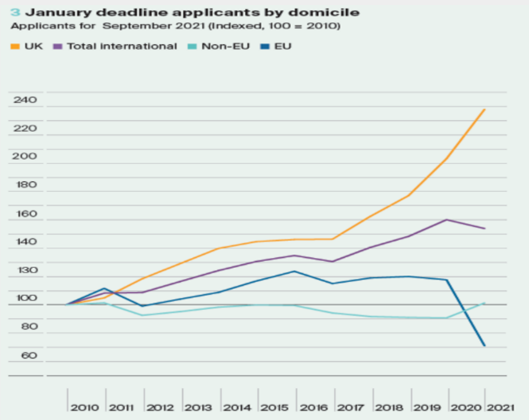
insight

ARA Group Research & Strategy

4 Mar - 14 Apr 2021

Here are some reports that we have come across over the past weeks. Hope you will find them useful.

UK Property

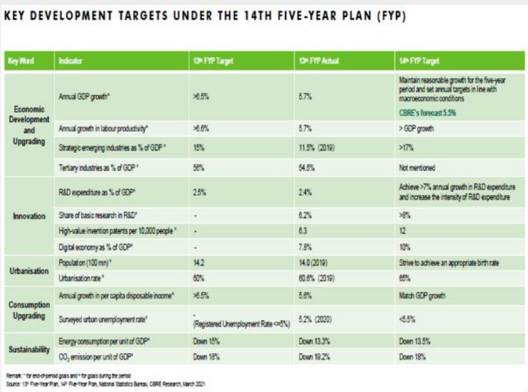


PBSA sector likely to remain resilient in 2021

Based on a recent report by Knight Frank, the UK's purpose-built student accommodation ("PBSA") sector is likely to remain resilient due to its robust fundamentals.

Despite the COVID-19 pandemic, demand for UK universities has stayed strong over the past year. According to UCAS data, enrolments for the 2020/21 academic year

China Property



KEY DEVELOPMENT TARGETS UNDER THE 14TH FIVE-YEAR PLAN (FYP)

Key Word	Indicator	13th FYP Target	13th FYP Actual	14th FYP Target
Economic Development and Upgrading	Annual GDP growth^	>6.5%	5.7%	Maintain reasonable growth for the five-year period and set annual targets in line with macroeconomic conditions CBRE's forecast 5.5%
	Annual growth in labour productivity^	>6.6%	5.7%	> GDP growth
	Strategic emerging industries as % of GDP *	15%	11.5% (2019)	>17%
	Tertiary industries as % of GDP *	56%	54.5%	Not mentioned
Innovation	R&D expenditure as % of GDP*	2.5%	2.4%	Achieve >7% annual growth in R&D expenditure and increase the intensity of R&D expenditure
	Share of basic research in R&D*	-	6.2%	>8%
	High-value invention patents per 10,000 people *	-	6.3	12
	Digital economy as % of GDP*	-	7.8%	10%
Urbanisation	Population (100 mn) *	14.2	14.0 (2019)	Strive to achieve an appropriate birth rate
	Urbanisation rate *	60%	60.6% (2019)	65%
Consumption Upgrading	Annual growth in per capita disposable income^	>6.5%	5.6%	Match GDP growth
	Surveyed urban unemployment rate^	- (Registered Unemployment Rate <=5%)	5.2% (2020)	<5.5%
Sustainability	Energy consumption per unit of GDP*	Down 15%	Down 13.3%	Down 13.5%
	CO_2 emission per unit of GDP*	Down 18%	Down 19.2%	Down 18%

Remark: * for end-of-period goals and ^ for goals during the period
Source: 13th Five-Year Plan, 14th Five-Year Plan, National Statistics Bureau, CBRE Research, March 2021

Implications of China's 14th Five-Year Plan for the real estate market

According to a recent report by CBRE, China's new 14th Five-Year Plan is likely to have significant implications for the country's real estate market. Key policies include those related to high-quality economic growth, digitalization, urbanization, and environmental sustainability.

grew 5.4% y-o-y mostly on the back of rising domestic demand, with a record 41% of UK's 18-year old population applying for a full time undergraduate course. Demand from international students was also positive as applications increased 7.5% y-o-y.

The increase in demand looks set to continue as January applications for the 2021/22 academic cycle expanded 8.4% y-o-y. Growth was again driven by domestic applicants while the number of international applicants declined slightly due to a drop in European Union ("EU") applications. This is likely the result of Brexit, which has affected fees for EU students. In contrast, non-EU international applications have increased by 17.1%, with the largest increases coming from China and India. Robust demand from such markets is partially due to a government policy, which allows international graduates to stay in the UK and work for 2 years (3 years if PhD level).

Growing demand for UK higher education will not benefit all universities equally. Since 2012, student numbers in higher-tier universities have seen a much greater increment of 25% compared to their lower-tiered counterparts, which remained relatively flat. Meanwhile, cities like Exeter and Manchester saw the largest increase in student population over the past year.

In our view, the UK's PBSA sector remains an attractive counter-cyclical opportunity, especially given that both domestic and international demand for UK higher education has stayed resilient during the pandemic. Government policies to grow

For the office sector, the reduction in the negative investment list is likely to draw more foreign occupiers to China. Leasing demand is expected to be led by the technology and finance sectors and will benefit both tier 1 and key tier 2 cities. A recent CBRE survey also indicated that sustainability is moving up the agenda amongst China office occupiers, with 57% of respondents responding that they would prioritize green buildings in their long-term leasing strategy.

Meanwhile, the retail sector is set to benefit from the continued rise in China's urban and middle-income population, which should support expansion in private consumption and retail sales. The tenant mix in retail malls is also likely to shift due to demographic changes, the expansion of domestic brands, and the growth of new retail formats (e.g. omnichannel).

The increasing prominence of omnichannel retail and e-commerce will in turn boost demand for high quality warehouses and cold chain facilities, especially in lower tier cities where penetration is growing rapidly. Another alternative asset class that will see sustained growth is data centres, which will benefit from China's rapid deployment of 5G and planned digital transformation.

Capital markets are likely to see new investment opportunities as a result of some key developments. Firstly, the launch of public infrastructure REITs will hasten the flow of capital into "new infrastructure" such as industrial parks, logistics facilities, and data centres. Next, many commercial properties located in international student numbers as well as the settling of Brexit uncertainty also bodes well for demand in the medium-term. In light of COVID-19, this is likely to translate into greater interest in PBSA properties that are safe and well-managed.

core areas will soon become over twenty years old, creating urban renewal opportunities. Finally, the long-term lease apartment market in China is set to be developed to address rising residential demand in key cities.

In our view, China's 14th Five-Year Plan is set to further solidify the country's attractive long-term fundamentals. It is likely to accelerate real estate trends ranging from digital transformation to ESG, while also creating new investment opportunities. The policies, coupled with the early recovery of China's economy from COVID-19, will continue to support investor interest in the real estate market. Nonetheless, the proof is in the pudding. China's ability to repivot toward this long-term strategic transformation will also depend on how it navigates through the US and its allies growing geopolitical pressure.

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