Spring
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Property In Asia 2014 –
A Spring Professional Overview

1 State Of The Property Industry

There is no denying that the economic backdrop provided by the post-global financial crisis environment has been uncertain, at best. However, while most markets have been affected in some way or another, the real estate market has remained, for the most part, uncompromisingly strong over the last year. Admittedly there have been some exceptions to the rule. According to IPD, total return for all property in South Korea moderated to 7.1% from 8.6% in 2011. However, Japan experienced a noticeable shift to the upside, from 3.5% in 2011 to 3.8% in 2012.[1]

"It is dependent on particular asset classes, some performing relatively well while others are slowing down," states Steve Simmonds, Associate Director South East Asia for Spring Property & Construction. "I think we are at an interesting juncture, with the US showing signs of recovery, which gives Asia reasons to be positive. The market is approaching 2014 with cautious optimism."

Cautious optimism seems to be the sentiment of choice in the coming year as a result of the tightening of the US austerity policies in the Euro zone and the rebalancing of China's economy. The threat of a tapering US economic stimulus has caused a significant drop in bond and equity prices, including real estate investment trust (REIT) markets, but the physical market for real estate has so far been largely unaffected, meaning that real estate capital flows have remained robust in 2013. As such, it is easy to see why 'cautious' optimism is called for.

From a financial perspective, Asia's banks seem to be only too willing to accommodate when it comes to providing credit for real estate. While it may be true that some markets have slightly tightened terms, others, such as Japan, have loosened. Currently, Japan boasts a higher than average loan-to-value ratio than most others across Asia, which is a significant claim considering that those markets are offering a ratio of 60 – 65%. While mature markets such as Japan have done well, it is the emerging markets that have truly caught a favorable wind. In the first half of 2013, capital into the region's emerging markets grew 49.3% as compared to the same period in the previous year.[2]

The surge in deals in the emerging markets can be largely attributed to the amount of capital being invested into development land sites in China's tier two and three cities, where development opportunities, especially in the residential market, drove investments. Asia's prominence, however, is not simply in the amount of capital going into the emerging markets, but also in the amount coming out of Asia.

"Interestingly," states Simmonds, "is that last year, more investment went out of Asia in terms of capital than came in, which is quite a unique situation."

In the Post-GFC environment, Asian capital is becoming increasingly dominant, as significant volumes are being pumped out of individual Asian countries, such as China, South Korea and Singapore, into real estate assets around the region. At the same time, large flows of Asian capital are leaving the region and heading into real estate markets in the West. This capital is coming from a variety of different sources – be it sovereign wealth, institutional, insurance company or private money – and these flows are set to continue, going forward.

On the whole, real estate investment in emerging markets continues to be a game of evaluating potential gains against possible risks, such as political stability, transparency and market access, and currently, the potential monetary gains are winning. At the same time, the fundamentals of the real estate market are, for the most part, uncompromisingly strong, despite the uncertain economic backdrop.

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[1] Asia Pacific Real Estate Strategic Outlook: Mid-Year Review, Deutsche Asset and Wealth Management, August 2013
[2] Emerging Markets in Asia Pacific, Cushman and Wakefield, November 2013

2 Trends

Emerging markets within Asia in 2014 are clearly the desired direction. Many investors are looking beyond the mature markets, such as Singapore and Hong Kong, and delving into markets such as Indonesia, Vietnam and even Malaysia. Naturally, with the inflow of investment comes development. One of the reasons behind this push into emerging markets lies in the fact that yields are quite compressed in mature markets, which makes it hard to get a decent rate of return. Emerging markets, however, are a different ballgame and offer much more in terms of returns. "Investing in emerging markets is certainly riskier, but more and more investors seem quite happy to go further up the risk curve, especially if they have the right partner in those emerging markets," Says Amy Walker, Senior Consultant, Spring Property & Construction Hong Kong.

Certainly the justification for increasing the risk is evident. In a survey conducted by the Urban Land Institute (ULI) and PriceWaterhouseCooper (PWC)[3], assets located in Asia's emerging markets, including Jakarta and Manila in particular, continue to draw investment interest, despite problems of various kinds from a lack of transparency to a lack of investable stock. In terms of development prospects, Jakarta is ranked first.

"While Asia's robust market has been accompanied by higher prices and lower yields for core products, investors have reacted not by pulling away from real estate in Asia, but by finding new ways to make the numbers work, including a focus on specialised property types such as senior care or logistics, and on opportunities in emerging markets," states Raymond Chow, Chairman, Urban Land Institute, North Asia.

Mature markets have not been forgotten however, as the same survey also revealed that Tokyo is being seen as the top destination for real estate investment in 2014. Transaction volume in the Japanese Capital picked up significantly in 2013 and with the success of the stimulus package yet to be determined, buying is expected to continue into 2014.

Another mature market that proved its worth in the investment market is Shanghai, a city that has ranked second most attractive market for investment. Widely perceived as a low-risk market for those unwilling to venture into lesser known territories, the city continues to draw international real estate investors.

It is a mixed bag of mature and emerging markets that populate the top five spots in the ULI/PWC survey's ranking of top investment markets of 2014, with Tokyo and Shanghai leading the race, followed by Jakarta, Indonesia, Manila, Philippines and Sydney, Australia, in that order.

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3 Recruitment Development

Along with the resilience of the real estate markets across Asia comes strength in recruitment. With the state of the economy and the current rates of unemployment, it has clearly become a candidate led market. While the US and Europe are dealing with issues of unemployment, in Asia companies are now hard pressed to find candidates. Certainly there are exceptions, such as Indonesia, which is facing an unemployment rate of 6.25% but many other Asian markets are finding themselves at full employment. Examples such as Singapore (1.8%), Malaysia (3%) and Thailand (0.72%) are, more often than not, the norm.[4]

"The best candidates or those with niche skills sets are always required by employers. I think in the past it's been a very client led market and people were searching for jobs," states Simmonds. "Now there is a definite increase in the amount of recruitment required by clients."

Another area that has seen a shift in dynamics is the increasing reliance of large multi-national companies (MNCs) on outsourcing their work. While in the past, many MNCs had their own in-house real estate team to look after their real estate portfolio, today a great deal are turning to service providers.

"A lot of corporate occupiers have analysed their businesses and concluded that they can make better cost savings by using an outsourced service provider like Jones-Lang Lasalle or CBRE," says Liam Williams, Director, Spring Property & Construction Shanghai. "This means they benefit from the cost savings, efficiency gains and improved performance of the real estate they own and occupy, without having large in-house teams on their own payroll or headcount."

[3] Emerging Trends in Real Estate, Asia Pacific, Urban Land Institute, PriceWaterhouseCooper, December 2013
[4] Trading Economics: http://www.tradingeconomics.com/country-list/unemployment-rate

Williams also stated that for the South East Asia market, mid-level candidates are most in demand at the moment, especially those of local nationality. Thanks to the need for local knowledge of networks and regulations, and in some cases, government imposed strictures, there is a sincere drive from employers now to hire local market candidates, or at least non-nationals who have experience within the region.

"Maybe 10 years ago, there was a trend in bringing expats in from abroad, however today it's more about nurturing local talent within the region," says Williams "Also, in today's market, I think candidates are demanding more from their employers and we're at a juncture where clients are realising that they have to go the extra mile to secure top talent."

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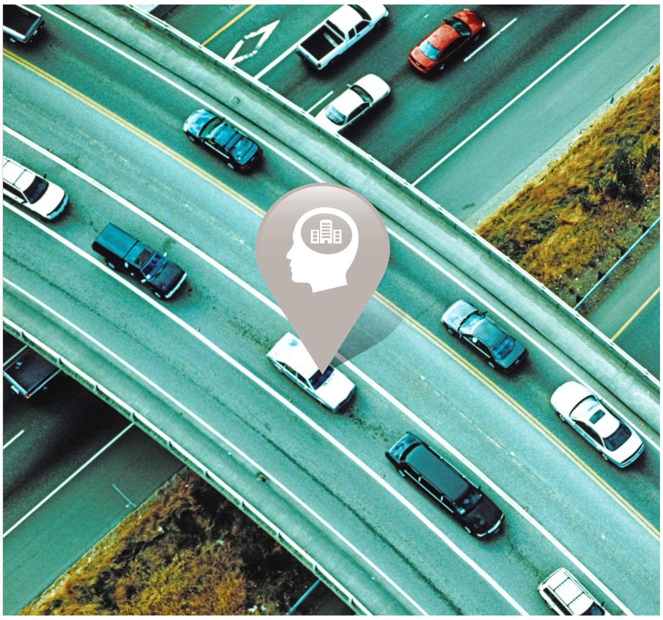
Conclusion

In the second half of 2013, global activity and world trade picked up, and recent data has suggested that the growth during this period was somewhat stronger than anticipated. While activity is expected to improve further in 2014 - 15 , based largely on the recovery in the advanced economies, it is the emerging markets that are drawing the attention of property investors. Drawn by the potential of higher yields, investors are looking towards markets like Indonesia, the Philippines and Vietnam and where investors land, development is sure to follow, meaning opportunities for candidates. At the same time, the recruitment market has also evolved. While the quality of candidates continues to improve, so too do the prospects. Local market candidates have become hot property in a market where candidates themselves can call the shots.

"At this point, it is a candidate-led market and we expect that to continue over the course of the next twelve months," states Steve Simmonds, Associate Director South East Asia for Spring Property & Construction. "Companies now have to differentiate themselves from their competitors. This means not only being competitive with salary but also defining better career progression or talent development planning, as well as offering something that makes them an employer of choice. It's more about the whole package, not just salary."



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