INVESTOR PULSE: ASIAN PROPERTY CAPITAL FLOWS IN 2018 AND OUTLOOK FOR 2019

Asian capital is active globally, and should broaden its focus further in 2019. However, Asian capital is even more active within Asia. Record intra-Asian and rising global-to-Asia capital flows indicate renewed confidence in prospects for the region.
Transactions of completed properties in Asia rose 1% YOY in 2018, to an all-time high of USD128.4bn. We predict a drop of 5% to USD122.0bn in 2019, driven in part by likely lower activity in Hong Kong.

Total investment by Asian capital in the real estate sector outside Asia fell 31% in 2018, to USD50.5bn, due to lower capital outflows from China. However, activity by Singapore capital picked up, and Asian capital has started to spread more widely, notably in Europe. We assume a 21% rebound to USD61.0bn in 2019.

Intra-Asian investment in real estate grew 10% in 2018, to a record USD98.2 billion, with capital from Hong Kong, Singapore and South Korea very lively. Consequently, we think Asian capital made up 36% of aggregate global real estate cross-border investment last year. We expect another 10% increase to USD108.0bn in 2019.

Total investment in the Asian real estate sector from outside Asia grew 38% in 2018, to USD24.0bn. This was the highest level in ten years, and indicates renewed confidence in prospects for the region. We predict 25% growth to USD30.0bn in 2019.

**Summary**

**USD128bn, +1%**

Total transactions of completed properties in Asia grew 1% in 2018, to a record USD128.4bn. For 2019, we predict a drop of 5%.

**-31% and +38%**

Investment in the real estate sector outside Asia by Asian investors dropped 31% in 2018. Conversely, investment in Asia from outside the region rose by 38%.

**USD98bn, +10%**

Total intra-Asian cross-border investment in land sites and completed properties grew 10% in 2018, to a record USD98.2bn.

**36%**

We estimate that Asian capital made up 36% of aggregate global real estate cross-border investment last year. We expect Asian capital to broaden its focus further in 2019.

Transactions of completed investment properties in Asia grew by 1% YOY in 2018, to an all-time record of USD128.4 billion. Hong Kong, Tokyo and Seoul were three strongest urban markets. For 2019, we predict a 5% drop in investment property transactions, to USD122.0 billion. Hong Kong is especially likely to see a decline in activity, since previously very strong mainland Chinese interest has abated.

Total investment by Asian investors in the real estate sector (completed properties and land sites) outside Asia fell 31% in 2018, to USD50.5 billion. This was the lowest level since 2014. Capital outflows from China slowed further due to regulatory restrictions, with Singapore capital taking over as the major source of Asian investment in global property markets. However, we see signs that Asian capital is spreading more broadly across cities and sectors, notably in Europe. This broadening of interest should continue, and so we assume a 21% rebound in Asia-to-global investment in 2019, to USD61.0 billion. However, the outcome could be heavily influenced by the ongoing Brexit negotiations in Europe.

Aggregate intra-Asian investment in real estate grew by 10% in 2018, to USD98.0 billion, maintaining the trend of recent years of robust growth. Intra-Asian property capital flows are now nearly double Asia-to-global property flows. The strong outcome reflected lively activity by capital from Hong Kong, Singapore and South Korea. In consequence, by our estimate, Asian capital made up 36% of aggregate global real estate cross-border investment last year. We expect intra-Asian property investment to continue strengthening, and so predict another 10% increase to USD108.0 billion in 2019.

Total investment in Asian real estate from outside Asia grew 38% in 2018, to USD24.0 billion. This was the highest level since the Global Financial Crisis, and indicates renewed confidence in prospects for the region. The US was the key source of investment capital flowing into Asia. Given Asia’s status as the world’s fastest-growing major region and persistent loose monetary conditions, this recovery in interest ought to continue. We predict 25% growth in global-to-Asia investment in 2019, to USD30.0 billion.
INVESTMENT PROPERTY TRANSACTIONS IN TOP TEN ASIAN CITIES

Figure 1: Investment property transactions in Asia1: 2018 snapshot for top ten Asian cities

Most active urban investment markets in Asia

Hong Kong
- Top urban investment market in both 2017 and 2018
- We predict a 15% drop in transactions in Hong Kong in 2019, due to likely lower Chinese investment purchases

Tokyo
- Popular market in 2018
- Remains attractive with a yield of nearly 4.0% and spread of about 4pp over very low-yielding government bonds

Seoul
- Jumped 51% in 2018 to become the #3 urban investment market in Asia
- Unlikely to be so strong in 2019

Shanghai
- Still China’s top urban market, but saw a 23% fall in transactions in 2018
- Tier 2 cities near Shanghai with high growth are gaining investors’ interest

Source: Colliers International, Real Capital Analytics (RCA)
Note: The transaction data presented on this page include global-to-Asia, intra-Asian cross-border and domestic transactions in completed properties within each urban market in Asia. The data exclude transactions in undeveloped land sites. Only transactions of investment properties greater than USD10 million are counted in the ranking for the top ten Asian cities.
INVESTMENT PROPERTY TRANSACTIONS IN TOP TEN ASIAN CITIES

Figure 2: Investment property transactions1 in Asia: 2018 snapshot for top ten Asian countries and territories

Most active country investment markets in Asia

China
- Logistics property sector likely to perform best in 2019
- Shanghai may pick up after weak 2018

Japan
- Loose real monetary conditions likely to persist for several years, keeping cost of funds low for investors
- Tokyo and Osaka both look attractive as investment targets

Hong Kong
- Strong mainland Chinese demand drove the 36% rise in deals in 2018
- We expect reduced activity in 2019

South Korea
- Has seen firm demand for office and logistics property assets
- Continued rapprochement with North Korea may support activity

Legend
Ranking by transaction volume 2018
Total transaction volume/2018 (USD billions)
Total transaction volume/2017 (USD billions)
YOY growth rate (%)
Asian capital has started to spread more widely across cities and sectors, notably in Europe.

Across the global cities surveyed by Colliers:

- European cities receive capital from the most diverse range of sources, followed by Sydney.
- Asian capital rose to 30% of all cross-border activity in Europe in 2018, double the rate of three years ago, and Colliers expects it to spread over a wider range of sectors and cities from 2019 onwards.
- North American cities are dominated by North American capital, though New York, Los Angeles, and San Francisco are more international.
- In Asia, Hong Kong and Shanghai have been big recipients of cross-border capital; Tokyo is more domestically driven.

Capital flows from Asia to global real estate markets (completed assets and land sites) totalled USD50.5 billion in 2018, down by 31% YOY and the lowest figure since 2014. The decline suggests Asian investors have become more cautious about international investment due to moderate economic growth, uncertainty caused by US-China trade tension, and concern about the UK in the light of the impasse over Brexit. By destination, the US, the UK, and Australia were the top three global markets attracting Asian capital, even though total Asian investment in the UK fell by 47% YOY based on RCA figures. We comment further on Asia-to-global capital flows overleaf.

Cross-border capital flows within Asia grew 10% YOY to USD98.2 billion in 2018, maintaining the positive trend of recent years and amounting to nearly double Asia-to-global flows. Including both Asia-to-global and intra-Asian capital flows, we calculate from RCA data that Asian capital made up 36% of aggregate global cross-border property investment of USD406 billion in 2018. Capital from Hong Kong, Singapore, and South Korea was very lively, driven by equity funds, institutions, property firms, and wealthy individuals.

The growth in intra-Asian capital flows largely reflected the acquisition of undeveloped land sites (USD82.5 billion, or 84% of the total), up by 25% YOY in 2018. Purchases of completed properties fell 32% YOY, to USD15.7 billion or 16% of the total. This decline partly reflects lower purchases of completed assets in other markets by Chinese investors—down by 33% over the year to USD5.3 billion. Despite weaker Chinese activity, we expect total intra-Asian property investment to continue strengthening and so predict another 10% increase to USD108.0 billion in 2019.

Capital inflows from global to Asian property markets (completed assets and land sites) grew 38% in 2018, to USD24.0 billion. This was the highest level since the Global Financial Crisis of 2008–2009, and indicates renewed confidence in prospects for Asia. The US was the top source of investment into Asia, contributing USD15.2 billion or 63% of the total. Given Asia’s status as the world’s fastest-growing major region and persistent loose monetary conditions, this recovery in interest ought to continue. We predict 25% growth in global-to-Asia investment in 2019, to USD30.0 billion.

Figure 4: Asia property capital flows: Asia-to-global, global-to-Asia and intra-Asia 2010–2018 (US$ billions)

We estimate Asian capital made up 36% of aggregate global real estate cross-border investment in 2018.

Source: Colliers International, RCA

1 All property refers to office, retail, industrial, hotel, apartment properties and land development sites.

2 Investment property refers to completed office, retail, industrial, hotel, and apartment properties.

*Preliminary figure for 2019 Q1
Asia-to-global investment: Singapore takes the lead

As noted, capital flows from Asia to global property markets fell by 31% in 2018, to USD50.5 billion. In this regard, we should highlight the following:

> Capital outflows from China to global property markets fell by 58% in 2018, to USD11.5 billion, due to continuing government restrictions as well as economic factors.

> Singapore capital replaced Chinese capital as the major Asian investor in global property markets in 2018. Capital flows from Singapore to global property markets reached USD18.0 billion, up by 3% to 36% of the total.

> Asian investors in global markets focused on office and industrial assets. Investment in office and industrial property made up, respectively, 45% and 29% of total Asia-to-global investment of USD50.5 billion.

> While the office sector still dominates Asian investors’ activity by size, Colliers’ global research¹ points to a rising focus on residential, logistics and hotel assets, as well as land development sites. It also suggests that investors domiciled in APAC and Europe are willing to invest in a more diverse range of assets than North American and Australian investors.

> In 2018, the US remained the preferred global destination for Asian investors, making up 34% of the total Asia-to-global capital flows (see Figure 6). However, activities of Asian investors in all the top global markets lost steam. Besides the 47% drop in the UK, Asian investors’ transaction volume fell 12% YOY in the US and 6% in Australia last year.

> Despite lower investment volumes in 2018, we see signs that Asian capital is spreading more widely. Notably, Colliers has observed that activity by Asia-based capital has started to expand into more European locations, not only the core German, UK and Paris markets but also into Amsterdam, Madrid, Lisbon, Helsinki and Warsaw. As noted above under Figure 3, Asian capital rose to represent 30% of all cross-border activity in Europe in 2018, and we expect this proportion to rise further.

> As Asian investment should broaden further, we assume a 21% pick-up in Asia-to-global investment in 2019, to USD61.0 billion. However, London is still the no.1 target for Asian capital in Europe, so the total may depend heavily on the ongoing Brexit negotiations between the UK and the EU.

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¹ Please see the report “Global Capital Diversification: Europe in Context” by Colliers International (Q1 2019).
Asian urban gateway markets remain attractive investment destinations in global terms, supported by the highest economic growth among the world’s major regions and generally loose monetary conditions which have held down funding costs for property investors and developers. Loose monetary conditions look set to persist now that the US Federal Reserve has indicated that there will be no interest rate increases in 2019, reducing support for the US dollar and hence pressure on Asian central banks to raise rates to support their currencies.

We pay particular attention to real, i.e. inflation-adjusted interest rates. Within Asia, Japan enjoys particularly loose monetary conditions, with heavily negative real interest rates and government bond yields of close to zero. This situation should continue for several years, underpinning the investment attractions of a country whose property sector offers the widest yield spreads over bonds (about 4pp or higher) in the region. Colliers has pointed to the investment potential of the office markets in Tokyo and Osaka in recent reports.¹

For reference, we list below some of the key Asian investment opportunities that we have highlighted in recent research:

> Office assets in Bangalore, Singapore and Tokyo, reflecting strong underlying demand from technology and finance occupiers which helps drive growth in rent and capital values for investors. Please see Colliers’ “Top Locations” research series from late 2018 for full details

> Logistics warehouses in China (especially in Tier 2 cities, where tradable assets are available) and in South Korea, where logistics assets yield 6-7% and areas south-west of Seoul have promise

> Industrial assets in Hong Kong, where redevelopment potential should drive price growth of over 8% in 2019

> Business and industrial park assets, e.g. in Singapore, Shanghai and Beijing

¹ See in particular “A Tale of Three Cities” on the Tokyo, Osaka and Nagoya property markets by Colliers International (25 February 2019)
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