WHAT NEXT

IQI NEWSLETTER | SEPTEMBER 2018

IQI Asia's Global Real Estate Partner
www.iqiglobal.com

GLOBAL ECONOMIC OUTLOOK 2018

"Fiscal deficits are heading for $1.3 trillion next years as the debt ratio is already twice as high as a decade ago, and expansionary fiscal strategy is out of question. However, not everyone is as pessimistic, especially when it comes to the U.S. economy. Larry Kudlow said the U.S. economy is leading the rest of the world by returning to a basic approach of cutting taxes and burdensome regulation to allow businesses to freely flourish with government oppression. Some of the drivers for high prices include higher demand and tight supplies, geo political and geo strategic risk, and a weakening dollar."

CURRENCY

According to IQI Global market intelligence report, it is estimated that by 2030 5G will have a $12 trillion global economic output. 5G is going to have a major influence on the global economy in a short amount of time. More than just faster speeds, access to 5G is going to spread across the globe. Economies want to experience the impact 5G will have, so they're ensuring everyone will have access to the technology. By 2025, 1.2 billion people worldwide are set to have access to 5G networks — and a third of those people will be in China. Moreover, 5G is about to hit the market by 2020, and by 2021, the number of 5G connections is expected to reach between 25 million and 100 million.

OIL

Oil is screaming at $100 per barrel and is heading for a bull in the next 2 or 3 years. Oil has become a necessity for all as our existence depend on oil and gas. Nothing happens without energy - particularly the need for energy to transport both people and goods. A bull run is foreseeable in the oil market and heading between $73 and $107 per barrel in 2019.

More than just faster speeds, access to 5G is going to spread across the globe.

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- The rental market across New South Wales saw modest success in the past month, according to the Real Estate Institute of NSW (REINSW).
- While metropolitan Sydney and outer Sydney saw vacancy rates rise by 0.1 per cent and 0.3 per cent, respectively, middle and inner Sydney areas saw vacancy rates decline by 0.1 per cent.
- Meanwhile, regional NSW generally saw vacancy rates decline, except in Albury, where it rose by 0.1 per cent, and in Riverina and Central Coast regions, where it remained steady at 3.1 per cent and 2.0 per cent, respectively.
- In terms of rental rates, Sydney rents remain generally high but apartment median rents in metropolitan Sydney decline by 1.8 per cent to $540 a week. The NSW capital joins five other capital cities with median rents above $400—only Perth and Adelaide maintain cheaper rents.

	By Grade			By Precinct				
	Total	Premium	A Grade	Core	Midtown	Western	Southern	W. Bay/ Rocks
Total Prime Floors (No)	2,349	796	1,553	1,091	545	479	98	136
Total Prime NLA (sq m)	3,322,711	1,325,127	1,997,584	1,406,288	758,180	735,703	132,807	289,733
Prime Floors Available (No)	247	77	170	162	41	31	8	5
Prime Full Floor Avail. (sq m)	344,416	133,936	210,481	229,156	46,257	43,935	13,865	11,203
Prime Full Floor Avail. (%)	10.4	10.1	10.5	16.3	6.1	6.0	10.4	3.9
Max Contiguous Floors (No)	25	5	19	25	19	7	7	2
Max Contiguous Area (sq m)	22,281	9,500	22,281	46,267	18,053	18,380	11,271	4,229

Source: Savills Research

OFFICE

- The vacancy rate for Sydney CBD fell to 4.6% in June 2018 from 6.0% a year prior and well below the 10 year average of 7.2%. Notably, this was the lowest it has been since it hit 4.3% in June 2008.
- All precincts in the Sydney CBD recorded falls in their vacancy rates in June 2018 from the year prior, except for the City Core precinct, where the vacancy rate rose to 6.9% from 3.5% as a result of IAG relocating out of 388 George Street to 201 Sussex Street. The Rocks / Walsh Bay precinct saw the greatest fall in the vacancy rate, falling to 9.2% in June 2018 from 27.6% in June 2017.
- Looking forward, Savills Research anticipates the vacancy rate for the Sydney CBD to continue to fall, nearing historic lows until at least 2019/20. With a pre-commitment rate just under 60%, this upcoming supply will help to alleviate pressures on the Sydney CBD market and absorb pent-up demand.

RETAIL

- The Victorian economy is forecast to continue to strengthen over the medium term. The ABS predicts population growth of 4.1% between 2018-2020 for Melbourne, and flowing from this employment is expected to grow by 3.0% during the two year period. Such growth should provide further impetus for the retail sector.
- Indeed, retail turnover growth is forecast to increase at an average of 3.0% p.a between 2018-2021, and an expected increase in wages should further support the retail industry. Melbourne's population growth, coupled with an increase in CBD white collar employment (up by 6.0% in the last 3 years) is translating into demand for higher density living close to the CBD.
- With retail embedded within residential space, these developments could potentially pave the way for more boutique food options such as organic groceries and butchers. The game-changer though, for Melbourne's prime retail strips is Chapel Street's Jam Factory, which is being redeveloped into a 100,000 sq m, $1.25 billion mixed-use precinct featuring entertainment, office, cinema, dining and other retail elements.

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- National picture is skewed by market developments in Toronto and Vancouver. August resales rose modestly in both markets (by 2.2% and 2.9%, respectively, on a month-over-month basis).
- In the case of Vancouver, this was the first monthly increase since December 2017. This market has been further challenged by another round of marketcooling measures implemented by the BC government in its February budget. Montreal (up 2.8%) and
- Ottawa (up 2.1%) also saw modest gains. Both have been among the strongest markets in Canada in the past year in part because affordability isn't much of an issue.
- Policy makers should be quite satisfied with the degree to which the Vancouver and Toronto markets cooled in the past year.
- Demand-supply conditions returned to balance and annual price gains significantly decelerated to low single-digits. We expect these cooler conditions to persist in the near term. Given their size, this means that overall conditions in Canada are poised to stay cool. We expect that rising interest rates will lower the market's temperature by a few degrees in Ottawa and Montreal.

OFFICE

- Flexible offices will maintain momentum Currently accounting for 1% of total office inventory, expect the sector to triple in size in the foreseeable future and represent between 5% and 10% of inventory in many markets.
- Investors comfortable with 15-30% of building allocated to coworking tenants without material adverse impact on valuations.
- Well-positioned to withstand an economic downturn: During a prolonged downturn coworking occupancy could potentially decline by up to 6%. We expect the larger players to withstand declines of this magnitude as they are bolstered by significant reserves and a more diverse service offering.
- Coworking demand has been strong in recent quarters. While coworking ostensibly adds to net absorption, we estimate only 30-40% of it is accretive demand. The rest is taken from traditional office space by relocation and increasing of density.
- Increasingly perceived as a strategic necessity by landlords and investors. Coworking or flexible offices are becoming a staple in buildings.

RETAIL

- Canada's retail sector continues to be impacted by the rapid, relentless growth of online shopping and consumers' changing needs and expectations.
- As a result, the outlook for retail property across the country presents a varied picture. For retail property owners and investors, creativity and flexibility will be important success factors. Interviewees noted that everyone in retail needs to rethink what they're doing. Retail centres must be transformed into destinations people want to visit for more than shopping, and that means incorporating public spaces, a wider range of services, cultural programming, events and more.

Source: Cushman Wakefield, Savills

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- ★ The Dubai Residential Property Sales Price Index for all residential decreased by 2.7 points, from 240.4 to 237.7, which represents a decrease of 1.13% in August 2018. Prices also decreased 7.42% y-o-y.
- ★ Apartment sales prices registered a decrease in August 2018. Prices decreased 1.21% m-o-m and also decreased 7.19% y-o-y.
- ★ Villa sales prices registered a decrease in August 2018. Prices decreased 0.60% m-o-m and also decreased 8.31% y-o-y.

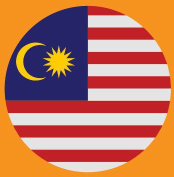
OFFICE

- ★ The office markets continues to favour tenants. As a result, landlords continue to offer appealing terms such as competitive rental rates, rent-free months, fit out contributions and other concessions.
- ★ While average rents have remained largely unchanged over the past quarter, they have declined by almost 13% Y-o-Y to reach AED 1,687 per sq m. Downward pressure on rents is likely to continue in the short term, given the increased availability of Grade A stock in the market.

RETAIL

- ★ Q2 2018 saw the completion of two new retail centrs in The Springs, collectively adding 23,000 sqm of retail GLA is currently under construction and scheduled for completion by the year-end.
- ★ Assuming no delays, this would translate into more than 400,000 sqm of GLA entering the market during 2018, which is higher than the last 2 years (with the completion of approximately 270K and 200k sqm of retail GLA in 2016 and 2017 respectively).
- ★ Not all the proposed future supply is likely to materialize. Notable super-regional projects in the pipeline include Nakheel Mall on Palm Jumeirah and Al Khail Avenue in JVT.

Source: JLL



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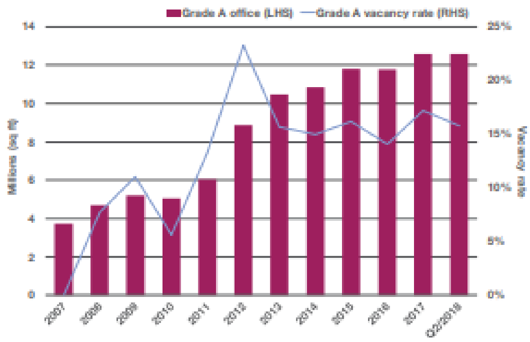
- Despite alarming reports from (NAPIC) about the increase of 65% of unsold properties, the market isn't as weak as speculated.
- Developers have been pumping up new supply at a rate of close to 8% per annum of existing supply. Despite a period of increase in value, developers have reacted by cutting down new supply in Greater KL to below 1% of the existing stock.
- US and China trade war and the change in government had unsettled the market. However, with the Malaysian economy is growing with close to full employment, Christopher the existing overhang developments would be mopped up quite quickly in around a year and the price will pick up as demand grows.

  As at the third quarter of last year, there were 2.04mil existing residential units in Greater KL, a growth of 7.9% from 1.89mil in previous year. This works out to just under four people per unit, down from seven or so in the mid-1970s.

Grade A office supply and vacancy rate, 2007 – Q2/2018



Source: Savills Malaysia Research

OFFICE

- The high impending supply of office space is likely to cause a subdued-to-negative effect on office rents, and office vacancy rates are expected to rise. Nevertheless, the incoming office supply comprises buildings that are superior to their predecessors, and will allow the ability to attract quality tenants and fetch higher rents.
- Furthermore, newer and better office buildings that offer attractive rental packages may outperform older office buildings due to the flight-to-quality phenomenon. This can be seen through notable tenant movements such as Hong Leong Bank headquarters relocating to Menara Hong Leong at Damansara City, Jardine Lloyd Thompson relocating to Q Sentral, and most recently Accenture relocating to The Vertical Corporate Tower 2 at Bangsar South.
- Overall, the Grade A office market remains competitive as supply continues to grow amidst the completion of better-specified buildings.

RETAIL

- Going forward, the Greater KL retail market will continue to face increased competition due to the influx of retail supply while the ongoing digital disruption in the retail industry means that all retail players must adapt to the rapid changes in the retail environment in order to remain relevant.
- In 2017, there were 30 new retail entrants in Malaysia, with most of the new-to-market brands originating from the Asia-Pacific region (e.g. Korea, Japan, China and Taiwan). Conversely, eight brands exited Malaysia in 2017 (Tim Ho Wan, Tous Les Jours, Nature Republic, True Fitness, Pumpkin Patch, Nine West, Délifrance, and Dolce and Gabbana) mainly due to sluggish performance, rising operational costs as well as distributor/franchise management issues.
- New malls are requiring longer periods to reach desirable occupancy rates, while landlords are compelled to offer heavy discounts to retailers to attract them into their malls. We expect this trend to continue in 2018. Nonetheless, well-located prime malls are expected to remain as preferred shopping destinations and locations for existing retailers and new-to-market retailers. This is reflected in Savills Prime Retail Index which recorded a 5% YoY growth.

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- AYALA LAND Inc. (ALI) is entering the co-living space business, as it opened The Flats Amorsolo in Makati City.
- In a statement, ALI said the 15-storey building, located along Amorsolo Street, features co-living spaces catering to young urban professionals who are tired of their long commute to their offices in Makati. The Flats Amorsolo boasts of a central location in the business district, as it is within a five-minute walk to Ayala Avenue and near the Dela Rosa Walkway.
- Co-living units are available for a six-month minimum lease term. Each unit can host a maximum of four occupants. There are also units designed for three or two occupants.
- ALI said the units are designed for optimal space usage, with built-in beds, built-in cabinets, individual desk spaces, air-conditioning, a kitchenette, and an en suite toilet and bath with shower. Occupants are given an electronic key card.

OFFICE

- The POGO sector has taken a foothold in certain submarkets, such as Alabang and the Makati Fringe. However, the offshore and outsourcing (O&O) market has been resilient in the Bay Area despite the dominance of the POGO sector. With the impressive performance of both sectors in 2Q/2018, we have revised our 2018 year-end vacancy rate forecast downwards to 6.7%.
- Despite the increase in vacancies, rents in Makati CBD rose by an impressive 4.5% YoY, closing the quarter at Php 1,084.4 per sq m / month.
- In the second half of 2018, the premier CBD is expected to welcome around 53,000 sq m of new office space from the first tower of the Ayala North Exchange and NEX Tower. Vacancies are expected to rise during the next quarters and may hamper rental growth in 2019.
- In Ortigas, vacancies continued to decrease to 2.5% of office stock in 2Q/2018 from 3.4% last quarter as there were no new completions during the quarter. On the other hand, Robinsons Cyberscape Gamma is anticipated to be completed by the next quarter and will add around 43,300 sq m of new office supply.

RETAIL

- Strong growth in the e-commerce market, coupled with robust growth in food and non-alcoholic drink spending and favourable young adult demographics will support the demand for convenience which is driving online mass grocery retail (MGR) opportunities in the Philippines. Regional e-commerce player Shopee has launched its online grocery service under the banner of Shopee Mart. We do caution that online MGR will face several headwinds of rising inflation and low incomes.
- On the back of rising demand for online grocery delivery services, e-commerce player Shopee Philippines has launched Shopee Mart, selling groceries online. A range of brands have joined the platform including Nestle, Unilever, Coca-Cola, Nivea, Colgate, Pampers and Garnier. The foray into grocery was launched with a special offer to consumers of up to 90% off selected grocery items, ranging from food and beverages to toiletries and skincare products.

Source: Knight Frank, Fitch Solutions

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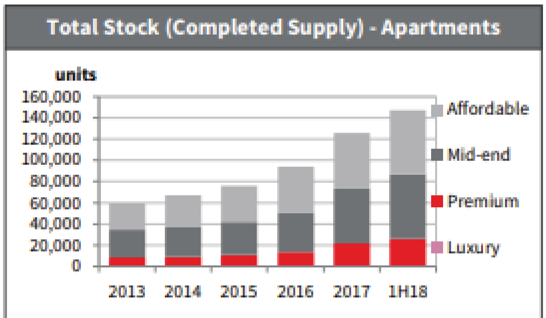
- Apartments: The strong market sentiment continued. While the official new launches [4] in 2Q18 totalled 6,947 units, down 49.1% q-o-q and down 11.5% y-o-y, the market also recorded a notable number of 6,000 units under soft launches.
- Villas/Townhouses: New supply reached 1,550 units, 73% of the total are townhouses. Notably, 77% of total townhouses launches priced at USD 350,000 to USD 550,000 per unit.



Luxury accounts for less than 1% of total stock
Source: JLL Research

OFFICE

- Grade A and Grade B supply remain stable during the quarter. Grade C sub-market welcomed two new buildings in District 3 and Tan Binh District, added approximately 3,500 sqm of new supply into total stock.
- As end of 2Q18, the total stock of HCMC office market increased to 1,945,000 sqm.
- Provided the large available spaces in recent completions, Grade B submarket witnessed the highest net absorption across all segments with approximately 9,000 sqm of space taken-up.
- As end of 2Q18, the overall occupancy rate stood at the high level of above 95%. Therein, Grade A and Grade B occupancy rates strongly increased on the back of high demand in the market.

RETAIL

- There was no new supply of shopping centre during the quarter. Total supply of shopping centre stood at approximately 962,000 sqm.
- Thanks to the change in shopping behaviour and developers' optimistic expectation on the city's growing purchasing power, convenience store and supermarket to expand with approximately 130,000 sqm and 3,000 sqm of new sectors continued supply entering to the market, respectively.
- In the next quarter, Vincom Center LM81 is expected to open, adding approximately 50,000 GFA retail space into the market.
- Under the pressure from emerging of e-commerce, new supply in the future is projected to be developed as an entertainment, showroom and lifestyle destination for all generation of customers rather than a purely physical shopping places.

Source: : JLL, Knight Frank

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IQI TAKES ON *Canada!*

Our IQI team geared up and ready to take on their first event in Mississauga, Toronto!

Daniel Ho, IQI Managing Director being interviewed by Toronto 360 TV at the International Property Expo by IQI In Mississauga.

Attendees of the event eagerly listening to the points shared by our team leads.

#IQIMoments