The Active Capital Asia-Pacific aims to provide an insight into how the real estate market in Asia-Pacific performed historically and how it is predicted to play out in 2022, thereby acting as a guide for investors. The report also highlights an important theme – Environmental, Social and Governance (ESG) – for investors that are looking to expand their ESG foothold in their portfolios.

Knight Frank

Rising Capital in Uncertain Times

Active Capital Asia-Pacific Perspective (June/July 2022)

knightfrank.com/research

RETRACING MOMENTUM

For investors in the Asia-Pacific (APAC), the last decade probably ended in 2019. What could have happened the year after will remain hypothetical, as momentum was upended by the pandemic. Still, the decade's penultimate year capped an exceptional period for real estate investment in the region, as it emerged to be the epicentre of growth in global real estate investment. With global allocations rising and a flood of new regional funds targeting gateway cities, cross border investments raced to a record-setting US$57 billion (bn).

Two years on since the outbreak, the world is looking to finally emerge from the pandemic's shadow. As economies forge a path towards endemic living, investors will, undoubtedly, retrace the momentum that culminated in 2019's record investments. Knight Frank's Capital Gravity model suggests that while the next few years will see a boost in investment volumes, 2022 is likely to see a sharp rise in activity, providing investors the opportunity to rebalance portfolios, execute business plans and further their strategic goals[1].

[1]All projections derived from Knight Frank's Capital Gravity Model are modelled on major capital flows only.

SUMMARY OF INVESTMENT TRENDS, DRIVERS AND RISKS

CROSS-BORDER INVESTMENT TRENDS AND DRIVERS

- Strong US dollar powers higher outlay by US investors
- Record dry powder
- Asset rotation spurred by
  - ◊ Investors moving up risk curve
  - ◊ Higher debt cost/inflationary pressures
  - ◊ Recovery in hospitality and retail assets
  - ◊ Appeal of prime grade offices
  - ◊ Increasing allocations to sutainable assets
- Diversification/inflation hedge

RISKS TO OUTLOOK

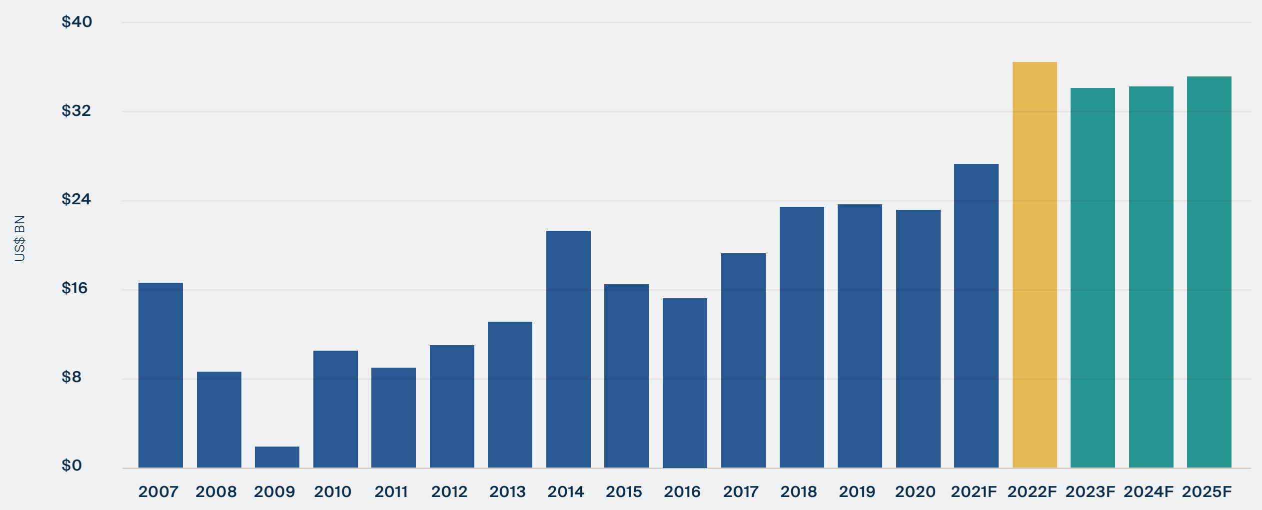
- Heightened risk aversion from geopolitical/economic uncertainty
- Limited stock for investment
- Widening bid-ask spreads
- Downturn in activity due to spike in inflation/debt cost

RISING CAPITAL IN UNCERTAIN TIMES

ASIA PACIFIC INBOUND CAPITAL FLOWS

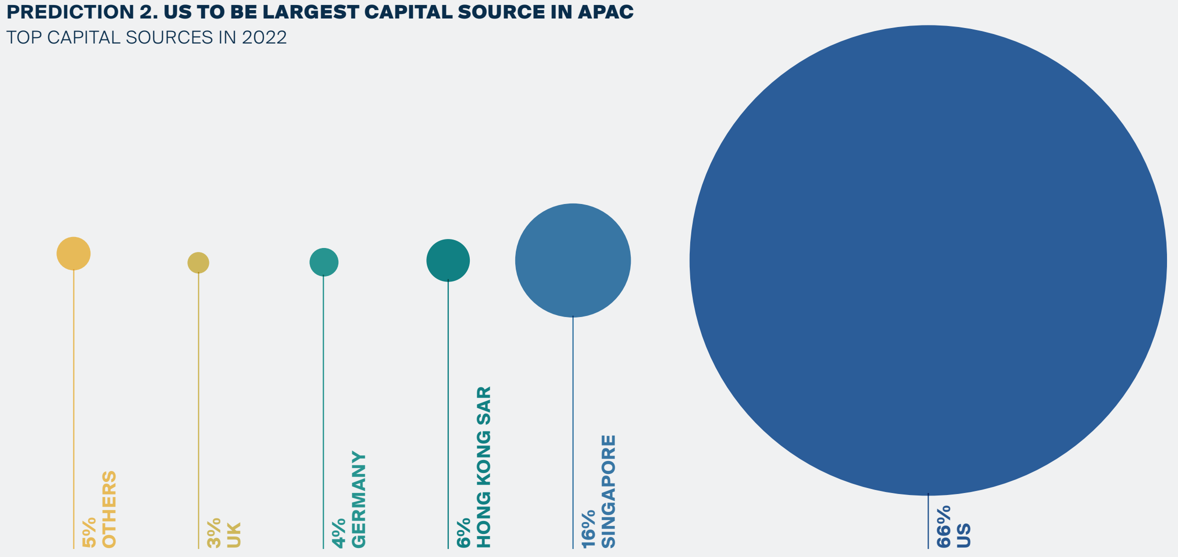
Uncertain times, strong performance

PREDICTION 1. APAC CROSS-BORDER VOLUMES A RECORD IN 2022
TOTAL CROSS-BORDER INVESTMENTS IN APAC



SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

PREDICTION 2. US TO BE LARGEST CAPITAL SOURCE IN APAC
TOP CAPITAL SOURCES IN 2022



SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

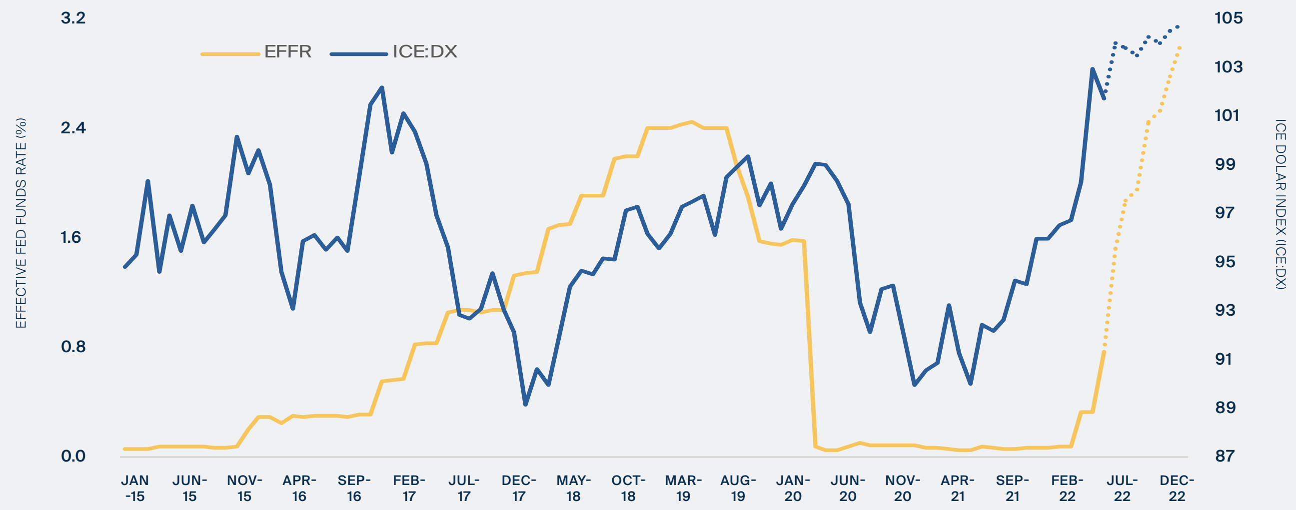
More bang for buck

While it has been a tumultuous 2022 so far, there remain ample reasons for investors to stay the course in re-discovering the momentum in allocations to the region. The US dollar has gained sharply amid the Fed's widely anticipated rate hike cycle to trade at two-decade highs. To some investors, this will no doubt be a boon as assets in the region will be cheaper given the strength of the US dollar. Investors from the US has perennially been the region's largest capital source, which the strength of its currency will reinforce.

Asian capital remains active

Although outbound capital from Chinese Mainland has fallen since 2017 on the back of intense regulatory scrutiny, capital from other sources within the region have rapidly moved in to plug the gap. Capital commitments made by APAC investors in the region in 2021 have breached 2019's record and we expect intra-regional flows to account for a significant piece of the investment pie in the region in 2022. Singapore and Hong Kong SAR will continue to lead while outbound focus from South Korea will also accelerate. Within the industry, investors scaling up through the recent wave of M&As will result in considerable firepower for acquisitions. Investments from Hong Kong SAR, which boasts a significant base of investors, will also continue to remain strong. Active capital raisings observed will add to capital flows in the region.

FIGURE 1. US DOLLAR GAINS ON FED TIGHTENING



SOURCE: US FEDERAL RESERVE, MACROBOND, KNIGHT FRANK RESEARCH

FOCUS ON POST-PANDEMIC STRATEGIES

The pandemic has illustrated the relative resilience of real estate as an asset class, albeit with a bifurcation as investors sought out logistics, multi-family, and data centres as pandemic plays – assets that are consistent with the stay-at-home trend. This has redefined the risk-return spectrum for investors. Logistics are now increasingly viewed as core while retail has turned opportunistic.

However, with economies forging a path towards endemic living, investors will be keen to ride on the region's recovery. The thematic spotlight in 2022 will be on post-pandemic strategies. We expect investors to focus on the region's long-term structural fundamentals once again.

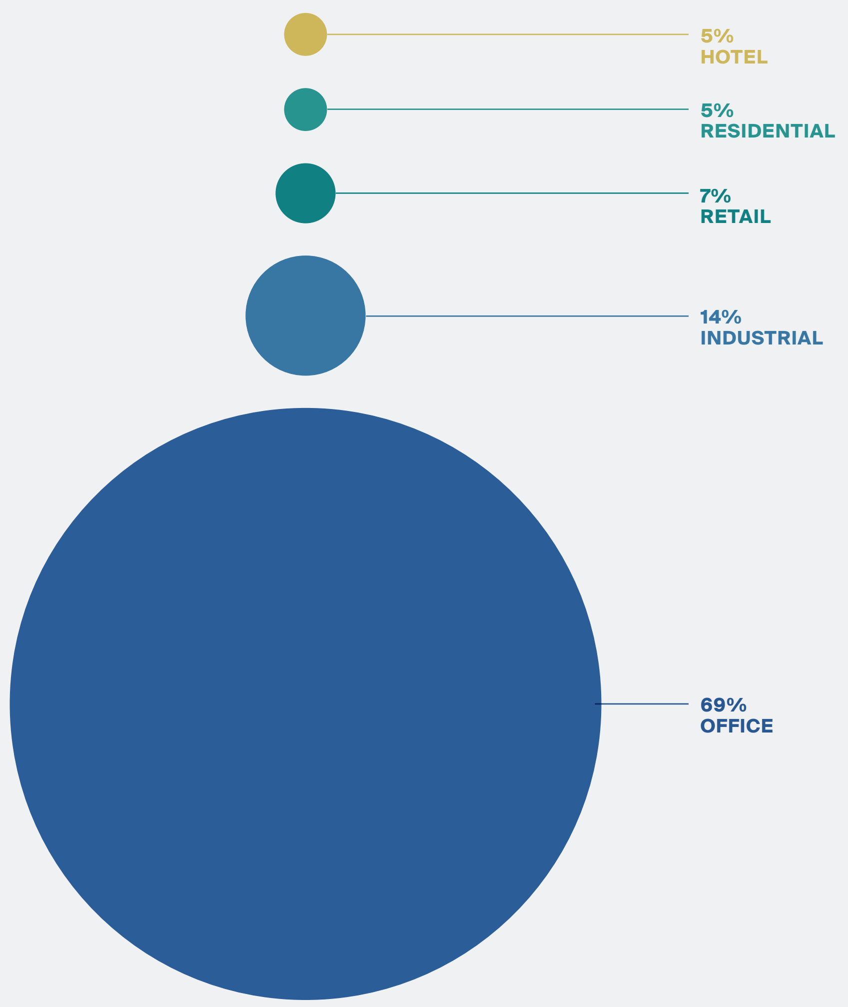
With debt cost soaring as the Fed tightens aggressively, yield-seeking investors will also be compelled to move up the risk curve to secure the desired spreads. Investors will have to move fast to secure the best opportunities. We expect portfolio rebalancing and sector rotation to be catalytic to investment activity. Investors will also gravitate to more active asset management strategies, such as repurposing and value-add plays, to generate alpha.

PRIME OFFICES FAVOURED

Globally, the office sector is expected to account for over two-thirds of cross-border investment volumes in 2022. As more workers return to the office, higher utilisation rates should translate into a more active leasing market. Still, the pandemic has altered work habits and the future of office could well be hybrid. The pandemic has elevated the importance of the location, amenities, asset quality and wellness attributes of office assets. More will be expected of an organisation's corporate spaces to serve the needs of a hybrid workforce. The attributes of prime grade buildings in core markets are well place to serve in the ongoing transition.

The start of 2022 has already seen several deals for marquee office assets changed hands, such as the Greenwood Plaza, Sydney, Australia, for US$613.6 mn. With macroeconomic headwinds and geopolitical tensions heightening uncertainty, well leased office assets will appeal to the defensive investor. As higher interest rates hold back gains in capital value, investors will also turn to the stability of income streams. With shorter leasing tenures in the region, which give landlords the ability to reset rents, as well as escalation clauses, the sector can serve as an effective hedge against inflation.

PREDICTION 3. APAC OFFICES MOST TARGETED
CROSS-BORDER INVESTORS' APAC ALLOCATIONS IN 2022



SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

OUTBOUND CAPITAL FLOWS

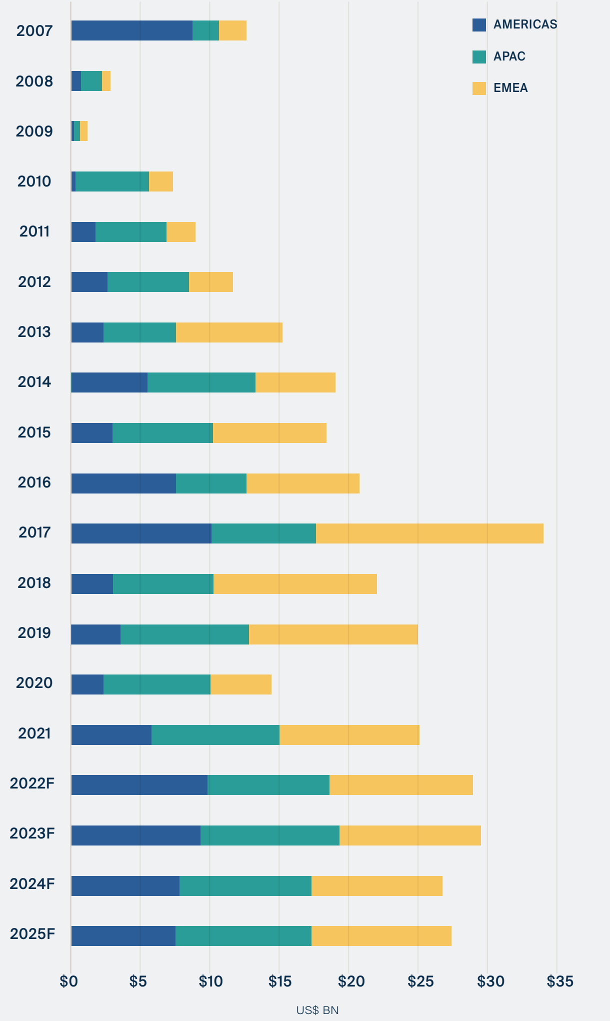
Europe turns prominent

Looking back, the last decade will also be remembered for the globalisation of Asian capital. While strategies and capital sources have evolved, inter-regional flows from the APAC will remain sustained. Allocations by core investors from the region, such as sovereign wealth funds and pension funds will spearhead investment volumes.

Europe is emerging to be a top target from APAC investors.

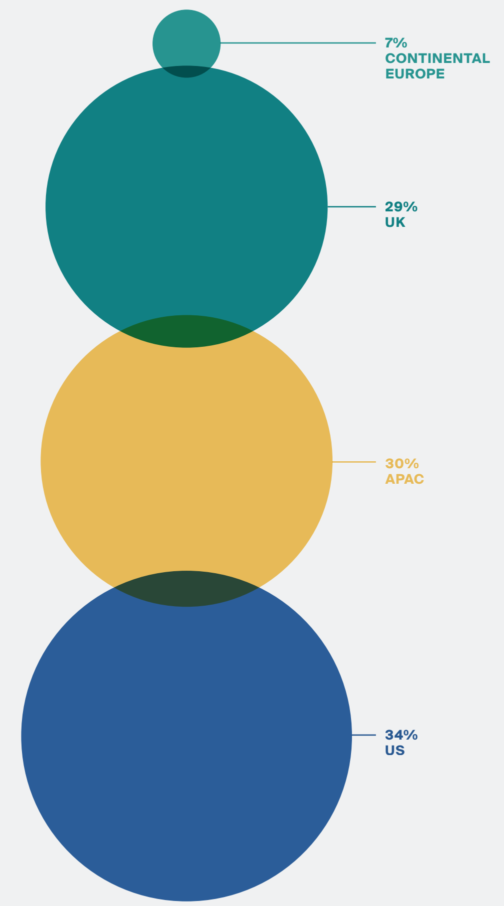
Notably, investment transactions in London offices reached £12.3 bn in 2021, a rise of £3 bn compared with 2020 – the highest annual change since 2017 – reversing a three-year downward trend following the Brexit referendum. This positive momentum looks set to continue in 2022 with £5.3 bn of deals currently under-offer.

PREDICTION 4. APAC OUTBOUND BACK TO PRE-PANDEMIC TRENDS
APAC OUTBOUND INVESTMENTS BY REGION



SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

PREDICTION 5. APAC INVESTORS LOOK PAST BREXIT
APAC OUTBOUND INVESTORS' TOP DESTINATIONS IN 2022



SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

RISING CAPITAL IN UNCERTAIN TIMES

FINAL WORD ON RISKS

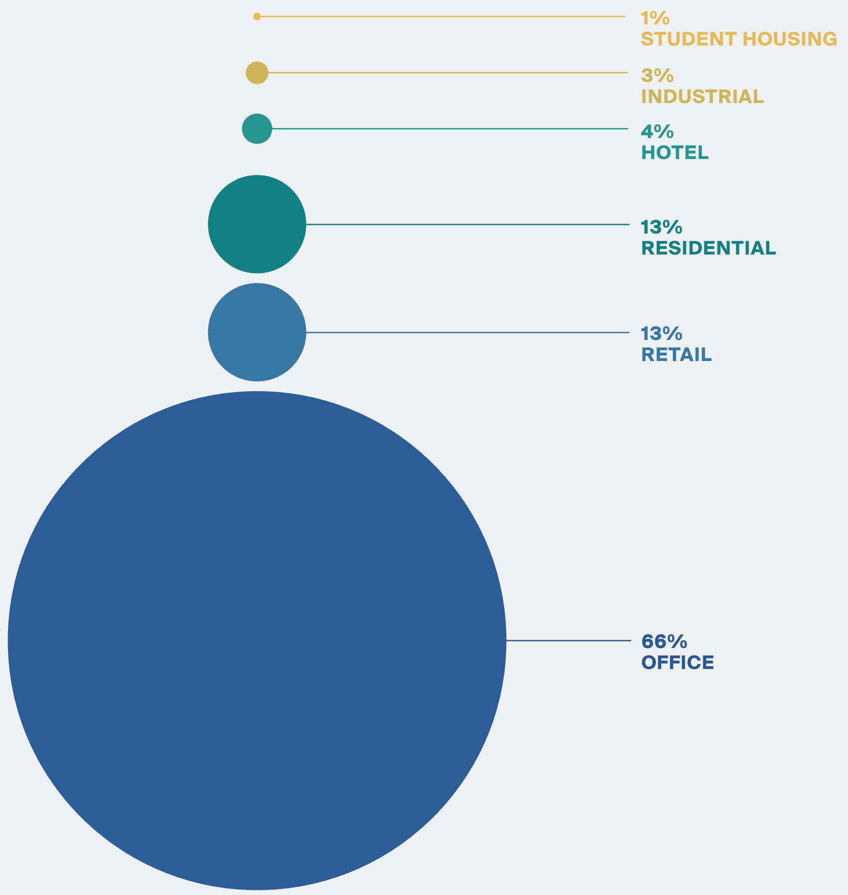
Maintaining perspectives in times of uncertainties

Momentum, which has remained sustained in the first quarter of 2022, will be prone to some moderation due to geopolitical dislocation. While investors will remain keen to deploy capital in the region, buying sentiment could also soften on the back of higher borrowing costs. Tightening by central banks globally remains one of the key concerns of investors. Hedging against more volatile exchange rates will also lead to higher transaction costs and raise the required rates of return.

In the short-term, bid-ask spreads are likely to widen as buyer and sellers adjust to the new financing environment. However, we expect this to gradually narrow as more motivated sellers emerge due to the higher refinancing costs. This could be pronounced in economies where inflation overshoots expectations, thus prompting an aggressive rate hike cycle.

The transition to a higher interest rate environment will introduce new dynamics to the market, and buyers and sellers will, undoubtedly, have to evolve a new equilibrium. The speed at which this transition is negotiated would be key in determining how the current investment cycle plays out. However, it is a process that markets constantly evolve into. We expect the region's long term structural fundamentals to prevail, which should remain supportive of investment levels.

PREDICTION 6. OFFICE DOMINATES APAC OUTBOUND ALLOCATIONS
ALLOCATIONS BY APAC OUTBOUND INVESTORS IN 2022

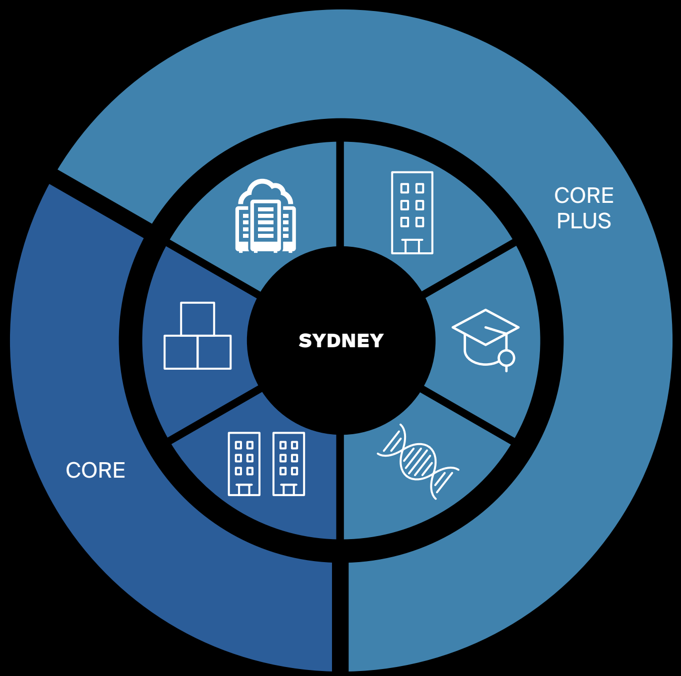


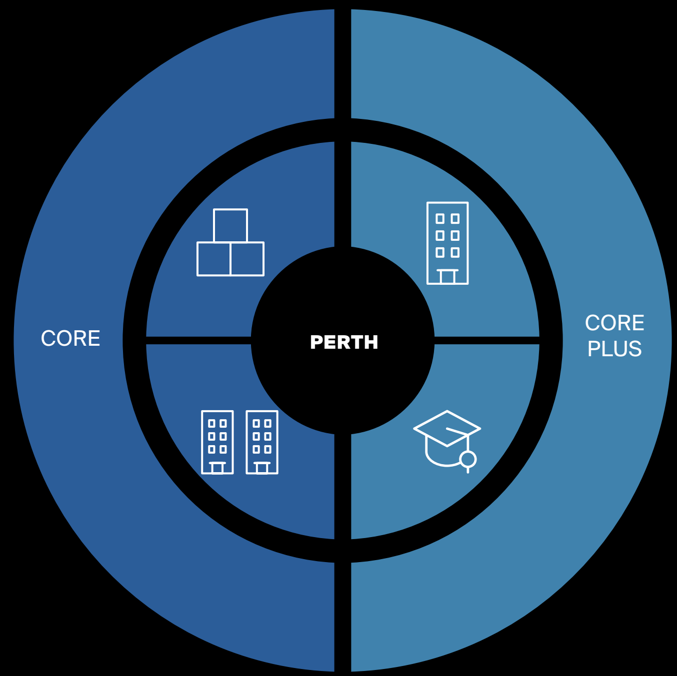
SOURCE: KNIGHT FRANK CAPITAL GRAVITY MODEL

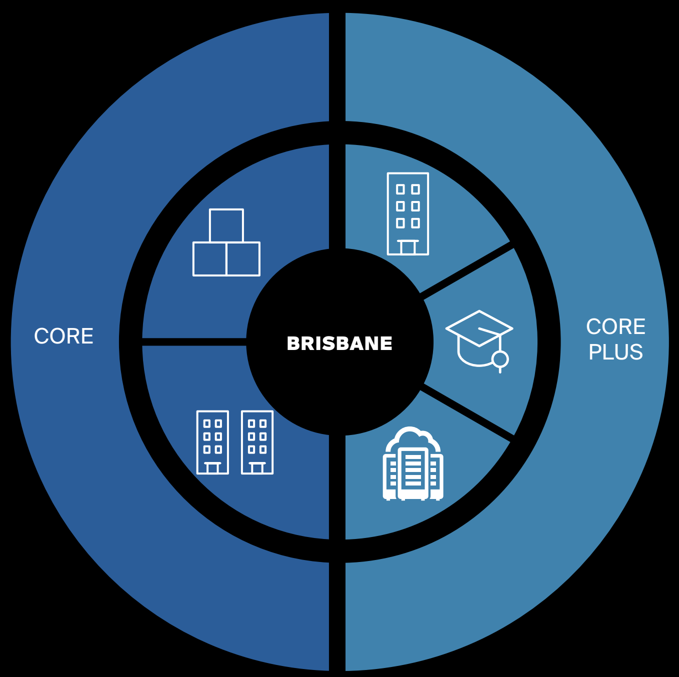
GATEWAY THROUGH UNCERTAINTIES

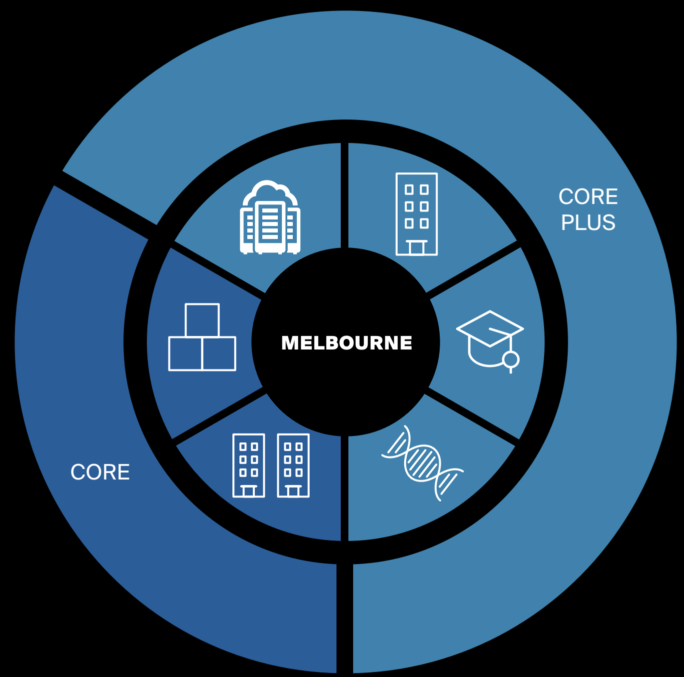
Where do we see opportunities over the next 12 months?
Sectorial potential for investment based on growth and risk characteristics.

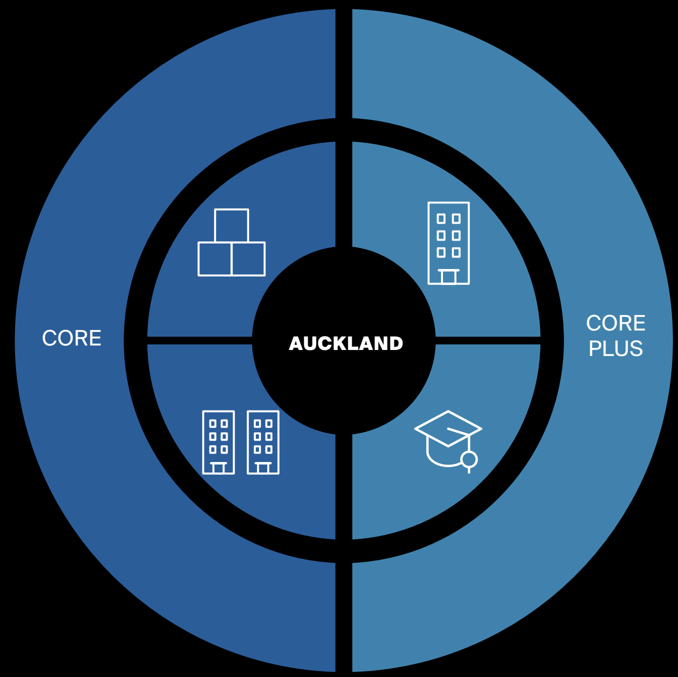
MARKET
OCEANIA

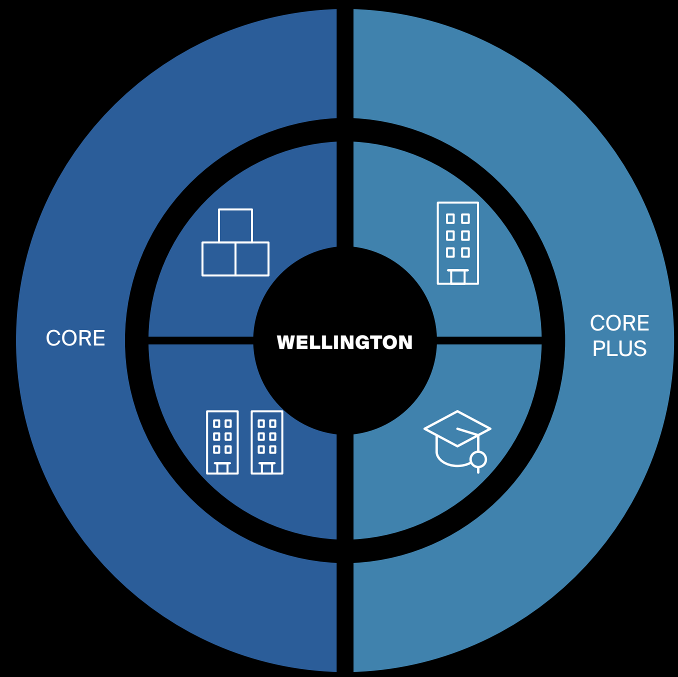










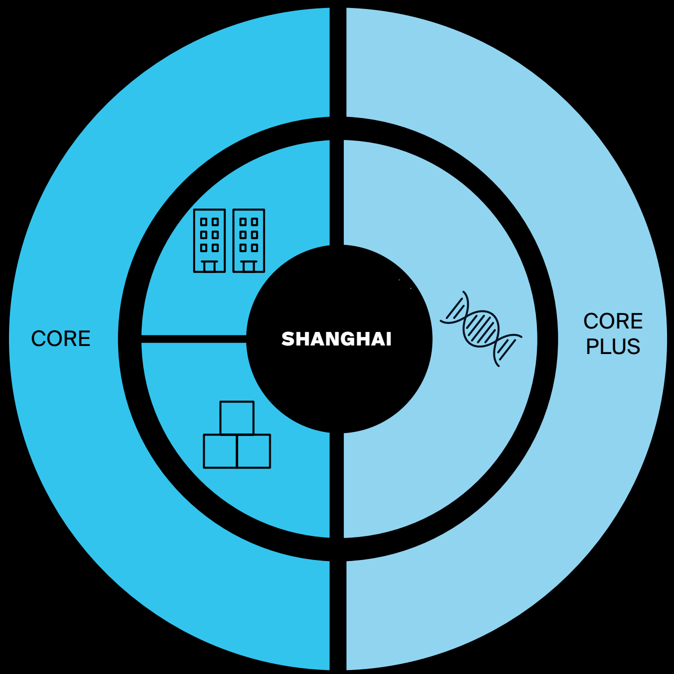


REPURPOSING
- FRINGE OFFICE

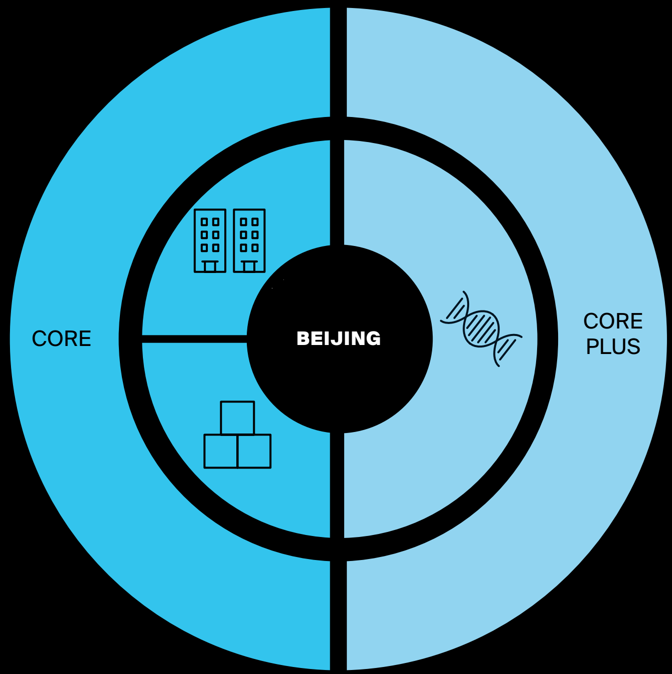
RISING CAPITAL IN UNCERTAIN TIMES

MARKET
EAST ASIA

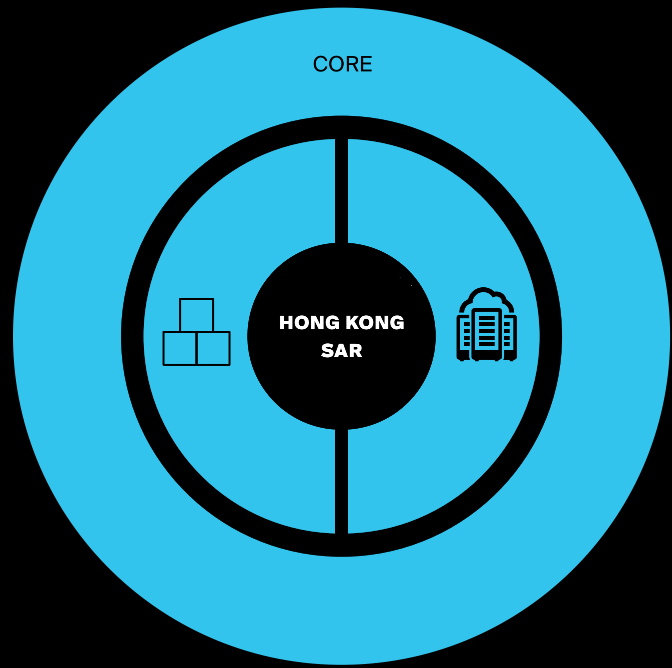
*SIMILAR TO SERVICED APARTMENT OR LUXURIOUS RESIDENCES MANAGED BY A PREMIUM HOTEL GROUP



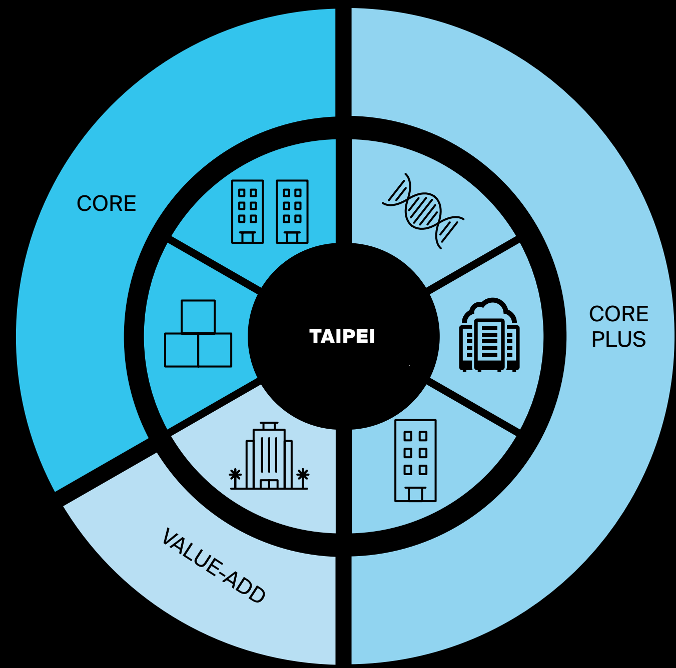
REPURPOSING
- HOTEL TO LONG-TERM RENTAL APARTMENT/ OFFICE
- FACTORY STAFF DORMITORY TO LONG RENTAL APARTMENT
- RETAIL TO CO-WORKING SPACE



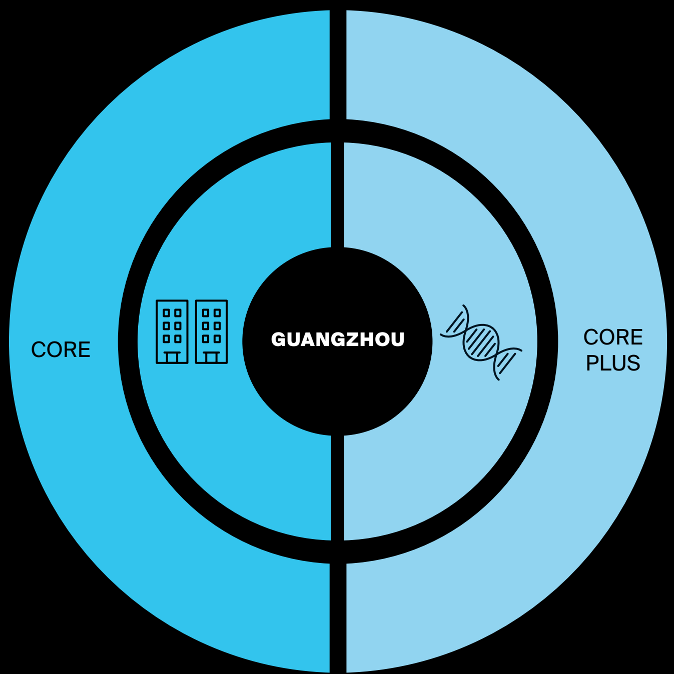
REPURPOSING
- HOTEL TO OFFICE/ LONG-TERM RENTAL APARTMENT
- RETAIL TO OFFICE

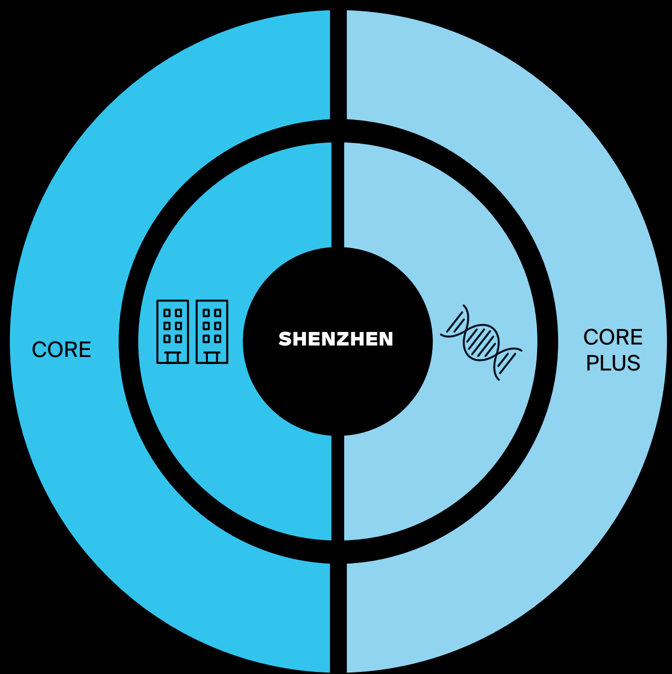


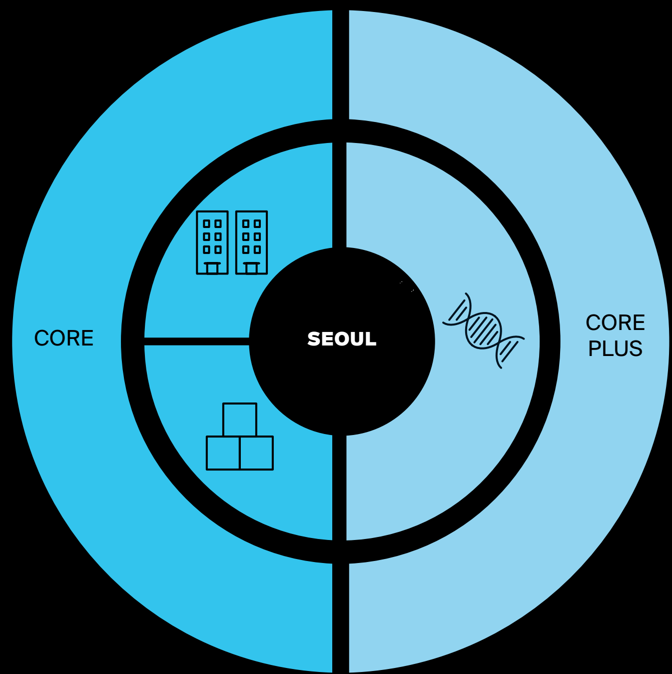
REPURPOSING
- HOTEL TO CO-LIVING

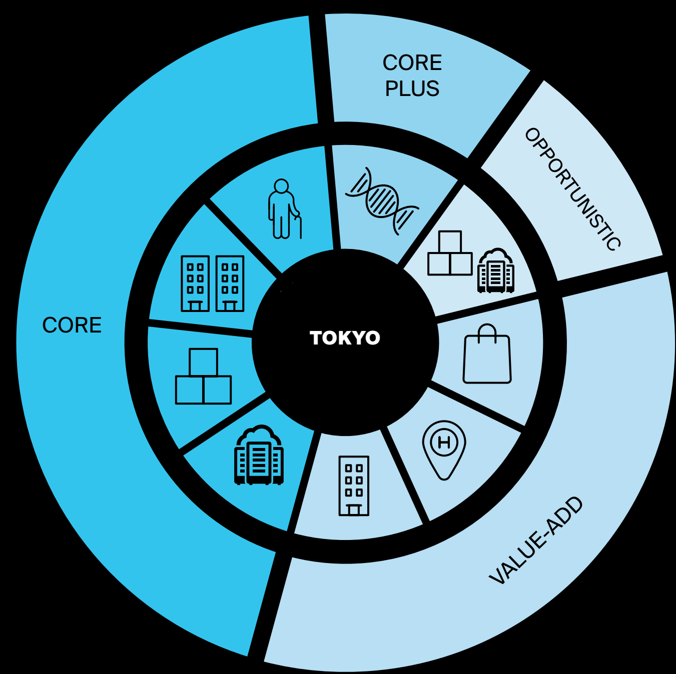


REPURPOSING
- HOSPITALITY
- RETAIL







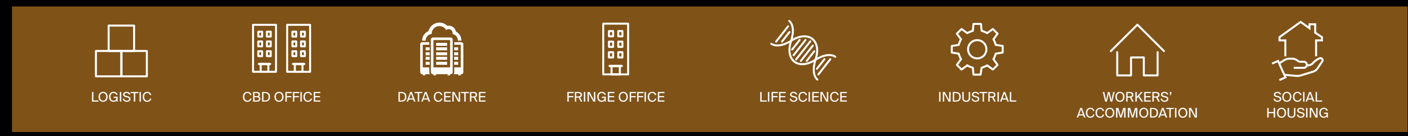


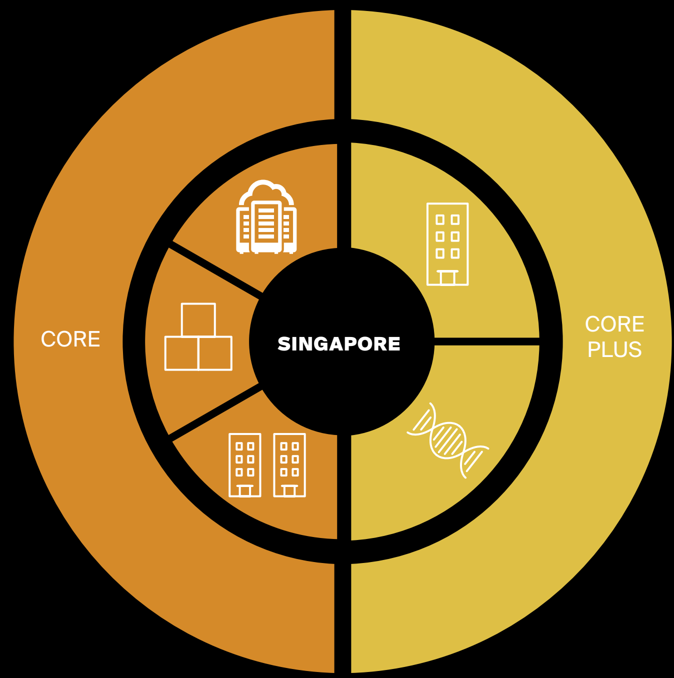
REPURPOSING
- HOTEL TO OFFICE/ CO-WORKING

MARKET
SOUTH ASIA

RISING CAPITAL IN UNCERTAIN TIMES

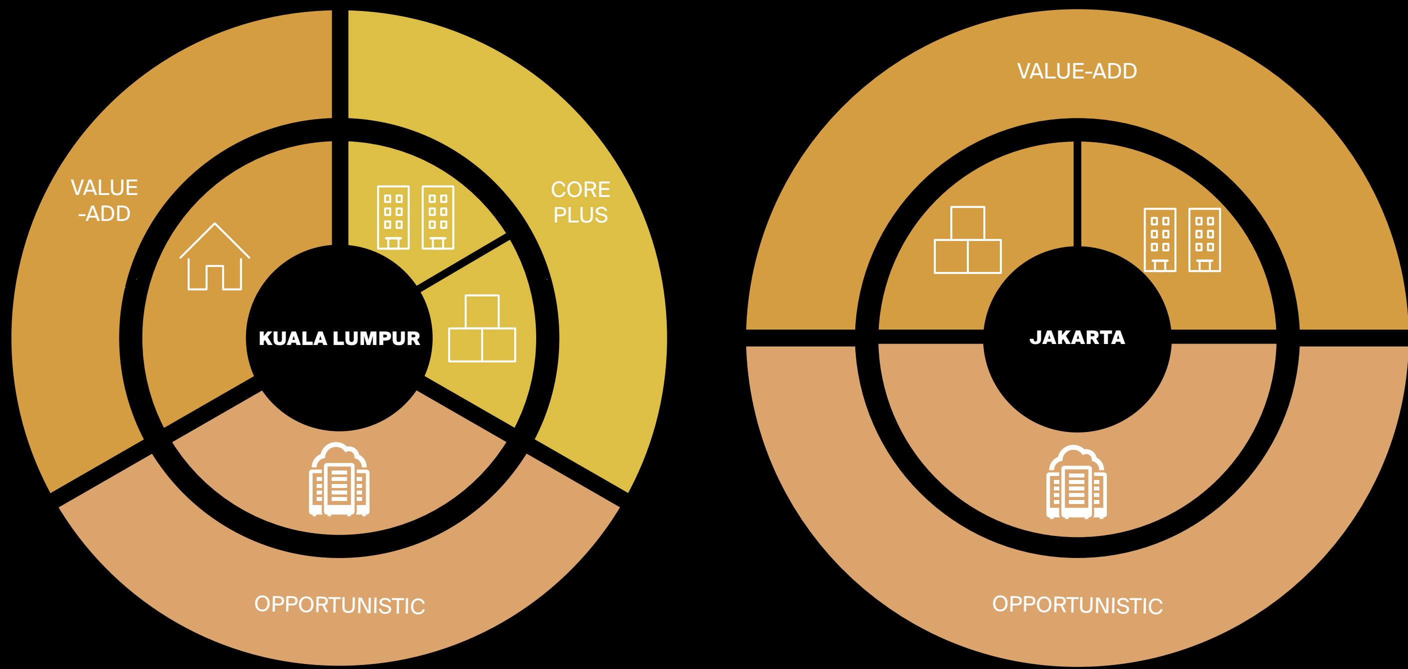
MARKET
SOUTHEAST ASIA





REPURPOSING

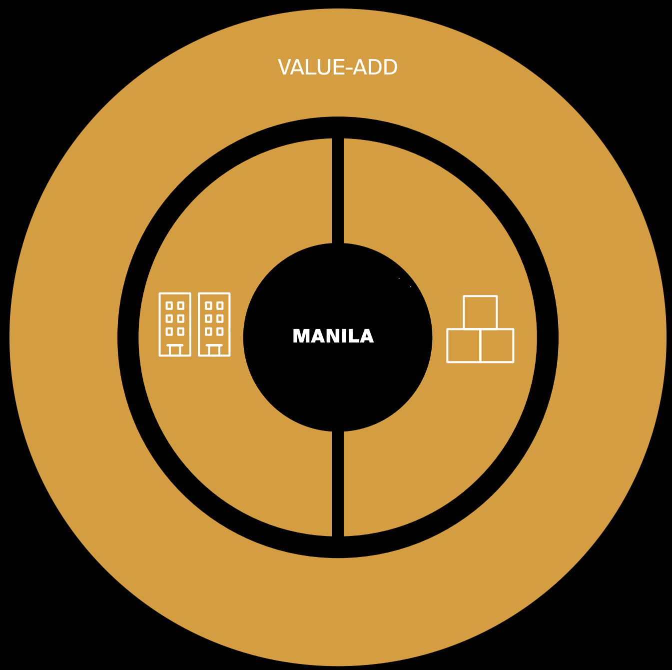
- OBSOLETE OFFICE BUILDINGS TO MODERN MIXED-USE DEVELOPMENTS

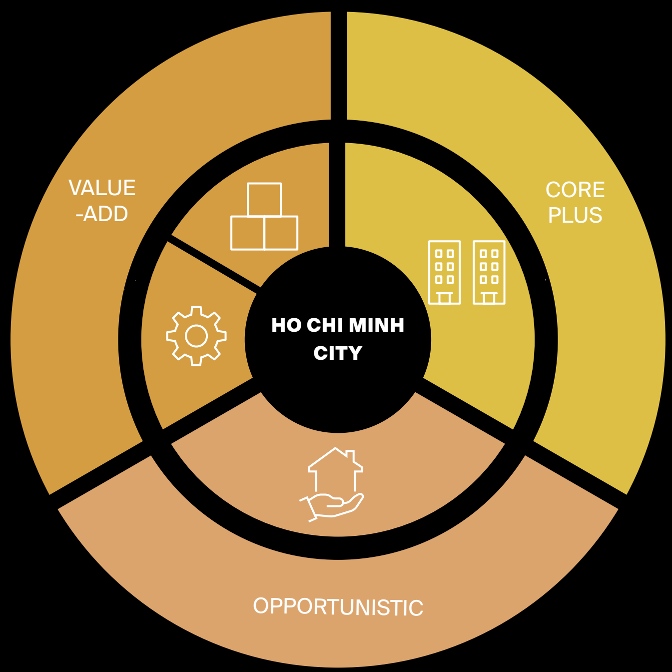


REPURPOSING

- OFFICE

MARKET
SOUTHEAST ASIA





REPURPOSING
- RETAIL

RISING CAPITAL IN UNCERTAIN TIMES

APAC SUSTAINABLY LED CITIES INDEX

INTRODUCTION

The issue with ESG is now more prevalent than ever and globally, investors are placing more emphasis on ESG considerations at every level of their assets. Be it at the individual building, portfolio or corporate level, investors are trying to find ways to distinguish and create a niche for themselves to maximise their returns from their ESG efforts. We see a swift uptake of ESG metrics benchmarking in the APAC region in recent years, motivated by the imminent need to curtail climate risks.

ESG comprises three pillars – Environmental, Social and Governance – all of which collectively contribute to effective performance, with positive benefits for the wider markets, society, and the world.

Hence, we introduce our APAC Sustainably Led Cities Index with the aim of helping investors understand how the cities they are investing into might influence their benchmarking and risk outcomes. We focus on the environmental rather than social aspects of city sustainability, distilling over 500 variables across 36 APAC cities, scoring their urbanisation pressures, climate risks and carbon emissions, and initiatives to reduce climate change, which can be combined into an overall sustainably led cities score.

THE STORY BEHIND THE DATA

The methodology is based on the global Active Capital Sustainably Led Cities research available for review here. There are four parts to the methodology. Firstly, determining the appropriate cities to consider for real estate investors; secondly, undertaking an extensive meta-analysis where we reviewed many cities sustainability indices and real estate benchmarks. For the real estate benchmarks, we looked at what elements of these benchmarks were based on what is around a building rather than the building itself; thirdly, sourcing and cleaning potentially relevant variables; and finally, running the econometric analysis to determine the most representative sustainably led cities score.

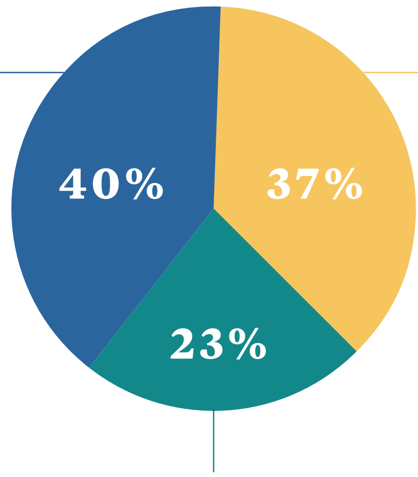
Our research covers 36 commercial real estate markets across the APAC region.

We undertook the meta-analysis by reviewing other non-real estate specific sustainable city indices, as well as different real estate specific sustainable city indices, different real estate ESG benchmarking tools, in addition to what major investors are considering when benchmarking their portfolios and assets against the ‘E’ of ESG or carbon-reducing specific criteria. The purpose of this step is to create a score that more specifically supports investor strategy and client benchmarking, than a more general green city index.

Based on this meta-analysis, we collected circa 500 variables ranging from the number of green-rated buildings to the proportion of urban area exposed to flood and storm surge risks. We then used exploratory factor analysis to reduce these down into the most relevant 13 variables, which combine across three sub-categories to create an overall sustainably led cities score. Each of the sub-scores and total scores are between 0 and 10, with 10 being the best outcome and 0 the worst.

The three sub-categories are below:

OVERALL SUSTAINABLY-LED CITIES FOR REAL ESTATE SCORE
THE FINAL SCORE IS MADE UP OF THE BELOW SCORES, WEIGHTED AS FOLLOWS:



CLIMATE AND CARBON

This is a measure of the change in per person carbon use over time, noting that rapidly growing cities may find their emissions per person reducing, even if overall emissions are increasing. Alongside this the score measures climate risk. This considers extreme weather events and estimated exposure to weather and climate-related disasters. The higher the score, the less exposed the city is to climate risk and / or lower carbon emissions per person.

URBANISATION PRESSURES

This measures the degree of urbanisation and population growth. The higher the score, the less pressure the city faces from rapid growth. Most high scoring cities are large both in terms of population and area and relatively more established.

GREEN SCORE

This includes initiatives reducing climate change, such as bicycle sharing as an alternative transportation use, the amount of green space and the number of green-rated commercial buildings.

THE RANKING

STANDARD*	RANKING	CITY	REGION
Platinum	1	Singapore	Singapore
Platinum	2	Sydney	Australia
Platinum	3	Wellington	New Zealand
Platinum	4	Perth	Australia
Platinum	5	Melbourne	Australia
Gold	6	Auckland	New Zealand
Gold	7	Shenzhen	Greater China
Gold	8	Hong Kong SAR	Greater China
Gold	9	Beijing	Greater China
Gold	10	Tokyo	Japan
Gold	11	Brisbane	Australia
Gold	12	Seoul	South Korea
Gold	13	Shanghai	Greater China
Gold	14	Bangalore	India
Gold	15	Taipei	Greater China
Silver	16	Guangzhou	Greater China
Silver	17	Delhi	India
Silver	18	Hyderabad	India
Silver	19	Kuala Lumpur	Malaysia
Silver	20	Mumbai	India

*Standard refers to the willingness of the cities in accepting and adapting to ESG metrics.
Platinum indicates that the city is very advanced and extremely open to accepting and adapting to ESG metrics from all stakeholders to a high degree.
Gold indicates that the city is slightly advanced and somewhat open to accepting and adapting to ESG metrics from all stakeholders to a certain degree.
Silver indicates that the city is advanced and open to accepting and adapting to ESG metrics from all stakeholders to a limited degree.

MOST SUSTAINABLE CITIES IN APAC

Based on our APAC Active Capital Sustainably Led Cities research, Singapore, Sydney, Wellington, Perth, and Melbourne lead the pack as the top five sustainably led cities for real estate in APAC. These cities usually benefit from a myriad of factors, such as reduction in carbon emissions per person, large number of green spaces, and low urbanisation pressures. Unsurprisingly, these factors are also shared among the top 10 cities in APAC.

However, an unavoidable issue by all cities would be climate risks, and some cities in APAC will be more prone to them than others, especially the cities located closer to the equator. We already see prolong drought taking the lives of many and heightening food insecurity. Sea level is also set to rise in tandem with the increase in global temperature.

While the real estate sector in APAC is adapting to the risks of these events, investors need to still brace themselves for how the impacts of climate risks and erratic weather changes would burden their investment portfolios. This is where our index fits as the underlying components of these scores are closely aligned to what investors are interested in when benchmarking their portfolio and individual buildings. For example, by including the number of green buildings in the green score, it reflects the willingness and proactiveness of the local government and organisations in pushing for our built environment to be more sustainable. This also highlights those cities with an established market of investible green assets.

TOP 3 FACTORS THAT CONTRIBUTE TO THE TOP 10 RANKING IN APAC

FACTOR ONE – AMOUNT OF GREEN SPACE AVAILABLE

To make our urban environments healthier and more liveable, and as cities grow to include more people in an already crowded space, nature and green spaces are now more vital than ever.

While there is currently no universal definition of green space, the World Health Organisation (WHO) defined it as *"spaces [that] may include places with 'natural surfaces' or 'natural settings', but may also include specific types of urban greenery, such as street trees, and may also include 'blue space' which represents water elements ranging from ponds to coastal zones"*. A common urban green space that we might frequent would be public parks and gardens. Other widely used definitions even include public green areas used predominantly for recreation such as gardens, zoos, parks, and suburban natural areas and forests.

Regardless of definition, multiple studies have shown that green spaces bring about a spectrum of benefits for cities and their inhabitants, which ranges from mental to physical to social (Table 2). Conversely, research has also shown that an inadequate amount of green space in the environment is associated with feelings of loneliness and lack of social support. Green spaces are even more essential now as people were too cooped at home during quarantine, thus it acts as a good combat tool against the pandemic.

TABLE 2: BENEFITS RELATED TO GREEN SPACES

MENTAL	PHYSICAL	SOCIAL
Lower risk of depression and psychological distress	Improve immune system brought about by relaxation from nature	Promote sense of community
Improve concentration	Encourage physical activity such as recreational walking	Foster social interaction
Enhance happiness		
Reduce stress		

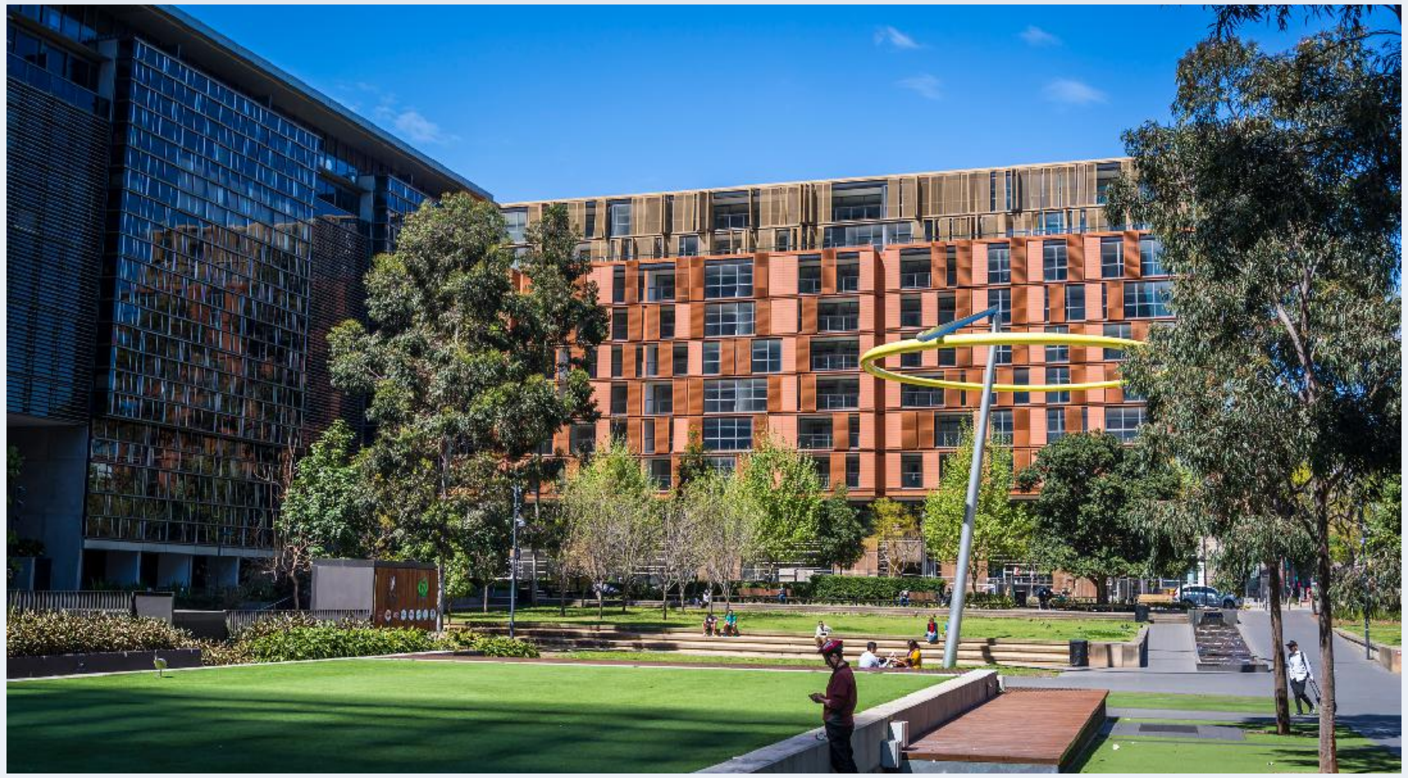
Cities also benefit from this in terms of talent retainment, which in turn affects the pool of highly skilled workers in the city. It is now a fierce competition between cities to attract, grow, and maintain talents from around the globe. According to a survey done by Livability.com regarding factors to consider when making a relocation decision, 39% of all respondents listed outdoor attractions and a community's arts and culture scene as top 3 factors in considering a relocation. The same survey also concluded that walkability and bike friendliness were among the top criteria for talents to relocate. Hence, providing adequate green spaces to boost living environment to the optimal is an advantage to cities when it comes to talent retention.

Case Study: Sydney

In May 2020, the New South Wales (NSW) government announced a A$5 mn plan to further develop Greater Sydney's green canopy by planting thousands of new trees across the city, with the assistance from Greening Australia and Landcare NSW. The government is cognizant of the effect of green spaces and how their people require them within the urban environment.

The plan complements the sentiments on the ground as the people in Sydney are turning to green spaces to seek reprieve during the pandemic. According to Hort Innovation's Government Greening COVID 19 – Pulse Check research, 60% of survey participants "said urban greening, including tree-planting, maintenance, potted colour displays, and other capital works projects like new parks, were now considered "essential" and expenditure would remain the same or be brought forward." Simultaneously, "87% of respondents noticed a positive shift in community attitudes toward urban green space."

Developers are also on board with the greening initiatives. Green spaces are traditionally, and unsurprisingly, an after-thought in most developments as they are not considered profitable. However, with such shift in emphasis on nature and green spaces, developers are slowly adapting to the change in preference. For instance, in the development of Central Park, Sydney, the design of the green components was prioritised before anything else. It comprises lawns, a pathway, artworks, seating, plants, trees, sandstone trims and heritage brickwork and designed in collaboration with Jeppe Aagaard Andersen. In recognition of the green efforts, the green area in Central Park was awarded with the 2020 Green Good Design Award for Green Urban Planning/Landscape Architecture, an annual prize presented jointly by the European Centre for Architecture Art Design and Urban Studies, and The Chicago Athenaeum Museum for Architecture and Design. Such award serves as a motivation for developers to continue to plan with the well-being of the people and city in mind.



RISING CAPITAL IN UNCERTAIN TIMES

FACTOR TWO – GREEN-RATED COMMERCIAL BUILDING

With 40% of carbon emissions emitted, 40% of the world's energy being used and 30% of the world's available drinking water being consumed from the built environment, it is only right that the industry devises ways to mitigate the worsening climate and carbon situation.

To incentivise developers to invest in sustainability, most government organisations in APAC have in place various green certifications to reward the building if it meets their requirements, such as reduced potential environmental impact, lessened energy, water, and material resource consumption, amongst others. There are also various reputable global certificates that developers can apply for their buildings. These awards serve as a differentiating factor to buildings in the real estate market, allowing corporates to cultivate a positive image for themselves, and enhance returns on both the leasing rate and resale value of their buildings. These awards are not mutually exclusive, and a green building could have multiple of such certificates, which would further boost their green status and stand out from the pack.

There are many local, country, and regional level certifications covering one or more elements of ESG. Some examples are listed in Table 3 below.

TABLE 3:
NOTABLE GREEN CERTIFICATIONS ON THE APAC AND GLOBAL LEVEL

ASIA PACIFIC	SINGAPORE	BCA GREEN MARK
	AUSTRALIA	GREEN STAR
	OCEANIA	NABERS
	MALAYSIA	GREEN BUILDING INDEX (GBI)
	TAIWAN	GREEN BUILDING EVALUATION
	HONG KONG SAR	BEAM PLUS
GLOBAL		GRESB
		BREEAM
		LEED

Other than the abovementioned awards, government authorities have also set aside a budget to aid building owners in retrofitting and raising the sustainability level of their buildings to contribute to the city/country's green goals within a certain period. Owners are eligible for grants based on the extent of their retrofitting works. The higher the reduction in energy performance/emissions achieved through the refurbishment, the more the funding support received. Such plans would reach out to a wider range of stakeholders as some of the buildings are privately owned by individuals who might not have the financial means or motivation to keep their building up to date with the industry standards. The funding would then serve as a monetary incentive to encourage these owners to not only contribute to the environment but also enhance the competitiveness of their buildings.

With increased awareness about the exacerbating climate issues in APAC, more tenants are opting for buildings with sustainable features as it not only contributes to the environment but also their corporate image. However, as demand currently outstrips supply, landlords could command a premium of as high as 10% on sustainable buildings. Based on our observation, developers in APAC will likely expedite their momentum in their development of sustainable buildings to capture the rising demand for green spaces and alleviate the effect of climate change.

Moreover, our study combining proprietary Knight Frank data with green ratings and other geographical evidence for prime office buildings in London, Sydney and Melbourne has found that green-credited buildings command 8-18% sales price premium compared to non-green credited buildings (refer to full study here), further motivating building owners to develop buildings that have sustainability features.

Case Study: Singapore

The Building and Construction Authority (BCA) of Singapore launched the Singapore Green Building Masterplan (SGBMP) in 2021 as part of the Singapore Green Plan. Under the SGBMP, three ambitious targets were introduced to encourage for a more sustainable and low carbon-built environment. Coined as "80-80-80 in 2030", the plan:

- Targets to green 80% of the buildings in Singapore
- For 80% of new developments to be Super Low Energy (SLE) buildings from 2030
- Aims for best-in-class buildings to achieve at least 80% improvement in energy efficiency over the 2005 baseline by 2030.

As of March 2022, 49% of Singapore's buildings (by Gross Floor Area) have been greened, a stunning 6% increase from the end of 2020. The significant jump can be attributed to the Green Mark Incentive Scheme for Existing Buildings (GMIS-EB) scheme where S$100 mn was set aside to support existing private building owners to undergo energy efficient retrofitting works and adopt technologies and practices in their buildings to attain compelling enhancements in building energy efficiency. Eligible owners would receive a cash funding of up to 50% (capped at S$3 mn) of costs for purchasing and installing energy efficient equipment and engaging professional services to improve the energy efficiency of existing buildings from BCA. The scheme has since ended and a second version was introduced in tandem with the SGBMP.

The Green Mark Incentive Scheme for Existing Buildings 2.0 (GMIS-EB 2.0) is a similar scheme to GMIS-EB that is to be rolled out in the second quarter of 2022. With S$63 mn available for aiding building owners, the new scheme is outcome-based where building owners can receive funding support based on the Green Mark certification rating and carbon emissions reduction achieved through retrofitting, subject to the funding cap.

As one of the greenest cities in the world, Singapore is well on its way to achieve the ambitious plans it has set out for itself. This scheme, along with others in the SGBMP, showed the determination Singapore has in contributing to the build environment and mitigating climate issues.

TABLE 4: FUNDING FACTOR AND FUNDING CAP FOR GMIS-EB 2.0

QUALIFYING FACTOR	FUNDING FACTOR	FUNDING CAP
Green Mark Platinum	$25/t$CO_2$e	$600,000 or up to 50% of qualifying cost, whichever is lower
Green Mark Super Low Energy (SLE)	$35/t$CO_2$e	$900,000 or up to 50% of qualifying cost, whichever is lower
Green Mark Zero Energy (ZE)	$45/t$CO_2$e	$1,200,000 or up to 50% of qualifying cost, whichever is lower

SOURCE: BCA

How Hong Kong SAR's property market is responding to the ESG trend

By Martin Wong, Head of Research & Consultancy, Greater China

In recent years, people from all walks of life have been talking extensively about the impact of ESG (Environment, Social and Governance) on their daily lives, business operations and investment strategies. However, not everyone thoroughly understands what ESG is and its purpose. ESG is not only about financial performance but also about climate change, workplace conditions, health and safety, and corporate governance practices.

In Hong Kong SAR, developers are also paying attention to ESG than ever, from their internal policies and governance to project planning, green financing, leasing, operations, and facilities management. Previously, Swire Properties launched its tranche of US$500 mn green bonds due in 2028, partly for the development of its One Taikoo Place project, a Grade A office located in Hong Kong SAR East, and all of Swire Properties projects under development have achieved the highest green building certification ratings.

New World Development also issued its first green bond in Hong Kong SAR worth US$310 mn in 2018. Following the first green bond issued in 2018, New World Development had secured three more green loans totalling HK$2.2 bn in 2020 and 2021 respectively for NCB Innovation Centre (previously known as 888 Lai Chi Kok Road) in Cheung Sha Wan. A first mover of green finance, Link REIT recently obtained a HK$12 bn sustainability-linked loan (SLL) with 16 major banks, which was the largest of its kind in the real estate sector and among REITs in Asia.

According to Hong Kong SAR's Climate Action Plan 2050, the Hong Kong SAR government aims to achieve carbon neutrality by 2050. Green buildings have played a crucial role in ESG, as currently over 90% of the electricity in Hong Kong SAR is consumed by all type of buildings. In response, Link REIT has taken specific measures to address greenhouse gas emissions from its operations and has successfully reduced its CO2 emissions by 9% in the last financial year. As a result of asset enhancement projects and acquisitions, the proportion of assets of Link REIT with Green Building Certification doubled from the previous financial year.

In terms of green leasing, office tenants are also paying more attention to ESG elements, especially those MNCs and the listed companies in Hong Kong SAR. On one hand, companies must implement the global ESG policy set by their parent companies requiring all future commercial buildings to have Green Building Certification. On the other hand, with the latest guidelines implemented by the Hong Kong SAR Stock Exchange in May 2021, all listed companies are required to report annually on their performance in the ESG area.

While leading developers, tenants and overseas investors have raised concerns about the ESG elements of real estate properties, local investors in Hong Kong SAR have generally not given much thought to the ESG aspects. According to an attitude survey of Knight Frank's Wealth Report, 38% of investors in Hong Kong SAR indicated that COVID-19 had made them more interested in ESG-focused property investments than they were a year ago. This compares to 75% U.S. investors who are more interested in ESG projects due to COVID-19, 73% in the Chinese Mainland, 67% in Australia, 54% in the U.K., 43% in Singapore and 36% in Japan. In addition, only 58% of Hong Kong SAR investors thought that they had all the information they required to assess ESG-related investments, which lags behind the world average of 68%.

In my opinion, the Hong Kong SAR property market is currently focusing on the on the "E" (Environment) aspect of ESG, but not enough effort is made to the "S" (Society) and "G" (Governance) aspects, mainly because "E" has a direct impact on financial performance. For example, the Buildings Department added BEAM as one of the prerequisites when applying for GFA concessions. Additionally, Green buildings are directly related to financial performance in term of savings in electricity costs throughout the operating lifecycle. While some Hong Kong SAR investors may believe that there is still a long way to go before 2050, most major markets around the globe are aiming for net-zero carbon emissions by 2030.

Hong Kong SAR is one of the most dynamic property markets, with many MNC occupiers and foreign investors active. Properties without ESG elements will become unattractive to many corporate occupiers and will also experience higher operation risks. As a result, buildings that are non ESG compliant will be less attractive in the investment market. Lastly, ESG also reflects social responsibility, and I hope that investors will consider their interests as well as the public's.

FACTOR THREE – URBANISATION PRESSURE

A study done by the United Nations has projected that by 2050, two thirds of the world's population would reside in cities or other urban areas. One of the biggest contributors would be Asia where urbanisation rate has never been faster in recent years. In the same outlook, half of the world's urban population would be concentrated in Asia, with China and India having a combined share of 25%.

Cities generate more than 80% of the global Gross Domestic Product (GDP), rendering the phenomenon of urbanisation ever more pertinent. If managed well, urbanisation can lead to sustainable urban growth by enhancing productivity, encouraging innovation and current ideas to form.

However, the rate and scale of urbanisation bring about a range of social and environmental challenges and resource demands. Unforeseen challenges resulting from rapid growth include lack of affordable housing, well-connected and economical public transportations, and other essentials and amenities one would require. Among the most pressing issues would be the availability of jobs, especially for the urban dwellers living in poverty in the cities. The World Bank estimated for the number of people living in poverty to grow throughout emerging Asian economies outside of China in 2021, following the same prediction from 2020. This can be attributed to employment opportunities being squeezed from the prolonged pandemic.

Hence, how well a city is planned and managed is vital since its land use pattern and physical infrastructure will stay status quo for generations to come. Its functionality will determine its ability to accommodate an urban sprawl, albeit at times an unsustainable one.

Case Study: Wellington

Raking in the fourth spot on the index is Wellington, the capital of New Zealand. Dubbed 'the coolest little capital in the world' by Lonely Planet, the compact city serves a mix of culture, history, nature, and cuisines. It is also the top spot for many when it comes to living, employment and retirement given the proximity to the natural environment. As such, the Wellington government anticipated a population boost of around 50,000 – 80,000 people and 24,600 – 32,200 new homes over the next 30 years. Safe to say, they are ready to welcome the enlarged population with their urban planning strategies in place.

The Wellington Spatial Plan, also known as Our City Tomorrow: He Mahere Mokowā mō Pōneke, is the city's approach to manage sustainable growth. The Plan helps to:

- Direct growth and improvement for: the environment, housing choice and affordability, access to jobs and opportunities, community wellbeing, and visitor experience
- Prioritise investments like transport, three waters, community facilities, and parks and open spaces
- Guide the look and feel of future development
- Guide investments that others make in the city

Adopted by Councillors on 21 June 2021, the full plan has since been completed and incorporated, which can be accessed by all via their official website. Prior to that, rounds of amendments were done by the urban planning team with feedback collected from community engagements. Both actions ensured transparency by allowing citizens to comprehend the strategies the authorities are undertaking to better plan for the new population to come while balancing the needs of their citizens.

To illustrate, when the respondents stated that they would like to have a vibrant, liveable city with high quality of life, the plan was altered to place more emphasis on density where certain housing areas are designed to house more people through the development of new District Plan controls and supporting design guidelines. Focus will also be spotlighted on the spaces between developments and how the open and public spaces, such as streets and green lands, can support urban life.

RISING CAPITAL IN UNCERTAIN TIMES

GREEN FINANCING

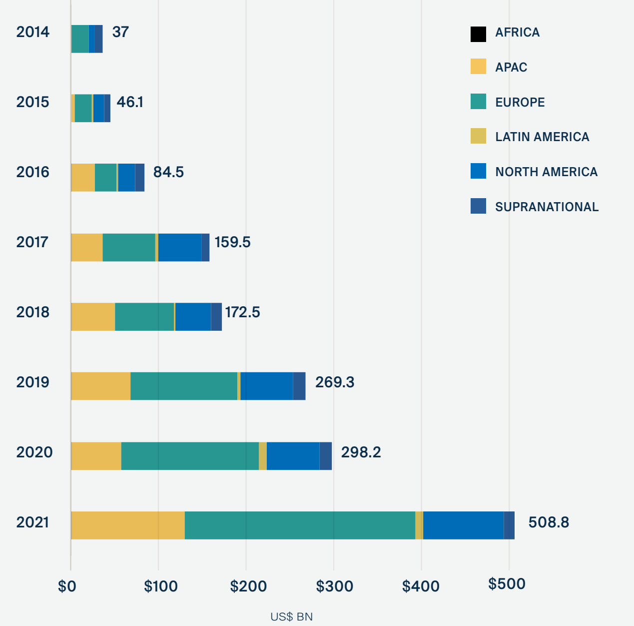
We have observed a surge in green capital allocations in APAC in recent years as the action to achieve carbon neutrality gained momentum. More APAC economies have outlined plans to achieve net-zero emissions and invest in projects to cut down carbon intensity. These guidelines would highly likely give impetus to green financing in 2022 and beyond given the emphasis on going green.

Green financing is any structured instrument (can be a product or service as well) used for investment into climate-related or environmental projects and is a vital tool in the net-zero journey. Such funds encourage the development of green projects and/or curtail the impact of carbon emissions by existing buildings. Green bond is one of the notable forms of green financing and is a rapidly growing sector in APAC.

Based on data from the Climate Bonds Initiative (CBI), a UK-based green debt tracker, the annual green bond issuance market ended at US$508.8 bn in 2021, a colossal surge of 71% from a year prior. 2021 is also the first time that the market surpassed the half trillion mark, signifying the increasing prominence of green financing globally.

While Europe unsurprisingly reigned the green bonds issuance market with 52% of market share, APAC observed the most paramount annual growth at 129%, making it a quarter of the market share and the fastest growing region for green bond sales.

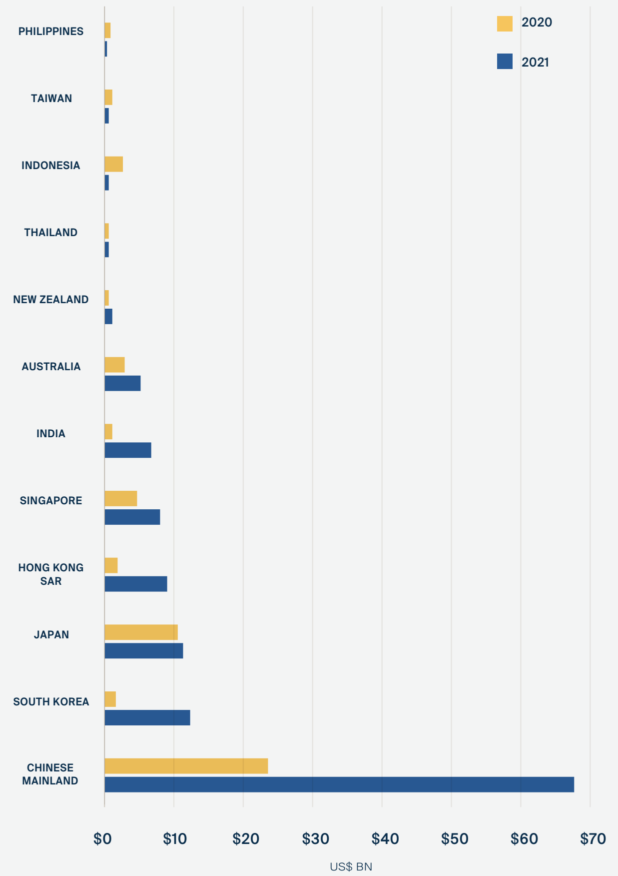
ANNUAL GREEN BOND ISSUANCE BY REGION



APAC clinched a total of US$129.50 bn worth of green bonds for the whole of 2021. Among the region, China issued approximately US$68 bn worth of the green bonds, outpacing the combined value of the rest of the APAC countries captured by CBI. This also marked a year-on-year increase of 186% for China. Following remotely behind China's lead is South Korea at US$12.5 bn, Japan at US$ 11.5 bn, Hong Kong SAR at US$9.3 bn and Singapore at US$8.1 bn.

SOURCE: CLIMATE BONDS INITIATIVE (CBI), KNIGHT FRANK APAC RESEARCH

AMOUNT OF GREEN BONDS ISSUED 2020 VS 2021



SOURCE: CLIMATE BONDS INITIATIVE (CBI), KNIGHT FRANK APAC RESEARCH

Being the world's largest emitter of greenhouse gases with a reliance on coal for energy, it is of no wonder that China is putting in all its effort in combating climate change. The Chinese government has set a 2060 Net Zero emissions target and launched a carbon emissions trading scheme. When the green bond market first took off in 2015, the People's Bank of China (PBoC) and the National Development and Reform Commission (NDRC) were quick to publicise regulations and guidelines, allowing the market to grow at a tremendous speed under an encouraging environment.

Neighbouring Hong Kong SAR is also adopting significant strategies in its sustainable finance sector. The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) co-initiated the Green and Sustainable Finance Cross-Agency Steering Group (CASG) in 2020 with one of its aims being to accelerate the growth of green and sustainable finance in Hong Kong SAR. To achieve its goals, the CASG has implemented five near-term action points fortify Hong Kong SAR's financial ecosystem in promotion of a greener and more sustainable future.

In a similar metropolis, Singapore has in place a Green Finance Action Plan to support a sustainable Singapore and facilitate Asia's transition to a sustainable future. Aiming to be the leading global centre for environmentally sustainable finance, the Green Finance Industry Taskforce (GFIT) was convened by the Monetary Authority of Singapore to implement several guides and one of it was a framework to help banks assess eligible green trade finance transactions. It provides a principles-based approach for banks to assess eligible green trade finance transactions, and specific guidance on recommended industry certifications for trade finance activities to qualify as green.

As a result, we see some of the examples below, where all players in the real estate field participated in green financing, be it green loans, green bonds, or other ways of sustainable funding.

TABLE 5: EXAMPLES OF GREEN FINANCING IN DIFFERENT REGIONS

Corporation/ Region	Date	Type	Amount	Description
CDL & MCL Land, Singapore	Sep 2021	4.5-year Green Loan	S$847 mn	• S$429 mn green loan, provided by DBS Bank, to finance the development at Northumberland Road • S$418 mn green loan, provided by UOB, to fund the executive condominium project at Tengah Garden Walk • Projects are expected to secure the BCA Green Mark GoldPLUS certifications
Henderson Land, Hong Kong SAR	Oct 2021	3-year Green Term/ Revolving Credit Facility agreement	HK$1 bn	• Provided by DBS Hong Kong for financing of eight eligible green development projects • Projects must attain green building standards including but not limited to the precertification or certification of Platinum Certificate of LEED and Well Building Standard, or BEAM Plus with Gold rating or above
Lendlease, Australia	Oct 2020	7-year fixed rate green bond with a coupon of 3.40%	A$500 mn	• Proceeds to be used on green buildings and earmarked to eligible projects in its global portfolio • Initiatives such as lowering of carbon emissions, reducing the environmental impact of materials, and delivering health and wellbeing benefits • Follows Lendlease's two new sustainability targets to tackle the climate crisis and create measured social value
GLP, Global	May 2021	Green subordinated perpetual securities with a coupon of 4.50%	US$850 mn	• Offering was upsized from the initial target of US$500 mn • Not callable for the first 5 years • 25 basis points (bps) step-up margin from year 10, and an additional - and cumulative - 75 bps step-up margin from year 25 • Proceeds will be used to refinance eligible green projects in accordance with GLP's green finance framework

SOURCE: KNIGHT FRANK APAC RESEARCH

Although we witnessed the prominent rise of green financing in APAC in recent years, it is estimated that the scale of green finance has yet to attain the required scale. To meet the net-zero emission goals by 2050, the International Energy Agency estimated that global investments in energy projects need to be hastened by more than twice its current pace by 2030. In the same vein, the Boston Consulting Group assessed that the volume of climate financing has to be massively scaled up from the current amount issued by five to eight times over the next three decades.

There is still a long way to catch up to our global counterparts as shown by our Knight Frank research on sustainable financing. To address the gaps, we foresee APAC economies to depend on innovative green finance instruments in curtailing climate issues and achieving their net-zero goals in the future. The green finance market is here to stay and will only grow on the back of rising awareness on the destructiveness of climate change and market uncertainties.

MARKET FOCUSED OUTLOOK

MULTIPLE HEADWINDS AHEAD

Chinese Mainland

In 2021, China's economy rebounded strongly, with GDP growth reaching 8.1% for the whole year, becoming more vital to support global economic growth. With a robust economic recovery from the COVID-19 pandemic, business' confidence and investor sentiment continued to recover. According to Knight Frank, the total transaction volume of China's real estate investment market reached CN¥442.78 bn in 2021 with a YoY increase of 50.7% from 2020. Both domestic and overseas investors have shown their confidence in the Chinese market.

In terms of investment destinations, the total transaction volume of Beijing, Shanghai, Guangzhou and Shenzhen in 2021 accounted for 36.7% of the total transaction volume in China. In terms of the transaction volume, Shanghai is still the most attractive investment destination for investors, which recorded CN¥82.93 bn in 2021, an increase of 23.1% YoY; Beijing recorded CN¥38.91 bn, an increase of 3.5% YoY; Guangzhou recorded CN¥26.01 bn, an increase of 59.7% YoY; Shenzhen recorded CN¥14.59 bn, up 44.7% YoY.

In terms of asset class, with the economic stabilization, office buildings, industrial and logistics warehouse and retail properties are the most preferred asset classed among investors, and the transaction volume of these asset classes accounted for over 76.7%. Offices have always accounted for the largest percentage of the transaction volume of the real estate investment market in China, reaching approximately 32.6% of the total transaction volume in 2021. The total transaction volume of industrial and logistics assets increased significantly, from CN¥73.15 bn in 2020 to CN¥110.37 bn in 2021, with a YoY increase of over 50%.

In terms of buyers' origin, due to the influence of international travel restrictions, domestic transactions weredominant in the market, with major buyers including domestic enterprises, insurance and real estate trust companies. Meanwhile, the number of owner occupiers is also gradually increasing. In addition, foreign-funded institutions with experienced local teams were relatively active, thus facilitating the completions of transactions.

One of the milestones in China's real estate investment market is the launch of China's first batch of listed infrastructure REITs, including industrial parks and logistics assets, which will facilitate capital recycling and divert significant funds to developing critical infrastructure in the country. The asset class has gained investors' interest with the first batch of public REITs as a whole trading above their IPO prices. We expect investor interest in C-Reits to remain strong.

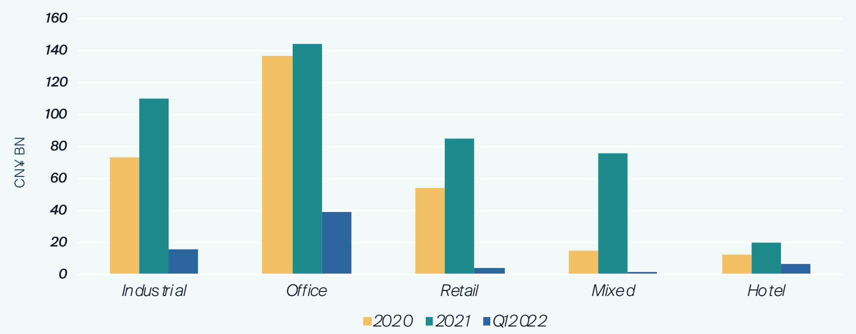
Looking forward to 2022, Shanghai pressed the pause button at the end of the first quarter due to the COVID-19 outbreak. Meanwhile, there are also outbreaks in first tier cities such as Beijing, Guangzhou and Shenzhen. The recurring epidemic and strict lockdown policies will have a significant negative impact on the real estate investment market. We expect that if the epidemic continues in the second half of 2022, both investment activity and transaction volume will decline.

Foreign investment will slow, and domestic institutions will have opportunities to accelerate the acquisition of properties for self-use or investment purposes. Logistics warehouse, biopharmaceutical business park and office buildings will be the focus of the market.

With a robust economic recovery from the COVID-19 pandemic, business' confidence and investor sentiment continued to recover. The total transaction volume of China's real estate investment market reached CN¥442.78 bn in 2021 with a YoY increase of 50.7% from 2020. With the economic stabilization, office buildings, industrial and logistics warehouse and retail properties are the most preferred asset classed among investors. Domestic transactions were dominant in the market, with major buyers including domestic enterprises, insurance and real estate trust companies.

Regina Yang
Head of Research & Consultancy, Shanghai & Beijing
regina.yang@cn.knightfrank.com

BREAKDOWN OF SECTOR TRANSACTION 2020 - Q1 2022



Drivers

- Loose monetary policy
- Strong leasing demand for logistics warehouse
- ESG-linked real estate investments will increase

Sectors to watch

- Offices
- Industrial and logistics
- Biopharmaceutical business park

RISING CAPITAL IN UNCERTAIN TIMES

STEADY INVESTMENT APPETITE

Hong Kong SAR

Despite continued disruption by the pandemic, Hong Kong SAR government committed huge sums of financial subsidies to support the overall business environment which has strengthened the business confidence of foreign investors. The city's economy enjoyed a significant rebound with annual GDP growing by 6.4% in 2021. Total inbound cross border volume in Hong Kong SAR reached HK$12,765 mn in 2021, surging by 6.8% YoY.

In terms of consideration, the industrial sector constituted the top deals. These included the sale of 12 floors in Cable TV Tower for HK$2,614 mn, which was purchased by a joint venture of UK investment manager Schroders and Canada investment manager BentallGreenOak; the sale of en bloc Kai Bo Group Centre for HK$1,435 mn to the U.S. investment manager Angelo Gordon; and the sale of several floors of Hang Wai Industrial Centre Block C for HK$946 mn to Asia-based investment manager Silk Road Property.

Thanks to the Hong Kong SAR government's policy support including Revitalisation 2.0 and the industrial standard premium rate pilot scheme, industrial properties became keenly sought after. It was the top sector in supporting the investment market in 2021. With HK$9,948 mn worth of assets changing hands, it dominated 78% of the overall transaction volume. This was followed by the apartment and hotel sectors, which contributed 10% and 7% of the overall volume, respectively.

Canada, U.K. and Singapore were the top capital sources in 2021, amounting to HK$3,570 mn (28%), HK$2,620 mn (21%) and HK$2,598 mn (20%), respectively. Top inbound cross border investors in 2021 included the U.K. investment manager Schroders, Canada investment manager BentallGreenOak, the U.S. investment manager Angelo Gordon and Sydney-based Goodman Group.

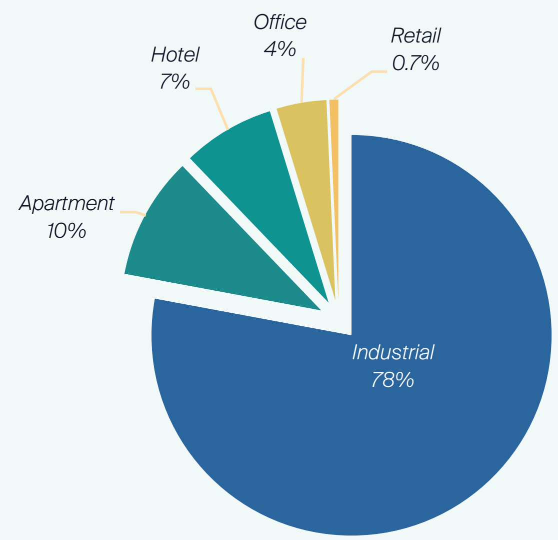
Outlook

Looking ahead, given (1) the ease of COVID situation, (2) the withdrawal of non-residential property cooling measures in 2020 and (3) the resilient demand, transaction volume in 2022 is expected to follow the high growth trajectory of 2021. Despite the U.S. Fed raising interest rates, Hong Kong SAR's commercial banks, according to historical records, may not follow the pace and frequency of future Fed rate hikes. With the interest rate staying low in the foreseeable future, yields are expected to remain compressed. Despite current challenges, investment appetite from investors is expected to remain steady. However, investors may look for more attractive entry opportunities as the market is still volatile.

Going forward, we expect high-specs industrial buildings, in particular, modern logistics, cold storage and data centre properties to remain sought-after by investors amid the booming e-commerce landscape. On the other hand, due to low occupancy rates during the pandemic, several underperforming hotels such as Butterfly on Prat and Hotel Sav were acquired and converted into long-stay accommodation. We expect repurposing of hotels to be a growing trend. Last but not least, investors are placing greater emphasis on Environmental, Social and Governance (ESG). We believe institutional investors will pay a strong focus on ESG and green assets in the future.

Martin Wong
Director, Head of Research & Consultancy, Greater China
martin.wong@hk.knightfrank.com

INBOUND CROSS BORDER VOLUME BY PROPERTY TYPE, 2021



Top 3 Trends/Drivers

- Strong demand for industrial assets with value-added opportunities, particularly modern logistics, cold storage and data centre
- Asset repurposing of hotels into co-living or other uses for higher yields
- Acquisition of aged buildings for redevelopment

Sectors to watch

- High-tier industrial (Especially Cold Storage and Data Centre)
- Hotel
- Prime residential

BRIGHT GROWTH TRAJECTORY IN 2022

Singapore

The first quarter of 2022 registered a total of S$9.4 bn investment sales, maintaining the encouraging pace set in the later half of last year (Exhibit 1). The award of Government Land Sales (GLS) sites coupled with significant commercial deals primarily led the y-o-y uptick in sales in Q1.

Lendlease Global Commercial REIT's acquisition of the remaining stake in Jem, at approximately S$1.4 bn (S$2,329 psf), topped the list for the quarter, with commercial sales totalling S$5.8 bn (Exhibit 2). As additional buyers' stamp duty (ABSD) is not required for commercial properties, investors of various risk appetites moved into this segment of the market.

Within the residential market, the lack of available inventory led to a narrowed pool of potential accommodation choices for prospective buyers looking to move or upgrade their homes. The investment value for the residential segment totalled S$3.1 bn during Q1 2022.

The cooling measures announced in December last year caused concern as to whether collective sales would be affected in 2022. Three months on, despite some initial worries, many homeowners are still hopeful for a successful collective sale. There has been a series of strata developments that were launched for sale as well as those that are close to achieving the 80% consensus.

While GLS sites provide developers with greater convenience and a quicker timeline in terms of the development process, the parcels of land available for tender this year are of larger sites. For developers who are on a lookout for prime locations that are within close proximity to key amenities and are priced at a sweet spot of less than S$500 mn, the collective sales market remains the only viable alternative for land replenishment.

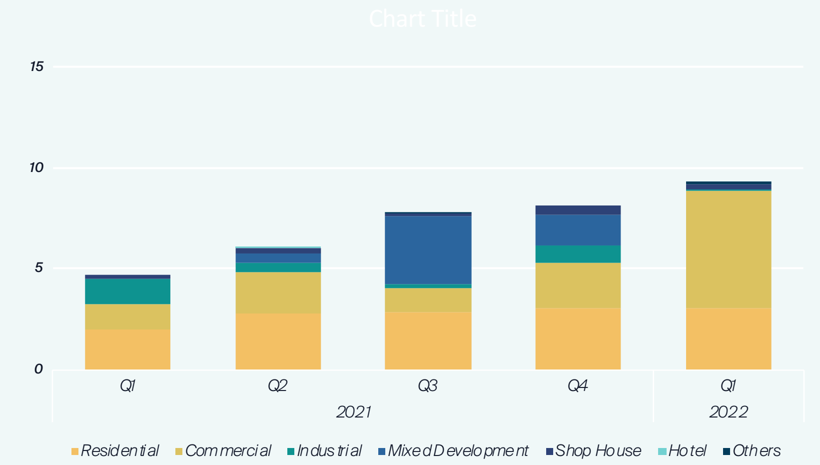
Despite the cooling measures, developers are still in search for development land against a backdrop of dwindling saleable inventory and strong occupier buyer demand. For sellers, it is imperative that existing homeowners remain cognisant of the current market conditions and manage their price expectations to raise the chances of sealing a collective sale deal before the current season of buyer demand subsides.

As the unsold residential stock continues to be depleted, leaving many a homebuyer with limited options, the investment market is projected to be led mainly by merger and acquisition deals by REITs, as well as land sales from land-starved developers who are keenly vying for available GLS plots or prime collective sales sites.

The further relaxation of COVID-19 measures from 29 March 2022 will benefit Singapore, especially with the Vaccinated Travel Framework from 31 March 2022 onwards anticipated to attract a higher inflow of investors. This could potentially increase the demand for luxury non-landed homes as well as inject life into the hospitality sector that has for two years bore the brunt of the pandemic. With the recent sale of Hotel Clover in March, more of such deals could follow suit as investors and hoteliers regain confidence in this new era of endemic living. Additionally, the revisions in the size of gatherings from five to ten could provide investors and developers alike to consider retail developments where footfall would increase with more consumers returning to malls. As such, the retail and hospitality sectors are anticipated to see more interest and the beginnings of recovery in 2022.

Leonard Tay
Head of Research, Singapore
leonard.tay@sg.knightfrank.com

TOTAL TRANSACTION VALUE (S$ BN)



Drivers

- Institutional investors needing to deploy ample funds
- Newly-minted UHNWI
- Family Offices

Sectors to watch

- Office
- Residential
- Retail
- Hospitality

RISING CAPITAL IN UNCERTAIN TIMES

UNDERPINNED BY LOW REAL INTEREST RATES

Australia

Reflecting investors' sustained appetite for commercial property assets, investment volume in Australia reached a record high in 2021 following the pandemic impacted fall in 2020. Investment volume totalled A$63 bn (for deals US$5 mn+), driven principally by record levels of activity in the industrial and logistics sector. Over A$20 bn in industrial assets were transacted nationally, accounting for a record 37% of total investment.

Office investment rebounded in 2021 from the large fall seen in 2020 but volume remains below the pre-pandemic high recorded in 2019. Sectors that had been heavily impacted by the pandemic such as retail and hotels have also seen renewed investor interest following the easing of COVID restrictions.

Cross-border investors continue to play a highly active role in Australian investment markets. APAC investors were particularly active last year, with capital from Singapore and Hong Kong SAR accounting for nearly half of total offshore investment in 2021, boosted by GIC's and ESR's joint acquisition of the Milestone logistics portfolio for A$3.8 bn. US and European investors also made a significant contribution to cross-border investment activity.

Investment volume is expected to pick up further in 2022 reflecting strong economic conditions and growing confidence and momentum in key occupier markets. In the office sector, A$4.9 bn has traded over the year to date across the six major cities of Sydney, Melbourne, Brisbane, Perth, Adelaide, and Canberra, with a further A$6.9 bn currently on the market. Melbourne in particular is expected to see a very strong year, with the most stock on market of any city, at A$3.4 bn, driven up by the on-market sale of the Southern Cross Towers complex and 1000 La Trobe.

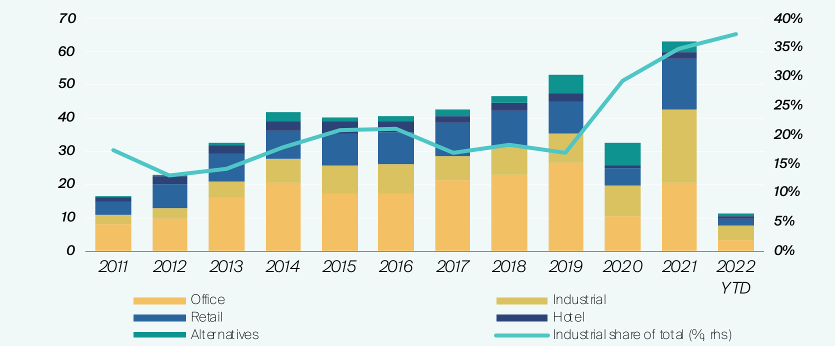
The reopening of Australia's border and easing travel restrictions are expected to facilitate higher foreign investment in 2022. Sustained demand from Singaporean and US investors as well as increasing appetite from German and Korean investors will ensure that offshore capital continues to drive the market. Cross-border investor appetite reflects confidence in the near-term outlook for the occupier market recovery in Australia and the longer-term prospects for Australian cities supported by a robust labour market and a large pipeline of infrastructure investment to be rolled out over the next decade.

Commercial property asset performance is expected to remain favourable in 2022 after a strong year in 2021. Total returns for office assets will be supported by a nascent leasing market recovery, with the flight to quality from tenants now seeing a selective return to rental growth in parts of the Sydney and Melbourne markets. After recording exceptional capital growth in 2021, industrial asset performance will moderate, although the market is significantly under supplied and will continue to benefit from strong rental growth.

Ben Burston
Chief Economist, Research & Consultancy, Australia
ben.burston@au.knightfrank.com

AUSTRALIA INVESTMENT VOLUME

US$ 5 MN+ DEALS, A$ BN



Source: Knight Frank Research, RCA

Drivers

- Adapting strategy for a higher inflation and higher interest rate environment
- Demand for premium and office assets to mitigate against leasing risk
- Investors seeking energy efficient assets or partnering with managers who prioritise ESG principles

Sectors to watch

1. Industrial
- Record occupancy and lack of fresh supply will continue to drive rental growth in the near term
- Tight supply in infill locations will drive developers to consider multi-level schemes
2. Alternatives
- Investor demand for assets that are less correlated to the business cycle such as healthcare, data centres, and self-storage facilities will continue to strengthen
- Build-to-rent, which is in its infancy in Australia, will see large growth as an asset class
3. Office
- Improving leasing markets will drive lower vacancy and stronger rental growth

MOMENTUM TO STRENGTHEN

India

India's investment environment which was initially affected by the pandemic in 2020 rebounded, as the successful vaccination drive along with the fiscal and monetary policy support lifted economic growth. Despite the impact of a severe second wave, private equity investments in the Indian real estate industry increased by 57% YoY in 2021. The real estate industry received a total of US$6.2 bn in investments across four segments: office, residential, warehouse, and retail.

On the back of resilience exhibited by investible grade office assets, office segment remained the leader, accounting for 46% of the investment pie with US$2.9 bn. Strong occupier demand and scope to develop new Grade A warehouse spaces, boosted investments in the warehouse and industrial segments to US$1.3 bn, a 55% growth compared to last year. Greenfield projects contributed over 70% of investment. Home ownership, which had been put off owing to the 'uberization culture' of recent years, made a significant comeback because of the pandemic. The residential real estate segment got US$1.2 bn in investments, up 223% YoY, while the total investments in retail industry in 2021 stood at US$817 mn, up 271% YoY as investor interest for stable retail assets grew, allowing the retail business, which was at the epicentre of the epidemic, to recover.

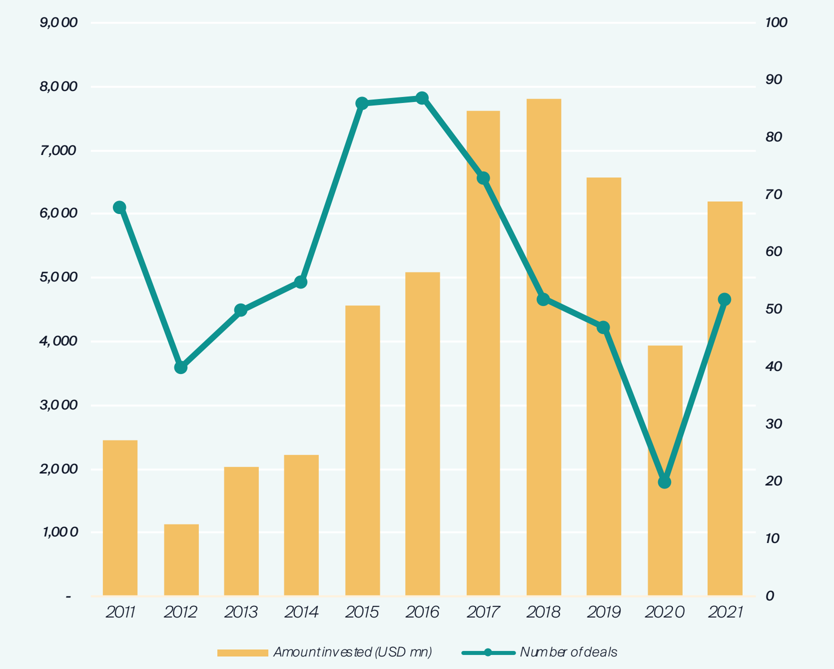
Going ahead, India is likely to maintain its position as a preferred investment destination as the positive momentum is expected to strengthen further. According to Asian Development Bank (ADB), India is likely to maintain its position as the fastest-growing major economy projecting a growth rate of 7.5% for 2022-23 on strong investment prospects against 5% for China during the same period.

The office category will continue to attract most of the investments, owing to definite return to office post the pandemic experience. An improving office space demand scenario, coupled with balanced supply environment would have a positive impact on occupancy and support rent growth. While interest rate level in the economy is expected to go up later this year, limited availability of investible grade assets will protect large expansion of capitalisation rate which hovers between 7.5 – 8.0%. Warehousing will continue to attract investments owing to India's renewed focus on 'Make in India' programme and burgeoning e-commerce eco-system. The residential sector has now moved into an upcycle fuelled by positive consumer sentiments on home ownership and a better prepared developer eco-system. Residential real estate will be a particularly appealing investment choice in 2022 with enhanced risk acceptance by the stakeholders as reflected in the increase in equity participation – 52% of deals in 2021 compared to 35% in 2020 and 21% in 2019. India's retail sector will continue to witness investment interest led by rebound of consumption demand in brick-and-mortar formats.

Overall, 2022 is expected to record even higher investment activity, because of abundant liquidity and steady cap rates. Improving economic conditions will augur well for investors across these real estate asset classes.

Vivek Rathi
Head of Research, India
vivek.rathi@in.knightfrank.com

PE INVESTMENTS CLOSE TO PRE-COVID LEVELS IN 2021



Drivers

- Equity route continued to dominate PE investments in real estate
- Cap Rates for commercial assets trended lower in recent years

Sectors to watch

- Offices remained preferred investment class for fifth year in a row
- PE investments in residentials reached above pre-COVID levels in 2021
- PE investments in warehousing surged by 54% in 2021

RISING OUTBOUND INVESTMENTS

South Korea

After years of maintaining a stable outlook on foreign real estate, Korean institutional investors got aggressive in 2019, where the outbound capital volume clinched an unprecedented value of US$18.36 bn, more than double that of 2018's figures.

The trend reversed due to the outbreak of COVID-19, where Korean investors were compelled to divert their overseas investment strategies into domestic opportunities as border closures rendered them unable to travel to conduct due diligence. As such, outbound capital volume contracted by half to US$9.06 bn in 2020.

As the world learns to co-survive with the virus, we observed reignited interest in foreign real estate by Korean institutional investors as the global economy gradually open. Institutional investors are on the hunt for trophy assets. Total outbound commercial real estate transaction volume by South Korea hit US$11.80 bn in 2021, a strong rebound of 27.6% compared to the US$9.06 bn attained in 2020.

Sector wise, offices remained as the most favored asset class (68.6%), followed by industrial (20.0%), and multi-family (7.9%). Proportion of office investment rose on the back of positive outlook for the office sector. Almost every economy has noticed improved sentiments and demands from the reopening of international borders, rising employment, and the push from the government in resuming work activities in the CBD. The largest office transaction involving a sole Korean institutional investor would be the Melbourne Quarter Tower with a price of approximately US$899 mn by the National Pension Service (NPS).

Further, more resources have been allocated to the multi-family sector throughout the years, signifying that these Korean investors are trying to diversify into emerging sectors to balance out the risk of their portfolio.

Geographically, the traditional preferred location for Korean investors, the United States, enjoyed a pickup in traction, recording a total of 62 sale transactions, compared to the 42 transactions logged in the year before. Some distance behind the States is China, where transactions combined to slightly over US$2 bn.

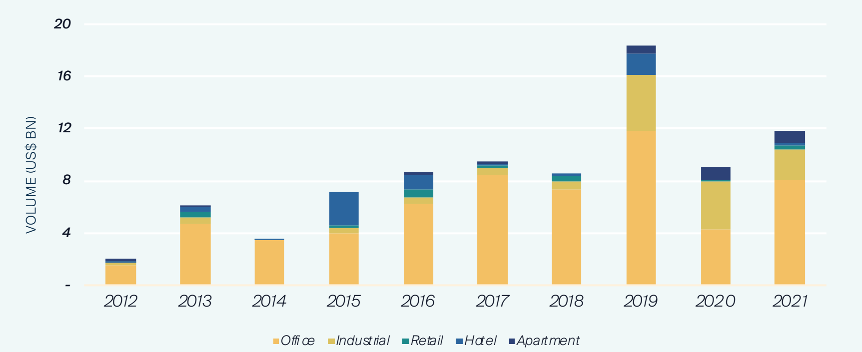
Notably, NPS remained the most active and aggressive in their investment of overseas real estate. In 2021 alone, the pension fund was engaged in over half of the top 10 outbound real estate transaction. From 2020 – 2021, NPS purchased a total of 58 properties, a stark contrast to Hana Financial Group, the second top buyer on the list, with only 17 purchases.

However, investors need to be acquainted with macroeconomic indicators. Interest rate hike and inflation might be exacerbated as the United States alter their monetary policies. Exchange rate is also an important factor to consider as the Korean won has become highly volatile amid the strengthening of the U.S. dollar.

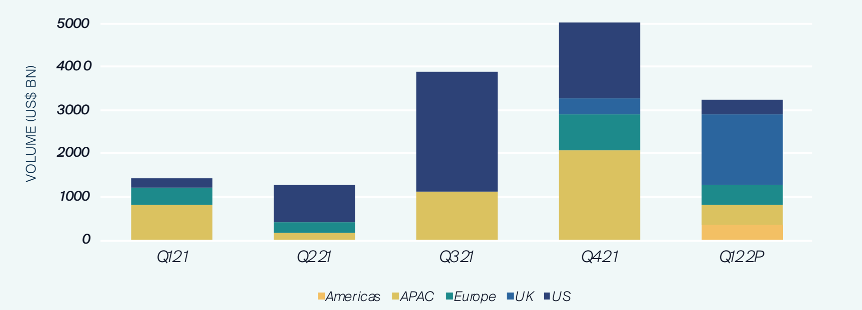
We predict that the 2022 outbound capital volume will exceed 2021 levels. With the increase in prominence of Korean institutional investors on the global stage, competition for 'safe haven' foreign assets would intensify, prompting asset managers to draw capitals by setting up funds to invest into the United States and Europe. Their focus will still primarily be the office sector while increasing stakes in emerging asset classes. Offices in global gateway cities remain as attractive opportunities, especially in the States where the market has a solid foundation.

Jack Choi
Managing Director, Head of Korea Commercial
jack.choi@kr.knightfrank.com

SOUTH KOREA OUTBOUND CAPITAL 10-YEAR HISTORICAL



SOUTH KOREA OUTBOUND CAPITAL ALLOCATION BY REGION



Drivers

- Weakening of Euro and Pound, rendering lower acquisition costs
- Opening of international borders

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

Authors
Christine Li
Head of Research, Asia-Pacific
christine.li@asia.knightfrank.com
+65 8511 3758

Lai Wyai Kay
Associate Director, Asia-Pacific
wyaikay.lai@asia.knightfrank.com
+65 6429 3583

Pamela How
Senior Analyst, Asia-Pacific
pamela.how@asia.knightfrank.com
+65 6429 3538

For a global investment perspective, please refer to Global Active Capital:

Victoria Ormond, CFA
Partner, Capital Markets Research
victoria.ormond@knightfrank.com

Sales Enquiries

Neil Brookes
Global Head of Capital Markets
neil.brookes@asia.knightfrank.com
+65 8309 4985

Emily Relf
Head of Global Capital Strategies
emily.relf@asia.knightfrank.com
+65 9838 4712

Knight Frank Research Reports are available at knightfrank.com/research

Knight Frank Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

Knight Frank