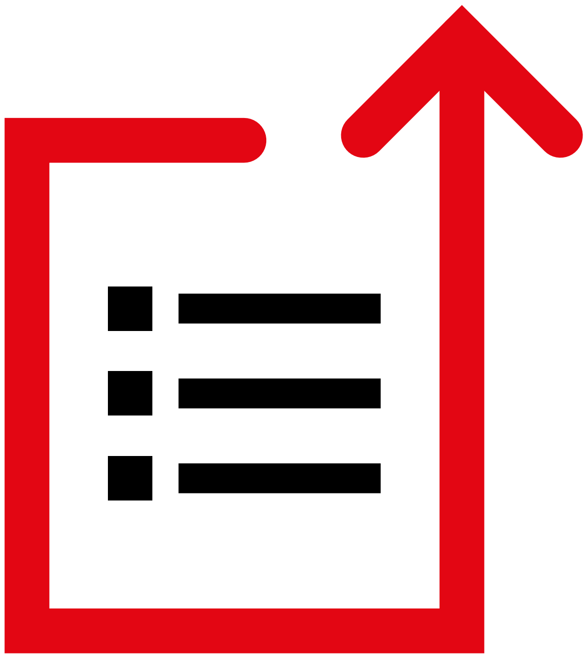
Coronavirus

and the impact on the Asian real estate market: update on policy measures

Asia Pacific Research Report | 6 March 2020



The COVID-19 outbreak has created significant uncertainty globally and governments have proactively taken steps to increase their preparedness to deal with this difficult situation. The focus remains on ensuring public health and safety; however, it is becoming more evident that the outbreak is putting pressure on economies and leading policymakers to implement measures to reduce the strain.

The initial impact of coronavirus (COVID-19) was felt in Mainland China's Hubei province, the epicentre of the outbreak and also where the majority of cases have been confirmed. As the seriousness and extent of the outbreak became more apparent, strict containment measures were implemented to curtail the spread of the virus. It appears as though these steps have, in some part, managed the spread across Mainland China, according to health authorities. The high degree of uncertainty related to the outbreak has also seen a broad range of precautionary measures implemented in various parts of the world, including the imposition of travel bans and visa restrictions. More recently, the number of new coronavirus cases outside of Mainland China has been on the rise, especially in South Korea, Italy and Iran.

Economic drag intensifies

Though there are limited hard data points available at this time, some early indicators have signalled that the measures taken to contain the virus outbreak are impacting the economies of Mainland China and the wider Asia Pacific region.

Initial estimates from Oxford Economics anticipated a 2.0-percentage point decline in first-quarter GDP growth in Mainland China but recent evidence points to the economy returning to normal more slowly than first anticipated. Private consumption is expected to be the most affected of the major economic drivers. However, weaker sentiment and fewer working days will inevitably weigh on industrial production and investment as factories are closed or operating below capacity and businesses push off decision making.

Mainland China's substantial contribution to the global economy and its broad interconnectedness will ultimately lead to some spillover. Specifically, we see that supply chain disruptions and travel curtailments will unavoidably take some steam out of other economies. We have already observed a significant reduction in air travel globally and raw material shortages across various industries. This situation along with recent developments about the outbreak's spread in other parts of the world raises the risk that global GDP growth will come in visibly below initial expectations.

Governments turn fiscal levers to provide support

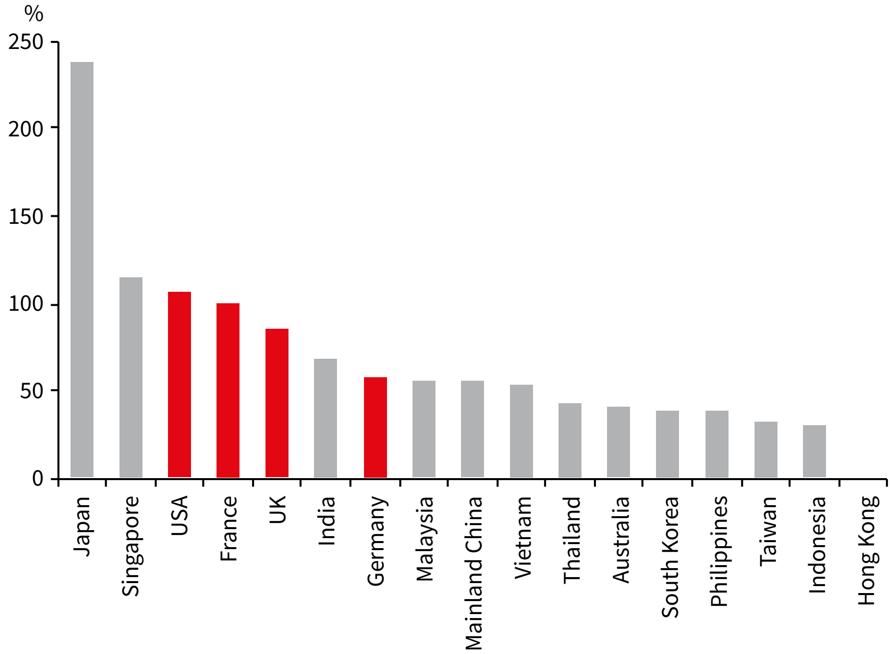
Policymakers have stepped-up efforts to mitigate risks to their economies as a result of the outbreak. Fortunately, debt levels in this region are generally manageable and some governments have begun to pull on the fiscal strings to provide support to local businesses and consumers during this challenging period. Aid packages to bolster consumption and support the industries directly affected by the outbreak thus far have also been deployed, including measures introduced in Hong Kong, Indonesia, Singapore, Macau and Taiwan.

The Singapore government has also taken numerous steps to counter the economic strain caused by this outbreak, including actions, initially targeted at supporting tourism-related industries. An expansionary budget in 2020 also has dedicated spending measures to help businesses and households weather this tumultuous period. Schemes to assist companies in retaining employees and managing wage bills, as well as corporate tax rebates are also key components of the supportive provisions.

Facing the prospect of consecutive recession years, the Hong Kong government has attempted to shore up business and consumer sentiment with the introduction of a record budget this year. The recently announced spending plan contained US$15.4 billion in relief measures directly in response to the COVID-19 outbreak with the centrepiece being a US$1,300 cash pay-out to permanent residents, which accounts for around 60% of the total package. The coronavirus budget measures coupled with an earlier announced aid package are equivalent to around 5% of Hong Kong's GDP.

In Mainland China, proactive fiscal policies have also been employed to help shield against a slowing economy. Government initiatives implemented last year to cut corporate and personal taxes will persist this year, while a record flurry of bond issuances at the beginning of the year signal that further policy loosening may be on the cards.

Government debt (% of GDP)



Source: IMF

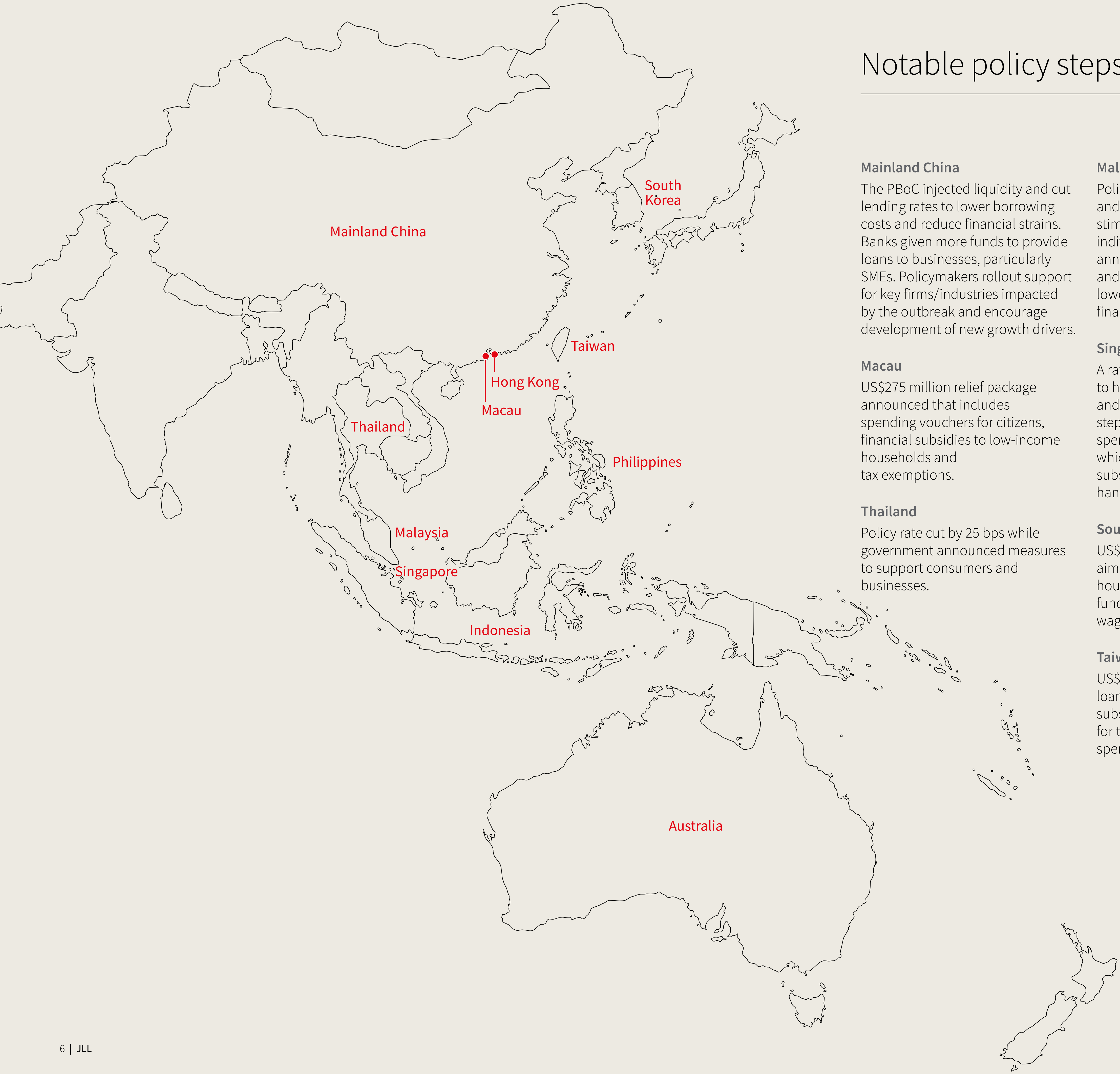
More accommodative monetary policy

In addition to fiscal stimulus, many central banks have shifted towards a more accommodative policy stance with rate cuts core to easing financial pressures. Counter-cyclical policy adjustments have been made by the People's Bank of China (PBoC), the country's central bank, including lowering a range of policy rates and liquidity injections into the financial system. We expect more easing by the PBoC to follow in the coming weeks and months as further clarity emerges of the outbreak's economic impact. Reductions in key benchmark interest rates have also been recently utilised by Australia, Malaysia, Thailand and the Philippines to help cushion against the potential economic impact of the outbreak.

Other central banks in this region are also likely to review policy frameworks to see if further loosening is warranted. In Japan, the ultra-loose policy stance of the Bank of Japan is expected to be upheld with the central bank stating its intention to take the necessary steps to ensure liquidity and financial market stability during this challenging period.

Outside of the region, the fallout from the coronavirus has resulted in the US Federal Reserve taking emergency action by cutting rates by 50 bps, its first unscheduled reduction since 2008, in a bid to combat the looming challenges being created by this virus. In Europe, the subdued growth outlook and the central bank's new forward guidance mean that monetary conditions should remain loose for an extended period.

It is worth noting that for all the fiscal or monetary measures that have been announced, they were designed primarily to relieve the immediate liquidity strains on businesses and individuals, and to some extent instil confidence among the populace. We expect further and potentially more forceful measures will be promulgated as the outbreak is contained, with an objective to boost the economy back on the pre-outbreak growth trajectory.



Notable policy steps in Asia Pacific

Mainland China
The PBoC injected liquidity and cut lending rates to lower borrowing costs and reduce financial strains. Banks given more funds to provide loans to businesses, particularly SMEs. Policymakers rollout support for key firms/industries impacted by the outbreak and encourage development of new growth drivers.

Macau
US$275 million relief package announced that includes spending vouchers for citizens, financial subsidies to low-income households and tax exemptions.

Thailand
Policy rate cut by 25 bps while government announced measures to support consumers and businesses.

Malaysia
Policy rate cut by 25 bps in January and February. US$4.8 billion stimulus aimed at helping affected individuals and companies also announced. Measures include fee and tax cuts, deferred tax payments, lower contributions to pensions and financial assistance to SMEs.

Singapore
A raft of measures announced to help companies, households and frontline agencies. Policy steps headlined by US$4.6 billion spending boost in 2020 Budget which includes tax rebates, wage subsidies, rental waivers and cash handouts to citizens.

South Korea
US$9.9 billion stimulus package aims to cushion the impact for households and business with funds dedicated to help SMEs pay wages, and child care subsidies.

Taiwan
US$2 billion relief package includes loans for small businesses, subsidies for tour agencies, tax cuts for tour bus drivers and vouchers to spend on food.

Hong Kong
US$3.8 billion coronavirus aid package was followed by US$15.4 billion in further measures announced in the 2020 Budget to ease burden on companies and individuals. Notable measures include US$1,300 cash handout to permanent residents, income tax reduction, higher subsidies for low-income families, low-interest rate loans, lower corporate taxes and funds for tourism-related industries. HKMA cut base rate by 50 bps following US Fed's surprise move.

Indonesia
Policy rate trimmed by 25 bps and steps taken to boost liquidity. US$740 million relief package introduced with measures including higher subsidies to low-income households, funding for tourism-related industries and tax cut for F&B operators.

Philippines
Policy rate cut by 25 bps.

Australia
Policy rate cut by 25 bps.

Implications for real estate

Measures implemented by policymakers to support the economy will take time to flow through but as virus concerns recede, these steps should help the economy regain its footing. Given this, the implications to real estate markets will be most evident over a longer period of time rather than being immediately apparent. Importantly, by nature, demand for the provision of real estate is relatively inelastic. While businesses or individuals may be affected by the outbreak, their demand for real estate is likely to be delayed rather than disappear.

Fiscal measures aimed at providing relief to businesses may help cushion a decline in demand and mitigate some downside risks. Tax cuts and similar steps will go some way in helping landlords lower expenses or cover revenue lost through the extension of rent rebates to tenants. By the same token, cash pay-outs which put money directly into the pockets of consumers could have a trickle-down effect as these funds are distributed and indirectly provide a shot in the arm for segments of the real estate market.

The accommodative monetary stance should help lessen financial pressures for some businesses, particularly those most impacted by the outbreak, by ensuring borrowing costs are kept down. A continued low interest rate environment and supportive central bank policies may offset some of the macro headwinds and provide further confidence to investors' real estate strategies. In a low-yield environment, real estate has proven to be an asset class that provides investors with a good risk-adjusted return.

Unavoidably, there is still a lot of unknowns related to the COVID-19 outbreak and the effectiveness of any policy steps will likely be limited until there are clear cues that this situation is contained and health risks are declining.

We will continue to monitor this situation and provide you with regular updates but as always, we welcome your feedback.

Authors

Roddy Allan
Chief Research Officer
Asia Pacific
roddy.allan@ap.jll.com

Lee Fong
Director
Asia Pacific Research
lee.fong@ap.jll.com

Myles Huang
Director
Asia Pacific Research
myles.huang@ap.jll.com

China Research

Nelson Wong
Head of Research
Greater China & Hong Kong
nelson.wong@ap.jll.com

Daniel Yao
Head of Research
China
daniel.yao@ap.jll.com

Capital Markets

Regina Lim
Executive Director
Asia Pacific Capital Markets Research
regina.lim@ap.jll.com

jll.com
COPYRIGHT © JLL IP, INC. 2020. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without prior written consent of JLL. It is based on material that we believe to be reliable. Whilst every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors. We would like to be told of any such errors in order to correct them.