AEW RESEARCH

ASIA PACIFIC MARKET PERSPECTIVE

Q3 2021

AEW

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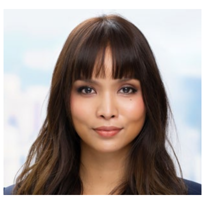

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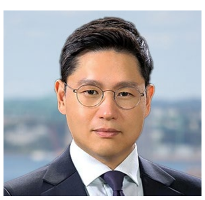

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Gaining Ground

DOWN THE HOMESTRETCH OF PANDEMIC LIVING

- Immunization efforts are tracking well across the major Asia Pacific economies and most have already reached or exceeded an 80% vaccination rate as of early November 2021.
- For countries like Australia and Singapore which have had strict entry requirements since mid-2020, dates have been set for the reopening of borders to international travel, lifting hopes of a more permanent return to normality.
- Risks linked to China's property market slowdown and energy crisis, as well as global supply chain disruption, could unwind some of the positivity that has been gained in recent months. However, we expect this lag to be well-managed, and the repercussions, if any, should be contained.

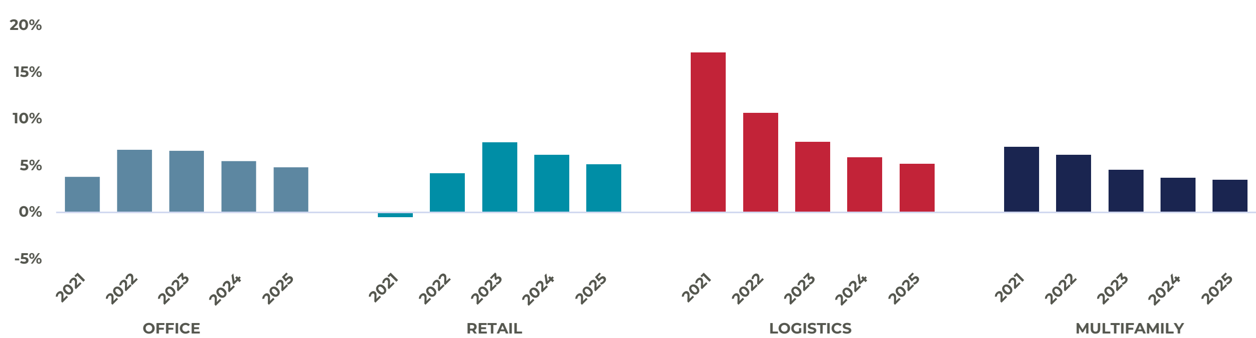
INVESTMENT ACTIVITY EXCEEDS EXPECTATIONS, 2021 COULD SET A NEW RECORD

- Despite the divergent and bumpy recovery profile year-to-date, investment markets turned around in 2021, proving the important role real estate plays in institutional investors' portfolios.
- The positivity observed in Q2 has advanced further, with year-to-date volumes up 37% (as of the end of October) from the same period last year. Transaction volumes are now ahead of 2019 levels with most markets seeing marked improvements from last year.
- Cross-border capital is constrained compared to previous years, but we do expect it to normalize by 2022. In 2021, the proportion of cross border capital was only 21%, compared to the 30% average from 2016 to 2019.

FOCUS ON OPPORTUNITIES AHEAD

- Forecasts anticipate a continuation of low real interest rates for 2022, high investor allocations, and thus, strong transaction markets. We expect a forward-looking, four-year total return from 2022 to 2025 of 6.0% to 7.0% p.a. across the major gateway markets.
- The definition of core and value-add continues to evolve. Asset underwriting and associated risk strategies will focus heavily on income-related factors such as tenant quality, expiry profile and potential rental growth.
- Expected performance varies across the city sector and submarket level, meaning asset allocation will be key to outperformance. Investments in line with ESG objectives and each countries' policy objectives are preferred.
- The Logistics sector should continue to be a top performer for the next four-year period, followed by office and multifamily.
- Rental recovery in some office markets could be stronger than current forecasts indicate primarily due to an uptick in demand not yet reflected in the forecast.

ASIA PACIFIC TOTAL RETURNS BY SECTOR
2021 TO 2025F



Source: AEW Research, JLL, PMA

Recovery Continues as Key Milestones Are Met

GROWTH TO IMPROVE IN Q4 AND BEYOND

- The region's economic recovery in Q3 was impacted by lockdowns and State of Emergencies (SOEs), but growth is set to improve from Q4 and early 2022 as most major markets meet their vaccination targets and have made attempts to lay out a clear pathway for reopening.
- Growth for monitored markets in the Asia Pacific region is expected to average 5.1% in 2021 before returning to a more stabilized level of growth of 3.0% to 3.5% p.a. from 2022 to 2024.
- Pandemic-driven supply disruptions, as well as China's property market slowdown and energy crunch, are evolving risks that could negatively impact the outlook. At the time of writing this report, we believe the Chinese government will use existing levers to manage/limit the potential impact from these disturbances.

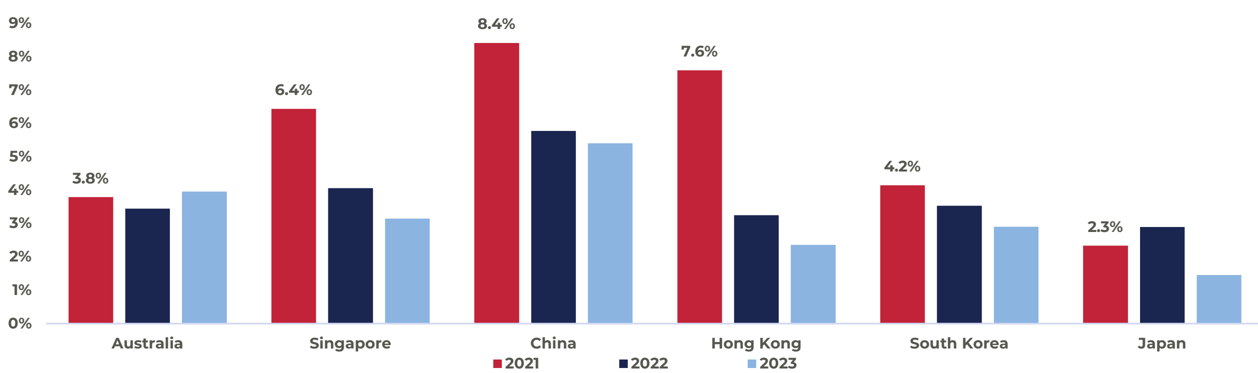
LABOUR MARKETS AND CONSUMPTION ACTIVITY SET TO IMPROVE

- Across the board, corporate profits and hiring intentions have improved, which will bode well for investment and consumption activity. Hiring intentions for Q4 are anticipated to be the strongest in Hong Kong and Japan.
- Office-based employment is set to increase by 20% in the next two years which will bolster demand for office space.
- As of November, New South Wales and Victoria were finally released after a lengthy lockdown. With that, domestic consumption is expected to rebound, while in Japan, vaccine roll out and consumption recovery in Q4 and early 2022 will support the recovery.

FISCAL SUPPORT IN PLACE WHILE MONETARY POLICY STANCE DIVERGES

- Fiscal policies generally remain expansionary, but we expect some tightening in 2022 once the recovery has hit its stride.
- Supply-demand mismatch has resulted in some cost-push inflation, but elevated pricing is expected to be transitory. Meanwhile, demand-side pressures have not risen to the same level as the U.S. and Europe and is not of immediate concern.
- While most central banks are committed to keeping rates low in 2022 to support the economic recovery, policy movements will be guided by achieving the right balance between supporting growth and managing inflation risks. In Singapore and South Korea, central banks are on a slight tightening bias while in Australia, policy makers have dropped their yield target, which signals it could be open to earlier tightening.

ASIA PACIFIC GDP GROWTH 2021 TO 2023F



Source: Oxford Economics, as of Nov 12, 2021

Property Markets: Switching Gears as We Head Into 2022

OFFICE

ASIA PACIFIC REGION MOST UPBEAT ON OFFICE EXPANSION CBRE's latest Global Occupier Survey reaffirmed that future prospects for the office sector were most positive in Asia Pacific. In the region, about 50% of occupiers are expected to expand their corporate space needs in the next 12 months, much higher compared to North America (29%) and Europe (33%). In addition to having the most upbeat expansion plans, about 77% of employers in Asia Pacific have also indicated they will require employees to work in the office more often than not.

RENT CYCLES IN SOME CBD AND METRO MARKETS TO RECOVER IN TANDEM Historically, CBDs and their corresponding decentralized or metro markets have had strongly correlated rental cycles. Going forward, we see this relationship unwinding in China Tier 1 due to heavy supply (about 25% higher than the past five-year average) and unfavorably high vacancy outside the CBD. In Singapore and the key Australian markets however, new supply outside the CBD is at manageable levels and is thus expected to see a rental recovery in tandem with their corresponding CBDs.

INVESTOR APPETITE FOR OFFICE RETURNS In contrast to the U.S. and Europe, investment activity in Asia Pacific's office sector accelerated in 2021, surpassing 2015 to 2019's annual average. As of the end of October, transaction volumes for offices in the region's major gateway markets were 28% above the same period last year. In 2021, investment activity in the central business districts has improved strongly reiterating a flight to quality and confidence in the underlying demand and need for offices in the Asia Pacific region.

LOGISTICS

HIGH LEASING VOLUMES TO BE SUSTAINED By the end of 2021, take-up of warehouse and industrial space will reach record highs. While a substantial portion of this demand has been driven by fast expansion in response to the pandemic, demand should remain elevated over the next five years. Besides e-commerce growth supporting the need for modern warehouses, we also expect other specialized subsectors to expand. These include data centers, labs and clean manufacturing facilities driven by new industries such as big data and analytics, cloud computing, advanced pharmaceutical/ biotechnology and additive manufacturing.

FUNDRAISING FOR LOGISTICS FOCUSED FUNDS SPIKES Fundraising for logistics investments has reached a record high during the first three quarters of 2021. This investment capital is spread across a range of vehicles across the risk/ return spectrum with a total of USD11 billion to invest over the next few years. The strong weight capital to be channeled into the sector will ensure pricing remains strong and cap rate compression will continue across all the major markets. We expect more portfolio deals to transact as investors aim to build scale and grow exposure rapidly. Looking at the past year for reference, the number of logistics portfolio deals have doubled in the major gateway markets versus 2020. .

MUTLIFAMILY (JAPAN)

IMPROVING FUNDAMENTALS IN TOKYO The pandemic induced slowdown in the residential leasing market could start to see some improvement in coming months as Japan adapts to post-pandemic living. For Tokyo, improving business confidence and hiring sentiment should be matched by a return in migration patterns to the city centers. Over the long-term, we expect lasting resiliency from the sector underpinned by sustained urbanization and limited net new supply in Tokyo.

REGIONAL CITIES SHOW RESILIENCE Regional cities have key differences from Tokyo which have helped in their outperformance in the past year. Economic cycles in regional cities are less linked to global markets, and the bulk of in-migrants are typically from within the same prefecture, and thus, were less impacted by mobility restrictions and State of Emergencies (SOEs). In the past few quarters, Fukuoka and Osaka's healthier net migration numbers have helped sustain leasing momentum better than Tokyo.

RETAIL

RETAIL YIELD SPREADS WIDEN, BUT FUNDAMENTALS STILL WEAK Structural changes in retail have been in play for several years, however the pandemic has severely weakened fundamentals. As COVID-related restrictions are eased in markets like Australia and Singapore, there could be some revival in retail occupier conditions. Likely, more retail assets will be transacted in markets where yield spreads to the cost of debt are attractive.

Office

Australia: Investors look past occupier conditions

- Positive forward-looking indicators (like job vacancies and hiring sentiment) will take a while to translate into healthy occupier demand. Markets are expected to remain tenant favorable and incentives will continue to increase till end 2021.

Singapore: Limited supply supports rental recovery

- Demand momentum continued for better quality buildings, despite temporary setbacks in the country's re-opening plan. The rental downcycle has bottomed in Q2 and the tapering net supply profile beyond 2021 will be supportive to the city's rental recovery.
- The positive rental outlook should attract more capital interest for the rest of 2021, encouraging further price appreciation. In H1, about $2.5 billion of assets has already transacted.

Hong Kong: Decentralization incentives narrow

- Cost saving and downsizing remain key themes, but decentralization trends seem to be reducing. There is growing confidence on the return of demand from Mainland China once Hong Kong and Mainland border gates are re-opened.
- The pace of rental decline has moderated, and rents could bottom by early 2022. We expect more institutional investors to enter the market before the anticipated bottoming.

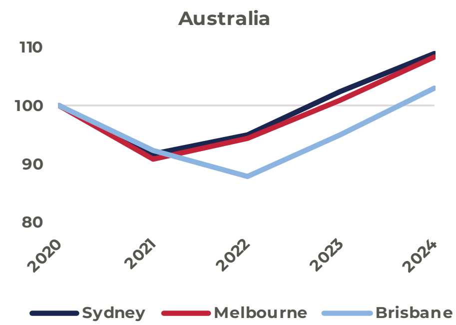
China: Some submarkets do better as vacancy improves

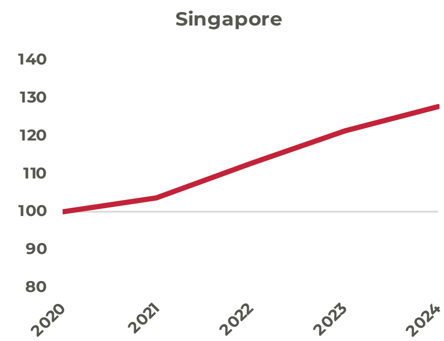
- Shanghai: Leasing conditions have improved further with quarterly take-up in Q2 coming in at the highest level since 2015. As vacancy improves, rents stabilized earlier than expected with some submarkets like Qiantan and Nanjing West Rd outperforming.
- Beijing: A further uptick in leasing activity in Q2 was supported by relocation and expansion of domestic finance and Technology, Media and Telecommunication (TMT) companies. Due to growing demand momentum, vacancy risk is less of a concern. Landlords of more stable projects could start increasing rents in H2 2021.

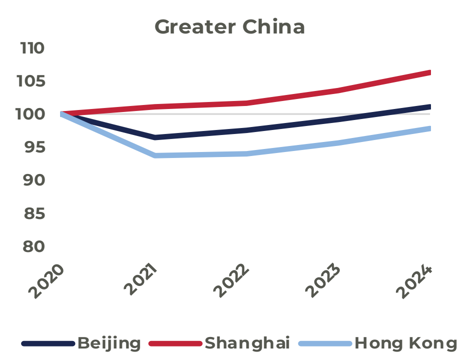
South Korea: Strong investment interest reflects health of occupier market

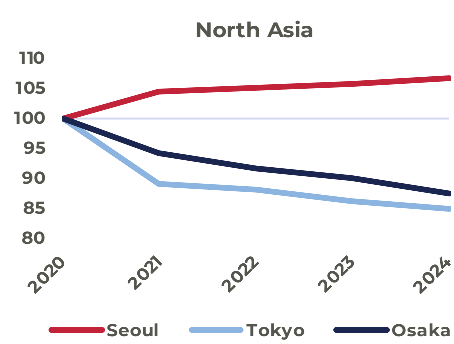
- Healthy leasing momentum continued into Q2 2021, with interest concentrated in Grade A buildings. Despite elevated vacancy in CBD and YBD submarkets, occupier demand will support steady rental growth in the near-term.
- Mirroring healthy occupier markets, investment markets have been active in 2021 with $5.5 billion invested in H1 2021. The strong competition by domestic capital has resulted in yields compressing by 15 bps in the first six months of the year.

OFFICE RENT INDEX (2020 TO 2024F)
2020=100









Source: JLL, as of Q3 2021

Japan: Stabilization in Tokyo office

- With more space cancellations and downsizing reported, vacancy in Tokyo has increased beyond 2%, a level not reached for several years. A rising vacancy environment in the near-term will put downward pressure on rents.
- Regional cities are expected to be more resilient due to manageable vacancy levels and fewer examples of downsizing.
- Despite previously weak occupier conditions, investors have been undeterred with investment markets remaining active and cap rates compressing.

Logistics

Australia: Competition for assets result in strong cap rate compression

- Robust demand in a low vacancy environment and construction delays have pushed the rental cycle higher.
- Investment sales in the quarter included a mix of domestic and cross-border players. Australian logistics saw the sharpest cap rate compression in the quarter, and the asset class now sits at around 100 basis points below office.

Singapore: Business Parks remain resilient, Cold Storage to outperform

- **Business Parks.** Compared to office, demand and rents in the sector have a more stable profile. Technology and biomedical sectors will drive demand in the near-term.
- **Logistics.** Rent and demand trends are bifurcated between specialized and traditional facilities. Cold storage assets are expected to outperform, in line with plans to position the country as a hub for the storage, distribution and shipment of vaccines.

Hong Kong: Many large enbloc deals transact in 2021

- Industrial continues to be the first pick for commercial investments in Hong Kong due to attractive features like supply deficit, pricing resilience and supportive government policy for alternative use.
- As the sector has the best near-term growth fundamentals (vs office and retail), liquidity is high at $4.4 billion, tracking ahead of previous years' growth (or ahead of the previous year). There were 21 deals completed this year with value greater than USD50 million versus only eight transacted last year.

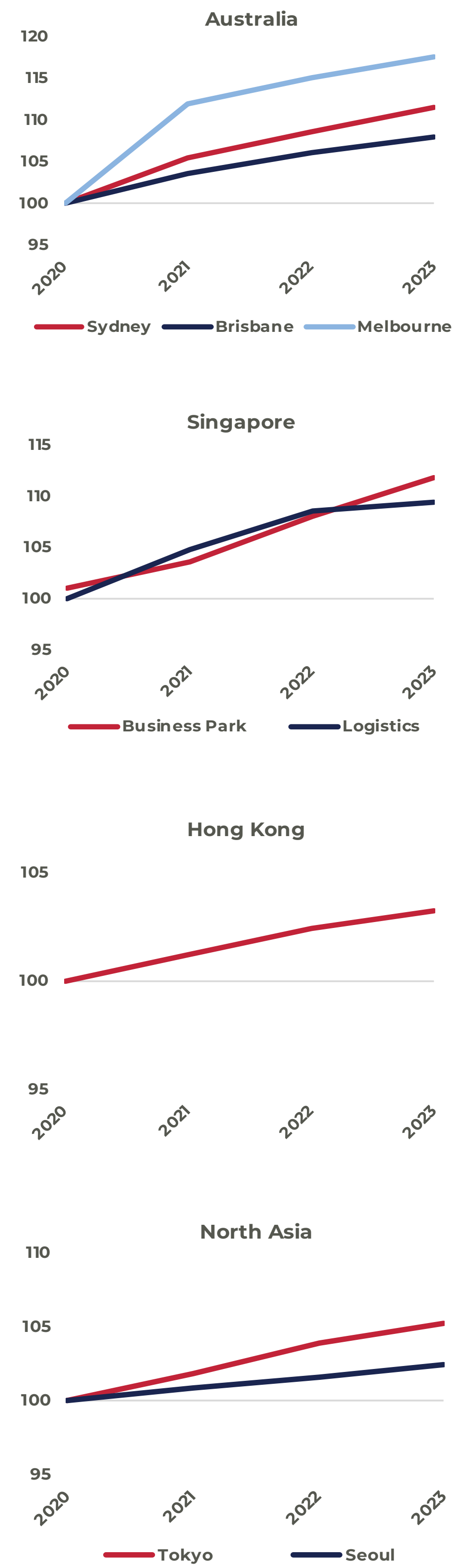
South Korea: Supply delays as regulatory requirements increase

- Robust leasing demand and some supply delays are creating an extremely tight vacancy environment. Limited space available means the bulk of leases are done as pre-commitments in facilities still under construction.
- Investment appetite remains healthy with a mix of forward sales and sale/ leasebacks. Yields have firmed to 4.4%, and we expect further 25 bps compression by year-end.

Japan: Modern stock limited, still good demand for Grade B facilities

- Supply and demand balance for new stock remains tight with strong expansion demand from e-commerce firms, retailers and manufacturers.
- A large proportion of older stock exists, but vacancy in these assets are elevated. While rent growth potential is minimal, these assets are affordable on a per square foot basis and some will benefit from value-add upgrades.

LOGISTICS RENT INDEX (2020 TO 2024F)
2020=100



Source: JLL, as of Q3 2021

Retail

Australia: Possible bottoming out for retail

- Outside of CBD retail, rent declines have been largely insignificant in 2021 across most subsectors (sub-regional, regional etc.). In fact, the number of voluntary administrations remained extremely low this year, compared to close to 1,000 store closures recorded in 2020, indicating a possible bottoming out.
- Retail spending is expected to rebound strongly in Q4, and capital sources have reacted. Year-to-date, capital invested in the sector has amounted to $3.0 billion, more than 1.4 times 2020's annual volume.
- AEW understands there is significant capital looking to reallocate to the sector, but there are limited quality assets available for sale. Such assets are those with secure tenant profiles, limited capex requirements and potential for growth based on the existing trade area.

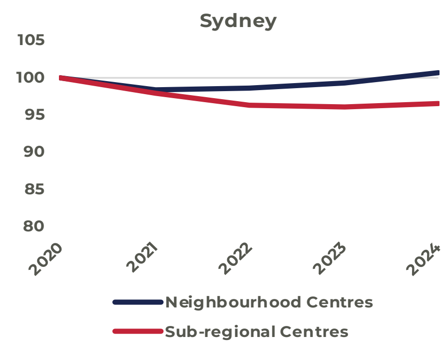
SINGAPORE: Expected demand recovery in 2022

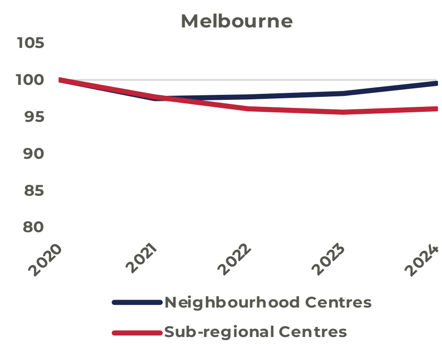
- Suburban retail remains attractive, due to stable demand and good customer traffic, with positive rental reversion recorded. Still, value-add or repositioning strategies are preferred as the sector is unlikely to see organic rental growth in the next two years.
- The expected recovery in tourism and a return to office in 2022 could see a pick-up in leasing in the CBD fringe and Orchard Rd markets. While we expect investor interest to increase alongside this, there is limited stock in these areas available for sale.

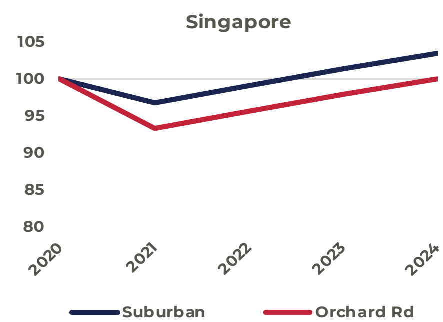
Hong Kong: Improving demand, strata deals driven by domestic investors

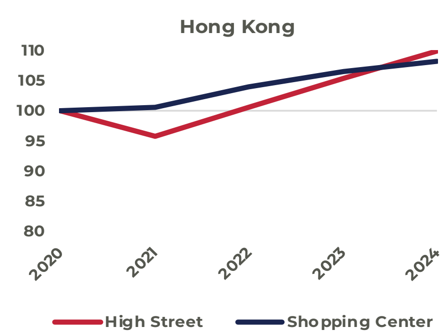
- High street market and shopping centers are seeing demand return. Leasing is driven by local retailers who can secure space offerings at affordable rates. Rents are expected to rise in the coming months, but this will be gradual until a return of tourism is allowed.
- At the strata-end of the market, there has been a strong return in activity, with over 230 deals completed up to October 2021. The enbloc market has been relatively quiet, but by 2022 there should be some movement. While low yields are natural barriers for offshore investors, domestic players are likely to be active going forward as they are more focused on capital gain rather than income return.

RETAIL RENT INDEX (2020 TO 2024F)
2020=100









Source: JLL, as of Q3 2021

Multifamily

Japan: Expect normalization of net migration by 2022

- As post-pandemic life gradually unfolds, we expect a return in migration patterns to the urban centers like Tokyo and Osaka. Better corporate profit and upbeat hiring sentiment for 2022 gives confidence for the seasonal migration numbers in March/ April 2022 to normalize.
- While leasing trends favored larger apartments outside city centers, we expect this trend to reverse by next year as work-from-home practices dwindle.

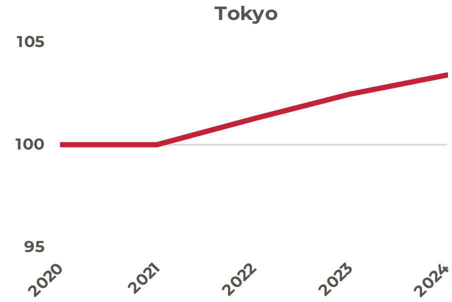
Australia: Emerging build-to-rent opportunity

- Build-to-Rent (BTR) is a developing institutional asset class and refers to a segment within privately-owned residential which has been constructed for renting rather than sale.
- Potential renters are a mix of local and overseas migrants. Based on housing demand forecasts, another 400,000 rental units are needed to fill demand by 2030, indicating a significant scalable opportunity for the sector.
- Because of the positive underlying fundamentals, rent growth prospects will be high after borders reopen and migration trends resume. Annual rent growth could be in the range of 3% to 4% p.a. for the two years ending in 2024.

China (Tier 1): Favorable structural factors

- China's rental housing market is transforming on the back of government support, new and diverse sources of demand, and strong interest from investors and developers.
- The country's renter population is expected to grow by 20 million between 2020 and 2022.
- Converting underutilized commercial properties to multifamily has proven successful and is a preferred route to access the sector.
- Multifamily rents are estimated to have a 15% to 20% rental premium compared to traditional rental apartments. In the past year, many projects saw rent growth of up to 10% indicating pent-up demand for the product.

MULTIFAMILY RENT INDEX (2020 TO 2024F) 2020=100



Source: JLL, as of Q3 2021