TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

Research Insights | 22 October 2020

Australia and New Zealand – *Capital Markets, Office Market*

Capital Markets Outlook 2020-2021

Office Sector

We expect the office sector to continue to attract firm demand. Australian real estate remains very attractive globally. High yields, a resilient economy and political stability underpin the strong market fundamentals. Many offshore groups have management teams in place in Australia and we expect flow of capital to continue to increase throughout the remainder of 2020 and into 2021.

Retail Sector

Once investors have confidence in medium to long-run forecasts, capital will target assets underpinned by strong catchment areas. The mismatch between ‘ideal” and “challenged’ assets will become starker and create a two-tier market. We expect that non-discretionary centres will be in high demand and see the possibility of yield compression and higher values for well-located, strong catchment centres. We also expect that quality assets regardless of size and sub-category with strong catchments and performance will remain in demand.

Industrial and Logistics

Two key themes have emerged in 2020: flight to quality and sale and leaseback deals. Prospects are good, since infrastructure investment and growth in e-commerce should offset the impact of lower population growth on consumption. Local institutions have dominated the investment market in 2020, but we expect increased demand from offshore groups once Australia’s borders open for business travel. Investment in alternative subsectors including cold storage distribution centres and data centres should become more prevalent.

Hotels

- Australia is the midst of a hotel development cycle with more than 4,800 rooms under construction, but many openings have been pushed back.
- Newly developed hotel stock will face greater headwinds with weaker demand through 2021.
- Hotels within mixed-use projects are more likely to come to market.
- Australia’s management of the health crisis and the size of the domestic tourism market should bring opportunities for medium to long-term investors with available stock past the development phase.

New Zealand

- Despite some uncertainty and short-term disruption to market conditions this year, low interest rates are fuelling investment activity, especially for prime properties with strong covenants.
- The flight to quality and limited stock available to purchase is likely to elevate the level of competition amongst experienced investors driving values higher.
- Even so, we see reluctance from major banks to underwrite new business. This uncertainty has increased the demand for debt advisory services.
- A recent Colliers International APAC research report noted that the yield spread over ten-year government bonds in New Zealand was amongst the highest in the APAC region, which is expected to bolster investor demand from offshore upon the relaxation of border restrictions. Domestic players look likely to take advantage of the absence.

For further details, please see Colliers’ report:

- ***ANZ capital markets outlook 2021*** *(14 October)*

Flexspace set to expand fast in metro office markets

One area of focus for Australian tenants and landlords is likely to be flexspace. Within Sydney alone, as of Q3 2020 there are 184 centres covering 274,900 sq metres across the CBD and metro areas. However, by net lettable area, 72% of flexspace is located in the CBD.

Looking ahead, many occupiers must accept that staff may wish to continue working partly at home, or outside CBDs. According to a recent survey by Morgan Stanley, 76% of Australians would like to work from home in future, including 46% who wish to do so every day. Figures for Asian and global cities are much lower.

While working from home offers greater flexibility, we believe a physical presence in the office is essential to facilitate collaboration and transmission of corporate culture. It therefore seems likely a hybrid model will emerge, with suburban flexspace playing a key role.

We expect a centralised office to be kept as the hub for collaboration, training and meetings. A flexspace membership model may then be adopted, allowing staff to work from in flexspace if they do not need to come into the CBD, but cannot easily work from home.

For this model to work, flexspace will need to expand fast through suburban markets. For now, no flexspace operator has enough scale in metro markets to give occupiers confidence. This is why it is likely that in 2021 and beyond, flexspace operators will aggressively pursue lease opportunities in metro office markets.

For further details, please see Colliers' report:

- ***Metro office second half 2020*** *(6 October)*

Singapore – *Office & Investment*

Office

CBD Grade A rents accelerated their decline to 2.3% QOQ in Q3 2020 to SGD9.77 (USD7.14) per sq foot. This brings YTD decline to 3.4%*. We expect further rental correction in Q4 2020, as leasing demand continues to shrink with the global slowdown.

Net absorption turned negative as certain sectors hit hard by the pandemic had to return space. Consequently, CBD Grade A vacancy increased 0.3pp to 4.9%. Capital values declined 1.5% QOQ to SGD2,468 (USD1,803) per sq foot while deal volumes fell 36% QOQ. More tech giants are making Singapore their regional hub, boding well for sentiment.

Recommendations

We recommend to rationalise space requirements and consider value options especially in CBD Grade A offices. Larger occupiers can also adopt a flex-and-core or split-office strategy.

For further details, please see Colliers' report:

- ***Tech occupiers remain bright spot*** *(7 October)*

Investment

Singapore investment sales in Q3 jumped 78.0% QOQ, albeit still down 64.8% YOY to SGD3.99bn (USD2.92bn). 9M 2020 fell 56.5% YOY to SGD10.16bn (USD7.42bn). We see strong investor interest as more attractive assets are made available.

Commercial and residential deals made up 87% of the Q3 tally. Transactions at below-market cap rates for freehold CBD office assets suggest investors' long-term focus and confidence in the Singapore economy.

Industrial volumes continued to grow, led by logistics warehouses and data centres.

Recommendations

We recommend investors focus on assets with long term growth drivers, such as logistics warehouses, high-specs business space, and CBD office buildings with income or redevelopment potential.

For further details, please see Colliers' report:

- ***Regaining investment momentum*** *(14 October)*

North China – *Office*

55% of companies: **business declined**

62% of companies: **maintaining current space usage**

40% of companies: **budget reduced**

34% of companies: **are willing to move to another area**

Colliers conducted a survey of tenants in the Beijing office market in early August 2020, visiting nearly 100 companies to assess market conditions in the wake of the COVID-19 crisis earlier this year.

Our survey results show that companies are more cautious and conservative toward office leasing options in the current environment, and companies are becoming more sensitive to price. We also found most companies care about the property's equipment and facilities when they choose the location. And most of the companies are not satisfied with the current facilities and equipment of their properties.

Recommendations

- Proactively target foreign-funded enterprises as 54% reported an interest in relocating, especially those in the CBD and Lize submarkets.
- Increase the public supporting facilities in the project such as shared meeting space and public areas.

For further details, please see Colliers' report:

- ***New office demand trends post-pandemic*** *(9 October)*

South China – *Office*

Shenzhen : The newly published Shenzhen five-year (2020-25) reform plan by the Chinese government to position Shenzhen as a "model city" should benefit office demand from the innovative technology and finance sectors[1].

New supply of more than 300,000 square metres was completed, comprised of four new buildings in Qianhai.

Large new supply continued to weigh on the market, leading to a rental drop of 2.9% QOQ.

The most active tenant category was professional services, accounting for 35% of total leased area in Q3.

Recommendations

Landlords are advised to focus on preparing for demand growth from the financial industry and related financial services by adjusting their marketing strategies.

For further details, please see Colliers' report:

- ***Steady increase in demand*** *(14 October)*

[1] http://www.sz.gov.cn/cn/xxgk/zfxxgj/zwdt/content/post_8166565.html

Guangzhou: We believe the Grade A office sector is entering a tenants' market, given the large supply in 2021. We recommend landlords maintain tenants by providing more flexible leasing terms and improving property maintenance.

There was no new office supply in Q3. Meanwhile, net absorption in Q3 grew by 54% QOQ to 32,400 sq metres as the economy recovers.

More investors are looking for the en-bloc office purchase opportunities in Pazhou, as over 1 million sq metres of Grade A office is planned to be completed in Pazhou in 2021.

Recommendations

We recommend TMT tenants to lock in favorable terms in Pazhou, while other tenants with high-quality requirements can look for pre-leasing opportunities in PRNC.

For further details, please see Colliers' report:

- ***Demand to pick up as the economy recovers*** *(14 October)*

Korea - *Office*

A tenants' market is likely to persist into the remainder of 2020 as landlords continue offering attractive terms and incentives to attract and retain tenants.

Tenants should use the opportunity created by increased new supply to relocate their premises on favourable terms.

Recommendations

Given the tenant-friendly conditions, we recommend tenants located in the YBD take this opportunity to use a blend and extend strategy, negotiating lower rents in exchange for longer leases.

The vacancy rate rose again in Q3 2020 due to large new supply in the YBD. However, the high quality of the new supply, in part, helped push rents slightly higher. The CBD saw demand from the relocations of major headquarters.

For further details, please see Colliers' report:

- ***Opportunities for tenants due to YBD new supply*** *(12 October)*

East China – *Office*

Q4 is traditionally the most active quarter in office leasing market. **Landlords**: We recommend landlords focus on customized incentives to attract growing sectors like technology, medical & health and online services in addition to key leasing sectors.

Q3 2020 highlights: Confidence picked up and QOQ demand surged. However, high supply pushed up Shanghai's overall vacancy rate and rents fell 2.7% QOQ. We foresee demand continuing to rebound in Q4 and expand substantially through 2021. However, a rising proportion of new DBD supply will continue dragging rents lower.

Recommendations

We recommend tenants take this opportunity to negotiate favorable rent packages in exchange for longer-term commitments.

For further details, please see Colliers' report:

- ***Demand rebounded with the recovery of Market Confidence*** *(16 October)*

Logistics is a key growth market

Across Asia Pacific, demand for logistics space has been supported by a long-run shift from physical to online retailing. COVID-19 has driven up e-commerce volumes sharply, while expansion in the cold chain sector and new infrastructure developments should boost demand further. Most investors and developers already see logistics warehouses as a core asset class.

Logistics markets across APAC vary by stock, specifications and outlook

Relative to their populations, Australian cities are the best served by logistics facilities, with

2.2-3.1 sq metres

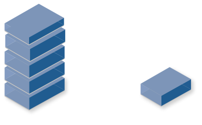
of Grade A warehouse space per capita

In Japan, old stock makes up over 90% of the total. Greater Tokyo and greater Osaka have only

0.4 and 0.2 sq metres

of total warehouse space per capita

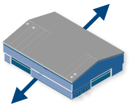
Average storeys of a modern warehouse



Singapore | Australia/India

5 vs 1

Floorplate size of a modern warehouse



Japan (small modern clusters) | India

Up to **100,000 vs <13,000**

sq metres

Age of a modern warehouse

Japan (small modern clusters), greater Seoul, Philippines, various Chinese and Indian markets | Hong Kong SAR[1]

2-4 vs >10

years

Cold chain is a major new growth driver

Singapore

10% of total stock

West China (Chengdu)

15% of total stock

Australia

3-5% of total stock

[1] Special Administrative Region [of the People's Republic of China]

Recommendations

1. With firm demand and limited supply in **China's Tier 1 cities**, tenants and owners may have to seek space and opportunities in **locations away from the main centres**.

2. **Japan** stands out as an underserved market. Given low availability of modern units, investors and developers may **apply value-add strategies** to older stock. It is increasingly common to **demolish and rebuild**.

3. Looking ahead, we expect that big purpose-built cold chain warehouses will be built near ports and transport hubs, while renovated cold chain warehouses will be located nearer cities for easy distribution. Occupiers and owners will find **opportunities in both types**.

4. **Australia** has ample logistics stock, but it is tightly held and vacancy rates are well below their long-run averages. Investors should be willing to **buy a portfolio of assets** to achieve scale.

*For further details, please see Colliers' report: - **New directions in Asia Pacific logistics** (15 October)*

For further information, please contact:

CK Lau
Managing Director | Valuation & Advisory Services | Asia
+852 2822 0665
Ck.Lau@colliers.com

Tammy Tang
Managing Director | China
+86 21 6141 3625
Tammy.Tang@colliers.com

Terence Tang
Managing Director | Capital Markets & Investment Services | Asia
+65 6531 8565
Terence.Tang@colliers.com

Charles Yan
Managing Director | North China
+86 10 8518 1593
Charles.Yan@colliers.com

Richard Shen
Managing Director | East China
+86 21 6141 3600
Richard.Shen@colliers.com

Alan Fung
Managing Director | South China
+86 20 3819 3998
Alan.Fung@colliers.com

Rick Thomas
Executive Director and Head | Occupier Services | Singapore
+65 6531 8592
rick.thomas@colliers.com

Jerome Wright
Senior Director | Capital Markets | Singapore
+65 6531 8683
jerome.wright@colliers.com

Robert Wilkinson
Managing Director | Korea
+82 2 6325 1901
Robert.Wilkinson@colliers.com

Malcom Tyson
Managing Director | Industrial | Australia
+61 2 9257 0271
Malcom.Tyson@colliers.com

Dwight Hillier
Managing Director | Valuation & Advisory Services | Australia
+61 2 9257 0219
Dwight.Hillier@colliers.com

Simon Hunt
Managing Director | Office Leasing |
Australia
+61 3 9612 8818
Simon.Hunt@colliers.com

Doug Henry
Managing Director | Occupier Services |
Australia
+61 2 9257 0386
Doug.Henry@colliers.com

John Marasco
Managing Director | Capital Markets &
Investment Services | Australia & New Zealand
+61 3 9612 8830
John.Marasco@colliers.com

Contact details (Research)

Andrew Haskins
Executive Director | Research | Asia
+852 2822 0511
Andrew.Haskins@colliers.com

Rakesh Kunhiraman
Senior Director | Research | Asia
+65 6531 8569
Rakesh.Kunhiraman@colliers.com

Joanne Henderson
Director | Research | Australia
+61 2 9257 0286
Joanne.Henderson@colliers.com

Luke Crawford
Associate Director | Research | Australia
+61 2 9257 0296
Luke.Crawford@colliers.com

Chris Dibble
National Director | Colliers Partnerships, Research &
Communications | New Zealand
+64 9 357 8638
Chris.Dibble@colliers.com

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn