



Valuation & Advisory Services

APAC Cap Rates

Q2 2023



Overview

The **office** sector continued to be the big mover, with 13 out of 20 cities covered in this report seeing changes. Cap rates were relatively resilient in most Asian cities over Q2.

Cap rates across sectors saw QoQ upward movement in **Australia** and **New Zealand**.

Auckland office, retail and industrial cap rates have been in an upward trend for more than four quarters. However, The Reserve Bank of New Zealand has signalled that the current interest rate cycle has reached its peak, and that there would be no further increase in the current official cash rate of 5.5%. This should lead to a stabilisation of yields.

The cap rates across sectors rose in all **Australian** markets, with office sector cap rate in Adelaide and Brisbane increasing for four consecutive quarters.

There was a slightly different market scene in **Ho Chi Minh City (HCMC)**, **Singapore** and **Taipei**, where cap rates have remained flat across three sectors for more than a year. There was a general lack of significant transactions to evidence any material change in these markets. Project developments are stalled during the government transition period in HCMC. While cap rates in Singapore were resilient, demand on properties across sectors was being sustained by a low supply situation, so the risk was low, justifying the stable cap rates.

The **retail** sector was gradually recovering, as we saw rents slowly rise in some markets such as **Bangkok** and **Hong Kong** with no more rent concessions. Consumers were returning to physical shopping and dining out, and the return of tourism and business travel is driving foot traffic back to bricks-and-mortar businesses.



Office sector

12 out of 20 cities were with QoQ upward movement.

Australia has raised interest rates 12 times over the past 14 months, resulting in a total increase of 400 basis points to the cash rate. This has had a significant impact on the cost and availability of borrowing to finance investments. In turn, this has had a material impact on the investment decisions of potential purchases. Office transaction volumes were even lower than they were during the global financial crisis.

The cap rate for **Bangkok** office has been compressed as rent dropped while capital value remained stagnant. Demand and occupancy were buoyed as a result of compressing rents. There was no transaction evidence to validate any downward movement on the value, but it is anticipated in the future.

Grade A office rents in **Hong Kong** continue to face downward pressure as vacancy rates remain high. Cap rates remained flat in Q2. However, they would trend upwards if there are further interest rate hikes in the second half of the year.

In Q2, uncertainty surrounding the level of interest rates began to fade, and office investment sentiment improved in Korea. The **Seoul** office vacancy rate remained low, and rents slightly trended up. The market was still in a price adjustment phase, resulting in low liquidity and a QoQ increase in cap rates.

Office take-up in **Tokyo** was relatively stable. The leasing market was more active than during the same quarter last year. New vacancies are offset by existing vacancies that are being filled. Overall, there was no change in rentals.



Retail sector

Nine out of 20 cities showed QoQ upward movement.

Retail across all cities surveyed in this report remained resilient even in the face of macroeconomic headwinds and continued to benefit from steady sales growth. There was recovery in footfall, and consumers continue to engage in physical retail activities.

Cap rate for **Mumbai** have been flat for more than one year. Demand remained consistent with previous quarters, with no new supply being added into the market.

In **HCMC**, domestic consumer sentiment has remained resilient. There were new retail supply entering the market with a few malls under renovation or enhancement. Rents generally remained steady QoQ and are yet to see movement in value.

Beijing and **Shanghai** were still in the recovery stage. Overall sales have increased but more slowly than expected. Positive sentiment towards retail was growing, but investors remained cautious, which was expected to continue into the next quarter.



Industrial sector

There was upward movement in cap rates across **Australia**, in particular in Brisbane and Melbourne. Interest rates and cost of borrowing continued to rise in Australia. This has an ongoing effect on the yield and liquidity in the market. Buyers and vendors are continuing to work through a price discovery phase. Deals are still occurring and values have remained stable which is largely due to the rental growth in this sector.

For **Mumbai**, there was a lot of institutional

demand, with large players foraying into the growing segment. Rentals across major cities have remained unchanged. Absorption and vacancy levels have remained stagnant QoQ. Third Party Logistics, Fast Moving Consumer Goods and E-commerce were the major drivers of warehousing demand.

There has been an oversupply of logistics assets in **Seoul** due to the slowdown in E-commerce growth, which has caused upward pressure on cap rates.



Cap Rate QoQ movements

The most movement market
Mumbai
 The most movement sector
Office

Adelaide	Office	Small	Medium	Large	Interest rate	Down	Australia
Auckland	Office	Small	Medium	Large	Interest rate	Down	New Zealand
Bangkok	Office	Down	Up	Flat	Interest rate	Down	Thailand
Beijing	Office	Up	Flat	Up	Interest rate	Down	China
Bengaluru	Office	Up	Up	Flat	Interest rate	Down	India
Brisbane	Office	Up	Up	Up	Interest rate	Down	Australia
Canberra	Office	Up	Up	Up	Interest rate	Down	Australia
Ho Chi Minh City	Office	Flat	Flat	Flat	Interest rate	Down	Vietnam
Hong Kong	Office	Flat	Flat	Flat	Interest rate	Up	Hong Kong
Jakarta	Office	Flat	Flat	Flat	Interest rate	Down	Indonesia
Manila	Office	Flat	Flat	Flat	Interest rate	Down	Philippines
Melbourne	Office	Up	Up	Up	Interest rate	Down	Australia
Mumbai	Office	Up	Flat	Up	Interest rate	Down	India
Perth	Office	Up	Up	Up	Interest rate	Down	Australia
Seoul	Office	Up	Flat	Up	Interest rate	Down	Korea
Shanghai	Office	Up	Flat	Up	Interest rate	Down	China
Singapore	Office	Flat	Flat	Flat	Interest rate	Down	Singapore
Sydney	Office	Up	Up	Up	Interest rate	Down	Australia
Taipei	Office	Flat	Flat	Flat	Interest rate	Down	Taiwan
Tokyo	Office	Flat	Flat	Flat	Interest rate	Down	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	6.25%	7.25%	▲	5.50%	7.00%	▲	5.50%	6.50%	▲	4.10%	4.10%	Australia
Auckland	5.00%	6.00%	▲	5.75%	7.25%	▲	5.00%	5.75%	▲	5.50%	6.00%	New Zealand
Bangkok	5.20%	5.70%	▼	5.50%	6.10%	▲	8.00%	9.00%	◀▶	6.90%	1.32%	Thailand
Beijing	5.00%	6.00%	▲	5.00%	6.25%	◀▶	5.00%	6.00%	▲	4.30%	0.00%	China
Bengaluru	8.50%	8.75%	▲	9.75%	10.75%	▲	7.00%	7.25%	◀▶	8.75%	4.475%	India
Brisbane	5.50%	6.50%	▲	5.00%	6.75%	▲	5.25%	5.75%	▲	4.10%	4.10%	Australia
Canberra	5.50%	6.50%	▲	5.25%	7.00%	▲	5.25%	5.75%	▲	4.10%	4.10%	Australia
Ho Chi Minh City	6.20%	9.10%	◀▶	9.00%	11.50%	◀▶	6.50%	11.00%	◀▶	8.10%	2.00%	Vietnam
Hong Kong	2.85%	3.80%	◀▶	2.85%	4.50%	◀▶	2.85%	3.85%	◀▶	4.94%	1.80%	Hong Kong
Jakarta	5.00%	6.00%	◀▶	7.00%	8.00%	◀▶	8.00%	10.00%	◀▶	7.92%	3.52%	Indonesia
Manila	5.00%	6.00%	◀▶	7.00%	8.00%	◀▶	8.00%	10.00%	◀▶	6.25%	5.40%	Philippines
Melbourne	4.875%	5.50%	▲	5.00%	6.75%	▲	4.75%	5.25%	▲	4.10%	4.10%	Australia
Mumbai	7.75%	8.75%	▲	7.50%	8.75%	◀▶	7.00%	8.50%	▼	8.75%	4.475%	India
Perth	5.25%	6.75%	▲	5.25%	6.75%	▲	5.50%	6.25%	▲	4.10%	4.10%	Australia
Seoul	4.00%	4.50%	▲	5.50%	6.50%	◀▶	5.50%	6.00%	▲	5.01%	3.50%	Korea
Shanghai	5.25%	6.25%	▲	5.50%	6.50%	◀▶	5.00%	6.00%	▲	4.30%	0.00%	China
Singapore	3.00%	3.50%	◀▶	4.25%	4.75%	◀▶	5.25%	6.25%	◀▶	3.80%	5.10%	Singapore
Sydney	4.75%	5.25%	▲	5.00%	6.75%	▲	4.50%	5.00%	▲	4.10%	4.10%	Australia
Taipei	2.40%	2.80%	◀▶	2.40%	3.10%	◀▶	2.60%	3.10%	◀▶	3.09%	1.75%	Taiwan
Tokyo	2.80%	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.

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 Jul 2023	Interest Rate	Australian Bureau of Statistics Jun 2023	Inflation Rate
China	The People's Bank of China Jun 2023	Loan Prime Rate (LPR)	National Bureau of Statistics Jun 2023	Inflation Rate
Hong Kong	Hong Kong Monetary Authority Jun 2023	HIBOR	Census and Statistics Department May 2023	Inflation Rate
India	State Bank of India May 2023	Lending Rate	Ministry of Statistics and Programme Implementation, Government of India May 2023	Inflation Rate
Indonesia	Central Bank of Indonesia May 2023	Lending Rate	Indonesia Statistical Agency Jun 2023	Inflation Rate
Japan	JBA TIBOR Administration Jun 2023	TIBOR	Statistics Bureau of Japan May 2023	CPI
Korea	Bank of Korea Apr 2023	Lending Rate	Statistics Korea Jun 2023	Core Consumer Prices
New Zealand	Reserve Bank of New Zealand May 2023	Official Cash Rate (OCR)	Statistics New Zealand Jul 2023	CPI
Philippines	Bangko Sentral ng Pilipinas Jun 2023	Interest Rate	Philippine Statistics Authority Jun 2023	Inflation Rate
Singapore	Monetary Authority of Singapore Jul 2023	Interest Rate	Oxford Economics May 2023	Inflation Rate
Taiwan	Central Bank of the R.O.C. (Taiwan) Jun 2023	Lending Rate	Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan Jun 2023	Inflation Rate
Thailand	Bank of Thailand Jun 2023	Interest Rate	Ministry of Commerce Jun 2023	Inflation Rate
Vietnam	The State Bank of Vietnam Jun 2023	Lending Rate	Trading Economics Jun 2023	Inflation Rate

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