Intelligent Investment

Asia Pacific Living Sector: Case for Investment

REPORT

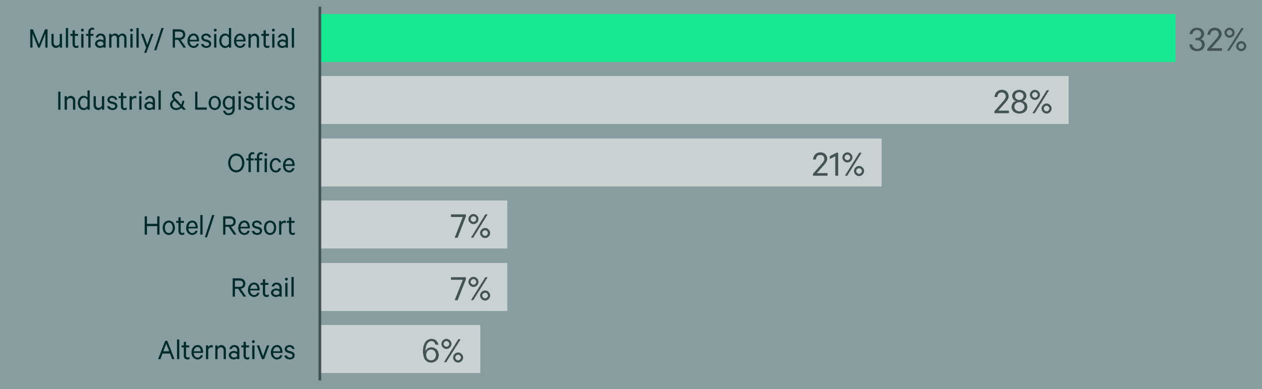
CBRE RESEARCH
SEPTEMBER 2024

Asia Pacific Living Sector: Case for Investment

CBRE

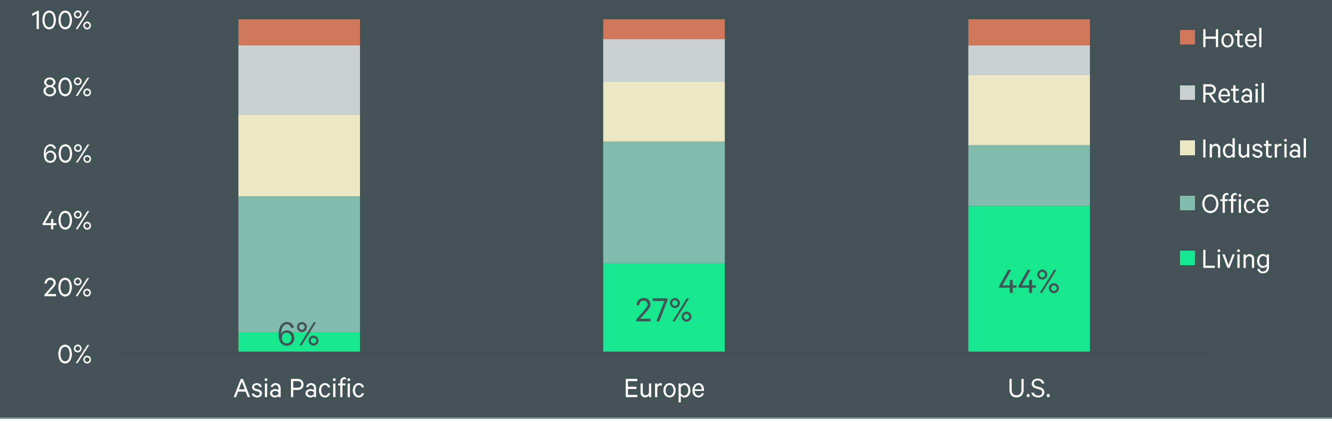
Growing investment appetite

Most preferred commercial real estate sector for investment, Asia Pacific



Emerging sector; accounts for just 6% of investment volume

Investment volume breakdown by property type (for deals from 2019 to 2024 YTD)



Five living sector subtypes

Subtype	Target Markets	Strategies
Student Housing	– Australia – Hong Kong SAR	– Purpose-built – Conversion
Co-living	– Singapore – Hong Kong SAR – Korea	– Collaborate with operators – Conversion
Serviced Apartment	– Singapore	– Repurposing underperforming assets
Rental housing / Multifamily	– Japan – Australia – Mainland China	– Direct acquisition – Built-to-Rent (BTR)
Senior living	– Australia – Japan – Mainland China	– Purpose-built – Collaborate with operators

*Prime office is the top tier portion of the Grade A office market which demonstrates the highest quality and building specifications in the best location of a market. It generally represents less than 10% of Grade A office stock in Asia. In Pacific markets, prime offices include only premium grade offices in regional context.

Source: 2024 CBRE Asia Pacific Investor Intentions Survey, CBRE Research, August 2024.

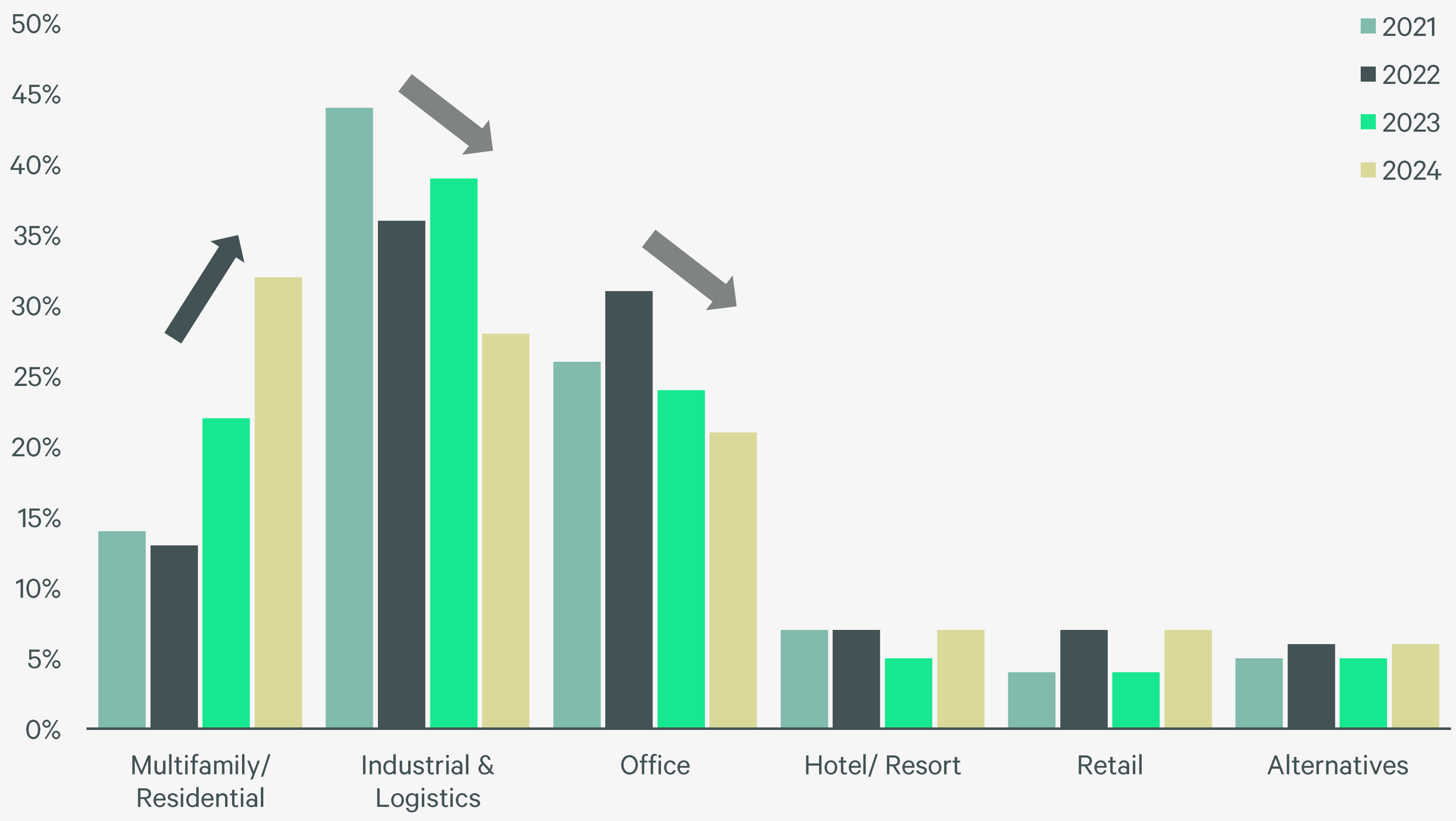
CBRE RESEARCH

This report was prepared by the CBRE Asia Pacific Research Team, which forms part of CBRE Research – a network of preeminent researchers who collaborate to provide real estate market research and econometric forecasting to real estate investors and occupiers around the globe.

Multifamily has become the most sought after asset class in Asia Pacific

- Amid a range of cyclical and structural headwinds, including increased adoption of hybrid working arrangements, a slowdown in global economic growth and elevated interest rates, investor preferences for sectors such as office and logistics have weakened over the past few years.
- In contrast, fundamentals in the living sector have remained robust, and this has spurred stronger investor interest in multifamily and other living-related asset types.

Preferred commercial real estate sector for investment, Asia Pacific

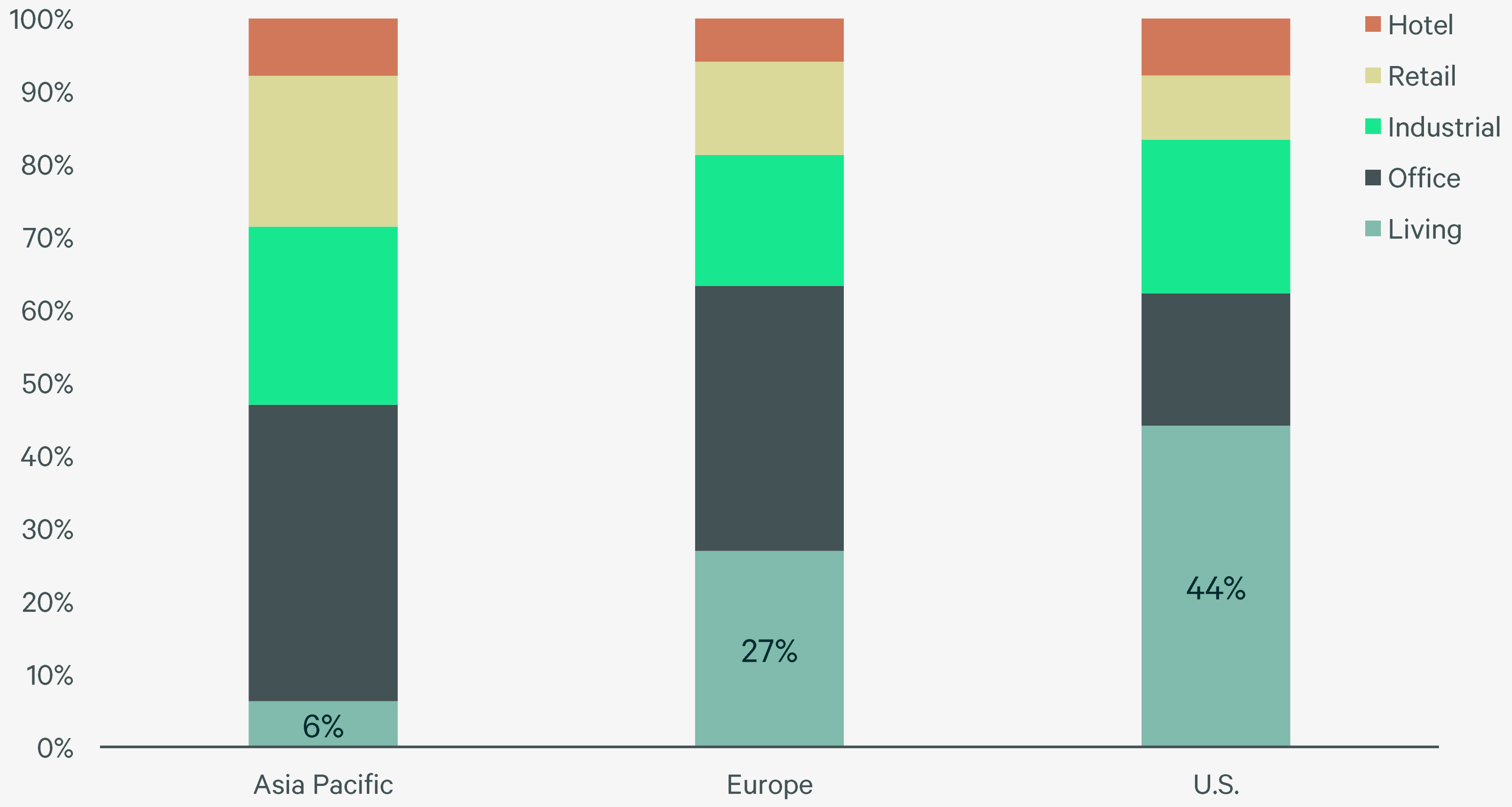


Note: Multifamily/ residential and the rest of commercial real estate sectors' results were surveyed separately
Source: 2024 CBRE Asia Pacific Investor Intentions Survey, CBRE Research, February 2024

The nascent living sector offers significant potential for growth

- Since 2019, the living sector has accounted for just 6% of Asia Pacific commercial real estate investment volumes. In contrast, the sector has comprised a far more significant proportion of total investment in Europe (27%) and the U.S. (44%) over the same period.
- This suggests that the development of the living sector is at a relatively nascent stage in Asia Pacific, indicating plenty of room for further growth when benchmarked to Europe and the U.S., where the living sector is at more mature stage of development.
- The residential sector in Asia has traditionally been focused on the development of units for sale, resulting in a low proportion of investible stock for rental housing. As Asia's residential market continues to evolve and mature, the region is likely to see a steady increase in its investable universe of institutional grade income-producing assets in the living sector.

Investment volume breakdown by property type (for deals from 2019 to YTD 2024)

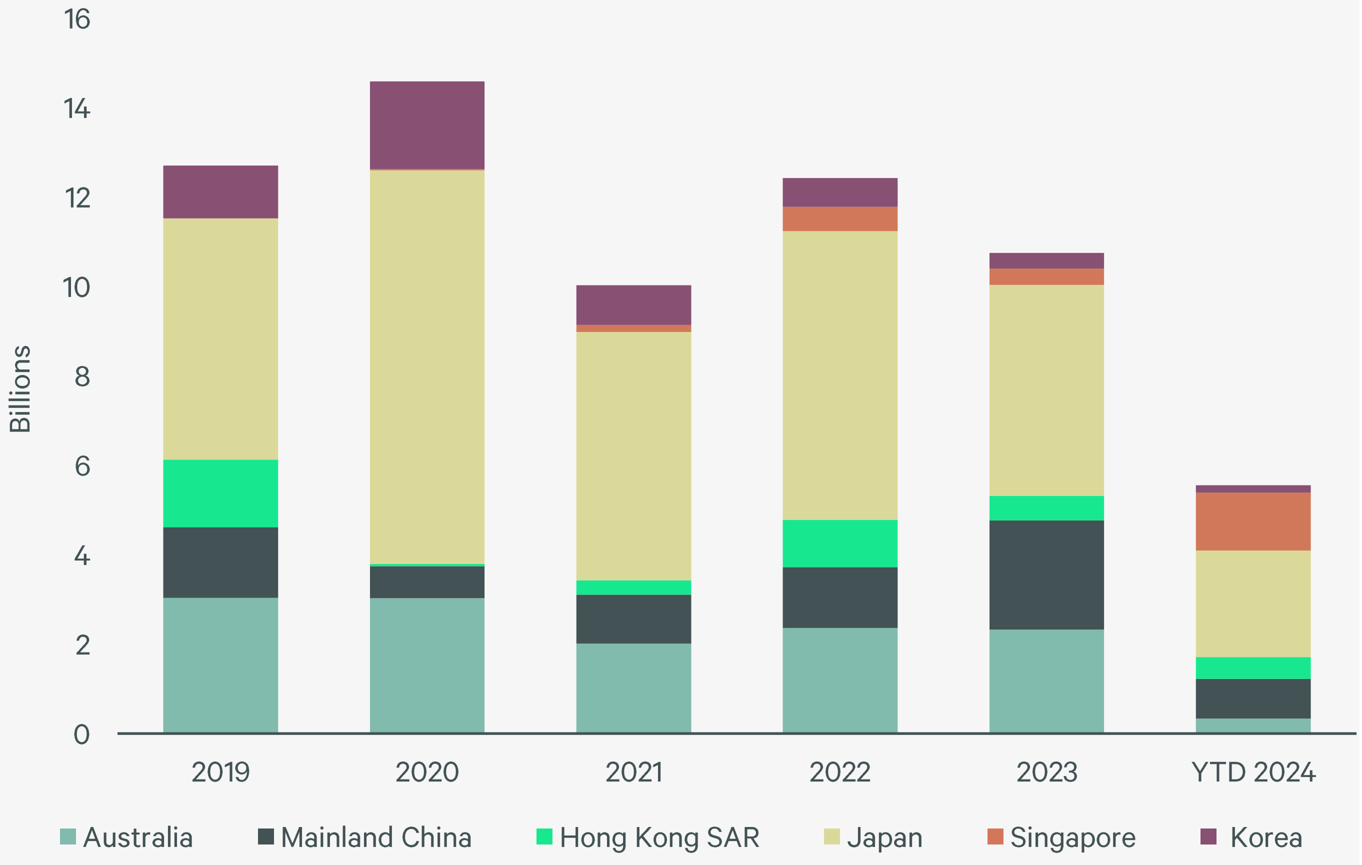


Note: Living sector includes rental housing, student housing and senior housing, but excludes condos. Asia Pacific includes Japan, Australia, mainland China, Korea, Hong Kong SAR and Singapore. Europe includes the UK, Germany and France.
Source: MSCI Real Capital Analytics, CBRE Research, August 2024

Japan, Australia and mainland China are the region's largest markets for living sector investment

- Japan, Australia and mainland China are Asia Pacific's largest markets in terms of investment volumes in the living sector. The former's multifamily sector is the most mature market in the region, boasting a significant and established presence of institutional capital, REITs and foreign players.
- While Australia and mainland China are the region's second and third biggest living sector investment markets, respectively, they have some way to go before reaching maturity. Living sector investment in these countries has nevertheless been gaining traction in recent years.
- The living sector in Hong Kong SAR, Singapore and Korea is attracting increasing attention, particularly for more niche co-living and student housing subtypes, on the back of the influx of non-locals and expatriates, increasing preference for renting over buying as well as rising rents. CBRE has observed growth in the number of investors exploring niche products and opportunities in these markets.

Living sector transaction volumes in selected markets, Asia Pacific



Source: MSCI Real Capital Analytics, CBRE Research, August 2024

Asia Pacific is home to a diverse landscape of investable residential assets

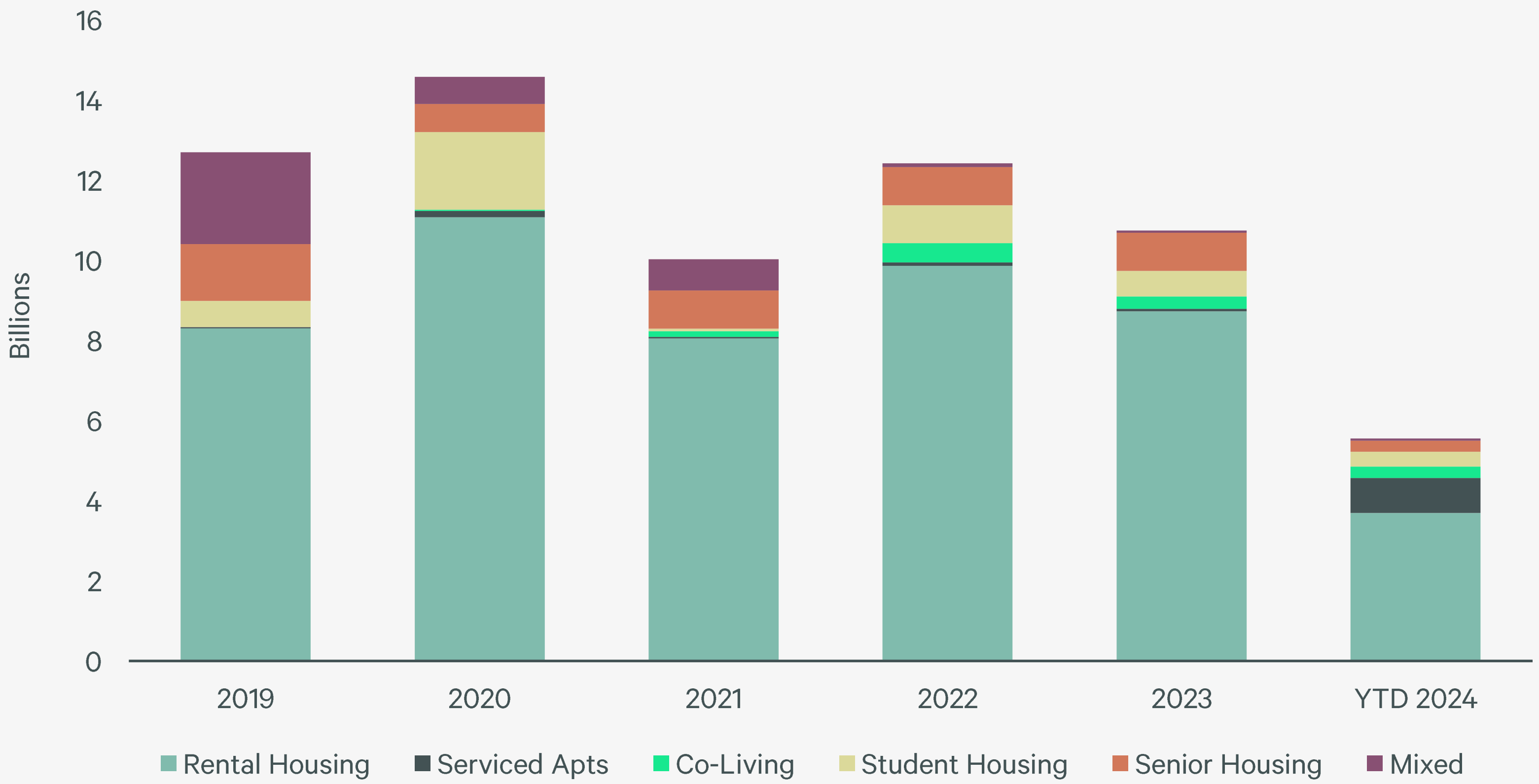
- There exist a diverse variety of subtypes within Asia Pacific's living sector catering to different population segments depending on their specific needs.
- Demographic trends and housing policies in different markets shape the living sector investment landscape. Investors must understand the different products and select the appropriate segment to invest in.
- While multifamily is the most common subtype in the U.S., Japan is the only market in Asia Pacific with a mature multifamily sector. Australia and mainland China have seen more interest for rental housing or Build-to-Rent (BTR) facilities.
- Serviced apartments prevail in markets with large expatriate populations, while co-living caters to young employees seeking flexible leases and communal services.
- Recent years have seen more interest in student housing but demand is limited to markets with large numbers of non-local students. While ageing demographics support demand for senior living, not many markets possess the appropriate product or business model for retirees.

	Student Housing	Co-living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Key features	• Accommodation for university students • Many are purpose-built near universities	• Small furnished units with shared facilities and services	• Apartment units with greater privacy • Supported services provided	• Apartment units for households • Generally no supported services	• Elderly-friendly design housing
Leasing structure	• Lease term aligned with academic calendar to individual students	• Flexible leases • High tenant turnover	• Flexible leases • More premium rents	• Long term leases (one to two years) • More stable cash flow • Wide range of price points	• Varied structure, with monthly payment, membership / entry fee, or combination of the above
Supporting services / facilities	• Amenities / security control fit students' needs	• Community-focused services and facilities	• Furnished with additional facilities & services provided	• Varied; up-scale facilities may provide clubhouse for occupants	• Accessible healthcare and support services
Target tenants	• Mainly overseas and other non-local students	• Young professionals • Expatriates	• Corporate executives • Couples and families • Expatriates	• Young single professionals • Couples and families • Migrant workers	• Retirees and elderly seeking non-assisted living
Target markets	• Australia • Hong Kong SAR	• Hong Kong SAR • Singapore	• Singapore • Mainland China • Hong Kong SAR	• Japan • Australia • Mainland China	• Australia • Japan • Mainland China

The traditional rental housing sector dominates investment activity

- The traditional rental housing subtype comprises the bulk of investment activity in the Asia Pacific living sector. It is the most common rental housing subtype in the region's investable universe and also caters to the widest segment of the population. While relatively established in Japan, where it is also referred to as the multifamily sector, traditional rental housing is an up-and-coming product in other parts of Asia Pacific. In Australia, it is commonly referred to as BTR.
- A sizable portion of Asia Pacific living sector investment flows into the more niche subtypes of co-living, student housing and senior housing, depending on the specific needs of each local market. For instance, student housing investment has grown in popularity in Australia and Hong Kong SAR due to the large increases in the numbers of overseas and non-local students moving to these markets.

Living sector transaction volumes by subtype, Asia Pacific



Source: MSCI Real Capital Analytics, CBRE Research, August 2024
Note: Rental housing includes multifamily and build-to-rent. Senior housing includes independent living, but not assisted living or nursing care. Mixed includes mixes of subtypes within the living sector as well as mixes with non-living sector uses.

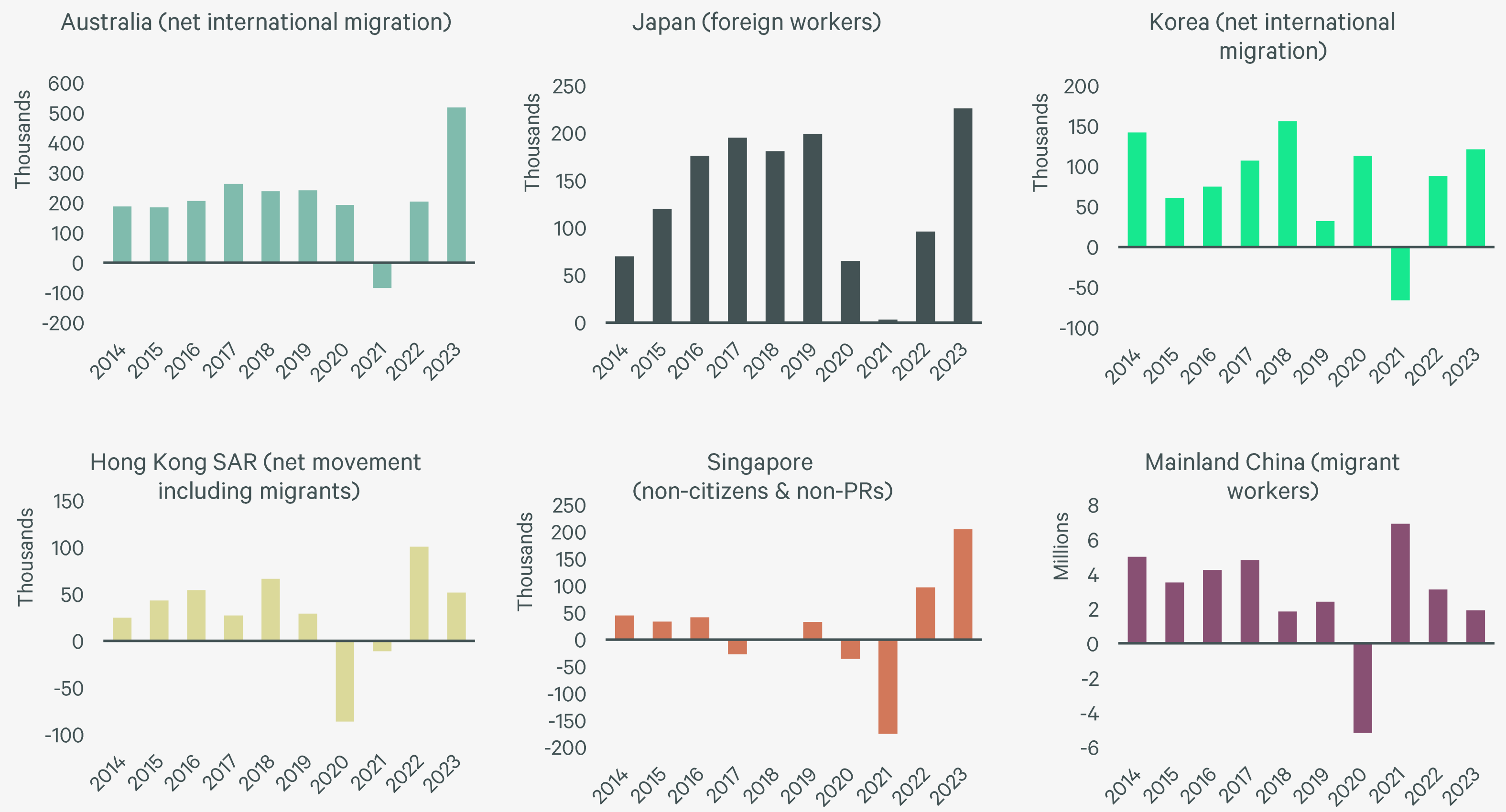
01

Demand Drivers

The mobile population is generally trending upward over the long term

- In many major Asia Pacific markets, the mobile population is a key demand driver for rental housing. This is the case for both the expatriate population, as in Singapore; and domestic migrant workers, as in mainland China.
- Except for the peak pandemic years of 2020 and 2021, the size of Asia Pacific's mobile population has generally trended upwards, within this demographic cohort forming a key pillar of economic growth in these markets. In turn, the increase in this population group has helped spur demand for rental accommodation in the region.
- In Japan, where a higher proportion of the total population prefer to rent than to buy housing, demographic changes within the domestic population also play a key role as a major driver of rental housing demand.

Change in foreign / migrant population

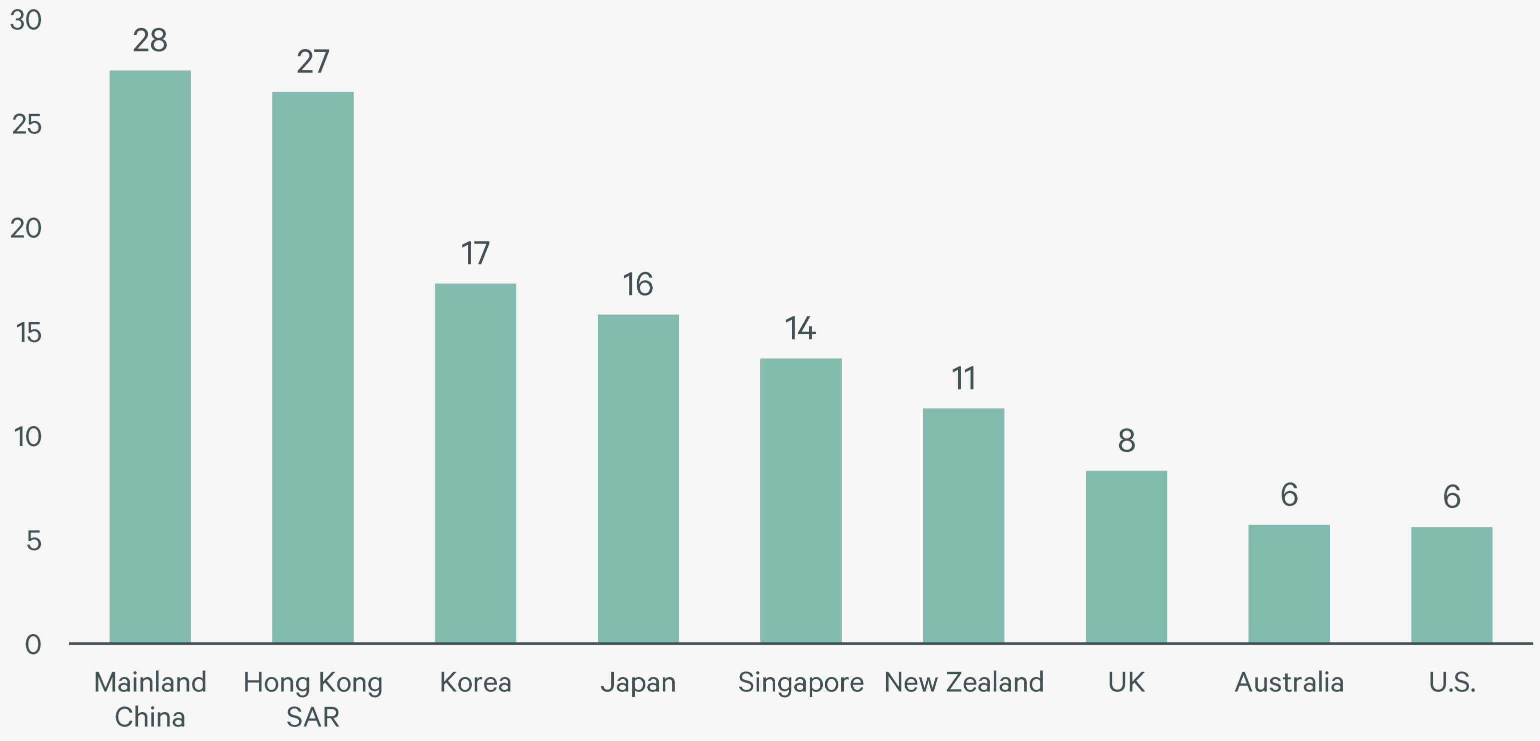


Source: Australian Bureau of Statistics, Japan Ministry of Health, Labour and Welfare, Statistics Korea, Hong Kong Census and Statistics Department, Singapore Department of Statistics, China National Bureau of Statistics, CBRE Research, August 2024
Note: Figures for Australia net international migration pertain to the 12-month period up to June of each year.

Low homeownership affordability may push more buyers to the rental market

- Even in countries where the population generally prefers to own than to rent housing, such as mainland China, the populace may still be drawn to rental accommodation, albeit temporarily, due to the high costs of owning a home.
- This phenomenon can be observed in many mature markets across Asia, where the cost of housing is much higher relative to income levels. When compared to their counterparts in the U.S. and Australia, the ratio of the median private housing price to annual household income is much higher in mainland China, Hong Kong SAR, Korea, Japan and Singapore.
- In Hong Kong SAR and Singapore, over half of the local population, particularly those in the lower income bracket, rent or purchase public housing units. This is because of the high cost of private housing along with the government's provision of affordable flats for low-income citizens. In Singapore, over 80% of the resident population lives in a Housing and Development Board (HDB) flat, with home ownership rates standing among the highest in the world, at 90%.

Ratio of median private housing price to annual household income (2023)

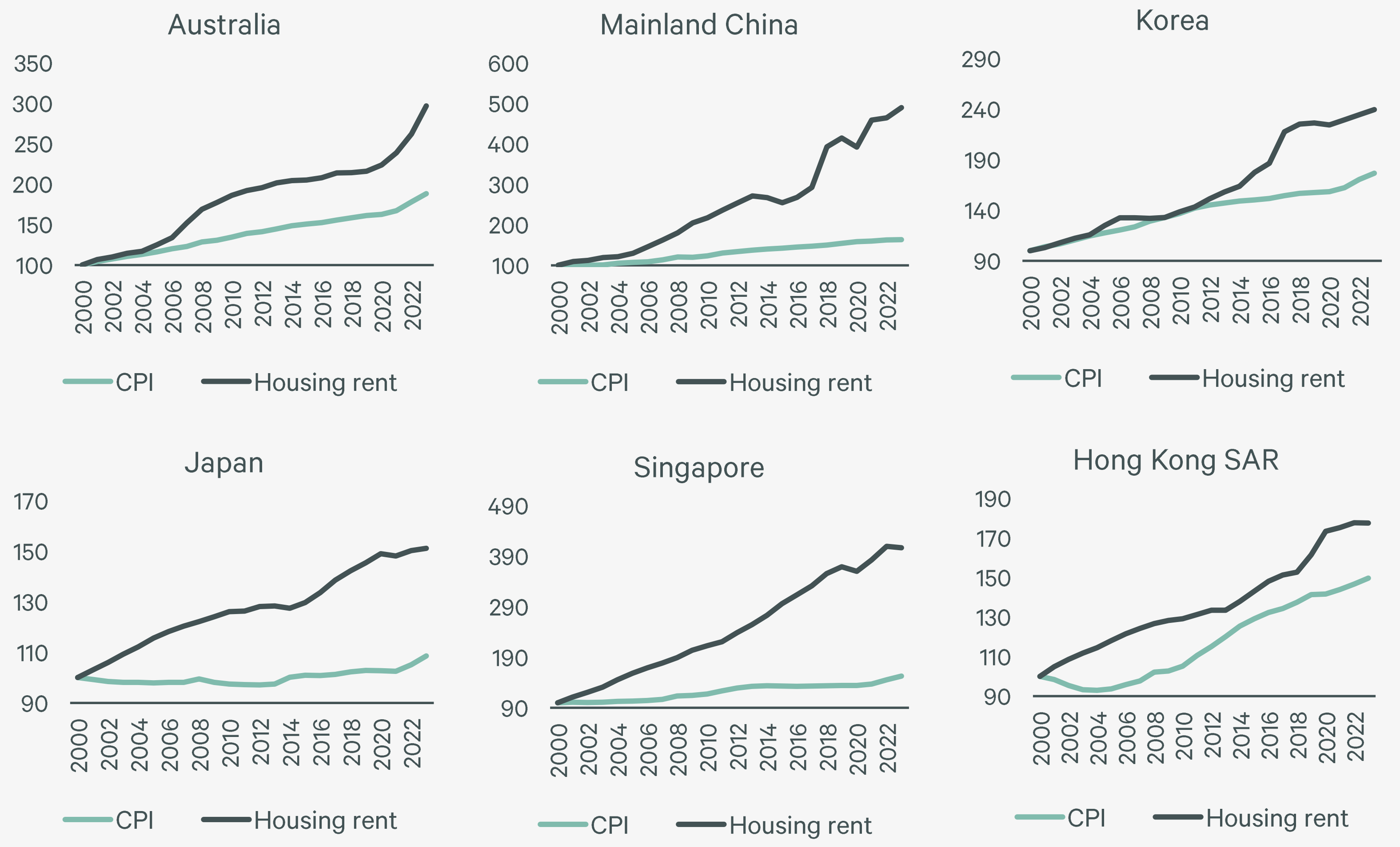


The median housing price to annual household income ratio for mainland China is the average of four tier I cities, Korea is Seoul, Australia is the average of Sydney and Melbourne, New Zealand is Auckland only. Hong Kong is from 2021 census and statistics.
Source: Oxford Economics, CEIC, ULI, Harvard University Joint Center for Housing Study, Office of National Statistics 2023.

Rental growth can provide investors with a hedge against inflation in the long run

- Over the long run, growth in residential rents has generally outpaced inflation in the broader economy, despite some occasional short-term volatility during some time periods. This indicates that rental housing investment provides a good hedge against inflation.
- When compared to other property types, rental residential investment may be a more effective inflation hedging tool because of the shorter lease tenures common in rental housing leases. While leases for office, retail and logistics spaces in Asia Pacific may typically run for three to seven years or even longer, rental housing leases usually last for one to two years.
- The more frequent turnover of residential tenants allows landlords to renew or sign new leases at market rents more quickly, possibly resulting in faster rental growth compared to other property sectors.
- Since 2000, cumulative rental income growth in the region has outpaced inflation by significant margins, ranging from 20% in Hong Kong SAR to 200% in mainland China.

Residential rent growth vs inflation (2000=100)



Source: REIA, Oxford Economics, CBRE Research, May 2024

02

Market Analysis

Japan

Market overview

Strengths and opportunities

- Mature multifamily market with a wide variety of product
- High proportion of residents prefer to rent; foreign worker population expected to grow
- Stable rental income
- Higher yields than other sectors, with positive spreads; low borrowing costs

Weaknesses and threats

- Declining working population in some cities and oversupply risk for smaller units
- Potential increase in interest rates, albeit marginally

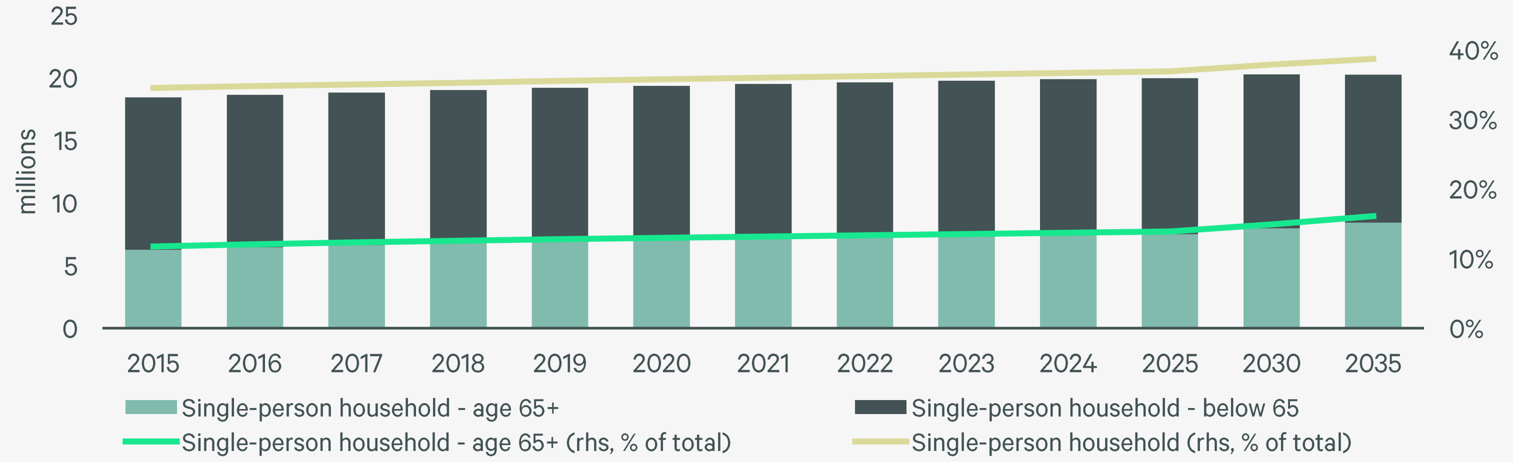
	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Investment recommendation ★★★★★ means most recommended	★★	★	★	★★★★★	★★★⯨
Remarks	Market is small	Lack of product	Lack of product	Mature market with high liquidity	Market is dominated by domestic players; ageing population; stringent regulation

The rising number of single-person and dual-income households will shape future demand

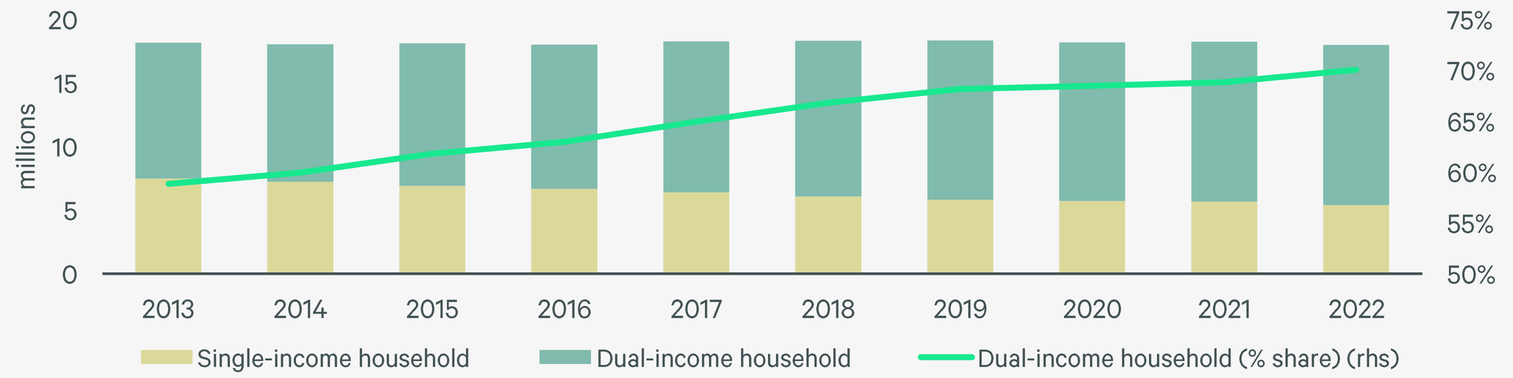
- Forecasts indicate that by 2040, one in five Japanese households will consist of single senior citizens. At the same time, the ongoing overhaul of legal frameworks allowing for the employment of senior citizens since mid-2010 has resulted in higher workforce participation rates among the elderly. Demand can be anticipated over the long term for properties targeting this demographic. Locations near train stations with good access to offices and amenities will be preferred.

- The rise in the number of Japanese women in the workforce has meant an increase in dual-income households. With relatively high household income, dual-income households can afford high rents. Such households also tend to prioritise factors such as access to workplaces and convenience for child-raising, making them more likely to prefer urban locations. However, some 60% to 70% of rental apartment stock in major cities consists of smaller studio or one-bedroom apartments due to the prevalence of young singles. This leaves an insufficient number of family-type units for dual-income households seeking to rent.

Number of single-person households, Japan



Number of non-single-person households by single- vs dual-income, Japan



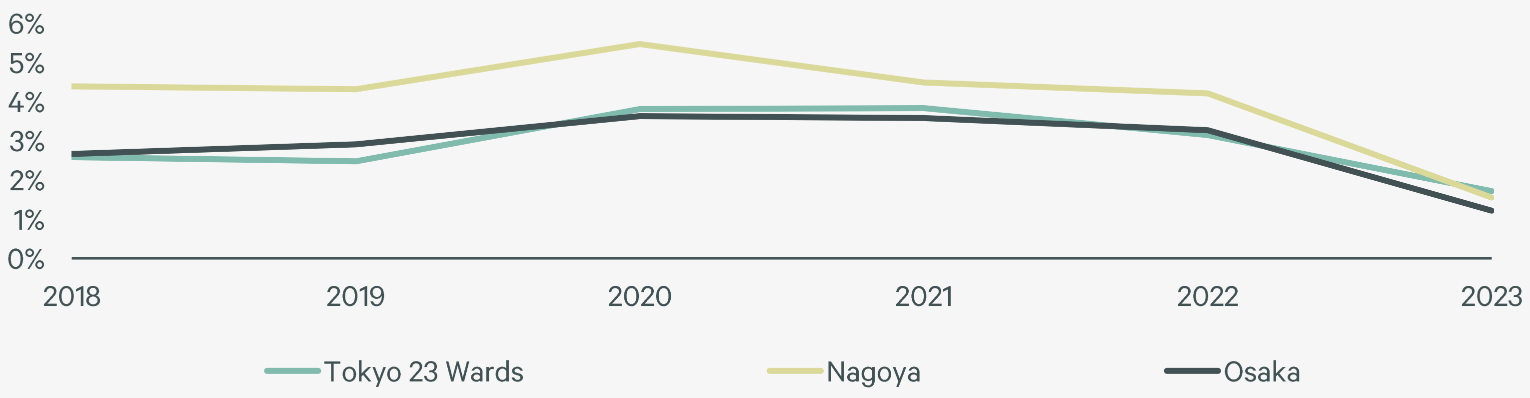
Source: National Institute of Population and Social Security Research (IPSS), 2018 (top); Japan Institute for Labour Policy and Training, MLIT “Labour Force Survey” May 2023 (bottom)
Note: Households employed in non-agricultural industries (bottom)

Rents continue to trend upward in major cities amid tight vacancy

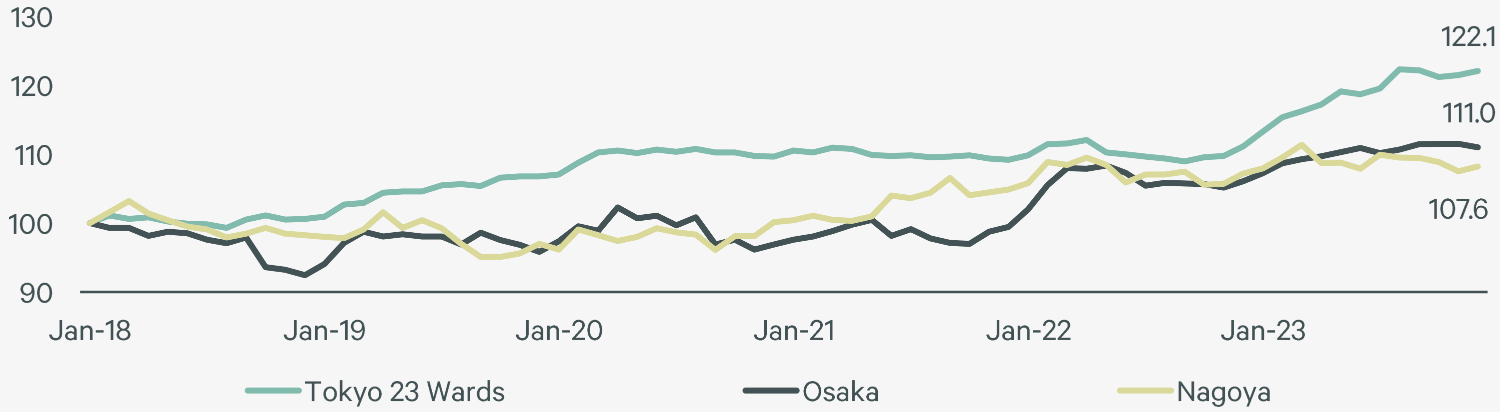
- Association for Real Estate Securitisation (ARES) data show that vacancy rates for residential properties in major cities in Japan have been at around or below 5% for the past several years. Vacancy increased during the pandemic, particularly in the central areas of Tokyo, but has since come back down to below pre-pandemic levels. This trend mirrors the migration of the population observed during the same period, with the 23 wards of Tokyo witnessing net out-migration in 2021 but a return to net in-migration in 2022.

- Tokyo Kantei data show that housing rents have been rising over the past several years. Although new properties are driving the increase, rents are also on the rise for older buildings. While Japanese lease contracts make it difficult for landlords to raise rents at renewal, recent years have seen housing affordability diminish significantly on the back of higher prices, leading to situations in which tenants have no choice but to renew their lease contract and accept higher rents for their current accommodation.

Vacancy rate in key markets, Japan



Residential rent index by city, Japan (Rent Index, 2018=100)

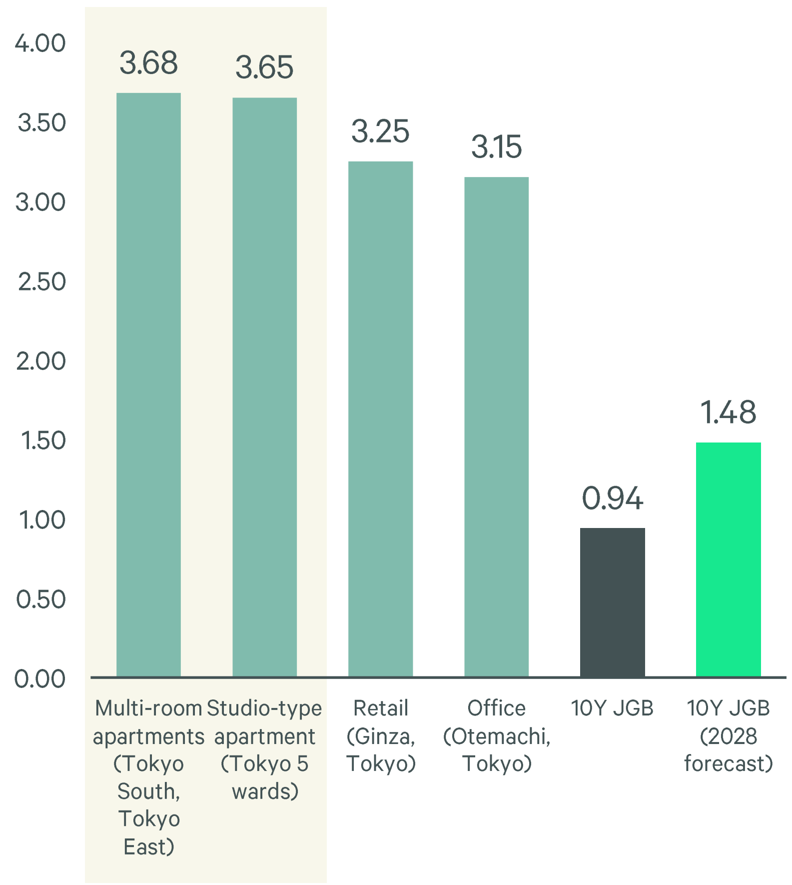


Source: Ministry of Land Infrastructure Transport and Tourism, Macrobond, ARES, Tokyo Kantei, CBRE Research, December 2023
Note: rent index refers to condominiums, NLA > 30m²,

Tokyo's multifamily sector offers relatively more attractive yield spreads

- Relative to other property types, especially office and retail properties, Japanese multifamily assets offer more attractive value given their higher yields. As of Q2 2024, the yield spread for multifamily over retail properties stood at 40bps - 45bps, while the spread over office assets stood at 50bps - 55bps. In contrast, multifamily yields are lower than their office counterparts in many cities in the U.S..
- Additionally, multifamily yield spreads over the risk-free rate, i.e. Japanese 10-year government bond yields, are relatively wide, at around 270bps. While interest rates have edged up over the course of 2024, they are still expected to remain relatively low within a global context, which may help to maintain a healthy yield spread for Japanese multifamily properties.
- In addition to being able to achieve higher yields and yield spreads, foreign investors retain a strong appetite for Japanese residential real estate due to stable profitability; the large number of investors in the market, which allows for a wide range of exit strategies; and the limited number of mature residential investment markets in Asia Pacific. More recently, a larger share of domestic capital has been purchasing Japanese multifamily assets.

Yield comparisons by property type in Tokyo (Q2 2024)



Major transactions by foreign investors, Japan

Date	Market	Property	Price (US$ Mil)	Buyer	Seller
Q1 2023	Multiple markets	Portfolio of 33 properties	444	AXA IM - real assets	J.P. Morgan AM
Q2 2023	Tokyo	Portfolio of 5 properties	109	Silk Road Property	Undisclosed
Q3 2023	Multiple markets	Portfolio of 25 properties	234	City developments ltd	Bentall GreenOak
Q3 2023	Tokyo	Portfolio of 9 properties	89	Weave Co-Living	Various developers
Q4 2023	Tokyo	Frontier Shinjuku Tower	203	M&G Real Estate	LaSalle
Q1 2024	Tokyo	lyf Shibuya Tokyo	125	Bouwinvest & CapitaLand Ascott Residence Asia Fund II	CapitaLand Investment

Source: Oxford Economics, MSCI Real Capital Analytics, CBRE Research – Japan Cap Rate Survey, August 2024
Note : Survey respondents include arrangers, senior and mezzanine lenders, developers, property lessors, asset managers, equity investors, etc.
Yield on net cash flow basis
Note: Property data as of June 2024; GBY yield data as of Q2 2024

Australia

Market overview

Strengths and opportunities

- Healthy growth in foreign migrant and student populations
- Relatively subdued new housing supply pipeline
- Ongoing imbalance of housing demand and supply, leading to continued strong rental growth

Weaknesses and threats

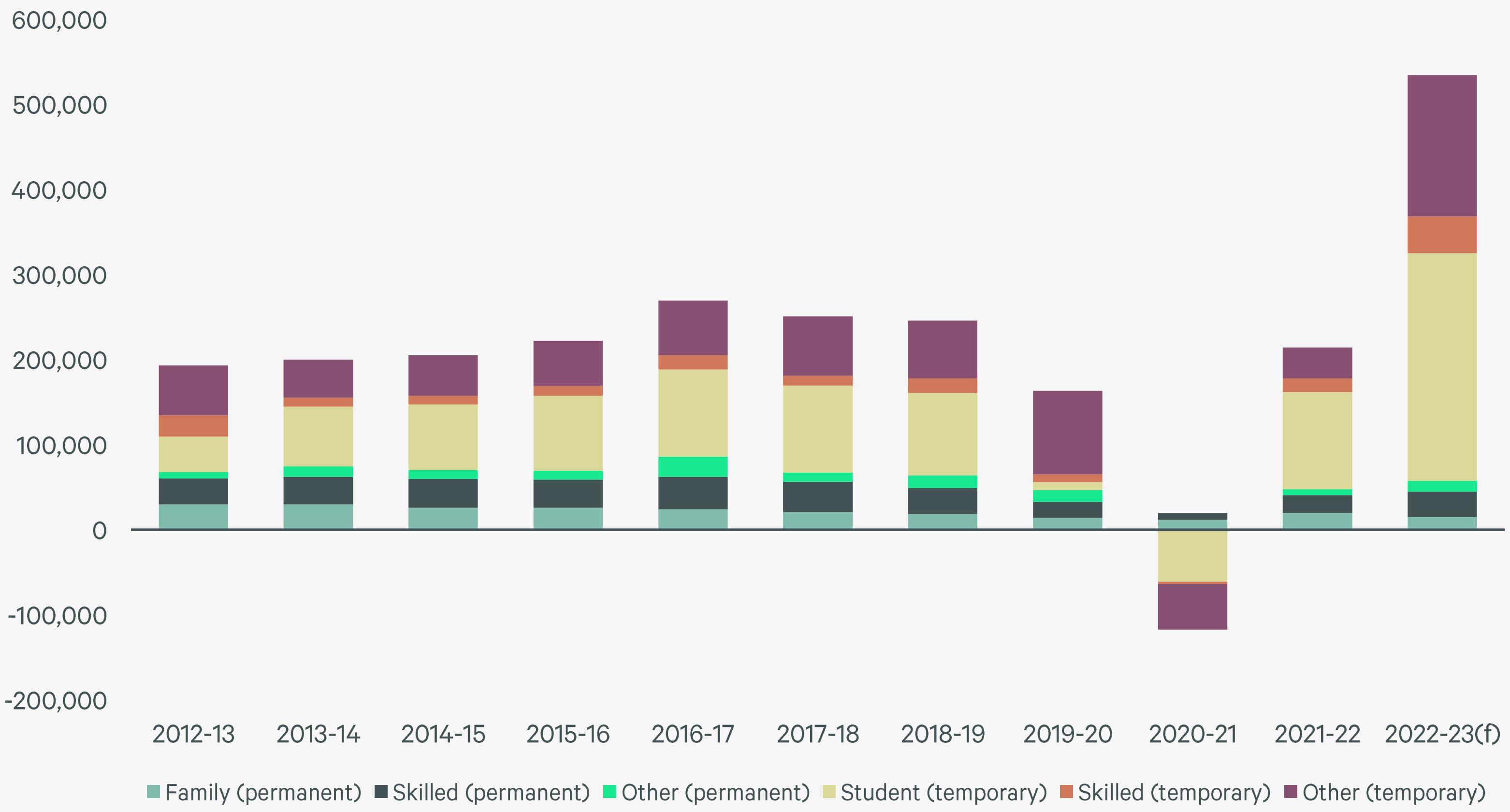
- Housing affordability issues, which may temper rental growth potential and trigger more policy intervention
- Low yields and high cost of debt
- Elevated construction costs

	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Investment recommendation ★★★★★ means most recommended	★★★★★	★	★	★★★	★★★½
Remarks	Growing student numbers; lack of student beds	Market is small	Market is small	Emerging asset class and largely a development play	Ageing population; stringent regulations; lower user uptake

While the influx of foreigners and students is squeezing the residential market, migration is expected to stabilise

- The post-pandemic reopening of Australia's international border has led to the rapid return of positive overseas migration, which reached record levels in 2023.
- International students have been a key driver of the recovery and have also played a major role in the tightening of the residential market, leading to a surge in rents.
- The government has rolled out a series of measures in 2024 to tighten the inflow of international students in an attempt to temper the pace of rent increases. New measures include stricter English language requirements; the doubling of the visa fee for overseas students; and closing loopholes in visa rules that allowed foreign students to continuously extend their stay in Australia.

Net migrant arrivals, Australia

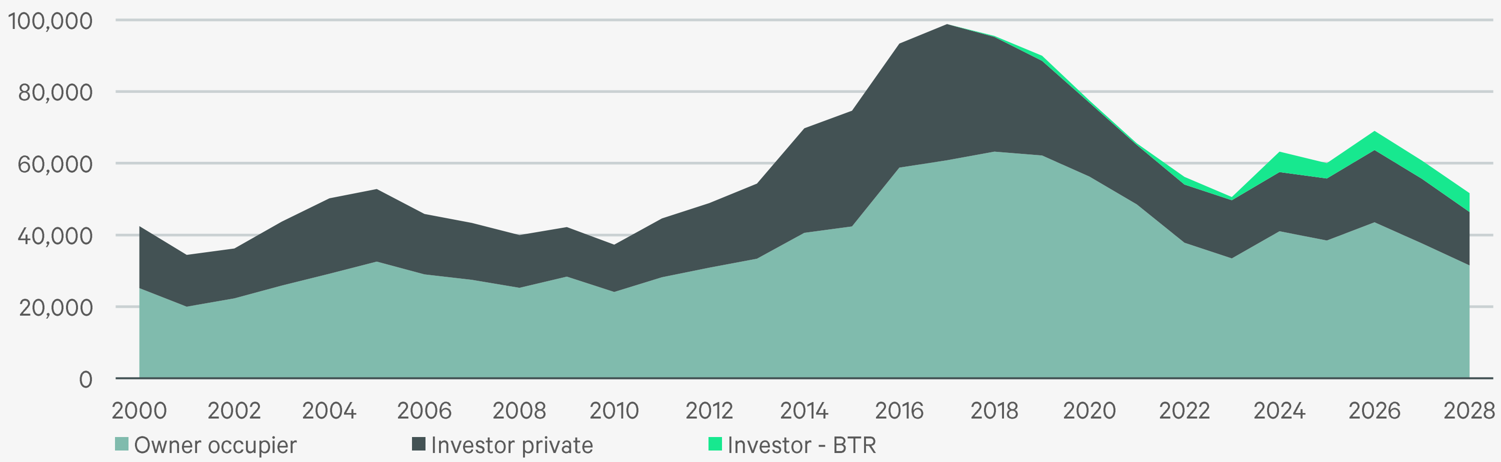


Source: Australian Bureau of Statistics, CBRE Research, January 2024
Note: Net migrant arrivals refers to the number of migrant arrivals less the number of migrant departures, and excludes Australian citizens as well as Visa subclass 444 which is granted to New Zealand citizens upon arrival in Australia.

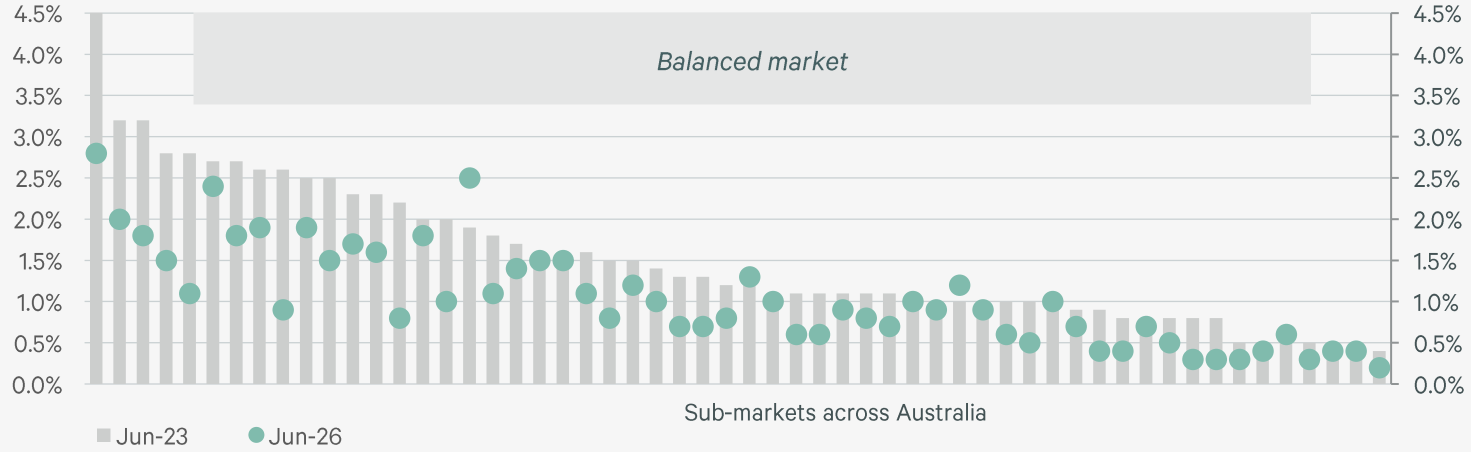
With residential supply nearing decade lows, vacancy is forecasted to tighten

- While the overall pipeline of new residential supply in Australia is forecast to pick up somewhat over the coming years, overall supply is expected to remain at around at its lowest level since 2014.
- The BTR subtype, which is a relatively nascent segment of the broader residential sector, is expected to see new project completions accelerate over the coming years. However, this subtype's share of overall residential supply will remain small.
- On the back of the relatively limited supply of new residential completions, vacancy is forecast to continue to tighten further across Australia over the next few years, with many submarkets expected to see the vacancy rate dip below 1% by 2026.

Supply of residential units, Australia



Vacancy outlook across Australian submarkets

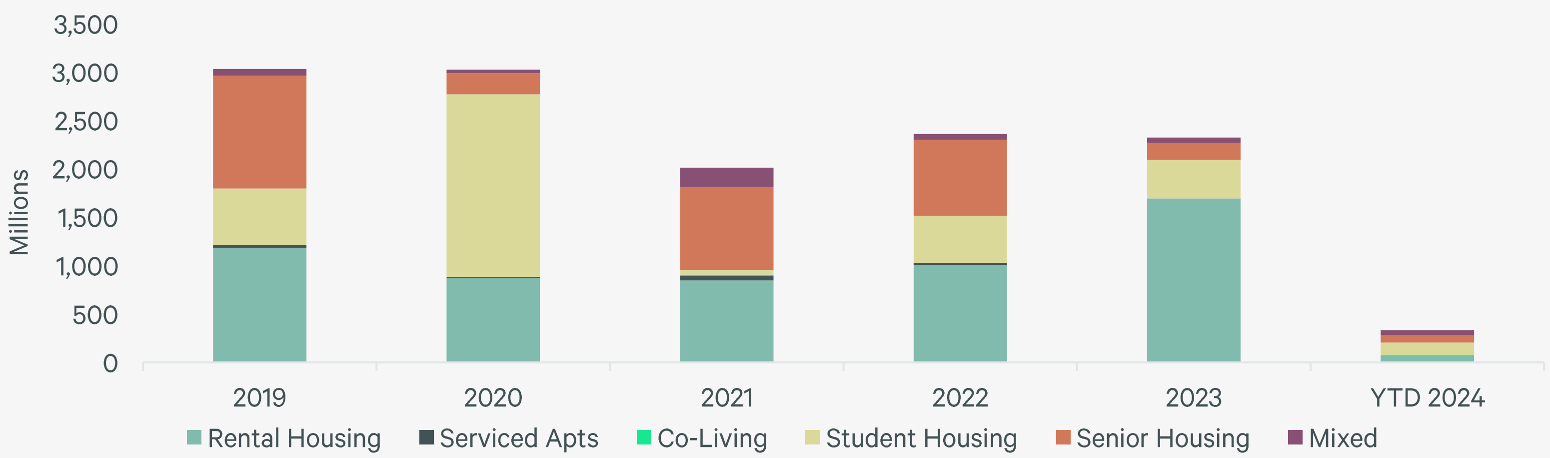


Source: ABS, Cordell's, HIA, SQM, CBRE Research, May 2024

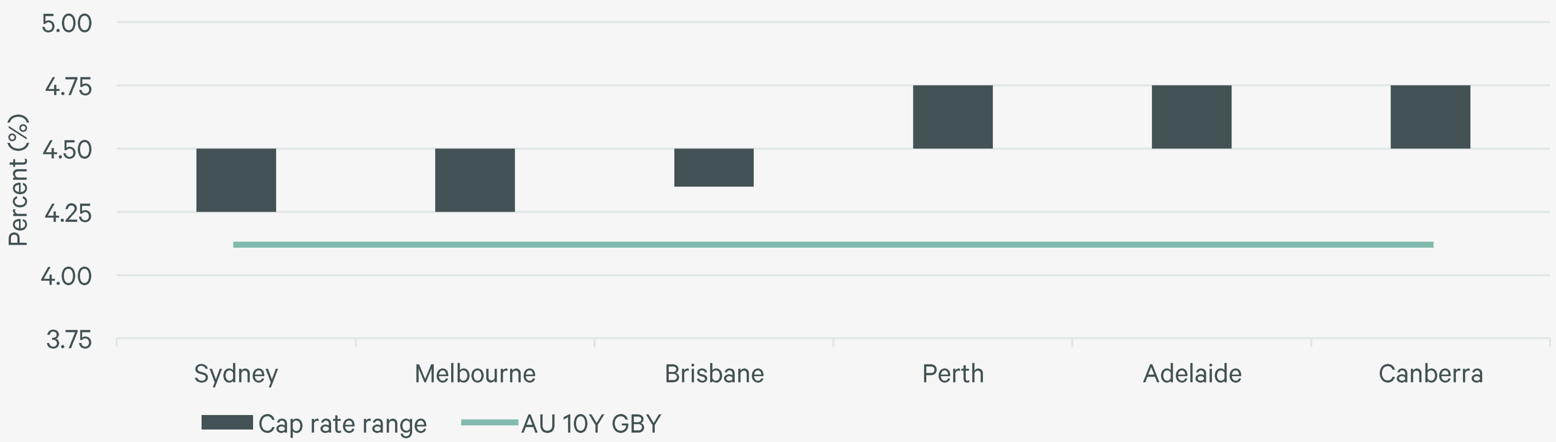
Investment activity has slowed amid tight yield spreads

- Until recently, investment activity in Australia's living sector had been relatively stable on the back of solid fundamentals including population growth and tight vacancy rates. Various living sector subtypes have also attracted investor attention, especially BTR, student and senior housing.
- However, investment volumes have fallen back in 2024 given the substantial increase in interest rates in recent years along with build-to-rent cap rates remaining relatively tight. This tight pricing and narrow yield spreads may be significant factors in deterring investors from entering Australia's living sector for the time being.

Investment volume by subtype, Australia



Build-to-rent cap rates vs risk free rate, Australia (Q1 2024)



Source: MSCI Real Capital Analytics, Oxford Economics, CBRE Research, August 2024

Mainland China

Market overview

Strengths and opportunities

- Large national market, which provides opportunities for economies of scale
- Urbanisation and other supportive growth drivers for rental housing
- Relatively low but expanding institutionalisation of the rental housing market
- Supportive government policies, especially for rental housing supply

Weaknesses and threats

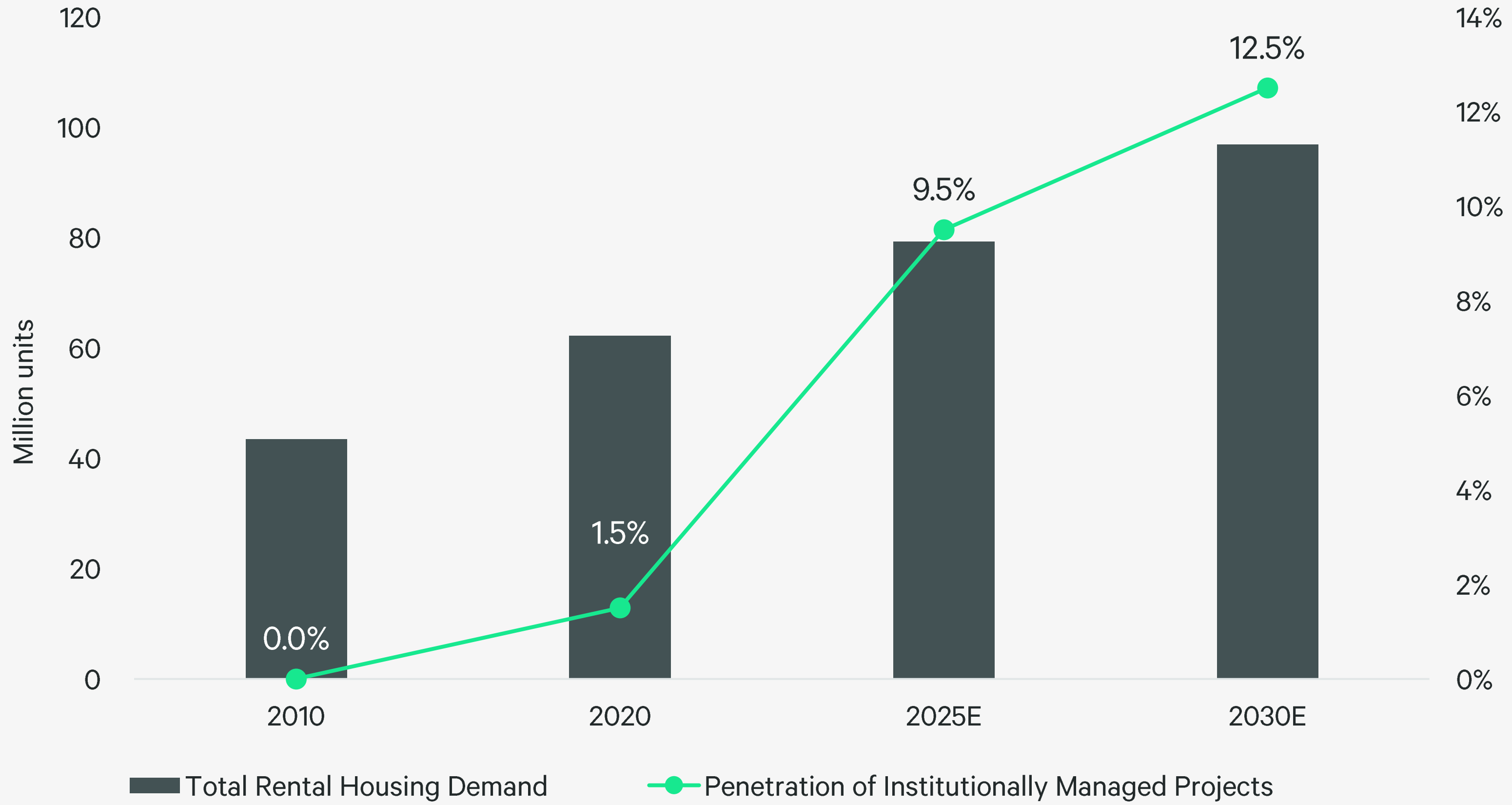
- Subdued economic sentiment, which may deter some investors
- Oversupply of overall residential stock
- Long term demographic challenges facing overall economy
- Yield expansion

	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Investment recommendation ★★★★★ means most recommended	★	★	★★	★★★	★★★
Remarks	Lack of product; lack of international students	Lack of product	Market is small	Room for growth; tight vacancy; yields expanding	Ageing population; stringent regulation

Rental housing demand is forecasted to grow to 97 million units by 2030

- Demand for rental housing in mainland China is forecast to increase significantly in the coming years, driven by a combination of urbanisation and migrant population growth; shrinking household sizes; and relatively low housing affordability, especially in major tier I cities.
- The market for institutionally managed rental housing is also expected to grow, driven not only by the increase in tenant demand for rental housing, but also by the institutionalisation of the rental market.
- The penetration rate of institutionally managed projects in mainland China stood at around 6% in 2023, up from 1.5% in 2020. While the rate is forecast to reach 12.5% by 2030, it will continue to lag countries with well-developed rental housing markets, particularly the U.S. and Japan, where the penetration of institutionally managed projects stands at 50% or even higher.

Rental housing demand forecast, mainland China

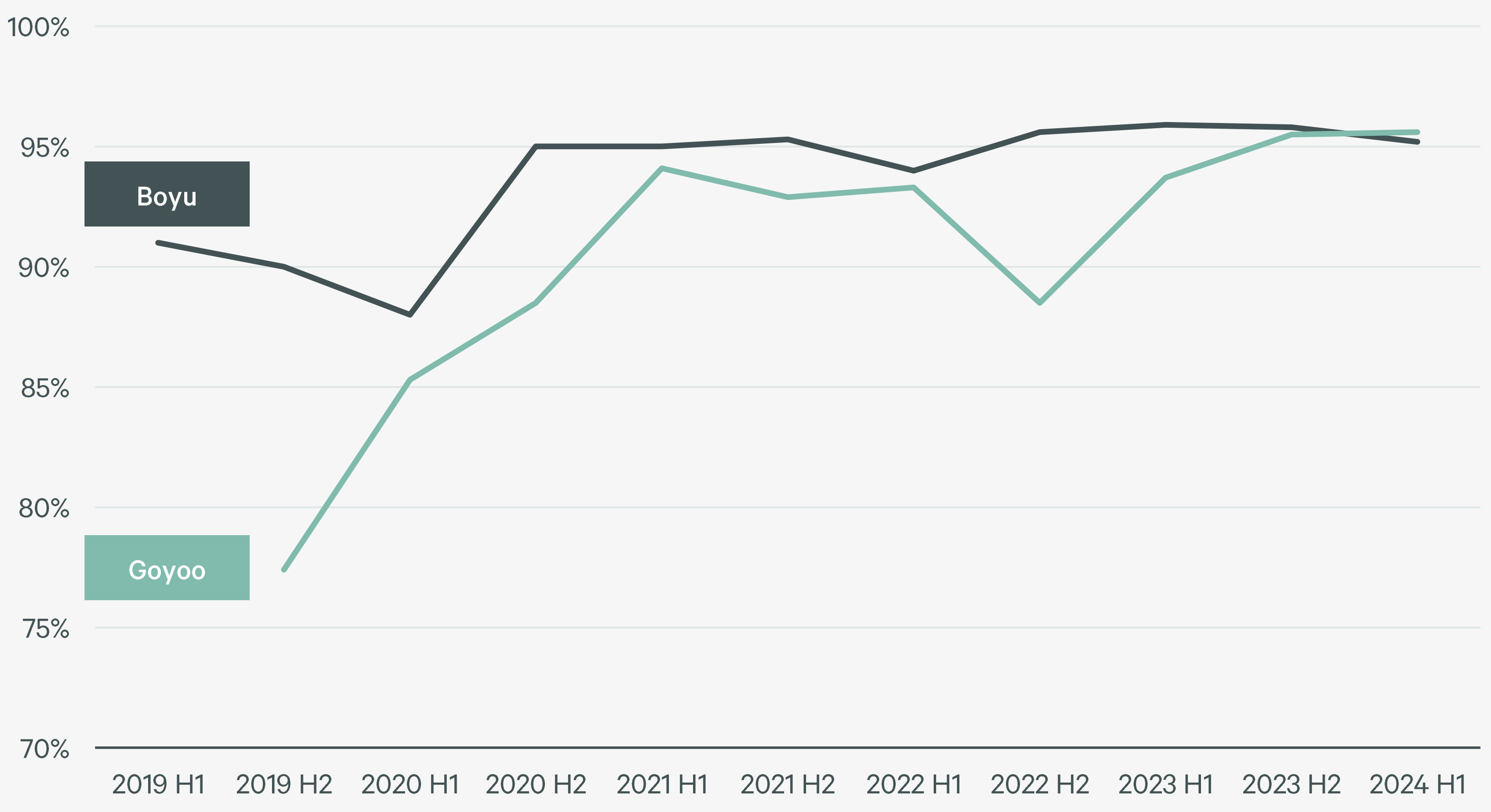


Note: These forecasts are calculated by CBRE using the latest available data from 2022.
Note: The penetration of institutionally managed projects refers to the ratio of the number of institutionally managed rental units to estimated total number of rental housing units needed.
Source: National Statistics Bureau, CBRE Research, August 2024

Major rental operators have kept portfolio occupancy rates above 90%

- Major rental apartment operators in mainland China include Boyu, which was formed in 2016 by leading developer Vanke; and Goyoo, which is part of the asset management arm of Longfor, another prominent mainland Chinese real estate company.
- Since 2021, the occupancy rates of rental apartments managed by these two operators have remained at around or above 90%. Another major Chinese rental apartment platform, Funlive, reported an occupancy rate of 92% in 2023.
- High occupancy for institutionally managed rental housing is being underpinned by solid demand drivers as well as renters' preferences for higher quality product.

Multifamily occupancy rate of major operators, mainland China

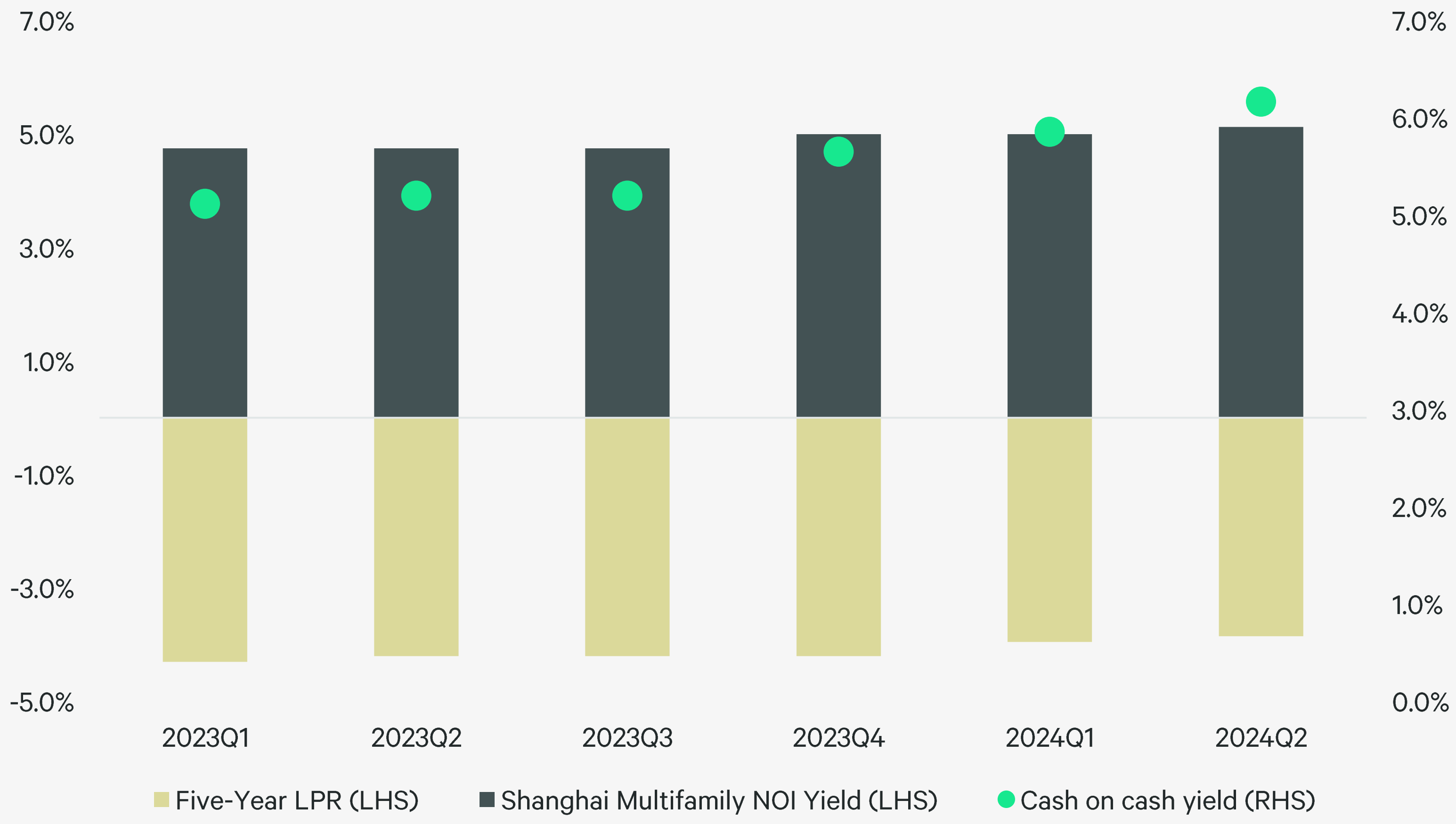


Source: Annual reports of listed companies, CBRE Research, August 2024

The widening of yields and declining cost of debt are boosting cash-on-cash yields

- Perhaps emblematic of the wider market to some extent, yields for multifamily housing in Shanghai have expanded over the past year amid general sluggishness in mainland China's broader capital market and subdued investor sentiment.
- At the same time, policy rates have been on a general downtrend in recent quarters as authorities seek to boost market confidence and stimulate economic activity. The five-year Loan Prime Rate (LPR) fell 45bps between Q1 2023 and Q2 2024.
- As a result, implied cash-on-cash yields have expanded significantly over the past year, offering a greater value proposition to investors possessing the necessary risk appetite to enter mainland China's growing multifamily sector.

Shanghai multifamily NOI yield, cost of debt, cash-on-cash yield



Note: CBRE assumes LTV=45% when calculating cash on cash yield.
Source: CBRE Research, August 2024

Hong Kong SAR

Market overview

Strengths and opportunities

- Substantial influx of non-local working professionals and students
- Low vacancy rates and solid rental growth for smaller residential units
- Limited new supply catering to strong demand from large number of incoming non-locals
- Conversions of underperforming hotels offer convenient market entry

Weaknesses and threats

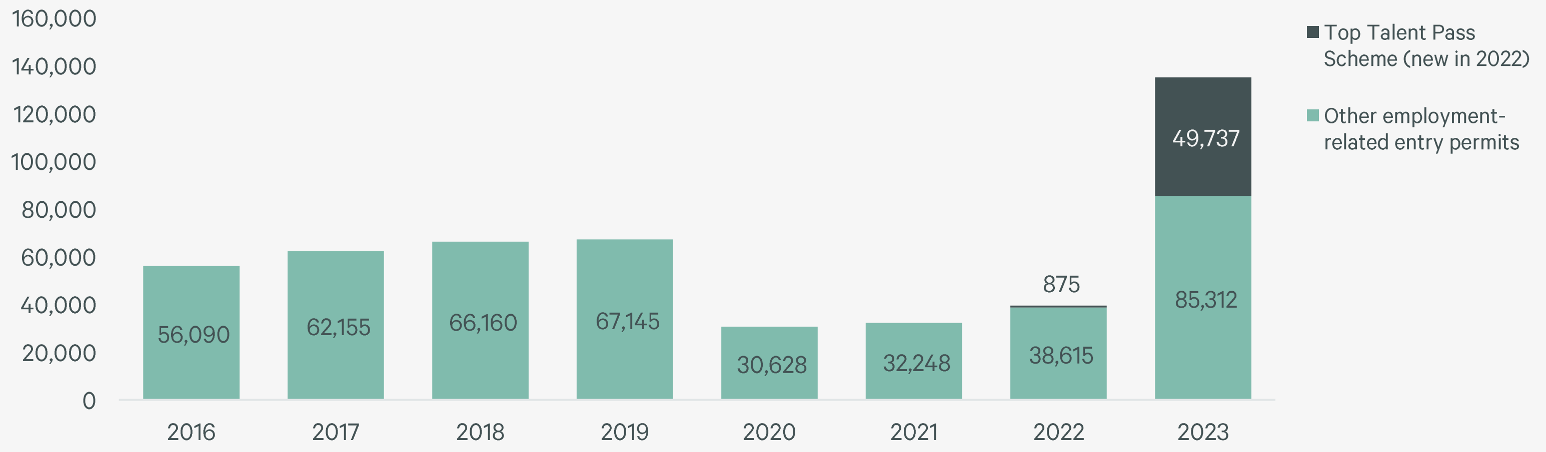
- Limited stock of institutionalised rental housing
- Relatively low yields and high cost of debt; few opportunities to invest in existing assets

	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Investment recommendation ★★★★★ means most recommended	★★★★★	★★★★	★★	★★	★★★
Remarks	Growing student numbers; lack of student beds	Conversions from hotels a popular entry point	Small market	Lack of product as underwriting is too hard to justify	Ageing population; stringent regulation

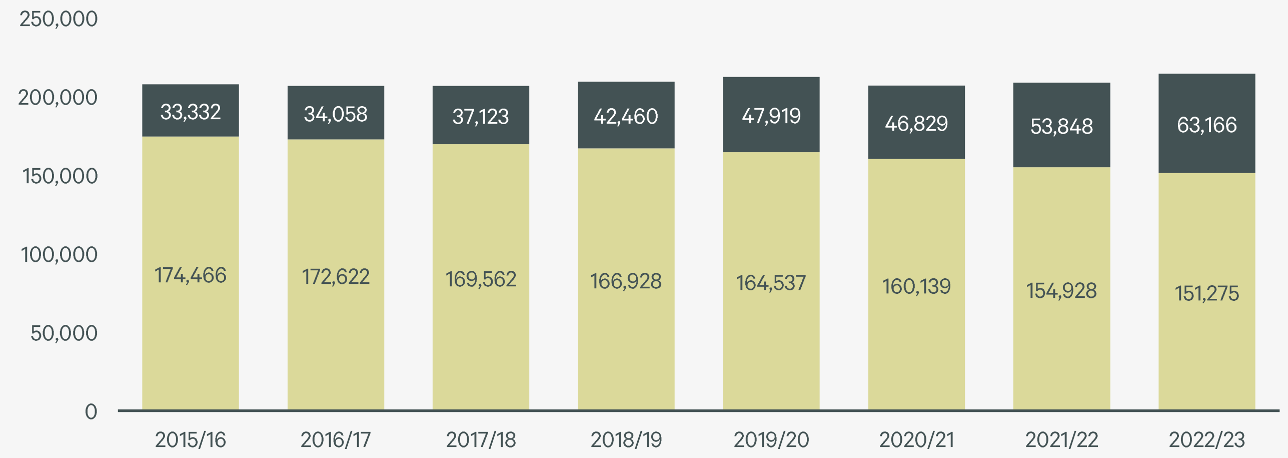
The post-pandemic influx of non-local working professionals and students continues

- The non-local population, primarily consisting of mainland Chinese and expatriates, is a key driver of demand for rental housing in Hong Kong SAR. After pandemic-related travel restrictions were lifted in early 2023, the city witnessed a surge in incoming non-local working professionals and students.
- In an effort to attract talent and boost its standing as a major international financial centre, the government has rolled out various talent admission schemes in recent years, such as the Top Talent Pass Scheme. In 2023, a record number of employment-related entry permits were issued by the government to non-locals, helping to boost demand for rental accommodation.
- At the same time, there was a substantial increase in the number of non-local students enrolled in post-secondary educational institutions in the 2022-23 school year. Driven partially by government policy, the population of non-local post-secondary students is poised to grow to beyond 100,000 by 2027, which is likely to further bolster demand for rental housing, including student accommodation.

Employment-related entry permits issued by Immigration Department, Hong Kong SAR



Total full-time student enrolment (no. of students), Hong Kong SAR



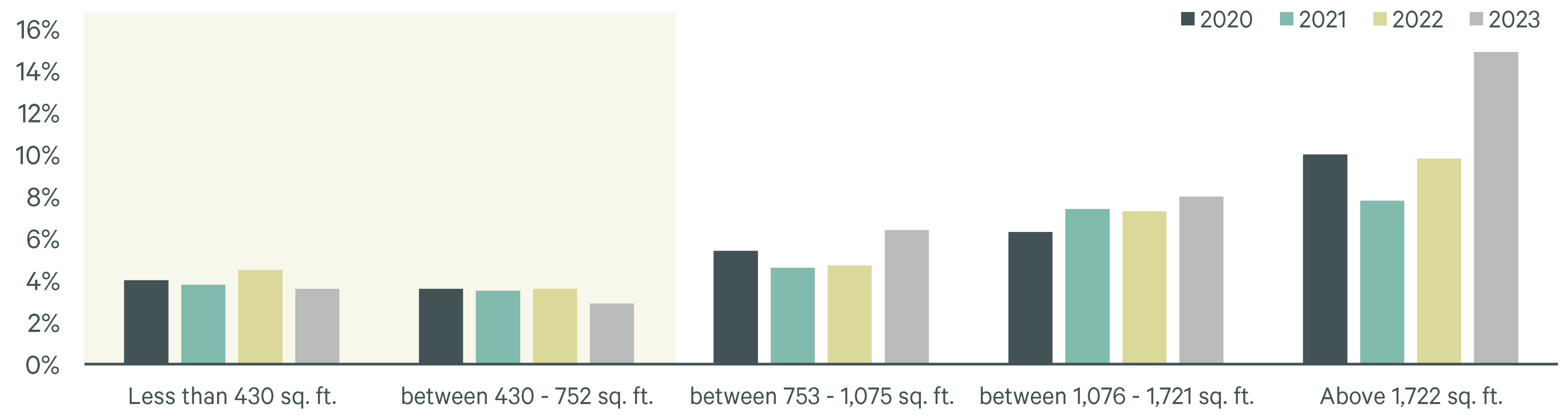
Forecast for 2024-27	
No. of new non-local students	30,751
New student hostel bed supply	8,558
Deficit of student hostel beds	**22,193**

Source: Immigration Department, Concourse for Self-financing Post-Secondary Education, University Grants Committee, LegCo Document, Websites of the respective universities, CBRE Research estimate, May 2024

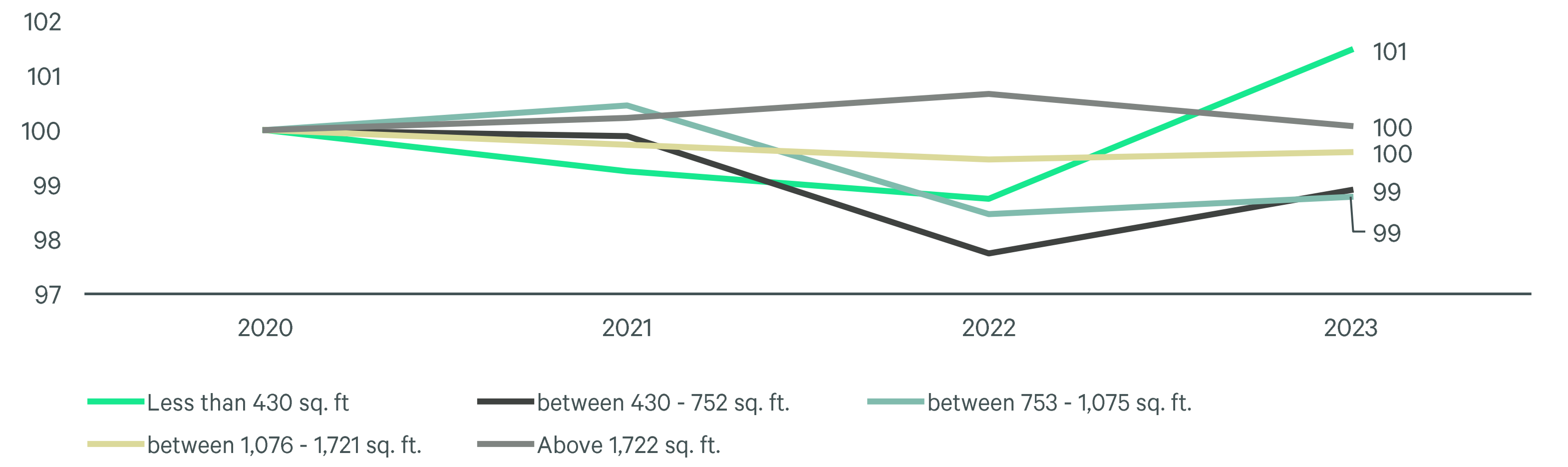
Tighter vacancy has driven more resilient rental growth for smaller units

- Over the past few years, vacancy for smaller residential units in Hong Kong SAR has generally been lower than that for larger apartments. This is partially due to healthy take-up by the non-local student and working professional population, especially young singles, who tend to seek smaller units for their accommodation needs.
- Amidst the post-pandemic surge in non-local arrivals, coupled with tight vacancy rates, annual rental growth in 2023 for smaller residential units outperformed that for larger units. Additionally, despite a slight rental decline in 2021 and 2022, cumulative rental growth between 2020 and 2023 was strongest for smallest units relative to other unit sizes.
- In contrast, rental growth in 2023 for larger units either remained relatively flat or logged a slight decline, while vacancy for the largest units reached close to 15% in 2023.

Hong Kong residential vacancy rate by size



Hong Kong residential rental index by size



Source: Rating and Valuation Department, CBRE Research, August 2024.

Hotel conversions are a popular avenue for investors seeking to gain exposure to co-living and student housing

- A popular entry strategy for investors seeking access to Hong Kong's rental housing sector in recent years has been to acquire hotels. With pricing for some hotel assets having been discounted significantly after the pandemic weakened the city's tourism sector, there are opportunities for investors to purchase and then convert hotels to co-living or student accommodation.
- While opportunities for hotel conversions may decline as Hong Kong's tourism industry gradually recovers, investors continue to explore ways to enter the sector and tap into growing rental demand from non-local students and working professionals.
- However, as each hotel conversion may provide only a few hundred rooms, total room supply arising from such transactions may lag demand from new non-local arrivals.
- Weave Living, a major co-living operator, has also ventured into the more traditional multifamily sector in Hong Kong SAR.

Recent conversions to co-living and student housing, Hong Kong SAR

Date	Property	Address	Transaction Amount (US$ million)	Buyer	Seller	Remarks
Q4 2021	Butterfly on Prat	21-23 Prat Road	122	Hines	King State Development Ltd	Converted to co-living (~158 rooms)
Q4 2021	Hotel sáv	83 Wuhu Street	211	AEW / Crystal Investment	Chuang's Consortium	Converted to student housing (~388 rooms)
Q1 2022	CASA Hotel	487-489 Nathan Road	76	PGIM / DASH Living	Undisclosed	Converted to co-living (~162 rooms)
Q2 2022	Rosedale Hotel Kowloon	86 Tai Kok Tsui Road	175	Weave Living (10%)/ PGIM (90%)	ITC Properties	Converted to co-living (~435 rooms)
Q2 2022	Grand City Hotel	338 Queen's Road West	115	Weave Living / Angelo Gordon	Shun Ho Property	Converted to co-living (~214 rooms)
Q3 2022	68 Robinson Road (apartment tower)	68 Robinson Road	35	Weave Living / LaSalle Investment	Undisclosed	Converted to multifamily (~25 units)
Q2 2023	Pentahotel Hong Kong - Kowloon	19 Luk Hop St	255	Wang On Group / Angelo Gordon	New World Development	Converted to co-living (720 rooms)
Q1 2024	The Sheung Wan by Ovolo	286 Queen's Road Central	41	PGIM / DASH Living	Undisclosed	Converted to co-living (~56 rooms)
Q1 2024	Bridal Tea House Hotel	84-86 Wuhu St, Hung Hom	128	Hong Kong Metropolitan University	S.W. Law	Converted to student housing (~433 rooms)
Q3 2024	Popway Hotel	117 Chatham Road South	23	Shih Wing Ching Foundation	David Lau Ka-wai	Converted to student housing (~63 rooms)

Source: MSCI Real Capital Analytics, CBRE Research, August 2024

Singapore

Market overview

Strengths and opportunities

- Strong global talent attractor drawing influx of foreign expatriates and students
- High private residential house prices and rents, which make co-living an affordable option
- Room for institutional participation resulting from recent reduction in rentable stock growth
- Entry route created by M&As and adaptive reuse of underperforming commercial and state-owned buildings put on tender

Weaknesses and threats

- Large public housing stock (c.80% of resident population) and high local home-ownership rates (c.90%)
- Dissipation of post-pandemic rental demand along with clearance of construction backlog and higher return-to-office rates in near term
- Low yields and high land and labour costs, requiring operators to be highly efficient and reap economies of scale

	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Investment recommendation ★★★★★ means most recommended	★★	★★★★	★★★	★	★
Remarks	Mostly provided by universities, large competitive housing options	Affordable; community elements	Long stay option to hotels which have also soared in room rates	Lack of institutional product; high public and home ownership	High government intervention, stringent regulations

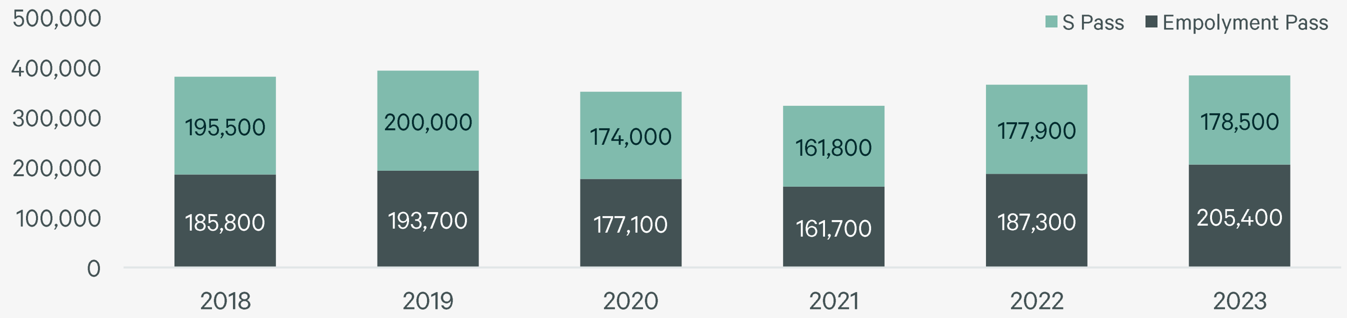
Number of foreign professionals and students recovers; rising singlehood also driving demand

- Some 30% of Singapore's population of 5.9 million are non-residents. Rental housing demand in Singapore has historically been driven by expatriates, particularly working professionals with S Passes or Employment Passes. Following a two-year decline due to pandemic-related lockdowns and travel restrictions, the expatriate population recovered to 383,900 in 2023, approaching the pre-pandemic 2019 level of 393,700. While many still rent private or public apartments, more are turning to co-living options following c.50% growth in rents from 2021-2023 and for flexibility and community elements.

- The foreign student population has been recovery slowly since the pandemic. According to Ministry of Education and Immigration and Checkpoints Authority data, foreign student passholders in Singapore fell 13% from 68,200 in April 2020 to 59,100 in April 2021. By January 2022, this number had risen to 63,600, and then grew 25% to 79,300 by January 2023.

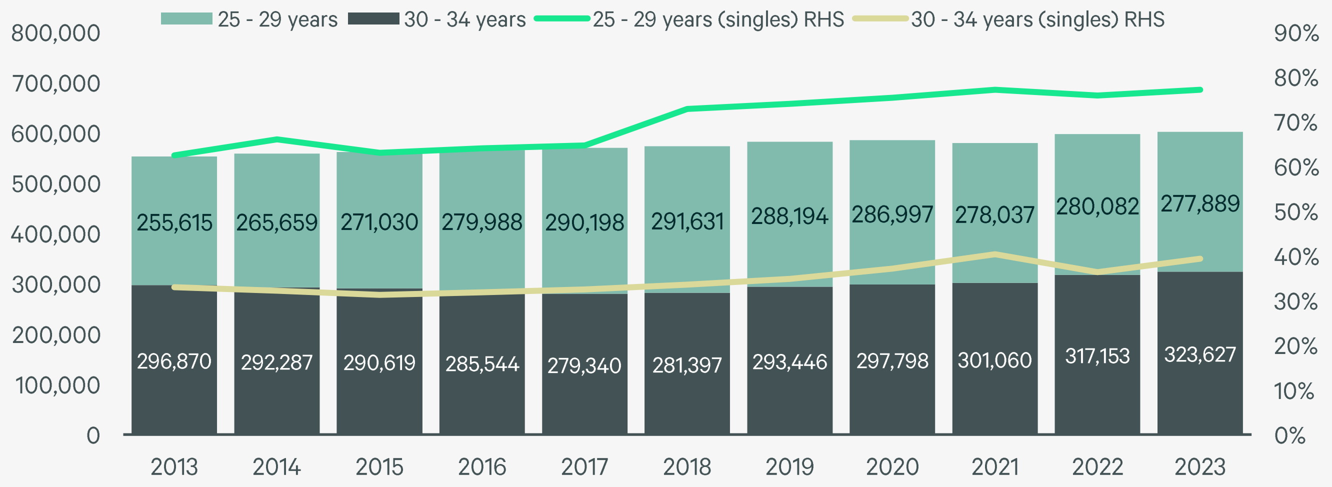
- Locals typically live at home until they marry and become eligible to purchase a subsidised public housing flat. Attitudes have recently shifted in favour of renting, fuelled by higher rates of singlehood and changing lifestyle preferences. Some couples are opting for short-term rentals due to lower upfront costs and the long waiting period for public housing.

Foreign workforce numbers – S Pass and employment passes for skilled workers and PMETs



Source: Ministry of Manpower, December 2023
*Employment Passes are issued to foreign professionals, managers and executives who earn at least SGD 5,000 a month and pass the Complementarity Assessment Framework (COMPASS). S Passes are issued to skilled workers who earn at least SGD 3,150 a month.

Young resident population and singlehood rate



Source: Singstat, September 2023
Note: Residents refer to Singapore Citizens and Permanent Residents.

M&A and repurposing underperforming assets offer entry routes

- Singapore's maturing co-living sector is attracting more investor interest, with M&A a common strategy employed by key players seeking to expand their market share. In 2022, local platform The Assembly Place acquired the property assets of Libeto, another Singapore-based co-living start-up. The same year, another homegrown brand, Hmlet, was acquired by European co-living company Habyt, and rebranded to Habyt in July 2023.
- Traditional developers and hospitality players are joining the fray. CapitaLand's hospitality division, Ascott, launched its co-living brand Lyf in its Funan redevelopment in 2019, and had expanded its Singapore portfolio to four assets by July 2024, with the latest a conversion of former Hotel G to Lyf Bugis.
- Since property group LHN purchased its first property in 2020, the Coliwoo brand has grown to lead the Singapore market, with 2,401 keys managed as of June 2024. LHN's strategy has been to acquire older commercial buildings and shophouses and repurpose them into co-living or serviced apartments.
- Private equity capital is partnering with local operators. Warburg Pincus-backed Weave Living recently partnered with BlackRock to purchase the 154-room serviced apartment complex, Citadines Mount Sophia. This follows the opening of Weave Living's maiden Singapore property, 65-room Weave Suites Midtown in March 2023, which was repositioned from Clover Hotel, a shophouse row.

Co-living related transactions in Singapore

Buyer(s)	Location	Amount (USD)	Date	Notes	Link
LHN Group / Oxley Holdings	Singapore	Undisclosed	Q2 2024	LHN Group's second co-living joint venture with Oxley Holdings	Source
LHN Group / Oxley Holdings	Singapore	USD 35.6 Million	Q2 2024	Joint venture formed by LHN's Coliwoo co-living platform and Oxley Holdings to acquire a building in the museum district	Source
CapitaLand Investment (CLI) / Ascott	Asia Pacific	USD 600 Million	Q1 2024	Formation of Asia Pacific-focused co-living fund Capitaland Ascott Residence Asia Fund II (CLARA II) to target serviced residence and co-living opportunities in gateway cities in developed markets. Seed assets are Hotel G (Singapore) and Lyf Shibuya Tokyo (Japan)	Source
Apricot Capital	Singapore	USD 78.1 Million	Q1 2024	Purchase of a mixed-use property for conversion into a combined co-living and retail complex	Source
Hmlet / Habyt	Asia Pacific	Undisclosed	Q2 2022	Marked Habyt's entrance to Asia after merging with Hmlet	Source
Assembly Place / Libeto (Commontown)	Singapore	Undisclosed	Q1 2022	Acquisition of co-living operator Commontown Singapore	Source

Sources: CBRE Asia Pacific Investor Advisory, media, September 2024.

Government initiatives are supporting the living sector

- While there is no legal and regulatory framework governing co-living property in Singapore, with prevailing minimum stay durations largely tied to land zoning, the government is supportive of more institutional investment in the living sector. Recognising rising demand for flexible accommodation and limited new supply, authorities have introduced a range of initiatives in recent years.
- The Singapore Land Authority (SLA)'s ongoing tender of state properties for rent has included sites for repurposing into co-living spaces or serviced apartments. Launched under a 50 – 50 Price and Quality tender, seven such sites have been released or awarded. Serving as a convenient avenue for portfolio expansion amid a tight market, these tenders have attracted robust interest from existing co-working operators given the unique nature of the sites, which are often heritage sites with historical significance.
- Another government initiative is the introduction of long-stay Serviced Apartments (SA2) sites under the URA's Government Land Sale programme. These hybrid sites combine SA2 units; which require a minimum stay of three months (up from seven days for regular serviced apartments), with conventional housing. However, developers' response has been lukewarm, likely due to their untested nature and the higher initial capital expenditure required to integrate a serviced apartment component.

List of SLA rental properties repurposed for living sector use

Date	Property	Allowable living sector uses	No. of rooms	Lease period	No. of bids	Successful/top bid (S$/mth)	Successful/top Tenderer	Status	New property name
Q3 2024	98 Henderson Road	Serviced apartments/ Senior co-living	-	4+3 years	6	$102,888	TS Home Pte Ltd	Closed (Under Evaluation)	-
Q3 2024	15 – 31 Hindoo Road	Co-living	TBA	5+4 years	6	$52,000	Kenwa Corporation Pte Ltd	Awarded	TBA
Q1 2024	260 Upper Bukit Timah Road	Co-living/ Serviced Apartments	TBA	5+4 years	11	$68,889	LHN Facilities Management	Awarded	TBA
Q1 2024	26 Evans Road (excl. #01 – 08)	Serviced Apartments/ Student Hostel	74	5+4 years	25	$265,000	Cover Projects Pte Ltd	Awarded	The Initial Sama
Q3 2023	79 – 95 Hindoo Road	Co-living	18	4+3 years	16	$82,000	Eco-Energy Pte Ltd	Awarded	1925 Quarters
Q4 2019	1557 Keppel Road	Serviced Apartments	47	3+3+3 years	Undisclosed	$130,001	LHN Properties Investments Pte Ltd	Awarded	Coliwoo Keppel
Q1 2019	150 Cantonment Road	Serviced Apartments	144	3+3+3 years	Undisclosed	$123,889	LHN Facilities Management Pte Ltd	Awarded	Habyt Cantonment

Source: CBRE Research, SLA, September 2024

03

Investment Strategies

Market attractiveness

- After evaluating the major living sector markets in Asia Pacific, investors must formulate customised strategies that align with local market dynamics.
- The rental housing or multifamily sector is most prevalent in Japan and allows investors to gain exposure via direct acquisitions. In mainland China and Australia, investors should also consider BTR opportunities.
- Although student housing is gaining traction, existing product is limited. Only Australia and Hong Kong SAR host enough international and non-local students to support demand. Investors are advised to explore Purpose-Built Student Accommodation (PBSA) in Australia or hotel conversions in Hong Kong SAR.
- Co-living products are still evolving and typically hold greater appeal in markets with large amounts of young migrant professionals seeking affordable residential options with community elements. The availability of operators is another key consideration for investors.
- While the ageing population in many Asia Pacific markets is supporting demand for senior living, investors must be aware of the more stringent regulations governing these types of living facilities.

Investment recommendation ★★★★★ means most recommended	Student Housing	Co-Living	Serviced Apartment	Rental Housing / Multifamily / BTR	Senior Living
Japan	★★	★	★	★★★★★	★★★½
Australia	★★★★★	★	★	★★★	★★★½
Mainland China	★	★	★★	★★★	★★★
Hong Kong SAR	★★★★★	★★★★	★★	★★	★★★
Singapore	★★	★★★★	★★★	★	★
Korea	★	★★★	★	★	★

2024 Investment Strategies

Mainland China

Opportunities (core to opportunistic):
- Migrants and smaller households
- Existing assets, conversions, greenfield development
- Institutionally-managed rental housing

Singapore

Opportunities (value-add to opportunistic):
- Foreign professionals and students, young locals
- Repurposing or conversions of underperforming commercial assets, shophouses, hotels
- Co-living and serviced apartments

Korea

Opportunities (value-add to opportunistic):
- Local single working professionals and students
- Repurposing or conversions of underperforming officetels and hotels
- Co-living

Japan

Opportunities (core to opportunistic):
- Single-person and dual-income households
- Existing assets and new development
- Multifamily

Hong Kong SAR

Opportunities (value-add to opportunistic):
- Non-local students and professionals
- Hotel conversions
- Co-living and student housing

Australia

Opportunities (core to opportunistic):
- International students
- Existing assets and conversions
- Purpose-built student accommodation

Contacts

Global/Asia Pacific Research

Henry Chin, Ph.D.
Chief Operating Officer of Global Research
Global Head of Investor Thought Leadership
henry.chin@cbre.com.hk

Ada Choi, CFA
Head of Research Asia Pacific
ada.choi@cbre.com.hk

Ted Lu
Associate Director, Asia Pacific Research
ted.lu@cbre.com

Local Heads of Research

Marcos Chan
Head of Research, Hong Kong
marcos.chan@cbre.com.hk

Claire Choi
Head of Research, Korea
claire.choi@cbre.com

Sameer Chopra
Head of Research, Pacific
Head of ESG Research, Asia Pacific
sameer.chopra@cbre.com

Hiroshi Okubo
Head of Research, Japan
hiroshi.okubo@cbre.co.jp

Tricia Song
Head of Research, Southeast Asia
tricia.song@cbre.com

Sam Xie
Head of Research, China
sam.xie@cbre.com

Capital Markets

Greg Hyland
Head of Capital Markets, Asia Pacific
greg.hyland@cbre.com

Crystal Palar
Executive Managing Director,
Capital Markets, Asia Pacific
crystal.palar@cbre.com

Callum Young
Executive Director
Capital Markets, Asia Pacific
callumg.young@cbre.com

CBRE