



AEW RESEARCH

**ASIA PACIFIC
MARKET PERSPECTIVE**

Q4 2017



Prepared by AEW Research, December 2017

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General Economic Overview

The global economy is entering 2018 in a very good position. U.S. growth has been steady and the post-crisis expansion is entering its ninth year. Activity in the Euro Area is becoming more broad-based. In Asia, a more active external environment has led to a resurgent manufacturing sector, expansionary PMI's (above 50) and positive business investment growth once again.

World trade volumes were estimated to have grown 4.6% in 2017 with a similar increase forecasted this year. For 2018 and 2019, the IMF increased their world growth outlook by 20 basis points to 3.9%. This builds on a 2017 growth estimate of 3.7%. The IMF now anticipate over the three years 2017-2019 the world economy will expand by close to 12%, a significantly positive view. They do not anticipate any marked inflation increase as a result of this sustained period of growth, with CPI staying at around 2% per annum.

Economies in the Asia region have benefited more than most from this cyclical upturn in world trade and growth. This year, expectations are for most Asian economies to repeat 2017's very robust performance. The pick-up in external demand has underpinned an increase in private sector investment while strong domestic demand is being supported by improved confidence, accommodative policies and capital inflows.

In China economic activity continued to be driven mostly by consumption. However, the stronger-than-expected 2017 was mainly due to an acceleration of exports on the back of firming global demand. Domestic rebalancing continues with consumption growing faster than investment and services faster than industry. Consumer price inflation remains below target despite a slight rise over the year.

These conditions have enabled regulatory tightening to focus on reducing financial risks including reducing the rate of credit growth but without the cost of lower growth. Excessive house price growth was successfully reduced through tighter policies. Lastly, tighter capital controls contributed to reduced capital outflows, a reversal of the earlier foreign reserve drawdown and an appreciation of the renminbi.

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The retail sector is forecast to pick up in a number of major markets.

Property Market

Transaction volumes in key gateway markets (ex-Japan) for 2017 were a record high with \$119.2 billion of activity, 10% higher than volumes in 2016. Including only income producing assets, this was still a record volume with \$69.2 billion. The main driver for the jump was increased year-on-year volumes in Hong Kong (+39%) and Singapore (+50%). In terms of sectors, the office market dominated transaction activity. There was also a notable increase in investments in the apartment/housing sector in Singapore, Hong Kong and Sydney.

In local currency terms, a few large deals boosted Hong Kong up 57%, while Singapore saw an increase of 48%. After adjusting for the unusually large IFC Seoul sale in 2016, 2017 volumes were higher, while in Shanghai activity was down slightly, 14%, as deals become harder to source. Sydney saw the largest retraction year-on-year on local currency basis, falling by 31%.

Large ticket deals were concentrated in Hong Kong and Singapore. In Hong Kong, major deals reported in 2017 included the 75% stake in The Center in Central to a consortium of buyers from Hong Kong and mainland China for \$6.8 billion (\$5,624 per square foot) as well as a portfolio of neighborhood retail assets to a consortium led by Gaw Capital for \$2.9 billion. In Singapore, suburban retail mall Jurong Point was purchased by a joint venture between NTUC Income and Singapore Labour Foundation for \$1.5 billion (\$2,119 per square foot) and Asia Square Tower 2, the Grade A office building in Singapore's core CBD was purchased by CapitaCommercial Trust (a Singapore listed REIT) for \$1.6 billion (\$1,974 per square foot).

Following a strong 2017, investment volumes started 2018 on a positive note with about \$20 billion of activity pending in January. This is in-line with several recent survey results. These showed investors continue to consider themselves under allocated to real estate in the Asia Pacific region. Investors are targeting value add funds, a shift from recent years when core funds were preferred. Additionally, a survey of private equity fund managers have indicated a substantial amount of dry powder (approximately \$113 billion) to be invested over the coming three years.

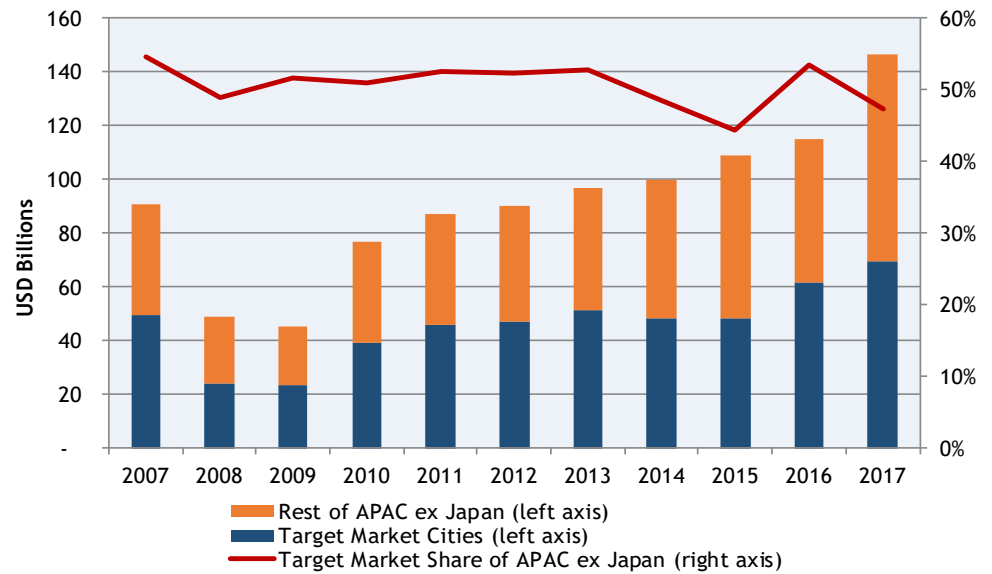
AEW anticipates an office sector in 2018 that is tilted in favor of landlords. Across the primary office markets (Hong Kong, Singapore, Shanghai and Sydney), many CBD markets will have very little or no new supply this year. This is a turnaround from 2017 when supply peaked in several markets such as Sydney, Singapore, Hong Kong and Seoul. Demand has predominately come from technology related firms, and this trend will continue in 2018. Co-working operators are set to continue to roll out their expansion plans, supporting absorption. We also anticipate, where Multinational Corporation ("MNC") demand previously dominated take up, demand from Asia corporations will become increasingly common. They have grown to become some of the world's largest corporations in tandem with the growth of the local consumption base.

The retail sector is forecast to pick up in a number major target markets. Retail sales started to recover in both Hong Kong and Singapore over 2017 indicating increased consumer confidence in these markets. Food and Beverage (F&B) and entertainment-orientated retailers are leading demand, however changes in dining preferences means retailers will need to get more creative.

The wellness and health trend is also driving demand for sporting retailers, gyms and fitness clubs. Forecasts are for retail sales growth to pick up further momentum in 2018 and as the recovery solidifies rents will likely start to rise again.

Residential prices continue to trend uphill in several markets, especially Hong Kong. In Singapore, market sentiment turned positive in 2017 and there was increased sales volume from new units being launched for sale. In addition, developer's land/site purchases have been bullish, which has increased euphoria in the market. In Sydney, the property boom may be over as the housing prices fell by 2% in Q4 2017. Expectations are for the Sydney housing market to correct by between 3- 10% in 2018.

GATEWAY MARKET TRANSACTION VOLUME



Source: RCA

Hong Kong

KEY REAL ESTATE INDICATORS

	VACANCY RATE	RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	1.7%	↔	↑	↔	↓
Retail (Shopping Center)	2.0%	↑	↓	↓	↔
Residential	3.8% ^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 Q4 2017 trend compared with the 12 months through to end Q4 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.

Hong Kong's economy expanded by 3.6% year-on-year in 2017, the strongest annual rate growth since 2011. This was supported by stronger-than-expected exports to China and better private consumption numbers, which grew by 5.4% year-on-year in 2017, versus 1.6% year-on-year in 2016. The pick-up in domestic demand for 2017 was a reflection of the buoyant stock market - the Hang Seng Index recorded its strongest annual growth since 2009, rising 36% in 2017 to close at 29,919.5 points. Hong Kong's PMI also picked up momentum in H2 2017, and stayed above 50, indicating expansion in the manufacturing sector.

External demand is expected to continue to support growth in the near term. However a slowdown in China risks creating some headwinds to Hong Kong's re-export trade, trade-related services and tourism sectors. An additional risk is the possibility of protectionist trade measures from the U.S., which will heavily affect trade with China and inevitably hurt Hong Kong's export sector. Lastly, a rise in the three-month HIBOR could put some stress on growth momentum and the residential property market. GDP growth is expected to moderate to 2.8% for the full year 2018.

Net absorption in the office market was healthy in H2 2017. Full year demand was 919,500 square feet. This was a marked improvement from the negative net absorption of 104,700 square feet recorded in 2016. Take-up volumes were strongest in Q4 2017 owing to several projects receiving their occupation permits in the year and tenants who had pre-committed to space finally moving in. The bulk of these projects were located in the decentralized submarkets of Hong Kong East, Wanchai and Kowloon. Overall, about 1.6 million square feet of decentralized office projects was added to office stock in 2017, on par with 2016's levels.

In Central, there was a net withdrawal of 13,800 square feet in 2017. This was the result of cost-saving relocations by large MNCs to decentralized markets overtaking expansions and new demand by People's Republic of China (PRC) firms within Central. For example, FTI Consulting and British American Tobacco moved out of Central to Hong Kong East and Wanchai submarkets respectively, while PRC firms like Huarong Financial Services Asset Management and Ping An Bank expanded within the Central submarket. Vacancy rates stayed low, ranging between 1.7% and 2.0%, in 2017.

Office rents continued to trend up, in line with expectations, growing 5% year-on-year by the end of Q4 2017. Elsewhere on Hong Kong Island, Hong Kong East and Wanchai/Causeway benefited from the widening rental gap versus the CBD. New projects in these submarkets saw strong take-up while vacancy in existing buildings remained tight. Hong Kong East in

Vacancy rates are high in recently completed buildings and leasing interest in upcoming projects have been weak compared to other submarkets.

particular, continued to attract tenants seeking premium offices outside Central, recording a 32.0% quarter-on-quarter increase in new lettings in Q4 2017. Rents in Hong Kong East increased steadily throughout 2017, bringing the full year increase to 3.4%.

Outside Hong Kong Island, new completions in Tsimshatsui – K-11 Atelier (Phase 1) were able to draw strong interest with several tenants leasing close to 53,000 square feet or 20% of the building. Vacancy levels in Tsimshatsui remained low despite the new supply and rents were stable, rising only 0.5% year-on-year in 2017. Conversely, for Kowloon East, the submarket has yet to gain traction from the decentralization movement. Vacancy rates are high in recently completed buildings and leasing interest in upcoming projects have been weak compared to other submarkets. Rents in Kowloon East decreased 2.3% year-on-year in 2017 as vacancy levels rose to its highest level of 14.1% since 2010.

Between 2018-2019, about 4.4 million square feet of new Grade A office space is expected to be completed. This will be concentrated in the Kowloon East (49%, 2.1 million square feet) and Hong Kong East (26%, 1.1 million square feet) submarkets. Hong Kong Pacific Tower and Mapletree Bay Point in Kowloon East will come online in 2018 with current pre-commitment levels estimated to be sub-20%. In Hong Kong East, Swire Properties' One Taikoo Place has secured pre-commitments up to 30%. Meanwhile, supply in Central, Wanchai/Causeway Bay and Tsimshatsui will be limited.

Driven by the persistently tight vacancy and coupled with the recent uptick in PRC demand for premium office space, rental growth outlook across Central, Wanchai/Causeway Bay, Tsimshatsui and Hong Kong East are expect to increase by up to 5% year-on-year in 2018. Kowloon East is the only submarket where rentals are expected to continue to decline by 5% to 10% year-on-year as new supply weighs on the submarket.

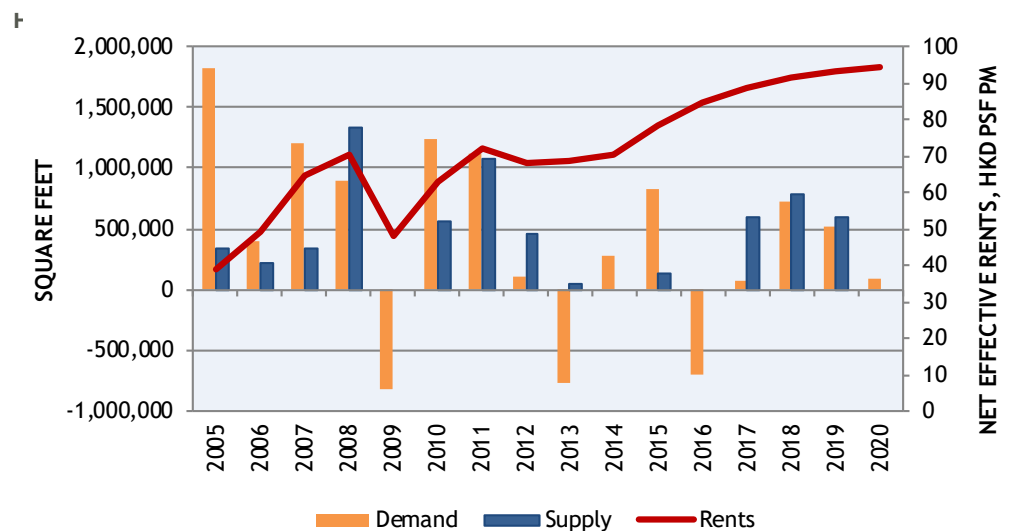
The retail sector continues to recover from a recent downturn with total retail sales growing 6.9% in November from the same month last year. For the first eleven months of 2017, total retail sales rose by 1.8% year-on-year, with increases in department stores (+3.4%), watches and jewelry (+5.0%) and affordable consumer goods (+5.0%). At the same time, tourist visitor arrivals were up 3.1% year-on-year in the first 11 months of 2017, versus the 4.6% drop in 2016.

The recovery in retail sales has yet to fully translate into an increase in leasing demand, with net absorption for 2017 coming in at 348,000 square feet, about 10% lower than demand levels in 2016. High Street rents declined a further 1.8% quarter-on-quarter in Q4, bringing the correction for the full year to 10.5%. For the prime shopping center segment however, support from stronger sales allowed rents to edge up slightly in Q4, but still ended the year down 0.5% year-on-year in 2017. The retail market is expected to be close to bottoming out and could be poised to recover in 2018. Demand going forward is expected to be driven by mass market, entertainment and experiential retailers. Forecasts are for rents to start to increase in 2018, led by high street shops, which have already seen a 44% drop since its peak in 2014.

Supported by the rally in the stock market and the upbeat market sentiment, overall residential transaction volume reached 16,320 units in Q4 2017, up 24% quarter-on-quarter in Q4 2017. For the full year, home sales reached 61,591 units, the highest level since 2014. Activity was concentrated in the primary markets in Q4 2017. Developers priced new projects launches aggressively but continued to offer financing incentives to lure buyers. As a result, overall home

prices increased 9.5% quarter-on-quarter, bringing the year-on-year increase to 12% . To-date, the Fed's decision to lift interest rates has done little to offset buying sentiment as banks have withheld passing these rate hikes on to borrowers. Further interest rate hikes by the Federal Bank in 2018 may eventually led to local banks raising mortgage rates and if so, the sales momentum is likely to slow in H2 2018.

Hong Kong's commercial investment market saw a surge in activity in 2017. Several of the larger deals in 2017 involved Chinese investors forming joint ventures with experienced offshore partners. The single largest transaction in 2017 was in the office sector, which set a new world record for a single transaction. This was the 75% stake in The Centre for HKD40 billion (USD5.2 billion or \$5,675 per square foot) by China Energy Reserve and Chemical Group and a group of Hong Kong investors. Other large office transactions included Chinese developer's LVGEM's purchase of 8 Bay East for \$1.2 billion (\$1,922 per square foot). There was also a continued investor demand for neighborhood malls which pushed up retail transaction volume for year. This included LINK REIT's portfolio sale to a consortium led by Gaw Capital and Fortune REIT's Provident Square in North Point to fund managers Chelsfield and Pamfleet.



Source: JLL

Singapore

	VACANCY RATE	RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	10.8%	↑	↑	↑	↓
Retail (Shopping Center)	3.4%	↓	↓	↑	↔
Residential	7.8%	↓	↓	↑	↔

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 Q4 2017 trend compared with the 12 months through to end Q4 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.

According to advanced estimates by the Ministry of Trade and Industry (MTI), the economy grew by 2.8% quarter-on-quarter in Q4 2017, bringing growth to 3.5% year-on-year in 2017. This was in-line with the government's expectations and was the strongest expansion recorded since 2014. Manufacturing and export-dependent service sectors led growth for the year, while the construction sector contracted by 8.5% year-on-year. In December 2017, Singapore Purchasing Manager's Index (PMI) was 52.8 - its 16th straight month of expansion. Looking ahead, the 2018 outlook for the manufacturing sector is a little more cautious, as the impacts of slowing growth in China as well as a decline in demand for global electronics take effect. Oxford Economics has maintained Singapore's 2018 GDP growth forecast at 2.9%.

Core inflation (excluding motor vehicles and private accommodation) was 1.5% year-on-year for 2017 and will likely stay in the 1% to 2% band for 2018. Despite improved fundamentals, the Monetary Authority of Singapore (MAS), kept its policy settings unchanged in 2017; that is, a zero appreciation stance that has been in place since April 2016. Given inflation risks on the upside and another year of solid growth expected in 2018, there is some speculation of a tightening in policy at the next bi-annual meeting in April 2018.

The effects of oversupply in the office market dissipated in early 2017 and the market began to trend upwards in favor of landlords in the last three quarters of the year. Demand in the Central Business District (CBD) reached 837,000 square feet in 2017, almost 2.4 times the net absorption level in the previous year. Take-up in the CBD was a mix of expansions and new entrants across industries like technology, pharmaceuticals and co-working/serviced offices, but also included several examples of decentralized tenants moving inwards to the city center. These occupiers were taking advantage of the marginal difference in rents to relocate to newer and better quality buildings in the CBD. This trend is expected to continue in the next few months as more occupiers move to their pre-committed space in newer projects, such as the ride-hailing firm Grab moving into Marina One in Q1 2018 from its decentralized office in Sin Ming Estate.

Several of the newly completed and pipeline buildings have seen strong leasing activity. Emboldened by the strong demand, landlords of newer and better quality buildings started increasing rents in Q2 2017 guiding the rest of the market to follow suit. Average CBD rents bottomed in Q1 2017 and edged up by 9.0% to SGD9.23 per square foot per month by year-end.

In 2018 to 2020, the CBD office market will enter three years of historical supply lows – the annual average supply for the next three years is 0.5 million square feet, less than half of the 10

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year historical supply of 1.3 million square feet. In 2018, the two projects completing (i.e. Frasers Tower and 18 Robinson) will increase the total office stock by 2.5%. The largest, Frasers Tower, developed by Frasers Property, has already secured a pre-commitment rate of 70% from major occupiers like Microsoft, Total and Sumitomo. Meanwhile, 18 Robinson by Tuan Sing has secured a 20% pre-commitment from a serviced office operator.

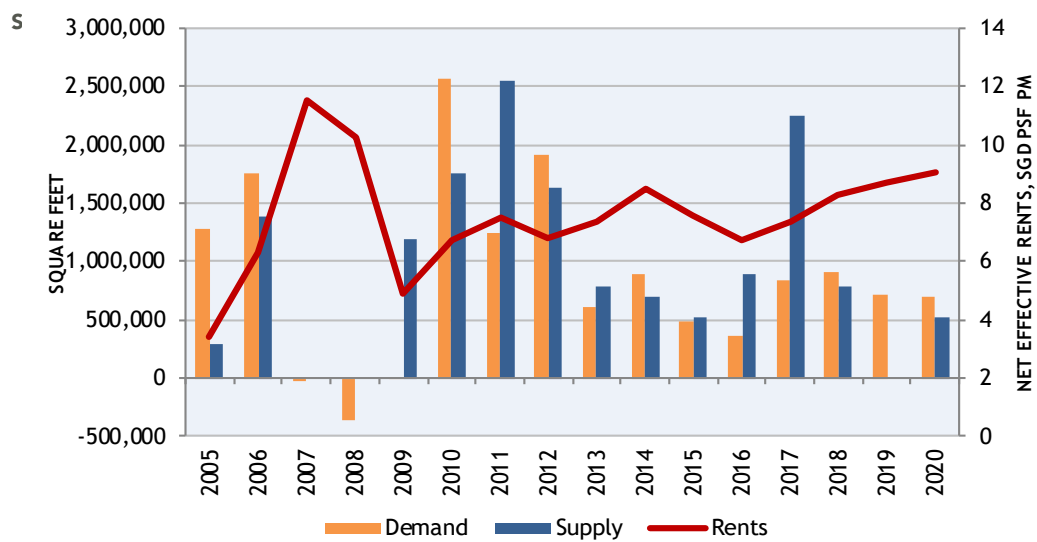
Occupier demand is expected to improve by 8% year-on-year in 2018. Given the limited supply in the near term, vacancy in the CBD will become tight and cause a further upswing in rents. The outlook is for rents to increase by 13% in 2018 and by another 5% in 2019. Office leases renewing in second half of 2018 onwards will start seeing positive reversion up through 2022.

The retail sales index was mixed throughout the year, but by November 2017 had recorded a 4.6% year-on-year increase. While positive, the mid-year Nielsen Consumer Confidence Survey highlighted that locals remain fairly cautious and are still focused on necessity based shopping rather than discretionary purchases. Instead, it is possible that retail sales for the year could have been pushed up by higher tourist arrivals. According to the Singapore Tourism Board (STB), tourist arrival numbers grew by 8% year-on-year for the period between January and October 2017.

The retail industry has faced structural headwinds for several years. In 2017, cases of retailers downsizing operations were common, but there are also instances of store expansions and new entrants taking up space in prime locations. For example AW Lab - Italian sports retailer and Lumine - Japanese multi-concept retailer set up their first stores in Singapore in Suntec City Mall and Clarke Quay Central respectively while Welchia-BHG, a Japanese drug store chain set up its second outlet in Northpoint City. The net effect was a moderate take-up of space at 742,000 square feet in 2017, about 20% below the past 10-year historical average. Rents continued to be under pressure, with Orchard Road rents down 2.3% while prime suburban mall rents were down 3.1% in 2017, bringing the three-year (2015 to 2017) rental decline to between 13% to 15%. Nevertheless, given the modest supply situation over the next few years (with the exception of Jewel at Changi Airport), rents could be poised to increase. Well-managed malls with higher occupancy levels are likely to start seeing rental increases ahead of others in the market.

The residential market has seen a flurry of activity in the past few months buoyed by enbloc sales. These are when owners collectively sell apartment blocks to developers who will redevelop the site more intensely. Aggressive land-bids for these sites means that the break-even cost will be higher and as such, residential prices are bound to increase. The enbloc process has also generated a new pool of buyers in the market and resultantly the volume of sales has increased. In 2017, there was a 55% year-on-year jump in the number of transactions across both new sales and resale residential units to 24,600 units. In line with the increased activity in the market, pricing has also trended upwards by 1.1% in 2017 versus the 3.3% decline in 2016.

Singapore's investment market (excluding land sales) was active in 2017, with \$15.0 billion in sales for 2017. This was a 50% increase over investment volumes in 2016 and the highest level recorded since 2007. Cross-border capital was particularly active in 2017 representing about 41% of buyers. A recently announced office transaction was the sale of Chevron House to Oxley Holdings at an estimated \$1,874 per square foot. Other major transactions for the year included the sale of Asia Square Tower 2 to CapitaCommercial Trust (\$1,974 per square foot, cap rate of 3.6%), Jurong Point Mall to NTUC Income (\$2,119 per square foot, cap rate of 4.2%) and TripleOne Somerset to Hong-Kong based Shun Tak Holdings (\$1,580 per square foot).



Source: JLL

Seoul

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (Overall)	11.7%	↓	↑	↓	↓	↔
Office (CBD)	13.4%	↓	↑	↑	↓	↔
Office (Yeouido)	19.4%	↑	↓	↓	↔	↔
Office (Gangnam)	5.2%	↓	↑	↓	↓	↔

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 Q4 2017 trend compared with the 12 months through to end Q4 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.

GDP contracted marginally, 0.2% quarter-on-quarter in Q4 2017, the first quarterly fall observed since the recovery of the global financial crisis. The slower growth was off the strong base in Q3 and was affected by seasonal factors, such as the Autumn (Chuseok) holidays falling in early October 2017. Nonetheless, the economic growth accelerated to 3.1% year-on-year in 2017, the fastest pace recorded since 2014, underpinned by strong export growth and increased government spending. For 2018, the economy is expected to grow by 2.9%, a slightly slower pace. Low inflation and a firm labor market will help support domestic demand and fiscal expansionary policy will spur growth. However, weaker demand from China, higher household debt and a slowdown in construction will be a counterbalance to those positives.

The Bank of Korea (BoK) raised rates by 25 bps in November 2017 to 1.5% - the first rate hike in six years. The timing for this came ahead of market expectations, but was accompanied by doveish statements that reiterated the need for continued policy support. The BoK will be cautionary about the next increase, with one or two more hikes expected for 2018.

Across the three main submarkets, the overall take-up was 291,000 square feet (NLA) in 2017. Similar to previous quarters, the trend of conglomerates or Chaebols moving to owner-occupied stock continued. For 2017, demand was strongest in the CBD and Gangnam, while Yeouido continued to struggle to attract new occupiers, especially to its prime space. Going forward, the relocations into owner-occupied stock will continue until early 2018, after which it is expected to be limited.

In the CBD, vacancy rates fluctuated through the year owing to a mix of consolidation efforts and new entrants into the submarket. Nonetheless, the year ended with vacancy rates down 1.6%-points to 13.4%. Overall net absorption for the year was 401,000 square feet. Landlords attracted tenants by offering longer rent free periods, resulting in a 4% year-on-year decline in net effective rents. Going forward, two factors are expected to contribute to increase in vacancy in 2018 – the first is the relocation of Amore Pacific into its newly constructed Yongsan HQ and the second is the completion of Centropolis (1.3 million square feet) which will add large new space to the submarket. Vacancy rates are expected to increase to 15.2% by end 2018.

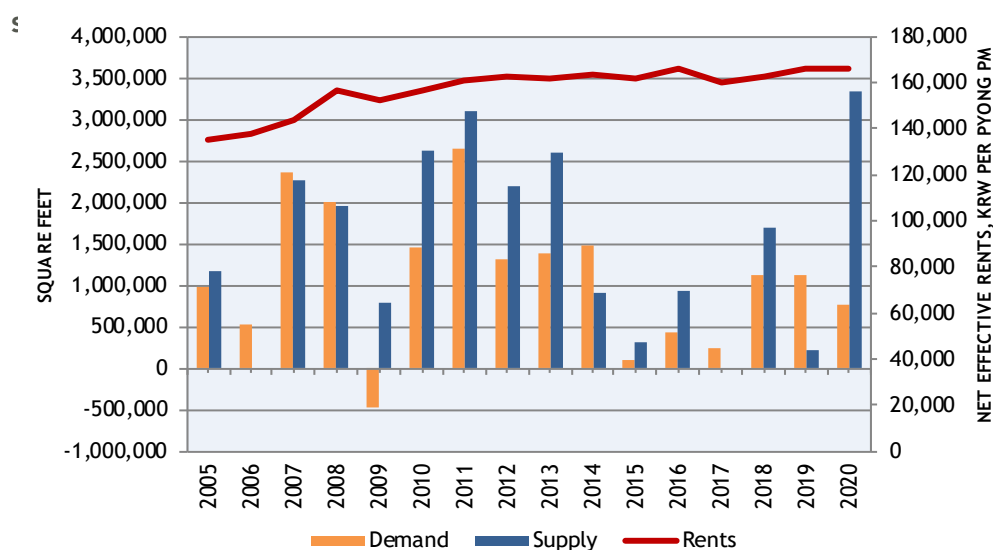
In Gangnam, vacancy levels continued to contract in 2017, ending the year down 1.48% points to 5.2%. Take-up in the submarket slowed in H2 2017 with several tenants exiting from Samsung

The investment market in Seoul remains highly active.

Life Seocho Tower, but for the full year recorded positive absorption through expansions in the IT industry and co-working space sector. For example, in Q4 2017, WeWork expanded to its third office building in Gangnam taking up three floors or 1,874 pyung (65,590 square feet) in Capital Tower. Given the limited vacancy in Gangnam, monthly net rents increased year-on-year in 2017 by 1.6%, outperforming the other two districts. Vacancy rates are expected to rise modestly in Gangnam in 2018 with three new office buildings coming online – Samsung Life Insurance Cheongdam, Gangnam Finance Plaza and Luchen Tower. Currently only Gangnam Finance Plaza is 100% pre-committed.

The conditions in Yeouido are strikingly different from Gangnam and the CBD. The submarket's vacancy rose to 19.4% as net absorption fell in Q4 2017. For the whole of 2017, Yeouido's demand was 273,000 square feet, marked by several large relocations out of the district offsetting the small-sized leases that closed in the year. The most notable relocation was LG Electronics and HPE's departure from IFC Two and HP Building respectively. This will trend will continue into 2018 with LG CNS's and LG Hausys relocation to LG Science Park Phase 1 in Magok in Western Soul. In light of these scheduled departures, landlords raised incentives during the quarter, driving net effective rents down 13.7% for the full year. Supply in Yeouido is limited in the next two years (2018-2019). The sole completion in 2018, KTCU Building, is reported to have achieved a 100% pre-commitment prior to completion. On the back of the limited supply, vacancy levels are expected to moderate through to 2019, before rising again in 2020 when more new completions hit the market.

The investment market in Seoul remains highly active. After adjusting for the mega-sale of Seoul IFC in November 2016 (\$2.2 billion), investment volumes were 13% higher year-on-year in 2017, coming in at \$9.8 billion. A notable cross border transaction in Q4 2017 was the sale of POBA Gangnam Tower to Pacific Alliance Group (PAG) for \$271.3 million (\$556 per square foot). Other major transactions that closed in the fourth quarter of 2017 were mostly by local groups. For example, within the CBD, Booyoung Group purchased Hana Financial Group HQ (828 million, \$1,028 per square foot) and Hyundai Group secured the Hyundai Group Building (\$219.6 million, \$389 per square foot). In Gangnam, Mastern Investment Management bought L7 Hotel Gangnam Tower (\$222.8 million, \$616 per square foot). Some pending sales that are expected to close in Q1 2018 are for K-Twin Tower and Centropolis. The expected sales price for K-Twin Tower is KRW28 million/pyung, setting a new record price on a pyung basis in the Seoul office market.



Source: JLL

Shanghai

	VACANCY RATE	RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	10.6%	↑	↓	↑	↓
Office (CBD - Puxi)	10.9%	↑	↓	↑	↓
Office (CBD - Pudong)	10.2%	↑	↑	↑	↓

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 Q4 2017 trend compared with the 12 months through to end Q4 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 expanded by 6.9% year-on-year, in line with the national average. The country's growth in 2017 was underpinned by steady export momentum and robust household consumption for the full year. In Shanghai, the services sector continued to lead growth with a 7.5% year-on-year increase. Within the service sectors, information and technology grew the strongest by 18.9% year-on-year as the government continues to push out its internet-led economy. Meanwhile, the financial service sector grew by 11.8% in 2017.

The major supply wave in the Shanghai office market arrived in 2017 with about 16.4 million square feet (NLA) in new completions. Of this, about 28% or 4.6 million square feet of the new supply was concentrated in the Pudong and Puxi CBDs, while the other 72% (11.8 million square feet) were in decentralized areas. Net absorption of office space increased steadily throughout the year and concluded the year at 9.4 million square feet. Even though this was almost two times the past 10-year annual average net absorption level, it did not match supply, and vacancy rates rose across the various sub-markets.

In the Pudong CBD, two new projects Shanghai Finance Tower and China Life Centre- completed in early 2017 adding 3.3 million square feet to total stock. Net absorption was 1.6 million square feet in 2017, more than three times the level recorded in the previous year. Demand came mostly from domestic financial services and domestic legal companies and co-working operators. New take-up gradually slowed in 2017, reflecting the leasing progress in newly completed projects. Rents held steady in newer buildings, but landlords of lower quality, poorly maintained buildings began to be more flexible on rents in order to retain tenants. On an overall basis, net effective rents remained relatively flat year-on-year, while vacancy rates trended up by 2.3% points to 10.2%. In 2018, another 3.1 million square feet is expected to complete, the bulk of which will be in the Liujiazui district, after which new completions in 2019-2022 will be limited. The expectation is for the vacancy rate to peak at 12.7% by end 2018, before reducing steadily amidst limited supply in 2019-2022.

The supply schedule in the Puxi CBD has been robust in previous years. In 2017, another 2.3 million square feet of new projects completed in H1 2017. Similar to the Pudong CBD, the bulk of net absorption for the year was due to tenants moving into these newer developments. Landlords of newly completed or pipeline projects offered attractive discounts to secure high-profile tenants early. Examples include WeWork securing a whole office building (290,000 square feet) in the recently completed China Overseas International Centre and Macquarie Group upgrading to a

Investment activity continues to be strong in Shanghai with transaction volume (excluding land sales) coming in just a hair below 2016 levels.

16,700 square feet in HKRI Centre. Generally, leasing was healthy across the finance, professional service as well as technology and media industries, but the growing decentralization trends of cost-conscious occupiers have put pressure on landlords to be flexible on rents. Net effective rents declined by 1.7% year-on-year in 2017. In 2018, another four projects are expected to complete, adding another 2.0 million sq ft. While the CBD is expected to remain the preferred location of companies in the financial, professional services and TMT sectors, new demand will be squared off the growing decentralization trends.

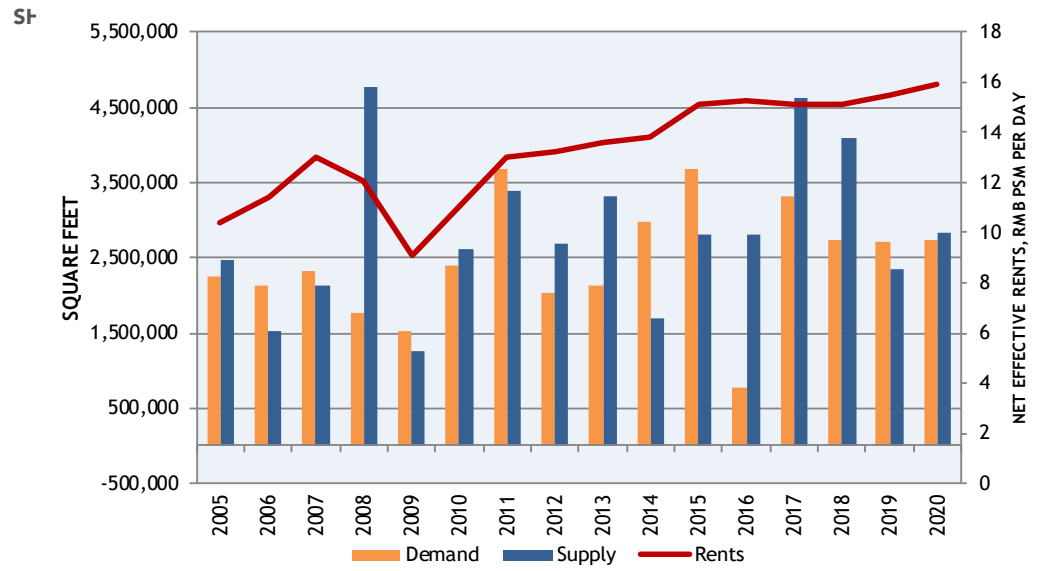
The decentralized office market has more than doubled in size the last five years (2013-2017). Current stock stands at 41.5 million square feet (NLA) and is expected to reach 66 million square feet by end 2020. Improved metro accessibility, retail facilities and high-spec new product are increasingly attracting new tenants. In 2017, the decentralized market saw its strongest take-up volume yet, amounting to 6.0 million square feet. These mostly came from manufacturing, trading, chemical and pharmaceutical companies seeking cost saving options outside the CBD. Despite record supply levels in 2017 and high vacancies, the decentralized market registered a year-on-year increases in rents, led by newer buildings and high quality projects in CBD fringe clusters such as Railway Station and Sichuan North Road/North Bund. Leasing demand is expected to continue to be strong going forward, averaging 6.1 million square feet per annum from 2018 to 2020. Supply side pressures however will keep vacancy rates high (25%-28%) and limit rental growth.

Overall retail sentiment remains buoyant in China. Total retail sales grew by 7.8% year-on-year in December 2017. In terms of shop categories, year-on-year increases were seen in the supermarket (+7.3%), store (+6.7%), pro-shop (9.7%) and exclusive shop (+8.0%) segments.

In 2017, net absorption of retail space increased by 10% year-on-year, supported by stronger take-up in decentralized malls. Demand continues to be driven by F&B, health, and children's brands. These retailers are also getting creative, introducing novel customer experiences or are using digital strategies. For example, Starbucks Reserve Roastery debuted a new concept store at Taikoo Hui in Q4 2017, offering an interactive, multi-sensory coffee experience along with augmented reality via a phone app. Meanwhile, online integrated supermarket store He Ma Sheng and Super Species opened flagship stores in decentralized malls to serve a customer base within a three kilometer radius.

As many projects scheduled for completion in 2017 were delayed, a city-wide supply peak is expected from 2018 to 2019. Even though demand continues to be healthy, supply-side pressures will limit rental growth going forward.

Investment activity continues to be strong in Shanghai with transaction volume (excluding land sales) coming in just a hair below 2016 levels. Cross border buyers represented about 41% of the activity in 2017, a significant jump from the 25% in the previous year. More than half of cross-border sales in the year was from capital sourced from Hong Kong and Singapore. The most notable deal in 2017 was from the sale of the Sky Soho Project to Gaw Capital for about \$753 million (\$545 per square foot). This was a group of Grade A office buildings developed by SOHO China in Linkong Economic Park, west of Changning district. Other major deals in the year included Eco City by Ting Hsin International Group for \$928 million (\$1,285 per square foot), Garden Square by KLand for \$570 million (\$946 per square foot) and Soho Hongkou for \$525 million (\$696 per square foot) by a consortium comprising Keppel Land, Alpha Investment Partners and Allianz.



Source: JLL

Sydney

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Sydney CBD (prime)	5.1%	↓	↑	↓	↓	↓
North Sydney (prime)	7.9%	↓	↑	↓	↓	↓

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 Q4 2017 trend compared with the 12 months through to end Q4 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.

In line with forecasts, the Australian economy grew by an estimated 0.4% quarter-on-quarter in Q4 2017, bringing full year growth to 2.2%. Expansion was supported by strong business investment and increased government spending but was offset by lower consumer consumption, high household debt and slower residential construction activity. Net exports in 2017 were growth-neutral, but is expected to support expansion in 2018. GDP growth is expected to accelerate slightly to 2.4% in 2018.

CPI inflation rose by 2% year-on-year in 2017. It is expected to remain at the lower end of the Reserve Bank of Australia's (RBA) target band (2% to 3%) during most of 2018 and will pick up only gradually as the economy expands. At the latest RBA board meeting on 6 February 2018, the board decided to leave the cash rate unchanged at 1.5%. The consensus view is that the RBA is in no urgency to act, and will continue its to hold its policy stance to achieve sustainable growth and inflation targets.

The Sydney CBD office market went from strength to strength in 2017 supported by tight occupancy and sustained leasing demand. About 493,600 square feet of new office space was completed in 2017, but was unable to alleviate constrained supply as another 1.2 million square feet of secondary space was withdrawn from stock. Take-up within prime buildings was driven by movements and expansions in the technology and media industries while absorption in the secondary buildings were influenced by displaced tenants from stock withdrawals. Consequently, overall vacancy rates fell 0.6% points in Q4 2017 or 2.3% points for the year to 5.40%, a new historical low. In view of the tight market, gross face rents increased by 8% in 2017 across both prime and secondary rents. This was accompanied by decreases in incentives, which was more pronounced for prime grade buildings. In 2017, average incentive levels fell from 25.0% to 18.6% (prime grade) and 20.3% to 17.3% (secondary grade). As a result, net effective rents in prime stock rose by a strong 26% year-on-year in 2017, while the increase was 17% year-on-year for secondary quality buildings.

In 2018, office space will continue to be limited with only 305,200 square feet completing and another 522,000 square feet of planned withdrawals. Net effective rents across prime and secondary stock are expected to continue to edge up by, 9% year-on-year, as demand outstrips supply and vacancy falls to historical lows. The next wave of supply is expected to arrive in 2019 to 2020, with several large projects completing. These include Investa's 60 Martin Place as well as AMP's Wynward Place (45% pre-committed) and Quay Quarter (40% pre-committed). Similar to the CBD, North Sydney's constrained supply due to stock withdrawals has contributed to strong rental growth in the past year. As at end 2017, vacancy levels in prime (7.9%) and

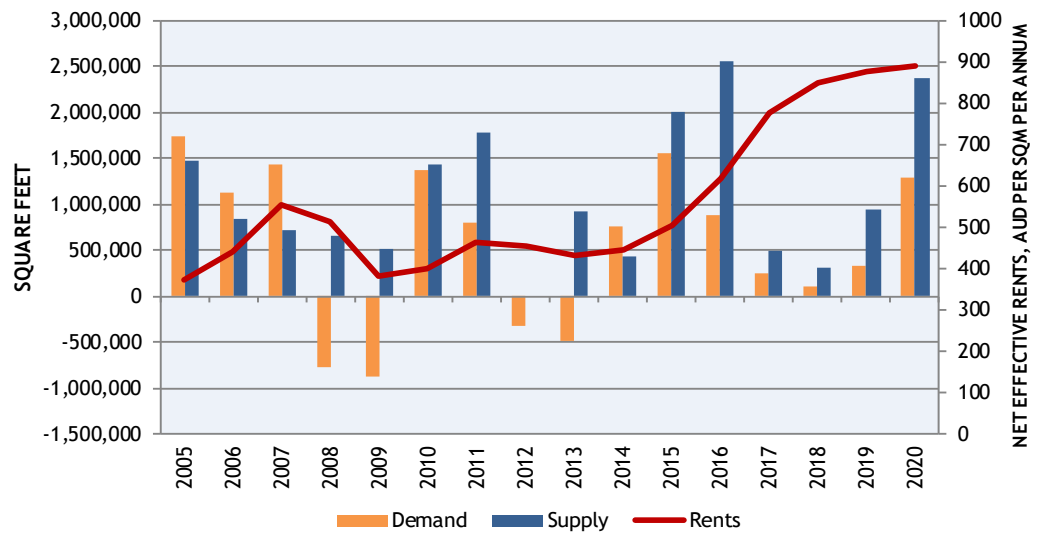
The Sydney CBD office market went from strength to strength in 2017 supported by tight occupancy and sustained leasing demand.

secondary grade buildings (7.3%) were trending well below the overall 10-year historical average of 9.4%. Demand for office space in North Sydney was mixed in 2017 with pocket of exits by smaller firms, consolidation efforts, and relocations from elsewhere in the North Shore market. Despite the mixed demand however, rents trended higher due to limited availability of quality space. In 2017, net effective rents rose across the market, prime grade rents were up 12% while secondary grade rents rose 8%.

One example of occupiers relocating from the CBD to North Sydney has been Allianz's IT division moving 5,700 sqm at 101 Miller St. There is potential for this trend to evolve and begin contributing to absorption levels in North Sydney. This is especially so as the rental gap between North Sydney and the CBD continues to widen from its current levels of around 30%. Smaller occupiers in particular tend to be more cost sensitive and could be willing to relocate. In addition, there is some evidence to suggest technology-related firms or business units of larger corporates will be willing to look at North Sydney as a decentralized location.

In the next two years, only one major office completion is expected in North Sydney – Dexus's 100 Mount, adding about 437,100 square feet to overall office stock. The landlord has already secured a 65% pre-commitment rate and AEW understands there is strong interest for the balance of the space. Others in the pipeline like 88 Walker (29,000 square feet) and 148 Pacific Highway (18,300 square feet) are substantially smaller. As such, the near term rental outlook for North Sydney is positive with net effective rents expected to continue to increase by an average of 5.2% per annum for the next two years along with a marginal decline in incentives.

The Sydney investment market saw considerable investment activity in 2017, but this was still 25% shy of the volumes recorded in the previous year. Domestic players like DEXUS, Charterhall, AMP and UniSuper made up the top-four buyer list for year, but cross border capital was still active representing 37% of all transactions. Major Sydney CBD office deals that closed in Q4 2017 included Telstra House (\$258.7 million, \$1,033 per square foot) by Charter Hall REIT, 130 Pitt (\$175 million, \$1,699 million,) by CLSA and Mitsubishi, 1 Castlereagh Street (\$166.4 million, \$1,326 per square foot) by a Hong Kong-based individual and 9 Hunter Street (\$154.9 million, \$920 per square foot) by Ashe Morgan. By end January 2018, there were about \$73 million of concluded sales and another \$2.1 billion of additional deals likely to close. Among the pending deals was the Grade B office building in the CBD - Colonial House (1 York Street) to be bought by Blackstone from HNA Group and Home HQ Artamon, a shopping mall in North Shore to be bought by local investment group, Fortius Funds Management, from Blackstone



Source: JLL

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