TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

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Asia Pacific Office Markets - *The Future of the Office Space*

Key take-aways

The effects of COVID-19 have raised fundamental questions for the office sector, including new approaches to space utilisation, the reassessment of premises strategy and the nature and scale of office demand, combined with the implications for rents and capital values. Major changes are already taking place and a key question is whether these will be in place for the short term or whether we are seeing structural shifts that will persist going forward.

In this report, we examine four key areas central to the office sector's future in the context of nine core APAC Grade A office markets: Shanghai, Beijing, Tokyo, Hong Kong SAR, Singapore, Bangalore, Sydney, Melbourne, and Auckland:

The Pandemic's Effect on Office Fundamentals

The New Office Space

The Evolution of Flexible Workspace

Investor Sentiment in Uncertain Times

Recommendations

1.

The office will retain a key role in corporate real estate strategy, though with greater use of rotation-based and remote working models. Home working will complement office work, not replace it.

2.

Owners should consider decentralised areas as well as CBDs, and be open to new leasing structures including partnerships with flex operators.

3.

Occupiers should be proactively reviewing existing leases to identify opportunities and take advantage of the increase in space options in the market.

4.

Occupiers should promote the office as an anchor for collaboration and promotion of culture and mission.

5.

Owners of prime office buildings should focus on achieving high hygiene standards and wellness certifications.

For further details, please see Colliers' report: ***Asia Pacific - The Future of the Office Space*** *(25 Aug)*

Hong Kong SAR – Real Estate Market

Insights

There are early signs of mainland Chinese demand returning to Hong Kong SAR1 in recent months, despite the slow market momentum overall.

We believe mainland firms and capital will continue to seek opportunities, becoming the next wave of demand in the Hong Kong leasing and investment markets, supported by China's resilient economy, cross-border financial initiatives in stock and wealth management, Hong Kong's large capital pool for fund-raising, and the longer-term vision of the Greater Bay Area development.

Recommendations

We recommend landlords pay attention to leasing enquiries from mainland firms, especially those in finance, fintech and insurance. We recommend investors watch out for Chinese capital looking for an end-user purchase or residential development.

For further details, please see Colliers' report:

- ***Mainland Chinese demand creates opportunity for Hong Kong SAR real estate market*** *(26 Aug)*

Guangzhou – Business Park

Insights

Since 1990, business parks (BPs) have driven Guangzhou's economic growth as an essential platforms for tech industries. The government has implemented policies to encourage the growth of BPs and Guangzhou's BP market has grown accordingly.

Recommendations

We recommend BP operators improve facilities and services like adding recreational space, using smart tech for property management, providing business advisory and housing incubation programs to meet tenants' needs and maintain high occupancy. Mature BPs can look to be included in a REIT. We recommend tenants in the IAB and NEM* should consider BPs to enjoy investment incentives and subsidies and customize the office space to meet their specific needs like durable flooring for equipment.

For further details, please see Colliers' report:

- ***Improved tenant facilities and services drive occupancy*** *(31 Aug)*

Taipei – Capital Markets

Insights

Taiwanese enterprises, like those around the world, were hit by the pandemic in H1, which delayed real estate investment decision. Driven by the easing of epidemic in Taiwan, investment momentum has started rebounding in Q3:

We expect the recent overseas orders and domestic demand for electronic components, information communication and audio-visual products, and integrated circuits will support demand for industrial sector.

Recommendations

Cross-border travel restrictions are putting increasing pressure on hotels. We recommend investors acquire in smaller CBDs, or small to mid-sized properties lacking group support where a brand refresh or redevelopment are feasible.

We recommend retailers grab this opportunity to negotiate better lease terms in prime catchment areas such as the Jhongxiao area in Taipei in preparation for future recovery.

We recommend developers build their land banks in anticipation of manufacturing and residential expansion by acquiring developable sites within and around industrial clusters.

Investors should catch opportunities in the bottom of market

- **Hotels in prime locations are still promising:** We see now as a good time to redevelop or rebrand these properties, positioning them for a future rebound. For example, in the largest transaction this year, Fubon Life Insurance acquired Dynasty Hotel for NTD26.8 billion (USD910 million).
- **Diversified marketing tools to increase retail sales:** Retailers should grab this opportunity to have better lease terms while investors have more room for price negotiation.

For further details, please see Colliers' report:

- ***Demand for industrial property remains solid*** *(3 Sep)*

Philippines – All property sectors

Insights

The Philippine economy continues to reel from the impact of the pandemic and lockdowns, officially entering into a recession.

Colliers believes that conversion and repurposing of assets are crucial amid the pandemic and global economic downturn.

Recommendations

Hotel operators should explore the viability of co-living and flexible workspace schemes.

Industrial developers should modernize existing warehouses and look at converting vacant mall spaces into micro-warehouses near business districts in Metro Manila. This should benefit property firms with industrial and retail arms.

Office landlords and occupiers should consider adopting the hub-and-spoke model to reduce cost and improve employees' work-life balance.

For further details, please see Colliers' report:

- ***Prospect for economic recovery a boon to Philippine property*** *(28 Aug)*

Australia - Industrial cap rate analysis

Insights

5.4 % average industrial cap rate

12bps six month cap rate compression

AUD75.1 million average asset value

Australian industrial and logistics property is currently the most sought after property asset class, underpinned by favourable structural tailwinds which continue to positively impact the sector. With investment in the sector remaining significant at or during the COVID-19 period, headlined by 11, AUD100 million + acquisitions, capitalisation rates continue to compress, evidenced by the completion of the June 2020 A-REIT reporting season.

For further details, please see Colliers' report:

- ***Industrial Cap Rate Analysis*** *(2 Sep)*

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