AEW RESEARCH

ASIA PACIFIC MARKET PERSPECTIVE

Q3 2017

AEW

Prepared by AEW Research, September 2017

General Economic Overview

Global growth has remained strong, having built improved momentum as the year progressed. A Goldman Sachs estimate of Q3 world real GDP had annualized quarter-on-quarter growth improving from 4% in Q2 to 4.4% in Q3. They note October indicators, such as flash PMI's and confidence surveys in some advanced economies, point to the potential for a further pickup in activity. The strength in global growth has remained broad-based across countries and balanced across different sectors[1]. However key drivers of global growth have shifted. The previous assumption of fiscal stimulus in the U.S. has been revised to a more neutral stance, while European growth appears to be stronger than previously envisaged.

The pickup in growth across the Asia Pacific region anticipated by the International Monetary Fund (IMF) in their April outlook is broadly on track. There has been stronger-than-expected growth in China and Korea to name just two. Regional output is projected to grow by 5.6% in 2017 and 5.5% in 2018, driven by strong consumption and investment.

Capital inflows to the region continued to be sizable in the first half of 2017 and financial conditions are expected to remain supportive. CPI inflation has been weaker than previously expected, partly due to lower commodity prices. Projections have been revised down in many countries and central banks are currently under no inflation driven pressure to normalize their current highly accommodative monetary policy settings.

China's third quarter growth was 6.9% year-on-year, the same as Q2, reflecting recovering global trade, continued strong infrastructure spending and resilient residential construction. Activity surprised to the upside despite tighter financial conditions related to policies aimed at containing financial stability risks especially in the shadow banking sector.

The 19th National Congress of the Communist Party of China took place during the third week of October. Many senior leadership positions in the party and government were refreshed with new talent. President Xi also took the opportunity during the traditional report to Congress to outline his vision for China's future; it was essentially a call to action to follow the leadership and expect more of the same.

A number of key regional currencies appreciated against the USD during the year. While still higher than at the beginning of the year, some of this strength started to unwind in the final weeks of the third quarter, likely in response to U.S. tax reform discussions. The trend continued through October and into the early part of November.

Property Market

Real estate assets continue to offer asset allocators an alternative sector with a strong spread over 10-year sovereign bonds. The spread is particularly wide in Sydney and Seoul and both offer the opportunity for investors to source deals that offer attractive cash-on-cash yields.

Investment capital flows are expected to continue. A recent Preqin analysis suggests Asia focused real estate closed-end funds have about $30 billion of unutilized commitments. There continues to be several managers with near-to end-of-life funds who are putting assets into the market. There are also a number of investors looking to recycle capital.

In the 12-months to Q3 2017 USD transaction volumes in key gateway markets (ex-Japan) were up 21% compared to the same period a year earlier. At the beginning of November Real Capital Analytics was reporting income-producing deals of about $16 billion that were pending and yet to close across the key gateway markets. If added to current year-to-date totals, volumes have already exceeded 2016.

In local currency terms, a few large deals propelled Singapore up 80%, while Hong Kong activity was about 38% higher. Seoul followed next, increasing 34%, then Shanghai (10%) and due to a slow start to the year Sydney was only 1.6% higher.

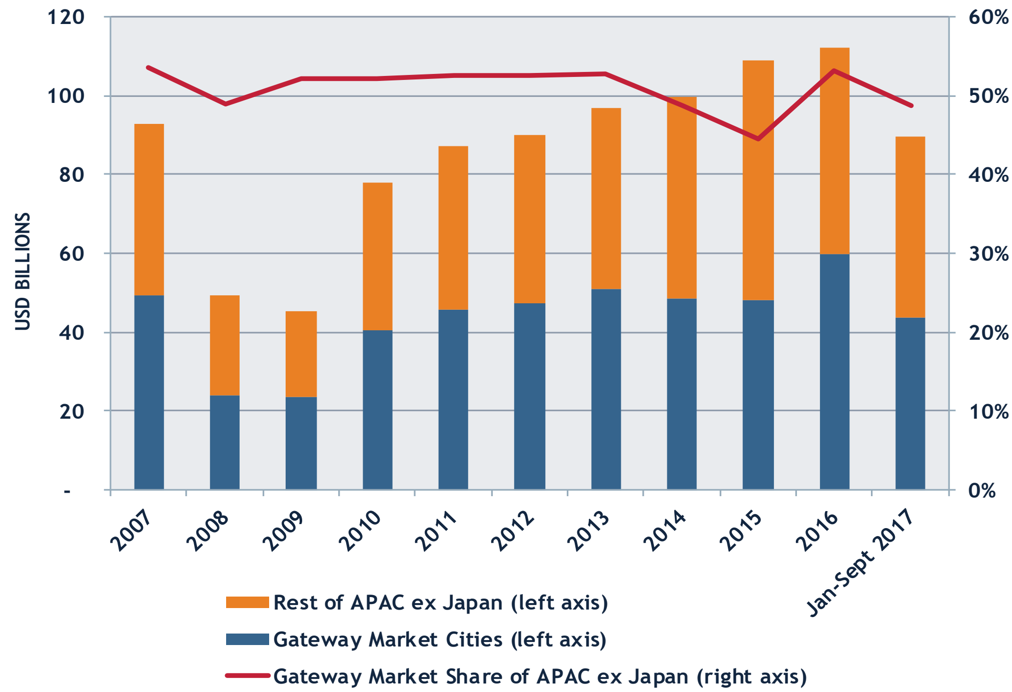
The office markets in the region remain broadly balanced. Improving economic conditions are feeding through to additional corporate confidence and investment intentions. This in-turn is feeding through to demand for office space. Balancing this is the excess capacity many occupiers have and the increasing acceptance of flex space (office space where employees do not have assigned seats), and the rise of co-working operators is an example of this. Increasingly licenses at these sites are being taken up not only by small start-ups but also large corporates placing tech-teams and using the space to save on additional direct real estate costs.

In aggregate, across the primary office markets (Hong Kong, Singapore, Seoul, Shanghai and Sydney), new construction is forecast to peak in 2017. Projections show annual supply over 2018 and 2019 will be 40% lower than the three-year historic average (2015-2017). Forecasts show a balanced demand and supply outlook with the average vacancy rate projection flat. However this aggregate analysis overlooks several market specific trends including the withdrawal of stock and low vacancy in Sydney, very little new supply in Seoul with a falling vacancy rate in the CBD and Hong Kong Island where vacancy continues to be low.

There have been signs of a retail sales recovery in a number of markets. Both Hong Kong and Singapore have recovered from a contraction of activity to a return to growth, while in China and Korea, sales activity continues to be strong. Australian retail sales growth moderated in recent months but remains positive.

Residential prices have been robust across many markets, especially Hong Kong. In Singapore prices have stopped falling while in Korea and Australia they continue to increase.

GATEWAY MARKET TRANSACTION VOLUME



Source: RCA

Hong Kong

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	2.1%	↑	↑	↓	↔	↓
Retail (Shopping Center)	1.9%	↑	↓	↓	↑	↔
Residential	3.8%[A]	↑[A]	↑	↑[A]	↑[A]	↓

[A] As at December 2016, 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 Q3 2017 trend compared with the 12 months through to end Q3 2016. 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.

Recent data suggest that Hong Kong's economy continued to perform well in the third quarter, on the back of still-solid export growth and the robust performance of trade in the wider region. The recent improvement in consumer sentiment and the buoyant stock market is anticipated to support private consumption.

The PMI has been above 50 (i.e. expansionary) for most of the past four months, and was 51.2 in September. Exports grew 9.4% year-on-year in the same month. Additionally, the Hang Sang Index increased 6.9% quarter-on-quarter. Lastly, CPI inflation dipped slightly in the final month of the quarter, from 2%, where it has been since April this year, to 1.4%.

Forecasts are for GDP growth of 3.4% year-on-year in Q3 and 3.5% for the full-year 2017. It is likely growth will soften in 2018, to 2.3% year-on-year, as slower growth in China weighs on the city. In addition, housing market uncertainty may constrain private consumption growth. Overall office net absorption of some 301,000 square feet during the quarter was the highest since September 2015. Most of this demand came from tenant decentralization and the realization of pre-commitments of a new building in the Tsimshatsui submarket (K-11 Atelier by Hong Kong developer New World Development).

Preleasing of new construction gathered momentum, and this activity was largely focused on upcoming projects in decentralized locations, such as Hong Kong East and Kowloon East. Occupiers continued to seek more cost effective office options outside of the city's traditional core office areas. These are also areas that offer tenants expansion opportunities.

The constrained occupancy conditions in Hong Kong Island continue, and the market remains highly landlord favorable. The Central vacancy rate was 2.1% at the end of the quarter, and has been under 3% since Q2 2015. New lettings in Central fell 32% quarter-on-quarter largely owing to a slowdown in mainland China demand ahead of the National People's Congress, which was held in October. Similar to the landlord favorable fundamentals in Central, the wider Hong Kong Island market also has a low vacancy rate, 2.6% in Q3.

With a stronger than expected Q3, full-year 2017 demand forecasts have been raised, from about 540,000 square feet across Hong Kong, to 700,000 square feet. Additionally, 2018 demand forecasts were also increased, from 700,000 square feet to more than 1.1 million square feet. Most of this net absorption is projected to occur in the decentralized markets of Hong Kong East and Kowloon East, where there is new supply completing.

Rental growth across Hong Kong Island was 1% quarter-on-quarter. In Central, rents were up only slightly, rising 0.8% quarter-on-quarter, while in the Wanchai / Causeway Bay submarket rents were up 1.4% quarter-on-quarter. Capital values grew more strongly, up 4% quarter-on-quarter on Hong Kong Island and 5.1% quarter-on-quarter in Central. Yields continued to fall and are now about 2.9% on Hong Kong Island.

The momentum forming in the retail industry is gaining pace. Retail sales grew 5.6% year-on-year in September. The March to September period marks the first sustained increase in sales activity since 2013. In additional to robust domestic demand, the retail sector is being aided by tourist arrivals that were up 4.8% year-on-year in September.

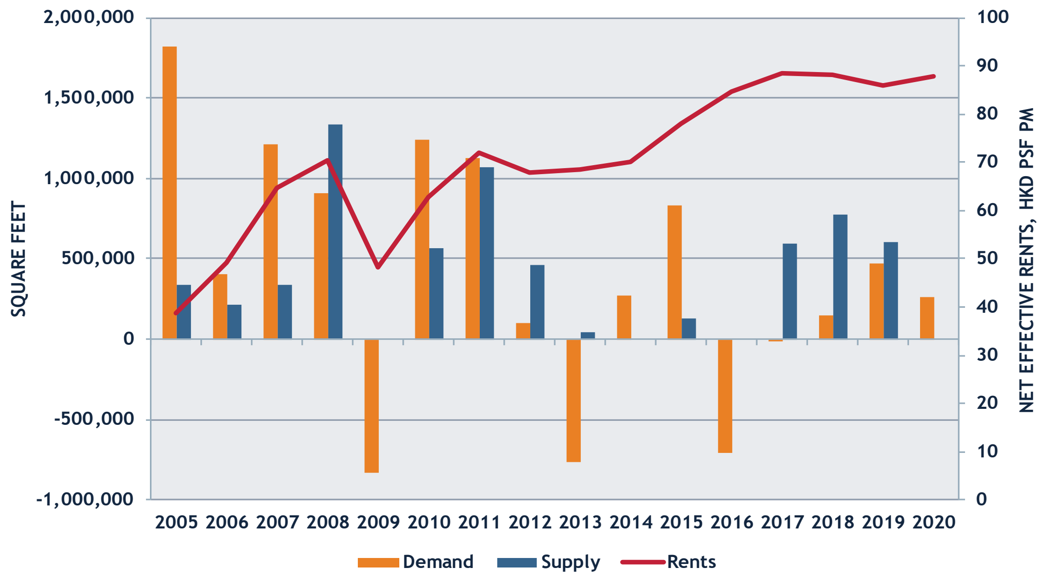
Shopping center rents were down slightly over the quarter, less than 1% quarter-on-quarter. The shopping center vacancy rate was up marginally, from 1.8% in June to 1.9% in September. The rate at which high street rents are declining continues to slow. In Q3 rents were down 2.6%, a marked improvement from a year earlier when they declined more than 6% quarter-on-quarter. The outlook is for rents to cease falling during the early part of 2018, with a recovery forming thereafter.

Hong Kong residential prices continued higher over the quarter albeit at a slower rate of increase. The month-on-month increase in the house price index slowed each month since April, rising only 0.3% in September. On a year-on-year basis prices rose slightly under 15% in September, down from its recent April peak growth rate of 21%. Both the number and value of transactions were lower in the September quarter when compared with the three-months end June. It seems likely this moderation will continue as buyers become more cautious of the potential impact of higher interest rates. That said, to date, the four increases in the Fed Funds rate has yet to be seen in the Hong Kong residential sector to any large extent.

By a large margin, the largest single-asset transaction in the world this year is the pending sale of an interest in Cheung Kong's The Center. The asset is an office tower in the rarely traded CBD area of Hong Kong. The deal is for a 75% interest in the building for approximately $5.2 billion ($5,675 per square foot). The buyers are a consortium of mainland China entities. The deal has not been officially concluded.

The next largest transaction is the pending forward sale of 8 Bay East for $1.5 billion ($1,932 per square foot), by Wharf Holdings to a mainland Chinese investor. In September, a portfolio of three retail assets was sold by a private local investor for a combined value of $396 million ($1,760 per square foot) to the Bank of China.

HONG KONG ISLAND DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: RCA

Singapore

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	6.8%	↑	↑	↑	↑	↔
Retail (Shopping Center)	3.6%	↓	↓	↑	↓	↔
Residential	8.4%	↓	↔	↑	↓	↔

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 Q3 2017 trend compared with the 12 months through to end Q3 2016. 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.

Third quarter GDP was estimated to grow 4.6% year-on-year, an improvement on the 2.9% expansion during the second quarter. The main driver was solid growth in manufacturing activity. Strong export growth saw manufacturing up 15% year-on-year. Export-dependent services such as wholesale and retail as well as transport and storage also performed strongly. Forecast's for GDP growth were indicating full-year growth of 2% to 3% and with the strong quarter's result, expectations are for it to print at the high end of that range.

CPI inflation remains positive but low at 0.4% year-on-year in September 2017. This is a slight easing from where inflation was at the beginning of the year, but an improvement on the deflation that started in late 2014. The Monetary Authority of Singapore kept its policy unchanged following its October bi-annual monetary policy review. That is, it retained its zero-percent appreciation in the Singapore dollar. Despite the low inflation environment, a slight change in the accompanying statement has led some commentators to speculate on the likelihood of a second half of 2018 change of policy.

Office demand is picking up in the CBD. During the quarter net absorption was the strongest in ten quarters, starting Q1 2015. Along with the strong Q1 2017 result, the year-to-date absorption has exceeded that for full-year 2015 and 2016. Most of the net absorption is associated with the first tenants moving in to Marina One (1,880,000 square feet). This project completed during the quarter which resulted in a steep rise in the physical vacancy rate to almost 12%. Excluding this project the vacancy rate in the sub district, Marina Bay, was barely above 3%.

Given the stronger-than-anticipated occupier demand and the better economic outlook, near-term demand has been revised up. Full-year 2017 demand was increased by 19%, while 2018 demand was increased by 16%. Supply in 2018 is expected to be fairly minimal with only two projects likely to complete in the CBD, increasing total stock by 2.5%. The vacancy rate is forecast to fall to mid-10% by the year of 2018.

Rental growth picked up momentum during the quarter, rising 4.8% quarter-on-quarter. This led to the full-year forecast to be increased to 6.4%, from 1.7%. Similarly, next year's rental forecast was increased from 3% to 11.7% during the quarter.

After a volatile first five months of the year, retail sales (excluding motor vehicles) grew more consistently over June to August, averaging about 3.3% year-on-year during this period. While a mid-year consumer survey highlighted Singapore consumers remain largely cautious and are focusing on necessity rather than discretionary spending, more frequent sales activity suggests a slight improvement in consumer sentiment.

Tourist arrivals to Singapore were up 5.2% year-on-year in August, supporting retail activity. China is an increasingly important source of tourism spending for Singapore, with August arrivals growth of 13% year-on-year from this source. The Singapore Tourism Board is supporting this trend through a recent announcement to work with Alipay, an online and mobile payment platform available to mainland Chinese bank customers, to pay for goods and services in Singapore through the cashless system.

Demand for new retail space continues to be supported by new F&B entrants and larger space multi-concept retailers. Net absorption was slightly negative during the quarter, but this is in part driven by the removal of a suburban mall for renovation. Century Square will be repositioned to be more focused on serving the lifestyles of the local community. Planned to be re-entered to the market in the second half of the 2018, it is already 60% pre-committed, indicating robust demand from retailers. The overall retail vacancy rate was stable during the quarter as were prime rents.

Pricing in Singapore's residential sector improved during the quarter. After falling for 15 quarters and 12% from the index mid-2013 peak, the price index was up 0.7% during Q3. The market shifted focus during the quarter, with several en-bloc sales. Owners collectively sell these old apartment blocks to developers who will redevelop the site more intensively. In the short-term, this creates more buyers in the market as these owners look to relocate, supporting prices.

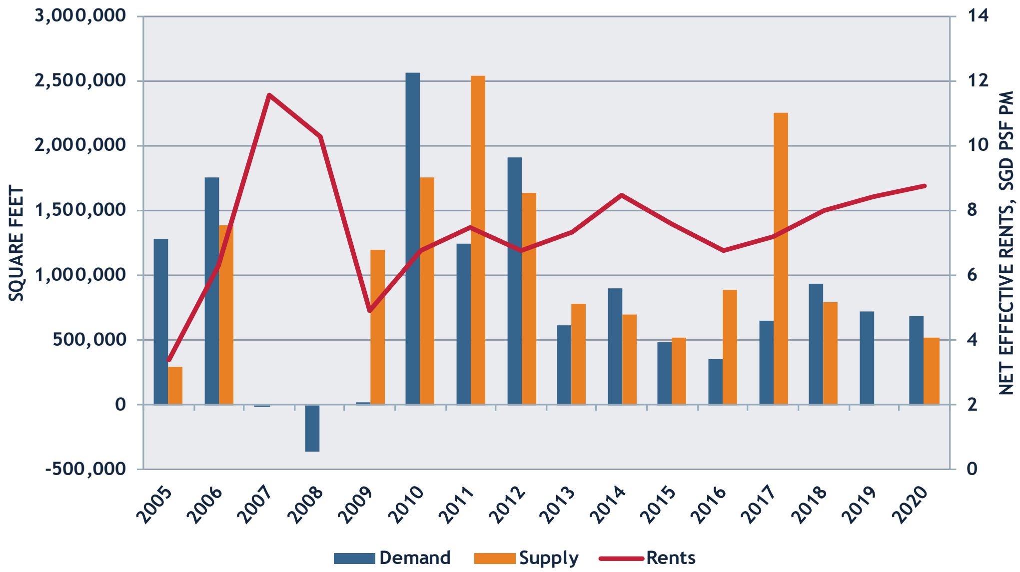
Singapore's investment market (excluding land sales) continues to be very active. Volumes year-to-date have already exceeded full-year 2016, which was then the most activity since 2013. We are heading for a potentially record year of sales, aided by the divestment of Asia Square. Foreign buyers represent about 43% of activity year-to-date with Hong Kong and China based investors particularly active.

A recently announced transaction will be Singapore's second largest deal of the year, and fifth largest asset sale in the region; the final part-sale of Asia Square. The divestment program for this asset started in November 2013 when the Westin hotel sold for approximately $376 million. This was followed by the June 2016 sale of Tower 1 (office) for $2.5 billion ($1,925 per square foot).

In November 2017 Blackrock completed the exit of their development by selling the remaining office space in Tower 2 to Singapore listed REIT CapitaCommercial Trust for $1.5 billion ($1,974 per square foot, 3.6%).

Another notable transaction was the sale of Wilkie Edge, a mixed-use asset on the fringe of the CBD. The building sold in September 2017 for approximately $206 million ($1,300 per square foot, 3.4%) to two Singapore based private investors.

SINGAPORE CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

Seoul

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (Overall)	11.5%	↓	↑	↑	↓	↓
Retail (CBD)	15.2%	↔	↑	↑	↑	↓
Office (Yeouido)	15.8%	↑	↔	↓	↔	↓
Office (Gangnam)	4.8%	↓	↔	↓	↔	↓

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 Q3 2017 trend compared with the 12 months through to end Q3 2016. 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 continued to gain momentum during the quarter. GDP growth accelerated to 1.4% quarter-on-quarter in Q3, underpinned by strong government spending and a rebound in exports. This figure is the strongest result in seven years. The expenditure breakdown indicates a relatively balanced quarter with solid momentum from both domestic and external demand components. Export volume growth was particularly strong in Q3, rebounding by 6.1% quarter-on-quarter after contracting in Q2.

The autumn holiday effect was apparent in consumer spending, with retail sales expanding by 7.6% year-on-year in volume terms in September. Consumer sentiment ticked up in October, and accelerated government spending following the supplementary budget approval will help support momentum in private consumption.

Even a disappointing result in the final quarter would imply growth of more than 3% in 2017. As a result near-term GDP growth forecasts have been raised to 3.3% for 2017 and 3% for 2018 (up from 2.8% and 2.6% previously).

October CPI inflation was low at 1.8%, below the Bank of Korea's (BOK) target. In addition, demand-side price pressures continue to be muted. This is providing room for the bank to keep monetary policy highly accommodative in the short-term. The policy rate is 1.25%, a record low. As the economy continues to perform well, the BOK recently signaled they would look to normalize policy sooner than later. Initial expectations were for the first rate hike to be in later part of 2018, but it could be as early as Q1 2018.

In the office sector there was a slight contraction in occupied space during the quarter. Similar to previous quarters the exit of several major tenants into owner-occupied space was the primary cause of this negative net absorption. Take up in Yeouido was only moderate and the district continued to struggle to attract new occupiers, especially to its prime space. Demand was positive but modest in Gangnam.

Across the three main submarkets, full-year demand will likely be positive but below the historic average of the past three-years. Once this cycle of large domestic corporates relocating from leased space into owner-occupied stock concludes early in 2018, net absorption is forecast to recover. The CBD is the submarket most affected by this process.

Vacancy forecasts in the CBD and Gangnam are encouraging. The CBD vacancy rate is currently 15%, but over the next several years demand is anticipated to be higher than supply, reducing the vacancy rate down to 11% by end 2019. With no supply expected in 2020 and 2021 the vacancy rate is projected to fall to about 5.5% by 2021.

In Gangnam the vacancy rate was steady at 4.8% in the third quarter. It has been steadily falling over the past year after peaking in Q3 2016 at more than 11%. Expectations are Gangnam will have a demand supply imbalance over the coming several years. With only one project to enter the submarket in 2018 (Gangnam N Tower, 447,000 square feet) and steady demand of about 418,000 square feet per annum in 2018 and 2019, forecasts are for the vacancy rate to fall to about 2.5% by the end of 2019.

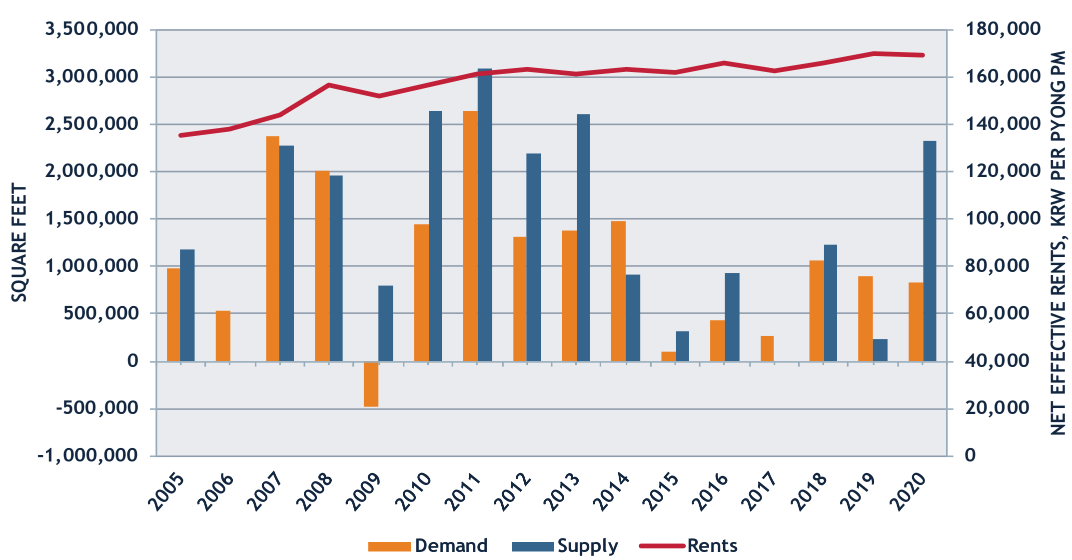
Conditions are different in Yeouido. The vacancy rate was 15.8% in Q3 and expected to increase to 19% by the end of the year. While demand should be positive next year, it will be less than supply, leaving the vacancy rate slightly above 20% by the end of 2018.

Overall office rents rose 0.8% quarter-on-quarter as market conditions improved in Gangnam and the CBD. Gangnam continues to outperform other submarkets as several buildings reduced their rent-free periods while increasing net rents. In the CBD a slower rise in the rent-free period combined with the upward adjustment in net rents helped the CBD see a rise in net effective rents during the quarter, reversing a trend in place since Q2 2016.

The investment market in Seoul remains highly active. After adjusting for the mega-sale of Seoul IFC last year ($2.2 billion), volumes over the first three quarters are higher than full-year 2016. The largest deal so far this year has been the June sale of the KEB Hana Bank Headquarters building for about $803 million ($998 per square foot). Booyoung Group purchased the CBD asset and plan to reposition it with an increased retail offering.

POBA Gangnam Tower was sold to a foreign fund manager in October for approximately $270 million ($554 per square foot). Other foreigners active include Angelo Gordon buying Kookmin Bank Building HQ for around $223 million ($808 per square foot) and the Employee Provident Fund of Malaysia buying Metro Tower for a similar amount ($223 million, $519 per square foot).

SEOUL DEMAND, SUPPLY AND RENTAL GROWTH OUTLOOK



Source: JLL

Shanghai

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	12.5%	↑	↔	↑	↑	↔
Office (CBD - Puxi)	13.8%	↑	↔	↑	↑	↔
Office (CBD - Pudong)	10.8%	↑	↑	↑[3]	↑	↔

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 2017 trend compared with the 12 months through to end Q3 2016. 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.

Shanghai's economy grew 7% year-to-date compared to the same period a year earlier. This is in line with the previous quarter's expansion of 6.9%. Service related industries grew strongly over the quarter, with IT up 13.7% and transport and finance up 11.6% and 11% respectively. Real estate continued to grow less strongly this year compared to a year ago, primarily due to additional restrictions that have been put in place as the year progressed. Shanghai retail sales grew 6.2% year-to-date compared to the same period a year earlier.

After a strong first half of the year, when net absorption was 2.5 million square feet, CBD office demand was slightly weaker during the quarter. Demand was strong in Pudong where occupied stock grew 95,000 square feet. But this was offset by a small loss of occupied stock in Puxi of about 125,000 square feet. Decentralized demand remained solid, 1.8 million square feet, bringing the year-to-date total to 4.7 million square feet.

In Pudong domestic financial service companies remained the major demand source. On top of this co-working firms expanded aggressively during the quarter, highlighting a growing trend in the use of flexible space. Co-working firms represented some of the largest deals signed this quarter. For example, WeWork secured two locations in the Pudong CBD, including pre-leasing an entire upcoming project.

Pudong has been less affected by the decentralization trend than Puxi. This was a driver behind the submarkets negative absorption in the quarter. Cost-sensitive Puxi CBD tenants continue to look at options in decentralized locations. Apart from this trend, there was a healthy amount of leasing activity in Puxi, with several tenants upgrading. Telecom, media and technology firms remain active with Amazon recently leasing three floors in CapitaLand's Raffles City Changning to house a new business division.

There was no new supply in either Puxi or Pudong CBD, and a comparably small amount of decentralized supply (2.5 million square feet). As a result, the vacancy rate in Pudong CBD dropped to 10.8% and in Puxi CBD it rose to 13.8%. Over the final quarter of the year Puxi will have no new supply and positive demand, lowering its vacancy rate to 12%. In Pudong, there are two buildings forecast to be completed, and the vacancy rate is forecast to rise slightly to 11.8%.

As the CBD becomes increasingly built out and new commercial sites become rare, office districts peripheral to the CBD are becoming increasingly seen as good alternatives to a CBD location. Key characteristics occupiers look for when considering one of these CBD-like districts is quick access by subway, critical mass of office space and retail amenities (as well as the cost savings). Districts to the north of the CBD such as Railway Station and Sichuan North Road/North Bund have all these characteristics.

Overall retail demand increased over the quarter, with net absorption increasing 33%. Demand was slower in prime malls where net absorption was positive but low. In the decentralized market, demand grew strongly, with more than 3.7 million square feet of net absorption.

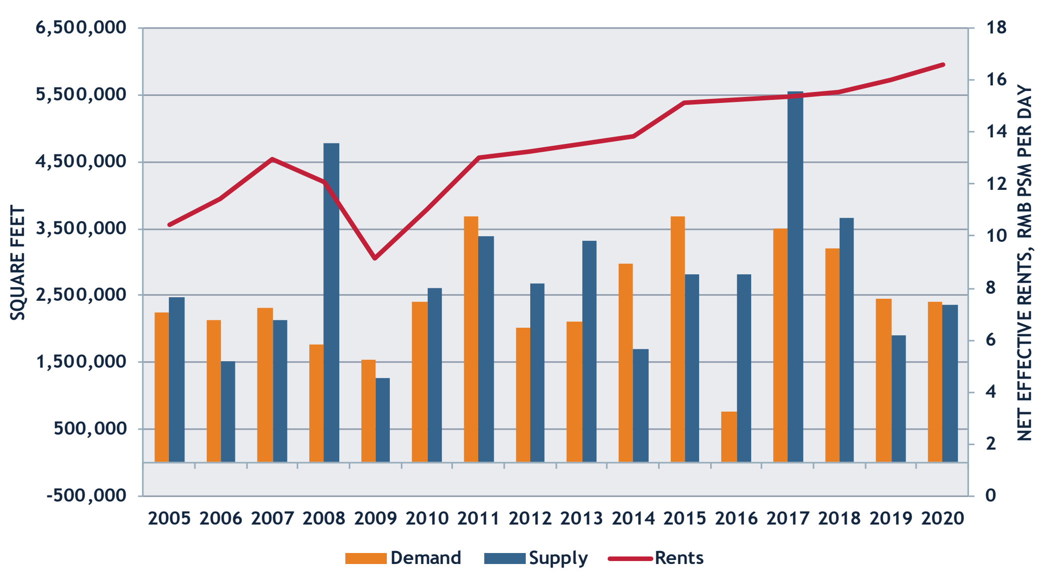
Demand drivers continue to be similar to those in previous quarters. F&B occupiers are expanding as are health and experience-orientated brands (including those targeting children).

Retailer sentiment is expected to continue to improve over the remainder of the year. Higher spending is being driven by a growing and aspirational middle class which will led to improved leasing demand from luxury brands over the medium-term. Domestic brands which offer quality and competitive pricing compared to international brands will continue to drive fashion retail demand. At the same time online retailers including Alibaba are set compliment their e-commerce platforms with offline showrooms.

Investment activity continues to be very strong in Shanghai with transaction volume over the first three quarters of the year on par with 2016. Cross border buyers represent about 40% of the activity with most of this capital sourced from either Hong Kong or Singapore. Yields in Shanghai firmed as the year progressed. On an NOI basis, deals are being done in the 3% to 3.5% range.

The largest deal year-to-date has been the October sale from Soho China to Gaw Capital, of the Sky Soho Project for about $753 million ($545 per square foot). Shanghai Point, an office building in the North Bund, sold in October for approximately $572 million ($443 per square foot) between two local entities.

SHANGHAI CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

Sydney

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Sydney CBD (prime)	6.0%	↓	↑	↓	↓	↓

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 Q3 2017 trend compared with the 12 months through to end Q3 2016. 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.

Against a backdrop of sustained positive momentum in the global economy, Australian exports grew 2.9% month-on-month in September. Overall the data for the September quarter largely confirmed forecasts, with net exports set to be a net contributor to GDP. Exports will continue to be a driver of growth in 2018, with additional LNG export capacity coming on line and positive momentum in the global economy increasing demand for services.

As widely expected, the Reserve Bank of Australia left the cash rate unchanged at 1.5% in their November meeting. The Board noted global growth momentum remains solid, and forward-looking indicators for business investment are positive, but continues to voice concerns regarding the pace of growth in housing debt and the outlook for household consumption. The latter is being held back by a lack of real wage growth.

Full-year 2017 GDP growth is forecast to be 2.2% year-on-year and 2.3% year-on-year in 2018. Favorable external conditions will be a large contributor to this growth outlook and while the current expectation is for broadly flat business investment, there are some indications there could be upside risk to this.

The Sydney CBD vacancy rate fell about 40 basis points over the quarter to 6%, the lowest level since Q1 2008. Strong occupier demand conditions persisted across the market in the third quarter. Net absorption was 445,000 square feet, the strongest quarterly result since Q2 2015. Demand was dominated by finance and insurance and professional services as well as a couple of law firms relocating into Darling Park Tower 2.

The office component of Lendlease's Darling Square development completed over the quarter, adding about 290,000 square feet of space to the CBD office stock. The Commonwealth Bank of Australia had previously pre-committed to the whole building. There is currently 1.4 million square feet of office space under construction at the moment, across six projects. The largest is Wynyard Place, by Brookfield, with 730,000 square feet of office space. The National Bank of Australia has committed to about 330,000 square feet when the project completes in 2020.

Rents have risen substantially in Sydney, with secondary net effective rents up 3.9% quarter-on-quarter, bringing the year-on-year growth to 28%. Net face rents grew 13.6% year-on-year, while incentives have fallen five percentage points to the lowest they have been in nine years. The strong past movement in rents indicates leases expiring next year will continue to revert well into the double digits. Forecasts are for continued rental growth, albeit at slower rates, for the next several years.

After negative absorption over the first half of 2017, demand in North Sydney turned positive in the third quarter. There were two tenant moves of more than 10,000 square feet, a sublease at 100 Arthur Street and an expansion into space at 60 Miller Street. Small tenant activity (less than 10,000 square feet) remained active with strong occupier enquiry. North Sydney continues to offer tenants in this category an attractive value proposition.

For the full year, projections are positive annual absorption of about 27,000 square feet. This indicates forecasters expect robust demand over the final quarter. With no more new construction anticipated to be completed during the quarter, this demand outlook will reduce the vacancy rate to just 6.7% in Q4, the lowest it's been in at least ten-years.

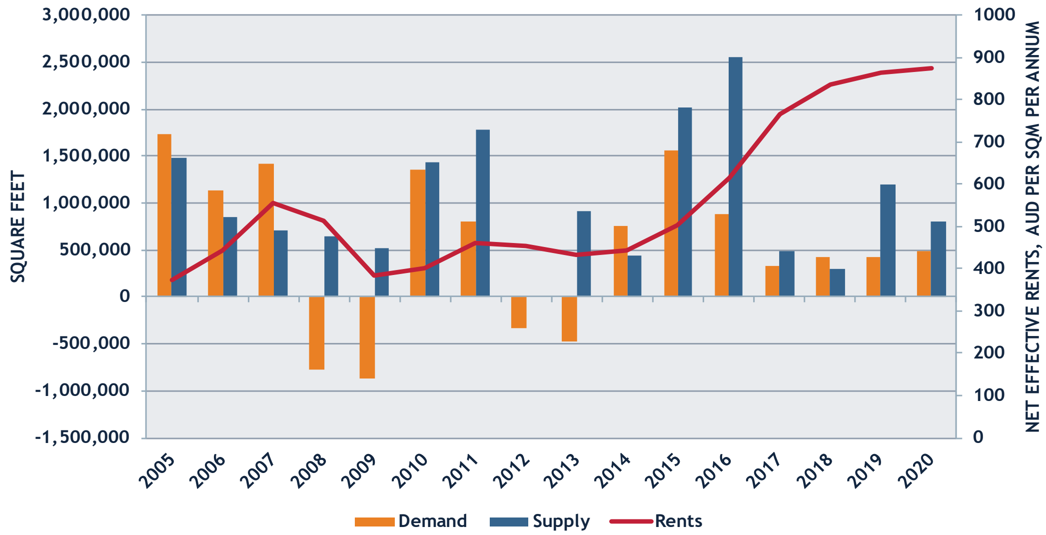
There will be some new supply entering the North Sydney market next year. The largest development currently under construction is 100 Mount Street (437,000 square feet), due for completion late in 2018. Liang O'Rourke has pre-leased approximately 15% of the space. The refurbishment of 88 Walker Street as well as the commercial component of a mixed-use development at 144-154 Pacific Highway are both forecast to complete in 2018.

Although there is forecast to be a net gain of stock next year, as opposed to the net loss of stock in 2017, prime rents are forecast to continue to grow. Prime face rents are projected to increase 8.3% in 2017, and 4.9% in 2018. After allowing for incentives, effective rents are anticipated to increase by 14% in 2017 and another 6% in 2018. Demand is likely to remain strong in North Sydney leading to tight occupancy conditions. The vacancy rate will be 6.2% by the end of 2018.

The Sydney investment market is currently highly active, a turnaround from the beginning of the year when activity was more subdued. Subsequent to that period, a number of assets came to market and there is a weight of capital looking to be placed. Year-to-date sales activity is lagging the trend set in previous years, with January to October transaction volume in AUD about 69% that of the same period in 2016.

However there is about US$2.6 billion of additional deals that are likely to close this year, spread across about twelve projects, most of which are office CBD assets. In the CBD the largest deal expected to close soon is the forward sale of an almost half share of the Wynyard Place development for about $735 million. It was reported in September Brookfield exited the 49.99% interest to two local investors, AMP (24.9%) and UniSuper (24.9%). There is also an asset swap between GIC, a Singaporean Sovereign Wealth Fund, and Vinicity Centres, an Australian REIT. The deal exchanges a 49% stake in Vicinity's Chatswood Chase Sydney, a regional shopping center), for a 50% stake in GIC's Queen Victoria Building, The Galeries and The Strand Arcade.

SYDNEY CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

For more information, please contact:

GLYN NELSON

Director of Research, Asia Pacific

glyn.nelson@aew.com
+65.6303.9016

www.aew.com/asia