

In a recent webinar hosted by the RICS WBEF, experts from Colliers discussed the effects of the COVID-19 pandemic on Asia Pacific, with a focus on real estate markets. This edition of the COVID-19 Q&A reflects the views of Terence Tang, Managing Director, Capital Markets, Asia.

1 How bad is the COVID-19 economic shock? How quickly can APAC economies and real estate sectors expect to recover?

Most investors in the region were caught unprepared and have been surprised by how pervasively, and how quickly, the pandemic has spread. As a result, we have not seen a lot of investment activity over the last quarter and we expect it to be the same this quarter.

The earliest we expect investment activity to resume in the market is likely to be in the second half of the year, definitely led by China, and probably also by Hong Kong.

For investment activity to return to normal for most other Asian markets, it will probably take a year or so as, at the moment, investors are still trying to understand the economic and financial impacts of the crisis.

2 How have markets reacted to stimulus packages? How are occupiers and investors responding?

Economic growth in the markets will always be the primary concern for investors. Stimulus packages that have been introduced so far have been focused on protecting jobs, livelihoods, and maintaining a reasonable employment level, rather than stimulating economic growth.

Having said that, China has just introduced measures to promote growth; for example, by issuing spending coupons in Nanjing. We have only seen an initiative like this from China as other markets are still trying to maintain employment, so it's a bit too soon for real estate investors to react.

Disturbingly, what we are seeing is shrinking credit – many financial institutions have stopped lending and some property owners have started to deleverage. Hong Kong, traditionally a very responsive market, has been one of the fastest markets to respond with a drop in asking prices – for example, some have dropped their prices by up to 30% of previous valuations – and it's the only market we've seen do that.

Investors currently have the opportunity to secure assets to which they normally would not have access, but at the back of their minds they will still be concerned about the impact of the global recession. Our recommendation is to continue to keep a close view on the markets, try to gauge the opportunities and understand the motivations of sellers, and think about the long-term fundamentals of those opportunities.

It's very important to be able to identify which market will be the first to recover and which sector(s) will offer strong longer-term economic fundamentals. We are beginning to see some distinction between different asset classes in terms of risk/return profiles, and it has been interesting to witness how different asset classes have behaved and reacted in the last few months.

3 What sectors of the real estate market, if any, stand to gain from the disruption, and which will be hardest hit?

Because many markets have faced business continuity planning issues, we expect that investors will start to look at the suburban office or suburban business park sectors and there will likely be increased demand.

During SARS, some markets promoted satellite offices, but it only took a couple of years post-SARS for people to forget about it; now with COVID-19, people are starting to recognize the importance of satellite offices for BCP purposes.

Investors will always look at markets with attractive governance, attractive market growth, and thus attractive capital growth, so it is important for governments to react and instill confidence during this crisis. For example, the Chinese government has given investors the confidence to resume market activity and correspondingly, Hongkong Land has since acquired one of the largest sites (around USD 4 billion) in its history. This demonstrates how important it is for governments to instill confidence – to show that they are managing the crisis and subsequently giving investors more confidence in the long run.

Markets like Singapore are also receiving a lot of attention, and we expect more capital and investment will be directed toward better-managed economies once the crisis is over.

4 What will full economic recovery look like: a reversion to pre-COVID-19 norms, or a reinvented global economy?

This crisis has triggered the reset button from an investment perspective. Over the last 10 years, there has been so much liquidity in the market that capital has driven down yields and risk premiums to nearly zero. Valuations of risk premiums now must be reexamined. People will have to understand the risk premium and yields for different asset classes and will need to differentiate more than they have in the last 10 years.

As we have seen thus far, the most resilient assets that have been very defensive throughout the crisis have been commercial assets with single tenant, long WALE (Weighted Average Lease Expiry), and strong covenants, like with government tenants. These are the core assets, as traditionally defined, that have been best protected during the crisis. Investors will tighten this definition and, moving forward, will likely adhere to the traditional definition of core assets, particularly in Asian markets.

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