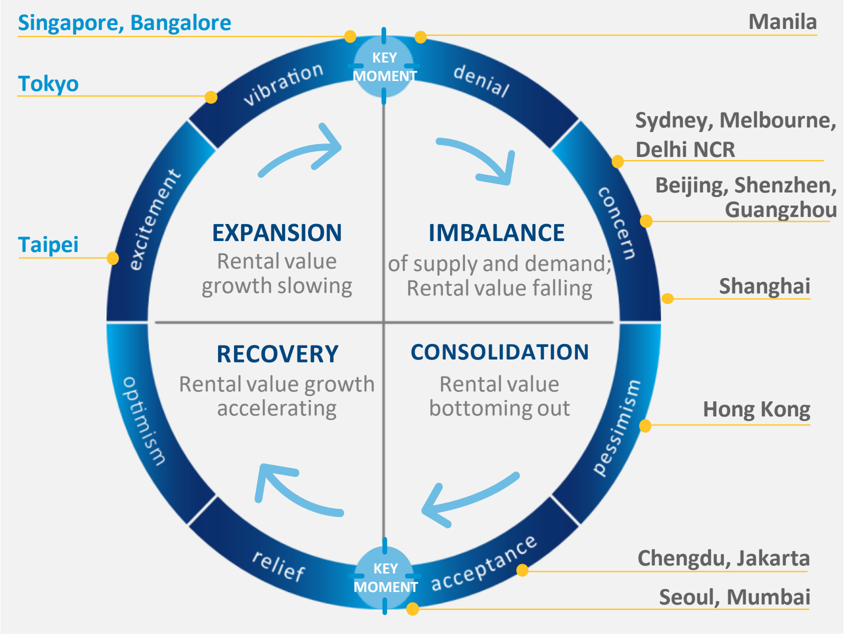
TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

Research Insights | 11 May 2020

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

APAC Occupiers: Asia Core Office Markets Presentation, Q1 2020



Source: Colliers International

COVID-19 has triggered lockdowns and lowered growth forecasts. We think tenants will focus on cost cutting and space rationalisation, putting downward pressure on leasing demand across Asia over 2020.

While uncertainty is high, recovery is already starting in China and should help drive a sharp rebound in regional growth in 2021. This should support leasing demand, though high office supply is an issue in certain markets (especially Tier 1 Chinese cities).

Key Insights and Recommendations

China Tier 1 cities. Shanghai and Beijing experienced low or negative net take-up in Q1, but there are signs that leasing activity may be about to pick up. High supply is likely to lift vacancy to 20% in Beijing and 29% in Shanghai by end-2020, with rents falling 5-6%. Pressure on rent is more modest in Shenzhen and Guangzhou, where some construction has been delayed. With rents in the Tier 1 cities unlikely to rally significantly till 2022, tenants have the chance to sign good deals now.

Tokyo. Despite the prospect of recession, the Tokyo office market still favours landlords, with low vacancy and high pre-commitments. Pressure on rents is near-absent for wellness-certified buildings.

Hong Kong SAR. COVID-19 is compounding a weak economy and leasing market with overall rents set to fall 14% in 2020. Tenants desiring offices in the CBD should look now given higher vacancy and falling rents.

Singapore. Low vacancy meant little impact from COVID-19 in Q1. We expect the market to slow over the rest of 2020, with rents dropping by 5%, but still see five-year average rent growth of 3.3%.

Taipei. Supply is still tight, and we think many tenants will stay in place and renew. Average rent should rise 1% in 2020. Expansion activity is largely on hold, so vacancy should remain below 5% by end-2020.

For a copy of Colliers' Asia Core Office Property Markets Q1 2020 presentation, please contact Abhishek Bajpai of our Corporate Solutions team or Michael Bowens of our Regional Tenant Rep team (details on back page).

China: Semiconductor Occupiers report

China is world's largest semiconductor consumer

85% of upcoming fabs are in Tier 2 cities

5G mobile to drive growth

Government support, talent and a mature industrial base are vital

In sharp contrast to China's vast consumption, less than 10% of global semiconductor revenue is generated by Chinese-headquartered semiconductor firms, whose manufacturing processes remain at least two generations behind international competitors. Propelled by multiple government policies, a firm push in R&D, and a massive capital injection, Chinese semiconductor companies are catching up. Based on this, we recommend:

Recommendations

- Semiconductor sector occupiers should fully exploit incentive measures from central and local governments, including robust subsidies, strategic funding, tax deduction and preferential financing services by setting up offices in different regions.
- Semiconductor sector occupiers should look for locations with a sufficient talent base. The industry needs people with strong backgrounds in the science, technology, engineering, and maths (STEM) fields. Occupiers should negotiate with governments to gain more incentives for talent.
- When expanding to new cities, those with a mature industrial base (autos, chemistry, electronics) will offer better access to skilled workers, industrial knowledge, suppliers and customers.

For further details, please see Colliers' report:

- *Pan-China Radar Report – Silicon Future: Building China's Semiconductor Industry (11 May)*

West China: Post COVID-19 Office Market Situation

Chengdu (Offices)

Chengdu is the top office market in West China. The market has rebounded from the COVID-19 crisis, and we expect office rent to fall by just 1.5% over 2020 (see our Q1 report of 20 April).

Underpinning our forecast is our assumption of stable supply and firm demand from the finance, TMT, health and infrastructure sectors (though other sectors are weaker). Colliers staged a big survey in Chengdu in mid-March which supports this outlook.

Recommendations

- Landlords proactively contact clients to review their current business status.
- Offer new tenants incentives including pre-fit units with upmarket decorations and furniture along with more flexible contract periods.
- Consider including a flexible workspace option to avoid large spaces being broken up for small tenants.

For further details, please see Colliers' report:

- *Chengdu Flash Report - Dual perspective study on Post-epidemic Chengdu office market (7 May)*

Japan: Response to COVID-19

Japan's response to COVID-19 has been a positive surprise, including funding, employment and income support to facilitate continued rent payments. This report discusses national government measures; please contact us for further details on local government measures.

Recommendations

For occupiers

- Understand what support is available to prepare for negotiations with landlords
- Apply for appropriate subsidy programmes if monthly sales drop by more than 5% YOY
- Seek more favourable rental terms while demand is weak
- Use a *blend and extend* lease structure to secure favourable leasing terms and provisions
- Initiate a detailed portfolio review to identify and optimise available opportunities

For landlords

- Landlords should form a strategy for rent relief requests with the situation differing by industry

For further details, please see Colliers' report:

- *Japan Flash Report - Government Response to COVID-19 (7 May)*

Manila: Offices, Retail and Residential

Offices

Colliers sees higher office vacancy in 2020 due to a slowdown in leasing activities following the adverse impacts of the pandemic and lockdown in Luzon. Economic analysts[1] and the head of the Philippine central bank are expecting a recovery in 2021 and this should support expansion of business activities and leasing deals.

Recommendations

- Landlords should highlight their property management capabilities; proactively attract non-POGOs* and work with existing and potential tenants in providing flexible lease terms.
- Tenants should adopt modern technology and a flex and core strategy; revisit business continuity plans; and revisit CBD** buildings that may now offer more flexible terms.

Retail

The slowdown of the country's economy, erosion of consumer confidence as well as implementation of physical distancing measures are likely to adversely impact retail demand in Metro Manila. As a result, we see vacancy rising in 2020 before a slow recovery in 2021 and 2022.

Recommendations for mall operators

- Line up marketing efforts to recapture demand once the pandemic wanes
- Provide short-term rental relief measures to support retailers
- Ensure maximum hygiene standards in malls
- For retailers, we recommend that they should expand their online presence and target the elderly.

Residential

Colliers expects residential demand in Metro Manila to soften in 2020 due to the impact of the COVID-19 pandemic. If the virus is contained in H1 2020, we see market sentiment improving from Q3 2020 and a recovery in both demand and supply in 2021.

Recommendations

- Developers to highlight high-quality property management with a focus on sanitation and emergency preparedness, implement creative lease terms for Ready-for-Occupancy (RFO) units, and offer flexible payment terms to attract buyers, especially as pent-up demand starts to be released in 2021.
- We encourage buyers to take advantage of more attractive pricing in the market, especially for mid-income1 condominium units.

For further details, please see Colliers' reports:

- *Philippine Property Market Reports: Q1 2020 Office, Residential, and Retail (30 April)*

*Also known as Philippine Offshore Gaming Operators (POGOs), primarily offshore gaming firms from China. **Also known as Central Business Districts (CBD).
[1] Padin, M. *Government to boost infrastructure spending to cushion COVID impact*.

Australia: Offices, Industrial

Office

- A majority of occupiers that Colliers are talking to are well progressed in their preparations for a return to their offices.
- Most occupiers appear to be using a Team A/Team B strategy to ease back in to the office environment, and will also be waiting on government advice as to when the re-entry to their offices can take place.
- Enquiries by number are down year on year in all size categories, with the 1,000 to 2,999sqm range recording the largest fall by number (-22%), and the 3,000sqm+ range the smallest fall (-8%).
- Enquiries by sqm have actually increased in the 3,000sqm+ range by 31% year on year, however have reduced by 22% in the 1,000 to 2,999sqm range, and by 14% in the 0-999sqm range.
- Our enquiry data over the year to date shows that the Government sector is the largest enquiry sector by industry (22%), followed by Finance (17%), IT (10%) and Consulting & Other (5%).

Industrial

- We released our Industrial H1 2020 Research & Forecast Report. Key findings of the report include:
  » The value of e-commerce has increased exponentially as a result of COVID-19 and a permanent structural shift towards online retail is expected over the long term;
  » While leasing volumes and enquiries have eased, demand has shifted towards defensive and nondiscretionary occupiers; and
  » Tenant covenants will be increasingly scrutinised going forward and risk will now be priced properly in the current environment as the flight to quality thematic plays out.

For further details, please see Colliers' report:
- *Colliers Radar – Weekly Real Estate Update (8 May)*

For further information, please contact

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

Michael Bowens
Executive Director| Regional Tenant Rep | Occupier Services | Asia
+65 6531 8650
Michael.Bowens@colliers.com

Abhishek Bajpai
Managing Director | Corporate Solutions | Asia Pacific
+852 2822 057
Abhishek.Bajpai@colliers.com

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

Tammy Tang
Managing Director | China
Mobile +86 159 0077 3610
Tammy.Tang@colliers.com

Sean Sun
Managing Director | West China
+86 28 8658 6288 ext. 5818
Sean.Sun@colliers.com

Katsuji Tokita
Managing Director | Japan
+81 3 4572 8607
Katsuji.tokita@colliers.com

Richard Raymundo
Managing Director | Philippines
+63 2 858 9028
Richard.Raymundo@colliers.com

Contact details (Research)

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

Anneke Thompson
National Director | Research | Australia
+61 3 9940 7241
Anneke.Thompson@colliers.com