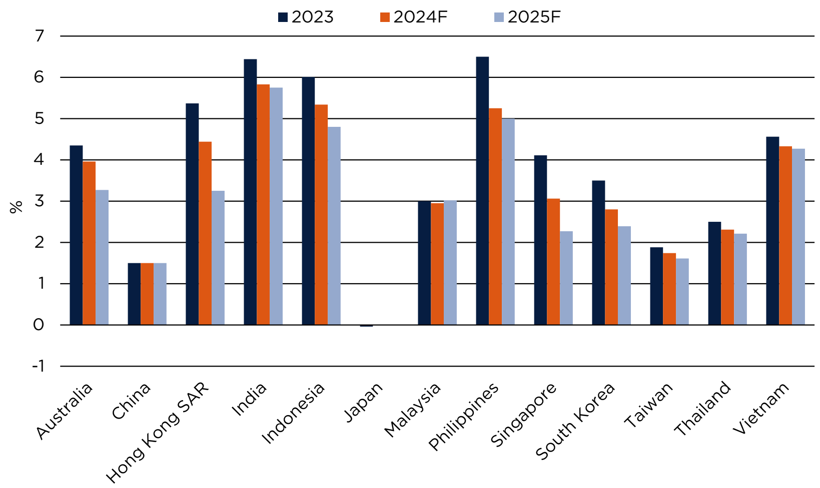
Lastly, with the global tourist industry's recovery, Asia Pacific's total international visitor arrivals are projected to rebound to 84% of 2019 levels in 2024, benefitting regional retail and hotel properties through increased travel spending.

GRAPH 4: Asia Pacific Real GDP Growth by Market, 2023F to 2024F



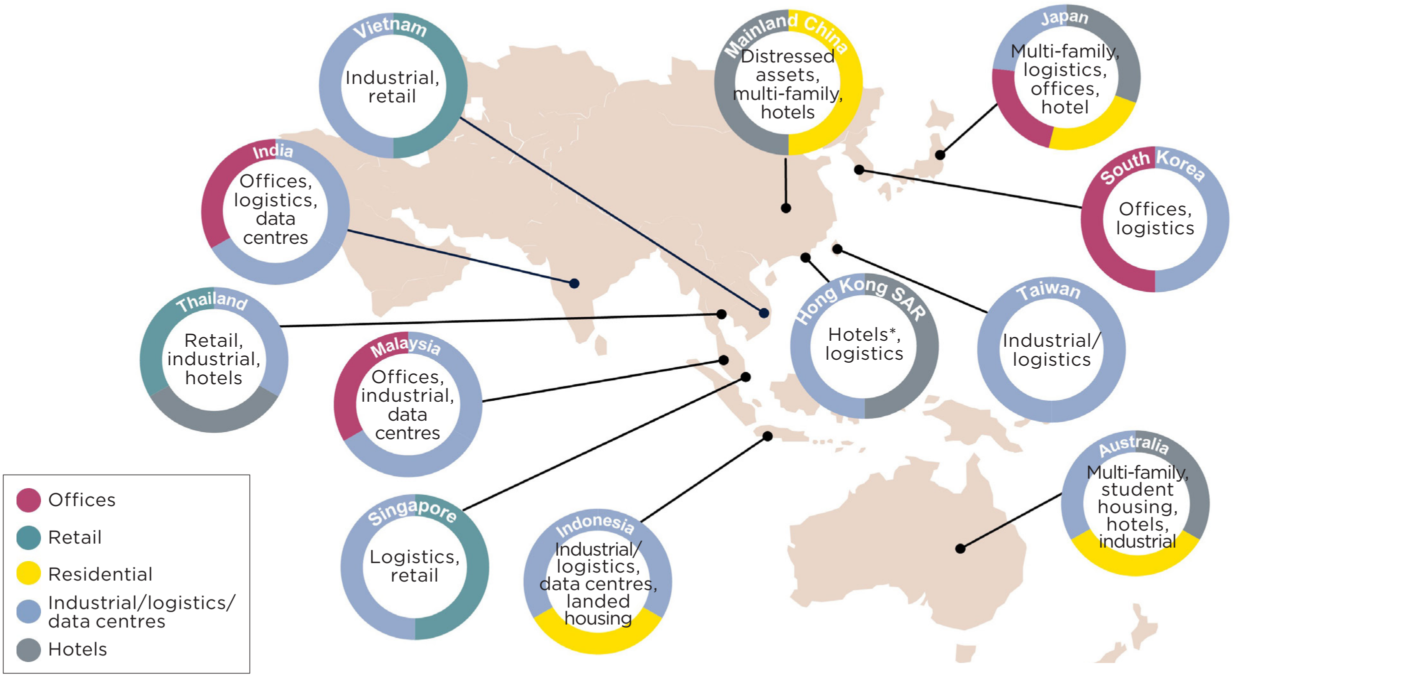
Source Oxford Economics

GRAPH 5: Interest Rates by Market, 2023 to 2025F



Source Focus Economics

MAP 1: Key Investment Areas by Market, 2024F



Source Savills Research & Consultancy
Note *Hotels refer to all types of hospitality properties, ranging from hotels to short-term accommodations.

In terms of markets, Japan is expected to remain in the spotlight for Asia Pacific real estate investment into 2024. Despite potential changes in rate direction by the Bank of Japan, Japan is a market with positive spreads in the near term. Mature markets like Australia and South Korea may see some asset price adjustments, as the higher borrowing costs and a lack of liquidity may cause some development projects to struggle to secure the necessary financing and force discounted sales.

Notably, South Korea's office sector faces tight vacancy and future supply shortages, positioning it as one of the few core markets which expect more positive rental growth. In 2023, Seoul CBD's Grade A office face rents rose by 4.6% YoY with an average vacancy rate at year end in the 3% range. Meanwhile, the oversupply issue across many cities in mainland China will continue to exert downward pressure on commercial leasing markets, as absorption slows during the market down cycle and more landlords will have to cut prices further amid the weakening rental outlook.

While the Fed has not lowered interest rates yet, it has started talking about the possibility of three rate cuts in 2024. This shift might set a precedent for changes among central banks in the Asia Pacific region. All in all, we expect investment sentiment to improve towards mid or late 2024, as prime rents recover in most markets, election uncertainty dissipates, and more repricing starts to align buyer and seller expectations.

We have highlighted some key geographies and sectors across the region above which demonstrate investment potential in 2024, considering the individual market demand-supply dynamics, rental performance as well as return prospects. However, translating this interest into actual deal flow will depend on a number of variables including acquisition opportunities, financing costs, risk appetite and other concerns including geopolitical stability and futureproofing for sustainability. Keeping a close eye on these influences will therefore be crucial for those seeking to navigate the Asia Pacific real estate investment landscape in 2024.

savills

For more information about this report, please contact us

Savills Research

Simon Smith
Regional Head of Research & Consultancy, Asia Pacific
+852 2842 4573
ssmith@savills.asia

Nancy Wong
Senior Manager, Regional Research & Consultancy
+852 2842 4281
naywong@savills.asia