### Summary & Recommendations

Lower growth in China and emerging signs of a slowdown in the US cloud the outlook for Asian property. More positively, interest rates ought to increase only slowly, holding funding costs low for developers and investors.

Office rents should diverge in 2019, rising 8% in Singapore but falling 4% in Shenzhen. Singapore will stay attractive to occupiers despite rising rents, while CBD fringe areas of Hong Kong offer tenants amenity and lower rent.

Logistics should grow further this year, notably in China, where low vacancy is pushing tenants into Tier 2 cities. Retail property is stable but faces long-run threats.

After a likely 2% dip in 2018 from 2017’s record, we expect total property deals to slip 5% in 2019. Demand is firm, and we still see investment potential in office, logistics and business park assets.

---

<table>
<thead>
<tr>
<th>Source: Colliers International. Note: 1 sq m = 10.76 sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macrospects</strong></td>
</tr>
<tr>
<td>Demand from the technology and flexible workspace sectors is firm, but turbulent markets and trade tensions cloud prospects for finance and manufacturing groups. Supply of space should also jump in China, notably in the South. Office rents should therefore diverge in 2019. We expect average rent to rise 8% in Singapore and 4–5% in Bangalore, and more modestly in Tokyo, but to be flat or fall in Hong Kong, Shanghai, Beijing and Shenzhen. <strong>Singapore will stay one of Asia’s top occupier locations despite rising rent, while Hong Kong tenants should look to CBD fringe areas for a combination of amenity and lower rent.</strong></td>
</tr>
<tr>
<td><strong>Office</strong></td>
</tr>
<tr>
<td>Logistics should see further strong expansion in 2019. In China, firm growth in e-commerce is driving demand for warehouse space, and low vacancy is pushing tenants into Tier 2 cities. South Korea sees similar positive trends. While growth in Hong Kong is more modest, investors are eyeing industrial assets for conversion potential. The granting of infrastructure status to the logistics sector in India heralds sharp expansion, and higher interest from developers and investors.</td>
</tr>
<tr>
<td><strong>Logistics/Industrial</strong></td>
</tr>
<tr>
<td>Logistics is one of the great success stories of the last decade, and it will remain so in 2019. China and South Korea are the obvious drivers, but growth is also picking up in Japan, Singapore and the Gulf.</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
</tr>
<tr>
<td>Conditions in retail property are uncertain. Besides the threat from e-commerce, we see ample new supply of retail space in several cities. <strong>Rent growth is mildly positive or mildly negative in Shanghai, Beijing, Singapore and Hong Kong.</strong> However, landlords and tenants alike face the long-run challenge of putting experience, entertainment and digital connection at the heart of their retail offering.</td>
</tr>
<tr>
<td><strong>Investment Market</strong></td>
</tr>
<tr>
<td>Transactions of investment properties in Asia totalled USD126bn in 2017, an all-time high. We assume that transactions slipped 2% to USD123bn in 2018, and expect a 5% dip to USD117bn in 2019, mainly due to lower activity in Hong Kong. Demand is firm, and we still see appealing investment opportunities in Asia, especially office assets in Singapore, Tokyo and Bangalore, logistics assets in China (especially Tier 2 cities, where buildings are available) and other markets, and business and industrial park assets.</td>
</tr>
</tbody>
</table>

### Investment Value

- **5%**
- **USD117bn**
**ASIAN MARKETS SET TO SLOW**

**Signs of slowdown start to emerge in the US**

Despite years of talk in financial markets of “decoupling”, prospects for the world’s largest economy, the United States, are still the key determinant of macro-economic prospects for Asia. And all is not well in the US. While the US has enjoyed 110 consecutive months of positive growth since emerging from the Global Financial Crisis of 2008–2009, below the surface there are signs that a slowdown is starting to take hold. As noted by Andrew Nelson, Colliers’ US chief economist:

> Tapering global growth, fading fiscal stimulus and rising interest rates are combining to slow [the US] economy, while escalating trade tensions represent a significant downside risk. Expect a material slowdown (but not necessarily a recession) by mid-2020.¹

What does this outlook signify for Asia? In our view, there are two implications in particular:

> The US outlook exacerbates the slowdown in China
> Lower expectations for interest rate hikes by the US Federal Reserve have reduced upward pressure on Asian interest rates

We discuss these points further below.

**China: slowdown should not be overstated**

Real GDP growth in Asia’s largest economy, China, now looks likely to drop from 6.5% in 2018 to about 6.0% in 2019. Growth prospects in China and confidence in general have weakened owing to efforts to reduce financial leverage (especially in property) that have been going on since 2018, the persistent trade tensions with the US, the 25–30% declines in stock markets in China and Hong Kong from their recent high points in early 2018, and the 10% depreciation of the Chinese renminbi against the US dollar between April and October last year (despite an encouraging rebound over the past few months). Since the US accounts for about USD480 billion² of Chinese exports, in the event of a material US slowdown by mid-2020 the Chinese economy will suffer even if China and the US agree a truce in their trade war.

However, we must not be too negative. China’s government has already taken steps to counter the adverse effects of the trade dispute, since policies are now aimed at encouraging consumption to boost growth. While efforts to restrain leverage will continue, taking account of recent cuts to banks’ reserve rate requirements and ample money supply in the financial system, it seems clear that the government aims to support private investment. Besides lower import tariffs and further reserve rate requirement cuts, the authorities may take new steps to promote infrastructure investment. Such measures should support Chinese commercial property.

**Japan and India less affected by US prospects**

Besides China, Hong Kong and Singapore also look set to decelerate: Oxford Economics currently expects real GDP growth in Hong Kong to drop from 3.4% in 2018 to 2.2% in 2019, while for Singapore the corresponding figures are 3.3% and 2.5%. In contrast, the Japanese economy, which is far more domestically driven than 20–30 years ago, should achieve low but stable real GDP growth of about 1.1% in 2019. South Korea should also achieve modest but stable growth of about 2.5%. The major Asian economy least exposed to possible pressures from a US slowdown is India, which is also Asia’s fastest-growing, with real GDP growth set to reach 7.3% in 2019.³

**Reduced pressure on interest rates good for property**

The more positive aspect of incipient US slowdown has been a reduction in expectations for interest rate hikes by the US Federal Reserve over 2019. The prospect of slower interest rate increases has lowered pressure on Asian central banks to raise interest rates to support their currencies.

Hong Kong interest rates are effectively tied to US rates by the territory’s currency peg, and real (i.e. inflation-adjusted) interest rates will almost certainly turn positive in Hong Kong in 2019 for the first time in ten years. Conversely, very loose real monetary conditions should persist in Japan in particular for several years, but also in Taiwan. This outlook should hold down cost of funds for property developers and investors.

² Source: China Customs . ³ Source for real GDP growth rates: Oxford Economics.

---

**Raw Text**

> Real interest rates in Hong Kong will almost certainly turn positive in 2019 for the first time in ten years. Conversely, very loose monetary conditions should persist in Japan particular for several years.

> Tapering global growth, fading fiscal stimulus and rising interest rates are combining to slow [the US] economy, while escalating trade tensions represent a significant downside risk. Expect a material slowdown (but not necessarily a recession) by mid-2020.

> What does this outlook signify for Asia? In our view, there are two implications in particular:

> The US outlook exacerbates the slowdown in China
> Lower expectations for interest rate hikes by the US Federal Reserve have reduced upward pressure on Asian interest rates

> We discuss these points further below.

> China: slowdown should not be overstated

> Real GDP growth in Asia’s largest economy, China, now looks likely to drop from 6.5% in 2018 to about 6.0% in 2019. Growth prospects in China and confidence in general have weakened owing to efforts to reduce financial leverage (especially in property) that have been going on since 2018, the persistent trade tensions with the US, the 25–30% declines in stock markets in China and Hong Kong from their recent high points in early 2018, and the 10% depreciation of the Chinese renminbi against the US dollar between April and October last year (despite an encouraging rebound over the past few months). Since the US accounts for about USD480 billion² of Chinese exports, in the event of a material US slowdown by mid-2020 the Chinese economy will suffer even if China and the US agree a truce in their trade war.

> However, we must not be too negative. China’s government has already taken steps to counter the adverse effects of the trade dispute, since policies are now aimed at encouraging consumption to boost growth. While efforts to restrain leverage will continue, taking account of recent cuts to banks’ reserve rate requirements and ample money supply in the financial system, it seems clear that the government aims to support private investment. Besides lower import tariffs and further reserve rate requirement cuts, the authorities may take new steps to promote infrastructure investment. Such measures should support Chinese commercial property.

> Japan and India less affected by US prospects

> Besides China, Hong Kong and Singapore also look set to decelerate: Oxford Economics currently expects real GDP growth in Hong Kong to drop from 3.4% in 2018 to 2.2% in 2019, while for Singapore the corresponding figures are 3.3% and 2.5%. In contrast, the Japanese economy, which is far more domestically driven than 20–30 years ago, should achieve low but stable real GDP growth of about 1.1% in 2019. South Korea should also achieve modest but stable growth of about 2.5%. The major Asian economy least exposed to possible pressures from a US slowdown is India, which is also Asia’s fastest-growing, with real GDP growth set to reach 7.3% in 2019.

> Reduced pressure on interest rates good for property

> The more positive aspect of incipient US slowdown has been a reduction in expectations for interest rate hikes by the US Federal Reserve over 2019. The prospect of slower interest rate increases has lowered pressure on Asian central banks to raise interest rates to support their currencies.

> Hong Kong interest rates are effectively tied to US rates by the territory’s currency peg, and real (i.e. inflation-adjusted) interest rates will almost certainly turn positive in Hong Kong in 2019 for the first time in ten years. Conversely, very loose real monetary conditions should persist in Japan in particular for several years, but also in Taiwan. This outlook should hold down cost of funds for property developers and investors.

² Source: China Customs . ³ Source for real GDP growth rates: Oxford Economics.
OFFICE SECTOR: RENTS DIVERGING

Fig. 1: Asia prime office market: Q4 2018 snapshot and 2019–21 outlook

Strong conditions of 2018 will not persist in all cities

Occuper markets were firm across much of Asia in 2018. Hong Kong, Singapore, and leading Chinese and Indian cities all saw strong office leasing demand from existing occupier sectors such as finance, but also from new occupier sectors, notably flexible workspace and technology. Singapore saw the highest growth in average Grade A office rent last year, at 15%.

Economic growth is now generally moderating, rents in financial centres look vulnerable to the lagging impact of sharp declines in stock markets (based on our analysis, this is especially true in Hong Kong and Seoul¹), and heavy new supply is in prospect in many Chinese cities. Rental trends therefore look set to diverge in 2019.

¹ See “Hong Kong and Seoul Rents Vulnerable to Falling Stock Markets” by Colliers International, 6 November 2018
We expect office space in Shenzhen and Guangzhou to rise by about 100% and 50% respectively over 2019–2022 from the level of end-2018.

Overall vacancy in Tokyo should remain at the current record low level of below 3%, reflecting firm demand and low net supply.

OFFICE SECTOR: RENTS DIVERGING

China: signs of softer demand, significant new supply

Over 2018, demand for leased office space in leading Chinese cities was firm, driven by flexible workspace operators, traditional financial occupiers, and media technology and media groups. We expect firm demand to continue to drive net absorption in 2019, notably in West China (Chengdu and Xi’an), due to stable growth in import and export trade, service industry expansion and favourable city government policies inviting investment. In contrast, demand seems to be softening in South China, probably reflecting the near-term impact of the US-China trade dispute. Shenzhen’s net effective office rent showed a 1.9% QOQ drop to RMB274 (USD40.5) per sq metre per month in Q4 2018.

Most of the big Chinese cities will see ample new office supply in 2019 and over the next few years. This is especially true in South China, where we expect total office space in Shenzhen and Guangzhou to rise by about 100% and 50% respectively over 2019–2022 from the level of end-2018, partly as a result of heavy new construction in Shenzhen’s Qianhai and Guangzhou’s Pazhou districts. We expect Shanghai to see a more modest 9% increase in total office stock in 2019, while in Beijing the increase should be about 12%.

The ample new supply that we foresee should push up vacancy rates in 2019; however, solid net absorption should generally prevent significant rental declines. In Shenzhen, we expect the vacancy rate to rise 14pp to 30%, and average rent to drop by 4%. In most of the other leading Chinese cities, we predict average rent growth of between about -1% and +1% this year. The impact of the heavy new supply in Shenzhen and Guangzhou should lessen from 2020 onwards.

Tokyo: recent firm trends should persist

Recent positive trends in the Tokyo office market should persist in 2019. Demand for office space has been firm for several years, with the total occupied area in CBDs expanding 2% year over year since February 2011. The key demand driver remains the trend for functional consolidation in more convenient locations within the Greater Tokyo Metropolitan Area. Net absorption should remain stable, tracking at around 2.7% of existing supply or 150,000 tsubo (496,000 sq metres) on average per year.

We expect increasing supply for late 2019–2021, with annual expansion averaging 2.8% of stock, but note that demolition of older buildings should continue at an average annual rate of 55,000 tsubo (181,00 sq metres) that has already eliminated about 45% of new supply over the past four years.

We expect the overall vacancy level to remain at the current record low level of below 3%, reflecting past pent-up demand leading to near 100% pre-commitment for the 2019 supply, as well as strong demand from tenants for lower-grade and more affordable buildings, typically with monthly rents of below JPY30,000 per tsubo (USD80.7 per sq metre). Prime grade office rental growth should be higher in the short term; however, over the next five years we only predict growth of 0.8%, compared to CPI inflation of 1.1%.

Seoul: vacancy escalates due to abundant supply

In 2018, Seoul’s office market witnessed an increase in demand as flexible office operators leased major Grade A office buildings, often occupying larger spaces. Vigorous marketing and strong demand from flexible workspace operators absorbed long-term empty space in the CBD and the YBD districts. Thus, the average vacancy rate in Seoul stood at 9.5% in Q4 2018, a slight decrease from end-2017. Although we do not expect a demand recovery in the traditional industries due to the slow economy and sluggish employment in 2019, the IT industry including flexible workspace operators will lead office leasing demand in 2019.

Looking ahead, while demand for Grade A office space in Seoul is recovering, the upward trend in vacancy in the market is likely to continue over the years due to abundant supply. It is proposed that the total new office supply for the CBD, YBD and GBD districts will be 9 million sq feet (0.9 million sq metres) over 2019-2021, amounting to about 12% of the total stock of the three submarkets. In particular, it appears that there will be oversupply in the YBD over this period. This will potentially result in a significant increase in the vacancy rate for the overall office market in Seoul. Although some new completions should be owner-occupied, the relocation of headquarters from existing buildings to new completions will create backfilling space.

We expect the average asking rent for Grade A office space to rise by 2% from Q4 2018 to KRW27,939 (USD24.8)1 per sq metre per month in 2019, as most office buildings adjusted their rates similar to the CPI level from the beginning of 2019.

1 The average asking rent for Grade A office in Seoul is stated on a gross floor area basis.
Hong Kong: likely dip in Central rents should provide relief; CBD fringe areas offer amenity and lower rent

The difference in rent levels between Hong Kong’s CBD (Central/Admiralty) and Kowloon East (the designated CBD2) has increased in recent years to give Asia’s joint widest gap between core and non-core rents. An influx of mainland Chinese companies drove up Central’s rents to new records whereas ample supply in Kowloon East kept rents moderate.

In 2019, we expect to see a shift in this pattern. Office supply in Central should grow slightly due to scaling-back by certain Chinese occupiers and modest surrendering of space by the financial sector after the recent financial market decline. **We expect Central/Admiralty rents to drop by 3.8% in 2019**, a healthy correction following growth of over 40% growth since early 2015. Central is still the preferred location for the financial sector and MNCs. On the other hand, rents in Kowloon East should benefit from active pre-leasing activities in 2018 and a lack of new supply in 2020.

Over 2018, we highlighted Hong Kong as Asia’s #1 location for Finance occupiers, and as an emerging location for Tech occupiers, in our “Top Locations” research series. (This work determined the best sites for tenants by assessing 50–60 criteria relevant to location choice under three headings, socio-economic, property and human factors, across 16 cities.) In addition, our Hong Kong Occupier Survey showed that the main CBD fringe areas, namely Sheung Wan, Wanchai and Causeway Bay, were the most fluid markets in terms of tenants moving in and out of the area.

In our view, these three CBD fringe areas, especially Wanchai, offer tenants a good combination of amenity and affordable rents. Wanchai offers large floorplates, affordable rents, easy accessibility, and good business facilities. Furthermore, it should stay popular for the next decade as transport links improve due to the completion of the Shatin to Central MTR link, and as new supply appears in Wanchai North after the relocation of government offices.

Singapore to remain Asia’s firmest office market

In 2018, average prime grade office rent in Singapore rose 15% to SGD9.43 (USD7.0) per sq foot per month as vacancy tightened to below 6%. Demand drivers were broad-based, with flexible workspace operators, technology and professional services firms continuing to expand their footprint.

In 2019, with a lower but benign real GDP growth forecast of 2.5%, we think demand will stay firm; and the government’s push to promote technology, innovation and R&D will help feed growth in the market. We expect reduced new CBD Grade A office supply over 2019–2021, with annual expansion averaging 2% of stock, and the continued tightening of vacancy should support rental growth. **In addition, average prime rent is still competitive versus other major centres, being only about one-half of the level of Hong Kong and 60–65% of the level of Tokyo.** However, with a higher base for comparison and new office space outside the CBD, we expect rent growth in 2019 to slow to 8%.

Our “Top Locations” research highlighted Singapore as Asia’s #3 location for Finance occupiers, and #2 location for both Tech occupiers and Law tenants. Singapore benefits from its strong reputation as a source of talent, from political stability and strong regulation, from pro-business government policies, and from high scores on human factors. With rental affordability still good, we expect Singapore’s high popularity to persist.

India: demand accelerating, Bangalore and Hyderabad in focus

India’s real GDP growth should exceed 7% in 2019 and remain strong for several years. Firm growth should fuel expansion in property and attract investment. **Over the first nine months of 2018, gross absorption grew by 26% to 36.4 million sq feet (3.38 million sq metres), due to new interest from banking tenants and further expansion by tech groups.** Demand appears to have remained strong in Q4.

Over 2018–2021, we predict that average gross absorption of 46.0 million sq feet (4.28 million sq metres) will exceed average new supply of 41.2 million sq feet (3.83 million sq metres) by 12%. This should push up rents by 1.9% annually on average. **Bangalore should see the fastest growth, at 4.1%.** For 2019 specifically, we expect pan-Indian rent growth of 2.2%, and a 1.5pp decline in the vacancy rate to 14.8%.

In our opinion, Bangalore and Hyderabad offer tenants the best combination of growth potential and availability of quality office stock. We highlighted Bangalore as our recommended no.1 location in Asia for technology occupiers in our report “Top Locations in Asia – Technology Sector” (19 September, 2018), and pointed to Hyderabad as an attractive alternative.
LOGISTICS/INDUSTRIAL SECTOR TO EXPAND FURTHER IN ASIA IN 2019

Trends across Asia mostly positive, notably in China

Strong growth in e-commerce and trade flows drove further expansion in the logistics sector in China in 2018. In general demand remains buoyant, rent growth is firm and vacancy rates in prime logistics assets are low or zero in the Tier 1 cities. As land in major urban centres is increasingly scarce and expensive along with high plot ratio requirements, developers and operators in the industrial property sector over China main cities are setting their sights higher by adding floors to their logistics properties. This trend in China mirrors the trend towards multi-storey warehousing emerging across city-fringe locations in major markets in Australia, particularly the markets experiencing land shortages such as Sydney and Melbourne.

We expect these firm conditions to persist in China over the next few years despite the prospect of a slowing economy, with demand from Tier 1 cities increasingly spilling over into smaller cities on the outskirts. South Korea is seeing similar positive trends to China.

South Korea is seeing similar positive trends to China,

Demand for logistics space in China remains firm, with vacancy rates low in the Tier 1 cities and demand spilling over to smaller cities on the outskirts. South Korea is seeing similar positive trends to China.
East China: firm demand to outweigh new supply

Growing consumption power driven by tax cuts and import expansion should propel e-commerce further and so keep Shanghai’s logistics sector strong in 2019. Advanced manufacturing sectors led by auto making and medical health should become active in seeking warehouse space. We expect a spike of new supply (1.0 million sq metres or 10.8 million sq feet) to boost vacancy to 10.3% in 2019. Rent growth should ease to 5% due to the taxes imposed by local governments on tenants. Given the lack of tradable assets in Shanghai, investors should look to surrounding cities within a distance of 300–500 kilometres (e.g. Nantong, Jiaxing, Changshu) for assets to purchase.

North China: market outlook buoyant

Firm demand, notably from e-commerce and third-party logistics providers (3PLs), has driven leasing activity in the Beijing-Tianjin-Langfang logistics market. Severe undersupply in Beijing results from government control, and is pushing cost-sensitive tenants and those with large space needs into the nearby Langfang and Tianjin markets. We expect occupancy across the market to rise further in 2019, and after average rent growth of about 13% in 2018 we expect 5% growth this year.

Given the buoyant demand for warehouse space and the very low supply, logistics assets in North China are highly sought-after by developers and investors. Logistics transactions in Beijing itself are very rare, and in practice the top three destinations for logistics investment in North China are Tianjin, Langfang and Shenyang. We are seeing portfolio acquisition opportunities in which the packages comprise assets from popular and less popular markets.

West China: Chengdu stable; Chongqing less so

We expect sustained demand from retailers, e-commerce groups, 3PLs and manufacturers in the Chengdu logistics market. Vacancy and rent should thus be stable despite the launch of 0.5 million sq metres (5.38 mn sq ft) of new supply in 2019. In Chongqing, by contrast, the electronics and auto parts sectors, which are the top sources of demand for warehouse space, are under pressure; supply should also be heavy in 2019. Higher value-added technology will take time to replace these sectors as drivers of demand.

Hong Kong: conversion demand drives the sector

We expect rents and prices for Hong Kong industrial and logistics properties to grow by 8.4% and 5.4% respectively in 2019. This growth reflects lack of new supply and the government’s revitalisation scheme, which is lowering total industrial stock. In contrast to other markets, continuous conversion and redevelopment of industrial buildings for office, retail, residential and hotel use are the chief drivers of rent and capital value growth in the sector.

Singapore: logistics market stabilising

Logistics rents stabilised in Singapore in late 2018. We expect demand to improve in 2019, with e-commerce a key driver, as the market steadily absorbs the supply influx of 2017 and H1 2018. However, uncertainty arising from the US-China trade dispute and global slowdown will probably weigh on the sector. Warehouse vacancy is still high at over 10%. We predict new supply equal to 3.0% of current stock over 2019. We expect logistics rents to remain weak in H1 2019 before recovering 1–2% towards the year-end.

India: logistics market set to take off

The logistics sector in India has received a major boost from the granting by the government of infrastructure status and the implementation of the Goods and Services Tax (GST). Infrastructure status enables logistics groups to access lower-cost credit, while the GST eliminates a patchwork of state-by-state boundaries, making way for the cost-effective Hub & Spoke Model of logistics operations. The sector has grown at an average rate of 7.8% over the last five years, and we now see average growth of 10.5% till 2020.

Demand for warehouse space in Shanghai is strong, but a spike in supply should limit rent growth to 5%. Severe undersupply in Beijing is pushing tenants to Tianjin and Langfang. In Hong Kong, conversion demand for industrial assets should push up rents by 8.4%, and prices by 5.4%. The award of infrastructure status has boosted the logistics sector in India, which is set to take off.
RETAIL MARKET STABILISING, BUT CHALLENGES REMAIN

Key long-term need is to devise new business models

Conditions in retail property remain uncertain. Besides the existential threat to traditional retailing from continuous growth in e-commerce, we predict ample new supply of retail space in several cities. Rent growth is either mildly positive or mildly negative in Shanghai, Beijing, Singapore and Hong Kong (where rents have stabilised after several years of declines). However, landlords and tenants face the long-run challenge of putting experience, entertainment and digital connection at the heart of their retail offering.

East China: demand firm, but rising supply to hit rent

Shanghai’s retail property market remained active in 2018 with strong demand. Net absorption exceeded new supply and pulled down the vacancy rate to 7.6%, the lowest level in three years. Average rent declined modestly to RMB33.7 (USD4.96) per sq metre per day as most new supply was located in emerging areas with lower rent. In 2019, new supply should surge to 2.0 million sq metres (21 million sq feet), pushing up the vacancy rate to 13.0%. We expect 90% of the new supply to be located in non-prime retail areas such as New Bund, Xuhui Binjiang and North Bund where rents are low. This prospect should push average rent down by 3% to RMB32.6 (USD4.85) per sq metre per day.

North China: mixed-sector brands should grow

Fierce competition and firm demand encouraged active tenant adjustment in prime shopping malls in Beijing in 2018. The vacancy rate fell by 1.0pp to 2.1% despite new supply of 5.9 million sq metres (63.8 million sq feet). The average ground floor fixed rent in mid to high-end shopping malls rose 1.3% yoy to RMB827 (USD121) per sq metre per month. We predict 0.5 million sq metres (5.38 million sq feet) of new supply in 2019, with one-quarter in prime markets. Shopping malls with a higher proportion of experiential sectors are more likely to succeed as consumption trends become more sophisticated. Notably, mixed-sector brands are likely to show new growth in 2019. These conditions are likely to drive vacancy down about another 1.0pp and overall rent should be should rise marginally, by about 0.3%.

Hong Kong: modest improvement continues

Due to strong local consumption and an ongoing surge in visitor arrivals, Hong Kong’s retail environment was healthy in 2018, with sales rebounding significantly, driven chiefly by lifestyle and health-related stores. High-street rents mostly stabilised after several years of declines. For 2019, we expect further recovery, with high-street rents rising by about 2% YOY and retail sales picking up by 5–7% YOY. New retail supply should increase to 1.26 million sq feet (117,430 sq metres) in core districts; this is 3–4x recent historic averages, but the K11 Musea development in Kowloon accounts for about 80% of the increase. Newly launched transport links in the Greater Bay Area of South China should continue to boost tourist arrivals. However, the slowdown in China’s economy may lower mainland tourists’ willingness to spend, particularly on luxury items.

Singapore: rents on Orchard Road prime shopping centres should rise 1–2% in 2019

Over the first nine months of 2018, Singapore retail rents edged down 2.2%. We expect the overall retail property market to continue finding its footing in 2019 with landlords seeking the optimum trade mix and digitalisation of their malls. Besides the continued challenge from e-commerce, we expect noticeable new retail space supply in 2019 (equivalent to 3.0% of current stock), spread out over the central region (excluding Orchard Road), city fringe and suburban areas. Supply should taper off significantly from 2020. In 2019, we expect ground floor retail rents in prime shopping centres along Orchard Road to rise by 1–2% YOY, due to the lack of new stock in Orchard Road, while prime floor rents in suburban Regional Centres should stabilise.
INVESTMENT MARKET SET TO SLOW, BUT OPPORTUNITIES REMAIN

Investment transactions in 2018 and 2019 likely to be slightly below 2017’s high level

Between 2013 and 2016, aggregate transactions of completed properties¹ in Asia ranged between about USD110 billion and USD115 billion, based on data from Real Capital Analytics (RCA). Despite controls on outbound capital from China, aggregate transactions grew by 14% in 2017 to what we believe was an all-time record of USD126.1 billion. Driven by robust growth and strong occupier markets, demand for investment property rose further over the first nine months of 2018: transactions of completed properties totalled USD94.0 billion in the period, up by 6% YOY. The top three urban locations were Hong Kong, Seoul and Tokyo, which saw total transaction volumes rise 64%, 110% and 9% respectively. However, other centres saw activity decline, notably Shanghai and Yokohama with drops of 44% and 67% respectively. Preliminary data from RCA show that aggregate transactions for 2018 as a whole fell by 8%, to USD116.0 billion. At first sight, this figure suggests that Q4 saw a sharp reversal in investment levels. However, we suspect that the Q4 total will be revised up as RCA collates further data. We currently assume that property transactions totalled USD122.0 billion in 2018, down 2% YOY.

Looking ahead, we expect aggregate investment transactions to moderate due to the weaker growth outlook, modest upward pressure on interest rates, and the fact that office property assets in many cities now offer only a narrow spread over ten-year bonds (see Figure 4 below; Tokyo is a key exception, with a 3.5pp spread over bonds). For 2019, therefore, we assume a 5% decline in investment property transactions, to USD117.0 billion. Hong Kong looks especially likely to see a decline in investment deals this year: we predict a drop of 15%. An outcome of USD116 billion for Asia as a whole would be above the range between 2013 and 2016, and so would represent a modest slowdown, not a collapse.

Transactions of investment property in Asia hit an all-time high in 2017. We estimate that total deals fell by 2% in 2018, and predict a 5% drop in 2019, in large part due to weakness in Hong Kong. This would still represent a good outcome by historic standards.

Fig 3: Investment Property Transactions in Asia by City (USD million)

<table>
<thead>
<tr>
<th>City</th>
<th>Jan–Sep 2017</th>
<th>Jan–Sep 2018</th>
<th>YOY chg. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>13,968</td>
<td>22,976</td>
<td>64%</td>
</tr>
<tr>
<td>Seoul</td>
<td>6,810</td>
<td>14,269</td>
<td>110%</td>
</tr>
<tr>
<td>Tokyo</td>
<td>11,103</td>
<td>12,101</td>
<td>9%</td>
</tr>
<tr>
<td>Shanghai</td>
<td>10,198</td>
<td>5,708</td>
<td>-44%</td>
</tr>
<tr>
<td>Singapore</td>
<td>5,615</td>
<td>4,050</td>
<td>-28%</td>
</tr>
<tr>
<td>Beijing</td>
<td>2,913</td>
<td>4,045</td>
<td>39%</td>
</tr>
<tr>
<td>Taipei</td>
<td>689</td>
<td>1,830</td>
<td>166%</td>
</tr>
<tr>
<td>Mumbai</td>
<td>146</td>
<td>1,454</td>
<td>896%</td>
</tr>
<tr>
<td>Guangzhou</td>
<td>1,458</td>
<td>1,439</td>
<td>-1%</td>
</tr>
<tr>
<td>Yokohama</td>
<td>3,947</td>
<td>3,135</td>
<td>-67%</td>
</tr>
<tr>
<td>Other</td>
<td>31,760</td>
<td>24,790</td>
<td>-22%</td>
</tr>
<tr>
<td>Total</td>
<td>88,607</td>
<td>93,977</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: RCA. ¹ Note: Transacted properties exceed USD10 million in value and represent closed deals excluding land development sites. Investment property refers to the office, retail, industrial, hotel and apartment sectors.

Fig. 4: Office yields and yield spread vs. 10-year bonds for nine cities (%)
Attractive opportunities remain, especially where occupier demand is strong

Demand from institutional investors for Asian property assets still looks firm, and shortage of high-quality buildings available for sale is probably a greater constraint on investment volumes than any concern about macro-economic outlook or valuation. We still see attractive opportunities in investment property markets in Asia. In late 2018, we examined the implications for investors of the major research that we had carried out to determine the best urban centres in Asia for technology and finance occupiers in our “Top Locations” reports. This work highlighted the investment attractions of office assets in Bangalore, Singapore and Tokyo in particular.

Besides the office markets above, we point to the potential of logistics assets across Asia, and of business and industrial park assets (e.g. in Singapore, Shanghai and Beijing). We provide a summary of these markets overleaf.

China: logistics assets likely to perform best in 2019

We should comment further on China. In our view, Tier I cities in China still represent attractive investment targets, given firm medium-term growth prospects. The office and logistics sectors offer the best opportunities, together with smaller market sectors like business parks, with yields typically higher for logistics and business parks than for offices.

Economic growth is highest in South China (especially Shenzhen), which is one of Asia’s key hubs for technology development and is profiting from

² Source: Oxford Economics
government-driven infrastructure investment through the Greater Bay Area plan. Solid demand for leased space from technology occupiers in South China should drive rent growth over time, compensating for near-term oversupply of offices in certain areas (notably Shenzhen’s Qianhai district) and near-term negative impacts from the trade dispute.

Among all property sectors, reflecting a likely increase in domestic consumption leading to higher online retail sales, we expect logistics to perform best in China in 2019, with rent and capital values rising further. However, tradable logistics assets in Tier 1 cities are very scarce, so investors may have to search for assets in the surrounding Tier 2 cities. As mentioned earlier, in East China investors should look to cities within 300–500 kilometres of Shanghai (e.g. Nantong, Jiaxing, Changshu) for assets to acquire. The top three destinations for logistics investment in North China are Tianjin, Langfang and Shenyang. We are seeing portfolio acquisition opportunities in which the packages comprise assets from popular and less popular markets.

### Logistics/industrial sector in China, South Korea, Hong Kong

#### China: warehouses
Trends in China very firm, look to Tier 2 cities for tradable assets

#### South Korea: warehouses
South Korean logistics assets yield 6–7%; areas south-west of Seoul have promise

#### Hong Kong: buildings for conversion
Redevelopment potential should fuel 8.4% price growth in 2019

### Business and industrial park assets in Singapore, Shanghai, Beijing

#### Singapore: Industry 4.0
Supportive government policy should drive tenant demand for space

#### Shanghai: pushing into high-tech
Demand from technology sector should drive rent growth of 4% p.a. over 2018–22

#### Beijing: leading AI centre
Artificial Intelligence hub and #4 location in Asia for Tech groups. Business park assets yield 4–5%
Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top-tier global real estate services and investment management company operating in 69 countries with a workforce of more than 13,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of $2.3 billion ($2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than $25 billion of assets under management from the world’s most respected institutional real estate investors. Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row. Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years. For the latest news from Colliers, visit our website or follow us on LinkedIn, Twitter, and Instagram.

About Colliers International Group Inc.
Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top-tier global real estate services and investment management company operating in 69 countries with a workforce of more than 13,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of $2.3 billion ($2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than $25 billion of assets under management from the world’s most respected institutional real estate investors. Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row. Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years. For the latest news from Colliers, visit our website or follow us on LinkedIn, Twitter, and Instagram.

Copyright © 2019 Colliers International
The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.