

# CORONAVIRUS

IMPACT ON THE PROPERTY MARKETS  
FOCUS: ASIA PACIFIC & GREATER CHINA

MAY 2020

COVID-19 TRACKER

ECONOMIC IMPACT

CRE FUNDAMENTALS

CAPITAL MARKETS

THINGS TO THINK ABOUT



CUSHMAN &  
WAKEFIELD

The background of the slide features a low-angle, upward-looking view of a modern building's glass and steel structure. A large, semi-transparent red triangle is positioned on the left side, containing a detailed, glowing red virus particle graphic. The text is overlaid on this red area.

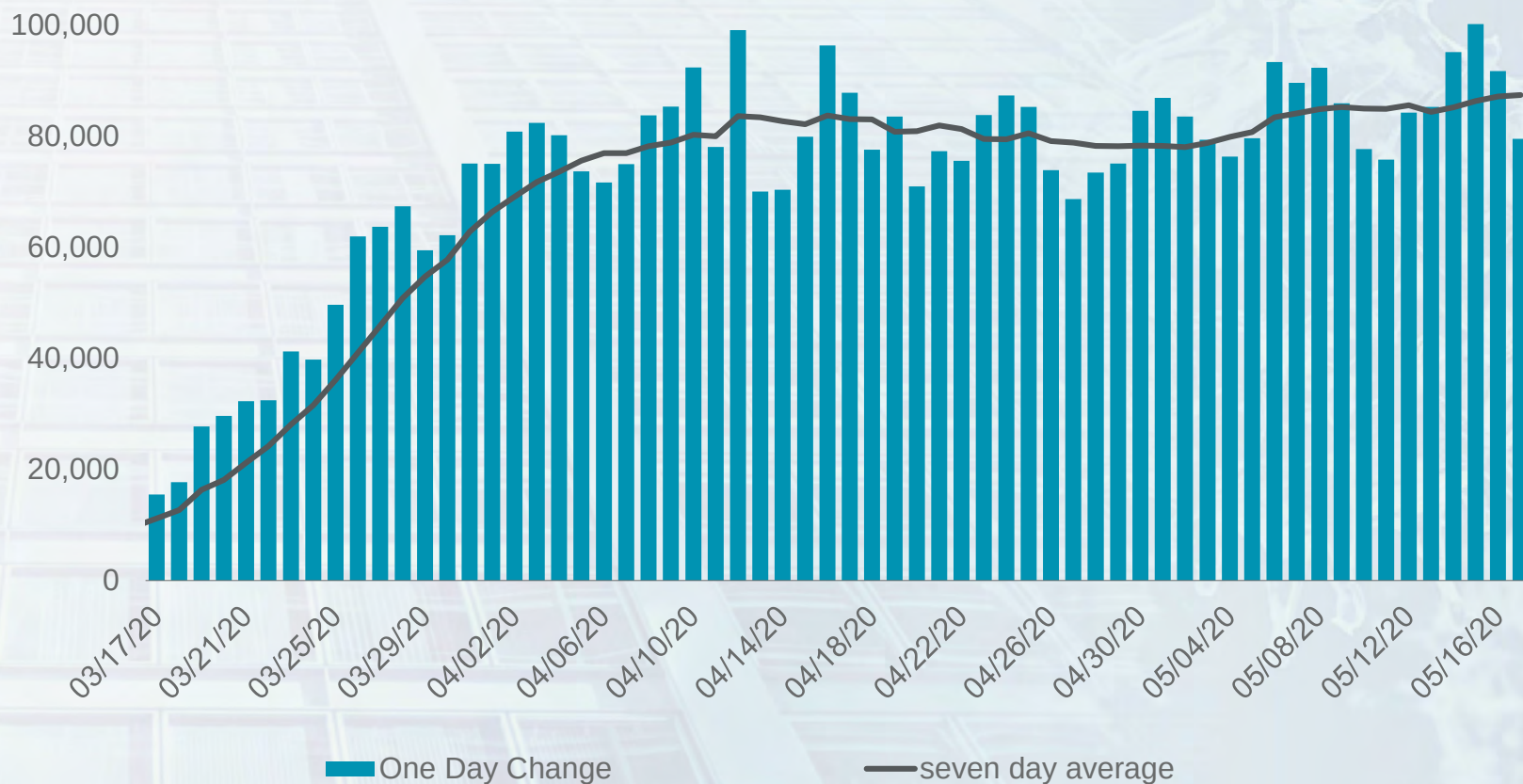
# COVID-19 TRACKER

The path of the virus – its spread, its duration, its severity – are all central to our ability to model the impact on property.



# PROGRESS IS BEING MADE

## Daily Growth in Global Confirmed Cases



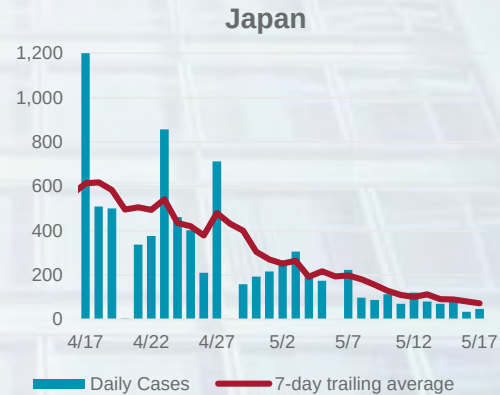
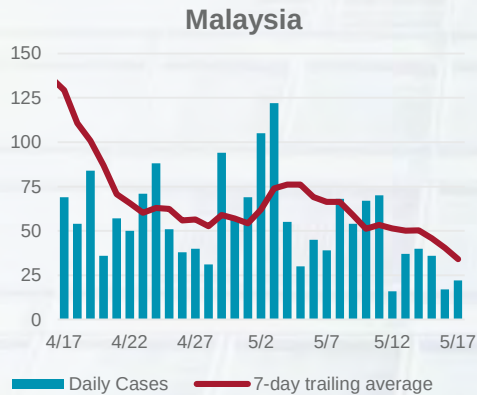
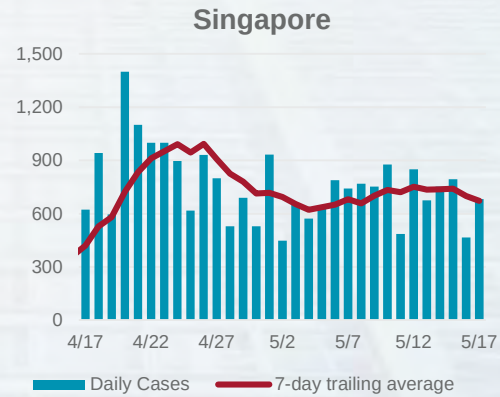
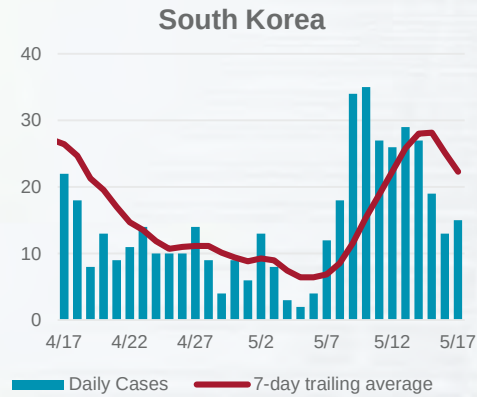
Source: John's Hopkins University, Cushman & Wakefield Research

### Key Observations:

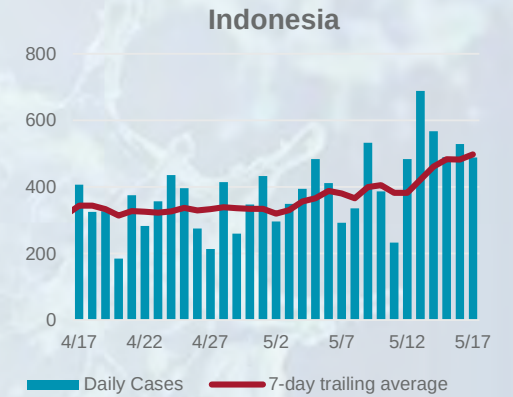
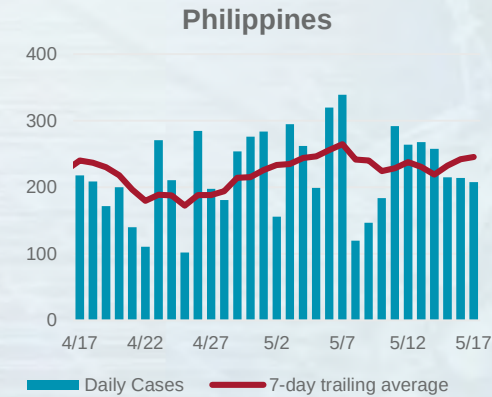
- The number of new cases has stabilized and appears to have peaked.
- However, although trending better globally, the virus is spreading at different rates across different communities.
- Countries are unlikely to loosen lockdowns and restrictions until they are confident that the number of active cases has fallen to a low level and the daily growth in newly confirmed cases is low (~1%).
- Discussion of next steps has moved from lockdown to reopening the economy in many countries and in states across the U.S. We aren't there yet, but we are moving in the right direction.

# BUT AT DIFFERENT STAGES: DAILY GROWTH IN CONFIRMED CASES

## Stabilizing/Trending Better

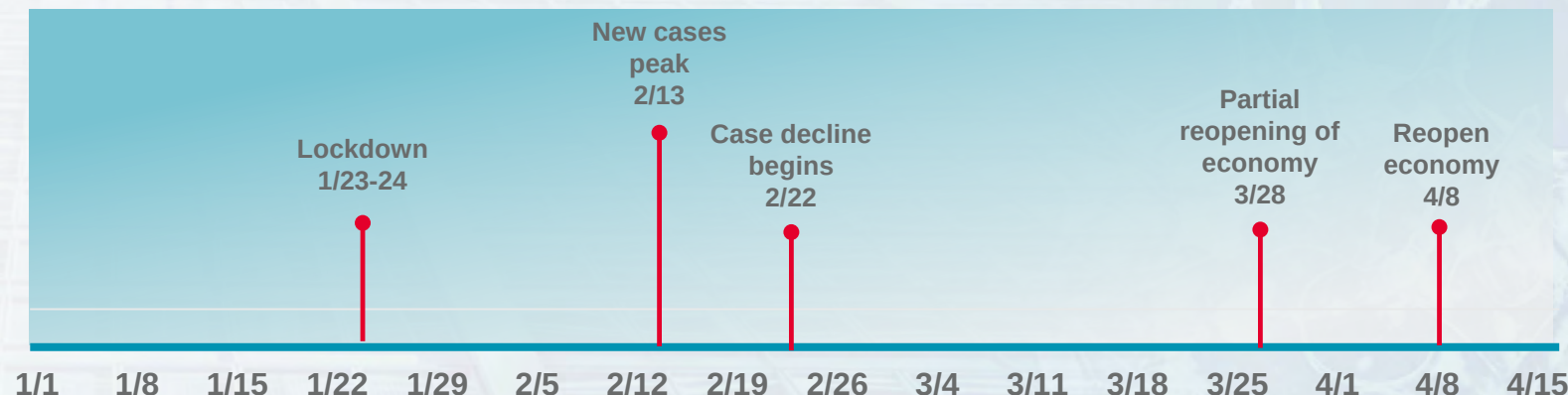


## Unclear/Trending Worse

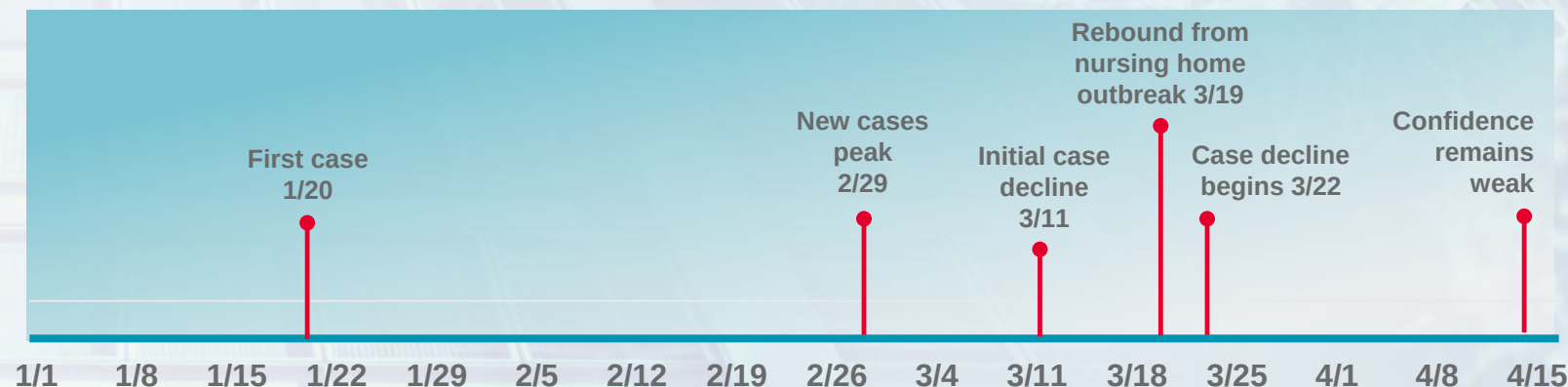


# GETTING A BETTER SENSE OF TIMING

## MAINLAND CHINA



## SOUTH KOREA



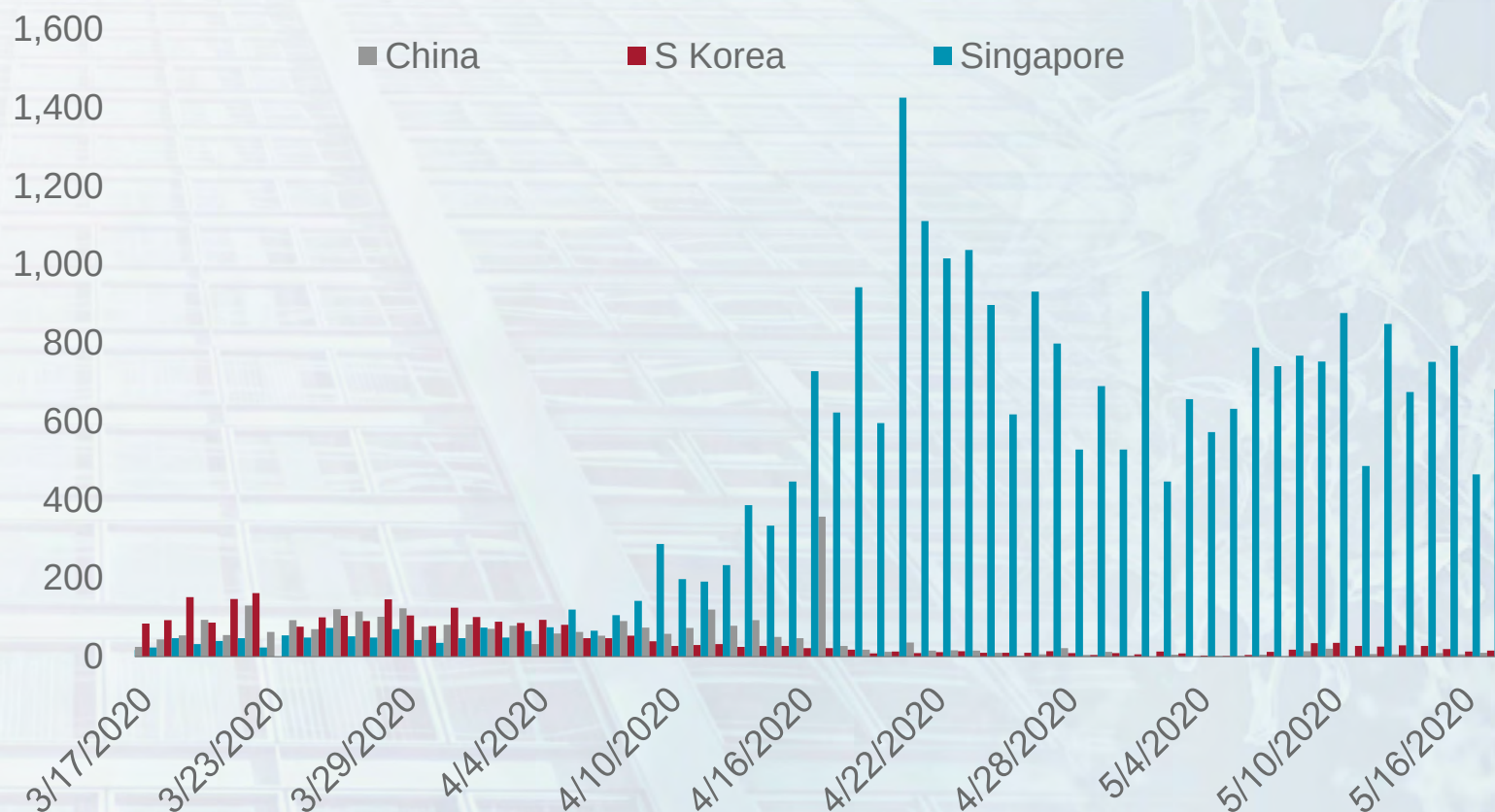
### Key Observations:

- China & South Korea are often cited as countries that have a better handle on combating the virus.
- Using Mainland China as a roadmap, the lockdown period for most of the country lasted 75 days before they partially reopened the economy.
- South Korea is combating the virus without completely closing its economy, but activity and confidence remain very weak.



# COVID-19 RESURGENCE TRACKER

## Daily Growth in Confirmed Cases

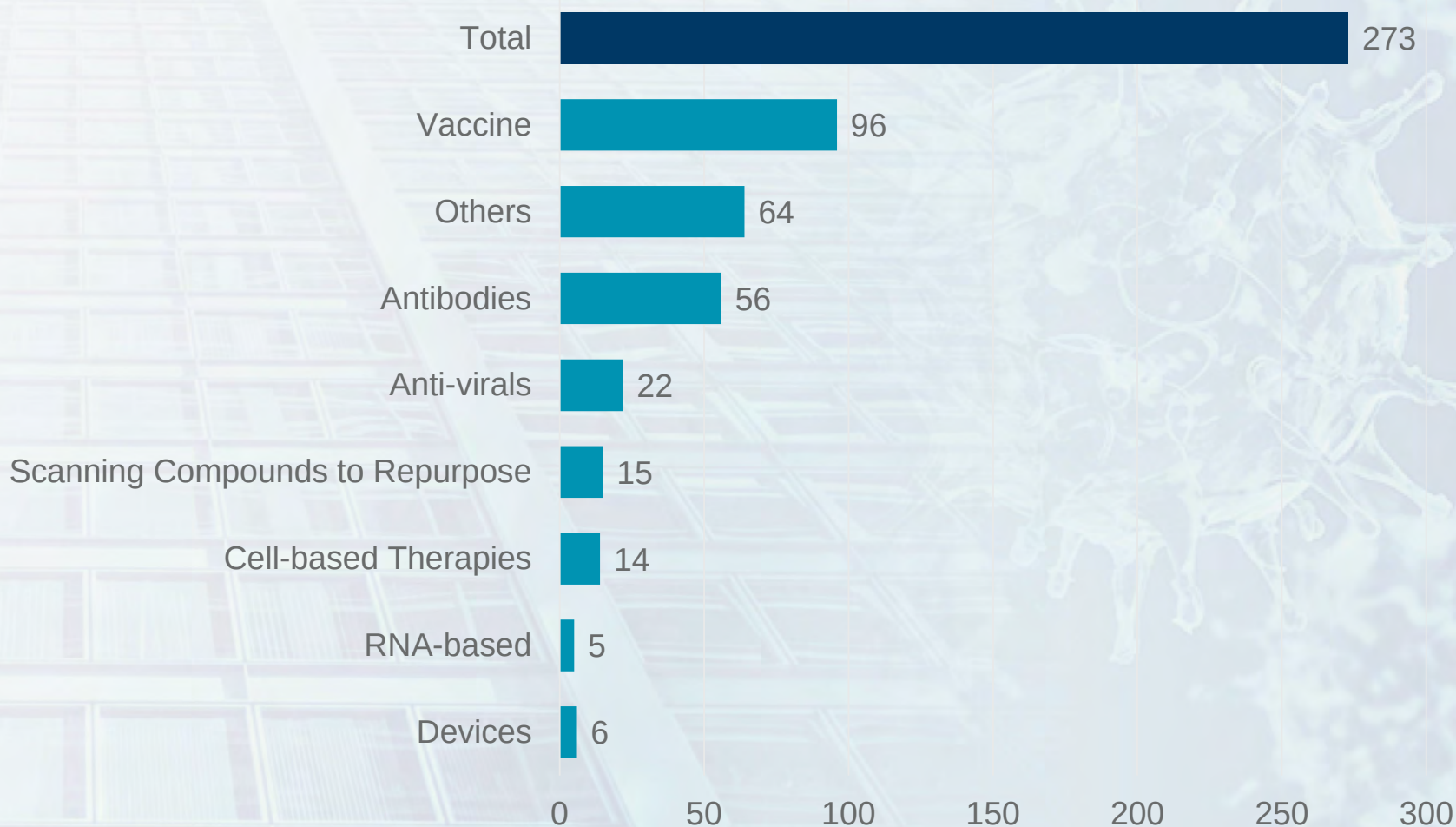


### Key Observations:

- There is risk that this is seasonal, meaning it goes away and comes back, or that we keep re-infecting each other.
- We are observing a resurgence in Singapore where the second wave of infections is larger than the first, leading to an extension of lockdowns.
- We continue to watch these daily trends very carefully to inform our analysis.

# REASONS FOR OPTIMISM

## Treatment/Vaccine Tracker



### Key Observations:

- The international science community is highly engaged on addressing the virus.
- There are 96 coronavirus vaccines already in development globally, with 3 already being tested in human trials.
- Other experimental drugs and therapies are showing promise.
- Some studies indicate that a portion of the world's population have already been infected and have built up immunity. Others show that the transmission rate is likely to drop substantially as the warmer summer months approach.

Source: Milken Institute Covid-19 Tracker, Cushman & Wakefield

Updated 4-29-2020





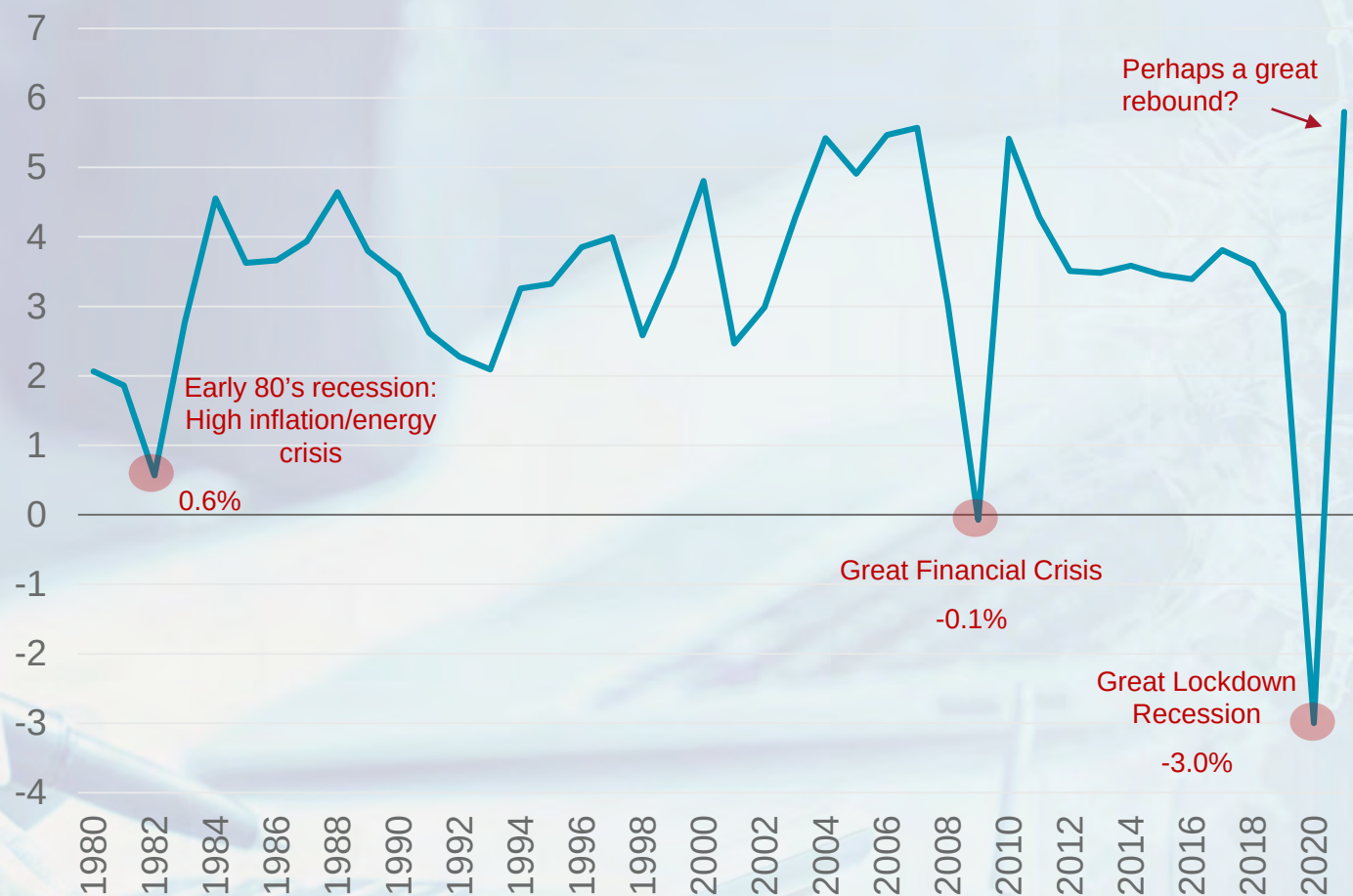
# ECONOMIC IMPACT

A painful – but possibly short-lived  
recession – and then the rebuild begins.



# GLOBAL RECESSION IN 2020

World GDP, %



Source: IMF, Cushman & Wakefield Research

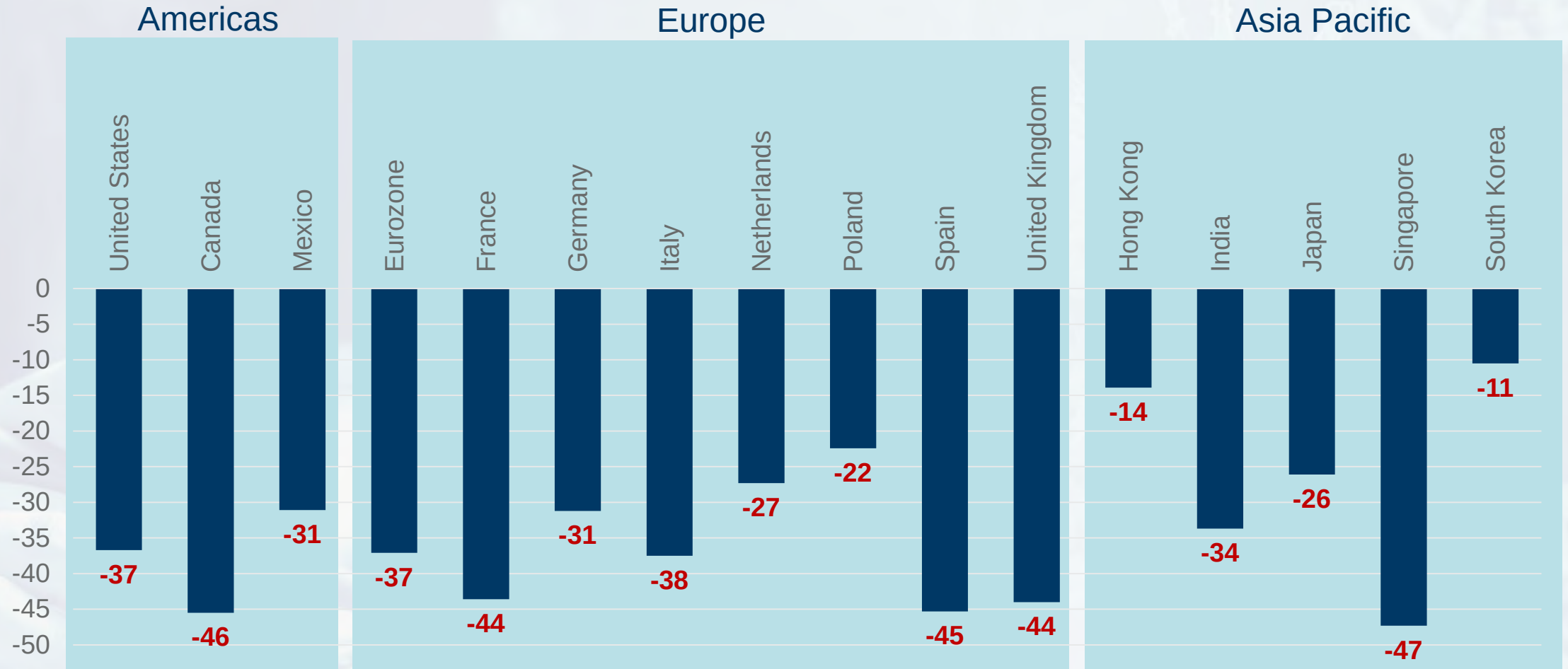
Updated 4-16-2020

## Key Observations:

- COVID-19 and government-imposed “lockdowns” are shrinking global growth dramatically.
- The global economy is projected to contract sharply, by -3% in 2020, much worse than during the GFC.
- The majority of advanced and emerging economies are assumed to be in recession in 2020H1.
- Assuming the pandemic fades in the second half of 2020, the economy is expected to rebound sharply and grow by 5.8% in 2021.

# BRUTAL Q2

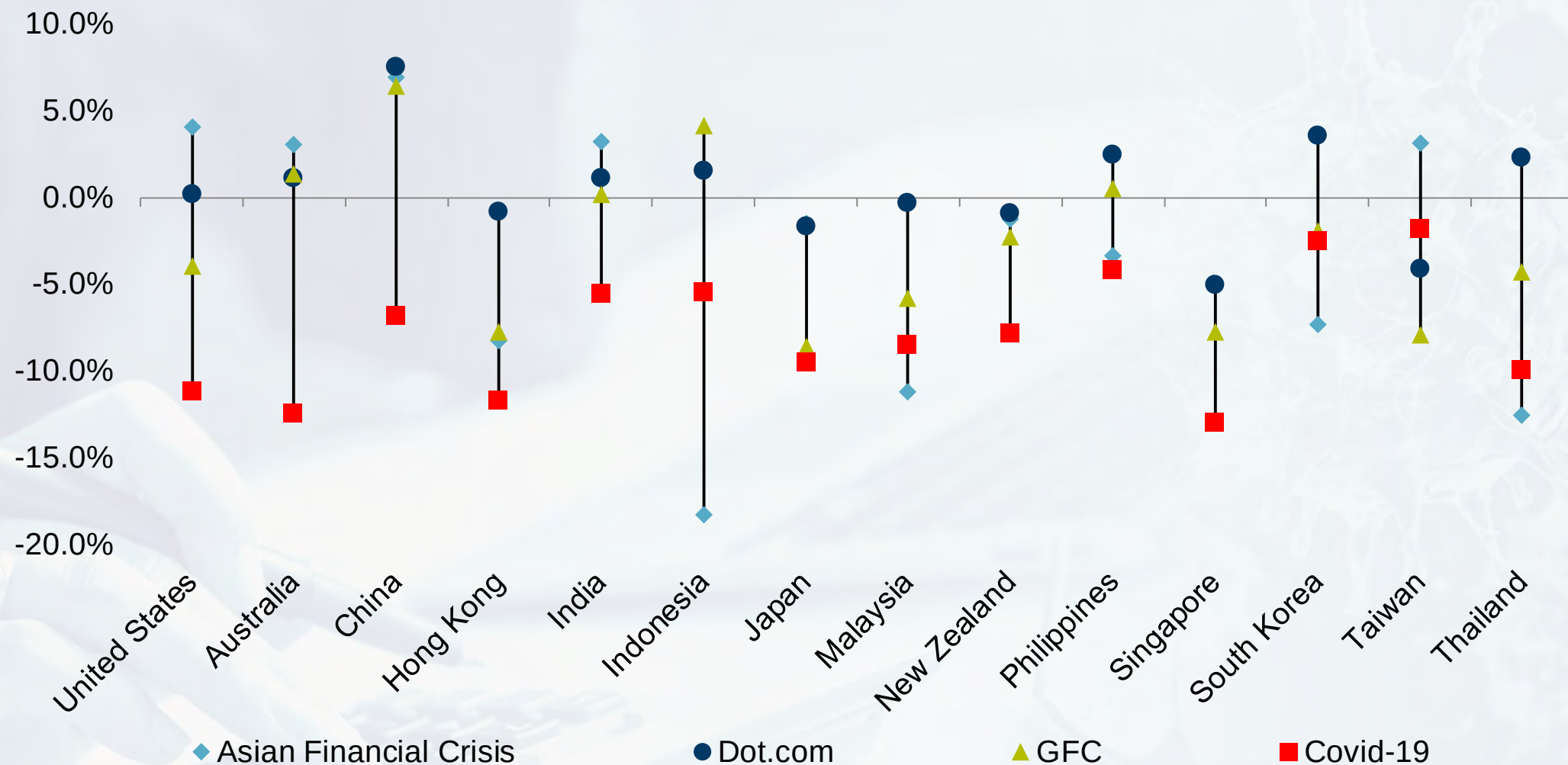
Real GDP, Second Quarter of 2020, Annualized %





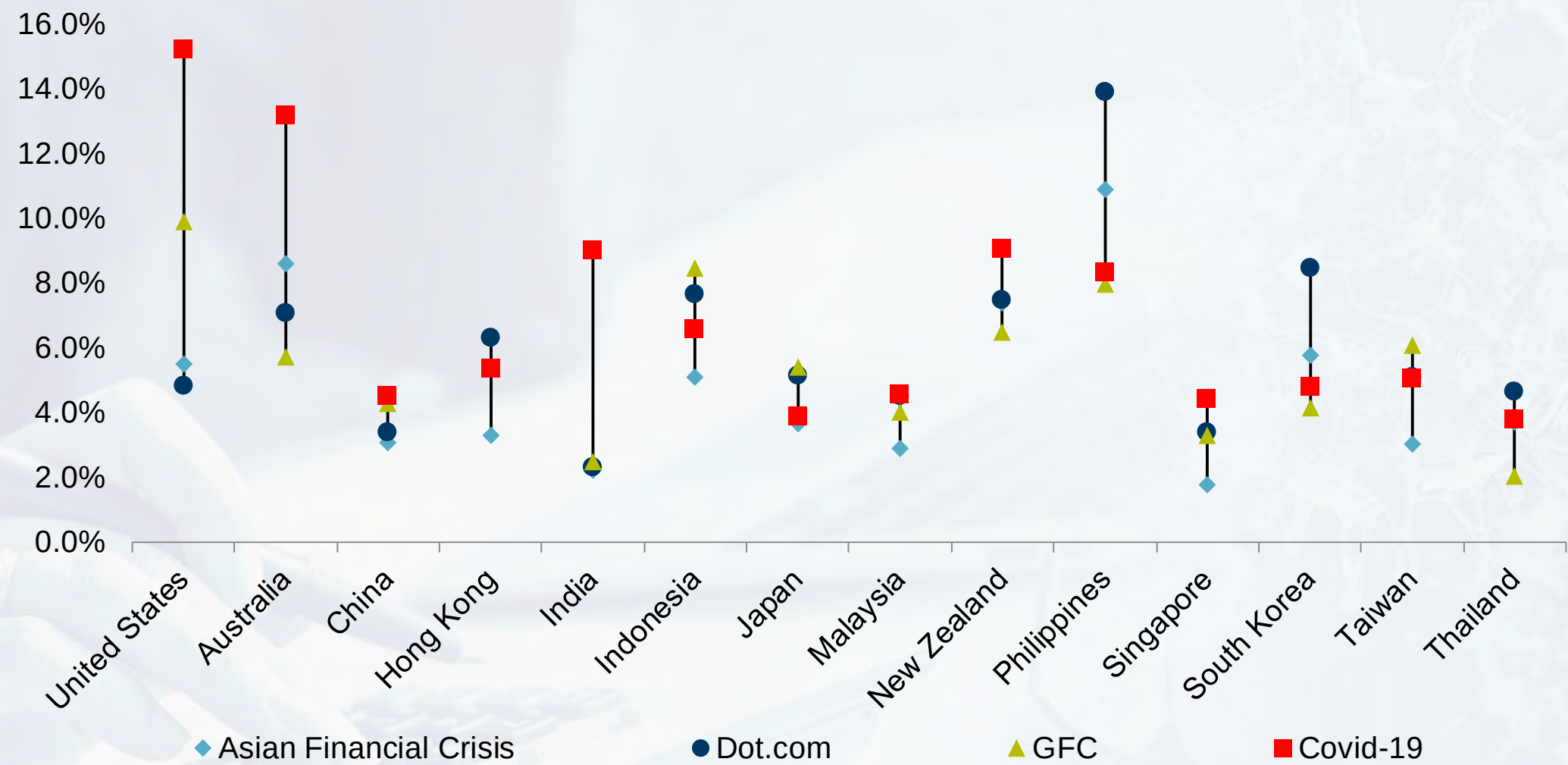
# BRUTAL Q2

Comparison of Weakest YoY GDP Growth During Recent Downturns



# JOB LOSSES EXPECTED RISE

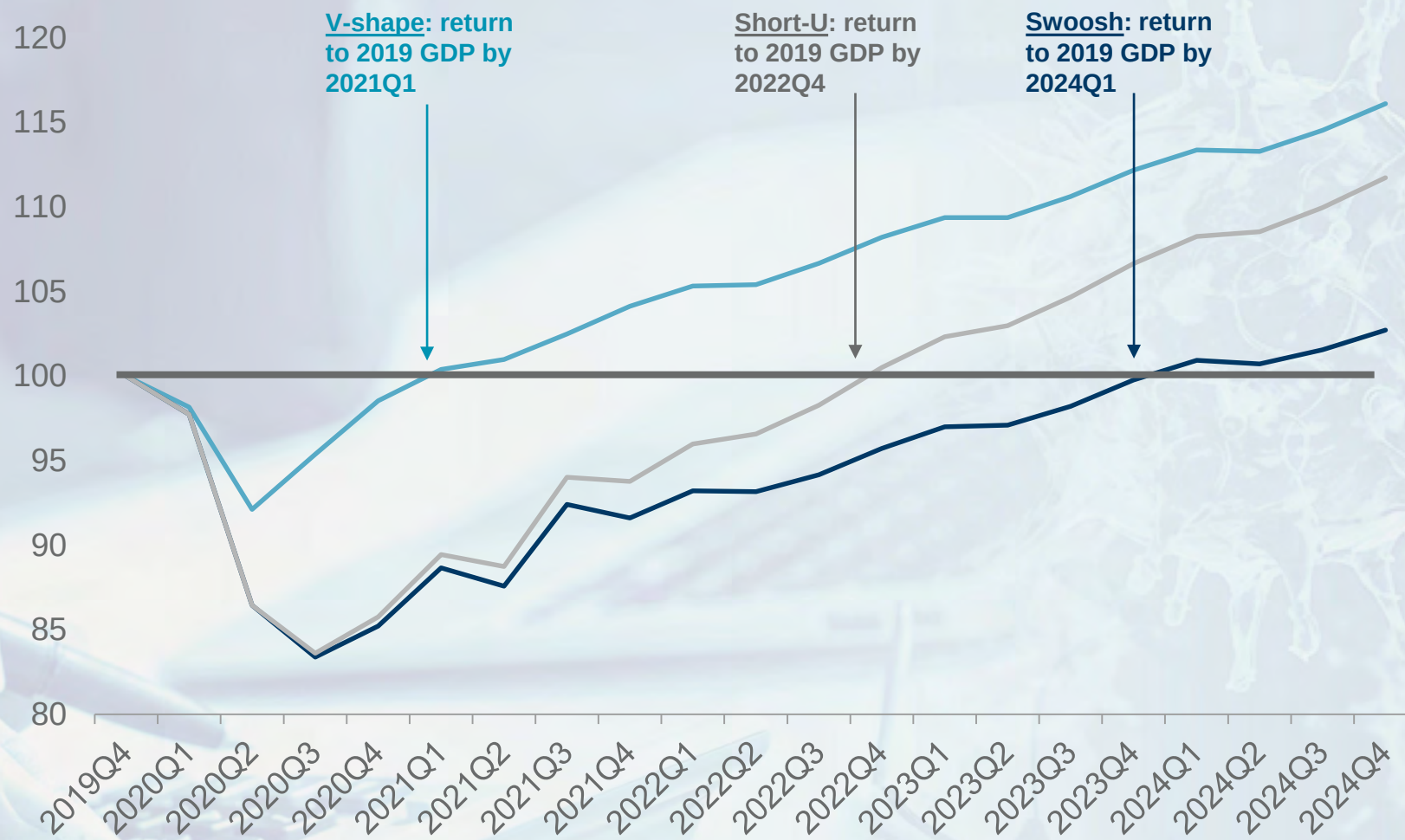
Comparison of Peak Unemployment During Recent Downturns





# THE ROAD BACK TO 2019

U.S. Real GDP



## Key Observations:

- Until the coronavirus situation resolves, the recovery is expected to be slow.
- But there remain many factors that could change the shape of the recovery. Here we show three scenarios that are commonly viewed as the most probable.

Source: V-shape = Oxford Economics Baseline (April 14); U-Shape = Moody's Analytics Baseline, Swoosh = Moody's Analytics S3 scenario (April 10)

\*Swoosh is a low probability tail risk

# STOCK MARKET LOOKING MORE OPTIMISTIC

## Global Stock Market Closing Prices



100 = closing price on 31 December 2019

Source: Yahoo! Finance, Cushman & Wakefield Research

Updated 4-30-2020

### Key Observations:

- Equity markets still swinging wildly but have generally been rallying for the last few weeks.
- The rebound is likely due to the speed and size of the unprecedented fiscal and monetary response.
- This implies that investors have removed the darkest tail risk scenario (i.e. coronavirus forever, not enough stimulus).
- As real estate investor's confidence returns, perhaps this is an early indication of the potential rebound to occur in investment sales.

# POLICY RESPONSE BIG & FAST (PLUS, MORE TO COME)

Comparing Stimulus Programs: % of GDP





# AND IT'S GLOBAL...

| CENTRAL BANK              | POLICY RATE<br>– MAR 2020 | POLICY<br>RATE<br>– MAR 2019 | DATE OF<br>LATEST RATE<br>CHANGE | DIRECTION OF<br>LATEST RATE<br>CHANGE | EASING/<br>TIGHTENING | OTHER MEASURES                                                                                                                                                                                                                                                                                                                                                |
|---------------------------|---------------------------|------------------------------|----------------------------------|---------------------------------------|-----------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Federal Reserve           | 0.00% to<br>0.25%         | 1.00 to<br>1.25%             | Mar 2020                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Over the coming months will increase holdings of Treasury securities by at least \$500B and agency MBS by at least \$200B.</li> <li>Announced special credit facility to purchase corporate debt that could total \$1T funded by Treasury Exchange Stabilization Fund. Will extend liquidity of up to \$5T.</li> </ul> |
| Bank of Canada            | 0.75%                     | 1.75%                        | Mar 2020                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Establishing a Business Credit Availability Program which will further support financing in the private sector, adding \$10B to support businesses.</li> <li>Also lowering Domestic Stability Buffer requirement for systemically important banks by 1.25%.</li> </ul>                                                 |
| Bank of England           | 0.25%                     | 0.75%                        | Mar 2020                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Term Funding Scheme introduced with additional incentives for small and medium-sized enterprises.</li> <li>Maintain stock of UK government bond purchases financed by issuance of GBP 435B of central bank reserves.</li> </ul>                                                                                        |
| European Central Bank     | 0.00%                     | 0.00%                        | Mar 2016                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Additional longer-term refinancing operations.</li> <li>Additional €120B Euro net asset purchases will be added until the end of the year.</li> <li>Interest rates remain unchanged. Reinvestments of principal payments from maturing securities to continue.</li> </ul>                                              |
| Bank of Japan             | -0.10%                    | -0.10%                       | Feb 2016                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Holding rates steady buy will double purchases of ETFs (risky assets) to about ¥12T to help companies get loans.</li> </ul>                                                                                                                                                                                            |
| People's Bank of China    | 4.05%                     | 4.35%                        | Feb 2020                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>Not issuing any "short-term stimulus" measures. Has focused on measures to relieve financial stresses on companies and their creditors.</li> </ul>                                                                                                                                                                     |
| Reserve Bank of Australia | 0.50%                     | 1.5%                         | Mar 2020                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>\$90B in funding to SMEs.</li> <li>Emergency rate cut and QE.</li> </ul>                                                                                                                                                                                                                                               |
| Reserve Bank of India     | 5.15%                     | 6.25%                        | Oct 2019                         | Down                                  | Easing                | <ul style="list-style-type: none"> <li>\$2B US dollar sell/buy swap &amp; LT Repo Operation of up to 1T Rs.</li> </ul>                                                                                                                                                                                                                                        |

# OFFICE SECTOR





# ASIA PACIFIC OFFICE: PRELIMINARY OBSERVATIONS

## Market Slows Dramatically As Caution Prevails

- Many occupiers and landlords are in **“wait-and-see” mode**. Companies are distracted by the impact to current operations; focused on figuring out how to deal with remote workers, closed locations and disrupted supply chains.
- Broadly speaking, tenants and office landlords are having positive conversations about how to manage the current situation. **Cash flow** is an issue for some occupiers, but the vast majority still paying rent.
- COVID-19 is causing disruptions to **construction projects**. Builders are having a difficult time getting raw materials due to supply chain disruptions and getting the labor, permits, and inspections needed to build due to social distancing and construction moratoriums.
- There is a clear **slow down** in activity. Net absorption in Q1 2020 was at its lowest for over five years. Approximately 50% of office markets experienced declines in asking rents quarter-over-quarter and further falls are likely.
- In-person space tours are difficult or impossible in some locales based upon recommendations and directives to limit interaction and group meetings. The process backlog may push back timelines on leases that previously would have been scheduled to be signed in Q2 or early Q3. Look for **technology** (e.g., virtual tours) to be leaned on to assist during social distancing periods.
- **Co-working space coming under increasing pressure** with closure of operations and space being handed back to the market seen in a number of markets



# HOT OFF THE PRESS

## APAC Office Market Snapshot – Q1 2020 (Select Markets)

### DEMAND (NET ABSORPTION)

|             | 2019Q1            | 2020Q1            | DIRECTION |
|-------------|-------------------|-------------------|-----------|
| <b>APAC</b> | <b>17,633,511</b> | <b>13,306,259</b> | ↓         |
| Melbourne*  | 1,009,525         | 26,608            | ↓         |
| Sydney*     | 175,753           | 421,224           | ↑         |
| Bengaluru   | 4,790,916         | 2,626,452         | ↓         |
| Mumbai      | 1,174,804         | 861,580           | ↓         |
| NCR         | 1,346,304         | 1,597,003         | ↑         |
| Jakarta     | 634,143           | 119,103           | ↓         |
| Tokyo       | 1,447,193         | 3,482,509         | ↑         |
| Manila      | 1,644,192         | 1,100,275         | ↓         |
| Singapore   | 166,855           | 92,078            | ↓         |
| Seoul       | 966,868           | 700,045           | ↓         |
| Bangkok     | 87,409            | -154,842          | ↓         |
| Hanoi       | 64,163            | 35,026            | ↓         |

### SUPPLY (VACANCY)

|             | 2019Q1      | 2020Q1      | DIRECTION |
|-------------|-------------|-------------|-----------|
| <b>APAC</b> | <b>11.8</b> | <b>11.1</b> | ↓         |
| Melbourne** | 2.2         | 2.0         | ↓         |
| Sydney**    | 3.0         | 3.0         | ↔         |
| Bengaluru   | 5.6         | 6.3         | ↓         |
| Mumbai      | 20.3        | 19.8        | ↓         |
| NCR         | 25.0        | 23.1        | ↓         |
| Jakarta     | 29.3        | 28.2        | ↓         |
| Tokyo       | 2.0         | 1.6         | ↓         |
| Manila      | 4.0         | 3.6         | ↓         |
| Singapore   | 2.6         | 2.0         | ↓         |
| Seoul       | 9.1         | 4.0         | ↓         |
| Bangkok     | 4.4         | 6.1         | ↑         |
| Hanoi       | 8.9         | 6.5         | ↓         |

Source: Cushman & Wakefield Research

\* H2 Net Absorption; \*\* Q4 2019 vacancy rate

# HOT OFF THE PRESS

## Greater China Office Market Snapshot – Q1 2020 (Select Markets)

### DEMAND (NET ABSORPTION)

|                      | 2019Q1           | 2020Q1            | DIRECTION |
|----------------------|------------------|-------------------|-----------|
| <b>Greater China</b> | <b>7,407,979</b> | <b>-1,027,836</b> | ↓         |
| Beijing              | 269,359          | -395,920          | ↓         |
| Shanghai             | -767,843         | -974,617          | ↓         |
| Shenzhen             | 442,935          | 921,247           | ↑         |
| Guangzhou            | 779,444          | 132,535           | ↓         |
| Hong Kong            | -40,450          | -524,947          | ↓         |
| Taipei               | 623,555          | 143,594           | ↓         |

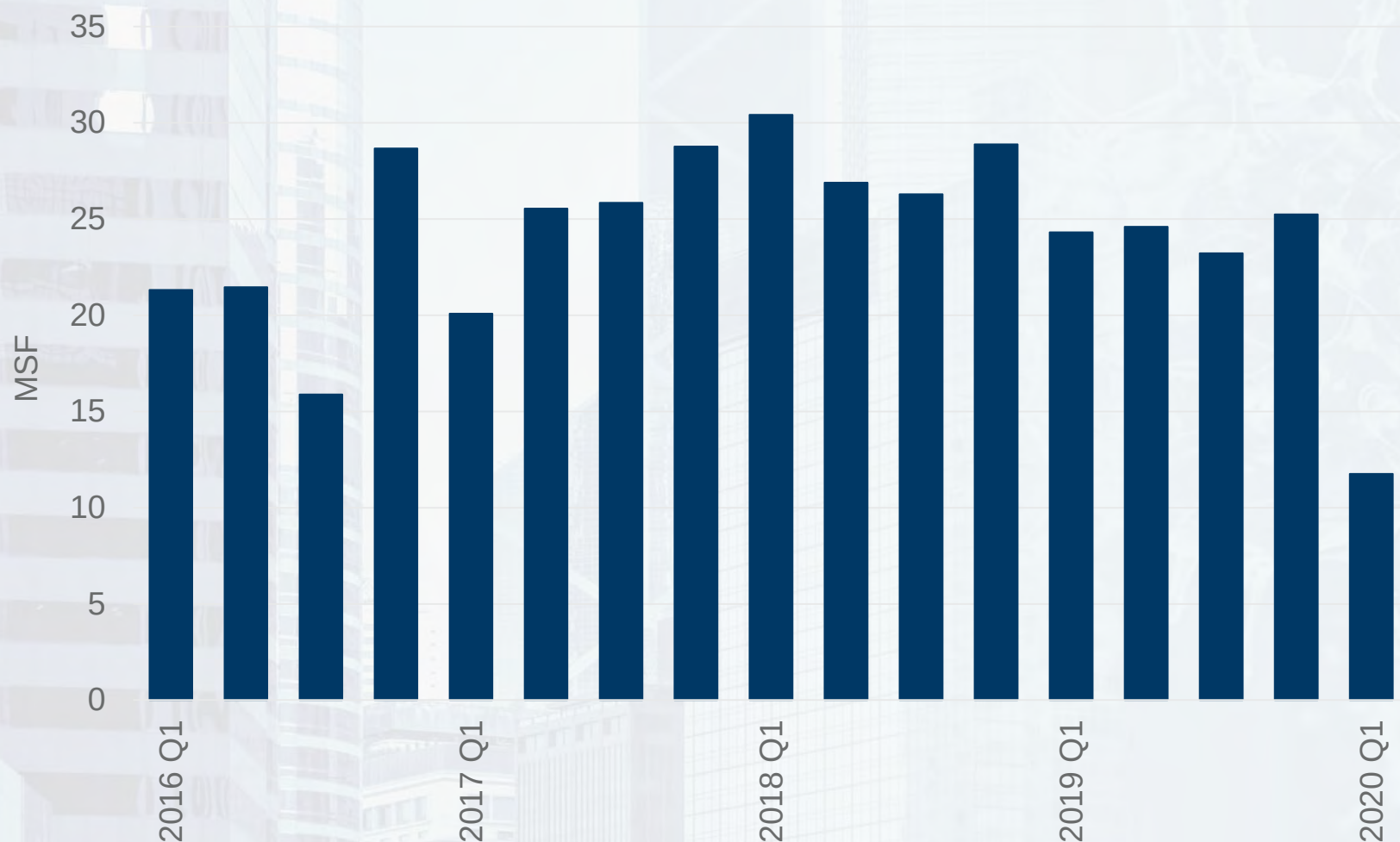
### SUPPLY (VACANCY)

|                      | 2019Q1      | 2020Q1      | DIRECTION |
|----------------------|-------------|-------------|-----------|
| <b>Greater China</b> | <b>18.3</b> | <b>19.9</b> | ↑         |
| Beijing              | 8.1         | 13.8        | ↑         |
| Shanghai             | 18.3        | 21.1        | ↑         |
| Shenzhen             | 17.2        | 24.6        | ↑         |
| Guangzhou            | 4.1         | 5.2         | ↑         |
| Hong Kong            | 7.9         | 10.0        | ↑         |
| Taipei               | 7.9         | 4.8         | ↓         |



# TENANT DEMAND DOWN SHARPLY

Asia Pacific\* Net Absorption by Quarter



Source: Cushman & Wakefield Research

Updated 4-30-2020

\* Excludes Australian Markets



## Key Observations:

- Q1 2020 net absorption (12 msf) is down 50% year-over-year (YOY).
- Leasing was hampered over the whole of the quarter, firstly due to national holidays and Chinese New Year, then due to the impact of the virus.
- Expect low activity in Q2 as most occupiers are waiting to see how “re-entry” plays out.

# TOP 30 OFFICE CONSTRUCTION MARKETS

## Asia Pacific: Supply Under Construction



### Key Observations:

- New deliveries have been trending upwards since 2011:
  - 2011-2013: 249 msf
  - 2014-2016: 344 msf
  - 2017-2019: 525 msf
- However, the highest rates of construction are mainly limited to markets in India and China (83% of total) as the cities continue to rapidly expand. Construction in other major markets in the region is more muted.

| Rank | City      | Construction | % of Inv.* |
|------|-----------|--------------|------------|
| 1    | Shenzhen  | 66,574,689   | 106.2%     |
| 2    | Shanghai  | 62,503,145   | 45.9%      |
| 3    | Bengaluru | 40,000,081   | 27.1%      |
| 4    | Hyderabad | 35,867,149   | 60.2%      |
| 5    | Beijing   | 33,810,766   | 28.2%      |
| 6    | Chengdu   | 26,342,600   | 96.6%      |
| 7    | Guangzhou | 25,665,493   | 48.1%      |
| 8    | NCR       | 24,367,612   | 21.2%      |
| 9    | Manila    | 21,129,654   | 24.6%      |
| 10   | Tokyo     | 20,174,322   | 16.3%      |
| 11   | Pune      | 19,522,600   | 37.2%      |
| 12   | Seoul     | 16,419,054   | 20.9%      |
| 13   | Mumbai    | 15,411,801   | 15.9%      |
| 14   | Nanjing   | 13,545,410   | 76.3%      |
| 15   | Chennai   | 13,258,078   | 26.2%      |

| Rank | City         | Construction | % of Inv.* |
|------|--------------|--------------|------------|
| 16   | Tianjin      | 11,790,916   | 47.4%      |
| 17   | Hangzhou     | 11,162,961   | 33.3%      |
| 18   | Chongqing    | 10,784,416   | 48.6%      |
| 19   | Bangkok      | 10,231,878   | 60.7%      |
| 20   | Kuala Lumpur | 9,489,906    | 17.5%      |
| 21   | Shenyang     | 8,788,993    | 74.4%      |
| 22   | Ahmedabad    | 7,983,319    | 39.6%      |
| 23   | Hong Kong    | 5,934,400    | 9.2%       |
| 24   | Jakarta      | 5,663,970    | 11.2%      |
| 25   | Melbourne    | 4,684,019    | 14.0%      |
| 26   | Dalian       | 4,474,263    | 45.1%      |
| 27   | Singapore    | 4,356,000    | 14.9%      |
| 28   | Wuxi         | 4,025,699    | 53.0%      |
| 29   | Sydney       | 3,818,160    | 11.8%      |
| 30   | Taipei       | 2,800,804    | 10.7%      |

Source: Cushman & Wakefield Research

\* Percent of A Grade and above stock

Updated 4-30-2020

# AS UNEMPLOYMENT GOES, SO GOES VACANCY

Sydney



## Key Observations:

- Office vacancy and unemployment generally trend together.
- However, the brief surge in remote working should not, on its own, cause office vacancy rates to rise significantly right away.
- The unemployment rate will be a key metric to watch going forward, not just the immediate spike, which is now expected, but also the trajectory of the improvement during the recovery.

Source: Cushman & Wakefield, Deloitte Access Economics Office Demand estimates, PCA Vacancy rate

\*C&W Research is updating its models and will be released updated forecasts in the coming weeks.

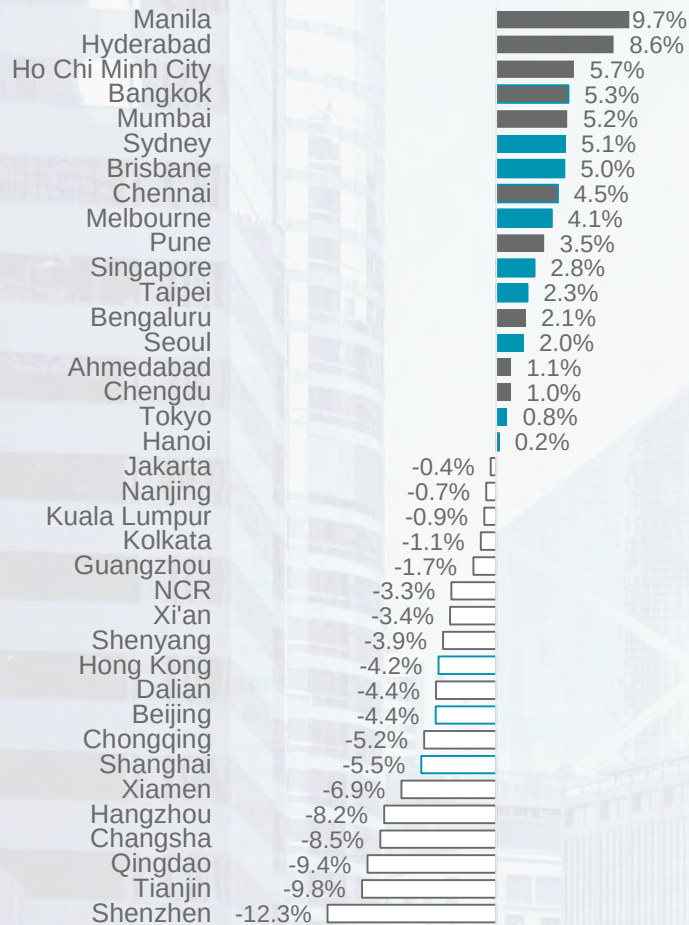


# RENTS WERE ALREADY STARTING TO SLOW

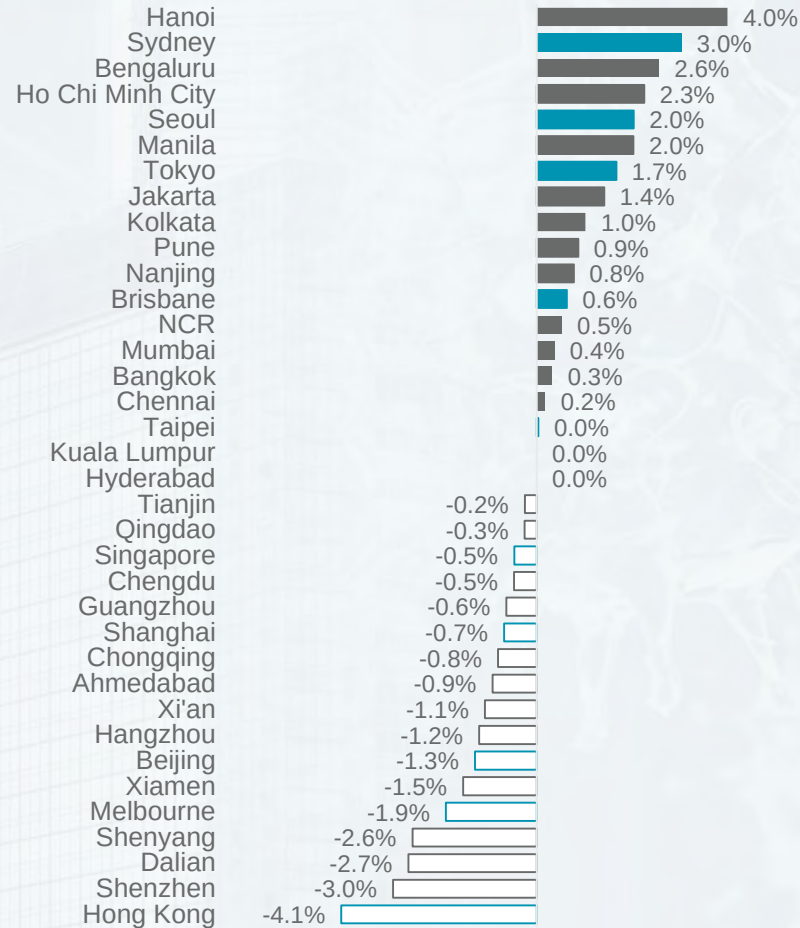
## Asia Pacific



Rent Growth 2019



QoQ Rent growth Q1 20



## Key Observations:

- Demand is expected to slow and may turn negative in more markets. Where allowable, sublease space is expected to increase as tenants seek to right-size footprints.
- Rents were already falling in some markets in 2019. It is likely rents will fall further and across a wider range of markets in 2020.

Source: Cushman & Wakefield Research

\*C&W Research is updating its models and will be released updated forecasts in the coming weeks.

# INDUSTRIAL SECTOR

The background features a blurred industrial scene, possibly a factory floor or a large warehouse, with a strong sense of motion. The image is overlaid with a large, semi-transparent blue triangle on the left and a red triangle on the right, meeting at a diagonal line. The text 'INDUSTRIAL SECTOR' is prominently displayed in white, bold, sans-serif capital letters on the left side, partially overlapping the blue triangle.



# ASIA PACIFIC INDUSTRIAL: PRELIMINARY OBSERVATIONS

Not All Good News, but Trajectory Remains Robust

- *It is a mistake to think that COVID-19 is having no negative impact* on the industrial sector. Industrial space occupied by retailer/wholesalers, many of which are struggling and disrupted supply chains are both key drivers
- However, the industrial sector entered the crisis with *extremely robust fundamentals and is positioned to weather the crisis better* than most other product types. Expect further expansion of this sector across the region in the years to come.
- The slowdown in container traffic highlights the impacts on both the demand and supply side of manufactured goods. *The rebound in Chinese container traffic in March highlights that production can be ramped up again quickly.*
- Industrial *development activity is likely to be put on hold* as developers and investors take a “wait-and-see” approach to the market and economy.
- Longer-term, *COVID-19 is accelerating the shift to eCommerce* out of necessity. That may induce some longer-lasting behaviors in consumers.
- We expect the industrial-logistics sector to *come out of this crisis stronger than ever.*



# HOT OFF THE PRESS

## Asia Pacific Industrial Market Snapshot – Q1 2020 (Select Markets)

### RENTS (USD/SF)

|             | 2019Q1 | 2020Q1 | DIRECTION (LCY) |
|-------------|--------|--------|-----------------|
| <b>APAC</b> |        |        |                 |
| Melbourne   | 5.91   | 5.25   | ↑               |
| Sydney      | 9.54   | 8.36   | ↑               |
| Bengaluru   | 4.34   | 4.09   | ↑               |
| Mumbai      | 3.81   | 3.99   | ↑               |
| NCR         | 3.08   | 2.99   | ↑               |
| Jakarta     | 7.08   | 7.09   | ↑               |
| Tokyo*      | 18.76  | 20.07  | ↑               |
| Singapore   | 13.51  | 12.36  | ↓               |
| Bangkok*    | 5.64   | 5.88   | ↔               |

### RENTS (USD/SF)

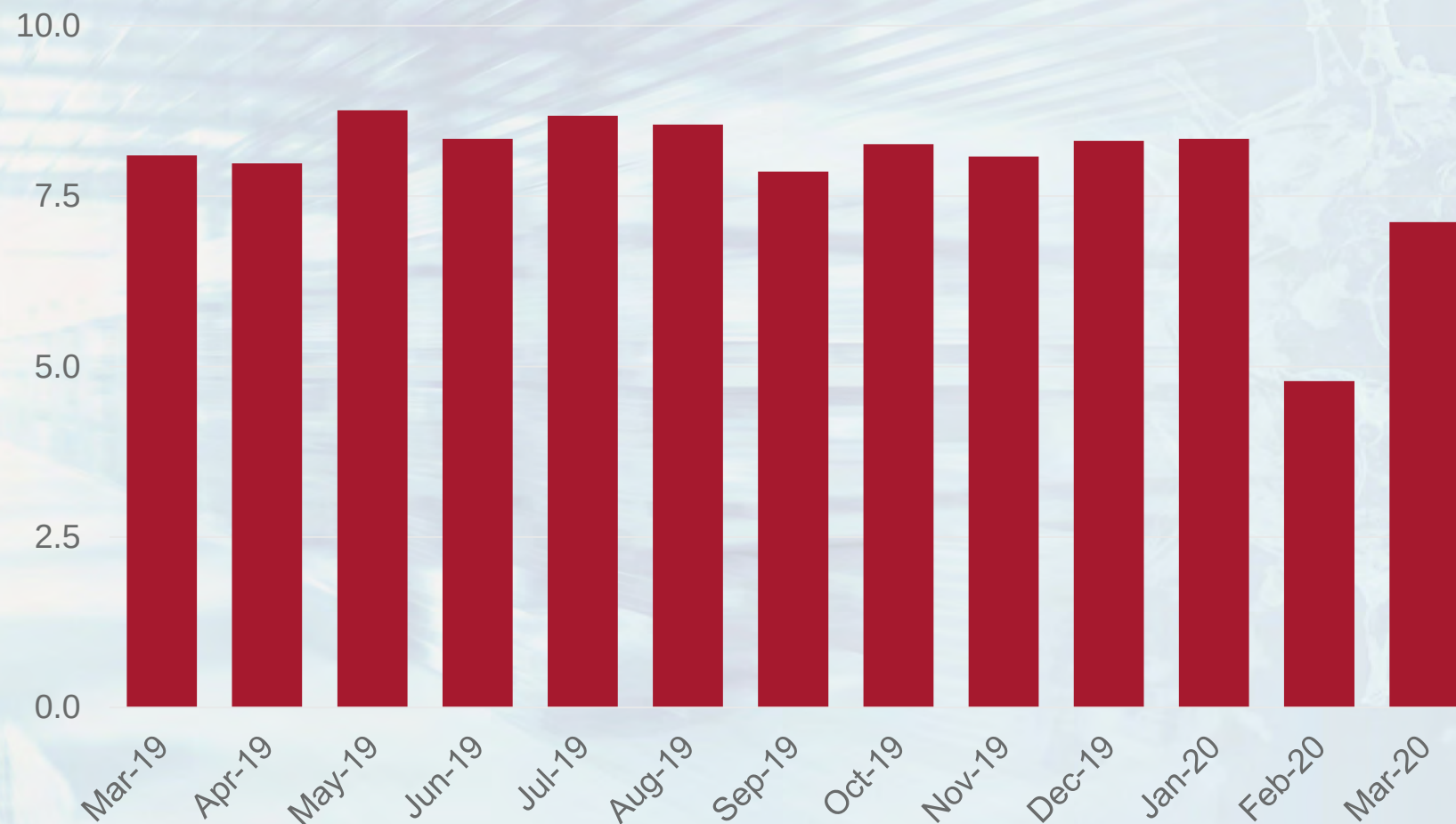
|                      | 2019Q1      | 2020Q1      | DIRECTION (LCY) |
|----------------------|-------------|-------------|-----------------|
| <b>Greater China</b> | <b>6.54</b> | <b>6.62</b> | ↑               |
| Beijing              | 8.85        | 9.16        | ↑               |
| Shanghai             | 7.91        | 7.71        | ↑               |
| Shenzhen             | 8.46        | 8.24        | ↑               |
| Guangzhou            | 6.43        | 6.26        | ↑               |
| Hangzhou             | 6.22        | 5.91        | ↓               |
| Foshan               | 5.90        | 6.31        | ↑               |
| Hong Kong            | 21.02       | 21.72       | ↑               |

Source: Cushman & Wakefield Research

\* Q4 data

# CONTAINER VOLUMES REBOUND IN MARCH

Monthly Exports, Millions of Twenty-Foot Equivalent Units (TEUs)



## Key Observations:

- February's drop in imports was the equivalent to 3.5 million TEUs or 43% q-o-q.
- Strong rebound in March led by Chinese ports retuning to more normal operations – less than 10% decline y-o-y.
- We expect the disruption in global trade to affect short-term industrial demand in the region.

Source: Cushman & Wakefield Research, [containerstatistics.com](https://www.containerstatistics.com)

\* Excludes India.



# RETAIL SECTOR

The background is a blurred photograph of a retail store. On the left, there are silhouettes of people walking. In the center, there are shelves and a counter area. On the right, there are more people and possibly a display. The image is overlaid with a blue and red geometric design. The blue part covers the left and center, while the red part covers the right. The text 'RETAIL SECTOR' is written in white, bold, sans-serif font on the blue background.

# ASIA PACIFIC RETAIL: PRELIMINARY OBSERVATIONS

## Economic Impact of COVID-19 Will Accelerate Key Trends Already in Play

- **eCommerce will surge.** It is currently the only channel connecting with consumers for many categories of retail. While consumers will eventually return to brick-and-mortar stores, there is likely a permanent shift in behavior for many consumers.
- However, data out of China shows that there has been **limited impact on vacancy so far.**
- Emerging trend of **buy-online, pickup-in-store (BOPIS)** is already vastly accelerating, with many chains rushing to provide these capabilities.
- **Necessity retail** (i.e., grocery, convenience and drug stores) will be a bright spot; such sales have surged recently.
- Social distancing will **temporarily halt some of the hottest trends** in physical retail: experiential concepts, entertainment, food and beverage, food halls, fitness clubs, upstart independent brands, digital native retailers and pop-up stores.
- Mid-tier shopping centres with high proportionate exposure to discretionary retail expenditure could feel most severe impacts.

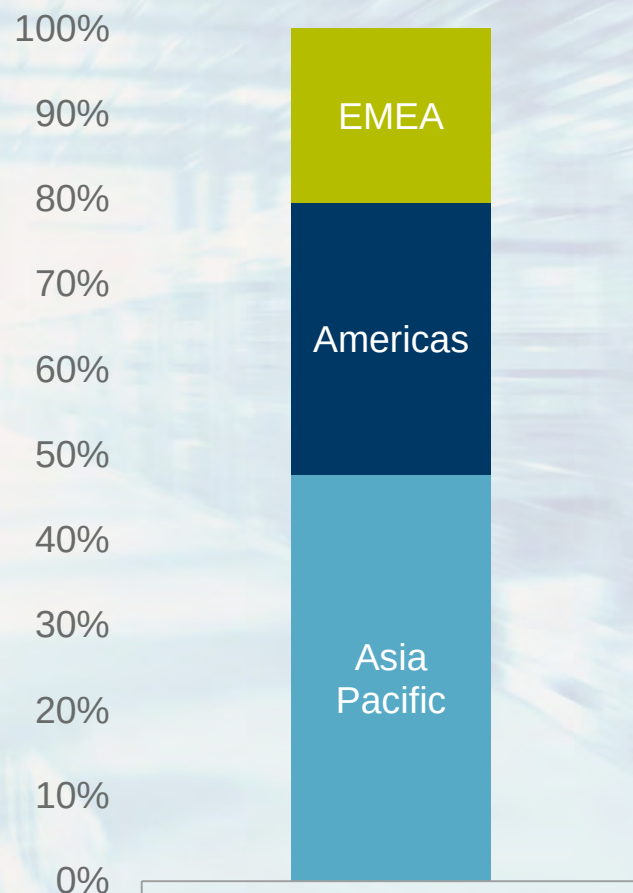


# ECOMMERCE TO GROW FASTER AND STRONGER

## eCommerce Sales Trends



SHARE OF GLOBAL ECOMMERCE  
IN 2019



GROWTH OF ECOMMERCE  
IN 2019



### Key Observations:

- eCommerce sales growth in Asia Pacific driven by growing middle class population and high digital penetration rates.
- The necessity of “shelter-in-place” is accelerating the long-term shift to eCommerce.
- Forecast near-term stress combined with long-term strength is a potent formula for investment opportunity.



# VACANCY RATE EDGED UPWARDS

## Mainland China Vacancy Rates



Source: Cushman & Wakefield Research



# CAPITAL MARKETS

Most investors remain in a  
“wait and see” posture.



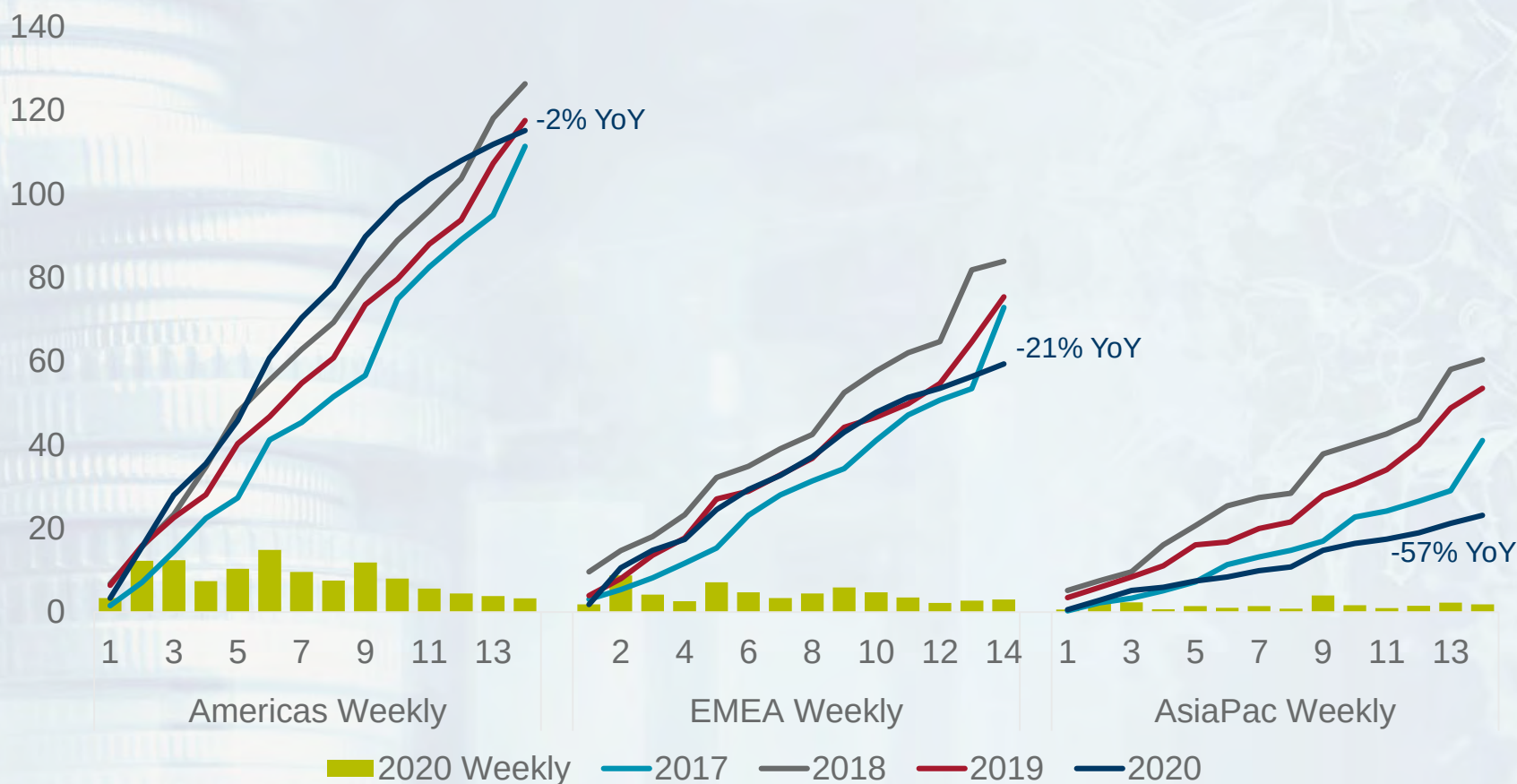
# INVESTMENT SALES SLOWING QUICKLY

Expect Similar Sudden Stop in Transaction Activity in EMEA, Americas



## Global Year-to-Date Transaction Activity

Dollars in billions



Source: RCA, Cushman & Wakefield Research

## Key Observations:

- Sales data still being compiled for Q1, but expect sharp drops in activity to be reported across all global regions.
- Early readings out of Asia Pacific – the first to feel the full brunt of COVID-19 – show sales down ~57% compared to a year ago.
- The pace of recovery should be faster than in the GFC because of abundant capital, though fundraising could still be adversely effected by portfolio balance effects from the equity market sell-off.

# PRICING WILL BE STICKIER – BUT TOO EARLY TO TELL

## Asia Pacific Cap Rates



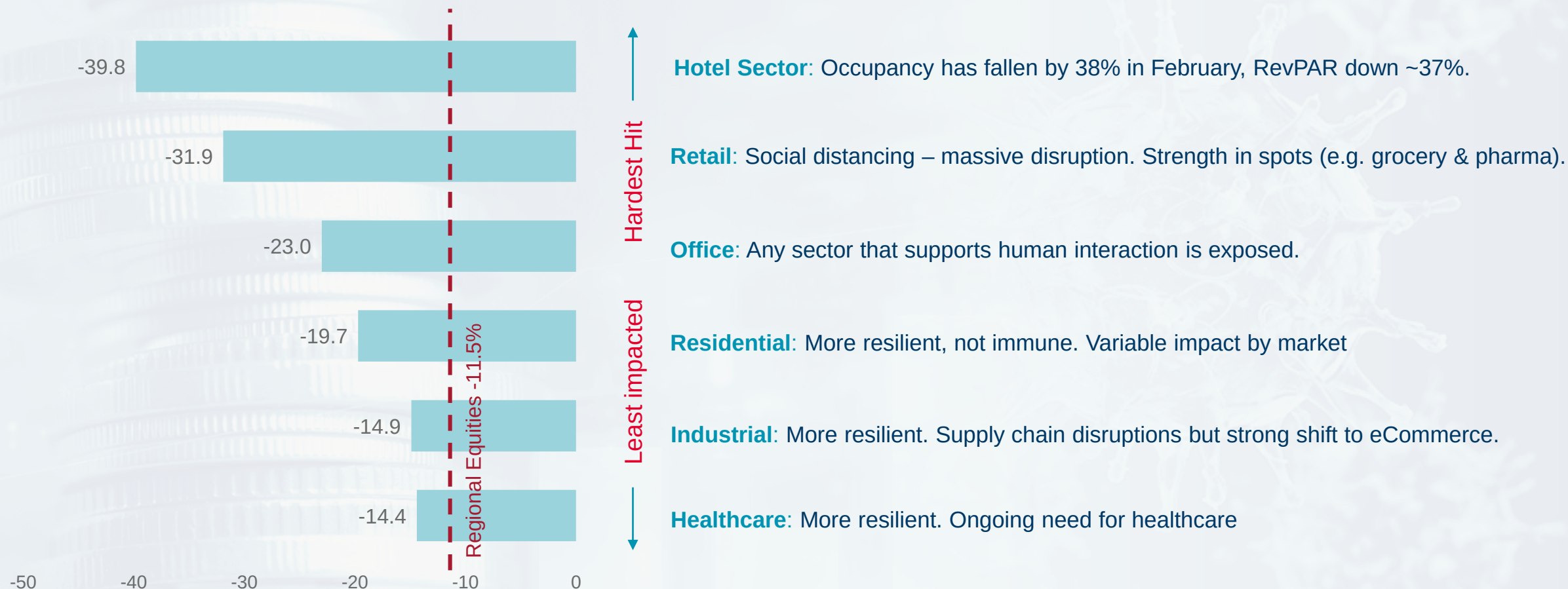
### Key Observations:

- As of now, there are no clear signs of panic-selling.
- It is difficult, if not impossible to price risk right now, so investors are still very much in “wait and see mode.”
- Retail had already moved off cyclical lows and investors have started to re-price the sector in light of structural changes.



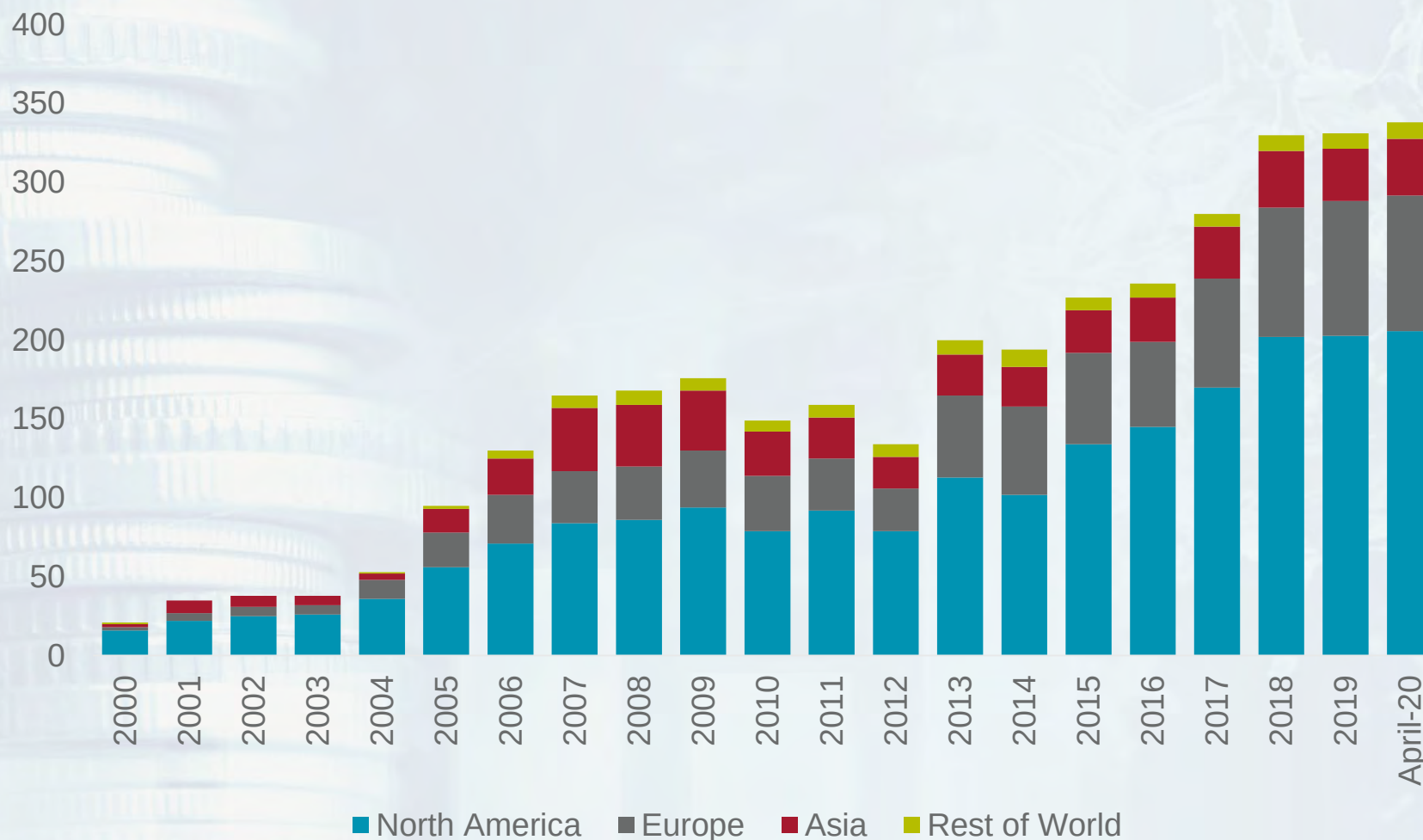
# REITS INDICATE A PRICE CORRECTION IS COMING

March Performance: Asia Pacific REITs (%)



# WHEN THIS TURNS, LOOK OUT

## Dry Powder at Closed End Real Estate Funds



Source: Preqin, Cushman & Wakefield Research

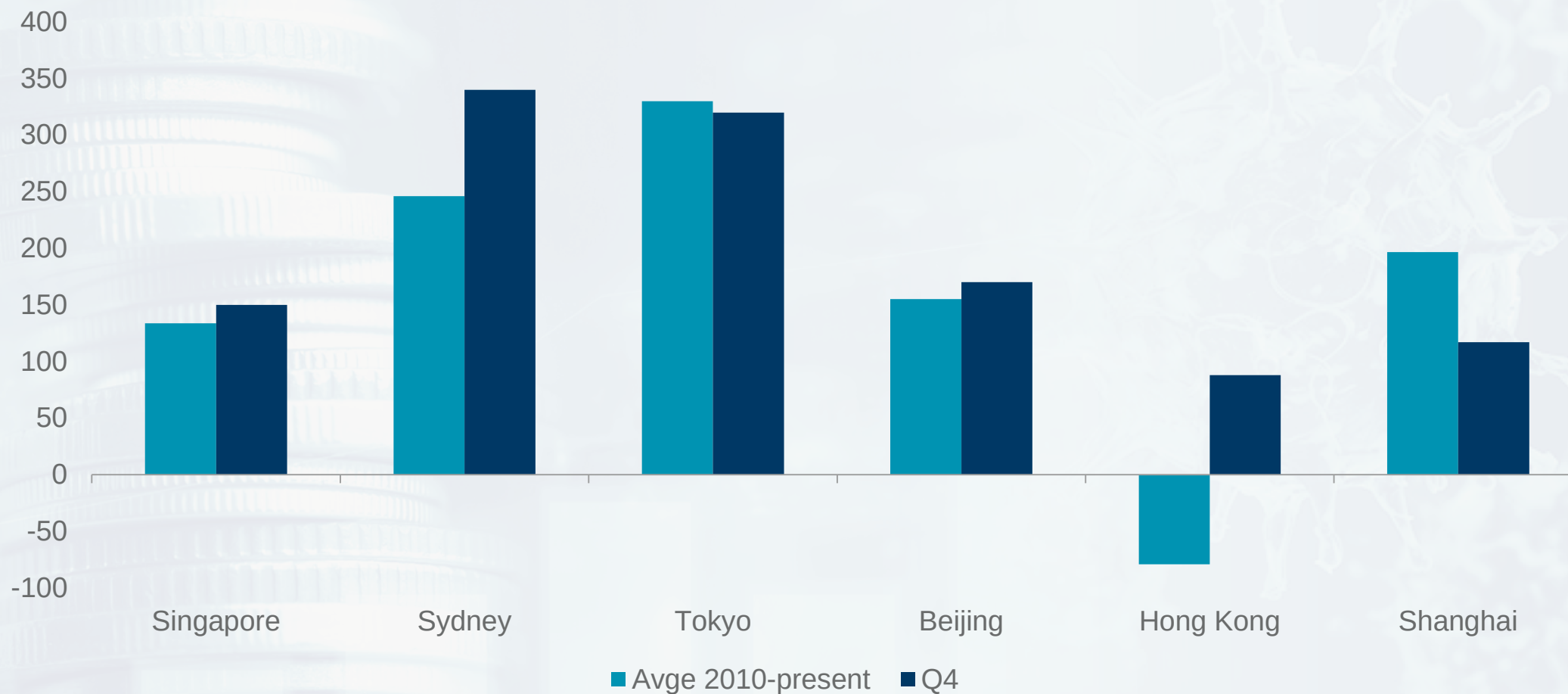
### Key Observations:

- Dry powder is at record levels; in other words, there is tons of cash on the sidelines.
- Value-add, opportunistic and debt funds have particularly large war chests.
- Following the GFC, LPs sought to discourage their private asset managers from calling capital. This is happening now to a much lesser extent amid the rebound in equities.
- Our sense of the market is that there is considerable latent risk appetite and the capital to act on it once liquidity returns to the market.



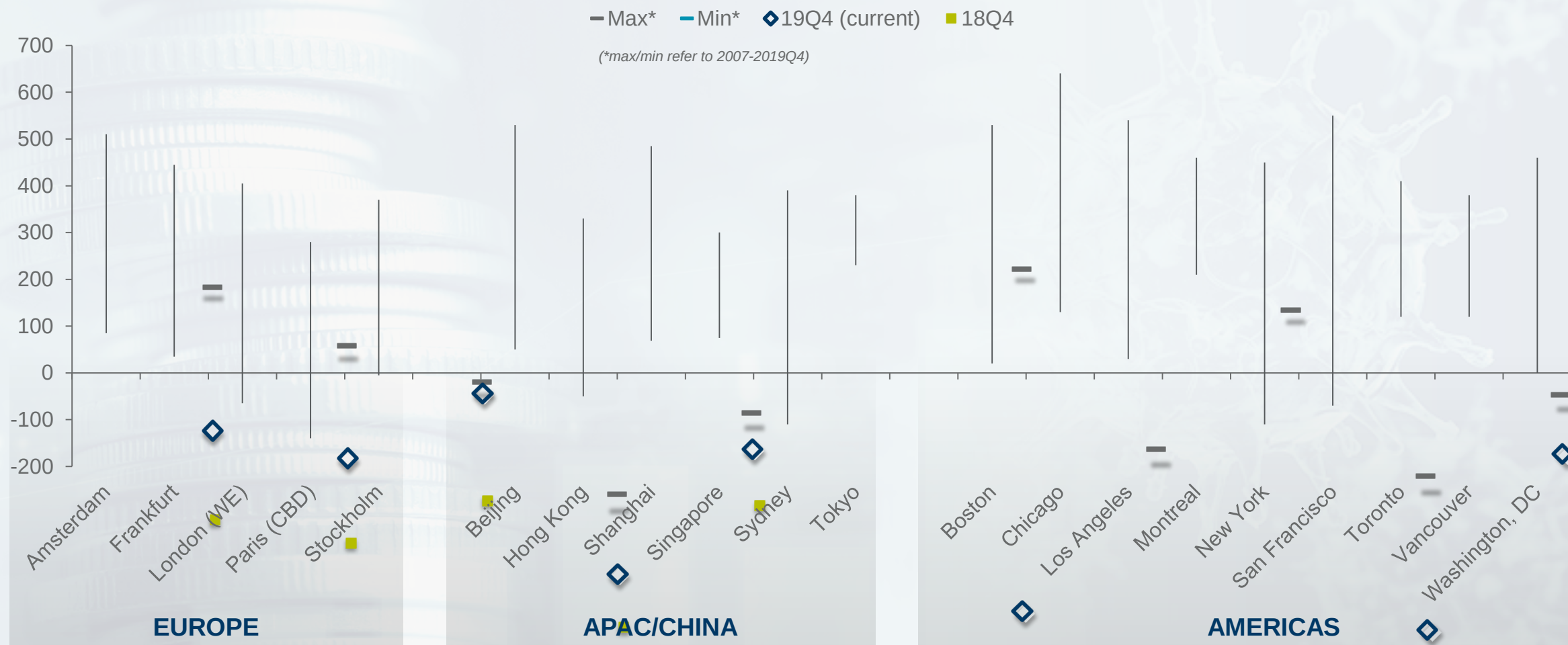
# SPREADS REMAIN ATTRACTIVE REGIONALLY

Office Cap Rates vs. 10-Yr Treasury Yield (bps spread)



# ATTRACTIVE GLOBALLY

Prime Office Cap Rates Spread to 10-Year Gov't Bond (bps)



Source: Real Capital Analytics, Altus Insite Investment Trends Survey, Cushman & Wakefield

Note: U.S. cities based on top quartile rolling 12-month figures.



# THINGS TO THINK ABOUT



# WHAT COULD BE LONG LASTING

## Things to Think About...

- A different perspective on the **workplace**:
  - *Policies*: More attention paid to when illness leads to remote work or taking sick time.
  - *Layouts*: Incorporation of six foot spacing into workspaces.
  - *Cleaning*: Heightened attention on cleaning levels and wording in lease documents.
- Use of **technology** to make life more touchless. For example, smart phones providing access through security and informing elevator which floor to utilize.
- Acceleration of **wellness** tracking:
  - Measuring air quality and increasing filtration to minimize spread of airborne viruses or bacteria.
  - Utilizing facial recognition technology to measure employee, customer and visitor temperatures.
  - Tracking employee vitals (but still much to work through regarding privacy concerns).
- Changed perception of **work-from-home**. In many cases, organizations that have never had any (or any significant portion of) employees work remotely have been doing so due to shelter-in-place orders. However, it is likely that most workers will continue to access office space on a regular basis, even if they increase the frequency of remote work.
- A different perspective on **CRE portfolios**:
  - Fortune 500 companies identifying ways to reduce their global footprint.
  - Exploration of workplace ecosystem, including primary office space, co-locations, flex, and work-from-home.
- Greater comfort with **virtual** experiences, but still great value placed on the benefits of **face-to-face** interactions. The amenities and services provided in the workplace become even more important to drive employee experience.



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# CORONAVIRUS

## IMPACT ON THE PROPERTY MARKETS FOCUS: ASIA PACIFIC & GREATER CHINA

MAY 2020

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