AEW RESEARCH

ASIA PACIFIC MARKET PERSPECTIVE

Q2 2018

AEW

Prepared by AEW Research, June 2018

General Economic Overview

The global economy is expanding in line with forecasts, with a growth projection of 3.9% in 2018. According to the International Monetary Fund (IMF), we are close to the two-year mark of a global cyclical upswing. Forecasts are for growth to be close to peaking in many advanced economies, and for it to become less synchronized in the future. In the U.S., near-term momentum has been strong, with Q2 GDP growing by 4.1% year-on-year. The high pace of growth was primarily driven by government spending as well as a pickup in exports to China ahead of anticipated tariffs. In Europe, Euro Area growth has decelerated, with 2018 figures likely coming in slower than 2017. In the Asia Pacific region, economic growth has been on target, with a full-year forecast of 4.5%.

One major issue affecting the outlook is the potential for a trade war between the U.S. and China. So far, actual tariffs imposed are expected to have a minor effect on the overall economic outlook. Should additional tariffs that are currently being publicized come into effect, the detraction in growth and employment over 2019 and 2020 could be substantial. While projections show both countries would be worse off; China is in a more vulnerable position (imports from the U.S. are less than exports). In addition, there are second-order costs to economies throughout the region stemming from a loss of confidence, delayed investment decisions, lower consumption growth and disrupted global/regional supply chains. The base case outlook anticipates that these risks are avoided.

CPI growth is generally low and just about at the bottom end of target ranges. Monetary policy settings across the region continue to be accommodative. Over the past few months, the Reserve Bank of Australia (RBA), the Monetary Authority of Singapore (MAS) and Bank of Korea (BOK) have held monetary policy meetings and left their settings unchanged. The People's Bank of China (PBoC) has taken several policy actions over recent months, including lowering the Reserve Requirement Ratio (RRR) for banks. The PBoC has aimed this increase in liquidity to target financial sector risks, especially for medium-sized to small-sized firms.

MACROECONOMIC INDICATOR SUMMARY

COUNTRIES	GDP (Y-O-Y)		CPI (Y-O-Y)		INTERBANK RATE/ CASH RATE		USD EXCHANGE RATE	
Year	2018	2019	2018	2019	2018	2019	2018	2019
Australia	2.78	2.46	2.35	2.52	1.50	1.75	0.76	0.77
China	6.52	6.09	2.25	2.57	3.20	3.70	6.50	6.25
Hong Kong	3.62	2.44	2.41	2.06	2.75	3.50	7.84	7.80
Singapore	3.01	2.41	0.59	1.71	1.84	2.51	1.35	1.34
S. Korea	2.70	2.59	1.64	2.28	1.75	2.25	1,106	1,084

Source: Oxford Economics

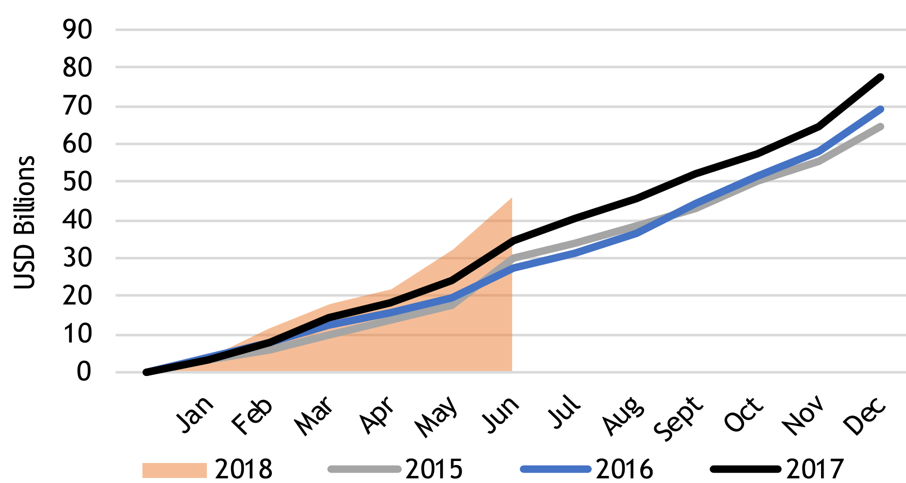
Property Market

Office demand across major Asian gateway cities was 4.1 million square feet over the second quarter. This brought the first half 2018 net absorption to 9.1 million square feet, a significant improvement over the 4.9 million square feet absorbed in the same time period a year earlier. Technology firms, with co-working and service office operators particularly active, have led the net increase in occupied space. Vacancy rates remain very low in Hong Kong, Beijing, Sydney and Melbourne, and they declined in Shanghai and Seoul. Across the markets, the average vacancy rate fell from 8.8% in Q1 to 8.4% in Q2.

Cumulative transaction activity for major Asian gateway cities are also tracking higher when compared to similar periods in previous years. Most of this activity is concentrated in Hong Kong, where the $5.2 billion sale of an interest The Centre dominated. There was also a two-office building portfolio sale by Swire for about $1.9 billion. The next largest sale was another two-property portfolio sale of shopping centers in Australia to domestic investor QIC. Lastly, Centropolis in Seoul was sold to M&G Real Estate for slightly over $1.0 billion on a forward basis.

The bond yield curve in most markets have shifted higher over the year, reducing the spread to real estate yields. Capital continues to be attracted to the sector as many investors are under allocated and absolute yield continues to be attractive. Yields firmed in the office sector and have remained broadly unchanged in retail. Chinese outbound investment capital has slowed down, although it has been a big part of the Hong Kong market over the past year. Cross border investment from the U.S. and Europe into the Asia Pacific region to-date is at similar levels when compared across the same period for previous years.

GATEWAY MARKET TRANSACTION VOLUME



Source: RCA

Hong Kong

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (Hong Kong Island)	1.8%	↓	↑	↓	↑	↓
Retail (Shopping Center)	3.3%	↑	↑	↑	↑	↔
Residential	3.7%[A]	↔	↑	↑*	↑*	↓

[A]As at December 2017, the latest period reported
Source: JLL, Hong Kong Rating and Valuation Department
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2018 trend compared with the 12 months through to end Q2 2017. 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.

ECONOMY

Following the strength in Q1 2018, the Hong Kong economy continued to expand at a still-solid pace in Q2. Growth is expected to moderate noticeably in H2 as the effects of slowing demand from mainland China begin to set in. The economy is expected to expand by 3.6% in 2018, with downside risks if more unfavorable trade policies targeting China are announced. The domestic sector of the economy remains well positioned. Unemployment rates are currently at 20-year lows and the recent rebound in retail sales and inbound tourism have supported private consumption year-to-date. The volatility in the stock market, trade tensions and expectation of higher interest rates could take a toll on consumption sentiment going forward.

PROPERTY MARKET - OFFICE

Extremely low vacancies and persistent demand on Hong Kong Island continue to put upward pressure on office rents. In H1 2018, rents on Hong Kong Island increased by 3.7%, the strongest half-year increase seen since H1 2015. Central continues to see demand from mainland Chinese firms. In Wanchai and Hong Kong East, the bulk of leasing activity was concentrated in upcoming office developments such as One Taikoo Place and One Hennesy.

Expansion and decentralization continue to be key features of the leasing environment. Expansion has mostly been led by aggressive growth of co-working operators as well as finance and professional service firms. Very low vacancy rates, widening rental gaps, as well as the completion of new office buildings in Hong Kong East and Kowloon East are driving a decentralization trends. Major occupiers that relocated out of core markets in H1 2018 included some legal and insurance firms. In Kowloon East, take-up in H1 2018 surprised on the up-side with 1.1 million square feet absorbed, about 2.7 times the volume for the full 2017.

In Q2 2018, rental forecasts for 2018 were adjusted up to reflect the stronger than expected leasing demand. Rental growth on Hong Kong Island is expected to peak in 2018, with year-on-year increases from 7.5% to 9.5%, largely led by the upswing in Hong Kong East. Rents are expected to continue to grow in 2019 and 2020, but given the onset of new supply in Hong Kong East and Kowloon East, the pace of growth is likely to slow.

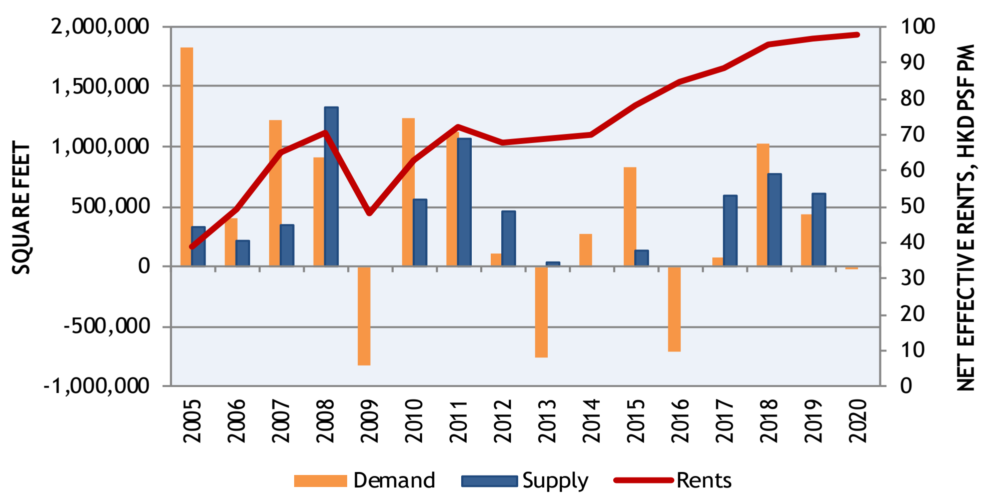
PROPERTY MARKET - RETAIL

The retail slump in Hong Kong could have turned a corner in Q2 2018. Hong Kong retail sales were up 13.7% during the first five months of this year driven by the watches and jewelry segment. This was accompanied by positive leasing demand, broadly across luxury and mass market retailers, and in turn, high street retail rents edged up 0.6% in Q2 - this was first quarterly rental increase in three years. More notably, a survey conducted by Jones Lang LaSalle (JLL) indicated 83% of respondents (a mix of international and domestic brands) intend to open new stores within the next 12-month period, suggesting a recovery is underway. As purchases by mainland Chinese tourists account for a substantial proportion of sales, the recent CNY weakness has the potential to erode the buying power of mainland tourists and may result in a more protracted retail recovery.

PROPERTY MARKET - RESIDENTIAL

With strong demand and with held supply, housing prices in Hong Kong have been steadily rising for several years, increasing by 24% between 2016 to June 2018. Estimates from the Hong Kong Rating and Valuation Department (HKRVD), have shown prices increasing by close to 5.0% in H1 2018. Price growth may start to slow in H2 2018 on the back of new government measures and a possible increase in prime lending rates. On 29 June 2018, a new vacancy tax was announced, primarily to discourage developers from retaining unsold units and restricting supply. Under the new measure, a tax would be imposed on units that are unleased or unsold from one year after their completion date. As a result of the vacancy tax, developers are expected to regularly release units for sale or rent to reduce inventory levels. At the same time, buyer interest could wind down in the second half of 2018 as the U.S. Fed policy adds pressure to local mortgage rates.

HONG KONG ISLAND DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
Swire Pacific Portfolio	Hong Kong Island	Jun-18	Office	$1,912	$1,904	2.3%	Hengli Group
Octa Tower	Kowloon	May-18	Office	$956	$1,380	n.a.	JV Various Groups
Kowloon City Plaza	Kowloon	Jun-18	Retail	-$892	$1,394	n.a.	n.a.
W Square	Hong Kong Island	Jun-18	Office	$363	$3,162	2.0%	Winland (HK)

Source: RCA

Singapore

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	9.2%	↑	↑	↑	↑	↔
Retail (Suburban)	2.7%	↑	↓	↑	↑	↔
Residential	7.1%	↓	↑	↓	↓	↓

Source: JLL, Singapore Urban Redevelopment Authority
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q2 2018 trend compared with the 12 months through to end Q2 2017. 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.

ECONOMY

Singapore's economic growth continues remains on solid footing, although slowing manufacturing and export demand resulted in growth moderating in Q2 to 3.8% year-on-year. The services sector continues to expand and will support the labor market and household spending going forward. Growth forecasts for 2018 have been revised downward slightly to 3.0% in anticipation of weaker export momentum and a slower recovery in the housing market. Escalating trade tensions pose a major downside risk to the current economic outlook. Despite weaker growth, latest CPI figures support expectations for a higher inflationary environment in H2 2018 which could warrant further tightening of monetary policy in October, when the MAS will next meet. That said, any adjustment to monetary policy would depend largely on external economic conditions at the time.

PROPERTY MARKET - OFFICE

In Q2 2017 (1 year ago), vacancy rates were 6.8%. The quarter that followed saw the completion of a major office project (Marina One), which added 1.9 million square feet of leasable space to overall stock and resulted in vacancy rates reaching their cyclical peak of 11.9%. Since then however, steady demand has seen vacancy rates on a downward trend. Alongside the fall in vacancy, rental growth began to gain pace in the second half of 2017.

In Q2 2018, Frasers Tower (664,000 square feet), located in the Shenton Way precinct completed. Although the project completed with preleasing above 70%, it has temporarily increased the CBD vacancy rate. Relocation into the new premises by committed tenants will be staggered across the next 12 to 18 months, giving landlords sufficient time to backfill vacated space.

In H1 2018, gross rents in the Central Business District (CBD) increased by over 6%, bringing growth from the Q1 2017 trough to 15%. As of Q2, we estimate the rental recovery is mid-way through its current cycle with continued growth expected through to 2020. Positive lease reversions should continue to be in place for several more years. Beyond 2020, the outlook depends on the balance of new supply, including its timing, any possible withdrawals from stock for renovation or repositioning, as well as underlying occupier demand.

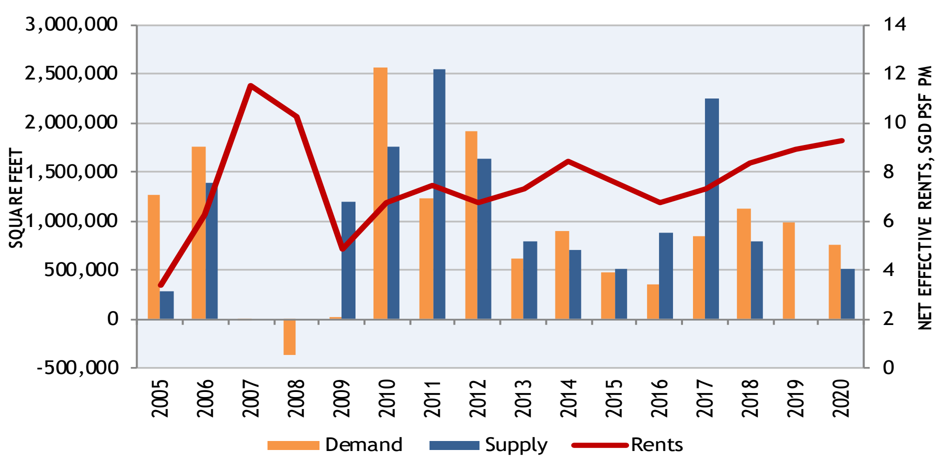
PROPERTY MARKET - RETAIL

Despite supportive macro fundamentals, such as income growth, a tight labor market and a positive wealth effect, the retail sector continues to be challenging – retailers remain cautious on brick-and-mortar expansion as consumers increasingly turn to e-commerce for convenience. While leasing demand is positive, led by F&B and wellness/athleisure groups, overall demand year-to-date has been negated by cases of several retailers exiting the market. Mall owners are focusing on presenting their retail space as relevant in today's competitive environment. This includes experimenting with tenancy mix (including pop-up stores) as well as consistent investment in advertising and promotions. In Q2, rents were largely stable.

PROPERTY MARKET - RESIDENTIAL

The strong growth momentum in the residential market in H1 2018 is expected to slow in view of the recently implemented measures by the government (effective of July 6, 2018) to dampen sales activity. Before this, both first-time home buyers and investors were active in H1 2018. Estimates released by the Urban Redevelopment Authority (URA) indicated a 7.4% increase in residential prices H1, led by sales in the city fringe locations. At the same time, a total of 32 bulk-unit residential purchases by developers worth SGD$9.7 billion was transacted in H1 2018, exceeding the 26 deals worth SGD$8.2 billion transacted for the whole of 2017. In effect, these are land sales which will deliver new residential units in several years' time. On the back of this momentum, the government increased the stamp duty and lowered of loan-to-value (LTV) limits for subsequent homes purchase. The new measures are expected to dampen residential investment activity by both individuals and developers.

SINGAPORE CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
Twenty Anson	CBD	Jun-18	Office	$385	$1,903	3.1%	AEW
Sembawang Shopping Centre	Suburban	Jun-18	Retail	$185	$1,289	2.5%	Lian Beng Group JV
MYP Plaza	CBD	Jul-18	Office	$181	$2,182	2.5%	Private Investor
55 Market St	CBD	Jul-18	Office	$159	$2,216	2.1%	AEW

Source: RCA

Seoul

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	15.0%	↑	↓	↓	↓	↔
Office (GBD)	5.5%	↑	↑	↓	↓	↓
Office (YBD)	18.9%	↑	↓	↓	↑	↔

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 Q2 2018 trend compared with the 12 months through to end Q2 2017. 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.

ECONOMY

Due to a broad-based slowdown in external and domestic demand, GDP growth eased in Q2 to 0.7% year-on-year. With near-term growth momentum losing steam, the economic outlook has been revised down slightly to 2.7% in 2018. External demand could show some resilience going forward due to still-strong demand for semi-conductors and petrochemical products; however, the slowdown in Chinese import demand and possible U.S. tariffs on Korean auto exports will weigh on this. At the same time, the newly announced $10 billion fiscal package could provide some support to domestic demand and the sluggish labor market. As conditions to-date have been tepid, inflationary pressures have taken longer than expected to build up. CPI inflation in June 2018 was only 1.5%, below the expected 1.7%. The BOK is likely to keep the policy rate on hold until price growth firms up.

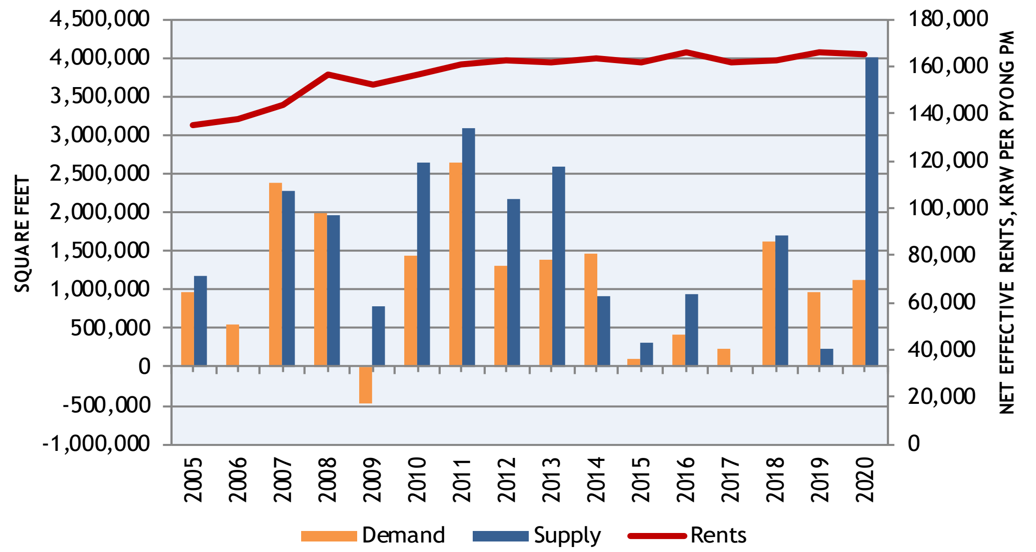
PROPERTY MARKET - OFFICE

Gangnam Business District (GBD) continues to present the most landlord favorable dynamics out of the three core submarkets, with high pent up demand and sustained low vacancy (below 6% since Q2 2017). Net absorption in Q2 was 28,000 square feet, as lack of quality space has limited the number of leasing transactions. This is translating to strong pre-leasing at the new Gangnam N Tower, projected to complete in H2 2018. Net effective rents increased by 0.5% in H1 2018 and rental growth is expected to gain momentum in 2019 with no new supply forecast in GBD for that year.

CBD leasing conditions were a bit slower over the quarter, with some landlords slightly increasing incentives to attract tenants. The trend of corporate relocations to owner occupied or self-use buildings has matured and leasing inquires for vacated space in the CBD have been dominated by co-working operators. In Q2, vacancy rates declined by 0.7 percentage points, but still remain high at around 15%. There has been slower leasing demand from domestic corporates than what was initially anticipated at the beginning of the year. However, the brisk expansion of co-working operators and new demand from various government entities could support leasing in the CBD submarket going-forward.

Meanwhile in Yeouido Business District (YBD), net absorption in Q2 was 388,000 square feet, the strongest quarterly take-up to-date due to relocation demand into newer office premises. Vacancy rates in YBD declined 6.4 percentage points to 18.9% in Q2. However, incentive levels still remain high, and average net effective nets are unlikely to see real growth given the scale of new supply going forward.

SEOUL DEMAND, SUPPLY AND RENTAL GROWTH OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
Centropolis	CBD	May-18	Office	$1,048	$725	n.a.	M&G Real Estate
Samsung C&T Building (B Tower)	CBD	Jun-18	Office	$672	$769	n.a.	KORAMCO
Kumho Asiana HQ Building	CBD	May-18	Office	$488	$747	4.6%	Deutsche Asset Management (GIC, CPPIB)
SK Securities Building	YBD	Jun-18	Office	$274	$536	4.3%	KB Asset Management

Source: RCA

China

KEY REAL ESTATE INDICATORS

		VACANCY RATE	RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Shanghai						
Office (CBD)	10.8%	↓	↓	↑	↓	↓
Office (CBD - Puxi)	11.0%	↓	↓	↑	↓	↓
Office (CBD - Pudong)	10.5%	↓	↓	↓	↓	↓
Beijing						
Office (Overall)	3.3%	↓	↑	↑	↓	↓
Office (CBD)	3.2%	↓	↑	↓	↓	↓

Source: JLL

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ECONOMY

Even though China's Q2 growth slowed slightly to 6.7% year-on-year, first half 2018 growth was above expectations. A slowdown in growth is likely in H2 as recent data points suggest global trade growth has peaked and a broad-based slowdown will eventuate. Actual trade tariffs with the U.S. are fairly limited to date, however should they expand and tariffs are imposed on a wider set of exports, the cost to the economy could be at least 0.3 to 0.4 percentage-points next year. Amid these challenges, Chinese policy makers have recently taken steps to support growth - these include increasing liquidity, imposing less restrictive guidelines on asset management products and more supportive fiscal policy in the form of tax cuts and local government financing. The domestic sector remains solid with good consumption growth, strong real wage growth and a resilient labor market. With inflation low, policymakers have room to be responsive to economic headwinds.

SHANGHAI PROPERTY MARKET – OFFICE

Tapering supply in the CBD from 2018 to 2020 may provide some momentum for rental growth, but the large decentralized supply pipeline over the same time period will continue to present leasing competition. Of the 35.2 million square feet expected to complete between 2018 and 2020, about 75% will be in the decentralized markets. In the CBD, supply growth will peak this year with a 10% year-on-year increase in stock. By 2020 this will fall to a 4% year-on-year increase. According to brokers on the ground, even though the decentralization trend has matured, it could continue to have some impact on leasing volumes in the CBD as occupiers balance the trade-offs between location, building quality and district-level taxes.

Leasing activity was robust across the CBD and decentralized markets, predominantly led by co-working expansion. Take-up in H1 was 5.9 million square feet, about 10% higher than the same period last year. Current estimates suggest that about 20% to 30% of take-up has been by co-working operators. Both international and domestic co-working operators are expanding aggressively across the Shanghai office market as investor funding continues to flow. Typically these operators are taking up 50,000 to 80,000 square feet (two to three floors) of an office building but of late there have been some cases of whole-building leases being signed.

Landlord sentiment in the CBD is turning more positive given the health of the leasing market. In Q2, some landlords began reducing rent-free incentives, resulting in the 0.5% increase in CBD net effective rents. Meanwhile in the decentralized market, the delivery of better quality Grade A stock is raising the benchmark rental rates. Rental forecasts have been revised upwards from the previous quarter, with rents expected to grow by 2.1% and 1.7% in 2018 within the CBD and decentralized markets respectively.

SHANGHAI PROPERTY MARKET – RETAIL

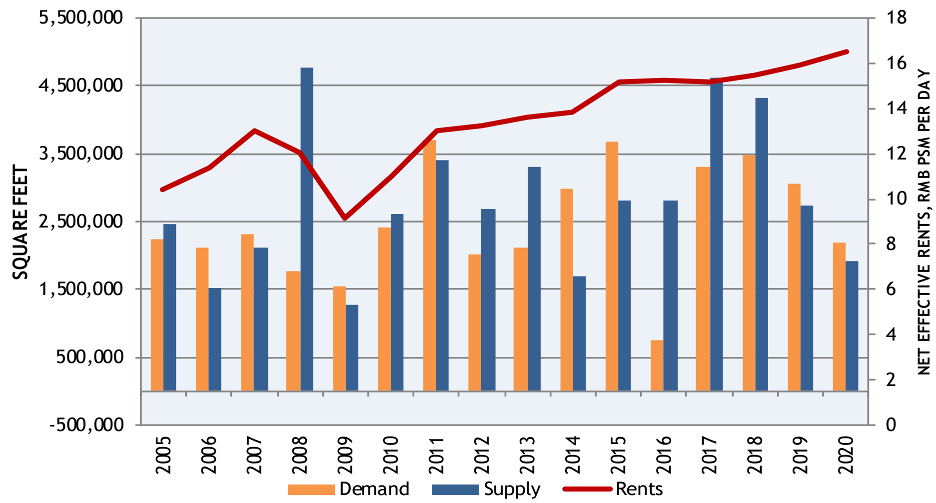
While overall retail sentiment remains upbeat in China, there has been a noticeable slowdown in recorded retail sales activity from last year. In Shanghai, total retail sales for H1 2018 increased by 7.7%, slightly below the 8.1% increase for the same period last year. In the past year, landlords have signed on a wider range of tenant-types to entice customers and turn malls into "social destinations". In community malls, large-format children's entertainment concepts have recently gained strong traction, while in prime locations, leasing has been driven by F&B and novel specialty shops. Vacancy rates are currently elevated but are expected to edge down in the medium-to-long term as a result of more active leasing strategies and ongoing conversion of underperforming assets to non-retail uses. Rental forecasts have been raised in both prime and decentralized markets on account of stronger-than-expected performance in H1- however rental growth will become increasing bifurcated between well-located, high quality malls and their poorly managed counterparts.

BEIJING PROPERTY MARKET – OFFICE

Pent-up demand in a low vacancy rate environment continues to push rents higher. In Q2, effective rents increased by 1.8% bringing the half-year increase to 2.6%. Demand sources, while varied across submarkets, have generally stemmed from domestic firms, primarily in the finance and IT sectors. Co-working has also emerged as a recent source of demand, with several key operators reporting intentions to expand into landmark Grade A buildings.

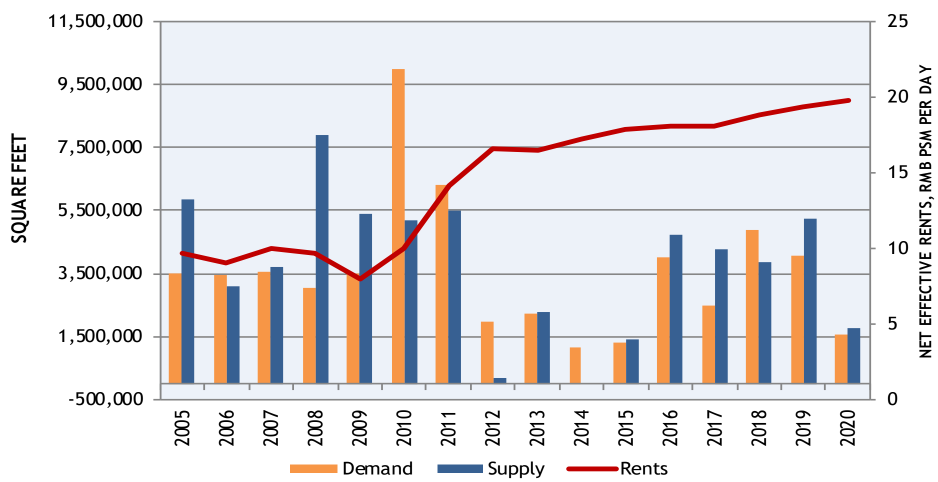
Over the quarter, reductions and delays for planned projects in the pipeline has resulted in a 29% decrease in the cumulative 5-year supply projection. Across the city's core areas, about 8.2 million square feet is expected to complete in the next five years, of which 75% is concentrated in a new precinct called Guomao. While supply is reduced overall, the revisions have consequently resulted in supply peaking in 2019, earlier than previously expected. However further delays are likely and a large proportion of the space allocated for self-use will limit the effects on the leasing market. Overall net effective rents are expected to increase by 3.0% p.a. over the next three year 2018-2020 period.

SHANGHAI CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

BEIJING OVERALL DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
Bauhinia Square	Shanghai	Apr-18	Retail	$468	$629	n.a.	Early Light Intl
Shanghai Square	Shanghai	Apr-18	Retail	$433	$988	n.a.	JV various groups
Shenbang International Building	Shanghai	Apr-18	Office	$375	$619	4.2%	LaSalle
Kailong Z Link	Beijing	Jul-18	Office	$185-195	$505-546	3.3%	Allianz

Source: RCA

Australia

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Sydney						
Office CBD	4.5%	↓	↑	↑	↓	↓
Office North Sydney	6.1%	↓	↑	↓	↓	↓
Melbourne						
Office CBD	4.6%	↓	↑	↓	↓	↓

Source: JLL

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ECONOMY

Australia's economy is expected to expand by 2.8% in 2018. Accelerating business investment and government spending will be weighed down by a slowing housing market as well as weaker employment and wage growth. Consumption growth is expected to slow to 2.4% after a 2.7% growth in 2017. With wage and price inflation still low, the RBA has reaffirmed its commitment to accommodative monetary policy and signaled it will be some time before the Overnight Cash Rate is raised from its current 1.5%. However the recent depreciation of the AUD could force the RBA to raise rates sooner than expected. The Australian dollar has fallen more than 5% relative to the USD since the beginning of the year, dropping to below the 0.74 mark for the first time in more than 2 years.

PROPERTY MARKET - SYDNEY OFFICE

Since Q4 2014, Sydney's CBD office market has seen 15 consecutive quarters of positive rental growth. Rental growth has peaked in 2017 at 26% and 16% across prime and secondary grade buildings respectively. The market has benefited from office stock withdrawals, a process that is nearing an end; 522,000 square feet is anticipated to be withdrawn in 2018 versus the 1.2 million square feet of annual withdrawals from 2015-2017. Stock contraction has left the leasing market tight with limited space options available. Vacancy rates declined further in Q2 2018 to 4.5%, the lowest level to-date. The lack of contiguous space for lease also resulted in strong renewals among corporate occupiers. While the pace of growth may slow, rents are forecast to continue to grow for several years. Net effective rents are forecasted to increase by 10% in 2018 and a further 5.7% in 2019.

PROPERTY MARKET- NORTH SYDNEY OFFICE

Similar to Sydney CBD, secondary stock withdrawals have created a low vacancy market in North Sydney. Vacancy rates in prime (6.2%) and secondary (6.0%) stock are both below their 10-year historical average. By Q2, net effective rents had increased by 7% to 10% year-on-year.

Demand in the submarket is mixed, but mostly stems from smaller sized occupiers in the TMT industry. Because of the proximity to the CBD, North Sydney had previously received spillover demand from former CBD tenants relocating their back-office operations. In H1 2018, overall demand was only 960 square feet, reduced by some occupiers leaving the submarket for Chatswood and St Leonards where leasing options are wider and rents generally more affordable.

Delivery of new supply will be staggered going forward, with new completions only expected in 2018 and 2020. Some of these new projects are setting new benchmarks in terms of asking rents. The new space being delivered in 2018 has pre-commitments in excess of 60% and thus will do little to alleviate the supply shortage. Furthermore, there will be another 134,000 square feet in anticipated withdrawals from 2018 to 2019. The rental cycle is expected to continue up to 2020, where secondary grade buildings are expected to outperform prime grade buildings due to lower vacancies.

PROPERTY MARKET - MELBOURNE OFFICE

Compared to Sydney, the Melbourne CBD is still in the early phases of its rental cycle and based on demand expectations, it has several years of strong rental growth ahead. In Q2 18, CBD vacancy rates tightened to 4.2% and 5.2% respectively across prime and secondary stock declining by more than 2.0 percentage-points over the past year. Good quality secondary stock, in particular, has benefited from the lack of contiguous space in prime buildings, with stronger demand momentum in this cycle compared to previous cycles. Vacancy rates in secondary grade buildings are currently at historical lows and incentive levels have dropped to 28%, slightly below prime-grade buildings.

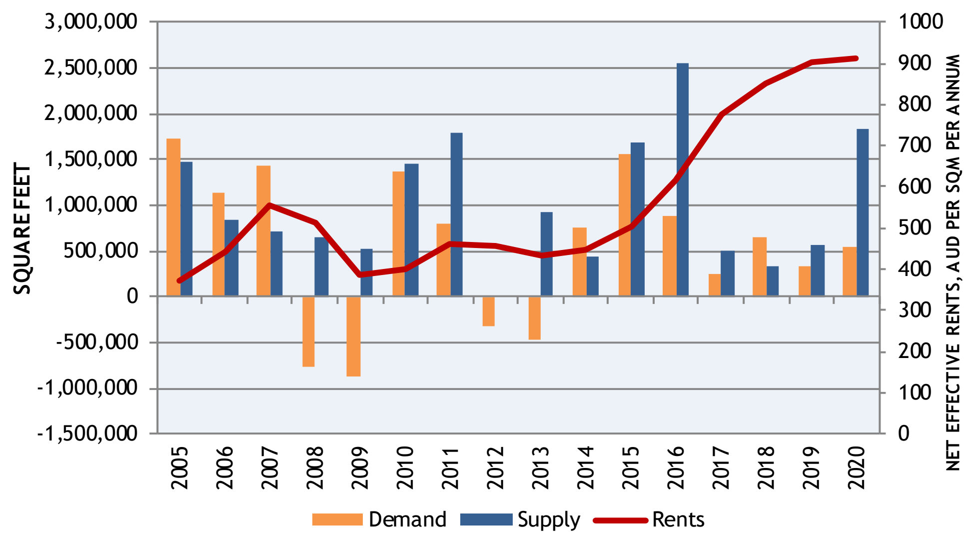
In H1, continued trends of consolidation and centralization contributed to strong demand. Vacancies were mostly absorbed by larger-sized tenants (greater than 10,000 square feet) such as AGL energy, Dimension Data and VIC Police. The theme of flexible-space expansion was also prevalent with several domestic operators expanding in Q2.

Q2 also marked the start of new supply after a 12-month vacuum. New projects expected to complete from 2018 to 2019 are 90% pre-committed, leaving only 25,200 square feet available for lease. As occupiers start to move into these new buildings, take-up of vacated space is expected to be swift. There are some cases of landlords strategically timing refurbishment and renovation plans in these older premises, which could result in a tighter leasing market. Prime net effective rents are expected to average 10% per annum growth in 2018 and 2019. Rental growth could continue further in 2020 if stock is withdrawn for redevelopment.

PROPERTY MARKET – RESIDENTIAL

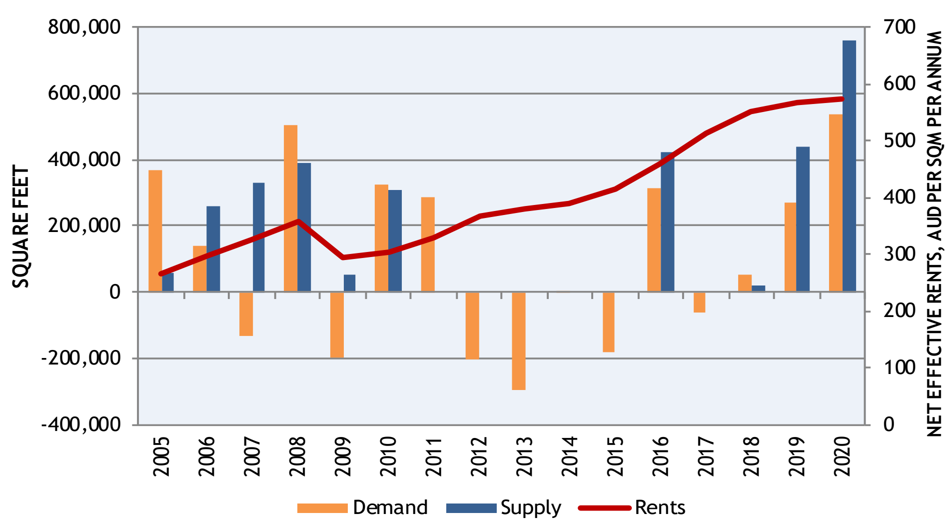
Australia’s housing market is continuing to cool, with prices declining across most major capital cities. Prices have corrected the most in Sydney and Melbourne, which have fallen by 5.4% and 0.5% year-on-year respectively in July-2018 according to estimates by CoreLogic. From as early as 2014, the Australian Council of Financial Regulators began inquiries into bank credit and lending measures. More regulation in the overall mortgage lending standards is leading to credit becoming more difficult, and potentially more expensive to access, resulting in reduced demand. Recent housing market indicators such as multi-year lows in auction clearance rates, weakened foreign demand as well as slowdown in housing credit-growth point to the likelihood of further declines to come.

SYDNEY CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



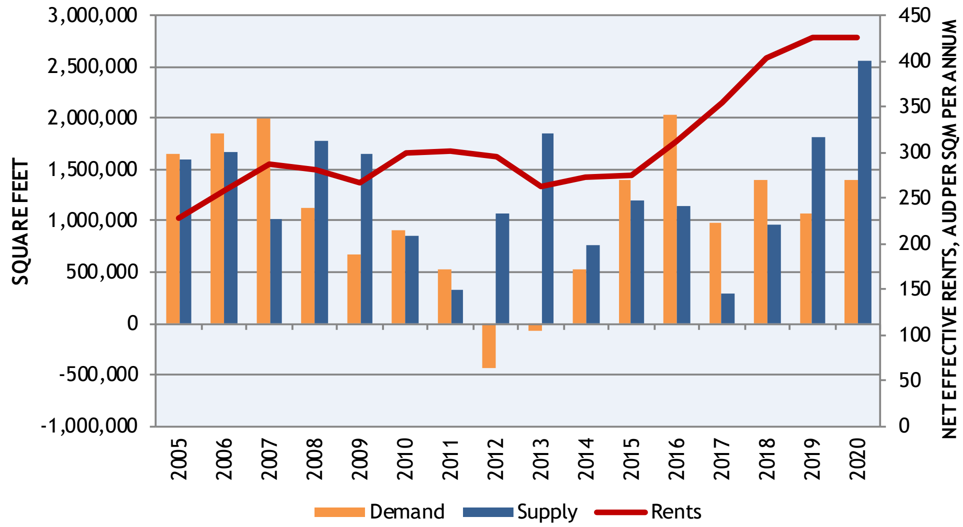
Source: JLL

NORTH SYDNEY DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

MELBOURNE CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
Pacific Group Portfolio	Melbourne	Jun-18	Retail	$1,510	$763	4.5%	QIC
275 Kent St	Sydney CBD	Jun-18	Office	$1,295	$1,574	4.5%	Mirvac Group
GIC-Vicinity Portfolio	Sydney	Jun-18	Retail	$840	1,352-3,092	4.8-5.3%	Vicinity
Northpoint	North Sydney	May-18	Office	$532	$1,407	n.a.	Early Light Intl.
Southgate Complex	Melbourne	Jun-18	Office	$436	$532	n.a.	ARA Asset Mgmt
York & George	Sydney CBD	Mar-18	Retail	$206	$2,582	n.a.	PGIM Real Estate
179 Hyde	Sydney CBD	Apr-18	Office	$204	$1,205	5.2%	Private Investor

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