Phoenix Property Investors' Quarterly Market Update (August 2020)

by Milan Khatri, Head of Research

The coronavirus outbreak and geo-political tension have led investors to raise questions regarding the prospects for Asian real estate markets. As we move into the second half of the year, we see some notable trends, and we highlight a few in this note:

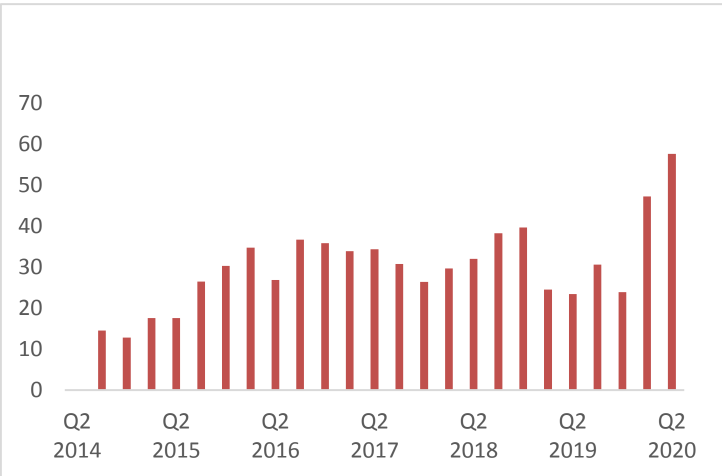
How is Asia Coping with COVID-19 & what has been the economic Impact?

- 2nd/3rd waves of COVID-19 have been occurring across Asia (and indeed globally), but cases in the region are still well-contained relative to the U.S and Europe
- Nonetheless, the economic recovery is likely to be volatile with periodic dips on renewed tightening of social distancing
- GDP in Q2 revealed a strong bounce back in China, and weakness in Developed Asia has been relatively modest so far in comparison to other global regions
- We believe that the economic impact of COVID-19, while substantial in some APAC countries, has been generally limited by the early and sustained adoption of social distancing

How much further is there to go for asset re-pricing?

- By Q2 core office property yields in mature markets like Tokyo, Seoul and Sydney, were trading at the highest level relative to investment grade corporate debt since the dot-com crash (i.e almost 20 years ago) – but relatively property high yields are attracting interest from income focused investors seeking secure cashflows
- Corporate debt defaults are rising which signals a risk to real estate income, but banks' forbearance is holding back broader distress; we believe assets with poor income durability are at most risk of further value declines into 2021
- Borrowing terms and debt availability have also tightened significantly across the region (see chart below). We see this as most negative for non-core assets

% of APAC real estate agents reporting a tightening of credit conditions



Source: RICS, Phoenix calculations, August 2020

PHOENIX PROPERTY INVESTORS

What are the implications of growing political tensions for Greater China?

- Our view is that near-term political tensions are likely to hurt FDI and capital inflows to China, and hold-back technology investments, particularly for key infrastructure like 5G
- However, despite clear political head winds, we believe China's long-term progress is likely to be fuelled by home grown innovations (supported by high R&D spending), and by utilizing knowledge already in the public domain
- Turning to Hong Kong, we don't see its role as a major financial hub changing (capital raisings from IPOs and secondary listings by Chinese firms in the city have put it ahead of the NYSE in 2020 so far); strength in capital raising reflects Hong Kong's strong connectivity to the mainland China, free capital mobility, comparatively low taxes and the commercial rule of law
- Moreover, we see Chinese firms increasing their presence in Hong Kong over time as they capitalise on the city's intermediation role of facilitating capital flows into and out of the mainland

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

Disclaimer:

This research note has been prepared by Milan Khatri as the head of research of Phoenix Property Investors Limited (the "Company"). The contents of this document are merely opinions and neither this document nor any of the statements, opinions or estimates herein may be relied upon as investment advice.

The forecasts, opinions and expectations expressed in this document are provided as part of a normal research activity and not in connection with any offering of Interests or as an agent of the Company, its directors, shareholders or any other person.

This research note does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any Interests, and neither this research note nor any part of it shall form the basis of or be relied on in connection with or act as an inducement to enter into any contract or commitment whatsoever. Any decision to purchase or subscribe for the Interests must be made solely on the basis of the information contained in the relevant offering documents of the funds.

Any opinions, forecasts or estimates herein constitute a judgment as at the date of this research note, and there can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the Company.

Certain statements made in this research note are forward-looking statements. Actual future results and occurrences may differ materially from those anticipated in any forward-looking statement due to numerous factors. Accordingly, you should not rely on any forward-looking statements in this research note. The Company and its affiliates undertake no responsibility to update or revise any forward-looking statements. The receipt of this document by its recipients implies their full acceptance of the above statements.