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ASIA MARKET SNAPSHOT

CAPITAL MARKETS & INVESTMENT SERVICES

Q3 18

REGIONAL TRENDS

JAPAN CONTINUES TO DRAW INVESTORS

A wider yield gap continues to attract overseas investors; moving forward, focus will continue to be Tokyo's office market

ACQUISITION ACTIVITY SURGES IN SEOUL

15 major deals transacted in Q3 with an expected aggregate value of over KRW12 trillion (USD11.4 billion)

HONG KONG INDUSTRIAL MARKET SHOWS STRENGTH

Industrial transaction volumes jump 117% quarter-on-quarter

INFRASTRUCTURE IMPROVEMENTS ENHANCE APPEAL OF PEARL RIVER DELTA

Total transactions climb 15% from previous quarter to USD1.38 billion

VIETNAM EMERGES AS AN INVESTMENT HOTSPOT

USD5.5 billion foreign direct investment in the property sector in the first half of 2018 exceeds combined 2016–2017 total

Market sentiment has become more cautious in some key markets due to more adverse economic and policy conditions. In **Hong Kong**, policymakers recently raised the key lending rate; **Singapore** has introduced more cooling measures targeting the residential sector; and authorities in **Beijing** unveiled new policies during the quarter tightening development restrictions in core areas. Nonetheless, we expect developers and investors to remain cautious overall rather than retreat from the market completely. From regulatory changes that promise to pave the way for further investment in the retail sector in **Myanmar** and the **Philippines**, to planned mega mixed-use developments in **Thailand** and the opening of the Guangzhou-Shenzhen-Hong Kong Express Rail Link in the **Pearl River Delta**, there is a steady pipeline of opportunities emerging that will continue to draw interest even in a more challenging regional climate.

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Move over residential: investors target commercial, industrial property

While the outlook for residential projects in markets like **Hong Kong** and **Singapore** is growing more pessimistic, the industrial and commercial sectors remain supported by a range of positive factors. In Hong Kong supply remains tight and a government revitalisation scheme is expected to boost appetite for conversion and redevelopment projects. Meanwhile in Singapore industrial acquisitions and divestments are likely to gain pace as industrial REITs move to shore up their positions, especially in specialised properties like data centres and ramp-up logistics facilities.

Japan continues to draw investors

Market sentiment remains cautiously optimistic due to the central bank's near zero interest rate policy. A wider yield gap, relative to other markets, should continue to attract more investors from the US, Hong Kong, and Singapore.

Moving forward, the focus will continue to be on Tokyo's office market. Lower than expected supply growth, coupled with larger than expected withdrawals for redevelopment, have contributed to the sector's recovery.

Retail resurgence in Myanmar, Philippines

Recent moves by the government to open **Myanmar's** retail industry further to foreign investors will bring a promising and largely untapped sector into the spotlight. The retail market remains one of the strongest in Yangon, with around 90% occupancy and steadily rising lease rates. Given the city's relative shortage of large-scale shopping and lifestyle venues, new destination retail establishments with recreation and entertainment features are likely to meet with robust local demand. A move by authorities in the **Philippines** to ease the minimum capital requirements for foreign retail investments should also encourage more players to enter the previously locally-dominated F&B and home furnishing sectors.

Gangnam still in style

Transaction prices in Seoul's highly sought-after Gangnam business district show few signs of flagging, thanks to a tight leasing market and a relatively short supply of investment opportunities. Recent deals include the acquisition of the Samsung C&T Building by a consortium of Koramco REITs and NH Securities for KRW748 billion (USD696 million), which set a unit price record for South Korean commercial property.

Please feel free to contact our relevant investment market experts for further insights and in-depth discussions on key trends and opportunities across this fast-changing region.

BEIJING

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EN-BLOC TRANSACTIONS
3 transactions
| USD396m

BIGGEST DEAL
USD189m
Beijing HNA Building
| Office

MAJOR MOVER Q3 2018
Office

SECTORS TO WATCH Q4 2018
» Office
» Business Park
» Rental Apartment

Beijing's municipal government announced two major policies in Q3 2018, namely "Catalogue of Prohibition and Restriction of New Industries in Beijing (2018 Edition)" and "Action Plan for Accelerating Development in Southern Beijing (2018–2020)". These measures are part of a continued effort to maintain tight restrictions on the development of the city's real estate market, especially in the city's core areas, where new residential, hotel or office projects are prohibited. Due to the limited opportunities available in the market, only three transactions, totalling USD396 million, were witnessed in Q3 2018.

Three transactions were recorded in Q3 2018 totalling USD396 million. The office sector, including business parks, continues to be the most active in the Beijing investment market with 2 deals transacted, worth a total of USD374 million, accounting for 94% of total volume. Due to the encouraging policy environment in the rental apartment market, investors also actively explored opportunities in this sector in Q3 2018.

From a buyer's perspective, foreign investors have become more active in 2018 and closed 1 deal in Q3 2018, with Allianz acquiring a business park project for USD185 million.

Major Deals to Highlight

» ZLink, a business park project located in Zhongguancun Software Park, was sold to Allianz for a total price of USD185 million. The project has a total GFA of 31,426 sq m.

» Vanke purchased Beijing HNA Building, an office project located in Chaoyang District, from HNA for USD189 million. The project consists of two buildings with a total GFA of 39,100 sq m.

The "Catalogue of Prohibition and Restriction of New Industries in Beijing (2018 Edition)" prohibited the construction of new residential projects in Dongcheng and Xicheng districts as well as new hotel or office projects in the city's six core districts. This policy is expected to cause investors to focus on existing stock, especially in projects with a stable income, such as office, business park or mixed-use projects with a large office component.

CHENGDU

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EN-BLOC TRANSACTIONS
2 transactions
| USD316m

BIGGEST DEAL
USD218m
Hai Pa Wang
| Development Site

MAJOR MOVER Q3 2018
Development Site

SECTORS TO WATCH Q4 2018
» Development Site
» Office

As one of China's national central cities, Chengdu has continuously increased investment in urban infrastructure. The local government has announced plans to launch 171 major infrastructure projects with a total investment of USD221 billion in Q3 2018, attracting interest from investors. Meanwhile, the Sichuan provincial government has introduced 24 regulations that continue to strengthen supervision of the real estate market, demonstrating that the central government retains strict control over local real estate markets. The overall investment market remained stable in Q3 2018 with 2 transactions totalling USD316 million.

There were two transactions recorded in Q3 2018 totalling USD316 million. Investors continued to focus on development projects as the top priority in the Chengdu market, with both transactions falling into this category and completed by domestic developers. Further, the performance of the office leasing market continued its upward trend, with the average vacancy rate dropping 4% QOQ to 19%, the lowest figure in 2018, while the average rent reached USD16 per sq m per day – an increase of 0.8% QOQ.

Major Deals to Highlight

- Hai Pa Wang Project, a development site located on 12 Fu Qing Road Section 3, Chenghua District, with a total GFA of 193,071 sq m. The site was sold to LANDSEA for approx. USD218 million.
- Vanke acquired Chuangshang International Conference Centre, a mixed-use development site project, including office and retail space, and a hotel and conference centre, for USD96 million. The project, with a total GFA of 96,000 sq m, is located in the south of the city.

The Chengdu government, in Q3 2018, announced plans to set up a fourth national development zone and allocate more resources to attract more enterprises into the city, which will strengthen confidence in the market. Investors, especially domestic developers, will continue to focus primarily on development projects. In addition, office buildings in prime locations and high-quality business park projects with mature infrastructure and stable income will also draw interest from investors.

HONG KONG

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EN-BLOC TRANSACTIONS

21 transactions | USD9.93b

BIGGEST DEAL

USD424.2m

NKIL 6593 | Residential Site

MAJOR MOVER Q3 2018

Industrial

SECTORS TO WATCH Q4 2018

» Office
» Residential
» Retail

The residential sector has been a hot topic since the fresh policy of a 200% vacancy tax on units unoccupied for six months (after a grace period of one year) forced developers into an aggressive offloading exercise. The Hong Kong Monetary Authority (HKMA) also hiked the base rate by 25 basis points, further dampening sentiment on the sector. Nonetheless, high demand and low supply mean values are unlikely to be affected in the short term. The office and industrial sectors show no signs of slowing, with persistent investment interest in core and decentralised markets among investors and end-users alike.

Of the 13,570 flats sold, inclusive of the presale and secondary markets, across Hong Kong between July 1st and September 19th, 12% or 1,677 units came from first-hand units hoarded for years waiting for market appreciation, which developers are now eager to sell. Recent pessimism towards the market outlook, however, has not hindered prices, as we saw an increase of 3.5% QOQ while the first-hand luxury market continues to break records. One deal to watch is the government's tender for a site at Mansfield Road on the Peak. With the vacancy tax looming, a plot situated in a precinct of slim supply supported by multiple record-breaking transactions might prove to be more attractive.

In the Grade A office market, HK$50,000+ per sq. ft transactions are becoming more frequent and accepted by the market. For instance, a unit in Far East Finance Centre sold at HK$59,000 per sq ft and a whole floor sold at HK$61,000 per sq ft earlier; a high zone floor in 9 Queen's Road Central was sold for HK$62,000 per sq ft.

The industrial market remains active with transaction and volumes posting an increase of 117% and 58% QOQ respectively. Significant transactions include the Cargo Consolidation Complex, sold to a local investor for HK$2 billion (HK$7,513 per sq ft) and Brilliant Cold Storage II, sold to seasoned investor Tang Shing Bor for HK$1.55 billion (HK$5,275 per sq ft).

Major Deals to Highlight

» NKIL 6593 | Residential Site USD424.2m.

» Wong Chuk Hang Project Phase 3 USD1.7b.

» Cargo Consolidation Complex USD256.4m.

Dampening market sentiment might disturb Hong Kong's record-breaking run, especially on residential units and sites, but the office and industrial sectors should see stable growth amid tight supply, particularly the latter given the strong market appeal of conversion and redevelopment supported by the incoming announcement of the revitalisation scheme 2.0.

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MAJOR MOVER Q3 2018

Office

SECTORS TO WATCH Q4 2018

» Office
» Industrial

The real estate sector in India has entered a revitalisation phase and the implementation problems posed by various regulatory reforms have started to fade. Landmark reforms such as RERA, GST and REITs are bringing in structural changes promoting transparency, governance and institutional funding. As a result, the industry is moving towards greater customer-centricity and the adoption of technology across the value chain. Institutional funding has gained momentum in the commercial real estate sector in particular, attracting over 60% of investments. Warehousing realty is also becoming attractive owing to supply chain efficiencies, cost savings through hub and spoke structures, and the strong growth momentum exhibited by sectors such as e-commerce, retail, fast-moving consumer goods and automotive. There are also early signs of recovery in the residential segment with attractively located and priced land parcels in play, and stronger brands looking at these opportunities.

Sentiment is positive owing to the government's renewed focus on affordable housing, game-changing regulatory reforms, and initiatives such as GST and granting of infrastructure status to warehousing. This will further spur inflows of institutional capital. Office properties will continue to be preferred, as investors with private equity and institutional firms increasingly acquire and expand their real estate portfolios to hold quality office assets.

Major Deals to Highlight

- Piramal Capital & Housing Finance Ltd (PCHFL) has invested Rs650 crore (USD94 million) in hotels owned by Gurugram-based hospitality firm SAMHI Group. This structured debt funding to SAMHI Group is aimed at financing their growth plans and refinancing existing loans across three properties – The Courtyard and Fairfield by Marriott in Bengaluru, the Sheraton in Hyderabad and the Hyatt Regency in Pune.
- Brookfield Asset Management Inc. has invested USD100 million (around Rs680 crore) across multiple projects of Hyderabad-based developer INCOR as structured equity against ongoing and upcoming projects.

Market forecasts & sectors to watch in Q4 2018

- Commercial (Office) – We expect leasing activity to remain strong, keeping office properties prominently on investors' radar. Higher rent arbitrage and efficient portfolio-building will make pre-commitments more attractive to occupiers.
- Warehousing – Various government policies, from GST to the granting of infrastructure status to warehousing, are spurring demand in logistics. This has led to a surge in real estate prices and rentals in some regions as demand for quality warehouses currently outstrips supply.

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MAJOR MOVER Q3 2018

Commercial

SECTORS TO WATCH Q4 2018

» Logistics
» Industrial

Two earthquakes struck Lombok, Indonesia in July and August taking well over 350 lives, and the more recent powerful earthquake and tsunami in Palu (Central Sulawesi) led to a death toll of 1,700. Infrastructure development in and around Jakarta and Greater Jakarta is a major game-changer for future transit-oriented developments (TOD) around the 16-km phase 1 MRT (completion 2019), multiple TOD mixed-use developments around stations of the LRT (completion 2020), as well as the new airport train to the CBD and future high-speed trains from Jakarta to Bandung and Surabaya.

Campaigning for the 2019 presidential election is underway. Public sentiment around investment during this election period is mostly wait and see. Despite a short-term slowdown in apartment sales (all classes) and fewer new office and apartment construction projects, foreign developers and investors continue to pursue new opportunities to establish joint ventures and lower-risk market entry strategies. Foreign developer interest is concentrated in the residential apartment space.

The office market is arguably the most overbuilt and hardest hit at present. With 2018's new supply in the CBD alone at around 600,000 sq m, rents are under pressure and occupancies are still falling. Landlords of all classes of buildings are offering more incentives to retain or capture new tenants and hold rental rates as much as possible. With the growth of e-commerce and future expectations around the new port and new airport (both east of Cikarang and Karawang), there is much investment underway in strategic land for future industrial cities, as well as the planning for e-commerce growth and facilities that will be needed in-city and out. The apartment sector remains soft with fewer new launches and slower absorption. Developers have mostly been focusing on the low-middle segment which consists of more end-users.

Major Deals to Highlight

» Some selected mid to high-end luxury projects performed very well including 57 Promenade (Intiland & GIC), Pakubuwono Spring and Pakubuwono Menteng. Otherwise, the investor market appears subdued.

» Hotel and retail developments have been modest with rates and occupancies in existing stock remaining stable overall.

» Landed housing is starting to become a new sector for foreign JV investment and low-cost landed housing continues to perform well.

The property market will likely continue on a soft trend through the next 2+ quarters amid presidential campaigning and currency volatility. However, we expect most of the currency volatility to play out by Q3–Q4 2019. Thus after a near five-year downward property cycle, a reversal may be expected in late 2019 to early 2020.

JAPAN

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EN-BLOC TRANSACTIONS

89 transactions
| USD2.03b

BIGGEST DEAL

USD1.59b

UMEKITA – The second phase
| Land for development

MAJOR MOVER Q3 2018

Osaka Office Markets

SECTORS TO WATCH Q4 2018

» Tokyo Office Markets
» Logistics
» Fukuoka

Most market indicators remain strong with some exceptions in the retail and residential segments. However, high prices have dampened certain investors' appetites as the Tokyo Metro commercial property price index has increased around 42% since 2013. With rising political tensions between China and the US, YTD turnovers are drifting lower in the absence of foreign investors, including Hong Kong (investments down 90%) and U.S. (down 58%). Quarterly transaction volume remains low, tracking approximately 31% of the previous quarter, but 83% of the same quarter the previous year, as more price-sensitive investors have opted to wait on the sidelines.

Market sentiment remains cautiously optimistic due to the central bank's near zero interest rate policy. A wider yield gap relative to other markets, tracking around 450 bps, will continue to attract more investors from the US (with a yield gap of 350 bps), Hong Kong (42 bps), and Singapore (46 bps).

With pending deals expanding to 139% of executed quarterly transaction volume, we expect more investors to execute unfinished deals before year-end, which is likely to lift the transaction volume closer to the cyclical average of USD4,500 billion per year.

Major Deals to Highlight

- Matsushita IMP Building, Osaka-shi, Osaka, transacted in August 2018 for 27.0 billion yen (USD236.2 million) at a capitalisation rate of 4.1%, sold by MCUBS MidCity REIT to a domestic SPC.
- Cross Place, Hamamatsucho, Minato-ku Tokyo, transacted in July 2018 for 20.7 billion yen (USD181.05 million) at a capitalisation rate of 3.7%, sold by Tokyu Land to Kenedix Office REIT.
- Higashi-Ikebukuro Central Place, Toshima-ku Tokyo, transacted in July 2018 for 9.8 billion yen (USD86.1 million) at a capitalisation rate of 4.4%, sold by Hulic to Takara Leben REIT.

We forecast tighter cap rates as the transaction volume will need to rebound from a cyclical low. Buyer confidence will be tested in the current market cycle. Our base case is tightening up to 40 basis points given the widening gap of around 4.2% between expected and average yields for the quarter.

Moving forward, the focus will continue to be on the Tokyo office market as its stable cashflow from familiar locations continues to attract new money from bond investors. Lower than expected supply growth, coupled with larger than expected withdrawals for redevelopment, have contributed to the sector's recovery.

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EN-BLOC TRANSACTIONS
15 transactions
| USD2.5b

BIGGEST DEAL
USD696m
Samsung C&T Building
| Office

MAJOR MOVER Q3 2018
Office

SECTORS TO WATCH Q4 2018
» Office
» Industrial

In the third quarter of 2018, 15 major deals were transacted including Centropolis, Seoul Square, Booyoung Eulji Building and State Tower Namsan, all currently in progress. The average value of Grade A office sales increased due to prime buildings such as Gangnam N Tower and Samsung C&T Building. Recently, IGIS Asset Management was selected as a preferred bidder for Booyoung Tower and NH Investment & Securities Co. Ltd selected as a preferred bidder for Seoul Square. There is a risk that current sales negotiations may drag on; however, if the expected sales are completed successfully this year, the aggregate transaction size is expected to exceed KRW12 trillion (USD11.4 billion).

We're seeing a positive trend in transactions this year. In particular, the Gangnam Business District (GBD) is a highly sought-after office market for investors due to its favourable leasing market, limited investment opportunities and potential for capital appreciation. Given extensive investment demand, transaction prices in the GBD have risen continuously.

Major Deals to Highlight

- Samsung C&T building (81,114 sq m GFA) was purchased by a Koramco REITs and NH Securities consortium for KRW748 billion (USD696 million), recording a unit price of KRW30 million per pyeong (USD8,591 per sq m). This broke the record for the highest unit price for a commercial property asset in Korea.
- The acquisition of Gangnam N Tower (51,133 sq m GFA) was completed by KB Real Estate Trust at around KRW430 billion (USD400 million). KB Real Estate Trust plans to occupy 20% of Gangnam N Tower, which was delivered this quarter.
- The Samil building, previously owned by Small Rock Investment, was sold to GreenOak. This transaction marked the first GreenOak investment in Korea, with GreenOak acquiring 100% of common shares. SK D&D was also a major investor and plans to manage the building.

Looking ahead, transactions on a number of major properties including Centropolis, Seoul Square and the Booyoung Eulji Building will be closed before end of this year. Total volumes in the office sector for 2018 are expected to exceed those recorded in 2017. Recently, the National Pension Service of Korea (NPS) and Public Officials Benefit Association have created a KRW350 billion blind fund with no fixed investment target to invest in domestic logistics centres. Going forward, investment take-up rates in industrial properties are also expected to rise. Meanwhile, a number of domestic institutional investors are seeking to invest in overseas properties to pursue higher returns. The REIT market is also expected to expand due to the increase in alternative investment demand and the relaxation of related government regulations.

MYANMAR

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MAJOR MOVER Q3 2018

Retail

SECTORS TO WATCH Q4 2018

» Retail
» Business Hotel

The retail market remains one of the strongest sectors in Yangon with a 90% occupancy level sustained over recent years. Lease rates have also consistently increased, albeit at marginal levels. In H1 2018, the government took further action to liberalise the sector by allowing full foreign ownership of wholesale and retail operators subject to certain restrictions such as minimum capital investment requirements as well as minimum trade areas. This much-welcomed liberalisation is expected to facilitate foreign investment in retail and wholesale activities in Yangon going forward. In the meantime, Colliers sees robust and untapped demand for large-scale shopping malls. Creating destination retail establishments geared towards recreation and entertainment will bode well for the market as these appear to be an attractive offering to many locals.

Movement towards better quality offices is now becoming more evident as rental rates stabilise at competitive levels. Newer office buildings are now being leased at lower rates, which in turn have exerted downward pressure on older and lower quality developments. Serviced apartment rates increased marginally due to lack of new supply in the near term. Further liberalisation in the banking, manufacturing and retail industries, as well as the eventual opening of the insurance industry in the coming years, should provide an additional boost to demand. Furthermore, the government's promulgation of new policies to encourage foreign investment should propel expatriate housing demand over time. Occupancy rates in the upper-scale hotel market increased as Asian tourist arrivals surged. Visa leniency for countries such as Japan, South Korea and China is expected to boost tourist arrivals, but may not affect the upper-scale hotel market since Asian tourists tend to spend less than their Western counterparts.

Government initiatives centred on tourism and retail have reinforced growth in the retail and business hotel markets. The opening of the sector to foreign investors has already garnered increased interest among major retailers in Asia in Yangon's retail market. Likewise, stronger business interest coupled with the increased leniency in visa requirements for several major trading partners including Japan and South Korea is expected to spur growth in business visits to Yangon.

PEARL RIVER DELTA

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EN-BLOC TRANSACTIONS

10 transactions
| USD1.38b

BIGGEST DEAL

USD235.3m

HNA Plaza
| Mixed-use

MAJOR MOVER Q3 2018

Office

SECTORS TO WATCH Q4 2018

» Office
» Retail
» Rental Apartment

Urban renewal projects and infrastructure investment continued to be the major accelerators for the Greater Bay Area's (GBA) development, including in the Pearl River Delta (PRD) area. In Q3 2018, the Guangdong government announced various policies promoting and regulating city development through urban renewal and one of the key national infrastructure projects, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), was officially launched. As a result, investors have shown increased interest in the PRD region. There were 10 transactions totalling USD1.38 billion in Q3 2018, a 15% increase over the previous quarter.

Ten deals were transacted in Q3 2018 in the PRD region with a total volume of USD1.38 billion, a 15% increase compared to the previous period. Guangzhou has continued investing in its city infrastructure throughout 2018 and investors have become more optimistic about the city's future. There were 8 deals totalling USD1.07 billion recorded in the Guangzhou market, accounting for 77% of total volume in the PRD region.

The office sector has remained the top pick for investors, as 8 out of 10 deals were office projects or mixed-use projects with large office components. These 8 transactions totalled USD940 million, accounting for 68% of the total volume in the PRD region. Additionally, due to encouraging policies and rapid population growth in the PRD, residential and rental apartment projects also have attracted investor attention, with two transactions during Q3 2018.

Major Deals to Highlight

» HNA sold Shenzhen HNA Plaza, a mixed-use urban renewal project, to Tianji Wealth for USD235.3 million.

» Baring Private Equity purchased 4 floors of the International Chamber Center from Global Sources for USD76.8 million.

» Guangdong Land purchased a residential portfolio comprised of two projects, for USD176 million.

With infrastructure improving rapidly in the PRD region, especially with increased intercity accessibility, the GBA is expected to attract a growing number of enterprises and talent, making the PRD market more appealing to investors. As the XRL will significantly reduce commute time to the GBA, development in suburban areas along the XRL is expected to increase. Property values in Houhai, Shenzhen, Pazhou and Guangzhou may increase as infrastructure and amenities continue to improve. Office opportunities with rental upside and redevelopment projects will continue to be the top two priorities for investors. Additionally, the region's rapid population growth will prompt investors to also direct attention to the rental apartment and retail sectors.

PHILIPPINES

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BIGGEST DEAL

USD188m

Bonifacio Global City site | Mixed-use

MAJOR MOVER Q3 2018

Office

SECTORS TO WATCH Q4 2018

» Retail

» Industrial

The Philippine economy grew 6% in Q2 2018, slower than the 7–8% initially projected by the government. Amid slower economic growth, the property sector remains resilient with the office and residential segments poised for record-high demand and supply in 2018. Looking ahead, the government intends to spur economic growth by attracting more investment through relaxation of foreign ownership restrictions in key sectors such as construction and retail, and the continuing construction of major infrastructure projects primarily in Metro Manila.

Total office transactions for the first three-quarters of the year have already reached nearly 900,000 sq m. Given the current trend, net take-up is expected to breach 1 million sq m by the end of 2018. Office space demand for the remainder of the year will be sustained by strong pre-leasing activities. Aside from BPOs, government agencies, and offshore gaming firms from China, traditional businesses such as logistics, telecommunications, insurance and financial firms will sustain office space demand across Metro Manila.

The benefits of warmer relations between the Philippines and China are spilling over to the residential sector. As of Q3 2018, secondary residential buildings near office towers that house offshore gaming companies have occupancy rates between 95% to 100%, while pre-selling condominium projects recorded a take up of between 90% to 95%. Residential capital values continue to increase while rents are exhibiting marginal growth. Total sales for the first nine months of the year in the pre-selling market are expected to breach 40,000 units.

Major Deals to Highlight

- A joint venture between Ayala Land Inc. and Royal Asia Land Inc, was formed for the development of an approximately 10 million sq ft mixed-use development site located in Cavite, south of Metro Manila.
- Robinsons Land Corp. and Shang Properties Corp. are forming a joint venture company for the development of an approximately 96,650 sq ft mixed-use site in Bonifacio Global City.

The sectors to watch in Q4 2018 are industrial and retail. Despite the proposed implementation of the second instalment of the tax reform program, which seeks to rationalise tax and non-tax incentives currently enjoyed by industrial tenants, industrial space take-up by manufacturers remains stable, while a few existing tenants have announced plans to expand operations within Central and Southern Luzon industrial parks.

The government has indicated it will reduce the minimum capital required for foreign retailers to open shop in the country from USD2.5 million to USD200,000. This will take effect when the government releases the next Foreign Investment Negative List (FINL), which specifies investment areas restricted to foreigners, by the end of the year. This move by the government should enable entry of more foreign retailers, particularly those in the food and beverage (F&B) and home furnishing sectors as these are still dominated by local players.

SHANGHAI

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EN-BLOC TRANSACTIONS
16 transactions
| USD1.14b

BIGGEST DEAL
The Mall Portfolio
| Retail

MAJOR MOVER Q3 2018
Office

SECTORS TO WATCH Q4 2018
- » Office/ Business Park
- » Rental Apartment
- » Retail

Due to continued tightening of market policies, real estate investment in Q3 2018 declined sharply. There were 16 transactions recorded in Q3, totaling USD1.14 billion, a decrease of 60% compared with Q3 last year. However, there are several large deals currently under negotiation and the market is expected to recover in Q4 2018. Long-term rental apartments have been a focal point for investors owing to the government's support and strong demand.

A total of 16 transactions were recorded in Q3 2018, totaling approx. USD1.14 billion. The rental apartment sector has been quite active during this period, with 4 of the 16 transactions coming from this sector, with a total transaction amount of USD132 million, accounting for 11.5% of the total transaction volume. The office sector, together with business parks, remained the focus with 7 transactions, or 49.5% of the total transaction value, in Q3 2018. The largest deal during this period came from the retail sector with Brookfield purchasing The Mall portfolio consisting of two retail assets in Shanghai.

Major Deals to Highlight

- » Brookfield acquired a retail portfolio, The Mall, located in Nanxiang and Jinqiao from Cathay Real Estate. The total GFA of the two malls is 101,354 sq m.
- » Caohejing Pujiang Hi-Tech Center Block 5 & 7, a business park project with a GFA of 40,126 sq m, was acquired by Phoenix Property Investors for USD106 million.
- » China Resources acquired the Sanlin Hotel with a GFA of approx. 14,700 sq m for USD71 million. The project is located in Pudong and will be converted to long-term rental apartments.

As a result of continued policy tightening in the real estate sector, particularly in relation to financing, domestic investors have become more cautious, providing foreign investors with more opportunities. This trend is expected to continue, with more foreign investors closing deals through the end of the year. In addition, investors will prefer properties that generate stable incomes, while rental apartment projects and properties with the potential to be converted into rental apartments will also be a major focus. With several large deals under negotiation, the investment real estate market is expected to rebound in Q4 2018.

SINGAPORE

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BIGGEST DEAL

USD658.14m

OUE Downtown – Office components | Commercial

MAJOR MOVER Q3 2018

» Commercial
» Industrial

SECTORS TO WATCH Q4 2018

» Commercial
» Industrial

The commercial and industrial sectors dominated Singapore's investment market in Q3 2018. REITs and private funds continued to enhance their existing portfolios through acquisitions and divestments. The residential sector took a back seat as developers focused on launching their projects and looking at the encouraging take-up rates. We believe developers will be ready for more price-adjusted land acquisitions in the coming quarters.

Major Deals to Highlight

- Two property heavyweights – CapitaLand Limited and City Developments Limited – jointly clinched a 3.7 hectare commercial and residential site at Sengkang Central for SGD777.78 million (USD563.6m) in August. The prime site was offered through a dual-envelope concept and price revenue tender system. This was also the first time in a decade that the two developers teamed up for a project in Singapore.
- Mapletree Logistics Trust (MLT) acquired five logistics properties from CWT International for a total of SGD730 million (USD535m). The modern ramp-up warehouses, with a total gross floor area of approximately 3.2 million sq ft, are located within the three key logistics clusters near Jurong Port and PSA Terminals.
- OUE Commercial REIT acquired the office components of OUE Downtown from its sponsor, OUE for SGD908 million (USD658.14m), translating to SGD1,713 (USD1,241) per sq ft based on net lettable area.
- As a move to recycle its capital for reinvestment, CapitaLand Limited divested its 70% interest in Westgate – the retail component of the integrated retail and office development – to CapitaLand Mall Trust (CMT) for SGD789.6 million (USD578.2m), translating to SGD2,746 (USD2,011) per sq ft based on net lettable area.

Following the implementation of the residential cooling measures, we expect developers to be cautious and adopt a 'wait-and-see' approach to the residential market. Developers are expected to be more selective in their acquisitions, while bids are likely to be more moderate. However, residential sites with good locational attributes and fewer competing projects could still be appealing to developers.

The commercial sector is likely to continue its positive momentum from Q3 as greater investment demand is channelled from the residential market to commercial assets as a result of the cooling measures.

Activity in the industrial investment market is likely to continue, as industrial REITs strengthen their market positions through selective acquisitions and divestments. We anticipate more activity, especially in niche sectors such as data centres, high-spec facilities and modern ramp-up logistics properties.

Note: USD conversion is based on the date of transaction or date of award.

TAIPEI

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EN-BLOC TRANSACTIONS
3 transactions
| USD120m

BIGGEST DEAL
USD75m
Xerox Building
| Office

MAJOR MOVER Q3 2018
Office

SECTORS TO WATCH Q4 2018
» Office
» Development Site

The total commercial property transaction volume declined to TWD8.6 billion (USD287 million) in Q3. Office and industrial office buildings contributed to approximately 70% of total transactions. Land transactions remained active, recording total volume of TWD43.4 billion (USD1.45 billion) in Q3. The land transaction volume in the first three quarters of 2018 totalled TWD137.2 billion (USD4.57 billion) exceeding last year's total volume.

Due to robust leasing activity, the office sector remains a key market driver in Q3. The total net take-up in the first three quarters was 43,826 ping (144,879 sq m), already exceeding last year's total take-up. The supply coming online in 2019–2021 is mainly for self-use. Self-use buyers and investors continue to pursue office investment opportunities or development sites which allow for office use. In September, the government disposed of the 50-year leasehold of the former Air Force Officers and Soldiers Activity Centre – a commercial plot in Daan District in Taipei City – through public tender. It received five bids from financial and insurance companies who had a major interest in office development sites. Yuanta Bank was awarded the site for TWD8.2 billion (USD273 million) – an 123% premium over the bottom price.

Major Deals to Highlight

- Yuanta Bank acquired the 50-year leasehold of a commercial plot in Daan District, Taipei City for TWD8.2 billion (USD273 million), where it plans to build it headquarters.
- Yong Pei Development and Jyu Yao Investment purchased Xerox Building in Song Shan District, Taipei City for TWD2.3 billion (USD77 million).
- Yi Jin Industrial Co. Ltd. forward-purchased an en-bloc industrial building in Xizhi district, New Taipei City for TWD982 million (USD33 million).

As foreseeable new supply in the office market is scarce, we expect this sector will remain the key market driver in Q4. Due to low levels of office stock and scarcity of land in the Taipei CBD, demand is shifting to decentralized areas such as Neihu district, Nangang district and New Taipei City.

Though the market remained stagnant in Q3 mainly due to caution among investors, insurance companies may become more active in Q4 as they have sizeable amounts of capital allocated for real estate investment.

THAILAND

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BIGGEST DEAL

USD300m

Share acquisition of Gland by CPN | Mixed-use commercial and land

MAJOR MOVER Q3 2018

Office Grade A & B

SECTORS TO WATCH Q4 2018

» Residential Development
» Hospitality

Thailand's investment market remains active with the highest levels of capital being deployed in the Bangkok CBD and along key mass transit routes. There is a strong focus on the residential development sector with investment still at comparatively high levels, albeit falling year-on-year on concerns of oversupply. Office stock remains limited in supply although opportunities are available in the hospitality sector, which remains buoyant with increasing YOY visitor numbers to the country.

Land plots for residential development sell particularly well in the Bangkok CBD and along mass transit routes. This trend continues and top sale prices in the city have now reached record levels at approximately USD225m per hectare. Strong demand remains for prime plots, though the high levels of supply in the condominium sector have resulted in a 30–40% slowdown in YOY unit supply, as some residential developers adopt a more cautious outlook and diversify into alternative sectors for a more balanced risk profile.

The trend of landowners preferring to grant long leases over selling freehold interests persists. Developments of office blocks, serviced apartments, hotels and retail on 30-year leasehold plots continue, normally with options to renew, which are often sold once built. Buyer demand, albeit lower than that for freehold interest, is sufficiently strong in prime CBD areas to sell such investments, particularly with foreign ownership restrictions not applying to leasehold plots.

Major Deals to Highlight

» Q3 has seen a major share-based company acquisition focused on the 'new CBD' area of Bangkok. Central Pattana Public Company Limited (CPN) announced the acquisition of just over 50% of Gland shares for a reported approximately USD300m. Gland's property portfolio comprises office buildings, hotel, residential and retail areas, plus a number of development projects.

» Frasers and TCC have in the last quarter appointed the foundation contractors for Bangkok's largest prime development. The 16.7 hectare site will have 8 hectares of green and open space while still accommodating five Grade A office towers, five luxury and lifestyle hotels, three ultra luxury condominiums and four distinctive retail precincts. The development is being undertaken on a leasehold plot, totalling 60 years, with phase 1 construction due for completion in 2022. Anchor tenants may contact us for further information.

Super Tower on Rama IX, which is currently under construction, will be 615m tall once completed – almost twice the height of the current tallest building in Thailand, the MahaNakhon (314.2 m). The 125-storey tower will provide a multipurpose plaza above modern conference facilities, along with retail arcades at the base. CPN's acquisition will enhance business possibilities and provide influence and experience to what is already a very exciting development for the city.

VIETNAM

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EN-BLOC TRANSACTIONS

3 transactions | USD120m

BIGGEST DEAL

USD60m

Development site | Residential

MAJOR MOVER Q3 2018

Industrial

SECTORS TO WATCH Q4 2018

» Office
» Industrial
» Hospitality

With the State Bank of Vietnam tightening lending to the real estate sector in a bid to control bad debt, Vietnamese real estate developers are seeking foreign capital and we expect the already record levels of FDI into the real estate sector to increase further. The USD$5.5 billion invested in the first two quarters of 2018 has already surpassed the total FDI committed in 2016 and 2017 combined (USD$3.7 billion). With the likes of GIC, Warburg Pincus and Nomura Real estate committing to the Vietnam market, investors from Europe and America are starting to take note while Asian investment still accounts for 74% of all FDI into Vietnam.

The 100% foreign-owned real estate developer Alpha King introduced three significant real estate projects in HCMC, including high-end serviced apartments at No 2 Ton Duc Thang, A-class office building Alpha Tower at No 289 Tran Hung Dao, and the Alpha City complex at No 87 Cong Quynh. GIC Pte, the Singapore sovereign wealth fund, is understood to be making another bet on Vietnam by purchasing a stake in local conglomerate Masan Group Corp after investing USD$1.3 billion in luxury residential developer Vinhomes JSC ahead of its May initial public offering, which was the country's biggest-ever share sale.

Major Deals to Highlight

» Capitaland purchased a 6ha residential development project in District 2 Ho Chi Minh City for USD$60m.

» Thao Dien JSC purchased a residential development site in District 2 Ho Chi Minh City for USD$38m.

» The Sheraton Hotel in Nha Trang was sold for an undisclosed amount yet to be made public.

Residential development remains a hot topic in the Vietnam market but a notable number of developers are starting to shift their attention to the hospitality sector. Nova Land, Sonkimland, TTC, Warburg Pincus and the Indochina Kajima platform are all actively pursuing hotel development and income generating assets within key markets including Hanoi, HCMC, Danang, Dalat and Phu Quoc. Industrial land and ready build space are also highly sought after with a number of large logistics and manufacturing companies seeking high quality space or land to develop for their own use due to the noticeable gap in build quality inherent in a historically labour- rather than capital-intensive industrial market.

ABOUT COLLIERS INTERNATIONAL GROUP INC.

Colliers International Group Inc. (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 12,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of $2.3 billion ($2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than $20 billion of assets under management from the world's most respected institutional real estate investors.

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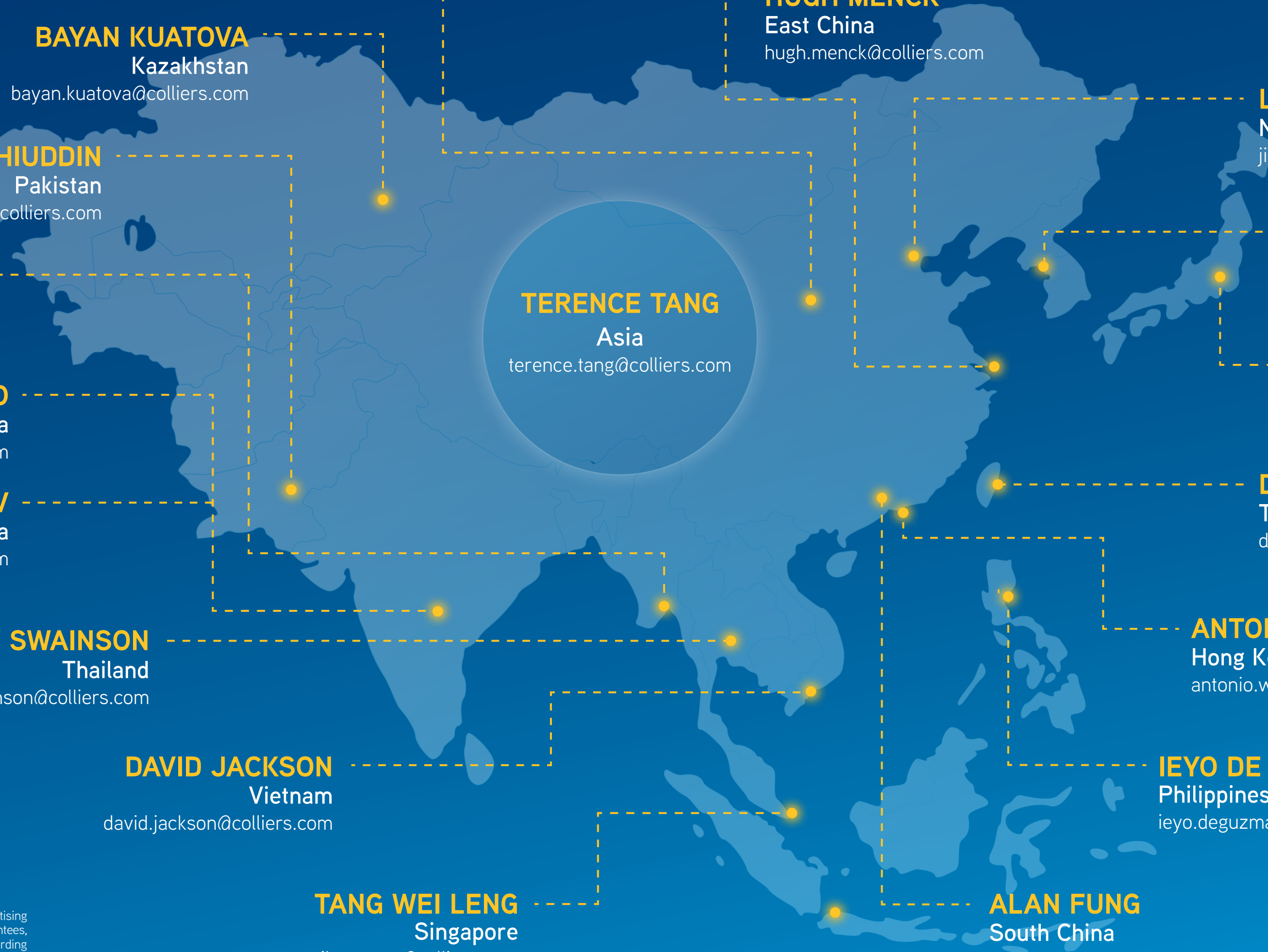

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