

Investing in Asian new economy real estate



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The global real estate market is well known for its compelling characteristics, offering long-term, stable yields to institutional investors. However, with continued economic and geopolitical uncertainty, as well as a complex global interest rate environment, it is increasingly important that investors choose the appropriate markets and sectors to maximise their returns.

As a region, Asia offers many of the attractive attributes that investors require. Its strong demographic and economic fundamentals have created a robust appetite for real estate assets. Meanwhile its diversity, as well as the varying growth prospects seen in the markets across the region, gives investors a wide range of opportunities to allocate capital in ways that match their goals.

To succeed, however, they need to follow a consistent, clear strategy: one that takes account not just of the different economies in which they intend to invest, but also of the underlying global factors driving real estate demand. Only by understanding those factors, and the ways in which they relate to the markets in Asia, can they decide which sectors are the most appropriate for their attention.

At Actis, we believe investors should focus on real estate assets which enable the new economy, and which are at the intersection of the most significant themes and trends impacting the sector.

Four global themes have a particular resonance in Asia. First, changes in international supply chains are being driven by the demand for more modern and efficient distribution facilities. These changes are being reinforced by 'China-plus-one' strategies, where operators reconfigure and diversify their supply chains due to changing global dynamics.

Second, the growing global attention on health and wellbeing is putting a more significant premium on real estate stock which facilitates healthier lifestyles among ageing populations. Third, the climate transition is creating an urgent need to decarbonise the real estate sector to meet global net-zero commitments. In Asia, as elsewhere, property is a significant contributor to climate change, hence there is a growing requirement to deliver more sustainable assets across the continent. Finally, digitalisation is leading to significant growth in data creation, processing, and storage throughout the region. This is leading to a growing appetite for the infrastructure required to deliver it.

While these four themes are driving the economy globally, they are accentuated in Asia

by the region's fundamentally stronger, longer-term, secular demand trends. These include, for example, demographic shifts, which encompass not just growing urbanisation, but the densification of wealth too. Meanwhile, deficiency of supply is also impacting the sector. A large proportion of the existing real estate stock in the region falls far short of the demands of top-tier businesses and populations, and is neither of adequate quality nor affordability. Finally, there is the demand for yield. There exists a growing desire among local institutional investors to use real estate in the region as a long-term cashflow generator. Many of the markets in Asia still have insufficient core real estate assets to meet the needs of what are increasingly sophisticated pools of local institutional capital.

With these themes and trends in mind, we believe the best opportunities lie in four sectors. One is the logistics and industrial sector, which is likely to be a prime beneficiary of the themes and trends affecting the region for a number of reasons, notably China-plus-one strategies and the transformation of supply chains. A second is urban repurposing, which stems from the fact that many older properties - particularly in urban centres - are ill-suited to new economy users in terms of affordability and sustainability, and hence require redevelopment.

Meanwhile, for its part, the life sciences sector will be significantly - and positively - impacted by the increased focus on health and wellbeing. And finally, data centres - especially those that meet the most rigorous sustainability criteria - will be critical in supporting the region's burgeoning appetite for data and connectivity.

Having decided in which sectors to deploy capital, investors then need to choose where to focus their attention. Asia presents a diversity of markets, not just in terms of size and demographic characteristics, but also in terms of overall economic outlook. This range of different landscapes has an important impact on the types of real estate asset they should consider seeking out.

On the one hand, some markets like South Korea and China are experiencing a degree of stress. This is partly due to the global inflationary and higher interest rate environment. By contrast, other markets, such as India and some of the countries of South-East Asia, are seeing strong growth, particularly thanks to multinationals and other businesses diversifying their supply chains.

Critical to all the sectors - in every country - is the need to embed sustainability into every asset. Real estate that is not built nor developed to be as sustainable as possible will be a struggle to fill and difficult to sell on to a subsequent owner. Both the tenants who take space in a property and the institutional investors or other organisations buying

it have increasingly tough sustainability or net-zero targets of their own. Ensuring the properties they occupy or control are as sustainable as possible - using renewable power where available - is, therefore, a key driver of demand across the new economy real estate sector.

This geographic diversity and the need to take a highly selective approach to asset acquisition means it is vital that an investor works with a partner with deep local knowledge - and an on-the-ground presence - across the various markets. Such a partner should have a proven track record in both acquiring and managing assets, with a builder-operator mindset and a commitment to delivering value. And, given the focus on sustainability across the region, their partner should have deep experience in the area, and a determined commitment to global climate and development goals.

Looking ahead, it is clear that demand for new economy real estate is likely to continue to grow. Sectors such as logistics, data centres, health, and urban repurposing remain undersupplied, and assets often lack the quality needed to make them attractive. By focussing on assets in the regions of Asia that will be the key beneficiaries of the main global themes and trends, they will best be able to seize the opportunities the real estate sector currently affords.

About Actis

Actis is a leading global investor in sustainable infrastructure, delivering competitive returns for institutional investors and measurable positive impact for the countries, cities and communities in which it operates. Actis invests in structural themes that support long-term, equitable growth in defensive, critical infrastructure across energy transition, digitalisation transition, and supply chain transformation.

The firm's decades of global experience, operational know-how and strong culture allows it to create global sustainability leaders at scale. Since inception, Actis has raised \$25 billion to invest in a better tomorrow. Actis is a signatory to the United Nations backed Principles for Responsible Investment (UNPRI), an investor initiative developed by the UNEP FI. The firm has consistently been awarded the highest rating score in the UNPRI independent assessment.

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