

TALKING POINTS

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Asia Pacific – Capital Markets – Real Estate: Still Good Value in a Changed World (Part 1)

USD13.0 trillion

Approximate aggregate global negative-yielding debt as of January 2020



0.0%-2.8%

Ten-year government bond yields in core APAC markets: **Japan at low end, China at high end**



1.9%-4.9%

Range of dividend yields on US S&P 500 and major Asian equity markets – at risk due to plunge in corporate profits from present recession



2.8%-5.8%

Yields on prime office assets in core APAC markets as of Q1 2020 (**Hong Kong SAR¹ lowest; Auckland highest**)



3.5%-6.1%

Yields on logistics/industrial assets in core APAC markets as of Q1 2020 (**Hong Kong SAR lowest; Guangzhou and Singapore highest**)



This report, Part One of a two-part series, examines why we see good value in Asia Pacific real estate as we compare property yields with other asset classes.

Two key factors are impacting the values of APAC investments. The first is the COVID-19 recession, from which some markets are starting to recover. The other is record-low interest rates after a decade of loose monetary policy and recent emergency rate cuts.

These factors have extended a long global bull market in government bonds, which now mostly offer low or negative yields. Dividend yields on major equity markets are higher, but are at risk from the recession's hit to profits.

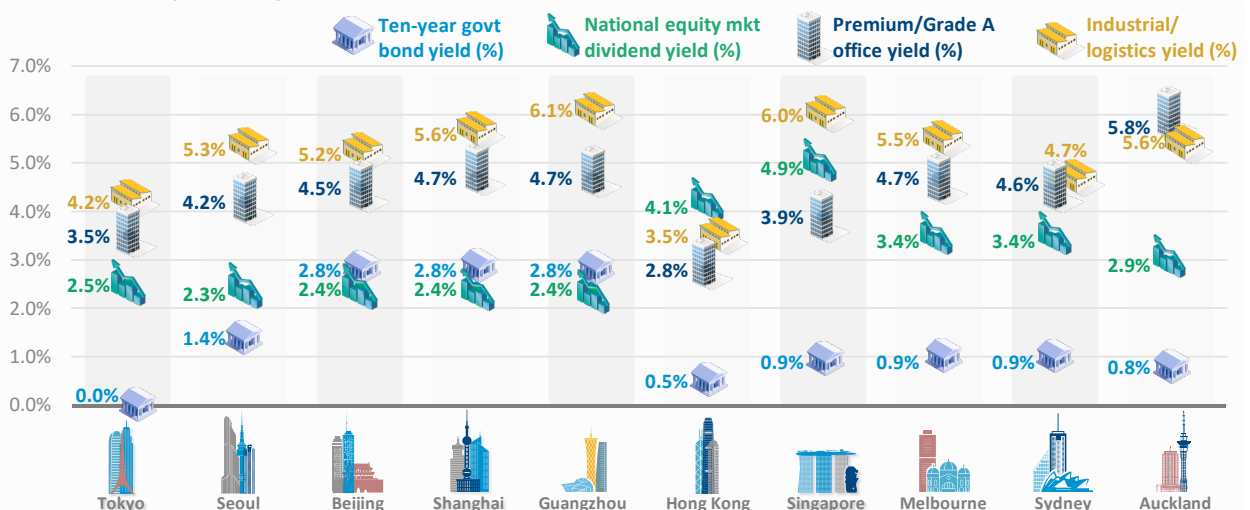
Against this background, the yields offered by prime/Grade A office assets and logistics/industrial assets in core APAC investment markets look appealing. This is true even though rents are coming under some pressure in certain markets.

We will discuss rent growth prospects and our preferred property asset classes in the forthcoming Part Two of this series.

For further details, please see Colliers' report:

-Asia Pacific Real Estate: Still Good Value in a Changed World (15 Jun)

Asia Pacific: snapshot of yields across asset classes



Sources: Colliers International, S&P Global Market Intelligence, Financial Times, Hang Seng Indexes for Hong Kong



Hong Kong SAR - Property









China's decision to draft new security laws for Hong Kong SAR¹, and the US decision to revoke trade and visa privileges for the territory in response, raise questions about Hong Kong's role as a commercial centre.

In the long run, some MNCs² may reduce their footprints in Hong Kong. However, this space will probably be backfilled by Asian and especially PRC companies.

Falling rents and closer integration of the GBA³ boost Hong Kong's competitiveness, and will support overall leasing demand.

The growth outlook and perceptions of economic and political stability will drive investment levels in Hong Kong. On this point, we have little worry, with the USD peg a bulwark of the territory's core investment status.

Implications for property of recent developments

	Short-term	Long-term
 <p>Leasing</p>	 <p>Office</p> <p>We predict negative net absorption in Hong Kong in 2020, after a weak 2019. With mainland Chinese demand set to pick up, the market may not decline further.</p>	 <p>Office</p> <p>Some MNCs may reduce their footprints after COVID-19. However, we expect closer integration with the GBA to boost demand from local and Chinese occupiers.</p>
	 <p>Industrial</p> <p>The political news should not affect the industrial property market, which recently has been driven mainly by demand for conversion to other uses.</p>	 <p>Industrial</p> <p>Long-run prospects for traditional industrial use may hinge on changes in US trade policy towards Hong Kong. However, logistics and data centres are rising fast in importance as parts of the market.</p>
	 <p>Retail</p> <p>The prime retail market is weak, though suburban retail is performing better. The new political situation is of limited relevance to this market segment.</p>	 <p>Retail</p> <p>Over time, greater stability in Hong Kong and a recovery in mainland Chinese tourist arrivals ought to help the prime retail market recover.</p>
 <p>Investment</p>	<p>China is recovering from COVID-19, and there are signs of renewed mainland Chinese investment interest in Hong Kong. Investment volumes should start to pick up in H2 2020.</p>	<p>Economic recovery and closer integration with China should boost growth. The HKD's peg to the USD will stay a bulwark of stability, supporting FDI, equity and property investment.</p>

¹Special Administrative Region [of the People's Republic of China].

²Multinational companies.

³Greater Bay Area of South China, including Shenzhen, Guangzhou and Hong Kong SAR.

For further details, please see Colliers' report:

 - Property Market Can Withstand Recent Waves (8 Jun)



Shanghai – Yangtze River Delta

The Ecological Demonstration Zone (Demo Zone) offers institutional and policy advantages which should attract headquarters, research institutions and R&D centres. Looking at the functional planning, industrial positioning, investment promotion and operation management.

Recommendations

- The Demo Zone executive committee should set clear industrial goals and positioning, as well as identifying business needs in advance to better attract innovative industries and generate economic synergies.
- We recommend green and smart technologies be widely adopted to help achieve the Demo Zone’s goal of balancing sustainability and economic development.

For further details, please see Colliers’ report:



- A Demo of an Integrated Future (2 Jun)



Korea - Office

COVID-19 has led occupier, asset owners, and investors to prepare for significant changes in the flexible workspace sector.



150 flexible workspace locations



There are about 150 flexible workspace locations in Seoul, with 46 of them in Grade A buildings.

We estimate 77 of these locations are operated by multi-location operators.

24 flexible workspace operators



There are about 24 flexible workspace operators in Seoul, these include IWG, WeWork, JustCo, The Executive Centre and domestic operators; Fast Five and Spark Plus.

KRW400,000(USD326)

Average monthly Desk Cost



The desk rate for private offices varies widely, but the average is about KRW400,000 (USD326) per month.

Location of the Demo Zone



The Demo Zone

Land area: 2,300 sq kms
Total GDP: 377.8 billion RMB

Qingpu

GDP:
116.6 billion RMB

Hongqiao CBD

Wujiang

GDP:
198.5 billion RMB

Jiashan

GDP:
62.7 billion RMB

The Pilot Region

Land area
660 sq kms

Source: Public information, Colliers International. Note: USD1 to RMB7.12 at the end of Q1 2020. 1 sq m = 10.76 sq ft.

50% of locations are in the Gangnam area



Among 150 flexible workspace locations in Seoul, more than 50% of them are located in the Gangnam area.

Within the three major submarkets, over two-thirds of flexible workspace locations are in Gangnam.

Recommendations

- We advise occupiers to negotiate discounts on membership fees as market demand softens.
- Asset owners should evaluate flexible workspace on their added value to portfolios. Also focus on well capitalized operators and increasing the provision of amenities and services.
- Flexible workspace operators need to consider business models that can minimize vacancy risks through win-win relationships with asset owners.

For further details, please see Colliers’ report:



- Flexible Workspace Market After COVID-19 (10 Jun)

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