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Colliers

Valuation & Advisory Services

APAC Cap Rates

Q3 2023

Accelerating success.



Overview

In the past quarter's, interest rate had increased across most APAC markets, the real estate sector has faced challenges in generating favourable returns relative to the cost of capital. Some capital flowed towards other investment assets, such as government bonds and fixed term deposits, to hedge against inflation, only in China where inflation remained at a comparatively low level. Overall property transaction volume across APAC remained low, and deals were generally smaller in size.

Across almost all the **Australian** cities covered, cap rates in all sectors exhibited an upward movement QoQ.

In China, investment activity remains subdued with only individual investors and insurance institutes actively seeking out discounted assets and adopting a cautious approach to investment. This has resulted in a weaker market sentiment in the property sector for **Beijing**

and **Shanghai** compared to Q2. To vitalize the market environment, the central bank of China has been lowering the Loan Prime Rate (LPR) to alleviate the burden on loans, with the objective of unlocking resources for consumption and promoting nationwide GDP growth.

Hong Kong interest rates have continued to gradually hike over the past year. Asset values are under increasing downward pressure and starting to reflect in the prices. Vacancies remain high levels and rental prices experienced downward pressure across all sectors.

In **Singapore**, cap rates across sectors remain flat, with a lack of sales evidence to support any movement. The increasing lending costs are putting pressure on many investors and owners. However, there are other investors with deep pockets who are taking advantage of this opportunity to acquire assets for long-term investment.



Office sector

In **Auckland**, there has been upward movement for more than one year. Transactional activity remained subdued over the last quarter as investors continued to take a cautious approach to the market. The Reserve Bank of New Zealand has maintained a steady Official Cash Rate in its last three monetary policy meetings, indicating that rates are at or near their peak in the current cycle. With interest rates stabilising it is anticipated that greater clarity over asset pricing will emerge. This, in combination with the election having been completed, is likely to result in an uplift in sales activity during the final quarter of 2023 and into 2024.

As market sentiment wanes, we witness a discernible decline in the overall optimism that prevailed at the start of the year in **Beijing** and **Shanghai**. This shift in sentiment is particularly evident when analysing the escalating cap rate.

In **Bengaluru**, transaction volume remained similar to the previous quarter. There were a few transactions driven by individual investors as institutional players were less active. Deal

sizes were smaller but more resilient, resulting in a marginal downward change in the cap rate in the office segment.

Seoul office assets remain in high demand, with rental level holding firm for landlord. However, there is increasing downward pressure on values due to a lack of liquidity in the market.

Some investors may consider Japan a risk-averse market for real estate investment since the start of the interest rate hike. This is mainly driven by its relatively accommodative monetary policy. The sales volume of foreign investments in real estate has yet to witness a significant increase, although sentiment and interest remain strong. The Tokyo office sector performed well in Q3, with occupancy rates remaining at a healthy level, especially when considering the challenges faced by some other cities in terms of take-up. This is driven by the return to office culture. Government statistics indicate that the hybrid working ratio in **Tokyo** was 44% in mid-2023, down from a peak of over 64% in 2021.



Retail sector

The **Mumbai** retail sector is anticipated to gain traction in the near future, driven by demand from the luxury segment and the release of additional supplies of quality organized retail assets.

Shanghai retail has demonstrated relative stability in the last quarter. Landlords offered competitive terms to maintain and attract tenants led to an overall improvement in the uptake. The consecutive mid-Autumn and National holidays bolstered domestic consumption sentiment.



Industrial sector

Assets in **Australia** with long lease expirations and low fixed-term rent experienced downward pressure on the values during the last quarter.

In **Bangkok**, rental and sales were stable in a low-activity market with lack of sufficient transaction evidence. Owners were maintaining their rents and prices, and expected to continue doing so into next quarter. The market needs to undergo pricing adjustments in order for transactions to materialize.

In **Beijing** and **Shanghai**, the industrial sector experienced a wave of new supply as the

take-up of existing stock slowed down. The government's release of more industrial and logistics land resulted in an augmented supply in the market.

Mumbai industrial demand remained strong in Q3, and the compression in the cap rate was attributed to lower availability of Grade A stock, coupled with a positive outlook from large institutional investors towards the sector. The investors were willing to trade off lower current yields for anticipated future growth in the sector.



Cap Rate QoQ movements

The most movement market
Adelaide
 The most movement sector
Office

Adelaide	Office	Medium	Up	Interest rate	Flat	Inflation rate	Australia
Auckland	Office	Medium	Down	Interest rate	Flat	Inflation rate	New Zealand
Bangkok	Office	Medium	Up	Interest rate	Flat	Inflation rate	Thailand
Beijing	Office	Medium	Up	Interest rate	Down	Inflation rate	China
Bengaluru	Office	Medium	Down	Interest rate	Flat	Inflation rate	India
Brisbane	Office	Medium	Up	Interest rate	Flat	Inflation rate	Australia
Canberra	Office	Medium	Down	Interest rate	Flat	Inflation rate	Australia
Hong Kong	Office	Medium	Up	Interest rate	Flat	Inflation rate	Hong Kong
Jakarta	Office	Medium	Down	Interest rate	Flat	Inflation rate	Indonesia
Manila	Office	Medium	Down	Interest rate	Flat	Inflation rate	Philippines
Melbourne	Office	Medium	Up	Interest rate	Flat	Inflation rate	Australia
Mumbai	Office	Medium	Down	Interest rate	Flat	Inflation rate	India
Perth	Office	Medium	Up	Interest rate	Flat	Inflation rate	Australia
Seoul	Office	Medium	Down	Interest rate	Flat	Inflation rate	Korea
Shanghai	Office	Medium	Up	Interest rate	Down	Inflation rate	China
Singapore	Office	Medium	Down	Interest rate	Down	Inflation rate	Singapore
Sydney	Office	Medium	Up	Interest rate	Flat	Inflation rate	Australia
Taipei	Office	Medium	Down	Interest rate	Flat	Inflation rate	Taiwan
Tokyo	Office	Medium	Down	Interest rate	Flat	Inflation rate	Japan

● Office
● Retail
● Industrial
● Interest rate
● Inflation rate

Scale
 ^ Small
 ^ Medium
 ^ Large
 Direction
 v Down
 — Flat
 ^ Up

City	Office			Retail			Industrial			Interest rate	Inflation rate	Market
	Low	High	QoQ	Low	High	QoQ	Low	High	QoQ			
Adelaide	6.50%	7.50%	▲	5.75%	7.25%	▲	5.75%	6.75%	▲	4.10%	5.20%	Australia
Auckland	5.25%	6.25%	▲	5.75%	7.25%	◀▶	5.00%	5.75%	◀▶	5.50%	5.60%	New Zealand
Bangkok	5.22%	5.70%	▲	5.53%	6.08%	▲	8.03%	9.12%	▲	6.95%	1.35%	Thailand
Beijing	5.25%	6.25%	▲	5.25%	6.50%	▲	5.00%	6.25%	▲	4.20%	0.10%	China
Bengaluru	8.50%	8.65%	▼	9.75%	10.75%	◀▶	7.00%	7.25%	◀▶	9.15%	5.68%	India
Brisbane	5.50%	6.75%	▲	5.25%	7.00%	▲	5.50%	6.00%	▲	4.10%	5.20%	Australia
Canberra	5.50%	6.50%	◀▶	5.50%	7.25%	▲	5.50%	5.75%	▲	4.10%	5.20%	Australia
Hong Kong	2.85%	3.90%	▲	2.85%	4.60%	▲	2.85%	4.00%	▲	5.40%	1.80%	Hong Kong
Jakarta	5.00%	6.00%	◀▶	7.00%	8.00%	◀▶	8.00%	10.00%	◀▶	8.07%	2.28%	Indonesia
Manila	5.00%	6.00%	◀▶	7.00%	8.00%	◀▶	8.00%	10.00%	◀▶	6.25%	6.10%	Philippines
Melbourne	5.00%	5.625%	▲	5.25%	7.00%	▲	4.75%	5.50%	▲	4.10%	5.20%	Australia
Mumbai	7.75%	8.75%	◀▶	7.50%	8.75%	◀▶	7.00%	8.00%	▼	9.15%	5.68%	India
Perth	5.50%	6.75%	▲	5.50%	7.00%	▲	5.75%	6.50%	▲	4.10%	5.20%	Australia
Seoul	4.00%	4.50%	◀▶	5.50%	6.50%	◀▶	5.50%	6.00%	◀▶	5.11%	3.40%	Korea
Shanghai	5.25%	6.50%	▲	5.50%	6.50%	◀▶	5.00%	6.25%	▲	4.20%	0.10%	China
Singapore	3.00%	3.50%	◀▶	4.25%	4.75%	◀▶	5.25%	6.25%	◀▶	3.71%	4.00%	Singapore
Sydney	4.875%	5.50%	▲	5.25%	7.00%	▲	4.50%	5.25%	▲	4.10%	5.20%	Australia
Taipei	2.40%	2.80%	◀▶	2.40%	3.10%	◀▶	2.60%	3.10%	◀▶	3.13%	2.93%	Taiwan
Tokyo	2.70%	3.90%	▼	2.80%	4.50%	◀▶	3.50%	4.50%	◀▶	0.07%	3.20%	Japan

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.



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.

The rates in Australia are gross yields for Class A / prime assets in prime locations across all sectors.

China interest rate is based on 5-year Loan Prime Rate (LPR).

India interest rate is based on average lending rate.

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.

Taipei industrial sector cap rate refers to industrial-offices buildings in the Taipei, which also include factory, warehouse and logistics in these buildings.

Appendix

Market	Interest rate		Inflation rate	
	Source	Local terminology	Source	Local terminology
Australia	Reserve Bank of Australia Oct 2023	Interest Rate	Australian Bureau of Statistics Aug 2023	Inflation Rate
China	The People's Bank of China Sep 2023	Loan Prime Rate (LPR)	National Bureau of Statistics Aug 2023	Inflation Rate
Hong Kong	Hong Kong Monetary Authority Sep 2023	HKAB 1-Month HIBOR Fixing	Census and Statistics Department Aug 2023	Inflation Rate
India	State Bank of India Sep 2023	Lending Rate	Ministry of Statistics and Programme Implementation, Government of India Aug 2023	Inflation Rate
Indonesia	Central Bank of Indonesia Sep 2023	Lending Rate	Indonesia Statistical Agency Sep 2023	Inflation Rate
Japan	JBA TIBOR Administration Sep 2023	TIBOR	Statistics Bureau of Japan Sep 2023	CPI
Korea	Bank of Korea Aug 2023	Lending Rate	Statistics Korea Sep 2023	Core Consumer Prices
New Zealand	Reserve Bank of New Zealand Oct 2023	Official Cash Rate (OCR)	Statistics New Zealand Sep 2023	CPI
Philippines	Bangko Sentral ng Pilipinas Sep 2023	Interest Rate	Philippine Statistics Authority Sep 2023	Inflation Rate
Singapore	Monetary Authority of Singapore Sep 2023	Interest Rate	Monetary Authority of Singapore Aug 2023	Inflation Rate
Taiwan	Central Bank of the R.O.C. (Taiwan) Jul 2023	Lending Rate	Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan Sep 2023	Inflation Rate
Thailand	Bank of Thailand Sep 2023	Interest Rate	Ministry of Commerce Sep 2023	Inflation Rate

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