

Global Cap Rate Report

Third Quarter 2017

The below rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

APAC

	Office			Retail			Industrial		
	Low	High	QoQ	Low	High	QoQ	Low	High	QoQ
Hong Kong	2.5%	3.75%	↓	2.5%	3.5%	↔	3.5%	4.5%	↔
Shanghai	3.5%	4.5%	↓	4%	6%	↓	5.75%	6.75%	↓
Singapore	3.5%	4%	↔	4.5%	5%	↔	6%	6.5%	↔
Sydney	4.75%	5.25%	↓	4.25%	5.5%	↔	5.25%	6.5%	↔
Tokyo	3.5%	4.5%	↔	4%	5%	↔	4%	5.5%	↓

Americas

	Office			Retail			Industrial		
	Low	High	QoQ	Low	High	QoQ	Low	High	QoQ
Chicago	4%	6%	↓	4.5%	7%	↔	4.5%	6.5%	↔
Los Angeles	4.25%	7.75%	↑	4%	7%	↑	3.75%	6.5%	↑
New York	3%	4.5%	↔	3.5%	5.5%	↔	3%	7%	↔
San Francisco	3.5%	7%	↔	3%	6%	↔	4%	6.5%	↓
Toronto	3.75%	4.75%	↔	4.25%	5.25%	↔	4.75%	5.25%	↓

Europe

	Office			Retail			Industrial		
	Low	High	QoQ	Low	High	QoQ	Low	High	QoQ
Berlin	3.1%	5%	↓	3.2%	4%	↓	4.7%	6%	↓
Frankfurt	3.8%	8.4%	↓	2.8%	3.8%	↓	4.7%	4.7%	↓
London	3.5%	4.5%	↑	2%	4%	↑	3.5%	4.5%	↔
Munich	3%	5%	↔	2.8%	5.8%	↓	4%	6.5%	↓
Paris	3%	3.5%	↓	3%	4%	↑	5.5%	6.5%	↑

Global Market View

The Sydney CBD is currently experiencing a high volume of 'on market' transactions, with over USD1.164 billion currently on the market comprising predominantly Grade B assets, with indications of yields in the order of 5.25% to 5.75%, confirming a narrowing in the gap between prime and secondary assets.

CapitaLand Commercial Trust (CCT) have made their debut purchase in Singapore's premium Marina Bay office market. They acquired the office and retail space at Asia Square Tower 2 from BlackRock Asia Property Fund III at USD1.624 billion or USD28,943 per square metre on net lettable area with a net yield of 3.6%.

The strata office market in Hong Kong outperformed in 3Q thanks to increasing capital appreciation expectation after the Murray Road site tender in Central. The whole of the 79th floor of The Centre, a Grade A office building in Central Hong Kong, sold at a consideration of USD94 million to what the market believes is a subsidiary of a Chinese developer. The price translates to a unit rate of USD77,575 per square metre which is the record high for an office sale in Hong Kong.

Investment sentiment for Shanghai's office properties remained strong. Foreign funds, domestic institutions, and RMB funds were all actively sourcing income-producing targets. However, this strong investment demand depressed yields. Office assets with value-add and/or upside potential continued to attract investors.

Europe is seeing an unprecedented amount of overseas investment which is primarily focused on Grade A product in the Main Office markets and the Industrial sector where the latter in particular is seeing good rental growth. Concerns over Brexit have to date not impacted investor demand for London possibly in part because of Sterling's devaluation. The retail sector outside the main centres is the weakest market with general concerns over the impact of the internet weighing on occupier and investor demand alike, this despite more attractive yields being available in all but the very best locations.

Toronto is amongst the most sought after commercial real estate markets in Canada, as a result any quality assets offered for sale are experiencing strong demand from local, regional, national and international buyers. The office market remains strong but highly competitive with owners marking large capital investments into buildings to retain and attract tenants. The industrial market continues to be in demand from tenants and buyers alike. The retail market is performing well in most areas of the City though in many cases owners are exploring intensification of existing properties through the construction of alternate uses to increase cash flow.

The US office market remains strong but tenant demand is a wild-card factor. Meanwhile leasing volumes are healthy, being counterbalanced by tenant move-outs, downsizing and localised supply shortages.

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