



CK Lau, Managing Director of Valuation & Advisory Services, Asia, recently participated in a RICS webinar alongside panelists from different world regions to share their insights on what has been effective in allowing the continuation of markets and valuation during this challenging time. The responses below reflect views responding to client challenges and the state of valuation since the outbreak of COVID-19.

1 How has COVID-19 affected markets and how has the impact changed as the crisis has evolved?

The Asia Pacific region has generally experienced a slowdown in market activity, although each market is at a different stage. For example, Hong Kong and China appear to be in the recovery stage and some people have even returned to work.

Governments have imposed a variety of measures, ranging from travel restrictions to social distancing to complete lockdown in some markets, to mitigate the effects of the pandemic. Incentivizing measures, such as tax reductions and rent subsidies, have also been put in place to boost the economy.

Colliers recently conducted an investor survey to gauge sentiment and better understand cap rate movement in the region. Cap rates appear to be relatively stable, although rents / capital value is under pressure. The stock market dropped around 17% in Q1 2020 and many industries have been affected, particularly retail and hotel sectors. On the other hand, data centres and institutional grade logistics sectors are relatively stable.

2 Have you noticed any behavioral trends? How are they affecting different markets?

In Hong Kong and other established Asian markets, it will take a long time to build new space and whether we will have new space to replace old spaces is a big question. Due to shortened demand in the rental market, occupiers may consider asking for rental reductions for reduced space or try to renegotiate leasing agreements.

Whether people have the space to conduct business from their homes in the future will also be critical. While some people have the luxury to live in bigger homes, many people in the region live in smaller apartments.

There will likely be a long-term impact on industries and businesses, with some industries being replaced as new ways of conducting business and communication are established.

We are examining how new work trends and social distancing will affect the future; what people will want in the future; whether people will be prepared to pay premium rents for properties; and whether properties will need to be redeveloped or redesigned.

3 Although COVID-19 is unprecedented in terms of global scope and immediate impact, are there any lessons to be learned from previous economic cycles and previous market conditions? Are there any examples of intervention or support that parallel other economic crises?

We are currently seeing a lack of demand; a large part of economic activity has come to a halt due to government measures. During the Global Financial Crisis of 2008, the Chinese government implemented financial and fiscal policies to help draw China out of the crisis and to also assist the rest of the world. After the Asian Financial Crisis, however, many parts of Asia experienced long recessions because the government didn't intervene sufficiently.

What this demonstrates is that economic activity needs to be supported by the government in order to help the economy and particularly to protect jobs. The Hong Kong government has been helping industries by providing financial support and creating jobs in Hong Kong. China is also preserving many jobs, although there is still concern around the US-China trade war. With so many uncertainties, how governments respond to the pandemic will be key.

4 What economic indicators can be useful to the valuer during the crisis?

Investors will examine stock market performance such as how financial markets are functioning and how banks are reacting to the crisis.

Governments advise banks on how to help individual businesses or homeowners. Some measures could include readjusting repayment of interest versus repayment of capital.

From a retail market perspective, we will be speaking to owners to see if they still have tenants lined up or if tenants will need to restructure their leases. Sales performance, layoffs and the closure of shops will all be important indicators to how rentals will perform in the future.

Based on previous cycles, we don't expect banks to take drastic measures, especially as strong pressure hasn't been applied up until now. We are currently focusing on trends and early indicators in order to help us give valuation advice to our clients.

5 Other than embracing digital webinars and other digital content, how are you liaising with clients in this new digital world and how has business been impacted by COVID-19?

In the last few months, we have stayed connected through the utilization of different communication tools: digital platforms have been used for online meetings and publications have been shared through our microsites. We expect physical meetings to resume in a couple of weeks, so the dependence on webinar conferencing platforms will likely decrease; however, the utilization of digital platforms has also now changed the way we work.

Through digital technology, we can now have meetings on a much larger scale. Online platforms have enhanced the quality and efficiency of meetings. In the future, there will probably be less need for travel, both locally and internationally, suggesting that COVID-19 signals the start of a new era of conducting business.

VALUATION & ADVISORY SERVICES | ASIA | 18 MAY 2020

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