

Intelligent Investment

2022 Market Outlook

REPORT

ASIA PACIFIC
REAL ESTATE

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2022 Asia Pacific Market Outlook

Harnessing Growth, Navigating Uncertainty



Growth

Uncertainty

Strategy



Economy

Laggards become leaders

India and Southeast Asia economies to drive economic growth; limited inflationary pressure.

A prolonged pandemic

Emergence of new COVID-19 variants set to further delay economic and border reopenings.

Mitigate rate hike impacts

Review refinancing terms and lock-in low-rate loans.



Office

End of downward rental cycle

Forecast for Singapore upgraded; Shanghai, Beijing, Sydney and Melbourne set to reach a turning point.

Hybrid working and productivity

Companies to evaluate systems and policies to effectively manage hybrid working.

Plan early for lease expiries

Secure prime space before market recovers, especially in locations with limited new supply.



Logistics

Positive rental outlook

Higher supply in selected markets unlikely to derail rental growth in 2022.

Sustainability of demand

Rapid pandemic-driven expansion of recent years set to normalise.

Target modern and customised assets

Partner with developers for build-to-suit opportunities



Retail

A slow recovery

Delayed rental rebound in Australian CBDs; downgraded growth for Hong Kong SAR.

Shift in shopping patterns

Pandemic-related restrictions and closed borders to continue to cloud outlook

Evaluate upgrading opportunities

Take advantage of tenant-favoured markets to source well-located stores.



Investment

Milder yield compression

Interest rate hikes insufficient to erode yield spread.

Maintaining investment returns

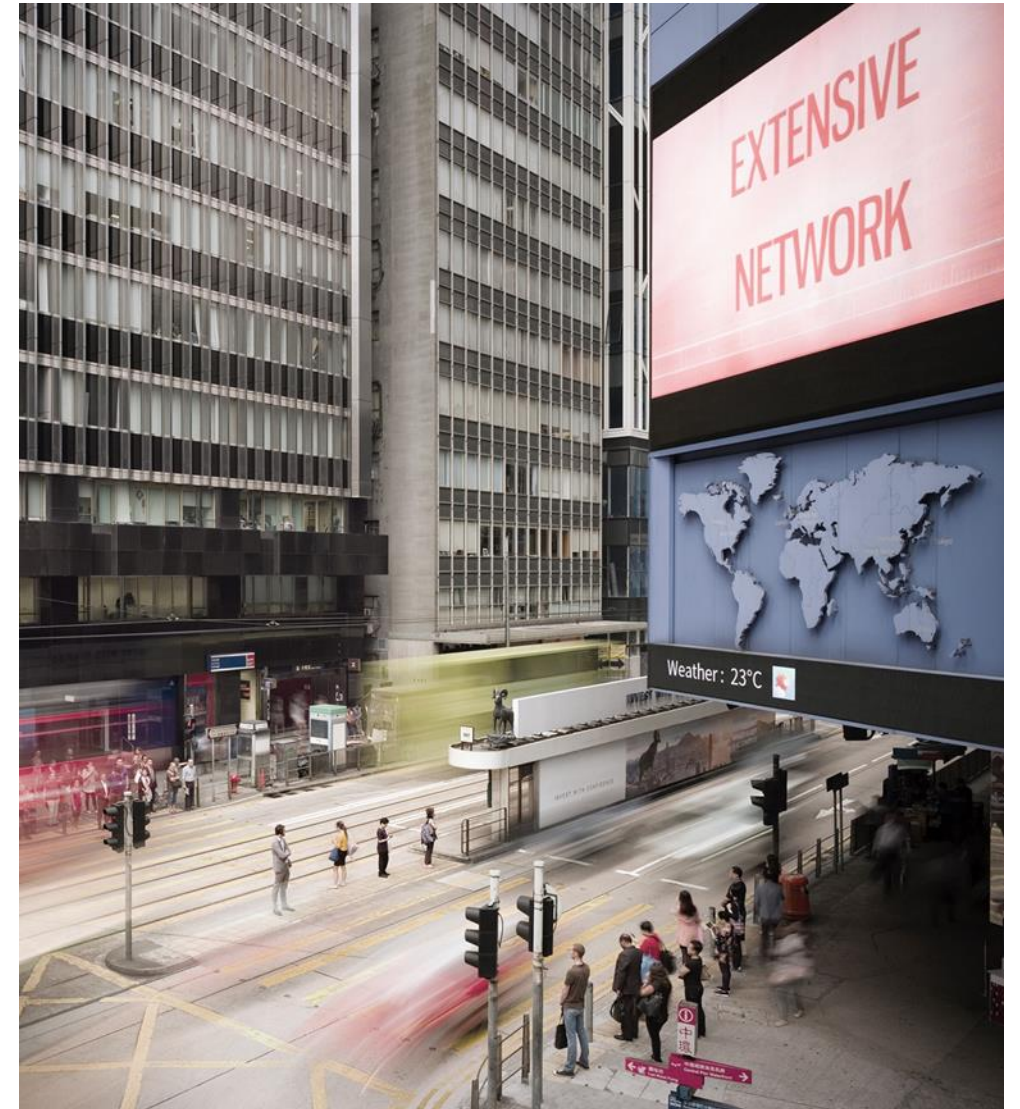
Investors to adapt to tight yields and interest rate uncertainty by adopting higher risk strategies.

Consider asset enhancement

Capitalise on opportunities arising from price dislocation in office, retail and hotel sectors.

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Foreword

Harnessing Growth, Navigating Uncertainty



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Head of Research, Asia Pacific

Despite ongoing challenges, 2021 saw Asia Pacific generally recover from the pandemic-induced recession. CBRE's 2022 outlook for the region is positive, with steady economic expansion expected throughout the year, led by outsized growth in India and mainland China. CBRE's 2022 Asia Pacific Real Estate Market Outlook, which features "Harnessing Growth, Navigating Uncertainty" as a central theme, explores how we expect the recovery in Asia Pacific's economy and commercial real estate market to play out in 2022, despite sustained pandemic-related headwinds.

We foresee that a rebound in leasing demand will bring an end to the downward rental cycle in the office and retail sectors, with the logistics sector also expected to enjoy another strong year of growth.

CBRE expects 2022 to feature faster decision-making, flight-to-quality relocation and workplace reconfigurations as companies gain confidence in the return to the office and the adoption of hybrid working.

Logistics space demand will continue to be driven by expansion by e-commerce and omnichannel distribution operators, while robust growth in the grocery, food manufacturing and delivery sectors is expected to fuel competition for cold storage space.

In addition to robust expansionary demand, we anticipate a rise in flight to quality requirements as more occupiers seek modern logistics facilities to enhance operational efficiency and install automation and other logistics technology.

Strong liquidity will fuel the investment market, underpinning a projected 5% - 10% year-on-year increase in Asia Pacific transaction volume, to what is expected to be a record high.

Overall, the outlook is bright for the Asia Pacific real estate market in 2022, with significant growth opportunities across sectors.

We hope you find this report useful and insightful and wish you good health and success in 2022.



The outlook is bright for the Asia Pacific real estate market in 2022, with significant growth opportunities across sectors.

01

Economy

India and Southeast Asia economies to drive growth; pandemic remains biggest downside risk to expansion; limited inflationary pressure.

Trends to Watch

01

EMERGENCE OF NEW COVID VARIANTS

The emergence of new COVID-19 variants has added a new layer of uncertainty to the pandemic and brought disruption to the economic recovery. Many markets have extended social restrictions and delayed border reopenings, which will impede cross-border business in 2022.

02

FASTER THAN EXPECTED US INTEREST RATE HIKES

Minutes from the U.S. Federal Reserve's meeting on 15 December 2021 indicate that rate hikes may come faster and sooner than expected, heightening concerns about potential capital outflows from emerging markets. While most countries in Asia Pacific are in no rush to put up rates, mainland China has already lowered its Required Reserve Ratio (RRR) and is likely to maintain an accommodative monetary policy in 2022.

03

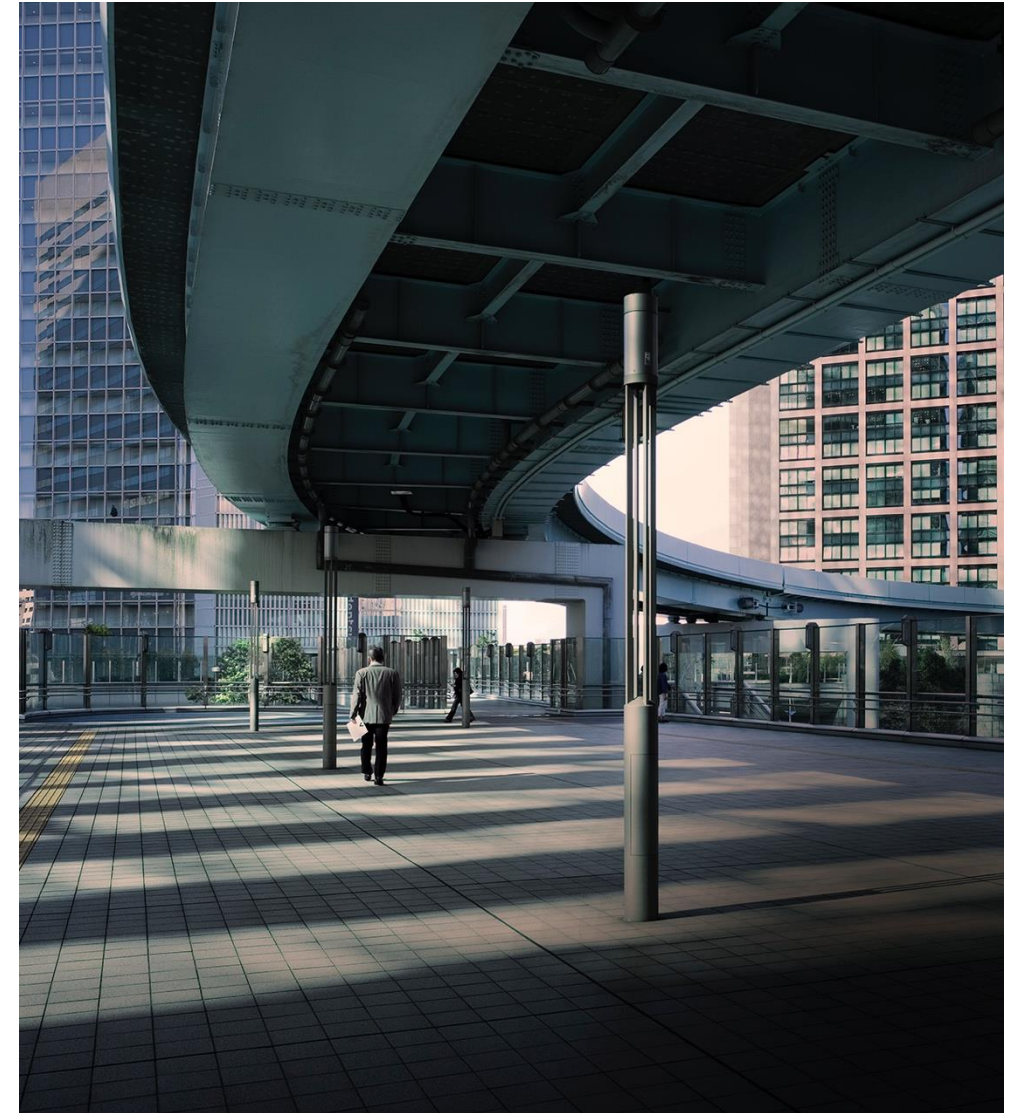
RISING DEBT AMONG MAINLAND CHINESE DEVELOPERS

Following Guangzhou Evergrande's highly publicised debt struggles in late 2021, there are fears that more mainland Chinese property developers will fail to resolve debt payments in 2022 amid falling sales, restricted access to credit, and slower economic growth. With real estate accounting for around one-fourth of mainland China's economy, which is highly investment-driven, a potential debt crisis could derail the recovery in Asia's largest economy.

04

ONGOING GEOPOLITICAL TENSION

U.S-China relations continue to deteriorate, with disputes spanning beyond trade into other areas such as supply chains and financial markets. Tension between mainland China and several neighbouring countries has also intensified, adding risk to cross-border investment. Investors and corporates are expected to review regional operations and consider China-plus-one policies to reduce the over concentration risk.



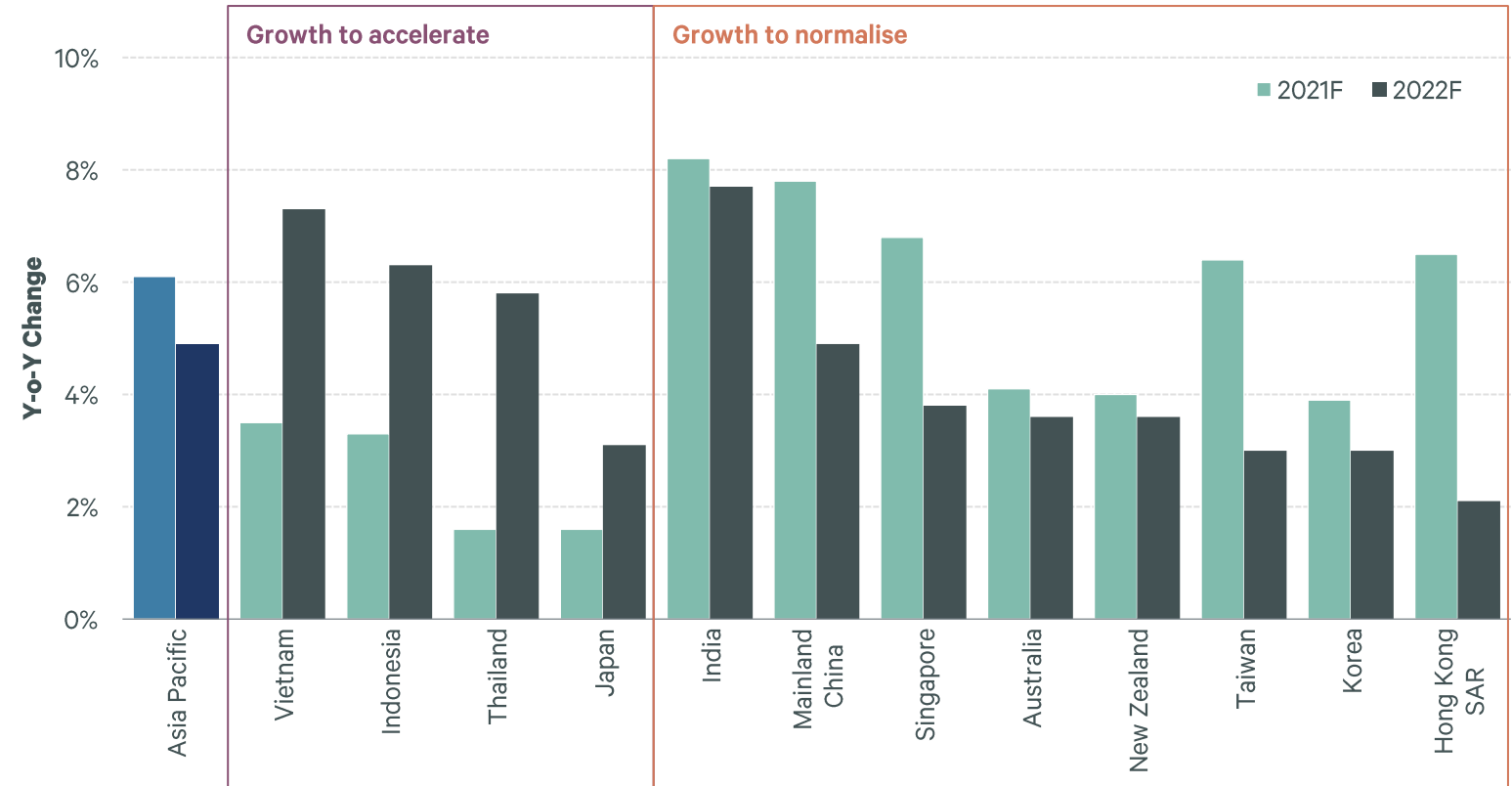
Regional Economy to Remain Steady but Mainland China Slowdown Poses Risk

Asia Pacific economies mostly recovered from the pandemic-induced recession over the course of 2021. While some countries including Korea and New Zealand have gradually withdrawn fiscal and monetary stimulus as inflation picks up, others such as Japan and mainland China are maintaining accommodative policies to support growth.

CBRE expects Asia Pacific to continue to see steady economic expansion in 2022, led by outsized growth in India and Southeast Asia. In mature economies such as Australia and Singapore, growth will be driven by a solid service sector rebound and strong consumption spending. The stronger growth expected in emerging markets such as Vietnam and Indonesia will be due to their relatively lower base in 2021 and continued export demand. With the rapid vaccine rollout and rebound in consumer sentiment, robust domestic markets will support steady economic growth.

Slower growth in mainland China will add some downside risk to the regional economy in 2022. Economic growth momentum was modest in H2 2021 due to a residential market downturn and authorities' zero-COVID approach, which weighed on domestic consumption. With the economy set to remain under pressure in H1 2022, CBRE expects macroeconomic policy to become more accommodative in the coming months. In addition to policy easing in the real estate sector, recent measures include rate cuts and the extension of preferential tax treatment for annual one-time bonuses.

Figure 1: 2021 - 2022 GDP Growth Forecast for Major Asia Pacific Markets



Source: CBRE House-View, Oxford Economics, January 2022.

Subdued inflation allows interest rates to remain low

In contrast to elevated inflation in the U.S. and Europe, prices in Asia Pacific remained relatively stable in 2021. This scenario has come about primarily due to the limited pandemic-induced disruption in Asia Pacific compared to other regions. CBRE expects the headline Consumer Price Index (CPI) in 2022 to be only slightly higher than the pre-pandemic average across the region. Slower growth in mainland China and the spread of the Omicron variant may affect growth prospects and the subsequent timing of monetary policy adjustments. While the U.S. Federal Reserve has signalled that its tightening of monetary policy may commence as early as March 2022, interest rates in most Asia Pacific markets, except Korea, Australia and New Zealand, will remain on hold as authorities seek to provide supportive conditions for an economic recovery.

Figure 2: Inflation Forecast for Major Asia Pacific Markets

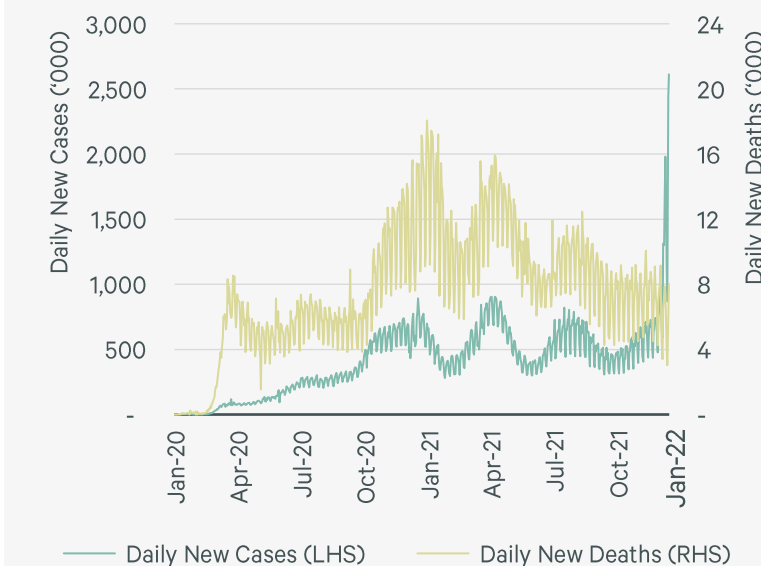


Source: CBRE House-View, January 2022.

New variants a cause for concern

The emergence of new variants of COVID-19 continues to make it difficult to predict the course of the pandemic, with the Omicron outbreak in late 2021 heightening worries about vaccine effectiveness and prompting many Asia Pacific markets to extend or tighten social restrictions and reintroduce strict border controls. While delays to border re-openings will inhibit the recovery in 2022, it is hoped that the situation will normalise as the vaccination rate in most parts of the region improves.

Figure 3: Global Daily New COVID-19 Cases and Deaths ('000)



Source: Our World in Data, CBRE Research, 6 January 2022.

Supply chains set to normalise

Pandemic-related disruption to regional and global supply chains has driven a sharp increase in shipping costs since 2020. At the same time, surging consumption demand driven by the reopening of the U.S. and Europe and labour shortages in those markets has pushed up long-distance shipping prices. The global cost of shipping a container from mainland China to Europe or the U.S. has risen by more than 500% over the past two years, according to the Freightos Baltic Index¹. Despite the frequent resurgence in new COVID-19 infections, CBRE expects supply chain pressure to ease over the course of H2 2022. Consumption demand will normalise while inventory levels increase, while shipping capacity will gradually improve. Multiple shipping data indices indicated a slight decline in prices for leading trade routes towards the end of 2021, with the Global Container Freight Rate Index down 16.3% from its peak in September 2021.

¹The Freightos Baltic Index measures daily 40-foot container rates by freight forwarders for 12 main shipping routes through Asia, Europe, and the Americas. The rates include shipping prices and other fees but exclude taxes and port fees. Source: fbx.freightos.com, MarcoMicro, January 2022.

02

Office

Downward rental cycle to end; leasing demand to normalise as companies prepare for post-pandemic working patterns; occupiers advised to plan early for lease expiries; investors set to renew interest in office assets.

Trends to Watch

01

CLEARER GUIDELINES AROUND HYBRID WORKING

CBRE expects companies to focus on implementing hybrid working by adopting clearer guidelines and greater coordination among/within teams. While occupiers would like to secure cost savings by using less space, they hold concerns about the potential impact on productivity, engagement and corporate culture. The challenge for occupiers will be how to redefine the role of the office while accurately gauging space utilisation and creating an agile office network for a far more dispersed workforce.

02

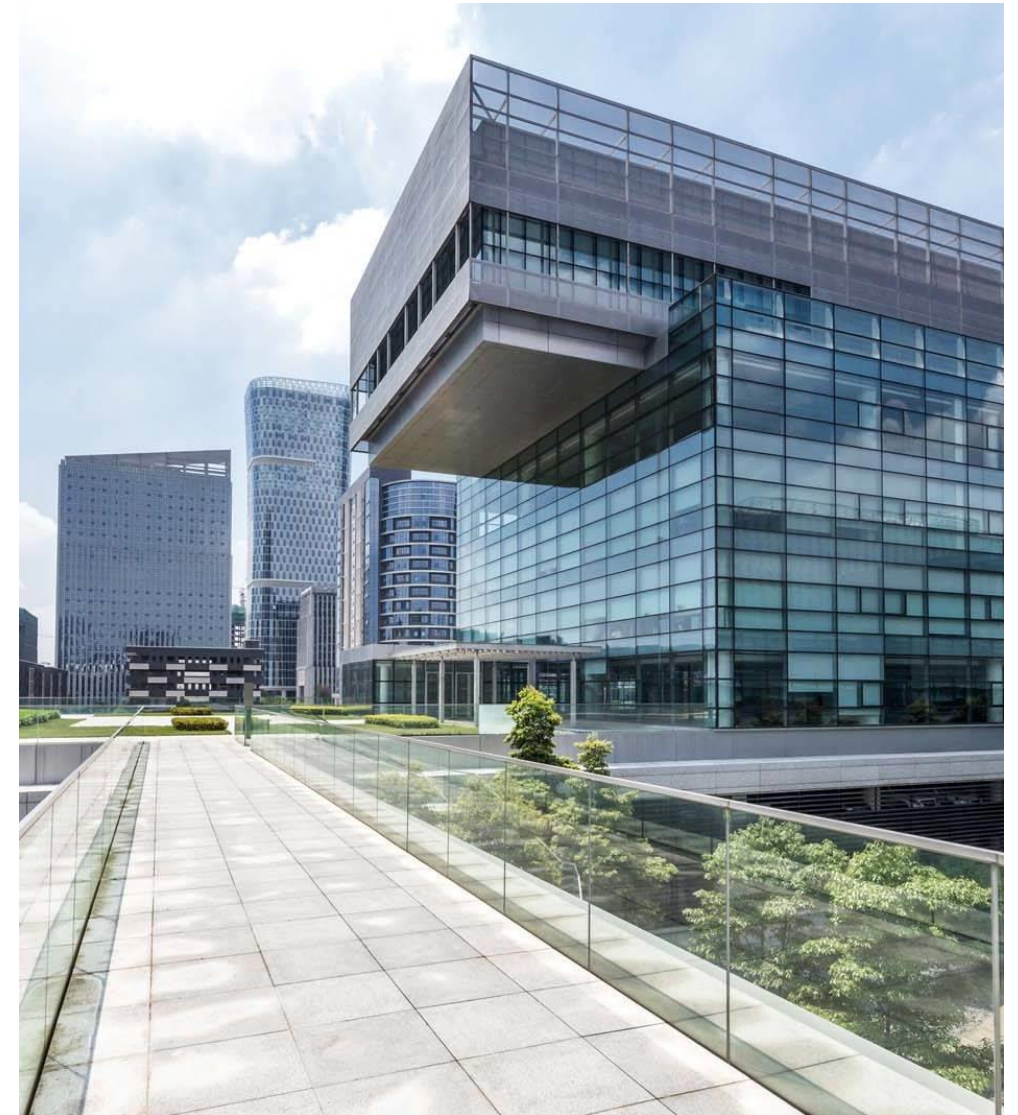
FIERCER WAR FOR TALENT

Although the “Great Resignation” has been more pronounced in the U.S., the pandemic has prompted many white-collar employees in Asia Pacific to seek a more equitable work-life balance. Lower unemployment has sparked a war for talent, with many companies utilising workplace design to attract and retain staff. As remote working will enable employees to be far more mobile than ever before, workplaces will need to be designed in such a way as to attract people and make them want to choose to work there.

03

TIGHTER ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REQUIREMENTS

With more countries pledging to reach carbon neutrality between 2030 and 2060, occupiers are under pressure to comply with ESG standards on sustainability disclosure. This year will see companies exercise more scrutiny in selecting offices based on sustainability and wellness features as well as landlord ESG performance. Green leases, energy audits and resilience will feature more prominently in leasing portfolios.



Leasing Demand Poised for Steady Recovery

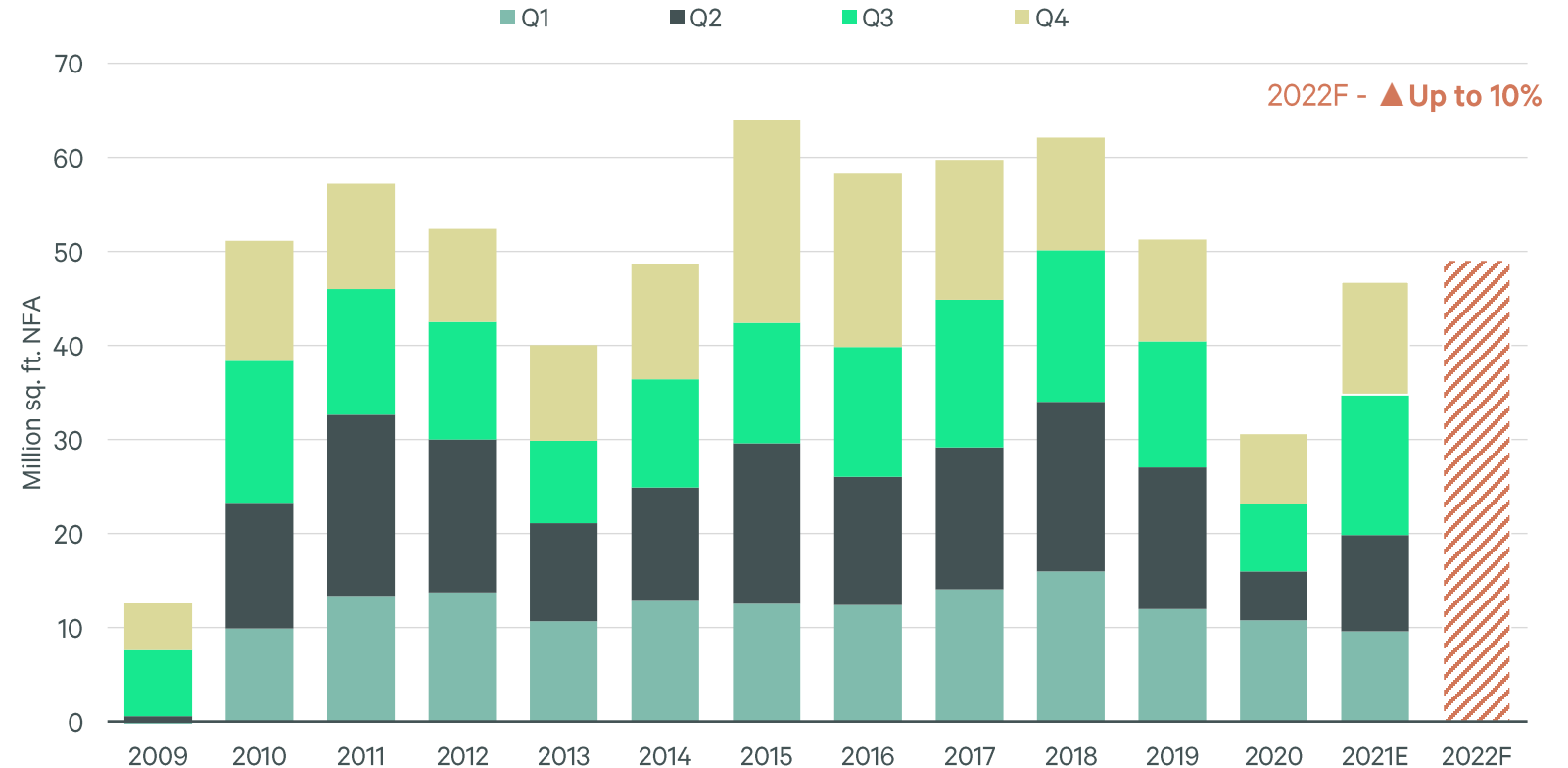
Asia Pacific office demand enjoyed a solid 2021, with net absorption registering an increase of 40% y-o-y. While leasing activity as measured by net absorption is forecasted to increase by up to 10% y-o-y in 2022, demand is unlikely to reach pre-pandemic levels until 2023.

CBRE expects 2022 to be characterised by faster decision-making, flight-to-quality relocation and workplace reconfiguration as companies gain confidence in the return to the office and the adoption of hybrid working. Following the emergence of the Omicron COVID-19 variant, initial reaction from North Asia indicates that most companies will continue working at the office, albeit with limits on occupancy or team rotation. Most companies in Singapore returned to the office in January at 50% capacity as originally planned. Elsewhere, the return to the office in India and Australia, currently scheduled for February, is likely to be delayed.

While most Asia Pacific markets will see offices reopen in H2 2022, some have already done so. Google Mobility Index data show that traffic in office districts in Hong Kong SAR, Korea and Taiwan has already recovered to pre-COVID-levels, while mainland China has long resumed office-based working. CBRE believes that the further spread of the Omicron variant will not substantially derail the recovery of office demand.

While hybrid working will be the norm for many companies, especially multinationals, Asian firms will mostly return to office-based working. Firms adopting hybrid working will be more proactive in refining policies and guidelines to maintain productivity, ensuring they can more accurately gauge space demand and types of workspace requirements.

Figure 4: Asia Pacific Regional Net Absorption



Source: CBRE Research, January 2022.

Expansionary Demand Set to Rebound

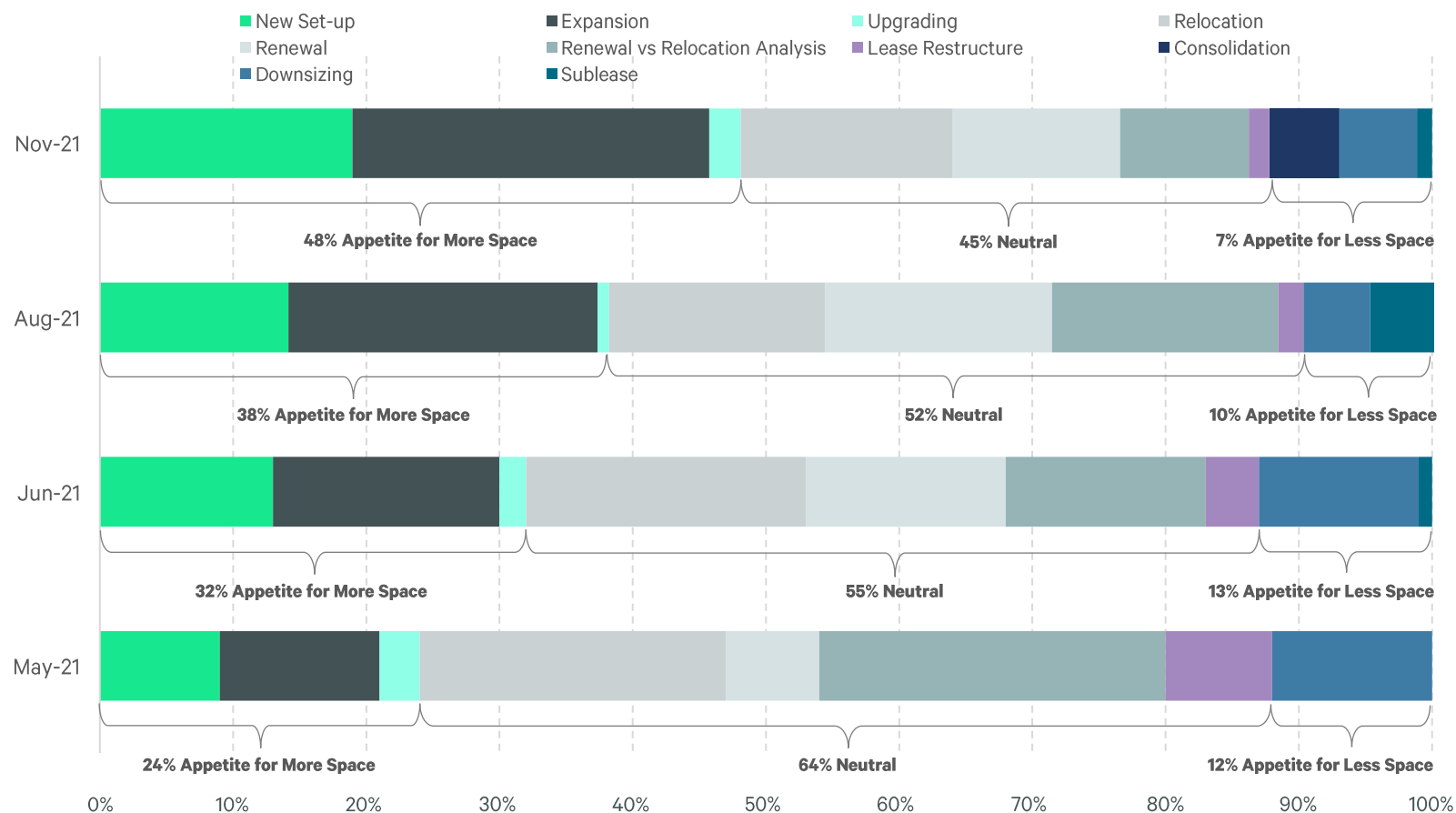
Occupiers' willingness to expand steadily improved over the course of 2021. The latest CBRE's Leasing Market Sentiment Survey found that 48% of leasing enquires were related to additional space requirements, up from 24% in May 2021. While most expansion will be confined to small to medium scale transactions, the uptick in new space requirements indicates a change in sentiment and points to the solid recovery of office demand in Asia Pacific.

With companies in India due to return to the office in Q2 2022, this market has seen a notable improvement in leasing sentiment. While leasing sentiment in mainland Chinese tier I cities was strong in 2021, activity is expected to moderate in 2022 following recent policy changes impacting the online education and gaming sectors and difficulties experienced by over-leveraged developers. Leasing is projected to increase in Hong Kong SAR, Japan and Australia, but activity in Singapore and Korea will be limited by new supply.

Flight-to-quality relocations will be a major driver of demand in 2022. A heightened emphasis on sustainability and wellness will also trigger upgrading to green buildings.

The tech sector overtook finance as the main driver of office demand in 2021. In 2022, expansion by advanced technology, social networking and software development companies will be most prominent. Growth within the financial sector will mostly be driven by insurance, fintech and wealth management firms, while large banks will remain quiet as they continue to review portfolios. Life science demand will continue to grow, while demand from flexible office platforms rebounded in H2 2021 as some providers sought to shift away from traditional leases to partnerships with landlords through management contracts.

Figure 5: The Nature of the Five Largest Office Enquiries



Note: Appetite for more space includes new set-up, expansion and upgrading. Neutral includes relocation, renewal, renewal vs relocation analysis, lease restructure. Appetite for less space includes consolidation, downsizing and subleasing.

Source: Asia Pacific Market Sentiment Survey, December 2021

China and India Account for Bulk of New Supply

After a relatively manageable pipeline in each of the past two years, new Grade A office supply in Asia Pacific is projected to increase by 15% y-o-y to nearly 67 million sq. ft. NFA in 2022, the highest total in more than a decade.

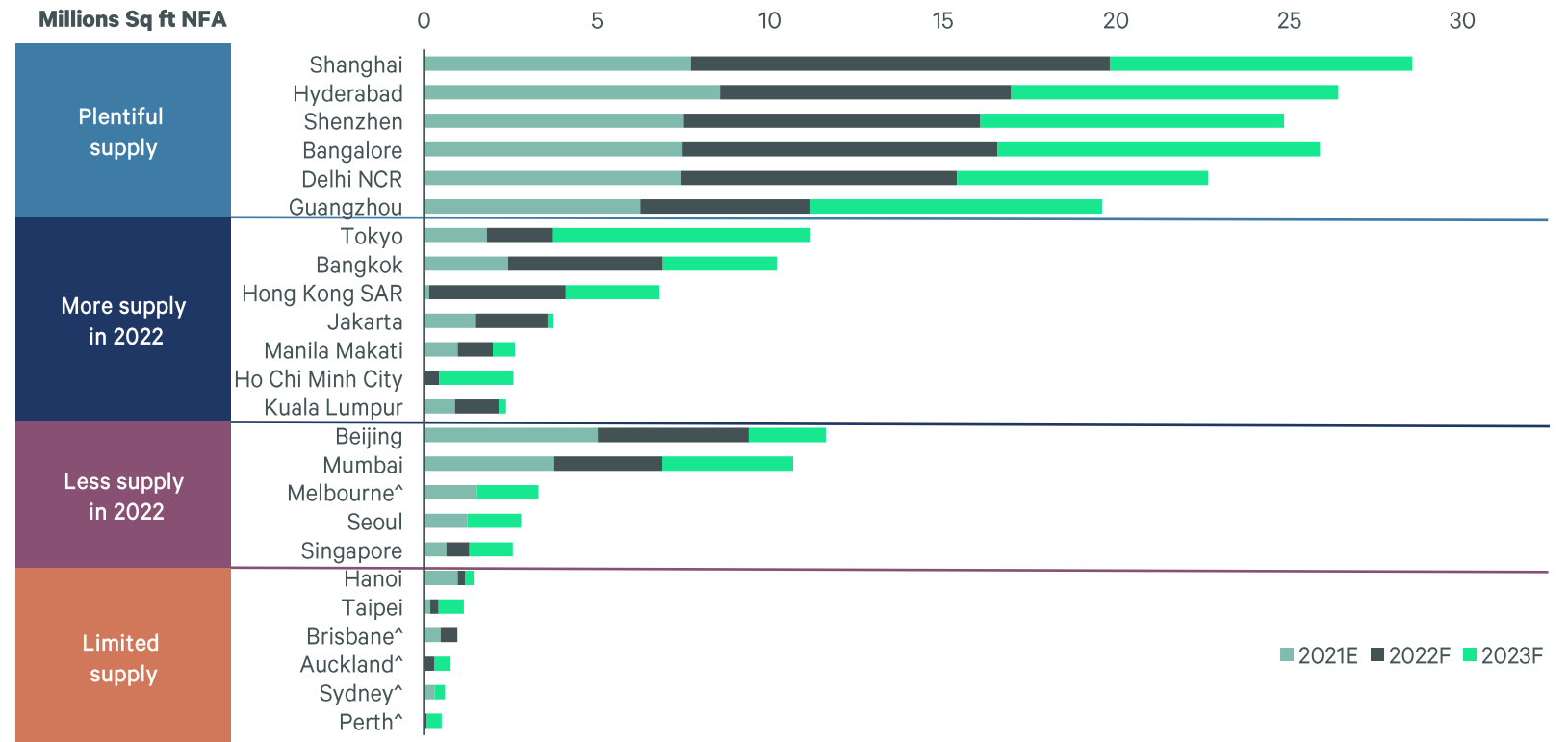
With almost half of new supply located in mainland China, cities including Shanghai and Shenzhen will experience a supply peak in 2022. Most supply pressure will be in non-CBD areas, which accounts for 90% of new space, ensuring occupancy in CBD locations remains resilient.

India will account for 30% of new regional supply in 2022. Despite a surge in COVID-19 infections last year, most pre-committed space in this market is due to be delivered on schedule.

Other markets expected to see the addition of ample new options for occupiers seeking flight to quality and upgrading moves include Tokyo, Hong Kong SAR and some Southeast Asian countries.

The remaining markets in the region will see limited new supply, with Korea expecting no new stock in 2022, and Sydney and Melbourne experiencing net stock withdrawal. Most of these markets continue to report lower vacancy, which will intensify competition for prime space.

Figure 6: Asia Pacific Grade A New Supply 2021-2023



^Note: Pacific markets refer to all grade net new supply.

Source: CBRE Research, January 2022

Rents Expected to Resume Growth

Despite abundant new supply, resilient Grade A rents in prime locations and newer, greener buildings will ensure the market exits its longest downward rental cycle in 20 years. CBRE expects Grade A rents to grow by around 1.0% in 2022. Several markets saw a return to rental growth in 2021 and will remain on an upward trend in the coming year. These include Singapore, Auckland, Seoul and Taipei, which will benefit from tight vacancy and limited new supply.

Greater China markets saw a return to rental growth in H2 2021, driven by flight-to-quality relocation and demand from industries supported by central government policies. Shanghai was the first city to see a rental rebound, with the upward trend set to continue this year. However, Guangzhou will underperform due to softer demand from the gaming and real estate development sectors. In Hong Kong SAR, rents in Central will stabilise temporarily ahead of new supply in this submarket due to come on stream in 2023.

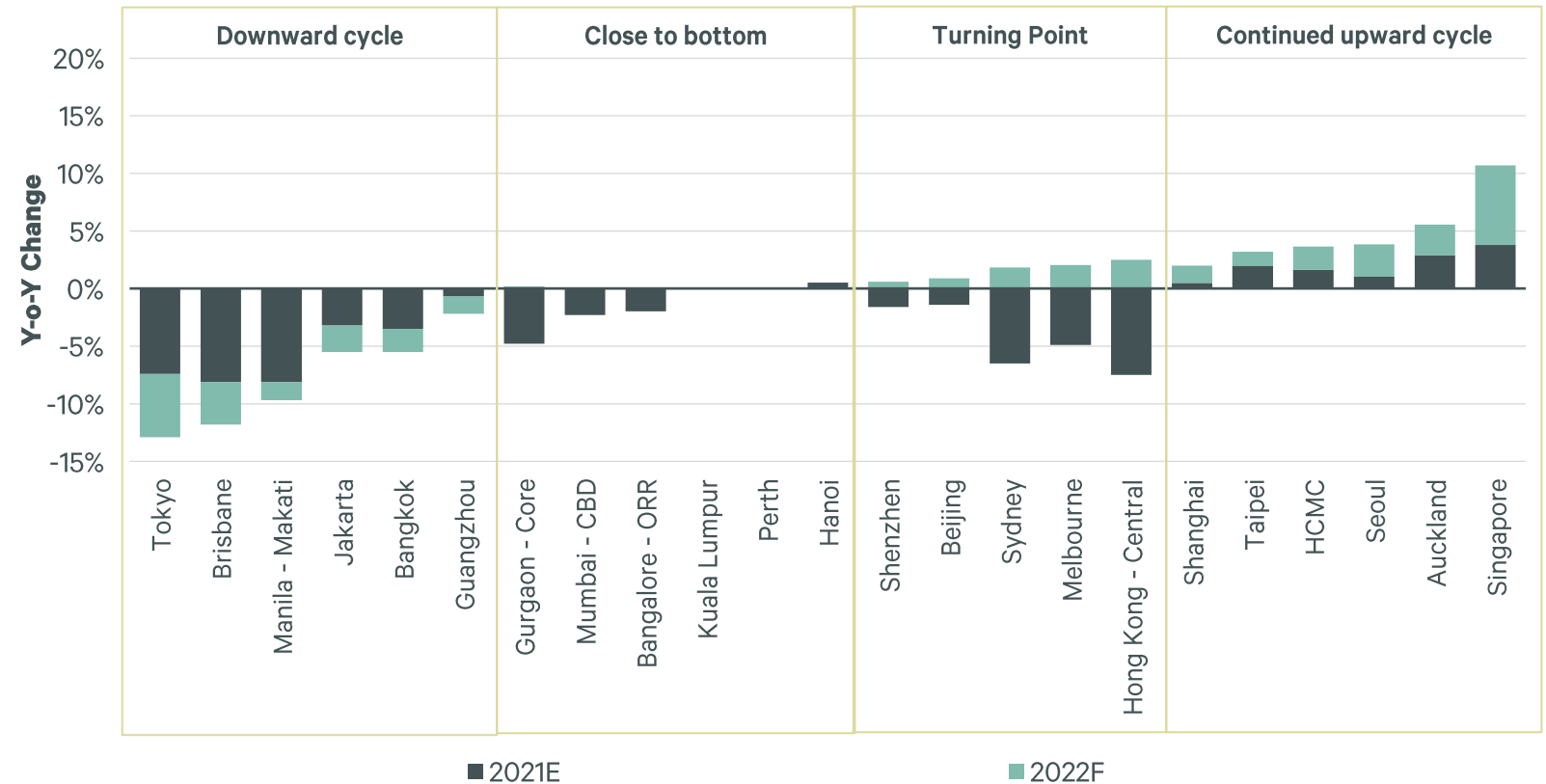
Incentives in most Australian markets are expected to stabilise or tighten in 2022. Coupled with reduced availability amid stock withdrawal, Sydney and Melbourne will record mild growth in net effective rents. However, it will likely take four to five years for Grade A rents to return to pre-pandemic levels after two years of steep rental declines.

Landlords in India will be under less pressure to increase incentives. While the rental market is improving, the return to the office in Q2 2022 will serve as a key barometer of recovery.

Although the rental decline in Tokyo has decelerated in recent quarters, the city will remain the region's main laggard due to escalating Grade A vacancy, which will rise to 4.3% by 2024.

Figure 7: Grade A Net Effective Rental Forecast

[GO TO DASHBOARD](#)



Note: Grade A rents represent rents in CBD/core locations of each representative market
 Source: CBRE Research, January 2022

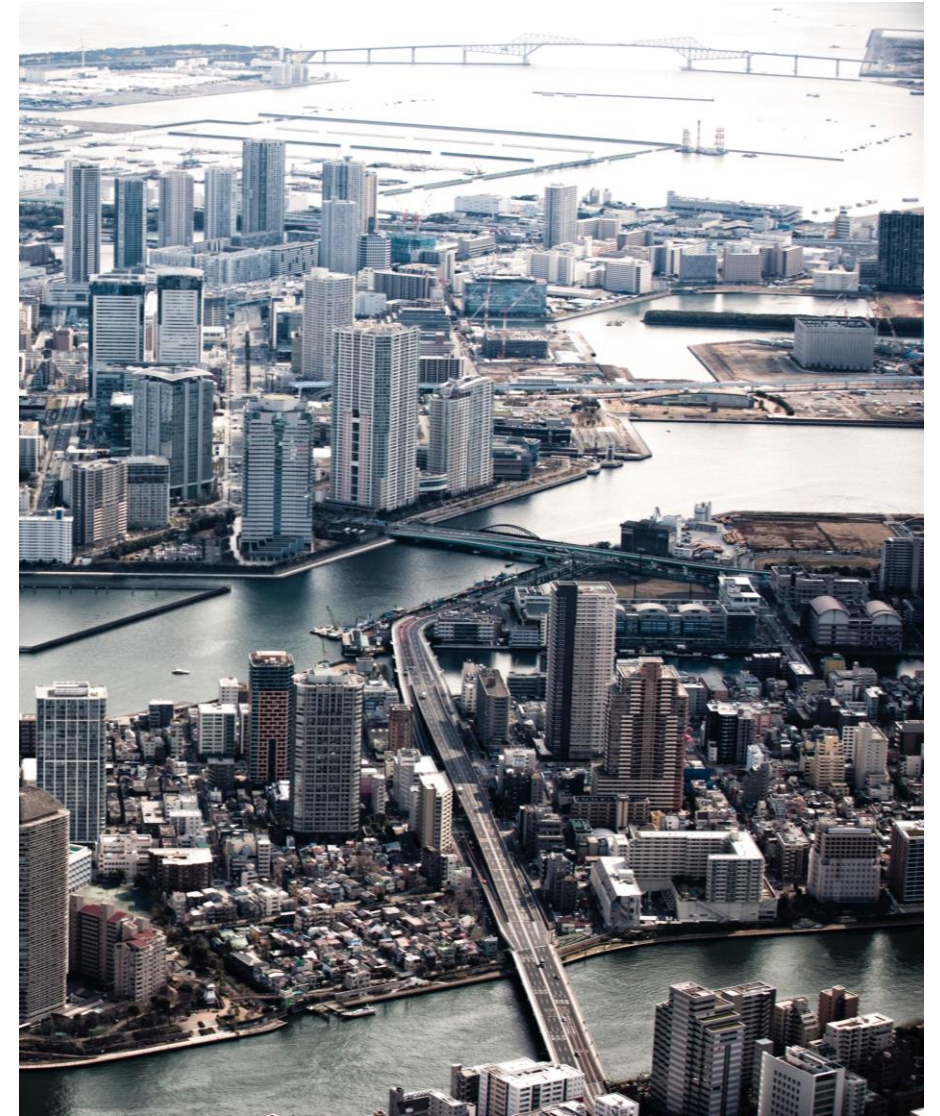
From Strategy to Action

OCCUPIERS

- Proactively secure space as the window of opportunity for rental negotiations narrows.
- Focus on higher quality assets that can accommodate flexible workspace design; offer better amenities and services; provide the latest technology; and possess green and sustainable features.
- Analyse workplace utilisation under remote working models and redesign workplaces accordingly.
- Adopt a core-plus-flex space model to enhance portfolio flexibility and leverage new flex products to tailor to end-user demand.
- Establish a roadmap to adopting an ESG agenda from green buildings, to energy audits, to green leases.

LANDLORDS

- Prioritise occupancy over rents in oversupplied submarkets.
- Prepare for the recovery of expansionary demand in better quality buildings.
- Incorporate flexible space into office portfolios and consider partnerships with coworking operators.
- Invest in smart and green buildings, including retrofitting older stock.
- Prepare for new ESG requirements by embedding sustainability into every stage of the building life cycle such as planning, design, construction and operations.



03

Industrial & Logistics

Economic growth and omnichannel expansion to support steady leasing momentum; rental growth set to be driven by prime assets; occupiers advised to secure high quality modern logistics space as supply pipeline escalates.

Trends to Watch

01

THE RISE OF EMERGING MARKETS

Changing consumption patterns driven by the rise in remote-working and growth of omnichannel are increasing the need for warehouse space in residential neighbourhoods, especially in widely dispersed cities. At the same time, logistics demand in second tier cities in Southeast Asia and India is rising on the back of growing populations and increasing urbanisation.

02

EMPHASIS ON SUPPLY CHAIN RESILIENCE

While supply chain disruption is expected to ease in H2 2022, pandemic-related risk could persist for some time, ensuring demand related to occupiers' just-in-case inventory strategies continues. This year will see occupiers focus on regionalising their supply chains and nearshoring their supplier base within the region, leading to further growth in demand for industrial and logistics space in emerging Southeast Asia and India, along with established mega industrial zones in North Asia.

03

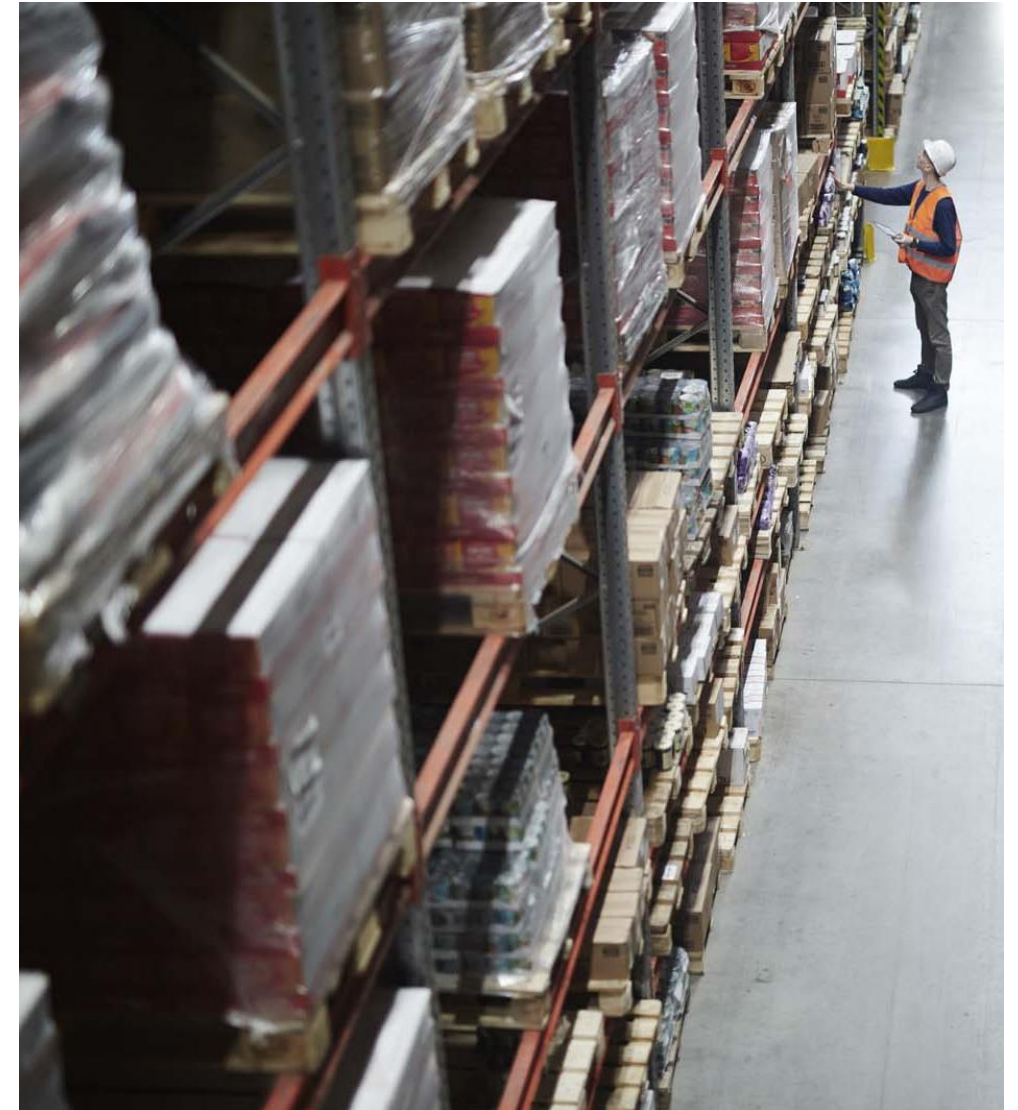
NEW TECH TO FACILITATE ADVANCED BUILDING FEATURES

With occupiers increasing their investment in and adoption of smart warehouse technology to enhance operational efficiency and storage capacity, interest is growing in newer logistics facilities with modern features such as high ceilings to accommodate automated stacking systems, sufficient loading/unloading zones and back-up power equipment for warehouse tech and cold storage.

04

SHARPER FOCUS ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CRITERIA

CBRE's 2021 Asia Pacific Logistics Occupier Survey found that 67% of occupiers believe that green or sustainability features will be more prominent in logistics facilities in future. Common practices include green certification and energy sourcing, while there will also be a stronger emphasis on social and governance on the operational side, such as on-site safety and wellness programmes.



Logistics Occupiers Retain Optimistic Outlook

2022 is expected to be another strong year for the Asia Pacific logistics real estate sector. Most respondents to CBRE's 2021 Asia Pacific Logistics Occupier Survey anticipate a better operating environment, with 78% planning to further expand their logistics real estate portfolios over the next three years.

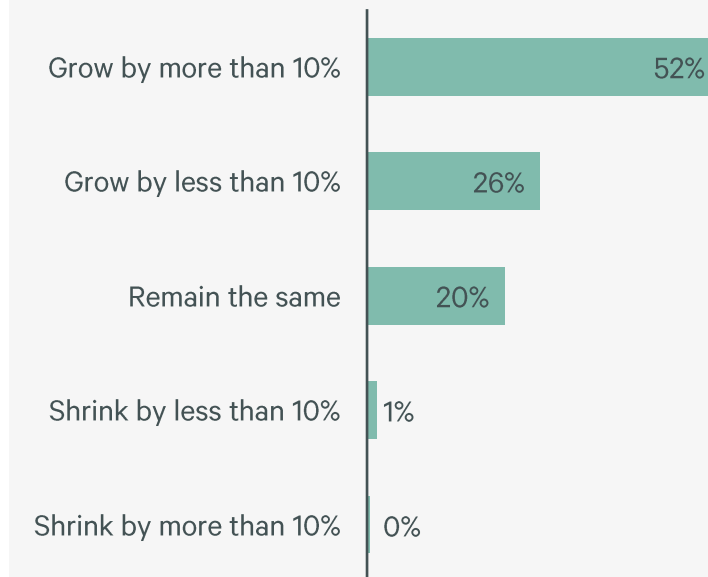
The solid regional economy and improving global trade will provide a strong foundation for the sector in 2022. Major regional markets are projecting strong trade growth, with Oxford Economics expecting most countries' exports to grow by more than 4.0% y-o-y over the course of the year. After the Regional Comprehensive Economic Partnership (RCEP) takes effect in January 2022, further growth in space demand will be witnessed across Asia Pacific from trading-related occupiers.

Logistics space demand will continue to be driven by growth in e-commerce and omni-channel distribution. Large e-commerce platforms, Third-Party Logistics firms (3PLs) and traditional retailers continue to expand and improve their distribution networks, while cross-border e-commerce is another emerging source of demand. Robust growth in the grocery, food manufacturing and delivery sectors will continue to fuel competition for cold storage space.

Following two years of pandemic-related bottlenecks, occupiers will continue to review industrial real estate portfolios to enhance supply chain resilience. The coming year will see occupiers focus on securing warehouse space near end-consumption points to improve operational efficiency and mitigate disruption. At the same time, the regionalisation of supply chains will benefit alternative manufacturing hubs such as growing industrial areas in Vietnam, Indonesia, Philippines and India, along with established mega industrial zones in mainland China, Japan and Korea.

In addition to robust expansionary demand, CBRE anticipates a rise in flight to quality requirements as more occupiers seek modern logistics facilities to enhance operational efficiency and install automation and other logistics technology. Built-to-suit developments will gain more traction, while occupiers are also set to partner with developers and investors to construct new logistics assets.

Figure 8: Occupiers' Plans for Warehouse Portfolios in the Next Three Years



Source: Asia Pacific Logistics Occupier Survey, CBRE Research, September 2021

Uneven Supply Pressure

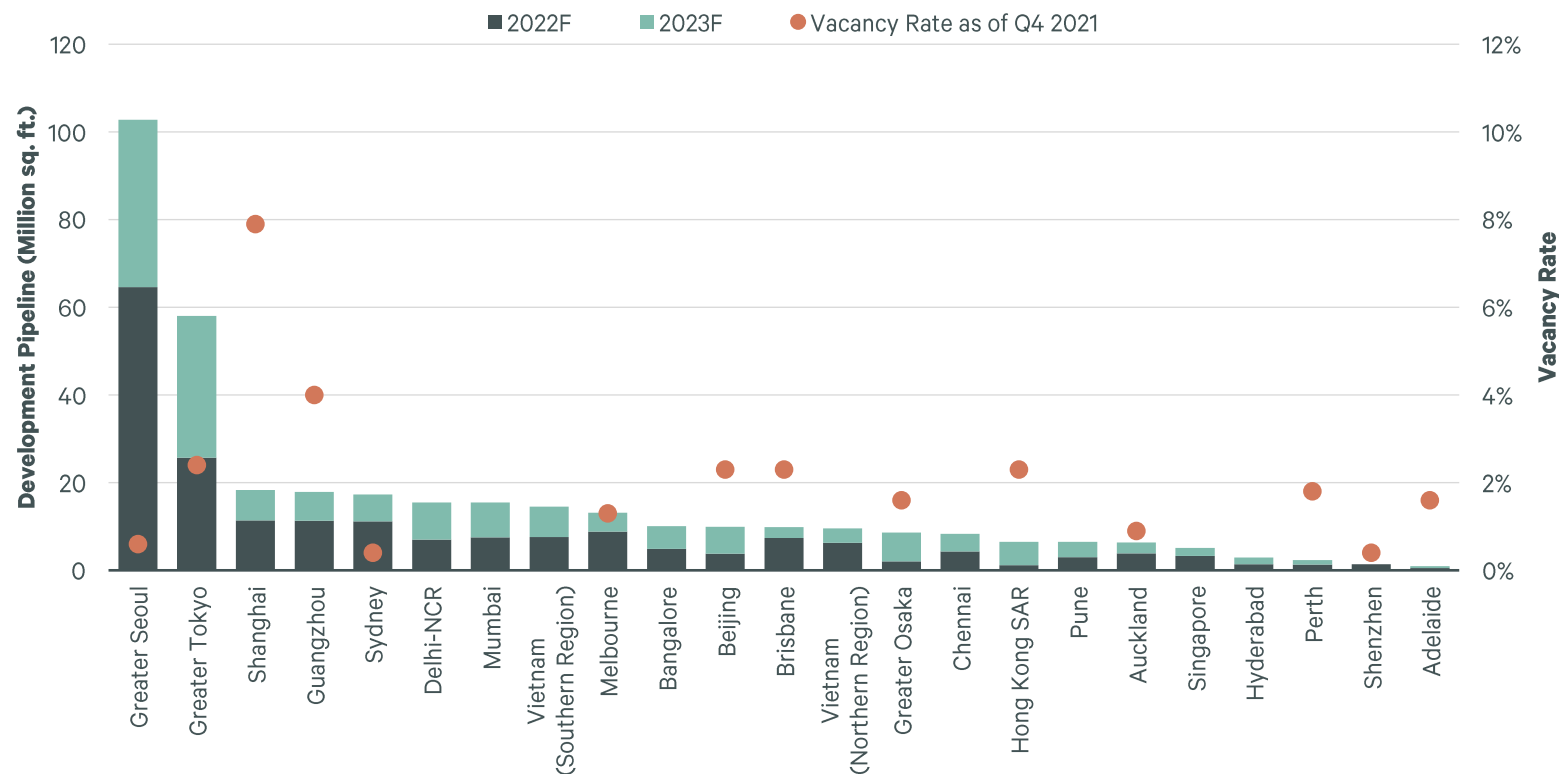
New supply in major Asia Pacific markets is projected to reach 200 million sq. ft. in 2022, a 50% increase on 2021. While the addition of new stock will exert short-term pressure on occupancy, any negative impact will be limited due to current low availability and the unevenly distributed development pipeline.

New supply will be led by Greater Seoul and Greater Tokyo, which account for nearly half of new stock due to be delivered this year. This year’s development pipeline is mainly confined to selected submarkets such as Incheon in Greater Seoul, and Route 16 and Ken-o-do in Greater Tokyo. Huadu in Guangzhou, Qingpu in Shanghai and NH-8 in Delhi NCR’s Gurgaon will also account for a sizable volume of new stock. Amid an influx of high quality new supply, landlords in these submarkets are expected to focus on shoring up occupancy by offering more attractive terms. Owners of older stock may offer more incentives or reduce asking rents to retain tenants.

The rest of the region will remain tightly supplied, with new completions in Singapore and the Pacific expected to tail off after 2022. While islandwide logistics vacancy in Singapore remains high, prime logistics assets in the east and west of the country are at close to full occupancy, leading demand to spill over to general warehouses. Around 75% of Singapore’s 2023 pipeline has already been pre-committed.

The absence of new supply means occupiers, especially those with large space requirements, are advised to plan their portfolio expansion well ahead of time. Pre-committing to new, high-quality space in well-supplied submarkets is strongly recommended.

Figure 9: Logistics Development Pipeline and Vacancy in Asia Pacific



Remarks: :Vietnam (Southern Region) includes Ho Chi Minh City, Binh Duong, Dong Nai and Long An while Northern region includes Hanoi, Bac Ninh, Hung Yen, Hai Duong and Hai Phong. No vacancy data for Singapore, Vietnam and India is available.

Source: CBRE Research, January 2022

Rental Growth Set to Continue

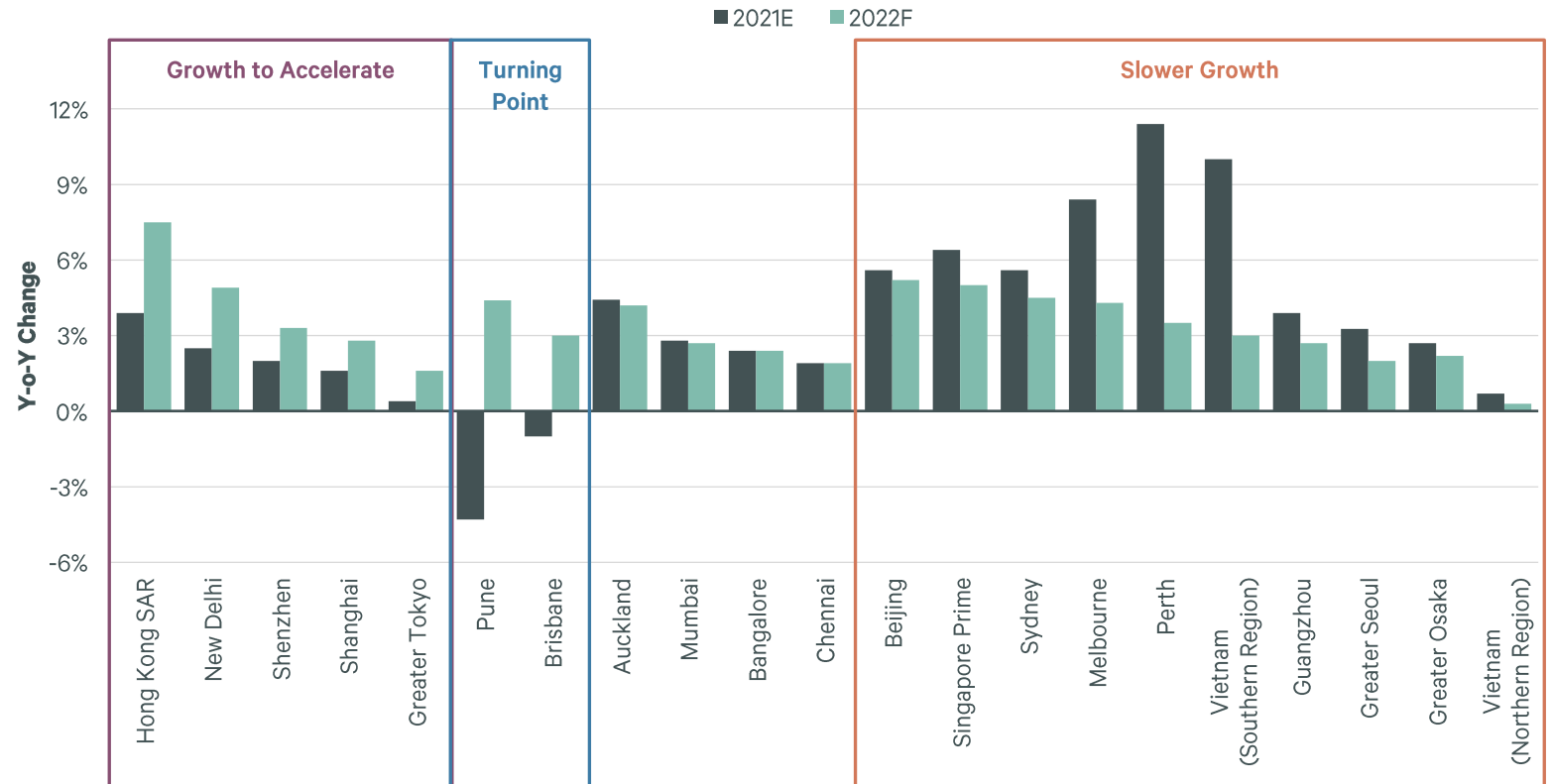
Asia Pacific logistics rents will remain in the upward cycle for a twelfth consecutive year in 2022. All major markets are expected to record rental growth, which will be led by Hong Kong SAR, Beijing and Singapore. Hong Kong SAR is projected to register growth of 7.5% y-o-y on the back of shrinking availability and the anticipation of trade growth when the border with mainland China eventually opens.

Growth in many markets will nevertheless moderate from 2021 on the back of the stronger supply pipeline, with Greater Seoul, Guangzhou and Vietnam (Southern Region) among the cities expected to see a slower pace of rental expansion. Landlords, especially those of older properties, will adopt a softer stance towards rental increments and offer more incentives to attract tenants.

The rental gap between prime and suburban logistics facilities will widen further this year. Prime assets located near major consumer markets or transportation hubs such as Daxing in Beijing, West and East areas of Singapore will see faster rental growth, supported by robust demand from occupiers catering to time-sensitive last mile delivery. In contrast, occupiers with lower rental affordability, such as firms seeking large distribution centres or storage units, will relocate to outer areas or satellite cities.

Figure 10: 2021 – 2022F Asia Pacific Logistics Rental Forecast

[GO TO DASHBOARD](#)



Remarks: Vietnam (Southern Region) includes Ho Chi Minh City, Binh Duong, Dong Nai and Long An while Northern region includes Hanoi, Bac Ninh, Hung Yen, Hai Duong and Hai Phong. Rental growth for Singapore refers to prime logistics rents in the eastern and western areas only. Logistics rental growth for Asian markets refers to face rents while that for Pacific markets refers to effective rents.

Source: CBRE Research, January 2022

From Strategy to Action

OCCUPIERS

- Seize opportunities to expand and/or relocate while negotiating better terms amid the large volume of new supply. Proactively engage landlords in advance to secure customised building features to suit their business needs.
- Plan ahead to extend footprint in areas anticipated to see upside potential such as emerging secondary consumption clusters and future transportation hubs.
- Invest in technology and sustainability innovation and upgrade portfolios to include more assets capable of incorporating these two features.

LANDLORDS

- Secure large tenants as quickly as possible, especially in markets with large new supply such as Greater Tokyo and Greater Seoul. Customise property features to accommodate occupiers' specifications is also recommended.
- Consider emerging logistics hubs expected to attract future demand by building up land banks in areas near new infrastructure or adjacent to rapidly growing neighbourhoods.
- Upgrade older logistics buildings in prime locations to cater to occupier demand for modern features and ESG.



04

Retail

Full recovery clouded by emergence of new COVID-19 variants; retailers advised to take advantage of slow leasing activity to source prime units; retail rents expected to see mild growth.

Trends to Watch

01

SHARPER FOCUS ON EXPERIENCE

With the shift to online consumption during the pandemic having come at the expense of physical retail, retailers and shopping centres must differentiate their experience to lure shoppers back to brick-and-mortar stores. Approaches may include more thematic stores, promotional events and expanded display areas and showrooms. New F&B concepts will be an important element in attracting customers to shopping malls.

02

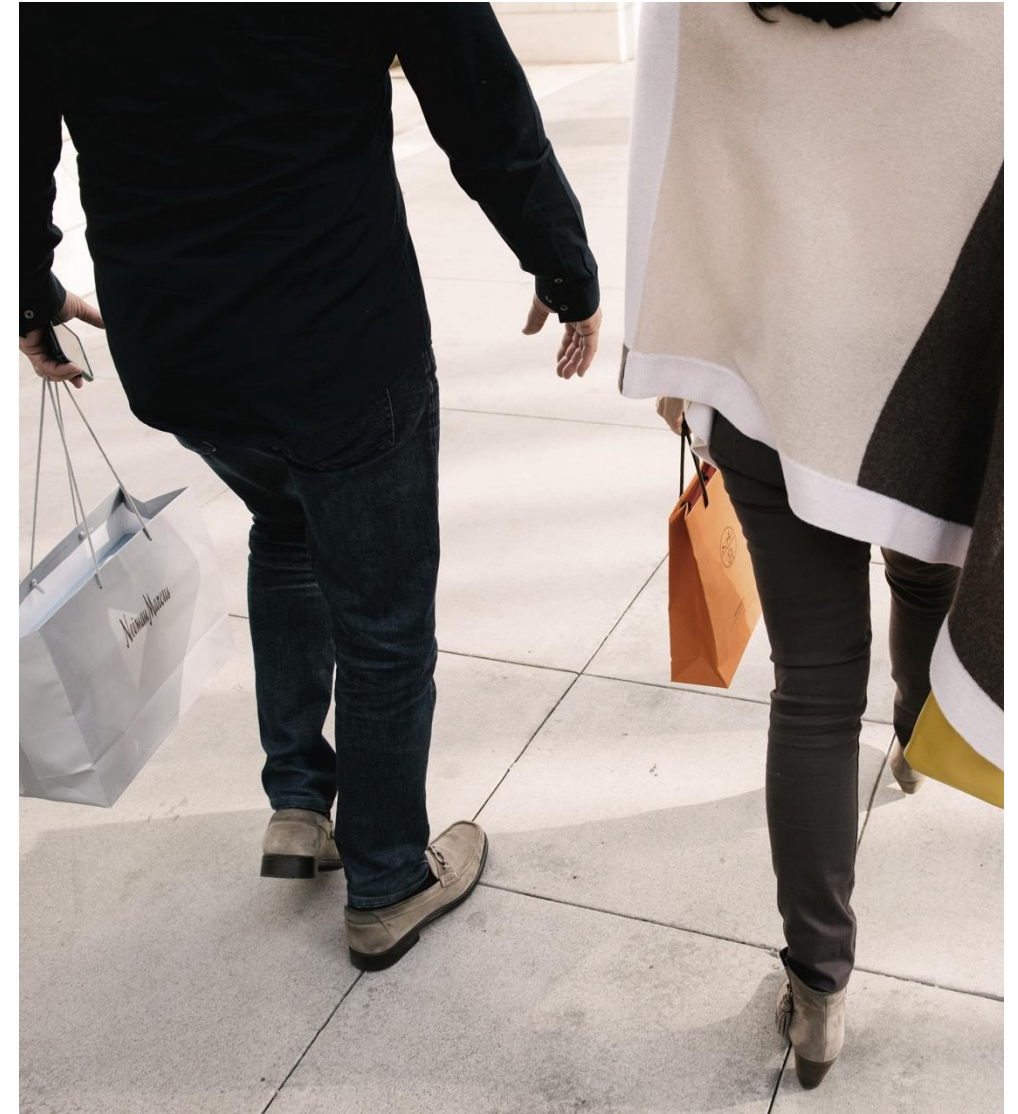
OMNICHANNEL SALES AND DELIVERY

With consumers spending more time in retail locations near their homes, demand is growing for a broader and faster range of delivery options for online purchases. This year will see more retail stores equipped with click-and-collect services or serving as last mile fulfillment hubs. At the same time, more retailers will enable customers to place online orders at physical stores to provide hands-free in-store shopping while reducing the need for in-store inventory.

03

SUSTAINABLE SHOPPING

Consumer awareness of sustainability, especially among younger shoppers, will force retailers to be more environmentally and socially responsible. As retailers make bolder commitments to reducing their carbon footprint; this will impact store concept design and lead to the inclusion of green clauses in leases. In Hong Kong SAR, New World Development recently launched a "Creating Shared Value Lease" that rewards office and retail tenants for adopting environmentally and socially sustainable practices².



²Source: New World Development ([Link](#)), November 2021

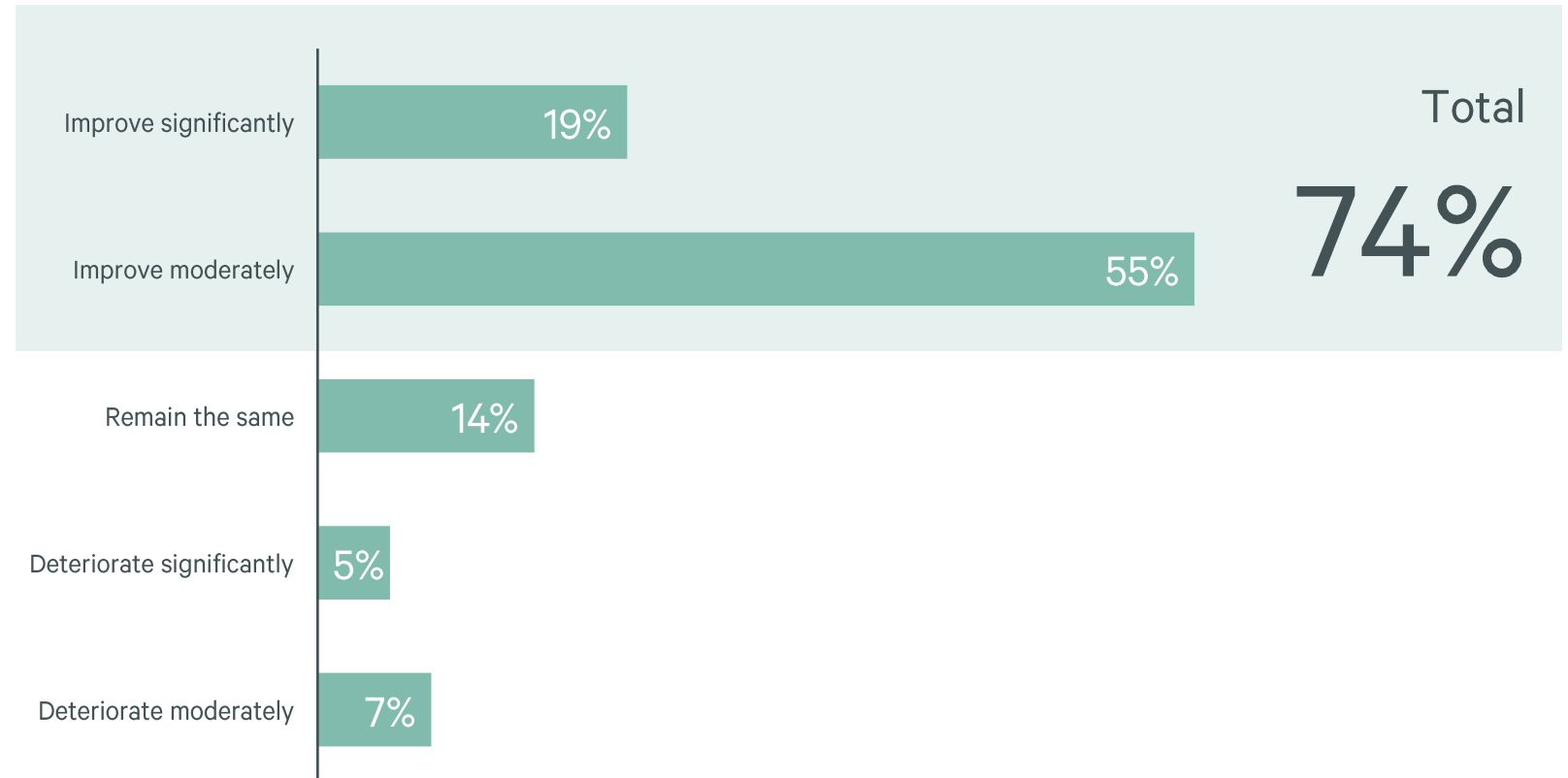
Emergence of COVID-19 Variants to Dampen Pace of Recovery

Although the spread of the Delta variant of COVID-19 in mid-2021 weighed on the pace of the retail recovery in H2 2021, consumer footfall had almost fully recovered to pre-pandemic levels by the end of the year along with the easing of restrictions and rising vaccination rates.

CBRE retains a positive outlook for regional consumption in 2022, with 74% of retailer respondents to CBRE's Asia Pacific October 2021 Retail Flash Survey expecting further sales growth in 2022. However, the pace of growth in discretionary consumer spending will moderate from last year's exceptional 14.5% as the effect of 'revenge shopping' dissipates and sales of big-ticket items decline. Consumption patterns will return to normal, with CBRE anticipating a shift to more experience and service-based trades such as F&B and entertainment.

The emergence of the Omicron variant of COVID-19 in December 2021 has added fresh uncertainty to the retail market outlook. Moves by several Asia Pacific markets to tighten social and border restrictions in January 2022 will weigh on consumer confidence and delay the recovery of tourist-oriented retail categories.

Figure 11: Retailers' Expectations for Sales Performance in 2022



Source: 2021 Asia Pacific Retail Flash Survey, CBRE Research, October 2021

Cautious Retailer Expansion Anticipated

Expansionary demand is expected to strengthen this year, with around two-thirds of retailer respondents to CBRE's Asia Pacific October 2021 Retail Flash Survey aiming to open more stores in 2022. However, the pandemic will continue to weigh on retailer sentiment and leasing activity, prompting retailers to be more cautious before committing to major expansionary moves. Coupled with the fact that the first few months of the year is traditionally a quiet period for new leases, demand is expected to be relatively sluggish in Q1 2022, with a recovery likely to pick up from Q2 2022 onwards.

Prime locations will remain keenly sought after as retailers take advantage of tenant-favoured markets to secure lower rents and better locations. Retailers, especially domestic brands, will remain proactive in relocations and expansions involving upgrading, with luxury groups paying particular attention to enhancing flagship stores. Markets such as in Tokyo (Ginza), Hong Kong SAR and Shanghai, where vacancy has peaked or begun to fall, have seen asking rents increase in recent months. While demand for neighbourhood retail space will remain healthy, secondary space in shopping or business districts is expected to see only lukewarm demand.

CBRE expects international retailers to display a stronger appetite for expansion in Asia Pacific in 2022. However, activity will be driven by brands with sound local market intelligence and established management teams. New-to-market brands will remain cautious in the absence of the resumption of international business travel. CBRE expects tier I cities in mainland China to see stronger

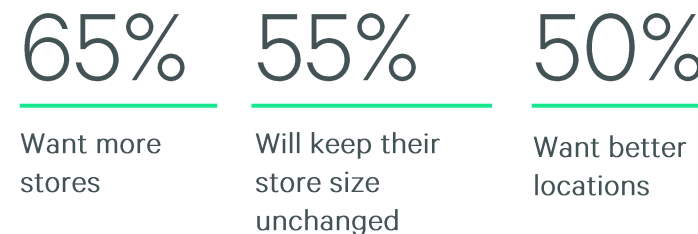
demand, partially due to local authorities' preferential policies and keen competition between landlords of prime shopping centres to attract new tenants. Vietnam and India will also welcome more new entrants, assisted by the adoption of franchising and partnership models with major landlords.

While retailers in the F&B category will remain active, demand will be driven by casual dining restaurants, which typically require smaller shop sizes and lower upfront costs. Many restaurants are exploring new business models such as by opening stores catering exclusively to takeaways, drive-thrus or partnering with on-demand delivery apps for dark kitchens. This trend is expected to be more prominent in neighbourhood areas as F&B operators look to capture demand from a rising population of remote workers.

While major fast fashion chains saw a return to revenue growth in 2021, the success of online platforms means they are in no rush to expand physical sales networks. Many retailers in this segment will continue to consolidate store networks as their leases expire. However, their overall footprint is likely to remain stable as they will still expand stores in profitable locations.

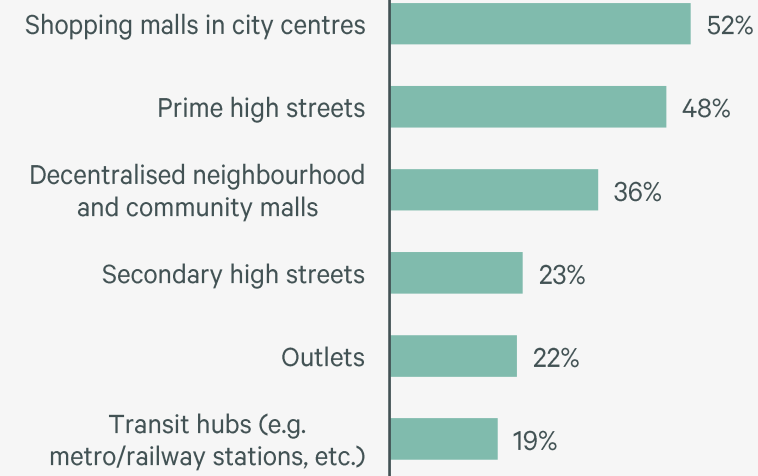
Lower rents will encourage the expansion of service-oriented retail such as beauty clinics, medical centres and larger space occupiers including entertainment. Secondary retail space will nevertheless take longer to absorb.

Figure 12: Retailers' Plans For Physical Store Networks in 2022



Source: Asia Pacific Retail Flash Survey, CBRE Research, October 2021

Figure 13: Most Preferred Locations in 2022



Note: Multiple selections allowed

Source: 2021 Asia Pacific Retail Flash Survey, CBRE Research, October 2021

Mild Rental Growth Forecasted

The recovery in regional retail rents will continue in 2022 as more markets return to growth. Expansionary momentum will continue to be led by selected outperforming street shops and malls, while secondary retail, even those properties located in core locations, are likely to undergo further rental cuts along with tenant outflows.

While mainland China and Hong Kong SAR will see rental growth accelerate from 2021, it will remain in the low single digits. Rents in Hong Kong SAR stand 60% below the previous peak in 2013/2014, enabling retailers to re-enter and re-locate to better locations.

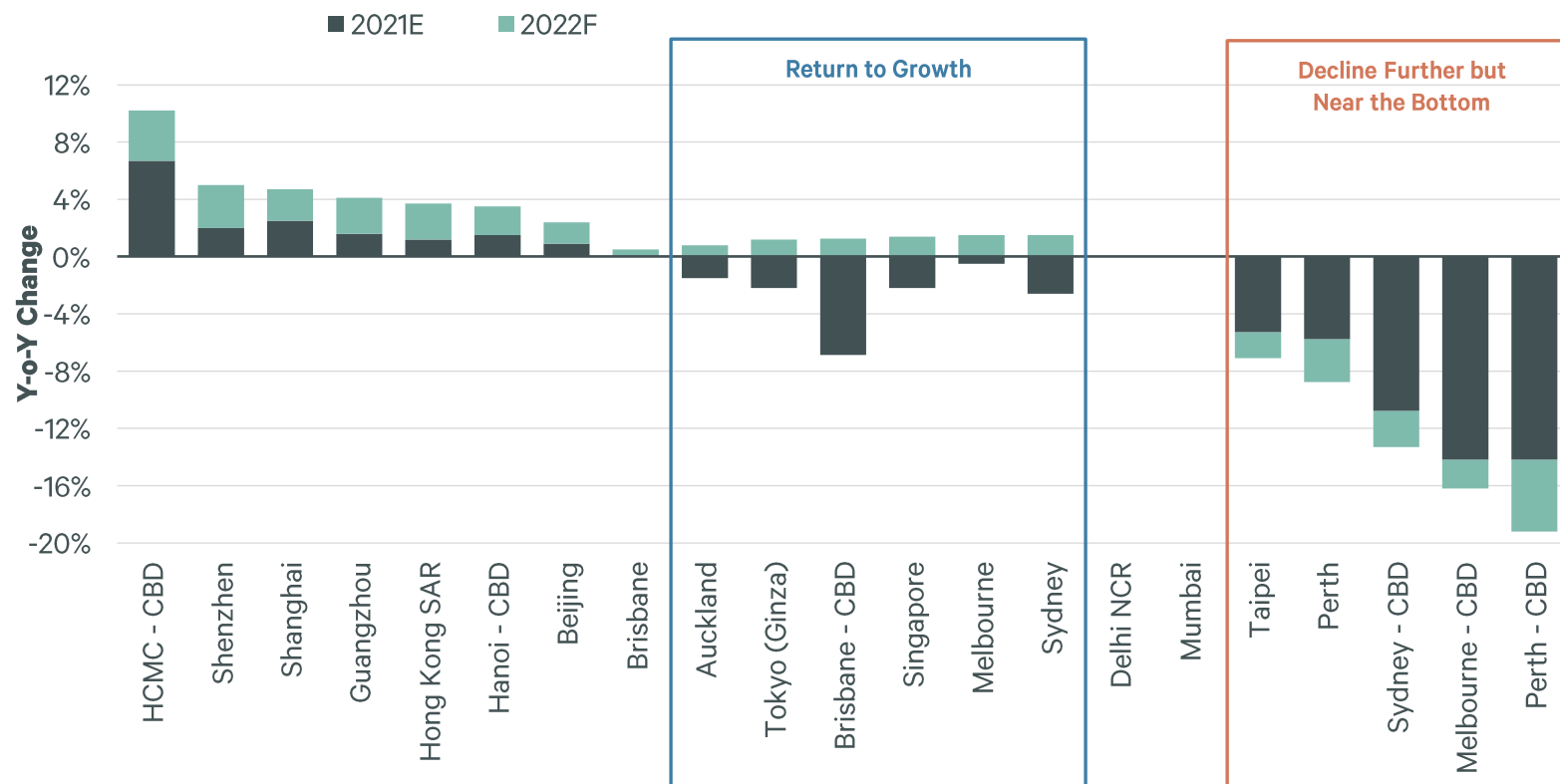
High street shops in Taipei and most Australian CBD retail districts will undergo a further rental correction this year, albeit at a milder rate. Rents are expected to remain weak amid high vacancy and a lack of international students and tourists. CBRE nevertheless expects a quick turnaround in rents should international travel resume more quickly.

While CBRE expects the retail leasing market to continue to favour tenants in 2022, the tide will gradually turn as landlords adopt a risk-sharing approach to leasing involving the wider adoption of turnover rent clauses and more fit-out subsidies and tenancy improvements.

Pop-up stores or shorter leases will continue to gain traction among general retailers as this enables them to test the consumer response to their products while helping landlords refresh their tenant mix more regularly.

Figure 14: 2021 – 2022F Asia Pacific Retail Rental Forecast

[GO TO DASHBOARD](#)



Remarks: Retail rental growth refers to high streets in prime areas except mainland China, Singapore, Vietnam, India, Australia and New Zealand where G/F rents of shopping centres are reported. Australia and New Zealand reports net effective rents of regional centres unless specified.

Source: CBRE Research, January 2022

From Strategy to Action

OCCUPIERS

- Capitalise on tenant-favoured markets by locking in attractive space while terms remain attractive.
- Leverage brick-and-mortar stores to engage and attract online and offline consumers. Store format and experience should reflect the characteristics of individual markets in order to enhance operational efficiency and consumer satisfaction.
- Enhance click-and-collect options and incorporate brick-and-mortar stores into last mile logistics networks. Retailers are advised to form partnerships with third-party companies to utilise underperforming space such as gas stations for quick deliveries.

LANDLORDS

- Embed turnover rent clauses and regular rental review terms into leases to capture the market recovery.
- Adopt a proactive approach towards introducing new-to-market brands and increase the portion of experience driven retailers.
- Identify and nurture domestic retailers or start-ups with growth potential and upgrading demand to deepen their connection with the community they operate in.
- Improve the environmental performance of shopping centres by introducing more efficient energy and waste management and making greater use of greenery. Owners should also support tenants in pursuing their sustainability goals, such as by improving the provision of data for a building's environmental footprint and adopting green leases.



05

Investment

Strong investment liquidity set to fuel investment market; investors advised to focus on asset enhancement to reach return targets amid tight yields and interest rate uncertainty; price dislocation in office, retail and hotel sectors offers opportunities as market nears trough.

Investment Volume Projected To Reach Record High

The strong rebound in Asia Pacific commercial real estate investment volume in 2021 was largely driven by pent-up demand from the previous year, when many investors suspended purchasing following the onset of the COVID-19 pandemic. Market sentiment will remain upbeat in 2022, with investors still possessing ample capital for deployment.

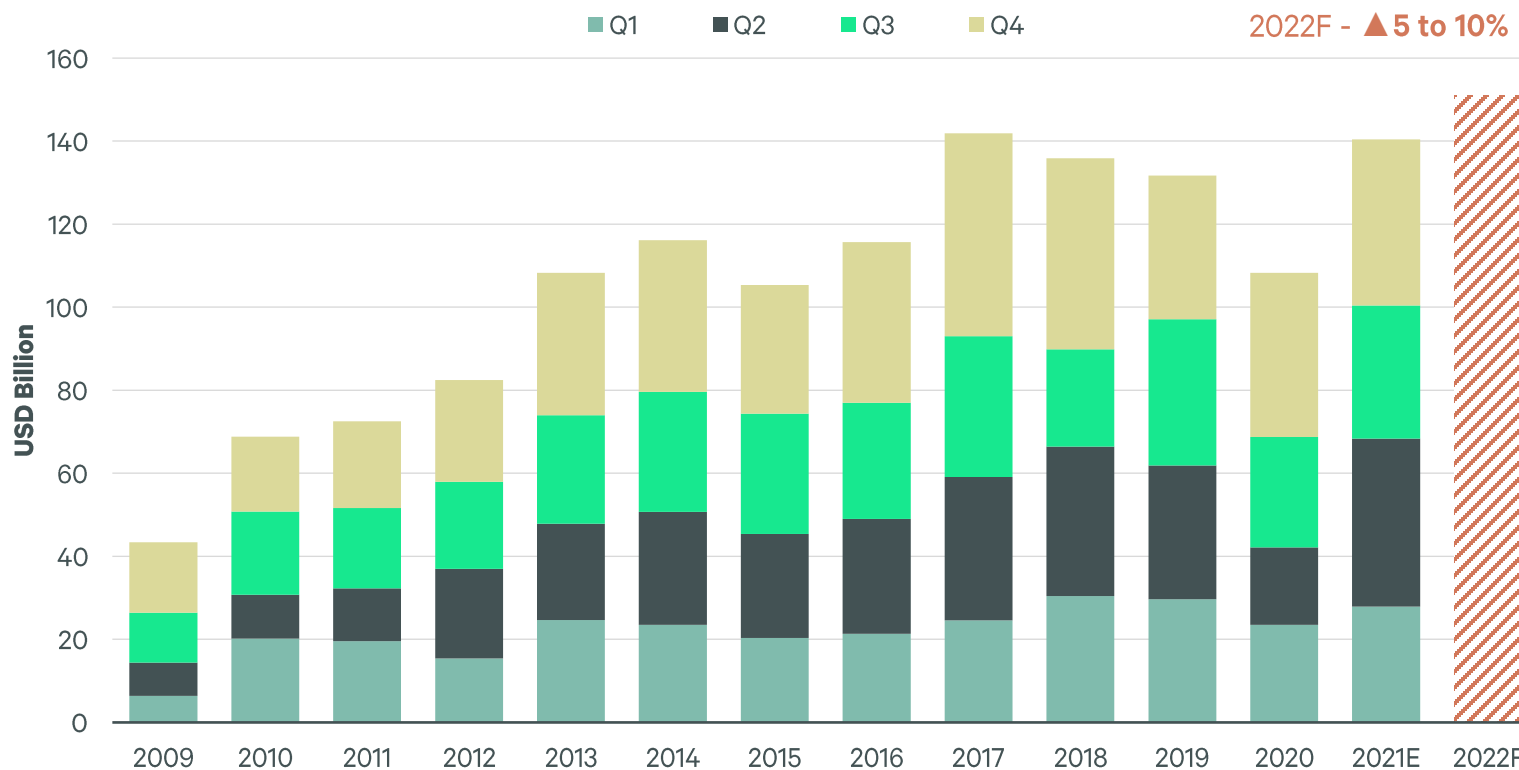
Asia Pacific-focused close-ended real estate funds are expected to be active this year amid the continued strong fund-raising environment, which has seen them raise US\$83 billion of equity since 2018.

REITs and institutional investors (such as sovereign wealth funds, insurance companies and pension funds) remain cash rich, possessing around US\$16 billion and US\$500 billion of equity³, respectively, on their balance sheets for future investment.

Total investment volume in 2022 is projected to increase by 5%-10% over 2021 levels, reaching a record high US\$150 billion.

Logistics assets will remain keenly sought after, while interest in offices is expected to strengthen this year, supported by the return to the office and improving real estate fundamentals. Demand for retail and hotel assets will take longer to recover following the emergence of the Omicron variant of COVID-19 and the reintroduction of tighter border controls and social distancing regulations in many markets. However, CBRE observed several investors acquiring assets in these two sectors last year by forming joint ventures with operators to take advantage of price dislocation, a trend that will continue in 2022.

Figure 15: Asia Pacific Regional Investment Volume



Remarks: Transactions include deals above US\$10 million in the office, retail, industrial, mixed-use, hotel and other commercial sectors. Residential and development sites are excluded

Sources: RCA, CBRE Research, January 2022

³These figures are based on cash and cash equivalents reported in the financial report of the listed REITs and insurance companies in Asia Pacific and other third-party information vendors

Yield to Remain Low

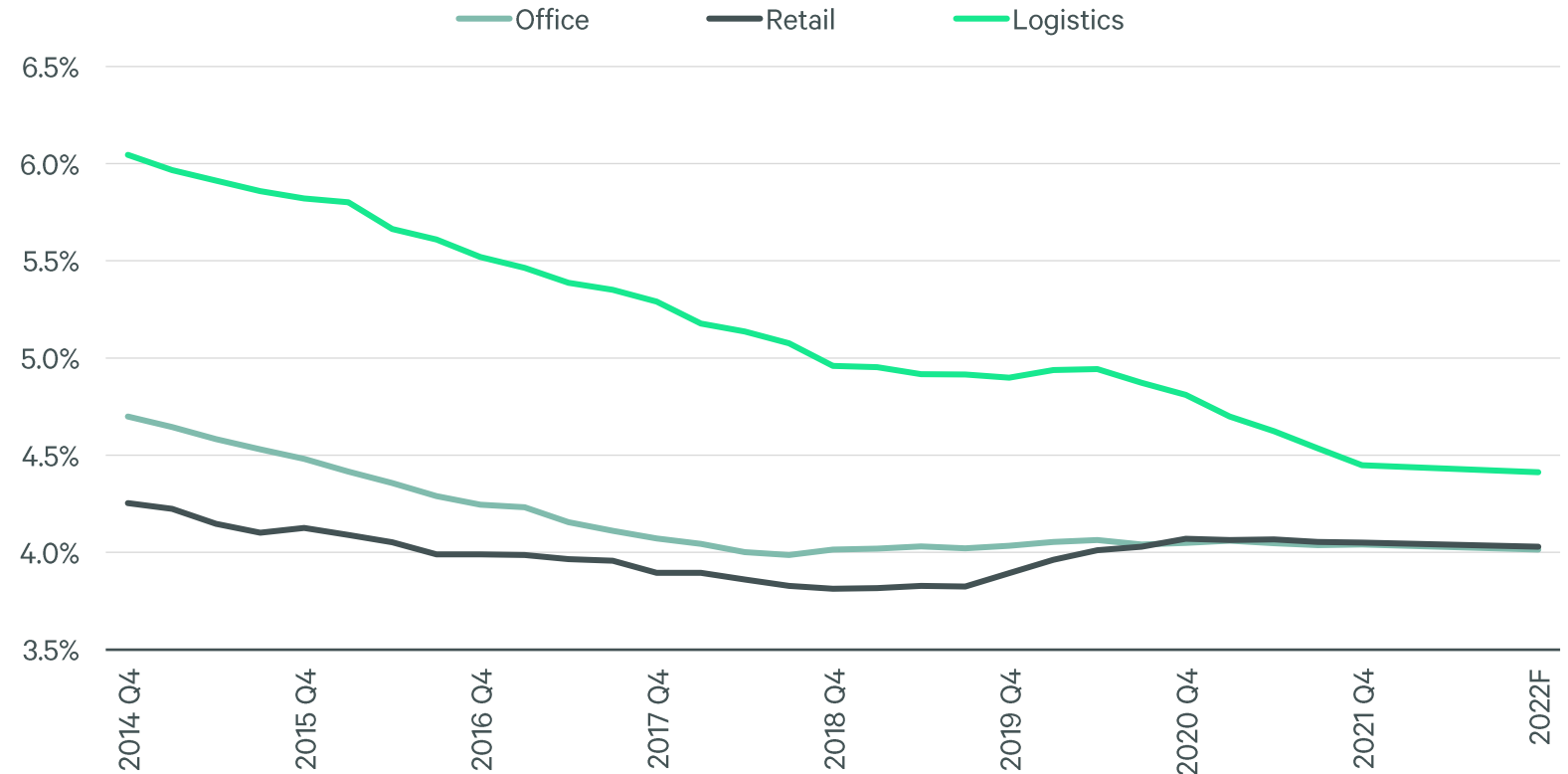
Overall office yields are expected to hold firm in 2022 as investors return to the sector. Selected cities such as Beijing, Shanghai, Sydney and Singapore will experience mild downward pressure on yields as rents either stabilise or enter the upward cycle.

Yields for retail assets will be stable overall but those for well-located malls and neighbourhood shopping centres are expected to compress. Investors possessing operational excellence will continue to find value in this asset class, especially in Australia, Japan, Hong Kong SAR and mainland China.

Strong capital flows into the logistics sector have pushed down yields significantly over the past two years. While yield compression is expected to continue in 2022, the pace will be milder as investors adopt a more cautious stance towards the outlook for leasing demand and the future supply pipeline. The yield spread between office and logistics is projected to narrow further to less than 30 bps in 2022.

With the prime yield spread between three sectors having narrowed over the course of 2021, income growth will become an important driver of value. Active asset management and enhancement are set to take on a more prominent role in generating rental income.

Figure 16: Asia Pacific Prime Yields



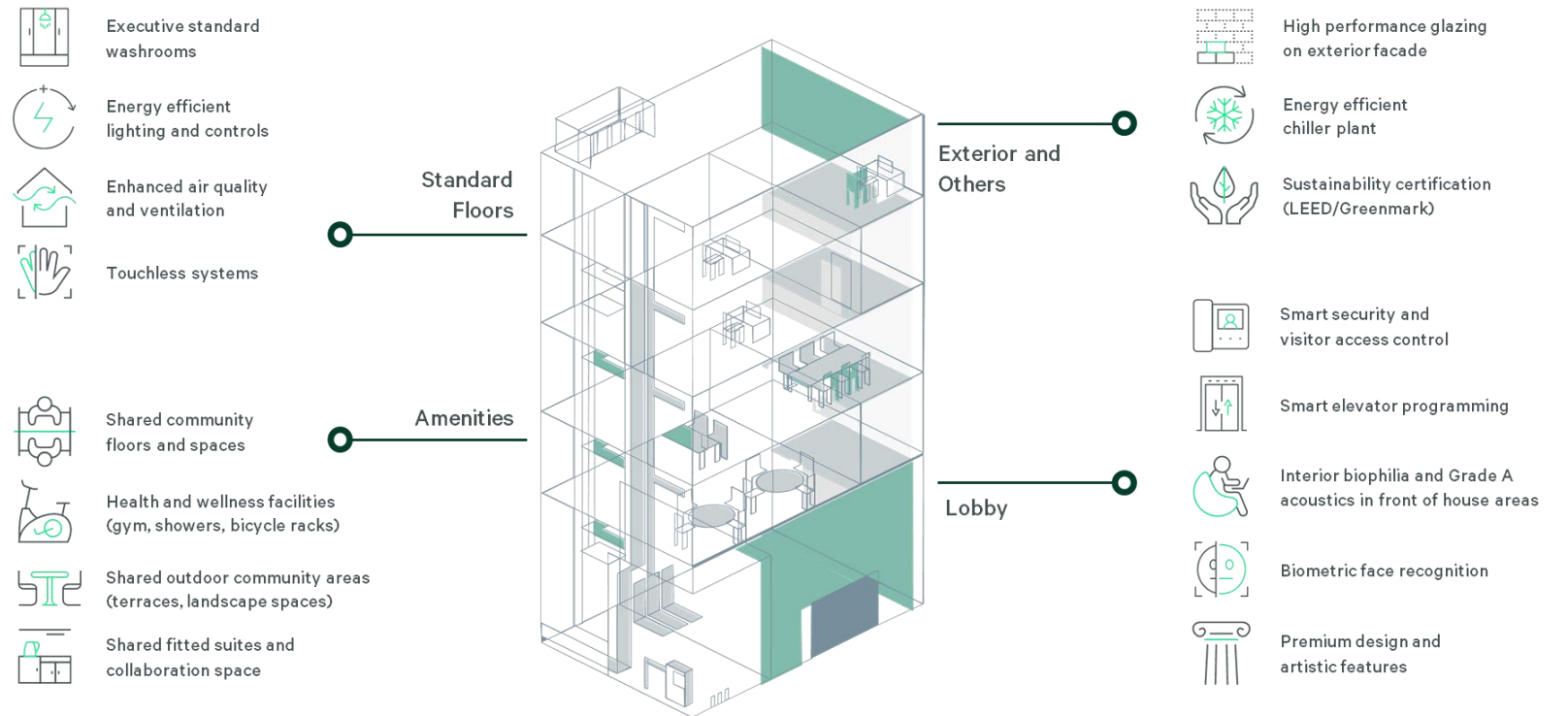
Remarks: Retail yield refers to high streets in prime areas except mainland China, Singapore and Thailand.
Source: CBRE Research, January 2022

Stronger Focus on Asset Enhancement

More stringent regulatory and corporate requirements will continue to encourage investors to include ESG criteria in asset enhancement initiatives, especially in the office sector. Particular focus will be given to upgrading buildings by reducing energy consumption and introducing health-related features to address pandemic-related concerns. In addition to hardware upgrades, enhancing user experience will be another focus, with property owners offering a wider range of rent-generating amenities such as areas for employees to relax and socialise.

Repositioning will be another popular asset enhancement initiative in 2022. With yields for traditional assets remaining tight, investors will seek opportunities to partner with experienced operators to reposition properties to alternative use.

Figure 17: Recommended Asset Enhancement initiatives



Source: Exploring office enhancement strategies, CBRE Research, September 2021. [\[Link\]](#)

With Asia Pacific commercial real estate capital values set to hold firm in 2022, fuelled by competition for quality assets, CBRE has identified three conformist and three contrarian investment strategies for investors to consider.

Conformist Investment Strategies

Focus on greenfield and brownfield logistics opportunities in emerging locations

CBRE's 2021 Asia Pacific Logistics Occupier Survey found that 78% of logistics occupiers intend to expand their logistics space in the coming three years. Their preference will be for tailor-made solutions by leasing build-to-suit facilities; partnering with investors to develop brand new properties; or acquiring land to develop their own assets. Investors are advised to engage anchor tenants to identify build-to-suit opportunities.

Upgrading older but well-located logistics facilities will be another means for investors to tap into solid leasing demand for good quality warehouse space near major transportation hubs. While current vacancy rates for logistics facilities are low, standing below 3% in 14 out of the 16 cities tracked by CBRE, investors are advised to carefully select submarkets with a limited supply pipeline including southern Seoul, Shanghai's Jiading and Minhang areas, Melbourne and Brisbane for redevelopment opportunities.

With proximity to markets and consumers top of the occupier agenda, recent years have seen stronger demand for logistics facilities near megacities. Transportation costs typically account for 50% - 70% of total supply chain costs, underlining the importance of site selection. Emerging logistics areas and hubs such as Beijing Da Xing Airport and Seoul Incheon Airport are close to megacities and are increasingly attractive from a connectivity and cost effectiveness point of view.

Selectively choose turning office markets

Thanks to ample flight to quality demand, well-located high quality office properties have withstood market weakness throughout the pandemic. The introduction of hybrid working has also not had a significant impact on office demand in most Asia Pacific markets. Singapore and Seoul will remain the primary focus for office investors in 2022, supported by rental growth and limited availability. Investors should consider value-added opportunities such as upgrading well-located lower grade office buildings to meet future tenant demand.

Investors with longer holding periods are advised to focus on markets reaching a turning point, such as Beijing, Shanghai and major cities in Australia. With these markets likely to start recording mild rental growth in H2 2022, there will be attractive opportunities for investors with a five-year holding period.

With technology companies expected to remain resilient in terms of revenue growth, they will continue to display robust leasing demand, especially in mainland China and India, where authorities are providing policy support on research and development (R&D) and innovative technology. Singapore, which continues to see a steady flow of enquiries from technology companies looking to establish a presence, will also offer opportunities.

Consider emerging multifamily markets

While Japan remains the primary destination for multifamily investment, Australia's build to rent market is attracting increasing attention from international insurance companies and pension funds looking to partner with local developers. Although immigration flows have been impacted by the pandemic, arrivals will pick up rapidly when borders reopen, with capital cities set to benefit. Prior to the pandemic, more than 80% of net overseas migrants opted to base themselves in state capitals. Elsewhere, build-to-rent residential is gaining traction in mainland China, particularly in tier I cities, where housing affordability is a major concern. However, regulatory hurdles continue to impede the development of the multifamily sector in these markets.

Hong Kong SAR is attracting interest from investors looking to purchase hotels for conversion into co-living space in urban areas. This segment is attracting strong end-user demand from young professionals wanting to move out from the family home to their own private spaces closer to work.



The multifamily sector is evolving to cater to a younger demographic seeking a higher standard of living and greater flexibility.

Contrarian Investment Strategies

Don't overlook hotels

While the slow resumption of international travel has delayed the hotel market recovery, pent-up travel demand will be unleashed when borders reopen. Many investors are already anticipating this trend, with 2021 witnessing an uptick in investment activity in the hospitality sector in Japan and Australia.

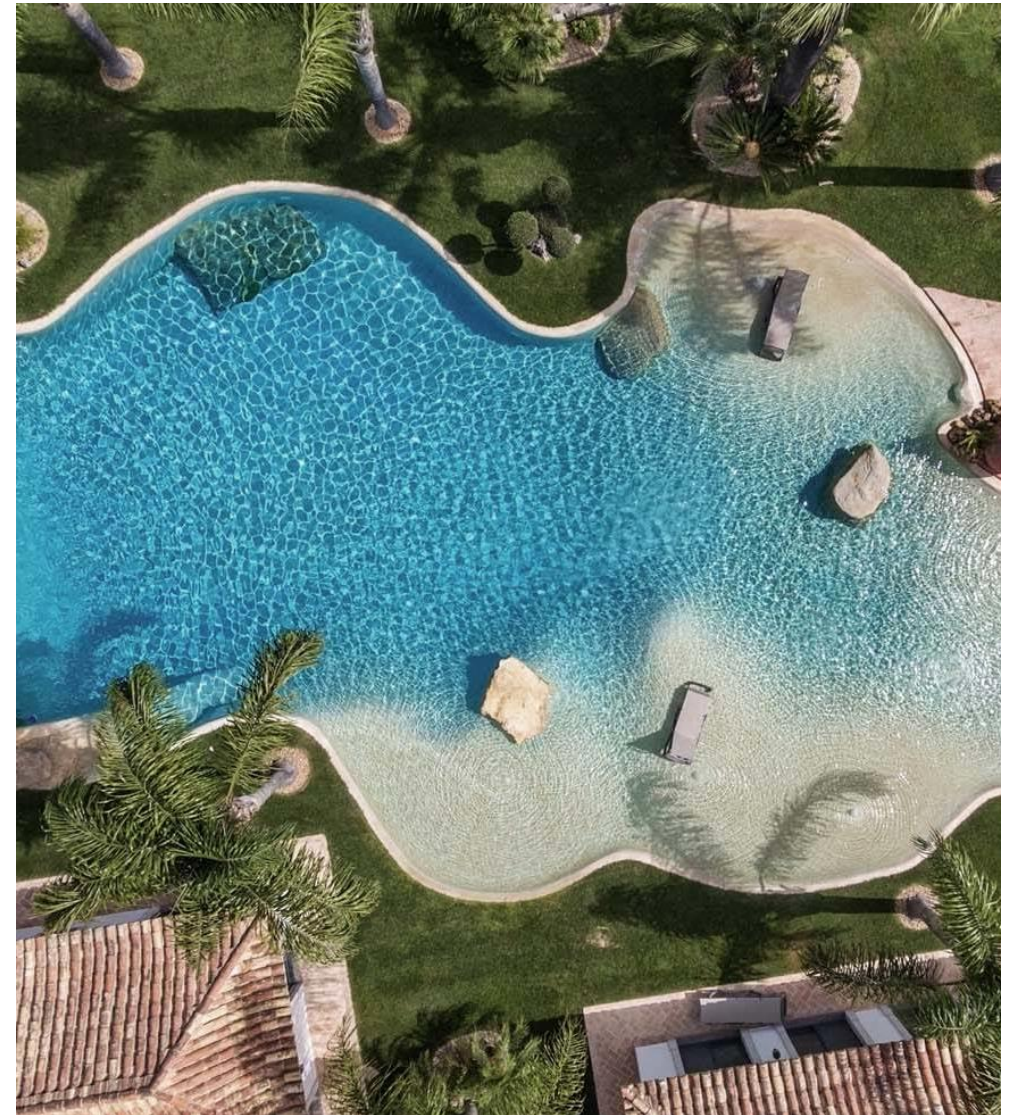
Resorts and leisure hotels have benefitted from strong local staycation demand. CBRE believes urban hotels will offer opportunities along with the return of business travel facilitated by travel bubbles and fast-track arrangements for vaccinated individuals. Recognising these opportunities, an international fund manager recently acquired a city centre hotel in Osaka, marking its first hotel purchase in Japan.

Revisit core retail

While pandemic-related social restrictions and border controls continue to weigh heavily on the retail sector, retailers remain willing to open new stores or secure quality space in core locations, highlighting the investment appeal of prime shopping malls. Selected investors with retail management expertise view the current downward trend as an opportunity to buy well-located retail facilities. Prime shopping malls in Japan, mainland China and Australia as well as high street retail in Hong Kong SAR will offer opportunities to investors willing to consider this sector.

Explore secondary retail in prime districts

With secondary retail taking longer to recover amid subdued leasing demand, there will be opportunities for investors to negotiate more attractive pricing by taking on vacancy risk. Investors are advised to carefully select assets along secondary high streets in prime locations for leasing to F&B retailers, who are less vulnerable to the rise of e-commerce. Tokyo, Hong Kong SAR and Seoul offer the most appealing prospects.



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