

## Phoenix Property Investors' Quarterly Market Update (May 2020)

by Milan Khatri, Head of Research

The coronavirus outbreak has led investors to raise many questions regarding the prospects for Asian and its real estate markets. The direction of the pandemic is still fluid. With this in mind, we recently provided our investors a presentation on the key issues and talking points, such as:

- Prospects for Asia's economic growth model
- How long might a downturn in real estate markets last?
- What does this mean for how we live and work, and urban real estate markets?
- Can the hotels industry recover and how long will it take?

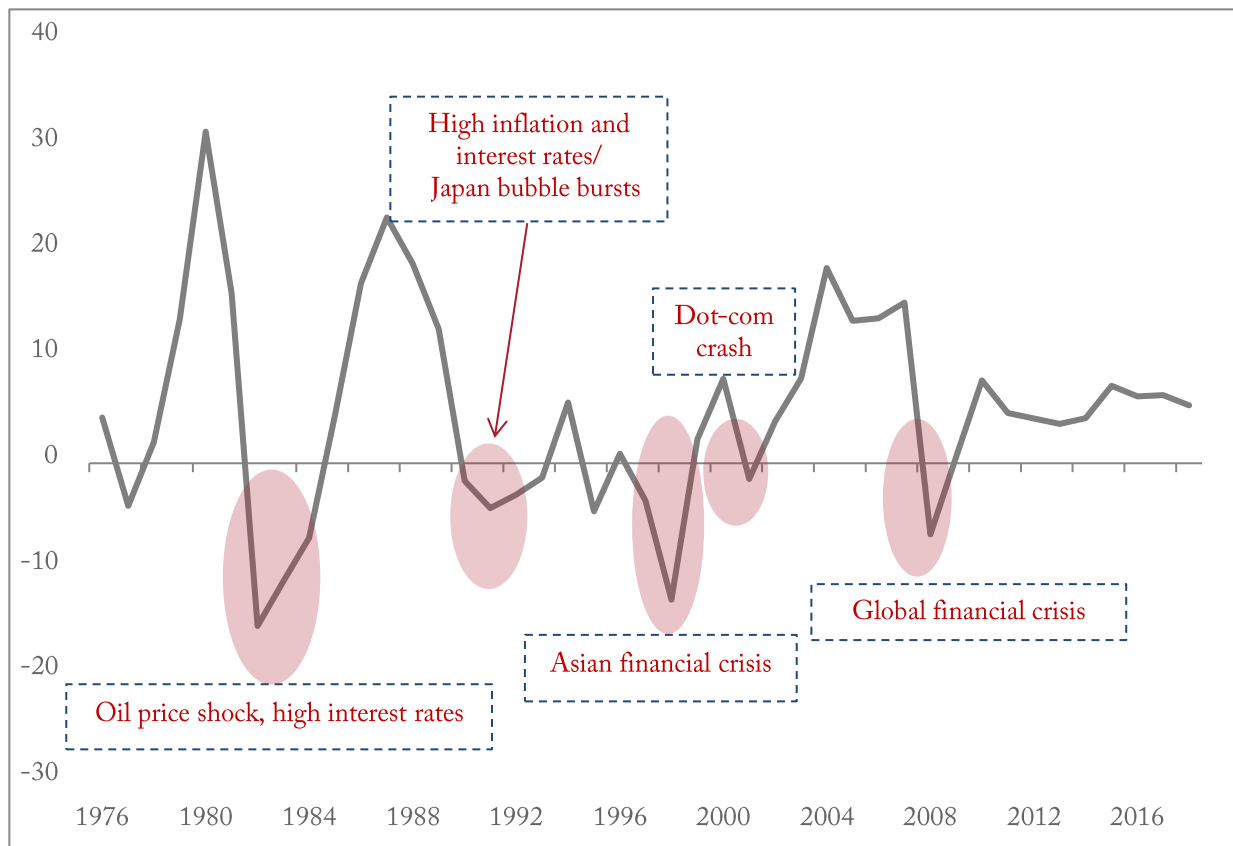
### The end of globalization and the Asian growth model?

- The pandemic has led to a large scale shut-down of Asian economies to contain the virus but simultaneously we appear to be witnessing a fracturing of global trade due to the likely re-shoring of supply chains.
- The reality is that de-globalization began with the global financial crisis, and yet Asia has not seen any noticeable impact. Growth during the past decade has vastly exceeded Europe and North America despite the reduced importance of trade.
- The virus will be gone eventually (even if it takes some time) at which point local economic drivers of a large domestic market, ongoing urbanization, and strong leadership in technology and infrastructure spending will assert themselves.

### How long might a downturn in Asian real estate markets last?

- There are many factors to consider such as the evolution of the pandemic itself, but looking just at previous market cycles, real office rents can fall anywhere between 20-40%, while real total returns have on average been negative 2 years on average.
- Down cycles which are particularly deep or long have been driven by high inflation and high interest rates. However, where policy support is significant such as around dot-com bubble and Global Financial Crisis, the duration is around 2 years, even if still painful.
- Governments around the region have announced substantial policy support, while unlike the Global Financial Crisis of 2008, there is little evidence of a financial crisis. This may help to limit the downturn. Ultimately, the development of a vaccine, or the time taken for herd immunity to develop in the community are likely to dictate the length of the down cycle.

## APAC Inflation-adjusted Real Estate Performance<sup>1,2,3</sup>



Notes:

1. Source: MSCI, CBRE IKOMA, Singapore URA, Hong Kong Rating and Valuation department, Phoenix's calculations, May 2020

2. Total real returns is the sum of income returns and capital value change

3. Post 1985 covers Australia, Japan, Hong Kong and Singapore. 1982 to 1984 excludes Australia. 1976 to 1978 excludes Australia and Hong Kong

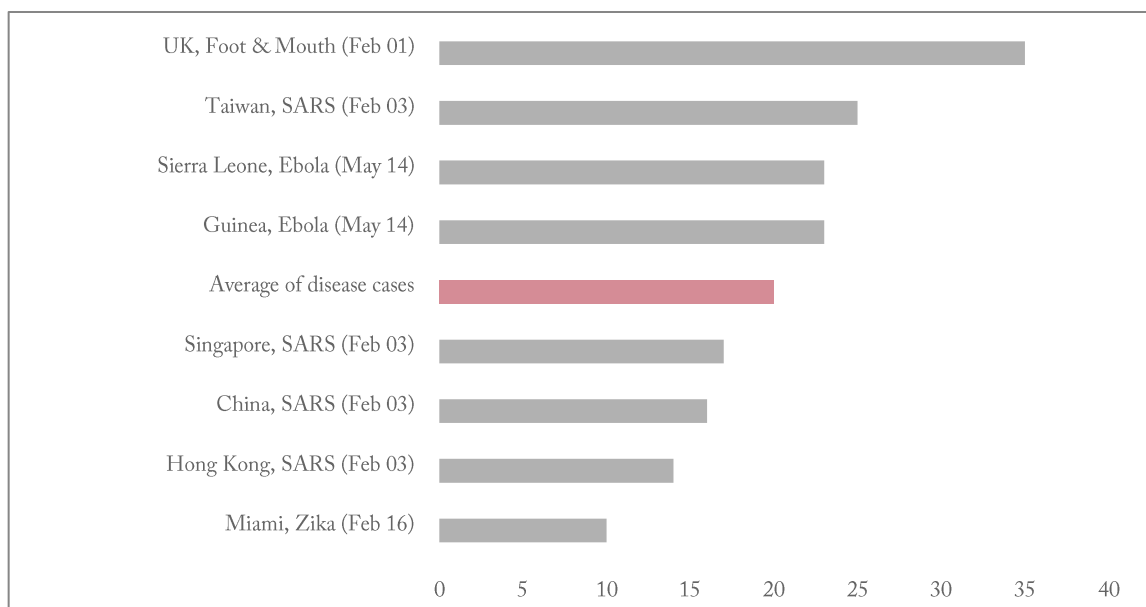
### What does this mean for how we live and work, and urban real estate markets?

- Some degree of normality can return to Asia's major cities. The region has experience with epidemics such as SARS (in 2003) and MERS (2015) and has been proactive in containing the spread of COVID-19 with mortality rates relatively low.
- Dense urban locations are required to nurture and grow personal networks, particularly in Asia's growth industries such as technology, financial services, business and professional services. Moreover, urban centres tend to have stronger provision of healthcare services as well.
- Locations which have been most successful in containing the virus such as in China, Korea and Taiwan have experienced greater willingness of the public to use transport facilities, go back shopping and to work – though admittedly still far from normal at this stage.

### Can the hotels industry recover and how long will it take?

- The industry is facing a huge cash crunch as travel has fallen tremendously. Once the virus is eradicated and the appropriate safeguards for protecting health are put in place, a recovery can begin. This was also the case post the 9-11 terrorist attacks in the United States which also led to a huge drop-off in travel.
- Evidence from previous virus outbreaks suggest that travel can take 2 years to reach previous peaks. As many Asia locations are leading on virus containment, it is possible that cross-border travel re-emerges within the region more quickly than elsewhere. We note that domestic travel is gradually rebounding in China.
- Clearly, progress in China to eradicate the virus will be important for the tourism industry across the region. China has been a leading source for inbound travelers to destinations like Japan which have benefitted hugely in recent years from a growing APAC tourism industry.

Time taken for travel to recover in months<sup>4</sup>



Note:

4. Source: World Travel and Tourism Council, 2019

### The questions do not end there?

A re-pricing of the market appears to have begun, but how much further has it to go, which sectors are best positioned over the long-term? And what types of strategies are likely to offer the best risk-adjusted returns as the downturn unfolds?

If you would like more detail on the questions above and Phoenix Property Investors' market views please get in contact ([ir@ppinvestors.com](mailto:ir@ppinvestors.com)) and we would be happy to help.

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