AEW RESEARCH

Asia Pacific Market Perspective

Q4 2021

AEW

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Positive Build-Up to 2022

Gradual Economic Recovery, with Short-Term Risks

- Major economies in the region are expected to gradually recover in 2022. Short-term risks have risen due to the spread of the Omicron variant which has impacted supply and demand, as well as reopening plans.
- Past trends give confidence that the dip in growth in Q1 will be followed by an up-tick in subsequent quarters.
- As most governments in the region are pushing ahead with a "living with COVID" strategy and accepting it as an endemic rather than a pandemic, business confidence has risen, and the return-to-growth is expected to be sustained.
- Risks linked to China's property market slowdown and developer debt crisis have been slightly alleviated as officials have taken steps to reign in the slowdown, however, risks remain, at least for H1 2022.

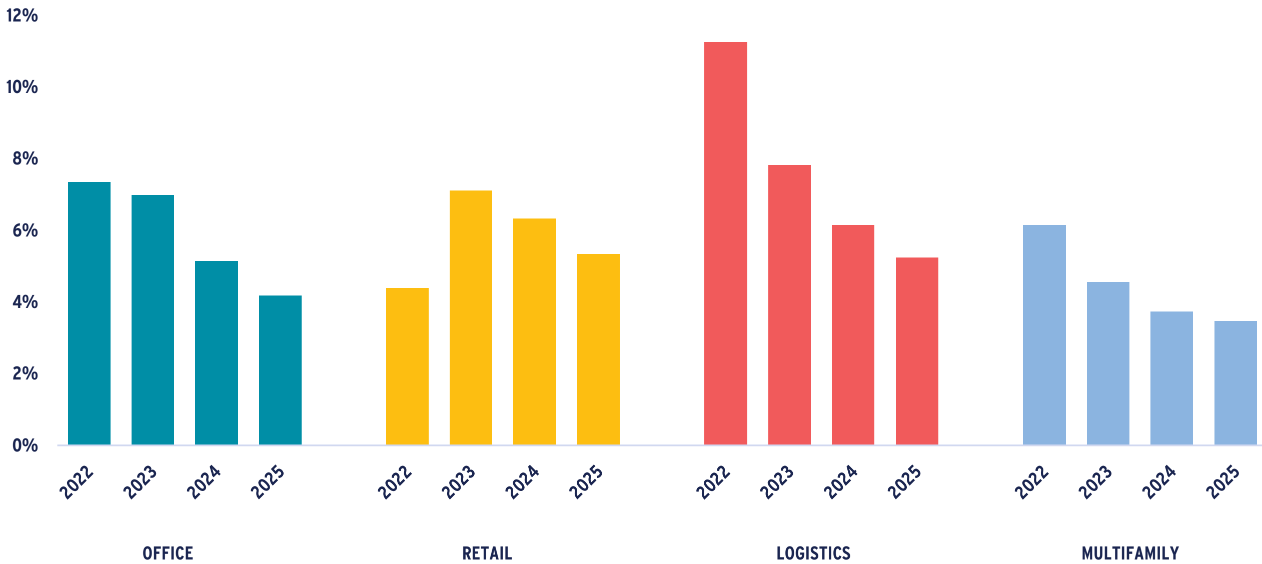
Investment Activity Ends On A High, Momentum to Continue Into 2022

- Despite the divergent and bumpy recovery profile year-to-date, capital has been active and investment for our monitored markets have had a record year of activity, estimated at USD153 billion; this is up 25% and 13% year-on-year from 2020 and 2019 respectively. Average deal size is estimated to have grown by 4.5% over the last two years, meaning price inflation has played a part in the increase in transaction volumes.
- Q4 was a particularly active period across several of our target markets, with 42 billion in total transactions. Investment markets were particularly strong in Sydney (for some large office deals) and in Shanghai, where a few large assets in the business park areas were purchased.
- Based on fundraising activity and our estimate of capital held by institutional investors active in the region, dry powder is high. As investors continue to increase their allocations to Asia Pacific real estate, transaction volumes are expected to continue to grow by 5% to 10% year-on-year in 2022.

2022: Making Hay While The Sun Shines

- Despite rising interest rates in most markets for 2022, high investor allocations and healthy transaction markets are expected to be maintained. We anticipate a forward-looking, four-year total return from 2022 to 2025 of 6.0% to 7.0% p.a. across the major gateway markets.
- Across cities and sectors in the region, opportunities are differentiated based on each market's idiosyncratic features, and asset allocation will be the key to outperformance. Some investors are inching up the risk spectrum to access more favorable pricing and generate better returns. Similarly, we also believe there will be a migration into the alternative or niche sectors where these specialized assets offer a return premium.
- Corporate adoption of zero net carbon targets is set to double in the Asia Pacific region by 2025, and real estate is playing a significant role in this trend. As a result, we are seeing more and more opportunities to repurpose older office stock to meet new LEED and BREAM requirements across our target markets.

ASIA PACIFIC TOTAL RETURNS BY SECTOR 2022 TO 2025F



Source: AEW Research, JLL, PMA

Moving Towards Balanced Growth

Still Growing, But Slowing

- GDP growth for monitored markets in the Asia Pacific region ended the year slightly better than initially expected, expanding by 5.2% year-on-year. Growth was supported by generous monetary and fiscal stimulus, while strong external demand underpinned export activity for China, South Korea, Japan, and Singapore.
- For 2022, growth is expected to average 3.3% over the year. While this is slower than 2021, growth across most markets will remain above their pre-pandemic averages.
- China is the only economy to record a substantial slowdown compared to pre-COVID growth in 2022. While the policy tone has shifted toward easing and supporting growth, the ongoing downturn in the residential sector and the strict zero-COVID approach remain key headwinds to the country's growth.

The Great Hiring In Asia Pacific

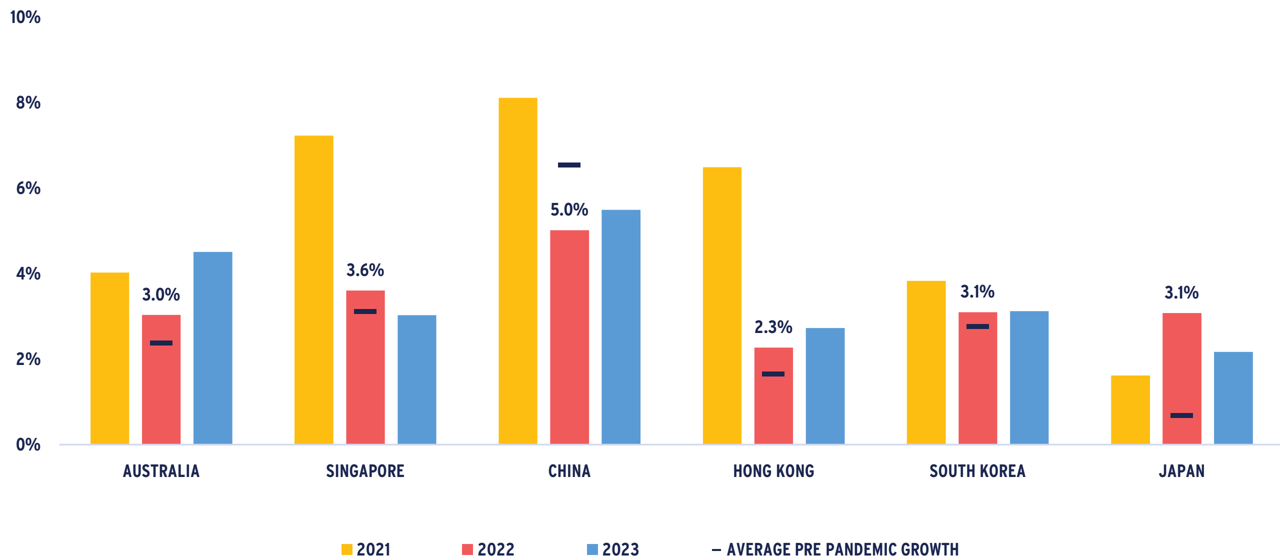
- The labor market recovery continues across the region. In 2021, major markets reported strong job creation figures and reductions in their unemployment rates.
- Corporate profits and hiring intentions have also improved, which will bode well for investment and consumption activity.
- Continuing the trend from previous quarters, most employers in Asia Pacific are more optimistic in their hiring plans. Markets reporting the strongest hiring intentions for Q1 2022 include Australia and Hong Kong.

Fiscal Support and Monetary Policy Stance Diverges

- With the recovery well under way across our monitored markets, fiscal support has been rolled back at varying speeds over the last few months. In 2022, fiscal normalization will continue across much of the developed markets in the region.
- CPI inflation continues to be less of a concern in Asia Pacific compared to the U.S. and Europe. Still, price pressures have risen and are likely to remain elevated in the near-term amid improving consumption and recurrent supply disruptions. With the added pressure of the Fed raising rates by March, some markets in Asia Pacific could move to tighten in the year as well.

- Across our monitored markets, monetary policy is divergent. Central banks in South Korea and Singapore have maintained a tightening course since Q4 2021, but the Bank of Japan (BoJ) and People's Bank of China (PBOC) have committed to keeping an accommodative stance. In Australia, private sector economists are anticipating the Reserve Bank of Australia (RBA) could bring forward its initial intention to hold the cash rate till 2024.

ASIA PACIFIC GDP GROWTH 2021 TO 2023F



Source: Oxford Economics, as of Jan 30, 2022

Property Markets: Occupier Conditions Catching Up To Investment Markets

Office

Expansion Demand Returning

CBRE's latest Global Occupier Survey reaffirmed that expansionary demand is recovering, and as restrictions ease, workers are returning to the office. From the latest survey in November 2021, 48% of all new leasing enquires was for more space demand (either through new set-ups, expansion, or upgrades), a significant improvement from just 32% recorded in June 2021. Across most of AEW's target markets, net absorption for office space in 2022 is expected to exceed the past four-year average (2018 to 2021).

Prospects For Prime And Grade A Assets Are Better In Most Cities, But Not All

Analysis of demand and vacancy indicators show that markets are bifurcating across Australia, Singapore, and Shanghai; the prime or Grade A segment is recovering fast while lower grade buildings are experiencing elevated vacancy and lower demand. Some markets, however, display a contrary picture. In Tokyo for example, Grade B buildings are generally doing better because of a more stable occupier base that does not have the capacity or infrastructure to implement teleworking. Separately, in Beijing, some Grade B urban renewal projects (conversion from underutilized hotel/retail to office) has generated strong demand among tenants.

More Value-Add Opportunities, Building Back Greener

An estimated 40% of Asia Pacific office needs refurbishment, showing there are a fair share of value-add opportunities. Going forward, an essential part of creating better quality assets will be through sustainability enhancement strategies. In countries like Australia and Singapore, this has a proven payback benefit, as properties with LEED certifications generate more demand and higher rental rates (about 7 in 10 occupiers have shown preference for green buildings). At the same time, we also see opportunities in Tier 1 China and Japan, where there is increasing focus on sustainability among occupiers, but still low levels of building accreditation.

Logistics

High Demand, High Supply

Because of positive fundamentals, the logistics sector has created a lot of construction activity in recent years. Leasing momentum has continued to surprise, lessening any vacancy concerns in markets just yet. However, by end 2022, stock in our monitored markets will increase by 15% year-on-year, the highest annual increase on record. While pre-leasing to-date has been active, we do anticipate some vacancy pressure, especially in the western areas of Greater Seoul where large scale centers (on average 1.2 to 1.4 million square feet) are being built.

Strong Price Appreciation In The Last 2 Years Declining Return Profile

Supported by positive demand tailwinds, in 2020 and 2021, capital quickly pivoted to the logistics sector. As a result, in the last two years, investment into the logistics market has reached new records in Asia Pacific (as it has globally). The steep increase in investor interest has been accompanied by strong price increases, with an average capital value increase of 7.3% p.a. in 2020 and 2021. Going forward, capital return forecasts are expected to normalize, averaging 4.5% p.a. over 2022 and 2023.

Multifamily - Japan

March And April Will Be Important Months; Regional Cities Show Resilience

The multifamily sector is starting the year on a positive note - corporate profits are high and we expect renewed hiring intentions to translate to a strong positive net migration into cities which will support new leasing demand. March and April will be seasonally important months, as it corresponds with the start of the new financial year for Japanese corporates. On the investor side, we expect another year of strong investor activity as substantial capital is targeting the sector, especially as fundamentals remain solid and the cost of debt is expected to remain low.

Retail

Demand For Retail Assets Pick Up In Q4

Investor interest in retail is building again, with negative rental reversion in the sector declining. In Q4, within Australia, some assets were acquired at good values after write-downs in 2020 and 2021. The interest in the sector again is reflecting the overall health of the consumer economy. If the recovery in the sector continues to build, there will be more activity, especially from a value perspective, where yields for regional or sub regional malls can be more than 5%.

Office

AUSTRALIA: Improving occupier conditions

- As leasing activity begins to improve, performance is expected to diverge across building grades. Effective rents in prime and Grade A assets could start to recover as early as H2 2022, while Grade B will lag.
- Capital markets showed commitment to the office sector and a willingness to pay sharp yields. There were close to 30 office deals (of value >US100m) transacted within Melbourne and Sydney in 2021, in line with pre-COVID averages.

SINGAPORE: Strongest rental growth in the region

- After borders reopened and the city transitioned to a "living with COVID" strategy in Q4 2021, business confidence has improved, translating to an increase in leasing demand.
- Near-term rental forecasts have been upgraded on the heels of stronger leasing demand and tighter vacancy conditions. Rents are expected to increase by 8% to 10% in 2022, with risks to the upside

HONG KONG: Market remains tenant favorable in the near-term

- Leasing demand slowed over the course of 2021, with only 10% of leasing deals for the year taking place in Q4 2021. Uncertainty remains over the border reopening and the return of demand from mainland China.
- Strong supply in the decentralized areas in 2022 (with limited precommitments), means the market is likely to continue to remain tenant favorable in the near-term.

CHINA: A slow return to rental growth

- Shanghai is undergoing strong demand from new economy sectors like TMT and life sciences. While investment interest is cautious of large supply under construction, tight vacancy in smaller submarkets is evident, and landlords have already started to increase rents.
- Due to an active leasing market, Beijing's vacancy rates in both the Grade A and B markets are stabilizing after a supply peak in 2021, and rents are expected to grow by 2 to 3% in 2022.

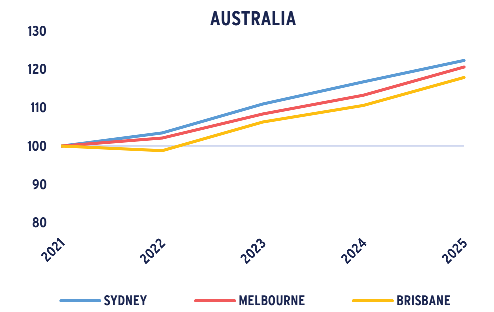
SOUTH KOREA: Declining vacancy profile in three-core CBDs

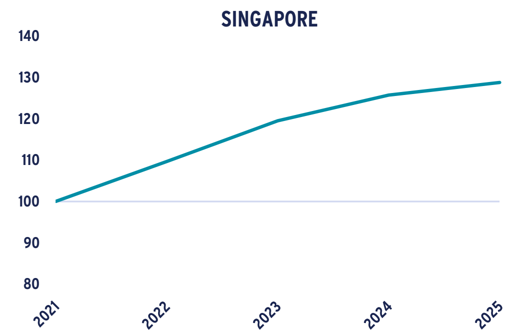
- After a record year of take-up in 2021, strong leasing demand is expected to continue into 2022. Most favorable conditions are in GBD where vacancy is less than 2% and landlords have stopped providing rent-free.
- Within the three-core markets, supply in 2022 will fall to its lowest level in more than ten years. As vacancy continues to trend down over the year, we expect all submarkets to see rent growth in the range of 2 to 3% for 2022.

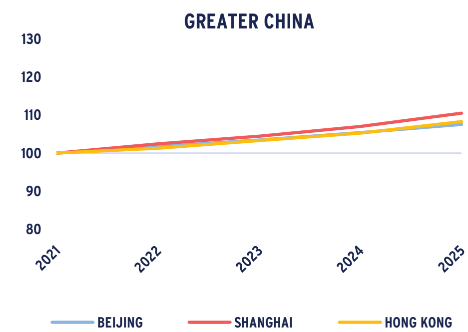
JAPAN: Stabilization in Grade B

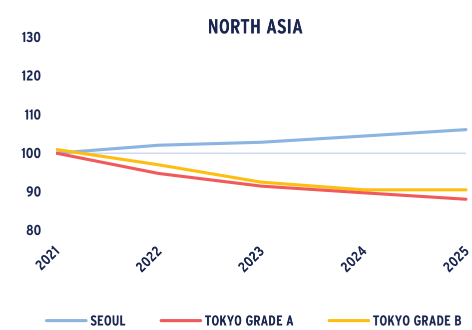
- Within Tokyo Grade A, backfill space has been mostly absorbed and vacancy has stabilized in most of the Central 5 Wards, except for Minato which has had substantial supply in the last few years.
- Vacancy in Tokyo, Grade B has held up better over the 2020-21 period as the tenant base are SMEs that don't typically have infrastructure to implement and sustain a teleworking culture. Grade B rents are expected to recover ahead of Grade A in 2022.

OFFICE RENT INDEX (2021 - 2025F)
2021 =100









Source: JLL, Q4 2021

Logistics

AUSTRALIA: Competition for assets to result in continued cap rate compression

- Structural demand tailwinds and growing land values continue to put upward pressure on rents across key markets. Pre-commitment rates for quarterly new supply is averaging 80 to 90%, this will keep vacancy tight in the near-term.
- Given the strong interest for the asset class and supported by low bond rates logistics, yields are expected to remain stable (or compress slightly) in the near-term.

SINGAPORE: Business Parks remain resilient, logistics rent increases will be limited

- Business Parks. Demand for well-located and newer spaces continue to be sought by growing industries, widening the rental gap between prime and sub-prime buildings.
- Logistics. After a solid year of demand, rents grew by close to 5.0% year-on-year. While near-term supply is low and demand is expected to remain strong, rent increases going forward will be constrained. AEW understands that occupiers are already expressing resistance to further rent increases.

HONG KONG: En-bloc industrial deals transacted were highest on record 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.
- An increasing number of investors are looking to take advantage of the industrial conversion scheme 2.0 to repurpose to higher yielding niche assets like self-storage or cold storage.

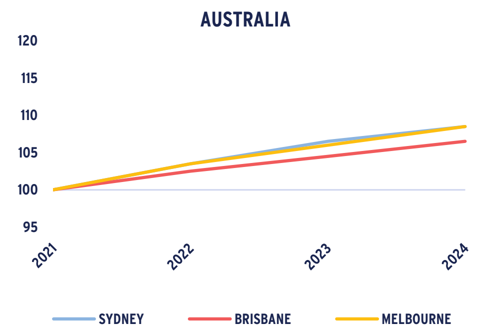
SOUTH KOREA: High supply, high demand

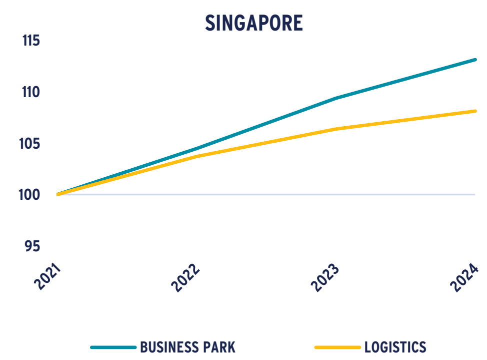
- Despite large supply in 2021, the market absorbed new space quickly. New supply coming to market in the year was about 65% pre-leased prior to completion.
- New supply will peak in 2022 at 55 million sq ft –and about 10% of this is has been leased in advance. Vacancy risk will be largest in the western port region where large new projects are located and where higher economic rents (because of higher land values) might make it less attractive for tenants.

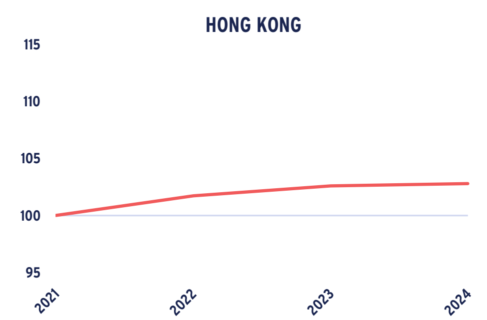
JAPAN: Modern stock limited, still good demand for Grade B facilities

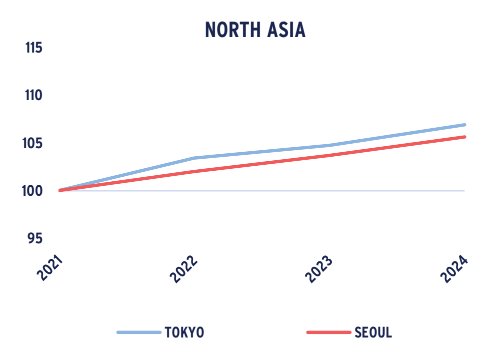
- Supply and demand balance for new stock remains tight with strong expansion demand from e-commerce firms, retailers, and manufacturers. About 50% of the new supply expected in 2022 has already been pre-leased.
- A large proportion of older stock exists, but vacancy in these assets is elevated. While rent growth potential is minimal, these assets are affordable on a per square foot basis and could benefit from value-add upgrades.

LOGISTICS RENT INDEX (2021- 2024F) 2021 =100









Source: JLL, as of Q4 2021

Retail

AUSTRALIA: Gaining traction among investors again

- Retail spending in 2021 was strong as consumers amassed significant savings during the year. Given the positive retail sales, more retailers are confident about expansion plans and are likely to capitalize on an increase in foot traffic in suburban areas in 2022.
- The pace of rent decline has slowed across most retail subsectors in Australia (except for large-format retail or neighborhood malls which have been stable or even seen increases). Incentives are likely to remain stable for 2022 with a broader rental recovery expected by 2023.
- Investors are aware of the improving conditions and are seeking to reallocate their capital to the sector, but there are limited quality assets available for sale. Such assets are those with secure tenant profiles, long weighted-average lease expiries, limited capex requirements, and potential for growth based on the existing trade area.

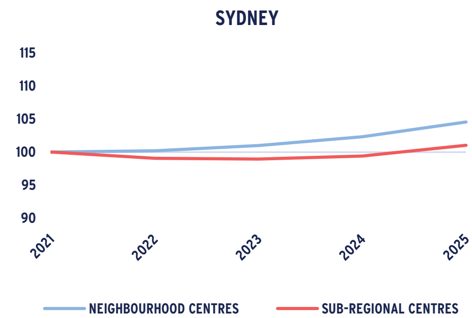
SINGAPORE: Expected demand recovery in 2022

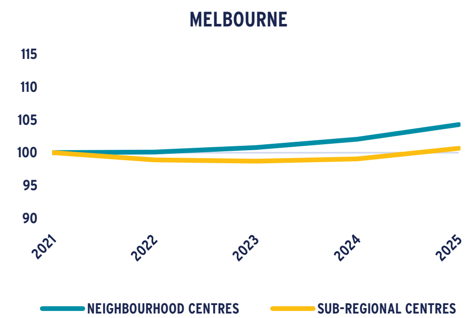
- Suburban retail remains attractive, due to stable demand and good customer traffic, with positive rental reversion recorded. Still, value-add or repositioning strategies are preferred as the sector is unlikely to see organic rental growth in the next two years.
- The expected recovery in tourism and a return to office in 2022 could see an increase in foot traffic in CBD fringe and Orchard Rd markets.

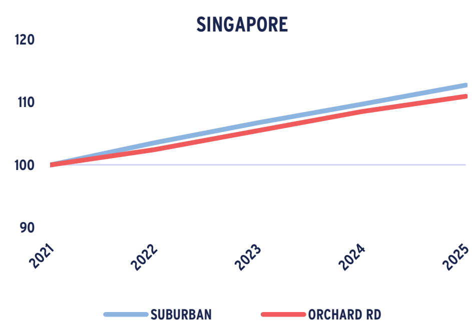
HONG KONG: Improving demand and investor interest

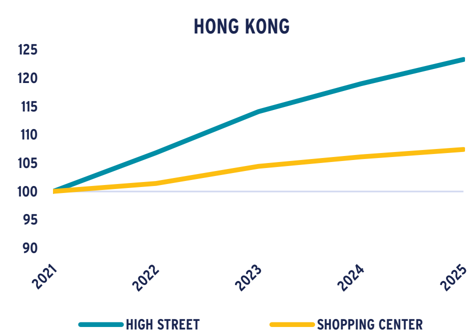
- As domestic retail sales improve (supported by stimulus measures such as the Consumption Voucher Scheme), high street shops and shopping centers are seeing footfall return.
- Leasing demand has increased, driven by local retailers who can secure space at affordable rates. In Q4, it was noticeable that more retailers were committing to normal lease terms (instead of short-term leases that were common in the last two years)
- Transactions for retail podiums or shopping centers have increased 2.0x from last year, returning to pre-pandemic levels. 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 - 2025F)
2021 =100









Source: JLL, as of Q4 2021

Multifamily

JAPAN: Expect normalization of net migration by 2022

- Over time, the Tankan Business Survey has served as a strong leading indicator for net migration into Greater Tokyo. The latest survey in Q4 2021 has showed a healthy rebound in business confidence from its lows in H2 2020. We expect this to translate into a normalized net migration pattern by early 2022.
- While leasing trends in Tokyo favored larger apartments outside city centers in 2020-2021, we expect this trend to reverse in 2022 as work-from-home practices dwindle.

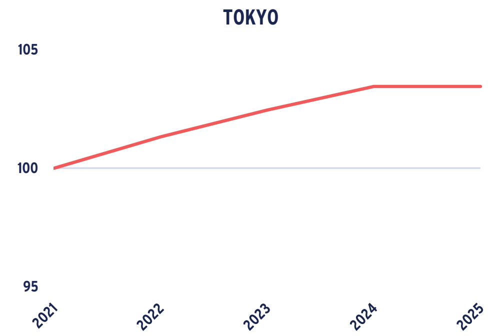
AUSTRALIA: Positive tailwinds for the rental apartment sector

- While demand for high density rental options in inner city locations dropped in the earlier phases of COVID-19, leasing activity began to accelerate in the last quarter of 2021.
- In Sydney and Melbourne, the reopening of borders to international students and the return of migration will be key to restoring demand in inner city areas. It is estimated that international students previously comprised of about 30 to 35% of apartment rental demand in inner city areas.
- Positive underlying fundamentals for the apartment rental sector are supporting investor interest for Build-to-Rent, with demand expected to accelerate by mid-2022 and a supply shortage.

CHINA (TIER 1): Favorable structural factors, some policy risk

- For cross-border capital, converting underutilized commercial properties to multifamily has been a preferred route to access the sector. There are also options to build multifamily on greenfield sites as the government has been requiring rental residential elements in several new development land sites located in core districts.
- In the past year, many projects saw rent growth of up to 10% indicating pent-up demand for the product. Going forward, however, this segment is subject to policy risk. Already in H2 2021, the government introduced rent caps (of not more than 5% p.a.) to ensure rental affordability for the population.

MULTIFAMILY RENT INDEX (2021 - 2025F)
2021 =100



Source: AEW Research, as of Q4 2021