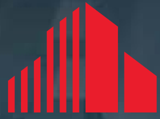

CUSHMAN & WAKEFIELD

WINDS OF CHANGE

BFSI OUTLOOK 2017

ASIA PACIFIC

CUSHMAN & WAKEFIELD

ABSORPTION TREND

Asia Pacific regional banks have absorbed over 1.3 million square feet (msf) of office space in cities within the region over the last year through the first half of 2016, while at the same time, global banks have shed nearly 1.0 msf in those same said financial centers.

WINDS OF CHANGE

ASIA PACIFIC BFSI OUTLOOK

RETAIL BANKING

The banks of the future will develop distinctive advisory platforms that will allow them to deepen customer relationships and will require more strategically located branches to support this new service focus.

FINTECH

Given the increased ubiquity of mobile Internet, and a sluggish revenue and profitability environment, banks are expected to continually adjust their business models. The ripple effects could be enormous, considering not just the employees but also the impact on commercial real estate.

DOWNTOWN REVIVAL

While global banks are retrenching, local and regional banks are expanding their footprint in prime districts in some financial centers in the region.

WHERE ARE BANKS GROWING?

Non-core locations have evolved into viable alternatives as rents are, on average, about 40-50% lower than in the CBD. Additionally, the combination of accessibility, vibrancy and the abundance of high quality office space in those locations, make them desirable destinations.

EMERGING SECTORS

The banking, financial services and insurance (BFSI) sector to remain an important anchor in Asian financial centers, accounting for 25-30% of total office-using jobs. However, growth will be moderate.

OUTSOURCING

The BPO sector will generate another 100 msf of office space requirements in India and the Philippines through 2020, of which 30-40% will be attributed to banking-related offshoring activities.

FINANCIAL WORKPLACE

As business norms have been relaxed, some BFSI companies are drawing inspiration from flexible workspaces, co-working centers and incubators to attract talent and maximize the use of space. In financial centers, a focus for the major banks is flexibility, wellness, sustainability and technology.

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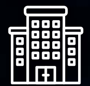
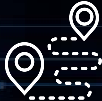
KEY TAKEAWAYS

SHRINKING PROFITS DUE TO REVENUE PRESSURE AND STRINGENT REGULATIONS INDUCING **COST CONTAINMENT** AMONG GLOBAL BANKS, WHILE REGIONAL BANKS STILL EXPANDING

30% OF **BANKING HEADCOUNT** IS VULNERABLE TO AUTOMATION OVER THE NEXT DECADE

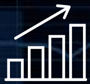


RETAIL BRANCHES TO FLOURISH IN EMERGING MARKETS; MUTED IN FINANCIAL HUBS



HIGH RENTS AND LIMITED OPTIONS IN CORE LOCATIONS HAVE PUSHED THE SEARCH FOR **ALTERNATE LOCATIONS**

NEW ECONOMY (TECHNOLOGY AND MILLENNIALS) SHAPING THE NEW **FINANCIAL WORKPLACE**



ANNUAL COST SAVINGS OF US$ 2000-3500 PER EMPLOYEE BY ADOPTING A **CO-WORKING MODEL** IN FINANCIAL CENTERS

TECH AND OUTSOURCING TO CREATE MORE THAN 100 MILLION SQUARE FEET (MSF) OF OFFICE DEMAND IN FIVE YEARS, WITH **FINANCIAL SECTOR OFFSHORING** ACCOUNTING FOR 30-40%

While significant progress has been made to overhaul financial institutions since the global financial crisis, Asia Pacific's banking, financial services and insurance (BFSI) sector continues to face a difficult landscape, amid shifting customer dynamics and macro volatility. Indeed, this trend of low global economic growth and interest rates does not look like it will turn soon, and is raising concerns about the long-term profitability of most banks. Additionally, lenders are facing new regulations that are bringing sweeping changes to banks' operations, and continue to bump up costs. Compounded by constant revenue pressures, pre-crisis return on equity (ROE) of 14% has given way to the new normal of about 5-6% for major global financial institutions.

As such, global banks are in retreat following nearly two decades of expansion. New technology is also spurring a creative surge that is changing traditional bank functions and developing a new breed of savvy consumers. Hence, the search for a sustainable business model goes on as the BFSI sector navigates through these changes. In this report, we examine those key developments and explore their implications for real estate in Asia Pacific.

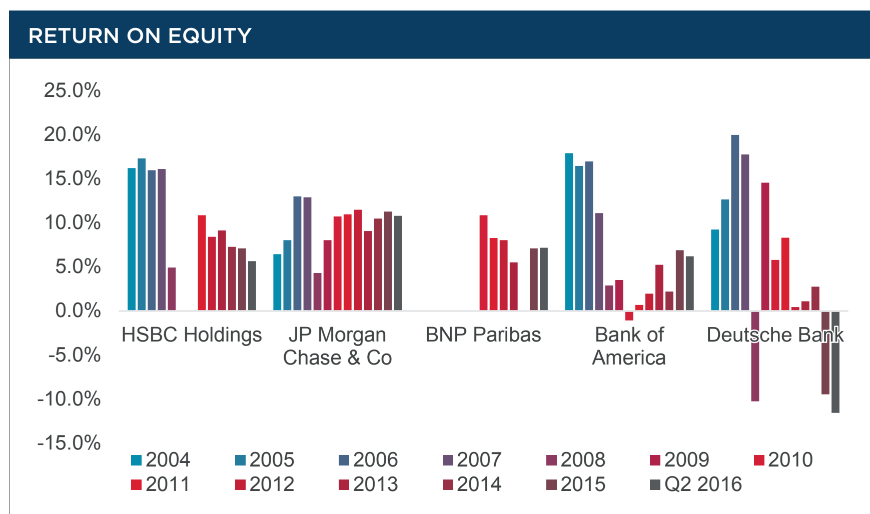
PROFIT PRESSURE: THE CHANGE CATALYST

Since the global financial crisis, banks have been required to build up a capital cushion against losses in the event of an adverse economic scenario. As such, banks have been able to withstand more recent challenges like the steep drop in oil prices and turmoil in the U.K. and Europe that have rattled confidence. In June, all but two of 33 institutions passed the final round of the Federal Reserve's annual "stress tests," [1] which measure their preparedness to weather a financial crisis.[2] Notably, large US banks that have previously struggled with the tests had positive experiences; a handful of regional lenders with prior regulatory issues also beat expectations with ambitious capital-return plans.[3]

However, even if tougher capital and liquidity requirements may be helping to stabilize the banks, they are hampering profitability, along with slower trading and stricter lending standards. According to the European Bank Authority, the average return on regulatory capital for European banks that administered a similar stress test was 6.5% at the end of 2015, which is below the cost of equity and return on equity that banks consider sustainable over the long term. This further indicates that profitability remains an important source of concern, in an environment of continued low interest rates, high levels of impairment linked to large volumes of non-performing loans, especially in some jurisdictions, and provisions arising from conduct and other operational risk related losses.[4] Moderating economy and charges related to losses from the oil and gas industry loans have squeezed the profits of three publicly traded banks in Singapore recently. Falling interest rates have also impacted the lenders.

Pressured by stricter regulations, global banks are shrinking their geographic footprint, and also rationalizing a range of businesses that require too much capital or generate modest profit. We examined the top six global lenders, and found that their average footprint had shrunk to 55 countries today as compared to 65 countries in 2008. Nonetheless, banks remain significant users of office space in regional financial centers[5], with their share of occupancy in the Central Business Districts (CBD) estimated to be around 45-50% to date.

In Seoul, major securities and insurance companies are facing financial restructuring, and are even putting up their real estate holdings for sale. Chinese insurers seeking to tap into the Korean market are capitalizing on the current woes, and pursuing outright mergers and acquisitions (M&A). A case in point is China's Anbang Insurance Group, which will acquire German-based Allianz Life Insurance Korea Co., after taking over Tongyang Life Insurance Co. last year. In Japan, the new negative interest rate policy is cutting into banks' profitability, in contrast to the past years when local banks recorded their highest profits backed by the booming stock market



Source: Bloomberg & Companies Information

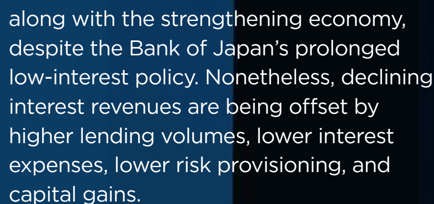
[1] The banking stress tests, which measure whether banks have enough capital and liquidity, management controls and other necessary safeguards to survive various worst-case situations, have been required of banks with more than $50 billion in assets since the passage of the Dodd-Frank Act, which took effect in 2010.

[2] "Fed Stress Tests Clear 31 of 33 Big U.S. Banks to Boost Returns to Investors," Wall Street Journal, June 29, 2016.

[3] "Bank of America, Citi Trade Stress for Higher Payouts," Wall Street Journal, June 30, 2016.

[4] Source: European Banking Authority

[5] Major financial centers in the region include Singapore, Hong Kong, Sydney, Shanghai, Tokyo, Seoul and Mumbai.



along with the strengthening economy, despite the Bank of Japan's prolonged low-interest policy. Nonetheless, declining interest revenues are being offset by higher lending volumes, lower interest expenses, lower risk provisioning, and capital gains.

In China, publicly listed banks have shed around 35,000 employees this year and cut average salaries as they seek to reduce costs amid stagnant revenue growth as well as shrinking net interest margins and rising bad loans. Among China's 19 listed banks, seven reported declines in total employment at the end of June 2016 compared to December 2015. Employment at these banks fell by a net 20,791 workers.[6] Additionally, China's Communist Party has mandated that state-owned enterprises reduce salaries for senior management. Beyond cost-cutting, the shift towards digital banking is also driving down new staffing requirements. Nonetheless, falling employment is unlikely to be a secular trend as the rapid rise of an affluent middle class presents a significant opportunity for Chinese banks.

Some of the smaller regional banks have flourished in this stringent environment. The big banks' woes have created opportunities for regional banks to expand and secure more business across the region. Advances in technology have allowed them to compete. Singapore-based DBS Bank has received worldwide recognition for its digital agenda, becoming the first bank to be named World's Best Digital Bank at the prestigious Euromoney Awards for Excellence. DBS's award marks the first time a Singaporean, as well as an Asian, bank has won a global accolade from Euromoney. Notably, Euromoney also named DBS as Asia's Best Bank, another first for a Singapore-based bank.[7]

As a result, profit growth of regional banks has been on the rise. Singapore's top three banks have been posting record profits on the back of solid revenue growth. Moreover, their appetite for expansion has remained unabated whether in Singapore, Hong Kong, or Sydney. We estimate that regional banks have absorbed over 1.3 million square feet (msf) of office space in these cities over the last year through the first half of 2016, while at the same time, global banks have shed nearly 1.0 msf in those financial centers.

Singapore has emerged as a haven of stability among world-class financial centers and the hub for regional headquarters in Asia Pacific. In the 2016 Global Financial Centers Index[8], Singapore overtook Hong Kong as the third largest global financial hub, behind London and New York. The uncertainty in the UK brought about by Brexit has the potential to further elevate the international standing of Singapore as a financial center. Considering this as well as the potential growth of the city-state as a smart financial nation, we expect more financial institutions to set up their businesses in Singapore. The country's government has also implemented special tax schemes to support newly incorporated companies, which have induced a number of multinationals to move their headquarters to Singapore. At present, the city-state is home to over 4,000 headquarters and 50,000 start-ups.

Given this backdrop, we expect the BFSI sector to remain an important anchor in Asian financial centers, accounting for 25-30% of total office-using jobs. However, growth will be moderate with fewer than 300,000 jobs likely to be added in major financial hubs between 2016 and 2020, with over half expected in Sydney, Singapore and Tokyo. This translates to an incremental office demand of more than 20 msf over the next four years.

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[6] "China Banks Shed Staff and Slash Pay in Cost-Cutting Drive," Financial Times, September 7, 2016.
[7] DBS Named World's Best Digital Bank, July 11, 2016.
[8] http://www.longfinance.net/global-financial-centre-index-19/992-gfci-19.html

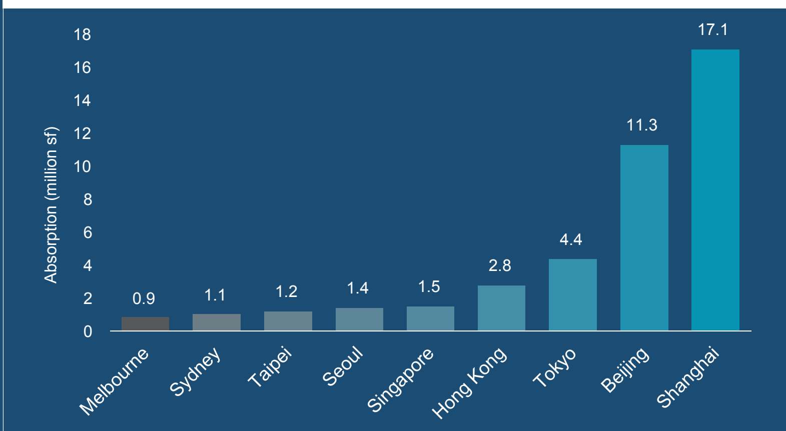
EMERGING MARKETS: TAPPING THE UNBANKED AND UNINSURED

Looking ahead, the BFSI sector is poised to benefit from recent regulatory moves that are designed to promote greater financial access in emerging markets, and in turn, allow it to target underserved customers. In March, the central banks of the Philippines and Malaysia signed an agreement aimed at greater financial integration, and economic development among members of the Association of Southeast Asian Nations (ASEAN)[9]. While a small start, the agreement between the two central banks marks a milestone as being the first under the ASEAN Banking Integration Framework (ABIF).

The ABIF, which was ratified in 2015, aims to increase the ease with which banks can operate across multiple ASEAN countries. Further, the launch of the ASEAN Economic Community (AEC) promises to open up ASEAN markets to ASEAN banks. All these developments are welcome news as local banks seek new markets for growth, and possibly succeed in tapping the ASEAN region and India.

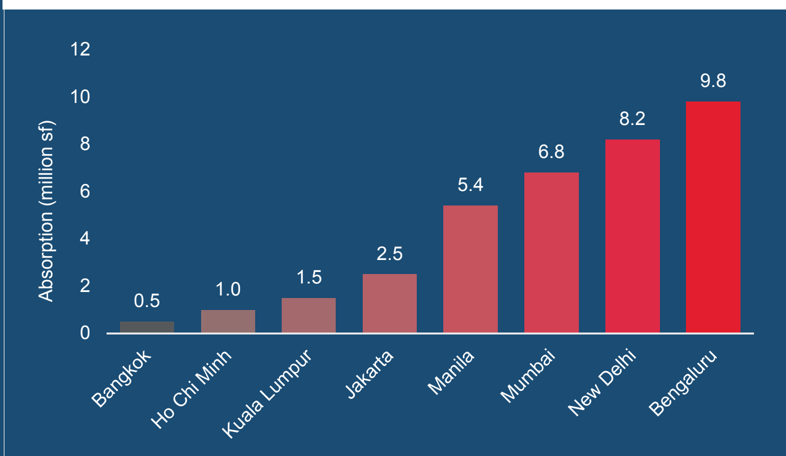
Emerging market populations continue to have a high percentage of unbanked and uninsured people with rapidly growing incomes. In the Philippines and Vietnam, seven out of ten people who have savings opt to keep their cash at home, instead of entrusting their money to the banks. Similarly, in Indonesia, the banking penetration rate stands at just 36% with about 170 million Indonesians not having personal bank accounts.[10] In India, banking penetration has crossed the 50% threshold in the last two years. However, the Indian government's push for financial inclusion through Jan Dhan Yojana[11], mobile banking, issuance of new banking licenses by the Reserve Bank of India and foreign banks' expansion in India are expected to add some spring to the financial sector, with the potential to generate nearly 700,000-900,000 jobs over the next five years.

BFSI SECTOR ABSORPTION - CORE MARKETS (2016-2020)



Source: Cushman & Wakefield Research
*Refers to net new absorption, Grade A CBD or equivalent submarkets

BFSI SECTOR ABSORPTION - EMERGING MARKETS (2016-2020)



Source: Cushman & Wakefield Research
*Refers to net new absorption, Grade A CBD or equivalent submarkets

[9] "Philippines, Malaysia Ink Banking Pact," Philippine Star, March 14, 2016.
[10] The Global Findex Database 2014, Measuring Financial Inclusion around the World, April 2015. The World Bank Group.
[11] This is a government initiative ensuring access to various financial services like availability of basic savings bank account, access to need based credit, remittances facility, insurance and pension to the excluded sections i.e. weaker sections & low income groups. This deep penetration at affordable cost is possible only with effective use of technology. (Source: Pradhan Mantri Jan Dhan Yojana)

This could translate to incremental office space requirements surpassing 80.0 msf across the country in core banking and insurance; already, India has seen a 55% increase in leasing activity by BFSI sector companies in CBD locations[12] over the last four years.

While public-sector banks will likely drive a significant portion of the recruitment, foreign banks too are expected to jump on the bandwagon through expansion and offshore activities. For instance, London-headquartered Standard Chartered in 2016 alone plans to add 1,000 people across India, which is already its biggest operation in South Asia with around 7,000 employees. Investment banking giant Goldman Sachs is slated to hire over 5,000 technology, back-office and middle-office professionals in Bengaluru by 2018.

Hence, with economic growth in emerging markets in Southeast Asia and India still expected to be the fastest-growing in the region, the middle class is likely to swell by as much as three times over the next two decades, and these consumers will need bank accounts, insurance policies, and investment portfolios. Further developing the financial sector to broaden access to finance and lower the cost of capital would set a cornerstone for inclusive growth.

We estimate that this growth potential in the BFSI sector could add about 1.6 million jobs across the emerging markets through 2020. If this target is reached, then the BFSI industry alone would likely need at least another 130 msf in leasable space through 2020. This comes at an opportune time as development across these emerging markets surges, with nearly 200 msf of offices slated for completion through 2020. On average, office stock is set to grow over 40% in the major cities in India, Jakarta, and Manila between 2016 and 2020.

FINTECH: BOON OR BANE?

The rise of financial technology companies, or “fintechs,” poses challenges for traditional banks. Citigroup estimates that 17% of the US$1.2 trillion of revenues generated from the US and European markets may be vulnerable to competition from fintechs by 2023, up from 1% in 2015. This “encroachment” is compelling banks to keep abreast of technology and new approaches, and to continually improve the products and services they offer in order to stay relevant. It challenges banks to develop and maintain an understanding of the evolving needs and preferences of consumers, businesses, and the communities they serve, and seek new ways to reach those who have sought financial services outside the banking system.

Financial services firms are transforming their business operations, including tackling digital initiatives across a range of operational areas. We estimate that roughly 20-30%[13] of banking employees are doing manual-processing-driven jobs. If all the current manual processing could be replaced by automation, these jobs could largely be eliminated or evolve to more productive uses.[14] Given the increased ubiquity of mobile Internet, and a sluggish revenue and profitability environment, we expect banks to continually adjust their business models. Collectively, the ripple effects could be enormous, considering not just the employees but also the impact on commercial real estate. In Singapore, we estimate 10% of the current banking footprint in the CBD to be vulnerable, notwithstanding the retail branches spread across the city-state.

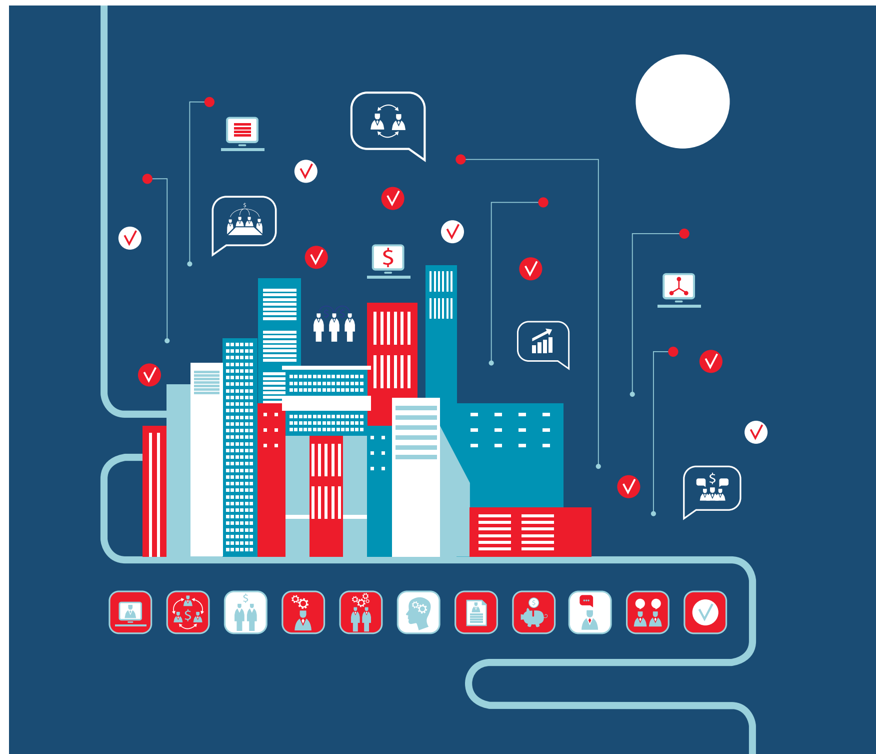
In our view, fintechs have a greater chance of success in markets that have underdeveloped or fragmented banking systems, but have some digital infrastructure.[15] A case in point is China, where the government has supported the digital finance trend to spur consumer spending. This is evident in the country’s internet payment business that has soared to over 300 million users thanks to the rapid development of mobile internet. In fact, mobile payments in China last year surpassed those in the US.[16] Smartphones are the primary computing device for the more than

[12] Central Business District of major eight cities namely Ahmedabad, Bengaluru, Chennai, Delhi-NCR, Hyderabad, Kolkata, Mumbai and Pune. Leasing data comparing years - 2011 and 2015.
[13] "How Financial Services Firms Are Innovating", The Wall Street Journal, September 22, 2015
[14] "Fintech Firms Are Taking On the Big Banks, but Can They Win?", The New York Times, April 6, 2016
[15] "FinTech and Financial Inclusion", The Wall Street Journal, June 24, 2016
[16,17] "China, Not Silicon Valley, Is Cutting Edge in Mobile Tech", Thew New York Times, August 2, 2016

600 million people who have them in China.[17] Notably, this trend of mobile device/smartphone penetration is more pronounced in many emerging countries where banks are laggards. Hence, it is imperative for banks to develop an omni-channel strategy as they enter or expand their retail footprint in some emerging locations.

Commercial landlords, meanwhile, should be aware of the opportunities and potential disruptions that a rising fintech sector can bring to office markets. China again offers an instructive example. Over the past few years, online platforms that connect borrowers with lenders have proliferated. Expansion of these peer-to-peer (P2P) firms played a key role in driving high-end office absorption and strong rental growth in Shanghai and Shenzhen in 2015.

In the fourth quarter of 2015, for example, overall prime office rents in Shanghai jumped by 2.5% over the previous quarter, growing even faster in core submarkets. Rampant fraud in the lightly regulated P2P industry, however, led to a nationwide crackdown which stepped into high gear in March-April 2016. The ensuing failure and closure of a large number of P2P firms has curbed demand for Grade A offices in the first quarter of 2016; putting a damper on rental growth in Shanghai, and boosting vacancy rates in central submarkets of Shenzhen. According to the China Banking Regulatory Commission, China had 4,127 P2P platforms in operation as of June, of which 1,778 were "problematic." The banking regulator has just released a new set of regulations together with three other government bodies to tame the unruly sector, which could potentially lead to more consolidations.[18]



In South Korea, regulatory obstacles have been removed to establish a favorable environment for financial-technology startups and financial companies to collaborate. Equity crowdfunding was introduced in January 2016, allowing online fundraising for startups and entrepreneurs. Similarly, real estate crowdfunding has allowed individuals to pool their money and invest collectively in big-ticket properties.

A new bank account switch service[19] has also spurred fresh competition among banks, as more than 3 million accounts were transferred in the past six months. Two Internet-only banks have already been granted business approval and are preparing to launch.[20] Of course, the jury is still out as to whether or not this "financial revolution" will be a game-changer in the Korean banking sector. Against this backdrop, we expect net new job growth in the BFSI sector to slow, with its share of total employment falling to 25% in 2020 from nearly 40% in 2000.

IS RETAIL BANKING PASSÉ?

As commercial banks' information technology systems and electronic banking, especially mobile banking, continue to advance, digital substitution keeps rising. Hence, in our view, the need for physical branches is less likely to play a dominant role in banking in the future. In emerging markets, central bank regulations require corporate and retail customers to appear in person at a bank branch in order to open a new account. That makes physical branches crucial tools for attracting stable, low-cost deposit funding. Other relatively simple banking tasks such as foreign-exchange conversion also still require an in-person visit. Over the longer term, we expect the banks of the future to develop distinctive advisory platforms that will allow them to deepen customer relationships and will require more strategically located branches to support this new service focus.

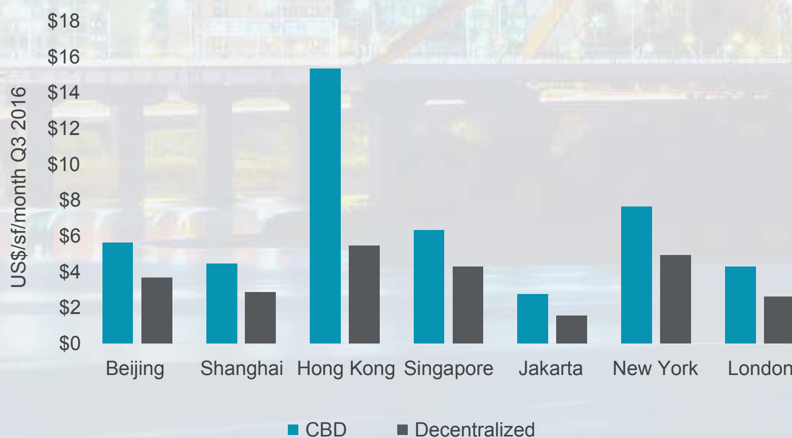
[16,17] "China, Not Silicon Valley, Is Cutting Edge in Mobile Tech", Thew New York Times, August 2, 2016
[18] "China Takes Forceful Steps to Tame Unruly Peer-To-Peer Lending Sector," Reuters, August 24, 2016
[19] Banks Rush to Attract Customers After Account Switching Service Launched, The Korea Times, September 13, 2016.
[20] South Korea's Financial Revolution, Wall Street Journal, May 26, 2016.

DOWNTOWN REVIVAL

While global banks are retrenching, local and regional banks are expanding their footprint in prime districts in some financial centers in the region. In Hong Kong, China's financial institutions are leading the way, and in our view, this trend will continue. Beijing is pushing forward with plans to integrate Hong Kong into a Pearl River Delta mega-economy. Policies such as the Shanghai-Hong Kong and Shenzhen-Hong Kong stock connect and mutual funds recognition schemes point towards greater integration. Top Chinese finance companies have leased a total of 2.5 msf in Hong Kong so far this year. In addition, they have underpinned the recovery of the office market in Greater Central, with most of the high watermarks in rents being set by mainland Chinese financial occupiers. While the factors driving the growth of mainland companies are expected to persist over the long term, the lack of options in Greater Central will inhibit further take-up levels and sustain moderate rent increases over the next couple of years.

In Singapore, the surge in new prime space in the CBD has also induced some banks to capitalize on this unique opportunity. Bank of Tokyo-Mitsubishi UFJ, Ltd. will be the anchor tenant for the trophy project Marina One that will deliver in 2017, and will be joined by Swiss-based bank Julius Baer, which will relocate from Asia Square Tower 1. Meanwhile, Seoul's CBD stands to welcome some financial companies moving out of the Yeouido Business District (YBD), which has been home to the BFSI sector. Ample availabilities in the CBD have allowed financial behemoths such as Dashin Finance and Mirae Asset Global Investments to consolidate their operations scattered across Seoul.

RENTS OF CBD VS DECENTRALIZED LOCATIONS



Source: Cushman & Wakefield Research
*London refers to City core and Canary Wharf, both of which are classified as Central London

SEOUL, SOUTH KOREA

DECENTRALIZED LOCATIONS: WHERE BANKS ARE GROWING

Non-core markets are witnessing continuous buoyant demand conditions against the backdrop of steep rents and, in some cases, tight availabilities in major CBDs in the region. Notably, regional gateway cities including Hong Kong, Singapore, Tokyo, Seoul, and Sydney command some of the highest rents in the world.[21] As such, global financial giants have reduced their presence in CBDs, where they have long dominated. They are increasingly opting for more cost-efficient locations to house their back-end operations in line with efforts to contain costs and counter weaker revenue in this challenging business environment.

Indeed, these non-core locations have evolved into viable alternatives as rents are, on average, about 40-50% lower than in the CBD. Additionally, the combination of accessibility and vibrancy, and the abundance of quality space in those locations, make them desirable destinations. In Singapore, business parks are well connected to transportation hubs and supported by a rich retail amenity base. These type of spaces have grown by over 50% to 23 msf in a span of five years, with another 2.0 msf under way. By comparison, Grade A space in the CBD is currently at 25 msf. In Mumbai, non-core locations have witnessed a significant (75%) increase in leasing activity by BFSI companies as they expand and consolidate operations benefiting from lower rentals and availability of quality space with improving connectivity. The BFSI occupiers largely maintain their corporate headquarters and front offices in the core locations, while processing and back-end operations are housed in non-core locations. Consequently, total Grade A inventory in the core locations of Mumbai (CBD and Bandra-Kurla Complex) is only around 9.6 msf compared to 35.5 msf in the non-core locations where BFSI occupiers are active.

Similarly, Hong Kong's decentralized markets have witnessed a renaissance, with rents recovering and limited options available in Greater Central. The appealing rents, up-to-date building specifications, and availability of brand-new options are factors that have drawn tenants from Greater Central to the decentralized markets. A case in point is Japanese bank Mizuho, which has recently committed to taking up 100,000 square feet (sf) of space at the K11 development in Tsim Sha Tsui scheduled for completion in 2017; its relocation plans will include vacating its office space of nearly 60,000 sf in Central. Nonetheless, we see such moves having limited impact on Greater Central. Even if half of the tenants filling up the new supply in non-core markets originate from Greater Central, we estimate that the Grade A vacancy rate in Greater Central would normalize to a still-low 4.0-5.0%.

The insurance sector in Hong Kong has even been active in the investment market, acquiring choice assets for self-occupation in Kowloon East. Collectively, insurers have leased and purchased over 3.0 msf of Grade A space over the past five years, reflecting the burgeoning insurance business, which has been driven, in large part, by the growing trend of mainland visitors purchasing insurance policies in Hong Kong. Looking ahead, there is no reason to expect the strong demand growth seen in Hong Kong in recent years to abate as mainland finance firms and insurers seek further growth opportunities overseas.

THE EVOLVING FINANCIAL WORKPLACE

Technology and the millennial workforce are shaping office real estate preferences and priorities among banks in Asia Pacific. As business norms have been relaxed, some BFSI companies are drawing inspiration from flexible workspaces, co-working centers and incubators to attract talent and maximize the use of space.[22] In Sydney, a focus for the major banks is flexibility, wellness, sustainability and technology.

Examples include the Commonwealth Bank consolidating premises from several suburban office locations at Parramatta, Sydney Olympic Park and Lidcombe into a new development at the Australian Technology Park in the CBD Fringe. Westpac was seeking an agile workspace which allowed for future-proofing the bank's space requirements in its move to Barangaroo, a new prime development in Sydney CBD Western Corridor.

GLOBAL FINANCIAL GIANTS ARE INCREASINGLY OPTING FOR MORE COST-EFFICIENT LOCATIONS TO HOUSE THEIR BACK-END OPERATIONS IN LINE WITH EFFORTS TO CONTAIN COSTS.

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[21] These cities are ranked prominently among international financial centers, scoring high particularly on business environment, financial sector development, infrastructure, human capital, among others.
[22] "2016: "The Year We'll See Over 10,000 Coworking Spaces Open", Allwork.Space, June 30, 2016

OUTSOURCING: HERE TO STAY

The business process outsourcing (BPO) sector has flourished particularly in India and the Philippines on the heels of an increasing global trend towards outsourcing as firms try to minimize costs. Globally, India remains the undisputed leader for outsourcing. The recent Global Services Location Index (GSLI) survey showed India maintained the top position for the 14th consecutive year in 2016. Because of its large population of qualified graduates with English language skills, as well as its ability to accommodate most offshore activities, India remains an attractive outsourcing destination. To date, India dominates information technology (IT) and business process outsourcing with a 56% share of the worldwide market. Offshoring has been instrumental in driving the growth of the office sector in India, where take-up by this sector has accounted for 60-70% of leasing activity, especially in Bengaluru, Chennai, Hyderabad, Mumbai, New Delhi and Pune over the last 10 years.

Looking ahead, we expect an improved economic oautlook and regulatory environment in India to spur the growth of this sector in tier-II and tier-III locations, such as Ahmedabad, Bhubaneswar, Coimbatore, Jaipur, Kochi and Indore. The challenge for Indian firms is to retain this lead position in offshoring. The cost advantage of an Indian call center over one in the US has narrowed substantially, but in high-end information analysis, Indian workers are between a sixth (1/6) to a seventh (1/7) of the cost of those in the US.[23] However, the country has to make progress on a variety of areas including improving infrastructure to drive the next phase.

Some companies are already bracing for a big disruption as technological advances in cloud computing have reduced the need for coders and technicians, undercutting India's low-cost-labor advantage. Industry experts estimate that up to 500,000 [24] jobs, which are tied to about 12% of total Grade A office stock, could be vulnerable to automation in the next decade. Hence, major Indian outsourcing companies are making a push to innovate, specifically to develop capabilities in automation software, off-the-shelf software and analytics, big data, and cloud computing solutions, against a backdrop of shrinking values of outsourcing contracts. Infosys, India's second-largest software exporter by sales, has made recent acquisitions in new technologies that gave teeth to its home-grown automation software platform and mobile-commerce solutions. US-based Cognizant Technology Solutions, the Nasdaq-listed outsourcing and consulting company, which has more than three-quarters of its employees based in India, bought 13 companies in the past five years, of which four added new tech capabilities either to its healthcare business or software platforms.

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[23] Economist Intelligence Unit

[24] Automation to Replace Lakhs of Entry, Mid-level IT Execs: TV Mohandas Pai, The Economic Times, July 31, 2016.

Meanwhile, the Philippines corners 15% of the global BPO market with the sector accounting for nearly 7% of the Philippines' GDP to date, compared with just 0.08% in 2000. This share is expected to keep rising. According to the World Bank, labor costs in the Philippines are only 16% of those in the US. It is not just about lower labor costs; the Philippines has a large pool of highly qualified, English-speaking professionals, with an improving and welcoming policy and regulatory environment. There has been a push into higher-value-added services, including accounting, bookkeeping and software development, that are less susceptible to automation. Overall, the BPO expansion has brought about a structural change in commercial property that will continue to drive future growth. We estimate that the BPO industry will account for 70-80% of the annual average office space demand over the next five years, of which banking-related offshoring activities will comprise 30%.

The industry's expansion is not confined to just one location. Most BPO firms do not necessarily require central CBD locations, although accessibility to transport, retail outlets, and other support businesses like banks, hotels, and entertainment are important. This has resulted in resurgence of existing major business districts and the emergence of alternative office locations or business districts in Metro Manila that feature mixed-use developments. Other cities, like Cebu, Davao and Iloilo, where most major developers are currently expanding, are also benefiting from alternative location movement. The IT and Business Process Association of the Philippines (IBPAP) notes that while Manila and Cebu are mature BPO locations already, continued expansion should pave the way for next-wave cities in other provincial areas. The association projects a total full-time BPO employee count of 2.6 million by 2020, more than double current levels. If this target is reached, then the BPO industry alone would likely need at least another 50 msf in leasable space from 2017 to 2020.

Other countries in Southeast Asia, such as Malaysia, Indonesia and Vietnam are gradually establishing themselves in the global outsourcing landscape, with Kuala Lumpur (Malaysia) and Ho Chi Minh City and Hanoi (Vietnam) being ranked amongst the top 25 outsourcing destinations in the world. In addition to Kuala Lumpur, where Indian IT major Tech Mahindra is launching a center of excellence for Google Technologies, Malaysia has developed a major offshoring hub in Penang, where a new IT-BPM park is being built to house as many as 21,000 new jobs by 2020.

THE DAWN OF A NEW ERA

The shift in consumer behavior, emergence of fintechs, rising costs, and new regulations are all factors making banks rethink their strategies. Consequently, we expect to see the emergence of a new wave of financial and insurance companies supercharged with efficiency and sophistication. While volatility is expected to persist in the macro landscape, we anticipate the BFSI sector to remain a growth catalyst across the region, with the potential to add about 350,000 jobs per year across major cities in the region. In real estate, this would translate to an additional 130 msf of office space requirements in major cities through 2020.

Even the BPO sector faces imminent disruption as back-office operations become more efficient through automation and specialization. However, both India and the Philippines are well positioned as the industry rides the waves of these technological breakthroughs. Notably, both countries have the requisite soft skills, aside from traditional BPO skills, that should drive BPO sector growth in the future. We estimate the BPO sector will generate another 100 msf of office space requirements in these hubs through 2020, of which 30-40% will be attributed to banking-related offshoring activities.

Ultimately, the beneficiaries in this new environment will be the consumers, who will see a higher quality of service from BFSI institutions. As end-users of back-office services, BFSI companies will see more efficient solutions that will reduce costs, and allow them to focus on their competitive advantages.

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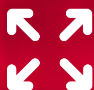
PUTTING COSTS UNDER A MICROSCOPE

KEY TAKEAWAYS

GLOBAL BANKS **TRIMMING FAT IN ASIA, RATIONALIZING BUSINESSES,** AND **REDUCING FOOTPRINT** WHERE POSSIBLE

65% OF GLOBAL FINANCIAL SECTOR PLAYERS IMPACTED BY **REGULATORY REFORMS**



CHINESE AND JAPANESE BANKS EXPANDING OVERSEAS; RAMPING UP FINANCING OF FOREIGN MERGERS AND ACQUISITION (M&A) DEALS

HUGE POTENTIAL FOR BANKING SECTOR IN EMERGING ASIA, FINANCIAL MATURITY STILL BELOW 40%

MAINLAND CHINESE BANKS OCCUPY NEARLY 2 MSF IN HONG KONG, POTENTIAL DEMAND OF 500,000 SQUARE FEET (SF) FOR EXPANSIONS

Following the Global Financial Crisis (GFC, 2007-09), national governments and regulators around the world have drafted stringent rules to strengthen the banking system and safeguard the industry. The current financial sector landscape forces banks to adapt and evolve to remain profitable amidst a tougher regulatory environment, sharpening their focus on costs and performance. Pressure on profitability is compelling many banks to close poorly performing service lines, and ultimately cut jobs and reduce their office footprint, the two biggest operating costs. Banks are often under tremendous pressure to automate and outsource functions that were traditionally held in-house.

A number of banks are cutting space requirements in CBD areas and shifting back-office services to cheaper locations, such as business parks in suburban areas. For example, in Singapore, Standard Chartered Bank has consolidated its footprint in Changi Business Park while reducing its presence in Marina Bay Financial Centre Tower 1, and Barclays gave up space in One Raffles Quay South Tower last year. In London, several banking groups are subletting space in Canary Wharf and moving to lower-cost locations following job cuts. Credit Suisse has sublet nearly 300,000 sf that was occupied by Bank of America Merrill Lynch after relocating 1,800 jobs.

Global financial institutions are already struggling under intense regulatory scrutiny. Further regulations can only mean that the landscape will be under intense pressure in the coming years.

Tightening regulations post-GFC

The GFC proved that the then-existing rules were inadequate to protect the banking system and highlighted the vulnerability of financial institutions during catastrophic events. However, the regulatory aftermath of the GFC has taken a toll on the banking system worldwide, and coping with the post-crisis environment has been a challenging task for financial institutions in general. In the case of large-scale multinational banks, adhering to tightened regulations is an arduous process, often extending for years. It is critical for real estate managers to understand these new rules and how they impact the banking industry at large to gauge the effect on property and the workplace.

Post-crisis regulations can be broadly classified into three categories: i) Capital & Liquidity ii) Risk & Reporting iii) Governance, Organization & Reforms.

Higher minimum **capital standards, liquidity** and leverage ratios help prevent defaults and help banks to continue business as usual without government support. The latest Basel regulations, agreed upon in 2010-11, stipulate capital requirements of almost 12%, a six-fold increase from pre-crisis levels (2%) for major global banks. This is an expensive proposition which would reduce returns for shareholders, increase pressure from creditors and thus force financial institutions to streamline operations by cutting down on non-profitable markets and service lines. Higher capital buffers and risk weightage for commercial real estate could encourage banks, funds and insurance companies to shift to other asset classes or products that offer higher return on capital. On the other hand, these companies could continue to lend at higher costs, thereby pushing up commercial property rents and cap rates while bringing down capital values.

Stress testing is another regulatory requirement in the banking industry to manage capital levels. Introduced in 2009, this has become an effective tool for regulators to assess a bank's capital adequacy, governance structure, risk and preparedness. Repeated failures in these tests could dent a bank's reputation, adversely impacting the management, and may push the bank to shrink operations and/or sell assets to raise capital.

REGULATORY COMPLIANCE REMAINS A PRIORITY [1]

Risk & Reporting measures drafted over the last few years require banks to focus on improving transparency, ensuring accountability and implementing warning systems. These requirements are largely internal but can indirectly affect resources and operations. Regulators have recently been forcing multinational financial institutions to set up subsidiaries and separate riskier operations from basic banking activities. Such restructuring is a difficult task from an operational standpoint and is often associated with increased manpower and real estate costs.

Governance, Organization & Reforms are measures to strengthen regulatory oversight. They include consumer protection rules, enforcement of shadow banking controls, reforms to credit rating agencies and derivatives markets, etc. The multitude of reforms imposed upon banks significantly impacts their business models and baseline profitability.

Trimming the fat in Asia

Regulatory constraints have hit banks hard following the financial crisis, adding to the impact of uncertain market conditions. Fines and litigation due to regulatory lapses, rising capital requirements, the steep increase in funding costs due to Basel III buffer norms, slower economic growth and lower-than-expected returns have all pushed major global banks in the Asia Pacific region to embark on a cost containment

[1] Thomson Reuters, State of Regulatory Reform 2016. Deloitte, Top regulatory trends for 2016 in Banking. KPMG, Evolving Banking Regulation, March 2015. CDW financial services, Tech trends for banks, 2015 & 2014. Unwork & DTZ, The future of the financial workplace, September 2014.Goldman Sachs, Who pays for bank regulation? June 2014. Cushman & Wakefield Research.

drive over the last couple of years. Most European and US banks have started restructuring, cutting back on resources and operating expenses in Asia and moving some jobs to low-cost, emerging markets within the region. In the aftermath of the GFC, financial institutions globally are striving to minimize operating costs by shutting down non-core activities with lower margins.

Deutsche Bank, HSBC, Barclays, Goldman Sachs and Standard Chartered have all reduced resources and closed some of their business operations recently. For example, Standard Chartered cut back its global equities business and reduced headcount accordingly in the first half of 2015.

The Royal Bank of Scotland (RBS) has also started scaling down its investment banking division in Asia, while Goldman Sachs trimmed its investment banking division in Singapore last year. Barclays is in the process of exiting cash equities in Asia as a part of a larger restructuring plan, and is closing operations in Taiwan and South Korea.

Regulations adopted at the global level are impacting the Asian banking environment for two reasons. First, banks are restructuring operations in Asia to meet global compliance norms. Second, regulators in the region are learning from their global peers and subjecting local banks to more scrutiny. However, regulators in Asia, unlike their counterparts in other regions, often have little flexibility to modify global norms according to local needs. They have to withstand pressures from domestic governments and the markets at all times. This balancing act is more difficult in developing economies, such as China, India and Southeast Asia.

Cutting down on real estate costs by rightsizing operations in a number of core markets in Asia has become a common practice among global players. In most cases, this is driven by caution about rising real estate costs rather than just the need to downsize headcount or scale back operations. Rightsizing is being carried out in places where banks are paying top dollar for prime addresses and exclusivity, such as Hong Kong Central, Marina Bay in Singapore and Tokyo's central five wards, which are some of the most expensive office markets in the world. RBS, Societe Generale and Barclays have downsized operations in Marina Bay last year while Standard Chartered has split some of its operations to consolidate in a suburban location. ANZ, RHB Securities and Bank of America Merrill Lynch (BOAML) are expected to shed excess office space this year.

Regional banks face a less daunting situation than these global firms, because the scope and impact of new regulations is more limited in Asia Pacific. This is partly due to the region's relatively limited exposure the global financial crisis, thanks to the protective measures that were already in place. The financial clout of the largest economies in the region and the tight control measures enforced by some Asian central banks have also reduced the need for immediate adoption of certain reforms. Regional banks from mainland China and Japan are looking at office space in prime Asian localities to gain visibility in new markets.

Mainland Chinese financial institutions have increasingly occupied space in Hong Kong's Central over the last couple of years. Some recent examples include China Minsheng Bank, Xiamen International Bank, Bank of Shanghai, China Bohai Bank and Bank of Dongguan. As of Q3 2016, Chinese banks occupy nearly 1.5 - 2.0 million sf in Hong Kong (including owner-occupied buildings), of which nearly one fifth is in Prime Central. Furthermore, there is potential demand for 500,000–750,000 sf assuming the entry of mid-sized banks and considering expansions of existing players. In Singapore, Bank of Tokyo – Mitsubishi UFJ (BTMU) is relocating to Marina One, the newest prime property in town, to occupy 140,000 sf.

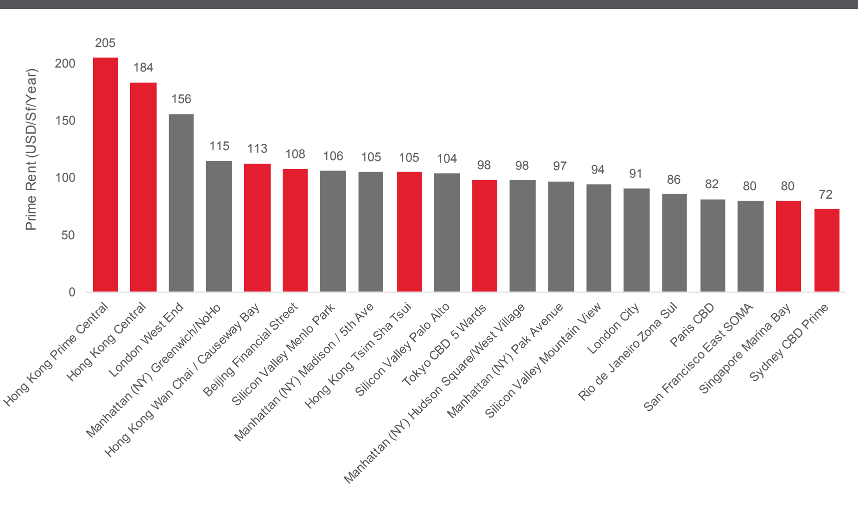
THE CURRENT FINANCIAL-SECTOR LANDSCAPE FORCES BANKS TO ADAPT AND EVOLVE TO REMAIN PROFITABLE AMIDST A TOUGHER REGULATORY ENVIRONMENT, SHARPENING THEIR FOCUS ON COSTS AND PERFORMANCE.

Asia sees rise of regional banks

Asia's ascendance in the global economy has propelled the growth of international financial institutions in the region. As the banking and financial services industry flourished, regional players, largely domestic heavyweights, also entered the competition. They grew swiftly by tracing regional trade flows and following their clients and business partners across Asia in the years leading up to the GFC.

The GFC slammed the brakes on cross-border lending worldwide. In Asia, however, the crisis also created a golden opportunity for the region's banks. Unlike the rest of the world,[2] Asia-Pacific rapidly recovered from the fall-off in international lending, with Asian banks accounting for a rising share of cross-border credit in the region – from 31% in 2007 to 57% in 2014.[3] With global lenders retrenching from Asia, the post-GFC recovery period was an opportune time for regional banks to put their strong balance sheets to good use. Moreover, the tightening of global regulations has hardly limited the aggressive expansion of the region's banks; Moody's Investors Service found in mid-2015, for instance, that banks within the Association of Southeast Asian Nations are well-capitalized and able to comply with stricter rules under Basel III.

MOST EXPENSIVE OFFICE LOCATIONS IN THE WORLD



Source: Cushman & Wakefield Research

Capital & Liquidity

BASEL 3

1. Capital adequacy / buffers
2. Stress testing / leverage ratio
3. Liquidity Risk / Coverage ratio

- Increase scrutiny / lending norms
- Distressed assets nofication guidelines
- Risk management

Risk & Reporting

BASEL Corporate Governance

- Financial reporting (IFRS)
- Foreign account tax compliance (FATCA)
- Anti money laundering
- Know your customer
- Consolidations, standardizing operations / remunerations / incentives

Governance & Reforms

Consumer Protection Measures

- Shadow banking controls
- Shadow banking controls
- Organization of foreign affiliates

Source: Cushman & Wakefield Research

[2] http://www.frbsf.org/banking/programs/asia-program/pacific-exchange-blog/whats-behind-slowdown-in-asian-cross-border-lending/
[3] http://www.bis.org/publ/qtrpdf/r_qt1509j.htm

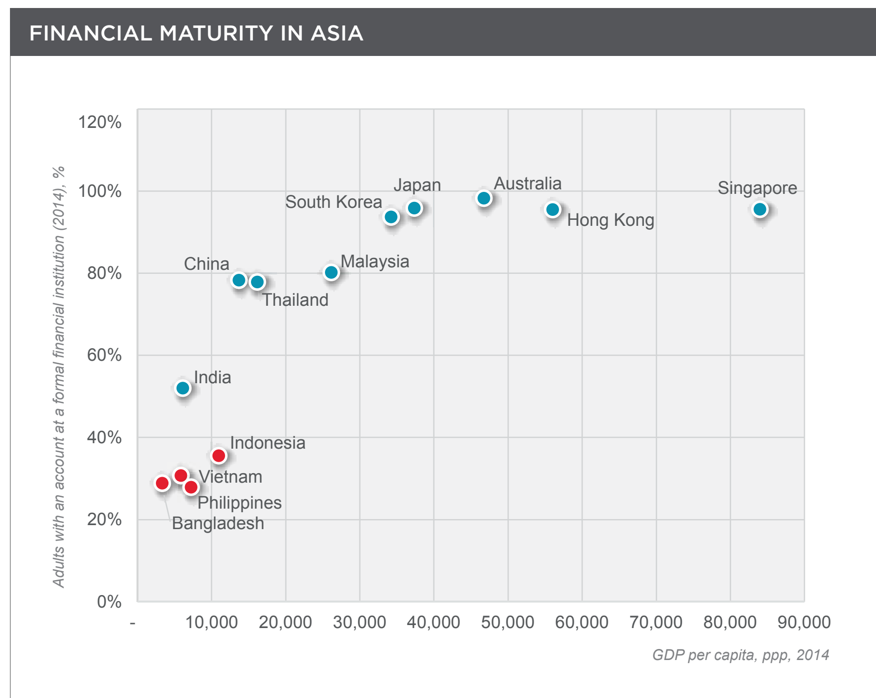
MAJOR GLOBAL BANKS IN THE ASIA PACIFIC REGION EMBARK ON A COST CONTAINMENT DRIVE OVER THE LAST COUPLE OF YEARS.

China and Japan have played a key role in this trend. In the years since the crisis, major mainland Chinese banks have significantly ramped up their overseas lending and with it their overseas operations, in the process boosting their office footprint across key cities in Asia. Meanwhile, according to the IMF, Japanese banks have been even more aggressive than their Chinese counterparts since the global financial crisis.

Despite the growth of regional banks, parts of Asia are still underserved and the financial maturity of some emerging markets – including Bangladesh, Myanmar, Cambodia, Indonesia, the Philippines and Vietnam – is still below 40% (India is at 55%). Part of the problem lies with these countries' protectionist policies and "higher risk" credit ratings, which mandates banks to keep higher capital buffers in the post-GFC regulatory environment. However, conditions are gradually improving with higher-than-average growth rates, improving ratings and easing norms.

For example, the Philippines opened the doors to foreign banks through the Republic Act (RA) 10641 in mid-2014. Japan's Sumitomo Mitsui Banking Corporation (SMBC) recently launched their banking operations in the Philippines to take advantage of the liberalized policy, opening a branch in Manila, and five more banks have been granted approval by the government to enter the country. Vietnam began to allow 100% foreign-invested banks in 2008, but the ceiling of 30% foreign ownership in a domestic bank is still a deterrent for external investors. India allowed foreign banks to set up wholly owned subsidiaries in 2011 and lifted the foreign investment limit to 74% for local private banks, but its regulatory environment is still prohibitive compared to other emerging markets. Meanwhile, the credit ratings of the Philippines, Vietnam and India have all improved over the last two to three years as a testament to their steady economic growth and macroeconomic stability.

FINANCIAL MATURITY IN ASIA



Source: Global Findex World Bank, Maybank, Oxford Economics, Cushman & Wakefield Research

Chinese banks expand in Asia

To some extent, the offshore expansion of Chinese banks has been driven by government policy. The central government has historically maintained a tight grip on cross-border capital flows, keeping China's capital account largely closed. Outbound investment from China was negligible until this century. In 2000, the government officially launched the "Go Global" policy, under which Chinese companies are encouraged to invest overseas, and in 2001, China joined the World Trade Organization (WTO), which deepened the country's integration into the global economy. These events kicked off a massive, ongoing boom in Chinese direct outbound investment, which expanded from US$2.7 billion in 2002 to US$102.9 billion in 2014.[4] Chinese banks are following their customers overseas, providing low-interest loans to fund the dramatic expansion of Chinese companies into foreign markets.

The overseas growth of China's banks has also been fuelled by the government's desire to internationalize the yuan (or renminbi), making it a truly global currency, starting in the mid-2000s. By January 2015, the yuan was used for some 25% of China's global trade settlements, and in late 2015 the International Monetary Fund (IMF) agreed to add the yuan to its reserve currency basket[5], affirming that the currency is "freely usable" internationally[6]. The accelerating use of the currency abroad has created fertile soil for the expansion of Chinese banks in cities where offshore yuan markets have emerged, such as Hong Kong, Singapore, London and New York.

Chinese banks have benefited from the massive expansion of their assets in the years following the GFC, and the twin forces of currency liberalization and outbound investment growth are pushing them abroad. Bank of China leads the way, with an estimated 23% of its pre-tax profit and 30% of its total assets (about RMB 4.5 trillion) accounted for by operations outside the mainland, according to Moody's data. China Construction Bank and Industrial and Commercial Bank of China (ICBC) are also actively boosting their foreign presence, with purchases of overseas financial institutions. The chairman of ICBC has estimated that 18 Chinese banks have established 1,127 foreign-funded institutions overseas in 51 countries and regions, with more than US$1.2 trillion of total assets as of the end of 2014.[7]

The growing profile of Chinese banks overseas is reflected in their increasing occupancy of office space in Asian financial centers. In addition, Chinese banks are also boosting their investments in overseas real estate, including office space for self-use. Available transaction records[8] show that overseas commercial property investment by mainland banks jumped steeply in 2012, totaling US$492 million for the year; the annual total in prior years had never exceeded US$193 million. Annual investment continued to climb in 2013 and, after a dip in 2014, reached a new height of US$600 million in 2015, greater than the total investment in the six years from 2006-2011.

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[4] http://www.chinadailyasia.com/business/2015-09/16/content_15317587.html
[5] http://www.cnbc.com/2015/11/30/imf-agrees-to-include-chinas-rmb-in-benchmark-sdr-currency-basket.html
[6] http://www.imf.org/external/pubs/ft/survey/so/2015/new120115a.htm
[7] http://www.chinadailyasia.com/business/2015-09/16/content_15317587.html
[8] Real Capital Analytics

Japanese banks on overseas lending spree

Unlike Chinese banks, growth of Japanese banks has been largely driven by business opportunities, especially at a time when growth prospects back home are bleak. Japanese banks are not only lending to Japanese companies expanding overseas, they are also ramping up financing of foreign M&A deals to diversify their revenue sources. As such, overseas loans by .three major Japanese banks (Bank of Tokyo–Mitsubishi UFJ (BTMU), Mizuho and Sumitomo Mitsui Banking Corporation (SMBC)) have doubled over the past six years. Last year, Japanese banks were involved in more than half of global M&A financial deals. The rise in Japanese lending comes at the time when US and European majors take a pause to raise profitability to adhere to strict capital buffer norms post-GFC. Japanese banks were less impacted by the crisis and so are able to lend more freely. They are also awash with capital raised from selling government bonds over the last couple of years.

Japanese banks are expanding aggressively through mergers and acquisitions in Southeast Asia. Recent deals include Bank of Tokyo – Mitsubishi UFJ (BTMU) acquiring major stakes in Security Bank of the Philippines and Thailand's Bank of Ayudhya. Sumitomo Mitsui Banking Corporation (SMBC) bought into auto finance companies and Bank Tabungan Pensiunan Nasional (BTPN) in Indonesia, as well as Cambodia's Acleda Bank. Mizhuo, BTMU and SMBC have also invested in Vietnamese banks. With these large-scale investments, Japanese banking majors are able to quickly tap into the retail banking business, while opening doors for other financial products, such as insurance. Besides Southeast Asia, Japanese banks are also looking to expand in India as the country strengthens its economic and political ties with Tokyo; Mizuho opened its fifth branch in Ahmedabad last year.

The growing presence of Japanese banks is also evident in their office footprint across Asia, including regional financial centers. BTMU has opened a new 40,000 sf office in Gurgaon (in India) last year and Mizhuo has expanded to a bigger facility in Mumbai. Besides associating with local financial institutions, Japanese banks are also setting up a number of representative offices in emerging markets in Southeast Asia. Despite being small and lacking licenses to lend or take deposits, they act as a bridge for Japanese manufacturers by providing advisory services to venture abroad.

REGIONAL BANKS, ESPECIALLY ONES FROM CHINA AND JAPAN, ARE ON THE RISE.

Conclusion

The banking and financial services industry is under intense pressure following the global financial crisis. Amidst all the regulations and increased oversight, banks are increasingly shutting down non-core activities with lower margins. The message to commercial real estate managers is loud and clear: Optimize the portfolio and cut real estate costs wherever possible. Accordingly, many global banks are rightsizing their operations or shifting back-office operations to non-core locations or lower-cost emerging markets, such as India and the Philippines. They are also trying to streamline space requirements through workplace strategies. Regional banks tend to be less constrained, with many Chinese and Japanese institutions aggressively expanding their presence overseas, including lending and investment as well as physical offices.

For banks that are under cost pressure, transforming their real estate portfolio may not be enough. Many banks need to adopt radical approaches, such as embracing "Fintech" – new cloud computing, artificial intelligence, big data, and mobile technologies that are disrupting the financial industry. Banks, such as OCBC, DBS and ANZ have been quick to adopt some of these technologies, and many lenders are partnering with tech startups to gain an edge. Fintech adoption, however, is tempered by a lack of regulatory support, infrastructure bottlenecks and a general distrust of online banking in emerging markets. Going forward, the advance and deployment of these technologies will largely define how banking sector operations evolve in Asia.

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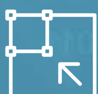
FURTHER REGULATIONS CAN ONLY MEAN THAT THE BANKING LANDSCAPE WILL BE UNDER INTENSE PRESSURE IN THE COMING YEARS.

FINTECH: BOON OR BANE? IT DEPENDS.

KEY TAKEAWAYS

BANKS ARE TRYING TO STAY AHEAD OF THE CURVE BY **ADOPTING TECHNOLOGY**



BANKS CARVING OUT CO-WORKING SPACES FROM EXISTING PREMISES TO COLLABORATE WITH TECH FIRMS

FINANCIAL TECHNOLOGY (FINTECH) COMPANIES WILL GENERATE **LONG TERMS GAINS IN EFFICIENCY** AND **PRODUCTIVITY**

CITIES THAT PROVIDE A SOLID START-UP ECOSYSTEM TEND TO **BENEFIT FROM THE FINTECH BOOM**

POTENTIAL DOWNSIZING OF NEARLY 1 MSF DUE TO FINTECH GROWTH **IN SINGAPORE**

Banks are trying to stay ahead of the curve by migrating some offline services to online to enhance the customer experience.

Fintech is the new buzzword for the banking and financial services industry.

Additional space in the form of co-working environments will be carved out from their existing premises to cater to the change.

The successful fintechs will generate long-term gains in efficiency and productivity. Transportation, communication and trade costs will decline.

Around 30% of the total banking headcount is forecast to be replaced by automation over the next decade.

These trends could drive a substantial downsizing in the banking sector's office occupancy over the medium- to long-term.

The financial technology, or "fintech," firms are using technology and innovation to disrupt the traditional ways that banks and financial institutions (FIs) do business to better meet consumers' evolving financial services needs. While many banks and FIs view the rise of the fintech sector with concern, the more agile institutions are embracing fintech firms to make them partners in their business growth. With supportive government policies in Singapore and significant venture-capital backing, fintech is poised to disrupt more than just the banking industry. The emergence of these firms is generating demand for startup hub space and, going forward, will likely have a major impact on the office footprints of traditional banks.

Powering the fintech boom

The financial sector has so far been spared from major shake-ups brought by technological innovation, but the good times may not last for long. Fintech has strong venture-capital backing due to its huge potential to disrupt the lucrative banking industry. According to KPMG, investment in fintech startups and scaleups boomed in 2015, hitting new heights of US$19 billion (S$26 billion). With so much funding available, the threat to the banking industry is real and could materialize sooner than expected. In the latest PwC survey published in March 2016, two-thirds of global financial services companies ranked pressure on profit margins as the top fintech-related threat, followed by loss of market share at 59%. Closer to home, 73% of traditional financial institutions in Singapore believe they are at risk of losing business to fintechs, while the global anxiety average is even higher at 83%.

Government policy also tends to support the rising fintech industry. The Monetary Authority of Singapore (MAS) has created a Smart Financial Centre, in line with Singapore's Smart Nation plan – one that embraces innovation and harnesses info-communications technology to increase productivity and improve the welfare of Singaporeans.

Traditional banks are taking note. Since late last year, major banks HSBC, United Overseas Bank (UOB), Oversea-Chinese Banking Corporation (OCBC) and Standard Chartered Bank have geared up for technological innovation by setting up in-house fintech labs in Singapore. These labs are dedicated spaces at a bank's office where startups collaborate with banks to develop innovative technology in key areas such as wealth management, payments and collections, trade and supply chain, insurance, cybersecurity and artificial intelligence. These initiatives mark a significant breakthrough in the collaboration between two major sectors, banking and technology.

Though some fintech firms have found a home in the offices of traditional banks, fintechs worldwide are most likely to congregate around hubs that provide a solid startup ecosystem. Singapore is a fertile ground for such firms. The country clinched the top spot in Asia Pacific in the 2015 Start-up Ecosystem Ranking conducted by Compass, offering a business-friendly environment that hosts 2,400-3,600 tech start-ups. The Singapore government has also been heavily involved in the startup ecosystem to push for innovation with the establishment of JTC LaunchPad @ one-north.

Affordable rents, along with an established, vibrant startup community and ease of access to support services and networking opportunities has led to the LaunchPad being the favoured choice for budding entrepreneurs. The hub's current capacity of approximately 603,000 sf houses some 46 incubators and 750 start-ups and it aims to grow its capacity to house more than 1,000 start-ups by 2017.

Opportunities and Challenges for Real Estate

Banks are trying to stay ahead of the curve by migrating some offline services to online and mobile to enhance the customer experience. While a necessary step, this just shows that financial institutions are embracing technologies to make their businesses more cost-effective. The real paradigm shift will happen when financial institutions rethink their traditional business models as they are forced to compete with innovations, such as mobile wallets, crowdfunding, and robo-advisers, which may prove to be game-changers for the industry through 2016 and beyond.

So what does this mean for real estate? Firstly, as more banks rush to tie up with fintechs to make them collaborators rather than competitors, additional space in the form of co-working environments will be carved out from their existing premises to cater to the change. Headcounts in the various IT departments within the banks and FIs will also be boosted as a result of these collaborations, which will underpin further demand in the office sector over the near term given the additional space required to run such partnerships.

Secondly, successful fintechs will also generate long-term gains in efficiency and productivity. Transportation, communication, and trade costs will decline. The lowered barriers to entry will allow more competitive players to enter the market and could bode well for real estate by opening up new markets and driving growth in markets where such growth was not possible previously.

Finally, the substitution of automation for labor across the entire banking and financial services sector will potentially disrupt the labor market with more low- to medium-skilled jobs being displaced by machines. Venture capitalists have poured billions into two key areas of fintech, lending and payments, which could possibly curb banking headcount mainly at the mid- to back-end offices by 30% over the next decade as automated systems are deployed. Citibank has estimated that continued growth of fintech startups will mean 30% of the total banking headcount will be replaced by automation over the next decade. According to the latest fintech report by PwC, 83% of the financial institutions surveyed believe that part of their business is at risk of being lost to standalone fintech companies. In addition, more than 50% of respondents are unsure about and unlikely to be able to respond adequately to cryptocurrencies such as Bitcoin.

These trends could drive a substantial downsizing in the banking sector's office occupancy over the medium- to long-term. Based on the total banking footprint of 10.0 million sf in the CBD Grade A buildings in Singapore and the current employee-to-office-space ratio of one employee per 80-90 sf, the potential downsizing due to fintech could translate to a reduction of 904,000 sf of office space in the CBD.[1] Despite this challenge to banking sector headcount, the more complex and personal aspects of the banking functions are unlikely to be fully replaced by technology.

> While many banks and FIs view the rise of the fintech sector with concern, the more agile institutions are embracing fintech firms to make them partners in their business growth.

Just as Uber and Airbnb are shaking up the mainstream taxi and hospitality service models, fintech promises have a sizeable impact on the financial and banking landscape. Judging by the scale and complexity of the major disruptors such as social, mobile, data analytics and cloud computing, the changes are likely to be unprecedented, and commercial property markets will feel them too. A rising fintech industry will fuel demand for startup space and foster new models of collaboration with traditional banks, which will cause the latter to rethink their office occupancy needs. The spread of automation within the sector is also poised to render large numbers of human workers redundant, which could ultimately curb demand for CBD office space from traditional banking and financial tenants.

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[1] Out of the 30% reduction of the total banking headcount, we assumed that the bulk of the headcounts eliminated – approximately 70% – came from the back-end offices such as business parks or outsourcing destinations outside Singapore (such as call centers), while the rest came from the front and mid-end offices in Grade A CBD buildings. The banking and financial services currently occupy 40% of the total Grade A CBD stock.

IS RETAIL BANKING PASSÉ?

KEY TAKEAWAYS

THE PRESSURE ON RETAIL BANK BRANCHES REFLECTS THE **WIDER PRESSURES** BEING EXERTED **ON THE RETAIL INDUSTRY**

URBANIZATION AND **POPULATION GROWTH** WILL DRIVE BRANCH NETWORK EXPANSION IN EMERGING MARKETS

NEW BRANCH FORMATS WILL EMBRACE THE DIGITAL ERA; **BLENDING ONLINE** AND **REAL-WORLD EXPERIENCES** ACROSS THE NETWORK

BANKS WILL NEED TO UNDERTAKE A GREATER DEGREE OF PLANNING TO IDENTIFY **OPTIMUM BRANCH TYPE**, **LOCATION**, AND ULTIMATELY **CONFIGURATION OF THE ENTIRE NETWORK**

TRANSFORMATION TO A FULLY DIGITAL BRANCH TYPE COULD REALIZE **SAVINGS ON LEASING COSTS**, BUT INCUR GREATER FIT-OUT CAPITAL EXPENDITURE ON IT AND (CYBER) SECURITY

The diverse range of technological, financial, and regulatory pressures being exerted on traditional banks has forced them to consider all aspects of their operations. The role of the retail branch has not been exempt from these considerations. Since the Global Financial Crisis (GFC), banks across most developed economies have been under pressure to minimise costs, resulting in rounds of branch and Automatic Teller Machine (ATM) closures to produce more optimal networks.

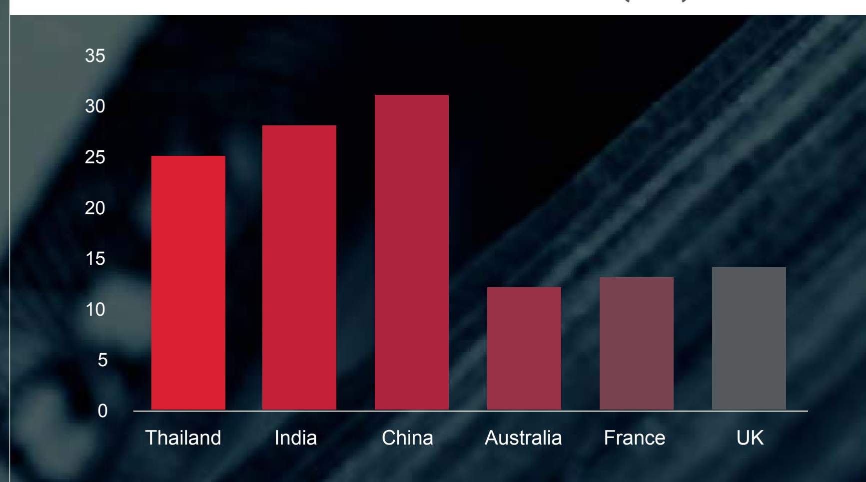
There has also been an evolution in banking services, which initially expanded to include phone-banking, then online banking to today's increasing use of mobile applications (apps) as part of the drive towards greater efficiency through automation. More recently, the increasing presence of financial technology (fintech) has brought about a new round of digital disruption to bank branch networks. Their impact is seen in the declining number of branch visits as customers turn to online channels for routine transactions, which has been most acute across developed economies.

In many respects the pressure on retail bank branches reflects the wider pressures being exerted on the retail industry as a whole. The rise of electronic-retailing ("e-tailing", or the sale of goods and services through the Internet) has shaped, and will continue to shape the retail industry. What has been evident is that those who have been the fastest to embrace new technology and adapt to new models have had the greatest success.

There have been casualties along the way such as traditional brick and mortar bookshops and music stores. We anticipate the future of retail banking to evolve in a similar manner. Some services being provided by retail branches will likely succumb to online competition, while new service offerings will be developed. Amidst all this, earlier adopters of new technology can best position themselves to take advantage of new opportunities.

A key issue running behind these macro processes is the diversity within the Asia Pacific region. What this likely means is that some countries in the region will lead the changes, while others will follow. We could also see countries leapfrogging each other as they skip evolutionary steps. Here, we look at some of the potential near and long-term changes that could occur within the retail banking network strategy.

AVERAGE BRANCH VISITS PER CUSTOMER PER YEAR (2012)



Source: Bain & Company [1]

Near term expansion across emerging economies, stability for others

In the near term, we expect comparatively little to change. For some countries this will mean an expansion of branch networks, while others will see some modest downsizing. The fundamentals of the region are such that a physical presence for retail banking will remain a requirement. There are several reasons for this.

Regulation

In emerging markets, central bank regulations require corporate and retail customers to appear in person at a bank branch in order to open a new account. That makes physical branches crucial tools for attracting stable, low-cost deposit funding. While not strictly regulation, other simple tasks such as withdrawing foreign currency also generally require a physical presence (notwithstanding the rise of "global wallets").

Urbanisation/demography

Rapid urbanisation and population expansion that are occurring in many emerging countries across Asia Pacific will require banks to continue to expand their presence over the near-term.

At the regional level, according to the United Nations (UN), the population of Asia Pacific is forecast to increase by over 190 million by 2020 and a further 160 million by 2025. However, growth trajectories are very different across the region.

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[1] "Future of the bank branch in Asia: redesigning footprint and format" http://www.bain.com/publications/articles/future-of-the-bank-branch-in-asia-redesigning-footprint-and-format.aspx

Strong growth will continue to be recorded in India, China and the Association of Southeast Asia Nation (ASEAN) countries. In line with this, the number of retail bank branches is expected to increase over the next few years. As a result, it can be expected that real estate costs will also proportionately increase. More muted growth is expected in developed countries such as Australia, Hong Kong and Singapore, while the population of Japan is forecast to decline. It is in these countries that we expect the size of bank networks to moderate.

Population composition

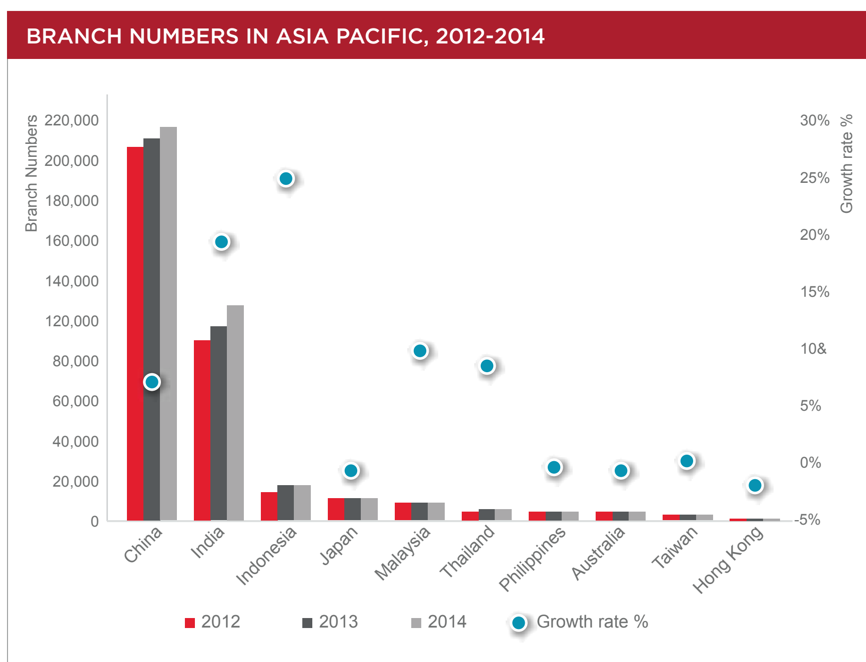
Technology adoption remains somewhat stratified among the different demographic cohorts. Studies have shown that Generation Y (Gen Y) and Millennials (classified as those born from 1977 onwards) are more likely to be adopters of electronic banking technology. For this cohort a large component of their banking activities is conducted remotely via apps and the Internet. Looking towards the older generations, the proportion of banking activities conducted via new technology declines, especially for Baby Boomers (born 1946-1965).

There are several reasons for this: lack of familiarity with the new technology, a preference for face-to-face interactions, and the need for more complex financial advice. Baby Boomers, though, hold most of the deposits and assets being held in banking instruments, and therefore remain key customers of banks. For this reason, banks must continue to meet their needs, which at least for the time being, includes in-person interaction within branches.

Longer term strategies

The true value of the bank branch over the long-term remains unknown. For example, while Millennials currently conduct much of their banking activities remotely, it is unclear whether this will change to a more face-to-face setup as they seek more complex advice on larger and more financially significant transactions. Notwithstanding this, given current trends, it is apparent that while the role of the physical branch remains relatively secure in the near-term, the monopoly it once held has been, and will continue to erode.

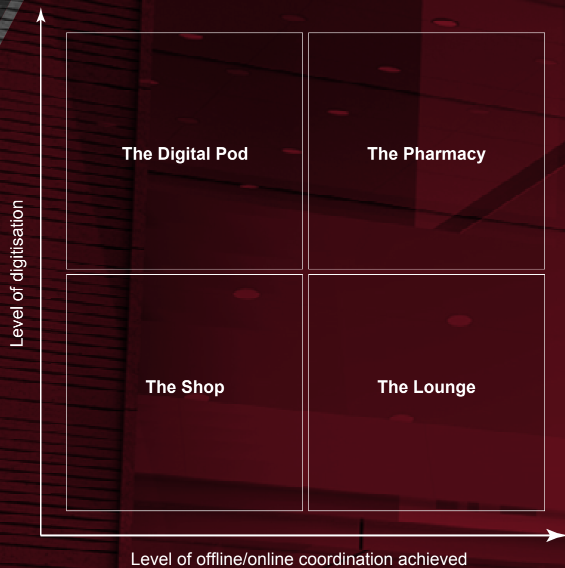
BRANCH NUMBERS IN ASIA PACIFIC, 2012-2014



Source: The Asian Banker [2]

[2] "ATM and branch networks continue strong growth in Asia's Emerging Markets" http://www.theasianbanker.com/updates-and-articles/atm-and-branch-networks-continue-strong-growth-in-asian-emerging-markets

POTENTIAL FUTURE BRANCH FORMATS



Source: Capgemini Consulting [3]

Analysis by EY has shown that there is strong digital penetration across the region, with 50% to 75% of the population using Internet banking at least once a week. Furthermore, India has now surpassed the United States (US) to become the second largest smartphone market after China.

As such it is not surprising that both markets show the highest proportion of mobile-phone banking usage in the region. With governments making financial commitments to new technology start-ups, either through incentives or tax concessions, it is likely that disruptive digital competition will continue to grow.

While bank footprints will likely continue to grow across the region over the near term, they will eventually plateau and then begin to decline because of these reasons. As highlighted above, the decline will be earlier in some countries, as currently being seen in Hong Kong, Australia and Japan. However, careful analysis is required before any downsizing of the network is undertaken such as the adoption of geo-demographic analysis by banks in Australia.

Following the lead from retail chains, decisions need to be made about the location, format, density, and staffing of branches, as many still see a pivotal role for branches into the future, a role that might be significantly different compared to current offerings.

In this vein, banks need to adapt and provide a more seamless integration of online and offline experiences – an omni-channel approach that is commonly used in the retail sector today. This means that there will be a blended approach between full-service branches and those with a more restricted range of offerings. Capgemini Consulting have advanced a four-format model of how they see the future of retail banking may evolve.

The Shop – low levels of digitisation with a minimum amount of online offering. This type of branch format would offer limited advisory capability and is more oriented to “off the shelf” type purchases. The benefits include limited need for staffing and lower operational costs associated with a smaller physical footprint.

The Lounge – low levels of digitisation but introducing online elements to expose digital services to customers. Again, levels of staffing would be low and so this type of format would not be focusing on products requiring complex advisory. The focus of the lounge is not on selling, but on facilitating self-service and introducing customers to online products. Separate research by McKinsey has found that technology users are more “sticky” and therefore have stronger brand loyalty when online services meet their needs. This allows for greater opportunities to cross-sell products via these channels.

The Digital Pod – high levels of digitisation provided on-site, but with a low physical presence of staffing, if any. The focus is on providing an evolved digital experience that allows customers to undertake the transactions of a normal branch but through technology hubs. As staff can be located remotely, via video-conferencing for example, these branches can operate 24/7.

The Pharmacy – high levels of digitisation coupled with a high coordination of online and offline services to cross-sell between products. This format would replicate a full-service line, flagship bank branch which incorporate opportunities to handle in-person transactions as well as using digital technology. Higher levels of staffing would be required to accommodate in-person transactions and advice on complex financial products. As such this format would target high net worth individuals. These branches require a larger physical footprint and should be located in prime areas to attract maximum foot traffic.

[3] “The Future of Bank Branches: Coordinating Physical with Digital” https://www.capgemini.com/resources/the-future-of-bank-branches-coordinating-physical-with-digital

Corporate Real Estate impact

The evolution of the retail bank branch will present a range of impacts on corporate real estate planning, costs, operation and management. At the front end, a greater degree of planning will be required to identify optimum branch type, location, and ultimately the configuration of the entire network. More detailed planning and understanding of branch type and location, though, could subsequently permit greater flexibility and cost savings.

"Lounge" and "Digital Pod"-style branches would no longer need the space and cost considerations associated with banks featuring safes, vaults, or strong rooms. Being fully digital, or offering more limited services, the branches require smaller floor plates, which not only directly reduce cost but also present less onerous space requirements, and therefore more numerous leasing options. However, the transformation to a fully digital branch type could also incur higher fit-out costs on different expenditure items such as Information Technology (IT) infrastructure and (cyber) security.

The timing of these changes and the associated planning required will, of course, vary across the region. This is not only due to the variation in levels of digital sophistication and take-up, but also other fundamental and financial factors such as lease expiries and asset depreciation considerations. Lease break costs, especially in countries with longer lease lengths such as Australia, are also likely to be prohibitive. As a result, the move to different branch sizes and formats is likely to be more evolutionary than revolutionary. Although in more developed countries, the evolution in strategy is already underway.

Conclusions

The Asia Pacific region is economically and culturally diverse. For this reason the future of retail banking is likely to take different paths of evolution. For many emerging economies, the demographic forces of population growth and urbanisation are driving growth in retail banking networks. However at the same time, branch and ATM rationalisation are already underway in some countries where a higher level digital sophistication is on offer.

It is in these more developed economies that we are starting to get a glimpse of the opportunities and challenges ahead for retail banking. The drive for greater cost savings, efficiency and the disruptive forces of fintech are forcing banks to be more analytical of their branch network. Ultimately this is leading to fewer locations. At the same time it is also resulting in a greater array of branch formats that embrace the efficiency gains offered by technology along with the need to provide detailed advice to individuals making significant financial decisions. Branches remain an integral part of the future network, but it is clear that the role they play is changing.

From a regional perspective, while we expect all countries in Asia Pacific to head in the same evolutionary direction, the penetration rates of digital technology between countries vary. Some countries may therefore make slower progress, while others may jump ahead and bypass intermediary steps.

The combination of innovation, evolution and disruption overlaid onto the cultural and economic diversity of the region therefore makes the future of retail banking far from passé.

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THE ASIA PACIFIC REGION IS ECONOMICALLY AND CULTURALLY DIVERSE. FOR THIS REASON THE FUTURE OF RETAIL BANKING IS LIKELY TO TAKE DIFFERENT PATHS OF EVOLUTION.

References
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EY "Banking in Asia Pacific: Size matters and digital drives competition"

RISE OF ALTERNATIVE OFFICE LOCATIONS

KEY TAKEAWAYS

COST PRESSURES AND LIMITED AVAILABILITY IN CORE LOCATIONS FUEL THE RISE OF **ALTERNATE OFFICE MARKETS**

DECENTRALIZED OFFICE MARKETS GROWING IN THE REGIONS'S GATEWAY CITIES

50-70% RENTAL SAVINGS POSSIBLE IN **SINGAPORE** AND **HONG KONG**

FINANCIAL SECTOR **BACK-END OPERATIONS** INCREASINGLY MOVING TO **OFFSHORING/ OUTSOURCING HUBS**

TODAY'S ALTERNATIVE IS TOMORROW'S MAINSTREAM, **CORPORATE REAL ESTATE STRATEGY ADAPTING**

DIFFERENT STROKES FOR DIFFERENT FOLKS

In the banking and financial services sector, where functions can generally be classified into front, middle and back offices, what gets hived off are a portion of the middle-back office functions with back-office operations taking the brunt, as these functions are more generic allowing for the standardization of procedures. Why it gets separated is a matter of approach but this is generally done to leverage benefits arising from lower costs, engage in wage arbitrage as well as reap scale efficiencies from a centralized operating model that allows financial companies and banks to be agile in responding to clients' needs and devote more resources to their core revenue generating activities:

ONSHORING	OFFSHORING/NEARSHORING	OUTSOURCING
Functions are transferred to another location that lies within national boundaries.	Functions are transferred to another country. Nearshoring would indicate transferring to a location that is within the same region.	Functions are delegated to third parties or external agencies.

Cost pressures and falling margins in the banking sector have led to a proliferation of such processes. Over the last decade, nearly all BFSIs have set up shared service centers in lower-cost geographies and leveraged on third party IT-BPO providers.

This shift in business models and practices has nurtured the rise of alternate office markets. Due to its small geography, alternate business districts in Singapore's and Hong Kong's office markets have expanded into suburban areas, while for Shanghai, there is a simultaneous buildup of several new districts like Qiantan as well as the establishment of the Shanghai Pilot Free Trade Zone. Tokyo represents an exception as the city has veered towards developing its non-core areas, such as Toranomon District, which are still within the confines of the Central Five Wards. In each of these cities, the urban form that has been pursued is a reflection of development constraints as well as economic objectives.

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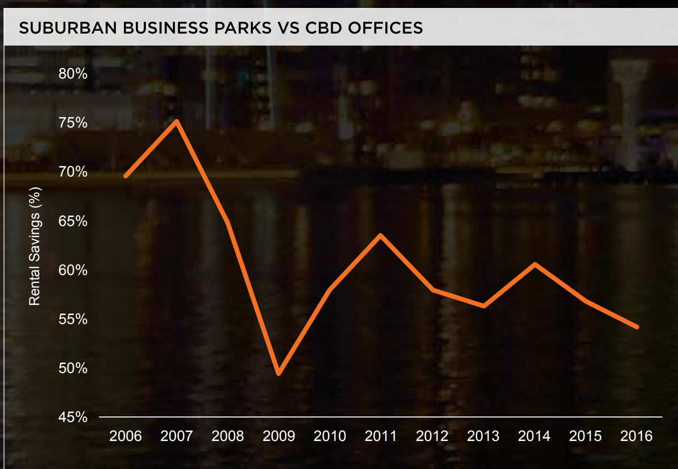
ONSHORING

Singapore: Suburban business parks

It was realized, as early as in the 90s, that Singapore would face potential traffic congestion in and out of the Central Business District during peak hours. To address this before it became untenable, the Urban Redevelopment Authority (URA) embarked on a plan to decentralize commercial activities. The economic development strategy for Singapore in the 90's expanded to encompass the service sector in addition to the shift towards higher value-add manufacturing, for instance product design, software engineering and other technology-based activities, prompted a new zoning category – Business Parks. Policy makers went a step further to segregate the development of business parks by clustering industries, and growing demand for lower-cost office space by financial institutions let to the the development of Changi Business Park.

Efforts by banks to rationalize their real estate footprint has seen the CBP evolve into a back-office hub. Credit Suisse, for example, consolidated its back offices on the island into One@Changi City, occupying close to 200,000 sf. The area is currently occupied by a number of other banks, including DBS Bank, UBS, JP Morgan, Standard Chartered Bank, Bank of Tokyo Mitsubishi UFJ, either in leased spaces or built-to-suit buildings. Rents in CBP, at an average of S$4.00 psf a month, are more than half those in the island's CBD. And the park will continue to evolve, with upcoming developments that include the Singapore University of Technology and Design (SUTD), which completed the first phase of its campus construction by 2014. Similar to Silicon Valley, CBP is envisioned to be an incubator for new industries and enterprises emerging from SUTD.

Mapletree Business City (MBC) also hosts a number of financial occupiers in the development. Currently, about a fifth of its tenants are from the sector, such as Julius Bær, HSBC and Credit Agricole. However, average rents are close to S$6.00 psf a month given its location on the city fringe. The completion of MBC 2 in 2016 will provide more options to occupiers.



Note: Grade A offices
Source: Cushman & Wakefield

RK

SINGAPORE

Hong Kong: Decentralized Business Districts

Following the development of Taikoo Shing and Quarry Bay into a full fledged decentralized office market in the 90s, another decentralized market is emerging today – Kowloon East – where over 40% of Hong Kong's new Grade A office supply will be completed in the next five years. The development of Kowloon East, as a decentralized commercial hub, has been ongoing since the early 2000s as constraints imposed upon reclamation of Victoria Harbor in 1997 and the re-zoning of Kwun Tong and Kowloon Bay for commercial use in 2001 led to the area's redevelopment. As the market continued to mature, corporate owners, comprising mainly banks and insurance companies, started to enter the Kowloon East sub-market to set up back-office operations after 2005. Currently, Hang Seng Bank, Citibank, Standard Chartered and ICBC have leased space in the submarket.

HONG KONG, CHINA

HONG KONG

KOWLOON

KOWLOON EAST

GREATER CENTRAL

HONG KONG ISLAND

The growing attractiveness of Kowloon East to tenants, owner occupiers and investors has been borne out by the number of major transactions since 2014 which accounted for 35% of the value of en bloc offices transacted in Hong Kong. Rents in Kowloon East are currently about 75% cheaper than Grade A space in Greater Central, and is considered a bargain in the world's most expensive occupier market. In addition, owner-occupiers are gaining a first-mover advantage in purchasing quality offices to reap both substantial rental savings and capital appreciation, as the market develops further.

KOWLOON EAST VS GREATER CENTRAL

Note: Grade A offices
Source: Cushman & Wakefield

OFFSHORING/OUTSOURCING HUBS

While the offshoring movement began at the turn of the millennium, the wave of new regulations in the wake of the 2008 sub-prime crisis provided further impetus. The high cost of compliance compelled the financial industry to greater use of shared services and offshore centers as financial companies moved to centralize their risk, control and compliance activities.

India: Bengaluru

Bengaluru's position as a premier and global offshoring hub catapulted in the 1990s aided by incentives from the State government to MNCs, availability of talent and cost competitiveness. While the IT-BPM sector has long been servicing clients across various sectors, BFSI companies too have been seen to set up their captive centers for back-end operations. Since the last decade or so, the submarket of Outer Ring Road (ORR) emerged as a sought-after office location as the city of Bengaluru expanded beyond its seams. While this submarket primarily caters to the IT sector, several BFSI companies are setting-up their back-end operations here. The market has now gained prominence led by the presence of Grade A buildings with modern amenities, and the need for companies to have large contiguous space for their back-end operations. The BFSI sector has leased a total of 1 msf in the ORR market since 2010 and has several prominent companies, such as Wells Fargo, Royal Bank of Scotland present here.

Besides the ORR submarket, Whitefield too is seeing BFSI companies beefing up their back-end operations. In the last few years, companies such as JP Morgan Chase, Societe Generale, etc. have leased space in this submarket. A study of leasing activity since 2010 shows that the BFSI sector has leased approximately 1.1 msf of office space in Whitefield. Going ahead, the ORR submarket will be the most preferred market for back offices of BFSI companies in Bengaluru, led by developing infrastructure, Grade A office projects and competitive rentals. Considering that approximately 13.2 msf of office space is expected to become operational by 2017 in ORR, the submarket offers companies ample scope to scale up.

Manila: Bonifacio Global City

In the span of a decade, Bonifacio Global City (BGC) has arguably become another premier business address alongside Makati City. And while the latter remains as the main CBD of the country, it is difficult to deny the rise to prominence of BGC. This relatively new urban area exhibited strong agglomeration of businesses and unprecedented construction of office buildings in recent years. This is supported by the positive growth trajectory of market indicators, with office rentals and selling prices of the district being comparable to and even poised to outperform that of Makati CBD. The planned movement of the Philippine Stock Exchange from Makati CBD to BGC serves to validate the potential of the district as an alternative business and financial hub. JP Morgan, HSBC and Deutsche Knowledge Services have established operations there.

MUMBAI, INDIA

AVERAGE OPERATING COSTS (USD PSF/PM)

INDIA Refers to Outer Ring Road submarket in Bengaluru	EXPENSE	PHILIPPINES Refers to Bonifacio Global City in Manila
1.15	Rent*	2.03
0.13	CAM/Services charges*	0.28
0.08	Car Park (per slot per month)	0.09
0.21	Taxes	0.29
1.57	Total	2.69

*per sf per month

All values in USD | US$1 = INR67.78 | US$1 = PHP49.18

MANILA CITY, PHILIPPINES

FUTURE HUBS

An Inevitable Evolution

As Asia's economies grow in stature and sophistication and companies grapple to establish a presence in its cities, it is only natural that space at its conventional business districts would reach its limits. While cost rationalization is a key objective for corporates to relocate to the periphery, within these objectives, greater mobility due to the build-out of infrastructure networks is making secondary office markets more viable. The emergence of a well-defined decentralized Grade A office market is the next step in the evolution of the region's hubs.

SHANGHAI, CHINA

Shanghai: New CBDs

Shanghai, mainland China's financial center, is evolving rapidly. As the city's breakneck development has turned its core CBD areas into mature hubs of Grade A office space, new business districts are emerging in decentralized or non-core locations to accommodate the growing needs of domestic and foreign firms. Shanghai's traditional downtown submarkets of Lujiazui, New Huangpu, Jing'an and Xuhui are experiencing tight availability rates – in the case of Lujiazui, the center for banking and financial services, at just 3.4%. The other CBD areas cater to a more diverse mix of domestic and MNC tenants, including companies in the consulting, professional services, legal and retail sectors. For the most part, available space in these submarkets is also quite constrained and as Shanghai's service sector continues to grow at a blistering pace, demand should continue to spill over into the emerging CBDs where the bulk of new high-quality office space will come on stream, as well as the business parks that surround the city's core.

Some 90 million sf of Grade A office space is projected to launch in Shanghai during the second half of 2016 through 2021, more than doubling the current supply. The majority of this (57 million sf) will hit the market in suburban or decentralized areas of Shanghai. Municipal government plans call for intensive development of key emerging CBD areas such as the Hongqiao Central Business District, the North Bund area, and the Qiantan International Business Zone. Of these, the Qiantan zone located south of the former World Expo site is perhaps the most promising alternative location to Lujiazui. Still in the early phases of development, the well-connected zone is within easy reach of downtown Lujiazui and will be home to major mixed-use complexes from developers including, Swire Properties and Tishman Speyer.

TODAY'S ALTERNATIVE, TOMORROW'S MAINSTREAM

Since the emergence of London in the late 19th century, finance has always been the foundation of some of the world's greatest cities. However, this hierarchy is now increasingly being challenged on multiple fronts. The irrelevance of distance and boundaries have been made possible by technological progress and transport networks but ultimately, it would be the global financial turmoil in 2008 that dealt the crucial blow. Faced with onerous regulations, dwindling margins meant that cost rationalization would take precedence. This has diluted the presence of financial institutions in core CBDs as banks continually refined its operating and leasing strategies to adapt to the changing business landscape. While the core CBD will still remain relevant, due to a buildup of both soft and hard infrastructure through the decades, the rise of secondary and alternate locations in the corporate real estate strategy of financial institutions will continue to gain prominence.

Qianhai

China has high hopes for the Qianhai special economic zone in the southern boomtown of Shenzhen. Positioned as a future international financial center – a new Hong Kong Central or even Wall Street of the Pearl River Delta – Qianhai is intended to promote greater business cooperation and integration with Hong Kong just across the bay. Some 20 million sf of total office supply as well as several large retail projects are currently under construction or planning, including two major Grade A office properties which are expected to launch in 2016 and 2018, respectively.

Qianhai has the potential to grow into a regional financial and commercial center, supporting and complementing Hong Kong, and serving as a kind of back office to the Asian financial center an hour's drive away. The zone's importance will lie primarily in its impact on Hong Kong, the development of Guangdong province, and the upgrading China's financial system.

Over 100,000 companies had registered in Qianhai as of mid-2016, looking to benefit from the zone's tax incentives and other preferential policies, although few of them are currently operating there due to the current scarcity of office facilities. This should change as continued construction activity over the coming years generates high-quality infrastructure and office and residential accommodation, which are expected to be largely completed by 2020. We anticipate that Qianhai will evolve along similar lines as Shenzhen's Futian CBD, which a decade of urbanization transformed from a largely empty stretch of land into the city's thriving political, financial, and business hub.

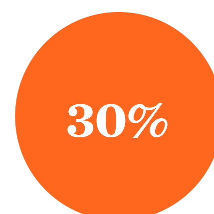
MARKET OVERVIEW

HONG KONG

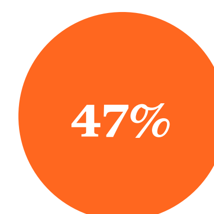
BANKING AND FINANCIAL SECTOR SUMMARY

Prime Rent*
(USD/Sf/Year)

Rental Growth
(YOY in local currency)



% Occupancy by
Financial Sector
(Overall)



% Occupancy by
Financial Sector
(CBD)

Banking and Financial Sector Trends

In 2016, mainland Chinese banks and financial institutions continued to be major players in the Hong Kong Grade A office leasing market. However, a slightly negative absorption rate has been recorded in the core areas, reflecting the slowdown of expansion and/or relocation of multi-national corporations (MNCs) in this sector. A clear pattern of decentralization can be observed among these companies. For instance, in the first quarter of 2016, Mizuho Bank announced its relocation from Prime Central to K11 in Kowloon and Hong Kong South.

In 2014 and 2015, Greater Central recorded 0.7 million sf (msf) of new leases annually. Mainland companies' share of major new leases in Greater Central (CBD) grew dramatically from 13% to 44% in the same period.

Outlook, Opportunities & Strategies for Occupiers

No major office project are expected to be launch in Greater Central next year. Despite the slight increase in available space in Greater Central, availability in Prime and Grade A buildings is expected to remain tight amidst ongoing demand from mainland financial institutions, while rents are expected be stable in the coming 12 months. It is believed that Greater Central will continue to empower landlords in terms of tenant selection and rental negotiations.

The expected launch of the Shenzhen–Hong Kong Stock Connect in 2016 will further support the Hong Kong financial sector. Mainland financial institutions will remain the primary driver of the office leasing demand in Greater Central.

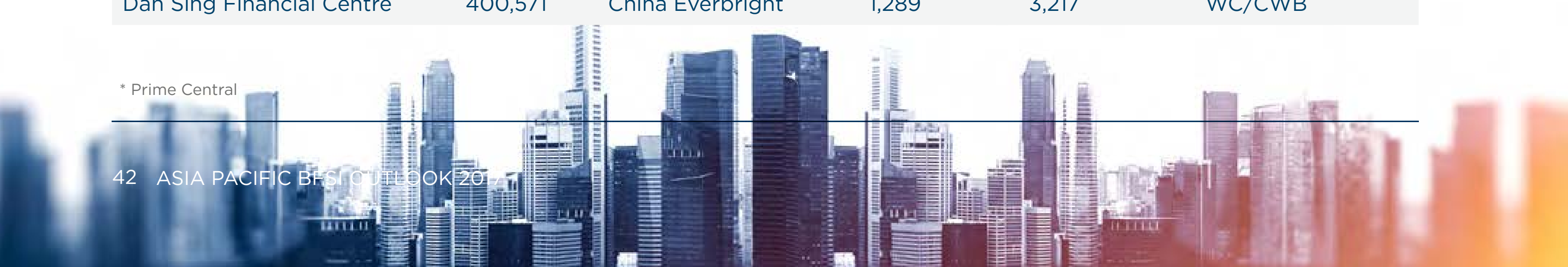
- John Siu, Managing Director

Key Banking and Financial Services Sector Lease Transactions – 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
One Exchange Square	53,700	HKEX	Renewal	Greater Central
One Island East	39,800	Accenture	Consolidation	HKE
Three Pacific Place	15,000	NG Wholesale Bank	Relocation	Greater Central
Two Exchange Square	13,900	Orix Asia	Consolidation	Greater Central
Two Exchange Square	13,100	Julius Baer	Expansion	Greater Central
AIA Central	12,600	China Minsheng Investment	Expansion	Greater Central
Three Exchange Square	12,200	China Zheshang Bank	New Set-up	Greater Central

Key Banking and Financial Services Sector Sale Transactions – 2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
One Harbour Gate East Tower	280,000	Cheung Kei Group	577	2,071	Kowloon Others
Dah Sing Financial Centre	400,571	China Everbright	1,289	3,217	WC/CWB



* Prime Central

MARKET OVERVIEW

MUMBAI

BANKING AND FINANCIAL SECTOR SUMMARY

45.70

Prime Rent#
(USD/Sf/Year)

3.0%

Rent Growth
(YOY in local)

25-30%

% Occupancy of
Financial Sector

Banking and Financial Sector Trends

In a bid to create cost efficiencies and improved returns, domestic and global firms in the banking and financial sector are eyeing growth opportunities in the Indian market. The Indian market, at present, is characterized by new entrants in the Banking sector (as a result of the Reserve Bank of India's issuance of new bank licenses), and existing firms expanding their footprint. Global banks are continuing to set up captive centers for back-office and support functions. Indian banks, on the other hand, are consolidating their office space and bringing out cost-efficiencies through a mixed strategy of purchasing or leasing consolidated office spaces. Non-banking financial companies (NBFCs) continue to be bullish on the commercial real estate sector, focusing on outright purchase of marquee assets in Mumbai. Banks prefer the secondary business districts of Bandra-Kurla Complex and Lower Parel for front-end offices, while uptake of larger space for back-end services is seen in other submarkets.

Outlook, Opportunities & Strategies for Occupiers

Led by higher business confidence on the back of strong economic growth (India being the fastest-growing large economy), the market is expected to witness high demand for office space for outright purchase and leasing.

In Mumbai, Banking, Financial Services, and Insurance (BFSI) companies' leasing accounted for approximately 14.0% of total leasing over the last 2 years, which is expected to strengthen further. However, availability of quality large space would likely pose as a challenge for occupiers, with transactions expected to remain competitive.

The Indian market is witnessing considerable activity in banking and financial services. Going ahead, Foreign Direct Investment (FDI) relaxation in the insurance sector, global banks' expansion of their captive centers, and the government's thrust on ease of doing business is likely to fuel higher demand for office space in the sector.

- Gautam Saraf, Managing Director

Key Banking and Financial Services Sector Lease Transactions – 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Om Sagar	81,000	State Bank of India	Expansion	Thane-Belapur Road
One Indiabulls Center	52,000	Capital First	Expansion	Lower Parel
Akcruti SMC	44,000	Kotak Mahindra	New lease	Thane
Indiabulls Finance Center 1	33,000	YES Bank	Expansion	Lower Parel

Key Banking and Financial Services Sector Sale Transactions – 2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
Marathon Futerex	62,000	IDBI Federal	17	280	Lower Parel
The Ruby	200,000	Axis Bank	3,200	242	Dadar

Weighted average rent, including CBD and BKC

MARKET OVERVIEW

SEOUL

BANKING AND FINANCIAL SECTOR SUMMARY

42.59

Prime Rent (USD/Sf/Year)

1.8%

Rent Growth (YOY in local)

40%

% Occupancy of Financial Sector

Banking and Financial Sector Trends

Among the three major business districts in Seoul, Yeouido is well known to be Korea's core financial district. However, some financial companies are moving out of Yeouido Business District (YBD), and consolidating their office footprints. Recently, Mirae Asset Securities Co., South Korea's leading asset management firm, merged with KDB Daewoo Securities Co. Mirae Asset Securities are located in Center 1, and the merged entity consolidated its offices out of YBD to Center 1 in the Central Business District (CBD). Dashin Finance Center and IBK's headquarters in the CBD will be completed in the fourth quarter of 2016. Dashin Finance Group plans to move its new headquarter from YBD to the CBD. The wave of mergers and acquisitions among brokerage houses is expected to impact the Banking and Financial Sector.

Outlook, Opportunities & Strategies for Occupiers

Due to regulations, South Korea's financial technology (fintech) sector is still in its early stages. Thus, banks and financial companies in Korea are not fully realizing the increasing threats triggered by fintech companies. However, there has been significant development in Korea's banking industry. The Korean government carried out drastic regulatory reform and opened the Fintech Center. In addition, the government opened two Internet-only banks. This is expected to change the landscape of the nation's financial industry. Although a demand recovery has not been observed due to the slowing economy, the growing number of start-ups, like those in the fintech sector, is expected to generate office leasing demand, particularly benefitting serviced office providers.

Amid a gloomy economic outlook, major securities and insurance companies will continue to put their real estate holdings for sale. Samsung Life Insurance sold its symbolic headquarters building to Booyoung Group. The group also purchased Samsung Fire & Marine Insurance headquarters building in Euljiro, central Seoul recently.

- Ryan Lee, Senior Director

Key Banking and Financial Services Sector Lease Transactions – 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Center One	5,683	Sumitomo Mitsui Banking Corporation	Relocation	CBD
Tower 8	12,939	NH Bank	Relocation	CBD
Shinhan L Tower	13,987	BNP Paribas Cardif Life Insurance	Relocation	CBD
K Twin Tower	47,889	K Bank	New Lease	CBD
Platinum Tower	37,717	Dongbu Life Insurance	Relocation	GBD

Key Banking and Financial Services Sector Sale Transactions – 2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
Samsung Life Insurance main office	943,812	Booyoung Group	519	550	CBD
Samsung Fire & Marine Insurance's headquarters building	593,373	Booyoung Group	368	618	CBD

MARKET OVERVIEW

SHANGHAI

BANKING AND FINANCIAL SECTOR SUMMARY

52.58

Prime Rent
(USD/Sf/Year)

6.0%

Rent Growth
(YOY in local currency)

39%

% Occupancy by
Financial Sector

Banking and Financial Sector Trends

Mainland China's economic hub, Shanghai, is home to a booming financial sector, increasingly driven by domestic firms that are voracious users of office space. According to data from DTZ/Cushman & Wakefield Research, the banking and financial sector's share of office leasing activity (by number of transactions) increased by 12 percentage points year-on-year (YoY) to 39% as of the end of 2015. The rapid growth of China's internet finance industry has helped fuel a proliferation in the number of financial institutions in Shanghai; growing by 93 in 2015, including 17 monetary financial service providers, 57 capital market service providers, and 19 insurance companies, according to the Shanghai Statistics Bureau. However, the ongoing rollout of tougher regulations on peer-to-peer (P2P) lending in 2016 has tempered the growth of this new sector. This has significantly curbed leasing demand from P2P firms in the first two quarters, dampening overall demand in the Grade A market. Seeking to cut costs, a number of banking and financial institutions have moved their offices back to the city's decentralised business parks, including call centers, clearing house operations, and some e-banking services.

Outlook, Opportunities & Strategies for Occupiers

Looking ahead, the massive amount of Grade A office supply to completed between 2016 and 2021 will provide occupiers with great options in decentralized areas. Tenants are also likely to enjoy greater bargaining power for renewals and new leases in these emerging, non-core submarkets. Amidst a wave of office decentralization programs, mature business parks such as Zhangjiang and Caohejing are likely to attract a growing number of banking and financial institutions, primarily domestic, that are looking for high-quality but cost-effective premises.

Looking forward, leasing demand from the banking and financial sector is expected to continue to increase. Although the growth of the P2P industry is likely to slow down due to the tightening of regulations, occupiers from the traditional financial sector are expected to continue to expand steadily. Moreover, banking and financial institutions are always active in the en-bloc office sales market.

- Leslie Jin, Occupier Services

Key Banking and Financial Services Sector Lease Transactions – 2015/2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Shanghai Tower	129,167	Ant Financial	Lease	Pudong
Century Link	64,583	PICC	Lease	Pudong
Century Metropolis	53,820	Zheyin Investment	Lease	Pudong
Century Link	21,528	Caitong Securities	Lease	Pudong
SWFC	18,299	Jiangnan Rural Commercial Bank	Renewal / Expansion	Pudong
SWFC	17,222	Jiangxi Bank	Lease	Pudong

Key Banking and Financial Services Sector Sale Transactions – 2015/2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
Corporate Avenue Blocks 1 & 2	895,072	Link Reit	1,063	1,188	Huangpu
SOHO Century Plaza	462,357	Guohua Life	497	1,074	Pudong
East Asia Bank Building	457,466	ARA	462	1,011	Pudong

MARKET OVERVIEW

SINGAPORE

BANKING AND FINANCIAL SECTOR SUMMARY

76.32

Prime Rent
(USD/Sf/Year)

-9.1%

Rent Growth
(YOY in local)

46%

% Occupancy of
Financial Sector

Banking and Financial Sector Trends

The banking and financial sector is the largest occupier of prime space in the Central Business District (CBD). The weak global economy took a toll on the banking sector in Singapore during 2015, with an increasing number of banks opting to reduce their space requirements in the CBD by shifting back-office staff to cheaper business parks in suburban areas. It was reported that Standard Chartered Bank consolidated in Changi Business Park while reducing their presence in Marina Bay Financial Centre Tower 1, while Barclays gave up space in One Raffles Quay South Tower. However, there are signs of a nascent recovery in 2016 with a few banks such as the Bank of Tokyo-Mitsubishi UFJ and Julius Baer taking up prime space in the upcoming Marina One. In addition, other segments with strong growth potential such as insurance and asset management are continuing to expand their footprint and will likely drive leasing demand in 2016.

Outlook, Opportunities & Strategies for Occupiers

During 2015, the overall Grade A CBD rent declined by 10.0% on the back of the weak global economy and the supply overhang of 4 million square feet (msf) scheduled for completion over 2016-2017. Competition is heating up as landlords of existing buildings hasten to secure occupiers for their remaining vacant spaces before the record supply enters the market. Tenants have started to receive more generous incentives such as longer rent-free periods and fit-out subsidies. With the office leasing market continuing to face challenges in the short term due to weak business conditions, the overall Grade A CBD rent is projected to moderate by a further 7.0-10.0% in 2016.

While 2015 saw cost-sensitive tenants relocating to decentralized offices and business parks, the trend has reversed in 2016 with a wave of flight to quality as firms seize the opportunity to lock in long leases in the upcoming premium developments at attractive rental rates.

- June Chua, Executive Director, Leasing

Key Banking and Financial Services Sector Lease Transactions – 2015/2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Marina One	140,000	Bank of Tokyo-Mitsubishi UFJ	Relocation	Marina Bay
Marina One	100,000	Julius Baer	Relocation	Marina Bay
DUO Tower	74,000	MasterCard	Relocation	Bugis
SGX Centre 2	53,000	Aviva	Renewal	Shenton Way
Westgate Tower	33,000	Great Eastern Life	New Lease	Jurong
One Raffles Quay South Tower	30,000	QBE Insurance	Relocation	Marina Bay

Key Banking and Financial Services Sector Sale Transactions – 2015/2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
Asia Square Tower 1	1,299,220	Qatar Investment Authority	3,380	2,600	Marina Bay
78 Shenton Way (50% stake)	362,199	Alpha Investment Partners	302	1,665	Shenton Way
PWC Building (30% stake)	356,070	DBS Bank	202	1,890	Raffles Place

MARKET OVERVIEW

SYDNEY

BANKING AND FINANCIAL SECTOR SUMMARY

57.00

Prime Rent[1]
(USD/Sf/Year)

15.0%

Rent Growth[1]
(YOY in local)

35%

% Occupancy of
Financial Sector[2]

Banking and Financial Sector Trends

The banking and finance sector is the largest employer in the Sydney Central Business District (CBD) with the retention of human capital an increasingly important strategic goal in the sector. This, combined with the need for workspaces that can adapt to rapidly changing technologies and workplace needs, are key drivers of current space requirements. As such, locations which offer efficient transport options, security, flexible fit-out and technology, high levels of wellness, and sustainability, as well as access to retail amenities are preferred. The current development cycle suggests sites which best match these requirements are located in or near the CBD. For example, it has been reported that National Australia Bank will move its Sydney headquarters to the new Wynyard Place development, while the Commonwealth Bank of Australia (CBA) may consider the CQT and QQT developments in the CBD as options when their lease at Darling Park 1, located in the western corridor, expires. CBA has also recently pre-committed to a consolidation of its Parramatta and Homebush suburban offices into the new Australian Technology Park development in the CBD Fringe.

In contrast to the local institutions, international investment banks are generally reducing their footprint with some, such as Barclays and CIMB, leaving the market. A few however, such as Bank of China, are increasing their presence.

Outlook, Opportunities & Strategies for Occupiers

A limited supply pipeline combined with stock withdrawals and ongoing tenant demand is expected to result in the Sydney CBD vacancy rate remaining near or below 5.0% until 2020. With vacancy below the long term average, the market should favor landlords over tenants, and result in above average rental growth. A new development cycle is expected to begin in 2021 as a result of the period of anticipated strong rental growth. This suggests tenants should look to lock-in space requirements and rental escalations in the short term, and seek to take advantage of the increasing supply of office stock after 2021.

The major Australian banks are looking to consolidate their businesses into more efficient space. They are also increasing space devoted to technology projects as the sector prioritises Information Technology (IT) innovation.

- Michael Kearins, Managing Director, Tenant Advisory Group, Australia & New Zealand

Key Banking and Financial Services Sector Lease Transactions – 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
60 Margaret	100,000	ING	Relocation	Core
Darling Park 3	56,000	Avant Mutual	Relocation	Western corridor
Australian Technology Park	1,000,000	Commonwealth Bank of Australia	Pre-commitment	Fringe

Key Banking and Financial Services Sector Sale Transactions – 2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
140 Sussex Street	134,000	Bank of China	95	706	Western corridor

Notes:
1. Sydney CBD prime gross effective rent as at June 2016.
2. Based on CBD employment data.

MARKET OVERVIEW

TOKYO

BANKING AND FINANCIAL SECTOR SUMMARY

114.28

Prime Rent (USD/Sf/Year)

6.2%

Rent Growth (YOY in local)

NA

% Occupancy of Financial Sector

Banking and Financial Sector Trends

The financial sector in Japan has been healthy during and after the global financial crisis (GFC), unlike the financial sectors of other nations. Backed by the recent economic recovery associated with the stock market improvement over the past few years, most local banks and securities firms have increased headcount. On the other hand, foreign firms have become less active after the GFC. Most recently, Citigroup shrank its exposure, selling its retail banking operations to Sumitomo Mitsui Banking Corporation, and its credit card service business to Sumitomo Mitsui Trust Bank Japan in 2015. Major local banks and securities firms normally own their headquarters in prime locations of the Otemachi/ Marunouchi area, while other local institutions and foreign companies often lease their premises. Recently, we have seen a 'flight to quality' among occupiers as some companies have moved to better buildings in superior locations to suit their business continuity planning needs.

Outlook, Opportunities & Strategies for Occupiers

The introduction of negative interest rates in early 2016 has impacted the financial performance of banks, and may lead to weaker office demand going forward. Given that the current vacancy rate is below 5.0%, securing new office spaces with a wider floorplate in the Central Business District (CBD) market has become more difficult. Tenants continue to prefer flexible terms, including space reduction and early termination, when signing contracts.

In line with the outlook and focus on cost reductions for many foreign financial firms, we are seeing many multi-national occupiers in the finance sector seek ways to reduce total occupancy costs, whether through seeking possible sublease opportunities in their fixed term leases, or space planning initiatives driven by mandates to reduce footprints. Given their previously healthy conditions, local financial firms have not been as aggressive on the above measures; however, they may adopt a "wait and see" stance as a result of ongoing monetary policy initiatives and associated cost pressures.

- Leon Ikeda, Senior Manager, Tenant Advisory Group Japan

Key Banking and Financial Services Sector Lease Transactions – 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Otemachi Financial City Grand Cube	310,200	Mitsubishi UFJ Morgan Stanley Securities	Lease	Otemachi, Chiyoda-ku
Sophia Tower	142,300	Aozora Bank	Lease	Yotsuya, Shinjuku-ku
Sumitomo Fudosan Shinjuku Garden Tower	106,700	JCB	Lease	Takadanobaba, Shinjuku-ku
Ginza Mitsui Building	90,000	JA Mitsui Leasing	Lease	Ginza, Chuo-ku
Tri-Seven Roppongi	55,000	Fidelity Japan Holdings	Lease	Roppongi, Minato-ku
Tokyo Garden Terrace Kioicho Kioi Tower	106,000	MetLife Inc.	Lease	Akasaka, Minato-ku

Key Banking and Financial Services Sector Sale Transactions – 2014/2016

PROPERTY	SF	BUYER	PRICE (US$ MIL)	PRICE (US$/SF)	SUBMARKET
Otemachi Tower (30% of office portion)	368,140	Mizuho Bank	1,733	4,707	Otemachi, Chiyoda-ku
Former Mizuho Bank Headquarters Building	797,510	Mizuho Financial Group	1,390	1,743	Marunouchi, Chiyoda-ku

CO-WORKING IS THE FUTURE, TODAY. WHEN WILL FINANCIAL SERVICES FIRMS JOIN THE CLUB?

KEY TAKEAWAYS

CO-WORKING IS THE **"NEW" WAY OF WORKING**

CORPORATES WILL INCREASINGLY MAKE USE OF **CO-WORKING SPACES** OVER THE NEXT 5 YEARS

CONFIDENTIALITY REMAINS A CONCERN FOR BANKS TO QUICKLY ADOPT CO-WORKING

BANKS HAVE ALREADY STARTED TO SIGN CORPORATE MEMBERSHIPS AT **CO-WORKING OFFICES IN FINANCIAL HUBS** (FOR E.G., HSBC AT WEWORK IN HONG KONG)

CO-WORKING CAN OFFER BANKS **FLEXIBILITY TO GROW AND CONTRACT QUICKLY** THAT LEASED ACCOMMODATION CANNOT DO

IN THE NEXT 5+ YEARS WE WILL SEE MORE AND MORE CORPORATES AVAIL THEMSELVES OF CO-WORKING SPACES TO REDUCE THEIR FOOTPRINT.

Four Steps to Co-Working Heaven

Co-working is gaining momentum as the latest "new" way of working. Talk of mobility, agility and flexibility has been getting tediously repetitive for many years and has only been sustained by successive waves of organizations adopting such programs. Consultancies, such as PwC and Accenture were in the first wave around 2000 AD, when laptops became (relatively) affordable. The second wave was later in the decade to 2010, when tech firms themselves started to "walk the talk." These are now in their second iteration.

Global financial services firms, among others, are in a rather slow-motion third wave. They are necessarly more conservative and cautious than those in the first two waves. Confidentiality remains king, and this would seem to put co-working – which seems to be about openness rather than confidentiality – out of the picture. Or does it?

Tethered, Untethered, or Adrift

All organizations have business units with different functions and workflows. Some are more confidential, more regulated, and/or more tethered to their desks: dependent on immobile infrastructure such as paper documents or specialist desk-top computer kits, and even critical face-to-face interactions. Trading floors are the obvious example. Traders are firmly tethered to dedicated and specially configured workstations. They are obliged to make any business-related telephone calls from a dedicated landline that is recorded. This is an extreme example of activity based working (ABW), where the task and workflow match the workstation.

Not all functions are quite so tethered. The less tethered the function, the higher the potential for internal agility. The more the internal agility, the less the office of tomorrow needs to look like that of today, and so internally mobile staff could work from a space that looks much like the co-working spaces.

The Co-Working Wolf in the ABW Sheep's Clothing

Many financial services organizations have already started down this path. In Singapore Credit Suisse and Standard Chartered, among others, are notable to have created such spaces. Getting the numbers of workpoints (i.e. ergonomic workstations and alternative choice seats) right is a work in progress as organizations cautiously try out what could work, and what could be acceptable to their people. Fearful that people who do not have a designated home-from-home desk will resort to open rebellion (as happened in one bank in Australia), some organizations have adopted a "Fixed plus ABW" model. That is, you get your own desk plus the ability to use any of a number alternative workpoints. Other, perhaps braver, organizations have gone for the "pure NTW/ABW" model: only free-seating, as in a cinema where you choose the seat that best suits your needs – in the middle with the best view of the movie, close to the aisle if you have a weak bladder, or in the back row if you are with your girl/boyfriend.

Marty McFly goes Mobile

Fast forward to the future. When financial services firms take the first step of providing choice seats, whether the pure or plus model, their space begins to look and function like a co-working space. More people will get used to practical aspects of working this way: getting their job done from wherever they choose to sit, finding viable workarounds and alternatives for tethers such as paper, and finding new ways to collaborate with colleagues who are out of eyeshot.

The more people get used to this, the less remote will seem to be the next obvious step: working this way from outside the confines of the institution's physical walls. Is it a question of "if", or "when"?

It's not "if"...

The 2014 report "*The Future of the Financial Workplace*", commissioned by DTZ and researched by Unwork.com suggested that there were five pain points that affect property in the financial sector. These are, in decreasing order of priority: regulation, cost pressure, technology, geography and talent. Of these, the only point that tends towards "if" rather than "when" is regulation, which in this context covers matters of compliance, political sensitivities, information security and segregation.

It's "when"

The remaining four pressures that tend towards "when". If co-working services providers can make their offering more cost efficient, the second obstacle will be removed. Technology is an enabler, and indeed those firms that are now trialing the co-working option have already embraced agile working practices to some extent. With regard to geography, the trend is to move operations to where there is greater cost efficiency.

Laggards no more

A business thinker, Rogers (2003), talked about the technology adoption cycle, where innovators and early adopters are followed by pragmatists (early majority) and then conservatives (late majority). Lastly there were the laggards. Financial services organizations were once firmly in the latter camp when it came to technology adoption.

Some financial services firms (e.g: HSBC, Deutsche Bank, Goldman Sachs) are now firmly in the vanguard of exploring co-working for corporates. Between the first and second draft of this paper over the period August-September 2016 we saw significant momentum in the way financial services firms were exploring co-working spaces. In the next 5+ years we will see more and more corporates avail themselves of co-working spaces to reduce their footprint.

"When" is now.

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BANKING, FINANCIAL SERVICES AND INSURANCE COMPANIES RIDE APAC OFFSHORING WAVE

KEY TAKEAWAYS

ASIAN DOMINANCE IN GLOBAL INFORMATION TECHNOLOGY-BUSINESS PROCESS OUTSOURCING (IT-BPO) **WITH A 75% SHARE**, **INDIA LEADS WITH 56%**

LARGEST WORKFORCE – **FIVE MILLION EMPLOYEES IN INDIA AND PHILIPPINES COMBINED**, WITH TOTAL REVENUE EXCEEDING US$ 130 BILLION

POTENTIAL EMPLOYMENT OF TWO MILLION OVER THE NEXT FIVE YEARS, OFFICE DEMAND EXCEEDING 100 MSF

FINANCIAL SECTOR OUTSOURCING GAINING PROMINENCE, LEASING VOLUME HAS DOUBLED IN THREE YEARS

MALAYSIA, INDONESIA AND VIETNAM ARE EMERGING AS ATTRACTIVE NEW DESTINATIONS FOR OUTSOURCING

Emergence of Asian offshoring hubs: India leads the way

Over the past decade, major players in the Banking, Financial Services & Insurance (BFSI) sector have increasingly moved their operations to offshore locations in Asia, led by India and the Philippines, which offer compelling advantages in terms of operational efficiencies and cost savings.

Asia continues to be the world's preeminent offshoring destination, with Asian economies taking 6 of the 10 spots in A.T. Kearney's Global Services Location Index (2016). India leads the way, accounting for more than half (56%) of the world's share of the global Information Technology – Business Process Outsourcing[1] (IT-BPO) industry in 2015, followed by China, Malaysia, Indonesia, Thailand and the Philippines on the top 10 list.

India's competitive edge

From its debut at the bottom of the value chain in the late 1970s, to its current preeminence in offering cutting-edge software solutions to Western markets at a competitive cost, the Indian Information Technology-Business Process Management (IT-BPM) industry has had a long and fruitful journey, with many multinational companies (MNCs) shifting their operations to India or expanding their footprint across the country. Opportunities for significant cost savings, availability of skilled and sufficient English-speaking manpower at cheaper rates, and competent upper-level management coupled with other benefits, have supported India's stronghold as the premier outsourcing destination in the world. Over 16,000 Indian companies ranging from large firms to start-ups have created a global presence in terms of onshore, offshore, and near-shore operations

[1] India and the Philippines refer to the BPO industry as Business Process Management (BPM) services to denote their greater competence in diversifying and working closely with clients to understand the intricacies, as well as to innovate and increase the efficiency of processes, thereby creating a strategic partnership.

for their customers, with more than 75% of Fortune 500 enterprises being customers of India-based IT-BPM companies.

India is estimated to have witnessed 10.3% annual growth in IT-BPM exports, with the United States of America (USA) and the United Kingdom (UK) being the leading markets, with a combined share of nearly 80% in Fiscal Year (FY) 2016[2].

In the years to come, automation, artificial intelligence (AI), and cloud computing are set to play ever-increasing roles, making a large number of entry-level and low-skilled jobs redundant. While these jobs, due to their inherent cost advantage, have established India as a dominant offshoring destination, it is expected that approximately 640,000 low-skilled jobs[3] may be lost to automation in the next 5 years.

The pace of hiring in the IT sector will also likely taper, with 13% fewer jobs in FY 2016 compared to the last year[4]. However, to stay relevant in the future, India is moving up the value chain by offering offshore services that are of specialized and critical nature. Such specialized services across core sectors will be key in differentiating the Indian market vis-à-vis others.

Banks get on board as offshoring in India evolves

Companies in BFSI are among the core users of offshore services in India. Like other industries, their needs have dramatically evolved over time. Offshoring by the BFSI sector began with data entry and voice-based customer care jobs, but since the 2000s, has shifted to more sophisticated core services. This follows a pattern where over the last three decades, India's IT-BPM sector has advanced from software testing to analytics, and knowledge process offshoring (KPO) functions, to serving core requirements of clients such as global banks.

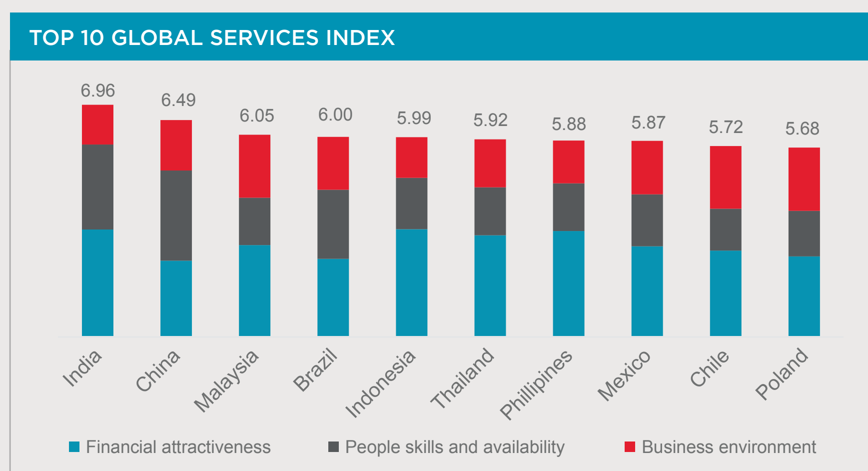
Currently, with global growth seen to be slowing, banks are looking to cut costs further while improving their business agility as they face lower returns, negative policy rates, and bad assets. Hence, global banks are making the transition from offshoring support functions to conducting specialized core functions like risk and fraud management, portfolio analysis, and financial modelling at their offshore centers in Asia. In the last few years, these facilities, termed 'Global-in-house centers (GICs),' have become critical to most banks' international operations.

Global banks harness Indian talent

Key global BFSI occupiers in India consist of the likes of Bank of America, Barclays, Citibank, Credit Suisse, Goldman Sachs, HSBC, JP Morgan Chase, MasterCard, Standard Chartered, and Wells Fargo, amongst many others. While these banks and other BFSI companies are ramping up their operations in the country, more are expected to enter as the government has relaxed foreign ownership controls in insurance companies and the central bank (Reserve Bank of India) is set to issue more licenses for new banks.

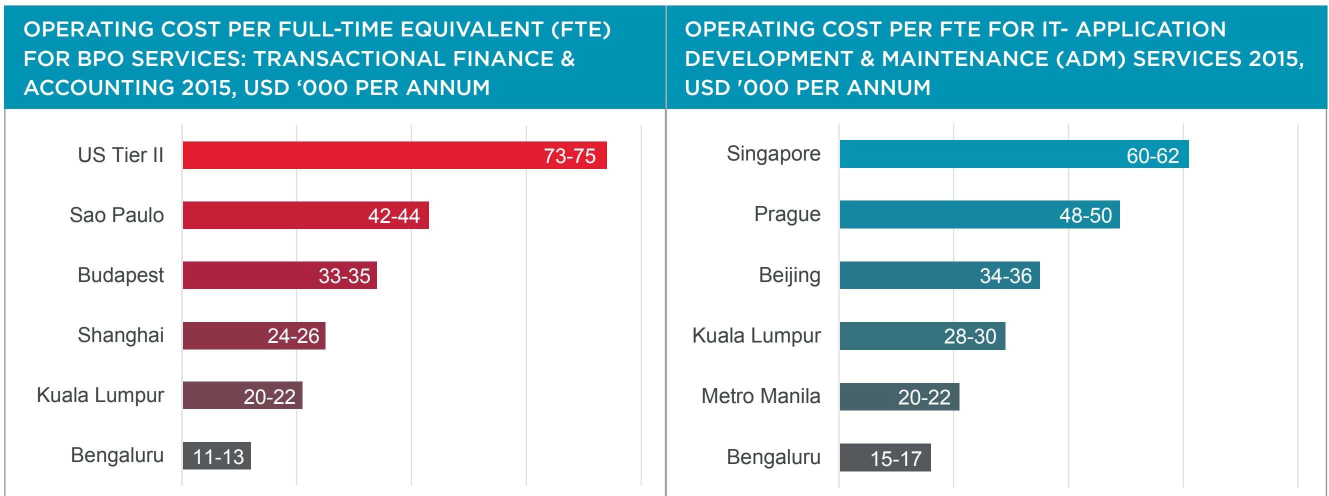
Consequently, the BFSI sector's leasing, excluding those operations that fall under IT services, accounted for 11% of total leasing in 2015, up from a 6% share in 2012. JP Morgan Chase, for instance, conducts transaction support, financial information processing like institutional securities, risk analysis, and other fairly advanced derivative transaction support work in India.

In 2015, the US-based financial company leased approximately 370,000 sf of office space in prominent locations in Bengaluru. JP Morgan Chase has been operating Global Service Centers (GSCs) in India since 2002 to support the firm's businesses around the world. The India



Source: A.T. Kearney, Global Services Location Index, 2016

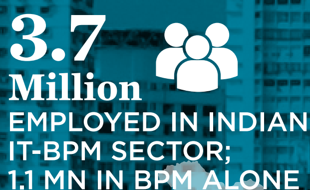
[2] National Association of Software and Services Companies (NASSCOM)
[3] HfS Research
[4] NASSCOM

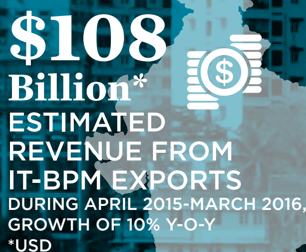


Source: National Association of Software and Services Companies, India

GSCs consists of several facilities in Mumbai, Bengaluru, and Hyderabad providing technology, operations, finance, and other support functions.

Another large occupier in India is Melbourne-based ANZ Group, which employs more than 7,000 people in its Bengaluru center offering technology, operations and shared services to its global customers. The company leased 390,000 sf of space in 2014 in Bengaluru's Outer Ring Road submarket. Such global centers for technology or core banking-related functions of foreign banks are typically present in cities like Mumbai, Bengaluru, Pune, and Gurgaon/Noida, which have an abundance of talent, as well as Indian head offices of some banks.
For back-end and technology-related services, Bengaluru, Hyderabad and Pune continue to remain attractive to companies for both captive centers, as well as third-party vendors.





Despite prolonged weakness in the global economic environment, the Indian IT-BPM industry is growing on the back of its strong domestic market and new emerging centers for IT-BPM businesses. Commercial office real estate has been witnessing increased leasing activity by BFSI companies in cities, such as Bengaluru (1.53 msf in 2015), Mumbai, Pune and Hyderabad.

BFSI companies have set up large-scale GICs in these cities to perform transaction processing, reconciliation, financial intermediation, and other back-office settlement functions. Boosted by an improved economic outlook and regulatory environment in India, the world's fastest-growing large economy, we have identified a number of emerging locations that will likely gain traction in offshoring of functions by global BFSI firms. Overall, India has the potential to generate nearly 700,000-900,000 jobs over the next five years in the BFSI sector. This could translate to incremental office space requirements surpassing 80.0 msf across the country in core banking and insurance sectors.

Emerging destinations in India

A number of tier-II and tier-III Indian cities are well-placed to capitalize on the next wave of offshoring activity from global companies including the BFSI sector, evolving from mere outsourcing centers to hubs of sophisticated core services. The cities of Bhubaneswar, Coimbatore, Jaipur, Kochi, and Indore are likely to offer strong competition, due to their high number of quality colleges and universities, lower real estate costs, good connectivity by air, road and rail, and social infrastructure in the form of medical centers, schools, and malls.

Rise of the Philippines as a prominent offshoring market

The Philippine BPM industry began in the 1990s with the entry of Accenture, Sykes Asia, and eTelecare. The government recognized the growth potential of the industry and thus allowed IT enterprises, parks and buildings to avail of incentives under the Special Economic Zone Act. This helped drive the significant growth of the industry in the 2000s, during which firms like PeopleSupport, Convergys, and ePLDT Ventus, among others, set up shop and lent credibility to the viability of the Philippines as a key outsourcing market in APAC.

As of end 2015, the IT and Business Process Association of the Philippines (IBPAP) estimated the total Philippine BPM industry revenue at USD 25 billion, and the number of full-time employees at 1.3 million. As part of its future plans for growth, IBPAP is targeting to create an additional one million jobs and increase the share of non-voice professional services in the industry by 2022.

BPM employers cite the competitive labor pool, neutral English accent, and cultural alignment with the Western world, particularly North America, as factors for establishing operations in the Philippines. However, scalability of talent remains an issue. Only an estimated 66,005 college graduates in 2015 have degrees related to engineering and technology.

To ensure that the potential young talent pool of the Philippines remains relevant in light of the evolving demands of the global workforce including that of the IT-BPM industry, the government reformed the primary and secondary schooling system to reflect North American standards. Also, continued partnerships between BPM firms and Information and Communications Technology (ICT) councils and educational institutions are giving IT-BPM players the opportunity to train potential personnel for specific industry needs. These initiatives should help enhance the competitiveness of the Philippines by producing more high-quality graduates for BPM firms.

[5] The Associated Chambers of Commerce and Industry of India

INDIA VS PHILIPPINES

POPULATION

1.2 BILLION — India

100.98 MILLION — Philippines

DEMOGRAPHIC

50% of India's population is under the age of **25**

51% of Philippines' population is under the age of **25**

REAL ESTATE OPPORTUNITY

in million sf

UPCOMING

Office Supply* — India

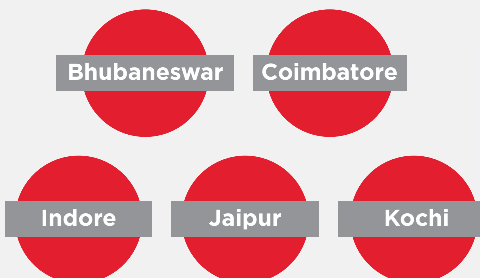
- **Bengaluru** 20 msf
- **Mumbai** 21 msf
- **Pune** 20 msf
- **Hyderabad** 15 msf
- **Delhi NCR** 18 msf
- **Chennai** 5 msf

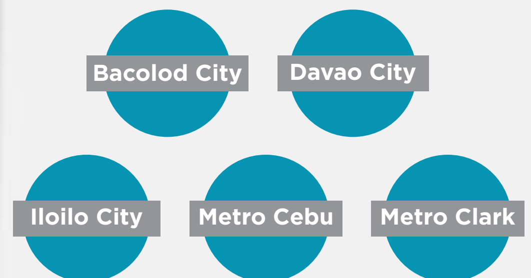
UPCOMING

Office Supply* — Philippines

- **Makati City** 5.3 msf
- **Taguig City** 12.1 msf
- **Pasig City** 4.5 msf
- **Mandaluyong City** 1.0 msf
- **Quezon City** 7.1 msf
- **Muntinlupa City** 2.8 msf
- **Parañaque City** 0.3 msf
- **Pasay City** 2.8 msf

EMERGING CITIES





*Grade A office upcoming supply
Source: Cushman & Wakefield Research

The Philippines as a key offshoring destination for BFSI operations

Over the last decade, the Philippines has made significant strides in terms of infrastructure, business environment, and tax and regulatory measures, and is gradually moving up the value chain to broaden the gamut of functions it offers in BPM and IT.

We have observed the increasing share of KPO services in the country which encompasses accounting, animation, insurance, legal services, engineering, architecture, game development, and software development, among others. It is interesting to note that banking and financial services constituted nearly 41% of the IT-BPM services portfolio followed by retail, telecom, and healthcare in 2015[6].

Global banks such as JP Morgan Chase, DKS, HSBC, and Citibank have established offshoring operations in the Philippines. Altogether these firms have a consolidated footprint of approximately 1.8 msf spread between Makati CBD and BGC, and are expected to continue growing their presence in the country.

Citibank will be in BGC to take on more outsourced work from the bank's other regional and global locations. ING Bank, the Dutch-based lender, has also stated that it seeks to increase its headcount in the country from 250 to 500 employees by the end of 2016.

The BFSI sector's outlook on the Philippines continues to be bright, especially with the liberalization of the country's banking sector in 2014, allowing foreign banks to fully own domestic ones. According to the Bangko Sentral ng Pilipinas (BSP), five foreign banks are reportedly interested in establishing their presence in the country while seven banks have already secured permissions to open a branch or acquire a local bank: South Korea's Shinhan Bank, Woori Bank, and Industrial Bank of Korea; Taiwan's Yuanta Commercial Bank and Cathay United Bank; Japan's Sumitomo Mitsui Banking Corp.; and Singapore-based United Overseas Bank.

Emerging Destinations in the Philippines

Metro Cebu[7] is considered a strong alternative or secondary expansion site for BPM operations outside Metro Manila. In fact, a recent report by Tholons ranks Cebu as the 7th-best outsourcing destination in the world.

While Cebu is anchored by IT-BPM firms, it has also shown potential as a hub for banking operations. Global banks such as JP Morgan Chase and Co. and Standard Chartered already have a presence in the area while Manulife Business Processing Services is opening a site in Lapu-Lapu City that will handle higher-value functions such as actuarial and underwriting operations.

The presence of comparable facilities and good quality of labor (the province of Cebu is considered to be the educational hub of Central and Visayas) that can compete with Metro Manila provides a solid incentive for firms to relocate to the region.

Aside from Metro Cebu, the latest Next Wave Cities (NWC) report identified Baguio City, Cagayan De Oro City, Dagupan City, Dasmarinas City, Dumaguete City, Lipa City, Malolos City, Naga City, Sta. Rosa City, Laguna, and Taytay, Rizal as the next IT-BPM hubs of the country.

PHILIPPINE BPM INDUSTRY REVENUE

$25 Billion*

*USD

1.3 Million

NUMBER OF FULL-TIME EMPLOYEES

Other offshoring destinations in Asia

China occupies second place in the Global Services Location Index (GSLI) Rankings based on its significant labor cost advantage, advanced IT functions, and high-end analytics. However, language constraints make it difficult for the country to scale up into the global BPM services sector. While China is making progress in improving governance and liberalizing financial markets, the US-China Business Council's 2014 China Business Environment Survey found that nearly half of the companies expressed reluctance to invest in research and development (R&D) in China because of weak enforcement of intellectual property (IP) rights. The A.T. Kearney study also indicated that China is more likely to become significant in the BPM market as a customer than as a provider.

Furthermore, Malaysia, Indonesia, and Vietnam are gradually establishing themselves in the global outsourcing landscape, with Kuala Lumpur (Malaysia) and Ho Chi Minh City and Hanoi (Vietnam) being ranked amongst the top 25 outsourcing destinations[8] in the world. In addition to Kuala Lumpur, where India's Tech Mahindra is launching a center of excellence for Google Technologies, Malaysia is developing Penang as a major offshoring hub, where a new IT-BPM park is being built to house as many as 21,000 new jobs by 2020.

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[6] IT and Business Process Association of the Philippines
[7] Cebu City, Lapu-Lapu City, and Mandaue City
[8] Tholons 2016 Top 100 Outsourcing Destinations

Outlook

At a time of slowing global growth in the banking and financial services sector, offshore units may gain greater prominence. While the Philippines has emerged as a strong competitor to India over the last few years in the "voice" business, India will likely reap benefits from offering specialized services, as well as from strong domestic demand. Given India's large population base and commercial office stock, the potential for businesses to scale up in the country in response to growing global demand is likely to be higher.

Overall, India's cost differentials and ability to boost the ease of doing business[9] and reduce infrastructure bottlenecks will dictate the growth of its offshore centers. On the other hand, the growth of the Philippines and its ability to move up the value chain to offer specialized services of higher value and critical to the core operations of clients, will boost the country's IT-BPM market. Going forward, it will be imperative for companies offshoring in both countries to also place more emphasis on the customer experience and make analytics an integral part of their model.

[9] A high ranking for ease of doing business means the regulatory environment is more conducive to the establishment and operation of local firms. In the World Bank's Doing Business 2016 report, India moved up 12 places to rank 130

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