For immediate release

Colliers releases Q3 2023 APAC Cap Rates Report

Owners, occupiers and investors continue to navigate challenges and opportunities in Q4

SINGAPORE, Monday November 6, 2023 – Colliers' ***Q3 2023 APAC Cap Rates Report*** has found ongoing interest rate pressures across Asia Pacific continue to pose challenges for the real estate sector in generating favourable returns relative to the cost of capital.

According to the report, overall property transaction volumes across APAC remained low in Q3, with the trend towards smaller transactions continuing.

CK Lau, Colliers' Managing Director, Valuations & Advisory Service | Asia, said: "The property market may appear quiet, as owners, occupiers and investors are actively dealing with the challenges and opportunities that they are facing in an uncertain market. Professional advice is important for market players to help them navigate through challenging times, and get ready for their next moves."

Key findings across APAC included:

- **Australia**: Across almost all the Australian cities covered, cap rates in all sectors exhibited an upward movement quarter-on-quarter. Industrial assets in Australia with long lease expirations and low fixed-term rent experienced downward pressure on values during the last quarter.
- **China**: 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 subdued 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. 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.

- **Hong Kong:** Hong Kong interest rates have continued to gradually increase over the past year. Asset values are under increasing downward pressure, which is beginning to be reflected in pricing. Vacancies remain high and rental prices experienced downward pressure across all sectors.
- **India:** In Bengaluru, Q3 office transaction volumes remained similar to the previous quarter, with 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. In Mumbai, the 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. 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.
- **Japan:** Some investors may consider Japan a risk averse market for real estate investment since the start of the interest rate hike, primarily due to 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.
- **Korea:** Seoul office assets remain in high demand, with rental levels holding firm for landlords. However, there is increasing downward pressure on values due to a lack of liquidity in the market.
- **New Zealand:** In Auckland, there has been upward movement for more than a year in the office sector. 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 ad into 2024.

- **Singapore:** Cap rates across sectors remain subdued, with a lack of sales evidence to support movement. 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.

To read the full report, **click here.**

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