HONG KONG'S HISTORIC HIGH REAL ESTATE PRICES TURNS INVESTORS TO VALUE-ADD PROJECTS, SAYS EMERGING TRENDS IN REAL ESTATE® ASIA PACIFIC 2019

Forecast indicates refurbishment, repositioning, and coworking of office space are on the rise

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HONG KONG (November 22, 2018) – Residential and office values in Hong Kong appear to have peaked after reaching their highest ever levels in mid-2018, according to the Emerging Trends in Real Estate Asia Pacific® 2019, a real estate forecast jointly published by the Urban Land Institute (ULI) and PwC.

But with high asking prices continuing to deter investors, many are now instead looking at value-add projects involving refurbishment and repositioning opportunities. The report also notes a big increase in activity by co-working operators in Hong Kong, with new co-living projects also on the rise as underused facilities are converted to shared living spaces for students or young professionals.

Looking at the Asia Pacific region as a whole, ongoing competition among investors to place capital is continuing to shape how the sourcing of assets is approached. As is the case with Hong Kong, value-add plays continue to be a focus, with owners looking to upgrade assets by providing more flexibility, better user experiences, and improvements leveraging design and technology functions. As a result, investors today say they are likely to be more site specific, working from the ground up rather than the top down.

Among the trends in the Asia Pacific region that the report cites are:

Logistics facilities continue to be a go-to investment: The only sector where investor opinions were uniformly bullish, investment allocations to the sector have risen significantly in 2018.

Co-living as a template for future housing: As cities are becoming denser and housing costs rise, more developers are looking to co-living as a way to pack more people into smaller areas.

Capital flows remain strong: The ongoing buildup of liquidity across the Asia Pacific region still leads to huge sums of money crossing borders, to be invested in foreign real estate assets. Strong outflows in the region seem certain to continue, especially with new reserves from Japan likely to enter the mix in 2019.

"Hong Kong has maintained its mid-table position this year," said Raymond Chow, Global Governing Trustee and Chair ULI Hong Kong and Executive Director, Hongkong Land. "Last year the SAR benefited from significant investments by Chinese investors, but these have tapered off this year, as the mainland authorities tighten regulatory restrictions on capital moving out of the country.

"In terms of development, Hong Kong's position has moved down from 14th last year, to 18th this year," said KK So, Asia Pacific Real Estate Tax Leader, PwC. "There are growing signs of weakness in the residential market, with developers cutting asking prices of new launches. However, underlying demand remains strong in the mass market. Additionally, the US-China trade war might subdue appetite for super-luxury properties in the short-term."

The Emerging Trends report, which is being released at a series of events across Asia over the next several weeks, provides an outlook on Asia Pacific real estate investment and development trends, real estate finance and capital markets, and trends by property sector and metropolitan area. It is based on over 350 survey responses received from real estate professionals, including investors, developers, property company representatives, lenders, brokers and consultants.

The top five markets for investment and development in 2019:

- **Melbourne (first in investment, first in development)** – Melbourne has jumped ahead of Sydney this year. It offers a constrained office supply pipeline, good yield spread over the cost of debt and sovereign bonds, a deep, liquid, core market and fair prospects for rental growth.
- **Singapore (second in investment, eighth in development) –** An improvement in Singapore's office market has enabled the city to take the second spot in investment rankings, as it continues to rebound from cyclical lows.
- **Sydney (Third in investment, third in development) –** Sydney remains near the top of the rankings for the same reasons as Melbourne. The city is a favourite of global investors due to relatively high returns and as a safe-haven play. Competition for assets has helped sustain pricing, while low vacancies and growing demand for space suggest rents will continue to rise.
- **Tokyo (fourth in investment, fourth in development) –** Tokyo's move to the fourth spot is somewhat surprising after last year's drop, but probably reflects what has always made it a favourite for institutional buyers: cheap finance, attractive leverage, a good spread over interest rates, and a large stock of investment-grade assets.
- **Osaka (fifth in investment, sixth in development) –** The lack of reasonably priced core assets in Tokyo continues to push investors into regional Japan, where local economies are now increasingly mature and stable. With supply tight in both residential and office sectors, the city is now probably the top market outside the capital.

Leading buy/hold/sell ratings for the various asset classes are as follows:

- **Office —** buy Ho Chi Minh City and Tokyo, sell Taipei and Auckland.
- **Residential —** buy Ho Chi Minh City and Bangalore, sell Kuala Lumpur and Auckland.
- **Retail —** buy Ho Chi Min City and Mumbai, sell Taipei and Kuala Lumpur.
- **Industrial/distribution —** buy Bangalore and Mumbai, sell Taipei and Kuala Lumpur.
- **Hotels –** buy Tokyo and Ho Chi Minh City, sell Taipei and Beijing.

The full report is available here.

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