AEW RESEARCH

ASIA PACIFIC MARKET PERSPECTIVE

Q3 2018

AEW

Prepared by AEW Research, September 2018

In the Asia Pacific region, growth outlook remains on track with a full year forecast of 4.6% in 2018 and 4.3% in 2019.

General Economic Overview

Global economic performance remains solid, but the near-term outlook will be dependent on the outcomes of ongoing trade disputes and policy uncertainty. The International Monetary Fund (IMF) projects a global growth rate of 3.7% for 2018 to 2019, in line with 2017's levels. According to the IMF, the World's advanced economies are at diverging cyclical positions and growth going forward will be less synchronized. The United States (U.S.) continued to expand at an on-trend rate of 3.5% in Q3 and is expected to keep growing at strong clip through 2020 following a sizable fiscal stimulus. Meanwhile Euro area growth outlook has been downgraded on the back of BREXIT concerns and damped external demand. Currently, medium-term growth prospects remain strongest in emerging Asia Pacific economies supported by healthy domestic markets.

In the Asia Pacific region, growth outlook remains on track with a full year forecast of 4.6% in 2018 and 4.3% in 2019. For the key Asian gateway economies, average growth for 2018 is 3.9%. The manufacturing-related Purchasing Manager's Index (PMI) for most markets remain above the expansionary 50 reading and export growth held up well in the first three quarters of the year.

Further changes to the current demand outlook in Asia will be tied to the trade tensions between the U.S. and China. Since January, the two countries have imposed tariffs on up to $360 billion of goods. Up to end Q3 2018, sentiment in China remained positive and headline trade data continued to show momentum as orders were front-loaded ahead of tariffs taking effect. Goods export growth picked up in Q3 with volumes up 5.9% year-on-year compared to the 2.8% year-on-year in Q2. Higher tariffs are expected to weigh on export demand starting in Q4 2018 and China's growth forecast for 2019 has been marked down slightly by 1.0% since the start of the year. The Chinese government has shifted its policy stance to be more supportive, by pledging to boost infrastructure investment, cut taxes as well as ease monetary and credit policies. We anticipate that the roll out of fiscal and monetary measures over the next few months will cushion the slowdown.

CPI growth in the region is generally low and near the bottom end of target ranges. Recent meetings of the Reserve Bank of Australia (RBA) and Bank of Korea (BoK) indicate that they are maintaining fairly neutral settings while the Monetary Authority of Singapore (MAS) has adopted a slight appreciation stance since April 2018. In China, the People's Bank of China (PBoC) has taken several policy actions over the past few months to increase liquidity and manage financial sector risks. In its latest September announcement, the PBoC lowered the Reserve Requirement Ratio (RRR) for banks and hinted at another possible cut in November.

Over the third quarter, the momentum in the USD slowed with the dollar index, DXY, up 0.7% versus the 5.0% increase in the previous quarter. During this period, majority of Asian currencies were down, with the largest declines in China and Australia.

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	3.3	2.6	2.1	2.2	1.50	1.50	0.72	0.74
China	6.5	6.0	2.2	2.5	2.93	3.68	6.79	6.51
Hong Kong	3.6	2.4	2.3	2.0	2.75	3.50	7.84	7.80
Singapore	3.3	2.5	0.6	1.7	1.70	2.34	1.38	1.35
S. Korea	2.6	2.5	1.5	2.0	1.75	2.00	1110	1096

Source: Oxford Economics, as of 7 Nov 2018

Property Market

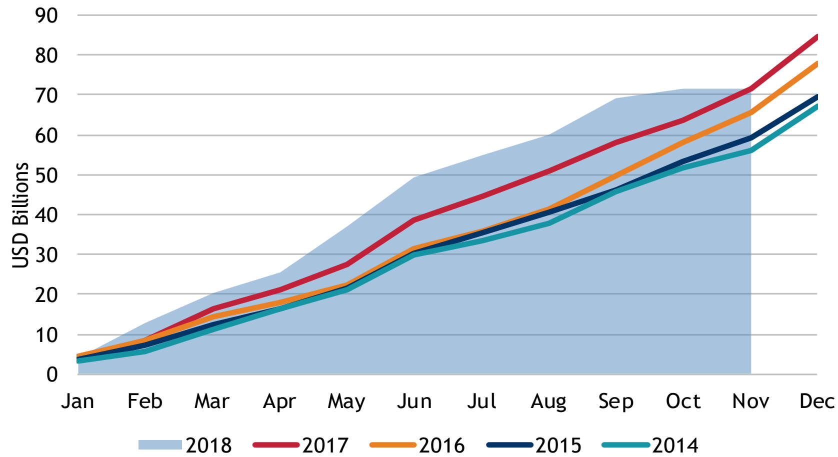
Headline transaction activity for major Asian gateway cities was 12% higher compared to the same period last year.

Office demand across major Asian gateway cities continue to exhibit strong fundamentals. Net take-up for quarter was 4.0 million square feet, bringing demand for the first three quarters of the year to 12.4 million square feet. This exceeds the 8.0 million square feet recorded for the 2017 calendar year by 55%. For the past year, demand has been led by technology and media firms, flexible space operators and to a certain extent finance-related companies. The pick-up in the finance sector was most notable in Singapore, Shanghai and Beijing, driven by renewals, expansion and relocation demand. Average vacancy rates across the markets are low at 5.7%, down 119 basis points from one year ago. Space is exceptionally limited in Melbourne, Sydney, Beijing and Hong Kong where vacancy rates in Q3 2018 were below 5.0%.

By October, headline transaction activity for major Asian gateway cities reached $71.4 billion, about 12% higher compared to the same period last year. Much of this has been concentrated in Hong Kong and Seoul which have accounted for about 65% of total Target Market transaction activity. In Hong Kong, year-to-date investments have been boosted by several megadeals that closed earlier in the year, while Seoul has seen strong and consistent activity in the office sector across the first three quarters of 2018. Cross-border capital remains active, responsible for about 35% activity to-date, up from its 29% proportion of last year. Chinese outbound investment capital has slowed down, although it is still the second largest source of cross-border capital.

The bond yield curve in most markets have shifted higher over the year, especially in Hong Kong and Singapore, 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 continue to firm in the office sector and have remained broadly unchanged in retail.

GATEWAY MARKET TRANSACTION VOLUME



Source: RCA, as of 5 Nov 2018
Note: Markets include Beijing, Hong Kong, Melbourne, Seoul, Shanghai, Singapore, Sydney

Hong Kong

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (Hong Kong Island)	1.7%	↓	↑	↑	↑	↓
Retail (Shopping Center)	3.1%	↑	↑	↑	↑	↓
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 Q3 2018 trend compared with the 12 months through to end Q3 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.

Expansion and decentralization continue to be a key feature of the office leasing environment.

ECONOMY

Following expectations for a 3.6% year-on-year expansion in 2018, growth is forecasted to be milder in 2019 amid a China slowdown, trade tensions and softening domestic demand. The Nikkei PMI reading was below 50 in September for the sixth straight month, reflecting weakness in Chinese demand and concerns on the trade conflict going-forward. Labor markets remain solid, but the negative wealth effect from the stock market and property market performance could begin to weigh on domestic demand. At the same time, higher interest rates via the U.S. dollar peg have slowed domestic borrowing and will affect bank loan growth. Medium-term growth will be supported by expansionary fiscal policy outlined in the recent Chief Executive's 2018 Policy Address.

PROPERTY MARKET - OFFICE

Near-term demand supply fundamentals in Hong Kong are compelling, although many investors are proceeding with caution given the bid-ask spread and increasing interest rates. Extremely low vacancies of 1.7% as of Q3 2018 and persistent demand on Hong Kong Island continue to put upward pressure on office rents.

Expansion and decentralization continue to be a key feature of the office leasing environment. Expansion has mostly been led by the aggressive growth of co-working operators (in both core and decentralized locations) as well as finance and professional service firms. Meanwhile, very low vacancy rates in Central, widening rental gaps, as well as the completion of new office buildings in Hong Kong East and Kowloon East are driving decentralization trends. The bulk of decentralization demand has been absorbed by upcoming or newly completed Grade A projects such as One Taikoo Place and Two Harbour Square. JLL estimates that decentralization demand accounted for 56% of new lettings in Hong Kong East and Kowloon East in Q3.

In the current tight vacancy environment, coupled with strong pre-leasing rates in upcoming projects, rents are expected to continue to grow in the short term. New supply completing in 2019 is already 44% pre-committed and this is expected to increase by the end of 2018. The pending redevelopment of Hutchinson House in Central could also help to offset the vacancies caused by the relocation to new buildings or decentralization trends. Rental growth on Hong Kong Island is expected to peak in 2018, increasing by 7% to 9%, before slowing in 2019 to 2020 in the range of 0% to 5% per annum.

PROPERTY MARKET - RETAIL

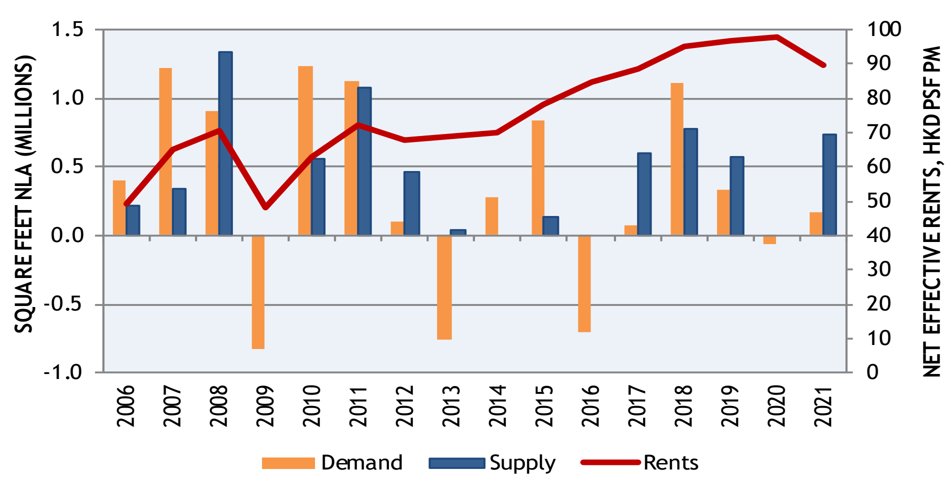
August retail sales growth of 9.4% year-on-year was strong, but this decelerated to 2.4% in September. The segment that has performed the best to-date are the tourist-orientated cosmetics, watches and jewelry groups. Retail sales in these categories have picked up on the back of improved mainland Chinese tourist arrival numbers, which are up 13.8% year-to-date in Q3, compared to the same period last year. Following the better retail sales recorded in 2018, retailer confidence has increased. Leasing demand picked up in Q3, led by luxury retailers. High street shops have recovered from its bottom in Q1 2018 with mild rent growth recorded for the past two quarters while shopping malls have seen rents recover by about 1.2% since Q3 2017.

In the near-term, escalating trade tensions and higher interest rates may affect local consumer sentiment while the depreciating CNY may erode spending power of mainland Chinese tourists. This could be partially offset by the new Express Rail Link (XRL) and the Hong Kong Zuhai-Macau Bridge (HKZMB) which officially opened in September and October 2018 respectively. They are expected to boost tourist arrivals from mainland China by an estimated 2.1 million per annum by 2020.

PROPERTY MARKET - RESIDENTIAL

Due to a combination of rising interest rates, ramping up of supply and a depreciating CNY, there has been general consensus that house prices will soften going forward. Early data from Hong Kong Rating and Valuation Department reflect the weakening buyer sentiment in the market, with 1.5% decrease in home prices over August and September. This has ended the city's 28 consecutive months of increase since April 2016. The extent of the correction is still widely debated. Hong Kong households appear to be well positioned to cope with higher interest rates and weakening property prices. The average loan-to-value ratio for new residential mortgage loans is 49%, while Hong Kong-ers are considered to have strong balance sheets by international standards.

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
FWD Financial Centre	Hong Kong Island	Oct-18	Office	$932.4	$4,350	n.a.	n.a.
Nob Hill Square	Kowloon	Sep-18	Retail	$114.4	$1,246	3.7%	Winland HK
Lever Tech Centre	Kowloon	Sep-18	Office	$159.3	$1,390	n.a.	Sun Zhi Lan
Tseung Kwan O Plaza	New Territories	Jul-18	Retail	$468.0	$1,356	n.a.	Pacific Vision Enterprises
W Square	Hong Kong Island	Jun-18	Office	$362.9	$3,162	2.0%	Winland HK

Source: RCA

Singapore

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	8.4%	↓	↑	↑	↓	↓
Retail (Suburban)	2.6%	↑	↔	↑	↑	↔
Residential	6.8%	↓	↑	↑	↓	↓

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 Q3 2018 trend compared with the 12 months through to end Q3 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.

There are favorable fundamentals in the office sector, where over the 2019 to 2020 period, demand will exceed supply.

ECONOMY

Singapore's manufacturing and export sectors showed resilience year-to-date and growth for 2018 is expected to fall in the upper band of the Ministry of Trade and Industry (MTI)'s 2.5% to 3.5% official forecast. The economy has not yet felt the negative spillover effects from the trade conflict, but this is likely to set in during 2019. Growth of 2.5% is expected for 2019, supported by non-residential investment and government spending. Latest CPI figures indicate a mild pick up inflation and expectations are for further price growth in the next 12 months. The MAS tightened monetary policy in October for the second time in 2018.

PROPERTY MARKET - OFFICE

There are favorable fundamentals in the office sector, where over the 2019 to 2020 period, demand will exceed supply. By Q3 2018, gross rents in the Central Business District (CBD) increased by 8.3% year-to-date, bringing growth from the Q1 2017 trough to 18.1%. Growth momentum has peaked and is expected to slow going forward but positive lease reversions should continue to be in place for several more years.

There was another period of healthy demand (250,000 square feet) in Q3, and year-to-date, the overall net absorption for the market has exceeded 2017's levels by 60%. Following the strong demand, vacancy rates contracted to 8.4% in Q3 2018, down 0.8 percentage points from the previous quarter when Frasers Tower came online. Commitment levels at Frasers Tower have since increased to 80% from 70% in Q2, while 18 Robinson (now 40% pre-committed) had its completion date postponed to Q4 2018. One stock withdrawal was confirmed over the quarter which could further tighten the leasing markets - Chevron House (220,000 square feet) will be undergoing refurbishment commencing in early 2019 and tenants will be vacating the premises over the next few months. Chevron, the major tenant in the building will be relocating to DUO Tower, located in the CBD fringe market while the other smaller occupiers are expected to find alternate premises in the immediate vicinity.

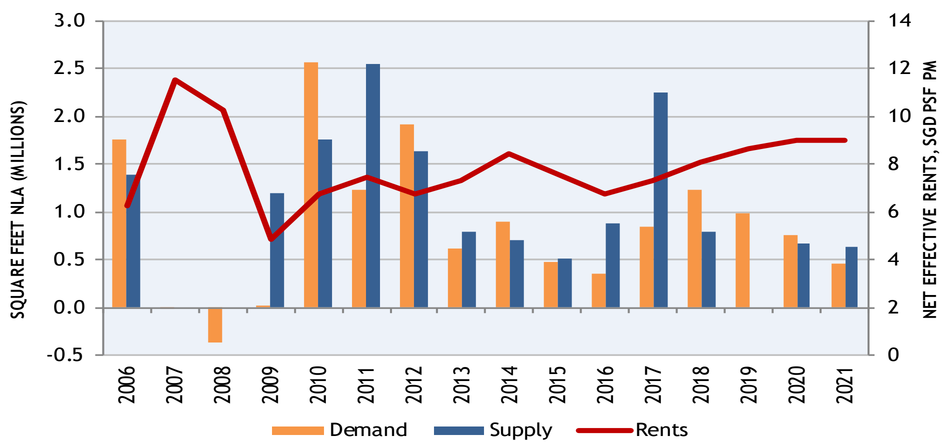
PROPERTY MARKET - RETAIL

Despite the positive wealth effect from income growth and a tight labor market, the brick-and-mortar retail sector continues to face headwinds from e-commerce. News of retailers losing out to those with an online presence are commonplace – for example, in September, Giant Supermarket announced the closure of its VivoCity Mall outlet by 2019 (the third closure since start of 2018). Mall owners continue to focus on presenting their retail space as relevant in today's competitive environment. This includes experimenting with the tenancy mix (including pop-up stores) as well as consistent investment in advertising and promotions. Expansion demand in Q3 was led by food and beverage, wellness/athleisure groups and other experiential retailers (i.e. gyms, cooking studios and arcades) as landlords aim to drive up foot traffic in malls. Despite better demand, the changing tenant profile to include large-form activity-based retailers have kept rents soft. Rents could see mild growth as the new supply of suburban malls contracts after 2019.

PROPERTY MARKET - RESIDENTIAL

In July 2018, the government implemented another round of measures to dampen speculative activity in the market by increasing stamp duties payable on purchase (higher taxes will apply to foreign buyers and investors) as well as tightening financing criteria. The new measures have effectively halted activity in bulk sales market where developers buy apartment blocks and redevelop them to a higher density. Only two such purchases were completed in the Q3, amounting to SGD353 million, compared to the SGD3.8 billion in the previous quarter. Outside of the bulk sale market, there was a decline in overall individual unit sales as investors and foreign buyers became less active. Primary sales however registered a quarter-on-quarter jump of 27% reflecting the unexpected launches by some developers to beat the commencement of the new curbs effective of 6 July. Buyers and sellers remain cautious given the context of market sentiment and rising interest rates, but there is reason to believe that demand and further price growth could be sustained. The pool of interested buyers is still wide, consisting of public housing upgraders and those who recently sold their apartments in the bulk sales program. New launches from the former bulk sales sites will also have to factor in the higher land costs paid.

SINGAPORE CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
78 Shenton Way	CBD	Nov-18	Office	$497.5	$1,380	n.a.	PGIM Real Estate
Prudential Tower (7units)	CBD	Sep-18	Office	$94.8	$1,873	n.a.	Blackrock Real Estate
55 Market Street	CBD	Aug-18	Retail	$159.1	$2,216	2.1%	AEW
20 Anson Road	CBD	Aug-18	Office	$378.7	$1,836	3.1%	AEW
MYP Plaza	CBD	Jul-18	Retail	$181.3	$2,184	n.a.	Lucio Tan

Source: RCA

Seoul

KEY REAL ESTATE INDICATORS

	VACANCY RATE	RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Office (CBD)	17.7% ↑	↔	↓	↑	↓
Office (GBD)	6.7% ↑	↑	↓	↑	↓
Office (YBD)	14.6% ↓	↓	↑	↑	↓

Source: JLL
Note: For the vacancy rate, rents and cap rates the arrows reflect the trend for the current quarter compared with the comparable quarter one year earlier. For absorption and completions the arrows reflect the 12-months through to Q3 2018 trend compared with the 12 months through to end Q3 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.

> GBD continues to present the most landlord favorable dynamics. In the CBD, leasing conditions improved in Q3. Meanwhile in YBD, high incentive levels continued to support strong take-up in quality projects.

ECONOMY

Annual GDP growth is expected to average 2.6% between 2019 and 2020, slowing from the 3.1% growth in 2017 as external demand comes under pressure. In Q3 2018, growth was underpinned by still strong demand for semi-conductor and petrochemical products as well as stronger government consumption boosted by fiscal stimulus. Household consumption also surprised on the upside despite the sluggish labor market conditions. Providing some support to the economy is the rebound in tourism from mainland China which has helped to uplift retail sales.

Core inflation still lays below the BoK's 2% target, but high household debt and increasing residential property prices have added pressure on the BoK to take action. It is expected that BoK will make a symbolic rate hike in November 2018, but is likely to not act further until inflation pressures become more visible in the later part of 2019.

PROPERTY MARKET - OFFICE

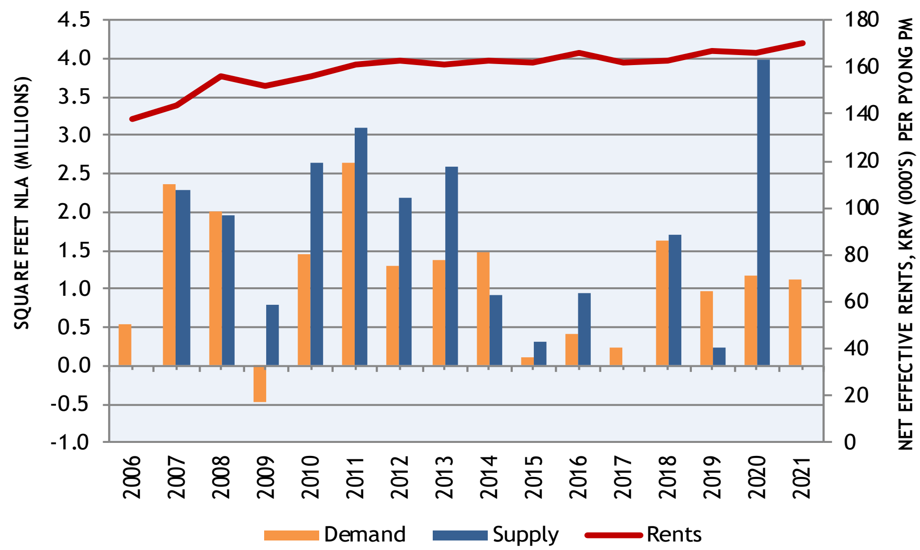
The Gangnam Business District (GBD) continues to present the most landlord favorable dynamics out of the three core submarkets with sustained demand and limited space available for lease. Headline vacancy rates rose to 6.7% in Q3 up 1.9 percentage-points from a year ago as new projects, Luceen Tower (235,000 square feet) and Gangnam N Tower (247,000 square feet) were added to stock in Q2 and Q3 2018 respectively. Since completion, Gangnam N Tower has already signed two major leases (about three floors each) to a crypto-currency firm and to Lotte's co-working brand. The remaining space is reported to be under negotiation. The building is expected to be fully committed before the end of 2018, demonstrating the strong demand for the submarket. Net effective rents in GBD rose by 1.4% year-to-date in Q3 and rental growth is expected to gain momentum in 2019 with no new supply forecasted in GBD for that year.

In the CBD, leasing conditions improved in Q3 with net absorption of 261,000 square feet, supported by a temporary uptick in demand by large corporates in the better quality buildings. We have seen new demand from corporates dwindle over past years and instead, leasing demand in the CBD has generally been supported by co-working operators. Vacancy rates rose in the quarter to 17.7% due to the completion of Centropolis (777,000 square feet), which is understood to be close to securing commitments from a number of tenants. Excluding Centropolis, the vacancy rate in the CBD is just 13.5%, down from the 15.0% in Q2. Rental forecasts in the CBD are unchanged from the previous quarter- incentives are expected to remain flat while limited competitive supply in the near term will help support gross rental growth in 2019.

Meanwhile in Yeouido Business District (YBD), high incentive levels (between 5 to 6 months) offered by landlords continued to support strong take-up in quality projects like IFC and FKI

Tower. New demand in 2018 to-date has been a mix of international and domestic finance firms, upgrading within YBD or relocating from other submarkets. Vacancy rates in YBD declined to 14.7% in Q3 2018, its lowest level since Q1 2017 and could see further declines by end 2018. Beyond 2018, leasing conditions might face challenges - AEW understands that there are some scheduled relocations out of YBD in 2019 and the large completion of Parc One (2.9 million square feet) in 2020 could further increase leasing competition in the submarket.

SEOUL DEMAND, SUPPLY AND RENTAL GROWTH OUTLOOK



Source: JLL

RECENT COMMERCIAL TRANSACTIONS

PROPERTY	LOCATION	DATE	SECTOR	PRICE (USDM)	UNIT PRICE (USD/PSF)	YIELD	BUYER
KG Tower	GBD	Nov-18	Office	$88	$640	n.a.	KORAMCO
WeWork Building	YBD	Oct-18	Office	$191	$405	4.4-4.6%	IGIS
Centropolis	CBD	Sep-18	Office	$1,059	$733	n.a.	KTCU, M&G Real Estate, POBA, LB AMC
Narae Building	GBD	Sep-18	Office	$70	$469	4.0%	Pebblestone Asset Management
Samsung C&T Building	GBD	Sep-18	Office	$672	$769	4.6%	KORAMCO, NH Inv & Securities

Source: RCA

In Shanghai, demand-supply fundamentals in the Pudong CBD submarket are favorable.

In Beijing, landlords have benefited from the strong pent up demand in a low vacancy rate environment.

China

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Shanghai						
Office (CBD)	9.8%	↓	↑	↑	↓	↓
Office (CBD - Puxi)	8.7%	↓	↑	↑	↓	↓
Office (CBD - Pudong)	11.1%	↑	↓	↓	↓	↓
Beijing						
Office (Overall)	3.7%	↓	↑	↓	↓	↓
Office (CBD)	0.1%	↓	↑	↑	↔	↓

Source: JLL

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ECONOMY

China's economy is on track to meet its target 6.5% year-on-year expansion in 2018. Growth was held up by still-solid export momentum as US importers continued to front-load their purchases ahead of higher tariffs setting in. The strong export demand also help offset the slight slowdown in domestic consumption, infrastructure spending and property market investment in Q3. The impact of higher trade tariffs are expected to feed through in the following quarter and in 2019.

The government has signaled that economic growth will be a priority going forward by shifting focus to monetary and fiscal expansion. The PBoC have increased liquidity four times this year (the most recent in September 2018), and could have another round of loosening before the end of the 2018. The government has also pledged to speed up infrastructure investment, possible tax rebates for exporters as well as increased lending to private sector companies which could provide some support to the domestic market.

SHANGHAI PROPERTY MARKET – OFFICE

After a period of challenging leasing conditions due to several years of large supply and decentralization trends, landlord sentiment appears to have improved. Some have responded by reducing incentives, resulting in a slight increase in effective rents. Demand sources in Shanghai's CBD continue to be varied; Technology Media and Telecommunications (TMT)-related firms make up the bulk of take up in Puxi, while Pudong CBD's new demand is largely skewed towards the finance industry. Across both sub-markets, flexible-space operators are active.

Demand-supply fundamentals in the Pudong CBD submarket are favorable, where extremely limited supply after 2019 will support rental strong growth. A large amount of new supply (1.9 million square feet) completed in the Pudong submarket in the first three quarters of 2018 which resulted in vacancy rates increasing substantially from one year ago, but take-up in the newer buildings were reported to be steady. For example, Lujiazui Finance Plaza which completed in Q1 2018 is already 60% leased as of end September. The market is expected to turn highly landlord favorable after 2019 when demand will exceed supply. The supply shortage will become more pronounced in the longer term as there is currently no more commercial land supply. Vacancy rates are expected to fall from their 11.2% peak at the end of 2018 to 3.0% by end 2022. Effective rent growth is expected to accelerate from 4.0% up to 5.8% over the next four year (2019 to 2022) period.

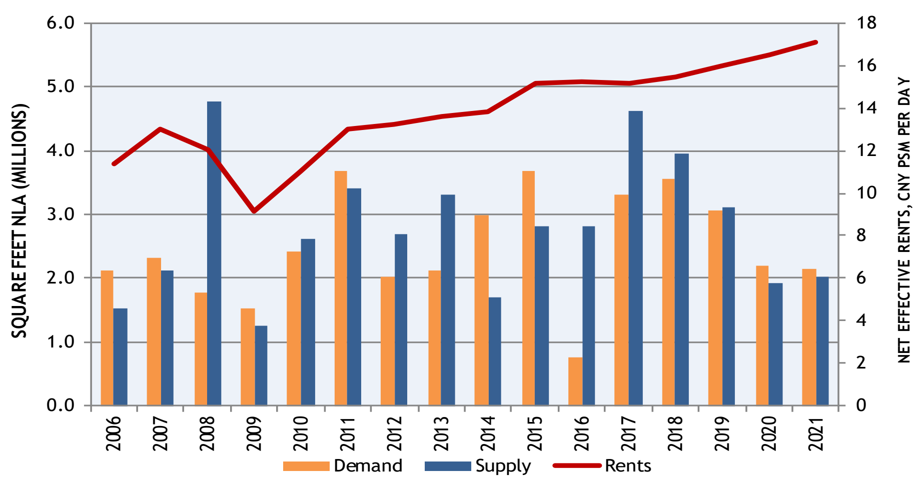
BEIJING PROPERTY MARKET – OFFICE

Demand-supply fundamentals in Beijing's office market are compelling. Landlords have benefited from the strong pent up demand in a low vacancy rate environment. Rental growth in the first three quarters of 2018 ranged from 1.6% to 7.5% across the core office markets. Vacancies are currently the lowest in East Second Ring Road (0.1%) and Finance Street (1.2%). AEW understands some landlords have a waiting-list of tenants eager to get into their buildings. Few building owners are even getting picky with potential tenants, in some cases turning away requests from less established co-working operators and finance firms.

The East 2nd Ring Road submarket remains one of the lowest vacancy office submarkets but also one of the most affordable offering occupiers a good location at a reasonable cost. Gross rents as at Q3 2018 in East Second Ring Road were CNY12.70 per square meter per day (USD 5.10 per square foot per month), 55% and 15% cheaper than rent in Finance Street and the Guomao CBD respectively.

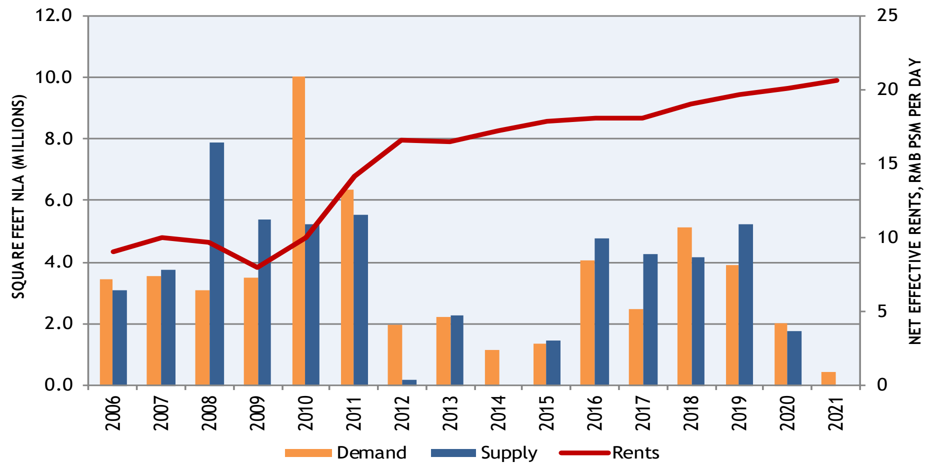
Near-term supply forecast in Beijing is substantial with 4.6 million square feet of Grade A space completing in Guomao CBD in 2019, with more than 50% estimated to be for self-use or pre-committed. Even though this new supply may present some leasing competition in the surrounding submarkets, we do not expect it to affect the rental growth cycles in Beijing. AEW understands that the new supply completing in Guomao could end up being over-committed and will not be able to satisfy the latent demand. Pent up demand conditions are expected to persist going forward and rents in East 2nd Ring Road are forecasted to increase by 3% to 5% per annum up to 2020.

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
Star Harbour International Centre	Shanghai	Oct-18	Office	$1,850	$872	n.a.	CapitaLand
CapitaMall Cuiwei	Beijing	Sep-18	Retail	$112.5	$303	6.5%	Hopu Investment, China Vanke
Bay Valley C6	Shanghai	Aug-18	Office	$86.8	$415	n.a.	Keppel Capital, Allianz RE Holdings
KaiLong ZLink	Beijing	Jul-18	Office	$206.6	$611	3.30%	Allianz
Jinkaili Square	Shanghai	Jun-18	Retail	$67.0	$592	4.6%1	Morgan Stanley

Source: RCA

Australia

KEY REAL ESTATE INDICATORS

	VACANCY RATE		RENTS	ABSORPTION	COMPLETIONS	CAP RATES
Sydney						
Office CBD	4.7%	↓	↑	↓	↓	↓
Office North Sydney	7.4%	↓	↑	↓	↔	↓
Office Pyrmont	6.1%	↓	↑	↑	↔	↓
Melbourne						
Office CBD	4.0%	↓	↑	↑	↑	↓

Source: JLL

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Since end Q3 2014, face rents in Sydney CBD have seen 16 quarters of consecutive growth.

Positive fundamentals are unfolding in the Pyrmont office submarket.

ECONOMY

Australia's economy is expected to expand by an average of 2.6% in 2019 and 2020. Accelerating business investment, government spending as well as strong commodities export demand will continue to drive growth. Offsetting this is the on-going housing market correction and subdued wage growth. The fall in the housing market has been led by Melbourne and Sydney are where prices are expected to fall by 10% this year. The country's dependence on China (which accounts for 33% of its export demand), may also pose some risks to growth given the trade tensions with the U.S.

Latest September 2018 data showed CPI price inflation was still low at 1.9% year-on-year. This was down from the 2.1% recorded in the previous quarter and below the RBA's 2% to 3% target band. The RBA has reaffirmed its commitment to accommodative monetary policy and signaled that the next rate hike is not expected until 2020. Meanwhile, banks have been increasing lending rates due to higher international borrowing costs.

PROPERTY MARKET - SYDNEY OFFICE

Secondary stock withdrawals have kept the office market tight with limited contiguous space options available. Since end Q3 2014, face rents in the CBD have seen 16 quarters of consecutive growth, increasing by up to 60% while incentives have declined by 13 to 14 percentage-points over the same period. Stock withdrawals are starting to normalize with only 248,000 square feet removed from stock in 2018 versus the 1.2 million square feet in 2017. New supply completing from late 2019 onwards will provide some relief for the pent-up demand in the market. 60 Martin Place completing in 2019 is only 25% pre-committed, but the other major projects coming online in 2020 have pre-commitment rates in excess of 40%. Vacancies in the CBD are low (Q3 4.7%) and should remain below the long-term average of 8.1% up to 2022. Effective rents are still expected to continue to increase from 5% to 6% in 2019.

PROPERTY MARKET - PYRMONT OFFICE

Positive fundamentals are unfolding in the Pyrmont office submarket, located three kilometers west of the Sydney CBD. Pyrmont has had no new supply since 2008 and consistent rental growth since 2014. Current vacancy rate is at 6.1%, below its 10-year average of around 7.0%. The submarket is popular with smaller occupiers in the TMT-related and professional services space, some of which have relocated from the CBD due to affordability. Google's recent purchase of a campus style building in Pyrmont in June 2018, is also expected to build appeal for further technology-industry clustering in the area. Since Google's announcement, there has been more inquiries by technology firms, some of which are likely to pre-commit to new space at 21 Harris (currently under construction and due to complete in Q4 2019). As of Q3 2018, AEW understands that 21 Harris (named the Workshop) is the only project completing in Pyrmont in the near term and is likely to be fully leased prior to completion. With minimal new supply, vacancy rates are likely to continue to trend lower, providing further support to rental growth.

PROPERTY MARKET - NORTH SYDNEY OFFICE

Similar to the CBD, stock withdrawals to make way for residential developments and infrastructure improvements have kept the leasing market constrained in North Sydney. Effective rents continue to increase, up 1.2% quarter-on-quarter and 6.6% year-on-year in Q3 2018. The vacancy rate of 7.4% is only slightly down from the same period a year ago due to mild net absorption figures. New demand in the market tends to be limited to smaller sized occupiers because of the nature of the available space in North Sydney. Demand is expected to pick up in the next 12-months, as the completion of new projects (100 Mount in 2019 and 1 Denison in 2020) will create some movement in the market. As of Q3 2018, North Sydney still presents an attractive value proposition (35% discount to CBD rents) and a preferred relocation option due to superior transport connections, accessibility and amenities available. Effective rents are expected to increase a further 5% to 6% in 2019.

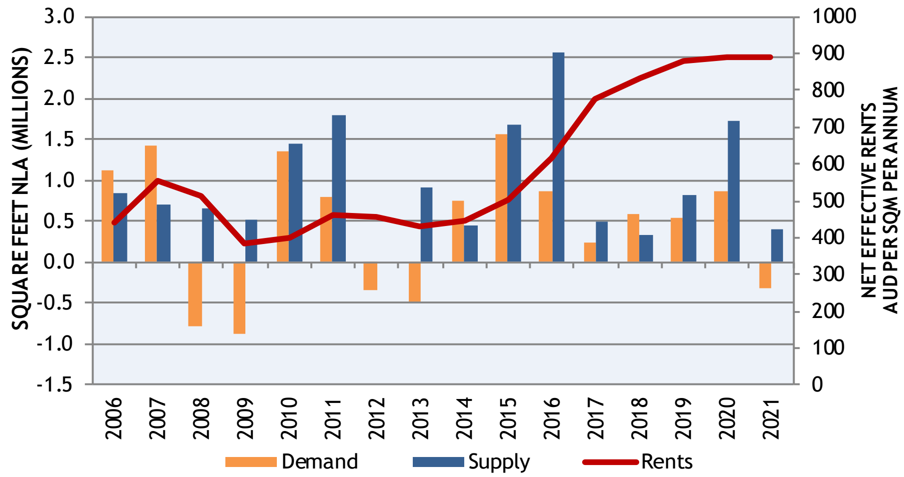
PROPERTY MARKET - MELBOURNE OFFICE

Melbourne's CBD is still advancing through its rental cycle and has a highly positive demand environment. In Q3 18, net absorption was 860,000 square feet, the highest quarterly take-up since 2008. Notably, demand in Q3 was propped up by large tenants moving into recent completions as well as the quick expansion of flexible-space operators, government and education tenants to backfill the vacated space. In Q3, CBD vacancy rates tightened further to 3.6% and 4.7% across prime and secondary stock respectively, declining by more than 2.0 percentage-points since the start of 2018. Prime vacancy rates in Melbourne now reflect the tightest vacancy across any CBD market in Australia.

Melbourne's CBD is still advancing through its rental cycle and has a highly positive demand environment.

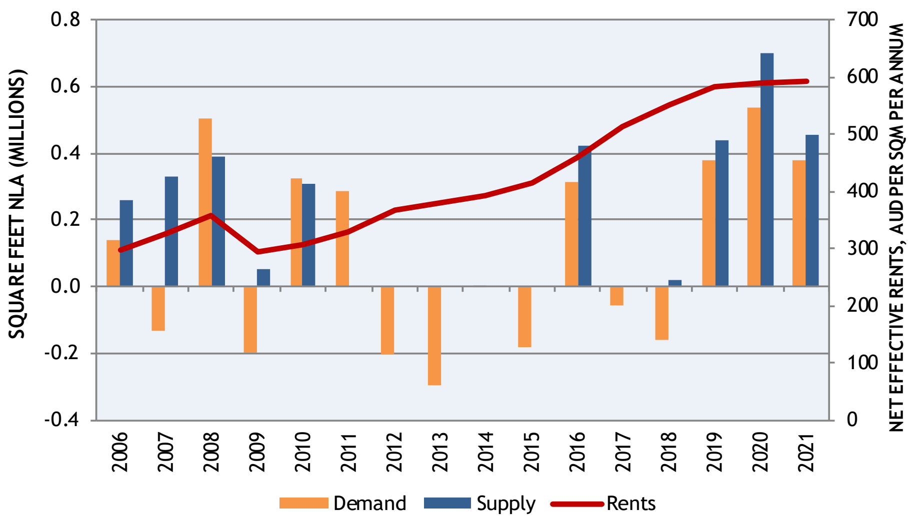
Future completions in Melbourne are substantial with 2.0 million square feet per annum expected to complete for the next three-year (2019 to 2021) period. Near term supply however is expected to do little to ease the tight occupancy market. In Q3 2018, Tower 5 at Collins Square and One Melbourne Quarter completed with 99% and 90% pre-commitments respectively, and in 2019, the five projects due to complete are already 85% absorbed. Local brokers have commented that the backfill pipeline has been active and is not expected to disturb the rental cycle. Net effective rents in Melbourne are expected to increase by 5% to 6% in 2019 and a further 2.5% to 3.5% in 2020.

SYDNEY CBD DEMAND, SUPPLY AND RENTAL OUTLOOK



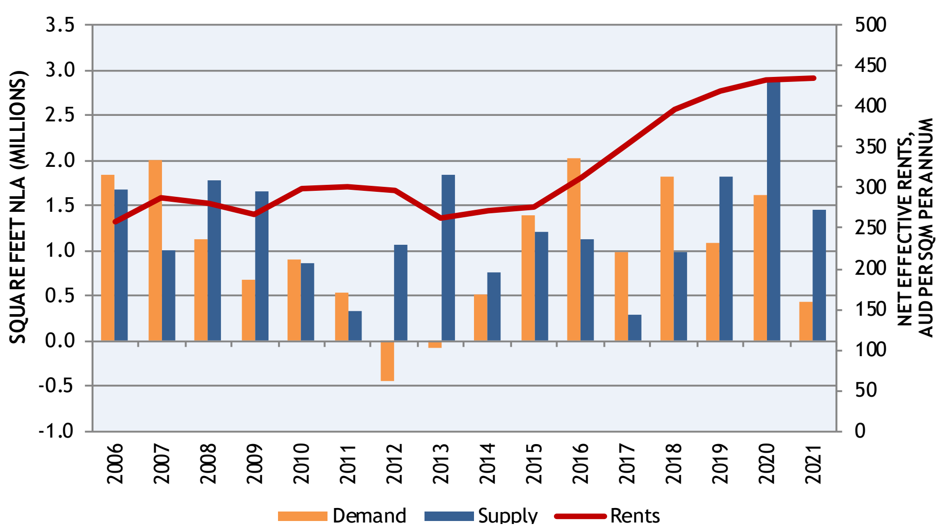
Source: JLL

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
60 Collins Street[1]	Melbourne	Oct-18	Office	$115.5	$777	2.3%	DEXUS
555 Collins Street	Melbourne	Oct-18	Office	$101.1	$408	n.a.	Charter Hall REIT
Eclipse Tower	Sydney	Sep-18	Office	$199.7	$723	5.3%	GPT
383 La Trobe Street	Melbourne	Sep-18	Office	$87.8	$842	5.7%	Mirvac
80 Mount Street	Sydney	Sep-18	Office	$51.1	$765	4.3%	Hong Kong buyer

Source: RCA
Note:[1] DEXUS owns the adjacent site (52 Collins Street) and has proposed to consolidate the two sites to develop a Prime grade office building.

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