

Property and Construction in Asia – A Labour Market Perspective 2015



1 State Of The Industry

The pace of construction spending in Asia is expected to slow as more projects are completed, however this simmering of growth will be mitigated by governments in the region spending on infrastructure to boost economic growth.

The Asian Development Bank estimates that between 2010 and 2020, Asia will need to invest between US\$8 trillion and US\$9 trillion in new infrastructure to keep their economies humming along at current growth rates.

The ongoing trend of urbanisation and the rising incomes of Asia's city dwellers will also lead to demand for better transport systems, better-designed buildings, more efficient power grids as well as more reliable water and sanitation - a development that will benefit the construction sector.

In terms of specific markets, the strongest construction spending growth will be in China, India, Vietnam and Indonesia through 2020, with Indonesia and China performing well in the shorter term, according to land use consultancy AECOM.

However, there are worries that excessive debt levels in China could lead to the bursting of a credit bubble, with a major impact on the region.

On the property front, the key trend for 2015 will be a surge in real estate transactions as more supply comes online, says consultancy Colliers International in their Asia Property Outlook 2015. The new supply will help close the gap with demand from investors looking to boost their real estate holdings in the region.

The increased supply will be driven by the impending expiration of more real estate funds in 2015, leading to more available sellers of institutional-grade real estate, as well as new stock entering the market. In the Singapore office market, for instance, there will be a significant new supply of premium Grade A space coming online through to 2016.

In terms of demand, more global investors are looking to re-allocate capital to Asia, which is still expected to grow at a healthy pace in 2015. Many are currently under-allocated to the region, and global investors will look to rebalance their portfolios with the expected rise in supply.

Meanwhile, multinational companies looking to expand or consolidate in Asia will be looking to secondary or decentralised locations in an effort to manage their real estate costs and avoid the fierce competition for premium office space.

On the retail front, an expected increase in consumer spending across Asian markets could see strong demand for shop space in 2015. China and India, with its massive and increasingly affluent middle class, is expected to lead this trend.

However, the lack of new retail supply will remain a key challenge for many retailers for mature markets across Asia. Mid-tier brands are likely to opt for decentralised locations such as neighbourhood malls to keep a lid on rental costs. Rising private consumption will also be a boon for the logistics industry in 2015, and this will in turn drive demand for industrial and warehouse space.

"There is pent-up underlying demand from both occupiers and investors, primarily due to the lack of stock, and that will gradually be satisfied by what we anticipate as a growing volume of new supply in 2015," says Mr Dennis Yeo, Interim Chief Executive Officer, Asia, at Colliers International.



2 Trends

More supply to boost transactions

This year will see an increase in real estate transactions in Asia, driven by greater supply that can satisfy strong investment demand from global investors. Global investors are looking to boost their allocation of real estate assets in Asia, led by Chinese outbound investment targeting all regions across Asia Pacific.

Demand for Infrastructure

Asia's growing share of global economic growth will result in huge demand for infrastructure. An estimated US\$8 trillion and US\$9 trillion in new infrastructure will be needed to keep the region's economies growing at current rates. This will provide a steady flow of work for construction companies amid an uncertain global economic landscape.

Urbanisation

Economic growth will also drive the ongoing urbanisation of Asia, with many countries in the region still largely rural. This process is most pronounced in China. In the three decades since the country started to liberalise its economy, the country's urban population has risen by more than 500 million. This trend, coupled with a growing middle class and rising affluence, will help buoy both the construction and property sectors.

Secondary markets in focus

Niche sectors and secondary markets across Asia have come into focus for investors looking for locations with less intense competition for prime real estate. Likewise multinationals and retailers looking to expand are moving to decentralised locations to keep costs at bay.

3 Industry Development

Led by labour-scarce Singapore, the construction industry in Asia is moving to adopt high-tech solutions that aim to improve efficiency. Technologies that leverage on information technology, prefabrication and smart construction and materials are gaining traction as construction companies seek to preserve their margins.

Methods such as Prefabricated Pre-finished Volumetric Construction (PPVC) allows for the construction of rooms to be completed in a factory before being transported to a construction site for installation. Meanwhile, Building Information Modelling (BIM) software provides architects, engineers and contractors a way to digitally explore a project before the first brick is even laid.

There is also an increasing adoption of environmentally friendly practices among

construction players - such as the use of green materials - as sustainability becomes a key concern for many developers and tenants.

This trend has also resulted in the emergence of green leases in the real estate sector in Asia. A green lease provides tenants with guidelines and resources that encourages and enables retailers to adopt energy efficient equipment and materials. Under such an arrangement, landlords work together with retailers to incorporate environmentally sustainable elements right from the design stage ranging from the use of energy-efficient lighting to using sustainable materials for their fit-out.

"In Asia, the retail sector has been a slower and late adopter of sustainability compared to the office sectors. The adoption of green initiatives in retail is however growing with the leadership of leading

developers who see value in green building designs and energy reduction plans,” said Mann Young, Head of Sustainability, Asia, Lend Lease. Australian-based Lend Lease was the first developer to introduce a green lease in Singapore at its retail development, 313@somerset.

On the corporate front, more global companies are outsourcing their corporate real estate (CRE) services to specialist service providers as they expand their operations into key markets in Asia and cost pressures rise.

These providers are taking on roles that have traditionally been performed by the CRE departments of corporations, ranging from simple facilities management to managing entire portfolios of properties.

“Corporate occupiers are increasingly analyzing their businesses and concluding that significant cost savings can be achieved through the use of outsourced service providers,” says Steven Simmonds, Associate Director for Property & Construction Spring Singapore. “Additional benefits include access to a broad range of technical expertise and increased flexibility in managing risk.”

This trend has significant human capital implications for service providers, who are facing a shortfall in talent to meet rising demand for their services. The talent gap between demand and supply is widening across the various countries of Asia, and there is not enough skilled labor to match the needs of today’s highly competitive global corporations. Our engagement with corporate real estate service providers shows that the scarcity of talent is the biggest threat to their business growth.

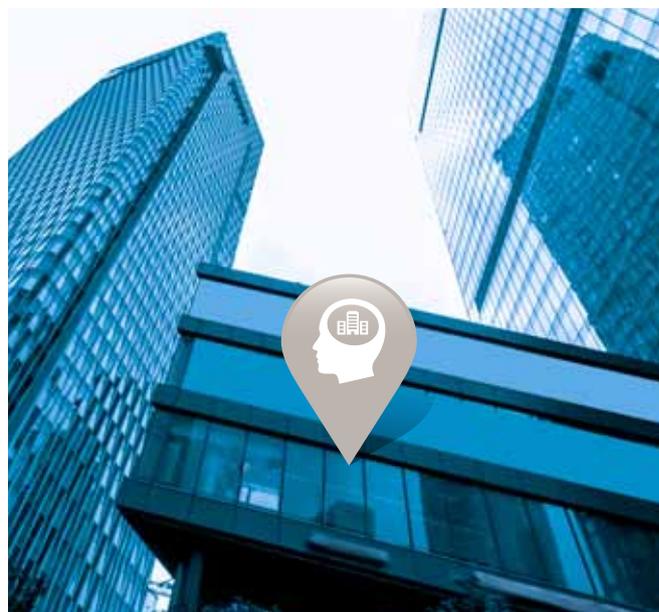
As the bigger companies continue to outsource, it is likely that the majority of graduates coming out of universities and looking for a job in corporate real estate will be looking at the major real estate consultancies as their first port of call.

4 The Future

Amid uncertainty in the global environment, the property and construction sectors are expected to put in a credible performance, buoyed by stimulus-led infrastructure by governments, an influx of capital into the region from investors seeking to rebalance their real estate portfolios and new supply coming online to meet that demand.

The ongoing process of urbanisation and rising affluence in much of Asia will also contribute to the sectors’ robustness. The construction industry is witnessing a marked rise in sophistication as it adopts new technologies to boost efficiency and satisfy the sustainability needs of their customers. Likewise, property developers are implementing green measures in their developments. As such, newcomers must stay on top of these changes sweeping the property and construction industries.

Meanwhile, as more global corporates outsource their real estate services, specialist providers must be prepared for an intensifying battle for talent as they strive to meet this new demand.



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