AEW Asia Research Perspective
Q2 2015

GENERAL ECONOMIC OVERVIEW

Globally the economy is expanding at a moderate pace and key commodity prices are much lower than they were at the beginning of the year. Growth expectations for 2016 and 2017 were broadly unchanged over the quarter while near-term global growth is expected to be slightly lower than initially anticipated. The Asian Development Bank is projecting growth of 2.8% in 2015 increasing to about 3.2% per annum over the following two years. Looking forward, global activity should be supported by continued low commodity prices and generally still-benign financing conditions, notwithstanding the expected modest tightening in U.S. monetary policy.

In the second half of 2015, it is likely that we will see a divergence in central bank policy in the major economies. In the U.S. it is widely expected the Federal Reserve will raise the Federal Funds Rate before the end of the year, perhaps as early as their September meeting. This is an important event for global capital markets as it will mark the Federal Reserve's first rate increase since 2006, and the first increase since the policy rate hit zero at the end of 2008. Meanwhile, we anticipate that other central banks, such as the Bank of Japan and European Central Bank, will continue their highly accommodative monetary policies until at least the end of the year. In line with this central banks in the Fund's target markets are also easing. Most notably the Bank of Korea reduced its policy rate to 1.5%, a record low, while the Peoples Bank of China (PBOC) is loosening its policy stance with lower benchmark interest rates and lower reserve requirement ratios. The PBOC is also conducting ongoing open market operations where it injects money directly into the market through repurchase agreements, effectively increasing the monetary base.

China's stock market caught international attention in June and July of this year, when after rising to a seven-year peak in June, the Shanghai Composite Index corrected some 27% at the time of writing (August 18th). While the fall from its peak is significant (32% from the peak on June 12th to a trough on July 8th) the index continues to be higher over several time periods and is up 67% year-on-year and up 16% year-to-date. Volatility spiked during this period as investors looked to remove perceived risk from their portfolios, but over recent weeks markets have stabilized. It is AEW Research's view that there is low systemic risk to the wider capital

AEW ASIA

markets as Chinese banks are well-capitalized. To date, the direct real estate markets, particularly the commercial markets, have not been affected by recent Chinese equity market developments and we have not seen an impact on pricing or leasing conditions in Shanghai as a result.

Despite the ups and downs in the equity markets, China's second-quarter growth was officially reported as a stronger than expected at 7.0% year-over-year, the same pace of expansion as the first quarter. Some of the strength may be linked to the stock market rally and could be temporary. However, there are signs that growth in the second half of the year could hold up well, which include a rise in credit growth as changes in the monetary base take hold; stronger fiscal spending during the next six months; and a smaller drag on growth from exports as economic growth in China's main trading partners starts to pick up.

To date, the direct real estate markets, particularly the commercial markets, have not been affected by recent Chinese equity market developments and we have not seen an impact on pricing or leasing conditions in Shanghai as a result.

Forecasted average annual growth over the next few years in the Fund's target market economies is expected to be below historical averages, but close to potential capacity and at a premium to key trading partners in Europe, Japan and the U.S. The target market economies ex-China are forecast to grow at 3.5% to 4.0% per annum while Chinese growth is expected to range from 6% to 7% per annum. Moreover, as mentioned earlier, financing conditions are favorable supporting both investment and consumer spending over the near-term. The consumer sector is enjoying a low inflation environment and robust labor market conditions, both of which are expected to remain in place as we enter 2016.

REAL ESTATE REVIEW

Across the region property market fundamentals are strengthening. Net operating income (NOI) growth has been robust with occupancy and rents stable or increasing in more markets than not[1]. Total regional office demand was 13% higher in the first half of the year when compared to the same period a year ago. Two thirds of the absorption occurred in Q2, reflecting strong pre-commitments for new supply in Shanghai and Hong Kong among other cities[2]. Leasing demand is generally coming from tech firms, especially e-commerce related groups, who are expanding and relocating, as well as domestic financial institutions.

Retail leasing momentum in Asia Pacific was stable over the quarter. Overall leasing demand this quarter was led by F&B retailers, with coffee shops, cafes, fast food and confectionary chains all active. Fast fashion or value fashion retailers, such as SPAO and MIXXO, opened new stores in China and South Korean and expanded into Taiwan. Additionally Canadian yoga-wear retailer Lululemon opened its first store in Hong Kong during the quarter. Together with Under Armour, which is also continuing to expand, the fashionable active wear, or "athleisure" category is an emerging occupier source. Similar to the office sector, prime shopping centre rents rose in more markets than they fell over the quarter. While the increase in spending by mainland Chinese tourists is a positive for many prime markets, the increased exposure to this demand source increases revenue volatility as tourism is highly cyclical with periodic temporary swings in demand.

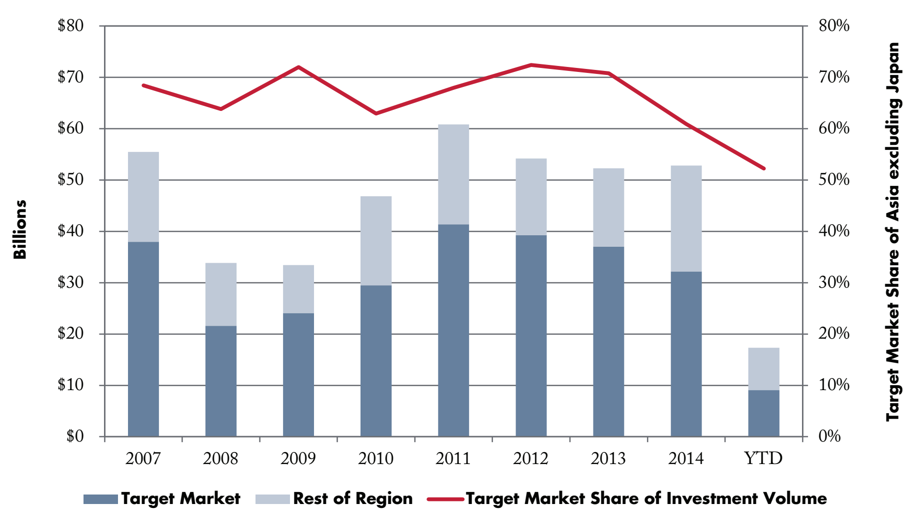
[1]CBRE Marketview, Asia Pacific Office, Q2 2015
[2]CBRE

Neighborhood retail spending is typically more steady, providing greater income stability and more predictable incremental rent gains.

Transaction activity in the regional real estate markets was active over the quarter with strong investor appetite. Financing conditions remain very supportive with ample lending liquidity from local commercial banks for income-producing assets. Lending loan-to-value ratios continue to be conservative indicating sustained underwriting discipline from the banking sector. Uncertainties stemming from the issues in Greece; slightly higher oil prices and the expectation of inflation; and a stronger US Dollar caused local-currency sovereign 10-year bonds to rise at the end of the second quarter. Despite this increase in most of the Fund's target markets, government bond yields are lower than they were at the beginning of the year.

Investment demand for commercial property strengthened over the quarter as investors focused on securing high-quality assets in gateway cities of mature markets at yields that are attractive relative to cash interest rates and bonds. Cross-border investment sentiment remained firm, with Singaporeans being the biggest intra-regional investors. As has been the case for some time now, deal flow is being restrained by the lack of stock for sale and sellers' unwillingness to reduce asking prices. That said, many closed-end, unlisted funds are nearing the end of their life and are putting assets on the market. Overall transaction volume is expected to steadily grow in the second half of the year and most predictions are for full-year volumes to match or exceed 2014. Recently released research on global capital raising activity by the Asian Association for Investors in Non-listed Real Estate Vehicles (ANREV) and its partner organizations indicated that 12.6% more equity was raised in 2014 than in 2013 and approximately USD23 billion was committed to vehicles with an Asia Pacific strategy. Together with direct capital investors such as pension or insurance groups and sovereign wealth funds, there is an increasing amount of capital chasing a limited set of available for-sale assets.

Transaction Volume in Target Markets



Sources: Real Capital Analytics

Noteworthy transactions during the quarter included the Abu Dhabi Investment Authority (ADIA) completing its first ever real estate acquisition in Hong Kong by purchasing a 50% stake in a three-asset hotel portfolio from Hong Kong-listed New World Development for USD2.4 billion (USD1.4 million per room). The same organization formed a JV partnership with Lend Lease and secured a mixed-use, suburban land development site in Singapore for USD1.2 billion (USD2,900 per square foot of potential GFA). Gaw Capital announced its intention to buy the Intercontinental Hong Kong hotel on behalf of a separate account client for USD938 million (USD1.8 million). In July, the Link Real Estate Investment Trust (Link REIT) agreed to buy Corporate Avenue 1 & 2 in Shanghai, a CBD office and retail development, for USD1.1 billion (USD1,200 per square foot). There were also several significant transactions in Seoul including Deutsche Asset and Wealth Management's acquisition of Tower 8, a recently completed grade A office building, for USD300 million (USD575 per square foot). AEW Research understands the purchase was funded through a combination of Deutsche managed separate account, institutional and retail capital. The Canadian Pension Plan Investment Board (CPPIB) and Government of Singapore Investment Corporation (GIC) formed a 50/50 joint partnership to buy the D-Cube retail mall in Seoul for USD263 million (USD463 per square foot) with the property to be rebranded as a Hyundai Department store.

Yields were generally unchanged over the quarter and the bid-ask spread between purchasers and sellers remains wide in most markets.

Yields were generally unchanged over the quarter and the bid-ask spread between purchasers and sellers remains wide in most markets. Sellers are asking purchasers to overlook any short-term local market challenges as long-term conditions are typically favorable. There is competition among various types of buyers for a limited set of assets including private high-net worth investors, institutional third-party managers, listed groups, and sovereign wealth funds for a limited set of assets, however AEW Research notes pricing in most markets remains fairly disciplined. In many markets, near-term lease rollover or short Weighted Average Lease Expiry's (WALE) are becoming valuable (or more valuable) than stable occupancy and this is reflected in property pricing.

HONG KONG

Key Real Estate Indicators

	Vacancy Rate		Rents	Absorption	Completions	Cap Rates
Office (Central)	1.7%	↓	↑	↑	↓	↔
Retail (Shopping Centre's)	1.8%	↓	↔	↓	↓	↔
Residential	3.8%*	↓	↑	↓*	↓*	↔

**As at December 2014, the latest period reported*
Source: JLL, Hong Kong Rating and Valuation Department
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2015 trend compared with the 12 months through to end Q2 2014. For vacancy rates, a down arrow indicates declining vacancy rates or an improvement in market fundamentals. For cap rates, a down arrow indicates lower cap rates.

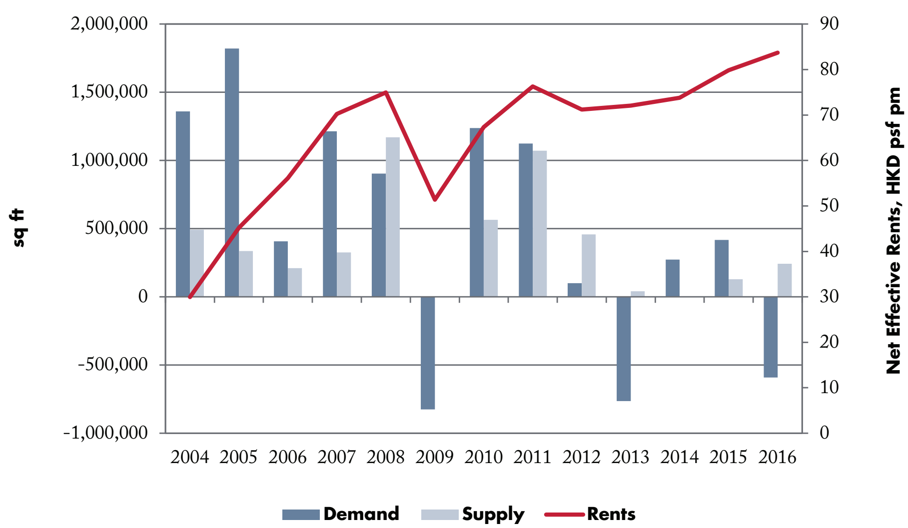
Hong Kong's financial ties with China have been enhanced by the introduction of the offshore Renminbi market, the opening of the Hong Kong-Shanghai Stock Connect and the expected launch of the Hong Kong-Shenzhen Stock Connect either late in 2015 or in early 2016. The offshore Renminbi and Stock Connect mutual markets represent new and innovative capital market developments that will further enhance Hong Kong's position as a major regional financial center. By 2020 the potential size of China's offshore capital market in Hong Kong is larger than Hong Kong's capital market today[3], suggesting significant support for a wide range of professional services; and employment growth over the medium- to long-term, both of which are positives for the property market.

The latest full-year forecasts for GDP are anticipating economic growth of about 2.3% for 2015, rising to 3.0% per annum on average from 2016 to 2018. Domestic demand is expected to be a large positive contributor with growth of 2.8% this year, similar to 2014, and rising to 3.7% in 2016 and 2017. Private consumption growth, which has been stronger than GDP growth since the Global Financial Crisis (GFC) and which we believe will continue to be stronger, accounts for a large part of the increase in domestic demand growth, with growth forecasted to be 3.4% in 2016 and 3.6% in 2017.

One in four hiring managers in Hong Kong are looking to add headcount over the second half of 2015; the employment outlook is strongest in the key office occupying sectors

Robust domestic demand growth will be supported by strong local fundamentals. In the short-term the labor market is buoyant with employment trending higher and unemployment very low at 3.2%. One in four hiring managers are looking to add headcount over the second half of 2015; the employment outlook is strongest in the key office occupying sectors such as Professional Service (+36% net employment outlook) and Banking and Financial Services (+29%) sectors. On top of a robust labor market, domestic demand is being supported by wage growth (about 4% per annum over the next three years), strong housing price gains (up 20% in the year to June 2015[4]), and a positive stock market (up around 5% year-to-date as of August 11th[5]). These factors coupled with low vacancy and improving market sentiment, have resulted in overall office rents increasing 3.8% quarter-over-quarter, the strongest pace of growth in 16 quarters. Mainland Chinese firms were a key source of demand during the quarter with Bloomberg, Blackrock and Thomson Reuters all backfilling space in Citibank Plaza, which had been vacant for some time.

Hong Kong Island Office Demand, Supply and Rental Outlook



Source: JLL, AEW Research

[3]Hong Kong New Directions in Office Property Q2 2015 Daiwa Capital Markets and CBRE Research
[4]Hong Kong Rating and Valuation Department
[5]Bloomberg

Over the first six months of the year, total retail sales in Hong Kong decreased by 1.6% compared with the first six months in 2014. The Jewelry, Watches, Clocks and Valuable Gifts category, which is a proxy for the sale of luxury goods, was a large reason for the decline, ending 10.4% lower in June 2015 as compared with June 2014. On a year-over-year basis, the luxury-goods category has contracted for 16 of the past 17 months, with double digit declines in 11 of these months. Because of falling top-line sales several Hong Kong retailers have announced store closures to improve operating efficiency, including Chow Tai Fook, a large jewelry retailer that is closing four stores in Hong Kong. The pressure being felt in the high-end of the retail market is not being felt in the retail categories less affected by the slowdown in visitor arrivals and spending, such as Supermarket (+3% year-on-year), Consumer Durable Goods (+5%) and Food, Alcoholic Drinks and Tobacco sales (+8%). Moreover, Private Consumption Expenditure (PCE) growth, which has historically outpaced GDP growth, was up 3.5% year-over-year in the first quarter. Compared to declines in retail goods sales, this suggests comparative strength in the service sector.

Reflecting the difficult operating conditions in the high-end retail market, prime high-street rents have started to contract. Since peaking in September 2014 they are down 7%. Anecdotal reports suggest off-prime and now even prime high-street shop vacancy and vacancy periods are rising, as brands reduce their store footprint and as tenants that are renewing are requesting significant rental reductions, sometimes 20% or more. We believe we are in the middle of this cycle and it will continue to play out through the rest of 2015 and through most of 2016.

Since the purchase of the Fund's neighborhood retail asset, Andes Plaza, average retail sale prices and rents have risen. From June 2014 to June 2015, overall pricing is up 9% while rents are 6% higher[6]. This reflects the continued support for broad retail in Hong Kong, particularly for retail focused on the domestic market and local consumption. Furthermore as highlighted above, the sustained strength in PCE growth suggests serviced-based retailers, such as doctors, dentists, health and fitness together with spas and clinics, are seeing robust sales growth.

SINGAPORE

Key Real Estate Indicators

	Vacancy Rate		Rents	Absorption	Completions	Cap Rates
Office (CBD)	6.0%	↑	↓	↑	↑	↔
Retail (Shopping Centre)	2.8%	↑	↓	↓	↓	↔
Residential	7.9%	↑	↓	↓	↑	↔

Source: JLL, Singapore Urban Redevelopment Authority
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2015 trend compared with the 12 months through to end Q2 2014. For vacancy rates, a down arrow indicates declining vacancy rates or an improvement in market fundamentals. For cap rates, a down arrow indicates lower cap rates.

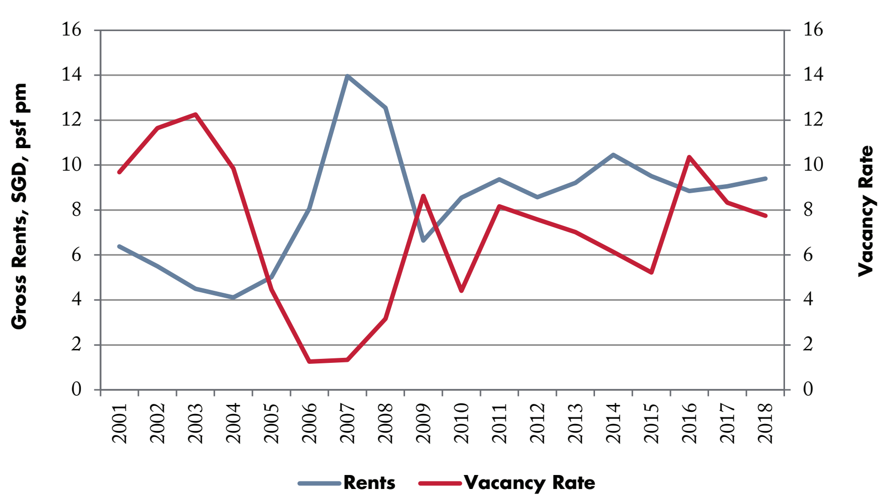
The Singapore Ministry of Trade and Industry (MTI) announced on August 11th that they were narrowing their full-year GDP growth forecast to 2% to 2.5% (from 2% to

[6]Hong Kong Rating and Valuation Department

4% previously) due to slower than expected global growth. The economy grew 1.8% year-over-year in the second quarter, less than the 2.8% year-over-year expansion in the previous quarter. The decline was partly due to a contraction in the manufacturing sector driven by a sharp decline in the lumpy and volatile biomedical manufacturing and transport engineering clusters. That said, the finance and insurance sector grew 7.1% year-on-year, largely underpinned by the fund management segment. Moreover, hiring expectations are positive with a net 13% of employers expecting to add headcount over the short-term, according to the most recent Manpower Employment Outlook Survey. Furthermore, the services sector reported the strongest hiring intentions at a net 24%. Economic growth is expected to pick-up in 2016 and 2017 to 3.5% and 3.7%, respectively. World trade is expected to improve and government infrastructure spending should contribute to GDP growth after being a drag in 2013 and 2014. The CPI Index contracted for the eighth straight month in June and this broad-based disinflationary price trend is likely to put pressure on the Monetary Authority of Singapore (MAS) to ease monetary policy following its next scheduled meeting in October. The MAS uses an exchange rate-centered monetary policy rather than setting a target policy interest rate. It is likely the MAS will re-center its exchange rate policy band at a lower level, which will help reduce some of the effects of a stronger USD domestically.

During the quarter it was surprising how quickly sentiment in the CBD office leasing market turned negative. Overall grade A vacancy was unchanged, but rents were down 4.7% quarter-on-quarter. While it was expected that the market would eventually react to the large amount of new CBD office supply that is scheduled to come online at the end of 2016, the downturn came much earlier than expected. As reported in earlier Research Perspectives, occupational demand had been fairly robust over recent quarters. Two recently completed buildings, CapitaGreen and South Beach Tower, have seen good take-up with occupancy rising to 80% and 85%, respectively this quarter. However, during the quarter several CBD occupiers signaled they would move out of the district to decentralized locations and several indicated that they would return space at the end of their lease. Google and Microsoft are expected to leave the CBD and anchor the decentralized Mapletree Business City Phase II, while Standard Chartered and BHP Billiton are two examples of high-profile occupiers looking to return premium Grade A space over the next few quarters.

Singapore CBD Office Rents and Vacancy Rate



Source: JLL, AEW Research

Decentralization, more available secondary space and the pending supply surge in 2016 have increased the perception that the sector is becoming more favorable for tenants. As a result some landlords have taken a defensive position, securing occupancy at the expense of higher asking rents. This was particularly evident in the highest quality premium office towers that will see the most direct competition from new supply. Rents in the Marina Bay submarket, which is dominated by premium buildings, were down 7.3% quarter-on-quarter. This compares to the Raffles Place and Shenton Way submarkets which have a higher proportion of lower grade buildings where rents were down 3.3% and 2.2%, respectively. Despite these declines, past rental gains indicate current market rents continue to offer strong positive rent revision, in the order of 10 to 15% as forecasts are for overall CBD rents to fall 10% to 15% from their March 2015 peak to the end of 2016. Past rent cycles suggest that once there is preleasing activity in the two main projects (Marina One and Guoco Tower), which are scheduled to be completed next year, confidence should return and rents should start to grow again.

Seasonally-adjusted retail sales were up 1.8% month-on-month in May 2015 and 0.9% year-on-year. Retail sales categories drawing from local, domestic consumption have been comparatively strong. In May (the most recent set of available statistics) medical goods & toiletries, department stores and supermarkets all increased on a year-on-year basis. For some time, demand for suburban shopping mall space has been very solid. Over the past three years, the suburban retail sector absorbed 80% more space than the central region, which includes Orchard Road and many fringe central locations. Demand from retailers for quality space in suburban malls where they can increase proximity to their customer base has driven rental growth as well. Rents in suburban malls have grown more than those in the Orchard Road district. Orchard Road is more reliant on the tourism sector and tourist arrivals are declining. Moreover, with the maturing nature of the suburban retail sector, fewer and fewer locals are willing to travel to Orchard Road, preferring a local mall with the same offerings that is closer to home.

Prices in Singapore's residential sector have been falling for some time now. Demand-side policy intervention, which has raised purchase and sales taxes, limited loan-to-value ratios, restricted loan tenure and limited outgoing debt obligations via a maximum Total Debt Servicing Ratio, have all contributed to lower transaction volume and lower prices. High-end secondary market prices have fallen 12% on average from their peak in June 2013 albeit declines have moderated in recent months. In contrast, primary sales from developers, who are experiencing pockets of stress, are reported to be 15% to 20% lower. Further declines in pricing are forecast for the balance of the year and into 2016. Market consensus is that there needs to be a reversal of demand-side restrictions before prices can bottom and start to recover, making this pricing cycle more political in nature rather than driven by property market fundamentals.

SEOUL

Key Real Estate Indicators

	Vacancy Rate		Rents	Absorption	Completions	Cap Rates
Office (overall)	11.5%	↔	↑	↓	↓	↓

Source: JLL, CBRE
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2015 trend compared with the 12 months through to end Q2 2014. For vacancy rates, a down arrow indicates declining vacancy rates or an improvement in market fundamentals. For cap rates, a down arrow indicates lower cap rates.

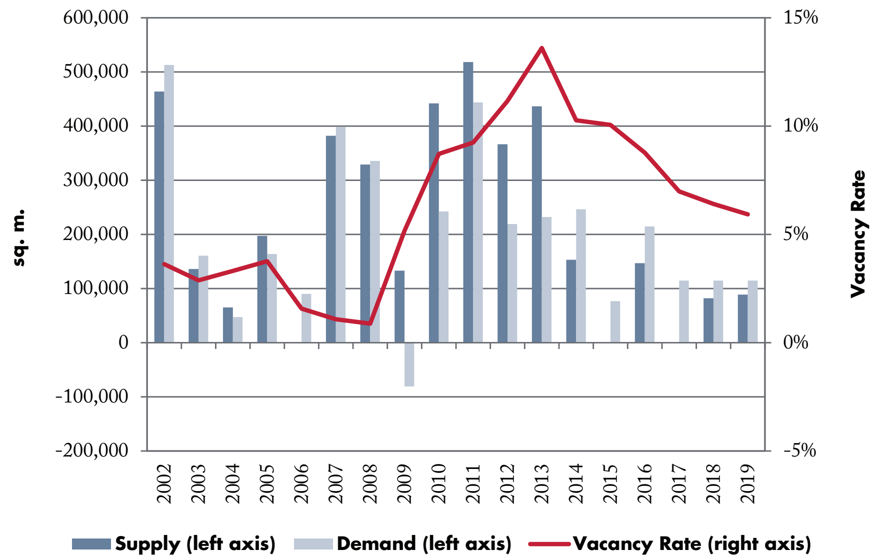
Korea's economy had a modest start to the year, but is expected to gain momentum over the next couple of quarters, supported by lower oil prices providing room for accommodative monetary and fiscal policy to take hold. Domestically, Korea is a major net energy importer and should benefit strongly from lower oil prices. Households are also expected to benefit from a boost to their spending power while companies enjoy lower input costs. Counter-cyclical fiscal policy will further support growth. Forecasts are for GDP growth of 3.7% in 2015 and 4.0% in 2016. In 2014 the government announced fiscal stimulus equivalent to about 0.5% of GDP. In March 2015 there was an announcement of further stimulus, front loaded, equivalent to about 0.2% of GDP. Low public debt provides room for further government spending if growth momentum is below target. The Bank of Korea (BoK) cut its policy rate four times and 100 basis points since August 2014. The most recent cut was in June which lowered the base rate to 1.5%. This record low interest rate should also help boost domestic demand and there remains further room for easing if required, but at this stage it is not expected. With the Middle East Respiratory Syndrome (MERS) outbreak effectively over, we expect to see further signs of recovery in domestic demand in the months ahead. The current housing market recovery is anticipated to improve consumer confidence and residential investment and we expect housing price gains to continue for some time.

Office demand was fairly moderate in the second quarter and there were no new completions. The overall vacancy rate was flat at 11.5%, but was slightly higher in the CBD due to the long expected departure of LG U+ (a South Korean telecommunications and mobile phone operator) from the district. This move caused vacancy in the Seoul Station precinct, which is on the western edge of the CBD, to rise to 21%. Several buildings saw their vacancy rates decline, helping to offset this loss of occupied space from the submarket. These include Center 1, Twin Tree, Olive Tower and KCCI while Signature Tower hit full occupancy. In the Yeouido district leasing momentum continued with IFC signing six new tenants. The occupancy rate at Two IFC rose to 94.5% and Three IFC saw a small tenant added after IBM, the anchor tenant, arrived in the first quarter. Market expectation is that Citibank will consolidate its operations in the city to Three IFC, likely moving by end-Q1 2016. Lastly, another recent addition to the Yeouido submarket, FKI Tower, saw its occupancy rate rise to 84% during the quarter. In Gangnam the vacancy rate declined over the quarter with Autoway Tower, the newest building in the district, signing several leases and ending the quarter with a vacancy rate of only 5.7%.

Many buildings with improving occupancy were able to raise their achievable rents during the quarter. Examples of this in the CBD were Centre 1, Ferrum Tower, and

The K-Twin Towers. In Yeouido, FKI Tower and Hana Daetoo Securities building were able to raise rents, while Gangnam Capital Tower and Korea World Trade Center were among several buildings that were also able to achieve higher rents. That said, buildings with higher vacancy that has lingered for some time were more likely to offer favorable lease terms during the quarter, typically with higher rent-free periods. This seems to be concentrated around Seoul Station, a district not favored by a number of tenants.

Seoul Office Demand, Supply and Vacancy Rate



Source: JLL, AEW Research

The largest commercial transaction during the quarter was the sale of Ferrum Tower to Samsung Life from Dongkuk Steel for approximately USD385 million. However the seller was experiencing financial problems and the deal was done off-market so pricing was generally considered to be at a discount to open market value. The balance of the transaction activity during the quarter was for smaller stock of less than GFA 20,000 square meters. In line with the weight of capital seeking placement in the market, yields firmed marginally during the quarter with current yields for grade A office buildings at around 4.77%. The investment market is expected to pick up over the third quarter as there are a number of deals currently in the market or scheduled for launch. Strong competition for assets is expected to push yields lower over the short-term and capital value growth for the full year is projected to be 4.3%.

SHANGHAI

Key Real Estate Indicators

	Vacancy Rate		Rents	Absorption	Completions	Cap Rates
Office (CBD)	3.9%	↓	↑	↑	↑	↔
Office (Puxi)	5.8%	↓	↑	↑	↑	↔
Office (Pudong)	1.6%	↓	↑	↓	↓	↔

Source: JLL
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2015 trend compared with the 12 months through to end Q2 2014. For vacancy rates, a down arrow indicates declining vacancy rates or an improvement in market fundamentals. For cap rates, a down arrow indicates lower cap rates.

In China, Q2 2015 GDP growth eased to 7% year-over-year, the same rate of growth in Q1 and in line with the official growth target for the full year of about 7%. Private consumption is fast evolving to be a large contributor to Chinese economic growth, with Q2 year-on-year growth of 7.4% compared to total fixed investment growth of just 6.3%. This trend is forecast to continue for the rest of 2015 and 2016 as consumption growth averages about 7% per annum and investment 4.6% per annum. Services growth has also been a net contributor to economic growth benefiting Shanghai, the financial center of China. According to China Daily, service sector growth in Shanghai accounted for 90% of the city's economic growth in the second quarter, rising some 10.2% year-on-year. This helped the city's economy to grow 7% year-on-year over the quarter, the same pace of growth as the country.

Monetary policy will likely become more accommodative over the medium-term to support current growth rates and prevent the risk of a further deceleration in output. The PBOC is lowering long- and short-term rates and injecting liquidity. Further rate cuts and liquidity enhancements, via lower bank reserve requirement ratios, are expected over the coming quarters. Most recently on August 11th the PBOC cut the daily reference rate for its fixed currency by 1.9% to 6.32 RMB per USD and changed the way the currency is quoted, effectively taking a step closer to currency liberalization and their long-term goal of capital account liberalization.

Demand from financial service companies for CBD office space remained strong in Q2 2015. During the quarter approximately 201,000 square meters were absorbed in the CBD, of which nearly 80% was in Puxi, making this quarter's take-up the highest on record for the submarket. In Puxi, many domestic companies and multi-national (MNC) professional service companies were in the market seeking to upgrade or expand their space. Domestic financial services companies have quickly taken up space in Puxi, absorbing some of the space in newly completed Grade A projects. Some MNC's in the manufacturing and pharmaceutical sectors relocated out of the CBD to decentralized locations, driven by cost savings. But not all MNCs are following this trend, MNCs in the retailing and logistic sectors were expanding their office space in Puxi buildings and domestic companies in the real estate sector were active, backfilling space that was vacated by MNC's relocating to decentralized locations.

There was very little supply completed in the second quarter with total CBD stock increasing only 1.6% over the quarter while occupied stock rose 4%, reducing the vacancy rate to 3.9% from 6.2% in the first quarter. This improvement was led by the Puxi CBD, where the vacancy rate fell to 5.8% from 8.5% a quarter earlier. Rents reflected this development and overall CBD rents rose 2.3% quarter-on-quarter. In Puxi rents rose 2% over the same period while in a Puxi submarket called Peoples Square, where the Fund's office asset is located, grade B/B+ rents rose 3% over the quarter.

TAIPEI

Key Real Estate Indicators

	Vacancy Rate		Rents	Absorption	Completions	Cap Rates
Office (overall)	7.7%	↓	↑	↑	↑	↔

Source: JLL
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2015 trend compared with the 12 months through to end Q2 2014. For vacancy rates, a down arrow indicates declining vacancy rates or an improvement in market fundamentals. For cap rates, a down arrow indicates lower cap rates.

Taiwan's economic growth slowed more sharply than initially expected with Q2 2015 growth just 0.62% year-on-year, the weakest rate since Q2 2012. The lower rate of growth is primarily due to a challenging external environment. Exports fell 9.8% in the second quarter from a year-ago reflecting a broad downturn in exports to regional economies and key trading partners, of which only demand from the U.S. was stable. Domestically things look better as seasonally-adjusted consumer spending has risen in each of the last nine quarters, supported by steady gains in employment, solid real wage growth and rising confidence, which has been aided by lower global oil prices. We expect these positive trends will continue as external conditions are likely to pick up over the second half of the year. Full-year GDP growth is forecast to be 2.5%, rising to 3.4% in 2016 and 3.5% in 2017. Consumer spending growth is projected to be 2.3% this year and to gain momentum in 2016 and 2017 with average projected growth of 3.3% per annum.

The average second-quarter take-up for the past five years has been around 13,200 square meters. Second quarter take-up this year was 31,000 square meters indicating strong leasing demand and lowering the overall vacancy rate 1.5 percentage points to 7.7%. In recent quarters office occupier demand has come from the traditional financial services, hi-tech and retail business categories, but recently on-line gaming companies have become a greater source of new demand. Xinyi continued to be the preferred location of corporate tenants and captured over 45% of total grade A leasing activity. The submarkets vacancy rate fell to under 7% during the quarter and rents were up 0.7% quarter-on-quarter which compares favorably to overall rental growth of 0.4% for the same period in 2014. New supply over the second half of the year is projected to be high, increasing total stock by 14% over the full year 2015. This increase in stock will raise the vacancy rate to almost 12% by the end of the year. Because it is typical for recently completed buildings to ask higher rents, and because occupiers are cost sensitive, tenants are expected to prefer to renew their current premises, resulting in high occupancy in existing buildings but high vacancy in newly completed towers. Considerable buying interest remains in the market, in particular from domestic insurance firms and funds. As a result capital values are likely to increase faster than rents and yields are projected to slowly firm over the medium-term. Current yields are 3%, providing a positive spread over financing costs which are indicatively 2.3%.

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