Colliers Radar

Property Research | Asia
6 March 2018

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China's "One Belt One Road"

The Dragon Spreads its Wings over Asia

Accelerating success.

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Chinese investment in Asian property assets rose 34% in 2017, with interest focused on Hong Kong, Singapore and Japan. Looking ahead over five years, we think China's ambitious "One Belt, One Road" project, coupled with the firm Chinese economy and RMB strength, will drive Chinese investment in emerging SE and South Asian markets.

OBOR investment will be led by big infrastructure projects. Such projects will stimulate growth in wealth, enhancing existing investment possibilities. Most SE Asian property markets have long-run attractions, with Indonesia and the Philippines standing out. Shortage of stock suggests development projects with local partners will be key to market access, with opportunities centred in industrial and residential property.

Executive Summary

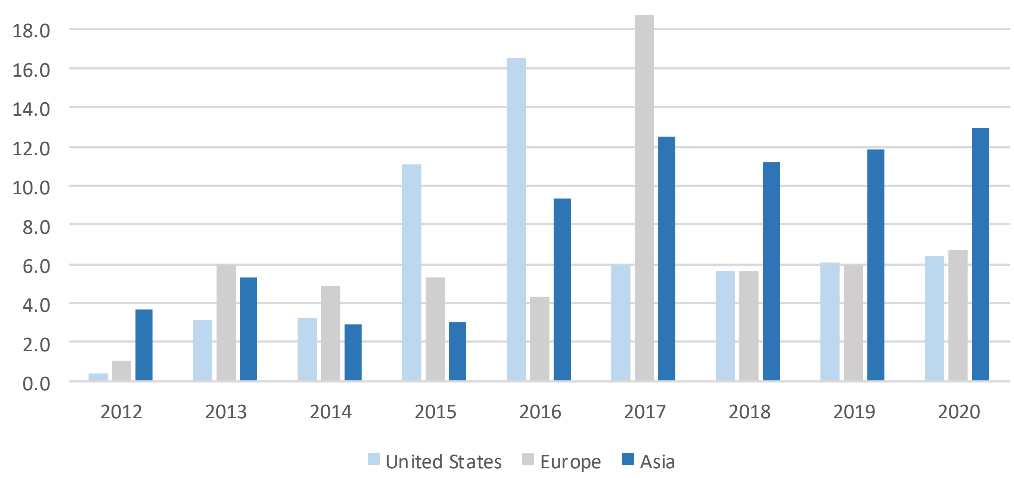
Despite capital controls, total Chinese investment in overseas property assets reached an all-time high of USD39.5 billion in 2017, up by 8% over 2016. Chinese investment in Asian property assets grew 34% to USD12.5 billion, and was focused on Hong Kong, Japan and Singapore. Chinese interest in Hong Kong will probably moderate in 2018, but we think it will stay high in Singapore where the office and residential markets have entered a multiyear upcycle. Singapore remains one of our preferred Asian investment property markets.

Looking ahead over five years, China's ambitious "One Belt, One Road" project, coupled with the firm Chinese economy and RMB strength, ought to drive Chinese investment in emerging South East and South Asian markets. Large-scale investment in central Asian markets should come later. OBOR investment will be led by big infrastructure projects usually handled by state-owned groups. Such projects should stimulate growth in wealth in cities and regions along the project's chief corridors, enhancing existing investment opportunities.

South East Asian countries mostly look attractive for property investment, although Indonesia perhaps stands out for long-term growth potential and the Philippines for breadth of development opportunities. Shortage of quality property stock suggests that development projects with local partners will generally represent the most effective strategy for accessing the markets. We expect these projects to target industrial and residential property in particular.

While the OBOR project covers India and the country has huge long-run growth potential, Chinese capital is unlikely to be a driving force in India for political reasons. Pakistan is a big beneficiary of OBOR infrastructure investment, but it is too early to consider this country as a major investment destination.

Chinese property investment in US, Europe, and Asia (USD billions)



Source: Real Capital Analytics (property transactions greater than USD10 million including land sites; estimates by Colliers International

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Chinese interest shifting to Asian property

Economic and political factors explain interest in property abroad

China has become an increasingly important player in global property markets. According to Real Capital Analytics (RCA), probably the most widely accepted data source for large property transactions, outbound Chinese real estate investment reached an all-time high of USD39.5 billion in 2017. This represented a seven-fold increase from 2012 and an 8% rise over 2016.

The motivation for Chinese investors to acquire overseas property assets reflects both economic and political factors. Between 2012 and 2016, real GDP growth in China slowed from 7.8% to 6.7%, although growth picked up to 6.9% in 2017. Over this period Chinese enterprises faced a highly competitive business environment in their domestic market, and searching for attractive investment opportunities became gradually more difficult. Some enterprises will have concluded that buying overseas property provided an appealing investment option to obtain a high rate of return.

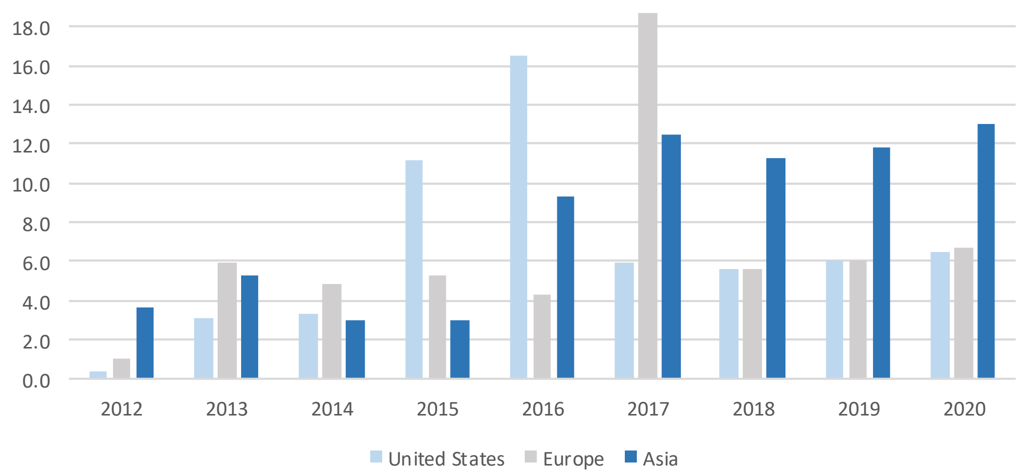
More importantly, perhaps, China accumulated a large current account surplus, and the country's foreign exchange reserves peaked at USD3.9 trillion in 2014. At this point the Chinese government promoted a "going out" policy intended to encourage Chinese sovereign funds and state-owned enterprises to expand foreign activities in areas such as resources, infrastructure and offshore financing. This encouragement was linked to a policy of internationalisation of the renminbi (RMB) and a desire to improve the image of Chinese enterprises through the establishment of regional headquarters overseas. At the same time, releasing a portion of domestic capital for investment in foreign countries served as a strategy to reduce excess speculative activity in the domestic equity and real estate markets.

An additional factor underlying heavy Chinese investment abroad was the weakening of the RMB between 2014 and 2016. In our opinion, the importance of this factor cannot be understated. Over that three-year period, the RMB weakened by 12.8% against the US dollar (meaning, to state the situation in reverse, that the US dollar strengthened by 14.7% against the RMB). While a weak currency in a given country makes buying overseas assets more expensive, it provides a powerful incentive to do so, since enterprises in that country will conclude that they can preserve the value of their capital by investing abroad. We think that Chinese enterprises invested heavily in US assets in particular over 2014-2016 in the expectation of continuing RMB depreciation.

Chinese investment shifts from US to Asia and Europe

The flood of capital outside China so concerned the Chinese authorities that they imposed restrictions on investment abroad in late 2016. Despite these controls, as we have seen, Chinese investment in foreign property assets reached a record level of USD39.5 billion in 2017. However, the composition of overseas investment has

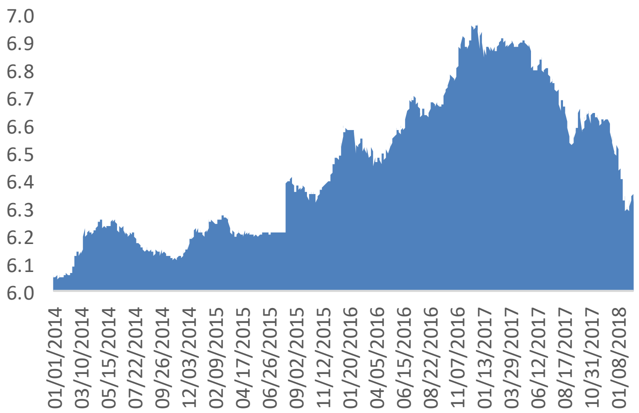
Figure 1: Chinese property investment in US, Europe and Asia (USD billions)



Source: Source: Real Capital Analytics (property transactions greater than USD10 million including land sites; estimates by Colliers International changed. As shown in Figure 1 above, according to RCA, Chinese investment in US property assets dropped 64% in 2017 from 2016, to USD5.9 billion. Conversely, Chinese investment in Asian property assets increased 34% to USD12.5 billion, while Chinese investment in European property assets surged 336% to USD18.7 billion. Investment in both Asia and Europe was up fourfold compared to the recent low point in 2014. However, the investment in Europe was swollen by one very large deal: the purchase by China Investment Corporation (CIC) for USD14.4 billion of Logicor, a company with a big portfolio of logistics properties. Excluding this deal, Chinese investment in European property assets would have been roughly flat last year.

In our view, the changed focus of Chinese investment activity reflects the new situation of robust economic growth in China and currency strength. In 2017, real GDP growth accelerated in China for the first time in several years, although growth will probably moderate to about 6.4% in 2018. Healthy economic growth and lower concerns about Chinese financial stability have driven a sharp recovery in the RMB. Since the start of 2017, the RMB has strengthened by 9.9% against the US dollar (i.e. the US dollar has weakened by 9.0% against the RMB). More recently, the RMB has also rallied against the basket of currencies used by the People's Bank of China in setting exchange rates. We expect the RMB to stay strong, and accept Oxford Economics' forecast of an exchange rate of USD1=RMB6.20 by end-2018.[1]

Figure 2: USD versus RMB: start-2014 to now



Source: Bloomberg

In simple terms, we believe that Chinese enterprises are now investing abroad for the opposite reason from the period 2014-2016: the economy and the currency are strong, so they feel that they can afford to do so. Since their key motive is no longer to preserve the value of their capital, it is natural that they should have shifted focus away from the US, which is traditionally perceived as the world's safest investment market.

That said, Chinese investment in Asia in 2017 was heavily focused on reasonably safe "gateway" markets. Within Asia, Hong Kong (USD 6.9 billion), Japan (USD 2.3 billion), and Singapore (USD 2.1 billion) were the top three destinations for Chinese property capital in 2017. Together, these three markets accounted for over 90% of total Chinese investment in Asia of USD12.5 billion. Hong Kong alone accounted for 55%, partly due to heavy investment in undeveloped land sites.

Chinese interest in undeveloped land sites in Hong Kong appears to have cooled significantly, although interest in completed buildings remains high. It therefore seems reasonable to expect Chinese investment in Hong Kong to decline moderately in 2018. At the same time, we should acknowledge persistent anecdotal evidence that the Chinese authorities have recently discouraged state-owned enterprises from active outbound investment except in connection with the "One Belt, One Road" (OBOR) initiative. OBOR investment is likely to take time to build up.

For these reasons, we assume that aggregate Chinese investment in other Asian property markets will decline by 10% in 2018, from USD12.5 billion to USD11.2 billion (see Figure 1 above). Among the gateway markets, we expect Chinese interest to stay high in Singapore in particular, where we believe that the underlying office and residential markets have entered a multiyear upcycle. Over 2019 and 2020, we assume that aggregate Chinese investment in other Asian property markets will increase as demand for assets in "One Belt, One Road" countries starts to strengthen.

[1] Source: Oxford Economics, Country Economic Forecast, China (13 February 2018)

OBOR infrastructure project to drive further Chinese investment in Asia

Vision of "One Belt, One Road"

Looking ahead, we expect China's ambitious "One Belt, One Road" project to provide an additional political incentive for Chinese enterprises to invest in Asian property. First outlined by China's President Xi Jinping in 2013, this project can be broken down into two parts: a maritime Silk Route connecting China to Europe via South East Asia, the Middle East and East Africa, and an overland Silk Route connecting China to Europe via Central Asia (see Figure 3 below). These routes recreate historical trading links. The ultimate intention appears to be to create an interlinked economic zone supported by substantial Chinese public investment and special lending schemes. President Xi explained his ideas further at the Belt and Road (B&R) International Forum which closed on 15 May 2017 in Beijing. During this two-day summit, the president pledged that China would commit additional funding to the project, raising combined public support and special lending schemes to RMB480 billion (USD69.5 billion)[2].

In its original conception, the "One Belt, One Road" project covered about 70 clearly named countries. However, the conception seems to have become more fluid; and the Chinese authorities appear very open to engagement with any countries or regional organisations along or near the two main Silk Routes (and indeed with countries further away).

The Chinese vision is that "One Belt, One Road" will be led by major infrastructure projects (which in practice are likely to be handled by large state-owned groups). Over time, these projects should stimulate economic growth in the countries and cities along the main Silk Routes. This growth should help to eliminate poverty and improve the standard of living of people in the regions along the project's chief corridors. From the perspective of private-sector investors, this growth ought to enhance existing investment and development opportunities.

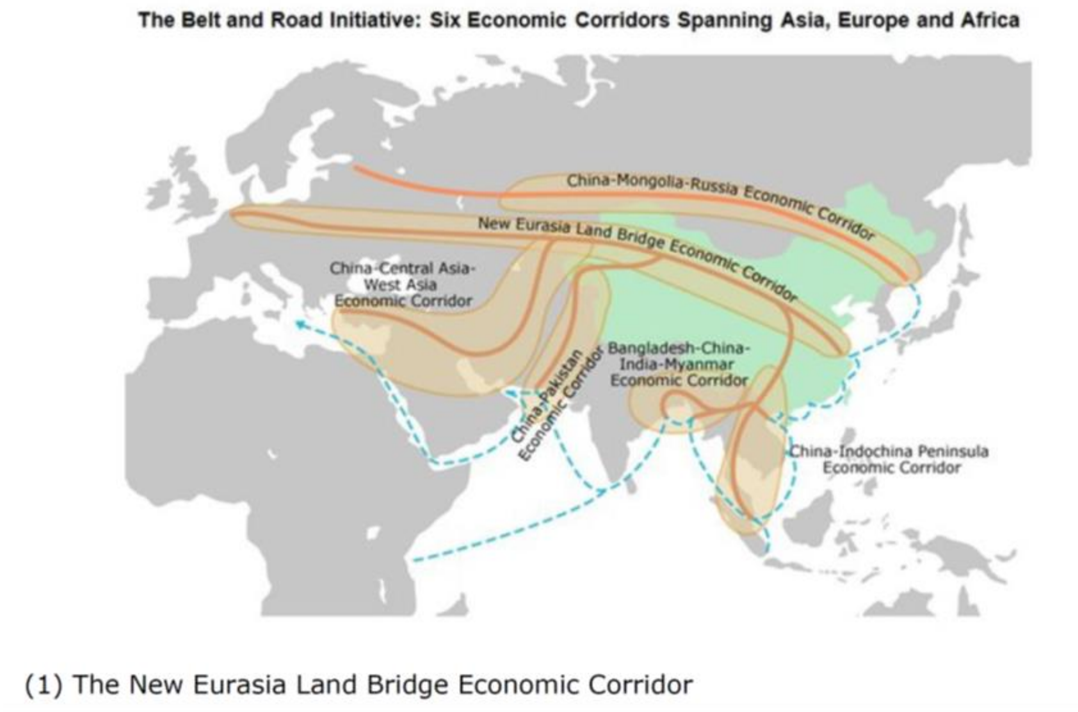
From the perspective of China itself, we think the "One Belt, One Road" project ought to alleviate two problems: overcapacity in heavy industry and an imbalance of development between the developed eastern coastal areas and the less developed western areas. By exporting labour and knowledge in infrastructure-related industries such as construction, materials and equipment

Figure 3: "One Belt One Road" map with Chinese ports

Source: Xinhua

2 See, for example, the report at https://news.cgtn.com/news/3d55444d33677a4d/share_p.html.

Figure 4: Six Economic Corridors Spanning Asia, Europe and Africa



Source: Hong Kong Trade Development Council

and self-developed technology, the project should help soak up the products of surplus capacity and raise economic output and prosperity in western China.

Geographically, western China is closest to central Asian countries. Although a desire to boost prosperity in western China seems to have been one of the original motives behind "One Belt, One Road", we have argued consistently (see, e.g., our report "Asian Investment Property: A Tale of Three Cities and New Markets", 14 September 2017) that Chinese investment activity inspired by the project would focus on South East and South Asia over the next five years or so. This is because countries in this region are mostly more developed than those in central Asia. This report therefore concentrates on South East and South Asia.

Six infrastructure corridors

While "One Belt, One Road" contains two principal investment and development routes, these are subdivided into six large economic corridors. In South East Asia and South Asia, the corridors are the China-Indochina Peninsula Economic Corridor, the Bangladesh-China-India-Myanmar Economic Corridor, and the China-Pakistan Economic Corridor. These corridors are illustrated in Figure 4 above. They form the major routes along which infrastructure investment will be channelled. We comment below in greater detail on these three corridors.

China-Indochina Peninsula Economic Corridor

During the Fifth Leaders Meeting on Greater Mekong Sub-Regional Economic Cooperation, held in Bangkok in December 2014, Chinese Premier Li Keqiang put forward three suggestions with regard to deepening relations between China and the five countries in the Indochina Peninsula[3]. The suggestions included: (1) jointly planning and building an extensive transportation network, in addition to numerous industrial cooperation projects; (2) creating a new mode of co-operation for fund raising; and (3) promoting sustainable and co-ordinated socio-economic development. Currently, the countries along the Greater Mekong River are engaged in building nine cross-national highways, connecting east and west and linking north to south. A number of these construction projects have already been completed. Guangxi, for example, has already finished work on an expressway leading to the Friendship Gate and the port of Dongxing at the China-Vietnam border. The province has also opened an international rail line, running from Nanning to Hanoi, as well as introducing air routes to several major South East Asian cities.

[3] See, for example, https://www.adb.org/sites/default/files/page/42450/5th-summit-joint-declaration-greater-mekong-subregion-gms.pdf. Additional material sourced from Hong Kong Trade Development Council (HKTDC).

Bangladesh-China-India-Myanmar Economic Corridor

In a series of meetings during Premier Li Keqiang's visit to India in May 2013, China and India jointly proposed the building of the Bangladesh-China-India-Myanmar Economic Corridor[4]. In December 2013, the Bangladesh-China-India-Myanmar Economic Corridor Joint Working Group convened its first meeting in Kunming[5] in Yunnan Province. Official representatives from the four countries conducted detailed discussions regarding the development prospects, priority areas of co-operation and co-operation mechanisms for the economic corridor. They also reached broad consensus on cooperation in areas such as transportation infrastructure, investment and commercial circulation, and people-to-people connectivity. The four parties agreed the Bangladesh-China-India-Myanmar Economic Corridor joint study programme, establishing a mechanism for promoting co-operation among the four governments.

China-Pakistan Economic Corridor

The concept of the China-Pakistan Economic Corridor was first raised by Premier Li Keqiang during his visit to Pakistan in May 2013. At the time, the objective was to build an economic corridor running from Kashgar, in China's north-western Xinjiang province, to Pakistan's Gwadar Port on the country's south coast. As of now, the two governments have mapped out a long-term plan for building highways, railways, oil and natural gas pipelines and optic fibre networks along this corridor. According to a joint declaration issued by China and Pakistan in Islamabad in April 2015, the two countries will promote key co-operation projects, including Phase II of the upgrading and renovation of the Karakoram Highway (the Thakot-Havelian section), an expressway at the east bay of Gwadar Port, a new international airport, an expressway from Karachi to Lahore (the Multan-Sukkur section), the Lahore rail transport orange line, the Haier-Ruba economic zone, and the China-Pakistan cross-national optic fibre network[6].

In the country sections in the second half of this report, we comment further on how major infrastructure projects along the six main corridors of the "One Belt, One Road project" will affect the countries concerned.

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[4] See http://mea.gov.in/bilateral-documents.htm?dtl/21723/Joint+Statement+on+the+State+Visit+of+Chinese++Li+Keqiang+to+India.

[5] See http://www.indiandefencereview.com/spotlights/bangladesh-china-india-and-myanmar-economic-corridor-ushering-a-new-era-of-interconnectedness/. Additional material sourced from HKTDC.

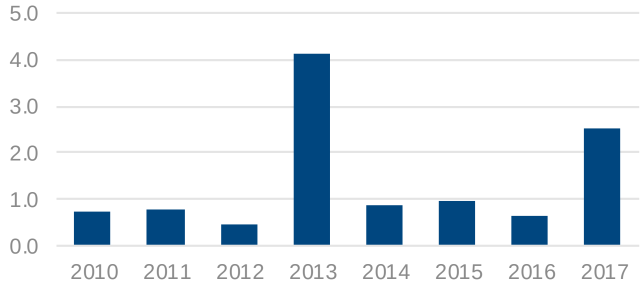
[6] See http://china-trade-research.hktdc.com/business-news/article/The-Belt-and-Road-Initiative/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm. See also information from the China Pakistan Economic Corridor website at http://cpec.gov.pk/.

Present state of investment in SE and South Asia

Investment from China

As shown in Figure 5, Chinese investment in South East Asia and South Asia reached USD2.5 billion in 2017, nearly 4x the level of 2016 and the second highest level ever (after USD4.1 billion in 2013). Singapore was the clear focus of interest, accounting for USD2.1 billion of investment or 84% of the total. Singapore was followed by Malaysia and Indonesia, on USD246 million and USD169 million respectively.

Figure 5: South East and South Asian property investment from China (USD billion)



Source: Real Capital Analytics (property transactions greater than USD10 million; including land development sites)

Undeveloped land sites have been a key investment target for Chinese enterprises - principally housebuilders intent on building apartments. However, office and industrial buildings have gained a substantial portion of total investment, representing 73% and 50% of the total in 2016 and 2017 respectively.

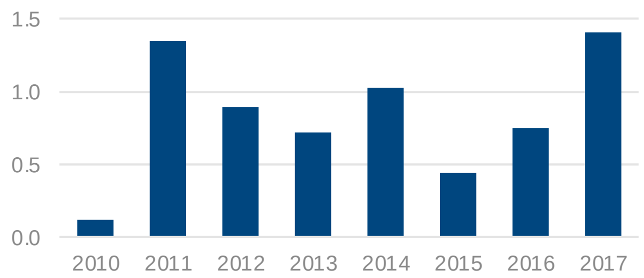
We should note one particularly important transaction in Singapore. This was the purchase by HNA Holding Group (rebranded to "CWT International Limited" after the acquisition) of the warehouse business of CWT Limited for USD788 million in December 2017. HNA viewed this acquisition of CWT Limited as a strategic purchase intended to facilitate logistics, commodity trading, and financing services to support the early phase of infrastructure projects for the "One Belt One Road" initiative in South East Asia.

Investment from Japan

With encouragement from the Japanese government, Japanese firms have been actively investing in infrastructure projects and acquiring new businesses in South East Asia. According to the ASEAN Secretariat[7], inbound foreign direct investment (i.e. across all asset classes) in ASEAN countries from Japan amounted to USD11.5 billion in 2016, followed by Hong Kong (USD 9.8 billion), China (USD9.7 billion), and South Korea (USD5.7 billion).

According to RCA, Japanese property investment in South East Asia reached USD1.4 billion in 2017, having increased for three consecutive years. Given faster economic growth and the expansion of the middle class in the region, Japanese investors have participated in the land sales market for both apartment and commercial development projects in South East Asia. Although Singapore is the destination that has attracted the highest level of Japanese outbound investment, anecdotal evidence suggests that Japanese investors have also been reasonably active in Indonesia, Malaysia, Thailand and Vietnam.

Figure 6: South East and South Asian property investment from Japan (USD billion)

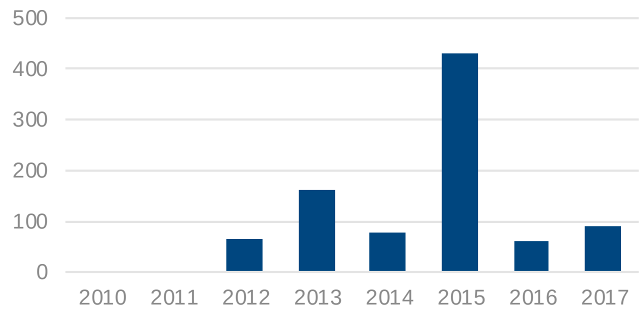


Source: Real Capital Analytics (property transactions greater than USD10 million; including land development sites)

Investment from South Korea

Based on information from the ASEAN Secretariat, Vietnam received USD3.6 billion of outward direct investment from South Korea in 2016. The potential of Vietnam as an emerging consumer market and the attraction of a young and dynamic force have attracted South Korea's large electronics groups such as Samsung and LG to set up manufacturing bases in the country. However, South Korea only committed a small amount - USD90 million - to direct investment in real estate in South East Asia in 2017, far behind China and Japan. We understand that this amount was mostly targeted at Vietnam.

Figure 7: South East and South Asian property investment from South Korea (USD million)



Source: Real Capital Analytics (property transactions greater than USD10 million; including land development sites)

[7] https://data.aseanstats.org/

SE, South Asia views: economy, infrastructure, property market

In the following section of this report, we discuss prospects for countries in South East and South Asia under three headings: economy, infrastructure and property market. We consider specific investment or development opportunities in the various countries under "property market". Where we lack sufficient information, we omit discussion.

Although Hong Kong and Singapore do not necessarily fall directly within the "One Belt, One Road" initiative, we have included discussion of the economic situation and the property market in both territories for two reasons. Firstly, they have become important as destinations for Chinese investment capital and because. Secondly, Singapore is the economic and financial hub of South East Asia, which clearly is included within "One Belt, One Road".

Hong Kong

Economy

Figure 8: Hong Kong economic snapshot

Hong Kong	
Population (million)	7.3
GDP per capita (USD)	38,525
Real GDP growth 2017 est.	3.7%
Real GDP growth 2018 est.	3.0%
Real GDP growth 2020 est.	2.2%
ST interest rate 2017	0.9%
ST interest rate 2020	2.8%
Real interest rate 2017	-0.6%
Real interest rate 2020	0.7%
Political situation	Stable

Source: Oxford Economics, political assessment by Colliers International

Economic prospects for Hong Kong strengthened markedly over 2017, and remain bright. The territory achieved real GDP growth of about 3.7% in 2017, and we regard Oxford Economics' growth forecasts for 2018-2020 as conservative. Hong Kong's interest rates are effectively tied to US interest rates through the currency peg, and so are clearly set to rise steadily from now. Nevertheless, we assume that Hong Kong will continue to enjoy negative (i.e. inflation-adjusted) real interest rates until H2 2019 or even early 2020. Only a much faster rate of growth is likely to dent confidence in the territory's property market significantly. Given a stable political situation, we remain positive about Hong Kong.

Property market

Figure 9: Hong Kong property market snapshot

Hong Kong	
Grade A office market size ('000 sq m)	6,768
Grade A office yield	2.6%
Industrial market size ('000 sq m)	21,044
Industrial yield	3.7%
Total property investment	USD42.2 billion
Completed building investment	USD20.9 billion

Source: Real Capital Analytics (property transactions greater than USD10 million), Colliers

As an urban centre, Hong Kong was the most active real estate market in Asia in 2017, recording USD20.9 billion of commercial property transactions and total property transactions (including undeveloped land sites) of USD42.2 billion. Given robust demand from Chinese buyers and wealthy local investors, commercial property prices have reached high levels. Both the office property yield and industrial property yield look low at first sight on 2.6% and 3.7%, respectively. However, as noted faster economic growth and persistent negative real interest rates should support Hong Kong's property market.

Singapore

Economy

Figure 10: Singapore economic snapshot

Singapore	
Population (million)	5.6
GDP per capita (USD)	52,963
Real GDP growth 2017	3.5%
Real GDP growth 2018 est.	3.1%
Real GDP growth 2020 est.	2.6%
ST interest rate 2017	1.0%
ST interest rate 2020	2.6%
Real interest rate 2017	0.5%
Real interest rate 2020	0.8%
Political situation	Very stable

Source: Oxford Economics, political assessment by Colliers International

After a few years of stagnation, the Singapore economy rebounded sharply in 2017. This was reflected in strong conditions in the investment property market and a pick-up in office rents late in the year. Looking forward, export growth and manufacturing activity may slow modestly over 2018 if Chinese import demand cools and global electronics demand moderates; on the other hand, service sector growth should pick up as the recovery broadens to more domestic sectors. Given a very stable political situation, from a strategic perspective we continue to regard Singapore as one of the most attractive investment destinations in Asia.

Figure 11: Singapore property market snapshot

Singapore	
Premium/Gd. A office mkt size ('000 sq m)	2,258
Premium and Grade A office yield	3.4%
Industrial market size ('000 sq m)	48,445
Industrial yield	6.0%
Total property investment	USD21.0 billion
Completed building investment	USD15.0 billion

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

Property market

We expect Singapore's property market to stay buoyant in 2018, supported by a broadening GDP growth and an expected multi-year recovery in the underlying office and residential markets. Physical supply in office, residential and industrial sectors is also easing from the oversupply situation of past years. Capital flows should continue to be strong as we expect interest rates hikes to be benign and yield spreads are relatively attractive. Barring external shocks, we expect rents and prices in general in 2018 to improve over 2017. Indeed, we have recently raised our forecast for Premium and Grade A office growth in Singapore in 2018 to 10-12%. This is one of our highest forecasts for office markets in Asia.

Figure 12: Singapore investment outlook

Singapore: 2018 Investment Market Outlook		
Capital Values (YOY Change)		
Office (Premium & Grade A)	CBD	↑
Industrial	Freehold Factory/Warehouse	↑
	Leasehold Factory/Warehouse	↑
	Independent Hi-Specification	↑
	Business Parks	↑
Retail (Prime strata floors)	Orchard	↔
	Regional Centres	↔
Residential	Private	↑
Investment Volumes (YOY Change)		
Residential		↑
Commercial		↑
Industrial		↑
Total Investment Sales in 2018:		**+10 to +20%**

Source: Colliers International Singapore Research

As South East Asia's financial and logistics hub, Singapore is the top urban real estate market in the ASEAN region. Based on RCA figures, commercial property transactions amounted to USD15.0 billion (up 50.3% YOY), while total property transactions including undeveloped land sites amounted to USD21.0 billion (up 48.6%) billion in 2017. Based on Colliers Singapore figures[8], total investment sales grew by 55% in 2017, and should grow by 10-20% YOY to SGD44-48 billion (USD33-36 billion) in 2018. This forecast reflects buoyant investor sentiment and the multi-year upcycle in the underlying residential sales and office leasing markets which we anticipate. We should add that, in 2017, property investments by Chinese enterprises in Singapore were well spread across residential land, prime office and other assets, reflecting the overall breadth of interest.

[8] These include all private property sales at transaction prices of SGD5.0 million (USD3.8 million) and all successfully awarded state land tenders.

Indonesia

Economy

Figure 13: Indonesia economic snapshot

Indonesia	
Population (million)	261.5
GDP per capita (USD)	3,570
Real GDP growth 2017	5.1%
Real GDP growth 2018	5.3%
Real GDP growth 2020	5.3%
ST interest rate 2017	6.3%
ST interest rate 2020	7.6%
Real interest rate 2017	2.5%
Real interest rate 2020	3.5%
Political situation	Improving

Source: Oxford Economics, political assessment by Colliers International

The importance of Indonesia is often overlooked. With 261 million people, Indonesia is the world's fourth most populous country; and it is South East Asia's largest economy overall, with rich natural resources. Real GDP growth is running at over 5%, supported by rising fixed investment and a pick-up in government spending. While recent data suggest that exports growth and industrial production have moderated, domestic demand seems to be gathering pace. Inflation has stayed under control, allowing Bank Indonesia to cut interest rates twice in Q3 2017. While short-term interest rates remain high at over 6%, slightly looser monetary policy over 2018 should support growth. Long-term prospects for Indonesia look good. Despite occasional wobbles, the country seems to be building a stable democracy; and it now enjoys an investment-grade credit rating from all three major rating agencies. We believe that Indonesia offers substantial long-run growth potential.

Infrastructure

The principal "One Belt, One Road" infrastructure project in Indonesia is the Jakarta-Bandung High Speed Railway Link. This covers about 150 kilometres in West Java, connecting the Indonesian capital with the textiles hub of Bandung. The cost of this project is generally expected to reach USD5.0-6.0 billion. Indonesia picked China over Japan to help build this connection in 2015, and in April 2017 it was reported that a consortium of Indonesian state-owned companies and China Railway International Company would build the project[9].

Property market and opportunities

Figure 14: Jakarta property market snapshot

Jakarta	
Grade A office market size ('000 sq m)	3,585
Grade A office yield	6.5%
Industrial market size ('000 sq m)	109,955
Industrial yield	8.5%
Total property investment - Jakarta	USD383 million
Completed building investment - Jakarta	USD296 million
Total property investment - Indonesia	USD980 million
Completed building investment - Indonesia	USD520 million

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

Expansion in the services sector has supported the Indonesian property market, despite oversupply of office buildings in Jakarta where the Grade A office vacancy rate stands at around 20%. The country recorded USD980 million of property investment across all segments in 2017. Land sales are a large component of total real estate transactions, amounting to USD460 million or 47% of the total in 2017. In Jakarta, the transacted value of offices and hotels totalled USD296 million in 2017. This is a modest amount but may reflect increasing optimism about a pick-up in the office market and demand for room space from visitors. Outside Jakarta, investment in development sites is mainly intended for industrial and residential property.

Anecdotal evidence suggests that Chinese investors and developers have been much more active in Indonesia than their Japanese or South Korean counterparts, although they have not always planned their projects with sufficient care. Chinese activity has mainly been directed at the residential market. However, Colliers sees development opportunities in both the residential sector (for example, in low to mid-income strata-titled apartment blocks) and the expanding industrial segment of the market. At the same time, oversupply in the Jakarta office market presents the opportunity to invest in office buildings at distressed prices.

[9] See https://www.reuters.com/article/us-china-silkroad-indonesia/indonesia-china-consortium-sign-4-5-billion-loan-for-rail-project-idUSKCN18B0RX.

Philippines

Economy

Figure 15: Philippines economic snapshot

Philippines	
Population (million)	103.5
GDP per capita (USD)	2,951
Real GDP growth 2017	6.7%
Real GDP growth 2018	6.4%
Real GDP growth 2020	5.6%
ST interest rate 2017	2.6%
ST interest rate 2020	4.3%
Real interest rate 2017	-0.6%
Real interest rate 2020	0.3%
Political situation	Mixed

Source: Oxford Economics, political assessment by Colliers International

Estimated real GDP growth of 6.4% for 2018 in the Philippines is similar to China and Vietnam. While export growth will probably slow this year, household consumption should grow strongly, benefiting from recent tax reform. Looking further ahead, the government has ambitious plans for infrastructure investment which should provide a major impetus to the broader economy. Inflation is under control and so interest rates should not rise too fast; indeed, by 2020 the Philippines could well have the lowest or equal lowest real interest rates in Asia. This provides a favourable background for strength in the property market. However, the political situation is mixed: the country continues to grapple with armed insurgencies, and the current administration is regarded as volatile.

Infrastructure

Although the Philippines does not lie directly on the two major routes in China's "One Belt, One Road" initiative, there appears to be plenty of room for cooperation that would benefit the country. For example, in March 2018, the Philippines and China exchanged letters regarding the feasibility studies for two major infrastructure projects[10]. The first was the Panay-Guimaras-Negros Bridges Project in the Visayas region of the central Philippines, expected to cost around USD2.0 billion. The second was the Davao City Expressway Project, intended to mitigate congestion around Davao City on the island of Mindanao in the southern Philippines.

In addition, in December 2017 the governor of Batangas province signed a memorandum of understanding (MoU) with the Chinese company Teamrise Group for the development of projects that would promotion tourism, food security, and air and cargo transportation in the province[11]. The MOU covers the development of the Batangas Access Zone, sea ports and terminals expansion, and a food terminal project on a 29-hectare property. Batangas is located in the Calabarzon region of the Philippines' main island of Luzon, and is one of the most popular tourist destinations near Metro Manila.

The administration of President Duterte has made infrastructure projects in the Philippines a priority. Moreover, relations between the Philippines and China have clearly improved under the present administration. It therefore seems reasonable to expect cooperation between the two countries under the aegis of "One Belt, One Road" to strengthen further in the future.

The ushering in of the "golden age of infrastructure" lends support to the government's decentralisation push which should unlock land values in areas outside of Metro Manila and stimulate business activities in the countryside. Given this background, Colliers Philippines recommends that developers focus on the thriving opportunities outside of the country's capital[12].

Property market and opportunities

Figure 16: Manila property market snapshot

Manila	
Grade A office market size ('000 sq m)	4,267
Grade A office yield	6.1%
Industrial market size ('000 sq m)	40,453
Industrial yield	n/a
Total property investment - Manila	USD320 million
Completed building investment - Manila	USD70 million
Total property investment - Philippines	USD736 million
Completed building investment - Philippines	USD70 million

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

[10] See http://www.manilatimes.net/ph-loop-chinas-one-belt-one-road-routes/351147/.

[11] As reported at https://www.rappler.com/business/191440-batangas-chinese-teamrise-develop-airport-seaport-railway.

[12] See Colliers Philippines' report "Philippines, Top 10 Predictions 2018" (21 December 2017).

Although the Philippines is a relatively small property market, the country's services sector is benefiting from the continuing high growth which is driving demand for office space. Purchases of land sites dominated the property investment market in 2017, reaching USD667 million or over 90% of the total property transactions according to RCA. In Manila, site development has been targeted mainly at office and apartment property.

So far, the most tangible impact of Chinese investment interest in the Philippines has been the spread of online gaming companies coming from China. Online gaming companies took up a very substantial amount of office space in Manila in 2017. Most estimates suggest that about one-third of total leasing transactions came from online gaming, with each tenant taking between10,000 and 30,000 square metres per transaction. The strong demand for office space from online gaming companies has also had an impact on residential leasing for developments close to where those companies are located (e.g. Makati CBD, and the Bay Area).

Another sector that has benefited from mainland Chinese demand is tourism. China is now the second largest source of tourists in the Philippines. As such, Chinese brands such as Jinjiang Hotels are being rolled out aggressively across the country.

Looking ahead, we would highlight four opportunities for long-run investment and development potential in the Philippines. For further details, please see Colliers Philippines' report "Philippines, Top 10 Predictions 2018" (21 December 2017).

> Residential market outside Metro Manila. Both national and local developers have been active in addressing the rising demand for residential projects in major urban areas in Luzon (outside Metro Manila), Visayas, and Mindanao. The improvement of road networks and expansion of airports envisaged under the present administration's push to improve infrastructure should further unlock land values in these areas, making them more feasible for residential projects.

> Industrial park developments north of Luzon. The north and central parts of the main island of Luzon are becoming increasingly viable as industrial hubs. Interesting evidence of this increased viability comes from the commitment by China's Xu Liang Drag to Group to develop a 3,000 hectare mixed-use special economic zone in Pangasinan, about 210 km north of Metro Manila[13].

> Townships outside Metro Manila. Colliers Philippines expects developers to pursue satellite communities both in and outside Metro Manila. Townships offer a better value proposition (live-work-play-shop lifestyle) than standalone projects since they offer mixed-use developments. We think this feature makes integrated townships a more attractive option for investors. Further, we see developers pursuing township projects in areas outside Metro Manila such as Cavite, Laguna, Bulacan, Pampanga, Cebu, and Davao over the near to medium term as land values are unlocked by expansion of road networks.

> Resort-oriented hotels across the country. Colliers Philippines believes that the development of 3- and 4-star hotels in resort destinations will be more visible over the next two to three years. Colliers believes that among the most attractive locations for these developments are Cebu, Bacolod, Iloilo, Palawan, Davao, and Bohol.

Vietnam

Economy

Figure 17: Vietnam economic snapshot

Vietnam	
Population (million)	94.5
GDP per capita (USD)	2,131
Real GDP growth 2017	6.8%
Real GDP growth 2018	6.4%
Real GDP growth 2020	6.2%
ST interest rate 2017	6.3%
ST interest rate 2020	6.5%
Real interest rate 2017	2.5%
Real interest rate 2020	2.5%
Political situation	Stable

Source: Oxford Economics, Colliers International

Growth in Vietnam has benefited from renewed vigour in manufacturing exports and an increase in the government's credit growth target which should support investment. Vietnam remains one of Asia's faster-growing emerging markets, with real GDP likely to expand by about 6.4% in 2018. Population growth is now slowing, but its peak of 1.2% over 1999-2008 means the workforce is still growing[14]. Risks include the authorities' relatively poor record in managing inflation and high outstanding aggregate credit levels. Real interest rates

[13] See https://business.mb.com.ph/2017/07/07/chinese-build-giant-ecozone-in-pangasinan/.

[14] See Oxford Economics, "Country Economic Forecast: Vietnam" (8 November 2017).

are higher than in many other Asian markets. Overall the political situation appears reasonably stable.

Infrastructure

Vietnam lies directly along the "Maritime Silk Road" link from China to the Middle East and Europe, and is widely perceived as a country which would benefit from large-scale infrastructure upgrades. So far, the focus of discussion of Vietnam in the context of "One Belt, One Road" appears to be the construction of an expanded port at Haiphong City, the leading seaport in northern Vietnam about 90 kilometres from the capital Hanoi. Haiphong would be the terminus of an envisaged Kunming-Lao Cai-Hanoi-Haiphong Corridor, which appears to be a sub-corridor of the China-Indochina Peninsula Economic Corridor.

The estimated cost of construction of a new port at Haiphong is USD 1.2 billion. Phase One consists of actual construction work on the port, managed by the Vietnam Marine Administration. Phase Two consists of a joint venture between a number of Vietnamese and Japanese enterprises and will involve the construction of two wharves with a total length of 750 metres, giving the port the capacity to service 100,000-tonne container ships. Once fully operational, the facility should form part of a direct trade link, connecting China and Vietnam's northern region with the US and European markets.[15]

China is also playing a role in the development of Vietnam's railway infrastructure. To this end, it was reported in April 2017 that China Railway Sixth Group Company had been awarded a contract to construct the Cat Linh-Ha Dong urban railway project in Hanoi. China has provided most of the USD550 million funding for this project through preferential credit loans of RMB1.2 billion (USD189 million at the current exchange rate), and through another USD250 million in concessional loans.

Another "One Belt, One Road" project that was on the agenda at a summit in Beijing in September 2016 between the Chinese and Vietnamese prime ministers was a standard gauge upgrade to the rail link between Lao Cai on Vietnam's border with China's Yunnan province and Hanoi and Haiphong. Once completed, this link would allow greater trade volumes to be carried along the line to the Haiphong Port. In other words, this rail link would be a vital element of the Kunming-Lao Cai-Hanoi-Haiphong Corridor mentioned above.

[15] Source for the information on Haiphong Port and much of the discussion on infrastructure in Vietnam: http://economists-pick-research.hktdc.com/business-news/article/International-Market-News/China-and-Vietnam-s-Ambitions-Converge-in-BRI-Infrastructure-Projects/imn/en/1/1X000000/1X0A9HQV.htm.

Property market and opportunities

Figure 18: Hanoi property market snapshot

Hanoi	
Grade A office market size ('000 sq m)	427
Grade A office yield	About 8%
Industrial yield	10-11%
Total property investment - Hanoi	USD322 million
Completed building investment - Hanoi	-
Total property investment - Vietnam	USD1,387 million
Completed building investment - Vietnam	USD456 million

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

Figure 19: Ho Chi Minh City property market snapshot

Ho Chi Minh City	
Grade A office market size ('000 sq m)	314
Grade A office yield	About 8%
Industrial yield	10-11%
Total property investment - HCMC	USD670 million
Completed building investment - HCMC	USD252 million
Total property investment - Vietnam	USD1,387 million
Completed building investment - Vietnam	USD456 million

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

Total real estate investment in Vietnam was USD1.39 billion in 2017, ranking in fourth position among South East Asian markets. Acquisition of site development was significant in the country, amounting to USD931 million or 67% of total property investment. Shortage of office stock is a significant barrier to investment in the country: there are only 12 Grade A office buildings in Ho Chi Minh City, even though total property market transactions in Ho Chi Minh City (USD670 million) last year were more than double the total for Hanoi (USD322 million). Apartment development in the country is proving popular for investors as a method of targeting the young population in the country and capitalising on rising household income.

Chinese investment interest seems to have picked up in Vietnam over the past year, with interest from South Korea, Japan and established institutional investors based in markets like Singapore also strong. Evidence on the ground suggests that Chinese investors are proving long-term in their outlook, being willing to pay prices that suggest a 6% yield rather than the prevailing 8% yield on office property. Chinese investors are also focusing on residential development, especially in Ho

Chi Minh City. In contrast, South Korean and Japanese investors seem more interested in infrastructure projects.

Investors potentially interested in Vietnam should note that regulations affecting the property market have been liberalised recently. Foreigners cannot buy land, but they can buy property. It is no longer a requirement to have a joint venture with a local partner. Sale and leaseback transactions are now possible. Colliers sees particular opportunities in industrial development projects, relating to factory relocation and similar purposes.

Thailand

Economy

Figure 20: Thailand economic snapshot

Thailand	
Population (million)	66.2
GDP per capita (USD)	5,978
Real GDP growth 2017	3.8%
Real GDP growth 2018	3.2%
Real GDP growth 2020	3.0%
ST interest rate 2017	1.6%
ST interest rate 2020	2.9%
Real interest rate 2017	0.9%
Real interest rate 2020	0.9%
Political situation	Uncertain

Source: Oxford Economics, Colliers Thailand, political assessment by Colliers International

Thailand has grown more slowly than other South East Asian nations in recent years, affected partly by political divisions which have resulted in military take-overs. Real GDP growth reached 3.9% in 2017, led by strength in exports; however, government investment and private consumption were lacklustre. Exports growth may well moderate this year if Chinese imports demand slows. Consumer spending and investment growth are unlikely to offset any such slowdown because growth remains concentrated in urban areas and large companies. More positively, pressure from the government and large exporters for the Bank of Thailand to dampen the strong baht suggests that interest rates will stay low at least over 2018. Looking ahead, Thailand's record of modest budget deficits and low overall debt level should support investment confidence. On the other hand, the deferral of elections to 2019 by the ruling military authorities will reinforce the sense of political uncertainty.

Infrastructure

The principal focus of discussion of Thailand in the context of the "One Belt, One Road" project is the planned Thai-China Rail Link at an estimated cost of USD14.2 billion. The portion of this rail link lying within Thailand is intended to be completed in three phases[16]:

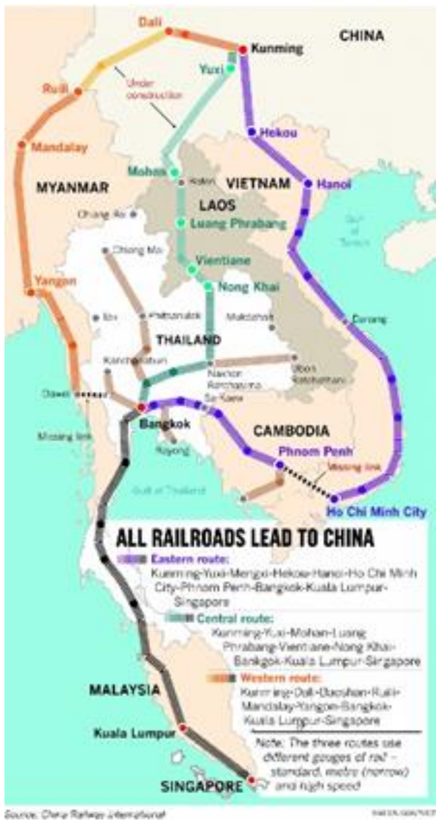
> First phase: a 256km high-speed railway link from Bangkok to the city of Nakhon Ratchasima (expected to be completed within three years)

> Second phase: a 355km rail link from Nakhon Ratchasima to Nong Khai, a northeast Thai city bordering Laos

> Proposed third phase: a 247km line linking the province of Saraburi in central Thailand and Rayong on the Gulf of Thailand coast in the south-east.

The third phase of the railway would further the Thai government's plans for an Eastern Economic Corridor (EEC), an envisaged manufacturing and transport hub for the Indochina Peninsula, as part of its Thailand 4.0 Strategy to promote high-technology industries including robotics and medicine.

Figure 21: Planned China-Thailand rail links



Source: China Railway International, Nation Graphics

[16] Source for the discussion of Thai rail projects: http://www.nationmultimedia.com/detail/asean-plus/30336801 (22 January 2018).

Completion of the Thai-China Rail Link depends on extension of the project across Laos. Construction of the section in this country has already begun, and Thailand and Laos have reportedly agreed to use standard railway gauge to complete what is expected to be the busiest railway route in South East Asia in the future. However, one problem is that the Thailand-China train would have a maximum operational speed of 250kph, whereas Laos's trains could not move faster than 150kph.

In the future, it is envisaged that the Thai-China Rail Link would be connected to Kuala Lumpur in Malaysia and Singapore, and also to Ho Chi Minh City in southern Vietnam. However, the latter plan requires construction of a railway linking Cambodia's capital Phnom Penh with southern Vietnam. For the moment this is a missing link in the grand scheme.

Property market and opportunities

Figure 22: Bangkok property market snapshot

Bangkok	
Grade A office market size ('000 sq m)	2,303
Grade A office yield	6.5%
Industrial market size ('000 sq m)	761
Industrial yield	5-7%
Total property investment - Bangkok	USD1,404 million
Completed building investment - Bangkok	USD759 million
Total property investment - Thailand	USD1,565 million
Completed building investment - Thailand	USD864 million

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

According to RCA, Thailand ranked as South East Asia's third largest investment property market in 2017 after Singapore and Malaysia, recording USD1.6 billion of total property investment and USD0.9 billion of investment in completed buildings in 2017. As shown in Figure 22, Bangkok accounted for USD1.4 billion of the total property transactions and USD0.8 billion of the completed building investment. Hotel properties have been active as the country is a very popular tourist destination. The land sales market is another option to invest in the country's apartment and commercial property, especially warehouse and shopping centres.

As is true for the Philippines, Chinese tourists have made a significant impact on Thailand and its economy. Visitors to Thailand in 2017 amounted to 35 million people, of which total 30% or over 10 million came from China. It is worth noting that there are now many direct flights connecting Thailand and China, reducing journey times to five or six hours. Consequently, Thailand hosts large numbers of Chinese people, not just tourists, but also retiree migrants, scholarship students and investors.

There are numerous other factors that make Thailand an attractive target market for Chinese investment - and, indeed, investment in general. Perhaps the most important is the fact that Thailand allows foreign buyers direct freehold ownership of property. This stands in contrast to China, where there is no freehold ownership.

In addition, prices of residential property are much lower in Thailand than in mainland China. Thailand's CBD condominiums and resort properties must look like a downright bargain for homebuyers from mainland China. Evidence on the ground suggests that Chinese property hunters are looking to buy middle-class and upper-middle-class condominiums in Bangkok, as well as condominiums in Pattaya and Chiang Mai. They also appear interested in resort properties in Phuket and Ko Samui.

Chinese and other foreign investors interested in Thailand's real estate market probably think first and foremost of condominiums, resort properties, hotels and infrastructure projects. In practical terms it is usually easiest to engage in projects through joint ventures with Thai listed companies or other local partners which require capital to expand businesses quickly, whether condominium projects or hotel/resort developments. To date, Colliers is aware of 16 well-known Chinese companies investing significantly in Thailand's real estate market.

Myanmar

Figure 23: Myanmar economic snapshot

Myanmar	
Population (million)	52.9
GDP per capita (USD)	1,295
Real GDP growth 2017	7.1%
Real GDP growth 2018	7.6%
Real GDP growth 2020	7.2%
ST interest rate 2017	10.0%
ST interest rate 2020	10.0%
Real interest rate 2017	1.1%
Real interest rate 2020	3.9%
Political situation	Uncertain

Source: Oxford Economics, political assessment by Colliers International

Myanmar is in an early stage of liberalisation and reform, and the authorities are steadily improving standards from a low base. Real GDP growth is running at about 7.5% YOY, driven in part by a recovery in the agricultural sector. This ranks joint with India as the highest among major Asian markets. However, economic problems in Myanmar include a sizable current account deficit and high CPI inflation of around 9%. These problems are reflected in high policy interest rates. Concern about the government's treatment of minorities and the continuing influence of the military may affect Myanmar's reputation as an investment destination over time.

Infrastructure

China's principal infrastructure project in Myanmar so far is its involvement as, we understand, a 70% stakeholder in the KyaukPhyu Special Economic Zone in Rakhine State (formerly Arakan State) in north-west Myanmar[17]. The establishment of this zone was first approved in December 2015, when the Myanmar government awarded the development contract to a consortium of five Chinese companies and one Thai company, with the Beijing-based China International Trust and Investment Corporation (CITIC) heading operations.

Initially, this project consisted of a deep-water port, an industrial park and a residential zone. Subsequently, its remit was extended, with an oil pipeline and power-generation facilities added into the mix. Once completed, the deep-water port is expected to have an annual throughput of 7.8 million tonnes of bulk cargo and 4.9 million TEU containers. However, the construction of the port alone is expected to take 20 years and to be divided across four development phases.

Property market and opportunities

Figure 24: Yangon property market snapshot

Yangon	
Grade A office market size ('000 sq m)	223
Grade A office yield	-
Industrial market size ('000 sq m)	-
Industrial yield	-
Total property investment - Yangon	USD37 million
Completed building investment - Yangon	-
Total property investment - Myanmar	USD37 million
Completed building investment - Myanmar	-

Source: Real Capital Analytics (property transaction greater than USD10 million), Colliers

Myanmar's investment property market is at a nascent stage. According to RCA figures, the total volume of investment transactions in Yangon in 2017 was tiny at only USD37 million. This is well below the level of most other capital cities in South East Asia.

However, in reality the Myanmar property market is more exciting than the low reported transaction volume in Yangon would suggest. Based on Colliers' observation, large Chinese developers and construction groups such as China Railway Group, China Communications Construction Company and China Nuclear are active in large infrastructure projects (e.g. gas pipelines, road and rail networks and port building), as well as mixed-use investment and advisory projects.

In Colliers' opinion, industrial and logistics property and infrastructure projects represent the most attractive investment opportunities in Myanmar. It is advisable to engage in projects with a local partner that knows the market well. Examples of foreign companies which have invested successfully in the logistics market in Myanmar include Damco (part of the European Maersk transport group) and Kerry Logistics.

[17] http://economists-pick-research.hktdc.com/business-news/article/International-Market-News/China-Set-to-Confirm-70-Stake-in-Major-Myanmar-based-BRI-Project/imn/en/1/1X000000/1X0ABQ9L.htm

Malaysia

Infrastructure

China' s principal involvement in infrastructure in Malaysia is through the East Coast Rail Link. A 700km rail line is being built by the China Communications Construction Company (CCCC), the state-owned infrastructure development group, at an estimated cost of about USD13 billion. The East Coast Rail Link is one of the key planks in Malaysia's bid to rejuvenate the economy of the eastern part of peninsular Malaysia.

It is believed that East Coast Rail Link will be operational by July 2024, ultimately connecting Port Klang on the west coast, the country's largest container port, with Kuala Lumpur, the Malaysian capital, while servicing several urban centres and ports along the eastern seaboard. The northernmost terminal of the line will be Pengkalan Kubor, a town on the Thai-Malaysia border[18].

One of the beneficiaries of the new railway route will be Kuantan, the state capital of Pahang and the site of the country's most significant east coast port. The port, which offers strategic access to the South China Sea, is currently undergoing a major upgrade. This will double its capacity to 52 million freight weight tonnes (FWT) and allow the largest container ships to berth.

China is also involved in the upgrading of Kuantan Port. The redevelopment work is being headed by the Kuantan Port Consortium, a joint venture between IJM Corporation Berhad, one of Malaysia's leading construction groups, and Beibu Gulf Holding (Hong Kong), a subsidiary of Guangxi Beibu Gulf International Port Group, a large Chinese port development and management specialists. At present, ownership of the consortium is split on a 60:40 basis in favour of IJM. In addition, China and Malaysia are jointly developing the China-Kuantan Industrial Park Special Economic Zone as a hub for power generation, energy-saving initiatives, environmental technologies and similar fields.

Besides CCCC and Guangxi Beibu Gulf International Port Group, Chinese groups such as Agile and Country Garden are known to be involved in mixed-use development projects in Malaysia.

[18] Source on Malaysia infrastructure projects: http://service-industries-research.hktdc.com/business-news/article/International-Market-News/BRI-Backing-Boosts-Malaysia-s-Rail-Infrastructure-Redevelopment/imn/en/1/1X3PJ3K7/1X0ACMRF.htm.

India

Economy

Figure 25: India economic snapshot

India	
Population (million)	1,326.0
GDP per capita (USD)	1,710
Real GDP growth 2017	6.2%
Real GDP growth 2018	7.5%
Real GDP growth 2020	6.9%
ST interest rate 2017	6.5%
ST interest rate 2020	7.3%
Real interest rate 2017	3.1%
Real interest rate 2020	1.7%
Political situation	Stable

Source: Oxford Economics, political assessment by Colliers Intl.

India is Asia's and the world's second most populous country, with over 1.3 billion people; and it is Asia's third largest economy after China and Japan (albeit still with very low GDP/capita). After a disappointing year in 2017, in which real GDP growth slipped from 7.9% to about 6.2%, most economists expect growth to rebound to 7.0-7.5% in 2018, aided by robust consumption and higher government spending. Expansion in the middle class, strong growth in the working population and competitive labour costs suggest that India can continue to grow at 6-7% on average over the next decade, although inadequate infrastructure is a significant obstacle to growth. Short-term interest rates are high at about 6.5%, and are unlikely to be cut further; on the contrary, Oxford Economics expects 50 basis points of tightening over 2018. However, with inflation likely to pick up over the next few years, real interest rates may actually fall. India is a well-established democracy; and the present government has pursued pro-business policies which have boosted confidence among investors.

Infrastructure

Despite strained political relations between India and China, India is an integral part of the overall conception of "One Belt, One Road". We referred earlier to the Bangladesh-China-India-Myanmar Economic Corridor, which is one of the six key development corridors included in the initiative. The project calls for a combination of road, rail, water and air linkages to connect China and India through Bangladesh and Myanmar at a total estimated cost of USD22 billion[19].

[19] Source: PWC. Please see https://www.pwc.com/gx/en/growth-markets-centre/assets/pdf/pwc-gmc-repaving-the-ancient-silk-routes-web-full.pdf.

The proposed corridor would cover 1.65 million square kilometres, encompassing an estimated 440 million people in China's Yunnan province, Bangladesh, Myanmar, and West Bengal in eastern India. Specifically, the planning calls for the construction of a road route from Kunming in China's Yunnan Province via Mandalay in Myanmar and Sylhet (Jalalabad) and Dhaka in Bangladesh to Kolkata in West Bengal. It also calls for the development of land and sea linkages to connect Mandalay (and therefore ultimately Kunming) with Kolkata over the Bay of Bengal. The first meeting of senior officials from the various countries involved to discuss this project was held in 2013.

Property market and opportunities

Figure 26: India: major urban market snapshots

Bangalore	
Grade A office market size ('000 sq m)	12,818
Grade A office yield	7.5%-8.5%
Industrial market size ('000 sq m)	-
Industrial yield	8%-9%
Total property investment - Bangalore	USD439 million
Completed building investment - Bangalore	USD360 million
Total property investment - India	USD5,057 million
Completed building investment - India	USD3,627 million

Source: RCA (property transactions over USD10 million), Colliers

Mumbai	
Grade A office market size ('000 sq m)	11,557
Grade A office yield	7.5%-8.5%
Industrial market size ('000 sq m)	-
Industrial yield	8%-9%
Total property investment - Mumbai	USD488 million
Completed building investment - Mumbai	USD183 million
Total property investment - India	USD5,057 million
Completed building investment - India	USD3,627 million

Source: RCA (property transactions over USD10 million), Colliers

National Capital Region	
Grade A office market size ('000 sq m)	9,815
Grade A office yield	7.5%-8.5%
Industrial market size ('000 sq m)	9,290
Industrial yield	8%-9%
Total property investment - NCR	USD452 million
Completed building investment - NCR	USD373 million
Total property investment - India	USD5,057 million
Completed building investment - India	USD3,627 million

Source: RCA (property transactions over USD10 million), Colliers

According to RCA, real estate investment transaction volume in India in 2017 reached USD5.1 billion for all property assets (including land sites) and USD3.6 billion for completed buildings. While investors and developers have shown high demand for land sites to develop residential, office and industrial property, transactions of completed buildings were more than double the level of 2016. We see this as a sign that India is at last starting to mature as an investment property market.

By market segment, transactions of office, retail, and industrial property were active, reaching USD1.58 billion, USD0.93 billion and USD0.58 billion respectively in 2017. By city, real estate transaction volumes in Mumbai, Bangalore, and the National Capital Region (Delhi, Gurgaon, Noida and the surrounding area) stood at USD0.49 billion, USD0.44 billion and USD0.45 billion respectively.

India is one of the few Asian markets where investment interest from Chinese enterprises seems to have abated over the past year. In 2016 and 2017, there were numerous reports of large investment plans by Chinese companies in India. For example, one of the world's leading engineering machinery manufacturers, China's Sany Heavy Industry was reportedly planning to make an investment of USD9.8 billion in India, while several other Chinese companies — Pacific Construction, China Fortune Land Development and Dalian Wanda — were said to be planning investments of more than USD5.0 billion. Most of these plans appear to be still at the draft stage. Other developers such as Country Garden which appeared to be optimistic about India a year or two ago appear to be going slowly in their decision-making processes.

As was probably also true in the case of the US, in India's case we suspect that Chinese enterprises have heeded their authorities' injunction to be careful about excess investment. This may reflect the fact that India is one of the Asian nations most cautious about "One Belt One Road". India appears to see the objectives of the project as partly mercantilist; and it is known to be concerned about heavy Chinese infrastructure investment in the country's traditional rival, Pakistan. These concerns may well take time to abate, and so we think that Chinese capital is unlikely to be a driving force in the Indian market despite its undoubted long-run growth potential.

Even if Chinese interest has lessened, India is far too important a market to ignore. Looking ahead, and on an infrastructure-related note, we would point in particular to the investment and development opportunities likely to be provided by industrial property in India. Over 2018, we expect higher trade flows and e-commerce should continue driving demand for industrial and logistics space property in China, Hong Kong, Singapore and India. While the industrial property market in India is still at a nascent stage, we expect industrial space to emerge as next organised property asset class in the country, giving a decentralisation push which should unlock land values in areas outside major cities and stimulate business activity[20].

Pakistan

Infrastructure

Pakistan has been perhaps the most optimistic supporter of China's "One Belt, One Road"; and the China-Pakistan Economic Corridor (CPEC) is a core component of the plan. The CPEC extends from Kashgar in Xinjiang in north-west China to southern Pakistan's Gwadar Port, situated on the Arabian Sea at the country's Balochistan province. Gwadar Port also lies along the ocean route connecting China with Myanmar, India and Pakistan.

The CPEC is a hugely ambitious project which entails the construction of roads, railways, tunnels, power projects, ports and other infrastructure across Pakistan. The connections to China pass through some of the most difficult terrain in the world in the Karakoram range of mountains. Nevertheless, so far, aggregate financing for projects included in the CPEC has reached USD62 billion[21], and important elements of the corridor plan are already operational. Notably, the Karakoram Highway already exists, although CEPC planning calls for the highway to be widened and for connected highways to be upgraded including the Karachi-Lahore section[22].

Gwadar Port, likewise, is already functioning. However, an important element of the CPEC plan is the construction of an expanded port. This will be located near a 2,282 acre (9.2 million square metre) free trade area in Gwadar which is being modelled on the lines of China's Special Economic Zones. The swathe of land to be used for the new port was handed to China Overseas Port Holding Company in November 2015 as part of a 43-year lease, while construction of the project began in June 2016[23].

[20] See Colliers' Top Ten predictions for Asian property in 2018 at http://apacpropertyoutlook.colliers.com.au/asia.

[21] See http://www.dnaindia.com/world/report-china-s-cpec-investmentin-pakistan-reaches-usd-62-billion-2398542.

[22] See also PWC report at https://www.pwc.com/gx/en/growth-markets-centre/assets/pdf/pwc-gmc-repaving-the-ancient-silk-routes-web-full.pdf.

[23] See https://en.wikipedia.org/wiki/Gwadar_Port#Gwadar_Port_as_a_means_to_circumvent_the_Straits_of_Malacca

Pakistan is not only one of the biggest beneficiaries of the "One Belt, One Road" project. It is also the world's fifth most populous country, with a population of about 210 million, and a rapidly expanding middle class. Oxford Economics sees real GDP growth of 5.5% in 2018[24]. However, Pakistan also suffers from political instability, insurrections and political tensions with India. Despite the country's long-run growth potential, most property investors and developers outside the country are therefore unlikely to make significant commitments to Pakistan for some years yet.

[24] Oxford Economics: Country Economic Forecast, Pakistan" (5 February 2018).

396 offices in 68 countries on 6 continents

United States: 153
Canada: 29
Latin America: 24
Asia Pacific: 79
EMEA: 111

$2.6
billion in
annual revenue

2
billion square feet
under management

15,000
professionals
and staff

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