APAC MARKET OUTLOOK

COMMERCIAL PROPERTY | FEBRUARY 2021

ASIA PACIFIC

PROPERTY MARKETS: THEMES FOR 2021 SUMMARY

All information as of 8 February 2021

FORECASTS AND OUTLOOK

Office

For 2021, we expect aggregate leasing demand to rise 96% from last year's weak level, but see new supply at 1.6x demand. This should depress rents by 6.1%.

We expect rising vacancy to peak at about 15% by year-end 2023. High vacancy will be concentrated in China and India; vacancy will be lower in popular occupier locations like Singapore, Sydney, and Melbourne. Most APAC office markets should favour tenants over the next year, though some are showing signs of recovery.

Offices remain popular with investors, who have ample unused capital to deploy. However, with demand and supply out of balance in many cities, office prices are unlikely to rise in the near term.

Logistics & industrial

The shift from physical to online retail has driven demand for logistics space, and COVID-19 has boosted e-commerce volumes. Expansion in cold chain, new warehouse designs and new infrastructure projects should fuel demand further.

Most APAC markets now favour landlords. Rents should pick up in the big Chinese cities in 2021, with 3.0% growth in Shanghai. Higher incentives had made Sydney and Melbourne favour tenants, but with firm demand effective rents should rise 1.0-2.5% this year.

The sector's popularity with investors should rise further. Cap rates for Chinese logistics assets could fall below office cap rates within a few years.

KEY THEMES

China Plus One. China and the US may drift further apart economically, but slowly. Most MNCs will stay in China, but seek new markets to cut costs and spread risk.

Technology. APAC technology occupiers led by expanding large Chinese groups will account for 20-25% of office leasing demand over 2020-2025, creating new benchmarks for space, talent and the workplace across the region.

Flexible workspace operators will seek off-CBD opportunities, as occupiers look outside traditional business districts. Many APAC centres, e.g. Beijing, Shanghai, Seoul, Sydney, Auckland and all Indian major cities have office districts on the fringes, which are increasingly viable as business locations.

Sustainability will start to drive property investment and leasing decisions, as most APAC nations adopt ambitious carbon neutrality goals, together with the US.

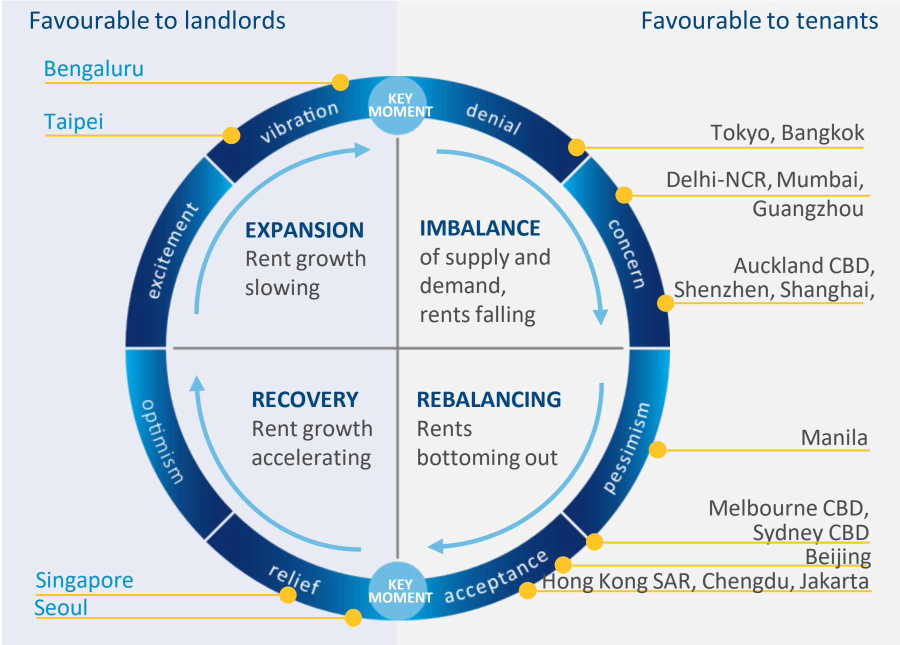
IMPLICATIONS OF THE KEY THEMES

	Implications for Occupiers	Implications for Owners
China Plus One Strategy	Demand from high-end occupiers for logistics & industrial space and to a lesser extent office space should persist in China, Japan (especially greater Tokyo), Taiwan, Vietnam and India.	Logistics & industrial asset prices should stay strong across APAC. However, with demand and supply out of balance in many cities, office capital values are unlikely to rise in the near term.
Technology Occupiers	Asian technology occupiers will lead demand for office space. As a result, they should dominate leasing markets, helping determine rents, incentives and deal structures.	We see a preference among investors for key technology locations such as Sydney, Melbourne, Singapore, Bengaluru and Hyderabad. We expect landlords to focus on technology occupiers.
Flexible Workspace	Occupiers are implementing hub-and-spoke models with space closer to residential areas; flexible workspace can help meet this need.	Occupiers will continue to demand shorter and more flexible leases; owners will have to follow suit. Prices of decentralised and business park office assets may stay firmer than prices of CBD office assets.
Sustainability and Climate Change	Large occupiers will conduct portfolio reviews to understand which buildings do not match carbon neutrality targets and to determine an action plan. All new sites for expansion will require sustainability certifications.	Environmental, social and governance (ESG) criteria will start spreading in property. New developments will focus on sustainability credentials.

KEY FORECASTS AND OUTLOOK

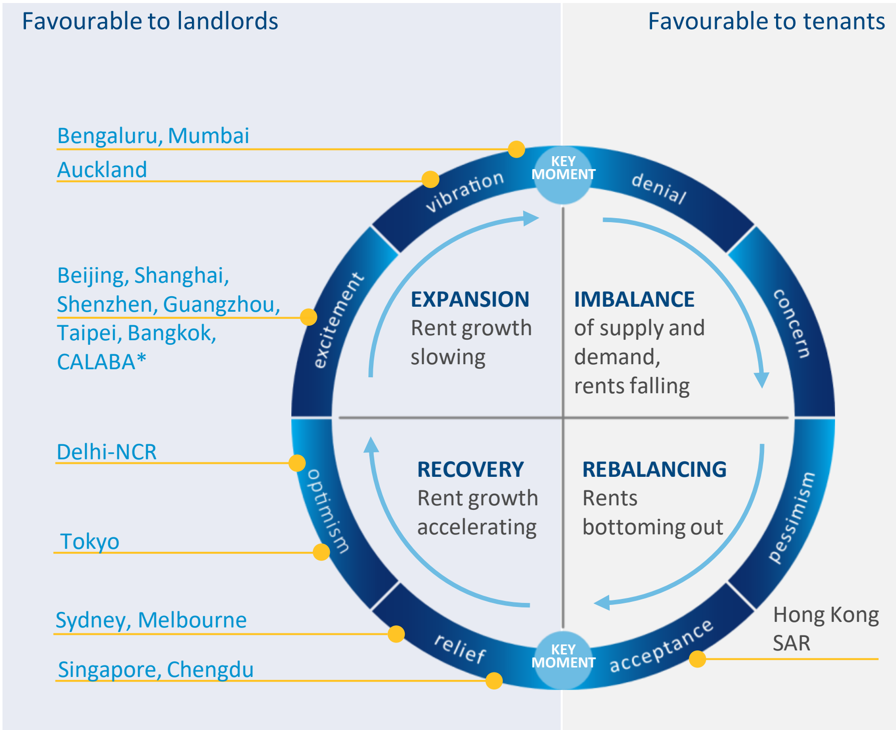
OFFICE MARKET

- We expect the majority of regional markets to continue to favour tenants over 2021.
- While this outlook facilitates long-term leasing deals, current economic uncertainty will have a major influence on long-term decisions.
- Especially in Asia, as occupiers adjust structure and headcount and adopt new work standards, we expect many to reduce their space needs. They may also promote decentralisation with hub-and-spoke models, although this will vary by city.
- The technology and life sciences sectors, which thrived in 2020, should expand further.
- With demand and supply out of balance in many markets, office asset prices are unlikely to rise in the near term despite evident appetite among investors to deploy unused capital.



LOGISTICS/INDUSTRIAL MARKET

- Most APAC logistics/industrial markets favour landlords, including the big Chinese and Indian cities, Singapore, Auckland and Taipei.
- Aggregate warehouse occupancy across 33 Chinese cities tracked by Colliers fell from 93% at H1 2018 to 85% at H1 2020, reflecting growth in stock not weak demand. Average rent is down about 2% over the past year, since new facilities tend to be further from CBDs. Rent growth has been firmer in the top cities, notably central areas of Beijing and Shanghai.
- Rent growth in the big Chinese cities should now pick up as economic acceleration and new, more efficient warehouse designs fuel demand. In Shanghai, we see rents rising 3.0% in 2021.
- In Sydney and Melbourne, a rise in incentives had made the logistics market favourable to tenants. Looking ahead, however, prospects for demand seem bright, and we expect growth in effective rents of 1.0-2.5% depending on the market in 2021 after falls of 3.0-5.0% in 2020.



Notes: Best estimate as of end-Q4 2020.
Rents are net effective on an NFA basis (USD per sq metre per month).
Indian markets report gross absorption for demand.
*Cavite, Laguna, Batangas in the Philippines
[1] Special Administrative Region of the People's Republic of China.

"CHINA PLUS ONE" STRATEGY

Adoption will help cut costs and mitigate risk

Government Policies Facilitating China Plus One Strategies

India

Production-linked incentives of USD21.0 billion have been offered in the automotive, electronics, chemical, pharmaceutical, telecoms, textiles, food, solar, steel and white goods sectors.

Japan

Japan has allocated USD2.2 billion for local and overseas relocation: USD2 billion for Japanese manufacturers to move back home, and USD230 million for firms relocating from China to Southeast Asia[1].

South Korea

South Korea's USD95.0 billion New Deal five-year plan will expand local manufacturing in high-technology equipment, clean energy and TMT to reduce these sectors' reliance on external suppliers[1].

Indonesia

Tax breaks will be available on 60% of investment value including land on labour-intensive industries, training programmes, or research and development activities.

A 100% tax holiday on investments of over USD2.9 billion for 20 years.

Vietnam

Industrial zones offer lower or no corporate income tax and VAT, as well as tariff rebates and discounted land costs.

Vietnam also has double taxation agreements with over 80 countries globally.

Thailand

The Thailand Plus plan (2019) facilitates the supply chain relocation through income tax exemptions and reductions, and approved STEM (science, technology, engineering, mathematics) training cost exemptions subject to conditions. Further, Thailand has a one-stop shop for all licensing and visa purposes.

Australia

The Australian government has set aside AUD107.2 million to address any supply chain challenges through a Supply Chain Resilience Initiative (SCRI). The focus is on identifying essential goods and services, mapping, and stress-testing existing networks.

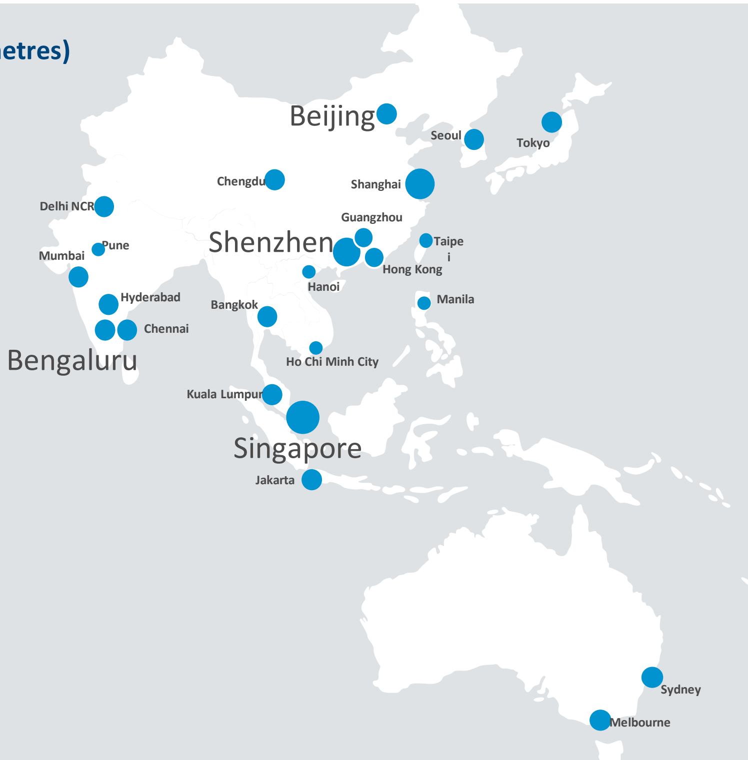
[1] See article from Supply Management: Why 'China Plus One' could be the answer for global supply chains

ASIAN TECHNOLOGY OCCUPIERS

Chinese groups will dominate office leasing demand

Cumulative Regional Grade A Office Leasing Demand (sq metres)

2020	2021	2022	2023	2024	2025
2.3mn	6.5mn	11.4mn	16.6mn	21.6mn	26.4mn



15-18%
Chinese Technology Occupiers

20-25%
Asian Technology Occupiers

Source: Colliers International

FLEXIBLE WORKSPACE AND EMERGING DISTRICTS

Flexible workspace shift outside CBDs likely to continue

Real Estate Strategies

Occupiers

- We expect occupiers to use flexible workspace for short-term leases and expansion opportunities in 2021 as they seek to avoid capital expenditure.
- We expect occupiers to seek non-CBD locations for staff, notably in Asian markets with long commuting times such as China, India, Japan, Indonesia, Thailand and the Philippines, as they adopt hub-and-spoke operations.
- We also expect to see partnerships between occupiers and operators as the former begin to reduce excess space from their portfolios.

Owners

- We expect hybrid leases between asset owners and operators to become more common.
- As occupiers seek to reduce capital expenditure and focus on short-term leases, we expect to see an increase in management agreements in which the operator provides a choice of accommodation within an asset, thereby increasing the value of offerings.
- Since interest in suburban locations should increase due to hub-and-spoke models and greater demand from occupiers, we think the capital values of office properties in these locations may stay firmer than those in CBDs.

SUSTAINABILITY AND CLIMATE CHANGE

Sustainability will be a key consideration for occupiers and owners going forward

Timing of Countries' Net Zero Emissions Targets

- **2030** Norway
- **2035** Finland
- **2040** Austria, Iceland
- **2045** Sweden
- **2050** EU, US, UK, New Zealand, South Korea, Japan
- **2060** China

Source: World Resources Institute

The 2020 Global Real Estate Sustainability Benchmark (GRESB) survey of nearly USD5 trillion in real estate assets indicates that owners in Australia and New Zealand are global leaders when it comes to Environmental, Social and Governance (ESG) performance of their real estate assets. According to the PwC and ULI[1], certified green buildings in some of the APAC markets include:

Japan	India	Australia	Singapore	South Korea
1,000	1,578	1,800	3,000 (40% of current stock, with a target of 80% by 2030)	15,000

For further information, contact our Service Experts:

Sam Harvey-Jones
Managing Director | Occupier Services | Asia
+852 2822 0509
Sam.Harvey-Jones@colliers.com

Doug Henry
Managing Director | Occupier Services | Australia
+61 2 9257 0386
Doug.Henry@colliers.com

Simon Hunt
Managing Director | Office Leasing | Australia
+61 3 9612 8818
Simon.Hunt@colliers.com

Terence Tang
Managing Director | Capital Markets & Investment Services | Asia
+65 6531 8565
Terence.Tang@colliers.com

John Marasco
Managing Director | Capital Markets & Investment Services | Australia & New Zealand
+61 3 9612 8830
John.Marasco@colliers.com

Gavin Bishop
Head of Industrial Capital Markets | Australia
+61 401 146 051
Gavin.Bishop@colliers.com

Tammy Tang
Managing Director | China
+86 21 6141 3625
Tammy.Tang@colliers.com

Wei Leng Tang
Managing Director | Singapore
+65 6531 8688
Weileng.Tang@colliers.Com

Nigel Smith
Managing Director | Hong Kong SAR
+852 2822 0508
Nigel.Smith@colliers.Com

Sankey Prasad
Chairman & Managing Director | India
+91 98 4526 8442
Sankey.Prasad@colliers.Com

Yukihiro Ogasawara
Managing Director & Chairman | Japan
+81 3 4572 1010
Yukihiro.Ogasawara@colliers.Com

Research Experts:

Andrew Haskins
Executive Director | Research | Asia
+852 2822 0511
Andrew.Haskins@colliers.com

Rakesh Kunhiraman
Senior Director | Research | Asia
+65 6531 8569
Rakesh.Kunhiraman@colliers.com

Joanne Henderson
National Director | Research | Australia
+61 2 9257 0286
Joanne.Henderson@colliers.com

Chris Dibble
National Director | Colliers Partnerships, Research & Communications | New Zealand
+64 9 357 8638
Chris.Dibble@colliers.com

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