TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

Research Insights | 1 June 2020

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Singapore – *Resilience and Rebound* report

Colliers ranks the resilience and rebound (R&R) potential of core sectors based on three metrics: historical GDP growth and stock index returns during and after major crises, as well as future earnings growth.

Manufacturing ranks top overall, faring well across three metrics. This bodes well for industrial space. With rising e-commerce, warehouses and hi-spec industrial space provide good exposure.

Technology ranks second, driven by accelerated adoption and strong earnings outlook. The sector should thrive and continue to be the main demand driver for prime office, business parks and data centres.

Hospitality is among the most volatile sectors but could also rebound fast, supported by an optimistic earnings outlook. Retail fared well historically, but with structural challenges in recent years, it now has the weakest earnings growth outlook.

Recommendations

We recommend investors focus on prime offices and industrial buildings, such as hi-spec space and business parks. Hotels and retail malls could provide near-term opportunities. Occupiers should embrace technology and more flexible work strategies in the longer term.

#1 Manufacturing

Manufacturing, which includes pharmaceuticals and consumer goods, ranks top in our overall R&R ranking, on strongest GDP rebound (+34 ppts after GFC), as well as having the second-highest stock index returns and future earnings growth.

#2 Technology

Technology ranks second in our R&R ranking, with the second-highest GDP growth resilience, top stock index returns (+102% after GFC) and the strongest 3-year average annual earnings growth outlook (+24%). We expect tech to be an enabler and a driver of real estate demand.

#3 Hospitality

Hospitality is among the most volatile sectors with its dramatic swings during and after crises (+12 to 19ppts GDP growth rebound). Tourism is likely to rebound as our study shows that annual earnings growth is expected to be third-strongest (+17%).

#4 Retail

Retail had been fairly resilient historically, owing to rising consumerism and income growth. However, with the acceleration of e-commerce, offline retail could face a longer path to recovery (lowest earnings growth).

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For further details, please refer to the replay of the "Sink or Swim" webinar, featuring the above experts from Colliers Singapore and guest panellists, which discussed the implications of the research (29 May).

South China – Logistics

This report identifies three logistics clusters from the mainland Greater Bay Area (GBA)* cities and among these clusters highlights five recommended logistics cities for occupiers and investors.

Zhuhai-Zhongshan-Jiangmen:

Zhuhai-Zhongshan-Jiangmen's existing Grade A warehouse stock is relatively low compared to other clusters, yet the new supply is planned to double in next three years, providing more new logistics facilities with competitive rent amid rapid economic growth in the local markets.

Shenzhen-Dongguan-Huizhou:

The limited logistics land and future supply, coupled with the relative high occupancy costs of Grade A warehouses in Shenzhen has created spillover demand, accelerating the warehouse development of neighbouring emerging cities, especially Huizhou.

Guangzhou-Foshan-Zhaoqing:

Guangzhou, the most populous city in Guangdong, has a strong economic connection with Foshan. The urban integration of these two cities has benefited the logistics development of the emerging market in Zhaoqing.

Recommendations

- **Zhuhai**: The Hong Kong-Zhuhai-Macau Bridge Zhuhai strengthens the marine and logistics integration with Hong Kong and Macau.
- **Zhongshan**: We expect Zhongshan will be a logistics hub with the completion of the Shenzhen-Zhongshan Bridge, planned for 2024, connecting the east and west banks of the Pearl River.
- **Jiangmen**: The manufacturing sector is now the largest contributor to Jiangmen's overall GDP. The government aims to build the city into a coastal logistics centre and West Guangdong's key logistics hub.
- **Huizhou**: Huizhou's industrial economy and proximity to Shenzhen have established it as one of the major logistics centres in the GBA. Its lower rent and labour cost have helped the city promote itself as a promising alternative to other cities.
- **Zhaoqing**: Located in the central-west part of Guangdong, Zhaoqing acts as a gateway connecting the GBA to China's south-west region and as an organic produce transaction hub for the GBA.

For further details, please see Colliers' report:

- *Greater Bay Area Logistics Markets and Opportunities (28 May)*

*Note: The GBA in this report only refer to the nine mainland cities in the Greater Bay Area, excluding the Hong Kong Special Administrative Region and Macau Special Administrative Region of the People's Republic of China.

[1] Hong Kong SAR Marine Department

Beijing - Business Park

After more than 20 years of development, six mature business park submarkets have taken shape in Beijing. Shangdi and Wangjing-jiuxianqiao, the two most mature business parks in Beijing, are considered the best locations for tech companies, which are the top demand drivers for business parks. Meanwhile, other submarkets with more diversified industries, such as Beiqing Road, Fengtai and BDA, have also experienced rapid development in the past few years.

Recommendations

- Tenants: Business park rents are lower than offices. With improved property accessibility in business parks and continuous improvement of supporting facilities, we recommend that tenants in office markets who are more sensitive to rents to give greater consideration to business parks.

Recommendations

- Landlords: The outbreak of COVID-19 accelerated the development of online services industries such as online education and online medical care. We recommend landlords seize the opportunity to capture expanding demand from these industries.
- Investors: We recommend investors pay attention to business park properties like Shangdi with simple business models and stable returns.

R&D expenditure: RMB 18.7 billion
This ranks as one of the top R&D spenders in China. We expect this high spending to elevate the quantity and scale of high-tech companies and employees in Beijing.

13.3million sq metres
The total stock of Beijing's business park market, organized across six submarkets: Shangdi and Beiqing Roads in Haidian District, Wangjing-jiuxianqiao and Sihui in Chaoyang District, Fengtai on the 4th Ring Road, and BDA outside the 5th Ring Road.

RMB128.1 per sq metre per month
By the end of 2019, Beijing's average business park rent reached RMB128.1 (USD18.3) per square metre per month, decreasing gradually since a large supply over the past two years.

2.1 million sq m
2.1 million square metres (22.6 million square feet) of business park space is scheduled to enter the market from 2020 to 2024. We expect 2021 to be the year of peak supply, with over 1.0 million square metres (10.7 million square feet) of new supply entering the market.

For further details, please see Colliers' report:

- *Beijing Business Park Market Overview and Outlook | Maturing and Thriving (28 May)*

Taiwan - Taichung City

The New City Hall Business District (NCHBD) is a multi-centric hub in central Taiwan. The office market was active in Q1, with impact from COVID-19 not yet apparent.

We expect the NCHBD to become Taichung's largest prime office market in the next five years.

Recommendations

- Continued manufacturing investment in Taichung City should drive demand for office space. We recommend the office sector in Taichung as the most stable and promising investment opportunity.
- We recommend tenants with expansion or relocation requirements consider the NCHBD, as landlords may offer more flexible terms in 2020.

For further details, please see Colliers' report:

- *Taichung's Fast-growing New Business District (28 May)*

Philippines - Manila retail property

Colliers believes that the COVID-19 pandemic and the lockdown imposed are likely to redefine Metro Manila shopping.

- From March 17 to 30, 2020, we conducted a survey of more than 100 respondents, located in Luzon and Visayas, to get insights on shopping preferences of the public. Results showed that 80% of respondents still chose brick-and-mortar retail despite the poll being conducted during the lockdown period.
- We believe that most respondents did not factor in the extent of the pandemic and its potential impact on consumers' mobility.
- Colliers believes that even if the government fully relaxes the lockdown imposed all over Metro Manila, personal distancing protocols to be implemented in Metro Manila malls are likely to reduce consumer traffic. This in turn, is likely to result in a slower absorption of retail space all over Metro Manila. Colliers projects vacancy rising to 12.0% in 2020 from 9.8% in 2019.

- In our opinion, the reduced mobility, observance of physical distancing, and aversion towards the use of physical currency present opportunities for mall operators and retailers all over Metro Manila. These are likely to form part of the new normal in Philippine retail.

Recommendations

- We recommend that mall operators expand their e-commerce platforms. Retailers, meanwhile, should maximize mall developers' online sites and social media platforms. Retailers should remain relevant by ramping up client engagement and partnering with delivery platforms.

For further details, please see Colliers' report:

- Manila Flash Report – THE NEW NORMAL: From Bricks To Clicks (26 May)

Australia - Offices, Industrial

Economic and regulatory updates

- Stage 2 lifting of restrictions to come into force over the next week, with cafes, restaurants, pubs, gyms and cinemas able to trade. Each state has differing start dates; however, most are lifting restrictions in early June.
- The JobKeeper programme underwent a significant revision and is now expected to cover 3.5 million workers and cost AUD70 billion(USD47 billion), rather than the estimated 6 million workers and AUD130 billion (USD87 billion) cost.
- The government released details of the JobMaker programme which has a strong focus on vocational training, industrial relations reform, infrastructure spend and tax reform.
- The Value of Construction work done fell by 1.0% (seasonally adjusted) quarter on quarter and is the weakest since September 2010. Residential construction was the biggest drag, falling 1.6% on last quarter.

Office

- Vicinity has announced plans for a 42,000 sq m office tower, and 366 apartment building as part of its mixed-use development at Box Hill.
- Mirvac and Cbus have been shortlisted for the Treasury Square mixed-use development which is currently controlled by Vic Track with final offers due in July.
- Major banks such as NAB and Westpac are gradually allowing their staff to return to the office; however, 'hot desking' is not permitted. Instead, staff will be required to book a workstation via an app.

Industrial

- Last week, we launched our second Industrial Investor and Occupier Sentiment Survey. Key insights include:
  - » Industrial and logistics investors are now more certain on when they plan to buy - 64% of investors believe they will buy their next asset within six months compared to 43% last month and the number of investors who said they don't know when they will next buy fell from almost half in April to 25% in May.
  - » Investors are now more bullish with regards to capital growth and the outlook for cap rates within the sector - almost 60% believe that cap rates will only soften by up to 25 basis points compared to just 22% in May.
  - » Given supply chain disruptions, 31% of occupiers surveyed said they are now requiring more storage space as a result of COVID-19 and 31% of occupiers also said they are now storing more stock locally.
  - » 13% of occupiers said they are now exploring automation provisions within their warehouse while 6% said they are exploring relocation options as a result of COVID-19.
- The South Australian Government has agreed to provide up to AUD10,000 in grant funding for South Australian exporters as part of a new e-commerce Accelerator Programme (eCAP). The programme will allow eligible small to medium exporters to apply for the grant to diversify their business model to include an online platform to generate more revenue and create new jobs.

For further details, please see Colliers' report:

- Colliers Radar – Weekly Real Estate Update (29 May)

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