

Three months into the COVID-19 outbreak:

How is the Asia Pacific CRE market coping?

14 APRIL 2020

CBRE

INTERESTING TIME

THE WORSENER

Widened lockdown

-

Weakened global demand

-

Rental reduction negotiation

THE BETTER

Supportive policy

-

Resumption of business

-

Resilience by tech

THE UNKNOWN

Path of recovery

-

Reset of supply chain

-

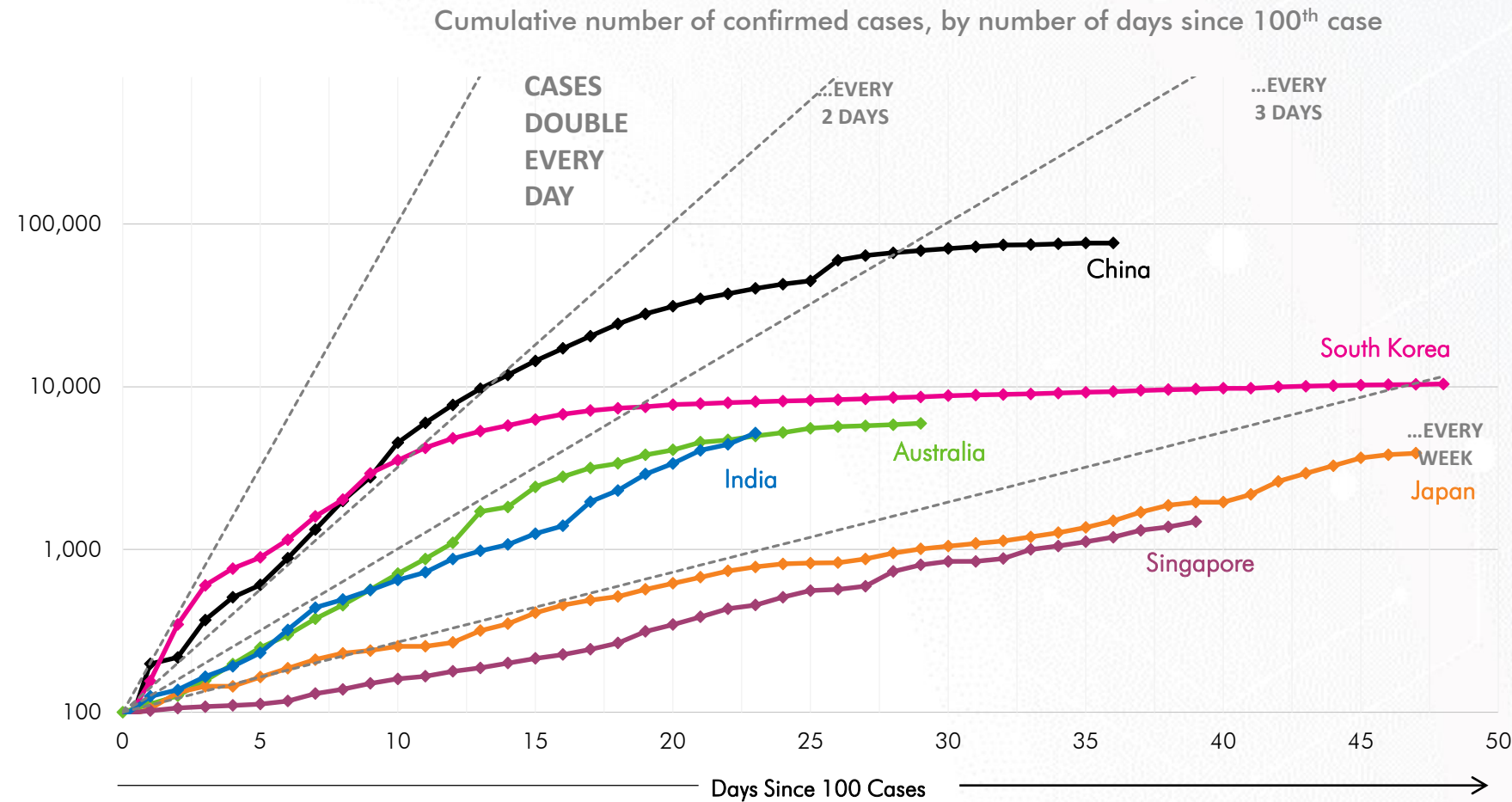
New ways of working / shopping

EPIDEMICS SITUATIONS IN APAC



IS THE CURVE BENDING IN APAC?

Rigorous measures have confined the spread in China and Korea




How long does it take for number of confirmed cases plateau?

China – around 4 weeks
Korea – around 3 weeks

BUSINESS ACTIVITIES ARE INTERRUPTED IN LATE MAR (GOOGLE MOBILITY INDEX)

While China on its way to resume normal (subway passenger activity)

 = Countrywide Lockdown/
Emergency state in capital cities

Hong Kong SAR

- Visits to retail space ▼ 35%
- Visits to workplace ▼ 24%

India



- Visits to retail space ▼ 77%
- Visits to workplace ▼ 47%

Singapore



- Visits to retail space ▼ 28%
- Visits to workplace ▼ 15%

South East Asia



- Visits to retail space ▼ 50%-80%
- Visits to workplace ▼ 20%-50%

Korea

- Visits to retail space ▼ 35%
- Visits to workplace ▼ 24%



Japan

- Visits to retail space ▼ 26%
- Visits to workplace ▼ 9%

Mainland China*

- On its way to resume normal, with Beijing's passenger +16% on Apr 7 compared with late Mar



Australia

- Visits to retail space ▼ 45%
- Visits to workplace ▼ 33%

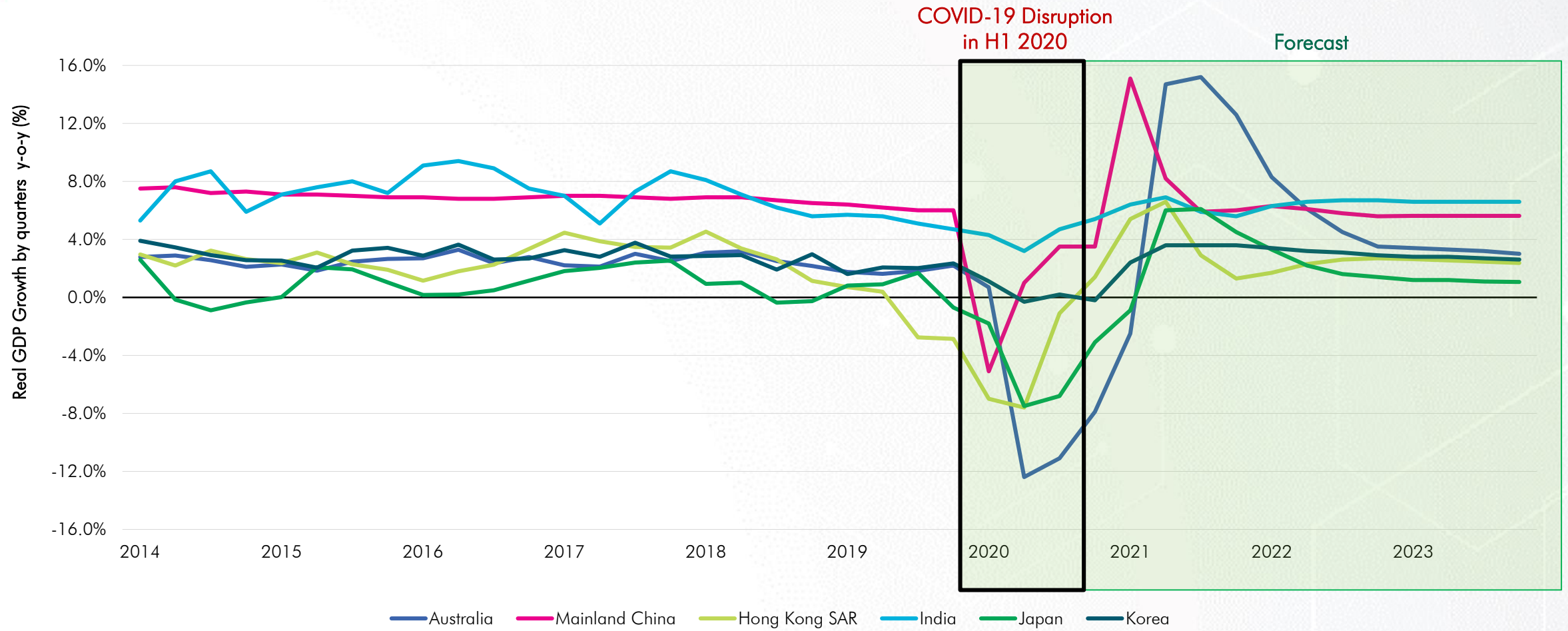


New Zealand

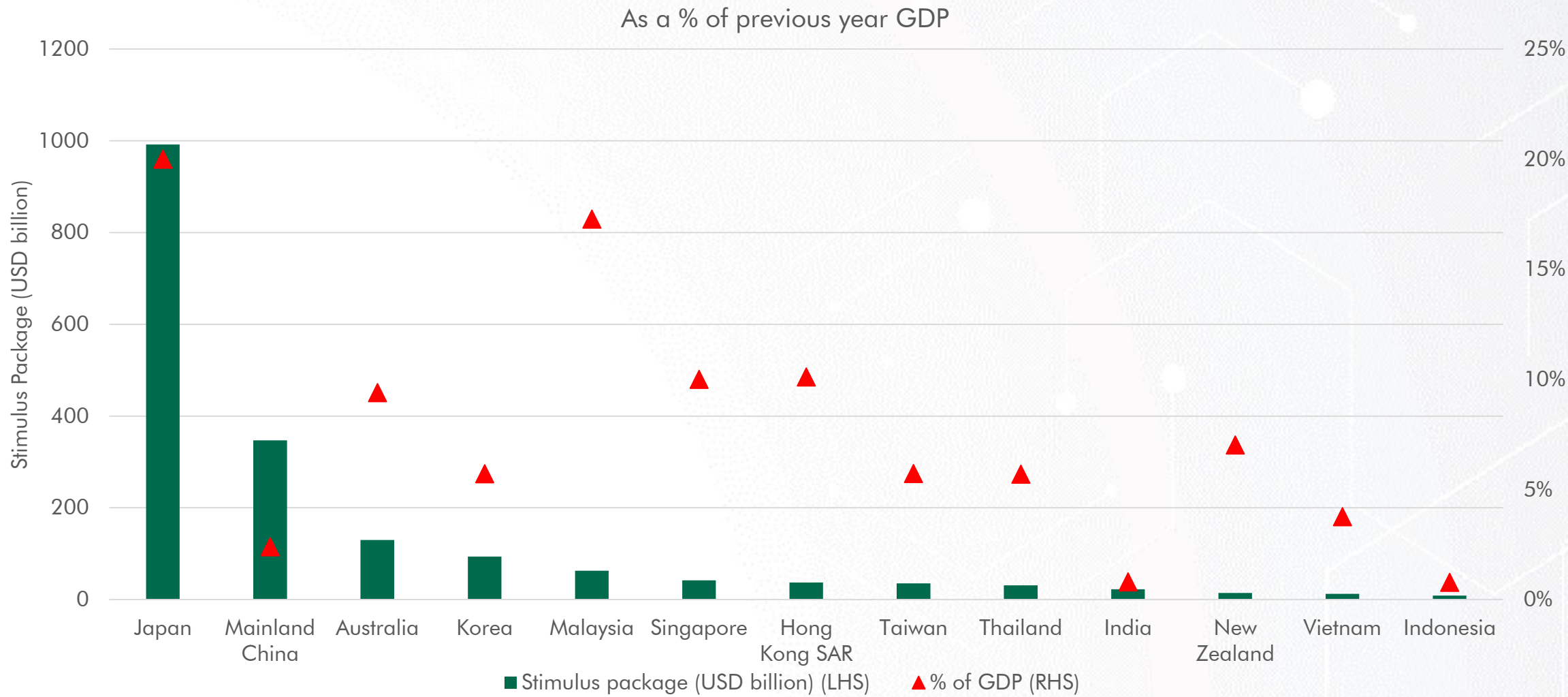
- Visits to retail space ▼ 91%
- Visits to workplace ▼ 59%

THE COVID-19 IS ESTIMATED TO BE A WHOLE YEAR DISRUPTION

Oxford economics estimates Recession in 2020 but expected to bounce back in 2021



FISCAL POLICIES TO STIMULATE THE ECONOMIC GROWTH AMID COVID-19

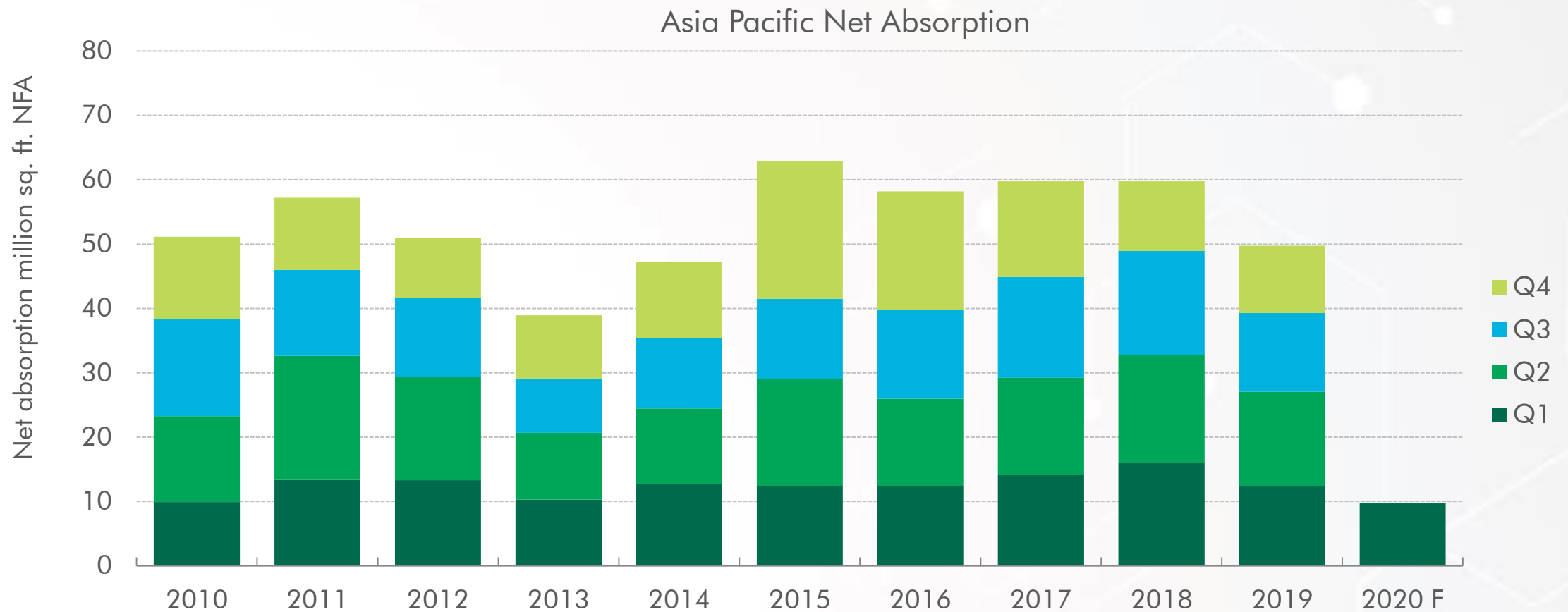




OFFICE MARKET

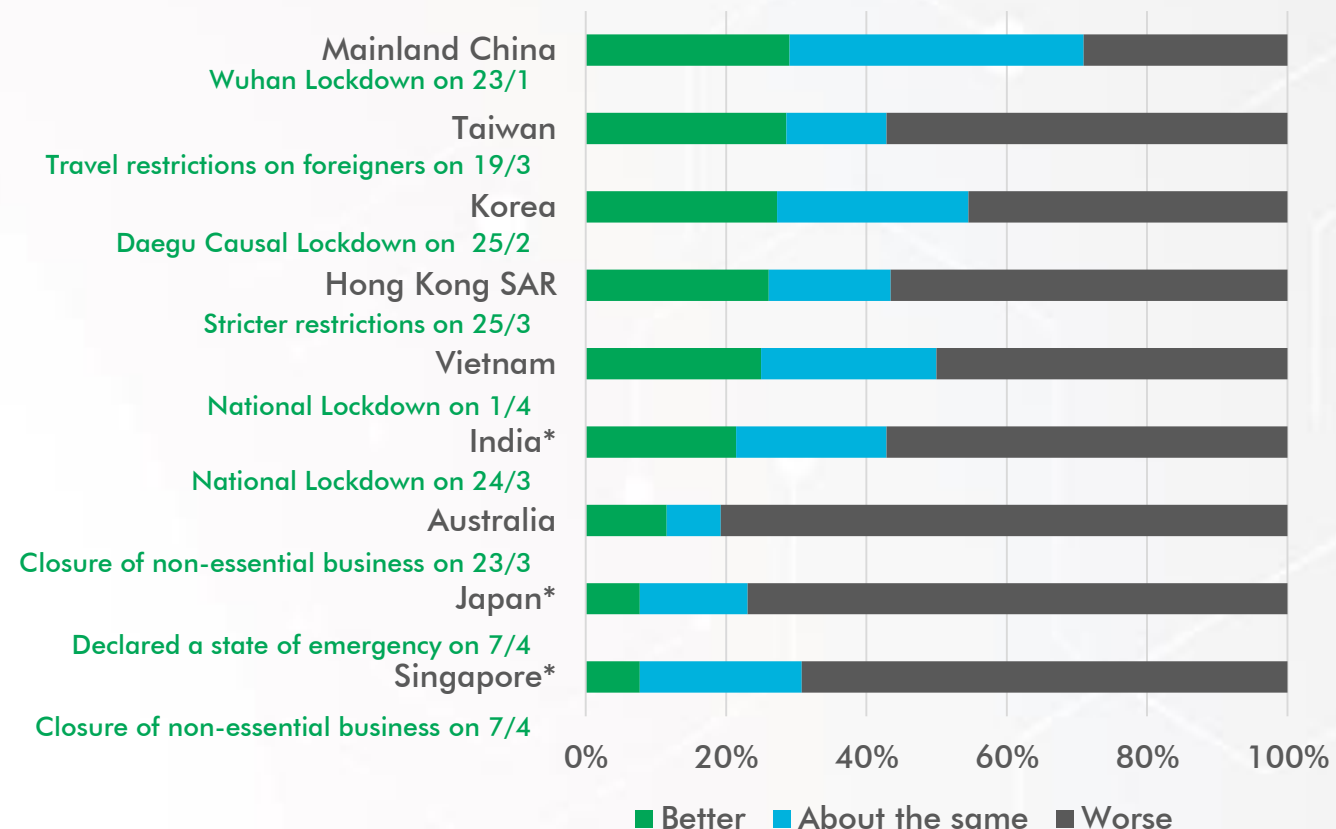
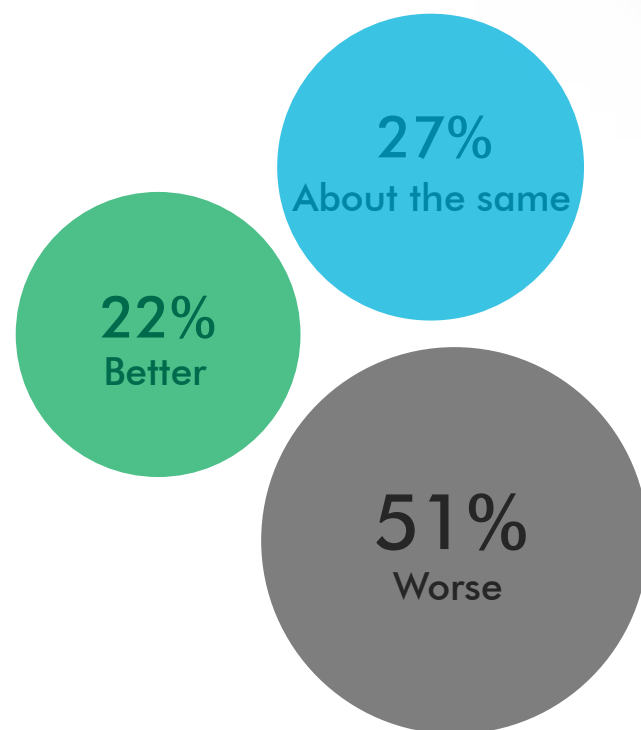
CBRE

Q1 SAW THE LOWEST NET ABSORPTION IN 10 YEAR



BUSINESS ENVIRONMENT EXPECTED TO DETERIORATE IN H2 2020

Q1. Compared to H1 2020, do you expect the business environment in H2 2020 to be?

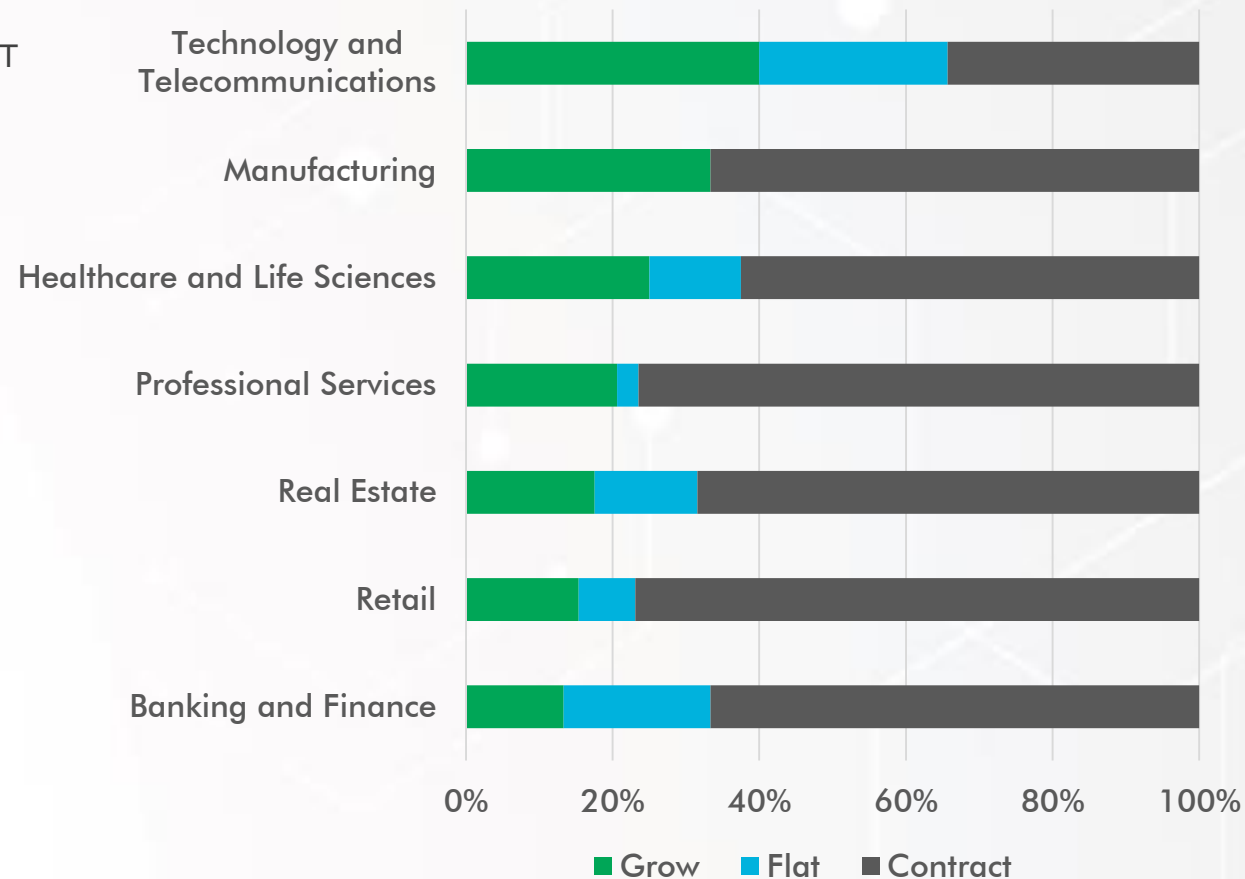
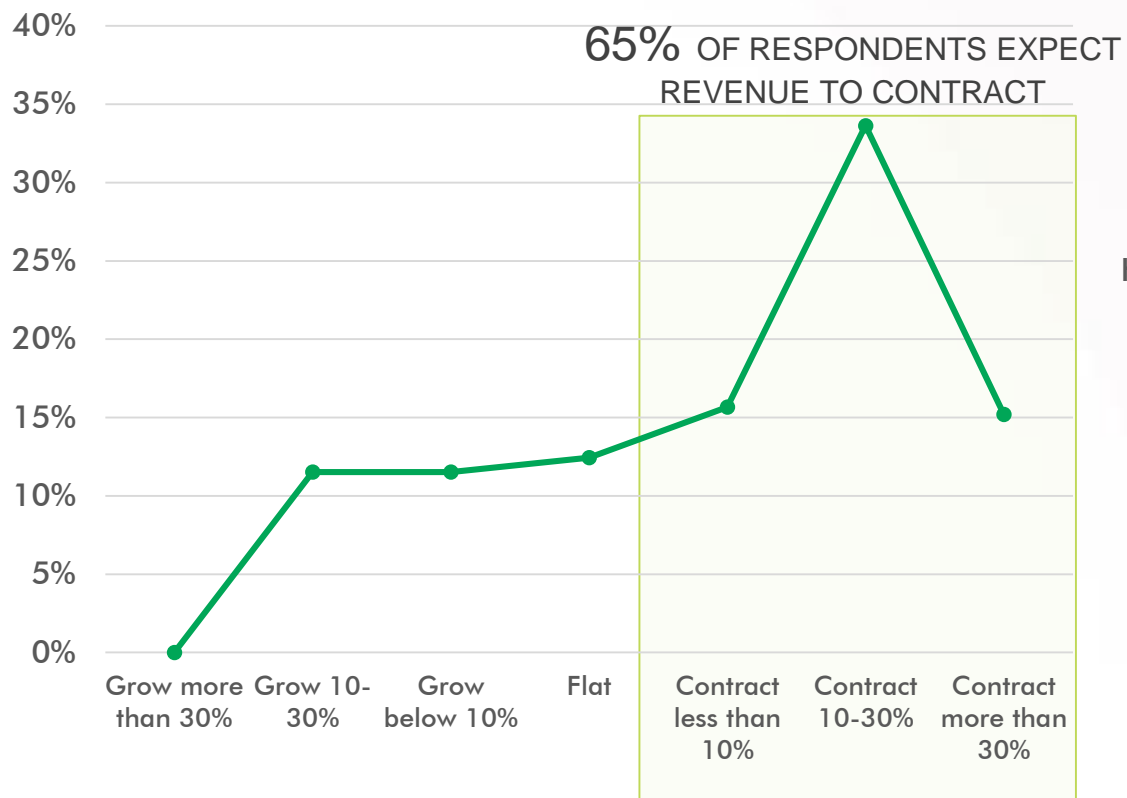


*Note: Japan and Singapore introduced stricter restrictions after the survey was completed. A decision on whether to extend the lockdown in India will be made the weekend of April 11-12. These developments may cause some respondents to further adjust their business outlook for H2 2020.

Source: Asia Pacific Occupier Flash Survey, CBRE Research, April 2020.

REVENUE SET TO CONTRACT IN 2020 BUT BY A RELATIVELY MILD MAGNITUDE

Q2. By what percentage do you expect revenue to grow or contract in 2020?



SITE VISITS AND EXPANSION PLANS HAVE BEEN PUT ON HOLD

Q4. How have your real estate leasing decisions been impacted by the COVID-19 outbreak?

Site visits have been delayed/cancelled 36%

64% FOR LIFE SCIENCE OCCUPIERS

Expansion/new set up plans put on hold 35%

27% FOR OCCUPIERS IN CHINA

Not at all 33%

40% FOR TMT TECH OCCUPIERS

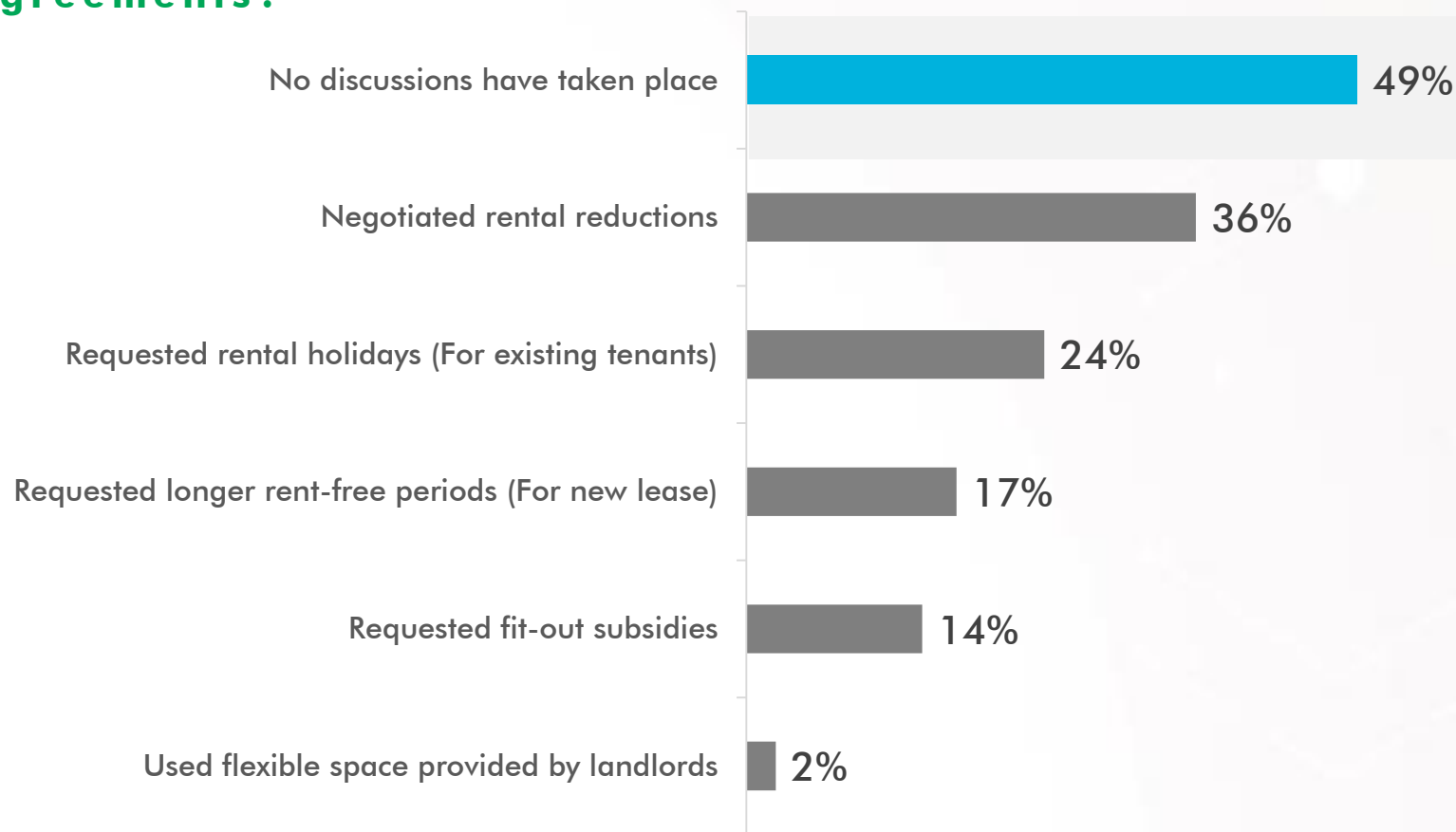
Relocation plans have been put on hold 26%

Capex for fit out has been reduced 23%

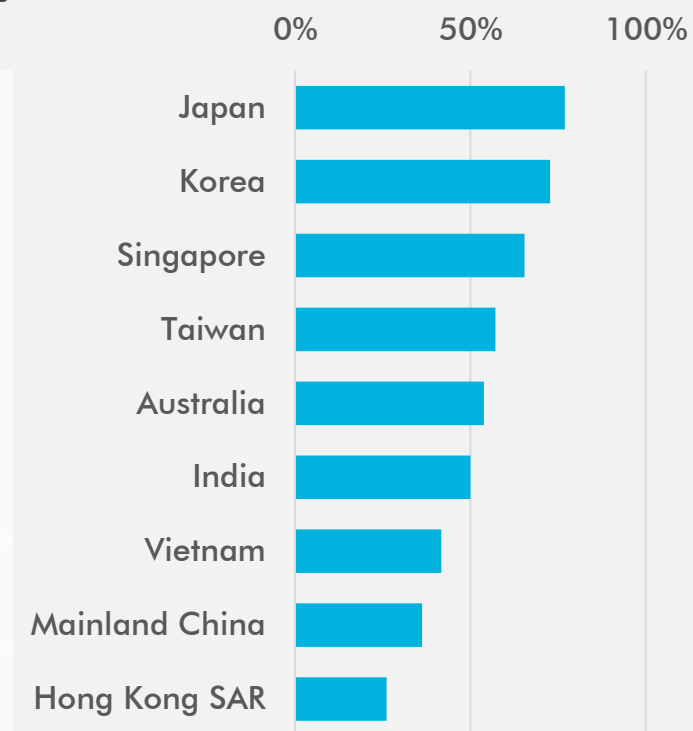
Renewals have been delayed 20%

TENANTS AND LANDLORDS ARE BEGINNING TO REVIEW LEASE AGREEMENTS

Q5. Have you held discussions with landlords on any the following aspects of lease agreements?



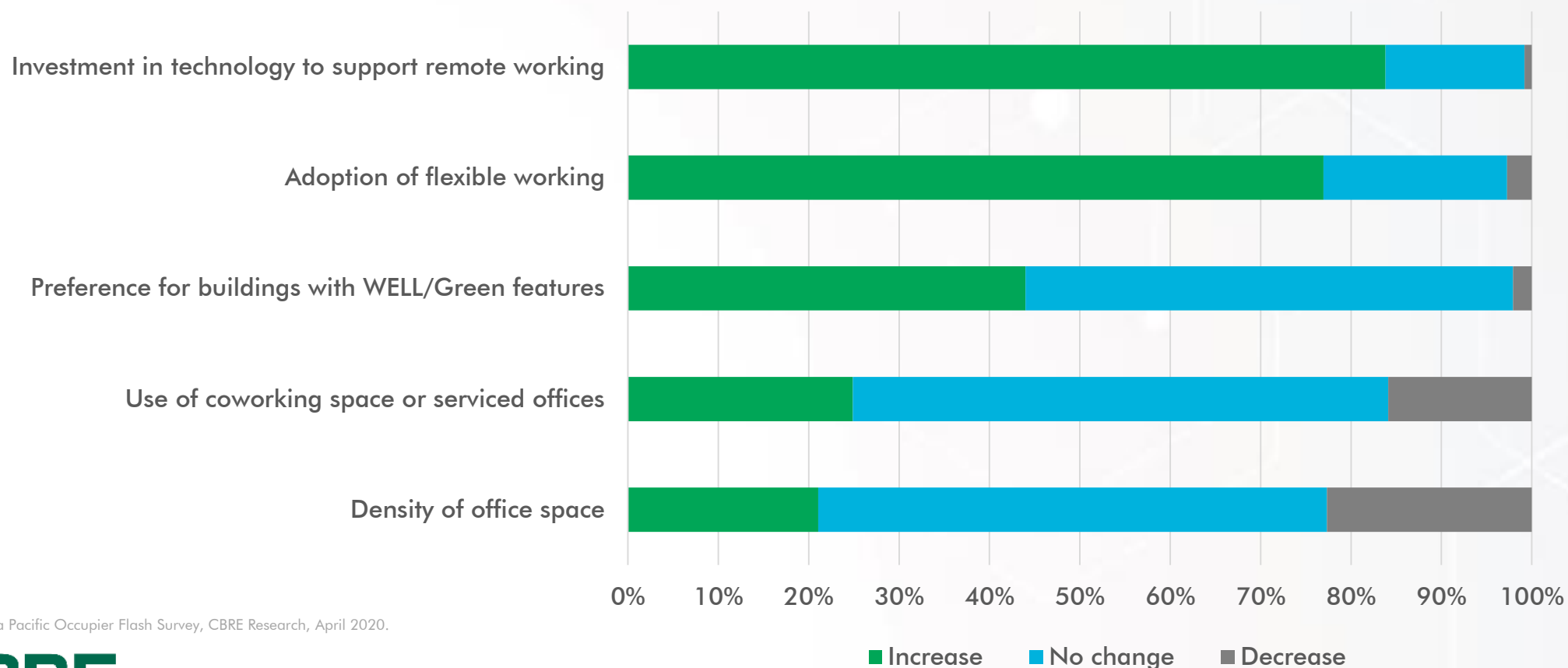
Responses by market



Source: Asia Pacific Occupier Flash Survey, CBRE Research, April 2020.

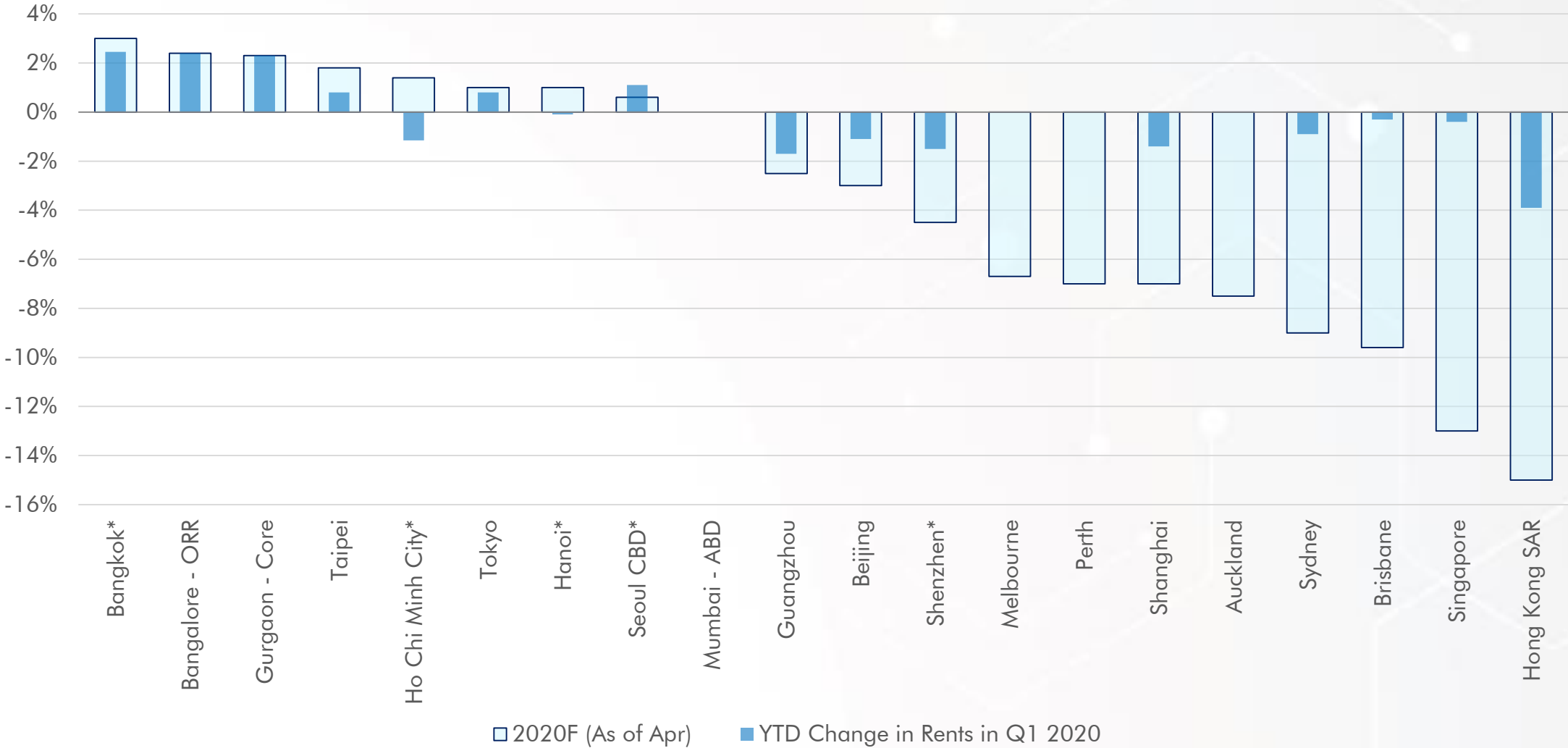
FOCUS ON TECHNOLOGY AND FLEXIBILITY TO STRENGTHEN IN LONG-TERM

Q7. To what extent do you expect there to be a shift in long-term occupier strategy in the following areas after the COVID-19 outbreak?



Source: Asia Pacific Occupier Flash Survey, CBRE Research, April 2020.

SLOWER RENTAL GROWTH IN Q1 2020



*Note: Forecast was back to Feb 2020
Source: CBRE Research, April 2020



RETAIL MARKET

RETAIL SECTOR TO SEE VARIED PATH TO RECOVERY

Most impacted



GROCERY

Strong sales during lockdown



FOOD AND CATERING

Restaurant reopening in China

Shift towards delivery services



RETAIL

Strong rebound in sales in China

Still take longer time to fully recover



HOSPITALITY

Tap on staycation opportunities



TOURISM

Wait until lifting of traveling bans

MANY CITIES ARE RESTRICTING TOURISTS AND LIMITING LARGE GATHERINGS

Hong Kong SAR



Restrictions imposed

- Entertainment outlets, gyms, bars – temporarily closed
- Restaurants – operating at reduced crowd density

India



- Countrywide lockdown for three weeks from March 24

Singapore



- Countrywide lockdown for 1-month from April 7

South East Asia



- Most capital cities have been locked down

Korea



= No Foreign Tourist Arrivals

- Malls and retailers – reduced operating hours

Japan

- 2020 Tokyo Olympics postponed
- Entered a state of emergency on 7 April in Tokyo, Osaka and five other prefectures, and will last for a month.



China

- Gradually resumed to normal
- Malls and retailers have shorter business hours and reduced density to stay open



Australia

Restrictions imposed:

- Food delivery/takeaway only
- Bars, entertainment outlets, gyms – temporarily closed

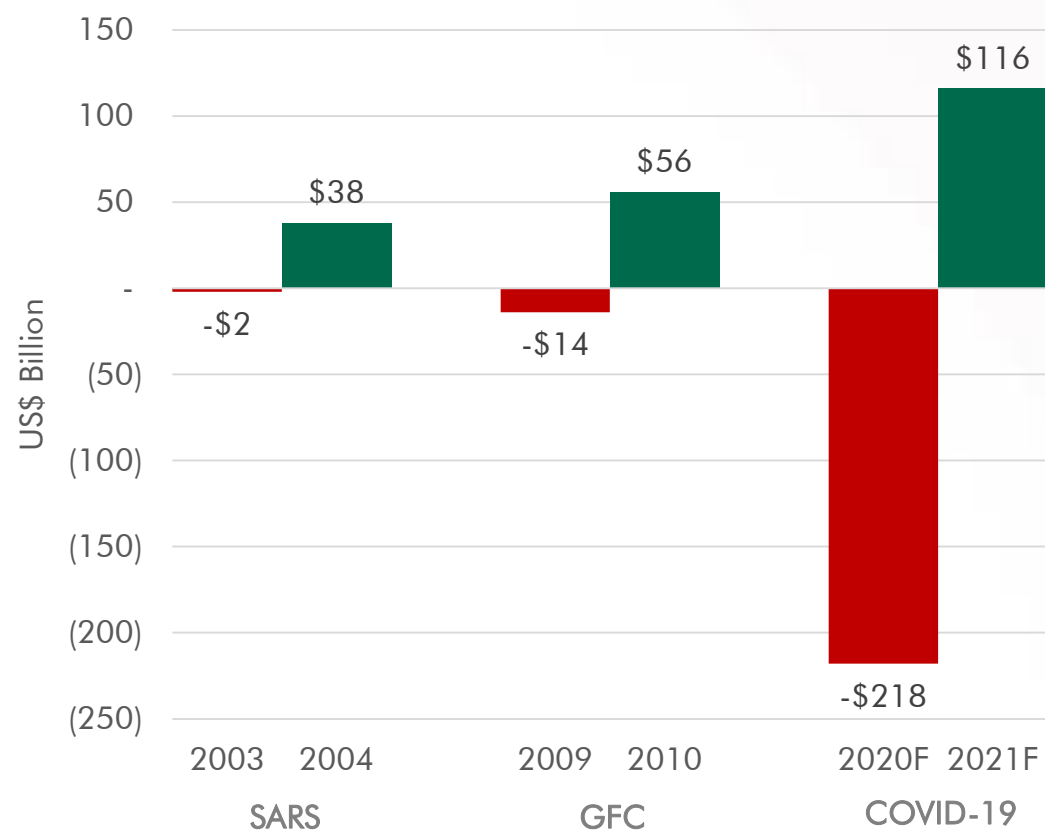


New Zealand

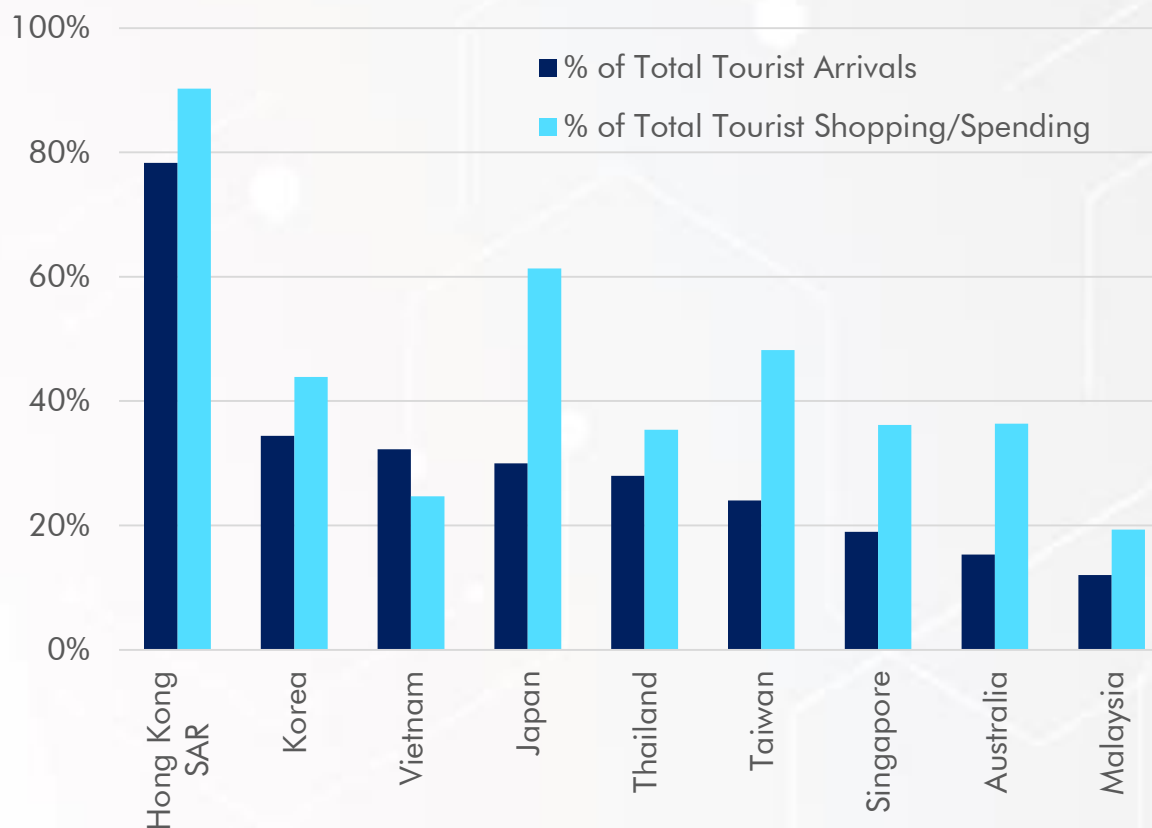
- Countrywide lockdown for four weeks from March 26

REGIONAL TOURISM AND HOSPITALITY SECTOR HEAVILY IMPACTED

Asia Pacific Tourism Spending (US\$Bn)



Contribution by Mainland Chinese tourists (2018/ 2019)



LANDLORDS HAVE BEEN OFFERING RENT-RELIEF MEASURES

Rent cuts/ rebates

Greater China



A month's free rent after Jan 25 and discounts until end-Mar



50% (Feb - Mar)



50% to mainland Chinese tenants (Jan 25 – Feb 14)

North Asia



"Good-hearted landlords" campaign: over 300 landlords have cut rents



Southeast Asia

Singapore:
50% rental rebate for retail, F&B and service tenants (Feb to Jul)

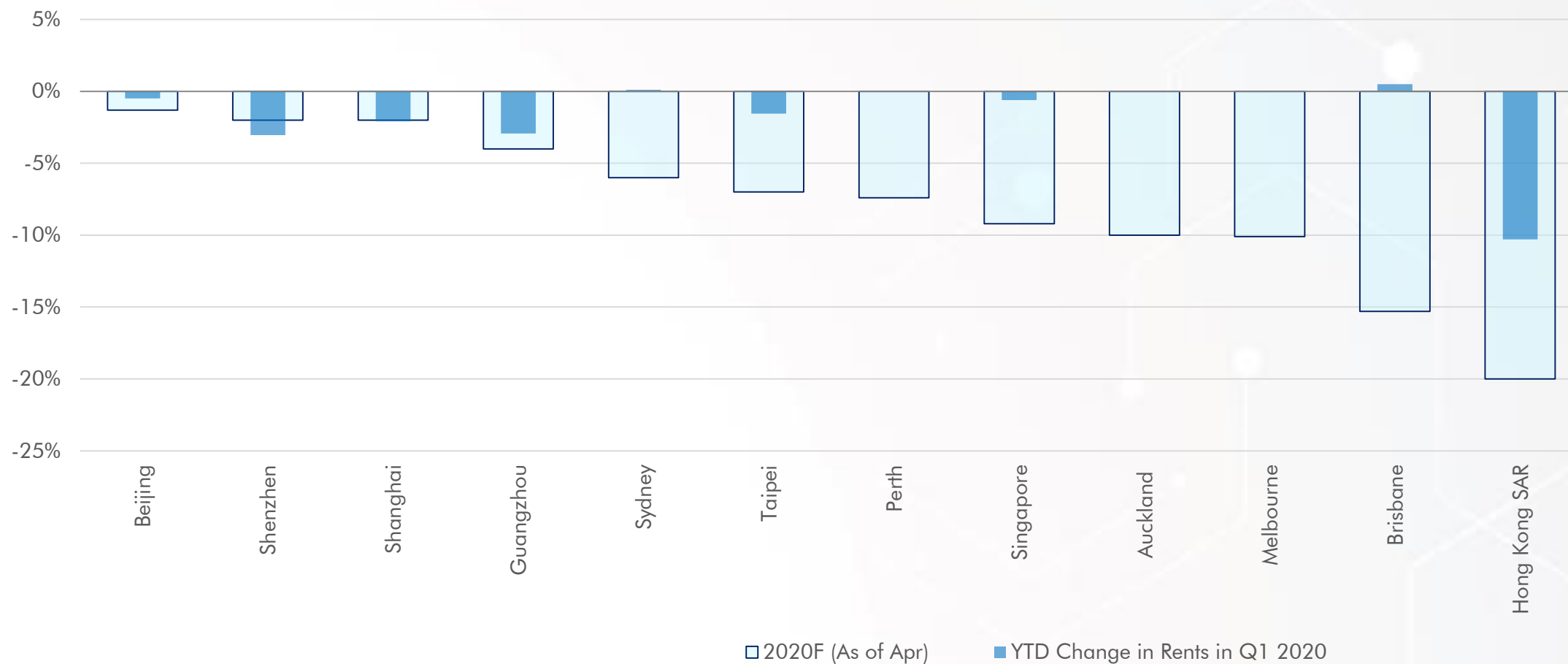
Singapore:
50% rental rebate on one-month's gross rent (Feb)

Malaysia:
14-day rental concession to non-essential retailers (Mar)



Vietnam:
Rental support of ~30% (Mar)

WEAK PERFORMANCE IN GREATER CHINA, REST ARE FLAT IN Q1 2020



Remarks: All markets tracked performance of prime high streets except China, Singapore and Auckland. China Tier I cities tracked the performance of G/F prime shopping centres, Singapore tracked prime floor while Auckland tracked regional shopping centres.

Source: CBRE Research, April 2020



INDUSTRIAL MARKET

INDUSTRIAL SECTOR TO SEE CONTRASTING PERFORMANCE

Most impacted



GROCERY AND LAST MILE LOGISTICS

Run in full
capacity



FOOD AND FARM PRODUCE

In high demand

Some disruptions on
cross-border flow



GENERAL RETAIL

Varied disruption
from production to
warehouse
operations



3-PARTY LOGISTICS

Impact from
domestic
consumption and
disruption of
transportation

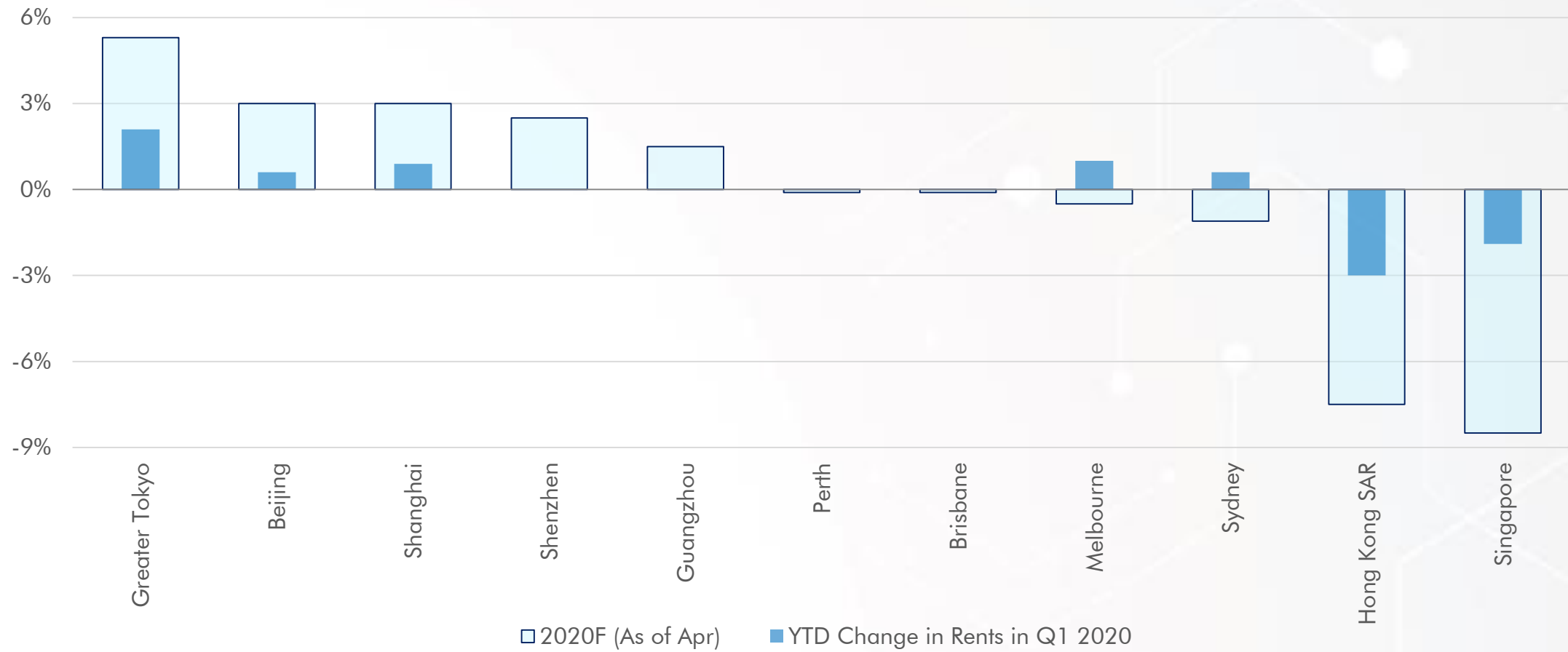


EXPORTS

Impact from
shrinking global
demand

Production
disruption

SLOWER RENTAL GROWTH IN Q1 2020

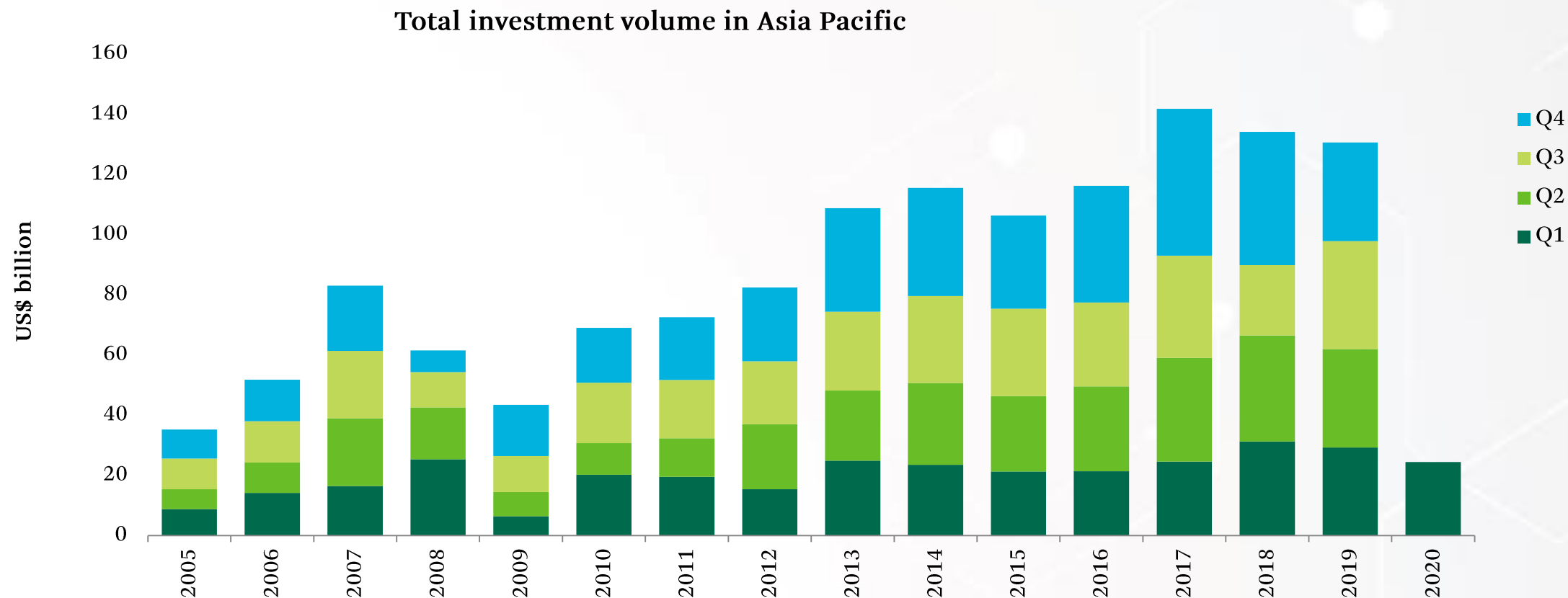


Source: CBRE Research, April 2020



INVESTMENT MARKET

INVESTORS TURNED WAIT AND SEE APPROACH LEADING TO TURNOVER DROPPED



Source: RCA, CBRE Research, April 2020

Note: Investment Volumes of Korea, Pacific and SE Asia are sourced from RCA.

MONETARY POLICY WAS SUBSTANTIALLY EASED AFTER COVID-19 OUTBREAK IN US

The federal funds target rate (%)



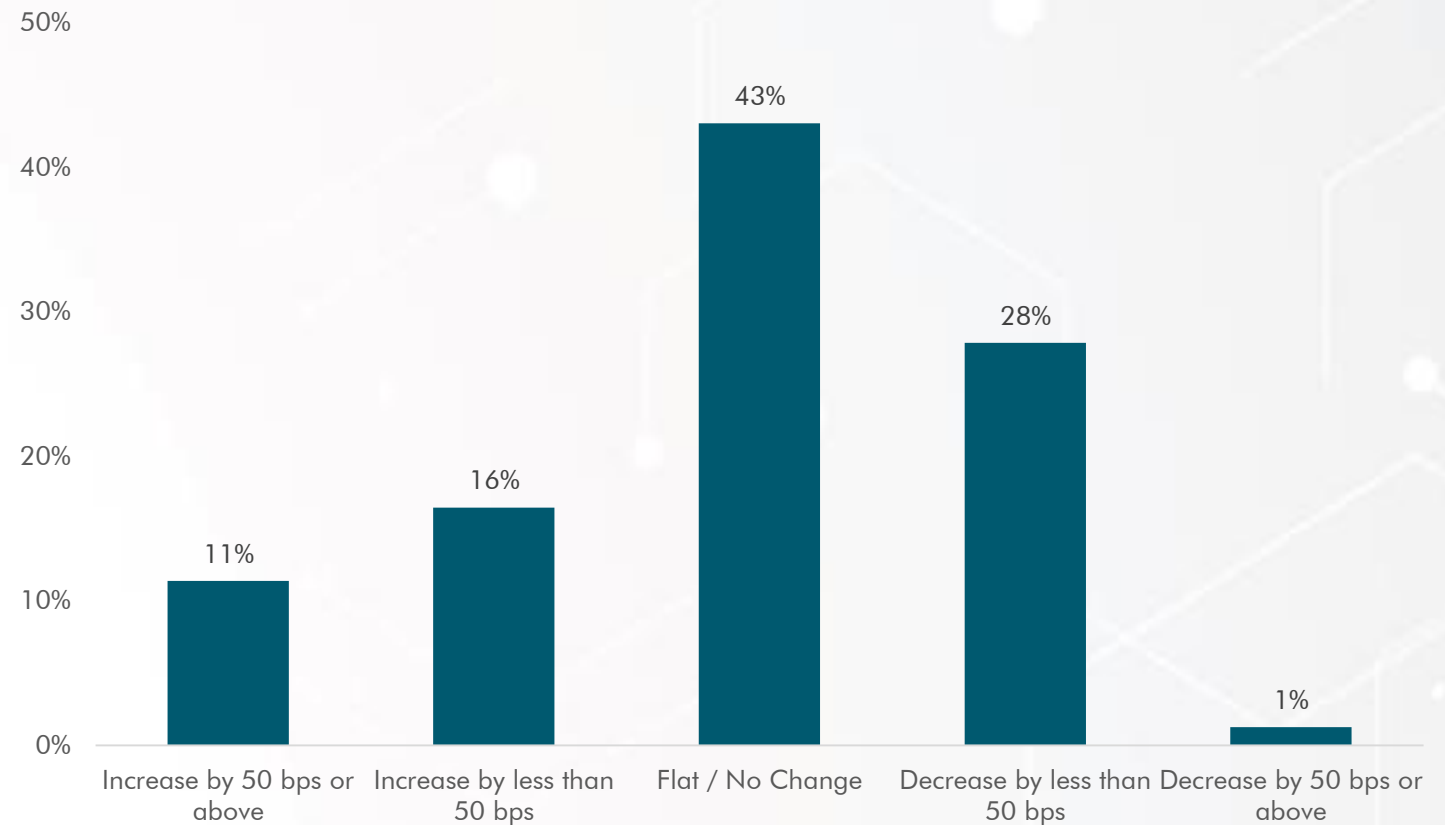
Source: Federal Reserve, Macrobond, CBRE Research, 31 March 2020.

THE COST OF BORROWING HAS NOT FALLEN SIGNIFICANTLY

- Recent interest rate cuts are not translating to lower borrowing costs. Less than 30% of respondents stated that they had observed a decline in the cost of capital.
- Banks are in better shape than after the Global Financial Crisis and are still lending to existing clients. However, they have turned more selective towards providing financing, particularly to the retail and hotel sector.
- Borrowing costs in Australia have risen as banks factor a risk premium into commercial loans and adopt a lower LTV ratio for new loans (50% to 55%).

NOT FALLEN SIGNIFICANTLY

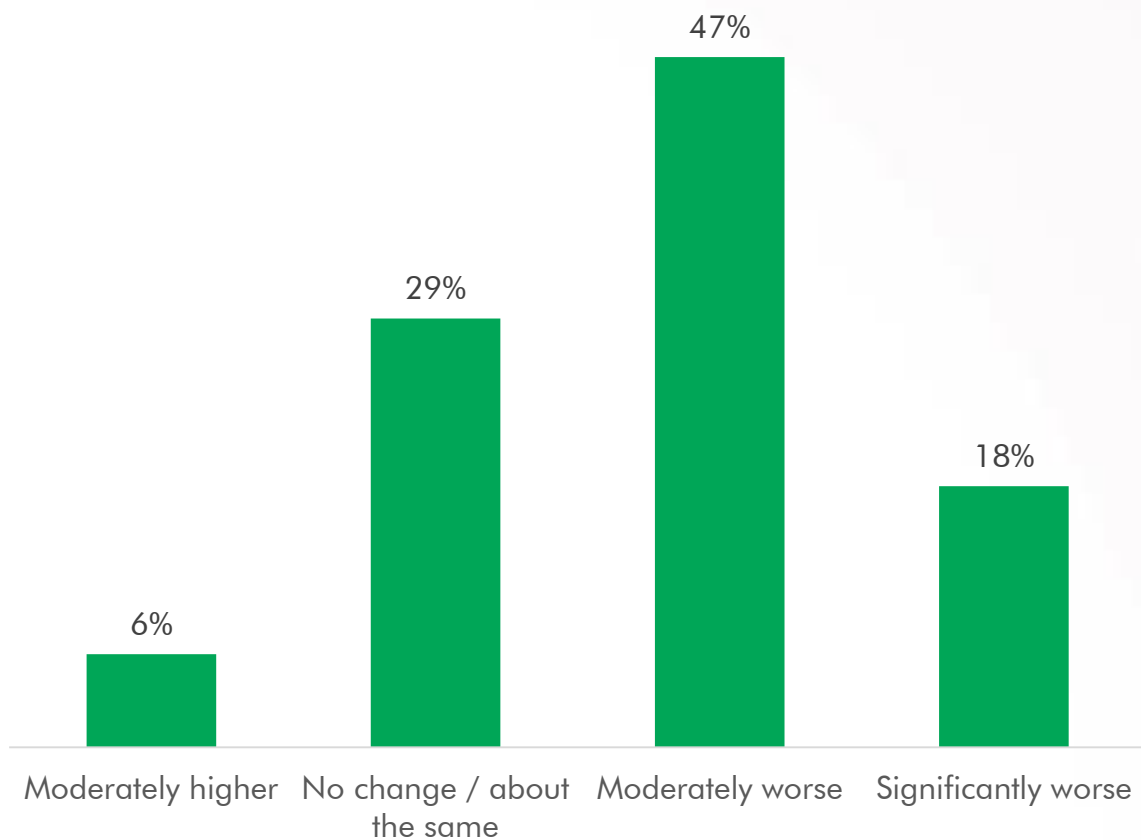
Change in borrowing cost compared to Q4 2019



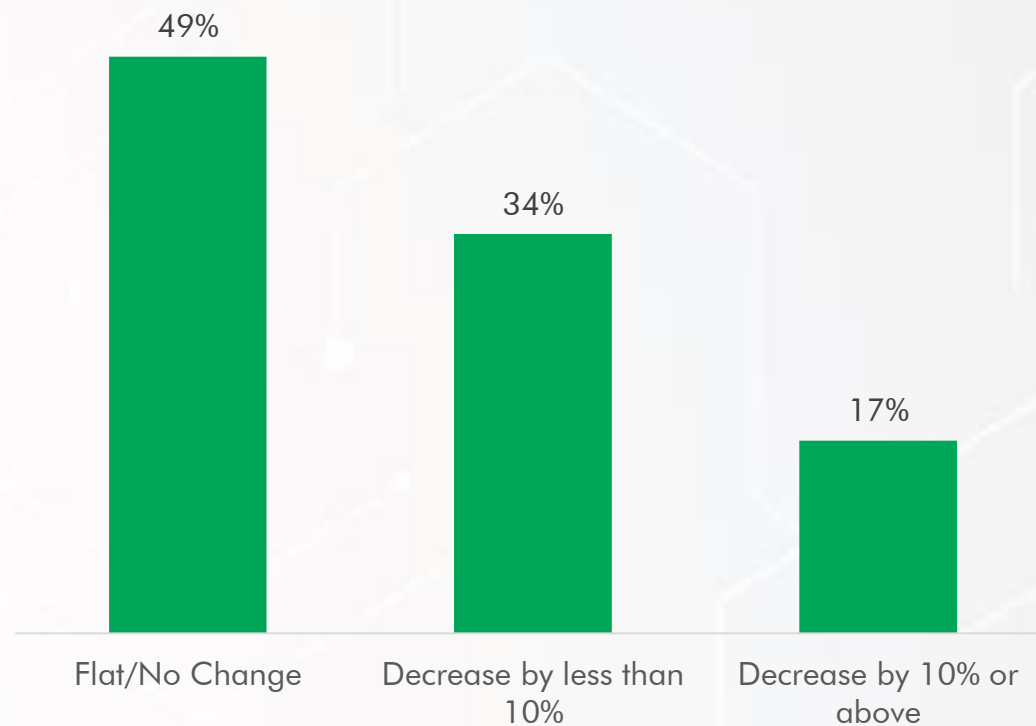
Note: The survey was conducted between March 20 to March 31.
Source: CBRE Research, March 2020

INVESTMENT ENQUIRIES HAVE MODERATED & PROPERTY PRICES HAVE BEEN UNDER PRESSURE AFTER OUTBREAK

Change in investment enquiries after COVID-19 outbreak



Change in property sales asking prices / asset valuation after COVID-19 outbreak



MILD YIELD EXPANSION IN 2020

2020 Cap Rate Outlook						
Country	City	Grade A Office		Shopping Mall		Institutional grade Logistics (Citywide)
		Core Locations	Decentralized	Core Locations	Decentralized	
Australia	Sydney	▲	▲	▲	▲	▲
	Melbourne	▲	▲	▲	▲	▲
	Brisbane	▲	▲	▲	▲	▲
	Perth	▲	▲	▲	▲	▲
Greater China	Beijing	◀▶	▲	▲	▲	◀▶
	Shanghai	◀▶	▲	▲	▲	◀▶
	Guangzhou	◀▶	▲	▲	▲	◀▶
	Shenzhen	◀▶	▲	▲	▲	◀▶
	Hong Kong SAR	▲	▲	▲	▲	◀▶
	Taipei	◀▶	◀▶	▲	▲	◀▶
Japan	Tokyo	◀▶	▲	▲	▲	◀▶
	Osaka	◀▶	▲	▲	▲	◀▶
Korea	Seoul	◀▶	◀▶	◀▶	◀▶	▼
Singapore	Singapore	▲	▲	▲	▲	◀▶
India	Gurgaon	◀▶	▲	◀▶	▲	◀▶
	Mumbai	◀▶	▲	◀▶	▲	◀▶
	Bangalore	◀▶	▲	◀▶	▲	◀▶

Source: CAP RATE FLASH SURVEY MARCH 2020 , CBRE Research, April 2020

WHAT'S NEXT?

THE WORSENING

Rent collection rate

-

Closure to push up vacancy

-

Disruption in new supply

THE BETTER

Unwind lockdown measures

-

Resumption of business

-

Establish new best practice

THE UNKNOWN

Tick-shaped recovery

-

China-Plus-One supply chain

-

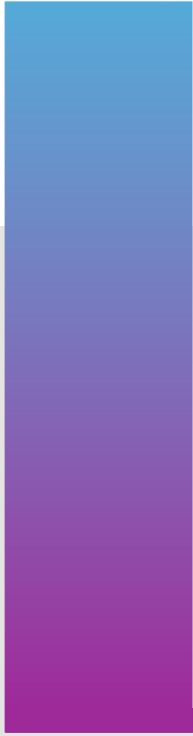
Flexible working /
Omnichannel shopping



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