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ASIA MARKET OUTLOOK 2020

Summary & Recommendations

Growth in Asia is slowing but not collapsing. Certain cities continue to grow fast, notably in India and South China. Very low interest rates should lift confidence among tenants and owners.

Office markets have diverged. Bangalore, Manila and Singapore should see firm rent growth over 3-5 years. Conversely, rent should stay under pressure in Hong Kong and to a degree Shanghai, though they remain top tenant locations.

Despite uncertain conditions, the leading Asian cities recorded firm investment activity in 2019. We now predict a 7% increase in total investment volume in 2020.

Office assets in Singapore, Tokyo and Bangalore remain attractive, with Singapore and Tokyo hotels and retail assets also appealing. Logistics in China, Korea and India and data centres also promise higher returns, but investing in these areas requires expertise.



Macro prospects

- > Most Asian markets have slowed, but growth in China and India is still high and the outlook for China is now improving. Despite recent positive news, we think trade tension between China and the US will persist. This prospect will continue to affect Hong Kong SAR, the only Asian market in recession.
- > Growth in Asia is driven by cities as much as countries. **Bangalore and Hyderabad in India should be Asia's fastest and third fastest-growing cities respectively over 2020-24, while in China Shenzhen and Guangzhou should also outperform both the national and Asia city averages.**
- > Real interest rates are negative in Japan and Hong Kong, and falling towards zero in South Korea and Singapore. Persistent low real rates should boost confidence among both tenants and owners.



Occupier markets (Office)

- > Despite US-China trade tensions and ongoing protests in Hong Kong, we see little reason to change our assessment of Asia's top occupier locations: Hong Kong, Singapore and Tokyo, followed by Shanghai.
- > **Bangalore, Manila and Singapore should see rent growth of over 3% p.a. over 3-5 years, despite recent softening in Singapore. In Tokyo, pre-commitment is high and vacancy is low, but rent growth is easing.**
- > Tier 1 China cities face high new supply. However, occupier sentiment is better in Beijing and Shenzhen than in Shanghai and Guangzhou, due to growth in technology and other sectors like healthcare. Hong Kong should again see negative rent growth in 2020, especially in the CBD.
- > **Some flexible workspace operators are retrenching, but others continue to expand. Lower demand from flexible workspace should not depress office absorption across Asia as a whole.**



Investment markets (all assets)

- > After a robust outcome in 2019, we think aggregate investment volume for Asia can pick up in 2020, and predict a 7% increase to USD129 billion.
- > **In Singapore and Tokyo, tenant demand for office space has been driving positive trends in hotels, retail and other sectors.** Tokyo offices are still the best value large assets in core investment markets, offering a yield spread of about 3.5pp over 10-year bonds.
- > Logistics growth in China is still strong, but e-commerce players and end-users are moving to new markets in Tier 2 cities; investors and developers need to follow. **In South Korea, logistics assets west and south-west of Seoul are appealing, while Hong Kong industrial assets are attractive for conversion.**
- > In India, besides Bangalore offices, we recommend developers continue to expand in logistics by collaborating with corporate and government bodies owning land banks.
- > **Demand for data centres is surging as cloud computing and 5G mobile spread, notably in China. Much investment is targeting this area despite high barriers to entry, but investors need adequate expertise.**

ASIAN MARKETS SLOW MODESTLY

Asia slowing, but still world's fastest-growing region

Surprisingly, the global economic expansion that started in 2009 looks set to continue. Oxford Economics estimates the probability of global recession at only 25% for 2020¹. Asia has slowed but is still the world's fastest-growing major region. Prospects for the major Asian markets may be summarised as follows:

- > **China:** Real GDP growth in 2020 is likely to drop to about 6.0%, which is low for China. However, recently some economists have upgraded their forecasts for China due to positive trade news²; and at this rate China will still add roughly the equivalent of Switzerland to global economic output.
- > **India:** Real GDP growth was disappointing in 2019 but should rebound to about 6.0% in 2020, at which level India will add almost the equivalent of Hungary to the global economy.
- > **Most other Asian developed and emerging markets** should see stable or slightly lower growth in 2020 compared to 2019.
- > **Hong Kong SAR**³ looks set to see the weakest performance in Asia, with a second year of recession.

“
Most Asian economies are slowing, but growth in China and India remains high in absolute terms; only Hong Kong SAR is in recession.

An easing of US-China trade tensions has boosted China's growth prospects. However, underlying policy differences remain wide.

Impact of US-China trade war persists

An important factor weighing on growth in China and Hong has been the US-China trade war. The impact of the trade war on property markets has been tangible, with uncertainty caused by trade tension contributing to a drop of 71% in new leasing in Shanghai in 2019.

Besides Shanghai, **in our view the market which has been most affected by the trade war has been Hong Kong**. This is largely because Hong Kong has the highest multinational corporate (MNC) occupancy of any city in greater China at about 60%. Large MNC occupiers have been especially likely to refrain from new leasing activity or to expand outside greater China.

Recently there have been positive signs of an easing of trade tensions: the US cancelled planned new tariffs on China in December, and the two sides have agreed to sign a “Phase One” trade deal on 13 January. **These developments boost near-term prospects for China.**

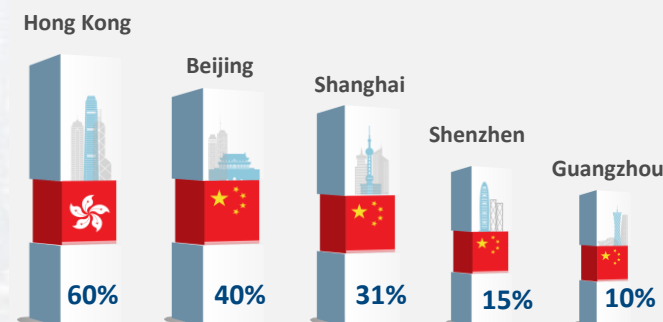
However, the underlying policy differences driving friction between the US and China remain wide, so it is hard to envisage a speedy return to an environment of mostly free trade. Nor is a possible Democratic victory in the 2020 US presidential elections likely to bring about much change, since many Democrats share the apparent view of the present Republican administration that a tough stance towards China over trade is appropriate.

Figure 1: Real GDP growth forecasts 2019-2022 (%)

| | 2019 | 2020F | 2021F | 2022F |
|----------------------|-------|-------|-------|-------|
| China | 6.1% | 6.0% | 5.8% | 5.6% |
| Japan | 1.1% | 0.3% | 0.8% | 0.8% |
| South Korea | 1.9% | 2.0% | 2.6% | 2.6% |
| Hong Kong SAR | -1.3% | -1.4% | 2.6% | 2.5% |
| Singapore | 0.7% | 1.4% | 2.4% | 2.7% |
| India | 5.0% | 6.0% | 6.9% | 7.2% |
| Taiwan | 2.5% | 2.0% | 2.0% | 2.0% |
| USA | 2.3% | 1.7% | 1.8% | 1.8% |

Source: Oxford Economics, Colliers International

Figure 2: Proportion of MNC occupancy of Grade A office space



Source: Colliers International

¹ See “Recession risks ease, but 2020 growth will be tepid” by Oxford Economics, 7 January 2020. ² See “Country Economic Forecast: China” by Oxford Economics, 19 December 2019.

³ “Special Administrative Region” [of the People's Republic of China]



Bangalore and Hyderabad in southern India should be the two fastest growing Asian cities over 2020-24, on about 7.5-10.0%. In China, Shenzhen and Guangzhou should also outperform both the national and Asia city averages.

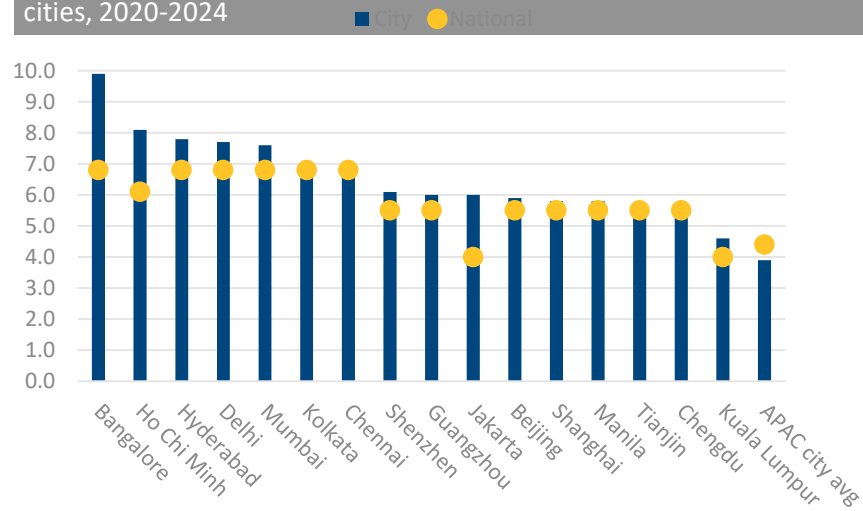
Asian growth is increasingly being driven by cities

A key point to stress about Asia is that growth is increasingly being driven by successful cities or regions within countries. **Two of Asia's three fastest-growing cities are Bangalore and Hyderabad in southern India.**

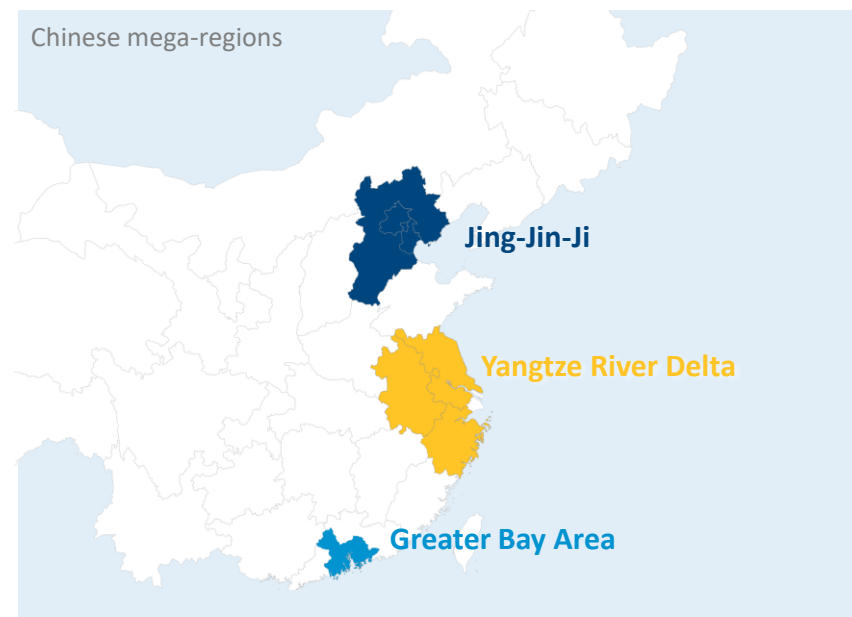


According to Oxford Economics, Bangalore should achieve average annual real GDP growth of 9.9% over 2020-2024 – far above aggregate growth for India of 6.8% and average growth for Asian cities of 3.9% over the same period. The second fastest-growing Asian city should be Ho Chi Minh City on 8.1%, with Hyderabad in third place on 7.8%.¹

Figure 3: average annual real GDP growth for faster-growing Asian cities, 2020-2024



Source: Oxford Economics



Chinese government policy is driving the development of three so-called mega-regions: the Jing-Jin-Ji region centred on Beijing in the north, the Yangtze River Delta (YRD) centred on Shanghai in the east, and the Pearl River Delta in the south. Including Shenzhen, Guangzhou and Hong Kong SAR, the Pearl River Delta is now increasingly termed the Greater Bay Area (GBA). **Further expansion in technology and new transport links in China should drive growth in the GBA mega-region in particular,** notwithstanding the present political uncertainty in Hong Kong and an apparent recent shift in national policy towards a renewed emphasis on the YRD and Shanghai.

According to Oxford Economics, **Shenzhen and Guangzhou should achieve real GDP growth of 6.1% and 6.0% respectively over 2020-2024,** slightly outperforming Beijing and Shanghai and significantly outperforming average nationwide growth for China over the period of 5.5%. Oxford Economics has previously argued that both Shenzhen and Guangzhou will join the ranks of the world's top ten cities by GDP by 2035². We shall not be surprised if the two cities attain that position rather earlier.

¹ See "Asia Pacific Cities & Regions Outlook" by Oxford Economics, December 2019. ² See "Asian cities in a global context: the outlook over the next 5 years" by Oxford Economics, May 2019.



Monetary conditions in most Asian markets are generally very loose. Real interest rates are negative in Japan and Hong Kong, while in Singapore and South Korea they are falling towards zero. Persistent loose monetary conditions should support confidence in property markets.

Persistent low interest rates in Asia likely to support confidence among both occupiers and developers

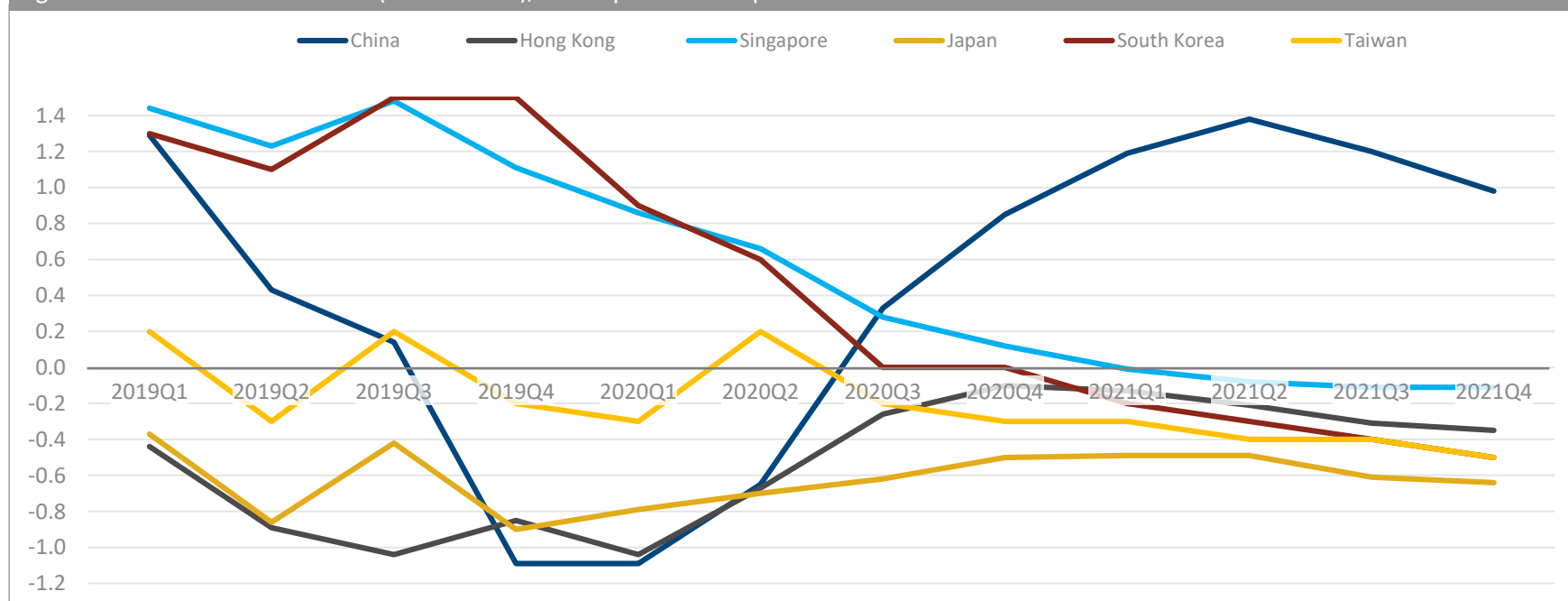
The US Federal Reserve has indicated that it expects to keep US interest rates very stable over 2020. Economic growth in the US has been stronger than in most other developed markets, while the dependence of the US on oil imports has greatly declined. These factors have supported the US dollar, which has been appreciating gradually against most other currencies. However, unless the Federal Reserve starts to push interest rates upwards, it is unlikely that the pace of US dollar appreciation will accelerate.

Against this background, Asian central banks can afford to keep monetary policy very loose. Japan and Hong Kong have negative real (i.e. inflation-adjusted) interest rates, while real interest rates in Singapore and South Korea are falling towards zero. Among Asian emerging markets, India has

been pushing interest rates downwards. By contrast, in China nominal interest rates are broadly stable, but expectations of lower inflation explain the increase in real interest rates over 2020 and 2021 in the chart below.

Persistent very low or negative real interest rates in Asia should help confidence among major occupiers to recover after a generally difficult 2019. At the same time, property investors and developers can expect funding costs to remain very modest. This situation should support demand for investment property in most Asian markets. That said, the average cost of funding for property developers in China in particular is well above policy interest rates, at 8-10% by our estimate.

Figure 4: Asian real interest rates (2019 – 2021), developed markets plus China



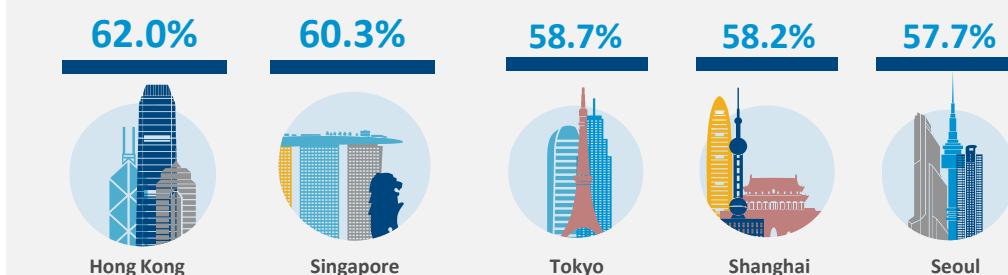
Source: Oxford Economics as of 4 January 2019

OFFICE MARKETS: WIDE VARIATION IN PERFORMANCE AND OUTLOOK

Top occupier locations largely unchanged

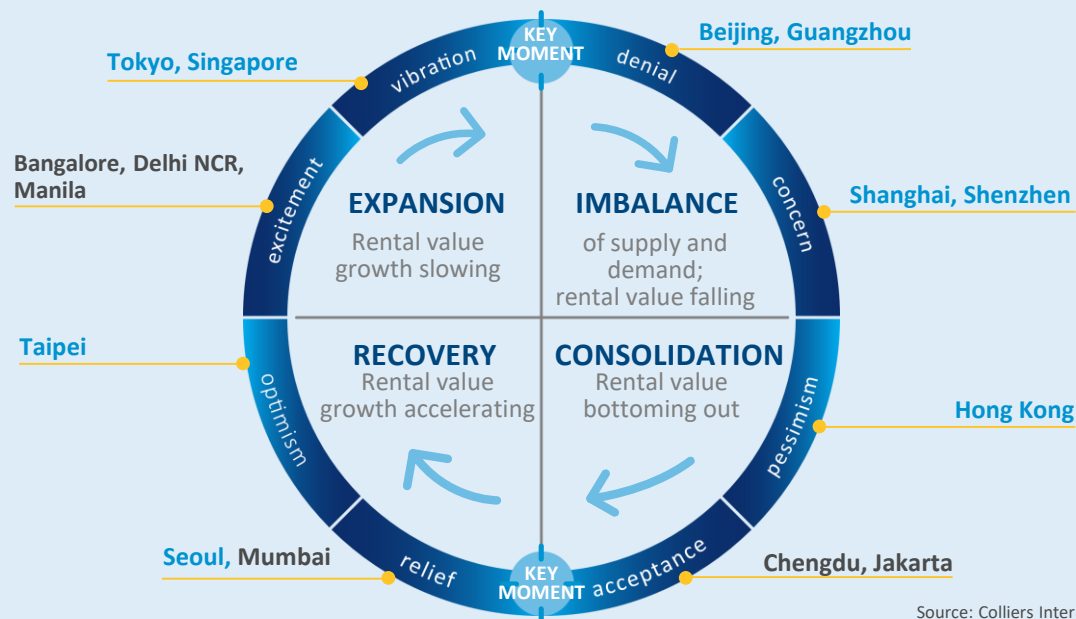
In late 2018, Colliers evaluated the best sites in Asia for occupiers in three sectors: finance (the largest), technology (expanding), and law. We assessed 50-60 criteria relevant to location choice under three headings – socio-economic, property and human factors – across 16 cities. In weighted average terms, we determined the top centres to be Hong Kong, Singapore and Tokyo, with Shanghai in fourth place. Even after the US-China trade war and six months of protests in Hong Kong, we believe that our key conclusions are still valid.

Figure 5: Aggregate rankings – Top five occupier locations in Asia



Note: The combined score is a weighted average, with these weightings: 40% for Finance, a 40% for Tech, 20% for Law. Source: "Top Locations in Asia" research (H2 2018) by Colliers Intl.

Asian office markets: position in property cycle



Source: Colliers International

The "Top Locations" analysis is useful in assessing medium-term drivers of leasing demand in Asian cities. Another tool is the "property clock" at left, which summarises our views on prospects for the major office markets on a two to three year view. In simple terms, the markets on the left side of the property clock favour landlords and developers, while those on the right side favour tenants.



With occupier demand firm, Bangalore, Manila and Singapore should see average rent growth of over 3% p.a. over 3-5 years, despite recent softening in Singapore.

Tier 1 China cities face high new supply. However, occupier sentiment is better in Beijing and Shenzhen than in Shanghai and Guangzhou, due to growth in technology and other sectors like healthcare.

Despite being a top location, Hong Kong SAR should see rent fall again in 2020, notably in the CBD.

Key markets favouring landlords and developers

Expansion phase

- > **Tokyo:** Pre-commitments for 2020 are high at over 70% and vacancy stands at a record low. However, rent growth is starting to moderate: it was 4.0% in 2019, but we expect this to slow to 2.5% in 2020 and to under 1.0% on average over five years.
- > **Singapore:** We see Singapore as Asia's #2 overall occupier location. Vacancy is low, and demand has been firm but is now easing. Rent growth was the highest in developed Asia at 7.0% in 2019, but we expect only 1.0% in 2020, albeit 3.3% on average over 2019-2024.
- > **Bangalore:** This is Asia's fastest-growing city, which we see as the #1 location for technology tenants. We expect 4.0% rent growth in 2020, and 3.2% on average over 2019-2024.
- > **Manila:** The outsourcing sector and Philippine offshore gaming operators are key drivers of demand. We see average net absorption across metro Manila of about 970,000 sq metres over 2020-2022, in line with average new supply of 1.04 million sq metres. We expect rent growth to ease from 7.0% in 2019 to 5.8% on average over 2020-2022. This will still be one of the highest growth rates in Asia.

Recovery phase

- > **Taipei:** Demand is active due partly to relocation of manufacturing operations back to Taiwan. Supply and vacancy are low, while rent growth is picking up.
- > **Seoul:** Demand from flexible workspace and fintech is firm, and the Gangnam Business District is popular. Demand and supply are now generally more balanced (though not in the Yeouido Business District).

Key markets favouring tenants

Imbalance phase

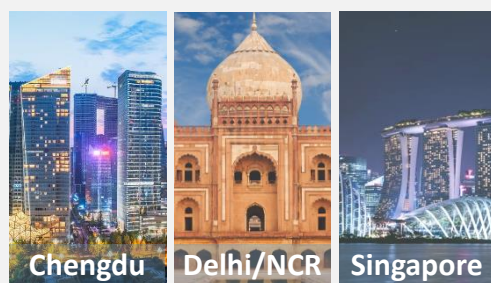
- > **Beijing:** 2019 net absorption fell 18% (far less than in Shanghai), but only equalled 44% of new supply. Vacancy rose from 10.6% at end-2018 to 15.9% by end-2019, but the rate of increase should moderate in 2020, with vacancy peaking at 18.2% and falling to 13.7% by end-2024. Rents fell 4.0% in 2019, and should fall 3.1% over 2020. However, rents should pick up gradually from 2021.
- > **Guangzhou:** Net absorption should pick up from 2020 onwards, driven by new supply in Pazhou where rents are 19% below the city average. Rents are easing in the PRNC CBD, but are rising modestly in Pazhou. We expect rent to fall 0.5% in 2020. However, with vacancy rising but lower than in other Tier 1 cities, we predict 2019-24 rent growth of 2.2% p.a.
- > **Shanghai:** Net take-up fell 71% in 2019, partly due to the trade war, but with a rebound in Q4. **Shanghai is still a top tenant location, and demand should pick up from 2020.** New supply, notably in decentralised business districts, lifted the vacancy rate from 16.0% to 18.5% in 2019. We expect new supply to remain very high, and to lift vacancy to a peak of 27.3% by end-2021. Thereafter, vacancy should fall steadily to 20.9% by end-2024. Citywide rent should fall 4.8% in 2020 and 2.2% in 2021, but pick up from 2022. Average rent growth over five years should be close to flat.
- > **Shenzhen:** Net absorption should be below new supply over 2020-2022. But demand from TMT and fintech is firm, with tenants moving to the Nanshan area. Vacancy stands at 21.2% now, but should peak at 33.4% at end-2022 due to heavy new supply in Qianhai. We expect rent to drop 0.4% in 2020 but to rise at 0.4% on average over 2019-2024.

Consolidation phase

- > **Hong Kong SAR:** We see Hong Kong as Asia's #1 occupier location, but it currently faces three main challenges: ongoing protests, US-China trade tensions, and pressures on the finance sector. Demand is moderating and supply is set to rise. **Average Hong Kong rent fell about 1% in 2019 and should fall 8% in 2020; rent in the CBD fell around 6% in 2019, and may fall up to about 13% in 2020.**

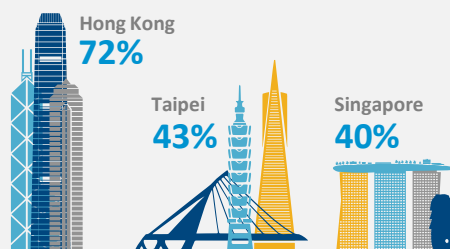
Flexible workspace still growing despite travails of weaker players

Over 2017-2019, the two key sectors driving growth in leasing demand in Asia were technology/media and flexible workspace (i.e. operators of coworking spaces and serviced offices). Flexible workspace has actually grown fastest of all:



> As of end-Q3 2019, flexible workspace occupiers represented 5-6% of total prime and Grade A office space in Chengdu, Delhi/NCR and Singapore, although conversely only 1% in Beijing.

> Over the first nine months of 2019, based on data for prime and Grade A offices only, flexible workspace represented 72% of net absorption in Hong Kong, 43% in Taipei and 40% in Singapore.



The problems of the US-based WeWork, the world's largest coworking group, have dominated headlines recently, and WeWork is said to be reviewing its lease obligations and is expected to close some locations across the region. We have also seen the Chinese operator, Kr Space, cancel some lease agreements in Hong Kong and elsewhere, while Campfire has retrenched in Singapore, Australia and its home market of Hong Kong.

In contrast, IWG and The Executive Centre have shown resilient performance. At the same time, JustCo and The Work Project have been expanding steadily in Singapore and other markets.

On balance, we do not expect reduced demand from flexible workspace operators to constitute a significant new downward force on absorption of office space across Asia. That said, there are certain markets where lower demand from flexible workspace probably will compound other pressures on absorption, notably Hong Kong and the Tier 1 Chinese cities..

Looking ahead, we expect collaboration between landlords and flexible workspace operators to increase. Singapore offers good examples, such as CapitaLand's joint venture with The Work project, and City Developments' partnership with the Chinese co-working operator Distrii. In addition, we understand that Frasers Property has plans to partner with JustCo and GIC to develop a coworking space platform across Asia.

Many landlords are looking closely at their flexible workspace and amenity offering and considering how to deliver these elements within their assets. Some may self-perform, while others may seek closer partnerships with operators. To this end we expect operators that can help a landlord elevate tenant experience through "amenitisation" to be well-placed for growth.



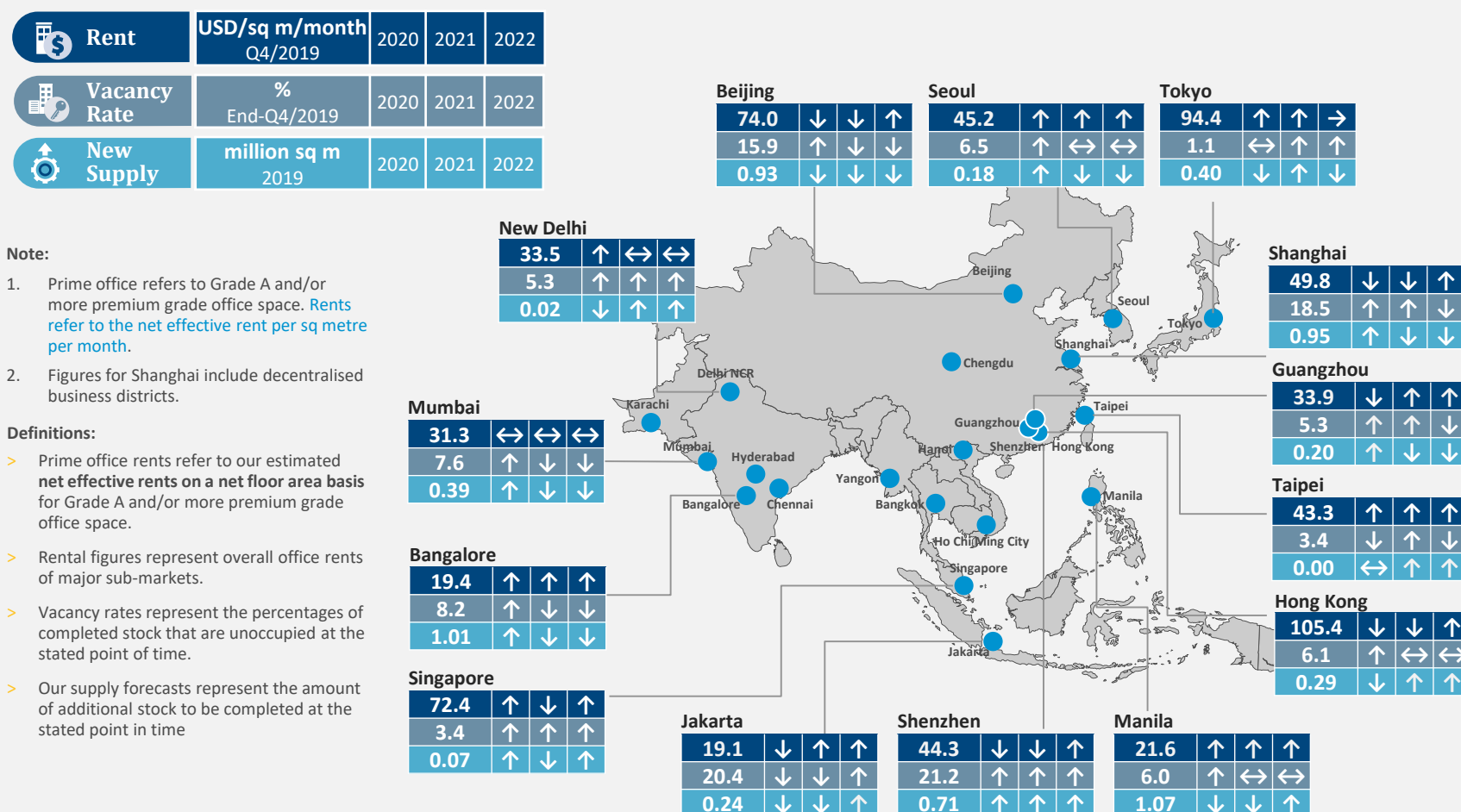
Finally, we expect some flexible workspace operators from EMEA and the Americas to enter the Asia markets in 2020, US-based Knotel being one example. With Mori Trust and Itochu having participated in Knotel's latest funding round, we would expect the company to come to market soon¹.

¹ See <https://www.bloomberg.com/news/articles/2019-08-21/steadier-than-wework-knotel-s-pitch-vaults-it-to-unicorn-status>.

Lower demand from flexible workspace should not be a major new downward force on office space absorption across Asia, though Hong Kong and some Chinese cities may see weakness.

The demand and supply picture by urban office market outlined in this section of our report yields the outlook shown in the map below. **Bangalore, Manila and Singapore** should achieve average annual rent growth over 2019-2024 of over 3.0%. In contrast, **Hong Kong and Shanghai** are the only markets set to record flat to slightly negative average annual rent growth over the same period, albeit with a significant recovery in later years. As noted, Tier 1 Chinese cities are set to see the sharpest increases in supply and hence vacancy rates over the next two to three years. However, we believe that the worst disappointments on the demand side have already been felt, and expect demand indicators to turn gradually more positive from now on.

Figure 5: Asia prime office market: Q4 2019 snapshot and 2020–22 outlook





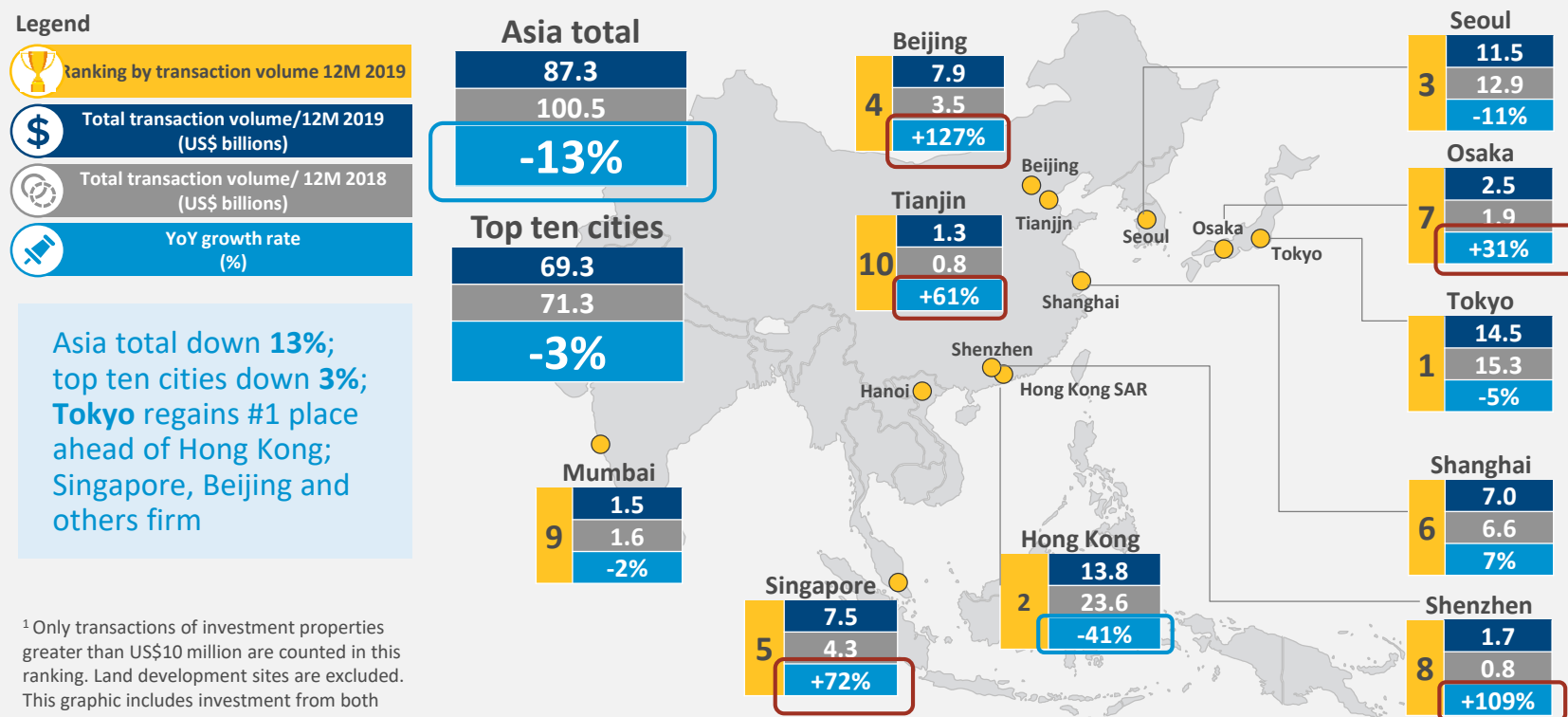
Over the first nine months of 2019, total investment volume in the ten largest Asian cities fell by 3%. We see this as a robust outcome in challenging market circumstances.

With economic growth slow but stable and very low interest rates, we believe aggregate investment volume can pick up in 2020, and predict a 7% increase to USD129.0 billion.

INVESTMENT MARKETS: TOTAL VOLUME RESILIENT; TOKYO, SINGAPORE, BANGALORE OFFICES ATTRACTIVE; OPPORTUNITIES IN LOGISTICS, HOTELS

Investment volume likely to pick up modestly in 2020

Figure 6: Investment property transactions¹ in Asia, first nine months of 2019



Source: Real Capital Analytics (RCA)

Over the first nine months of 2019, aggregate investment volume in Asian property markets declined by 13%, from USD100.5 billion to USD87.3 billion¹. The ten largest urban property markets showed a smaller decline of 3%, from USD71.3 billion to USD69.3 billion¹. We see this outcome as surprisingly robust in the light of general economic slowdown, increased uncertainty from US-China trade tensions, and the protests in Hong Kong. Beijing, Singapore, Osaka, Shenzhen and Tianjin all saw strong activity, with investment volume increasing by 30-130%. Conversely, investment volume in Hong Kong dropped by 41%.

¹ Preliminary data from RCA for the whole of 2019 show that aggregate investment volume in Asian property markets declined by 18%, from USD133.9 billion to USD109.5 billion. The ten largest urban property markets showed a decline of 13%, from USD93.4 billion to USD81.0 billion. However, we expect these preliminary figures to be revised upwards over the next couple of months.



Firm demand from tenants should fuel rent and capital value growth for property owners in the top occupier locations. In Singapore and Tokyo, tenant demand for office space is supporting positive trends in the hotels, retail and residential sectors.

Tokyo offices are still the best value large assets in core Asian investment markets, offering a 3.5pp yield spread over 10-year bonds.

In 2018, investment property transaction volume totalled a record high of USD133.9 billion. For 2019, we now assume that total investment dropped by 10%, to USD120.5 billion¹. We assume that investment volume in the ten largest urban markets declined by a smaller 2-5%.

For 2020, we anticipate economic weakness but not full recession and persistent very low interest rates. Near-term investment prospects for two large markets, Hong Kong and Shanghai, remain difficult, but prospects are brighter for Tokyo, Singapore and other cities. Meanwhile, we have seen increasing interest in emerging investment markets in South East Asia and India from Japanese property developers in particular. **Against this background, we believe that investment activity can continue to advance, and predict a 7% increase to USD129.0 billion.** The chief risk to this view lies in Hong Kong, where investment volume may decline sharply for a second year if the very difficult economic and political conditions of H2 2019 persist.

Occupier demand drives investment demand

Demand for space from occupiers drives growth in rental income and capital values for property investors and developers. As noted on page 5, In late 2018 Colliers evaluated the best sites in Asia for occupiers in three sectors: finance (the largest), technology (expanding), and law. We assessed 50-60 criteria relevant to location choice under three headings – socio-economic, property and human factors – across 16 cities.



- > In weighted average terms, **we determined the top centres to be Hong Kong, Singapore and Tokyo**, with Shanghai in close fourth place. One year later, despite the US-China trade war and six months of protests in Hong Kong, we believe our conclusions are still broadly valid.
- > **Singapore was the only city to rank in the top three for each of technology, finance and law.**
- > In the technology sector, Bangalore ranked first, Singapore second and Shenzhen third.

¹ Please see footnote on previous page.

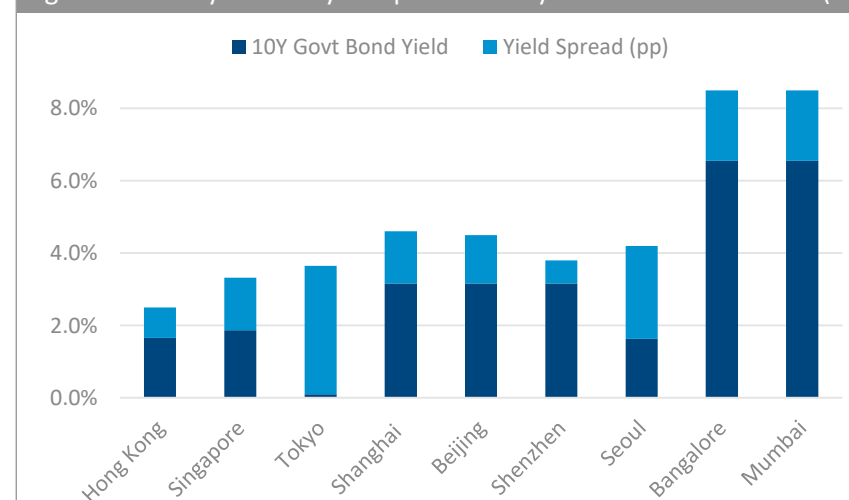
We believe investors and developers should usually consider top occupier locations as prime targets for their activities. This is not true in the office sector only. One of the attractions of Singapore in particular (but also Tokyo and other cities) is that **firm demand from occupiers for office space has fed through into positive trends in the hotels, retail and residential sectors.** This fact increases the investment interest of those sectors.

Tokyo offices still the best value large assets in core Asian investment markets

Besides expected growth in rental income and capital values, investors will also pay attention to property yields. The highest-yielding office assets in Asia are in India, where properties in Bangalore and Hyderabad yield 8-9%.

However, despite clear signs of increased interest over 2019, most property investors do not yet consider India as a core market. Among the perceived core markets, even after growth in capital values of over 8% in 2019, Tokyo Grade A offices still yield about 3.5% on average. This provides a spread over 10-year Japanese government bonds (which effectively yield zero) of 3.5 percentage points. This is the widest spread in developed Asia.

Figure 7: Office yields and yield spread vs. 10-year bonds for nine cities (%)



Source: Colliers International, Bloomberg



Besides office assets, greater Tokyo also offers opportunities in the retail and logistics sectors.

Singapore office assets remain appealing. The Singapore retail sector is set to recover, and yields are attractive. Strong demand is driving growth in the Singapore hotels sector.

Hong Kong faces challenges and office rents are falling. However, government policy is driving demand for industrial assets for redevelopment.

Investment markets: summary of prospects and opportunities

Japan (Tokyo)



Macro

- > Bank of Japan is committed to zero interest rates
- > Greater Tokyo is Asia's largest conurbation. Low yet stable employment growth is driving the economy
- > Tokyo should stay the world's #2 city by GDP until mid-2030s



Office

- > Rent growth of 4.0% in 2019 should fade to 2.5% in 2020 and to under 1.0% on average over five years
- > Pre-commitments for 2020 of > 70% will support landlords' cashflows
- > Average yield is 3.5%. Capital value growth of 8.5% in 2019 should fade to 3.1% on average over five years.



Retail

- > Top urban retail centres should yield high rents. Top rent growth should outpace sales growth in popular districts like Ginza and Shinjuku



Logistics

- > Modern stock represents only about 5% of total logistics stock in greater Tokyo, necessitating substantial upgrading. Overall rents should stay firm, outweighing high near-term supply

Singapore



Macro

- > Tenants are expanding in all sectors, notably TMT, coworking
- > We see Singapore as the #2 occupier location in Asia, offering stability, talent, firm regulation, high quality of life
- > Real interest rates should fall towards zero over 2020



Office

- > We see compound average rent growth over 2019-2024 at 3.3%
- > CBD Grade A supply lower than historical average over 2019-2021. Next major supply hike (7% of stock) is in 2022
- > Prime grade office properties yield 3.2-3.5%, i.e., 1.3-1.8pp over 10-year bonds



Retail

- > We expect firm demand for well-located malls like Jewel Changi Airport and Funan. New supply in 2020 equalled 0.3% of stock, and supply should taper off over 2020-2023. Despite rising deal volume, yields still stand at 4.2-4.5%



Hotels

- > We expect firm demand for hotels across the luxury, mid-range and economy tiers. New supply in 2019 of 1,700 rooms equalled 2.5% of stock; supply should fall over 2020-2022. Record deal volume is depressing yield of about 3.5%

Hong Kong SAR



Macro

- > We see Hong Kong as Asia's #1 occupier location overall despite its current challenges
- > Economy is in recession, although negative real interest rates persist
- > Challenges include the US-China trade war, ongoing protests, and pressures on the important financial sector



Office

- > Average Hong Kong rent should fall about 8% in 2020, and be flat to mildly negative on average over the next few years
- > Rent in the CBD fell around 6% in 2019, and may fall up to about 13% in 2020
- > For the first time in 15 years, Q3 2019 saw no en-bloc office transactions. Capital values are currently falling
- > Decentralisation has been a key recent driver of demand, notably in Kowloon East and Island East



Industrial/
Logistics

- > The government's Revitalisation 2.0 policy encourages investors to redevelop industrial assets
- > Under Revitalisation 1.0, the average price of revitalised assets was 48% above industrial buildings, and only 24% below Kowloon Grade A offices



Logistics assets west and south-west of Seoul are appealing, with yields of about 6%.

The office and business park sectors are merging in Taipei, and Neihu Technology Park offers a large and liquid en-bloc sales market.

In the Chinese office sector, the near-term demand/supply balance is better in Beijing than in Shanghai.

Logistics growth in China is still strong, but e-commerce players and end-users are moving to new markets in Tier 2 cities; investors and developers need to follow.

South Korea (Seoul)



Macro

- > US-China and Japan-South Korea trade tensions are weighing on growth
- > Monetary easing has continued: real interest rates should fall towards zero over 2020
- > Seoul was Asia's #3 investment market over the first nine months of 2019, with total deals of USD11.5bn (down 11%)



Logistics

- > Growth in import-export, online shopping and offline retail sales are driving demand for Korean warehouse space
- > Due to scarcity of developable land and more rigid permit requirements the rate of new supply of space should slow
- > We favour cities in the west and south-west of greater Seoul, e.g. Ansan, Pyeongtaek, Incheon and Gimpo
- > Yields of around 6.0% for logistics properties in Korea are higher than in many other Asian countries

Taiwan (Taipei)



Macro

- > The government's drive to encourage "reshoring" of production has encouraged domestic investment
- > China including Hong Kong accounts for 41% of Taiwan's exports. Taiwan's future is intimately bound up with China's
- > Real interest rates hovering at around zero should support property investment



Office & Business Park

- > Active demand for office and business park assets, supply and vacancy low, rent growth picking up
- > Neihu Technology Park offers a large and liquid en-bloc sales market, with Nangang starting to follow suit
- > Colliers sees Neihu as one of the two most attractive submarkets in Asia for tech tenants, together with Caohejing in Shanghai
- > However, Grade A office yields of only about 2.9% are not appealing compared to the rest of Asia

China



Macro

- > China is slowing moderately, but should still achieve real GDP growth of 6.0% in 2020
- > Chinese government policy is driving the development of three mega-regions in the North, East and South



Office

- > **Beijing, Guangzhou:** Demand is easing or shifting to lower-rent areas, new supply is pushing up vacancy (notably Beijing), rents are under moderate pressure. General occupier sentiment seems better in Beijing
- > **Shanghai, Shenzhen:** Net absorption declined in Shanghai in 2019; high new supply is lifting vacancy; rents are currently declining. However, the outlook for demand remains strong in both cities; indeed, demand already seems to be picking up. We expect rents to recover significantly two to five years from now once the new supply has been absorbed. Near-term occupier sentiment is stronger in Shenzhen



Logistics

- > Online sales growth is driving demand for logistics space. China's online retail sales are overtaking online retail sales in the US
- > Due to scarcity of warehouses and land in Tier 1 cities, firm demand for logistics space is spilling over into cities nearby
- > Developers should partner with online retailers to acquire land for built-to-suit projects in new markets in Tier 2 cities
- > All market players should study cold chain logistics, with predicted volume of RMB342bn (USD51bn) by 2020



Bangalore and Hyderabad are the two fastest-growing Indian office markets. Bangalore offers 3.2% average annual rent growth over five years. Developers should expand in Indian logistics by collaborating with corporate and government bodies owning land banks.

Demand for data centres is surging, especially in China, but developing them requires adequate expertise.

India



Macro

- > The Indian economy is primarily domestically driven, with only modest exposure to US-China trade tension
- > Weak private consumption (seen in sharp drops in car sales) depressed GDP growth in 2019, but many economists expect a pick-up from now on
- > Bangalore and Hyderabad should be the two fastest growing Asian cities over 2020-24, on about 7.5-10.0%



Office

- > **Bangalore:** We expect continued demand from the tech sector to drive leasing over 2020-2024. Average annual gross absorption should exceed new supply over the period
- > Firm demand should lower vacancy from 8.2% at end-2019 to 3.9% by end-2024. Rent should grow by 3.2% p.a. over the next five years
- > **Hyderabad:** Hyderabad is the fastest-growing office market. Gross absorption is likely to hit another record in 2020. However, supply over 2019-21 may well outstrip demand
- > The heavy new supply should push up vacancy from 6.7% at end-2019 to 29.0% by end-2021. Rent growth will be modest in consequence
- > We recommend investors to look at opportunistic assets including under-construction office assets in IT-led markets such as Bangalore, Hyderabad and Pune.



Logistics

- > The Indian logistics sector is on a growth tide, driven by increasing demand from manufacturing, third-party logistics (3PL) and e-commerce companies
- > We recommend developers continue to expand in this sector by collaborating with corporate and government bodies owning land banks
- > Developers should also include built-to-suit options to cater to the specific requirements of occupiers that should help attract new occupiers and enhance asset value

Alternative assets: data centres the key opportunity



Data Centres

- > Demand for data centres is surging due to the spread of cloud computing and 5G mobile, notably in China
- > However, building data centres is challenging due to high capex needs and huge power requirements. Low latency and proximity to users are essential
- > Data centres have been getting larger, but may get smaller from now on (mirroring the trend to smaller front distribution centres in logistics)

Strategies for data centre operators

| | Land + Build | Built-to-Suit | Conversion |
|----------------|------------------------|-------------------------------|-----------------------|
| Options | Limited in Core Cities | Limited in Core Cities | More in Core Cities |
| Specifications | Purpose Built | Depends on Developer | Limited Customization |
| Appearance | Flexible | Partial Customization | Limited Customization |
| Capex | High | Medium | Low |
| Efficiency | High | Depends on Developer | Lower |
| Risk | High | Medium | Low |
| Time | 3 years | 2-3 years | 1 year |
| Risk | Land Policy | High Dependence on Developers | Building Ownership |

Source: Colliers International (China Industrial Services team)

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