Colliers Insights | APAC | 7 June 2021

Talking Points

Hong Kong SAR – Cold storage

We see Hong Kong’s cold storage market having strong demand and limited supply over the next five years. For example, retained imports of frozen food have grown at a CAGR of 11% from 2016 to 2020, despite cold storage space (by sq ft GFA) growing at a CAGR of a mere 4% over the same period.

Kwai Chung stands out as one of the most promising submarkets, accounting for 44% of the licensed cold stores’ space, and is well-connected via the highway network.

Recommendations

We recommend investors consider three strategies to enter this sector:

- Build-to-suit, either on bare industrial land or redeveloping existing industrial buildings.
- Sale-and-leaseback, purchasing an asset and leasing it back to the original owner.
- Conversion from existing industrial, by adding state of the art technology to capture greater investment returns.

Why cold storage is important?

Increasing demand for e-commerce

Growing retained import frozen food in Hong Kong (2018–2020)

Expansion of APAC cold storage market

For further details, please see Colliers’ report:
Cold Storage Demand Increasing (20 May)

Korea – Technology occupiers

The influence of technology occupiers on Korea’s leasing market is growing. With rapid growth in their online business and strong financial backing, technology companies are emerging as big players in office development, investment, and leasing.

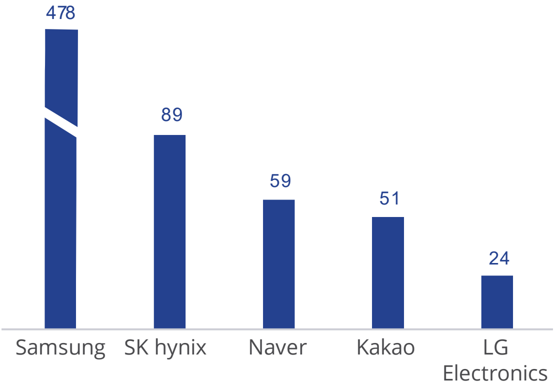
As Korea's status as an IT powerhouse strengthens, a rising number of global technology companies are considering entry into the Korean market.

Recommendations

As technology occupiers continue to expand, we recommend landlords remain competitive and offer incentives sufficient to attract these high-growth companies.

Unlike the manufacturing industry, technology companies, especially in the gaming sector, are facing space shortages as their headcounts grow. As space is limited in the Pangyo area, we recommend considering Seongsu-dong, Guro, and Gwacheon as potential headquarters locations.

Major tech companies in Korea by market capitalisation (KRW Trillion)



For further details, please see Colliers’ report:
Tech Occupiers in Korea (28 May)

Philippines – Sustainable office buildings, GDP updates, Cebu office & Residential

Sustainable office buildings

Colliers Philippines believes that adopting green and sustainable features plays a crucial role in future-proofing office towers beyond the pandemic.

The COVID-19 situation has accelerated the adoption of sustainable office spaces and we see this trend complementing the recovery of office leasing demand across Metro Manila beyond 2021.

Recommendations

As part of occupier retention as well as attraction strategies, Colliers believes that existing landlords and developers should focus not only on wellness attributes, but also on green retrofitting activities.

Occupiers that are mandated to follow green initiatives should constantly be on the lookout for upcoming wellness certified office towers likely to be completed across the Philippines in the next 12 to 36 months. In Metro Manila, about 37% of the new supply from 2021 to 2023 will likely be wellness certified buildings.

For further details, please see Colliers' report:

Green Edge: Future proofing office post-pandemic (20 May)

GDP

The Philippine economy contracted for the fifth consecutive quarter in Q1 2021. This was primarily due to a surge in COVID-19 cases and reimposition of lockdown restrictions. Credit rating firms and multilateral lenders have downgraded their economic forecasts for 2021. Colliers believes that the economy's recovery is likely to depend on the success of the vaccine rollout. In our view, economic recovery should have a positive impact on the country's property sector in 2022.

Recommendations

In our view, tenants should take advantage of the tenant-favourable office market by implementing blend-and-extend strategies or by securing lower rental rates in exchange for longer lease terms. Residential developers should also seize opportunities in the market by tapping demand from the overseas Filipino market.

Meanwhile, mall operators should continue accelerating omni-channel strategies as well as convert and repurpose vacant physical retail spaces.

For further details, please see Colliers' report:

Jabs Key to Jumpstarting Property Recovery (21May)

Cebu Office

Colliers saw Metro Cebu recording positive net office absorption in Q1 2021, ending two consecutive quarters of negative net take up.

Among the deals recorded in Q1 2021 include those from the outsourcing and traditional segments, occupying new office spaces in Cebu Business, IT Parks and Mandaue.

Recommendations

Metro Cebu tenants and landlords believe that a successful roll out of the Covid vaccine will play a pivotal role in the recovery of office leasing, our expectation is that a demand recovery will start between Q4 2021 and Q1 2022.

Colliers encourages tenants to take advantage of favorable market trends and maximize lower rents in exchange for longer lease terms while assessing post-pandemic options, including a hybrid of on site and working from home. Meanwhile, landlords should highlight availability of PEZA spaces and Cebu's competitiveness† to expanding outsourcing firms.

Cebu Residential

Metro Cebu is the largest residential hub outside of Metro Manila. Covid has disputed the region's economy and property market and we continue to see subdued take-up and completion in the region.

Recommendations

Colliers believes that completion of residential units is likely to pick up in 2021. In the pre-selling market, we project a slight recovery as developers prepare for pent up demand beyond 2021.

We believe that demand for residential units in integrated communities is likely to continue despite Covid. Hence, we recommend developers further explore the feasibility of township developments. Developers should also consider fringe areas for House & Lot projects and maximize new infrastructure as Cebu is a major beneficiary of the government's massive infrastructure push.

For further details, please see Colliers' reports:

Colliers Cebu Report Q1 2021 – Office and Residential (28 May)

Australia: Retail

Over the last year, the Australian retail sector has been buoyed by the effective management of the pandemic and a beneficiary of the largest stimulus package in Australian history.

Households are spending their savings accumulated during the COVID-19 period, and retail trade is increasing. Furthermore, overseas travel is unlikely until 2022 and therefore a potential $60 billion per annum normally spent by Australians on overseas travel is likely to be spent domestically. Continued spending by Australians and further support from the Federal Government on job creation will continue to drive the recovery in the retail sector.

The retail sector has improved at a remarkable pace and well beyond any forecasts. Preliminary retail trade data for April 2021 shows 1.1% growth from March 2021 and 25.1% over the year. When looking at spending patterns of discretionary versus non-discretionary goods, the detailed results of March 2021 are tainted somewhat by the unique conditions created in March 2020. The onset of COVID-19 drove the panic buying of food and beverage items and a hiatus in non-discretionary spending due to the lockdown period and resultant store closures. Consequently, nondiscretionary spending declined (YoY) in March 2021 by 14.5% whereas discretionary spending has increased by 24.4%. Now that more normalised spending patterns have emerged and if the economic recovery continues to gather pace, we expect to see a stabilisation of service-based consumption and a shift towards goods based consumption moving forward.

For further details, please see Colliers' report:

Retail 2021 Research and Forecast Report H1 (1 June)

New Zealand

Metropolitan Office

Metropolitan office vacancy rates continued their upward trend over the six months to March 2021 but at a slower rate than over the previous six months Overall vacancy increased to 6.9% from 6.3%. The bulk of the movement was seen within the prime sector with vacancy moving from 3.3% to 4.9%. The change is partially driven by relocation of companies to new CBD headquarters, a notable example being Genesis Energy which has moved from Central Park to 155 Fanshawe Street. Vacancy within the secondary sector remained little changed at 7.5% versus 7.3% in September.

Changes in office space requirements by some tenants have seen an increase in the number of sub-lease opportunities being brought to market over the last year. Across Metropolitan Auckland, Colliers is monitoring just over 20,000 sq metres of sub-lease space with a minimum lease size of at least 1,000 sq metres. A majority Is located within the North Shore precinct where the most notable recent addition has been from Vodafone.

Development activity continues, with 41,220 sq metres of office space now under construction or refurbishment. Confirmation from Kiwi Property that it is to begin development of a second office tower at Sylvia Park in October, provides further evidence of ongoing confidence in the metropolitan office market.

Investment yields have firmed over the last year due to low interest rates and the high competition evident for a limited number of prime assets being brought to market. Average prime yields now sit at 5.8%, down from 6% a year ago.

Rental values have been under pressure over the course of the year, particularly within the secondary sector. While net face rents have generally been maintained, increased incentives through rent free periods and/or fit-out contributions have been on offer

Average net face rents ($/SQM)

	Prime ▲		Secondary ▲	
	L	H	L	H
	$303	$370	$205	$239

Average yields

	Prime ▼		Secondary ▼	
	L	H	L	H
	5.4%	6.2%	6.4%	6.8%

Average net captial values* ($/SQM)

	Prime ▲		Secondary ▲	
	L	H	L	H
	$4,972	$7,050	$3,010	$3,777

Vacancy rates

Prime ▲	Secondary ▲
4.9%	7.5%

Supply

Under Construction	Consented
31,219 SQM ▼	67,494 SQM ▲

▲ ▼ ◀▶ Annual change

Data based on March 2021. Face rents, yields and capital values are based on averages across all precincts and do not represent the minimum or maximum rates being achieved. Financial indicators exclude buildings in the development pipeline.

For further details, please see Colliers' report:

Auckland Metro Office Report | First Half 2021 (26 May)

Investment

Commercial and industrial investment property returns have surged to multi-year highs, according to the latest data release from MSCI. Record low interest rates have escalated the competition for higher yielding property assets leading to yield compression, lifting values and, in turn, total returns.

The latest data shows that total returns across the 'all property' category over the year to March 2021 reached 15.9%, the highest figure recorded since December 2007. The result was primarily driven by capital appreciation of 9.8%.

Safe haven assets lead the way

Sectoral differences in total return figures highlight the preference that investors have shown for assets with defensive characteristics when economic uncertainty and volatility is apparent. Industrial and Large Format Retail (LFR) are at the top of the list, but heavily contested.

Industrial – continues its strong run

Strong demand and supply fundamentals underpin the industrial property sector.

Competition for industrial assets from a range of buyers, such as high net worth individuals, syndicators and listed property companies has seen property values surge, lifting total returns to 21.8% over the year to March 2021, the highest total recorded since the inception of MSCI's industrial index in 1994.

Large Format Retail – sees record returns

The other standout performer over the year has been the LFR sector. Sharing many of the industrial sector's defensive fundamentals, its appeal has been bolstered by a notable increase in consumer spending which is underpinning tenant demand. The solid fundamentals have again attracted high levels of interest from a wide range of investors driving up capital values. Over the year to March, the sector has generated total returns of 22.4%, the highest recorded by MSCI.

For further details, please see Colliers' report:

New Zealand Research Report - June 2021
(4 June)

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