CBRE RESEARCH | ASIA PACIFIC

REAL ESTATE MARKET OUTLOOK 2020

CBRE

DARE TO ADAPT IN A FAST-CHANGING WORLD

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Corporates face an increasingly complex operating environment amid rapid technological innovation, evolving end-user preferences and the emergence of new industries and participants.

Together with the new norm of low interest rates, these macro shifts will disrupt and reshape the competitive landscape of the Asia Pacific commercial real estate market in 2020.

CBRE remains optimistic about the future but believes real estate occupiers and investors must **dare to adapt in a fast-changing world.**

CBRE's Asia Pacific Real Estate Market Outlook 2020 identifies and explains the game-changing forces we expect to influence occupiers' and investors' strategies in 2020, which we have summarised as "**DARE**":

D: Asia Pacific economies face three significant challenges in the form of **deglobalisation**, **disinflation** and **demographics**.

A: Office occupiers should remain **agile**; conduct more thorough **assessments** of market and environmental risks; and consider **alternative** markets, locations and property types.

R: Investors should adopt more **realistic** return targets and strengthen portfolio **resilience** by focusing on structural and defensive plays. Be prepared **rerouting** capital needs from developers to lower their gearing.

E: Retail will see further **evolution** as the structural shift online continues. **Entertainment** and **experience**-based elements will become even more prominent. In the logistics sector, occupiers must create more **efficient** distribution systems to accommodate **e-commerce** related parcel growth and rising costs. Landlords will need to **enhance** their service offering to meet occupiers' evolving needs.

We thank you for your ongoing support and hope you enjoy the seventh edition of the CBRE Asia Pacific Real Estate Market Outlook.

ECONOMY

Deglobalisation: Geopolitical tensions will persist

Disinflation: Low inflationary pressure will enable further rate cuts

Demographics: The war for talent will intensify as populations age

OFFICE

Agility: Flexible space will be a strategic component of portfolio strategy

Alternatives: Companies will consider a broader range of markets, locations and property types

Assessment: Corporates must perform more intensive assessments of market and environmental risks

INVESTMENT

Realistic returns: Yields will stay low for longer

Rerouting capital: Debt refinancing and fund expiration will increase

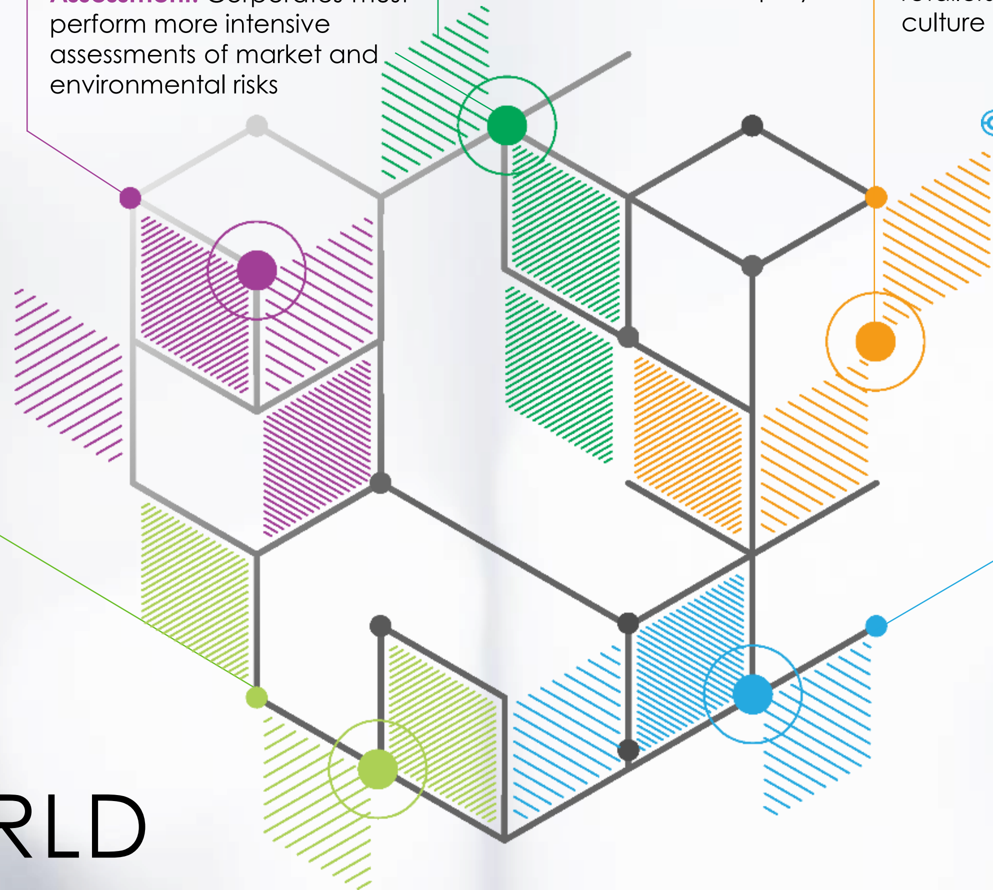
Resilient portfolios: Investors are advised to focus on structural and defensive plays

RETAIL

Evolution: Building omnichannel platforms will be key

Entertainment: Shopping malls will continue to transform into activity centres

Experience: Landlords and retailers will leverage art and culture related content



LOGISTICS

E-commerce: Demand will remain steady

Efficiency: The automation of logistics operations will continue

Enhancement: Landlords must upgrade their service offering and building specifications

DARE TO ADAPT IN A FAST-CHANGING WORLD

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ECONOMY

Economic growth will stabilise in 2020 but geopolitical tension is expected to continue to weigh on business activity. Low inflationary pressure in most markets will create room for further rate cuts; lower the cost of financing; and support investment appetite.

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OFFICE

Regional office net absorption will recover by up to 5% but ample new supply will ensure most markets continue to favour tenants. Occupiers are advised to remain agile; conduct more thorough assessments of market and environmental risks; and consider a broader range of markets, locations and property types.

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RETAIL

The structural shift towards online retail will continue. Entertainment and experience-based retailers will be a stronger source of leasing demand while art and culture-related content will take on a more prominent role in the creation of retail spaces.

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LOGISTICS

Logistics occupiers will focus on creating more efficient distribution systems to accommodate e-commerce-related parcel growth and rising costs. With automation taking on a more prominent role, landlords will need to enhance their service offering to meet occupiers' evolving needs.

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CAPITAL MARKETS

Regional investment volume will hold firm in 2020, supported by low interest rates and strong investment liquidity. Yields are expected to stay low for longer. Investors are recommended to adopt more realistic return targets and strengthen portfolio resilience by focusing on structural and defensive plays.

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APPENDIX: DATA TABLE

ECONOMY

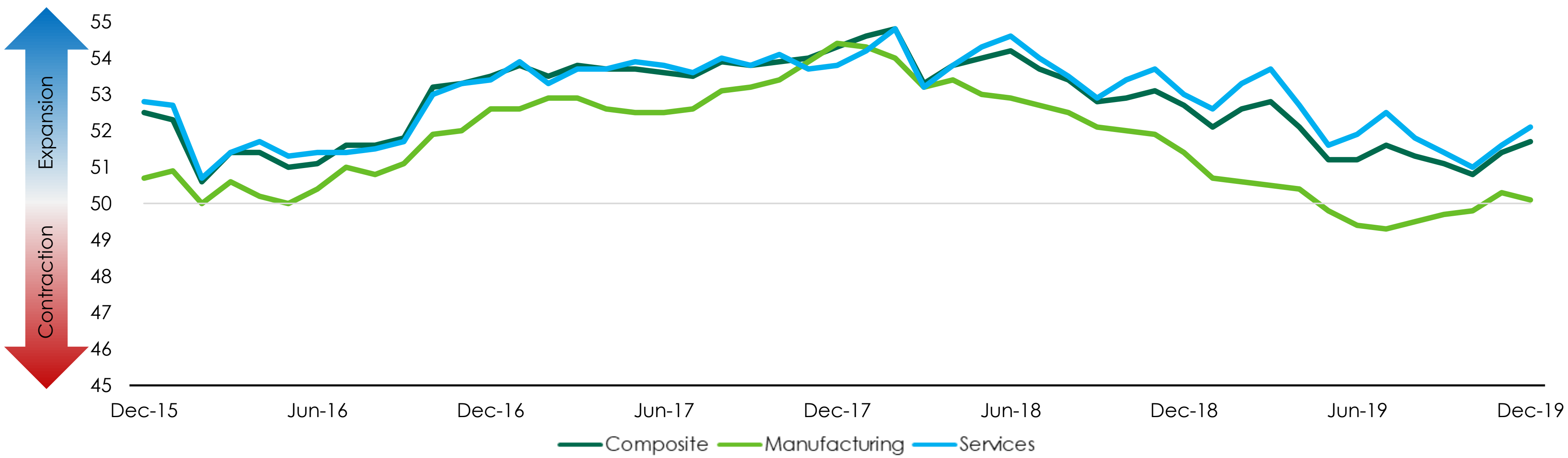
A TWO-SPEED ECONOMY

Asia Pacific GDP growth weakened to 4.3% in 2019 due to the slowing global economy and U.S-China trade conflict. Although global business confidence in the service sector improved in December following the announcement of the "Phase-One" trade deal, manufacturing and trading companies remain cautious amid marginal growth in new orders in the short term. However, they will undoubtedly benefit from lower tariffs.

CBRE expects Asia Pacific GDP growth to stand at 4.2% this year and the region to remain as a two-speed economy. Emerging markets will continue to grow at a faster pace but challenges will persist. In January, China implemented a further 50bps cut to its Reserve Requirement Ratio (RRR) and is expected to adopt further stimulus measures over the course of 2020, helping to stabilise economic growth at around 6%. However, corporate debt in the real estate sector will remain high. Non-performing loans also remain a concern in India, but recent fiscal expansion is expected to shore up domestic demand.

Growth in mature markets will remain slow. Singapore is set to recover from recent weakness but sociopolitical unrest in Hong Kong SAR and bushfires in Australia are likely to negatively impact these markets' economies. Japan is expected to see a slow start to 2020 as the higher consumption tax will weigh on domestic demand. However, economic momentum is expected to pick up in H2 2020, when the impact of the government's US$122 billion-fiscal package begins to kick in.

FIGURE 1: GLOBAL MARKIT BUSINESS CONFIDENCE INDEX



Source: Markit Business Survey, Macrobond, CBRE Research, January 2020.

DEGLOBALISATION

Rising geopolitical tension over the course of 2019 has raised concerns of a shift towards deglobalisation. The recent Phase-One trade deal signifies a temporary truce between the U.S. and China rather than a complete solution. Issues such as intellectual property protection, forced tech transfer and national security remain unsolved. The U.S. is likely to retain its tough stance towards China in 2020, with tension possibly extending beyond trade, as President Trump's re-election campaign intensifies.

Regional geopolitical tension is likely to persist in 2020 despite improved trade relations between Japan and Korea after the former relaxed export curbs on microchip materials in December 2019. Elsewhere, sociopolitical unrest will continue to inhibit business expansion in the Hong Kong SAR.

DISINFLATION

Inflationary pressure in Asia Pacific will remain limited, with most mature economies set to miss their 2% annual target, and emerging markets forecasted to register inflation that is lower or on par with the past five-year average. This will create room for additional interest rate cuts to prop up regional economies.

China's inflation surged to 2.9% in 2019, mainly due to a spike in pork prices. However, pressure is moderating amid higher imports and the release of reserve supplies. The CPI is forecasted to remain at around 3% in 2020[1]. The adoption of the Loan Prime Rate (LPR) as benchmark interest rate resulted in lower interest rates in 2019, with further downward adjustment expected in 2020.

Other major macro risks for the coming year include a further increase in crude oil prices, with OPEC basket prices increasing by around 30% over the course of 2019. Although OPEC supply is set to increase in 2020, recent tension in Middle East is likely to trigger further oil price fluctuations.

Mirroring the U.S. Federal Reserve, most central banks in Asia Pacific accelerated the pace of rate cuts in 2019. CBRE expects monetary policy to remain loose in 2020, with further interest rate reductions likely. The lower cost of financing will expand the yield spread and strengthen investment appetite.

DEMOGRAPHICS

The longer-term outlook for the regional economy will be shaped by demographic shifts, with low birth rates and ageing populations dragging on employment growth and economic expansion. The impact on the Pacific will be limited but Asian markets are expected to be significantly affected, with the working population in Japan, Korea and Greater China already shrinking. CBRE expects competition for young workers – especially in tier I cities – to intensify in the coming years. More governments will also consider raising the retirement age.

The war for talent will also prompt changes to business strategy. A greater proportion of production capacity will be shifted to markets with more cost-effective and available pools of labour. However, companies will also invest more in technology, especially automation, to enhance productivity and lower reliance on labour. Improving the workplace experience to attract and retain employees will remain at the top of the business agenda.

[1] Forecast by CBRE Research as of 08 January 2019

FIGURE 2: ASIA PACIFIC ECONOMIC TRENDS IN 2020

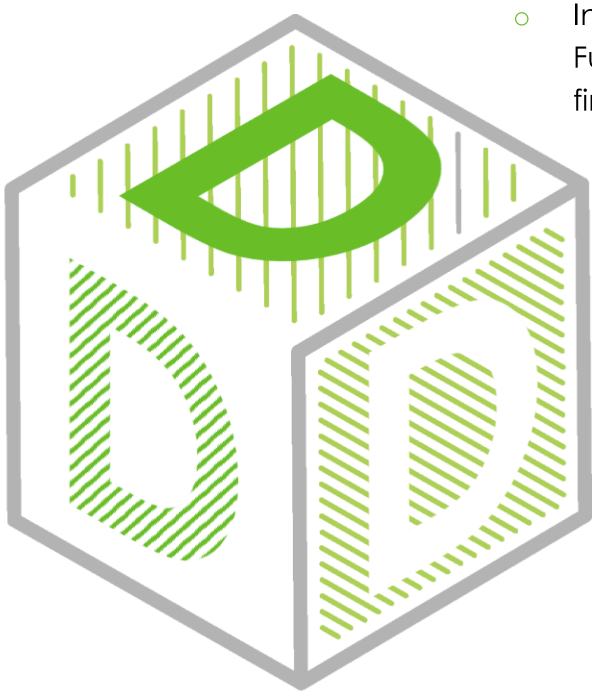
ECONOMY

Disinflation

- Inflation will stay under 2% in most markets. Further rate cuts will lower the cost of financing and support investment appetite.

Deglobalisation

- Trade conflict will persist. Geopolitical tensions will continue to weigh on regional business activity.



Demographics

- Ageing populations will weigh on employment growth. The war for talent will escalate, forcing companies to leverage technology to enhance productivity.

Source: CBRE Research, January 2020.

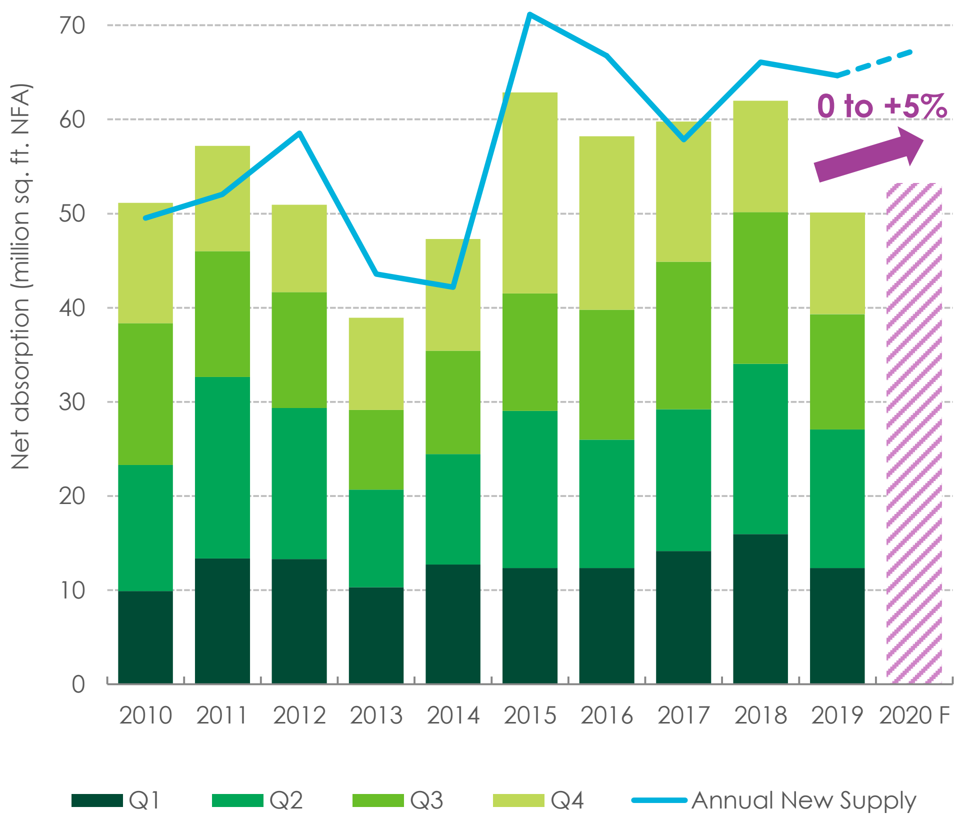
OFFICE

NET ABSORPTION POISED FOR MILD RECOVERY

Asia Pacific net absorption declined by 19% y-o-y in 2019, mainly due to a sharp decline of 25% y-o-y in China's tier 1 markets. However, following the U.S. and China's signing of the trade deal in January this year, business sentiment is expected to gradually improve. CBRE expects this to stimulate a mild recovery in net absorption of up to 5% over the course of the year.

New office set-up is expected to increase in 2020 following China's opening of the financial sector to wholly-owned foreign institutions. Demand from other sectors will also gradually return to the market as businesses cautiously resume expansion. Occupiers in Tokyo and major Indian markets will leverage ample new supply for flight-to-new-build moves. Leasing activity in Singapore, Hong Kong SAR and Australia will remain weak and dominated by renewals.

FIGURE 3: ASIA PACIFIC OFFICE NET ABSORPTION



Source: CBRE Research, January 2020.

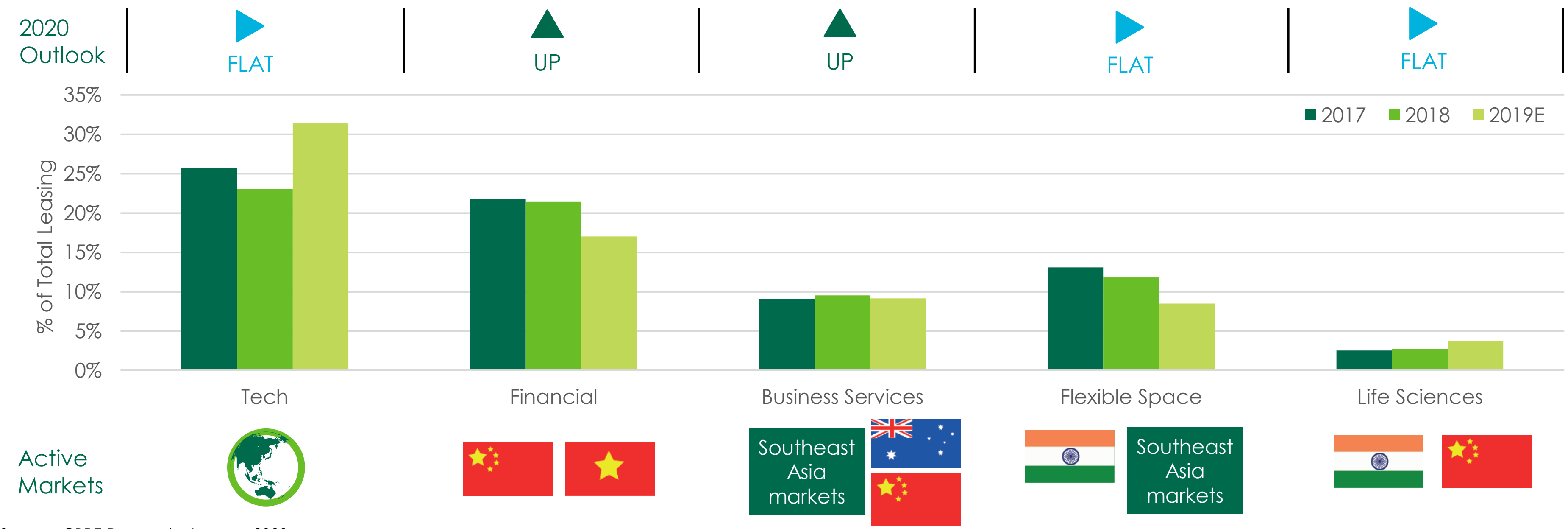
Leasing demand from the tech sector is expected to be resilient in 2020. China and India will continue to see robust expansionary and upgrading demand on the back of 5G infrastructure investment and global outsourcing growth, respectively.

FinTech firms and start-ups will continue to lease smaller offices for expansion across the region, particularly in Singapore, Tokyo and Chinese cities. Office requirements among large tech firms are likely to become more diversified, with selected tech giants leasing business park space to house R&D functions or relocating to self-owned properties.

Flexible office providers began to consolidate in 2019 – a trend expected to gain further momentum in 2020 as unprofitable centres downsize, particularly in China. However, some providers will expand cautiously into emerging markets such as India and Southeast Asia, albeit only after careful due diligence.

Large scale expansionary demand from traditional office occupying industries such as finance and professional services will remain limited as most companies keep costs in check. Full decentralisation, agile working and right-shoring will be widely considered by occupiers in these sectors. Areas of demand growth may include foreign banks entering China following the relaxation of foreign ownership regulations. Emerging Southeast Asia also remains a target for overseas financial, insurance and legal firms, supported by the growth of the middle class, structural economic change and favourable policies to boost the development of the finance sector.

FIGURE 4: 2020 OFFICE DEMAND FORECAST – BY SECTOR



Source: CBRE Research, January 2020.

More than 67 million sq. ft. NFA of new Grade A office supply is expected to come on stream in Asia Pacific in 2020, a figure likely to drive up regional vacancy up by another 100 bps to 16%.

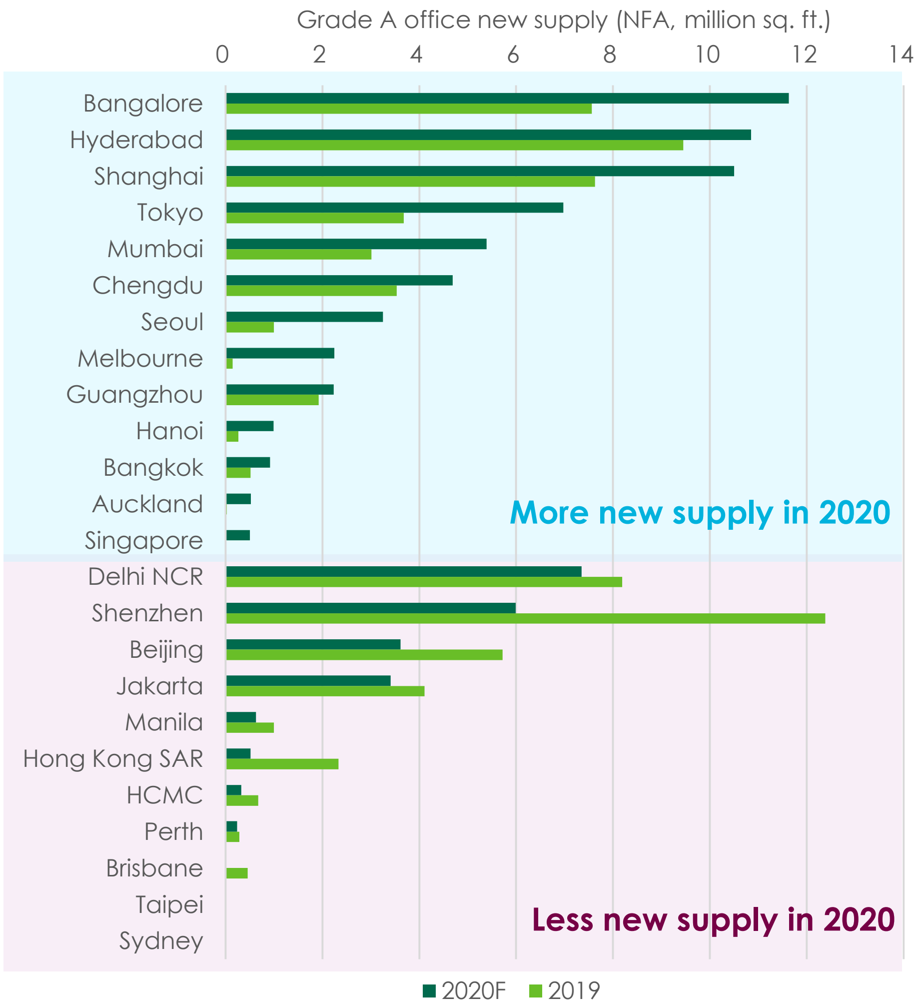
As in recent years, the bulk of new Grade A supply will be located in China and India, namely Bangalore, Hyderabad, Shanghai, Delhi NCR and Shenzhen, which will comprise around 60% of the total. Elsewhere, the size of Grade A office stock in Tokyo is projected to increase by 10% by year-end, although 90% of new space is already pre-committed. Other major completions are due in Hanoi, where the completion of the city's first international Grade A office building will increase total Grade A stock in this market by 20%.

New supply in CBD locations will remain limited, with over half of new stock located in decentralised business areas. In some Chinese and Indian markets, this will result in high vacancy in non-core areas but tight availability in prime locations, underlining the diverse supply picture in markets with a high overall Grade A vacancy rate.

All new very large sized schemes (those greater than 1 million sq. ft.) due for completion in 2020 will be in North Asia and Hanoi, with two-thirds of such supply situated in decentralised areas. This structural shift will drive the movement of large-space users seeking higher quality buildings and more efficient floorplates to non-core locations.

Occupier choice in Tokyo, Taipei, Singapore, Sydney and Melbourne will remain constrained by low availability, with the shortage of centrally located Grade A buildings set to be particularly acute. However, tenants' preference for newer properties may see older Grade A buildings in core locations struggle to secure tenants, even in tightly supplied markets.

FIGURE 5: ASIA PACIFIC GRADE A OFFICE PIPELINE (2019 & 2020F)



Source: CBRE Research, January 2020.

RENTS EXPECTED TO DECLINE

Although leasing demand will slightly recover, large new supply will result in weaker overall Grade A rents in Asia Pacific in 2020. One of the few exceptions will be Perth, which can expect to see further steady effective rental growth on the back of falling incentives, which have declined from 52% to 46% towards the end of 2019.

Rents in Tokyo will be resilient given that ample new supply in 2020 is already largely pre-committed, with the market set to remain tight for the next two years. In Singapore and Sydney, rents peaked in 2019 and are now at the turning point. Greater China markets will account for the bulk of the rental decline, with Central district in the Hong Kong SAR expected to see the sharpest fall, although rents in decentralised areas will be more resilient.

FIGURE 6: ASIA PACIFIC OFFICE RENTAL FORECAST

Note: Rental growth of each market represents the CBD unless specified
Source: CBRE Research, January 2020.

AGILITY

2020 will be characterised by a stronger emphasis on agility as occupiers navigate a prolonged but volatile economic growth cycle.

At the asset level, agility will involve changes to the workplace, such as the greater use of multi-purpose and reconfigurable office space, to support flexible working policies. At the portfolio level, the use of flexible office space – such as that provided by coworking and serviced office operators – is now considered one of the preferred alternative solutions for occupiers. Although this sector has begun to consolidate, occupiers will continue to use flexible space as a strategic component of their overall real estate strategy, rather than as a temporary or reactive solution. Corporates will also lease flexible space when entering new markets or to consolidate operations after M&A, which typically involves longer lease terms and larger numbers of desks.

CBRE expects landlords to introduce a wider range of flexible office solutions to cater to occupier requirements for on-demand space in 2020. This will likely involve developers creating their own flexible space brands and partnering with experienced flexible space operators or third-party providers.

ASSESSMENT

With the upward rental cycle in most markets approaching the peak and large new supply on the horizon, now is the opportune time for occupiers to thoroughly assess renewal, relocation or consolidation options.

Occupiers are also advised to perform more intensive assessment of market, political and environmental risks to enhance portfolio resilience. This type of planning was previously conducted primarily for business continuity purposes; to obtain insurance protection; to reallocate headcount for headquarters functions; and/or when planning right-shoring exercises. However, such risks – particularly those related to climate-related loss - are rapidly moving up the agenda as occupiers become more congnisant of the challenges they pose to specific office locations and building features.

With building construction and operations contributing almost 40% of carbon emissions, many leading companies are already factoring Environmental, Social and Governance (ESG) criteria into leasing decisions. Occupiers are advised to ensure they are prepared to comply with existing and upcoming regulatory requirements related to ESG issues. Green and sustainable buildings will gain further popularity and carry a stronger weighting in portfolio allocations.

ALTERNATIVES

The increasingly diverse composition of major office occupiers (which now include tech firms, flexible office providers and life science companies); the absence of any compelling factors requiring such tenants to locate themselves in the CBD of a gateway city; and a growing focus on user experience in the workplace has significantly expanded the universe of property types, locations and markets.

At the same time, occupiers are increasingly aware that having one consolidated office in a single market does not enhance portfolio flexibility and also exposes them to concentration risk and longer lease negotiations. Employees are also displaying a stronger desire for shorter commuting times, indicating that the dispersion of several offices across a single market could emerge as a trend.

The war for talent has also spurred companies to consider establishing a presence beyond traditional gateway markets. The likes of Hyderabad and Chengdu are now emerging as tech hubs, supported by the availability of highly educated employees and low real estate costs.

Although decentralisation is not a new trend in mature markets, where rental savings have been a driving force; nor in emerging markets, where a structural shift is now underway, CBRE expects occupiers to display a greater willingness to experiment with leasing space in emerging areas of decentralised locations, particularly for headquarters purposes.

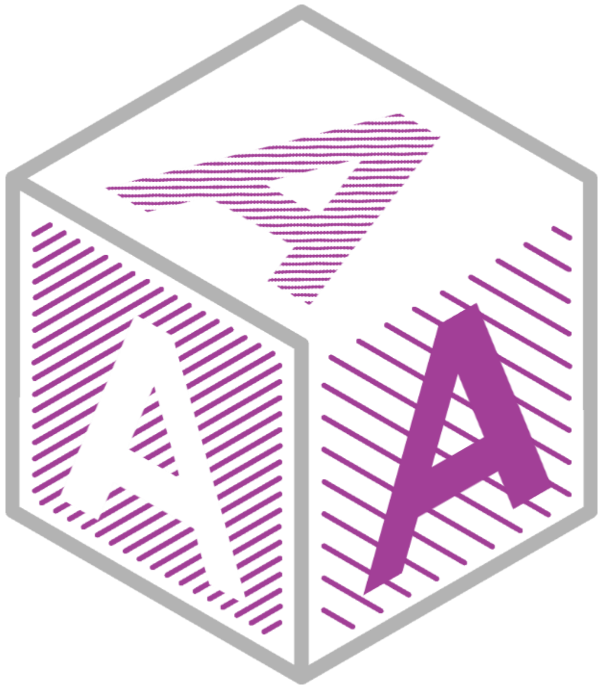
In terms of property type, business parks, corporate campuses and innovation labs are among the formats CBRE expects to gain further traction in 2020. In addition to cost savings, such properties enable occupiers to implement a placemaking approach; introduce hotelisation features; and install the latest technology to enhance employee experience.

FIGURE 7: ASIA PACIFIC OFFICE TRENDS IN 2020

OFFICE

Alternatives

- Companies will establish a presence beyond traditional gateway markets, in emerging areas of decentralised locations, and in new types of properties such as business parks, corporate campuses and innovation labs.



Assessment

- Now is the time to assess renewal, relocation or consolidation options.
- Corporates must perform more intensive assessments of market, political and environmental risks.
- Managing ESG issues will be more important than ever before.

Agility

- Companies should make greater use of multi-purpose and reconfigurable office space to achieve higher efficiency.
- Flexible space will remain a strategic component of overall real estate strategy.
- Landlords will introduce a wider range of flexible office solutions to cater to requests for on-demand space.

Source: CBRE Research, January 2020.

RETAIL

CONSUMPTION GROWTH TO REMAIN WEAK

Retail sales growth was muted in 2019 as consumers turned more prudent amid growing economic uncertainty. 2020 is expected to see slightly stronger performance on the back of more stable regional economic prospects. However, consumers in developed Asia Pacific markets – particularly Hong Kong SAR, which sociopolitical unrest persists – will remain cautious. In contrast, emerging markets and lower tier cities are expected to perform well on the back of rapid urbanisation and rising household incomes.

Demand for brick-and-mortar retail space is forecast to remain stable despite online sales growth continuing to outpace that in physical stores. More Asia Pacific brands will seek to expand regionally, while emerging online retailers will continue to open physical stores to generate new sales channels.

Retailers will nevertheless continue to adopt a prudent approach, a trend that will result in limited net growth in store numbers. More capex will be allocated to new openings in up-and-coming markets in China, India and Southeast Asia. Gateway cities will continue to see a steady flow of new entrants, while existing brands will focus on flight-to-quality relocations/renewals.

Demand from F&B is set to remain stable but the sector is already oversaturated. Competition between retailers will intensify and the lifespan of brands will shorten. Other stable sources of demand will include sporting goods and personal care retailers.

Luxury retailers are expected to turn slightly more active in 2020, supported by robust spending by Mainland Chinese consumers, which contributed an estimated 90% of luxury sales growth in 2019[2]. Tokyo, Sydney and leading tier II Chinese cities will benefit but Hong Kong SAR will see further closures.

Demand from the fashion industry is set to remain dominated by top-tier fast fashion retailers. However, recent closures and market withdrawals by several underperforming U.S. labels may herald a shift to stronger online platforms and fewer physical stores.

Retailtainment is set to remain a solid source of leasing demand, with indoor playgrounds, edutainment centres and hobby workshops expected to be particularly active. These tenants' relatively lower rental affordability and large size requirements of up to 60,000 sq. ft. will likely prompt them to seek new space in secondary locations[3].

FIGURE 8: 2020 RETAIL DEMAND FORECAST – BY SECTOR

Source: CBRE Research, January 2020.

[2] 2019 Worldwide Luxury Market Monitor, Bain & Company – Altagamma.
[3] Retailtainment 2.0: Invest in Experience, CBRE Research, 2019.

MOST MARKETS TO SEE LESS NEW SUPPLY

New retail supply in Asia Pacific will reach 43 million sq. ft. in 2020, an increase of 10.5% y-o-y. Much of this spike is due to supply slippage in China Tier I cities, where around 5 million sq. ft. of new space due for completion in 2019 was delayed to this year.

Around 70% of new stock will be in China tier I cities. Most Asian markets will see a smaller pipeline in 2020. In the Pacific, new CBD supply will largely be confined to retail podiums in office buildings.

Ageing and/or underperforming retail stock will continue to be closed for renovation or redevelopment. Shopping mall operators will retain their existing strategy of increasing the proportion of space allocated to experience-based retailers such as F&B and entertainment while adding innovative new design features. Recent years have seen the addition of coworking centres to shopping malls but this trend has now cooled as the sector consolidates.

Prime space in core locations will remain keenly sought after but secondary areas will struggle amid declining footfall.

FIGURE 9: ASIA PACIFIC RETAIL PIPELINE (2019 & 2020F)

Note: In Japan, only supply with GFA above 1,000 tsubo is included. In Pacific, the pipeline in Australia includes CBD and regional shopping centres only while New Zealand includes large format, regional shopping centres and district/community malls.
Source: CBRE Research, January 2020.

LIMITED RENTAL GROWTH EXPECTED

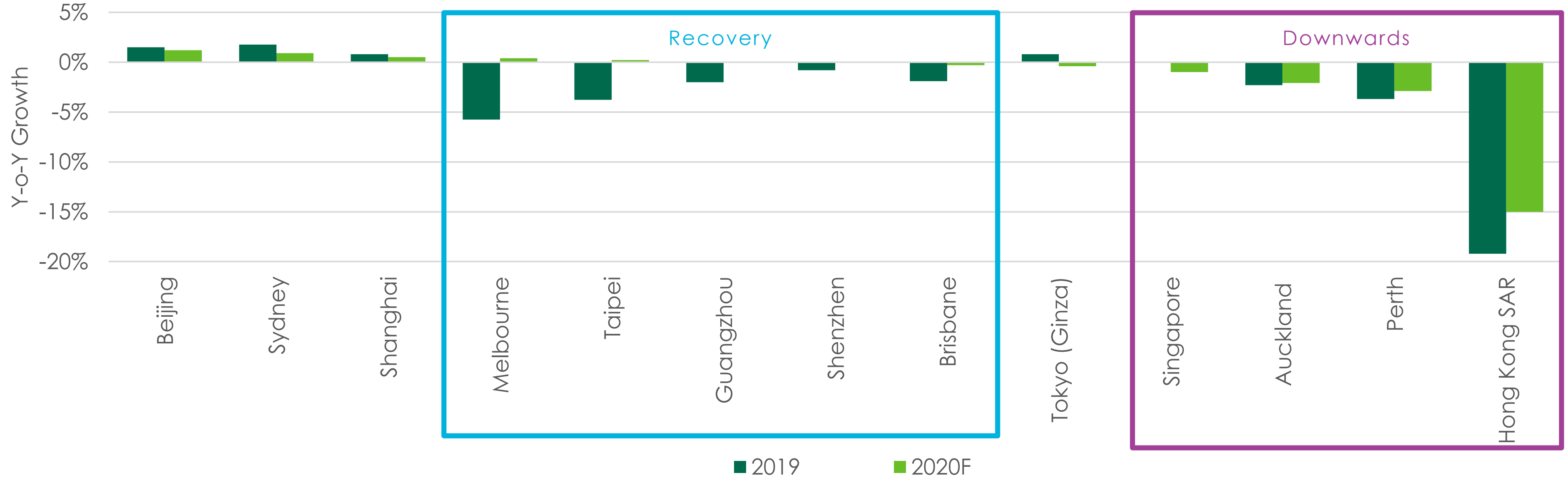
Retail rental growth in 2019 was weaker than original forecasts, with more than half of markets recording a decline. 2020 is expected to bring stabilisation as most markets gradually recover. Hong Kong SAR was the worst performer in 2019 and is set to remain so in 2020, with high street rents expected to undergo a further 15% fall. Most of this decline will be frontloaded in H1 2020.

Mild rental growth is anticipated in Beijing and Sydney. Beijing has seen an upswing in leasing interest following the government's introduction of cash incentives to retailers opening their first store in China and/or the city. In Sydney, more retailers are seeking cost-effective options in prime CBD locations due to high rents in super prime areas.

In Tokyo (Ginza), while luxury retailers continue to seek standalone stores, their cautious stance on rents and other leasing terms in light of weaker consumer spending and a potential slowdown in inbound demand may create some rental weakness this year.

The performance of prime, secondary and non-discretionary retail locations will continue to diverge in 2020. Prime locations are set to benefit from solid demand from luxury goods retailers as well as other categories eyeing upgrading opportunities. However, retailers' risk-averse attitude towards current high rents will limit prospects for rental growth. Neighbourhood malls in densely populated areas and cities will continue to benefit from resilient footfall and spending, but mid-tier secondary malls may struggle.

FIGURE 10: ASIA PACIFIC RETAIL RENTAL FORECAST



Remarks: All markets track the performance of prime high streets except China, Singapore and Auckland. China tier I cities track the performance of G/F prime shopping centres, Singapore tracks prime floor units while Auckland tracks regional shopping centres.
Source: CBRE Research, January 2020.

EVOLUTION

The structural shift to online retail will continue in 2020, albeit at a slower pace. Rapid growth in Southeast Asia and India will require retailers to invest in online sales channels and fulfilment capabilities while restructuring their brick-and-mortar store networks.

Despite the online sales boom, physical retail continues to perform well. Building a unified omnichannel platform capable of complementing brick-and-mortar stores will remain a key priority for retailers in 2020. The growth of omnichannel will also spur additional demand from online retailers opening physical stores.

ENTERTAINMENT

CBRE anticipates stronger leasing demand from entertainment and experience retailers in 2020, supported by shopping centre landlords' willingness to lease space to these categories to attract new consumers and transform their properties into activity centres for their targeted demographic.

In China, the substantial development pipeline is prompting landlords to explore new concepts. Several major projects in satellite towns of tier I cities now host large operators such as theme parks and serve as one-stop shopping and entertainment destinations. Examples include Sunac Snow Park in Guangzhou and National Geographic Ultimate Explorer in Hengqin.

Other key trends will include continued growth in demand for pop-up stores, with some retailers experimenting with new formats and locations to differentiate themselves from the competition.

EXPERIENCE

Recent years have seen retail landlords and occupiers focus on upgrading the shopping experience by adding more interactive and "instagrammable" features to their space. CBRE expects this trend to continue in 2020, with art and culture-related content taking on a more prominent role in the creation of retail spaces.

Phygital – bringing together the best of physical and digital retail to provide a fluid customer experience – will be another key trend. Retail operators will need to invest heavily in analytics tools to better understand consumer behaviour and provide a more customised retail offering. Mobile apps enabling convenient self-service are set to be another area of focus.

Although more retailers and shopping centre landlords have successfully completed repositioning exercises in recent years, investment in such initiatives has been significant and has weighed on profitability. CBRE expects to see the introduction of more unique products, members-only offers and events in 2020 as retail operators look to boost sales.

FIGURE 11: ASIA PACIFIC RETAIL TRENDS IN 2020

RETAIL

Entertainment

- Entertainment and experience-based retailers will be a stronger source of leasing demand, supported by landlords' desire to attract new consumers and transform their malls into activity centres.

Evolution

- The structural shift to online retail will continue. Retailers must invest in online sales channels and fulfilment capabilities while restructuring their brick-and-mortar store networks.
- Omnichannel will be key.

Experience

- Art and culture content will take on a more prominent role in the creation of retail spaces.
- Phygital – bringing together the best of online and brick-and-mortar retail - will be another key trend.

Source: CBRE Research, January 2020.

LOGISTICS

STEADY DEMAND EXPECTED

Logistics market fundamentals appear solid. The World Bank anticipates 1.9% y-o-y growth in global trade volume in 2020, a moderate rebound from 2019's 1.1% y-o-y. Regional private consumption growth is expected to be stable. Online retail sales growth will remain strong but the pace of expansion is slowing, with emerging consumer markets including India and Southeast Asia set to perform well on the back of steady urbanisation and demographic growth.

Although the shift towards omnichannel retail will drive steady leasing demand from retailers and third-party logistics firms (3PLs), CBRE expects the latter group of occupiers to turn more cautious towards extending their footprint due to tightening profit margins. Elsewhere, export-related manufacturers and trading companies will stay quiet amid continued geopolitical tension between the U.S. and China, despite the signing of the trade deal in January.

CBRE expects Asia Pacific logistics occupiers to be cautiously optimistic in 2020. Tenants will continue to place a strong emphasis on location, which will remain key to minimising delivery times and transportation costs. Modern logistics facilities with good connectivity to major transportation infrastructure and near large customer bases will remain popular. Renewal rather than expansion will be the primary focus in mature markets and lease negotiations are likely to be prolonged. Leasing demand in India, which has seen solid occupier expansion and consolidation since the implementation of the Goods & Services Tax (GST), will remain upbeat as more new investment grade supply is completed.

Competition for prime industrial and logistics space remains intense, with CBRE tracking growing interest from occupiers along different stages of the e-commerce supply chain. Recent years have seen robust demand from cold storage operators, particularly in Mainland China, Hong Kong SAR and Korea, supported by solid domestic consumption growth and the shift towards omnichannel retailing. The rapid growth in online grocery orders is also fueling demand for last mile logistics facilities such as dark stores, which are usually located in industrial space. Elsewhere, selected retailers are assessing the feasibility of converting obsolete retail properties into distribution centres or to serve in-store fulfillment. Other new sources of demand include central kitchens, supported by the increasing popularity of dining out and on-demand food delivery.

Bonded warehouses – which enable dutiable goods to be stored or manipulated without payment of duty – are increasingly popular amid rising consumer demand for imported products. Total cross-border e-commerce sales in Asia Pacific are expected to grow from US$181.4 billion in 2018 to US$389.5 billion in 2023F[5]. Bonded warehouses will benefit from this trend as they facilitate faster delivery compared to direct shipping from the country of origin. CBRE expects to see a rise in leasing demand for this property class, especially in large consumer markets such as China and India, and particularly in cities with major ports and airports, such as Hangzhou, Shenzhen, Shanghai, Mumbai and Chennai.

[4] Global Economic Prospects, The World Bank, January 2020.

[5] Forrester Analytics: Online Cross-Border Retail Forecast, 2018 To 2023 (Global), April 2019.

AVAILABILITY TO REMAIN TIGHT

Modern logistics supply remains limited. With the exception of Guangzhou, Singapore and Shanghai, vacancy rates in Asian gateway markets stood below 5% as of Q4 2019. However, tier II markets in China have high availability, with vacancy reported at 15.7% at year-end.

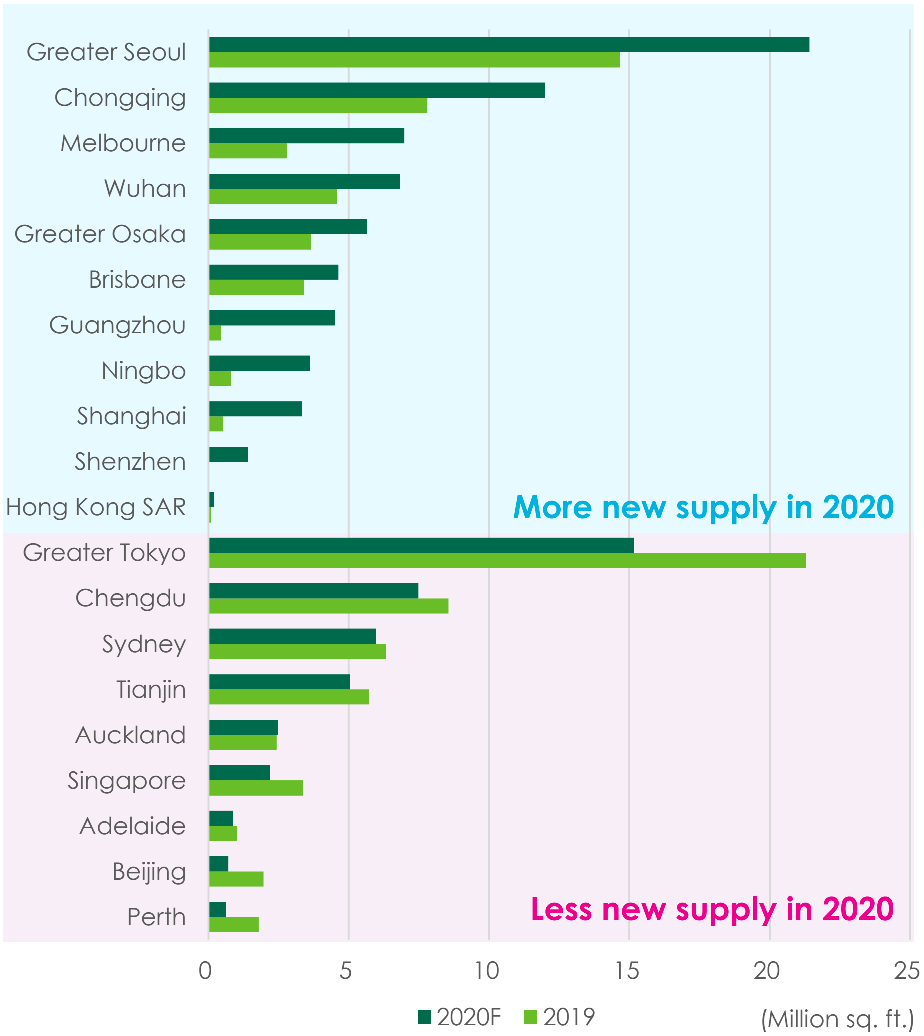
New logistics supply in Asia Pacific gateway cities in 2020 is projected to total 76 million sq. ft., with a further 52 million sq. ft. due for completion in Chinese tier II cities. Although most cities will continue to favour landlords, tenants will gradually enjoy stronger bargaining power.

Vacancy pressure is expected to mount in Greater China over the course of the year. Demand has weakened alongside slower economic growth, a situation further exacerbated by the relocation of major e-commerce tenants from leased buildings to self-developed facilities. While the situation in tier I cities is relatively stable on the back of limited new supply, tier II markets such as Dalian, Shenyang, Chongqing, Chengdu and Wuhan will struggle with rising vacancy.

Vacancy in Hong Kong SAR edged up to 2.1% at year-end as occupiers turned more cautious amid the uncertain economic outlook. While several tenants may surrender space in the first few months of 2020 and landlords are likely to adopt a less aggressive stance towards rental negotiations, vacancy will remain low.

The bulk of the new development pipeline for 2020 is in Greater Tokyo and Greater Seoul. The former enjoyed strong pre-leasing activity in 2019, reporting record-high net absorption of 25 million sq. ft. In the latter, pre-leasing momentum slowed over the course of 2019 and was insufficient to fill new supply, most of which comprised large size properties. The situation will remain challenging in the coming years, with the development pipeline set to rise to 20 million sq. ft. in 2020 and a similar figure due in 2021.

FIGURE 12: ASIA PACIFIC LOGISTICS PIPELINE (2019 & 2020F)



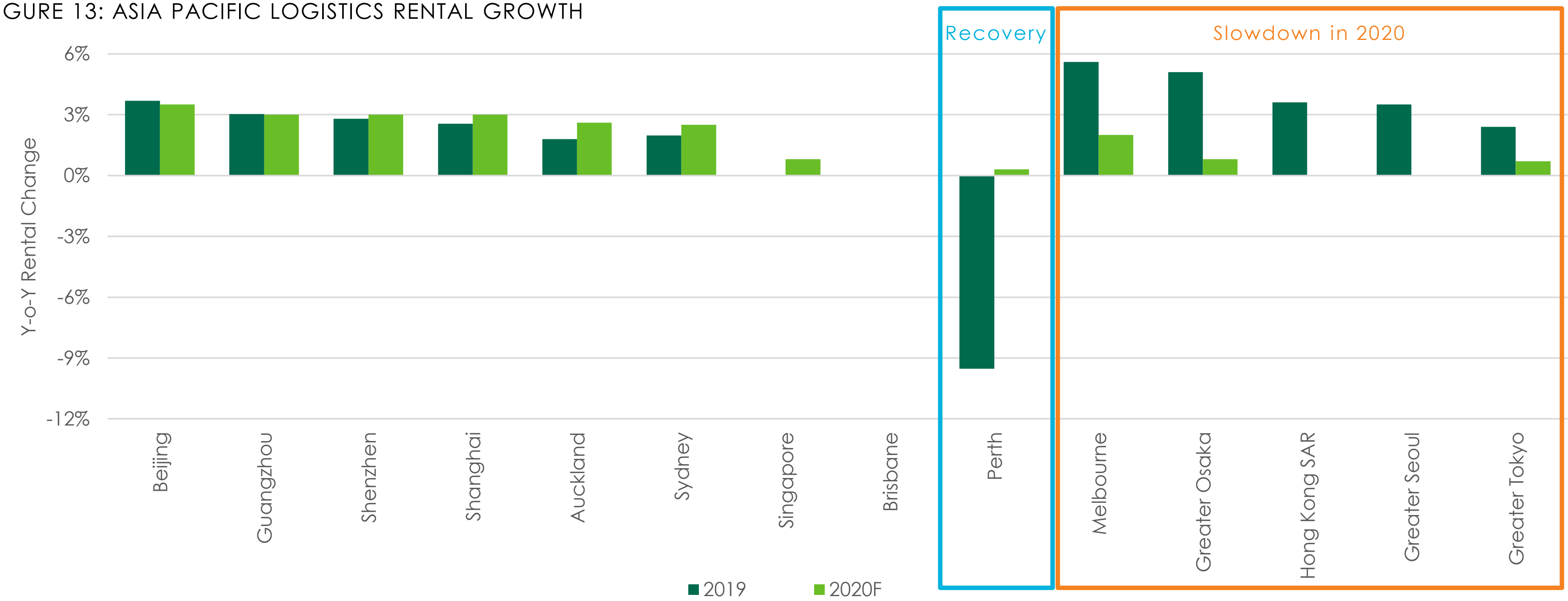
Source: CBRE Research, January 2020.

RENTAL GROWTH SET TO MODERATE

Regional rental growth in 2019 was below forecasts due to the impact of the U.S.-China trade conflict and weaker-than-expected economic growth. Perth was the main laggard, with rents falling by 9.5% y-o-y amid deteriorating engineering sector investment and a construction industry slowdown. The recent announcements of major resource projects are likely to boost leasing activity over the course of 2020, but rental growth prospects will remain limited.

2020 is expected to see milder rental growth as logistics occupiers remain cautious towards expansion, while landlords turn more flexible and offer higher incentives. Rental growth in Japan will moderate after a strong year, with landlords refraining from aggressive rental increases in view of the ample pipeline in 2021. Greater Seoul has limited room for rental growth as older facilities offer more rent free periods and lower rents in anticipation of new supply. Rental growth in China tier I cities will maintain its current momentum but forecasts for Hong Kong SAR have been revised downwards as occupiers turn more cautious amid local sociopolitical unrest.

FIGURE 13: ASIA PACIFIC LOGISTICS RENTAL GROWTH



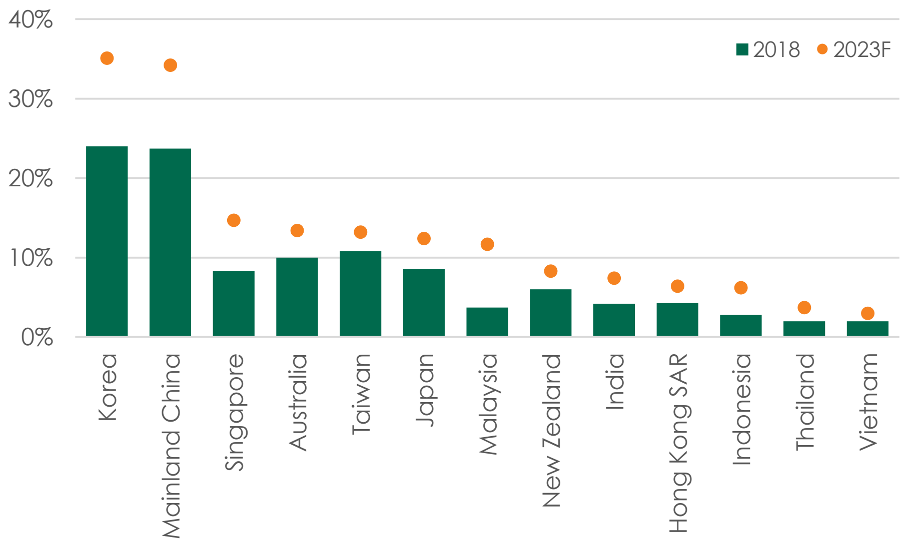
Source: CBRE Research, January 2020.

E-COMMERCE

E-commerce will continue to be the main tailwind propelling the logistics sector in 2020. Additional warehousing space will be required to meet the surge in last mile delivery as well as the structural shift towards omnichannel retailing.

The rise of online retail has raised supply chain costs, particularly those associated with last mile delivery and return of goods. Elsewhere, the profitability of 3PLs is being squeezed by rising labour and upgrading costs. Major e-commerce platforms also pose a threat to logistics service providers, with more companies now operating their own parcel and express operations. This will require logistics companies to conduct strategic reviews of their real estate operations.

FIGURE 14: ONLINE RETAIL SALES AS A % OF TOTAL RETAIL SALES



Source: Euromonitor, January 2020.

EFFICIENCY

Rapid growth in e-commerce related parcel volume; demand for quicker and more accurate delivery; and rising costs require logistics providers to create more efficient distribution systems. Many occupiers have already begun introducing automation technology into their logistics facilities, a trend that will continue. Major e-commerce platforms will also enhance their own delivery capability by constructing their own facilities.

Growth in Asia Pacific industrial land prices, especially in densely populated cities, has accelerated in recent years. Competition will remain stiff as data centre operators expand aggressively and local authorities look to attract high-tech manufacturers. This will prompt more logistics developers to maximise land use efficiency by constructing multi-storey warehouses.

ENHANCEMENT

Although overall conditions will remain in favour of landlords, tenants can expect to command stronger negotiation power as owners look to shore up occupancy. Landlords are advised to enhance their service offering to retain tenants and develop new income streams such as pre-quality checks, customs clearance support and procurement solutions. They should also be more proactive in implementing new technology such as sensors and building information systems into their facilities.

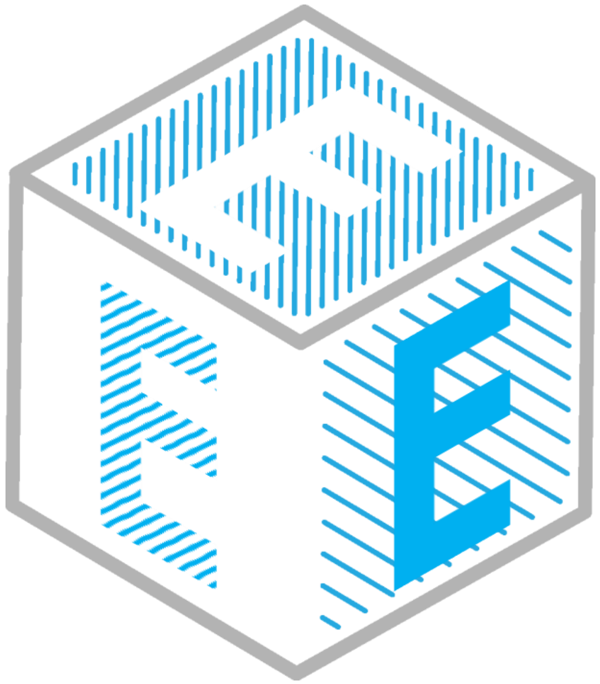
As in the office and retail sector, CBRE believes logistics landlords must transcend the traditional role of space provider and work more closely with tenants to help them achieve their business objectives. In particular, next-generation facility design must consider Corporate Social Responsibility (CSR) requirements by incorporating environmentally friendly features and providing high quality working conditions.

FIGURE 15: ASIA PACIFIC LOGISTICS TRENDS IN 2020

LOGISTICS

E-commerce

- Additional warehousing space will be required to meet the surge in demand for last mile delivery.
- The structural shift towards omnichannel retailing will also drive new logistics requirements.



Efficiency

- Rapid growth in e-commerce related parcel volume, demand for quicker delivery, and rising costs require logistics providers to create more efficient distribution systems.
- Automation of logistics operations will be key.

Enhancement

- Landlords must enhance their service offering to meet occupiers' evolving needs. They must transcend the traditional role of space provider and proactively implement new technology.

Source: CBRE Research, January 2020.

CAPITAL MARKETS

The Asia Pacific real estate investment market will continue to enjoy ample liquidity in 2020. Purchasing activity will be led by regional focused close-ended real estate funds, which possess an estimated US$51 billion of capital to be deployed over the next two to three years. Open-ended core funds will be active amid rising demand from investors seeking long-term diversification and stabilised income returns. CBRE estimates Asia Pacific focused open-ended funds currently possess around US$33 billion (included leveraging) to be invested in the region.

Low returns from fixed income investments will encourage Asia Pacific institutional buyers to diversify their portfolios by increasing their allocations to real estate. Should these investors expand their real estate allocations by 50 bps, an additional US$85 billion would be available to invest in Asia Pacific real estate. Around 60% of this capital would originate from Australia, Japan and Korea.

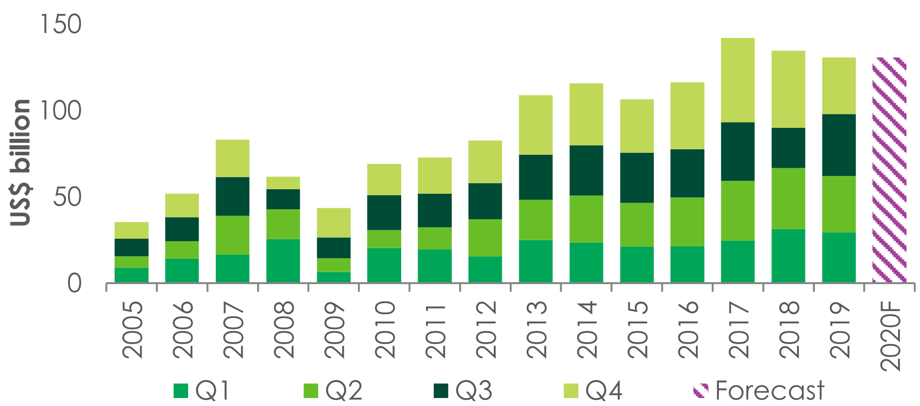
REITs will comprise another strong source of demand in 2020 as many groups – particularly those listed in Australia, Japan and Hong Kong SAR - have room to expand their leverage ratio. Should Asia Pacific REITs expand their current gearing ratio to its maximum level (35% to 50%)[6], an additional US$70 billion would be available to invest in Asia Pacific real estate.

The above estimation covers Asia Pacific focused real estate funds and Asia Pacific based institutional investors and REITs. When global institutional investors, high net worth private individuals and developers are also taken into account, the liquidity pool is even larger. However, the low cost of borrowing means vendors will be under less pressure to lower prices in 2020, ensuring the price gap remains significant. Many investors also are expected to turn more selective towards purchasing due to weaker rental outlook. These factors are set to prevent a strong rebound in investment activity in 2020, ensuring transaction volume remains largely unchanged.

FIGURE 16: 2020 INVESTMENT DEMAND

Source: CBRE Research, January 2020.

FIGURE 17: ASIA PACIFIC TOTAL INVESTMENT VOLUME



Remarks: Transactions include deals above US$10 million in the Office, Retail, Mixed, Industrial, Hotel and other commercial sectors. Residential and development site are excluded.
Source: RCA, CBRE Research, January 2020.

[6]Assuming a gearing ratio cap for Japan, Malaysia, Korea (50%); Hong Kong SAR 45%); Australia, New Zealand (40%); Singapore, Thailand, Taiwan (35%)

The downward interest rate cycle ensured the yield spread over the policy interest rate expanded by over 100 bps last year. Low inflationary pressure will create room for additional interest rate cuts to prop up regional economies. As such, CBRE expects yield spread to mildly expand in 2020.

The low interest rate environment, ample liquidity and shrinking pool of assets for sale will ensure yields stay low for longer. Markets including Australia, New Zealand and Japan, which continue to offer an attractive yield spread against the cost of borrowing, are likely to see further yield compression driven by strong capital flows. Elsewhere, office yields in Shanghai and Hong Kong have begun to decompress as their occupier markets weaken, with expansionary pressure set to continue in 2020.

Investor enthusiasm for logistics assets will drive further logistics yield compression across the region in 2020. In the retail sector, relatively higher requirements for more active asset management will continue to compel investors to seek higher yields.

With rents in the late stage of the cycle and yields standing at record lows, CBRE expects Grade A office capital value growth to weaken in 2020.

FIGURE 18: ASIA PACIFIC OFFICE CAPITAL VALUE GROWTH

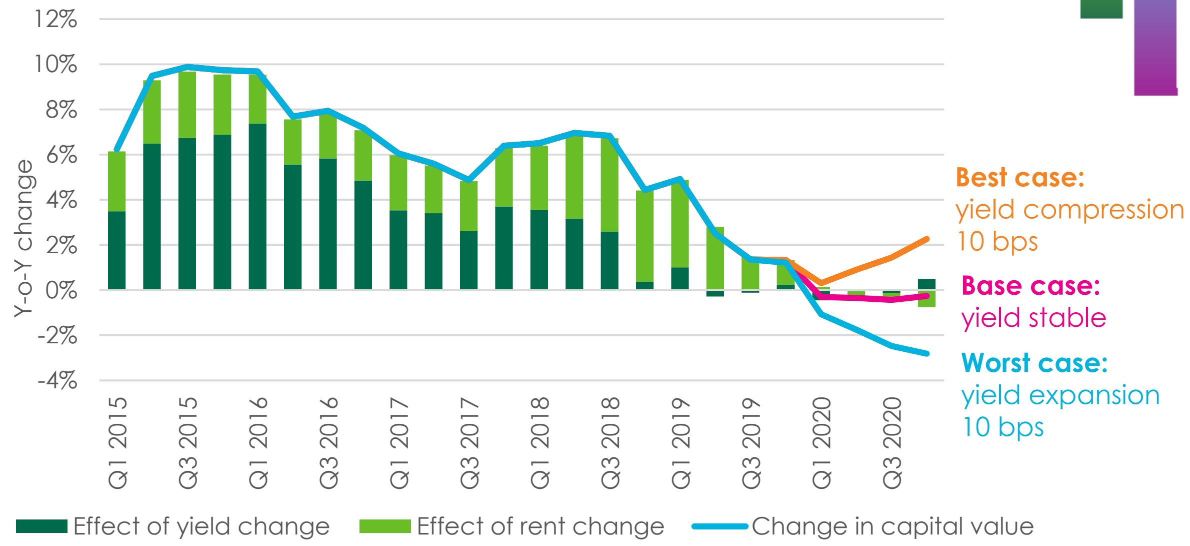
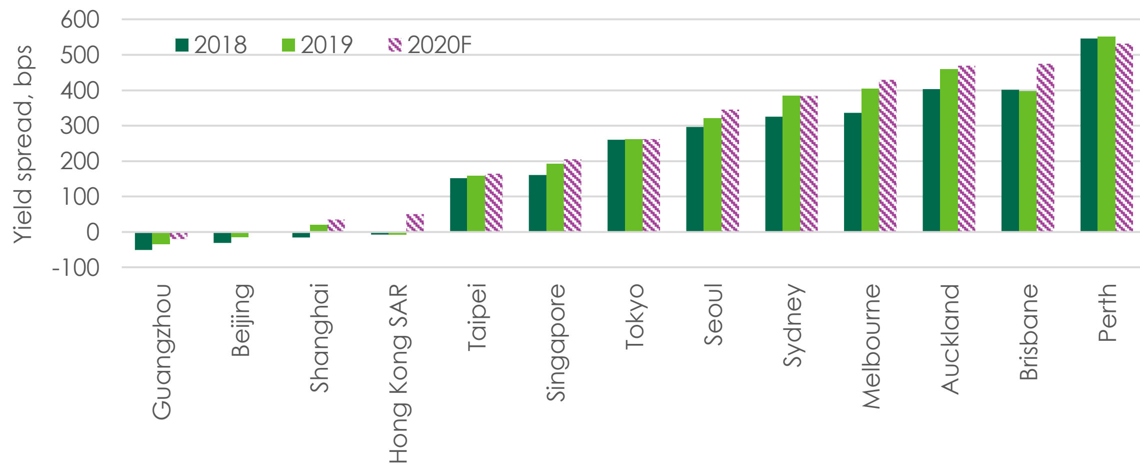


FIGURE 19: PRIME OFFICE YIELD SPREAD AGAINST POLICY INTEREST RATE (2018 - 2020F)



Note on policy interest rates: Australia - Cash rate, China - 1 Yr Loan Prime Rate (LPR), Hong Kong – 3M HIBOR, New Zealand - Official Cash Rate, Singapore – 3M SIBOR, Korea - Base rate, Taiwan – Discount Rate, Japan – overnight interest rate
Source: Capital IQ, Oxford Economics, CBRE Research, January 2020.

CBRE forecasts weighted average gross annualised total returns for all sectors[7] across major Asia Pacific markets to fall to an aggregate of 3.4% in the coming three years (2020-2022) from 8.2% (2017-2019). Investors should therefore determine whether now is an opportune moment to realise gains on their earlier investments.

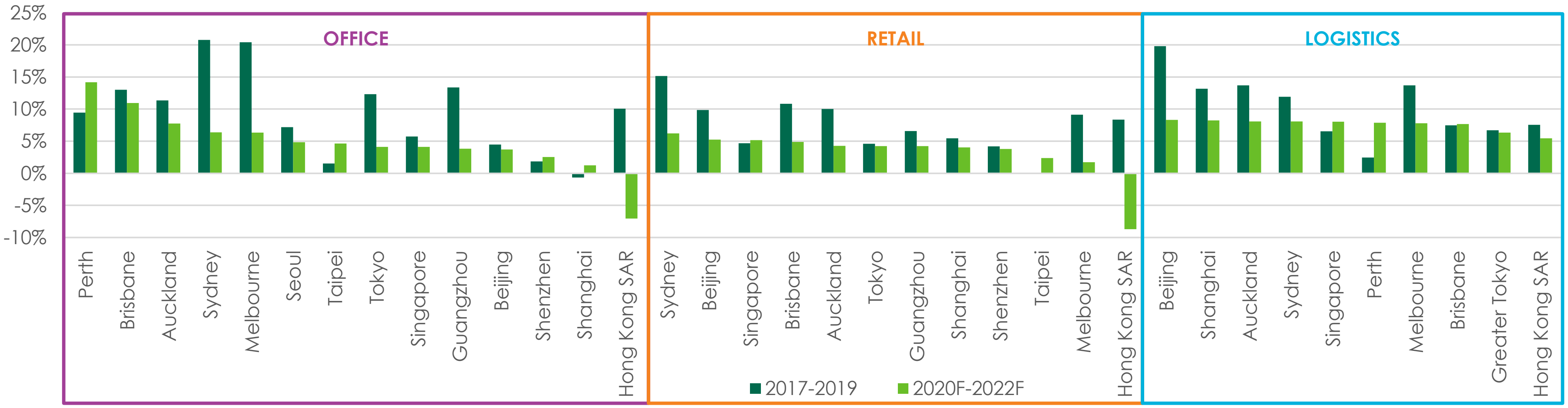
In the office sector, Perth and Brisbane are expected to provide relatively higher returns resulting from stronger net effective rental growth. Selected markets such as Seoul, Beijing and Singapore are expected to see total returns stabilise.

Logistics returns are likely to outperform those in the office and retail sectors. However, CBRE believes investors should reconsider their investment strategy towards logistics, with built-to-suit developments expected to gain favour as logistics occupier focus on improving efficiency. Older assets in secondary locations will be challenging to attract tenants as occupiers opt for specialised logistics facilities best suited to their operational requirements.

Investors are also advised to consider emerging logistics hubs such as Vietnam, Indonesia and India, all of which are set to benefit from supply chain relocation out of China in the coming years. Forming joint ventures with local partners or acquiring industrial sites for development will remain the main entry route in these markets due to foreign ownership restrictions and the lack of investable assets.

Although conditions in the retail sector are set to remain challenging, performance and fundamentals will vary across markets. Community shopping malls in China tier I cities and Singapore will provide stable returns but high street retail in Hong Kong SAR remains vulnerable to softening leasing demand.

FIGURE 20: ANNUALISED GROSS TOTAL RETURN PER ANNUM*



* Gross total return is the sum of prime yield and synthetic capital value growth
Source: CBRE Research, January 2020.

[7] All sectors annualised gross total return is the weighted average of total return for the office, retail and logistics sectors.

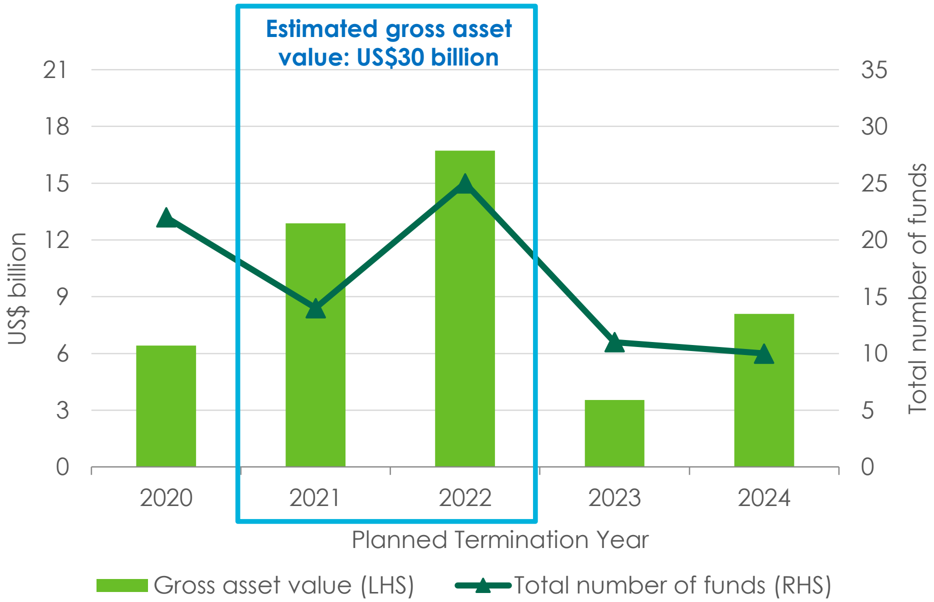
CBRE data show that the next wave of fund expiration will commence in 2020 and peak in 2021-2022, involving around 39 funds with a gross asset value (GAV) of about US$30 billion.

A review of assets available for disposal by funds approaching the end of their fund life between 2021 and 2022 shows that around 80% are in China, Japan and Australia. These assets mainly comprises office properties but some industrial facilities will also be made available for sale as there are several single country focused industrial funds entering the termination phase.

At the same time, many Chinese developers will be disposing of commercial assets at flexible prices as they seek to lower their gearing ratio. These factors could improve the availability of stock.

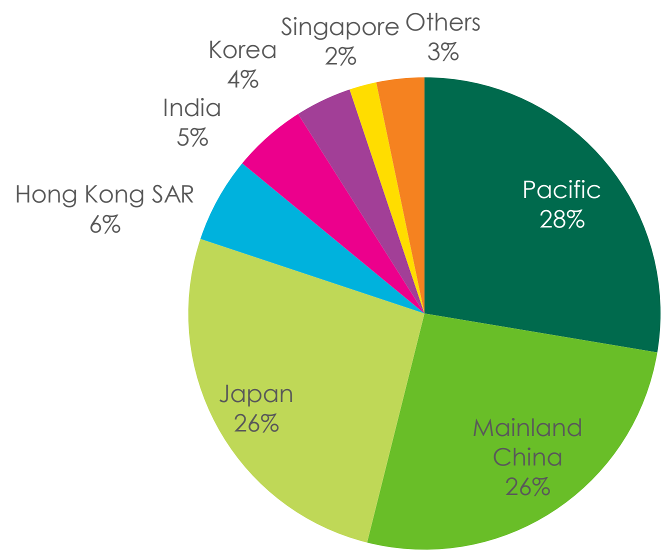
As gross total returns moderate, investors should be vigilant for opportunities resulting from early disposals by fund managers seeking to raise new funds by disposing of assets that have already achieved their target returns.

FIGURE 21: PROJECTED GROSS ASSET VALUE OF CLOSE-ENDED REAL ESTATE FUNDS BY TERMINATION YEAR



Source: Preqin, INREV/ANREV, CBRE Research, January 2020.

FIGURE 22: MARKET DISTRIBUTION OF ASSETS AVAILABLE FOR DISPOSALS (2021-2022)



Source: Preqin, INREV/ANREV, CBRE Research, January 2020.

Although real estate continues to offer attractive returns compared to other asset classes, the upward rental cycle is at a late stage. CBRE believes that investors should therefore reduce their weighting on cyclical investments and strengthen their focus on structural opportunities.

Leverage the decentralisation trend

Occupiers in mature markets are relocating back offices or even consolidating entire operations to decentralised areas to reduce real estate overheads. In markets such as Hong Kong SAR, this structural change is being accelerated by the economic downcycle, with numerous multinational companies already relocating outside the Central CBD. In particular, activity in Kowloon East is expected to gain further traction. In Australia, North Sydney is emerging as an attractive option for tenants seeking to leave the CBD in search of lower rents. New infrastructure including a metro rail link between North Sydney station and Barangaroo and Martin Place, which is due to be completed in 2024, are also supporting this shift.

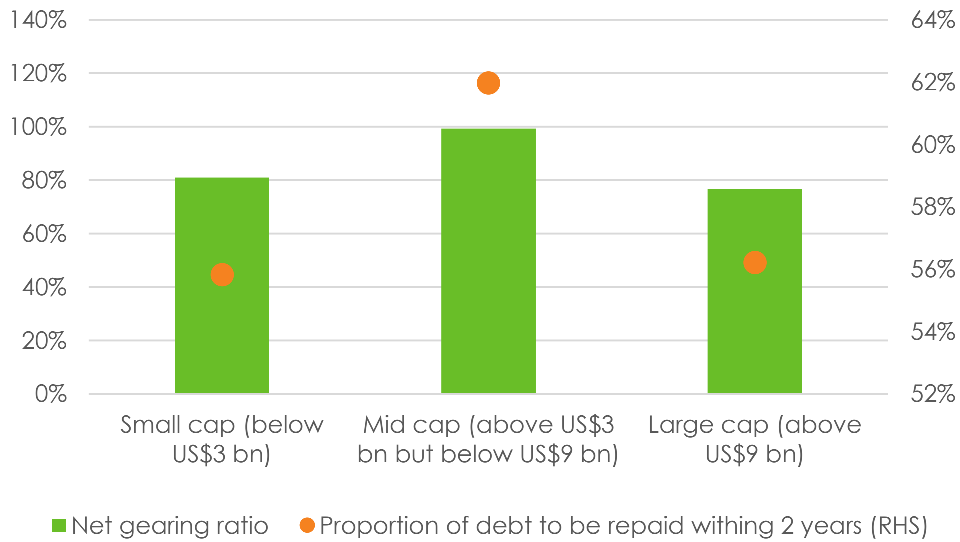
Decentralisation is also occurring in emerging markets. In China, many occupiers are moving to secondary business districts to provide a better working environment for their employees, with Wangjing now established as a hub for technology companies in Beijing, and North Bund and Qiantian attracting several major companies in Shanghai.

Capitalise on developers' liquidity needs

Although the cost of financing has fallen along with lower interest rates, CBRE continues to track a considerable number of real estate debt opportunities across the region, especially in China. Between 2020-2022, Chinese developers will need to refinance RMB 10 trillion of debt. This will provide opportunities for investors to offer development loans or junior and mezzanine debt.

Meanwhile, it is expected that Chinese developers will be more willing to offload non-core assets to recycle capital, which could provide opportunities to investors. Investors may also leverage weak residential sales in Thailand and Indonesia and continued tight real estate bank lending in Vietnam to form equity partnerships with developers to increase their real estate exposure in Southeast Asia.

FIGURE 23: WEIGHTED AVERAGE NET GEARING RATIO AND PROPORTION OF SHORT-TERM DEBT FOR DIFFERENT SIZED DEVELOPERS*



* Based on 32 listed Chinese developers with available information
Source: Citibank, Capital IQ, CBRE Research, January 2020.

Accept that retail is here to stay

Although retail has fallen out of favour among many investors, shopping malls managed by experienced landlords continue to perform well. For example, Chengdu IFS shopping mall has recorded double digit revenue growth per annum since opening in 2014. With management expertise more important than ever before, partnering with local operators with proven track records remains a viable opportunity for investors. Elsewhere, several retail focused funds in Australia facing redemption requests could create opportunities for experienced retail investors or buyers with long investment horizons.

Community shopping malls near residential catchments remain attractive defensive assets as non-discretionary spending usually remains resilient. In China, restaurant receipts have maintained steady growth despite the economic slowdown, rising by 9.4% y-o-y in 2019. Hong Kong SAR suffered a significant fall in retail sales in H2 2019 but sales of commodities in supermarkets recorded steady growth in November.

Stay on top of megatrends driving niche sectors

The advent of 5G, ageing populations and the growth of online grocery stores will create new opportunities to invest in niche sectors in 2020. While data centres and senior housing require intensive management and involve significant maintenance, there are opportunities for investors to form partnerships with experienced operators or engage in platform deals. Cold storage facilities are also set to gain further traction as an investment class, with the warehouse of the future likely to consist of dry storage compartments and temperature-controlled storage areas to allow for shifts in consumption trends.

Although the multifamily model remains confined to Japan, opportunities are emerging in Australia and China. Australia continues to record strong population growth driven by immigration, while China's recent relaxation of the Hukou policy allowing people to move to cities with 3-5 million permanent residents will drive new demand for accommodation in tier II cities such as Xi'an, Suzhou and Ningbo.

Refine tenant mixes

Investors are advised to enhance portfolio resilience in 2020 by adjusting their tenant mix. Adding retail and service-oriented components as part of a broader amenity offering can help office landlords attract and retain tenants. Considering non-traditional office occupying tenants who are more resistant to economic cycles is another approach. In Hong Kong SAR, research by CBRE has found that healthcare providers and medical centres display stronger loyalty to a particular building or landlord and typically pay a 10%-20% rental premium compared to traditional office occupiers[7].

FIGURE 24: 2020 INVESTMENT STRATEGY

CYCLICAL/COUNTER CYCLICAL

- **Office**
  - **Perth, Brisbane**, strong rental growth
  - **Sydney**, decentralization
- **Retail**
  - **Australia**, ride on asset sales driven by fund redemption
- **Debt**
  - **Mainland China**, liquidity needs from developers

STRUCTURAL

- **Decentralised Office**
  - **Beijing, Shanghai, Hong Kong SAR,** occupiers more willing to decentralise
- **Logistics**
  - **Across the region**
- **Retail – community mall**
  - **Mainland China, Hong Kong SAR, Singapore**
- **Niche sectors**
  - **Multifamily, Data Centres, Cold Storage**

Source: CBRE Research, January 2020.

[7] Healthy returns: Medical real estate opportunities in Hong Kong, CBRE Research, November 2019.

FIGURE 24: ASIA PACIFIC CAPITAL MARKET TRENDS IN 2020

Realistic returns

- Investors need to accept lower returns as yields stay low for longer and markets enter the late stage of the upward rental and capital value cycle.

Rerouting capital

- Debt refinancing and fund expiration are set to intensify in 2020.
- More capital and assets will enter the market.

Resilient portfolios

- Investors are advised to reduce risk amid ongoing market uncertainty.
- Portfolio weighting should be adjusted in favour of structural and defensive plays.
- Active asset management will remain a key differentiator.

Source: CBRE Research, January 2020.

APPENDIX: DATA TABLE

FORECAST RENTAL GROWTH AND YIELDS IN 2020

MARKET	OFFICE		RETAIL		LOGISTICS	
	RENTAL GROWTH (%)	YIELD	RENTAL GROWTH (%)	YIELD	RENTAL GROWTH (%)	YIELD
Beijing	-1.3	▶	1.2	▶	3.5	▶
Shanghai	-4.0	▶	0.5	▶	3.0	▶
Guangzhou	1.0	▶	0.2	▶	3.0	▶
Shenzhen	-4.0	▶	0.0	▶	3.0	▶
Chengdu	-0.2	-	-	-	-	-
Hong Kong SAR	-10.0	▲	-15.0	▲	0.0	▶
Taipei	2.3	▶	0.2	▲	-	-
Tokyo	-0.1	▼	1.4	▼	0.8	▶
Seoul CBD	0.6	▼	-	-	0.0	▼
Seoul GBD	0.1	▼	-	-	-	-
Singapore	0.0	▼	-1.0	▶	0.8	▶
Bangkok	3.0	▶	-	-	-	-
Ho Chi Minh City	1.4	▶	1.2	-	3.0	-
Hanoi	1.0	▶	-1.1	-	5.0	-
Kuala Lumpur	0.0	▶	-	-	-	-
Manila	7.1	-	-	-	-	-
Sydney	1.7	▼	0.9	▼	2.5	▼
Melbourne	2.3	▼	0.4	▲	2.0	▼
Brisbane	6.5	▼	-0.3	▲	0.0	▼
Perth	14.8	▼	-2.9	▼	0.3	▼
Auckland	-0.3	▼	-2.1	▲	2.6	▶
Gurgaon - Core	1.0	▶	-	-	-	-
Mumbai BKC	1.7	▶	-	-	-	-
Bangalore CBD	2.5	▶	-	-	-	-
Bangalore ORR	4.5	-	-	-	-	-
Hyderabad – IT corridor	4.3	-	-	-	-	-

Remarks
(1) Office rental growth refers to Grade A offices in CBD areas only, unless specified.
(2) Retail rental growth refers to high streets except China, Singapore and Auckland where G/F rents of shopping centres are reported. Rental outlook of Tokyo refers to Ginza high street rents.
(3) Logistics rental growth in Tokyo refers to Greater Tokyo Area. In Vietnam, Ho Chi Minh City represents South Vietnam (5 provinces) and Hanoi represent North Vietnam (4 provinces)
Source: CBRE Research, January 2020.

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