



KEYNOTE PRESENTATION

2023 Roadmap for Changing Times

Asia Pacific Market Outlook Series: Onward & Upward

3 February 2023



World Economic Forum 2023: We're in a new '*polycrisis*' era

- Polycrisis: a cluster of related global risks with compounding effects, such that the overall impact exceeds the sum of each part
- In the next decade, various economic, political and ecological shocks will simultaneously disrupt the world

Rising Inflation & Recession Risks

- Over the past 60 years in the US, whenever inflation was above 5% (above 8% now), and unemployment below 5% (now 3.5%), any attempt by the Fed to bring inflation down toward its 2% target has **caused a recession**
- **Hard landing** is anticipated in the US and across most other advanced economies

Geopolitical Tensions at the Fore

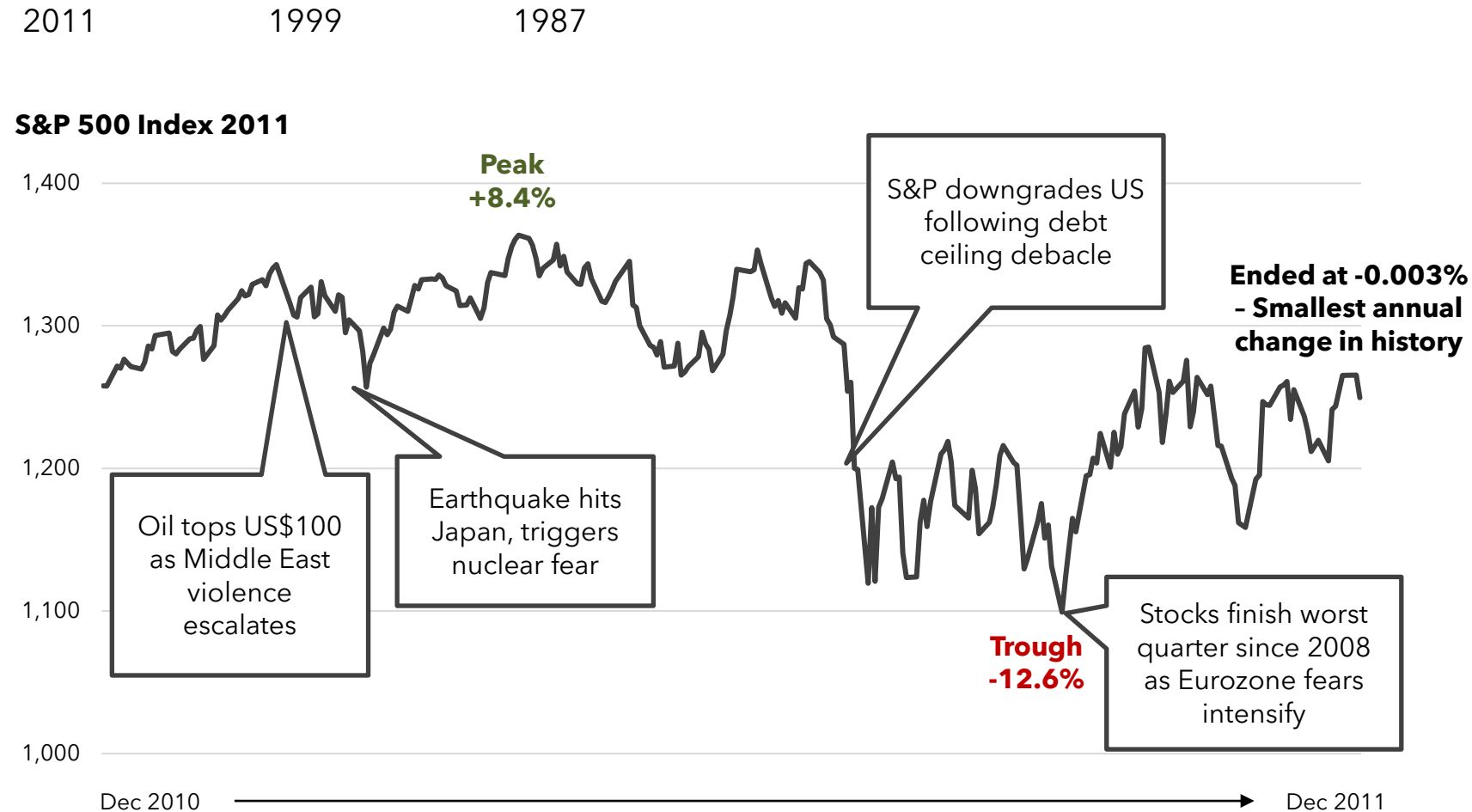
- Russia-Ukraine conflict has no end in sight
- China's aggressive stance on Taiwan - Invasion?
- US-China tensions

Climate Change

- How to mitigate and adapt to climate change and extreme weather events
- Weakened international ties halting progress
- Discussion on ESG and Net Zero - More greenwashing?
- Countries setting climate targets by 2030/2050, etc. - Are they ambitious enough?



Snapshot of past Years of the Rabbit



Weakest recovery since the Great Depression and World War II

- While recession officially ended in Q2 2009, economic recovery remained weak
- Global GDP growth: 3.32%; contracted by 1.21% YoY
- Slow job growth and high unemployment



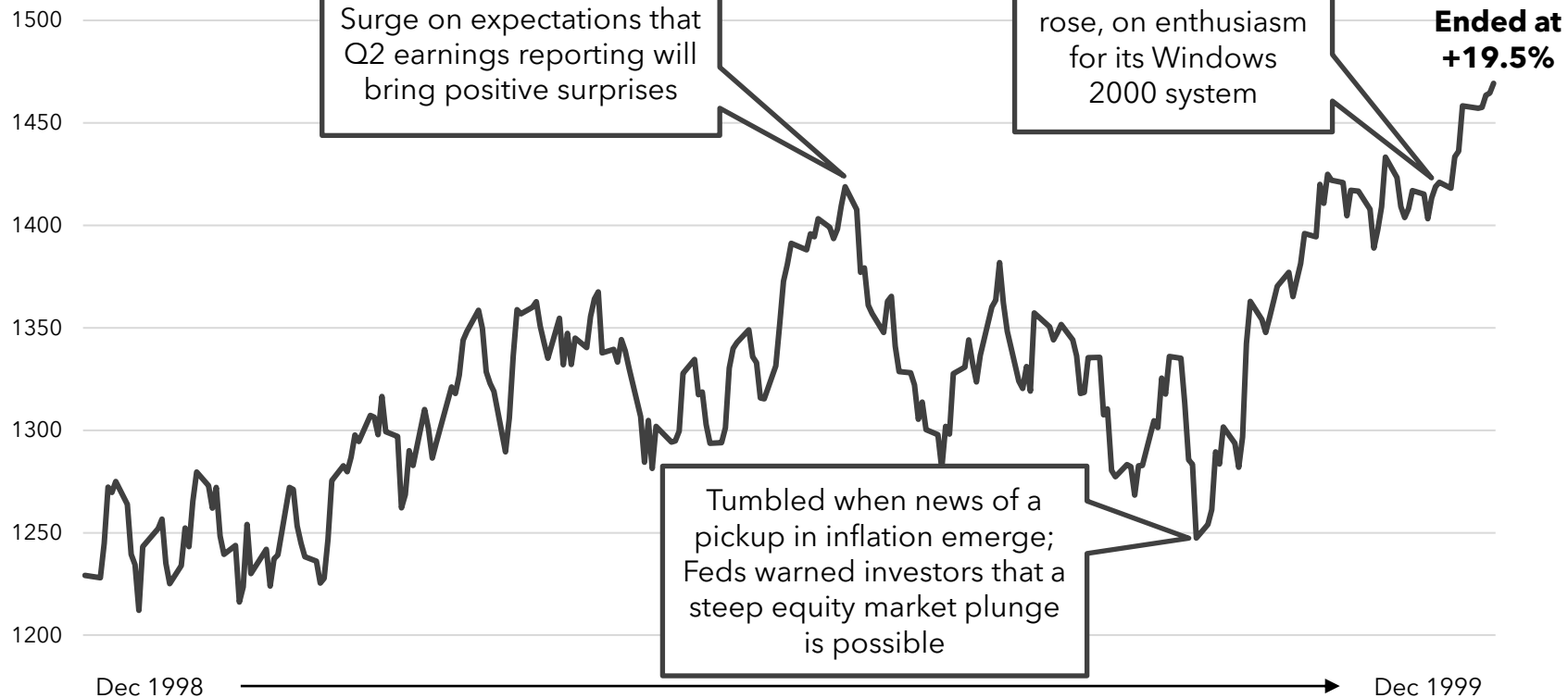
Snapshot of past Years of the Rabbit

2011

1999

1987

S&P 500 Index 1999



Year of the Decade

- Major market indices all closed the year at record highs
- Tech stocks outperformed
- Strong global GDP growth: 3.52%; expanded by 0.73% YoY
- Low unemployment
- Dot-com bubble burst the following year

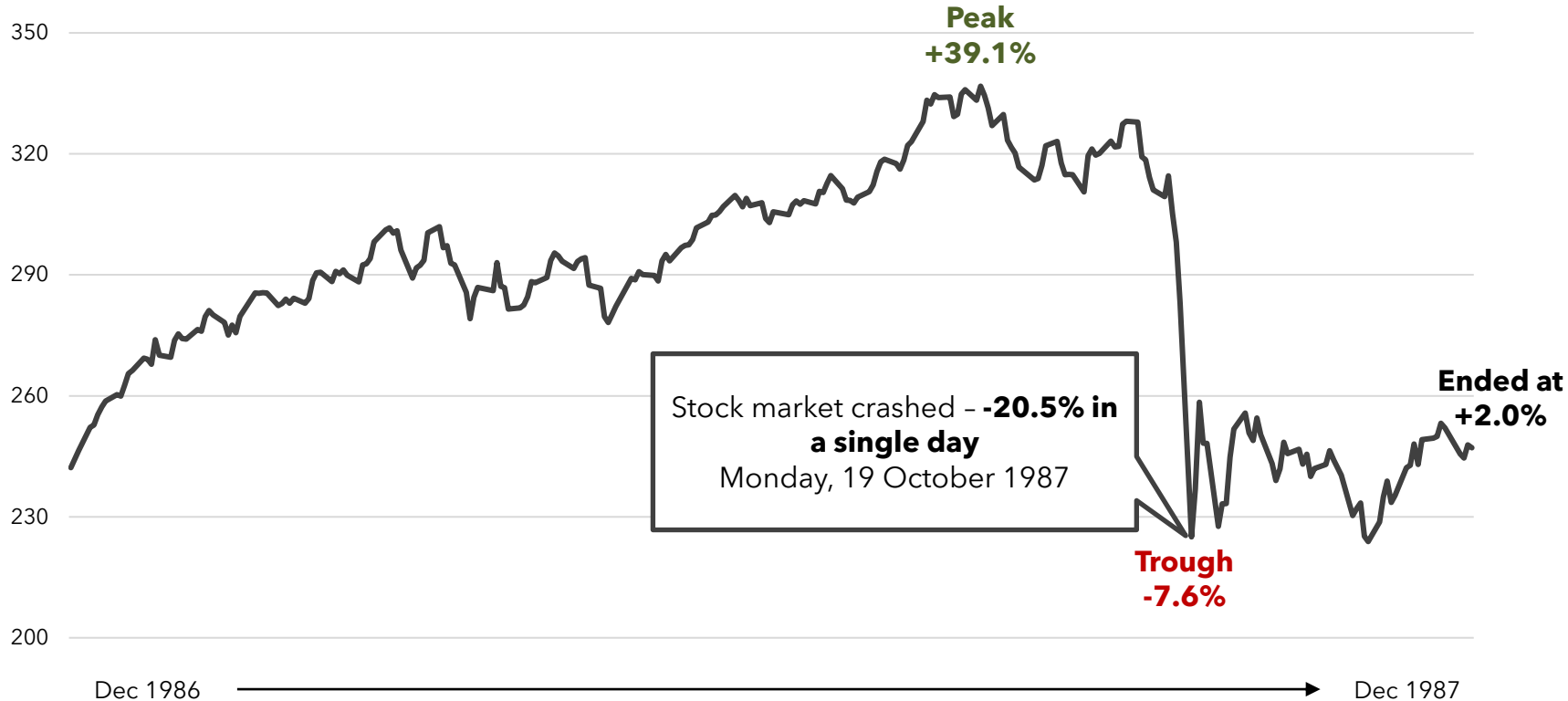
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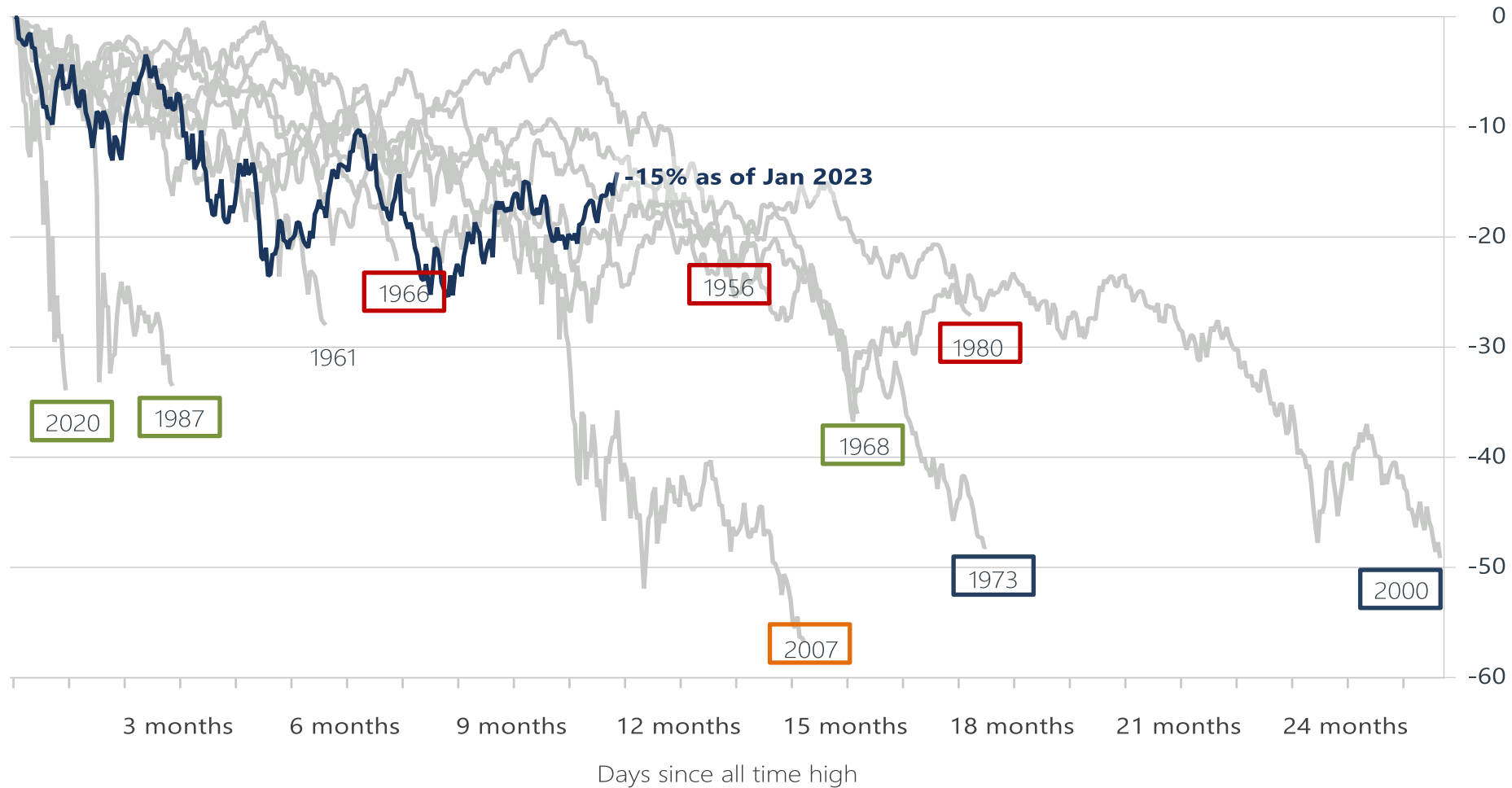
Black Monday

- No compelling fundamental reason for the crash: Programme-driven trading models that followed a portfolio insurance strategy + investor panic
- Feds cut rates immediately and provided other liquidity measures to calm markets
- Global GDP growth: 3.73%; expanded by 0.29% YoY
- Strong employment growth

Historic bear markets were tougher than this one

S&P 500 performance during bear markets

Performance from peak pre-bear market to bottom





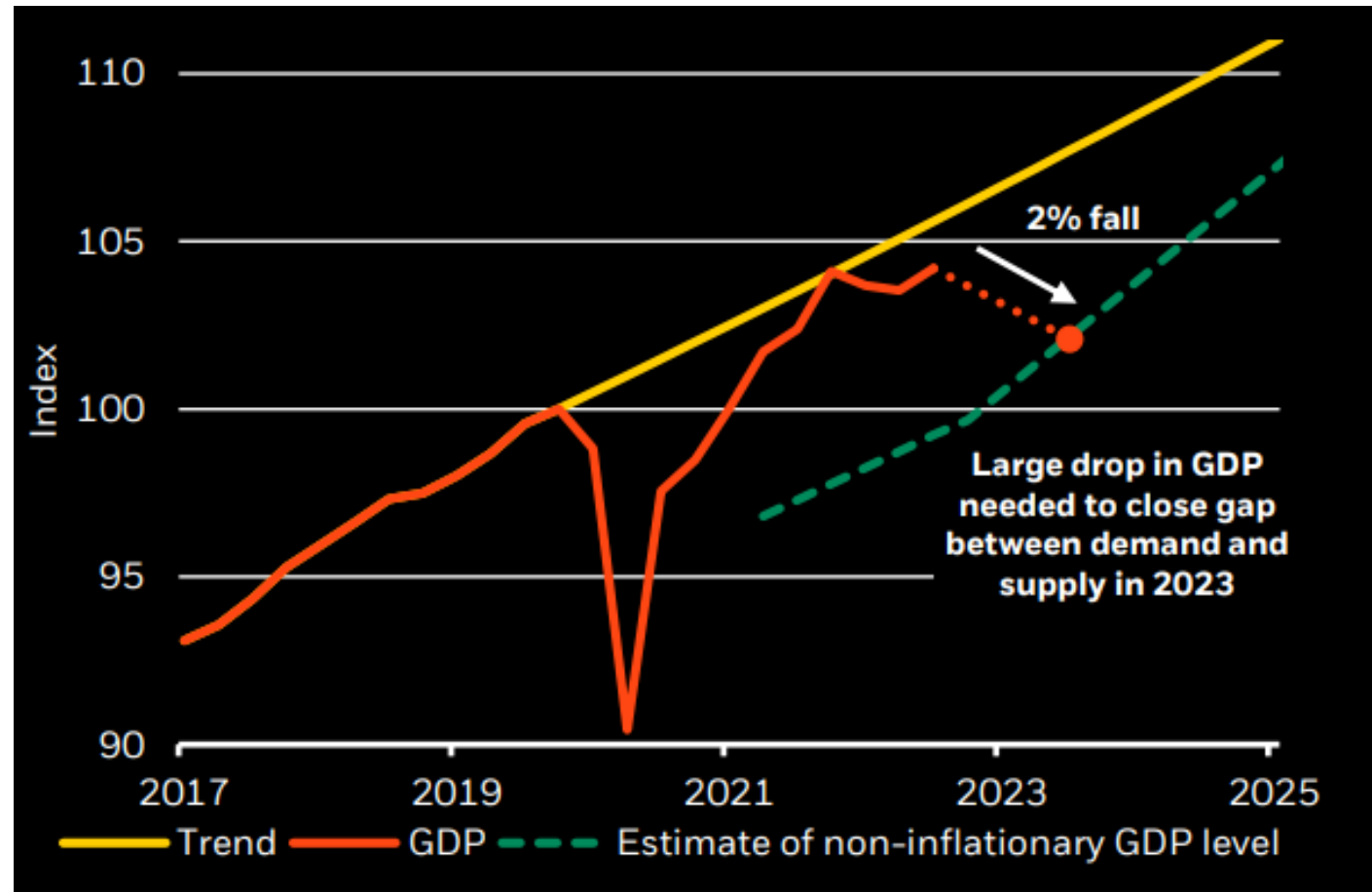
Macroeconomic Landscape

Uncertainties ahead



Taming inflation would take deep recession

US GDP and Potential Supply, 2017-2025



TRADE-OFF

Either get inflation back to 2% target by crushing demand down to what the economy can comfortably produce now (dotted green line)

OR

Live with more inflation

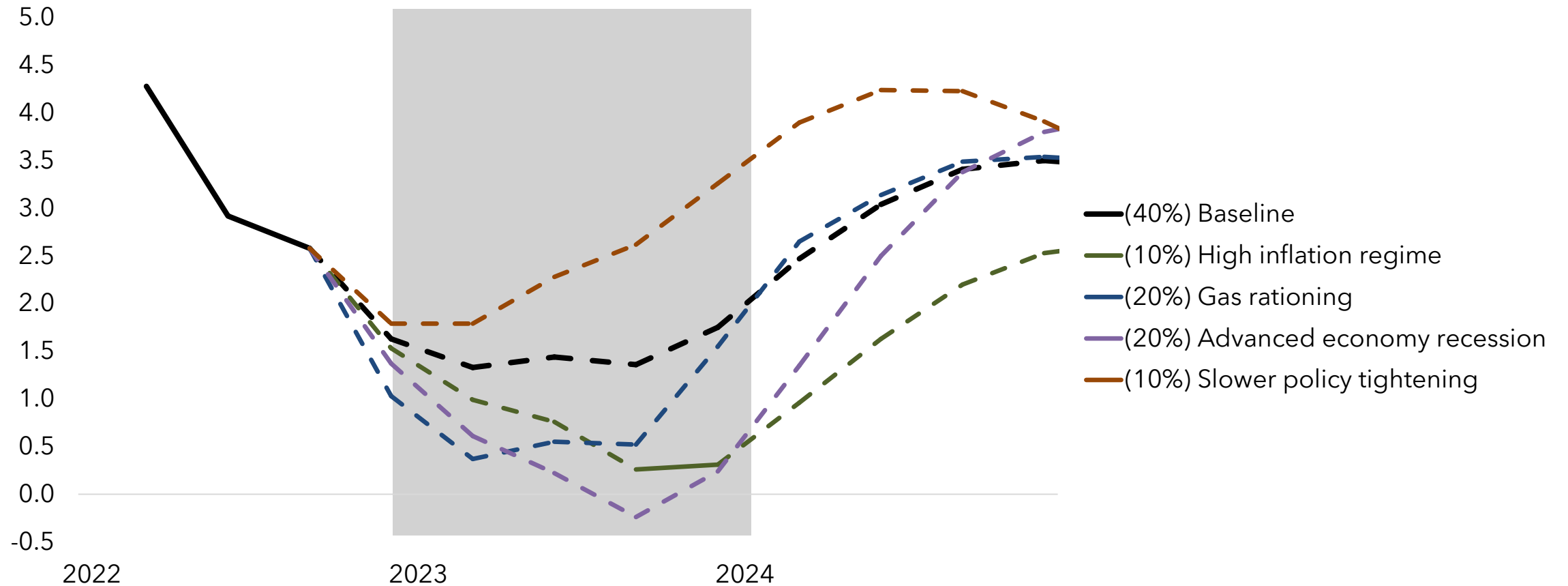
From the chart:

Getting inflation all the way back down to target - the dotted green line - would require the Fed to deal a **significant blow to the economy**



GDP outlook sensitive to scenarios

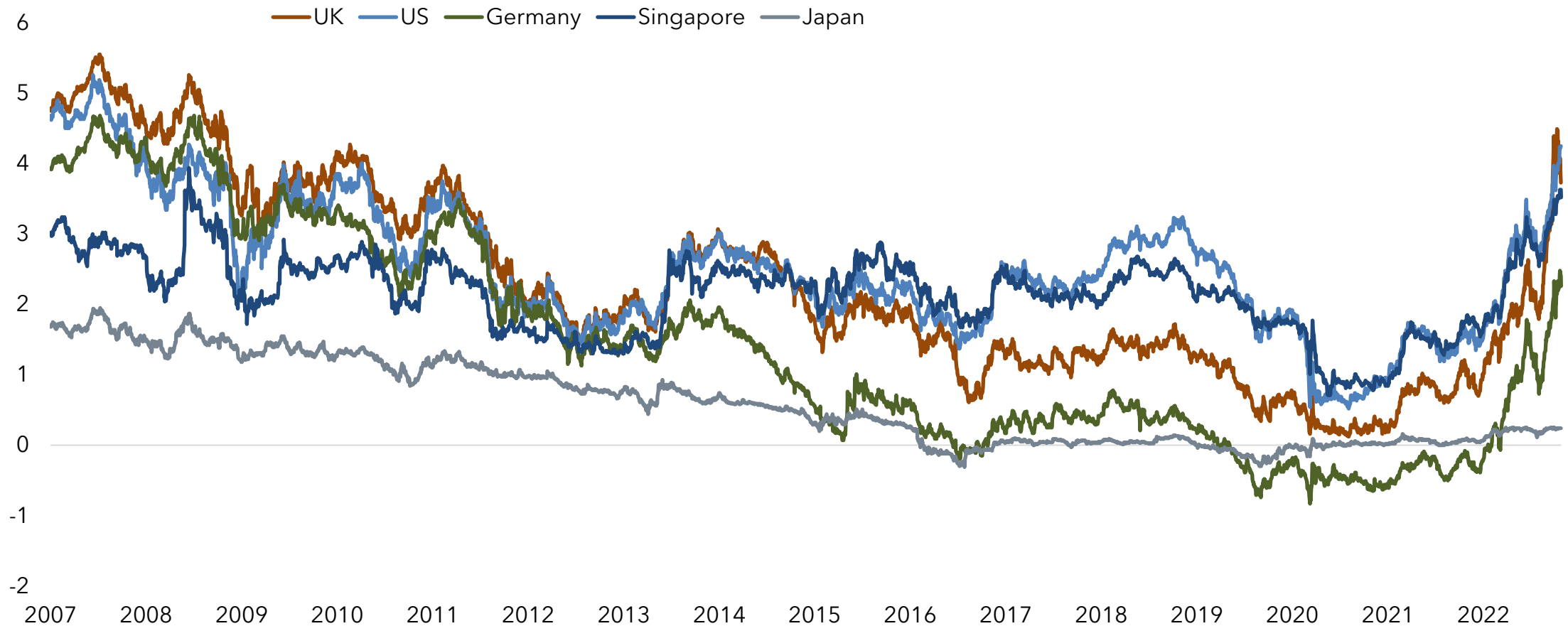
Forecast World GDP Growth, %





Risk free rate in some areas reach pre-GFC levels

10-year government bond yields, %

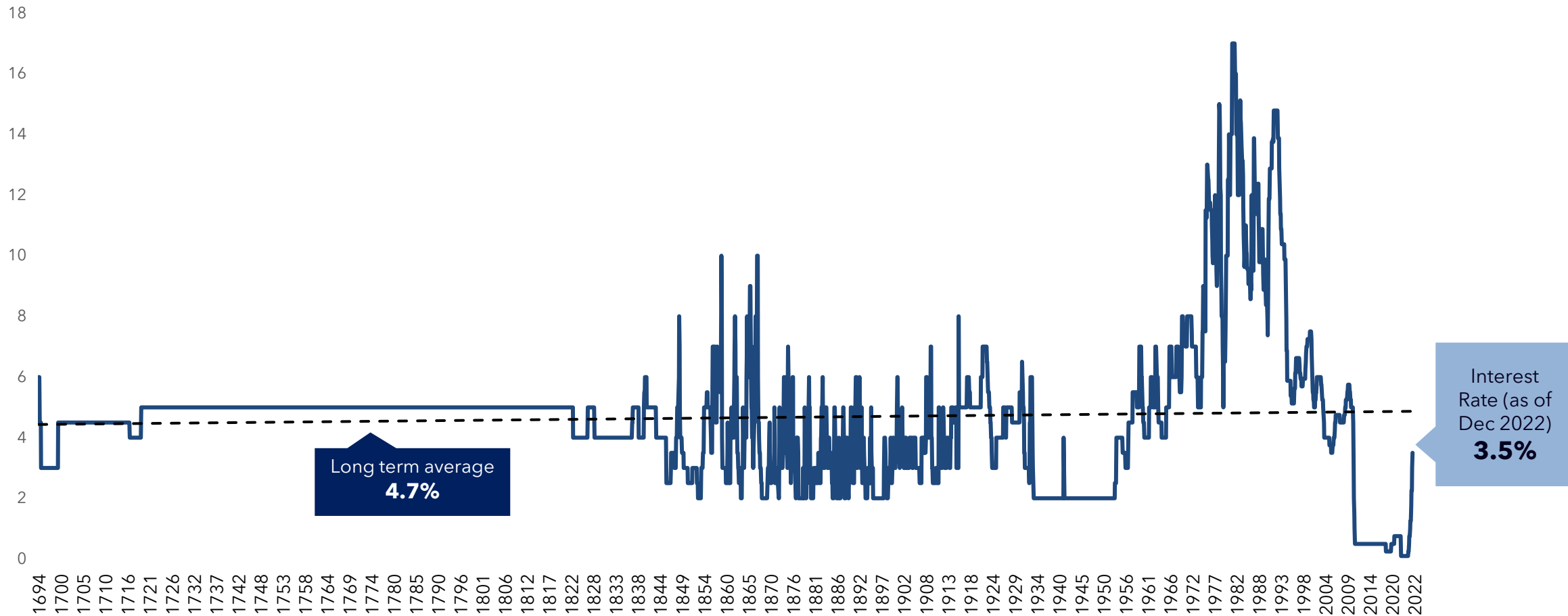


Source: Macrobond, Knight Frank Research



Mean reversion?

Policy rate, %



Source: Bank of England, Knight Frank Research



Case for Real Estate

Remains





Favourable risk-adjusted returns

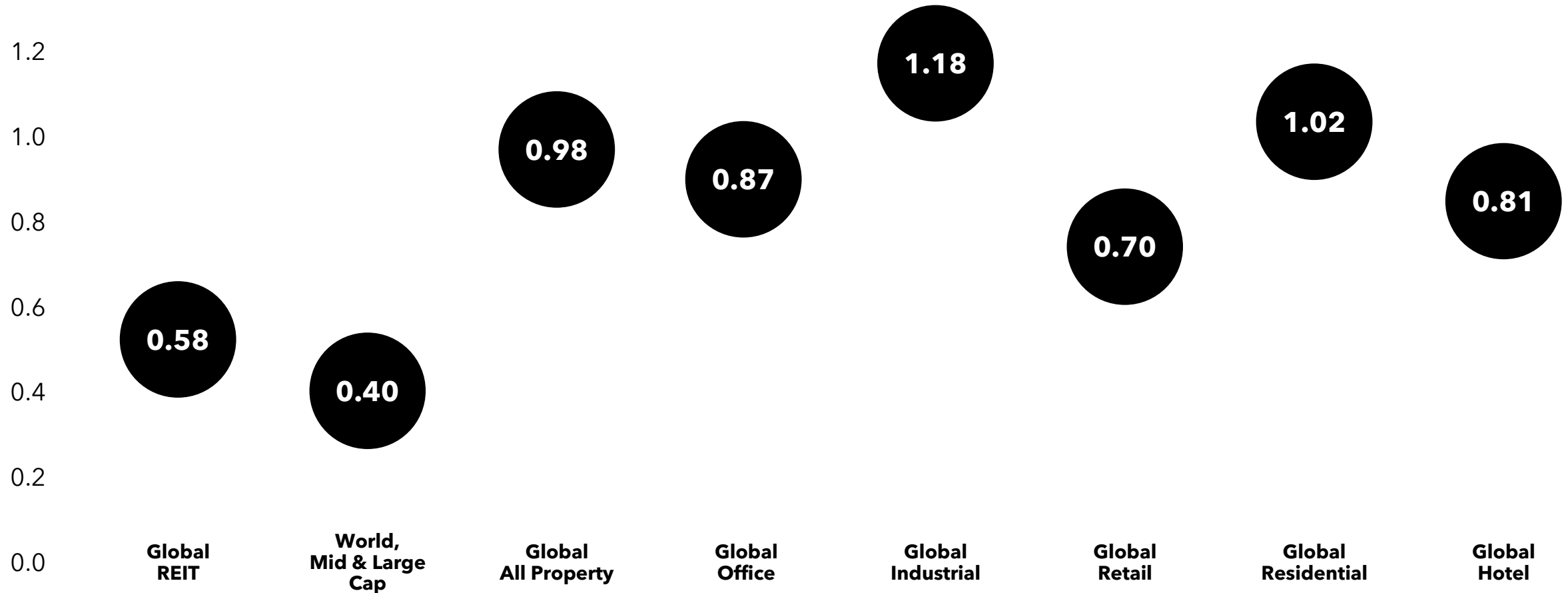
Sortino ratio: Desmoothed real estate returns relative to downside risk





Favourable risk-adjusted returns

Sortino ratio: Desmoothed real estate returns relative to downside risk

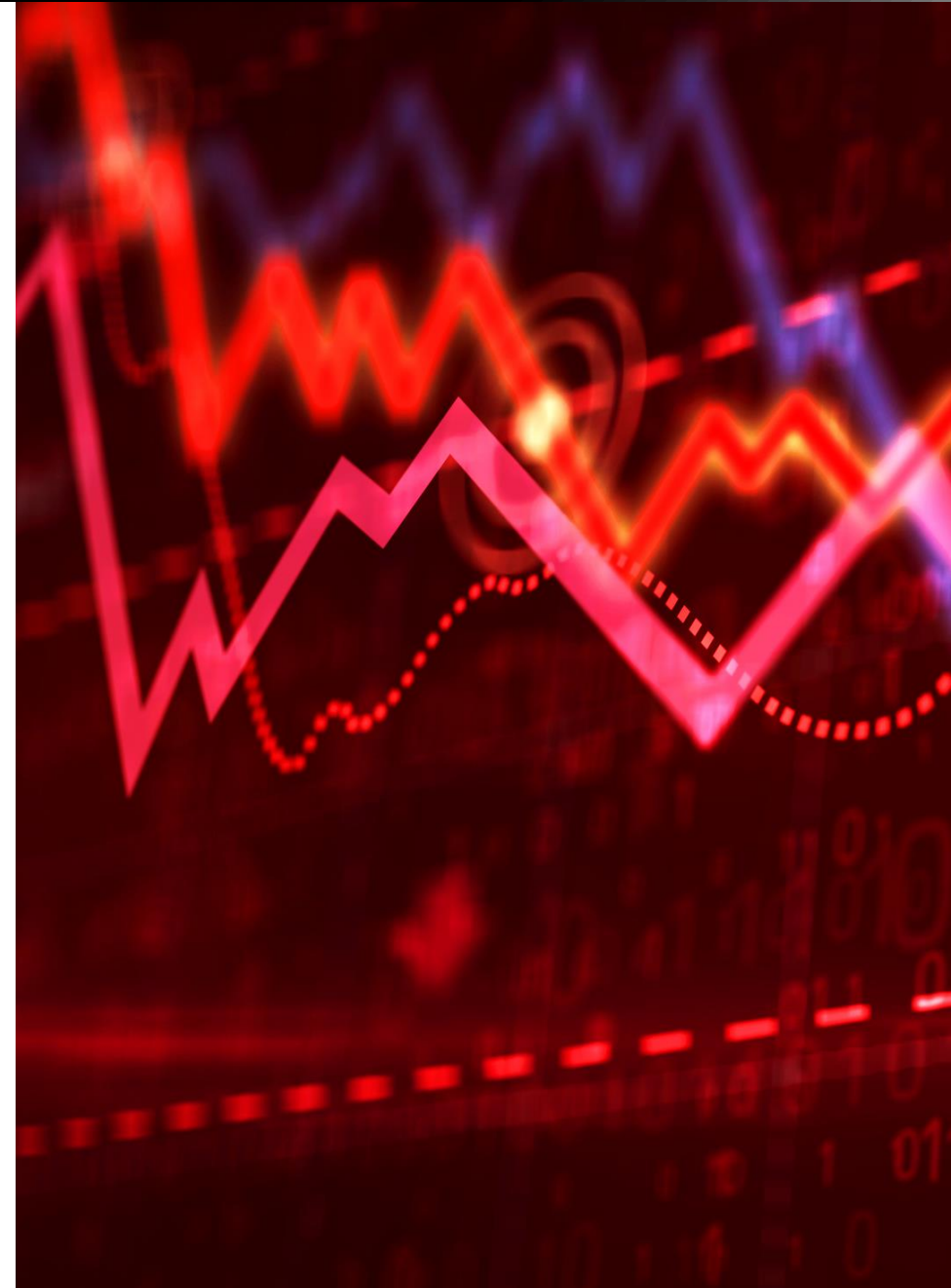




Real Estate to *Polarise*

But:

- ✓ **Diversification benefits**
- ✓ **Favourable risk adjusted returns**





Real Estate Sector

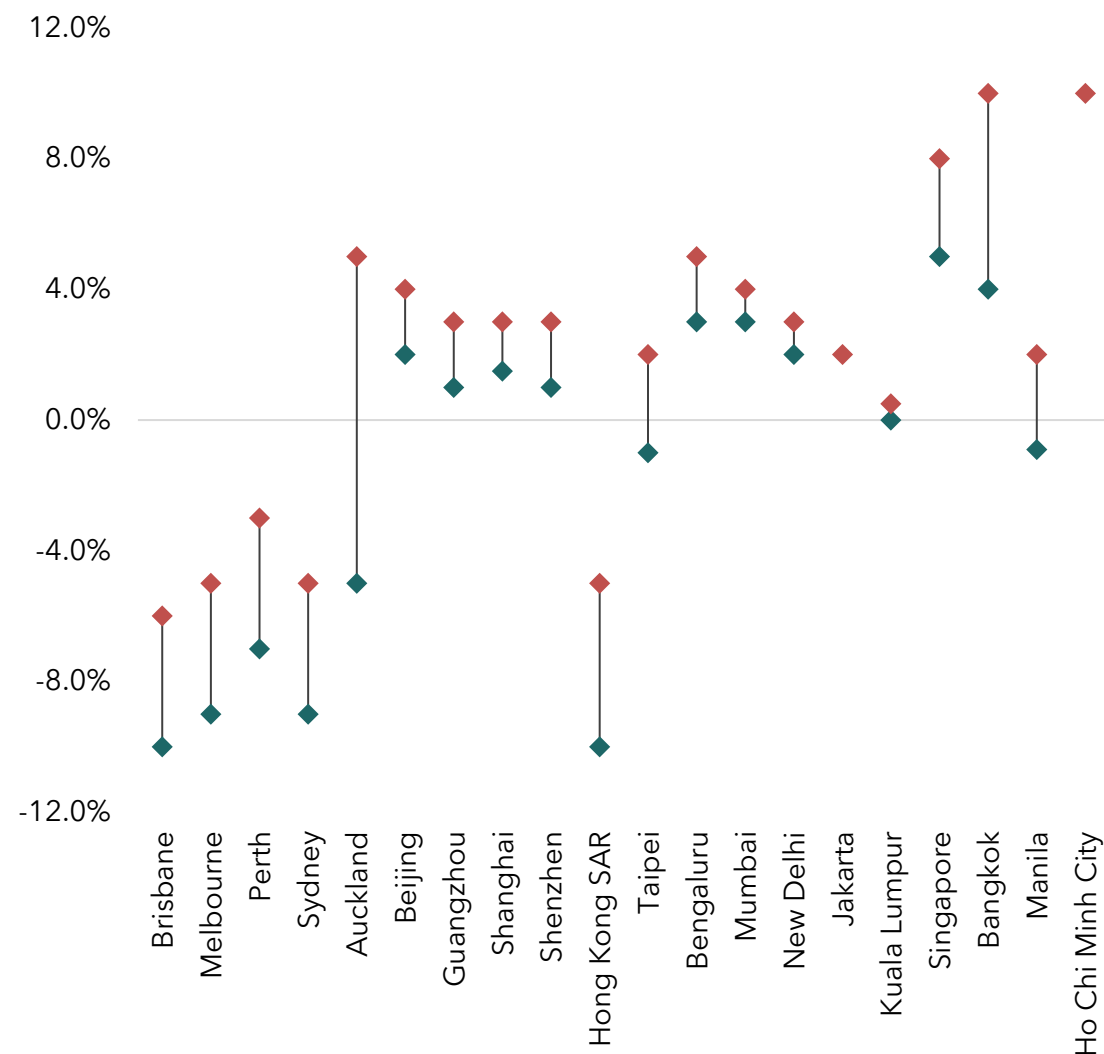
Highlights

Residential Sector

Resilience amid Caution

- Rise in near-term interest rate means a price reversal will be widespread but unlikely to be of the same magnitude as previous downturns
- Reflected by slower sales volumes - Hong Kong SAR and some Australian cities have fallen by about 28% and 16% respectively quarterly
- **Knight Frank Asia-Pacific Residential Review Q4 2022**
 - Only 14 out of 23 cities tracked registered positive annual price growth in Q4 2022, down from 17 cities in Q3
 - Average price growth for the region slowed from 2.8% to 0.4% year-on-year, which confirms the housing market in the region has started to cool after the pandemic boom
- APAC HNWI//UHNWI are still on the lookout for **international trophy homes**
 - Undeterred by rising mortgage rates and the high inflationary environment
 - Top 5 destinations: US, UK, Australia, Singapore, Japan

2023 Residential Price Forecast Range



Source: Macrobond, Knight Frank Research

Office Sector

Ongoing Workplace Experiment

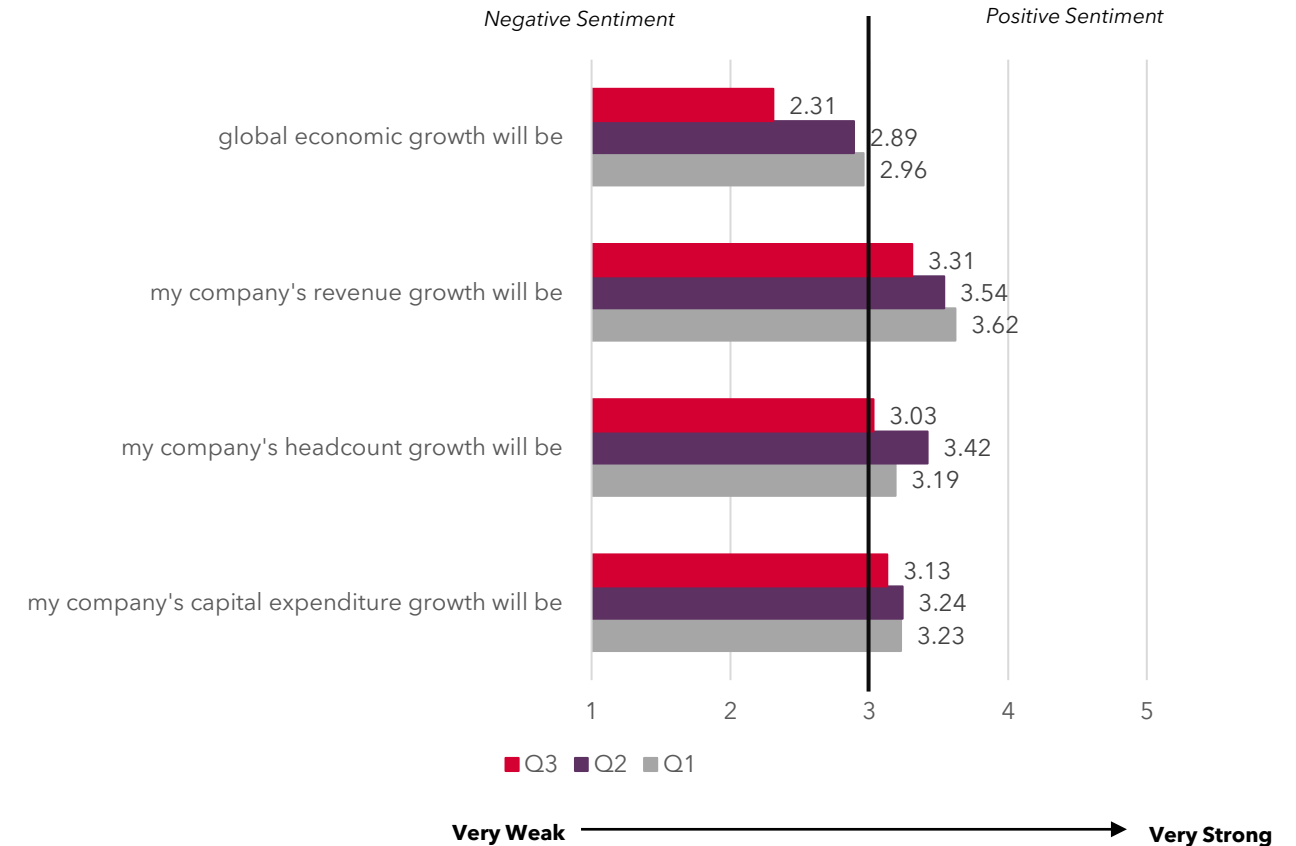
Job growth since Q1 2020

■ Hired since 2020 ■ Recent layoffs

Company	Hired since 2020	Recent layoffs	Total Change
Microsoft	+58,000	-10,000	+48,000 jobs
Meta	+41,714	-11,000	+30,714 jobs
salesforce	+44,000	-8,000	+36,000 jobs
Google	+68,000	-12,000	+56,000 jobs
stripe	+6,300	-1,100	+52,000 jobs
snapchat	+3,400	-1,300	+2,100 jobs
shopify	+3,000	-1,000	+2,000 jobs
Robinhood	+2,400	-1,013	+1,387 jobs
twitter	+2,600	-4,950	-2,350 jobs

Knight Frank Cresa Corporate Real Estate Sentiment Index Q3 2022

Over the next six months ...



Source: Knight Frank Cresa, 2022 (Q3 n = 129, Q2 n=218, Q1 n= 26)



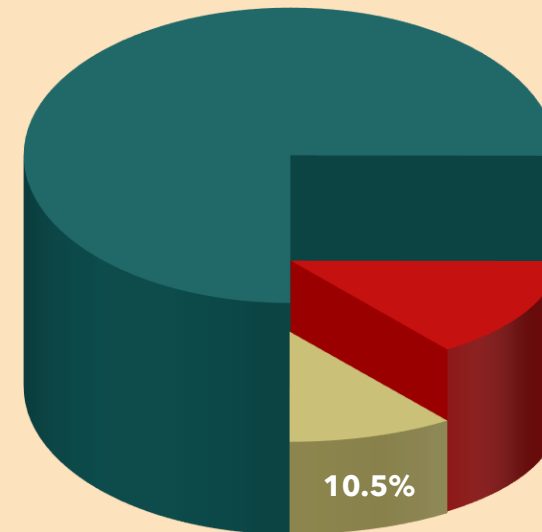
Logistics Sector

Structural Undersupply of High-quality Assets

- Prologis estimated that online retailers require *1.2 mil sqft of distribution space per billion dollar of online sales on average*
 - **Three times** the distribution centre space required for traditional brick-and-mortar retailers
- Total APAC e-commerce GMV to reach **US\$3,500 Bil in 2025**
 - **US\$3,500 Bil in 2025 = 4.2 Bil sqft of space**
- Fundamentals are not as well-established, leading to **acute shortage** of modern facilities and **fierce competition**
- **More advanced warehousing technology** (e.g., AI and data analytics) accentuate ageing premises
- **Build-to-suit facilities** or **large proportion of pre-commitment** limits the pool of supply

Regional stock to rise by 10.5% in 2023

Existing stock vs New Stock



60 million sqm
as at end of 2021

12 million sqm
of logistics space
completed in 2022

8 million sqm
of logistics space
expected in 2023

Source: Knight Frank Research



Capital Markets

Strategising the New Landscape

Inflation hedges

- Strengthened interest in commercial real estate for its **income growth potential, diversification benefits and relative stability**
- With elevated building costs, we might see **increased refurbishments** and **repurposing of assets** to capture alpha-based returns

Flight-to-quality

- Positive rental reversions in well-leased, quality assets located in gateway markets
- To focus on **core, liquid assets** in prime locations with **attractive yields** relative to the cost of debt
- **Increased differential** between core, well-located prime assets with good ESG credentials and secondary assets with low sustainability credentials

Rise of dollar investors

- **Increased demand from dollar denominated investors** looking to take advantage of the strong currency and diversify their portfolios into the core markets
- Watching the **re-pricing of markets** closely and are ready to move quickly when conditions stabilise

Dominance of private and sovereign investors

- **Possess longer horizons and deep pockets** – prepared to move quickly to secure prime assets while limited competition
- Singapore has seen a huge influx of family offices over the last two years
- Most aggressive buyers for trophy office assets in the region's safe haven markets

Sectorial Strategies to Consider

Core	Core Plus	Value-add	Opportunistic	Repurposing
<p>CBD Office</p> <ul style="list-style-type: none"> • Sydney • Melbourne • Singapore <p>Logistics</p> <ul style="list-style-type: none"> • Shanghai • Seoul • Melbourne • Brisbane 	<p>Fringe Office</p> <ul style="list-style-type: none"> • Sydney • Singapore <p>Logistics</p> <ul style="list-style-type: none"> • Guangzhou • Shenzhen • Kuala Lumpur <p>Life Science</p> <ul style="list-style-type: none"> • Australia • Singapore 	<p>Logistics</p> <ul style="list-style-type: none"> • Jakarta • Manila • Ho Chi Minh City <p>Hotel</p> <ul style="list-style-type: none"> • Tokyo <p>Retail</p> <ul style="list-style-type: none"> • Tokyo • Singapore 	<p>Living</p> <ul style="list-style-type: none"> • Australia (student accommodation, build-to-rent) • Japan (multi-family) 	<p>Hotel to office/ long term apartment/ co-living</p> <ul style="list-style-type: none"> • Shanghai • Beijing • Hong Kong • Tokyo



- China: strategic sectors still a good bet
- Emerging Southeast Asia: diversification play
- Singapore: safe haven market



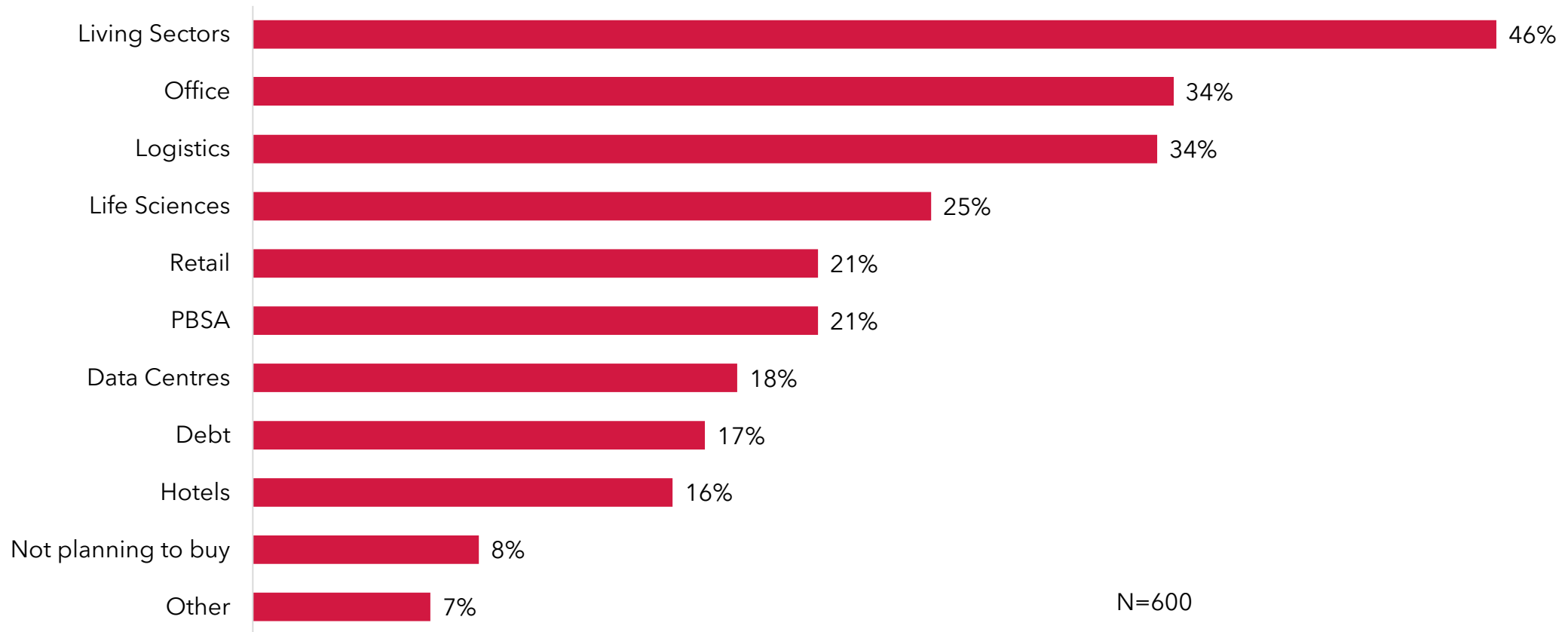
Global Equity Allocation

*Non-traditional sectors
gaining traction*



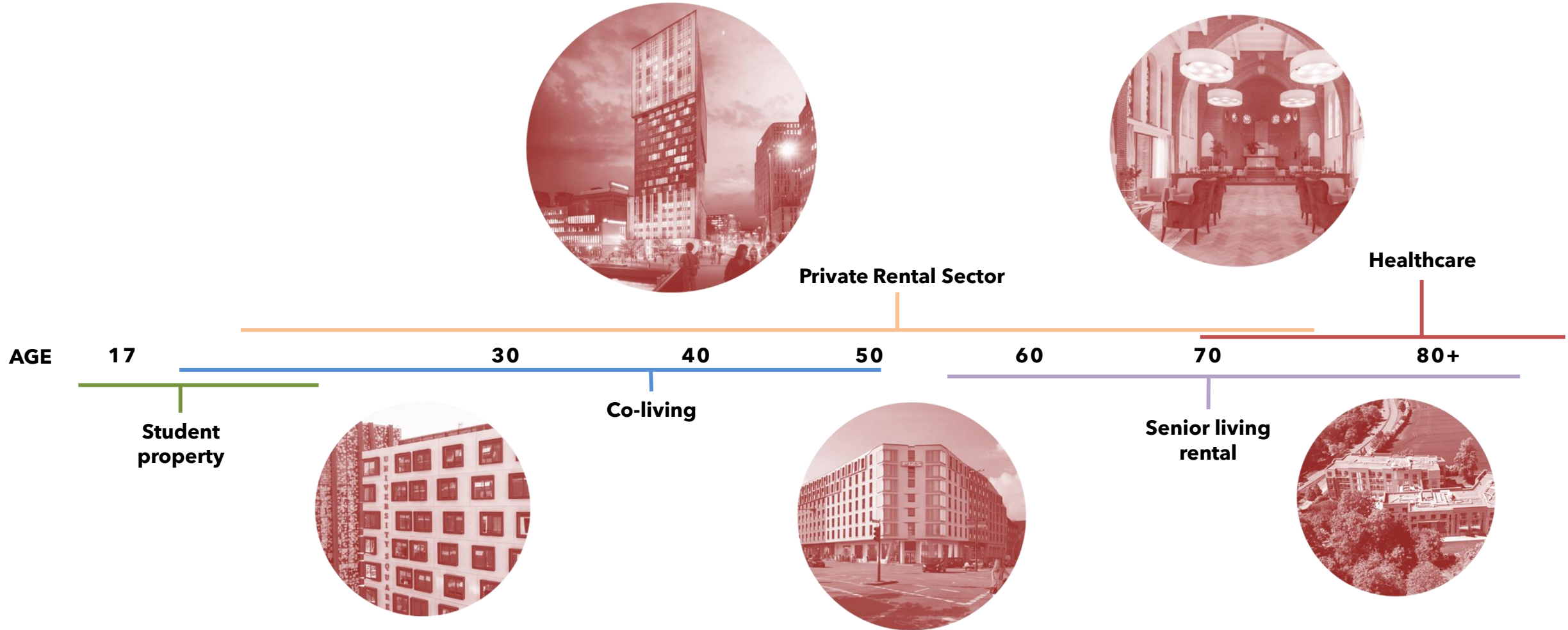
Living sectors, office and logistics key targets for 2023

Active Capital live webinar poll results: which top 3 sectors are you targeting over the next 18 months?

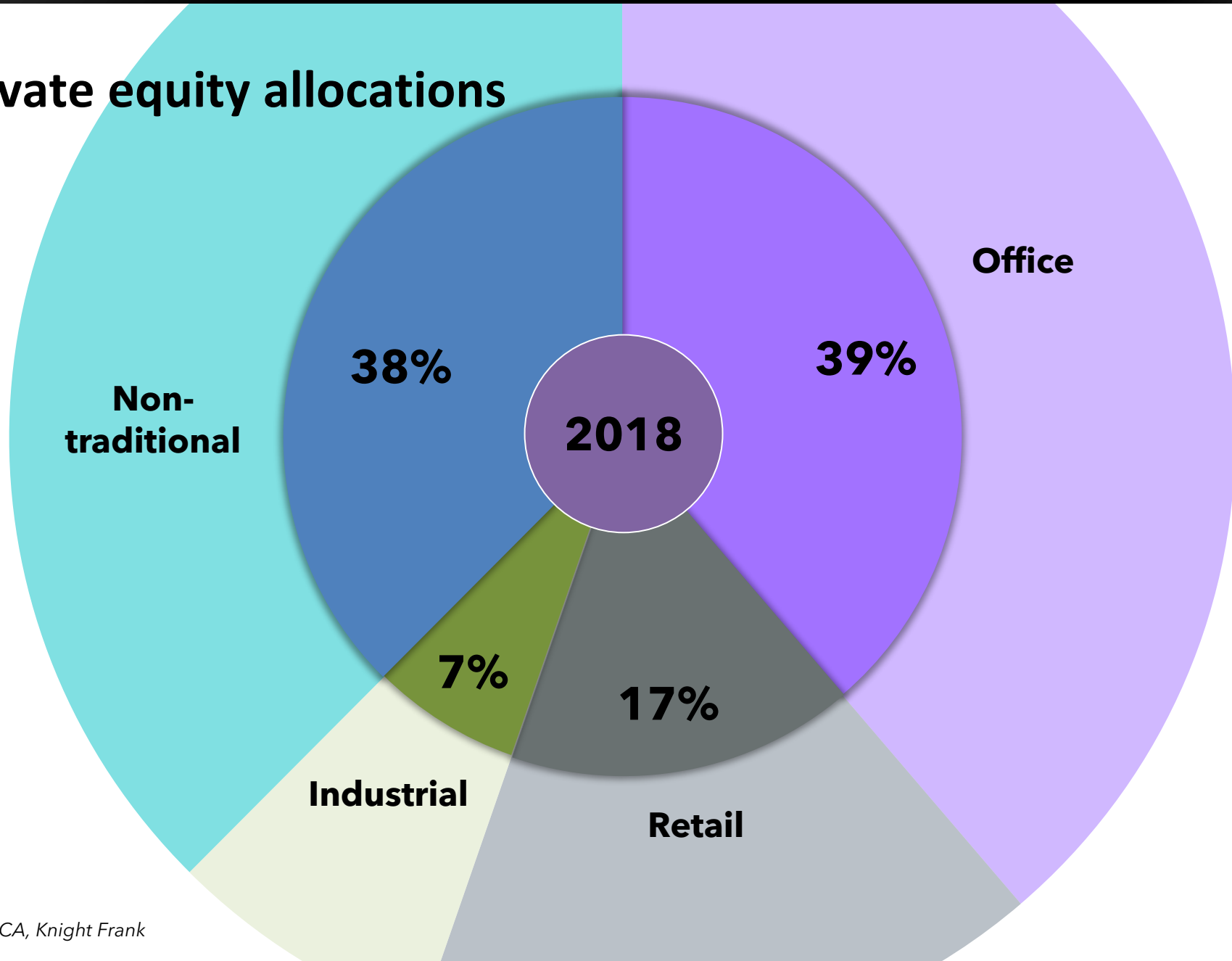


Source: Knight Frank, % shows the proportion of respondents that are targeting the given sector

Lifelong tenant



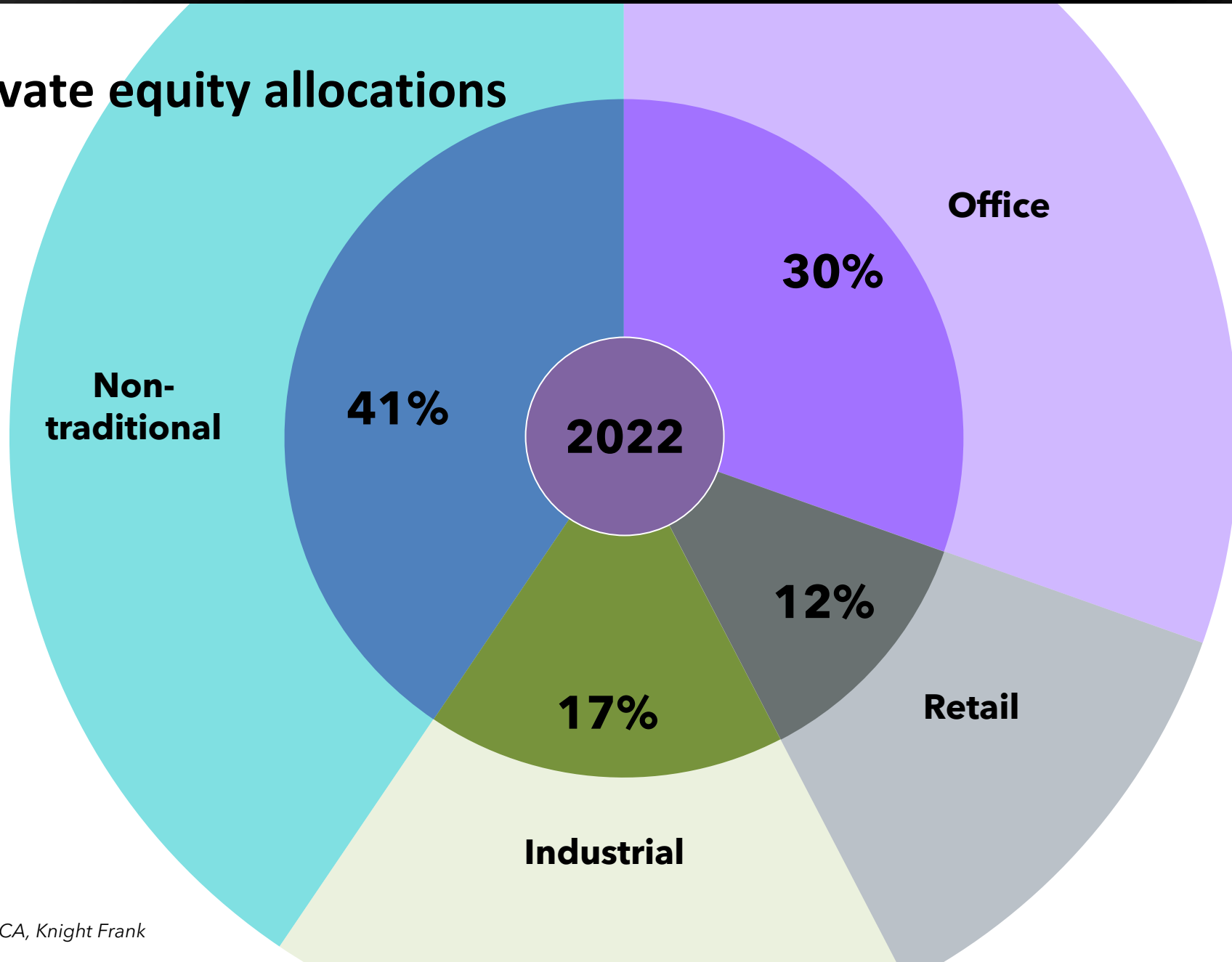
Global private equity allocations



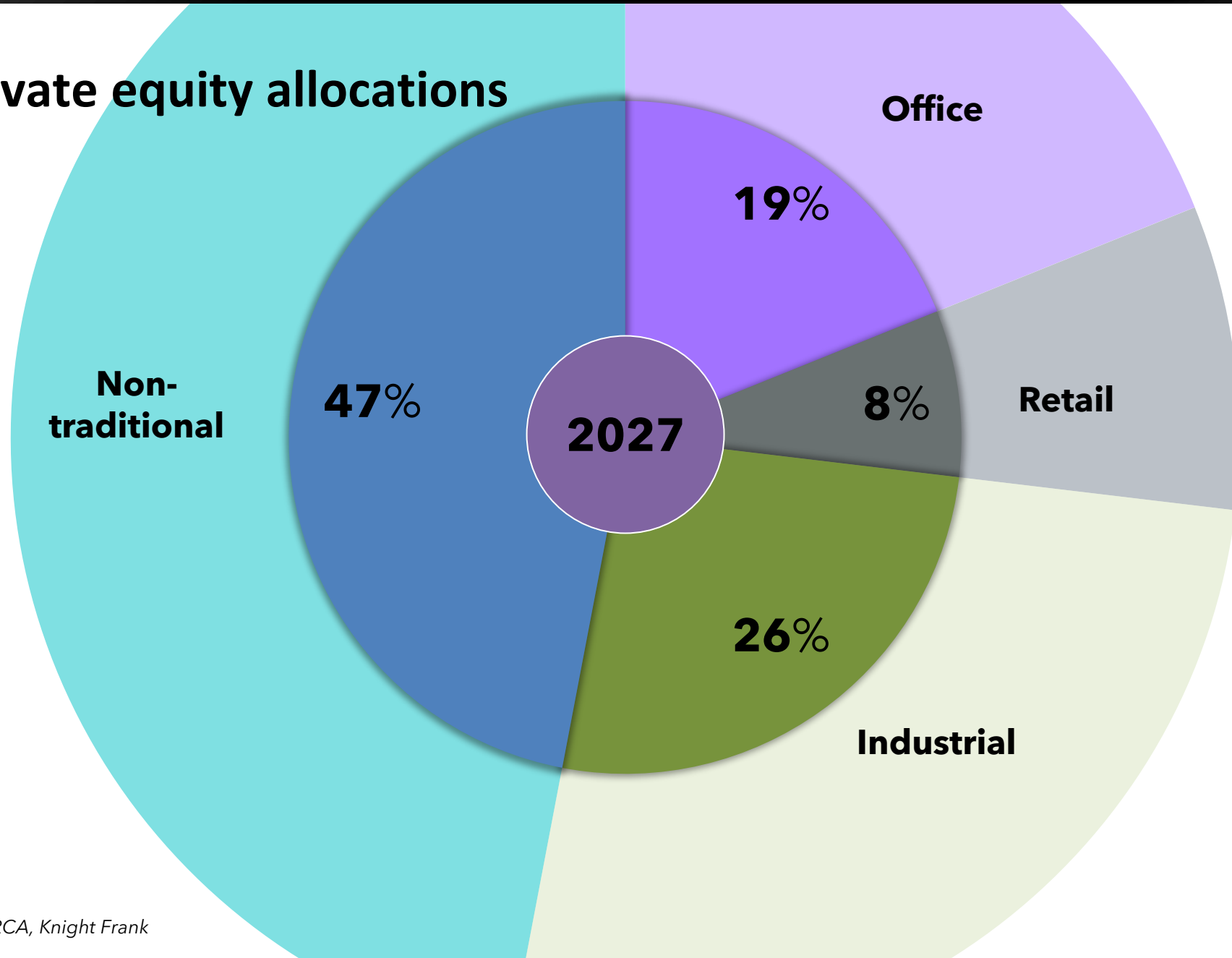
Source: Macrobond, MSCI, RCA, Knight Frank



Global private equity allocations



Global private equity allocations





China's Reopening Story

How can APAC benefit?

Double-edged sword

Headwinds deepen further

China's recovery may mean the Fed will have to hike rates longer

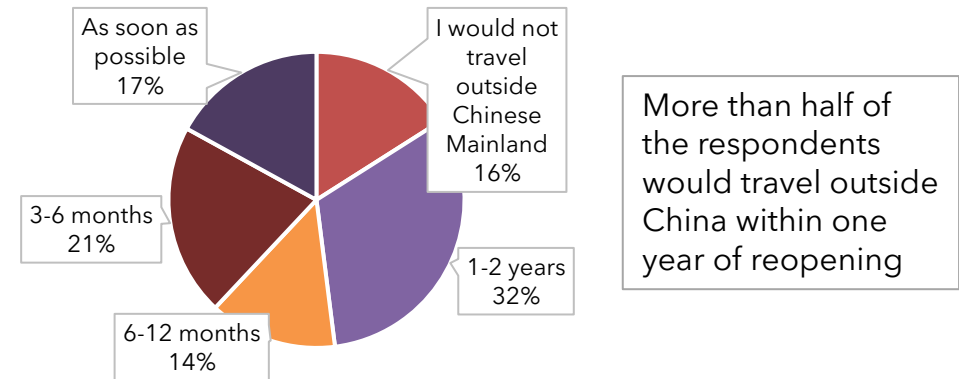
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“With China, we do need more of everything – if that drives enough demand to get commodity prices back up closer to where they were in the spring of last year, then that puts the progress we’ve seen on inflation in a much more tenuous position,” he said.

Hospitality and retail sectors applaud the good news

Q: If international travel restrictions were lifted, when would you plan to travel outside Chinese Mainland?



Source: Dragon Trail Chinese Traveller Sentiment Report (14 December, 2022)

Data from Trip.com Group:

- Top destinations for Chinese tourists outside Chinese Mainland:





“Singapore-washing” – The gateway to Asia

- Around 500 Chinese companies have discreetly relocated or registered in Singapore in 2022 in attempt to hedge against rising geopolitical risk
- 800 family offices established in Singapore as of April 2022, doubled from about 400 at end of 2020

Rate of Growth of UHNWI from 2021-2026



Source: Knight Frank Wealth Report 2022



Motive

- To **future-proof their businesses** as the West toughens its assessment of Chinese companies
- To utilise their Singapore-based status as a **springboard for more ambitious foray into India, Southeast Asia and other markets** where they face difficulties





Thank you

Any questions?

Knight Frank's Outlook 2023 report is available for download [here](#)



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