Checking in on the boom

A recent property briefing by Jones Lang LaSalle's Asia chief reveals the polarized moods of investors and occupiers toward Asia Pacific's real estate sector

by **Tricia V. Morente**
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'It used to be that, two years ago, we would just stop and say to our clients, 'Come to Asia',” Alastair Hughes, Jones Lang LaSalle's CEO-Asia, tells the crowd gathered at the recently held Asia CEO Forum in Raffles & Fairmont Makati.

It was, back then, a no-brainer. “The demographics are overwhelming, the prospects of economic growth are overwhelming—half of the world's fastest growing cities, by absolute GDP growth, are within Asia Pacific—and by 2022, the combined economies of Asia Pacific would be almost as big as the rest of the world put together,” he says, illuminating however that such growth is driven in part by massive reorganization, particularly in China and in other parts of Asia, as a huge number of people will move into cities and further fuel economic growth.

Now, Hughes says, things have changed a little. “There has been a subtle shift over the last 18 months in terms of the perception [of investing] in Asia Pacific versus the rest of the world. This is partly because, two years ago, America was still in the doldrums, Europe was still having crisis in the currency sector, and Asia seemed like the only place in the world we could get growth,” he shares.

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Alastair Hughes, Jones Lang LaSalle's CEO-Asia.

Going through the different economies in Asia Pacific, Hughes paints distinctly different pictures of what's happening within each market: “In China, for example, there's been a lot of concern about what the process would be, going from an investment economy to a consumption economy...is the political regime sufficiently flexible to allow that change to happen?”

In Indonesia, said to be the darling of the investment world, people are concerned about a lot of things, the least of which is last year's devaluation of the rupiah by 25 percent. “Indonesia has been the fastest growing economy in Asia Pacific, then the currency came down and now they've got a political election coming up, so some people question that,” Hughes says.

And whereas in 2008 India was all “Incredible India”—“Everything in India was great, with growth at 10.5 percent,” Hughes recalls—now it's “Incompetent India”. “They can't seem to do anything right. Growth has fallen to 4.5 percent, and they've had terrible scandals about corruption. There's a big election coming up and people are very much hoping they get back to the regime of a few years ago,” he says.

Japan's Abenomics, on the other hand, have led a sense of optimism to pervade in the capital. “When I go to Tokyo, it feels different. People are walking more quickly, they're smiling more often, and there's a lot more economic activity going on. But,” Hughes avers, “it feels a bit like a shot of steroids into a sore back that's beginning to wear off. Economic growth is 1.5 percent this year, which should be good for Japan, but it's not obvious what will happen next.”

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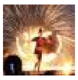
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Amidst all this, a cause for concern is that the United States and Euro Zone are “feeling much better than they did two years ago,” Hughes says, “and what that means is that there’s a lot of the i... , in t... s... ld.”

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I... rty market, Hughes highlights two trends. “There’s a... vestor community—the people buying and selling t... ople who occupy real estate. I don’t remember these trends being quite so polarized as they are today,” he says.

According to him, the mood differs on two counts. “Real estate investors are feeling pretty good,” Hughes reveals. “If you look at the amount of direct property being bought and sold,” he continues, “you’d see that while volumes traded in America and Europe are not yet in the same level as in 2007—huge amount of activity back then, with big office buildings, shopping centers and industrial parks being bought and sold in the market—volumes traded in Asia Pacific have grown higher than they were in 2007, and all the money is going to the big gateway cities of the world like London, New York, Hong Kong, Singapore and Tokyo.”

Interestingly, much of these investment activities are fuelled by foreign money. “International money is scouting for opportunities in markets that offer access and liquidity and where larger money can be attracted. In London, for one, all buyers of real estate, 64 percent of them came from somewhere else—the Middle East, Russia, Asia, all over the globe,” Hughes says, adding that investors are set to remain aggressive and move up the risk curve, particularly in commercial real estate. “They’re a little bit nervous of the volatility in the stock market. They’re not very happy about the very low yields from bonds, so property is something they are definitely looking [to park their funds] into,” Hughes reports.

From an Occupier point of view, the mood is slightly different. “Occupiers are going to be more expansive—that’s one thing I’m very sure about. Rents will grow because of a sense of optimism, but it will be primarily focused on productivity. Productivity will be part of the business of recovery. Gone are the days of us being phoned by big international banks who want 300,000 square feet of office space, plus expansion squares, plus a marble reception, plus a fountain, etc. Those days are gone and I doubt they are coming back. Now, occupiers are still keen on growth, but they want to grow efficiently,” Hughes says.

MARKETS POISED FOR STEADY GROWTH

Unless there are some shocks, Hughes says that markets are quite well positioned for good, steady growth.

In the Philippine situation, Jones Lang LaSalle Regional Director and Country Manager David Leechiu expresses optimism for the future of the Philippines’ property sector for the next six years. “A big chunk of the growth is driven by the sheer size of demand in the retail, residential and office sectors. If you look at the office sector, 30 to as much as 40 percent of the supply up to 2016 has already been leased out today. What that tells me is that many companies today are looking at the Philippines not only as a market they would like to be in, but one they need to be in—and not just in a small scale, but a big scale,” he says.

Hughes also points to Manila’s being counter-cyclical to other countries because of the BPO sector. “In some ways, Manila works to a different rhythm from the rest of the world—the tougher it is in the rest of the world, the more people are inclined to outsource and the better Manila does,” he says.

Lindsay Orr, Jones Lang LaSalle’s chief operating officer, adds, “While real estate prices [in Manila] have gone up a little bit, it’s the labor costs where bigger savings are made. If you’re an IT BPO company looking to employ a thousand people, there’s significant savings coming to a place like the Philippines.”

Leechiu asserts, however, that the Philippines is missing out on a lot of action in the region. In the last two years, $240 billion traded in Asia Pacific in commercial real estate alone. “Almost zero went to the Philippines—FDIs across the board is south of three percent in the last 30 years. Much work still needs to be done,” he says.

From an international investor’s perspective, Hughes points to the reason why there’s little foreign money coming into the Philippines. “Investors aren’t allowed to buy assets directly. They’d rather buy in Singapore, Hong Kong, London or New York where they can buy the whole building or at least the majority control. On the commercial side of things, if that restriction were to be taken off, if commercial property were open to international investors to buy more than 50 percent, there would be a huge wave of money coming in here. That’s a no-brainer,” he ends.