
Sydney, Australia

A Dynamic and Diverse Region

Asia is a highly heterogeneous region comprising both developed and developing economies. Our primary focus is on Asia's developed economies, which are supported by meaningfully different economic structures and growth drivers, demographics, levels of urbanization, monetary policies, and currency regimes. Due to this diversity, it is rare that all economies across the Asia region exhibit similar economic conditions at any one point in time. Across the largest four markets in Developed Asia – Australia, Japan, Singapore, and South Korea – there are key differences as of Q4 2023.

Japan's economy has been bolstered by a dovish monetary policy and a weakening currency. Interest rates have peaked or are likely close to peaking in Australia and South Korea, but it is more likely that rates will modestly rise in Japan from 2024 through 2026 as inflation continues to exceed the 2% Bank of Japan target. The Australian economy has been slowed by rapidly rising interest rates but has begun to stabilize with the support of positive demographics and a strong labor market. As such, policy rates in Australia are expected to remain around current levels. South Korea has experienced relatively weak growth due to tight credit conditions, but in our view, policy is likely to loosen over the next 12 months.

Exhibit 3 provides a snapshot of this, illustrating where major regional economies' 10-year bond yields stand relative to each other and relative to each economy's 15-year history. In China, policy is at the loosest level in a generation, while the reverse is true for Hong Kong and Singapore. In Australia and New Zealand, policy remains tight but notably beneath peaks while policy in South Korea and India is broadly in line with long-term averages. Bank of Japan's policy remains the loosest in the region but on a tightening trajectory.

Exhibit 3

Diversity in Regional Monetary Policy Persists – 10-year Bond Yields, Q1 2009 – Q1 2024

Source: CEIC, Hines Research. As of March 2024.

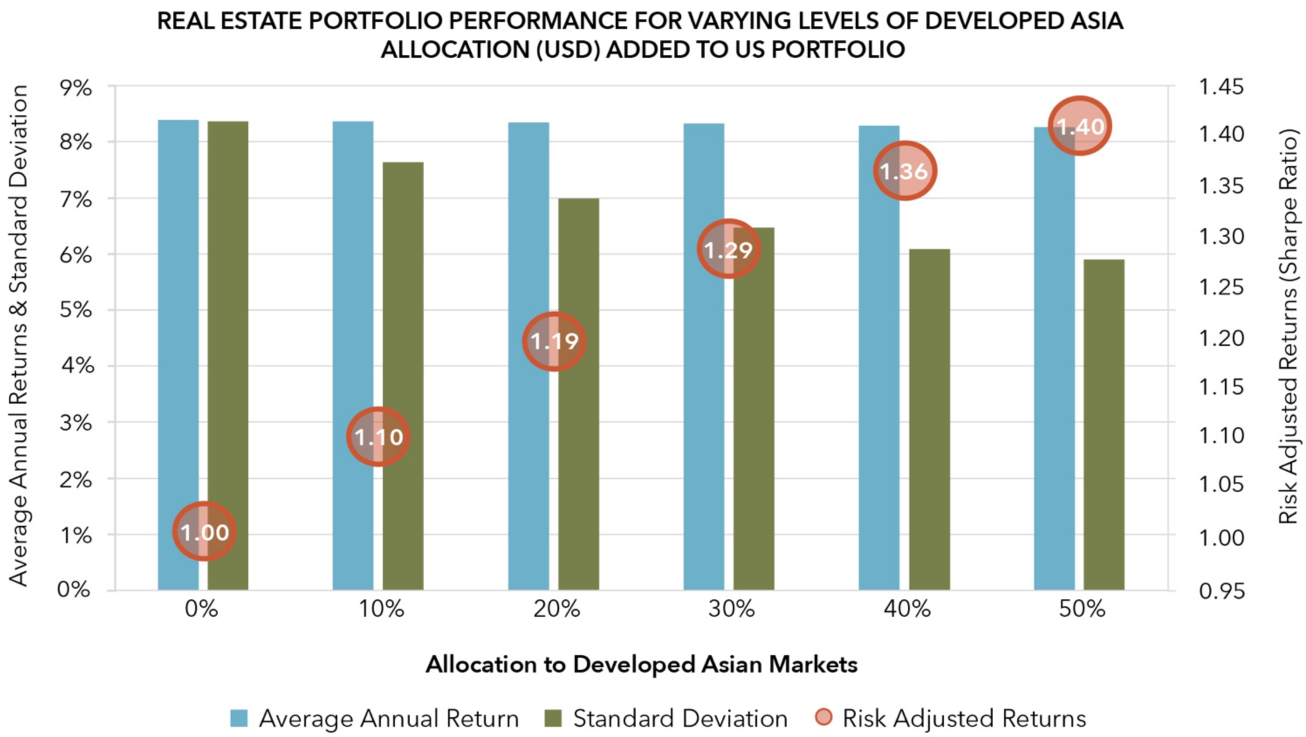
This leads to two important takeaways:

First, this diversity in underlying economic conditions has meaningful impacts on individual real estate markets (discussed in more detail in the "A Deep and Compelling Opportunity Set" and "We See Attractive Cyclical Entry Points" chapters of our report). These differences mean that individual markets are not highly correlated, allowing investors to benefit from diversification across the region. Part of the explanation of lower correlations is due to currencies and the next section "A Deep and Compelling Opportunity Set" covers regional currency dynamics in more detail. Our analysis of MSCI global return data (unleveraged) shows that historically an Asia allocation adds return and reduces volatility (increases risk-adjusted returns) of a global portfolio.

In addition, based on our analysis of MSCI data, Asia portfolios have the lowest downside volatility, as shown in Exhibits 4 and 5 below. This is intuitive because different underlying markets have varying cycles, meaning it is rare that all markets move up or down together. This is best evidenced by the more limited real estate price corrections observed in the aggregated Asia regional data versus North America and Europe, even as individual Asia markets have shown similar quantum of correction to the US and Europe[1].

Exhibit 4

Adding a Developed Asia Allocation Increases Risk-Adjusted Returns for U.S. Investors

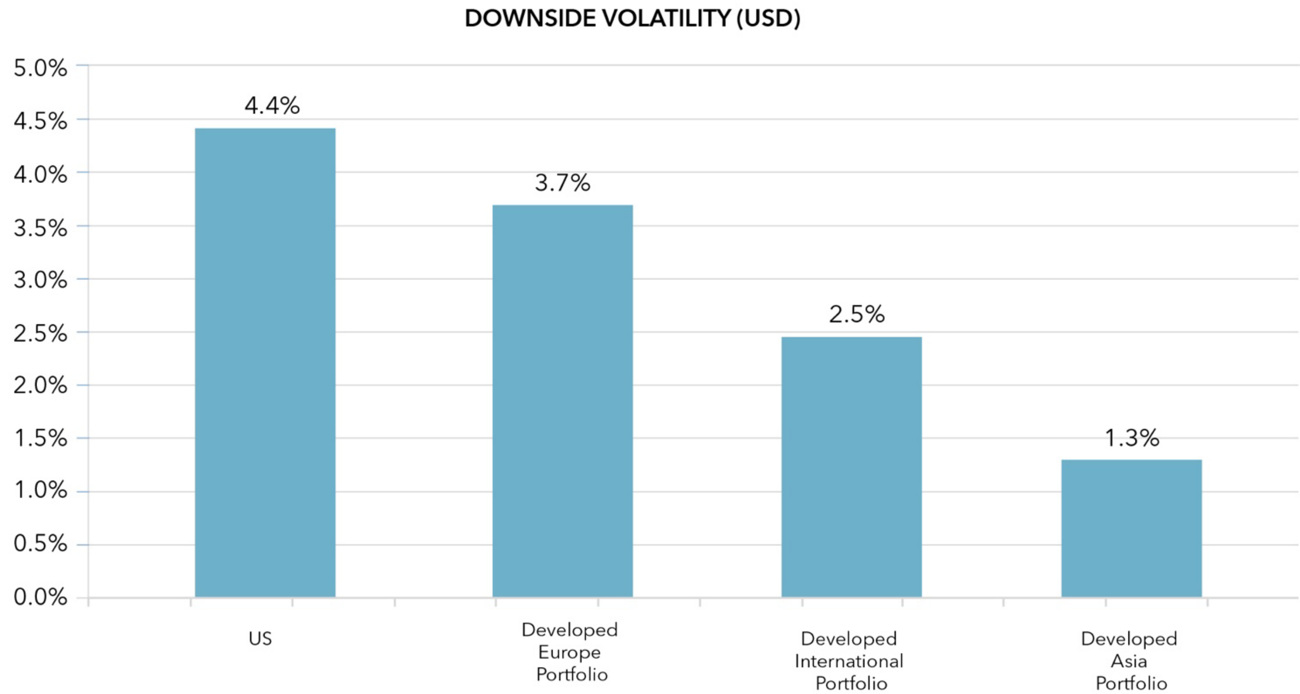


Source: MSCI, Hines Research. As of June 2023.

[1] Sources: MSCI, Hines Research. As of Q2023. Sources: MSCI, Oxford Economics, Real Capital Analytics, Hines Research. As of 4Q2022 as data is annual and 2022 is the most recent available datapoint. Covers period from 2001 to 2022 inclusive. The Developed Asia Portfolio includes Australia, Hong Kong, Japan, Korea, New Zealand, and Singapore. The Developed European Portfolio includes Denmark, France, Germany, Ireland, Netherlands, Norway, Spain, Sweden, and United Kingdom. The Developed International Portfolio is a combination of the two. All countries are combined using a weighting that is determined by the respective country market's share of total property market value (among the constituents of a global and ex-US portfolio), as estimated by Hines Research. Downside volatility is calculated using a methodology that looks at standard deviation only for negative returns, so is related to the measure of downside capture (how much a market moves down when it suffers declines.

Exhibit 5

A Developed Asia Portfolio Demonstrates Lower Downside Volatility Compared With That of Other Regions



Source: MSCI, Hines Research. As of December 2022 (latest data available).

Second, our analysis of MSCI data suggests the importance of diversification has grown, and it is growing in two dimensions: between regions (U.S. vs. Europe vs. Asia) and within the Asia region. This makes intuitive sense given the shifting global and intra-regional trade patterns highlighted earlier.

Key Takeaway:

Hines Research analysis suggests the diversification benefits of adding an Asia real estate allocation to other global real estate exposure are strong and growing. This allocation should provide investors exposure to assets with differing – and in some cases – less correlated, underlying demand drivers which could help boost risk-adjusted returns.