TALKING POINTS

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

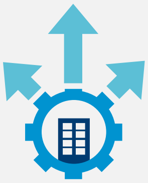
Asia Pacific Office Markets - *H1 2020 Review and Five-year Outlook*

Aggregate absorption

-56% QOQ in Q2

Demand under pressure, but to pick up gradually

Aggregate absorption over 19 APAC office markets fell 56% QOQ in Q2, and despite signs of a pick-up in China should **fall 41% over 2020**. Average annual absorption over five years should be close to the 2019 level.



Aggregate APAC supply

2.8x absorption in 2020

We see heavy supply over 2020 and 2021

Led by China and India, aggregate APAC supply of office space should be 2.8x absorption in 2020. **Supply should remain high in 2021 but ease thereafter**, with demand and supply balanced by 2023.

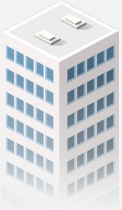
China and India
drive our forecast of

-0.7%

aggregate average annual rent growth over five years

Rents declining now, though medium-term outlook brighter

Weighted average APAC rent should fall 5.0% in 2020, while over five years we see an average annual rent decline of 0.7%. Popular occupier centres such as Singapore, Bangalore and Melbourne CBD **should achieve higher rent growth**, of 3.3%-2.5% on average over five years.



The aggregate APAC vacancy rate stood at

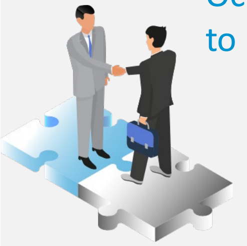
11.4% at end-Q2

Vacancy set to rise for two years

The aggregate APAC vacancy rate stood at 11.4% at end-Q2. **We expect APAC vacancy to peak at 14.5% at end-2022**, and to ease to 13.3% by end-2024.

Capital values not collapsing

Despite a 48% YOY drop in aggregate APAC office investment sales in Q2 2020, capital values have yet to fall sharply, and yields are little changed. We expect modest yield softening over H2 and H1 2021.



Occupiers should act now to secure good deals

With conditions in many markets set to favour tenants for up to three years, tenants have the **chance to lock in good deals in districts like Hong Kong SAR Central, Shanghai's New Bund and Shenzhen's Qianhai area**.

Investors should focus on popular occupier centres

Office markets with solid rent growth, **e.g. Singapore, Bangalore, Melbourne CBD and Auckland**, have the greatest potential for long-run capital appreciation. Singapore offers the highest average annual rent growth in APAC over five years (3.3%), while Auckland offers the highest spread over ten-year government bonds (5.1pp).

Asia Pacific office market: overview

Demand

> Held back by COVID-19, aggregate absorption in the 19 APAC office markets that we track closely fell 56% QOQ in Q2. While demand appears to be picking up in China, over 2020 we predict a drop of 41%. Average annual absorption over 2020-2024 should be close to the 2019 level of 6.82 million sq metres.

Q2 2020	Full Year 2020	2020–24 Annual Avg
0.48mn sq m	4.03mn sq m	6.87mn sq m

Supply

> Reflecting heavy planned supply in H2 in the leading Chinese and Indian cities, we expect aggregate APAC new supply to be 2.8x absorption in 2020. Supply should remain heavy in 2021 but ease thereafter. We see average annual new supply over 2020-2024 at 1.4x average absorption.

Q2 2020	Full Year 2020	2020–24 Annual Avg
1.42mn sq m	11.48mn sq m	9.41mn sqm

Rent

> For 2020, we expect weighted average APAC rent to fall 5.0%. The rising importance of office stock in China and India drives our forecast of a 0.7% average annual rent decline over five years.

> Singapore, Bangalore, Melbourne CBD, Taipei and Auckland should achieve five-year average growth of between 3.3% and 2.2%.

QOQ / End Q2	YOY / End 2020	Annual Avg Growth 2019–24 / End 2024
-2.5%	-5.0%	-0.7%
USD45.7/ sq m/ month	USD43.7/ sq m/ month	USD44.3/ sq m/ month

Vacancy

> Aggregate vacancy at end-Q2 was 11.4%. Reflecting heavy supply in China and India, we expect APAC vacancy to peak at 14.5% at end-2022.

> The prospect of conditions favouring tenants for up to three years gives occupiers the chance to lock in good deals in markets like Hong Kong SAR[1] Central, Shanghai's New Bund and Shenzhen's Qianhai district.

QOQ / End Q2	YOY / End 2020	Annual Avg Growth 2019–24 / End 2024
1.1pp	3.2pp	0.7pp
11.4%	13.2%	13.3%

Capital Values and Yields

> Investment sales in the APAC office sector in Q2 fell 48% YOY, but rose 17% QOQ, reflecting relative strength in Shanghai, Beijing and Singapore. In general, capital values have yet to fall sharply, and yields are little changed. We expect modest yield softening over H2 and H1 2021.

> In the long run, the office markets with the greatest potential for capital appreciation should be popular occupier centres with solid rent growth, e.g. Singapore, Bangalore, Melbourne CBD and Auckland.

Highest yield 8.5%	Mumbai
Highest spread over 10-yr bonds 5.1pp	Auckland
Highest 5-yr rent growth 3.3%	Singapore

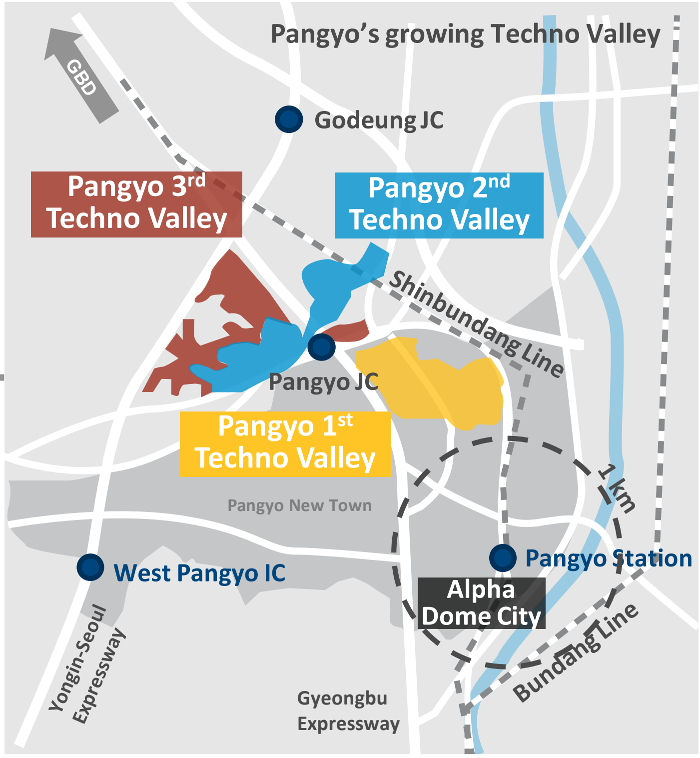
[1] Rents are net effective on an NFA basis (USD per sq metre per month). [2] Special Administrative Region [of the People's Republic of China]

Source: Colliers International

For further details, please see Colliers' report: Asia Pacific Office Markets-H1 2020 Review and Five-year Outlook (18 Aug)

Korea – Pangyo Office Market

The Pangyo market has gained attention from building owners, investors, and tenants as Pangyo 1st Techno Valley and Pangyo Alpha Dome City have seen their occupancy stabilize and the resale market has been deregulated in 2020. When Pangyo 2nd is completed in 2022 and 3rd Techno Valley is established in 2025, we expect Pangyo will emerge as a major office submarket to rival Seoul's existing three major office submarkets.



Source: Colliers International.
Note Seoul's traditional three major office districts are the Central Business District (CBD), the Gangnam Business District (GBD) and the Yeouido Business District (YBD).

Recommendations

- We recommend investors monitor the market for investment opportunities in Pangyo as the restrictions on resale in Pangyo 1st Techno Valley will be lifted sequentially starting in 2020.
- As the restrictions on resale are lifted, we recommend owners looking to increase their liquidity can sell their office assets in Pangyo Techno Valley.
- The opening of Pangyo 2nd Techno Valley brings lettable floorspace in excess of Seoul's traditional three CBDs. We recommend occupiers, especially tech occupiers with an existing GBD presence look to Pangyo for expansion.
- We recommend enterprises planning to move or develop their own buildings in Pangyo 3rd Techno Valley take advantage of the relatively low development cost and tax benefits.

For further details, please see Colliers' report:

- Pangyo office market after Covid-19 (13 Aug)

Source: Colliers International

Australia - CBD Office Second Half 2020

National overview

The Dual Shock System - short term demand, long term supply

- The strength of white-collar employment growth in Australia, particularly in Sydney and Melbourne, has created good office demand across the country, particularly between 2016 and 2019. Over this time, white collar employment across Australian CBDs grew by 82,000 employees, representing circa 900,000 sqm of office demand. Over the same period, however, 645,000 sqm of space has been absorbed. This tells us occupiers have already been taking less space per new employee for some time, and the flexible working trend was already well advanced. These good demand conditions have spurred a supply cycle in both Sydney and Melbourne, and both have projects completing this year and in 2021.
- COVID-19 has been a major shock, and is impacting white-collar employment more than any other sector of the employment market. This is both due to the lockdown impact on corporates and the uncertainty this brings, but also due to border closures effectively stopping any new migrants or overseas students from entering the country. Border closures will impact demand in the short and medium term, as new migrants have been a major driver of demand for office space from the business services, education, finance and IT sectors.
- Any short-term shock to demand is met by a long-term impact to supply cycles, and this is the key reason why Australia's office property market works in cycles. This system has been even more pronounced in the last 10 years, as development in Australia has become very financially disciplined. This means the vast majority of office projects get built only once the demand side (or the 'pre-commitment') has been met. After COVID-19, we expect tighter pre-commitment discipline including higher pre-commitment to obtain construction funding.
- This, in part, gives us confidence that office markets will be rebalanced by 2023/24. We this demand shock to to ease from 2022 onwards with improving employment numbers. Conversely, new supply should become very constrained as very few projects get green-lit over the 2020/21 period.

For this reason, our medium to long term view of Australian office markets is relatively positive. There are a couple of other factors to keep in mind:

- **Relativity.** Australia is not facing these challenges alone. but is generally performing well in this crisis. Given this, we expect that Australia will be viewed as an excellent place to migrate to, to holiday in, and also to invest in. This will help improve office demand with high population growth.
- **Pre-COVID-19 market vacancy.** The two largest office markets in Australia, Sydney and Melbourne CBDs, have entered this shock with near record low vacancy rates. Whilst we know that vacancy will rise in the short term due to both sub-lease space coming on market, as well as subdued demand, this low base of vacancy will serve to soften the vacancy peak.
- **Infrastructure projects.** Sydney, Melbourne and Brisbane all have major infrastructure projects under construction. These projects are due to complete in 2024 (Sydney Metro), 2025 (Melbourne Metro) and 2024 (Brisbane Cross River Rail). While all some years away, we expect that Australia's economy will be well and truly on a growth path again as these projects complete.
- To put into numbers how much of an impact this event is having on our supply outlook, consider our pre and post COVID119gross supply forecasts:

Gross Supply Forecasts 2022 to 2023

Forecast as at:	Q4 2019	Q3 2020 (Base Case Outlook)
Sydney CBD	207,906	199,906
Melbourne CBD	318,750	202,750

Bear in mind that the above supply forecasts for Sydney are impacted by Quay Quarter Tower and Circular Quay Tower, both of which are under construction and therefore have set timelines.

The biggest impact we see is in Melbourne, where there are a number of projects currently seeking pre-commitment. The current conditions are expected to push out the timing of the next supply wave, and we expect supply in 2022 and 2023 to have very high pre-commitments to secure financing or board approval.

For further details, please see Colliers' report:
- CBD Office H2 2020 Research and Forecast Report (19 Aug)

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

Simon Hunt
Managing Director | Office Leasing |
Australia
+61 3 9612 8818
Simon.Hunt@colliers.com

Doug Henry
Managing Director | Occupier Services |
Australia
+61 2 9257 0386
Doug.Henry@colliers.com

John Marasco
Managing Director | Capital Markets &
Investment Services | Australia & New Zealand
+61 3 9612 8830
John.Marasco@colliers.com

Sarah McCormack
Associate Director | Marketing & Communications | Office Leasing
Australia
+61 3 9612 8813
Sarah.McCormack@colliers.com

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

Robert Wilkinson
Managing Director | Korea
+82 2 6325 1901
Robert.Wilkinson@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

Chris Dibble
National Director | Colliers Partnerships, Research & Communications | New Zealand
+64 9 357 8638
Chris.Dibble@colliers.com

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