Asia Pacific, Q3 2018

Leasing and investment demand come under pressure as headwinds strengthen

GDP
+4.3% in 2019F

Net Employment Outlook
+16 in Q3 2018

Industrial Production
+4.3% in 2018F

Source: CBRE Research, ManpowerGroup Employment Outlook Survey Global Q3 2018, Oxford Economics

Quick Stats

Office	q-o-q	y-o-y
Rent	+1.4%	+5.1%
Capital value	+1.4%	+8.9%
Retail	**q-o-q**	**y-o-y**
Rent	+0.5%	+ 1.3%
Capital value	+0.5%	+2.0%
Logistics	**q-o-q**	**y-o-y**
Rent	+0.6%	+2.7%
Capital value	+0.7%	+9.0%
Investment*	**q-o-q**	**y-o-y**
Total volume	-33%	-31%
Cross-border	-55%	-51%

Source: CBRE Research, Q3 2018.

*Transactions include deals above US$10 million in the office, retail, mixed, industrial, hotel and other commercial sectors

OFFICE

Leasing activity slowed in Q3 2018, with net absorption falling 4.0% q-o-q to 14.5 million sq. ft. NFA, mainly due to slower leasing activity in Beijing and Shanghai. Demand continued to be led by the finance, TMT and coworking sectors. Vacancy remained flat at 11.1%. Rental growth picked up to 1.4% q-o-q or 4.1% YTD, driven by limited availability and relatively healthy demand in Guangzhou, Singapore and the Pacific.

RETAIL

The regional retail market remained stable, with major markets including Hong Kong, Japan and Korea reporting improving sales growth. Leasing demand was led by F&B and experiential trades. New retail supply stood at just 8.3 million sq. ft. as project delays continued. Rents rose by 0.5% q-o-q, driven by growth in Auckland (+3.3% q-o-q) and Sydney (+2.1% q-o-q).

LOGISTICS

Logistics demand was unaffected by trade conflict and other economic headwinds as warehouse leasing activity continued to be supported by steady domestic consumption. Vacancy was largely unchanged while new supply remained steady, standing at 20 million sq. ft. for the quarter. After outperforming in H1 2018, logistics rents saw stable growth in Q3 2018, rising by 0.6% q-o-q, led by Melbourne and Shenzhen.

INVESTMENT

Commercial real estate transaction volume fell by 33% q-o-q to US$23 billion as investors in China and Hong Kong shifted into wait-and-see mode. Year-to-date transaction volume declined by 7% y-o-y to US$85 billion. Active markets included Australia, with Sydney and Brisbane seeing the completion of several major deals, and Korea, where local conglomerates continued to dispose of office properties. Total cross-border investment volume registered US$4.5 billion, representing 19% of total investment turnover, well below the previous four quarters' average of 27%.

ECONOMY

TRADE CONFLICT IMPAIRS GROWTH FORECASTS

The Asia Pacific GDP growth forecast for 2019 stands at 4.3%, a decline of 0.3% on this year's projection, mainly due to the impact of the U.S-China trade conflict, which escalated further during the quarter. China's Purchasing Managers' Index (PMI) declined for three consecutive months while Japan's Tankan survey registered a fall in business confidence.

The period saw several manufacturing enterprises accelerate plans to shift production away from China and towards emerging Southeast Asian markets, most notably Vietnam.

REGIONAL CURRENCIES WEAKEN AGAINST USD

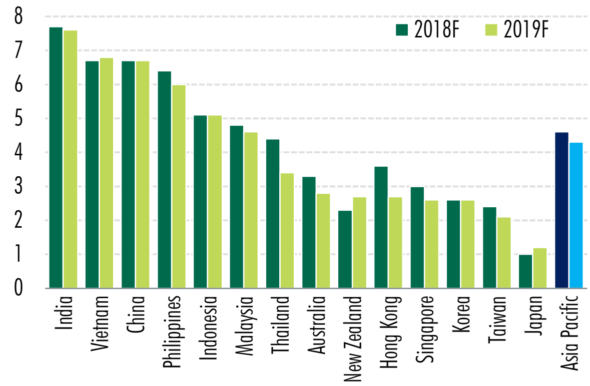
The U.S. Federal Reserve's interest rate hikes continued to strengthen the USD against Asia Pacific currencies. This is hastening the outflow of capital from emerging markets, creating uncertainty in the investment market, and undermining economic growth.

INTEREST RATE PRESSURE BUILDS

Although emerging markets such as India, Indonesia and Philippines all raised interest rates during Q3 2018 to combat currency depreciation and rising inflation, they are still under pressure to implement further hikes, which may hurt borrowing and drag on business activity.

During the quarter, Hong Kong lifted the Best Landing Rate (BLR) for the first time since 2006, cooling the residential market and weakening investment appetite. Commercial banks in Australia and New Zealand have already adjusted mortgage rates in response to rising funding costs.

Figure 1: Asia Pacific 2018 and 2019 GDP Growth Forecast (%, Y-o-Y)



Source: Oxford Economics, CBRE Research, Q3 2018.

Table 1: Exchange Rate Changes

Currency	End of September per USD	Change since 2017 year end in %
Indian Rupee	72.546	-13.6%
Indonesian Rupiah	14,911.8	-10.1%
Philippine Peso	53.958	-8.0%
Australian Dollar	1.382	-8.1%
New Zealand Dollar	1.508	-7.2%

Table 2: Policy Interest Rate Changes

Market	End of September 2018, %	Change in Q3 2018
Australia	1.50	0 bps
China	4.35	0 bps
Hong Kong*	2.28	+26 bps
India	6.50	+25 bps
Indonesia	5.75	+50 bps
New Zealand	1.75	0 bps
Singapore*	1.64	+1 bps
Korea	1.50	0 bps
Taiwan	1.375	0 bps
Thailand	1.50	0 bps
Philippines	4.00	+100 bps

Note on policy interest rates: Australia - Cash rate, China - 1 Yr lending rate, Hong Kong – 3M HIBOR, India - Repo rate , Indonesia – 7-days Repo rate, New Zealand - Official Cash Rate, Singapore – 3M SIBOR, Korea - Base rate, Taiwan – Discount Rate, Thailand -1-day repo rate.

* Rates for Singapore and Hong Kong are as of 30 September 2018.

Source: CBRE Research, Various Central Banks and Monetary Authorities, Q3 2018.

OFFICE

Investment Turnover 24% y-o-y

Capital Values 1.4% q-o-q

Rental Values 1.4% q-o-q

NET ABSORPTION WEAKENS

Leasing activity slowed in Q3 2018, with net absorption falling 4.0% q-o-q to 14.5 million sq. ft. NFA. This was mainly due to slower leasing demand in Beijing and Shanghai, where the U.S-China trade conflict and crackdown on P2P lending contributed to weaker market sentiment. Many occupiers adopted a more cautious approach towards leasing, while landlords turned more reluctant to lease space to tenants from industries perceived to carry greater risk. Leasing momentum in Hong Kong also weakened as new set-ups and expansions by Chinese firms slowed.

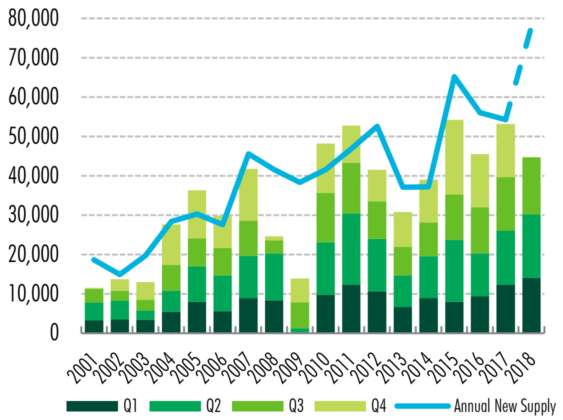
Leasing activity in other major cities remained solid, led by Bangalore, Tokyo, and Singapore, which continued to see flight to quality relocations. In Japan, the labour shortage is driving upgrading demand from domestic companies as they seek to attract talent.

DEMAND DRIVERS REMAIN UNCHANGED

Leasing demand in Q3 2018 continued to be led by the finance, TMT and coworking sectors. Financial sector leasing activity picked up in Singapore as Asian and European banks turned more active. The sector also contributed 25% towards total leasing activity in Beijing and Shanghai, driven by renewals, expansion and relocation demand. Tech firms remained active in India, with several large transactions completed during the quarter.

Domestic and international coworking operators continue to implement aggressive expansion plans, particularly in Hong Kong, Seoul and Singapore. Tight availability in prime locations of major cities prompted selected operators to consider leasing space in unconventional locations such as underutilised shopping centres and industrial buildings. Recent quarters have also seen more leasing activity by coworking operators in decentralised areas.

Figure 2: Office Net Absorption ('000s sq. ft.)



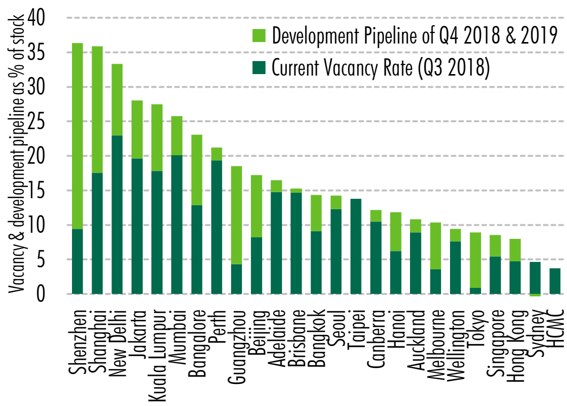
Source: CBRE Research, Q3 2018

Table 3: Major New Office Supply in Q3 2018

Market	Development Name	Estimated Size (sq. ft.)
Seoul	Centropolis	1,523,000
Shanghai	Taikang Insurance Tower	922,000
Hong Kong	One Taikoo Place	872,000
Bangalore	Bhartiya City Block 2	794,000
Beijing	Hatamen Plaze (West Tower)	592,000
Shenzhen	Rong Chao Houhai Building	592,000

Source: CBRE Research, Q3 2018.

Figure 3: Vacancy Rate and Development Pipeline



Source: CBRE Research, Q3 2018.

Note: Grade A vacancy rate and new supply as % of Grade A stock for Asian markets. Pacific markets are based on total vacancy and new supply as % of total stock

VACANCY RATE REMAINS FLAT

Around 13.3 million sq. ft. NFA of new supply was completed this quarter, with Shanghai, Tokyo and Bangalore each reporting the addition of more than 2 million sq. ft. NFA. India continued to suffer delays to new supply as developers take longer to obtain occupancy permits due to stricter fire safety requirements. Around 3.6 million NFA of new stock in New Delhi, Mumbai and Bangalore was pushed back to Q4 2018.

Office vacancy remained flat at 11.1% although performance varied across cities. Seoul (12.3%, +1.5 ppt q-o-q) and Shanghai (14.7%, +1.0% ppt q-o-q) registered the largest increases in vacancy this quarter due to new supply coming on stream. However, these increases were largely offset by lower vacancy in Hong Kong and Singapore.

RENTS RECORD SOLID GROWTH

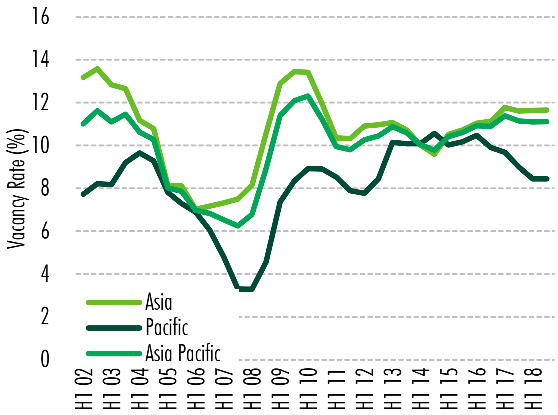
Office rental growth picked up to 1.4% q-o-q or 4.1% YTD in Q3 2018, driven by limited availability and relatively healthy demand in Guangzhou, Singapore and the Pacific.

Growth was led by Guangzhou (3.7% q-o-q or 9.6% YTD) and Singapore (3.5% q-o-q or 10.8% YTD). Melbourne and Sydney continued to outperform, while Adelaide's growth of 1.4% q-o-q was its strongest since 2014, supported by strong flight to quality demand and lower incentives.

Weaker markets included Shanghai and Auckland, which both saw a marginal decline in effective rents as landlords, which have been under pressure from rising vacancy, increased incentives to secure quality tenants.

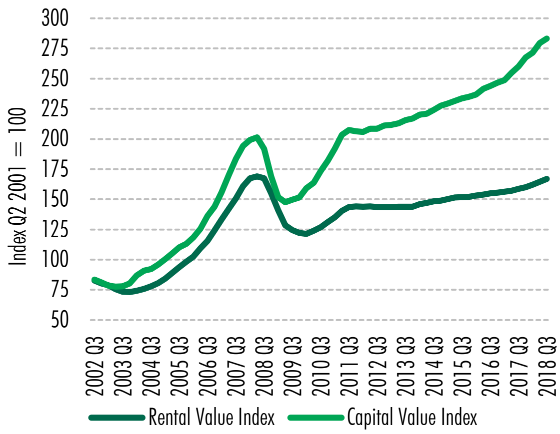
Capital values rose by 1.4% q-o-q, led by Guangzhou, Singapore, Hong Kong and Melbourne. Yields were stable compared to the previous quarter.

Figure 4: Asia Pacific Vacancy Rate (%)



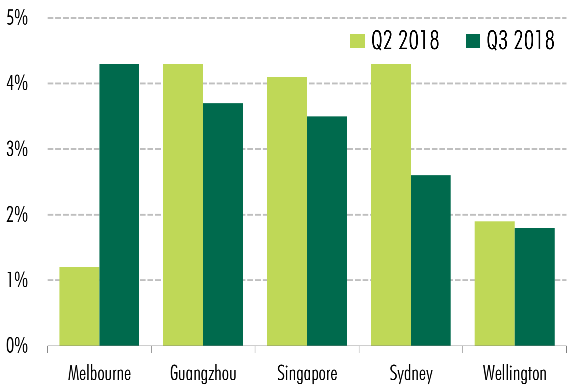
Source: CBRE Research, Q3 2018.

Figure 5: Asia Pacific Office Rental and Capital Value Index



Source: CBRE Research, Q3 2018.

Figure 6: Strongest Grade A Rental Growth, Q-o-Q



Source: CBRE Research, Q3 2018.

RETAIL

Investment Turnover -20% y-o-y | Capital Values 0.5% q-o-q | Rental Values 0.5% q-o-q

LEASING ACTIVITY REMAINS STABLE

The regional retail market remained stable in Q3 2018, with major markets including Hong Kong, Japan and Korea reporting improving sales growth. Retail sales growth in China slowed due to the contraction in automobile consumption. Regional consumer sentiment came under pressure due to the U.S.-China trade conflict and stock market corrections, while ongoing RMB depreciation is expected to negatively impact spending by Chinese tourists. These factors will ensure retailers remain cautious towards expansion despite the upcoming festive season.

Leasing demand continued to be driven by F&B, led by bubble tea shops and coffee chains expanding in Hong Kong, China and Korea. Major new openings included Taiwanese premium tea operator The Alley and Vietnamese coffee chain Kong Caphe, which each launched their first stores in Seoul. However, the competitive nature of the sector prompted some closures during the quarter, the most notable of which was Costa Coffee, which exited Singapore.

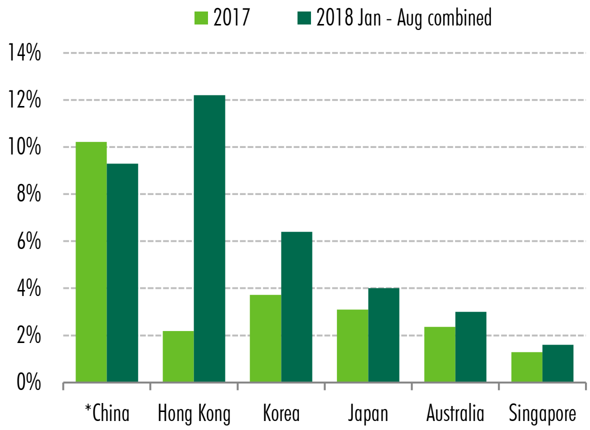
EXPERIENTIAL RETAILERS STAY ACTIVE

Experiential trades including fitness operators, indoor theme parks and electric vehicle showrooms were also active. Singapore saw expansion by cooking studios and games centres in suburban malls.

Weak sales prompted several fast fashion retailers to close underperforming stores or exit markets during the quarter. Examples included New Look, which announced that it would exit China by closing its remaining 120 stores. Landlords are also seeking to replace struggling apparel retailers with new tenants due to falling turnover rent income.

Luxury retailers were cautious towards expansion as sales growth remained under downward pressure due to the uncertain geopolitical and monetary environment.

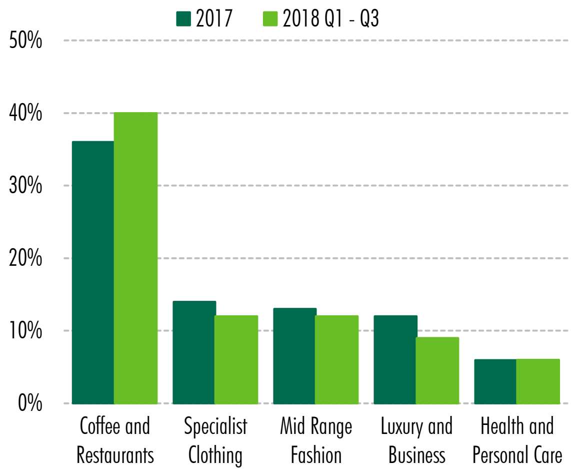
Figure 7: Y-o-Y Growth in Retail Sales In Selected Markets



Remarks: * indicates retails sales growth of 2018 Jan- Sep combined.

Source: Department of Statistics Singapore, National Bureau of Statistics of China, CEIC, 2018.

Figure 8: New Retail Entrants by Sector 2017 – 2018 Q1–Q3



Source: CBRE Research, Q3 2018.

In Japan, strong demand for luxury goods encouraged brands to expand in high-end districts including Ginza or upgrade their stores to more high-profile locations. In Korea, luxury groups are targeting younger consumers by launching pop-up stores in mass market locations such as Garosugil.

Other drivers of activity included sports retailers. In Singapore, JD Sports and Footlocker are looking to add new shops after entering the market earlier this year, while retailers from this category in Hong Kong are seeking to open small shops specialising in specific themes and product lines, rather than flagship stores.

SUPPLY DELAYS PERSIST

New retail supply in Q3 2018 stood at 8.3 million sq. ft., led by Shimao Festival City, a newly renovated mall on Nanjing East road in Shanghai, which reopened with a Hello Kitty theme park, M&Ms World and Legoland.

Several projects were delayed this quarter, most notably in China, where landlords opted to postpone openings to avoid competition with new neighbouring malls.

The delays should ensure new supply in 2018 amounts to 62.9 million sq. ft., 2% lower than the forecast made at the beginning of the year. With several projects pushed back to next year, new supply pressure will be considerable in 2019.

Markets with a high volume of new stock completed this year include Bangkok, where new supply is expected to increase by more than 60% y-o-y after new malls including Icon Siam, Gateway and the Market by Platinum Group come on stream in Q4 2018.

ASIA SEES LIMITED RENTAL GROWTH

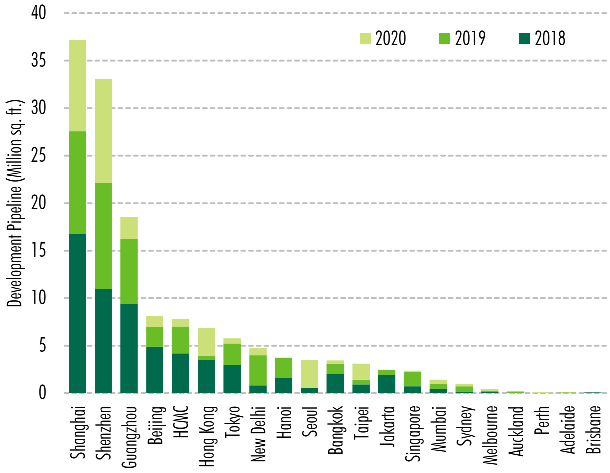
Overall retail rents in Q3 2018 rose by 0.5% q-o-q, driven by growth in Auckland (+3.3% q-o-q) and Sydney (+2.1% q-o-q).

The former enjoyed its first quarter of rental growth since Q2 2016 thanks to strong leasing activity in the upcoming Commercial Bay development, which has already confirmed an H&M flagship store.

Rents in Asian markets were flat and are expected to remain stable in Q4 2018 as most retailers have already finished expansion plans for this year.

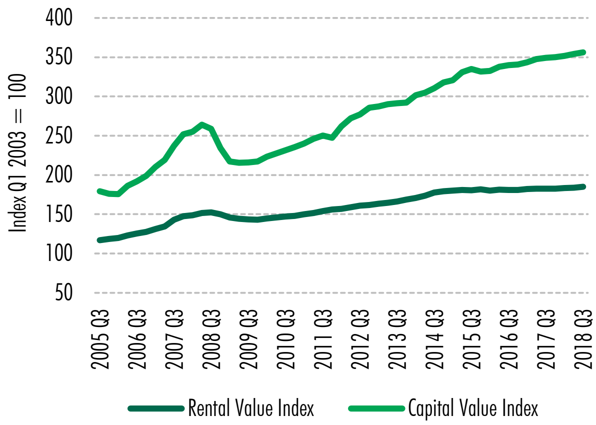
Investors are finding it challenging to underwrite retail investment deals as they remain cautious towards sector fundamentals. Marginal rental growth and limited investment activity ensured capital values remained flat q-o-q.

Figure 9: Development Pipeline



Source: CBRE Research, Q3 2018.

Figure 10: Asia Pacific Retail Rental and Capital Value Index



Source: CBRE Research, Q3 2018.

Figure 11: Stronger Average Rental Growth Q-o-Q

Source: CBRE Research, Q3 2018.

LOGISTICS

Investment Turnover 26% y-o-y | Capital Values 0.7% q-o-q | Rental Values 0.6% q-o-q

DEMAND HOLDS FIRM

Gauges such as the Hong Kong Trade Development Council's (HKTDC) export index, the Japanese Tankan Survey and China's Purchasing Manufacturers Index (PMI) indicated weaker market sentiment in Q3 2018 as the U.S.-China trade war escalated. However, logistics leasing from e-commerce and 3PL firms remained unaffected as warehouse demand is still supported by solid domestic consumption.

3PL companies was the major demand driver in China, with the period witnessing several expansionary moves. Other activity in Q3 2018 included e-commerce platforms consolidating to larger spaces in India.

CHINESE E-COMMERCE FIRMS MOVE IN-HOUSE

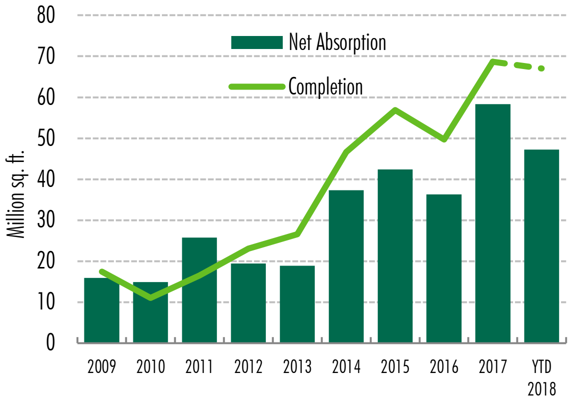
During the quarter, JD.com and Cainiao returned over 2 million sq. ft. to the leasing market following their relocation to self-owned facilities equipped with automated distribution systems in Wuhan, Shenyang and Guangzhou.

This is expected to ease competition for prime logistics space in core locations, although this is likely to be filled by 3PLs.

RISING COLD CHAIN DEMAND

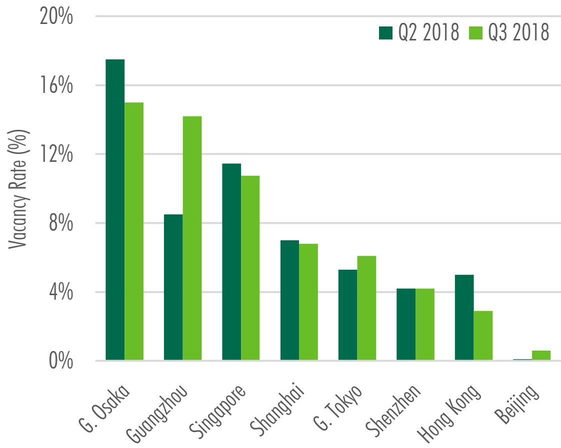
The quarter continued to see growing demand for cold chain logistics facilities supported by rising consumer purchasing of fresh products and the expansion of F&B and grocery retailers, especially in China, Japan, Korea and Hong Kong. Temperature controlled warehouse demand is also strong in Australia and New Zealand, supported by the expansion of the food processing industry.

Figure 12: Warehousing Net Absorption & Completions (million sf)



Note: CBRE tracks net absorption for selected major markets in Asia
Source: CBRE Research, Q3 2018.

Figure 13: Logistics Vacancy Rate



Note: CBRE tracks vacancy rate for selected major markets in Asia Pacific.
Source: CBRE Research, Q3 2018.

VACANCY REMAINS STABLE

Vacancy was unchanged in Q3 2018 with the exception of Guangzhou, Hong Kong and Osaka. In Guangzhou, vacancy rose from 8.5% to 14.2% as 2.22 million sq. ft. of new supply came on stream in non-core areas where it is sometimes difficult to attract tenants. In Hong Kong, vacancy fell to 2.9%, the lowest level since Q1 2016, and is expected to remain low amid the subdued supply pipeline and the government's relaunch of the industrial building revitalisation scheme, which will allow the conversion of industrial space to residential and commercial use. In Osaka, vacancy edged down by 2.5% to 15% in Q3 2018 due to strong take-up in new buildings.

NET ABSORPTION IN BEIJING SETS NEW RECORD

New supply remained steady, standing at 20.7 million sq. ft. for the quarter. Supply was led by Greater Tokyo (3.98 million sq. ft.) and Sydney (2.08 million sq. ft.).

Beijing saw 1.8 million sq. ft. added to the market, pushing net absorption to a record high and alleviating the space shortage.

In Greater Seoul, 4.6 million sq. ft. or 27% of 2018's scheduled supply is reported to be delayed to 2019, meaning that next year's projected completions will mark a record annual high.

RENTAL GROWTH REMAINS STABLE

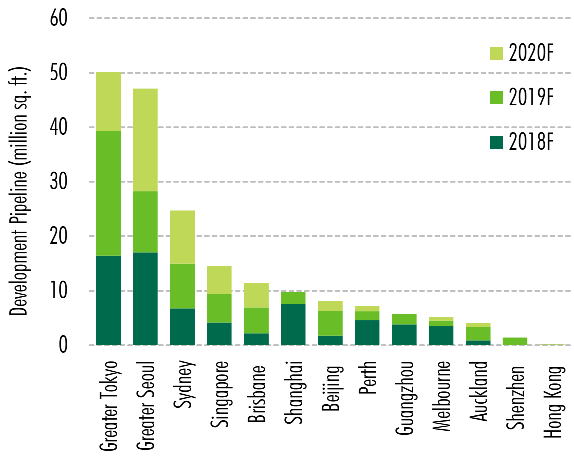
After outperforming in H1 2018, logistics rents registered stable growth in Q3 2018, rising by 0.6% q-o-q. Growth was led by Melbourne , Shenzhen (both 1.7% q-o-q) and Hong Kong (1.5% q-o-q), while rents elsewhere were flat.

Although rents in Singapore ended 12 consecutive quarterly declines, the two-tier market persisted. Premium grade facilities are commanding higher rents but those of older buildings are subdued as occupiers pursue flight to quality moves.

Rents in Wellington declined 0.9% q-o-q as occupiers completed a series of flight-to-quality relocations, which has put pressure on rents for non-prime facilities.

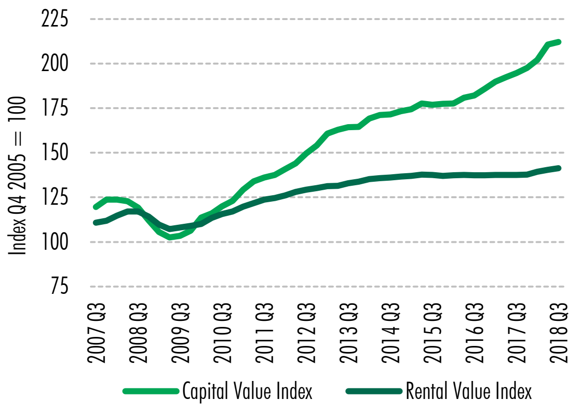
Capital continues to flow into the logistics sector, via direct acquisitions or forming partnerships with logistics developers. Although several major deals were completed during the quarter, capital value growth was mild at 0.7% q-o-q.

Figure 14: Logistics Development Pipeline



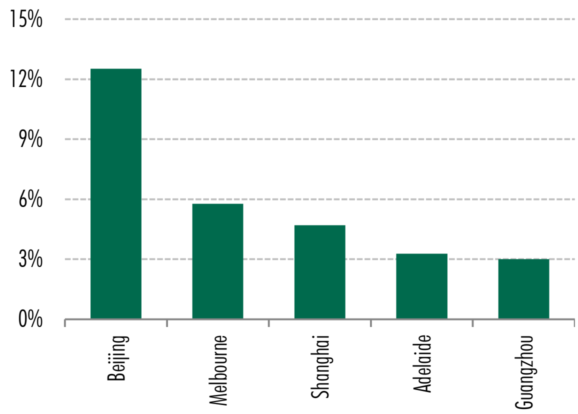
Note: Singapore records net supply; Australia reported pipeline of entire state
Source: CBRE Research, Q3 2018.

Figure 15: Asia Pacific Industrial Rental and Capital Value Index



Source: CBRE Research, Q3 2018.

Figure 16: Strongest Rental Growth, YTD



Source: CBRE Research, Q3 2018.

INVESTMENT

YTD Total Investment
7% y-o-y

YTD Cross Border Turnover
23% y-o-y

TRANSACTION VOLUME WEAKENS

Investment sentiment in Q3 2018 suffered under the impact of the escalating US-China trade conflict. Other headwinds included banks turning more conservative towards providing real estate lending, with several markets including Hong Kong and Singapore recording an increase in lending rates during the period.

Most markets saw quarterly investment turnover decline as investors turned more cautious. Year-to-date transaction volume fell by 7% y-o-y to US$85 billion as investors in many markets shifted into wait-and-see mode.

China saw relatively subdued investment activity as demand from domestic capital continued to be influenced by economic deleveraging. YTD investment volume declined by 19% y-o-y.

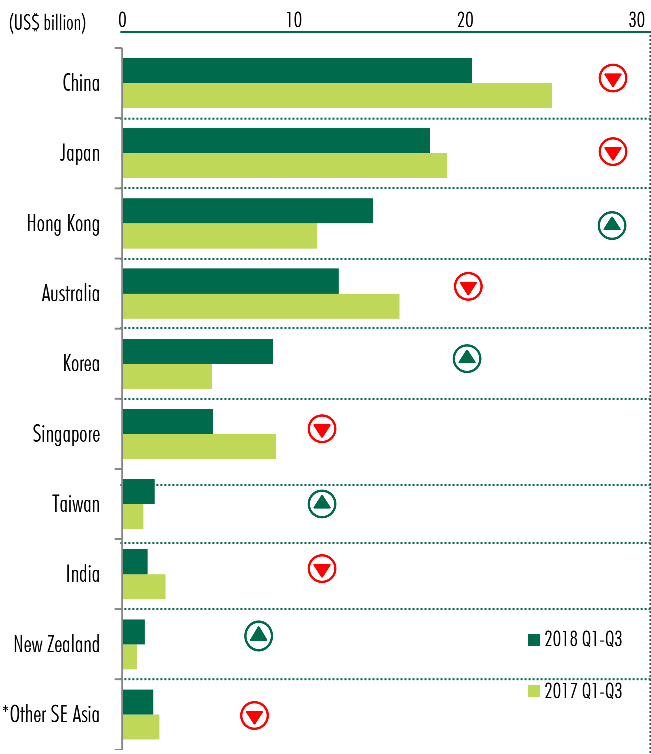
Investors in Hong Kong were cautious amid the wider expectation gap between buyers and sellers and the limited availability of investable assets.

Active markets included Australia, where Sydney and Brisbane recorded the completion of several major deals, ensuring these two cities accounted for 70% of domestic transaction volume this quarter.

Japan continued to enjoy strong investor demand, led by J-REITs, which accounted for more than half of domestic transaction volume in Q3 2018. Foreign investors were also active, recording net acquisitions of more than US$830 million over the past three quarters. Overseas buyers remained active in regional cities, purchasing several assets in Greater Osaka during the period.

Korea continued to see a steady flow of big ticket transactions as local conglomerates disposed of office assets to strengthen balance sheets. Major transactions included the purchase of Samsung C&T Building by a local securities firm for US$667 million, which also marked the largest deal in Asia Pacific recorded during the quarter.

Figure 17: Transaction Volume and Key Themes by Market



Market	Key Themes
China	• Deleveraging dampened activity from domestic capital in Q3 2018 • The lack of Grade A offices in Beijing and Shanghai drove interest in business parks and offices in secondary locations of tier I cities
Japan	• Banks turned more cautious towards real estate financing • The yield gap between Tokyo and regional cities narrowed further
Hong Kong	• Investors turned more cautious due to the US-China trade dispute • The flow of strata-title office deals slowed
Australia	• Interest in Brisbane picked up, with several major deals completed during the quarter
Korea	• Local conglomerates disposed of assets to improve liquidity • The availability of investible Grade A office assets improved
Singapore	• strong demand for strata-title offices due to limited opportunities for en-bloc deals • Residential cooling measures shifted attention to commercial assets
Taiwan	• Domestic investors dominated investment activity • The price gap between buyers and sellers remained a major concern
India	• Investment primarily focused on greenfield development • Foreign investors are seeking local partners for logistics joint ventures
New Zealand	• Investment sentiment from Asian investors remained strong
*Other SE Asia	• Japanese developers continued to form joint ventures with Thai developers to pursue development opportunities • Residential and mixed-use development sites remained sought-after

Source: CBRE Research, RCA, Q3 2018; Transactions include deals above US$10 million in the Office, Retail, Mixed, Industrial, Hotel and Other commercial sectors.

Note: * Other SE Asia include Malaysia, Indonesia, the Philippines, Thailand and Vietnam.

CROSS-BORDER ACTIVITY SLOWS

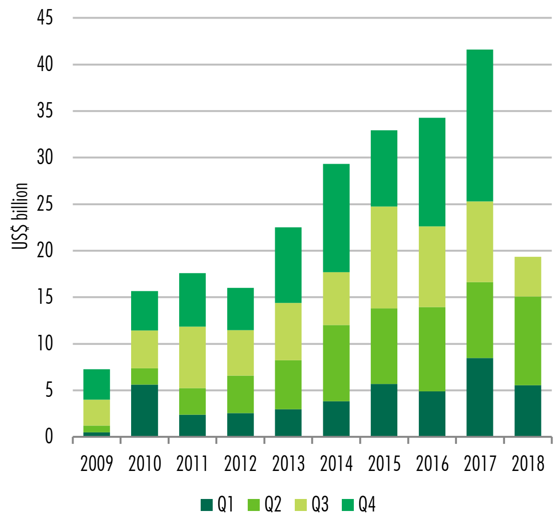
Year-to-date cross-border investment fell by 23% y-o-y in Q3 2018, largely due to the continued slowdown in Chinese outbound investment. Total cross-border investment volume for the first three quarters registered US$19 billion, representing 23% of total investment turnover, 4 ppt below the figure for the same period of 2017.

A number of Asian investors retained a strong appetite to invest overseas due to the limited investable en-bloc assets in their domestic market and the relatively attractive prices abroad. Activity continued to be led by Singaporean groups, which spent more than US$3.4 billion in Asia Pacific in the first nine months of 2018. Elsewhere, Korean property funds retained a selective interest in stable income-generating office assets in Japan with secured tenancies.

YIELD GAP NARROWS

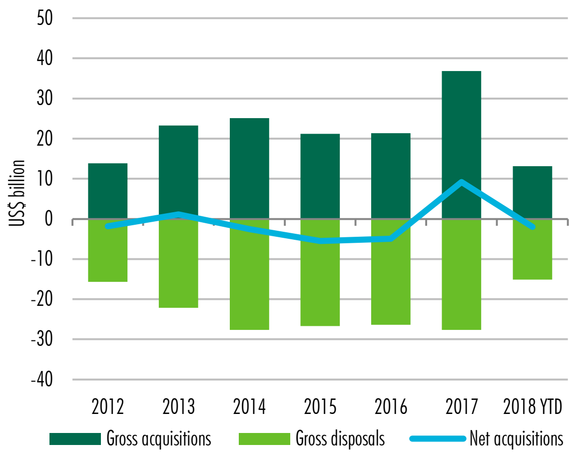
The lack of investible assets available for sale in gateway cities is prompting more investors to seek higher yields in regional cities, which is compressing the yield gap between the two sets of locations. The yield gap between Tokyo and Osaka and Sydney and Melbourne/Brisbane narrowed further during Q3 2018.

Figure 18: Cross-border Investment in Asia Pacific



Source: CBRE Research, Q3 2018.

Figure 19: Net Acquisitions by Property Funds in Asia Pacific



Note: Net acquisitions = gross acquisitions – gross disposals

Source: CBRE Research, Q3 2018.

Table 4: Major Transactions in Q3 2018

Market	Property Name	Sector	Price (US$ mil)	Buyer	Seller
Seoul	Samsung C&T Building (Tower B)	Office	667	NH Investment & Securities	Samsung C&T
Sydney	50% stake of Westfield Eastgardens	Retail	527	Scentre Group	Terrace Tower Group
Hong Kong	8 Observatory Road	Office	523	Treasure Ascend Global Limited	Henderson Land
Seoul	Gangnam N Tower	Office	404	KB Real Estate Trust	Yeoksam PFV
Brisbane	50 % stake of 62-80 Ann Street	Office	306	M&G Real Estate	Mirvac Group

Source: CBRE Research, Q3 2018.

OUTLOOK

OFFICE

Leasing demand is expected to soften further in Q4 2018 along with weakening market sentiment. While the upward cycle in Tokyo is set to continue until the end of 2019 due to healthy pre-commitments to new supply, Hong Kong is expected to reach a turning point amid strengthening economic headwinds.

Although coworking will remain a key driver of leasing demand, there are concerns that growth may moderate after the brisk expansion witnessed in recent years.

The recent escalation of U.S.-China trade conflict and its possible negative effect on global economic growth is expected to ensure occupiers retain a cautious approach towards real estate requirements and focus on integrating greater flexibility into their portfolios.

RETAIL

Economic headwinds will ensure retailers remain cautious towards expansion despite the upcoming festive season. Rents are expected to remain stable in Q4 2018 as most retailers have already finished expansion plans for the year and are not planning any major moves for 2019. In the short-term, their focus will be on evaluating store performance over the holiday period.

The weakening RMB may negatively impact categories that rely heavily on Chinese tourist spending. Several luxury retailers have expressed concerns over business growth amid the uncertain geopolitical and monetary environment.

LOGISTICS

Although China's export volume increased in Q3 2018 this is likely due to manufacturers expediting shipments before U.S. tariffs came into effect. The impact of the trade conflict on the manufacturing sector and export-related warehousing is likely to become more apparent in the coming quarters.

Leasing demand is nevertheless forecast to remain stable, led by e-commerce and 3PL firms. The growth of online groceries and bricks-and-mortar fresh food stores is expected to boost demand for cold chain and last mile facilities.

Selected markets will also see a trend towards the alternative use of industrial space. Shenzhen is seeing the conversion of some logistic parks into R&D and exhibition centres, while Hong Kong has reintroduced the industrial revitalisation scheme, which is expected to drive the conversion of older industrial properties into residential blocks.

INVESTMENT

Together with the escalating U.S.-China trade conflict and rising cost of financing, the upward movement in the U.S. 10-year government bond yield is expected to encourage investors to be more conservative towards underwriting investments in commercial real estate assets.

Full-year transaction volume is expected to be lower than that in 2017, with only a limited number of major deals in the pipeline in most markets. Activity will be led by Korea, where two prime CBD office deals are expected to be finalised by year-end. YTD transaction volume in this market is expected to surpassed the previous annual record set in 2016.

Rental Cycle

Figure 20: Asia Pacific Office Rental Cycle Q3 2018

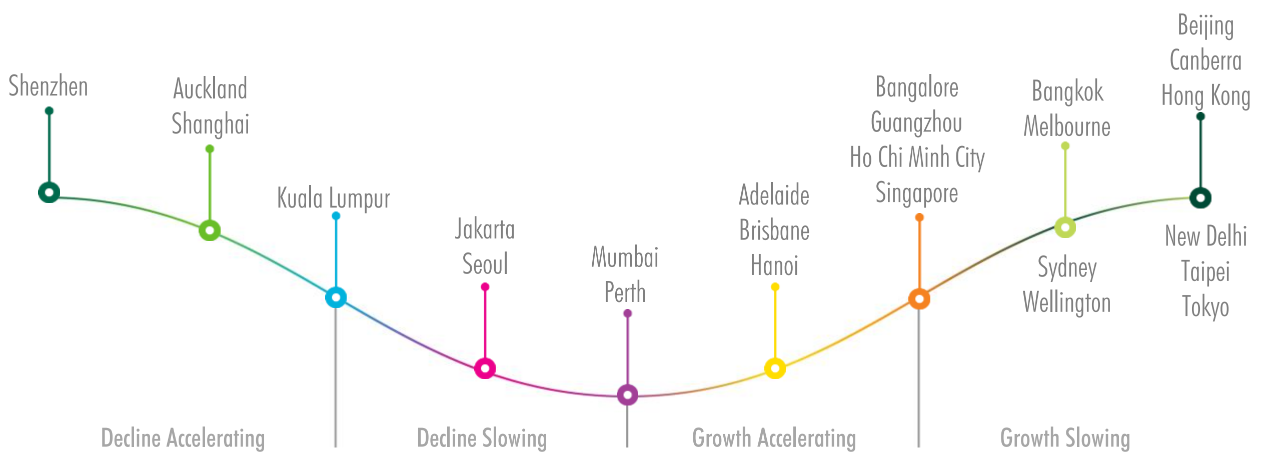


Figure 21: Asia Pacific Retail Rental Cycle Q3 2018

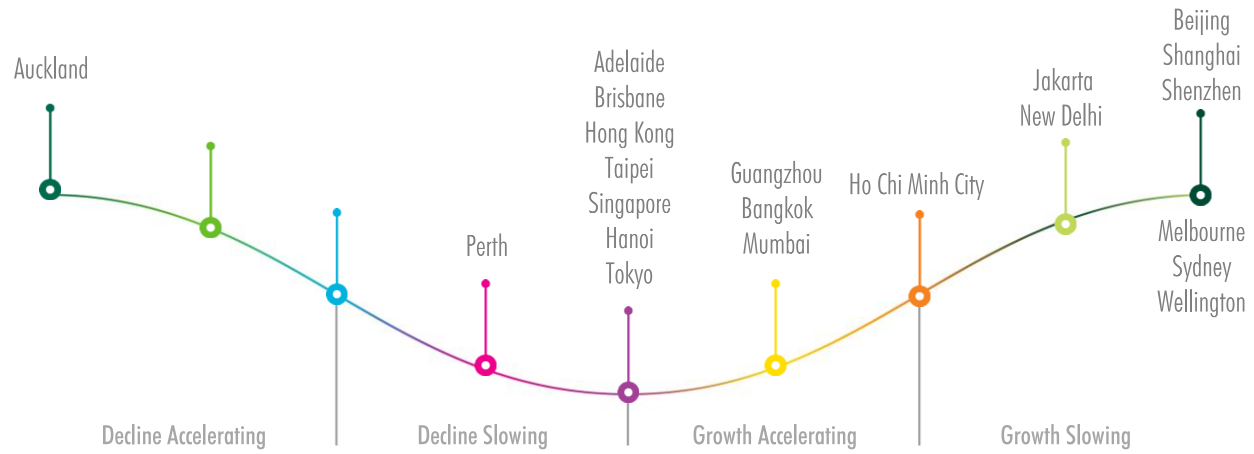


Figure 22: Asia Pacific Logistics Rental Cycle Q3 2018

Source: CBRE Research, Q3 2018.
Note: Markets do not necessarily move along the curve in the same direction or at the same speed.

Capital Value Cycle

Figure 23: Asia Pacific Office Capital Value Cycle Q3 2018

Figure 24: Asia Pacific Retail Capital Value Cycle Q3 2018

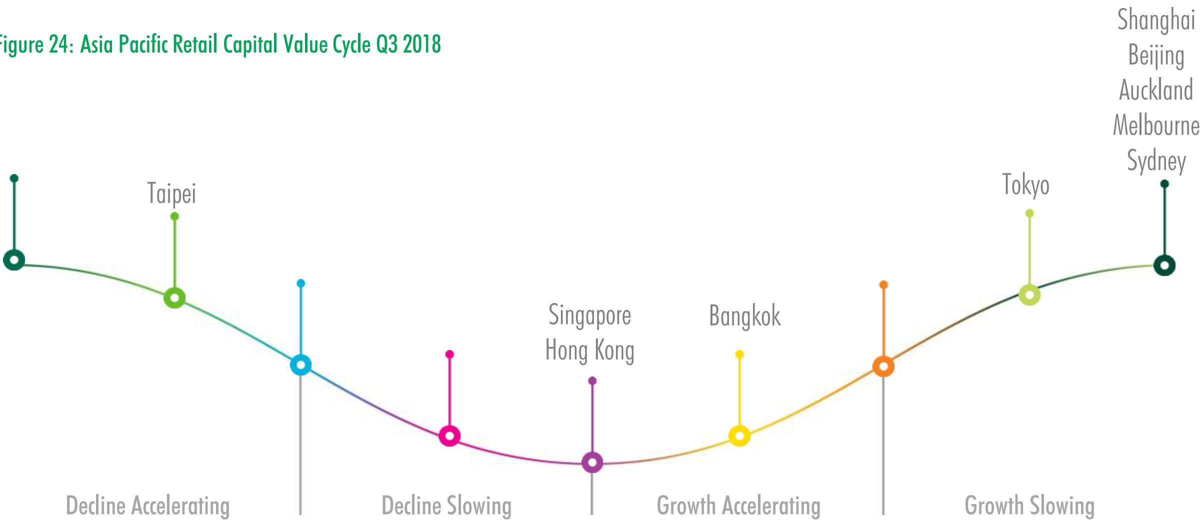
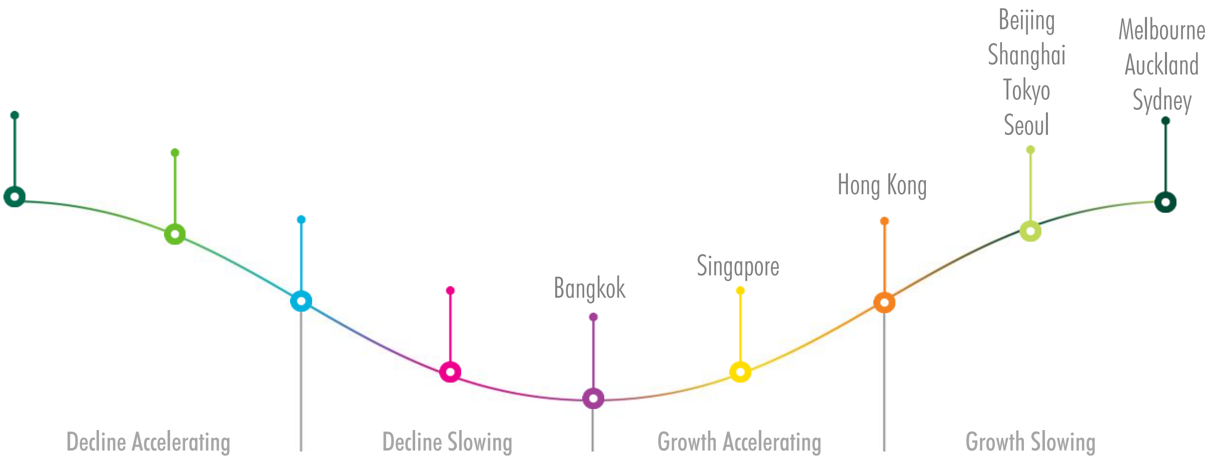


Figure 25: Asia Pacific Logistics Capital Value Cycle Q3 2018



Source: CBRE Research, Q3 2018.
Note: Markets do not necessarily move along the curve in the same direction or at the same speed.
The capital value cycle is intended to display the trend in prime office, retail and industrial properties

Table 4: Key Markets Indicative Grade A Office Rent and Overall Vacancy Rate

City	Per local measurement	Grade A rent local	US$/sq. ft. per annum	Q-o-Q change (%, local)	Y-o-Y change (%, local)	Vacancy rate (%)
Beijing	RMB sq. m. p.m.	492	111	0.6	1.6	7.0
Shanghai	RMB sq. m. p.m.	326	76	0.0	0.1	14.7
Guangzhou	RMB sq. m. p.m.	192	46	3.7	12.3	5.4
Shenzhen	RMB sq. m. p.m.	260	60	0.4	0.3	9.1
Hong Kong	HK$ sq. ft. p.m.	73	112	1.1	5.4	4.7
Taipei	NT$ ping p.m.	2,685	46	0.5	1.4	13.8
Tokyo	JPY tsubo p.m.	37,050	110	1.4	0.7	0.9
Seoul – CBD	KRW sq. m. p.m.	32,420	61	1.7	3.0	13.4
Seoul – Gangnam	KRW sq. m. p.m.	27,834	54	1.4	3.9	8.2
Seoul – Yeouido	KRW sq. m. p.m.	23,118	52	0.1	0.6	16.6
New Delhi – CBD	INR sq. ft. p.m.	295	65	0.0	0.0	2.8
New Delhi – Gurgaon	INR sq. ft. p.m.	99	25	0.0	0.0	24.6
Mumbai – Nariman Point	INR sq. ft. p.m.	220	45	0.0	0.0	7.0
Mumbai – BKC	INR sq. ft. p.m.	250	59	0.0	0.0	23.2
Bangalore - CBD	INR sq. ft. p.m.	142	31	2.9	5.2	9.0
Singapore	S$ sq. ft. p.m.	10	92	3.5	14.8	5.5
Bangkok CBD	THB sq. m. p.m.	1,009	35	0.4	2.7	9.1
Ho Chi Minh City	US$ sq. m. p.m.	43	48	0.9	16.7	3.7
Hanoi	US$ sq. m. p.m.	31	34	0.3	2.7	6.2
Jakarta CBD	IDR sq. m. p.m.	402,004	38	0.8	0.7	19.6
Kuala Lumpur	MYR sq. ft. p.m.	7	21	0.0	0.0	17.9
Adelaide CBD	A$ sq. m. p.a.	272	18	1.4	0.8	14.7
Brisbane CBD	A$ sq. m. p.a.	371	25	0.4	1.0	14.6
Canberra CBD	A$ sq. m. p.a.	271	18	0.4	-1.5	10.5
Melbourne CBD	A$ sq. m. p.a.	448	30	4.3	11.5	3.6
Perth CBD	A$ sq. m. p.a.	287	19	0.0	2.1	19.4
Sydney CBD	A$ sq. m. p.a.	768	52	2.6	13.6	4.6
Auckland CBD	NZ$ sq. m. p.a.	397	24	0.0	-0.8	8.9
Wellington CBD	NZ$ sq. m. p.a.	338	21	1.8	6.6	7.6

Source: CBRE Research, Q3 2018.
Note: Grade A rents are stated in local currency and prevailing unit of measure, as well as in those terms – effective or face rents, gross or net floor basis that are customarily employed in the respective market. Grade A rents in U.S. dollars are quoted based on net floor area basis

Table 5: Key Markets Indicative Retail Rent

City	Type	Per local measurement	Average rent local	US$/sq. ft. per annum	Q-o-Q change (%, local)	Y-o-Y change (%, local)
Beijing	Shopping Centre	RMB sq. m. p.day	36	176	0.9	1.7
Shanghai	Shopping Centre	RMB sq. m. p.day	37	181	0.2	0.7
Guangzhou	Shopping Centre	RMB sq. m. p.day	34	170	0.1	2.8
Shenzhen	Shopping Centre	RMB sq. m. p.day	23	111	0.6	1.3
Hong Kong	High Street	HK$ sq. ft. p.m.	494	758	0.0	0.1
Taipei	High Street	NT$ sq. m. p.m.	5,362	196	0.0	-0.8
Tokyo*	High Street	JPY tsubo p.m.	400,000	1,188	0.0	0.0
Singapore	Shopping Centre	S$ sq. ft. p.m.	25	220	0.4	1.2
Bangkok	Shopping Centre	THB sq. m. p.m.	2,180	75	0.0	0.0
Ho Chi Minh City	Shopping Centre	US$ sq. m. p.m.	49	55	-3.1	-16.7
Hanoi	Shopping Centre	US$ sq. m. p.m.	30	33	0.7	0.0
New Delhi	Shopping Centre	INR sq. ft. p.m.	1,300	344	0.0	4.0
New Delhi	High Street	INR sq. ft. p.m.	1,700	450	0.0	9.7
Mumbai	Shopping Centre	INR sq. ft. p.m.	1,000	132	11.1	33.3
Sydney	High Street	A$ sq. m. p.a.	5,176	348	2.1	3.8
Melbourne	High Street	A$ sq. m. p.a.	3,710	250	0.0	-2.1
Adelaide	High Street	A$ sq. m. p.a.	2,100	141	0.0	3.3
Brisbane	High Street	A$ sq. m. p.a.	3,155	250	0.0	0.0
Perth	High Street	A$ sq. m. p.a.	2,729	183	0.0	-9.9
Auckland	High Street	NZ$ sq. m. p.a.	4,650	286	3.3	3.3
Wellington	High Street	NZ$ sq. m. p.a.	2,595	160	0.0	-3.0

Source: CBRE Research, Q3 2018.

* Prime Rent - The prime retail rents represent the typical "achievable" open market headline rent which an international retail chain would be expected to pay for a ground floor retail unit (either high street or shopping centre depending on the market) of up to 200 sq. m. of the highest quality and specification and in the best location in a given market. The quoted rents reflect the level at which relevant transactions are being completed in the market at the time but need not be exactly identical to any of them, particularly if deal flow is very limited or made up of unusual one-off deals. In these circumstances, the quoted figure will be more hypothetical, based on expert opinion of market conditions, but the same criteria on building size and specification apply. The figures exclude any leasing incentives or "key money" (premium, or initial payment, to secure the right to occupy the unit).

Note: All markets measure the relative performance of retail properties of similar quality with the exception of Vietnam, which tracks the overall market movement.

Table 6: Key Markets Indicative Logistics Rent

City	Type	Per local measurement	Average rent local	US$/sq. ft. per annum	Q-o-Q change (%, local)	Y-o-Y change (%, local)
Beijing≠	Logistics	RMB sq. m. p.m.	47.2	7.65	1.1	15.8
Shanghai≠	Logistics	RMB sq. m. p.m.	45.7	7.42	0.1	4.7
Guangzhou≠	Logistics	RMB sq. m. p.m.	36.8	5.97	0.9	3.1
Shenzhen≠	Logistics	RMB sq. m. p.m.	43.7	7.09	1.7	0.6
Hong Kong	Warehouse	HK$ sq. ft. p.m.	12.6	19.30	1.5	2.7
Greater Tokyo	Logistics	JPY tsubo p.m.	4,140	12.29	0.5	2.2
Singapore	Warehouse (ground floor)	S$ sq. ft. p.m.	1.6	13.88	0.0	-1.9
Chennai	Logistics	INR sq. ft. p. m.	26.0	4.30	0.0	-3.7
Pune	Logistics	INR sq. ft. p. m.	28.0	4.63	0.0	0.0
Sydney	Warehouse	A$ sq. m. p.a.	137.5	9.24	0.5	2.4
Melbourne	Warehouse	A$ sq. m. p.a.	90.0	6.15	1.7	6.4
Brisbane	Warehouse	A$ sq. m. p.a.	92.9	6.25	0.0	0.0
Adelaide	Warehouse	A$ sq. m. p.a.	78.8	5.30	3.3	3.3
Perth	Warehouse	A$ sq. m. p.a.	90.0	6.05	0.0	-4.3
Auckland	Warehouse	NZ$ sq. m. p.a.	147.8	9.10	1.4	5.9
Wellington	Warehouse	NZ$ sq. m. p.a.	113.7	7.00	-0.9	3.6

Source: CBRE Research, Q3 2018.
Logistics rents - Average rental values are derived from a basket of prime logistics properties located in major industrial zones in each market.
≠Refers to like-for-like rental change for Q-o-Q & Y-o-Y

Table 7: Key Markets Indicative Prime Yields

City	Prime Office Yield	Y-o-Y Change (bps)	Prime Retail Yield	Y-o-Y Change (bps)	Prime Industrial Yield	Y-o-Y Change (bps)
Beijing	4.00	-10	4.30	-10	5.50	-50
Shanghai	4.00	-10	4.15	-15	5.40	-40
Hong Kong	2.80	0	2.20	0	3.40	-40
Taipei	2.50	+5	3.00	0	3.85	0
Tokyo	2.70	-40	2.90	0	3.90	-10
Seoul	4.70	0	n/a	n/a	6.50	-10
Singapore	3.40	+30	4.80	0	n/a	n/a
New Delhi	8.20	0	8.50	0	10.50	0
Mumbai	9.10	0	12.50	0	13.50	0
Sydney	4.60	-15	4.50	0	5.10	-20
Melbourne	4.80	-10	3.50	-70	5.25	-75
Brisbane	5.15	-70	5.25	-25	5.75	-70
Auckland	5.15	-35	4.75	-5	5.30	-20

Source: CBRE Research, Q3 2018.

Notes and Definitions

CBRE's investment transaction data presented in this report is based on real estate transactions valued US$10 million and above. It included real estate transactions reported in 25 major markets in 12 countries across Asia Pacific. It included office, industrial, retail, hotel and mixed-use properties. Development site and residential transactions are excluded. Transactions prices are tracked in local currencies and converted to US dollars using exchange rates as recorded on the last day of the respective quarters of the year.

The CBRE Asia Pacific Office Capital Value Index tracks the performance of 24 office markets throughout Asia Pacific.
The CBRE Asia Pacific Retail Capital Value Index tracks the performance of 15 retail markets throughout Asia Pacific.
The CBRE Asia Pacific Industrial / Logistics Capital Value Index tracks the performance of 14 industrial markets throughout Asia Pacific.
The CBRE Asia Pacific All Sectors Capital Value Index is the weighted average of three capital value indices for office, retail and industrial sectors.

The indicative prime yield presented in this report is the ratio between annual net rental income (rent less non-recoverable costs) and the total amount invested (purchase price plus purchasers' on-costs), expressed as a percentage figure, achievable in the relevant top-tier building(s) in prime location, let according to market conditions. It is based both on sale & purchase contracts concluded during a period and also on the market overview of the local investment department. No allowance is made for any future rental growth.

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This report was prepared by the CBRE Asia Pacific Research Team, which forms part of CBRE Global Research – a network of preeminent researchers who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.