

Unlocking value in real estate

The post pandemic guide to asset enhancement





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01

Why now is the time to consider asset enhancement

Investors and landlords across Asia Pacific are leaving billions of dollars on the table as their assets age and drift towards obsolescence. Offices, shopping malls and residential buildings in prime locations are losing their relevance as end-user behaviours and preferences change. Net operating incomes are reduced by inefficient infrastructure and high operating costs. Rental rates for aged and/or outdated buildings, are as much as 60% lower than for up-to-date well-managed properties in similar locations. Additionally, these buildings' energy and maintenance systems are often less efficient, leading to increased operating costs.

JLL research estimates that 50% of investment property in prime locations across the region is over 20 years old and that \$15.3 billion (USD) worth of

value is tied up in aging/underperforming property. Landlords and investors are missing out on income opportunities and cost savings as well as asset value.

Multiple business and lifestyle trends are driving buildings to become outdated and even obsolete; the growth of e-commerce, the rise of co-working and flexspace, and evolving consumer demands are just a few. COVID-19 pressures such as working from home, same-day food and product delivery, and social distancing have accelerated the impact of some of these trends. And the pandemic may act as a decelerator for other trends, such as dense urbanization. Troubled market conditions and future uncertainties also bring the importance of cashflow for landlords and investors into focus.

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Upside in aging assets

With COVID-19 changing end user expectations and market dynamics, now is the time to enhance aging buildings. Take a fresh look at the use and configuration of space. With the right strategy and approach, value can be unlocked with enhancements ranging from largely cosmetic improvements through to extensive upgrades and even repositioning/repurposing.

This requires a multi-faceted approach, spanning best practice, physical upgrades, new technology and improvements in building operations. Do this systematically and partner with experienced professionals with a full range of property market and management expertise to ensure you follow a best practice approach resulting in an optimised solution.

With COVID-19 changing end user expectations and market dynamics, now is the time to enhance aging assets.





02

Asset classes presenting the most and best opportunities

Staying up to date with important trends, new value drivers and enhancement strategies in the relevant real estate class is key to increase asset performance and value.

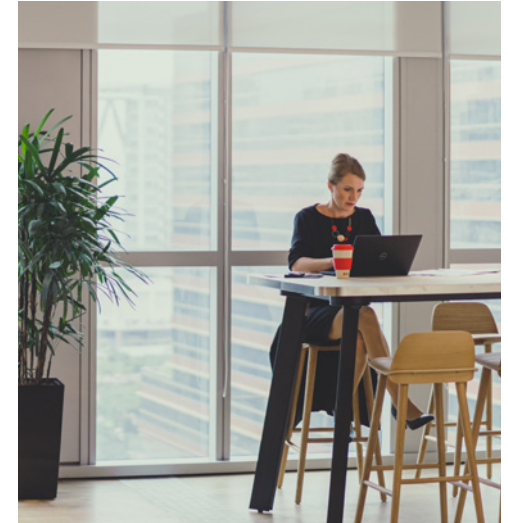
This could mean updating ageing **office space** to accommodate new modes of working such as flexspace, tenant demands for wellness amenities and new ways of charging. Demands for **residential** are also evolving, opening opportunities for mixed-use developments, co-living, senior living, student housing, work from home and other lifestyle trends.

Retail is changing fast, responding to the rise of e-commerce, with implications for the size and use of space and opening up new models of charging. The tenant mix is evolving, with more F&B and experiential retail. **Industrial** real estate is also a clear growth area, with warehousing and logistics evolving to meet the demands of last-mile e-commerce, same day delivery and increased levels of robotics, automation and increased sustainability targets. And the concept and valuation of **hotels** are changing. Looking past the impact of COVID-19 on tourism, it's time to explore yields if they are converted to co-living or serviced apartments.

Staying up to date with important trends, new value drivers and enhancement strategies in the relevant real estate class is key in order to increase asset performance and value.

Office

- Key trends >
- New value drivers >
- Asset enhancement strategies >



Key trends

- > With the current trend of vacancy rates increasing and rental rates decreasing for commercial office buildings - especially aged buildings - landlords, owners and investors recognise they need to enhance their assets to attract and retain tenants.
- > The flight to quality by both investors and occupiers is putting further strain on aged buildings in terms of occupancy and value.
- > A recognition that the office should provide an environment hub for collaboration, innovation and reinforcing company brand and culture.
- > Flex space will continue to grow and JLL Research expects it to increase from 5% of total office space today, to as much as 25% by 2030.
- > An acceleration in the adoption of touchless technology together with real time measurement and reporting of occupancy and amenity usage.
- > With Governments actively aiming to improve the accessibility and liveability of cities, developments near transport hubs, areas of urban regeneration and green spaces will increase in desirability and long term value.

Flex space will continue to grow and JLL Research expects it to increase from 5% of total office space today, to as much as 25% by 2030.



Office

New value drivers



Health & Wellness

- › Creating and demonstrating a safe and hygienic workplace to reassure staff as they return to work.
- › Increased expectations from staff in terms of wellness facilities such as exercise and relaxation areas and better access to quality nutrition.

Human Experience

- › Significantly improved human experience including a greater variety and flexibility of workplace, improved indoor air quality, natural light and access to outdoor space.
- › Adoption of solutions to support de-densification and social distancing.

Sustainability

- › Growing body of data proving the correlation between sustainability performance and improved rental rates and market valuation.

Technology

- › We expect more growth opportunities from the quicker adoption of Proptech. Landlords and occupiers are starting to embrace a range of products, solutions and applications that enhance workplace health, safety, convenience and efficiency.
- › With increased Proptech comes the increased demand for enhanced data analytics moving towards predictive analytics and artificial intelligence.
- › The creation of digital twins for existing buildings is becoming more affordable.



Office

Asset enhancement strategies

- › Improved placemaking and branding.
 - › Temperature check systems upon arrival, installation of contactless entry systems, vertical transportation and washroom fittings, UV disinfection, improving indoor air quality and increasing the overall level of cleanliness.
 - › Introduction of improved amenities such as end of trip facilities, flex space (approaching >20% of net lettable area), event space and gyms together with adaptable and re-configurable space.
 - › Robotic cleaning machines that can detect, sanitize and clean.
 - › Apps to book facilities prior to arrival such as lockers, shower facilities and gym space as well as workstations
 - › Sensors to track occupancy, amenity usage and provide real time measurement and display of indoor air quality, air changes, energy consumption, recycling etc.
 - › Introduction of additional revenue generating facilities such as F&B and retail.
 - › Sustainability and WELL certification as tangible proof that the building has achieved certain standards. Similarly WiredScore has created a unique certification system to benchmark the digital connectivity within a building.
 - › Integration of automation, smart building technology, digital solutions and AI.
- Upgrading existing buildings to compete with current market leaders is in a way a minimum response. Staying competitive into the future requires vision, foresight and a longer term approach. Futureproofing ideas include making provisions for autonomous vehicles and deliveries via drones, implementing renewable energy solutions to achieve net zero carbon. Start-ups such as Skyportz (Australia) aim to develop the infrastructure for vertical take-off and landing aircraft within urban locations. Another start-up called Skyports (UK) has begun to option flat commercial rooftops on the premise that these currently underutilised and minimum value spaces will realise a high premium.

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Logistics & Industrial

Key trends >

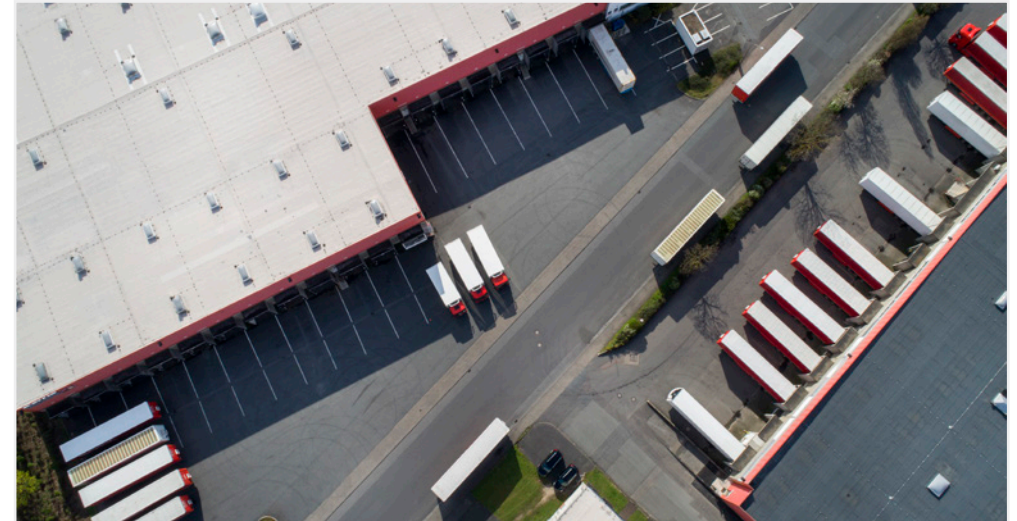
New value drivers >

Asset enhancement strategies >

Key trends

- > The global pandemic has accelerated the growth in e-commerce, fuelling the need for more warehousing, distribution centres and last mile logistics and has driven the completion of over 90 million m2 of warehouse space in Asia Pacific over the last decade.
- > Logistics & Industrial real estate is a clear growth area with most investors looking to increase their allocation to the sector.
- > Last mile logistics, cold storage and data centres are key growth areas.
- > The type and location of manufacturing facilities are evolving as part of a strategy to diversify supply chains.
- > Supply chain strained and forced to adapt – accelerating improvements – long term positive effect.

Logistics & Industrial real estate is a clear growth area with most investors looking to increase their allocation to the sector.





Logistics & Industrial

New value drivers



Health & Wellness

- › Increased expectations from staff working in this sector in terms of the quality of their work environment.
- › Cold storage – used even more extensively globally with clear role to play in vaccination roll out, benefitting from global investment increases in big pharma.

Human Experience

- › Warehousing and logistics are evolving to respond to changing customer needs including last-mile e-commerce and same-day delivery.
- › In the Chinese mainland, nearly 70% of those surveyed* purchased daily necessities / fresh products more than twice a week.
- › Home quarantine further cultivated consumers' online shopping habits, with 89% of consumers saying they will be more willing to buy daily necessities / fresh products online once the pandemic is over.

* Nielsen

Sustainability

- › Sustainability has moved towards the top of the agenda for owners, operators, shareholders and investors.
- › Last year, GLP built the world's first carbon net zero warehouse at its 300,00 ft² Magna Park scheme in Milton Keynes, UK.
- › With data centres being particularly power hungry there is a growing need to reduce energy consumption to reduce operating costs and reduce carbon emissions. 1MW of power for a year is >US\$1m and 5,000 tonnes of CO₂. Both Microsoft and Google have announced that they intend to be "carbon neutral" by 2030.

Technology


- › Traditional labour-intensive and low-tech logistics facilities are making way for high-tech, highly automated facilities.
- › Integration of technology and greater utilisation of processes that enable automation are already key considerations for most institutional owners and developers, with the strategic outcome of improving efficiency.



Logistics & Industrial

Asset enhancement strategies

- › Installation of contactless entry systems and washroom fittings, improving indoor air quality and increasing the overall level of cleanliness.
- › Owners developing closer / long term relationships with their tenants and working together to improve the work environment and staff amenities.
- › Vertical expansion through the additional of additional floors and associated vertical transportation.
- › Decarbonising existing facilities by improving operational efficiency, implementing automation and robotics technology, retrofitting energy efficient plant and equipment and installing sources of renewable energy. With solar panels unlikely to provide the magnitude of power required for data centres, the challenge is to find alternative sources of sustainable power with the most likely solution being a combination of wind, hydro, geothermal and nuclear.
- › With increasing levels of power density, delivering more power to existing data centres is a challenge, as well as cooling them.
- › Integration of automation, smart building technology, digital solutions and AI.
- › Installation of rain harvesting recycling systems.



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Retail

- Key trends >
- New value drivers >
- Asset enhancement strategies >



Key trends

- > The evolution of conventional retail has been accelerated by COVID-19, leading to a more diverse offering, omni channel solutions and a greater emphasis on technology and customer experience.
- > E-commerce now accounts for 20% of all retail sales in APAC as compared with 7.4% in 2015 and is forecast to increase at over 10% CAGR over the next 5 years.
- > Shopping mall operators are responding to the rise of e-commerce which is reducing the size and use of space from traditional retailers.
- > The tenant mix is evolving, with more F&B, experiential retail and medical retail. Some shopping malls are responding by establishing co-working space, kindergartens and other education facilities. These facilities are varied and in some cases complementary, and create an overall mall experience that drives foot traffic.
- > Pop-up stores are rising in popularity as they activate low traffic areas and provide newness for customers on a regular basis.
- > Innovations also come to the forefront as retail properties and brands have accelerated their adoption of integrated online and offline sales channels. In Mainland China, retailers and landlords are using the WeChat ecosystem to build communities, enhance sales and retain customers.
- > Last mile logistics and other e-commerce & logistics related functions are proving to be attractive options for well-located retail assets.
- > Most categories are seeing some form of consolidation, perhaps fewer locations but not necessarily larger footprints. Fresh produce and food on the other hand are seeing more locations as neighbourhood shopping becomes the preferred channel.
- > Shopping mall operators are also looking to partner more closely with retailers including changing financial arrangements such as a reduced base rent plus turnover rent for a win:win outcome.
- > Shopping mall operators are becoming retailers themselves, partnering more with their tenants on marketing, promotional, service related and operational initiatives.



Retail

New value drivers



Health & Wellness

- › Creating a safe and hygienic environment to re-assure shoppers they are in a safe space, both at a mall and individual shop level.
- › The introduction of an increased range of health & wellness related retailers such as gyms, yoga studios, massage, meditation, relaxation areas and those selling healthcare products.

Human Experience

- › Hotel owners and operators will be looking to step up their initiatives to attract guests through continued improvements and personalisation. Leveraging technology in the shape of artificial intelligence and robotic butlers will become increasingly normal, along with guest management software using a personal profile to anticipate guest needs before they arrive.

Sustainability

- › Improved level of sustainability to attract the growing number of climate conscious shoppers.

Technology

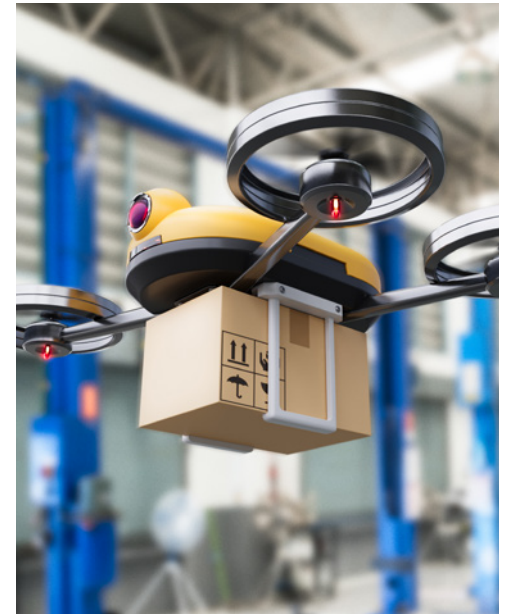
- › We expect more growth opportunities from the quicker adoption of PropTech. Landlords and occupiers are starting to embrace a range of products, solutions and applications that enhance workplace health, safety, convenience and efficiency.
- › With increased PropTech comes the increased demand for enhanced data analytics moving towards predictive analytics and artificial intelligence.



Retail

Asset enhancement strategies

- › Improved placemaking and branding including greater integration with nearby buildings offering complimentary products and experiences such as offices, hotels and residential.
- › Temperature check systems upon arrival, installation of contactless entry systems, vertical transportation and washroom fittings, UV disinfection, improving indoor air quality and increasing the overall level of cleanliness, particularly in washrooms.
- › Robotic cleaning machines that can detect, sanitize and clean.
- › Futureproofing ideas include making provisions for autonomous vehicles and deliveries via drones.
- › Shopping malls can be significantly reconfigured even as far as a change of use, such as last mile logistics, school campuses or healthcare facilities.
- › Sensors, PropTech, apps and data analytics to track occupancy, prevent overcrowding, better tracking (and influencing) customer behaviours and buying habits.

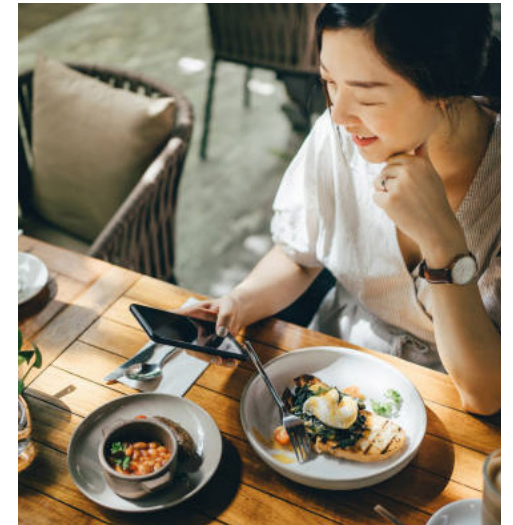


Futureproofing ideas include making provisions for autonomous vehicles and deliveries via drones.



Hotels

- Key trends >
- New value drivers >
- Asset enhancement strategies >



Key trends

- > The hospitality industry has been particularly disrupted by the effects of the pandemic. Across the region, hotels are experiencing an unprecedented disruption of demand, resulting in persistently low occupancies. With travel restrictions in place around the world overseas guests have been virtually non-existent in some locations. Forecasts suggest international travel will not return to pre-COVID-19 levels until at least 2023. Even after travel restrictions have been lifted, there is an expectation that the volume of business travel will continue to be reduced as organisations have become used to leveraging technology to reach colleagues and Clients based overseas.
- > As a result, hotel owners and operators are struggling to maintain profitability under their existing business models and are mitigating the situation with innovative solutions.

Forecasts suggest international travel will not return to pre-COVID-19 levels until at least 2023.



Hotels

New value drivers



Health & Wellness

- › To reassure potential guests, hotel operators are stepping up their efforts around health and hygiene. For example plastic seals that have to be broken by guests indicate deep cleaning prior to occupancy by others.

Human Experience

- › Hotel owners and operators will be looking to step up their initiatives to attract guests through continued improvements and personalisation of customer experience and leveraging technology in the shape of artificial intelligence and robotic butlers, and guest management software that works using a personal profile that anticipates guest needs before they arrive.

Sustainability

- › Improved level of sustainability to attract the growing number of climate conscious hotel guests.

Technology

- › Quicker adoption of PropTech as an overall accelerator for hygiene, human experience and operational efficiency.



Hotels

Asset enhancement strategies

- › In addition to marketing themselves as staycation or remote working destinations, hotels are leveraging their culinary expertise by running high-end take away dining operations, creating pop-up dining concepts and offering diverse experiences such as cooking classes. Some hotels are even operating as temporary quarantine facilities.
- › Temperature check systems upon arrival, installation of contactless entry systems, vertical transportation and washroom fittings, UV disinfection, improving indoor air quality and increasing the overall level of cleanliness.
- › Creating appropriate social distancing by removing furniture / reducing capacities in F&B outlets, reducing the number of check-in / check-out positions at the front desk, installing plastic screens.
- › Creating more areas of health and wellbeing and ‘calm areas’.
- › Removing physical customer interaction where possible and most notably around the design of buffet stations.
- › Robotic cleaning machines that can detect, sanitize and clean.
- › The installation of antimicrobial materials and wall coverings.
- › Rather than FOH staff arriving showered and changed / ready for work, this may now be encouraged at the property, so we may see larger locker room spaces.
- › In the longer term, we will see guestroom designs becoming more multi-functional in response to demand for exercise, work and meetings.
- › In extreme cases where the future profitability of the hotel is below stakeholders requirements, exploring the cost/benefit of converting underperforming properties to co-living, serviced apartments, student accommodation or even a hospital is a worthwhile exercise.

Exploring the cost/benefit of converting underperforming properties to co-living, serviced apartments, student accommodation or even a hospital is a worthwhile exercise.

Residential

Key trends >

New value drivers >

Asset enhancement strategies >



Key trends

- > 1 million people move to cities and Asia Pacific every week. Despite the pandemic, demand for residential properties is growing and evolving, opening opportunities for mixed-use developments, co-living, senior living, student housing, and other lifestyle trends.
- > With the increase in working from home as part of the overall increase in flexibility from a workplace perspective, the residential unit of the future will need to support this change from a space and functionality perspective.
- > Co-living is increasing as an affordable solution for accommodation, especially in expensive city areas.

Despite the pandemic, demand for residential properties is growing and evolving, opening opportunities for mixed-use developments,



Residential

New value drivers



Health & Wellness

- › The COVID-19 pandemic is a reminder of the importance of high standards of personal and community hygiene.
- › Greater availability of, and convenient access to, fitness and wellness facilities.

Human Experience

- › The growing importance of fostering community in larger-scale living sector assets including improved customer services.
- › Improved amenities and functionality associated with working from home.
- › Access to green space, outdoor space and function areas.

Sustainability

- › Improved level of sustainability to attract the growing number of climate conscious residential renters, unit purchasers and large-scale investors who increasingly require environmentally friendly investments.

Technology

- › The demands created by continued urbanization and an ageing population is fuelling the need for a new generation of smart homes with embedded smart technology sensors and availability of real time data.
- › Deployment of community based apps and social media to foster and encourage community and connectivity.

Residential

Asset enhancement strategies

- › Temperature check systems upon arrival, installation of contactless entry systems, vertical transportation, UV disinfection, improving indoor air quality and increasing the overall level of cleanliness.
- › Robotic cleaning machines that can detect, sanitize and clean.
- › Installing facilities such as app controlled security, lighting and lifts as well as digital infrastructure and motorized furniture supported by the Internet of Things (IoT). Systems that support telehealth services and elderly monitoring systems.
- › Retrofitting sustainability features such as solar panels, water & waste systems and energy management technology.
- › Futureproofing by making provisions for electric vehicles and autonomous vehicles.
- › At the premium end of the scale, branded residences offer an opportunity to attract investors, purchasers and tenants.



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03

Considerations for unlocking additional value

The most effective approaches

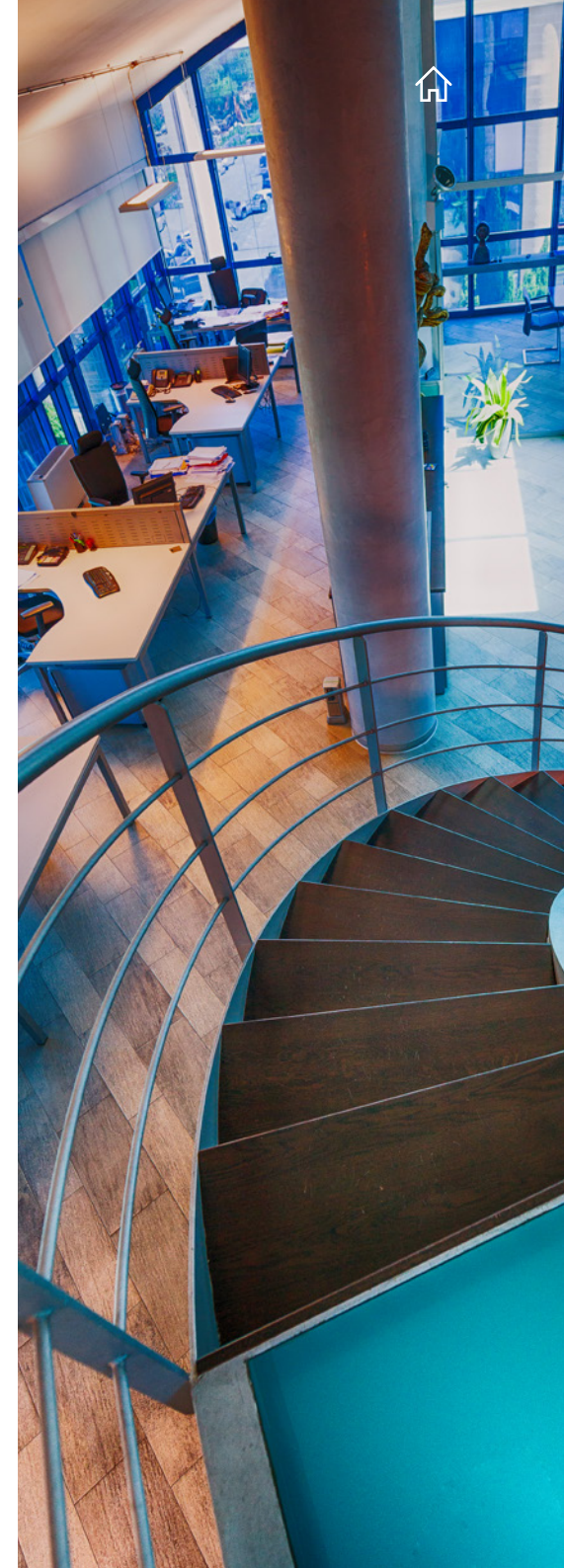
Take a multi-disciplinary approach >

Plan based on investment horizon and risk profile >

Optimise with technology >

A “do nothing approach” is simply not an option to stay in the game. The key challenge for investors and building owners is how to define and implement the ideal scope of upgrade works to deliver the best return on investment.

They must juggle the pressures of enhancing their assets to retain tenants, preserve value and futureproof their assets without ‘over-investing’.





Take a multi-disciplinary approach

Our asset enhancement specialists take a multi-disciplinary approach zeroing in on all the key factors influencing asset value that can be actively managed.

Optimizing the revenue generated per square foot and reducing operating costs are essential components of a company's ability to increase profitability as well as maximizing the value of its assets.

Our asset enhancement specialists take a multi-disciplinary approach zeroing in on all the key factors influencing asset value that can be actively managed:

- › **Use** – suited to purpose, customer needs and macro trends
- › **Space** – Find areas of additional net lettable area and eliminate under utilization
- › **Technology** – AR/VR, smart buildings, sustainability, security, prop-tech, energy savings
- › **Amenities** – Flex space, worker lifestyle, ability to attract talent
- › **Reliability** – smart maintenance, cost-effective upkeep
- › **Sustainability, wellness** – help achieve higher physical performance and rental rates
- › **Future flexibility** – maximize value as compared to new buildings





Plan based on investment horizon and risk profile

We understand the best approach to asset enhancement depends on a client's investment strategy and cashflow requirements.

- › Is your strategy to buy and hold for long term sustainable revenue or will the property be upgraded as part of a “buy, fix and sell” strategy for relatively quick capital gains
- › Is the investment timeline months, years or even decades?
- › What capital is available in terms of cash or finance, with today's historically low interest rates?

The process starts with a risk profile assessment, with different strategies for an insurance company/ pension fund compared with private equity or a high net worth individual. We can then match the enhancement strategy with a capital plan to increase NOI and reduce risk.

The best approach to asset enhancement depends on a client's investment strategy and cashflow requirements.



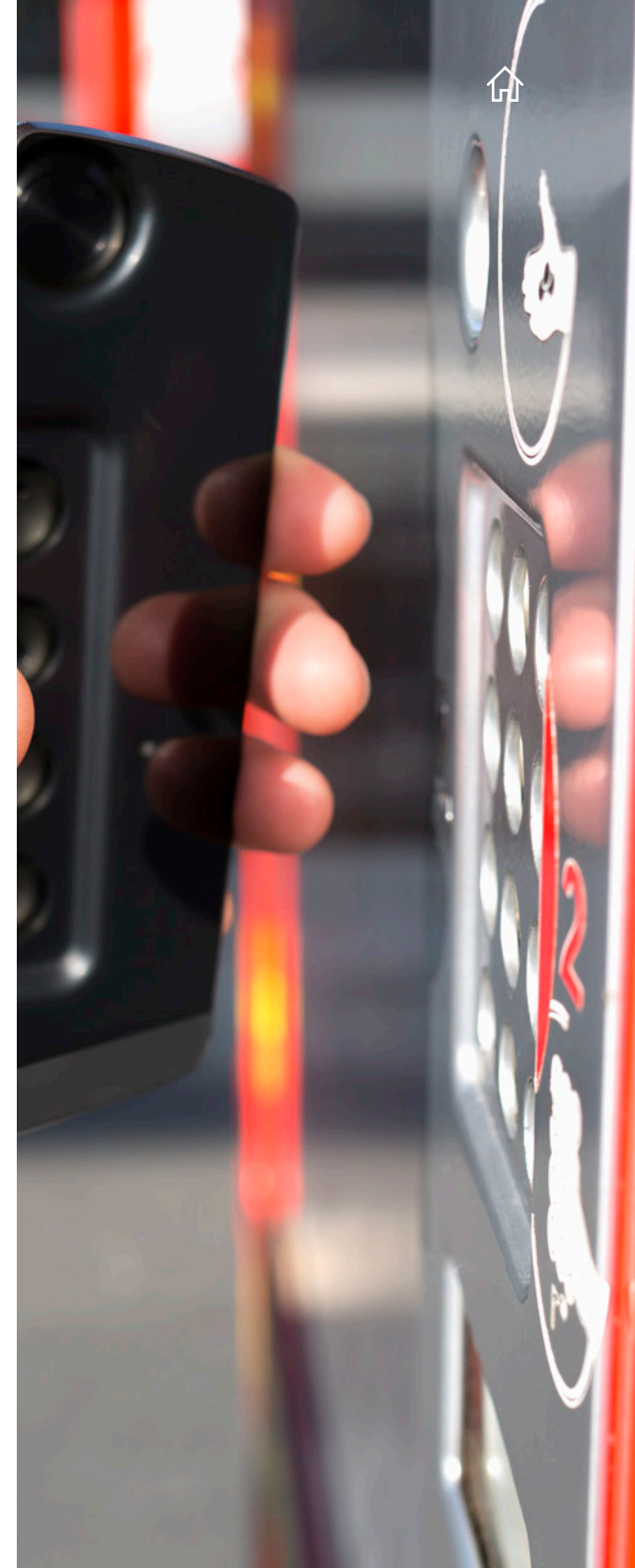
Optimise with technology

Our Proptech expertise helps you to optimize property and facility management, improve operations such as lighting control, facility monitoring, occupancy tracking, space optimisation, and more. We're increasingly deploying robotics and artificial intelligence for maintenance and cleaning.

We help clients make significant operational savings by moving to condition and reliability-centered maintenance such as:

- › deploying occupancy sensors
- › cleaning areas and equipment based on traffic
- › adjusting the frequency of equipment maintenance

Our Proptech expertise helps you make significant operational savings by moving to condition and reliability-centered maintenance.





04

JLL Asset Enhancement Services

Our approach is based on decades of learning and experience. With millions of square feet under management, we have a wealth of data, knowledge and processes to maximize owner/occupier revenue and manage costs. As a global firm and leaders in capital market transactions across Asia Pacific, our extensive dataset enables sophisticated benchmarking and modelling. Our significant investments in technology help our clients make intelligent use of data.

The solution to this challenge is a well-planned and effectively implemented asset enhancement strategy that will attract and retain tenants, reduce operating costs and lower carbon omissions which are notoriously high in real estate.

The key steps for successful asset enhancement are:

Demand Analysis – Estimate qualitatively and quantitatively, future demand and value drivers.

Asset Performance – Evaluate the performance of the existing building across a range of physical and financial factors (See JLL Asset Performance Evaluation Tool).

Gap Analysis – Compare performance with both nearby existing market leading buildings and new buildings coming on to the market in the next few years. Identify and quantify the gaps.

Design – Develop an appropriate and cost-effective design solution that will close the performance gaps and deliver a positive return on investment.

Implementation – Prepare an appropriate phasing plan. Procure and implement the works efficiently and effectively to avoid disturbance to existing tenants.

Leasing – Market the enhanced building and maximise improved leasing opportunities.

Operations – Operate and maintain the building to standard that enhances the tenant experience and improves efficiency.



05

Get in touch

Get in touch to learn more about how we can help you unlock new value from your aging assets.

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