ASIA MARKET SNAPSHOT

CAPITAL MARKETS & INVESTMENT SERVICES

Q4 2018

Accelerating success.
REGIONAL TRENDS

JAPAN EMERGES AS MARKET TO WATCH

Period of continued optimism in real estate markets across the country is expected to remain stable, with foreign investors continuing to seek investments.

HIGHER INTEREST RATES CAST A PALL OVER THE HONG KONG MARKET

The Hong Kong Monetary Authority’s third base rate hike in 2018 pushed the benchmark interest rate to a 10-year high.

SEOUL SETS MAJOR MILESTONE

Q4 2018 saw South Korea’s single largest real estate transaction ever - the acquisition of the Centropolis Tower in central Seoul for KRW1.18 trillion (USD1 billion).

TAIPEI CLOCKS NEW HIGHS

Total commercial property transaction volumes rose to TWD80.9 billion (USD2.7 billion) in 2018, the highest since 2014, while land transaction volumes hit five-year highs at TWD182.2 billion (USD6.07 billion).

NON-RESIDENTIAL SEGMENTS REMAIN IN FOCUS IN SINGAPORE

Developer and investor interest has shifted to non-residential opportunities, in the wake of state-implemented cooling measures, coupled with the absence of government land sale tenders and collective sale transactions in the residential market.
Japan emerges this quarter as a market to watch, as continued optimism and belief in the stability of Japan’s economy is expected to trickle into the first quarter of 2019. Office transactions continue to dominate, even as investors are being priced out of Tokyo’s Grade A office space as they shift their focus increasingly to lower-end properties and other markets such as Nagoya and Osaka.

Meanwhile in Beijing, decentralization is a key theme in the lively office market as the city’s government leads by example by moving to a new location and investing heavily in southern districts. Shanghai, with its plans to build nine new metro lines, is also attracting investment in office and retail properties in districts located away from the city centre. The Pearl River Delta, part of China’s ambitious Greater Bay Area plan, is counting on two new transport links – the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge – that came online in Q4 to enhance connectivity and boost the allure of the region’s office and retail sectors. Sentiment in Hong Kong has been hit by rising interest rates, but liquidity remains robust and demand for commercial and residential projects is expected to remain high.

Non-residential segments remain in focus in Singapore

The office sector led investments for the second consecutive quarter in Singapore while the residential market may remain subdued as government cooling measures take hold. The hotel sector looks set to perform well with robust tourist numbers boosting occupancy rates.

Trade tensions are a cloud with a silver lining

Interest is growing among Taiwanese manufacturers on the Mainland looking to move back home to sidestep the impact of the US-China trade tensions. Activity in the Taipei market is expected to concentrate on commercial properties, having clocked multi-year high transaction volumes. In Vietnam, industrial properties around Ho Chi Minh City are in high demand, and so are commercial and office spaces across other major cities, as Chinese companies hit by the trade tensions join investors from Korea, Japan and Singapore in seeking favourable deals.

Infrastructure, general elections eyed

Investors are keenly awaiting the outcome of crucial general elections in India, Indonesia and Thailand over the next few months. Each of these countries has steadily introduced recent reforms and improvements to infrastructure that have helped retain investor interest, but challenges remain. India’s housing market has been hit by a funding crunch but land reforms and GST should drive demand for warehouse space. The Thai capital Bangkok is facing a housing supply glut, which will induce caution as well as a focus on mixed-use projects among developers. In Indonesia, projects are being delayed by sluggish sales ahead of the polls, even as optimism surrounds some of the infrastructure projects enhancing the country’s road, rail and port networks.

Contact our relevant investment market experts to find out about key trends and opportunities across this fast-changing region and our suite of capital markets and investment solutions.
The optimization of core city space and further development of emerging areas continued to be the major focus of Beijing’s city planning in Q4 2018. The Beijing government released the “Action Plan for Promoting Accelerated Development in the Southern Urban Areas (2018–2020)” and, as of January 2019, will have completed its relocation to Tongzhou. The suburbs of Tongzhou and Lize have developed rapidly to attract the attention of investors and be regarded as the two most important emerging areas in Beijing, as seen by the 4 transactions in these areas in Q4.

There were 8 transactions recorded in Q4 2018 totalling USD4 billion. The office market continued to be the most active sector in Beijing, with 3 transactions totalling USD1.97 billion and accounting for 49% of total transaction volume in Q4. Properties in emerging areas such as Tongzhou and Lize of Fengtai District were the most popular, accounting for transactions worth USD1.9 billion, or 49% of the total transaction volume.

Major Deals to Highlight

» Beijing Tiewu Building, an office project located in Fengtai District, was sold to CFLD for USD841 million. The project has a total GFA of 155,000 sq m.

» Hony Capital purchased Oriental Cultural and Art Center, an office project located in Chaoyang District, from Hopson International for USD654 million. The project has a total GFA of 53,119 sq m.

» Jingtong Roosevelt Square, a retail project located in Tongzhou District, was sold to Link Real Estate for USD371 million. The project has a total GFA of 67,500 sq m.

The investment market in Beijing will continue to be opportunity-driven in 2019 because of the limited investment stock available for sale in the city. Over the first half of 2019, investors will focus on properties that generate stable incomes or offer large value-add potential. We expect more opportunities in decentralized areas, especially in Fengtai and Daxing, as the government plans to invest heavily in southern Beijing. Furthermore, we also expect foreign investors to be more active in the Beijing market in 2019.
Chengdu continued to accelerate in terms of urban construction and economic development activities in Q4 2018. On December 26, the second and third phases of Chengdu Metro Line 3 opened, the import and export trade industry expanded rapidly at 30% between January and November, and rental demand grew for Grade A office buildings and logistics warehouse properties. But real estate regulations and the lack of suitable projects ensured investments in Q4 were stagnant. However, investor groups continue to follow the market, paying particular attention to development sites, offices and logistics.

As market policies continue to tighten, the volume of residential home sales has further decreased by 15% m-o-m. As for the office sector, the development of enterprises and continued inflow of talent have resulted in greater demand for office space. In Q4 2018, the overall vacancy rate of Grade A office buildings declined to 17.3%, dropping 2.7% q-o-q, and average rent rose 0.2% to RMB106.3 per sq m per month. While investors continued to track the market there were no transactions in Q4.

Influenced by the macro environment, investors will continue to be cautious towards Chengdu’s investment market in Q1 2019. However, we believe that residential development projects in urban and suburban areas, and office projects in core areas with stable rental income will continue to attract investors. Meanwhile, the development of trade in Chengdu has accelerated, with the import and export volume expected to grow more than 30% in 2018, pushing up warehouse rents and drawing the attention of investors to logistics development projects or existing facilities.
The last quarter of 2018 was a shaky one as stock markets around the world fell while uncertainty persisted around the outcome of the U.S.-China trade war and Brexit. China’s persistent outbound capital controls also cast a cloud even as interest rate hikes by the U.S. Federal Reserve resulted in a 25-basis point increase in the Hong Kong Monetary Authority’s base rate for the third time in 2018, propelling the HIBOR to a 10-year high of 2.39%. All these factors put together had a cooling effect on Hong Kong markets and dampened sentiment among buyers.

Monthly residential sales volume dropped 37.9% m-o-m to 2,635 units in November and a further 21.8% m-o-m to 2,060 units in December. Lingering uncertainty among buyers also affected primary sales of projects such as ‘Altissimo’, a development in Man On Shan by Country Garden, Wang On and China State Construction International, which has only sold about 20% of the 100 units launched. Nonetheless, market supply remains limited and with the government falling short of its land supply target by 23% in 2018, reasonably priced developments such as ‘Grand Central’ in Kwun Tong performed well, selling all 871 units launched in six days.

The commercial sector has been subjected to the same external factors, pushing down transaction volumes by 26.8% q-o-q. The general outlook is sluggish and the market continues to favour sellers as capital values remain strong but with limited growth. Buyers have become more conservative with a focus on discounted deals or healthy returns. One noteworthy transaction was Far East Holdings’ acquisition of a 51% stake in Silver Fortune Plaza retail podium in core Central for HKD550 million, a healthy return of 4.47%.

**Major Deals to Highlight**

» Link REIT sold 12 shopping malls to a consortium formed by Gaw Capital Partners and Blackstone for USD1.53 billion.

» Government Land Sale NKIL 6574 was awarded to a consortium formed by Wheelock Properties, New World, Henderson Land and Empire Development for USD1.06 billion or USD1,849 per sq ft.

» Government Land Sale NKIL 6591 was awarded to Goldin Properties for USD1.13 billion or USD1,976 per sq ft.

The commercial sector should stay relatively flat in the coming quarter. The Hong Kong market remains liquid and private and institutional investors are waiting for the opportunity to re-enter the market that will present itself once the price adjustment period has ended. Demand for both commercial and residential projects remains high and supply continues to be limited. We may also witness more examples of developers focusing on brownfields to add to their pipelines in both sectors.
India’s residential real estate market stabilized to a certain extent in Q4 2018. New government reforms and policies led to increased affordability and transparency for home buyers. The government’s ‘Housing for All By 2022’ drive, the granting of infrastructure status to the affordable housing sector and initiatives like “PMAY” (subsidy for loans on houses below a certain threshold), all helped to increase housing supply as well as demand for low- and mid-income segments. The NBFC funding scenario was slow with investors being still in a wait and watch mode.

The co-working sector is gaining momentum as evidenced by the increasing number of new players and growing activity among existing ones. Private equity investors continue to remain focused on stable assets.

Developers felt a squeeze for liquidity as NBFCs which is the biggest source of funding for Developers (have had a market share of about 65% lately), became slow and cautious due to non-rollover of their short term commercial papers. The impact of this was seen on the disbursement of sanctioned home loans as well, adversely impacting the players.

On the other hand, the industrial warehousing sector is undergoing noteworthy structural shifts after the implementation of GST. Advancements in e-commerce and growth of organised retail have prompted a sharp increment in the warehousing sector. Government reform aimed at making land acquisition rules consistent across the country has facilitated the procurement of warehousing and industrial land, leading to robust growth in the sector.

**Major Deals to Highlight**

» Mapletree Investment purchased SP Infocity, Chennai, for USD343 million. It is the largest single real estate asset transaction in India. SP Infocity was jointly owned by Shapoorji Pallonji Investment Advisors and CPPIB.

» Global investment firm Xander signed a deal with Phoenix Group to invest USD350 million for the development and subsequent acquisition of 4.5 million sq ft of office space in Hyderabad.

2019 will start on a cautious note due to the upcoming elections and how the NBFC story unfolds. Affordable and mid-income housing will continue to drive demand in the residential sector with some new corporate players. Meanwhile, the implementation of GST and simpler land acquisition rules will accelerate demand for warehousing space further in Q1 2019.

Foreign institutional investors may shift their focus from Grade A office to other income-generating assets, including malls, warehouses and industrial parks, due to limited availability and supply. Brownfield and greenfield projects are expected to gain traction among more mature investors.
In Indonesia, most property developers of vertical, middle to upper tier projects of all asset classes are delaying or slowing down their projects due to sluggish sales and the upcoming presidential election on April 17, 2019. The most positive sectors in property development are currently middle-low to low-cost landed housing and apartment projects. Developers are hopeful that investment sentiment will turn around in six to 12 months following the election.

Meanwhile, the primary investment activity underway in Indonesia is infrastructure. And the biggest story in infrastructure has been the Jakarta MRT, with the first phase (15.7 km) of operations, consisting of 13 stations, is expected to start in March 2019. MRT Jakarta has confirmed signing a loan agreement worth IDR25.10 trillion to finance the construction of the second phase (7.8 km), of which IDR2.56 trillion will be utilized to fund cost overruns of the first phase. Jakarta is also planning to build Phase 3 of the MRT, which will cover a much wider range of 87 km, reaching all the way to Banten province and Cikarang in West Java. MRT Jakarta would only be responsible for 31 km of the line located within the Greater Jakarta metropolitan area with regional governments in charge of implementing their connections to the system.

The second big infrastructure story in Jakarta is the LRT. The first phase of the LRT, currently under construction, is planned to open in late 2019 at a cost of USD900 million. Once completed, the LRT will also link up with the TransJakarta bus system, the airport railway (already operating from Soekarno Hatta International Airport to Dukuh Atas station in the CBD), as well as the Jakarta-Bandung medium-speed train. Ultimately, the LRT network will be completed in 7 phases, at a cost totalling approximately IDR60 trillion.

The third major infrastructure story is the expansion of the toll-road system across Greater Jakarta. Composed of an inner and outer ring road and five toll roads radiating outwards, the network provides inner as well as outer-city connections.

The fourth big infrastructure story is expansion of the ports. In addition to the USD2.5 billion expansion of the existing Tanjung Priok Port in North Jakarta, which will increase capacity to 18 million 20-foot equivalent units (TEUs) from the current 6.9 million, the new Patimban Deep Sea Port, some 100 kms east of Jakarta, is located near some of Indonesia’s key industrial areas, including Bekasi, Karawang and Purwakarta. It is expected to ease the heavy congestion at Tanjung Priok Port, which currently handles about 65% of the nation’s international trade. The Patimban seaport is envisaged to become an international seaport with a capacity of 7.5 million TEUs, and has begun construction.

Upcoming major infrastructure projects to be discussed in our next report include the Kertajati International Airport, located east of Greater Jakarta between Jakarta and Bandung, the Jakarta to Bandung medium-speed train and the Jakarta to Surabaya high-speed train.
Continued optimism and belief in the stability of Japan and ongoing demand saw active investors find suitable options in Q4 2018. However, volumes remain lower than the cyclical average of USD23.8 billion, down 35% y-o-y. Transaction volumes in Tokyo totalled USD15 billion, down 18% y-o-y. Office transactions continued to dominate, accounting for over 55% of total volume by asset class. Average capitalisation rates across all sectors continue to track downwards with the Japan All Property rate currently at sub-4% levels.

Market sentiment remains cautiously optimistic with demand continuing to outstrip supply. But several active investors are priced out of core markets, especially in Tokyo’s Grade A office market, and the focus is now shifting to Grade B assets to facilitate returns. This has led to growing interest in secondary markets such as Nagoya and Osaka, with implied cap rates of 5.24% and 4.57% respectively, offering significant improvement on returns compared to the core Tokyo market.

Major Deals to Highlight

» Akasaka Star, Minato-ku, Tokyo sold by ORIX Corporation and JR AMC Co to Hulic in November 2018 for JPY17.5 billion (USD160 million) at an undisclosed capitalisation rate.

» Kitahama Nexu, Osaka-shi, Osaka sold by Kenedix REIT to CBRE Global Investors in October 2018 for JPY19.1 billion (USD175.6 million) at an undisclosed capitalisation rate.

» Sasazuka NA, Shibuya-ku, Tokyo sold by Savills IM to Daiwa Office REIT in October 2018 for JPY15.5 billion (USD142.5 million) at a capitalisation rate of 4.5%.

We forecast the hardening of capitalisation rates to continue as demand grows for a limited number of available assets while volumes remain far below the cyclical average.

The period of continued optimism across real estate markets in Japan is set to remain stable in the first quarter of 2019. Cross-border investments are also set to continue, but the constrained supply of existing assets will force inbound investors to shift to development or conversion opportunities, including forward commitments. Opportunities remain in certain premium assets in the hotel sector due to lack of supply, but most investors remain risk-averse as reflected in the lower trading volume for the quarter.
Seoul’s office building transaction market was active in 2018 with major deals closed during the year. In Q4 2018, a total of 13 office properties were transacted with a combined value estimated at KRW2.4 trillion (USD2.2 billion). The estimated total volume of KRW10.7 trillion (USD9.5 billion) for the year represents a sharp increase from the previous year, as a number of prime office building transactions, including Centropolis Tower, Gangnam N Tower and Samsung C&T Corporation’s headquarters, were closed.

In light of the economic uncertainty, investors will seek safe properties with long-term leases amid concerns of declining occupancy rates. Apart from focusing on core office buildings, more investors are adopting value-added strategies to counter falling returns hit by increased interest rates.

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**Major Deals to Highlight**

» M&G Real Estate, which has partnered with a number of Korean pension funds, purchased Centropolis Tower in Seoul for KRW1.18 trillion (USD1 billion). The deal was the single largest real estate transaction in the Korean capital.

» GRE Partners Asset Management purchased Samsung Fire and Marine Insurance headquarters in Hapjeong-dong from Ryukyung PSG for KRW63 billion (USD58 million).

» The HP building, previously owned by CBRE Global Investment, was sold to IGIS Asset Management for KRW212 billion (USD197 million). IGIS Asset Management plans to convert the first three floors of the building to retail space.

Seoul Square, Jongro Tower and Namsan State Tower are currently being put on the market. These deals are expected to ensure transaction volumes increase further in the first half of 2019. If the expected transactions of buildings in prime locations are successfully closed in 2019, the aggregate transaction size is expected to exceed KRW10 trillion (USD8.5 billion) again.
Myanmar’s office market is expected to receive a boost thanks to further liberalisation of the country’s insurance sector. Rental rates are expected to remain stable between USD30-40 per sq m despite an expected increase in stock during the year. Furthermore, the retail sector remains a highly viable investment option, achieving occupancy rates of more than 90% on a city-wide average. The lack of international-standard shopping centres in the pipeline coupled with the continuous entry and expansion of retail brands are expected to support premium rents in the next 12 months.

Flights to quality among tenants are more frequent as office rents stabilise at more competitive levels. Similarly, retailers have remained optimistic as seen from the continuous store expansions and foreign franchise acquisitions. The entry of more foreign retailers into the city is anticipated. A number of multinational corporations are also exploring Myanmar as an investment destination, bringing in expatriates with vast experience to help build capabilities locally. Developers are urged to tap into the mid-tier market by introducing limited or non-serviced apartments of international quality.

After years of waiting, foreign insurance providers will finally be given the approval to conduct business in Myanmar. This recent development is set to boost demand for quality office spaces. Likewise, some developers are expected to expand their mass market reach with plans to introduce more low-cost residences. Favourable mortgage and deposit arrangements will change the residential market, which traditionally has been out of reach for a majority of the population, especially in the middle-income segment. Meanwhile, increased leniency in visa requirements for several of Myanmar’s major Asian trading partners should underpin growth in the hotel market. Overall, while progress has been made, much remains to be done in the industry with 2019 likely to see further legislative efforts.
Development of inter-city and urban infrastructure continues to be a focus of the Greater Bay Area (GBA) in Q4 2018, helping promote business and talent exchange within the region. This has been highlighted by the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in late September followed by the official opening of the Hong Kong-Zhuhai-Macao Bridge in October. As the central component of the GBA, the Pearl River Delta (PRD) region has attracted the attention of investors and is the most promising Chinese market after Shanghai and Beijing. The total transaction amount has grown each quarter since Q1 2018, reaching USD2.3 billion in Q4.

Nine transactions in Shenzhen and Guangzhou with a total value of USD2.3 billion closed in Q4. The PRD’s rapid development and the influx of new talent has made it the fastest-growing region among Tier I cities in terms of overall consumption power, attracting investors to retail properties. Eight transactions were closed in Guangzhou, totalling USD969 million. Of these, 2 were retail projects totalling USD442 million and accounting for 34% of Guangzhou’s total transaction volume.

**Major Deals to Highlight**

» In Q4, 77.79% of Yuexiu Fortune World was sold via auction for USD395 million. The mixed-use project, including retail space, offices and apartments, is located on Xiwan Road, Liwan District, Guangzhou, and covers 260,000 sq m.

» In Q4, nearly 47,000 sq m of the retail portion of Poly Financial Tal To Wun in Tianhe District of Guangzhou was sold.

Despite the slowdown in China’s overall growth, the GBA continues to develop rapidly on the back of continued expansion of inter-city and intra-city transport infrastructure and recruitment of high-quality enterprise and talent to the PRD region. Properties in the region, especially retail and office projects with stable cash flows, are expected to attract more attention in 2019. In addition, due to rapid urban development, high-quality investment opportunities in emerging regions, such as Qianhai in Shenzhen and Pazhou in Guangzhou, are expected to gain interest.
Despite slower-than-expected GDP growth in Q4 2018 (6.1%), the Philippines remains one of the fastest growing economies in Asia, and the sustained growth is spilling over into the office, residential and hotel property segments. Outsourcing firms and flexible workspace operators continue to fuel demand for office space; local and foreign investors as well as Chinese offshore gaming firms drive residential demand in key business districts and peripheral areas; and, a growing number of foreign tourists sustain hotel occupancy across Metro Manila.

Metro Manila condominium sales remain strong despite higher inflation and the central bank’s decision to raise benchmark yields in 2018. Latest sales figures indicate that the residential market is likely to outpace condominium sales in 2017. Vacancy in the secondary residential market further dropped to 10.6% in Q4 2018 from 10.8% in Q3 2018.

Office space demand continues to move in step with supply as net take-up for 2018 is estimated at about 1.17 million sq m with new supply totalling 1.18 million sq m. Metro Manila is projected to post an office vacancy rate of between 4.8% and 5% in 2018, with demand coming from outsourcing, traditional or non-outsourcing, and offshore gaming companies.

Foreign tourist numbers hit 5.9 million from January to October, up 7% y-o-y. The higher arrivals continue to drive hotel occupancy rates in Metro Manila, which inched up to 71% in H2 2018, from 70% a year ago.

The office and residential segments are the sectors to watch in Q1 2019. We see strong office demand being carried over to 2019 with the knowledge process outsourcing (KPO) sector driving office demand over the next 12 months. KPOs provide higher-value outsourcing services to health information management, software engineering, finance and accounting companies. Colliers sees office vacancy rates hovering between 5% to 5.5% over the next 12 months.

The residential sector will remain strong, fuelled by a mix of demand from offshore gaming employees, local professionals, as well as local and foreign investors.
Shanghai’s infrastructure made great strides in Q4 2018 as the city’s Urban Rail Transit Construction Plan was officially approved by the National Development and Reform Commission. The plan calls for the construction of 9 additional metro lines that will improve the connectivity of decentralized areas, such as Xinzhuang, Zhenru, Jinqiao and Hongqiao. Investors are expected to become more interested in high-quality office properties located in decentralized districts as well as retail projects with the potential for value-add. Under government guidance, long-term rental apartments will also attract considerable interest.

A total of 23 transactions were recorded in Q4 2018 totalling USD8.78 billion. Foreign investors were responsible for acquiring 9 of the 23 transactions, totalling USD5.98 billion and accounting for 68% of total transaction volume in Q4. In terms of asset class, the office sector, including business parks, remained the top choice for investors as 19 of the 23 deals were office projects or mixed-use projects with large office components. These 19 transactions totalled USD8.08 billion, accounting for 92% of total transaction volume in Q4.

**Major Deals to Highlight**

- Star Harbour, with a total GFA of 427,631 sq m, was sold to CapitaLand for USD2.8 billion.
- Ocean Towers, an office property located in People’s Square, was acquired by Gaw Capital for USD421 million. The total GFA of the project is 50,448 sq m.
- LuFa Plaza, a mixed-use project located in Zhangjiang, was acquired by Jingrui for USD508 million.

Projects that generate stable incomes or offer large value-add potential in the market will remain the focus for investors in 2019. With several deals already under negotiation, we expect the office market to remain the most active investment sector in 2019. Government stimulus such as tax cuts and other measures should boost domestic consumption and enhance interest in the retail sector. In addition, favourable government policies and regulations in the rental apartment market will continue to draw interest to this submarket.
The Singapore office market continued to lead the investment market for the second consecutive quarter in Q4. Notable deals were successfully concluded after months of negotiations and due diligence. The residential market was relatively quiet with the absence of government land sale tenders and collective sale transactions while developers continued to watch the market closely on the back of residential cooling measures on take-up rates of new units. Nevertheless, a number of collective sale transactions for hotel redevelopment sites took place in Q4, as developers and investors shifted their focus to non-residential opportunities.

Major Deals to Highlight

- An entity controlled by Hong Kong private equity fund Gaw Capital Partners acquired Robinson 77, an office building located on Robinson Road within the Central Business District (CBD) for SGD710 million (USD517.6 million). This translates to SGD2,300 (USD1,677) per sq ft based on net lettable area.

- A fund managed by Alpha Investment Partners sold 78 Shenton Way to US-based PGIM Real Estate for a headline price of close to SGD1,900 (USD1,390) per sq ft based on net lettable area, translating to around SGD680 million (USD492.9 million).

- Australian logistics property company LOGOS bought REC Solar Building, located at Tuas South Avenue 4 for SGD585 million (USD424.1 million) on a sale-and-leaseback arrangement. The seller, REC, a leading solar firm, will lease 100% of the space for 20 years for production of solar panels. The integrated property comprises of industrial and warehouse space, spanning about 1.6 million sq ft of gross floor area. The property is located next to the future Tuas Mega Port, which is expected to be completed in 2040.

On the whole, we expect investors and developers to focus on non-residential sectors, especially in the office and hotel sector for Q1. We expect investment activities in Singapore’s office sector to continue from the preceding quarter. The hotel sector is looking attractive as RevPAR continues to perform well since Q1 2018 on the back of reported healthy tourist arrivals and occupancy rates. We expect greater opportunities for acquisitions of hotel assets as sellers start to see value.

However, the residential market could remain subdued in Q1 as developers continue to be cautious, observe the take-up rates in new project launches for Q1 2019 and pace their new projects for launches in the year. By mid-2019, with relatively healthy take-up since the curbs and assuming a benign economic outlook, developers could be more active in land-banking again.

With the underlying industrial leasing market bottoming out, we expect continued interest, especially from qualified investors, in higher-end industrial assets such as high-spec facilities, data centres and modern ramp-up logistics in 2019.

Note: USD conversion is based on the date of transaction or date of award.
Largely due to office transactions conducted by occupational buyers, the total commercial property transaction volumes rebounded and reached TWD33 billion (USD1.1 billion) in Q4 2018. The total transaction volume for 2018 bounced back to TWD80.9 billion (USD2.7 billion), which reflected a 48% increase compared to 2017 and the highest transaction volume since 2014. As prices have softened in the past few years, land transactions remained active in 2018 with total volumes reaching TWD182.2 billion (USD6.07 billion), reflecting a 50% increase compared to 2017 and the highest transaction volume since 2013.

The office sector remained the key market driver in Q4. Office and industrial buildings contributed to approximately 75% of total transactions. Due to limited stock, office buyers considered not only existing stock but also forward purchase opportunities. There were two forward purchase office deals done by occupational buyers in the financial sector.

As we expected, insurance companies became more active in Q4. In November, Lung Yen Group disposed of Taipei Financial Centre through public tender. This strata-titled office asset received four bids from insurance companies. Insurers such as Shin Kong Life, Taiwan Life and Transglobe Life purchased office properties in Q4. Cathay Life spent TWD 7.66 billion on a commercial plot in Taichung City, with plans to develop it into a mixed-use commercial property.

Major Deals to Highlight

» Sunny Bank forward-purchased an en-bloc office property in Zhongshan district, Taipei City, from JUT Land Development for TWD7.65 billion (USD255 million), with plans to move their headquarters to this property upon completion.

» E.Sun Bank forward-purchased an en-bloc office building near their current headquarters in Songshan district, Taipei City, for TWD6.09 billion (USD203 million) for their office expansion.

» Quanta Computer Inc. purchased an en-bloc industrial property near their current headquarters in Hwa Ya Technology Park in Guishan Township, Taoyuan County, for TWD4.28 billion (USD142.7 million).

Office and development sites contributed the bulk of the transaction volume in 2018. Moving forward, we expect this trend to continue and these sectors to remain the focus in 2019. In addition, demand for industrial properties is increasing because of the homecoming trend among Taiwanese manufacturers, mainly due to the trade tensions between mainland China and the U.S.

Overall, we expect improving market sentiment to encourage investors to act as long as there are investment opportunities with the potential for decent returns.
Interest in inward investment remains high as the Thai economy wrapped up a slightly better than expected 2018 with a strengthening of the Thai baht. Over the first two quarters of 2019, we anticipate focus to remain on the general elections, which will feed into investor sentiment, particularly among international companies. In recent years, Thailand has built a strong infrastructure foundation, with significant mass transit development underway across the capital, Bangkok, the planned high speed rail link, and improvements across the Eastern Seaboard. This should provide a good platform for growth.

Market sentiment is strong across commercial sectors such as office, hospitality and industrial, while being cautious in residential development. Bangkok, in particular, has recently seen record numbers of residential projects being constructed, and the high levels of supply are giving rise to more caution among developers when taking on new projects. In fact, many such developers are exploring ways to diversify their strategies into other sectors to broaden their risk profile. Availability of good quality commercial investment product in Thailand is relatively scarce, but opportunities do exist for Thai and foreign investors.

**Major Deal to Highlight**

» IconSiam, a mixed-use, retail and leisure-led development on the Chao Phraya River, opened in November 2018. The USD1.7 billion project includes a large high-end shopping mall, a mix of leisure and entertainment options, as well as a hotel and residences. It has been constructed under a joint venture with Siam Piwat group, MQDC and the Charoen Pokphand Group.

There are a number of factors that may impact the Thai economy in 2019. A stronger Thai baht, the prospect of rising interest rates, general elections and the China-US trade war are all factors to be considered but, overall, the economy is in good shape to prosper during the year. The oversupply of residential projects is likely going to see more selectiveness and caution applied to land purchases. But, while demand remains constant these challenges can be overcome by adjustments to company strategies. We expect continued interest towards mixed-use developments, which allows developers to diversify, and the most prominent example of this trend in the capital is One Bangkok.
Vietnam had a smooth transition from 2018 to 2019, extending its strong economic performance and growth in the coming year is forecast to accelerate at a rate of 6.4%. The construction and industrial sectors continue to be the main contributors to Vietnam’s GDP, growing at 8.61% and 6.78% y-o-y, respectively. The country also attracted USD35.46 billion in FDI in 2018, equivalent to 98.8% of the prior year’s figure. The foreign-invested sector achieved a trade surplus of USD23.65 billion, resulting in a net trade surplus of USD5.39 billion.

Industrial land in the surrounding areas of HCMC remains a hot pick for the market. Meanwhile, favourable land and factories are being inquired about daily by Chinese manufacturers and large corporations as they look for alternative solutions to reduce their import/export tax burden in the face of the ongoing US-China trade war.

Other international investors, such as from Korea, Japan and Singapore, also continue to seek commercial and office developments in major cities in Vietnam.

Major Deals to Highlight

» Warburg Pincus partnered with VinaCapital to invest USD300 million in a hotel venture.

» Vinhomes JSC held its initial public offering and attracted many domestic and foreign investors. Singaporean fund GIC purchased 5.74% of Vinhomes’ shares.

Strong growth is again anticipated for 2019. GDP is expected to grow by 6.8% in 2019, in second place compared to all other SEA countries and closely following Cambodia. Industrial land continues to be the most queried sector as of January 2019 while a PwC report notes that Vietnam is the most mentioned country for investment, which sets a positive tone for continued growth in 2019.
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