TALKING POINTS

COLLIERS INTERNATIONAL | ASIA

Research Insights | 20 July 2020

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

Hong Kong SAR – Office, Investment, Retail, Industrial

Office Q2 2020

Insights & Recommendations

In H2, global economic slowdown is likely to continue to weigh on sentiment and office leasing momentum as occupiers have turned more cautious.

Occupiers should take advantage of their bargaining power and the greater space availability & landlord flexibility to upgrade.

We expect to see some return of mainland Chinese demand as more PRC firms seek dual listing opportunities in HK.

Highlights

- Corporates turned more cost-conscious, with some MNCs, trading firms and co-working operators downsizing in Q2, pushing vacancy up to 8.1%
- Rents further softened across submarkets amid weaker take-up, with overall and CBD rents falling back to 2015 levels. We expect a 14% decline in average Hong Kong rents this year.

Investment Q2 2020

Insights & Recommendations

We expect transaction volume to remain relatively low in H2, although a rise from the low-base of H1 is a possibility. A large bid-ask spread is likely to remain a key hurdle, but we expect the gap to narrow towards the end of 2020.

We recommend investors to explore acquisition opportunities in neighborhood malls and hospitality assets, given the possibility of more attractive pricing.

Highlights

- Hong Kong investment sales picked up from the low base of last quarter to HKD18.5bn (USD2.4bn) yet remained 68% lower than the same quarter last year.
- Local investors were relatively active in looking for potential assets, especially those offered with substantial price discounts from asking price.

Industrial Q2 2020

Insights & Recommendations

With geopolitical uncertainties and COVID-19 weakening global trade volumes, we expect more tenants to downsize their space in H2 2020, contributing to a drop in warehouse rents.

Despite a relatively subdued outlook, we recommend landlords to consider data centre conversion or redevelopment with demand expected from the cloud and IoTs.

Highlights

- Market conditions were generally tenant-favourable. Private and medium-sized landlords were more willing to offer attractive rents together with with shorter and more flexible lease terms.
- Warehouse quarterly rents in New Territories dropped -2.6% QOQ, while Hong Kong Island (-0.6% QOQ) and in Kowloon (–0.5% QOQ) remained stable.

Retail Q2 2020

Insights & Recommendations

We expect H2 2020 retail sales to remain subdued, as the COVID-19 uncertainty may trigger the local government to retighten social distancing rules and other precautionary measures.

Online-to-offline strategies remain important for retailers to better support the shopping experience in their physical stores, while landlords should focus on the more resilient trades like supermarkets, home living and light refreshment.

Highlights

- Retail sales dropped 34.5% YOY in Q2, as the lockdown has paused tourist spending.
- Retail trades in international F&B and lifestyle department stores continue to be key demand drivers, supported by local consumers amid travel restrictions remaining in place.

For further details, please see Colliers' reports for Office, Investment Market, Industrial and Retail:

- *Hong Kong 2020 Q2 – Hong Kong's real estate sectors undergoing corrections as the market seeks cost-savings and discounted opportunities to position for the long-term (15 Jul)*

India – Office

Pan-India Summary H1 2020

COVID-19 cases in India are on the rise and have not yet peaked. As such, the majority of occupiers across the top seven cities are continuing to work remotely.

Recommendations

- We recommend that occupiers consider decentralisation to control costs, as well as for better business continuity.
- We expect a significant infusion of supply in 2020, and hence urge developers to focus on projects with pre-commitments and on built-to-suit demand.
- We recommend cost-conscious occupiers to consider fringe locations in cities such as Mumbai, Delhi-NCR and Bengaluru where the cost differentials can be substantial.

Delhi NCR

During H1 2020, the NCR recorded gross absorption of 3.2 mn sq ft (297,289 sq m), 27% lower than H1 2019. However, new supply increased as projects in final stages of construction were delivered.

While leasing during 2020 is likely to be affected by a wait-and-see approach by occupiers, we believe Delhi-NCR will likely overtake Hyderabad to have the second largest gross absorption in India by the end of 2020.

Recommendations

- We recommend occupiers intending to relocate or expand should do so owing to occupier-favourable conditions in most markets.
- We project city-wide rentals to remain stable this year, however select developers are flexible on lease terms given subdued demand.

Mumbai

In H1 2020, leasing activity in Mumbai witnessed a steep fall of 53% compared to H1 2019 as the city witnessed an extended lockdown due to a high number of COVID-19 infections. New supply also declined by 37% YOY.

Recommendations

- We advise developers to prioritise completion of projects that have already secured space commitments by occupiers, instead of catering to speculative demand in the current market conditions with limited availability of labour and supply-chain disruptions.
- We recommend technology occupiers looking for large contiguous space to consider nearly completed developments in the micromarkets of Navi Mumbai and Thane, given the attractive rents.

Bengaluru

COVID-19 infections continue to rise in Bengaluru, with the majority of the workplaces continuing to work from home. We project that while occupiers are delaying their leasing decisions and are on a wait-and-see mode, Bengaluru ought to continue to be the market leader in 2020, accounting for about 30% of the gross absorption.

Recommendations

- With Colliers' projected supply of 7.3 million sq feet (678,200 sq metres) in Outer Ring Road in 2020, we urge occupiers to consider the micromarket, led by new options for occupiers.
- We urge occupiers to choose Whitefield, North Bengaluru for their Global In-house Centres, which typically require large, contiguous office space.

Hyderabad

In H1 2020, Hyderabad witnessed office leasing of 1.7 mn sq feet (160,595 sq m), registering a decline of 62% compared to H1 2019. This is due to the slowdown caused by COVID-19 outbreak and a city-wide lockdown during Q2 2020.

Recommendations

- Developers to identify and establish hygiene systems to boost occupiers' confidence to resume working in their offices.
- Occupiers re-considering their office portfolios to look for cost-effective options at Kokapet and Nanakramguda reflecting better connectivity and availability of quality space.

For further details, please see Colliers' report:

- *Pan-India H1 2020 – Office: Steady rentals amidst strong office fundamentals (14 Jul)*
- *Delhi NCR H1 2020 – Office: Vacancy to elevate with infusion of supply (14 Jul)*
- *Mumbai H1 2020 – Office: Short-term decline in demand, leasing likely to gain pace in 2021 (14 Jul)*
- *Bengaluru H1 2020 – Office: City retains its dominant position (14 Jul)*
- *Hyderabad H1 2020 – Office: A short-term blip, demand to rebound by end of 2021 (14 Jul)*

Singapore – Investment Q2 2020

Insights & Recommendations

Singapore investment sales in Q2 declined 43.4% QOQ and 69.8% YOY to SGD2.22bn (USD1.59bn). H1 2020 fell 48.9% YOY to SGD6.14bn (USD4.41bn), the worst since the GFC, as the lockdown and rising uncertainties delayed investments.

Commercial and mixed-use deals made up 72% of the Q2 tally, as foreign investors picked up sizeable stakes in several CBD properties. Residential slumped to the worst quarter since Q1 2009.

Industrial transactions were led by logistics warehouses and Q2 was the second quarter in a row with no hospitality deals.

Recommendations

We recommend investors watch for opportunities with long-term growth drivers, such as logistics warehouses, good quality office buildings and well-located hotel assets.

For further details, please see Colliers' report:

- *Singapore Q2 2020 – Investment sales: Robust foreign interest (14 Jul)*

West China – Office, Logistics, Retail

Chengdu & Xi'an Office Q2 2020

Insights & Recommendations

Due uncertain business conditions, many tenants are likely to delay relocation plans and renew existing leases. Landlords should take this opportunity to retain tenants.

We recommend landlords provide customized decoration and fit-out to enhance the suite of service offerings to meet the needs of different tenants.

Reduced demand and decreased rents have led to a more tenant-friendly market environment. We recommend tenants still interested in relocation take advantage of the current favorable leasing conditions.

Highlights

- Industries seriously affected by the pandemic continue to surrender their space, most notably in the tourism and offline education industries.

Chengdu & Xi'an Retail H1 2020

Insights & Recommendations

With Chengdu's southward and eastward expansion, we expect to see a growing supply pipeline in the Tianfu New Area and Jianshe Road areas, opening up opportunities for brands to expand into these markets.

With continued economic development, consumers are pursuing more diverse and personalized consumption habits. We recommend landlords introduce independent designer brands to attract more customers.

Highlights

- Impacted by the epidemic, the total retail sales of consumer goods in the first five months fell by 8.9% YOY. Several key trades saw significant store closures: food and beverage, children's experience stores, and education and training. This contributed to a slight rise in the vacancy rate.

Chengdu Logistics Q2 2020

Insights & Recommendations

We expect delayed expansion demand from retailers and 3PLs to drive recovery in H2.

Underpinned by location advantages and abundant supply in the next 3 years, we have designated Qingbaijiang as Chengdu's fourth prime logistics submarket. Over 0.3 million sq m (3.2 million sq ft) of new projects are planned for completion in Qingbaijiang in H2.

A cluster of new projects are slated for Qingbaijiang, and we recommend tenants with new lease and expansion plans to consider this cost-effective option.

Highlights

- The re-opening of shops and restaurants drove up warehouse demand. Rent pressure from vacancy and delayed lease plans eased slightly in Q2.

For further details, please see Colliers' report:

- *Chengdu & Xi'an 2020 Q2 – Office: Opportunities for tenants in light of rent adjustment (20 Jul)*
- *Chengdu & Xi'an 2020 H1 – Retail: New supply, demand decreased (20 Jul)*
- *Chengdu 2020 Q2 – Logistics: Demand from retailers picked up (20 Jul)*

For further information, please contact:

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

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

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

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

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

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

Tang Wei Leng
Managing Director | Singapore
+65 6531 8688
weileng.tang@colliers.com

Sankey Prasad
Managing Director & Chairman | India
+91 8041694968
Sankey.Prasad@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

About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than $3.0 billion ($3.5 billion including affiliates), with $33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at corporate.colliers.com, Twitter or LinkedIn