Invesco Real Estate House View

H1 2018 Asia Pacific Market Outlook

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Cover Image: Singapore; office rents are rebounding.

Asia Pacific real estate investment context – H1 2018
Focus on unlocking growth in net operating income (NOI)


Image: Osaka, Japan; office vacancy is at a new low.

Where we are:
We have upgraded our near-term rental growth forecasts due to stronger economic growth conditions.

Potential for higher long-term government bond yields may affect real estate yields/cap rates later in the forecast period (2018-22).

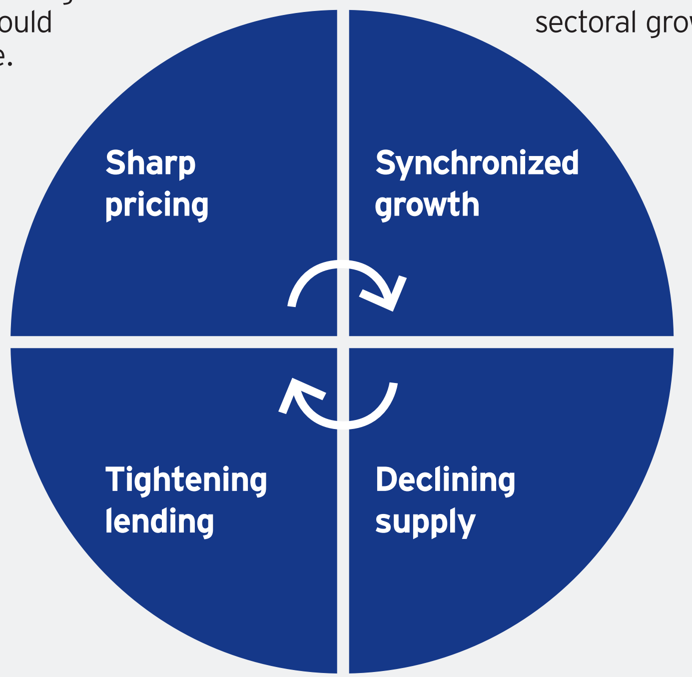
What we intend to do:
Focus on unlocking NOI growth by capturing:
- Cyclical rental upswing, for example:
  - Singapore, Sydney and Melbourne offices
  - Perth office for long-term recovery
  - Selected submarkets in Japanese regional cities, suburban Sydney and Gangnam offices in Seoul
- Secular growth, for example:
  - Key logistics hubs in China and greater Seoul
  - Submarkets benefiting from urban renewal or new infrastructure, e.g., Western Sydney logistics
  - Specialty sectors such as student housing
- Asset enhancement or conversion strategies where an asset is below the standard of its submarket in Hong Kong, Japan and South Korea.

Asia Pacific investment themes and execution – H1 2018

Pricing suggests now is the time to focus on ways to drive NOI growth

- Yield/cap rate spreads over long-term government bond yields are in normal bounds.
- Stronger income growth prospects should support price.

- Economic growth is leading to a generally positive employment outlook.
- Cities have different sectoral growth drivers.



- Greater regulatory control is leading to a financing gap in Australia and China.
- Rising long-term government bond rates may make real estate debt more expensive.

- Decelerating supply in most markets.
- In some markets, geographic concentration of supply may lead to different rent growth in different submarkets.

Investment implications

Long-term government bond yields appear to be rising, which might put pressure on real estate yields/cap rates later in the forecast period.

Driving NOI growth is therefore important. Strong demand and lower supply are supportive to rent growth in general.

Submarket and subsector rent growth is likely to be uneven.

Demand exceeds supply in some non-gateway cities in China and Japan.

Tighter lending could provide distressed or debt opportunities, however, this may not be widespread and may not affect gateway markets.

Asia Pacific real estate sector strategy implications – H1 2018

Cyclical trends point to a stronger outlook for NOI for industrial and office

Retail: E-commerce headwinds drive the divergence of asset performance

- There is a diverging growth outlook and pricing for prime and secondary retail centers.
- Focus on resilient formats, e.g., luxury high street, dominant experiential centers or neighborhood centers.

Logistics: E-commerce tailwinds drive demand

- Locations benefiting from new infrastructure may emerge.
- Consider logistics assets in urban infill locations that are difficult to replace.

Office: Strengthening near-term outlook

- Selectively consider fund-through development and lease-up to secure quality assets.
- Explore cyclical market-timing opportunities in non-gateway markets.

Apartment: Shortages are emerging in certain quality tiers

- Create affordable housing options in dense urban locations, e.g., co-living.
- Focus on those cities underpinned by strong, sustainable population growth.

Hotel: Strong outlook for growth in travel

- Seven-day trading cities are likely to benefit the most.
- The volume of new supply is a key metric that will differentiate the outlook for markets.

Specialty sectors

- Urbanization generates higher demand for self storage.
- Demographics drive demand for seniors housing; aging and wellness underpin demand for healthcare.
- Growing student numbers drive demand for student housing.
- Technological advancement drives demand for data centers.

Asia Pacific — Strategic considerations
Focus on market-sector combinations with more NOI growth potential

Market		Core/income	Higher return
Australia/ New Zealand	Auckland Brisbane Melbourne Sydney	- Fund through CBD **office** developments - Strong non-CBD **office** submarkets, e.g., Paramatta - Western Sydney/southeast Melbourne **logistics** submarkets - Accessible, service-oriented neighborhood **retail** centers with limited competition	- **Residential** development finance, and monitor opportunities in other property sectors - **Retail** asset enhancement
	Perth	- **Offices** with appropriate existing leases to capture market rent recovery	- Distressed assets and debt opportunities
China	Tier 1 cities	- Emerging **office** submarkets, e.g., North Bund, Qiantan and Railway Station in Shanghai - Modern **logistics** in mature hubs	- Monitor conversions to **multifamily/co-living** - Monitor distressed and debt opportunities
	Tier 2 cities		- Cyclical entry points for prime CBD **offices**
Hong Kong	Hong Kong	- Selective **industrial** and **specialty sectors**	- Asset upgrade/conversion to compatible uses, e.g., convert old buildings to **multifamily/co-living**
Japan	Tokyo	- Stable **office** renting < JPY25,000/tsubo - **Logistics** submarkets: Tokyo Bay - High density middle class **residential** areas	- **Retail** upgrade near mass transit hubs - High-yield **residential** in non-prime locations
	Regional cities	- CBD **offices** in Osaka and Fukuoka - **Logistics** submarkets: Kinki and Chubu Inland - High-density middle class **residential** areas	- **Office** lease-up and refurbishment in CBD areas - **Retail** upgrade near mass transit hubs
Singapore	Singapore	- Stabilized **logistics**, properly priced land leases	- **Office** upgrade/lease-up in CBD and fringe
South Korea	Seoul	- **Office** development fund through in Gangnam - **Retail** in strong catchment areas - **Logistics** with improving accessibility	- **Office** lease-up in Gangnam - **Office** and **retail** upgrade/conversions to compatible uses - Build-to-suit **logistics**

Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of the property is generally a matter of an independent valuer's opinion.

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