COVID-19

and its impact on real estate markets

Executive Summary

Asia-Pacific real estate markets largely subdued during lockdown

On the 23rd January 2020, the Chinese province of Hubei and its capital Wuhan went into lockdown. Over the subsequent two months, the spread of COVID-19 has forced most markets across Asia-Pacific to follow suit in one form or another.

With a significant impact on movement, and trade, real estate activity has been severely compromised. Within such an uncertain environment, concerns about cashflow and supply chains, together with the difficulties in conducting inspections have all contributed to a fall in demand for most types of property.

The challenge during a period like this is then how to provide useful and accurate data and analysis, which is not simply backward looking, but also captures what is happening right now. Whether you are a real estate occupier or investor, understanding market dynamics now and planning and positioning for the future is vital.

To help enable us to do this, not only are we relying on our standard analysis of proprietary and third party data sources, but we have set up a tracking system for all asset classes across our markets, tracking sentiment, activity, deals, anecdotes and market dynamics to provide a level of understanding about what is really happening.

Here are the key takeaways from Knight Frank's mid-April data collection:

1

Occupier markets see drop in demand although selective areas remain active

- Most office (page 8), industrial (page 10) and residential (page 13) markets are down in terms of transactions and requirements, with conditions tipping towards tenant friendly.
- Many international commercial occupiers are postponing deals, with uncertainty around global demand, supply chains and cashflow leading to a delay in decisions.
- E-commerce related logistics has been active in several markets, most notably in Southern China and India.
- Our teams however are reporting steady demand from food retailing, telecommunications, on-line education, and some manufacturing (especially pharma and medical related).
- The markets seeing an uptick in activity over the last two weeks are mainland China, which is firmly in recovery and South Korea.

2

Major investment deals slow in Q1 with yields holding firm for the time being

- Investment volumes were down 50% YoY in Q1 2020.
- Following on from 1, investors are looking very cautiously at occupier markets (see page 11), with challenges noted in how to price the potential tenancy risk.
- There is repricing going on in a few markets, although given the low interest rates, yields for the time being are not expected to soften significantly in the short term in the majority of markets.
- There is likely to be a flight to quality, with well-leased prime assets likely to see values remain resilient.

3

Lessons from China's recovery – (but also look to Taiwan and South Korea)

- China's gradual recovery with an increase in requirements in several sectors and geographies over the last month provides hope for other markets across the region.
- Residential markets have picked up, new industrial requirements are emerging, and several investment deals are being negotiated.
- However, differences in approach to the crisis, political systems, and financial fire power means that the Chinese experience will not necessarily translate to every market.

The time to think strategically, reposition and think beyond

The economies of Asia-Pacific are likely to take a significant hit in 2020, with the IMF's recent *Global Economic Outlook* predicting a contraction in output across the region for the first time in 60 years. While undoubtedly short-term challenges will be front of mind for many occupiers and investors, whether it is a short term renewing of a lease, disposing a non-core property or repositioning an asset, positioning for recovery and the opportunities it could bring will be important.

Under a base line scenario that COVID-19 could be under control in the second half of the year, the region could see some recovery as early as 2021. While there remains lots of uncertainty, corporate occupiers and investors should be alive to the opportunities that this could bring.

Real Estate Dashboard

ASIA-PACIFIC OFFICE (1-14 Apr)

Markets	City	Active occupier requirements	Completed transactions	Postponement of deals	Occupiers Seeking sublets	Asking rents	Total occupancy costs	Market favorable conditions
Australia	Sydney	↓	↓	↑	→	→	→	TENANT
ASEAN	Jakarta	↓	↓	↑	→	→	→	TENANT
	Singapore	↓	↓	↑	→	↓	→	TENANT
	Kuala Lumpur	↓	↓	↑	↑	→	→	TENANT
	Bangkok	↓	↓	↑	→	→	→	BALANCED
	Manila	→	→	↑	↑	→	→	BALANCED
	Phnom Penh	↓	↓	↑	→	→	→	TENANT
East Asia	Seoul	↓	↓	↑	→	→	→	BALANCED
	Taipei	↓	↓	↑	→	→	→	LANDLORD
	Shanghai	↓	↓	↑	→	↓	↓	TENANT
	Beijing	↓	→	↑	→	↓	↓	TENANT
	Guangzhou	→	→	→	→	→	→	TENANT
	Shenzhen	→	→	→	→	↓	↓	TENANT
	Hong Kong	→	↓	↑	↑	↓	↓	TENANT
India	Tier-1 Cities	↓	↓	↑	→	→	→	BALANCED

ASIA-PACIFIC INDUSTRIAL (1-14 Apr)

Markets	City	Active occupier requirements	Completed transactions	Postponement of deals	Occupiers seeking sublets	Asking rents	Total occupancy costs	Market favorable conditions
Australia	Sydney	↓	↓	↑	→	→	→	TENANT
ASEAN	Jakarta	↓	↓	↑	→	↓	→	TENANT
	Singapore	↓	↓	↑	↑	↓	→	TENANT
	Kuala Lumpur	↓	→	↑	↑	→	→	BALANCED
	Bangkok	→	→	↑	→	→	→	BALANCED
	Manila	→	→	→	→	→	→	BALANCED
	Phnom Penh	↓	↓	→	→	→	→	TENANT
East Asia	Seoul	→	→	↑	↑	→	→	TENANT
	Taipei	↓	↓	↑	↑	↓	↓	TENANT
	Shanghai	↑	↑	→	→	→	↓	TENANT
	Beijing	↓	↓	↑	→	↓	↓	TENANT
	Guangzhou	→	→	→	→	↑	↑	LANDLORD
	Shenzhen	→	→	→	→	↓	↓	TENANT
	Hong Kong	→	→	→	→	→	→	TENANT
India	Tier-1 Cities	↓	→	↑	→	→	→	LANDLORD

Real Estate Dashboard

ASIA-PACIFIC CAPITAL MARKETS (1-14 Apr)

Markets	City	Transaction volumes	Asking prices	Yields (compress↓ /stable→/expand↑)	Are things negotiable?	Credit timelines
Australia	Australia	↓	↓	↑	YES	→
ASEAN	Jakarta	↓	↓	↑	YES	↑
	Singapore	↓	→	→	NO	↑
	Kuala Lumpur	↓	↓	↑	YES	→
	Bangkok	→	→	→	NO	↑
	Manila	↓	→	→	YES	↑
	Phnom Penh	→	→	→	YES	↑
East Asia	Seoul	↓	↓	↑	NA	↑
	Taipei	↑	→	→	NA	NA
	Shanghai	↓	↓	→	YES	↑
	Beijing	↓	↓	→	YES	↑
	Guangzhou	→	→	→	YES	→
	Shenzhen	→	→	→	YES	→
	Hong Kong	→	→	→	YES	→
India	Tier-1 Cities	→	→	→	NA	→

ASIA-PACIFIC RESIDENTIAL (1-14 Apr)

Markets	City	Transaction Volumes	Asking Prices	Listing Volumes
Australia	Sydney	↓	→	↓
	Melbourne	↓	→	↓
ASEAN	Jakarta	↓	↓	→
	Singapore	↓	↓	↓
	Kuala Lumpur	↓	→	↑
	Bangkok	→	→	→
	Manila	↓	↓	→
	Phnom Penh	↓	↓	→
East Asia	Seoul	→	→	↑
	Shanghai	↑	→	↑
	Beijing	↑	→	→
	Guangzhou	↑	↓	↑
	Shenzhen	↑	↑	↑
	Hong Kong	↑	→	↑
India	Tier-1 Cities	↓	↓	↓

Source : Knight Frank Research

Policy Dashboard

Measures		Australia	New Zealand	Indonesia	Singapore	Malaysia	Thailand	Philippines
Movement Restrictions	Lockdown	✓	✓	✓	✓	✓	✓	✓
	International Travel Ban	✓	✓	✓	✓	✓	✓	✓
Economic Stimulus	Fiscal	✓	✓	✓	✓	✓	✓	✓
	Monetary	✓	✓	✓	✓	✓	✓	✓
Real Estate	Residential	✓	✓			✓		
	Commercial	✓	✓		✓	✓		
Major Covid Policies		**Partial lockdown:** Non-essentials WFH, schools open and group gatherings limited.	**Lockdown:** Level 3 lockdown till 27 Apr - some industries allowed to **open.**	**Partial lockdown:** Non-essentials WFH and schools closed, group gatherings limited to 5. Tentative no end date.	**Circuit breaker:** Schools and all non-essential services closed till 1st June.	**Movement control order:** Essentials only. List expanded in phase 3. Ends on 12 May.	**Partial Lockdown:** Curfew 2200-0400hrs daily. Bangkok essentials open only.	**Lockdown:** Luzon (Manila) essentials open only. Ends on 15 May.
		Fiscal Stimulus: A$320bn (16% GDP) relief package.	**Fiscal Stimulus:** NZ$12bn (4% GDP) relief package.	**Fiscal Stimulus:** IDR436trn (2.5% GDP) relief package.	**Fiscal Stimulus:** More than S$60bn (16% GDP) in relief spending.	**Fiscal Stimulus:** MYR260bn (17% GDP) relief package.	**Fiscal Stimulus:** Thb1.9trn (9% GDP) relief package.	**Fiscal Stimulus:** Php200bn (1% GDP) relief package.
		Real Estate Relief: Temporary moratorium on eviction, landlord and tenant relief being planned.	**Real Estate Relief:** Commercial lease policies to protect tenants.	**Real Estate Relief:** No gov relief for commercial sector at the moment.	**Real Estate Relief:** Non-residential will get between 30-100% property tax rebate.	**Real Estate Relief:** Rental discount and waivers to SMEs operating within buildings owned by GLCs. Relief by private landlords can be used as tax deduction.	**Real Estate Relief:** No government relief for commercial sector at the moment.	**Real Estate Relief:** 30D grace period for SME to pay rent w/o penalty. Waivers to mall tenants shutdown during lockdown.

Policy Dashboard (cont.)

Measures		Cambodia	Japan	South Korea	Taiwan	China	Hong Kong	India
Movement Restrictions	Lockdown	✓						✓
	International Travel Ban	✓	✓	✓	✓	✓	✓	✓
Economic Stimulus	Fiscal	✓	✓	✓	✓	✓	✓	✓
	Monetary		✓	✓	✓	✓	✓	✓
Real Estate	Residential							✓
	Commercial		✓			✓	✓	✓
Major Covid Policies		**Lockdown:** Lockdown ended 16th April. Casinos still closed.	**Lockdown lite:** Most social non-essentials are shut or WFH, while other non-essentials close earlier. People are encouraged to stay home after work.	**No Lockdown:** Seoul did not lockdown and business remains as usual.	**No Lockdown:** Taipei did not lockdown and business remains as usual.	**Social distancing:** Most lockdowns are being removed but social distancing enforced with not all shops open yet (e.g. Cinemas).	**Social distancing:** No lockdown but gatherings limited to 4.	**Lockdown:** Expires May 3rd.
		Fiscal Stimulus: USD370mnn (1% GDP) relief package.	**Fiscal Stimulus:** JPY108trn (18% GDP) relief package.	**Fiscal Stimulus:** KRW65trn (15% GDP) relief package.	**Fiscal Stimulus:** NT1.05trn (5% GDP) relief package.	**Fiscal Stimulus:** No official stimulus package announced – rumoured to be 6% of GDP.	**Fiscal Stimulus:** HK$138bn (5% GDP) relief package.	**Fiscal Stimulus:** INR1.7trn (0.9% GDP) relief package.
		Real Estate Relief: None at the moment.	**Real Estate Relief:** No government relief for commercial sector at the moment.	**Real Estate Relief:** No government relief for commercial sector at the moment.	**Real Estate Relief:** None at the moment.	**Real Estate Relief:** SOE landlords to give 2 months rent free to qualified SMEs.	**Real Estate Relief:** Retail tenants with premises on gov properties have 50% rent cut for 6 months. No relief for office tenants.	**Real Estate Relief:** Central bank of India has allowed NBFCs one year extension for real estate loans.

Source : Knight Frank Research, various government sources. As of 24 Apr.

Office

Slowing markets swing towards being tenant friendly

In the period 1st – 14th April 2020

- All markets recorded either a drop-in leasing activity (73%) or stable activity (27%).
- Asking rents continued to be sticky downwards but incentives have been increased.
- Regionally, 10 of the 15 markets tracked are now tenant friendly.

With most of the region working from home either through forced locked downs or stringent social distancing measures, economic activity, and by extension office leasing activity, has slowed down considerably. This is echoed in our sentiment survey across our regional office broker teams with 11 out of 15 surveyed reporting slower leasing activity within their markets over the past several weeks.

City	Leasing Activity
Sydney	↓
Jakarta	↓
Singapore	↓
Kuala Lumpur	↓
Bangkok	↓
Phnom Penh	↓
Seoul	↓
Taipei	↓
Shanghai	↓
Beijing	↓
India Tier-1 Cities	↓
Manila	→
Guangzhou	→
Shenzhen	→
Hong Kong	→

Despite the rate of COVID-19's spread not slowing in pace, most landlords across the region have opted to wait and see and are yet to reduce their asking rents. However, this trend is expected to change over the coming weeks as we have seen landlords in markets which were dealing with the outbreak much earlier – China, Hong Kong, and Singapore, now lowering their asking rents.

Increase

Stable

- Sydney
- Jakarta
- Kuala Lumpur
- Bangkok
- Manila
- Phnom Penh
- Seoul
- Taipei
- Guangzhou
- India Tier-1 Cities

Decrease

- Singapore
- Shanghai
- Beijing
- Shenzhen
- Hong Kong

City	Market Conditions
Sydney	TENANT
Jakarta	TENANT
Singapore	TENANT
Kuala Lumpur	TENANT
Phnom Penh	TENANT
Shanghai	TENANT
Beijing	TENANT
Guangzhou	TENANT
Shenzhen	TENANT
Hong Kong	TENANT
Bangkok	BALANCED
Manila	BALANCED
Seoul	BALANCED
India Tier-1 Cities	BALANCED
Taipei	LANDLORD

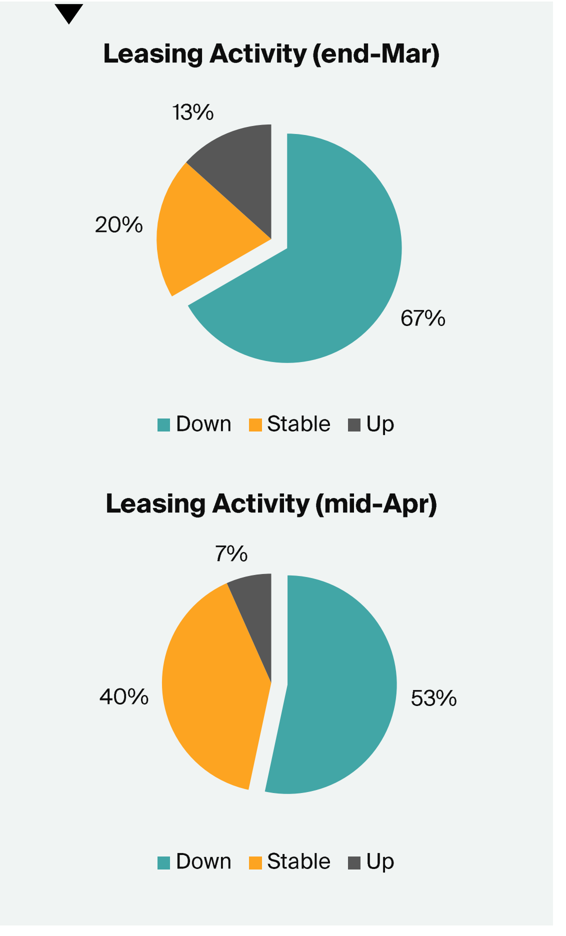
With this diminished outlook, the office market balance across 70% of the region has tilted in favour of tenants. However, there are several bright spots still within the region – namely Taipei, which still see market balances in favour of landlords. Taipei has been experiencing a flight to quality, driven by technology and financial services firms. Going forward, while a large supply pipeline of 3.1mn sqft is expected to come online over the coming years, most have already been pre-committed by large groups as their HQs. Therefore, given that demand continues to outpace supply, we expect Taipei's office market to continue growing over the coming years.

Industrial

Increasing levels of activity show resilience of sector

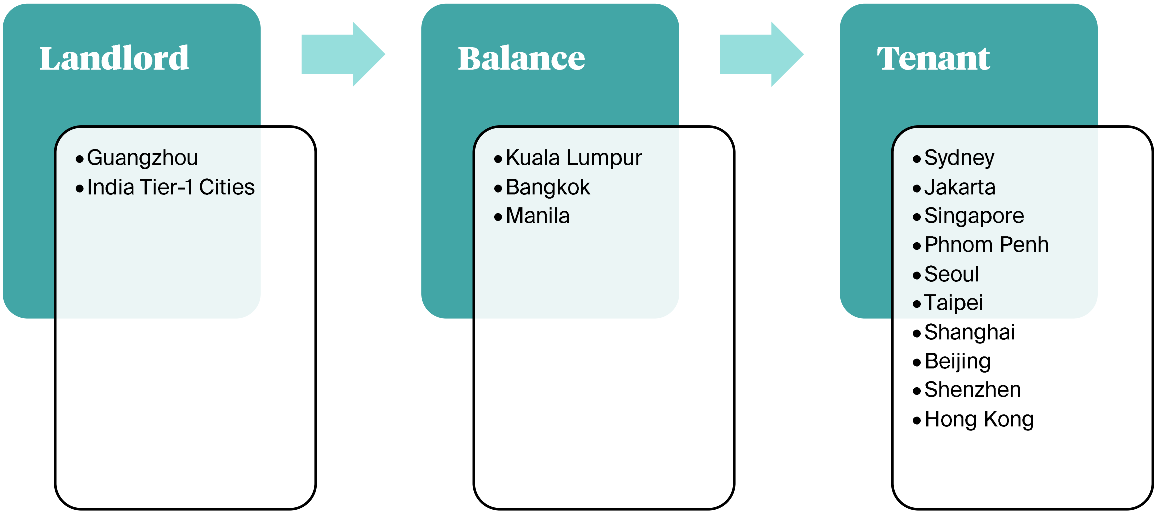
In the period 1st – 14th April 2020

- Greater China has started to witness a stabilisation of leasing activity as their lockdown eased.
- E-commerce related logistics facilities are in demand in a number of markets.
- Manufacturing in several markets has been impacted by lockdown.



Even before the COVID-19 outbreak, the overhang of the US-China trade tensions had already impacted the Asia-Pacific industrial markets for some time, leading to a depressed market sentiment throughout 2019. This can be generally seen in our last two sentiment surveys where more than 50% of our broker teams saw falling leasing activity. However, the situation seems to have improved month-to-date in April as we witnessed several markets reporting leasing activity stabilising; mainly in the Greater China markets in tandem with their lockdowns being eased.

Furthermore, we are also starting to see some green shoots appear with Guangzhou consistently reporting stable to rising market activity and rising asking rents. The city has benefitted greatly from the e-commerce boom with an entire country in lockdown and its key position as a manufacturing hub in Southern China. Furthermore, large e-commerce enterprises have been optimising their entire supply chains by both upgrading and rapidly expanding; the cold-chain segment has seen the fastest rise with the rapid increase in online fresh food demand.



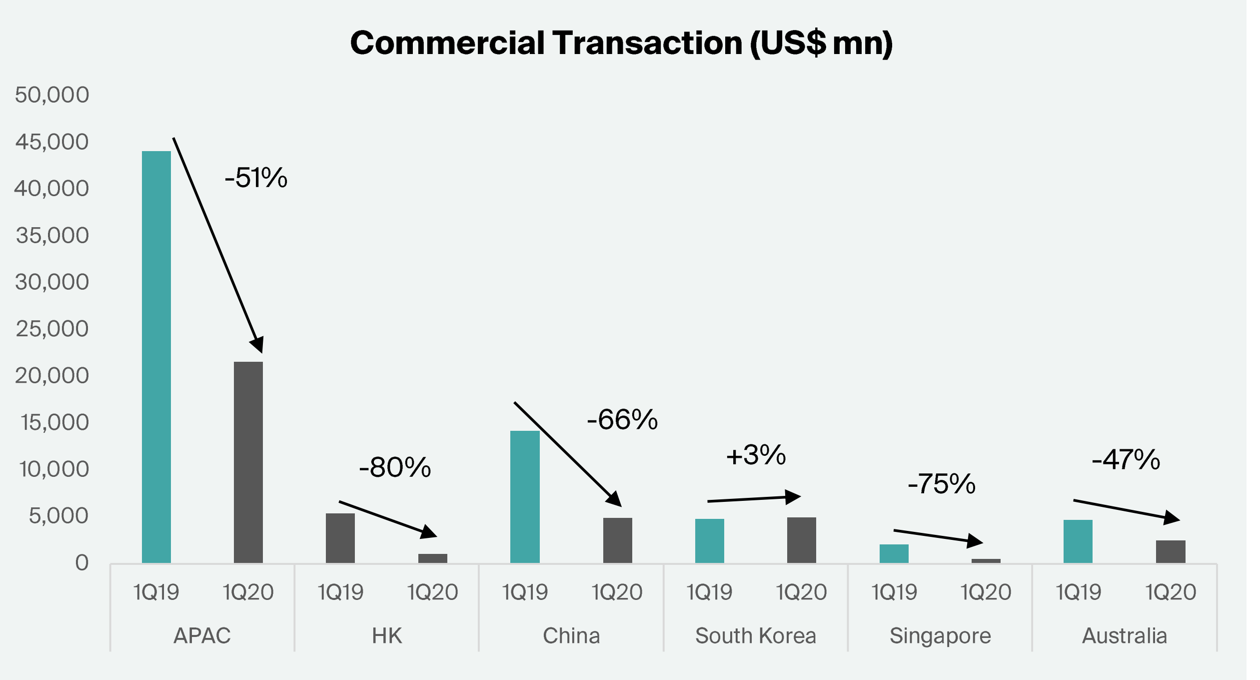
Capital Markets

Lots of uncertainty as volumes down and all eyes are on occupier markets

In the period 1st – 14th April 2020

- A 50% drop in transactions in Q1 as lockdown implemented.
- Only four markets are expecting yields to soften in short term with low interest rates supportive.
- Debt markets reported to be more challenging as credit timelines increase.

In Q1 2020, Asia-Pacific commercial transaction volumes fell 51% YoY to US$21.6 billion; the decline was more significant in major investment markets such as Hong Kong which has been dealing with unprecedented social unrest for more than six months. However, South Korea stands out with its commercial transaction volumes having risen 3% YoY to US$4.96 billion as investors, especially cross-border, continue to seek out its commercial assets. During the quarter, cross-border investors such as GIC and KKR spent around US$900 million on office assets within Seoul in February; just as it was right in the thick of the COVID-19 outbreak.

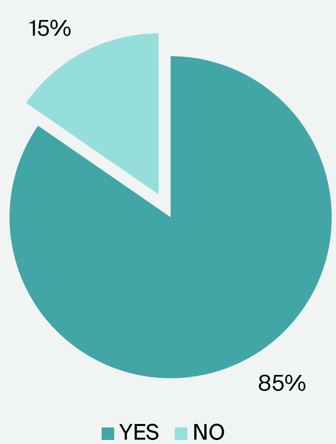


Source: Knight Frank, RCA

Despite the weaker volumes, only 4 of the 15 markets we surveyed had our broker teams feedback their expectations that yields were likely to expand while the rest expected yields to remain stable; mainly supported by record low interest rates.

City	Yields (Compress/Stable/Expand)
Singapore	→
Bangkok	→
Manila	→
Phnom Penh	→
Taipei	→
Shanghai	→
Beijing	→
Guangzhou	→
Shenzhen	→
Hong Kong	→
India	→
Australia	↑
Jakarta	↑
Kuala Lumpur	↑
Seoul	↑

Are prices negotiable?



However, while we have yet to see distressed assets enter the market, 85% of the markets we surveyed reported that their clients were now more willing to negotiate on their asking prices; a likely pressure point on yields going forward as leasing risks start to mount the longer the outbreak lasts.

Lastly, another likely near-term risk could come in the form of financing risks with more than half of our broker teams reporting extended credit approval timelines. While deals could get further delayed with longer loan approval times, the bigger risks are from projects looking for refinancing during this period which could eventually lead to distress.

City	Credit Timelines
Australia	→
Kuala Lumpur	→
Guangzhou	→
Shenzhen	→
Hong Kong	→
India	→
Jakarta	↑
Singapore	↑
Bangkok	↑
Manila	↑
Phnom Penh	↑
Seoul	↑
Shanghai	↑
Beijing	↑

Residential

Green shoots of recovery in China as the rest of the markets freeze up

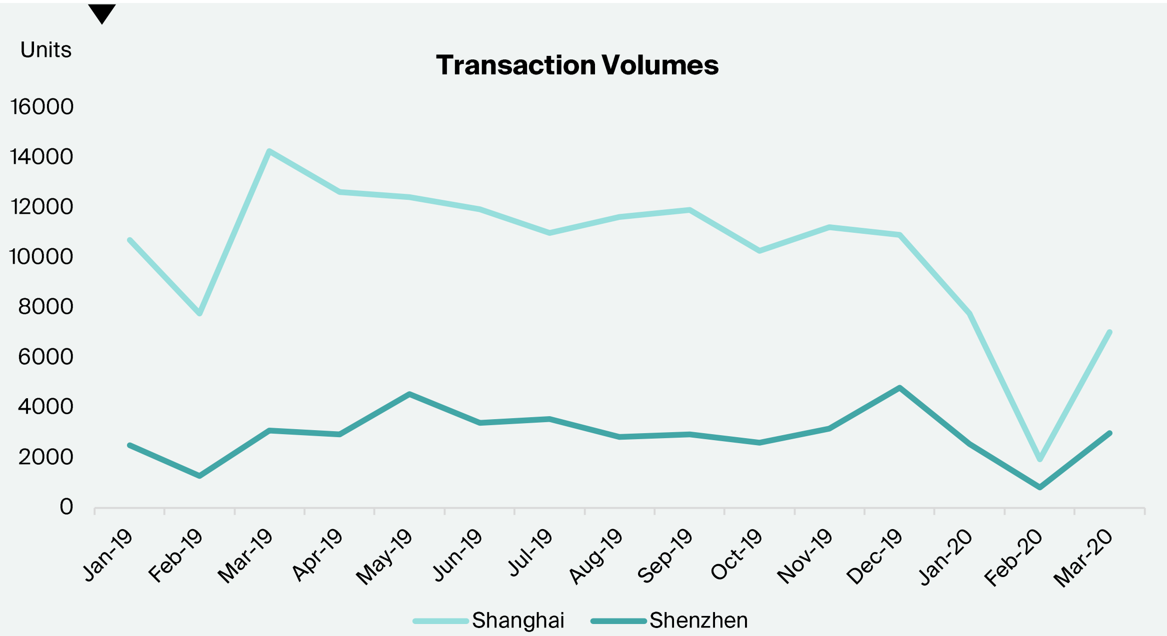
In the period 1st – 14th April 2020

- Lockdown, social distancing has led to postponement of developer launches in most markets.
- Challenges in viewing are also impacting secondary markets.
- China is the exception, with markets continuing to come back to life since March.

The Asia-Pacific residential market has been severely disrupted over the past month with lockdowns and aggressive social distancing rules significantly hindering market activity: viewings cannot be conducted; show flats of existing new projects have been closed; and developers have postponed launches indefinitely.

City	Transaction Volumes
Sydney	↓
Melbourne	↓
Jakarta	↓
Singapore	↓
Kuala Lumpur	↓
Manila	↓
Phnom Penh	↓
India Tier-1 Cities	↓
Seoul	→
Bangkok	→
Shanghai	↑
Beijing	↑
Guangzhou	↑
Shenzhen	↑
Hong Kong	↑

However, the silver lining within the region has been the Greater China markets which have witnessed a recovery in transaction volumes from their February and early March lows. Shanghai recorded a 260% month-on-month increase in transaction volumes in March with 7,038 homes sold, while Shenzhen recorded a similar 262% monthly increase to 3,007 homes; Shenzhen's March sales rate is not far from the 3150 average monthly volume in 2019.



Source: Knight Frank, Macrobond

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

Kevin Coppel

Managing Director, Asia Pacific

kevin.coppel@asia.knightfrank.com

+65 9352 5650

Nicholas Holt

Head of Research, Asia Pacific

nicholas.holt@asia.knightfrank.com

+86 10 6113 8030

Tim Armstrong

Head of OSCA, Asia Pacific

tim.armstrong@asia.knightfrank.com

+65 9737 9991

Neil Brookes

Head of Capital Markets, Asia Pacific

neil.brookes@asia.knightfrank.com

+65 8309 4985

Victoria Garrett

Head of Residential, Asia Pacific

victoria.garrett@asia.knightfrank.com

+65 8823 5502

Thomas Lam

Executive Director, Head of Valuation & Advisory

thomas.lam@hk.knightfrank.com

+852 2846 4819