CBRE RESEARCH | APAC

REAL ESTATE MARKET

OUTLOOK 2019

MID-YEAR REVIEW

CBRE

EXECUTIVE SUMMARY

EMBRACING CHANGE, ENHANCING RESILIENCE

ECONOMY

The global economy will enjoy further growth for the next two to three years but is now entering the late stage of the cycle. While the fundamentals of urbanisation and broad-based income growth will continue to provide a strong foundation, U.S.-China trade conflict, the pace of interest rate hikes and financial market volatility all pose major headwinds. The end of quantitative easing in the U.S. and Eurozone will reduce market liquidity and exert upward pressure on global interest rates. Economic growth in Asia Pacific is therefore expected to weaken to 4.2% in 2019.

CAPITAL MARKETS

The tight yield spread against the higher cost of borrowing will prompt greater caution among investors this year. However, swings in market sentiment rather than underlying demand will be the main factor inhibiting investment activity. Slower rental growth and potential yield expansion are shrinking cyclical real estate investment returns in many major markets. Investors are advised to realise gains on early investments or rebalance their portfolios through asset repositioning and enhancement. CBRE also recommends a strong focus on sectors benefitting from structural trends.

OFFICE

Office demand will remain solid in 2019 but softer occupier sentiment will result in a mild drop in leasing activity following 2018's historical peak net absorption. Technology companies and flexible space providers will remain the major sources of demand. As new development peaks, rental growth will be weaker than in 2018. Singapore and Guangzhou will continue to outperform while Perth will see the strongest recovery. Occupiers and landlords continue to redefine the usage of office space, a trend that is accelerating the shift towards agile real estate strategies.

2019 Mid-Year Forecast Review*

65% correct — ECONOMY

- The economy continues to grow but at a weaker rate than our original forecast due to the escalation of U.S.-China and Japan-Korea trade conflicts and geopolitical tension in Greater China.
- Interest rates have gone the other way than expected. Seven markets in the region including Australia, New Zealand, Korea, India, Indonesia, Philippines and Thailand have cut policy interest rates since the start of the year.
- Low for longer interest rates will continue for the rest of 2019.

75% correct — CAPITAL MARKETS

- As predicted, investment turnover dropped 16% y-o-y in H1 2019 due to weaker market sentiment, particularly in China and Hong Kong.
- We retain our forecast of a 5 to 10% decline in total investment volume in 2019 due to economic uncertainty and the wider price gap between buyers and sellers. Liquidity remains strong due to the lower cost of borrowing across the region.
- We got it wrong on yield movement as the expected mild yield expansion did not occur. The unexpected shift to more dovish monetary policy drove further yield compression in Pacific and Japan.

80% correct — OFFICE

- We were right in predicting a decline in leasing momentum as occupiers have delayed leasing decisions across most markets, with net absorption declining by 19% y-o-y in H1 2019. Our full-year net absorption forecast has been revised down to -5% to -10%.
- Technology remains the major source of demand amid healthy expansionary appetite in Indian markets.
- Flexible space providers' share of leasing transactions has declined due to their slower pace of expansion.
- Rental growth continues to weaken.
- Singapore and Perth have recorded robust rental growth, making them the outperformers. Demand in Guangzhou has weakened substantially, and landlords are under pressure to reduce rents in H2 2019.
- Shenzhen has also seen short-term downward pressure on rents after Nanshan and Qianhai introduced subsidies to attract tenants to relocate from Futian.
- The acceleration towards agile real estate strategies for occupiers and landlords continues as demand for space usage evolves and shifts to an on-request basis.

*Note :
The percentages shown on the top left hand corner of the table indicate our self-assessment score for the 2019 Asia Pacific real estate market outlook report.

EXECUTIVE SUMMARY

EMBRACING CHANGE, ENHANCING RESILIENCE

RETAIL

Consumer spending is forecast to display steady growth despite stronger macroeconomic headwinds. This is likely to curb retailer expansion and retail rental growth. Retailers are expected to focus on improving the quality and performance of their store networks in 2019. Measures will include transforming bricks-and-mortar stores into brand experience centres and last mile delivery hubs. Shopping centre landlords will continue to refine their tenant mix by shifting away from low-growth categories and trades exposed to e-commerce. Asian brands, domestic retailers and online-to-offline retailers will be keenly sought after as tenants.

LOGISTICS

The growth of omnichannel retail will continue to drive solid leasing demand for urban logistics space. Rental growth will remain solid as competition for space intensifies amid strong demand from cold-chain logistics, high-end manufacturers and data centre operators. Emerging Southeast Asia and India will benefit from the mid-to-long term manufacturing shift, which will create more opportunities for logistics development and investment. Occupiers are advised to embrace technology to improve supply chain operational efficiency, while landlords must upgrade their portfolios to ensure they remain competitive.

2019 Mid-Year Forecast Review*

75% correct — RETAIL

- Retail sales growth continued to lose momentum in H1 2019 as consumers turned more prudent amid rising economic uncertainty and deteriorating corporate sentiment.
- Hong Kong's retail market has been hit hard by sociopolitical unrest since June, with rents declining after being flat for two years.
- Market sentiment will remain subdued over the remainder of the year, although the largely stable region labour market should continue to provide some support.
- Consolidation intensifies - Retailers' real estate strategy will be more cautious. More consolidation activity is expected to be seen after the year-end festival season.
- Rental growth has been weaker than our original forecast. Around half of all markets will see a correction in 2019.
- Melbourne was the worst rental performer after several apparel retailers consolidated store networks for cost saving purposes.

95% correct — LOGISTICS

- Escalating economic uncertainty, the U.S.-China trade dispute and disappointing manufacturing sector data have prompted logistics occupiers to become more cautious towards expansion.
- Demand has been led by domestic consumption-driven occupiers, which have cushioned the slowdown in activity from export-related manufacturers and trading companies.
- Rental growth will remain solid, but the rate of growth is set to moderate in H2 2019 as landlords focus on shoring up occupancy rather than maximising rental income.

*Note :
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2019 Mid-Year Forecast Update

OFFICE

- The rental forecast for Guangzhou and Shenzhen has been downgraded as landlords are now offering more incentives to secure quality tenants.
- Upgraded markets are mainly in Australia, where there has been positive white collar employment growth. Perth will be the leader, supported by flight to quality demand.
- Lower interest rates have imposed downward pressure on yield in the Pacific and Japan. However, Shanghai and Hong Kong saw yield expansion pressure as investors turned more risk-averse.
- Yield expansion in Taipei and Singapore is being driven by rental growth.

RETAIL

- The rental forecast for Hong Kong, Singapore, Taiwan and Australia has been downgraded due to subdued consumer sentiment and economic uncertainty.
- Yield expansion pressure is growing given the weak consumer sentiment. The Asia Pacific retail capital value index fell by 1.0% YTD in H1 2019.

LOGISTICS

- Although there has not been a major revision of rental forecasts, the pace of rental growth has slowed as occupiers are more focused on efficiency instead of expansion.

Table 1: Updated forecast rental growth and yields in 2019

MARKET	OFFICE		RETAIL		LOGISTICS	
	RENTAL GROWTH (%)	YIELD	RENTAL GROWTH (%)	YIELD	RENTAL GROWTH (%)	YIELD
Beijing	-0.4	▶	1.0	▶	4.0	▼
Shanghai	-2.0	▲	0.8	▲	3.0	▼
Guangzhou	-0.7	▶	0.6	▶	3.0	-
Shenzhen	-6.1	▶	0.0	▶	2.8	-
Hong Kong	-2.5	▲	-2.5	▶	3.5	▲
Taipei	3.5	▲	-4.0	▲	-	-
Tokyo	2.1	▼	0.2	▼	1.9	▼
Seoul	0.3	▶	-	-	-	-
Singapore	7.4	▲	0.0	▶	1.5	▼
Bangkok	3.5	▶	-	-	-	-
Ho Chi Minh City	3.1	▶	3.2	▶	-	-
Hanoi	3.9	▶	2.6	▶	-	-
Sydney	7.0	▼	1.4	▼	2.5	▼
Melbourne	10.5	▼	-7.0	▶	4.3	▼
Brisbane	6.8	▼	-2.0	▼	2.0	▼
Perth	16.5	▼	-5.3	▼	-6.1	▼
Auckland	1.5	▼	-0.8	▶	3.2	▼
Delhi CBD	0.0	▶	-	-	-	-
Gurgaon	1.6	-	-	-	-	-
Mumbai CBD	0.0	▶	-	-	-	-
Mumbai BKC	8.0	-	-	-	-	-
Bangalore CBD	2.7	▶	-	-	-	-
Bangalore ORR	4.8	-	-	-	-	-

Remarks
(1) Office rental growth refers to Grade A offices in CBD areas only, unless specified.
(2) Retail rental growth refers to prime high streets in core shopping areas except China, Singapore and New Zealand. China reported G/F rents of shopping centres in prime locations while Singapore are reported rents of prime floors of shopping centre. Auckland refers to regional shopping centre rents. Rental outlook of Tokyo refers to Ginza high street rents only.
(3) Logistics rental growth in Tokyo refers to Greater Tokyo Area.
Source: CBRE Research, August 2019.

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