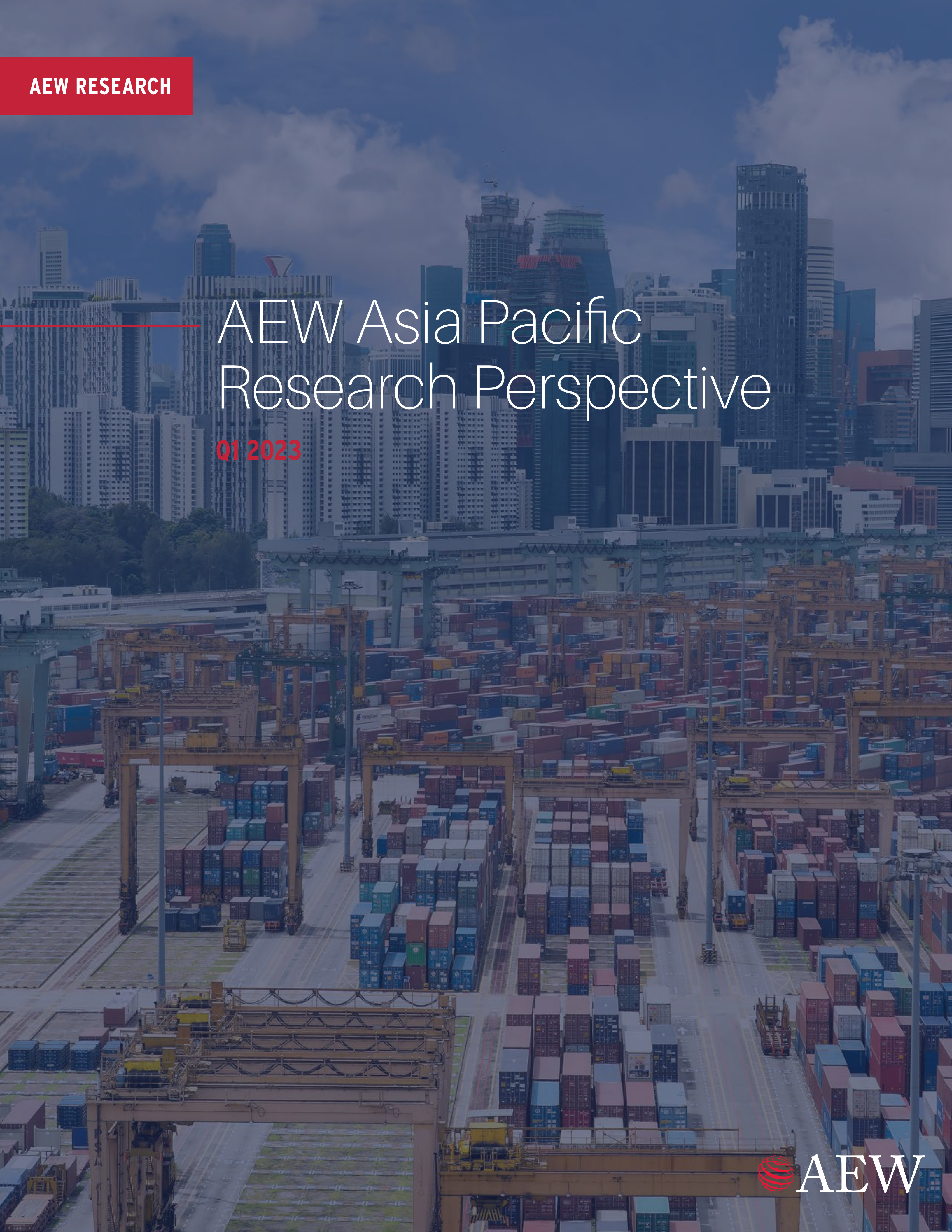
AEW RESEARCH

AEW Asia Pacific Research Perspective

Q1 2023



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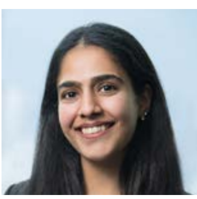

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Prepared by AEW Research, May 2023

Navigating Through the Cycle

ASIA PACIFIC GROWTH OUTPACES WESTERN COUNTERPARTS, LIKELY PAUSES IN POLICY RATE HIKING CYCLES

- The region's growth momentum for the year remains positive and stands as an outperformer compared to the U.S. and Europe, helping the outlook for Asia Pacific is China's 5.5% y-o-y growth in 2023.
- The regional bank volatility in U.S. is unlikely to have an adverse impact in Asia Pacific. Global spillovers could diminish credit quality, but so far, there has been no rating impact for Asia Pacific banks, and it is largely understood that liquidity levels for the top 60 banks in the region are adequate. However, as a levered asset class, refinancing risks remain a major concern for property owners, especially for sectors with impaired income. Banks are lowering LTV levels, which could trigger some valuation declines.
- Higher interest rates pose headwinds for investing, but there is a clearer picture today on central banks' direction. The Fed is still expected to deliver at least one more hike in June 2023, but for several major economies in Asia Pacific, pauses by Central Banks have already taken place or are imminent, and the period of steep increases in borrowing costs are largely behind us.

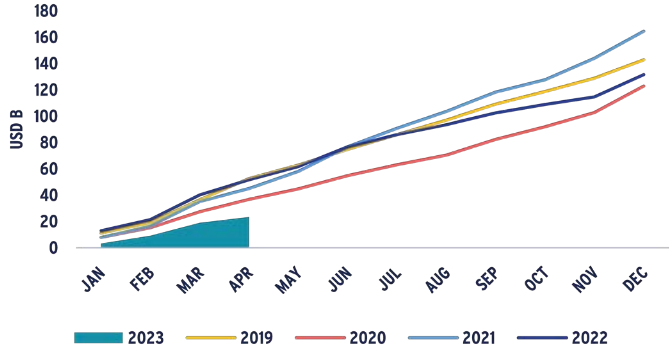
INVESTMENT ACTIVITY DECLINES FURTHER IN Q1 2023, PICK UP IN DEAL ACTIVITY IN H2 TO SUPPORT PRICE DISCOVERY

- Investment activity has dropped off substantially in the last six months as buyers and sellers digest the impact of interest rate increases. After just USD30.6 billion in transactions across our monitored markets in Q4 2022, volumes for Q1 2023 further declined to USD22.8bn, the lowest quarterly volume recorded since Q3 2012. For reference, volumes transacted over Q1 2023 were about 55% of what was registered for the same period last year (Q1 2022).
- Volumes declined y-o-y across all markets, except for Singapore which saw an uptick in industrial sales and several large retail deals conclude over the quarter. In China, although overall activity is still low, a gradual return in investor interest has been observed, but this is mainly by domestic buyers or RMB denominated funds.
- The slowdown in transactions (especially in the office sector) have limited the price discovery process for direct property markets. But with more clarity on interest rates alongside a growing pipeline of deals on the market, investment activity should regain momentum. Already in April and May, more activity in Australia's office market has been observed, which will offer more clarity on where prices will settle. No doubt this year will see assets trade at lower prices, but it also presents an attractive entry point.

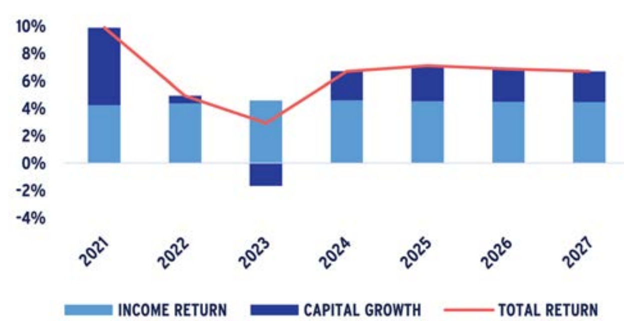
TOTAL RETURN OUTLOOK ADJUSTS DOWNWARD IN 2023, BUT WE BELIEVE THERE IS A BETTER OUTLOOK AHEAD

- Capital values are expected to decline in 2023, bringing down total returns for the year to just 3% across our monitored markets and sectors. We expect the bulk of negative revaluations to play out in 2023, led by the office sector. Positive income growth in logistics will partially offset valuation declines, while the multifamily sector in Japan is expected to have continued capital value growth underpinned by cap rate compression.
- The overall re-pricing this year is expected to be significant, but declines should be lower than previous cycles. Markets and assets perceived by investors to lack income growth in the near-term are likely to see a sharper yield adjustment.
- Beyond 2023, a solid recovery is expected. AEW Research sees a much better investment environment with total returns averaging 7% p.a. over 2024 to 2027 The most positive outlook for this period will be in logistics and offices.

ASIA PACIFIC INVESTMENT VOLUMES 2019 TO APRIL 2023



ASIA PACIFIC TOTAL RETURN 2021 TO 2027F



Source: AEW Research, JLL, PMA, Real Capital Analytics, as of end April 2023
Note: Investment volumes measure income producing investments across AEW's target markets

Slower Growth in 2023, Rate Hike Cycle Largely Over

GLOBAL GROWTH SLOWDOWN, ASIA PACIFIC 2023 OUTLOOK PULLED UP BY CHINA

- Global growth is expected to slow to 2.0% y-o-y in 2023, with the U.S. expected to expand by 0.9%, slightly above the 0.6% in the Eurozone for 2023. The Asia Pacific region by comparison appears favorable with a 3.8% y-o-y expansion in 2023.
- For our monitored markets, GDP growth is forecast to average 1.8% and 2.6% y-o-y in 2023 and 2024 respectively. Export-oriented economies - Singapore, South Korea and Japan have all had 2023 growth downgrades from the start of the year, while the reopening and consumption recovery drove upgrades in both China and Hong Kong. In Australia, migration-driven population growth is providing a slight buffer from external weaknesses.
- Activity data for China has surprised on the upside in the first quarter of 2023. Besides the rebound in retail sales and return-to-normal for mobility indicators, exports and PMI indices had a positive showing as well. However, the local housing market is mixed, with signs of recovery limited to Tier 1 cities. Domestic consumption is expected to drive further recovery in Q2, but weak external demand conditions pose a threat and could cause a drag on growth in H2.

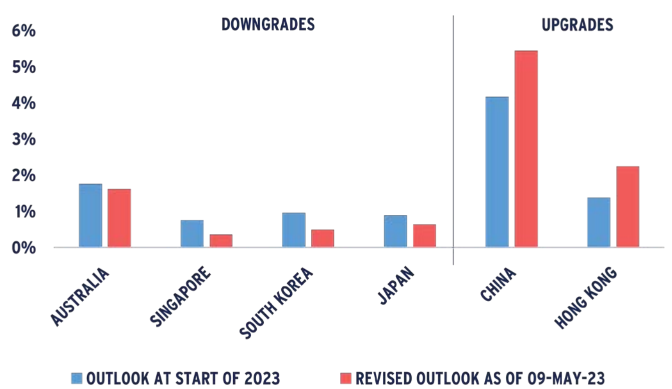
CONSUMER SENTIMENT SHIFTING LOWER IN 2023, LABOR MARKETS HOLD UP

- The downturn in the semiconductor cycle and trend of global demand shifting from goods to services has weighed on industrial production and trade activity across most developed markets in Q1.
- Retail sales (in real terms) have also seen moderation from previously robust growth trends, particularly in Singapore, Australia and South Korea. Greater China is an exception to this, with the reopening theme still providing positive tailwinds.
- Meanwhile, headline figures for labor markets (ex- China) are holding up. Surveys by Manpower Group also indicate an increase in hiring intentions for Q2 2023. Both Hong Kong and Australia are seeing the strongest hiring intentions globally for the communication services and the information technology sectors, respectively.
- In China the youth employment rate remains close to 20%. It is understood that it will take some time for the economic recovery to trickle down to the job market. The government remains committed to increasing employment assistance for university graduates.

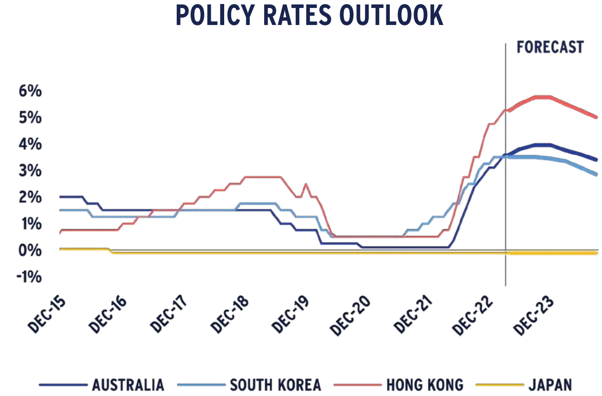
INFLATION MODERATES AND ALL EYES ON POTENTIAL RATE CUTS

- Easing price pressures in South Korea and Singapore have seen their central banks pause on its tightening cycle. In Australia, the Reserve Bank of Australia (RBA) surprised when it raised rates in May (after a previous pause in April), and risks are tilted to the upside for at least one more hike in H2. Attention is now shifting to possible rate cuts - AEW Research thinks that South Korea would likely be the first among these target markets to see this.
- Japan and China in contrast have maintained a looser stance to-date, but this is expected to gradually taper in Japan. The Bank of Japan's (BOJ) new Governor Ueda has increased flexibility in yield curve control (YCC) by removing rates forward guidance. It is still unclear how YCC will be adjusted, but expectations are that the first move could come by H2 2023. People's Bank of China (PBOC), meanwhile, remains committed to easy monetary policy and supporting growth for the year ahead.
- Factors including recession risks, US regional banking crisis and US debt ceiling issues have added to currency volatility against the USD in 2023. Year-to-date, the USDKRW (-4.8%) and USDJPY (-3.0%) have weakened the most.

ASIA PACIFIC MARKETS GDP GROWTH IN 2023



POLICY RATES OUTLOOK



Source: Oxford Economics, Bloomberg & AEW Research, as of 9 May 2023

We Believe the Best Occupier Conditions in Logistics and Multifamily are Getting Closer to Price Discovery

Office

OCCUPIER CONDITIONS TREND WEAKER, SEOUL OFFICE AN EXCEPTION

Net absorption for Q1 improved q-o-q to 1.7 million square feet, the highest level seen in the last three quarters across our monitored markets. For the quarter, a pick-up in demand was most noticeable in Hong Kong and select submarkets in China T1, while in Tokyo the take-up for the quarter was prompted by tenants leasing space in recently completed construction. We note, however, that quarterly take-up recorded for Q1 still remains sharply below pre-pandemic averages of 2.6 million square feet. Expansion activity continues to be offset by on-going space consolidation while large supply (concentrated in China T1 and Tokyo) contributed to rising vacancy levels. Seoul's office market is an exception and continues to exhibit the most landlord favorable conditions.

INVESTMENT VOLUMES FALL TO RECORD LOWS, BUT DEALS ON THE MARKET INDICATE PRICE DISCOVERY IS IMMINENT

Office transaction volumes year-to April 2023 was USD13.8 billion, about 44% below volumes recorded for the same period last year. Slow activity to-date has limited price discovery but deal initiations in April and May have increased. Pricing and discounts from these will be watched closely, to guide expectations for the rest of the year. AEW Research expects some distressed deals in Greater China and repricing led by Australia, followed by South Korea. Limited repricing is anticipated in Singapore while Japan should be stable.

Logistics

STRONG RENT REVERSIONS, SELECT SUBMARKETS STILL FAVORABLE IN SUPPLY-HEAVY MARKETS

Occupier conditions for the sector are most positive in Australia where in-place rents are reverting 40 to 50% higher. Elsewhere in Japan and Singapore, reversions are also positive ranging from 10 to 20%. Oversupply concerns are most visible in Japan and Greater Seoul, but new construction is concentrated in certain areas (i.e. Western submarket in Greater Seoul or outer-lying areas in Greater Tokyo and Osaka), and landlord favorable conditions are still expected in select submarkets.

WHILE SOME MARKETS WILL REPRICE, OTHERS REMAIN STABLE

Because of the higher financing costs and tight lending availability in South Korea, discounted assets should hit the market, especially by smaller developers. For Australia, the strong income growth in the sector is offsetting capital value declines, especially for short WALE assets that are benefiting from a pick-up in income growth. Meanwhile, more investor interest has shifted into Singapore, because of higher yields (typically 6 to 7%). For Singapore, the weight of capital is on pace to keep pricing elevated, with potential for cap rate compression.

Retail

ALTHOUGH CONSUMER SENTIMENT WANES IN SOME MARKETS, INVESTMENT ACTIVITY HOLDS

2023 started on a positive note for retail with China's reopening providing positive tailwinds, especially for tourism-related retail. CBRE reported that about 71% of retailers expected to expand their retail stores across the year. However, the reality of worsening macro conditions, reduced household savings and inflation is shifting consumer sentiment lower across several markets.

Investment activity for the sector has held up surprisingly well, especially in Australia, where cross border owners are expected to be net sellers this year. Few deals have exchanged year-to-date, indicating tight yields, especially for neighborhood centers, but there is still value in the regional and subregional space.

Multifamily/Build-to-Rent

STRONG MIGRATION AND IMMIGRATION SUPPORT DEMAND, STRONG CROSS-BORDER APPETITE

In Japan, migration patterns have already returned to pre-pandemic levels, which is supporting a return in multifamily demand in the major cities. Meanwhile in Australia, extremely strong overseas net migration and low vacancy rates in the rental market is exacerbating pent-up demand conditions. Both markets are exhibiting strong occupier fundamentals today.

Investment activity in the sector should stay healthy, especially by foreign capital. Today, Japan offers the widest yield spreads globally, while in Australia, recent positive changes in tax conditions for foreign investors will incentivize further investment.

Office

AUSTRALIA: UNEVEN RECOVERY IN OCCUPIER MARKETS, PRICING DISCOUNTS EXPECTED

- Leasing activity picked up in Q1, driven by SMEs that are experiencing healthy growth. However, on-going consolidation by large MNCs partially offset this. As flight to quality trends deepen, the rental recovery in prime offices is playing out, while secondary counterparts are likely to continue to see rental weakness for 2023.
- The bid-ask spread is narrowing. AEW is aware of deals under due diligence (over April and May) that may close, offering more clarity on re-pricing. This comes after several deals were pulled in Q1, where bids received were 20 to 25% below book value.

SINGAPORE: WEAKER OUTLOOK IN 2023 BEFORE RENTS PICK-UP IN 2024

- The dual impact of macro-economic challenges and large supply in 2023 may result in some rental weakness this year. Beyond 2023, there is potential for a solid recovery; average net supply p.a. from 2024 to 2027 is 50% below historical averages which will support a declining vacancy profile and a return to rental growth.
- With institutional investors largely sitting on the sidelines, investment activity remained muted. Activity has shifted to the strata-titled market, of which overseas HNWI's have been the predominant buyers. For the few enbloc deals that closed in Q1, buyers were cash rich, putting down 100% equity.

HONG KONG: MARKET REMAINS TENANT FAVORABLE

- Leasing activity is expected to gradually recover as demand from mainland firms return. However, markets should remain tenant favorable in the near-term, given elevated levels of vacancy, especially in the decentralized markets.
- Potential buyers maintained a cautious stance towards office investments as interest rates are high. While mainland buyers have been quiet in Q1, they are likely to return in Q2, with increasing enquiries since the border reopening.

CHINA: GRADUAL RECOVERY IN LEASING, EXPECT INVESTMENT ACTIVITY TO INCREASE

- Large supply and high vacancy continue to challenge overall occupier conditions although we note select submarkets like East 2nd Ring Road in Beijing and Liujiazui in Pudong, Shanghai are better balanced. While we expect a gradual recovery in leasing activity over 2023, markets are expected to stay tenant favorable.
- Few transactions have occurred since the start of 2023, although a solid string of deals should transact over the year, especially in Shanghai. Price discounts are expected but stabilized prime grade properties in good locations should continue to fare well.

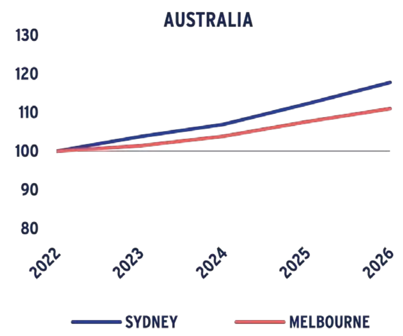
SOUTH KOREA: POSITIVE OCCUPIER MARKET CONDITIONS

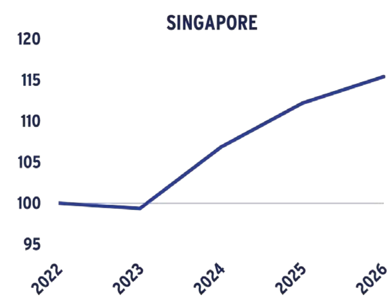
- Demand remains strong and record low vacancies in the three-core submarkets are causing spillover demand to fringe markets. In-place rents are currently 20 to 30% below market rents which presents strong rent reversion opportunity.
- Investment activity over Q1 2023 was limited with just USD1.5bn transacted, the lowest quarterly volume since 2016. Valuations have remained stable due to the strong embedded income growth. As the year progresses, we expect some price discounts to form from owners with refinancing issues, but this is unlikely to be widespread.

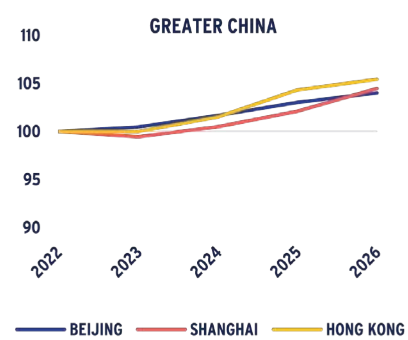
JAPAN: SUPPLY RISKS CONTROLLED WITH MODERATE TENANT DEMAND

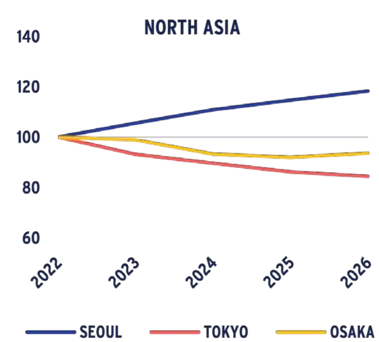
- While improvement in leasing activity was noted in Q1, large supply and increasing backfill vacancy are expected to result in further rental declines. Tokyo's supply will peak in 2023 and 2025 while in Osaka supply will peak in 2024.
- As cost of debt remains low, investors still have a strong appetite for Japan real estate. However, given weak near-term occupier fundamentals, investors will be selective.

OFFICE RENT INDEX
2022 =100









Source: AEW Research, JLL, Q1 2023

Logistics

AUSTRALIA: NEAR-TERM RENT GROWTH UPGRADED, YIELD EXPANSION PLAYING OUT

- Occupier market has grown in strength, as vacancy further compressed in Q1 and pent-up demand fuels pre-leasing in facilities under construction. As a result, rental growth for 2023 across both Sydney (15% y-o-y) and Melbourne (18% y-o-y) has been upgraded over the quarter on the back of this.
- Investment activity in the sector remains limited. Large transactions over the quarter have indicated yields of 4.5 to 4.6%, which shows an expansion of 100 bps from deals transacted a year ago.

SINGAPORE: FAVORABLE OCCUPIER CONDITIONS, MORE INVESTORS TARGET THE SECTOR

- Unfulfilled demand from previous quarters continued into Q1 2023, increasing demand for industrial space. New supply delivered in the last six months has been predominately for self-use, which is limiting available options for tenants. Rental growth for 2023 was increased over the quarter, averaging 6 to 7% y-o-y.
- Because of higher yields available (due to shorter land tenures), more interest has shifted into the industrial sector, where debt is accretive. Investment volumes have increased by 1.5 times in the last six months, and we expect yields to compress in 2023 alongside the weight of capital.

HONG KONG: VACANCY REMAINS LOW

- Third Party Logistics (3PLs) and cold-storage users made up the bulk of demand for the quarter. Vacancy levels in the market remain low, currently at 1.9%. The lack of space due to site conversions is likely to keep the market tenant favorable. Rents are expected to increase by 4 to 5% over 2023.
- Although transactions remained limited in the quarter, investor interest, especially for value-add strategies are strong. New-economy conversion plays (to data centers, cold storage or self-storage) will continue to be key themes in 2023.

SOUTH KOREA: ON-GOING SUPPLY DELAYS, MARKETS RE-PRICE

- Construction financing increases and challenges in acquiring new permits continue to add supply cancelations or delays. Approximately 30 to 40% of the 35 million square feet expected to be delivered in 2023 is likely to be pushed out; this will help in managing near-term vacancy levels.
- Most submarkets still have landlord favorable conditions, but there are concerns on slowing demand momentum. In the West submarket where cold facilities are oversupplied, landlords have increased tenant incentives to support leasing.
- Investment activity has pulled back on account of higher debt cost. Recent deals have shown yield expansion of around 70 bps y-o-y from peak.

JAPAN: MORE FAVORABLE CONDITIONS IN INNER-CITY SUBMARKETS

- Both Greater Tokyo and Greater Osaka are going through a supply cycle, with new construction expected to peak over 2023 and 2024. As supply is concentrated in the outer lying regions, the inner-city submarkets should remain landlord favorable.
- Investment activity in the last six months has been relatively upbeat. We expect further yield compression in the sector for 2023.

LOGISTICS RENT INDEX
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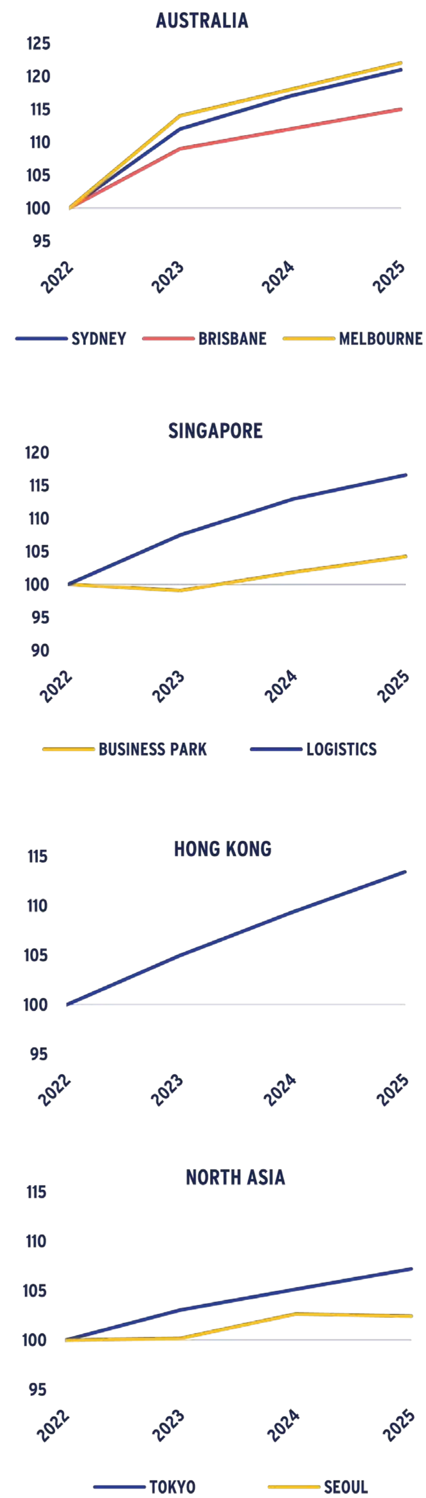


Source: JLL, as of Q1 2023

Retail

AUSTRALIA: RETAIL SALES STRONG UP TO Q4, POSITIVE YIELD SPREADS

- Nominal retail sales continued to grow in Q1 2023, but in real terms, retail sales have already started to show q-o-q declines in Q4 2022. Alongside the increase in interest rates, consumer confidence in Australia has trended further into negative territory.
- Leasing activity in Q1 was subdued, as retailers continue to face profitability issues and labor shortages.
- We expect rents for non-defensive assets to come under pressure this year. Large format retail that did well during the pandemic years are likely to see declines as well, as consumers spending for furniture and other household items decreases.
- Investment into the sector declined in Q1 but held up better than offices and logistics. We expect more trades this year as cross-border capital turns into net sellers.
- Neighborhood assets are still trading at tight yields, reflecting their defensive nature, but we expect cap rate expansion across the other subsectors, to range from 25 to 50 bps over 2023.

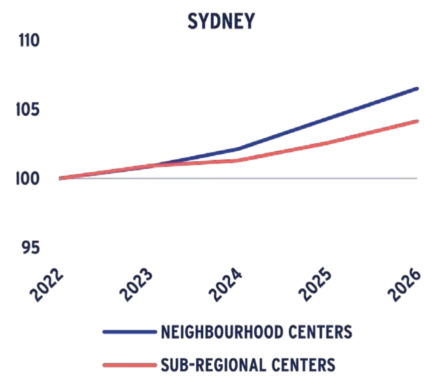
SINGAPORE: RENTS RECOVERY CONTINUES IN 2023

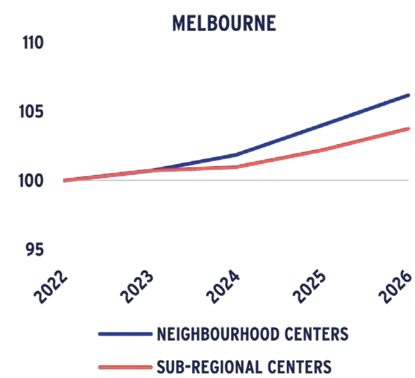
- Healthy consumption and tourism recovery as well as the normalized office-based crowds have supported foot traffic and tenant sales across shopping centers.
- Leasing activity in Q1 was active across all submarkets and vacancy rates declined across suburban, city fringe and prime retail categories in Q1.
- With the limited supply and tourism influx expected from the travel surge within the region, retail rents should continue to recover throughout the year. However, weak economic growth will likely limit the upside.
- Recent large sales have included the two-asset suburban mall sale of Jurong Point and Thomson Plaza to LINK REIT as well as NEX and Waterway Point to Frasers Centrepoint Trust. Quality assets in the market are tightly held which will limit trades and broad yield expansion in the sector.

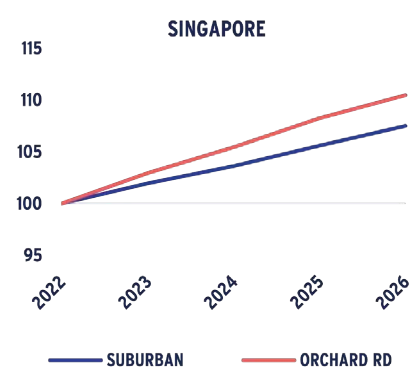
HONG KONG: TOURISM-LED RECOVERY TO FORM

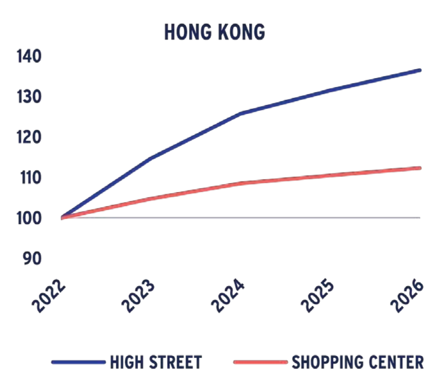
- After years of weakness, retail sales have rebounded in the first two months of 2023 with a tourism-led recovery and a more normalized environment. Retail sales volumes are now about 17% below levels in 2019 (prior to the social unrest).
- Leasing demand in Q1 was led by beauty/pharmaceutical chains, F&B and mass fashion, while some luxury brands start to rebuild their presence in prime/high street locations.
- Domestic, non-institutional investors continue to comprise the bulk of capital interested in the sector, especially for high-street shops. Investment sentiment from this group of buy-ers will likely remain healthy in 2023, especially as good bargain buys are available in the market.

RETAIL RENT INDEX 2022 =100









Source: JLL, as of Q1 2023

Multifamily

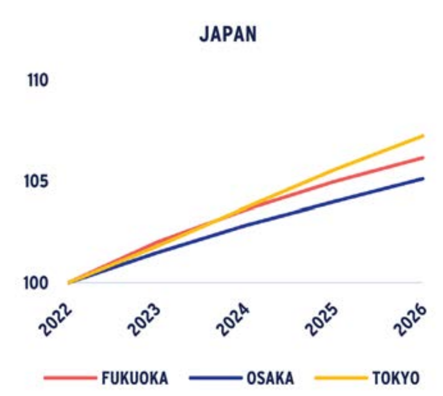
JAPAN: RETURN TO PRE-PANDEMIC CONDITIONS

- The Spring moving season in 2023 recorded a healthy increase in residents across the major cities. Net migration trends are now believed to have normalized to pre-pandemic levels.
- In Tokyo, leasing conditions today are at their best since the pandemic began. Occupancy rates have increased broadly y-o-y across the 23 Wards. Notably the Central 5 Wards saw a stronger improvement in occupancy, favored by foreigners and the more affluent sub-class in Tokyo.
- Meanwhile for the regional cities that performed well during the pandemic, rental growth is likely to slow in 2023.
- For 2023, rents are expected to increase the most in Tokyo and Fukuoka (due to stronger population growth), between 2 to 3%, while Osaka and Nagoya see smaller increases of 1 to 2%.
- Investment interest in the sector remains strong as yields over debt costs still offer good spreads. Yields compressed by about 10 bps y-o-y in 2022 and should hold flat or compress mildly in the range of 5 to 10 bps in 2023.

AUSTRALIA: POSITIVE FUNDAMENTALS, FOREIGN PARTICIPATION TO GROW

- Factors contributing to pent-up demand conditions in Australia's rental housing market include– strong overseas migration (the bulk of which are students), chronic undersupply, and purchasing unaffordability.
- Rents have increased sharply across all capital cities, strongest in Sydney and Melbourne, up between 15 to 20% y-o-y in April 2023.
- There are around 15 major institutional investors developing close to 40 BTR projects nationwide, supplying more than 17,000 units over 2023 and 2024, but this will still be insufficient to satisfy expected demand.
- Many foreign investors have sat on the sidelines due to unfavorable tax conditions, but positively, the federal government has reduced the withholding tax rate for BTR investment through MIT vehicles from 30% to 15% (effective of July 2024), placing the BTR in line with other commercial sectors. We still this as a positive and expect foreign participation in the sector to grow.

MULTIFAMILY RENT INDEX 2022 =100



Source: PMA, as of Q1 2023