TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

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Asia Pacific – Capital Markets – *Real Estate: Still Good Value in a Changed World (Part 2)*

–0.7% to 3.3%
Range of five-year compound average annual rent growth forecasts for APAC office markets (Shanghai lowest, Singapore highest)

–1.7% to 4.6%
Range of five-year compound average annual rent growth forecasts for APAC logistics/industrial markets (West China lowest, North China highest)

56.3%, 59.0%
Stock market returns of APAC ex-Japan hotels sector in 1999 and 2009, after the Asian Crisis and the GFC respectively, reflecting rebounding contribution to GDP and recovering income

Part 1 of this report highlighted the good value of APAC real estate by comparing property yields with yields on bonds and equities. While property yields are mostly higher, they may not be sustainable.

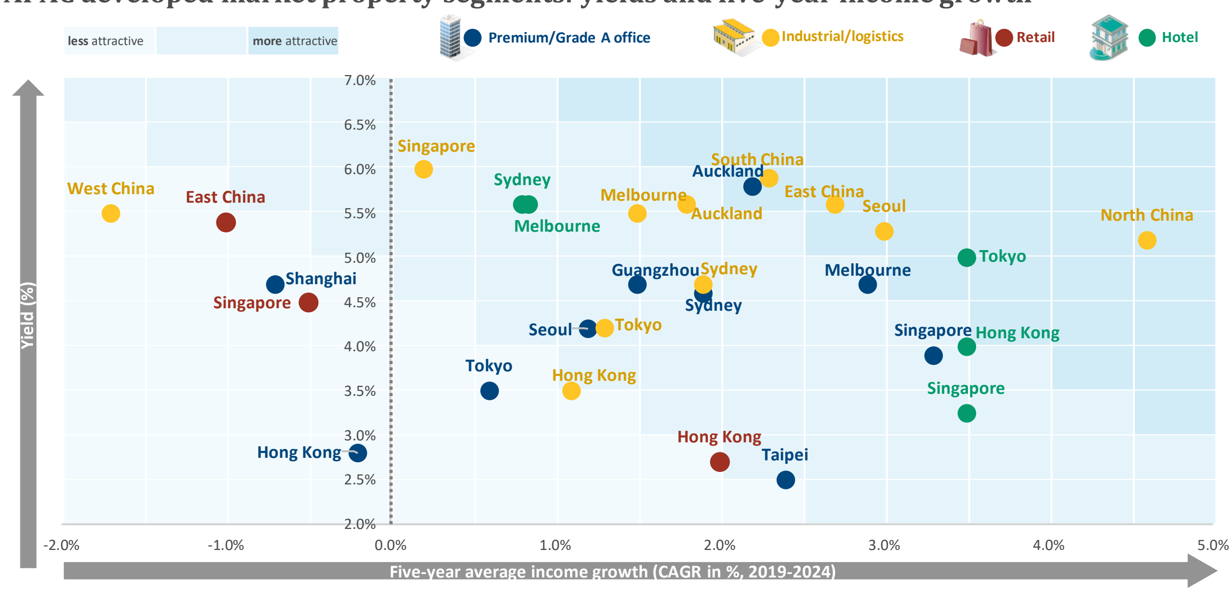
However, in the office sector, for 2020 we only predict rent drops of over 10% in two cities. Medium-term rent growth prospects remain bright: Singapore should achieve five-year average growth of 3.3%, with Bangalore and Melbourne not far behind. With a yield of 3.9%, Singapore prime/Grade A offices look attractive.

Firm demand is driving the logistics/industrial sector across APAC. Markets with five-year average rent growth of over 2.5% include North China, Seoul and East China; South China, Sydney and Auckland come next. With yields ranging from 4.7% to 5.9%, logistics/industrial assets in these markets offer solid income growth for low risk.

History shows that sharp falls in the income of the hotels sector over crises are followed by sharp recoveries. Markets where the sector offers strong rebound potential include Singapore and Hong Kong SAR[1].

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

APAC developed market property segments: yields and five-year income growth



Notes: 1) Based on market yields. In a few cases where market yields are unavailable, we use cap rates supplied by our Valuations team.
2) We use RevPAR as a proxy for hotel income. Source: Colliers International.

For further details, please see Colliers' report:

- *Asia Pacific Real Estate: Still Good Value in a Changed World- Part2 (29 June)*

Hong Kong SAR – Office Market

While Hong Kong has seen some success in managing the outbreak of COVID-19 situation in the city, companies with local footprints can take advantage of falling rents in the CBD to upgrade and transform their workplace.

As Hong Kong Grade A office rents decline, the rental gap between the CBD and other submarkets is narrowing. We recommend occupiers located in non-core areas due to the previously high CBD rents now revisit recentralization or flight-for-quality options in Central and Admiralty.

Recommendations

- We suggest companies review their operations and real estate strategies to include technology and agile workplace options to ensure business continuity while also supporting social distancing and staff wellness even after COVID-19.

Three key themes of the Hong Kong Grade A office market after COVID-19

***Recentralization* opportunities in the CBD**	**Embrace of technology**	**Workspace flexibility**
Narrowing rental gap between CBD and other submarkets	**Seamless business operations** while keeping social distances	Flexibility is important **for business continuity** and **corporate solutions**
More **new Grade A office supply in the CBD** over the next five years	**Raising awareness** of **wellness and hygiene** standards and requirements	The pandemic is a **Health-check** for firms' hardware, tech, workspace and productivity / culture
Increasing **flight-for-quality** Grade A office options for occupiers	**Improving workplace infrastructure** by office design and technology	Agile offices should be a **prominent feature** for tenants even **after COVID-19**

Source: Colliers International.

For further details, please see Colliers' report:

- After Covid-19: New Trends in the Hong Kong Office Market (17 Jun)

Philippines – Cebu Office and Residential

Office

While we see a slower pace of leasing across the country in 2020, Colliers believes that Metro Cebu will likely be among the first locations to recover as it remains a preferred destination outside Metro Manila.

Recommendations

- **Developers:** tap our and the government-projected recovery in 2021 by highlighting the availability of PEZA[1] and healthy spaces and stressing property management capabilities amid the pandemic
- **Occupants:** explore available space within integrated communities and consider Metro Cebu's advantages over other sites including global competitiveness, availability of manpower, and access.

Source: Colliers International.

[1]Philippine Economic Zone Authority (PEZA) proclaimed spaces where locators enjoy tax and non-tax incentives.

[2]BusinessWorld, DBCC Slashes Proposed Budget for 2021, 2022, (2020).

Residential

Colliers sees muted residential completion and take-up in Metro Cebu in 2020 due to the pandemic. We see economic recovery in 2021[2] supporting a rebound in condominium and house and lot demand.

Recommendations

Developers should position themselves to take advantage of the recovery by:

- Tapping rising demand for residential units located within integrated communities.
- Serving the residential demand of end-users and the Overseas Filipino Worker (OFW) market.
- Highlighting property management and sanitation within residential buildings.
- Offering flexible lease terms to potential buyers.

For further details, please see Colliers' report:

- Cebu Report Q1 2020 - Office and Residential (25Jun)

Australia – Economy, Offices, Industrial, Retail

Economic and regulatory updates

- Retail sales have rebounded with month on month growth of 16.3% in May. This brings total sales 5.3% higher than in May 2019, and are above pre COVID levels. Discretionary spending has rebound, with the fiscal stimulus and super withdrawals boosting household spending.
- Western Australia (WA) and South Australia (SA) have announced Phase 4 of the lockdown restrictions with WA to commence on Sat 27th June and SA on Monday 29th June. This includes the scrapping of seated service in WA and increases the capacity for venues by using 1 person per 2 sq metres (excludes staff) in both states. Major entertainment and sporting venues can operate at 50% capacity with a COVIDSafe plan.
- Seek is reporting an improvement in job adds, which are now at 6.3% of pre-COVID-19 levels. New South Wales and Victoria are underperforming with 60% and 61% pre pandemic levels respectively. Other states are performing better with WA at 89%, Queensland at 78%, SA at 80% and Australian Capital Territory at 72% of pre-pandemic levels.

Office

- Job Vacancies data for May 2020 was released by the ABS this week. This data is a useful leading indicators of impacts on white collar employment, as well as state impacts. As expected, white collar employment is the most heavily impacted sector, with job vacancies dropping by 50% (all figures given are year on year changes). Education and health was the most resilient sector, although still recorded vacancy levels 37% lower. Victoria was the most heavily impacted state, with job vacancy declines of 52%, followed by NSW, at a 50% decline. Queensland is thus far proving the most resilient state, with job vacancy declines of 34%.
- Growthpoint has reported that it has waived less than AUD1 million of rent across its portfolio (about 1.2%). It also expects that its portfolio value will not materially change from December 2019.
- Dexus has sold 45 Clarence Street, Sydney for circa AUD530 million (USD363 million; subject to FIRB approval). The cap rate reflects the book value of the building as at the December 2019 valuation. Purchaser is an Asian investor.
- GIC is in negotiations with LaSalle Investment Management for 222 Exhibition Street, Melbourne with a sale price believed to be about AUD250 million (USD171 million).
- Recent surveys from Australia and New Zealand are showing around 50% of workers are eager to return to the office. Boston Consulting Group is reporting 75% of people are missing elements of working in the office.

Industrial

- Woolworths has agreed to lease two distribution centres totalling 75,300 sqm within QUBE's Moorebank Logistics Park, immediately adjacent to the Moorebank Intermodal Terminal. The lease deals comprise a 40,700 sqm National Distribution Centre (DC) and a 34,600 sqm Regional DC, both of which are on an initial 20-year term with 6 x 5-year options. As part of the deal, QUBE is committing AUD420-460 million to build the two DCs while Woolworths will pay AUD30 million per annum in rent when fully operational (this equates to a gross rent of ~AUD400/sqm). Woolworths will also invest around AUD700 - AUD780 million in the technology and fit-out of the two DCs over the next four years.
- Australia Post's 2020 Inside Australian Online Shopping Report found that e-commerce growth in Australia was up over 80% in the first eight weeks of the COVID-19 pandemic, with 5.2 million Australian households shopping online in April this year.

Retail

- Nick Scali has given a trading update which has seen orders for Q420 increase over 20% with significant improvement through May and June.
- David Jones and Myer are expected to be affected by QBE's decision to wind back trade credit insurance for suppliers over the next month. This is due to concerns that the big department stores will struggle in the current trading conditions.
- Catch group has seen a significant acceleration in online retailing as a result of COVID-19, however Australia is still well behind the online penetration rates of the US and UK.
- Colliers International Retail Investment Services team have brokered the sale of Woolworths Spring Farm. This neighbourhood centre has sold for $34.75 million and shows a fully leased yield of 5.77%.

For further details, please see Colliers' report:

- *Colliers Radar – Weekly Real Estate Update (26 Jun)*

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