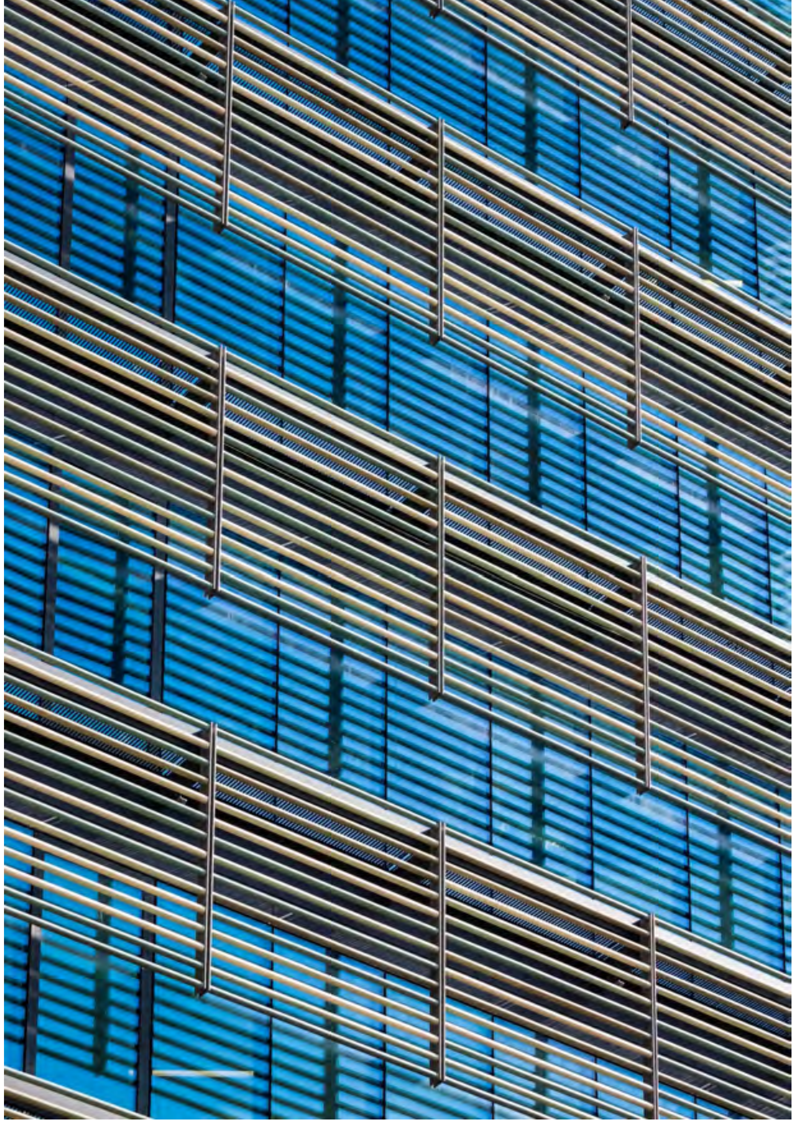
Valuation & Advisory Services

Asia Cap Rates

2019 - 2023



“

Many Asian markets anticipate stable or slightly lower interest rates from the Federal Reserve in 2024. This is expected to increase the appetite for property investment over the next 12-24 months.

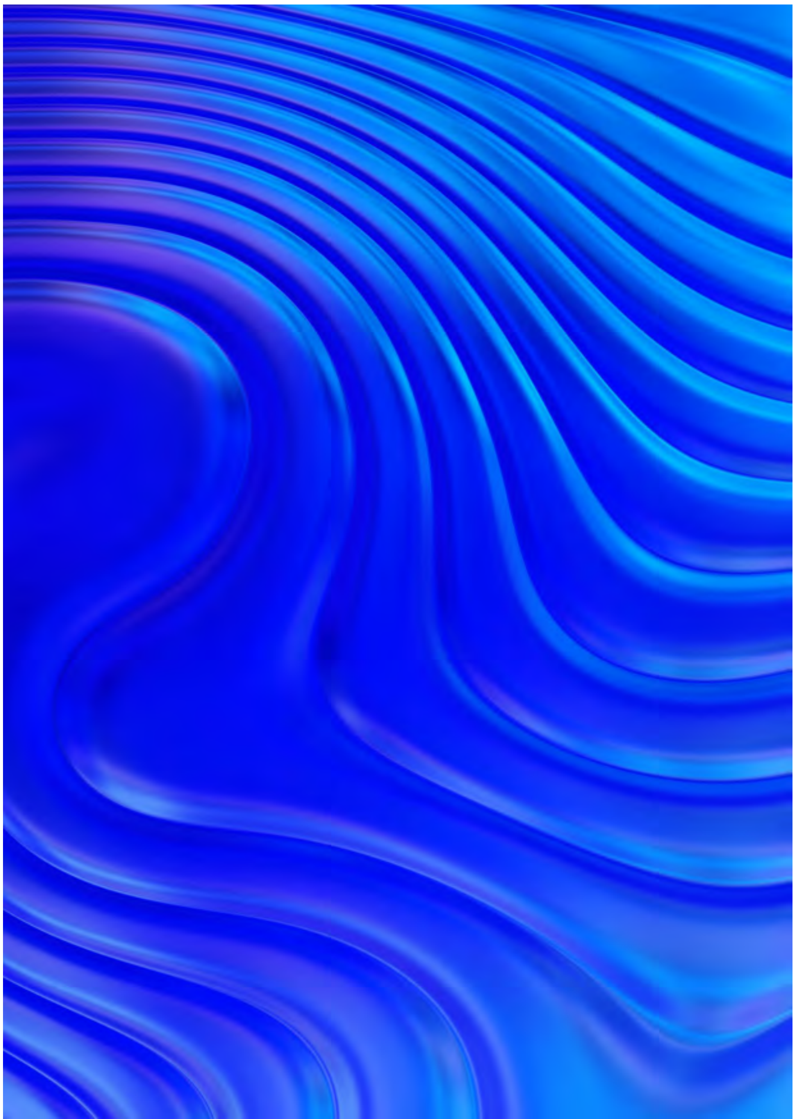


Table of Contents

Cap Rate Movements

Executive Summary

The Asian real estate market has been influenced by two key factors in the past few years: the COVID-19 pandemic and interest rate hikes. COVID-19 is no longer considered a public health emergency of international concern*, changes in interest rates continue to play a role in shaping the future of the market.

Many Asian markets anticipate stable or slightly lower interest rates from the Federal Reserve in 2024. This is expected to increase the appetite for property investment over the next 12-24 months. This can provide more transaction evidence, allowing a better forecast of movements in cap rate and property values.

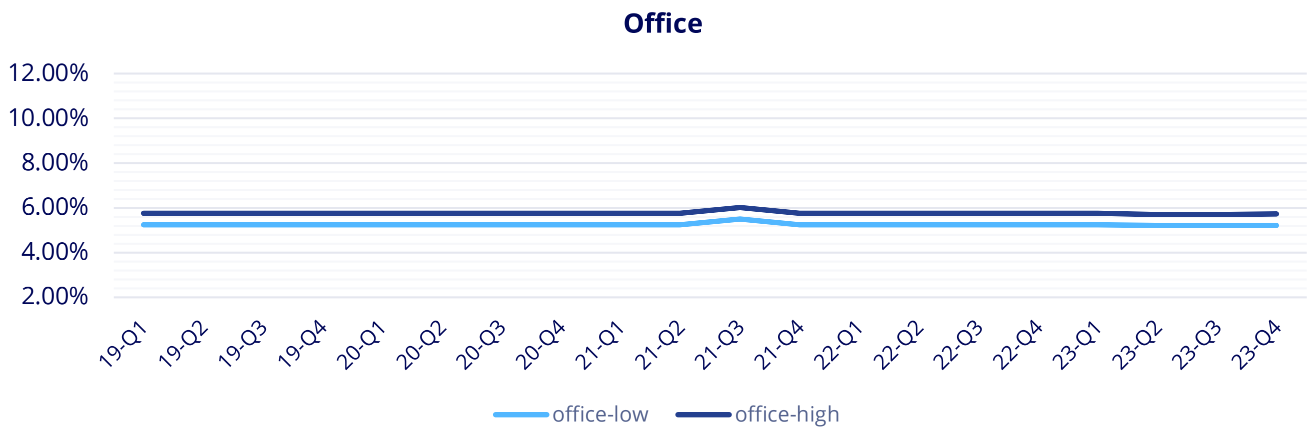
Geopolitical uncertainty remains, adding an element of unpredictability to the real estate landscape. Owners and investors now prefer dependable yields rather than relying solely on capital gains.

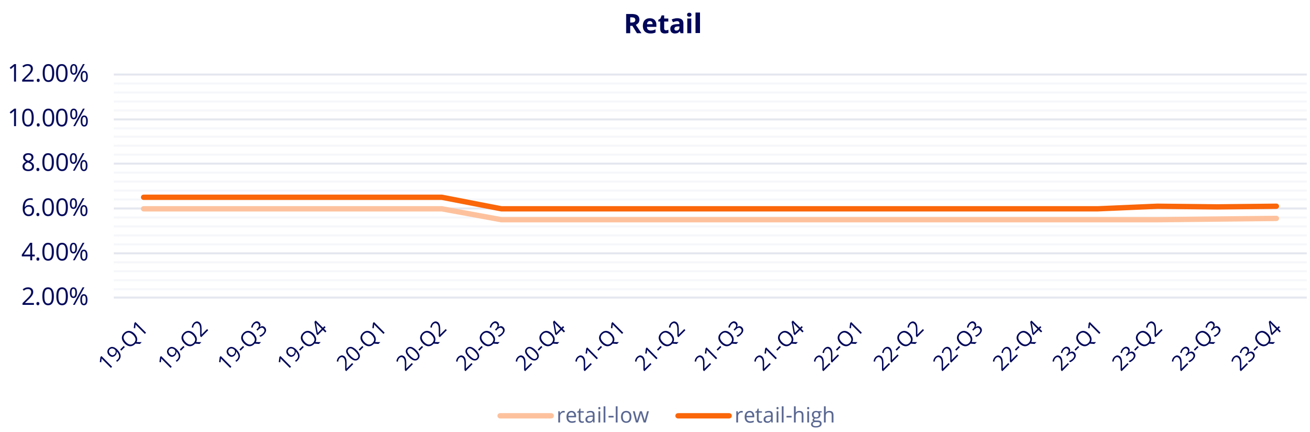
Investors and occupiers, especially those concerned about corporate governance, are increasingly aware of the importance of environmental, social, and governance (ESG) credentials and compliance. Quantifying the green benefits on property values is a subject that require more effort from industry stakeholders. More frequent valuation reviews can help owners, investors, and fund managers monitor and manage portfolio risk in this uncertain environment.

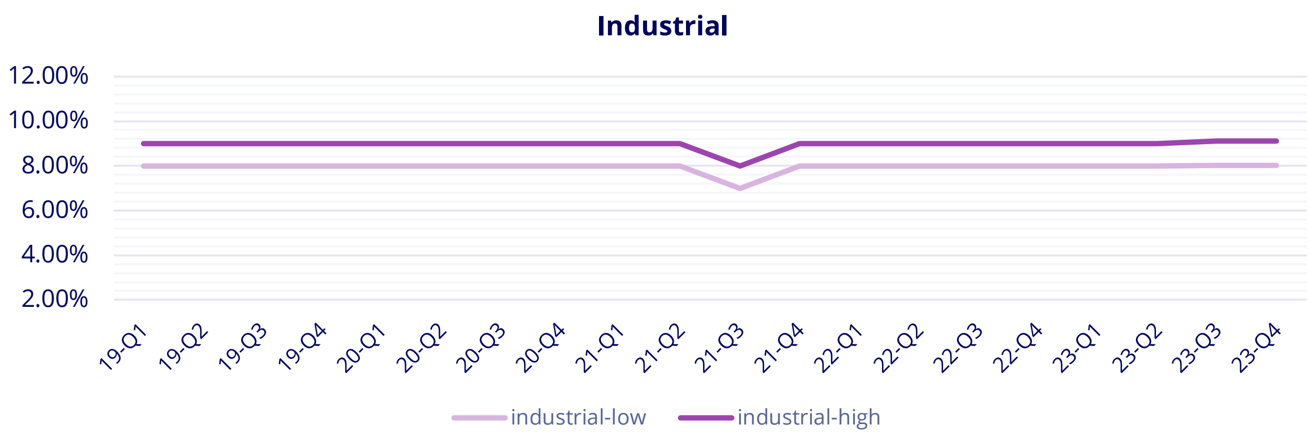
CK Lau
Managing Director | Asia
Valuation & Advisory Services

*The WHO declared this on 5 May 2023.

Bangkok







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

Bangkok's commercial and industrial sectors have demonstrated resilience despite notable economic challenges in recent years. Despite fluctuations in domestic demand and broader regional economic shifts, the market has recovered well, with cap rates remaining generally stable.

In recent years, the cap rate for Bangkok offices has been compressed due to declining rents, while capital values remained stagnant. This compression in rents has buoyed demand and occupancy as landlords employed this strategy to sustain their investments.

Following shifts and relocations in the global supply chain post-COVID, the prime industrial cap rates rebounded to 8-9% by the end of 2021 and have remained within the same range over the past two years.

The decrease in retail rental levels, particularly in 2020, resulted in underwhelming market performance, mainly due to mobility restrictions. However, an upturn became evident towards the end of 2022 as the country reopened and consumer confidence gradually improved.

The office and industrial markets experienced a temporary movement in cap rates in mid-2021 though in different direction. We considered these temporary adjustments a slight blip caused by pandemic-related demand and supply disruptions and was non-indicative to establish a long-term impact and trend.

Outlook

The consecutive increase in the banks' minimal lending rates have somewhat dampened the investment climate, aligning with the increasing policy rates from the Central Bank of Thailand.

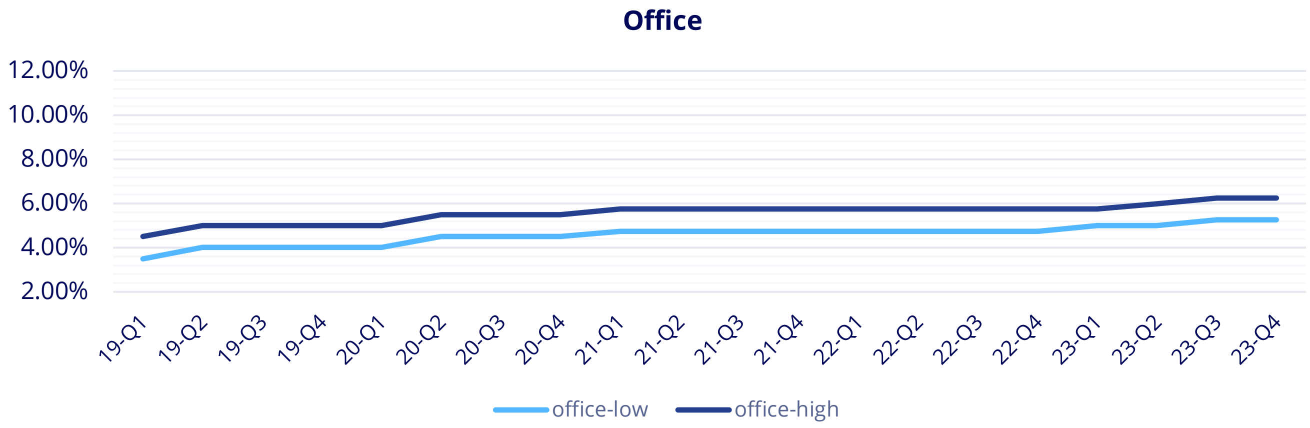
The bank lending rate has been on an upward trend since August of 2022, reaching 7.15% in Q4 2023. The objective, however, was to ease inflation and to keep it low in the long term.

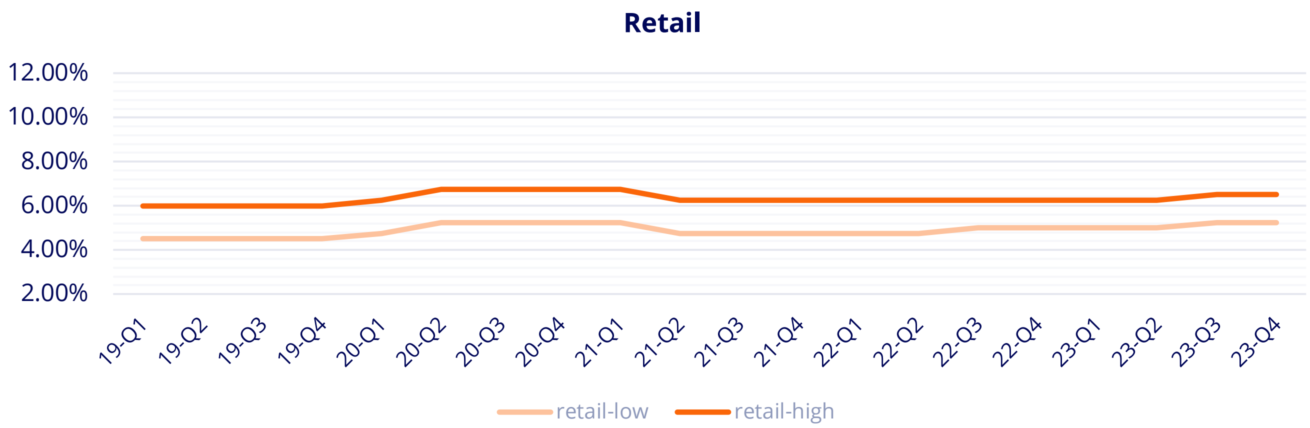
We expect the rate hike to be neutralized in the near term, anticipating a buildup in economic recovery driven by tourism and private consumption that will mainly benefit the retail sector.

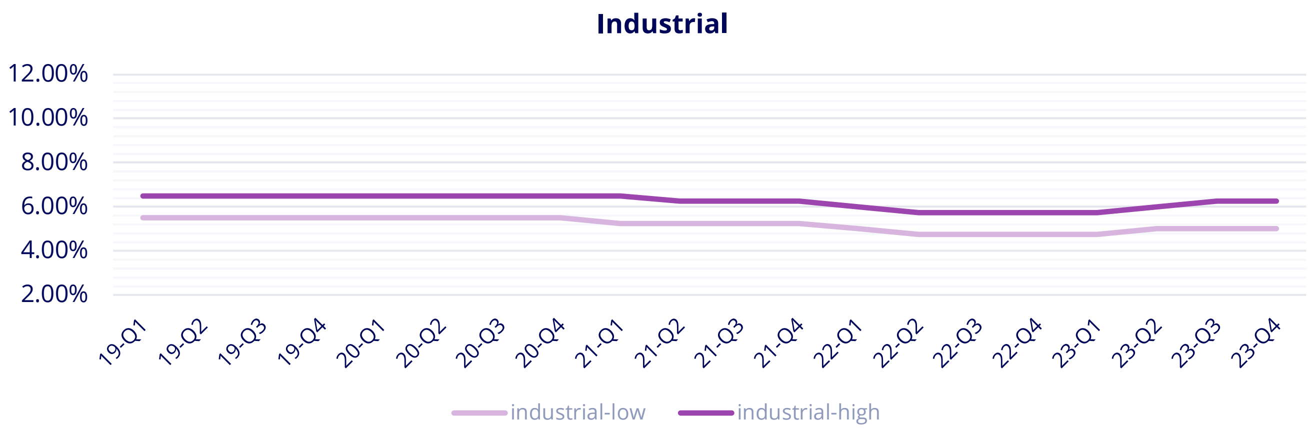
Meanwhile, the industry performance going forward is likely to be defined by demand and supply dynamics.

The office market is likely to face stronger headwinds as rental levels continue to tighten due to a surge in a significant amount of new supply. Approximately 500,000 m^2 of new office space is anticipated in 2024, a new record high that will take time to absorb over the next year or so.

Beijing







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

In recent years, Beijing real estate market has shown some fluctuations in terms of cap rates across sectors. The office sector, in particular, has seen a consistent increase in cap rates. This can be attributed to the impact of the COVID-19 pandemic and the ensuing economic slowdown. The pandemic has affected investor sentiment, leading to a decrease in demand and lower rental rates for office spaces. Major buyers dominated by end-users and more judicial sales in the market, with a slowing economy, putting more pressure on the capital value. To meet the internal rate of return (IRR) targets and satisfy return requirements, landlords might expedite the process of divesting their properties, given that the projected growth rate may not meet their expectations.

Geopolitical tensions and US dollar exchange rate hikes have imposed more uncertainties in the market between 2022 and 2023. These factors have gradually been mitigated by the resurgence of consumer activities and the kick start of consumer infrastructure REITs in March 2023. The retail market has thus stabilized and stepped into a gradual recovering stage, resulting in a steadier cap rate level.

On the other hand, the industrial sector has remained relatively stable in terms of investment. The demand for specialised warehouse facilities, driven by the need for cold chain for fresh goods and medical / pharmaceutical products, together with the growth of e-commerce, has further been stimulated by the COVID-19 pandemic. Investor sentiment in the industrial sector has remained relatively high. However, the government has started to release more industrial land starting from Q3 2022, with inventory starting to build up, leading to an oversupply market causing the cap rate to go up since 2023.

Outlook

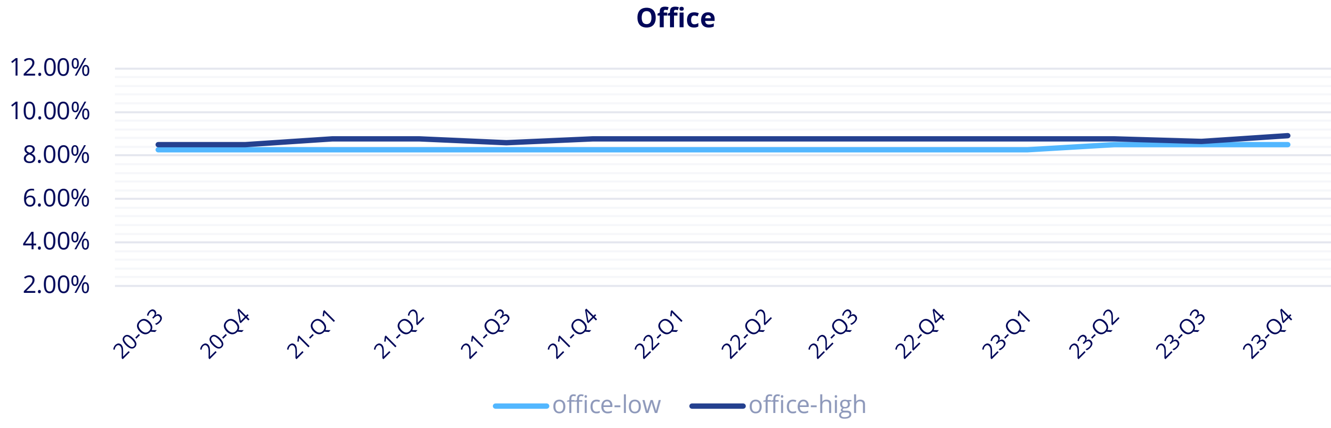
Going forward, we anticipate that the cap rate for office properties in Beijing will continue to rise. A notable influx of new properties is expected to be introduced into the central business district's core area. However, the demand for these properties is falling short of the surplus in supply, leading investors to adopt a more cautious investment approach. Furthermore, the absence of office assets from the list of Chinese Real Estate Investment Trusts (C-REITs) has resulted in relatively weaker investor interest in office properties compared to other asset types included in C-REITs.

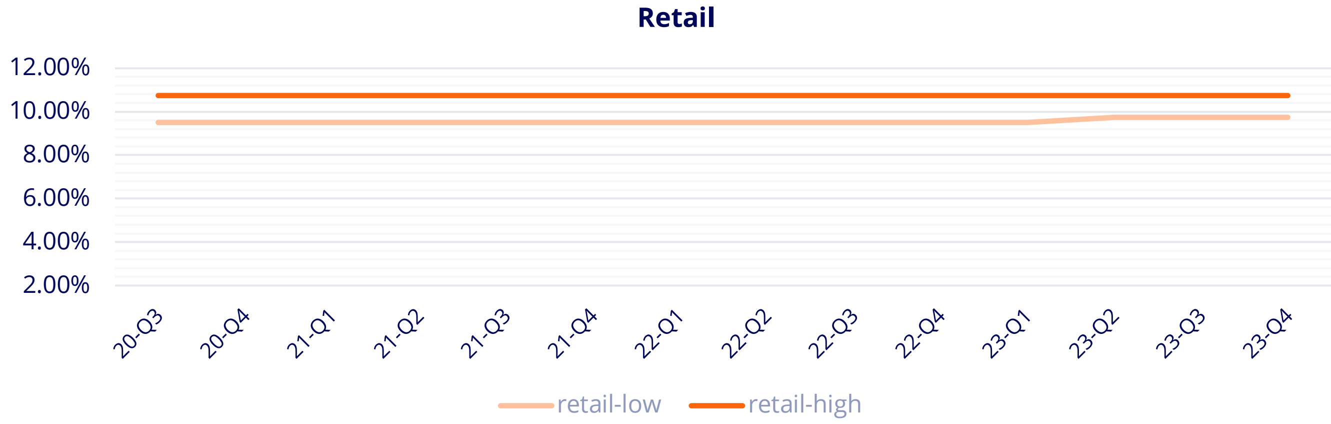
The high vacancy rate and declining rental rates in the office sector will also contribute to making office investments less favourable.

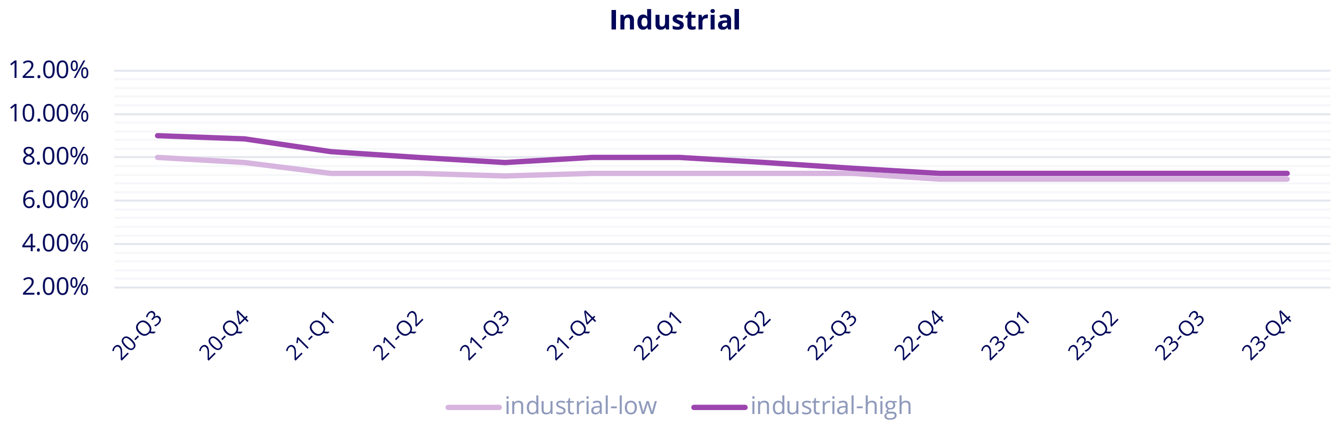
On the other hand, the cap rate for retail properties is expected to remain stable, with a potential for a slight decline in the foreseeable future. This is mainly due to the growth in total retail sales and the government's efforts to promote domestic tourism, both of which have benefited the retail sector.

The surge of new logistics supply will gradually be absorbed organically over the next 12 months.

Bengaluru







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

Investments in India's real estate have grown by 16% since 2021 as an alternative to tightening monetary policies, lackluster commercial real estate (CRE) growth in developed countries, and global investors shifting to alternative investments.

Bengaluru, the largest CRE market in India, has seen an influx of global and domestic capital into CRE. However, significant cap rate compression has not been observed. This is due to macro-indicators such as inflation, credit and interest rate policies factoring into valuation of assets.

Successful REIT listings in CRE and retail have assisted price discovery reflected in net asset values (NAVs) backed by robust domestic demand and improved weighted average lease expiry (WALE), but the median market rent has not improved in most micro-markets.

Post-COVID consumption demand has led to higher footfalls and in-place rents for organised retail assets in Bengaluru, improving Net Operating Income (NOI) and asset valuation. However, high streets have seen dropping yields.

Investments in warehousing and data centers have grown strongly. These assets have experienced improved valuation due to cap rates compressing by 100-175 bps.

Outlook

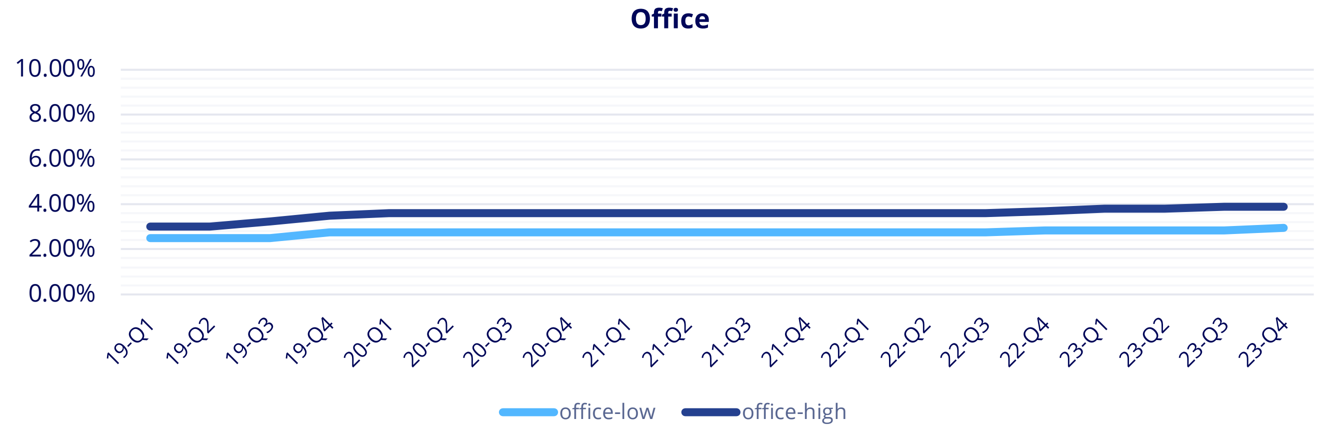
Looking ahead, India's supportive monetary and legislative policies alongside the investment opportunities are driving investors to push in capital, but challenges remain.

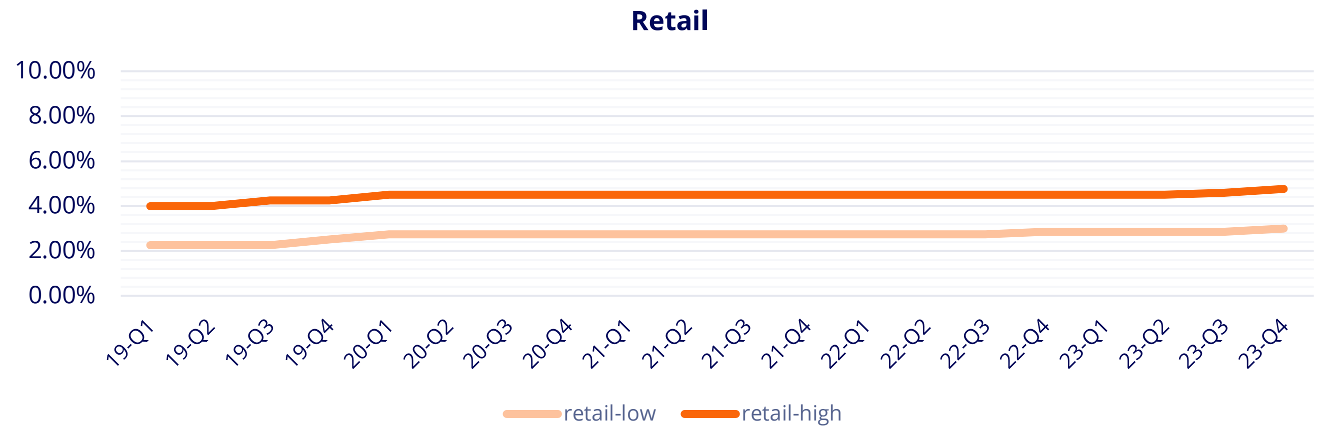
The gaps arising from costly global capital, hardening fiscal and ESG compliance measures will require significant intervention in terms of business and operating structures, capex deployment and capital management.

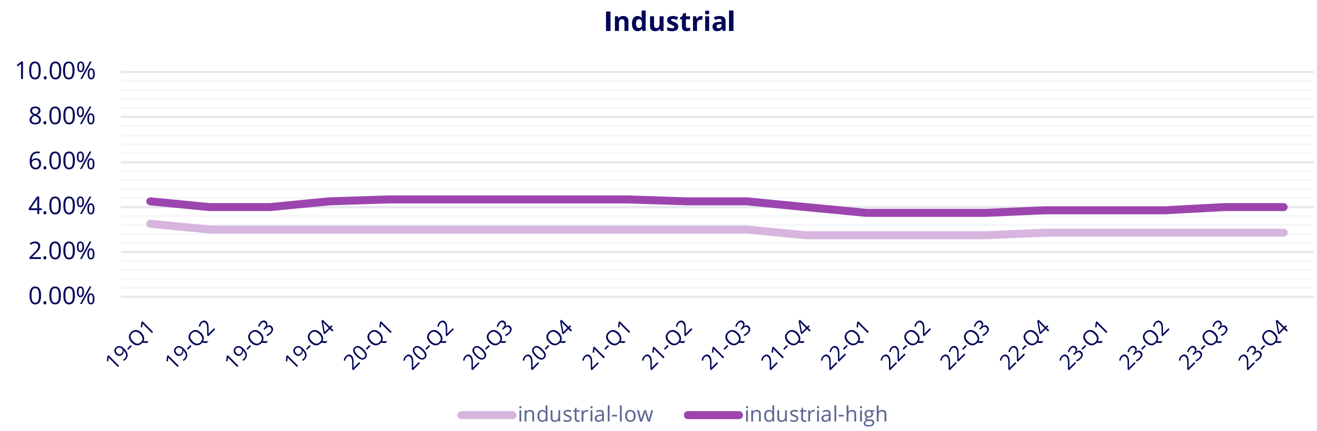
This presents opportunity for increased domestic private capital deployment that is currently alleviating these risks based on which the near-term cap rates are expected remain steady except for any unexpected macro-economic shock.

Bengaluru is expected to witness healthy growth and marginal upside to rents in CRE in next 12 months. This aided by factors mentioned above from macro perspective will result in more range bound cap rates. Retail consumption growth is expected to plateau, which will stabilise NOI growths resulting in slowing of trades in retail assets while industrial cap rates will slightly compress due to increased capital exposure and demand.

Hong Kong







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

During 2018 and 2019, the market in Hong Kong experienced growth with low interest rates and strong demand from local and foreign investors. Limited quality office stock led to significant rental and price rise in the prime office sector. However, market sentiment began to shift in 2019 due to social unrest, resulting in expansions in cap rates and decreased business confidence. The retail sector faced challenges during this time, leading to weakened investment and increased cap rates. On the other hand, the industrial property market remained stable, benefiting from e-commerce growth and limited warehouse supply.

The outbreak of the pandemic in early 2020 further impacted business confidence, resulting in business suspensions, weakened office rents, and higher vacancy rates due to remote working. However, low borrowing costs stabilized cap rates from 2020 to 2022, although the gap between the highest and lowest cap rates widened. The reopening of the economy in early 2023 still faced an uncertain economic outlook, with assets in prime locations maintaining high valuations, while decentralized areas grappled with increased challenges. Increased in the lending costs since Q2 2022 influenced pricing trends and gradually expanding cap rates, leading to weaker valuations of office properties.

Prime industrial assets became highly sought after during the pandemic, driven by increased e-commerce activities and restricted supply. Rental rates remained stable, reflecting the resilience of the industrial sector and its ability to adapt to changing market dynamics. The growth of e-commerce is expected to continue driving demand for prime industrial and warehousing spaces.

Outlook

Hong Kong real GDP grew by 3.2% in 2023 which is a bit lower than projected. The local economy in Hong Kong still faces challenges due to the uncertainty of the external macro-environment and the slower pace of recovery. If the current interest rate hikes subside, a more stable economic outlook is expected. Overall property transaction volume is projected to increase by 37% year-on-year (YoY).

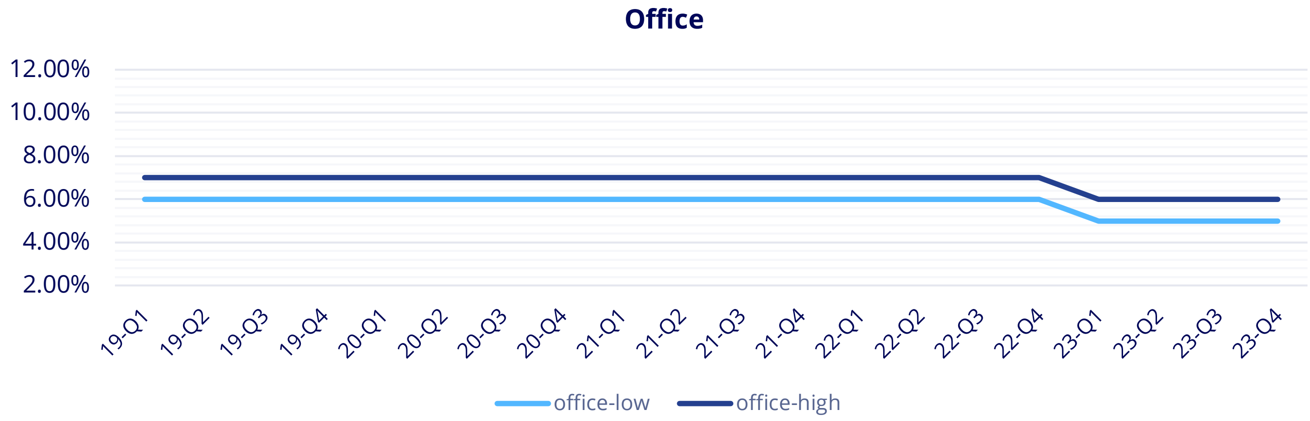
Retail properties, particularly high street locations, will be sought-after by investors aiming for short to medium-term capital gains, while neighbourhood malls will offer higher and stable rental income.

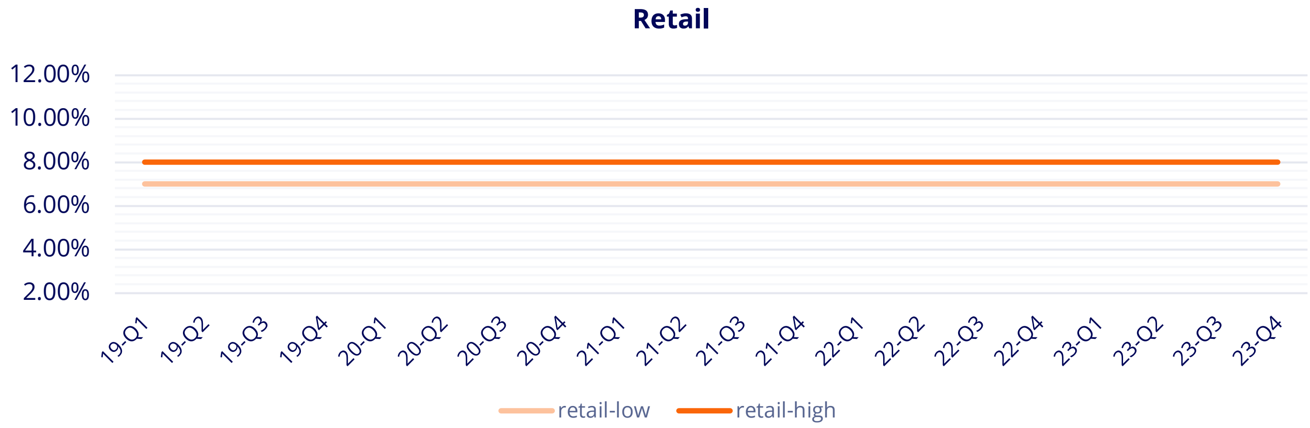
End-users and investors with strong holding power will aim at long-term capital gains in the prime office sector.

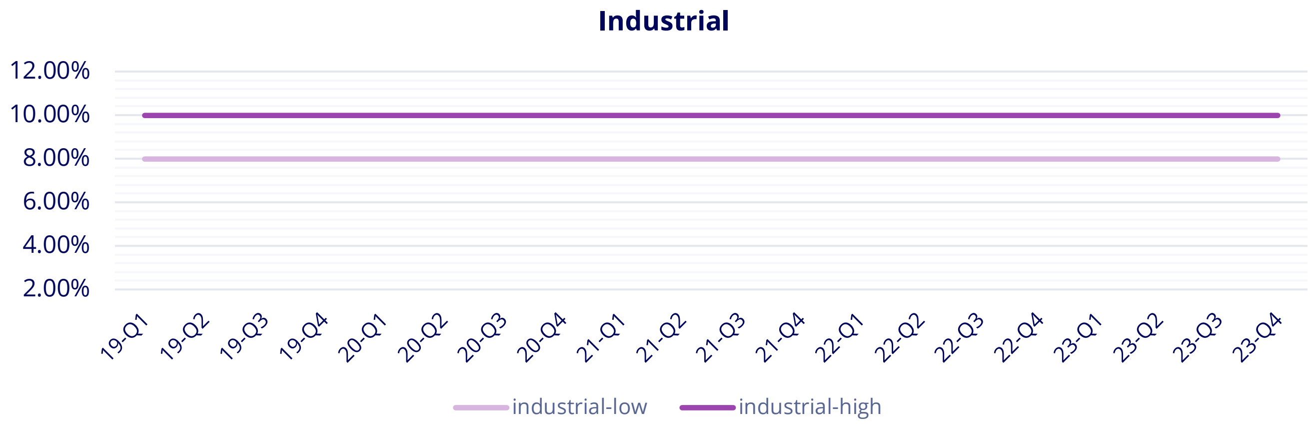
The supply of logistics facilities remains low, and with a stable demand from diverse tenants, prices and rental rates are expected to remain stable.

With expectations of declining interest rates, cap rates across sectors are projected to stay relatively flat in the next 12 months.

Jakarta







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

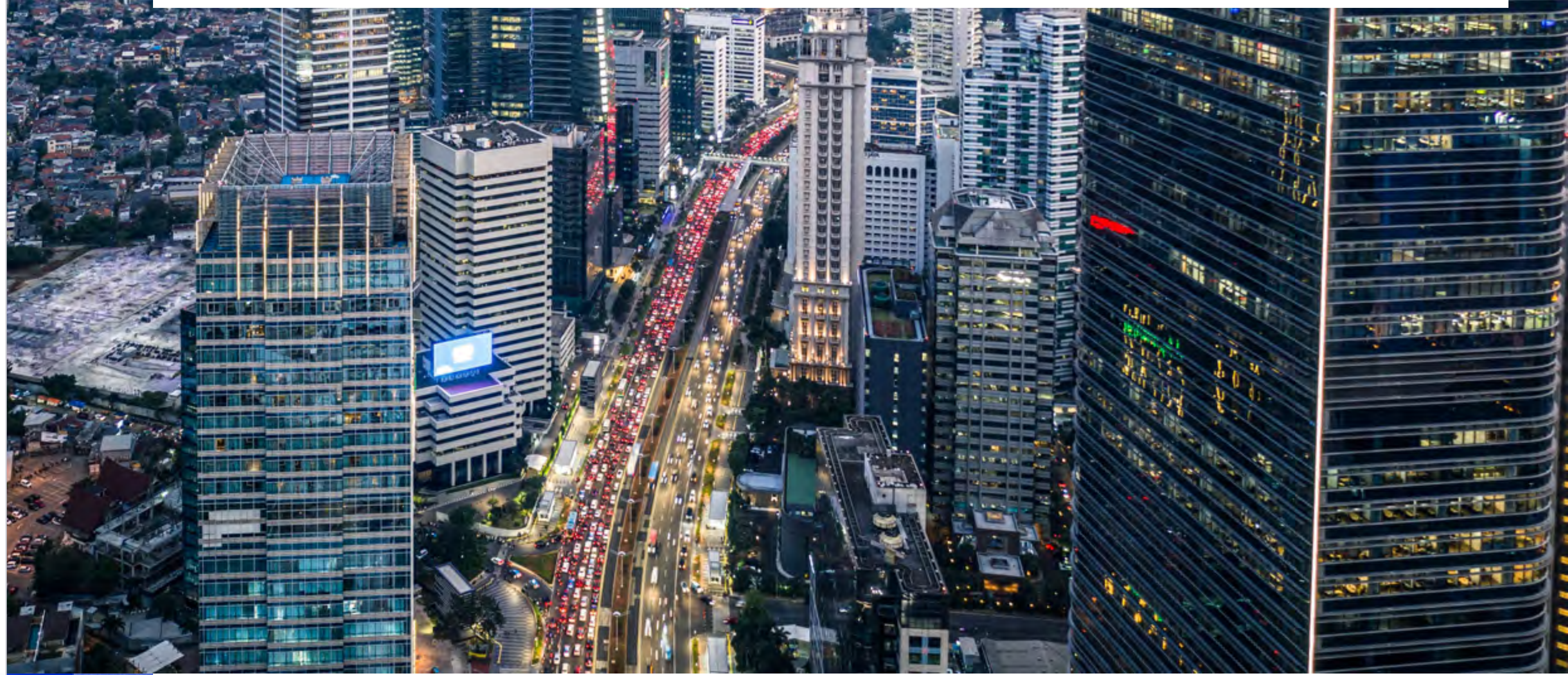
Jakarta's commercial and industrial sectors have shown consistent pattern over the past few years.

The office sector had exhibited a declining trend after the pandemic. Landlord have adopted a more flexible strategy by offering more incentives or accepting reduced rent to maintain occupancy rates. The situation worsened in 2023 with more new supply entering the market. Rents declined, and capital values dropped at a similar pace.

There were no major en-bloc retail sale transactions concluded in recent years, resulting in static cap rates. Similar to the office sector, retail landlords experienced no rental growth or even decline in rent to maintain retail occupancy, particularly to overcome the challenges during the pandemic.

The industrial sector has demonstrated stronger performance. With the emerging electric vehicles industry and data centre developments, investment in industrial land and logistic warehouses has exhibited strong resilient over the past few years.

Bank lending rates have been relatively steady in recent years, hovering around 7.9 to 8%, and inflation has been kept at a low rate below 5% thanks to effective government policies. Stability in both the economic and political spheres has provided a consistent investment environment in the business context.



Outlook

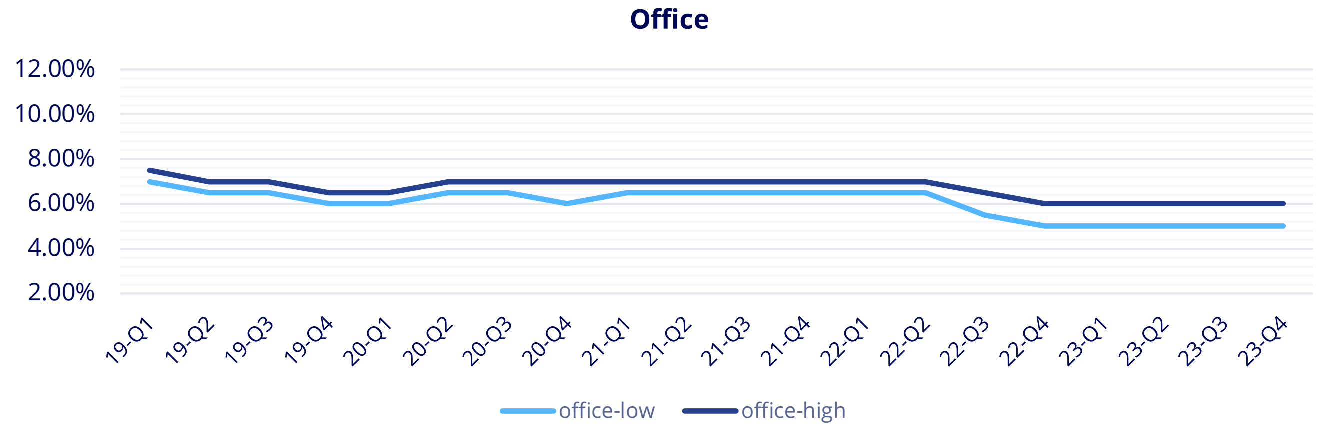
The office sector continues to be sluggish as vacancy rates remain high, and existing stock will take a while to be absorbed in the short to medium term. In the long term, such performance will lead to an increase in investors' expectations of cap rates due to the higher investment risk involved.

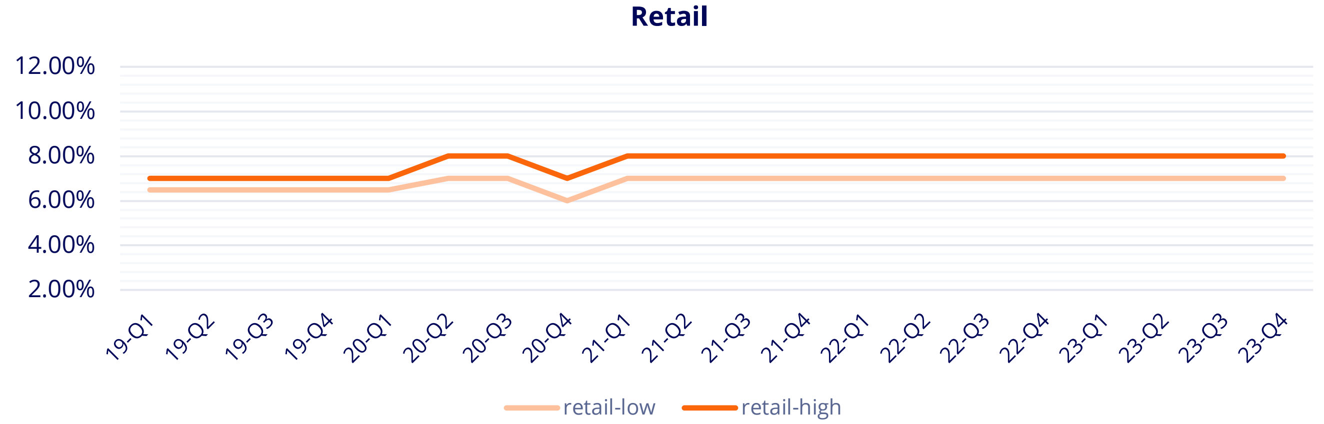
Retail has indicated signs of recovery, with occupancy continuing to improve and rentals growing steadily.

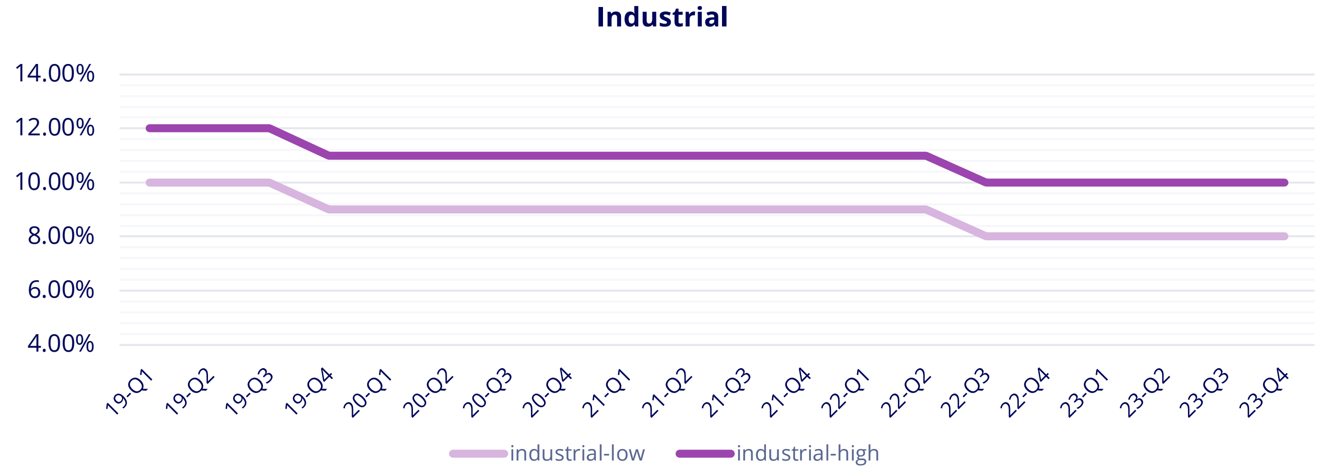
Bank Indonesia anticipates an optimistic economic outlook for the country, expecting a 4.7-5.5% growth in 2024. Overall sentiment remains positive, stimulating consumer spending in favour of the retail sector.

The emergence of new industries such as electric vehicles (EV) continue to be strong, and Indonesia plays a pivotal role in the electronic vehicle production, ranging from EV plants to batteries. Hence, the industrial sector is anticipated to be in a growth mode in the future.

Manila







Manila industrial cap rate is based on land lease cap rate for industrial estates just outside Metro Manila, i.e. Batangas, Cavite and Laguna areas.
The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations
For the past five years, the Philippine cap rate story can be characterized by a tale of shifting landscapes triggered by the COVID-19 pandemic.

The property landscape during pandemic made a 180 degree turn, with the office and retail market reeling from the lockdowns and work-from-home trend, and the industrial sector experiencing a resurgence to support the burgeoning e-commerce, which requires massive logistics warehouses everywhere.

Philippines Offshore Gaming Operator (POGO) represented 1/3 of the demand and occupied 10% of the office stock before the pandemic. Now POGO is a minor office demand driver, relegated mostly to the Bay Area, as the government has started to clamp down on their operations. Demand will most likely be driven by the business process outsourcing (BPO) industry and traditional occupiers.

With the lack of open spaces such as parks in the city, retail malls provide Filipinos with public spaces. Retail malls took a beating during pandemic but have already rebounded to their pre-COVID heydays, as their position in Philippine society is well-entrenched (Filipino Mall Culture).

There is a dearth of prime office and retail mall transactions in the major CBDs, as these are owned by the major developers. The shifts in the property market cycle do not prompt them to sell their assets, except for transferring them to their own REIT company. They are in for the long haul and would more likely redevelop than sell.

Major developers are mostly involved in industrial estate development, with the sale or lease of their serviced lots. Pre-pandemic occupiers are mostly engaged in manufacturing in export processing zones (special economic zones) and warehousing / logistics. Post pandemic, we have seen the rise of in city / near-city logistics, data centres and cold storage. Industrial land prices showed a gradual improvement in value even during the pandemic, but land rents did not keep pace.

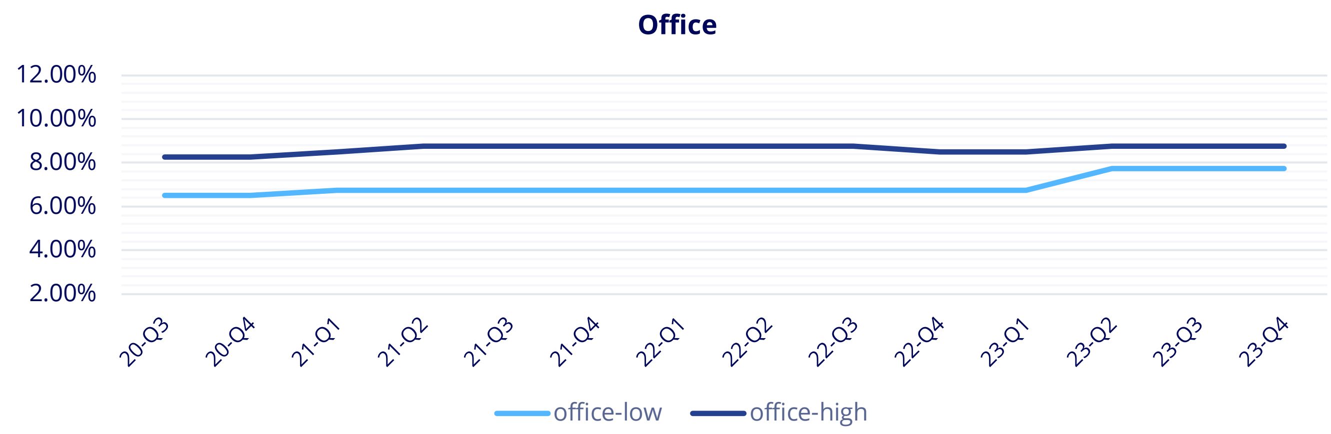
Outlook
Office cap rates are expected to be flat to slightly declining, as office vacancy is starting to stabilise. Office work strategy (work from home, hybrid, rent-to-own) across sectors are starting to firm up, so any uncertainty regarding this would have been resolved within 12-24 months.

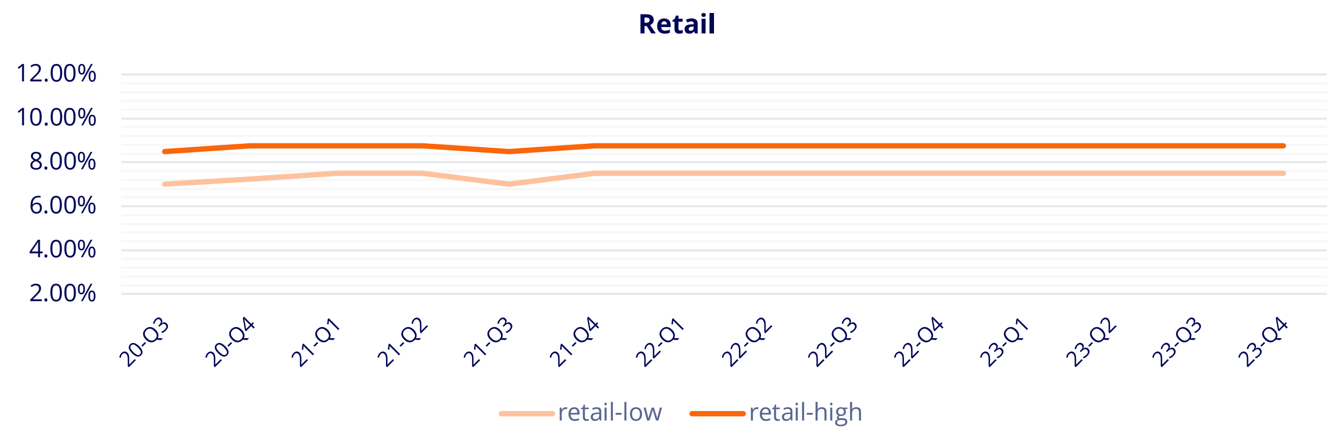
Retail cap rates are expected to decline, as the sector has shown that the country's mall culture is vibrant and seemingly unaffected by the rise and stickiness of e-commerce, with Filipinos preferring the brick-and-mortar stores.

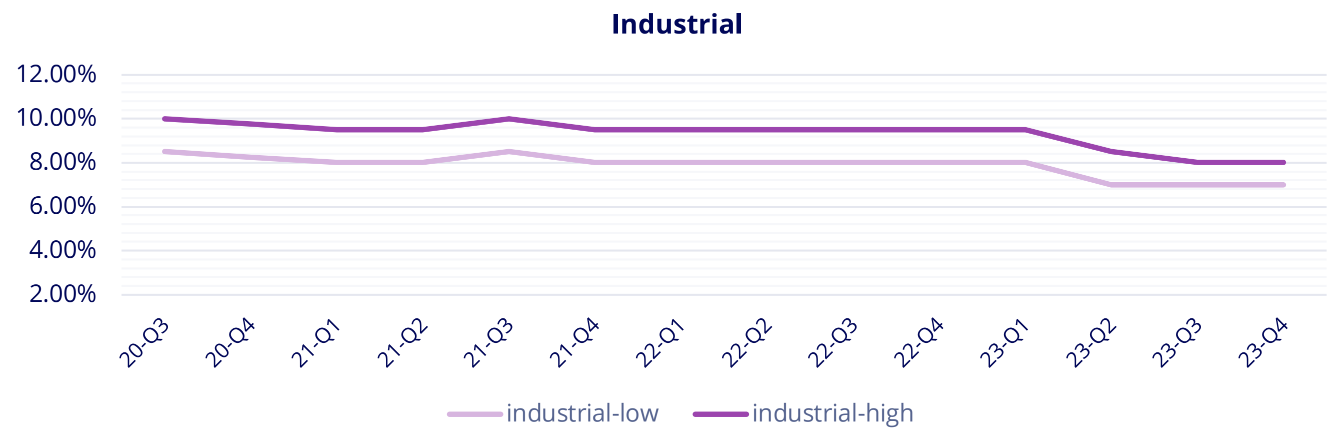
Industrial cap rates (based on land values and land rents outside Metro Manila) are expected to go down, as land values continue to improve due to government infrastructure projects outside the capital city, which have improved accessibility and connectivity of the area. Rents are expected to increase, albeit more slowly compared to land values.

As development spreads to the city fringe, there is an increased intensity of development of residential and commercial areas, which will also have a proportional effect on industrial land values.

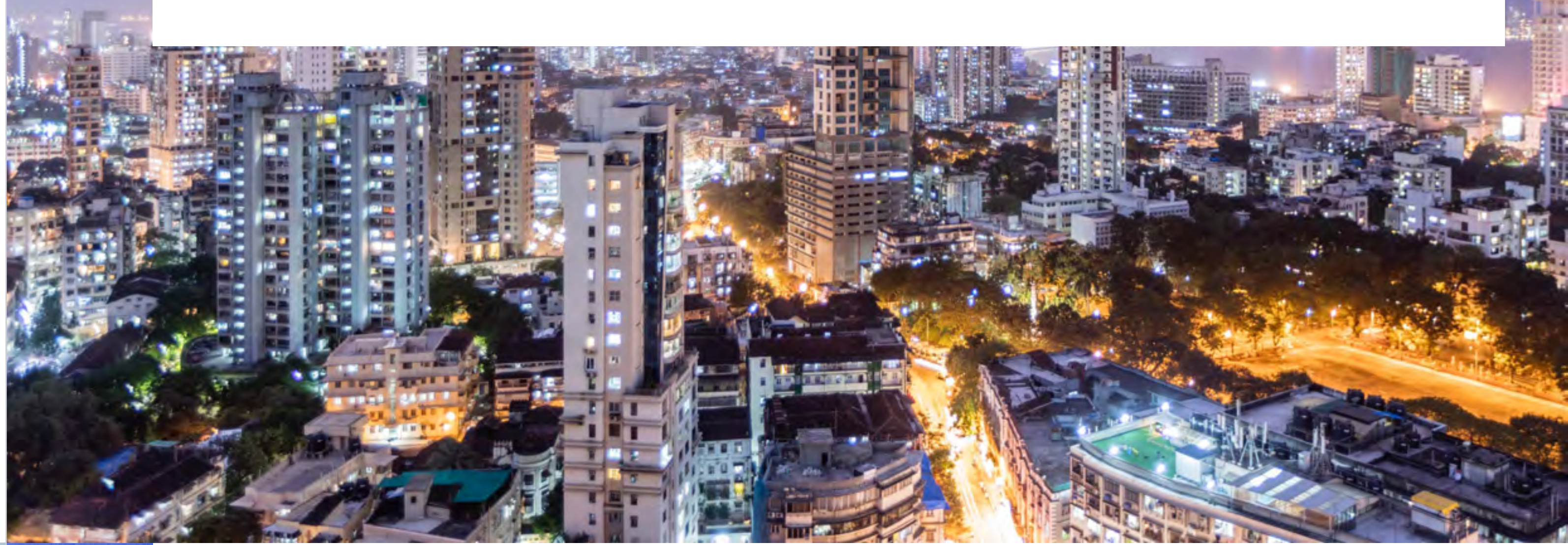
Mumbai







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.



Valuer's Observations

Mumbai, the financial capital of India, saw most of the received global capital and increased availability of domestic capital deployed into CRE. The listed REITs, both in CRE and retail had significant portfolio share in Mumbai too, allowed for price discovery reflecting asset net asset values (NAVs). The valuation of these assets was mostly backed by robust domestic demand and improved weighted average lease expiry (WALE) resulting in increased yield and adjusted funds from operations, though the market rent median stayed same across micro-markets. The strategies adopted around macro-economic factors like inflation, GDP growth and interest rates, put pressure on capital costs and along with new regulations pertaining to fractal ownerships resulted in discerning trades. This has elevated the cap rates converging closer to those of industrial assets.

Post-COVID in Mumbai, consumption demand witnessed elevated growth in average trade densities resulting in higher in-place rents realised more specifically in organised retail assets which adopted minimum rent plus revenue sharing model leading to better NOIs, that led to better valuations. However, the hyper-growth was restricted to luxury and premium segments, not benefitting the broader market including the high streets that saw yields stabilise maintenance capex grow and flatlining of gross rents. This kept the retail cap rates range bound over last few years.

Though cap rates were similar to CRE in 2020, continued growth in private consumption, business demand and supportive policy making ensured that industrial assets investments grew strongly, more specifically in warehousing and data centres, with improved asset valuation due to cap rates compressing by 150–200 bps.

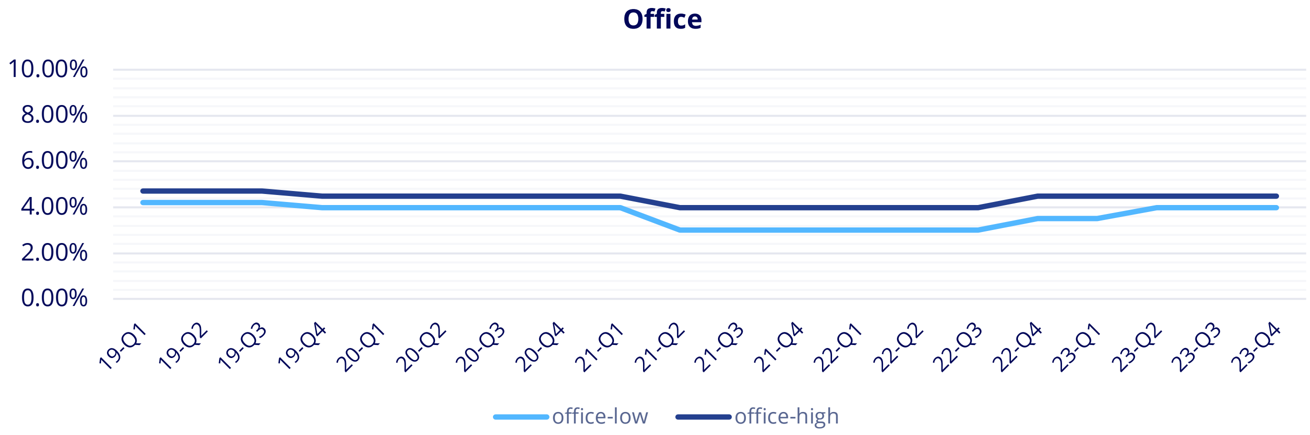
Outlook

Mumbai, the financial capital of India which is among the fastest growing large economies, is slowing down CRE supply both in city core and its suburbs that is expected to address demand flatlining since 2022.

Further, stringent ESG requirements in sustainable fundings, requires capital deployment for retrofitting CRE assets to be compliant is offsetting the gains in improvements to larger market trends. The higher capital costs are expected to only support focused opportunity trades through CRE assets that are part of successful REITs, where access to public money is possible, have shown improvement in cost of capital.

Retail and CRE assets cap rates are expected to remain stable due to capital allocations and trades not improving from institutional perspective while industrial cap rates will further compress slightly due to increased capital exposure, high demand and supportive incentive programs to grow the segment.

Seoul



The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

The Korea office investment market recorded a peak transaction volume in 2021 due to abundant liquidity, driving a decline in office cap rates.

The base rate* increased sharply from 1.25% to 3.25% in 2022, weakening the overall sentiment at the time. This sentiment continued into 2023, resulting in a lack of investment volume due to increased capital costs.

Overall, office vacancy remains historically low thanks to solid underlying demand and tight supply. Rental performance has improved.

For the past few years, investors have favoured logistics centres assets, pushing up prices. The cap rates of ambient logistics centres have been in a continuous downward trend. It fell by approximately 2% between 2019 and 2021 as it was heavily sought after at the time, particularly for A-class logistics centres located in the metropolitan area. The market has gradually softened due to an increase in supply, causing vacancy to rise. Landlords have experienced very little rental growth, especially in logistics facilities that are not considered premium in terms of location and facilities. Prime assets have exhibited resilience.

Outlook

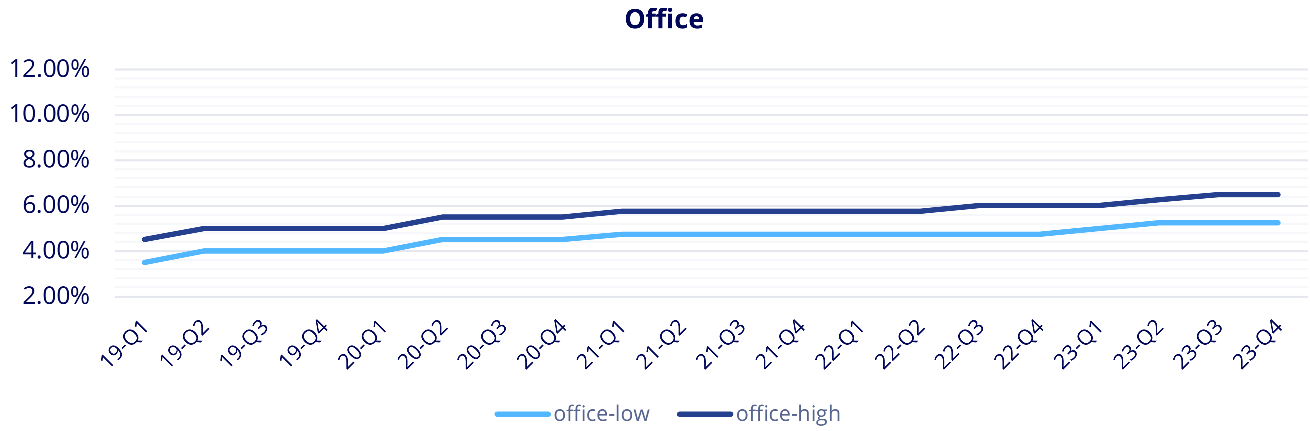
The country has shown growing signs of economic recovery led by exports, although domestic demand has yet to pick up. Inflation grew by 3.4% YoY in 2023 and is projected to ease to 2.4% this year. Unemployment remains at a low level. The Bank of Korea froze its base rate* for the eighth straight session at 3.5%. Investor sentiment is anticipated to improve in the next 12 months, provided interest rates remain stable and there is low volatility in the financial markets. This would stimulate an appetite for rebound from domestic institutions on prime office assets, in which they have been the dominant player in the past.

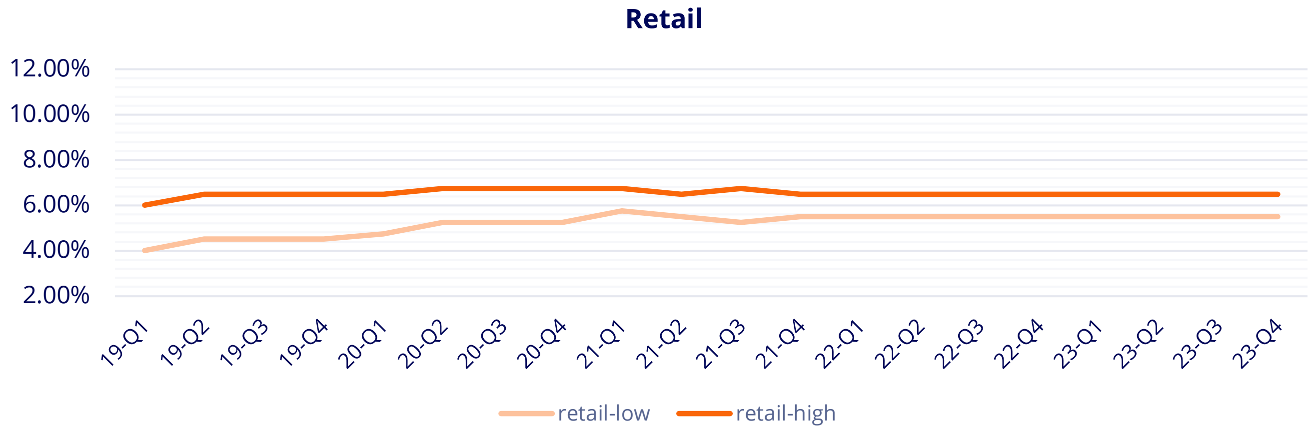
The Seoul office sector continues to be a landlord market in the short to medium term, with rents and NOI levels being upheld. Sales price will be under more pressure due to a lack of liquidity in the market. On the other hand, foreign investment is expected to be more active due to the weakening of the Korean Won against the US dollar. With the expectation that interest rates will remain stable and have reached their peak, investment activities will be favoured.

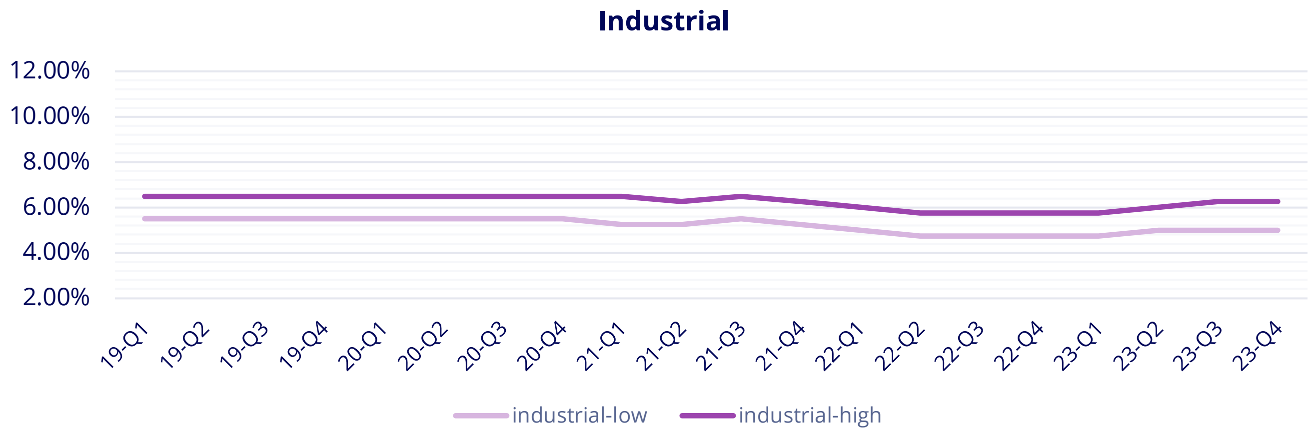
The cap rates of logistics centres are projected to increase with more new supply coming to the market, putting pressure on the vacancy rates and limited rent growth.

**base rate refers to the interest rate set by the central bank of South Korea to guide monetary policy.*

Shanghai







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations
Shanghai has been the primary destination for commercial property investment, and cap rate movements have experienced some turbulence, especially since the pandemic.

The market was at its peak in 2018 when investment opportunities were actively sought after in first-tier cities, keeping the cap rate at a low level. The China market, in general, was affected by Sino-US trade tensions from mid-2019 and switched to a cautious gear, resulting in a larger room for price negotiation and upward movement in cap rates.

Office and retail leasing markets have been stressed by the oversupply situation in recent years, which is reflected in the sluggish recovery in rental growth momentum and rising cap rates.

In contrast, the rapidly evolving logistics and manufacturing industries have driven robust demand for industrial properties during 2018 and 2022. Industrial lease terms are usually longer than other commercial sectors, and with the government subsidies provided to landlords and tenants during the pandemic, they have remained resilient. Logistics warehouses and industrial workshops was one of the hottest spots for investors at the time, with rents relentlessly increasing, leading to higher capital values and compressing cap rates. The massive new supply that started in Shanghai and its surrounding cities towards the end of 2022 has created a competitive leasing market.

Outlook
Notwithstanding the economic headwinds and challenges, Shanghai is still the most sought-after and active commercial property market in China, both in terms of leasing and investment.

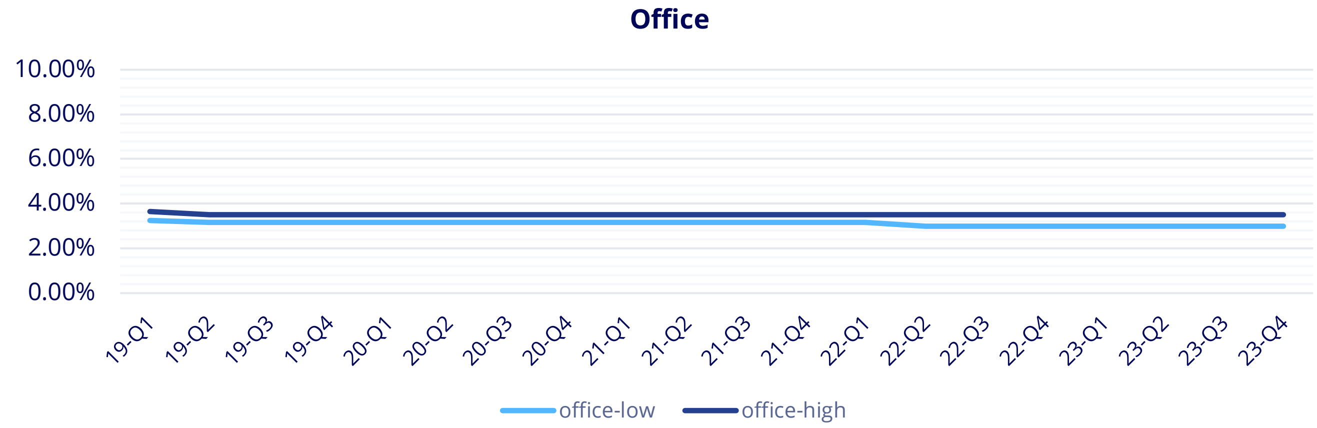
Looking forward, Shanghai should continue to stand out as the financial and commercial centre of the nation and the home to MNCs.

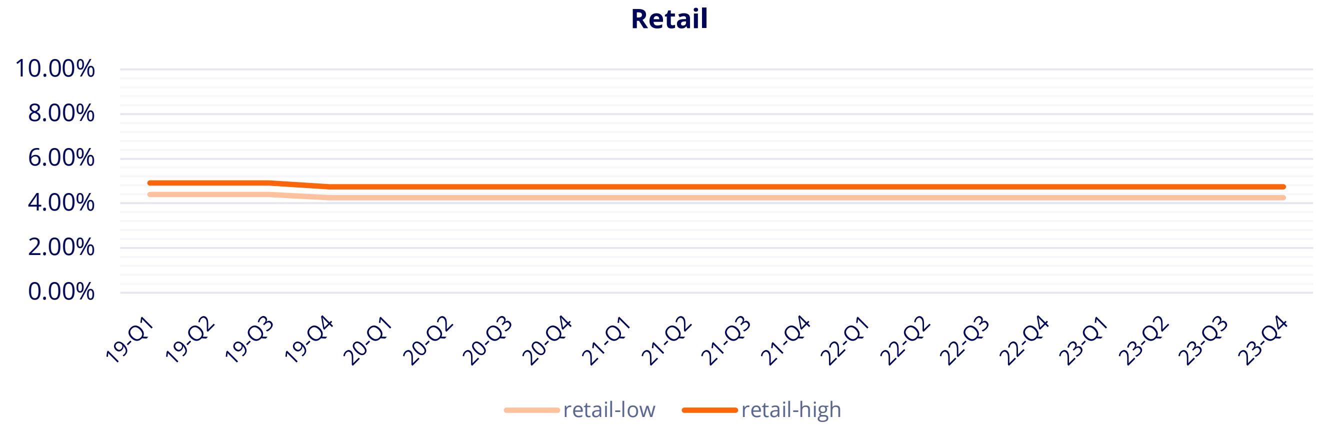
Prospects for the office and industrial sectors have weakened largely due to an oversupply of available spaces, and the demand is unable to match the surplus.

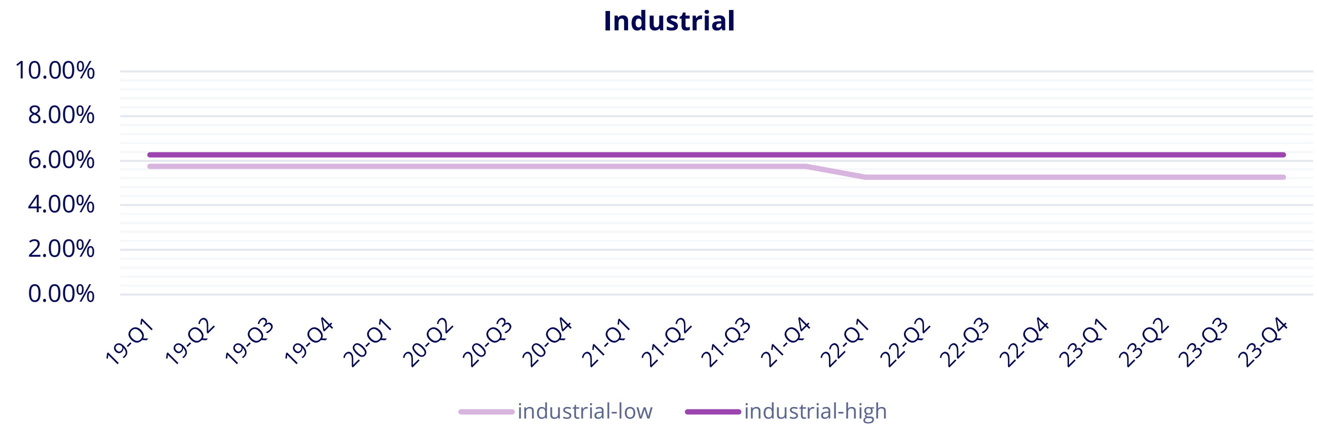
The temporary economic downturn is most likely to be eased as the government strives to retrieve economic growth momentum, especially in sectors such as manufacturing, trade, consumption and hi-tech industries.

Investors should regain confidence once leasing demand shows clear signal of recovery. From 2024 onwards, the investment market may see more transactions contributed by investors targeting to buy at bottom prices, aiming for opportunistic return. Moreover, end-users will actively seek affordable assets with dual objectives of speculation and cost mitigation in the context of long-term leasing expenditures.

Singapore







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

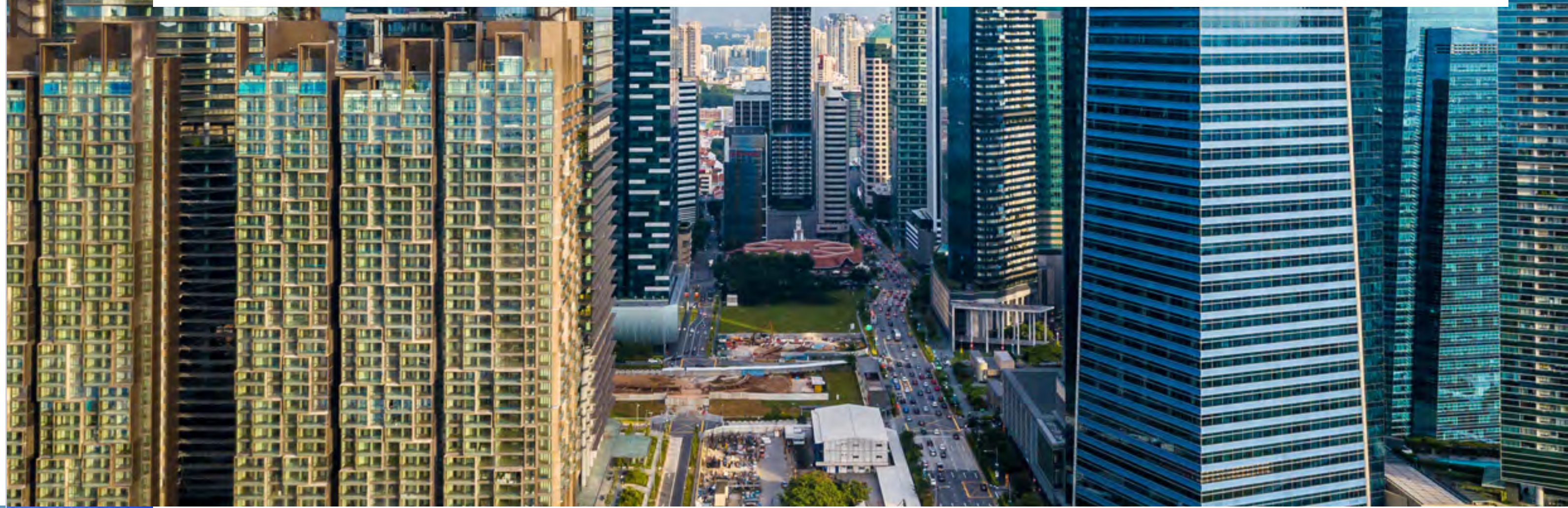
During the COVID-19 pandemic, the Singapore government employed fiscal measures and introduced five budgets in 2020, committing close to S$ 100 billion to help mitigate the impact of the pandemic and stabilise the economy.

As a result, Singapore's prime office, retail and industrial cap rates have been remained relatively stable and have even compressed slightly over the past few quarters. This stability has been maintained despite the US Federal Reserve adjusting interest rates 11 times, from 17 March 2022 with rates varying between 0.25% and 0.50% to 27 July 2023, with rates ranging from 5.25% to 5.50%, in order to control inflation. No further adjustment have been made since then. This has also had an impact on interest rates in Singapore. The stable economy and liquidity in Singapore have given investors confidence to continue supporting the real estate market.

For prime office spaces, this can be attributed to a strong return to office momentum post-COVID, leading to healthy rental growth, a tight supply, and the strong holding power of institutional asset owners.

Prime retail cap rates have remained relatively stable due to the limited number of comparable prime retail asset transactions, as these assets are tightly held.

Prime logistics cap rates have slightly compressed due to the high demand for prime logistics assets and tight vacancies. Consequently, there have been few transactions in this sector.



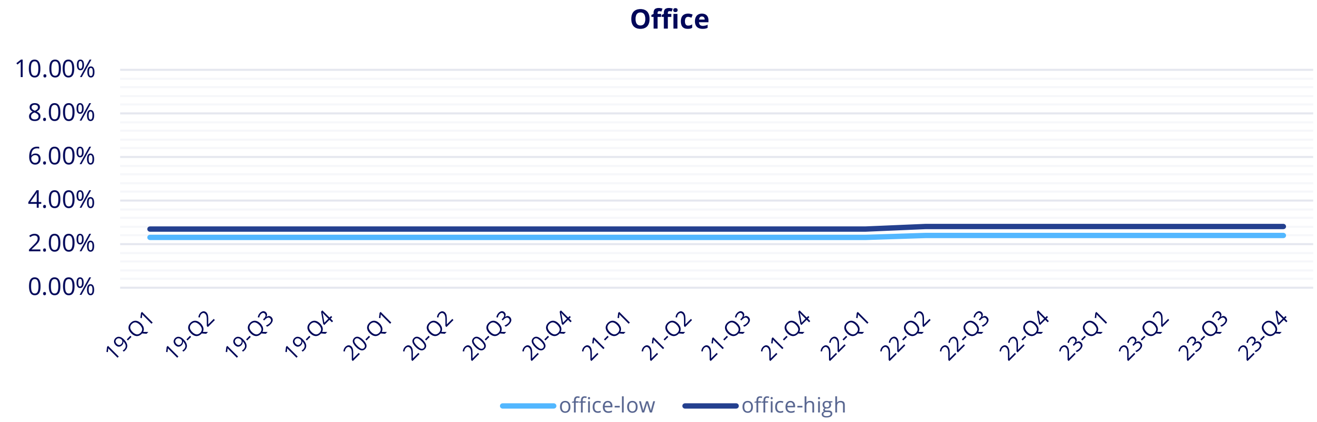
Outlook

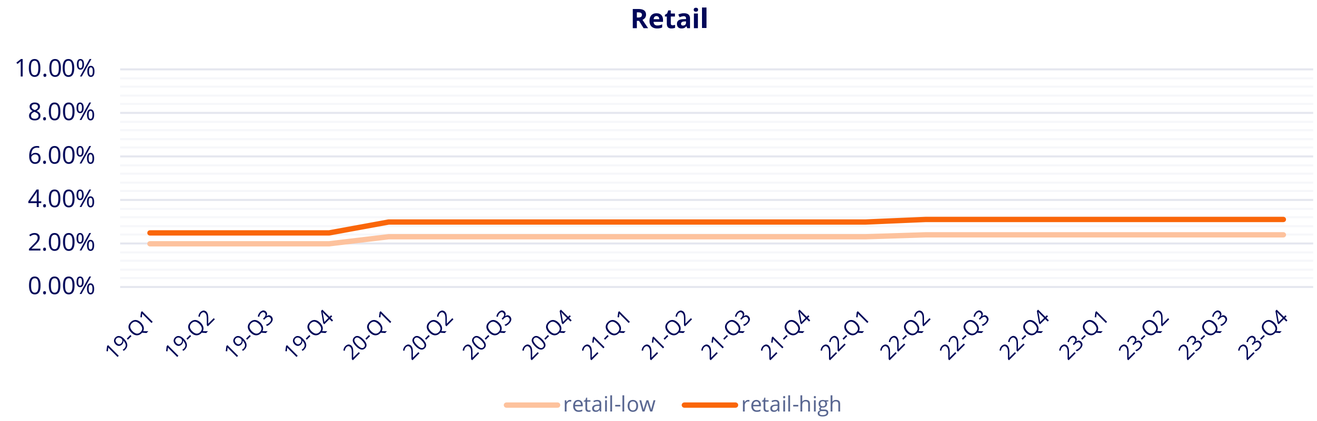
Prime cap rates in Singapore are expected to continue remaining stable due to the country's macroeconomic and political stability, making it a safe haven for investors. Most of these prime assets are tightly held by institutional investors with strong holding power. There has also been continuous investment interest, especially from private wealth.

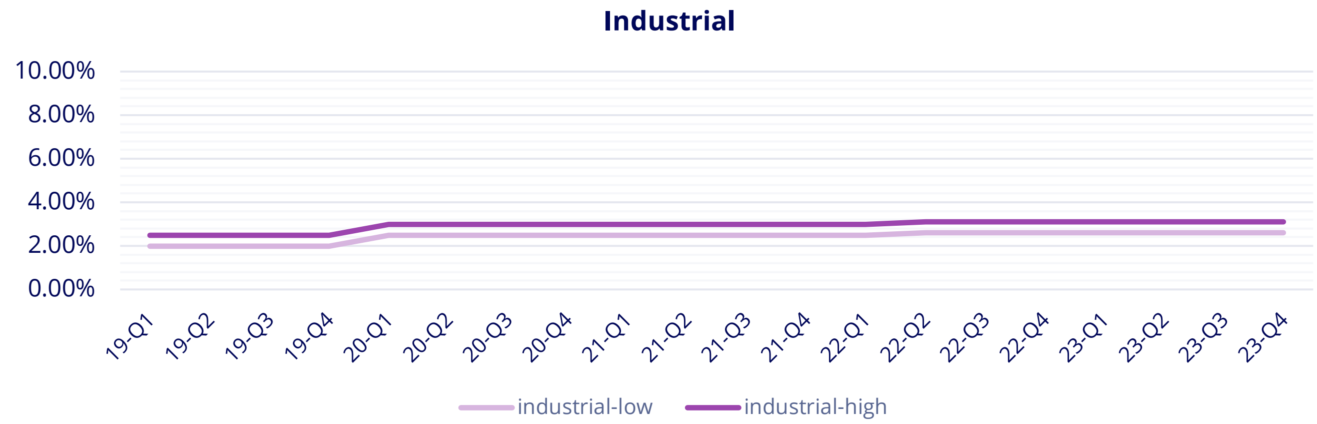
Given the substantial amount of capital waiting to be deployed, cap rates may even compress slightly when interest rates are anticipated to decrease in the second half of 2024.

Overall, the cap rates for prime office, retail and industrial assets are anticipated to stay relatively stable in the near future, with a slight inclination for them to move downward.

Taipei







Taipei industrial sector cap rate refers to industrial offices buildings in the Taipei, which also include factory, warehouse and logistics in these buildings.
The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

Over the past few years, there have been two waves of movements in terms of the cap rates across sectors.

• During the China / US trade war, together with the start of pandemic in early 2020, many industrial occupiers returned or set up separate facilities back in Taiwan as a contingency plan. Leases were signed at a higher rental level, but transaction volume remained low at the time.

• When US interest rate increased and Taiwan's central bank began to follow suit in Q1 2022, there was an overall increase in the cost of investment across all sectors.

The real estate market has always been dominated by local institutions such as insurance companies and developers.

With limited new supply over the past few years, both office rental and prices have steadily grown at a similar pace, resulting in relatively stable cap rates over the years. This is particularly true for listed insurance companies, which are governed by local regulations that require a minimum annual return from investments, currently set at 2.845%. Such investments are intended for long-term holding and are infrequently put up for sale.

Historically, Taiwan interest rates are adjusted following the movements of US interest rates.

Outlook

We anticipate that cap rates will remain relatively stable or experience only modest fluctuations over the upcoming 12 months.

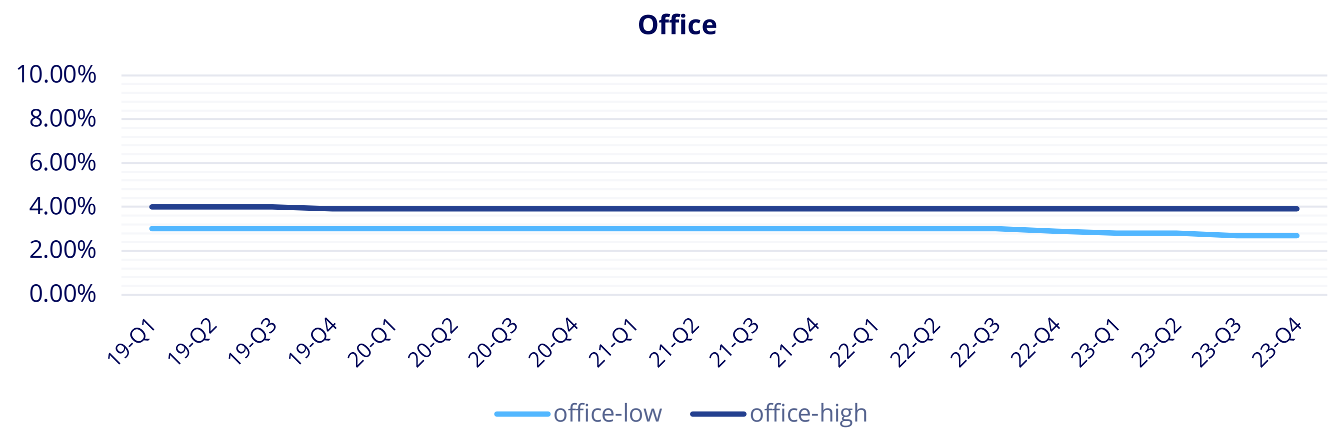
Local real estate players remain income-driven, striving for stable revenue stream and capital gain after a long period holding.

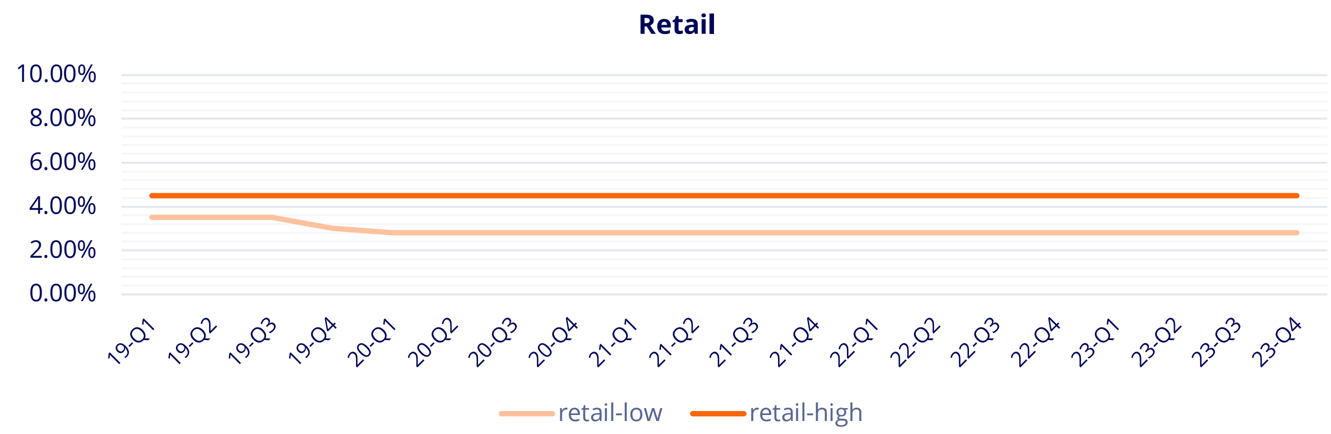
Taipei is anticipated to be a relatively steady market in terms of cap rates across sectors. It is important to consider the impact of other factors that may influence the market:

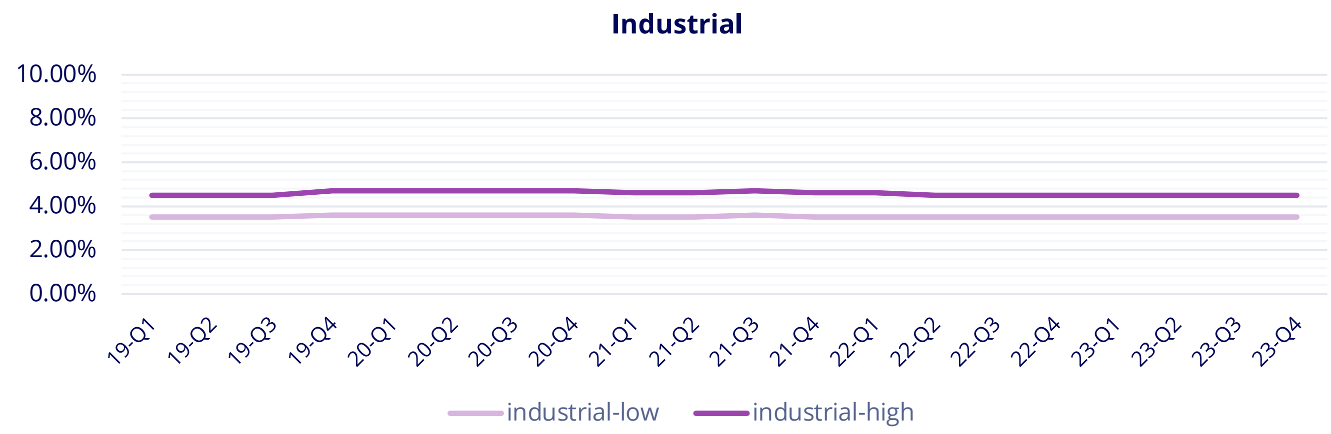
• With the potential for new office and tech office supply, we expect moderate rental growth and stable cap rates for both office and industrial sectors in the next 12-24 months.

• Rental in prime retail areas have been gradually increasing. We expect a moderate increase in the cap rate in the short to medium term. This situation will put pressure on the cap rate to decrease and reflect the underlying value of the asset in the longer term.

Tokyo







The above rates are gross yields for Class A assets in prime locations in their class in the respective locations based on survey results from our professional valuers / appraisers.

Valuer's Observations

The cap rates have generally been on a steady-downward trend since the Abenomics in 2012 creating a low interest rate environment. Trading of J-REITs exhibited that banks and investment trusts seeking investment opportunities had been significantly overbought since 2013 resulted from the Abenomics' monetary.

The global stock market crash in 2018 and the spread of the COVID-19 since 2020 caused a short-term rise in the cap rate for real estates. Generally, the cap rates have remained steady and relatively flat, with a slight downwards bias.

The amount of oversold and overbought has stabilised after 2022, and the impact of Abenomics has been overshadowed by the pandemic.

In the office sector, the cap rates were on a downtrend due to strong demand for office space in central Tokyo. Office market in Tokyo metropolitan area has softened slightly during the spread of the pandemic, even for the well-located prime assets. Retail exhibited a similar pattern. Like many other markets in the region, demand for logistics facilities has been growing due to the expansion of e-commerce.

Outlook

Foreign investors may reduce their CRE investment in Japan due to concerns about rising interest rates and the potential impact on future cap rates.

Occupiers moving to new office buildings may push up the vacancy rates in older premises, resulting in investors and owners being more caution when assessing its risk component.

Considering the recent trends in government bond yields, the overall economic condition, and the take up and absorption rates, we anticipate office cap rates to remain flat with pressure to a moderate increase over the next 12 months.

Cap rates for retail properties are expected to be steady and trending down gradually benefit from the economic recovery and the prospect of inbound travellers and weak yen.

For logistics facilities, demand stays healthy with e-commerce market still in a grow mode. This is hindered by the pile of new developments in the Tokyo area that may easily cause supply and demand imbalance. With that, it is anticipated cap rates to be steady over medium term.

For further information, please contact:

CK Lau
Managing Director | Asia
Valuation & Advisory Services
+852 2822 0665
ck.lau@colliers.com

Dwight Hillier
Managing Director | Australia
Valuation & Advisory Services
+61 2 9257 0219
dwight.hillier@colliers.com

Kane Sweetman
National Director | New Zealand
Valuation & Advisory Services
+64 9 356 8904
kane.sweetman@colliers.com

Explanatory notes

The information contained in this report has been from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Industrial sector includes warehouse and logistics.

About Colliers

Colliers (NASDAQ, TSX: CIGI) is a leading diversified professional services and investment management company. With operations in 66 countries, our 19,000 enterprising professionals work collaboratively to provide expert real estate and investment advice to clients. For more than 29 years, our experienced leadership with significant inside ownership has delivered compound annual investment returns of approximately 20% for shareholders. With annual revenues of $4.3 billion and $98 billion of assets under management, Colliers maximizes the potential of property and real assets to accelerate the success of our clients, our investors and our people.
Learn more at corporate.colliers.com, X @Colliers or LinkedIn