

## Property/REITs - Asia Pacific

## Property capital market trends in APAC with JLL – Key takeaways

Industry Overview

## Property capital market trends in APAC with JLL

We recently hosted JLL's Capital Markets Research team for a discussion on Property Capital Market Trends in APAC Key takeaways below.

## Narrowing bid-ask spreads. JP and Aus see most interest

Transaction volume in APAC has fallen by -30% yoy in 1Q23. A repricing cycle is well underway, with SK and Aus the largest hit. The silver lining is that outlook has improved, with JLL's Bid Intensity Index indicating that deal flows have bottomed in 4Q22. JLL is seeing narrower bid-ask spreads across APAC (see Exhibit 5) with pricing intensity sharpest in the multifamily sector. JP is seeing the most RE deal enquiries in APAC – next comes Aus. As per JLL survey, majority of RE investors think interest rates need to fall by 50-100bps before deal activity picks up. Value-add, Recap/Co-investments and Debt are the most sought-after strategies now. Sectors that JLL like are i) Aus and JP industrial, ii) SG and Aus retail, iii) SG and SK office, and iv) APAC multifamily.

## JLL's views on key sectors in APAC

**Logistics:** Rent growth continues to mitigate the negative effects of rising cap rates. APAC net absorption as % of total stock has stabilized at c.8% vs, long term average of 9.5%. Aus stands out positively with vacancy at <1% and 40-50% rent reversion expected in 2023-24. JLL sees risks of new project delays in Aus due to high cost of construction financing. Supply headwind is expected to result in muted/negative rent reversions in Seoul, Tokyo and China. JP industrial remains the most crowded sector.

**Office:** COC yield in most of APAC continues to fall short of the 4% minimum target for core funds. Tokyo is the exception. Deal size has so far been muted (< US\$300m), but JLL says there are several large transactions in certain markets now in due diligence which could potentially set new valuation benchmarks. We think Aus, SG and JP are among these markets. Aus office fundamentals remain challenged but JLL is seeing increasing investor enquiries on the back of capital value cuts. HK is overpriced but cap rates unchanged despite a -30% yoy rent decline. JLL thinks SG has the strongest rent growth potential in APAC, thus justifying assets to trade at a premium. Investor demand is significantly outstripping supply of assets available for sale in SG.

**Retail:** Mall investments now make up 20% of APAC RE transactions, up from 15% in 2020. Yield expansion and recovery in retail sales have made the sector attractive again. JLL is seeing a flurry of deal flows in Aus with increasing focus from value-add funds. SG and SK are the other bright spots. China and JP are seeing more deal opportunities, but fundamentals are less appealing given high vacancy and elevated mall supply

**Living/Multifamily:** JLL sees increasing investor interest in the living/multifamily sector. JP is the most established market but is seeing transaction pressure from yield compression and thinning buyer pool as global investors reach their target allocations. JLL likes the BTR market in Aus on strong rent growth and low vacancy rates.

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Equity  
Asia-Pacific  
Property/REITs

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APAC: Asia Pacific

JLL: Jones Lang LaSalle

SK: South Korea

RE: Real estate

Aus: Australia

JP: Japan

RE: Real Estate

SG: Singapore

COC: Cash-on-Cash

HK: Hong Kong

BTR: Build-to-Rent

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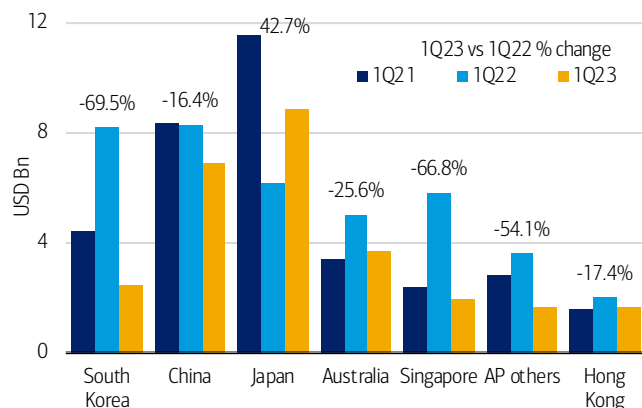
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## Focus charts

### Exhibit 1: Transaction volumes 3 year comparison

APAC investment activity registered USD27bn in 1Q23, -30% YoY

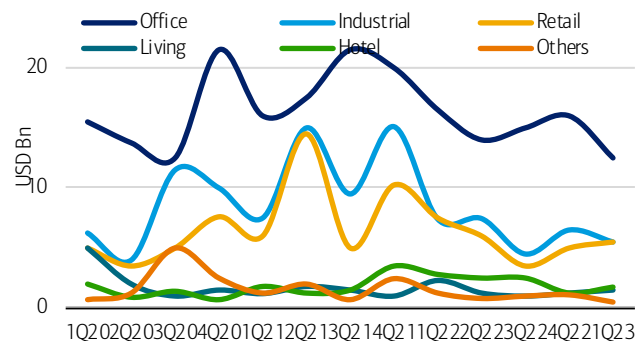


Source: JLL Research, as at Mar 23

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### Exhibit 2: Asia Pacific transaction volumes by sector

Most sectors experienced a sharp contraction with interest rate headwinds and re-pricing efforts

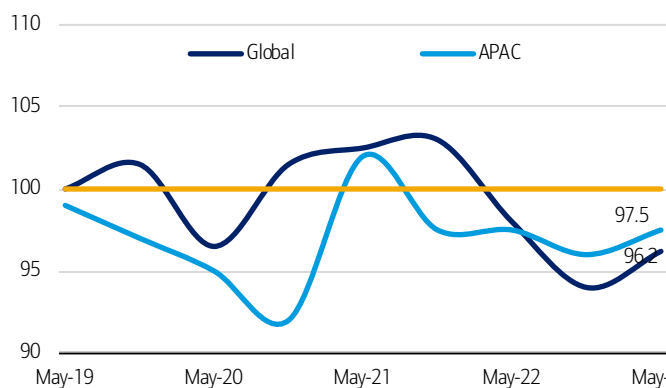


Source: JLL Research, as at Mar 23

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### Exhibit 3: Bid Intensity Index by region (2019 = 100)

APAC fares better and volumes likely to climb

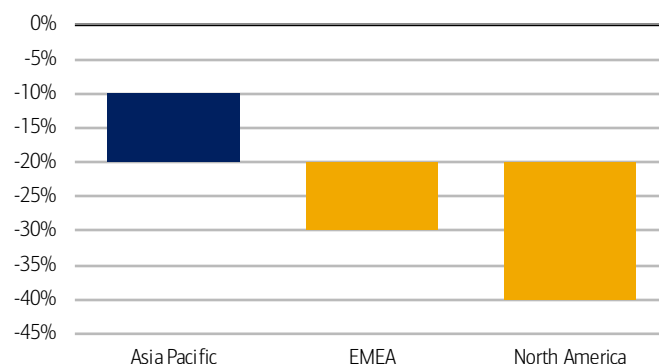


Source: JLL

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### Exhibit 4: Office price adjustment over the last 12 months

APAC had the lowest level of office price adjustment across regions

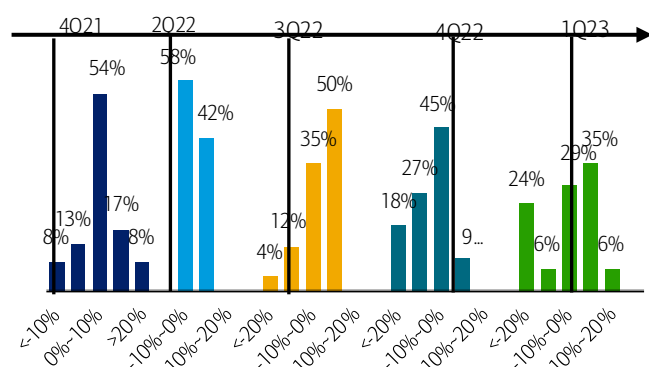


Source: JLL

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### Exhibit 5: Spread between initial pricing and final price

Expect repricing to peak in 2Q23 and then moderate as borrowing costs come off – bid-ask spreads narrowing

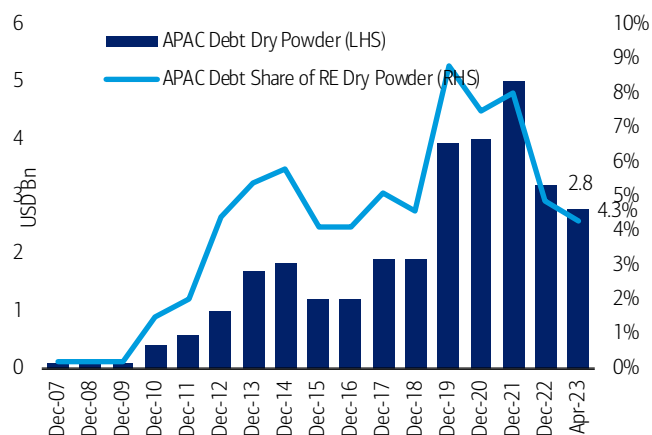


Source: JLL Capital Tracker, as of 4Q22

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### Exhibit 6: Debt and its increasing appeal

Debt dry powder increasingly deployed in APAC

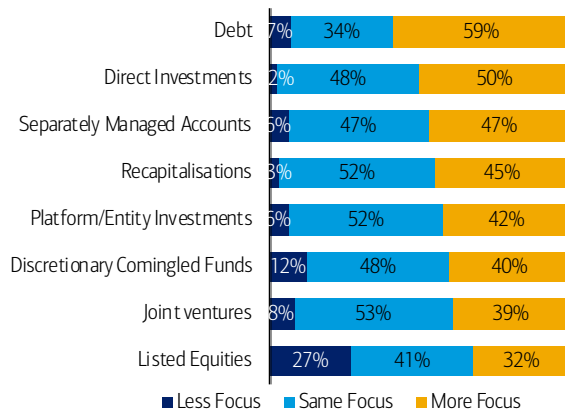


Source: Preqin, JLL, as at Apr 23

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**Exhibit 7: Investor focus on various asset classes**

Increased focus on debt strategy

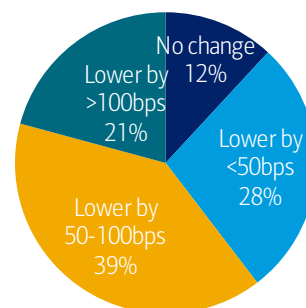


Source: JLL Investment Sentiment Barometer 2023, as at Feb 23

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**Exhibit 8: Survey insights: Potential benchmark rates adjustments before investment activity picks up**

Majority believe benchmark rates need to come down by between 50-100bps

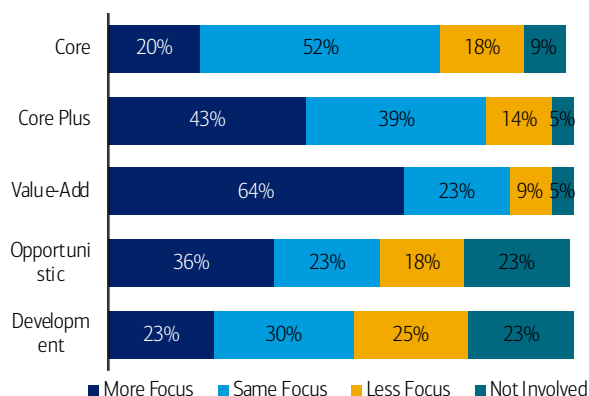


Source: JLL, as at Feb 2023

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**Exhibit 9: Current risk profile focus according to survey insights**

Value add is gaining popularity

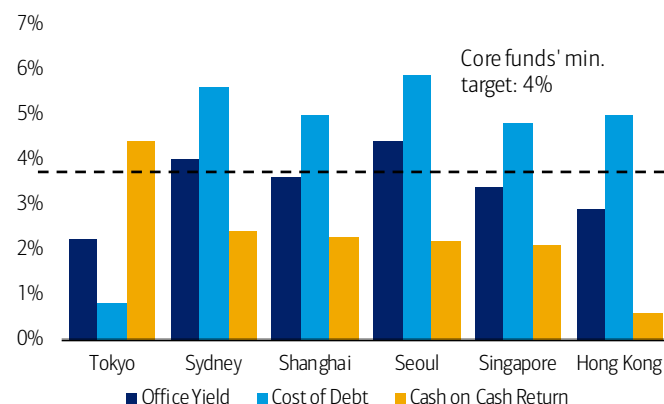


Source: JLL, as at Feb 2023

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**Exhibit 10: Office COC yield**

Office COC yield underperforms amid lower going in cap rate

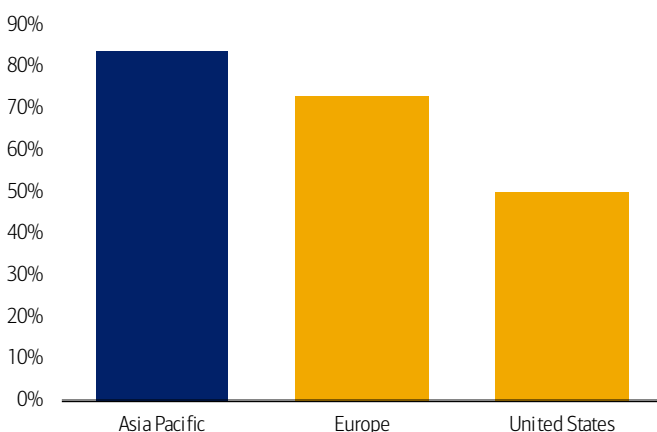


Source: JLL, as of Mar 23

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**Exhibit 11: Office Re-entry level**

APAC has the highest return to office levels across regions

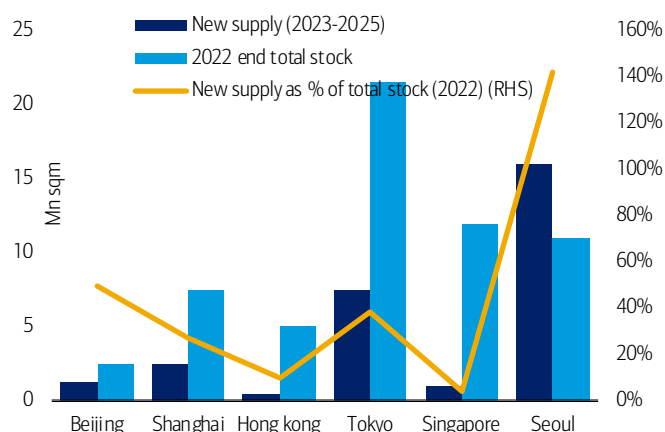


Source: JLL, as of Mar 23

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**Exhibit 12: Supply by region, Logistics**

New supply as % of total stock is highest in Seoul and Beijing

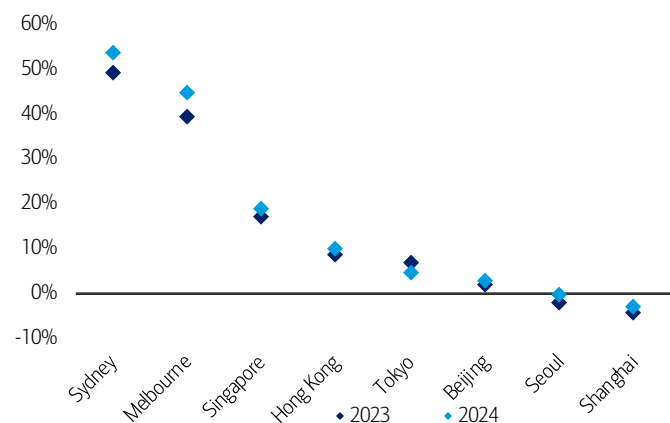


Source: JLL, 1Q23

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**Exhibit 13: Potential logistics and industrial rent reversion**

Very strong rent reversion to support returns in some markets

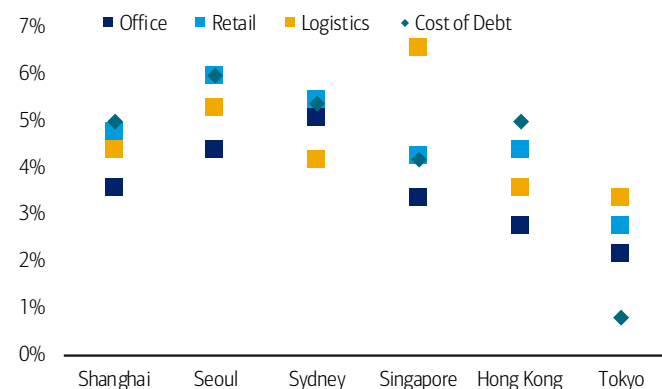


Source: JLL, 1Q23

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**Exhibit 14: Asia Pacific Cap rates by sectors and market**

Cost of debt above cap rates across sectors and regions, except Tokyo

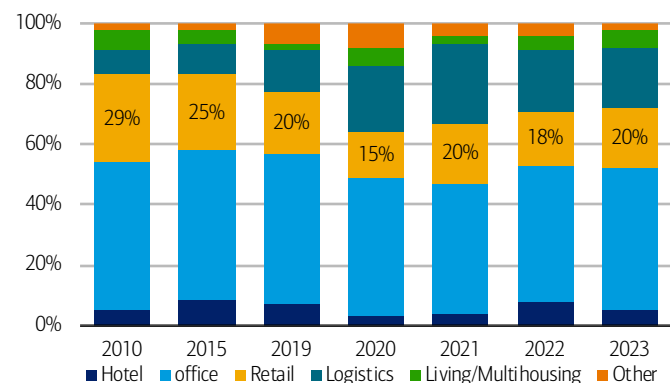


Source: JLL, as of Mar 23

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**Exhibit 15: APAC share of investment by sector**

Retail share of investment has regained traction

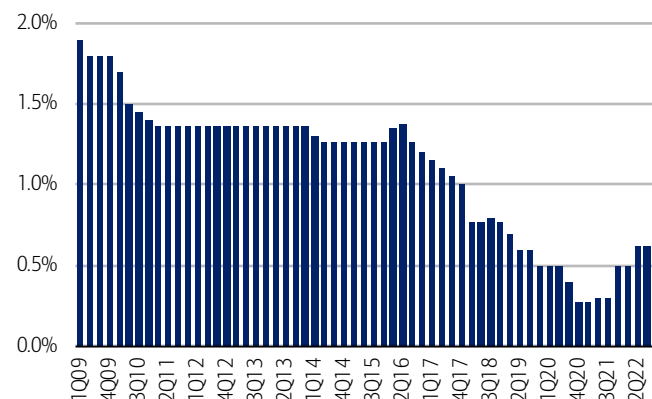


Source: JLL, as of Mar 23

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**Exhibit 16: Japan multifamily spread over office yield**

Multifam spread has started to widen since 3Q21

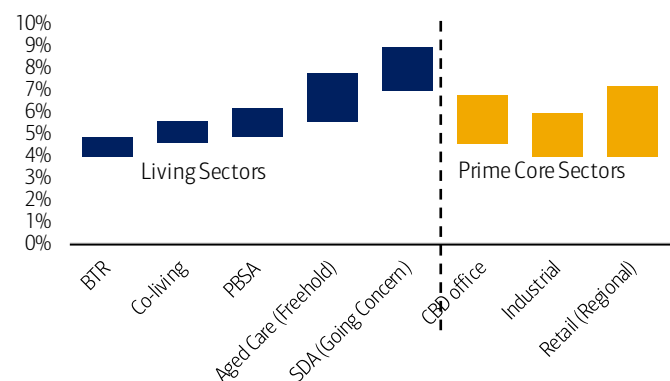


Source: JLL, as of Mar 23

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**Exhibit 17: Australia yields by sector**

Strong rent growth and low vacancy in Aus living sectors result in competitive yields

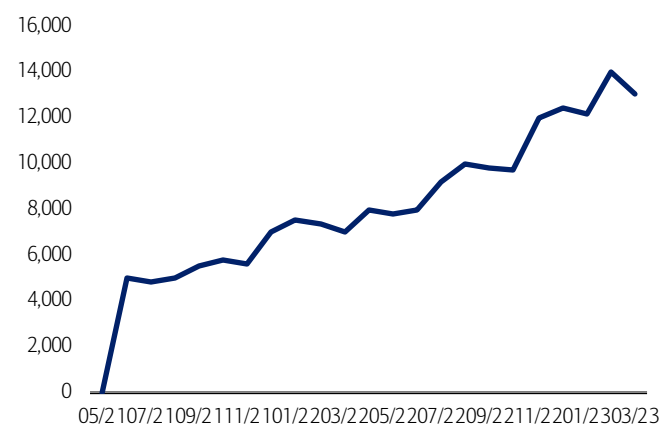


Source: JLL Research, as at Mar 23

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**Exhibit 18: C-REIT market capitalisation trend**

Rapid growth in C-REIT market cap



Source: JLL, Bloomberg, as at Apr 23

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