ISA by LaSalle | Insights Strategy Analysis

Asia Pacific
Outlook 2024

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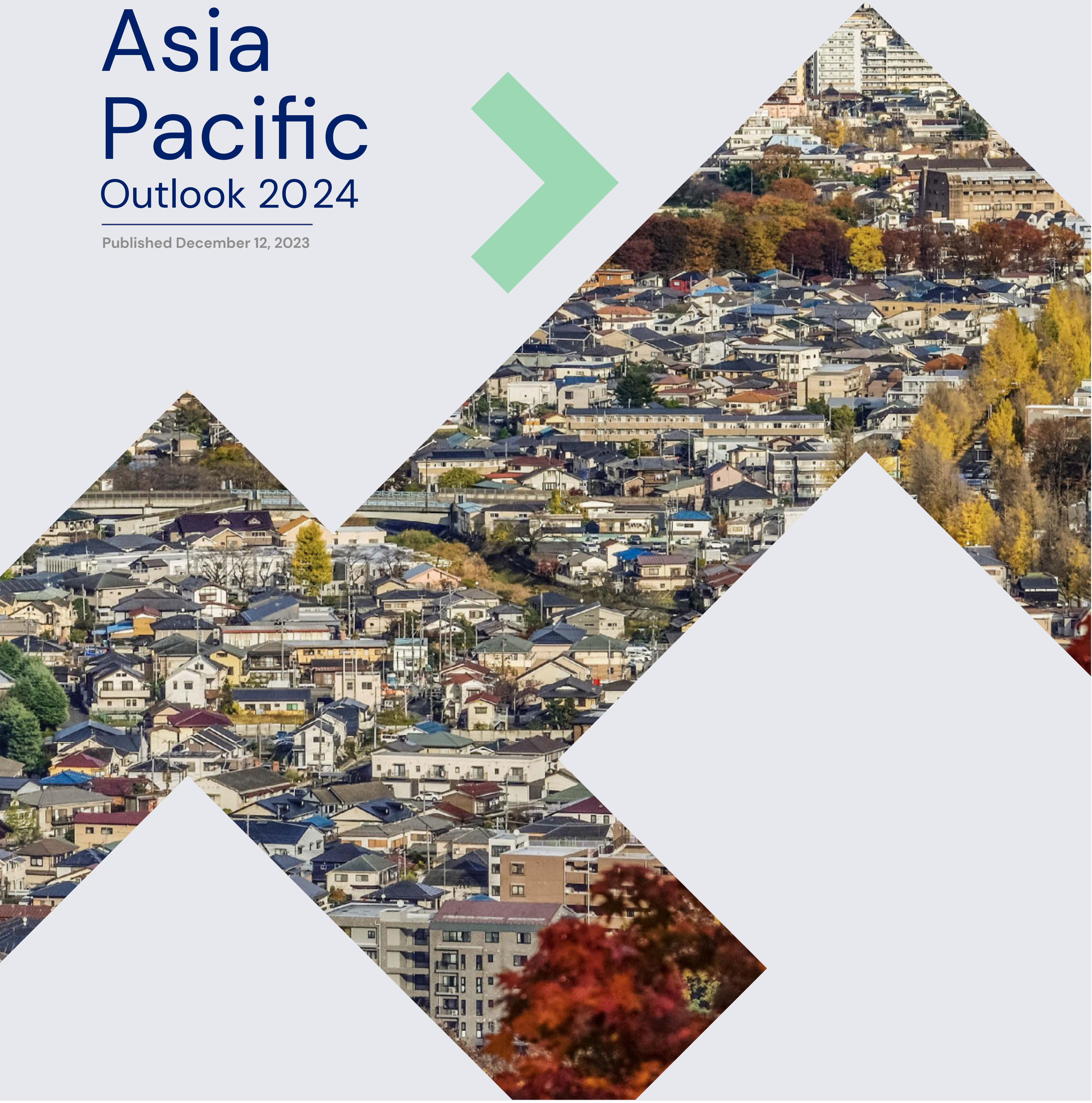

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A tale of three realms

EXECUTIVE SUMMARY

In this final chapter of *ISA Outlook 2024*, we discuss how our global themes for the coming year translate to Asia Pacific, arguably the world's largest and most complex real estate market. With the exception of Japan and China, the key global theme of interest rates is still the dominant factor in real estate values, financing and transactions across the region.

China faces challenges brought about by the Covid-19 pandemic and its central bank is focused on restoring domestic confidence, whereas Japan appears to be emerging from two decades of deflation and is focused now on carefully managing the transition to an environment of positive, if low, inflation. The rest of Asia Pacific is facing tight financial conditions to varying degrees, but we believe that where conditions diverge from global patterns, it's possible to extract regional uniqueness in several sectors to drive real estate investment strategy. We conclude the chapter with observations that we believe institutional investors can look to when setting strategy for 2024.

LASALLE GLOBAL THEMES FOR 2024

Our *ISA Outlook 2024* global chapter focuses on five themes for the year ahead. Look for these icons throughout this chapter whenever we tie back our observations for Europe to these global themes.

- Searching for peak rates
- Solving the capital stack equation
- Coming off the boil
- Beyond "bifurcation"
- The changing definition of quality and core

Asia Pacific is a place of three realms: China, Japan and the rest of the region. China and Japan stand apart with their unique monetary policies significantly impacting the macroeconomic outlook over the next 12–18 months.

Central banks elsewhere are not in an enviable position; ideally, they would engineer a scenario under which inflation eases while demand holds up and job markets remain resilient. Historically, central banks have either overshot or undershot their aims. Is the recent news of easing inflation good news? The crystal ball is murky, but we see three distinct trends emerging in Asia Pacific.

Mezzo Apartments, Wentworth Park, Sydney, Australia

IN HINDSIGHT

Looking back on key calls from last year's *ISA Outlook* Asia Pacific chapter

As in our *ISA Outlook* global chapter, the "In hindsight" sidebars in this chapter look back on key Asia Pacific calls from the prior year's edition, assessing the accuracy of our predictions.

- Right / Mostly right
- Remains to be seen
- Not right / Not quite right

Logiport Huizhou Boluo, Shenzhen, China

China: A loosening bias to restore confidence

The Chinese government is facing unprecedented challenges in the wake of the pandemic. It needs to repair domestic confidence while facing reduced external demand and ongoing geopolitical tensions. The People's Bank of China (PBOC) is an outlier among global central banks. There is a high probability that the PBOC could continue to ease monetary policy in the first half of 2024.

In the absence of massive stimulus, China's macroeconomic environment is stabilizing, supported by various targeted monetary and fiscal measures and regulatory shifts. It takes time for stimulus measures to take effect. Nonetheless, there are early signs of recovery, as evidenced by China posting the lowest unemployment rate among those aged 25-59 since 2018[1] and increasing sales volume among Tier 1 for-sale residential markets.

IN HINDSIGHT

A below-trend recovery in China

"Economic growth in China in 2023 should be below historical averages, but strong enough to make it one of the fastest growing large economies." (*ISA Outlook 2023* page 30)

China's GDP expanded 5.2% y-o-y in the first three quarters of 2023. Although this is below its annual average of 6.2% during 2013-2022, it is much faster than the growth rates in largest economies such as Japan. We expect the economy to maintain a modest growth rate in 2024.

1 Source: The National Bureau of Statistics of China, as of October, 2023

China is experiencing the highest real wage growth among major Asia Pacific economies (Figure AP-a), with headline inflation fluctuating around 0% in recent months. The government's avoidance of "bazooka" stimulus to invigorate the economy represents a conservative approach that could help ensure sustainable, albeit gradual, long-term growth. Nonetheless, China still has many policy options if it needs them; it benefits from the world's largest foreign exchange reserves, the central government's low budget deficit ratio and some room for the PBOC to cut rates further.

China is undergoing a structural change from an investment-led economy to a service-led one. The fast-growing "New Economies," such as high-tech manufacturing, new energy, biotechnology and medical services, account for a larger share of the GDP than the for-sale residential sector,[2] and are expected to drive growth going forward. The Chinese economy will likely reach the government's 5% GDP growth target by the end of this year.[3] Even if China's GDP growth falls below 5% in 2024, the world's second-largest economy is still expected to deliver one of the highest growth rates.[4] China's modest economic recovery and gradually improving business and consumer confidence should point to a rebound in commercial real estate demand, although it could be still weak in the near term.

IN HINDSIGHT

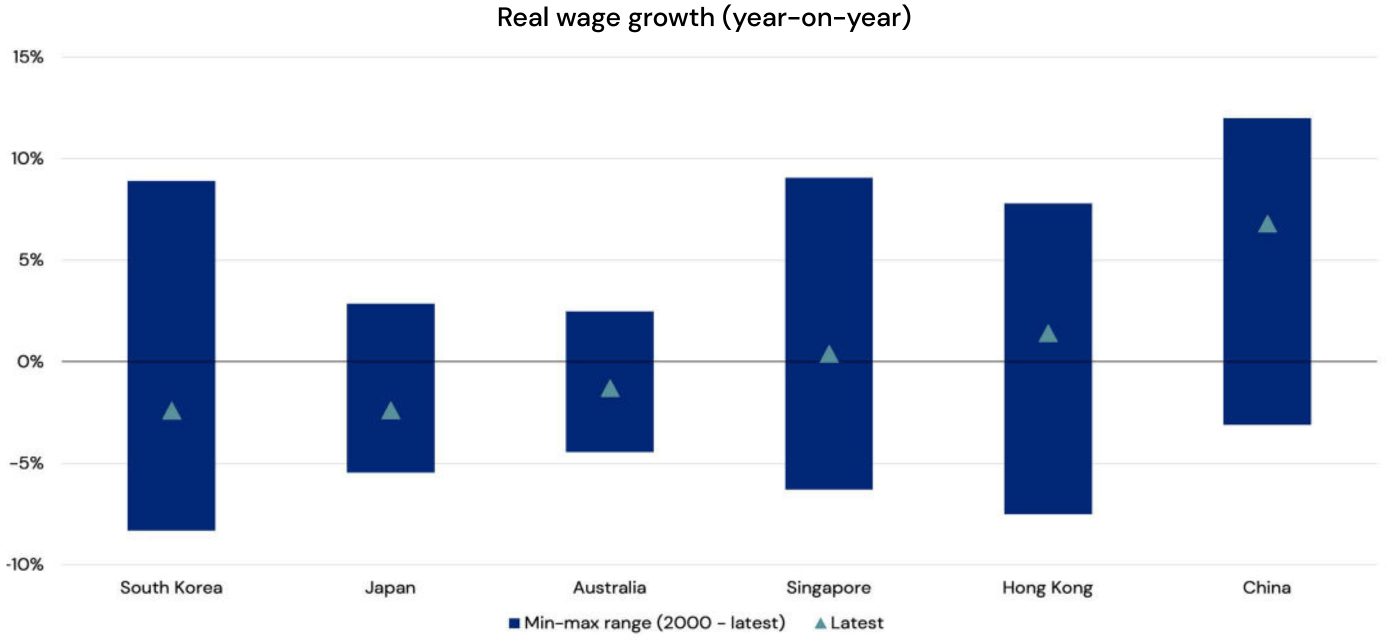
The emerging REIT market in China supports domestic market liquidity

"In China, easing monetary policy and the rapid development of the REIT market are expected to support real estate market liquidity, particularly from domestic investors." (ISA Outlook 2023 page 37)

We rightly pointed out that domestic investors, particularly insurance companies, would be the key support of real estate market liquidity in China. However, despite the rapid development of the REIT market in China, most acquisitions from Chinese REITs have been recapitalization of assets from their sponsors. Open market acquisitions by REITs are rare. We expect domestic investors to remain active in 2024.

2 According to the National Bureau of Statistics of China, the "Three New Economies" (i.e., new industries, new forms of business and new business models, including modern agriculture, advanced manufacturing, new energy, ESG-related industries, the internet, modern professional services, etc.) accounted for over 17% of China's GDP and grew by 6.5% y-o-y in 2022.
3, 4 Source: LaSalle analysis based on data sources including the National Bureau of Statistics of China, the IMF, the World Bank and Oxford Economics, November 2023.

AP-a Strong real wage growth in China



Note: The min-max range of the real wage growth data is from 2000 to the latest, except China (from 2014 to the latest), Hong Kong (from 2005 to the latest) and South Korea (from 2009 to the latest).
Source: The Census and Statistics Department of Hong Kong, as of Q2 2023; Statistics Korea, as of August 2023; the Australian Bureau of Statistics, WIND for China, the Ministry of Health, Labour and Welfare of Japan and the Singapore Department of Statistics, as of Q3 2023.

Japan: Hoping to bid farewell to deflation

For the first time in more than two decades, the Japanese economy is not threatened by deflation. Although recent inflation has exceeded the Bank of Japan's (BoJ's) 2% target, it has primarily been driven by imported inflation and a weak yen. In contrast to China, real wage growth remains negative in Japan, even with recent wage hikes (see Figure AP-a).

The BoJ is adopting a more flexible approach to yield curve control (YCC), while awaiting signals of sustained inflation and wage growth. Japan has been patient for the past 25 years and can afford to be patient over the next 12 months. Although the BoJ's policy adjustments over the past year have gradually moved long-term interest rates higher, Japan is expected to maintain the lowest interest rates among the world's developed economies in the near term (see Figure AP-b). Any attempt to abandon YCC and negative interest

IN HINDSIGHT

Japan remains attractive with accommodative interest rates

"We expect Japan to remain attractive to investors, primarily supported by its accommodative monetary policy and stable political environment." (ISA Outlook 2023 page 32)

We stand by this call. Japan remains the largest commercial real estate market in Asia Pacific in terms of transaction volume and the number of deals transacted in the first three quarters of 2023. If Japanese government bond (JGB) yields continue to rise over the next 12 months, the magnitude and pace of rate rises likely to be modest and gradual compared to other developed markets. Spreads between Japanese real estate and JGB yields are likely to remain wide relative to other asset classes in Japan, which is attractive to investors, especially domestic ones.

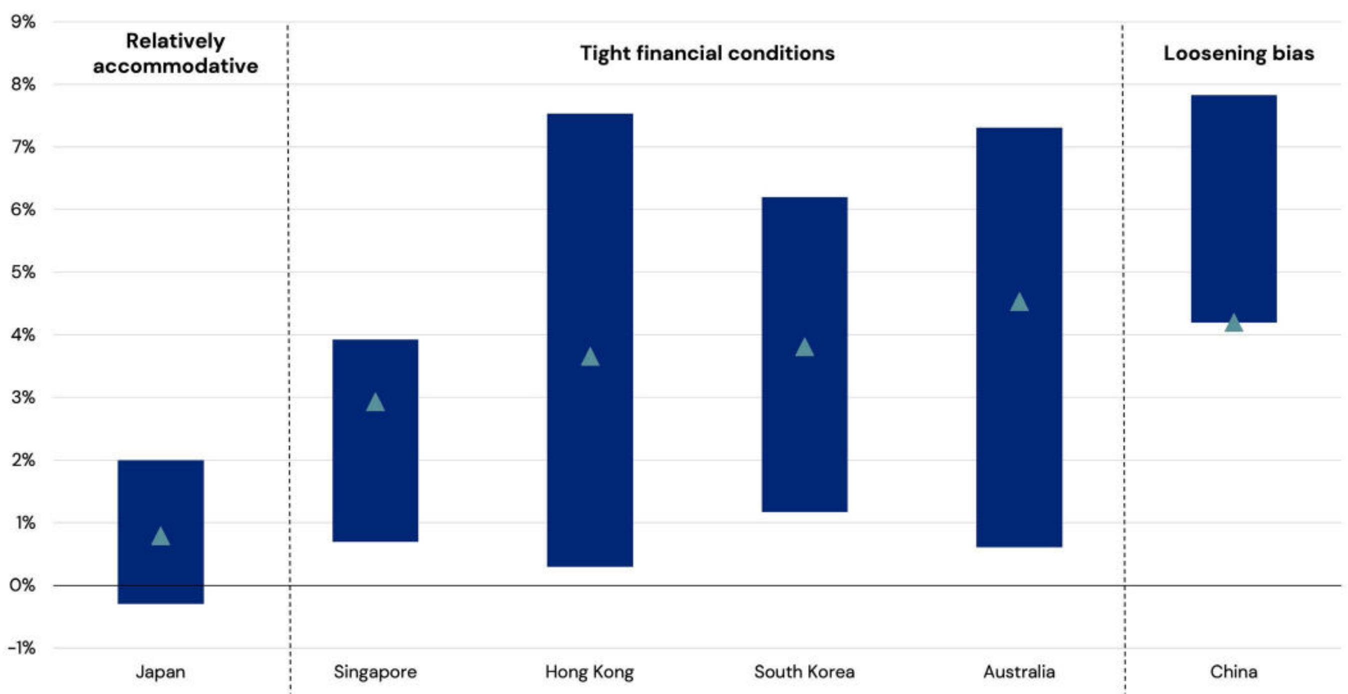
Frontier Grand Nishishijuku, Tokyo, Japan rates is likely to be measured and gradual. Since over 70% of mortgage loans[5] in Japan are on floating rates, a sharp rise in short-term interest rates could shock the financial system. Corporate profitability is also a factor that the BoJ needs to watch closely. If the BoJ raises interest rates too quickly, it could jeopardize business confidence and corporate profits. Most likely, even in an environment where inflation can sustainably exceed the 2% target, interest rates in Japan are likely to be substantially lower than those in the rest of the world.

Barring exogenous shocks, the Japanese economy is expected to continue to grow above its historical average in the near term, as it transitions from an ultra-accommodative monetary environment to a still-accommodative one. While the weak yen has benefited industries like vehicle manufacturers and tourism, import-dependent industries like wholesalers and transport companies are facing challenges due to rising operating costs. We expect real estate occupiers to be cautious in making decisions on their real estate space needs.

5 Source: Japan Housing Finance Agency, as of March 2023

AP-b Lowest interest rates in Japan

Nominal long-term interest rates



Note: The min-max range of the nominal interest rate data is from 2000 to latest, except Singapore (from 2007 to latest) and South Korea (from 2006 to latest). The long-term interest rate is based on the 10-year government bond yield for all markets except China (the 5-year loan prime rate and the base rate for medium- to long-term loans (5-year +)) and Hong Kong (7-year government bond yield). For China, the interest rate data before August 2019 is based on the base rate for medium- to long-term loans (5-year +) and from August 2019 onwards is based on the 5-year loan prime rate (LPR).
Source: WIND (China's interest rate), as of October 2023; and Bloomberg (interest rate for all countries except China), as of November 15, 2023.

The rest of the region: Tight financial conditions to varying degrees

Central banks in Australia, Hong Kong, Singapore and South Korea are near the end of their rate-hiking campaigns. However, interest rates are expected to remain elevated until there is a disruption in the global economy. If there is an acute economic slowdown or a recession in the next 12 to 18 months, central banks could cut rates, but that would likely be accompanied by reduced demand in the near term.

Australia: Juggling a triple mandate

The Reserve Bank of Australia (RBA) is one of the few central banks with an explicitly defined triple mandate to maintain price stability, promote full employment and ensure financial stability. The RBA intends to pause rate hikes to balance the three objectives. However, if the US continues to lift interest rates, the RBA may have to follow suit to curb imported inflation. Systemic risks remain low, as Australian banks maintain strong provisioning levels and conservative lending practices. Nonetheless, tight financial conditions are expected to moderate economic growth and inflationary pressures. As a counterbalance, positive net migration is supporting domestic demand, but could keep inflation above the RBA's target range of 2%-3% in the short run. Real wages have fallen to levels last seen in 2009-2010[6] (see Figure AP-a), adding pressures on Australian households amid declining savings, high living costs and elevated mortgage payments. The Australian economy, facing some challenges in the short term, is expected to grow below its historical trend in 2024;[7] however, a recession is unlikely next year. Given the outlook, demand for commercial real estate in Australia is expected to remain weak in the near term.

IN HINDSIGHT

Tight logistics occupier markets in Sydney and Melbourne drive rental growth

"Logistics demand in Sydney and Melbourne, where vacancies are near zero, is expected to be supported by retailers' shift from brick-and-mortar retail to the omnichannel model." (ISA Outlook 2023 page 34)

We were mostly right. The logistics occupier markets in Sydney and Melbourne remain tight supported by the strong tenant demand and limited availability. Although we projected some of the strongest rental growth in Sydney and Melbourne among major Asia Pacific logistics markets, net effective rental growth in these two markets exceeded our expectation even with substantial increases in operating expenses. We expect the Australian logistics markets continue to outperform other sectors in Australia.

Hong Kong: Tagging along

Hong Kong's economy is rebounding, underpinned by the increase in private consumption and inflow of Chinese tourists. Since the Hong Kong dollar is pegged to the US dollar, interest rates in Hong Kong usually move in tandem with those of the US. The worst of Hong Kong's cyclical downturn may not be behind us, as the risk of a recession remains if the US enters one. The economy in Hong Kong is undergoing a structural shift. While its status as a global financial center has been challenged by the outflows of expats and foreign companies since 2019, it remains a gateway city to China with growing significance. Hong Kong, being the largest offshore renminbi clearing center, handled about three quarters of the world's RMB payments in 2022.[8] The structural shift is leading to a rising share of real estate tenants and investors from mainland China, particularly for office and multi-family rental assets.

6 Source: The Bureau of Statistics of Australia, as of Q3 2023
7 Source: Oxford Economics, as of October 2023
8 Source: SWIFT, as of 2022

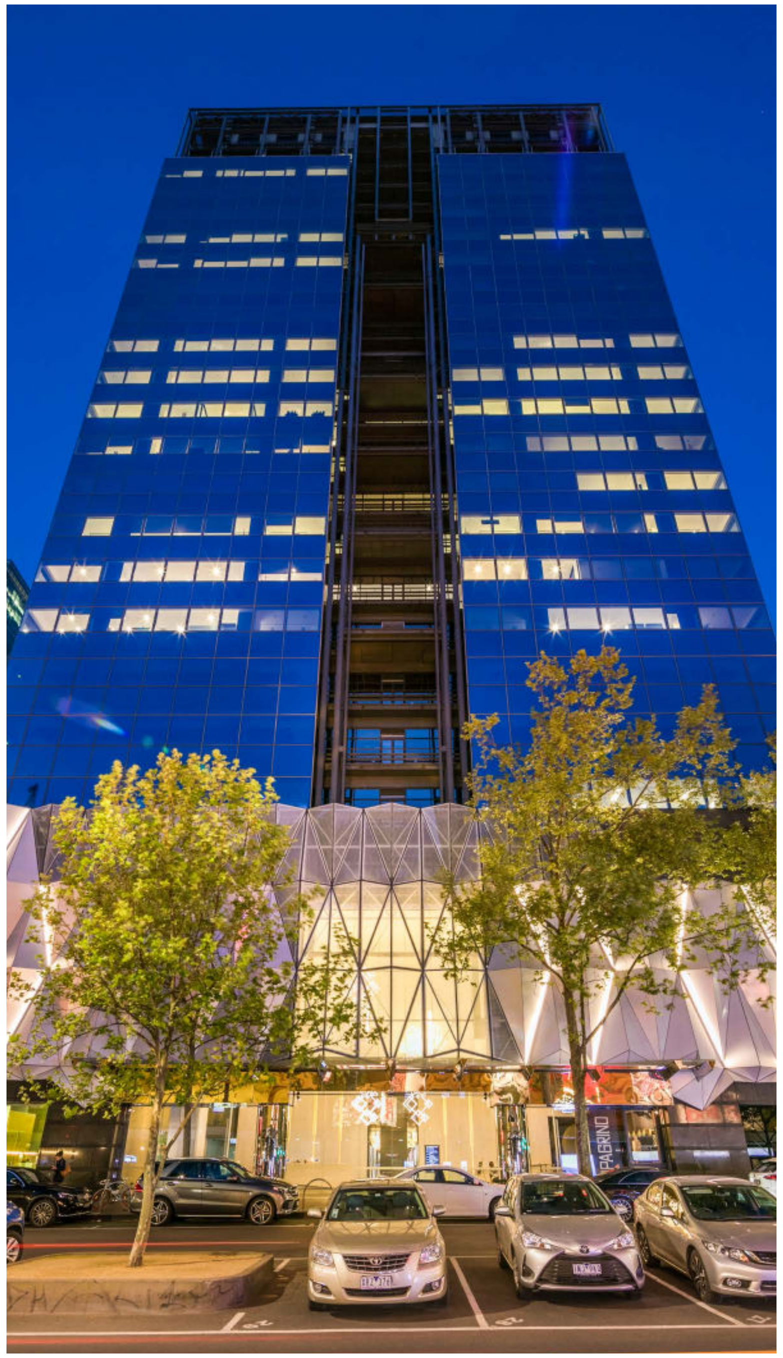
South Korea: likely to be first-in-first-out

The South Korean economy is highly sensitive to fluctuations in global energy prices and external demand. Economic growth is expected to remain under pressure due to weak external demand and tight financial conditions. More than 60% of outstanding corporate debt in South Korea is on floating rates,[9] leaving corporates vulnerable to high borrowing rates. The Bank of Korea (BoK) was the first central bank to raise interest rates, even before the US Federal Reserve. Considering the risk to the financial system, the BoK might not be able to raise interest rates further even if the US continues to do so. The BoK is likely to be the first to end its rate-hike cycle. We believe GDP growth in South Korea could fall short of 2% over the next 12 months, but a recession is unlikely.

Singapore: Similar trend, but slightly favorable

Singapore has been leading in reopening momentum, but as the tailwind fades and global demand softens, its economic growth is expected to slow in 2024. The tight labor market could weaken but are unlikely to completely derail. The Monetary Authority of Singapore (MAS) manages monetary policies through the foreign exchange markets; this unique approach of the MAS historically has resulted in lower interest rates than those of the US. Given the pressures from imported inflation and shortage of labor, the MAS is also unlikely to ease monetary policy in the near term. Nonetheless, the government might utilize targeted fiscal measures to support the economy in 2024, if needed. Tight financial conditions are expected to dampen demand from both businesses and households, indicating that the performance of some commercial real estate sectors, particularly office, has passed their cyclical peaks.

9 Source: The Bank of Korea, as of September 2023



222 Exhibition St, Melbourne, Australia

Some relative winners in Asia Pacific, yet no immunity

Asia Pacific is not immune to reduced capital market liquidity, as there is a general trend of cross-border investors pausing or reducing real estate allocations to Asia Pacific, primarily driven by the denominator effect and high interest rates in their home countries. However, there are relative winners among Asia Pacific capital markets. Japan, supported by domestic investors, remains relatively resilient. Cross-border and domestic investors continue to favor Singapore driven by its relatively low cost of debt and stable political environment. In the meantime, real estate market liquidity in China is gradually improving.

Although punching below its weight, **Japan's** real estate capital market is performing reasonably well. Despite expectations for interest rates to stay low in Japan compared to its global peers, we are not complacent about the impacts of gradually increasing long-term interest rates on exit cap rates. The good news is that domestic investors play a vital role in Japan's real estate transaction market. Their substantial and stable presence (see Figure AP-c) helps to mitigate some adverse effects from the moderate increase in interest rates. Nonetheless, spreads between Japanese real estate and JGB yields are not only positive, but well above those of major markets globally.[10] The uniquely wide positive spreads between cap rates and borrowing costs are expected to keep income-producing Japanese real estate investments attractive, especially for domestic investors.

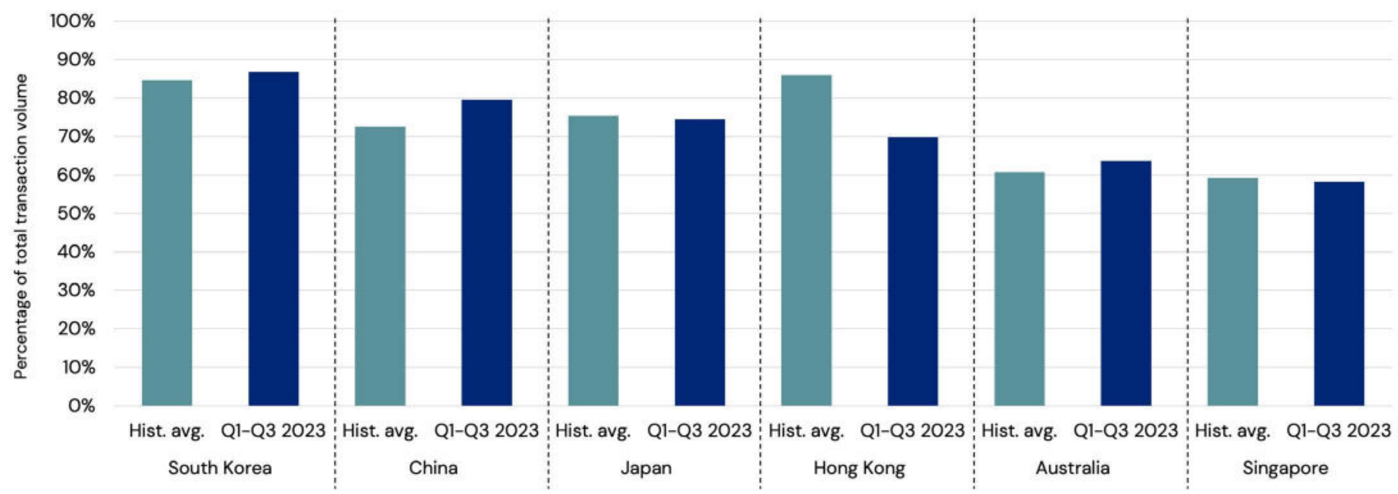
The impact of high borrowing costs in **Singapore** remains relatively benign in a regional context. While investors are concerned about high interest rates, borrowing costs have stabilized. On a relative basis, Singapore's relatively low cost of debt and healthy liquidity by regional standards[11] should remain attractive to investors seeking wealth preservation amidst global capital market uncertainties.

Despite interest rate cuts in **China**, by historical standards the real estate capital market has been relatively inactive over recent years. Some cross-border investors are taking a wait-and-see view due

10 Source: LaSalle analysis based on data sources including JLL REIS, CBRE, Savills, Bloomberg, as of November 15, 2023
11 Source: LaSalle analysis based on data sources including WIND and Bloomberg, as of November 15, 2023

AP-c Domestic investors are the cornerstone

Domestic buyers' share of commercial real estate transaction volume



Note: The historical average is from 2007 to 2022. The transaction volume data includes office, industrial, retail, hotel and multifamily rental deals above US $10 million, but excludes development sites and niche property types (e.g., self-storage). Domestic buyers in Hong Kong refers to buyers from both Hong Kong and mainland China.
Source: MSCI/ RCA, data downloaded as of November 3, 2023

to the slow economic recovery and continuing geopolitical tensions. After sinking to a nadir, the US-China relationship has begun to improve in recent months.[12] We expect a rotation back into Chinese assets as the economy recovers, albeit at a gradual pace. However, the liquidity gap left by cross-border investors who had reduced their share in China's commercial real estate transaction volume from slightly over 40% in 2019 to 23% year-to-date in 2023,[13] is unlikely to be fully filled. Real estate owners who are under pressure to sell may need to consider adjusting their price expectations. The supportive monetary environment, price adjustments among sellers who need liquidity and the opening-up of the domestic REIT market are expected to encourage domestic investors to increase real estate investments. We expect domestic investors, especially insurance companies, state-owned enterprises, RMB funds and REIT managers, to continue to dominate the capital market (see Figure AP-c) and some could even speed up the pace of investments in the next 12 to 18 months.

Tight financial conditions in **Australia**, **Hong Kong** and **South Korea** are negatively impacting real estate capital market liquidity, a situation most aligned with our global observation discussed in the "solving the capital stack equation" section of the *ISA Outlook 2024* Global chapter. The wide gaps between the price expectations of buyers and sellers are projected to remain in 2024, particularly in the office sector. The wide bid-ask spread has translated into slow transaction activity, which is likely to continue unless either buyers or sellers relent. Real estate valuations have not adjusted in many Asia Pacific markets/sectors, except for office in Australia, China and Hong Kong, logistics in China's Tier II markets and South Korea, and several retail segments. As financial conditions continue to remain tight in these markets, some price adjustments could filter through in the near term, particularly for office and retail properties. Hence, investors with assets to sell in their portfolios may have to be flexible on their exit timing.

As noted in the global chapter, the capital markets environment carries challenges and opportunities. Volatility can present tactical opportunities for both equity and debt positions in preferred markets/sectors in the short run. Investors with longer investment horizons should be patient in seeking attractive entry points.

Extract regional uniqueness beyond global similarities to drive strategy

Consistent with the global trends discussed in the *ISA Outlook* 2024 global chapter, investors in Asia Pacific are still confident in winning sectors, such as logistics and multi-family rentals; however, these winning sectors are to some extent "coming off the boil" as growth cools. But conditions in Asia Pacific also diverge from global patterns. For example, the region offers market segments with the strongest performance, even in unfavored sectors such as office.

The dispersion among major Asia Pacific **office** occupier markets is wide, with the Seoul and Osaka office markets being the tightest, and the China and Australia office markets being the weakest (see Figure AP-d). Some tenants are holding off on office expansion or relocation plans due to global economic uncertainties. Office availability rates are expected to increase in some markets (e.g., Tokyo and Singapore), but unlikely to reach their Global Financial Crisis peaks due to moderate supply pipelines. Some office development projects have been halted or delayed due to rising construction costs and tight lending conditions. Rental growth is expected to be muted or slightly negative as landlords compete for tenants, except in the Seoul office market. We expect Seoul office occupier fundamentals to remain relatively healthy through 2026 and continue to drive positive rental growth in the near term, bolstered by a limited supply pipeline, as well as upgrade and expansion demand among technology and professional services tenants. Although office performance is expected to vary by tenant credit and building specifications - with those offering work-live-play attributes outperforming, consistent with the global theme of "bifurcation" - the wide dispersion of the region's office occupier market fundamentals is expected to provide attractive investment opportunities for investors with different risk appetites.

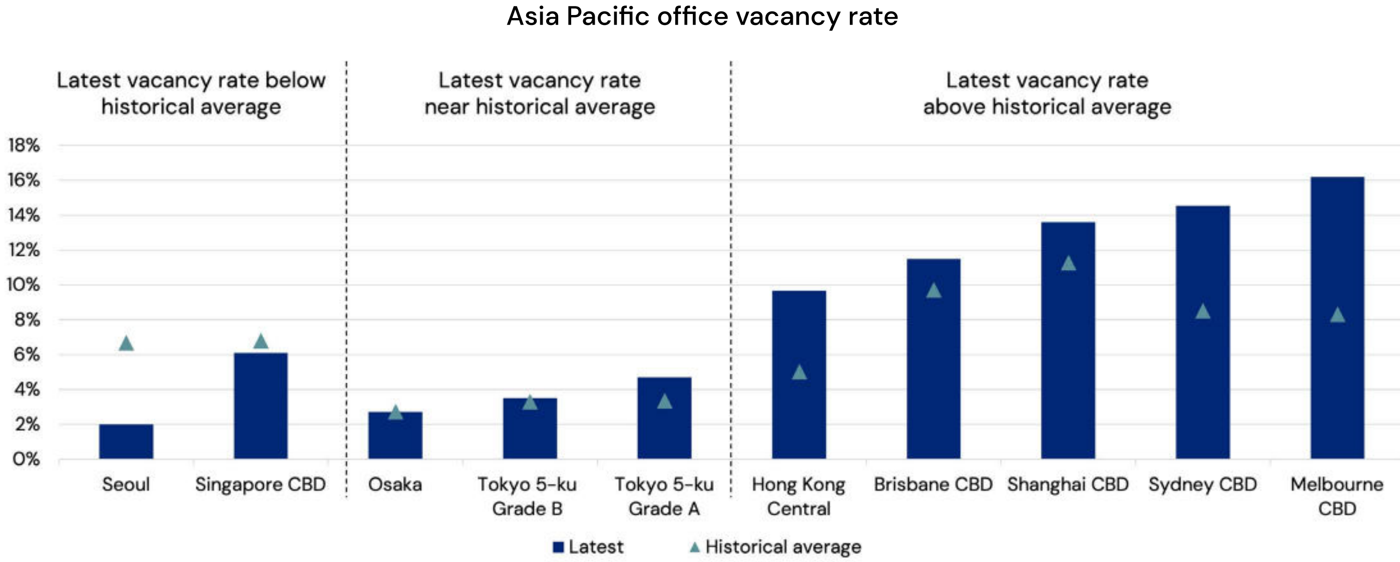
Despite the popularity of the **logistics** sector, the occupier fundamental dispersion among major Asia Pacific markets is as wide as that of the office sector. Australia and Singapore remain the tightest logistics markets in the region, while the supply-demand dynamics of Greater Seoul and Greater Beijing are the weakest. Dispersion is primarily driven by increasingly differing demand drivers and varying exposures to new supply. E-commerce players remain a key demand source in most markets as online shopping behaviors remain sticky (Figure AP-e). Furthermore, in Japan, logistics demand is led by third-party logistics (3PLs). In China, new energy vehicle makers, cross-border e-commerce players and cold-chain tenants have become non-negligible sources of new demand for logistics space.

However, supply risk over the next two years tends to be high in markets where existing stock per capita is relatively low. In China, for example, local governments' balance sheets complicate the supply outlook. Local governments with weak balance sheets tend to shore up their finances by selling land, which could lead to unexpected new supply. With rising inflation and operating costs, logistics occupiers are expressing less desire to occupy the most expensive space in urban locations. However, most tenants still want to be in established logistics submarkets with reasonable rents, easy access to labor and proximity to highways. Going forward, landlords may have to trade rents for occupancy due to high supply and cost-conscious tenants, a key trend for investors to watch.

Following the global trend, **retail** fundamentals in Asia Pacific continue to be affected by e-commerce disruption. However, the uniqueness of the region's retail sector comes from several factors, including a preference for in-store shopping

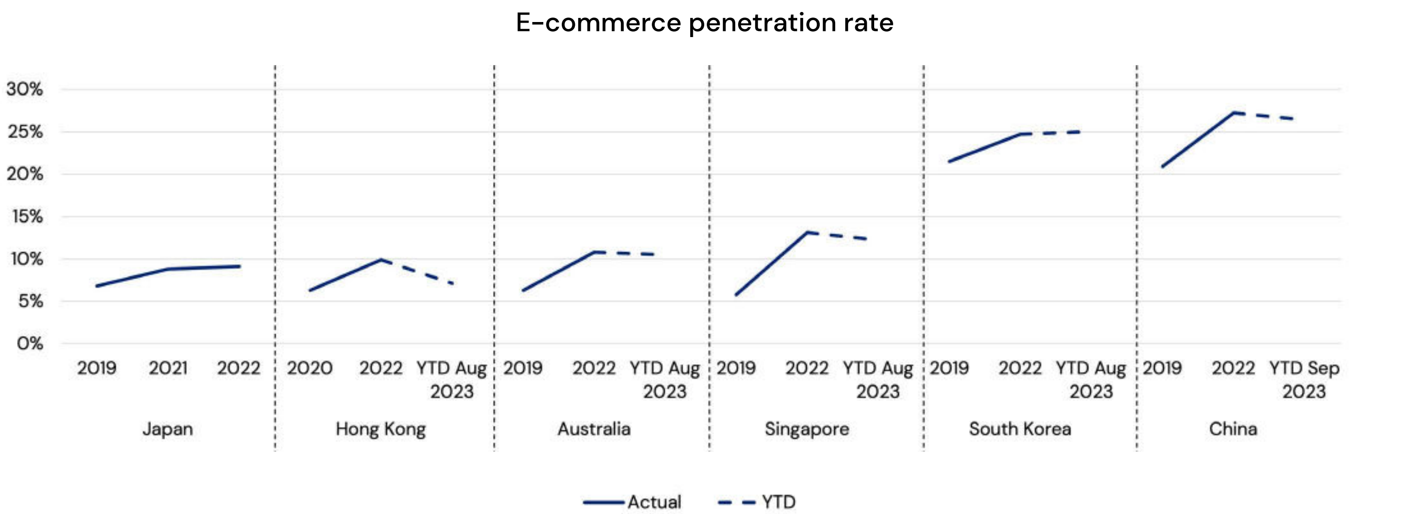
12 The US Secretary of State visited China in June, the Treasury Secretary in July, and the Secretary of Commerce in August 2023. US President Biden and China's President Xi also met at the Asia-Pacific Economic Cooperation (APEC) conference in San Francisco in November 2023.
13 Source: MSCI/RCA, as of November 21, 2023.

AP-d Some strong markets in an underperforming sector



Note: Australia offices include only prime grade offices, Osaka offices include the central 5 kus, and Seoul offices include CBD, Yeouido and Gangn. The latest vacancy rates are as of Q3 2023. The since-inception date for the historical average data for each market/sector is from Q1 2000 except Tokyo 5-ku Grade B office (Q4 2002) and Osaka 5-ku office (Q4 2004).
Source: JLL REIS, as of Q3 2023

AP-e Online shopping behaviors remain sticky



Source: The Ministry of Economy, Trade and Industry of Japan, as of 2022; the Australia Bureau of Statistics, the Census and Statistics Department of Hong Kong, the Singapore Department of Statistics and the Statistics Korea, as of August 2023; and the National Bureau of Statistics of China, as of September 2023; LaSalle Investment Management, as of November 2023.

and relatively low e-commerce penetration rates in markets such as Japan (see Figure AP-e). We expect malls anchored by non-discretionary retailers to continue to outperform those anchored by discretionary retailers in the near term. Rising operating expenses and interest rates continue to weigh on retail space demand, but limited supply is providing some stability to the sector. As a result of stabilizing fundamentals for centers with supermarket anchors in markets such as Australia and Singapore, retail valuations are stabilizing faster than those of offices in these markets. There could be interesting investment opportunities even in a generally unfavored sector.

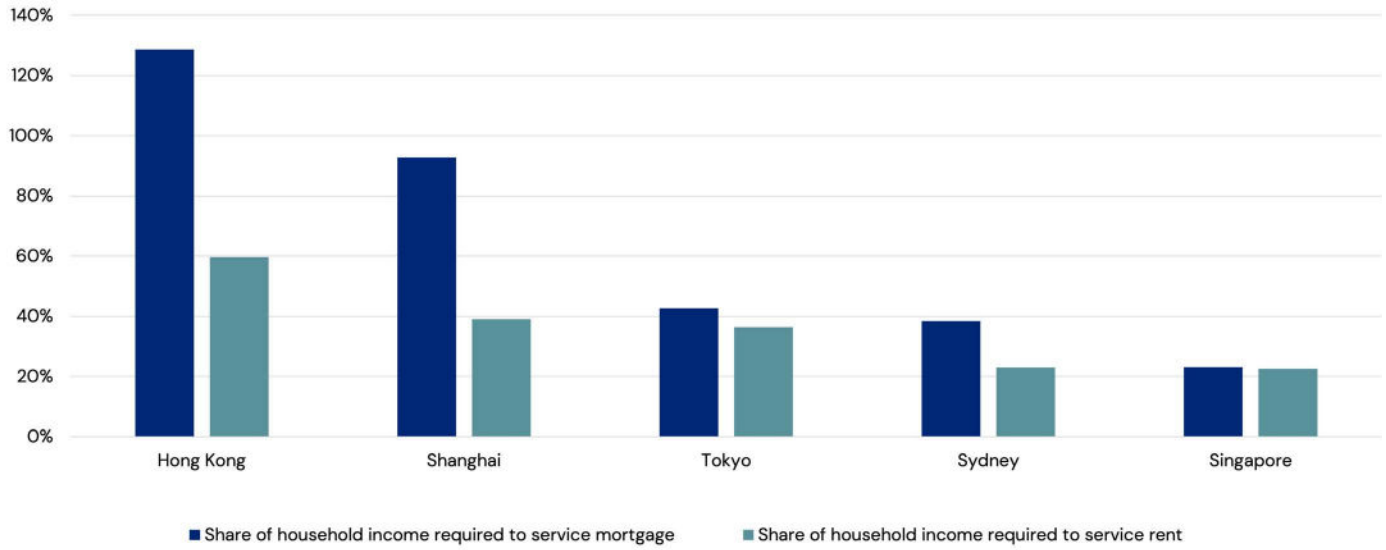
Demand for **multi-family** rental in major Asia Pacific markets is supported by tailwinds such as a rising preference for renting (Figure AP-f), especially among younger people,[14] positive net migration and a high return-to-office ratio. We see particular strength in locations with work-live-play attributes. These factors are expected to support further rental growth, although high entry prices driven by strong investor appetite may dampen returns. Rental growth of multi-family rental assets is expected to come off the peak levels (see our global theme "coming off the boil") seen over the past 12-24 months, as favorable fundamentals and policy tailwinds encourage new supply in markets such as China and rising inflation and negative real wage growth in markets such as Australia and Japan constrain tenants' ability to pay higher rents. Overall, we continue to favor multi-family rental assets due to their resilient market fundamentals and the sector's ability to hedge inflation through relatively short lease terms.

The **hotel** sector in major Asia Pacific markets continues to improve, driven primarily by a recovery in domestic travel and to a lesser extent, inbound tourism. Countries with relatively weak currencies (e.g., Japan and South Korea) are seeing higher hotel demand from inbound travelers, while keeping domestic travelers onshore. Domestic tourists account for a large majority of total hotel guests in Japan, China, Australia and South Korea (see Figure AP-g). Domestic travels in these markets are expected to remain a key driver of the hotel sector recovery in the near term. International travelers, particularly Chinese tourists, could gradually contribute to the improvements in hotel performance in the near term. The strong recovery momentum and rising operating costs have incentivized hotel operators to prioritize raising average daily rates over occupancy levels. Hotels can be an attractive momentum play for investors with a higher risk tolerance.

14 Source: The Japan Ministry of Internal Affairs and Communications Housing and Land survey, as of 2018; Australia Bureau of Statistics Census data, as of 2021.

AP-f Rising preference for renting

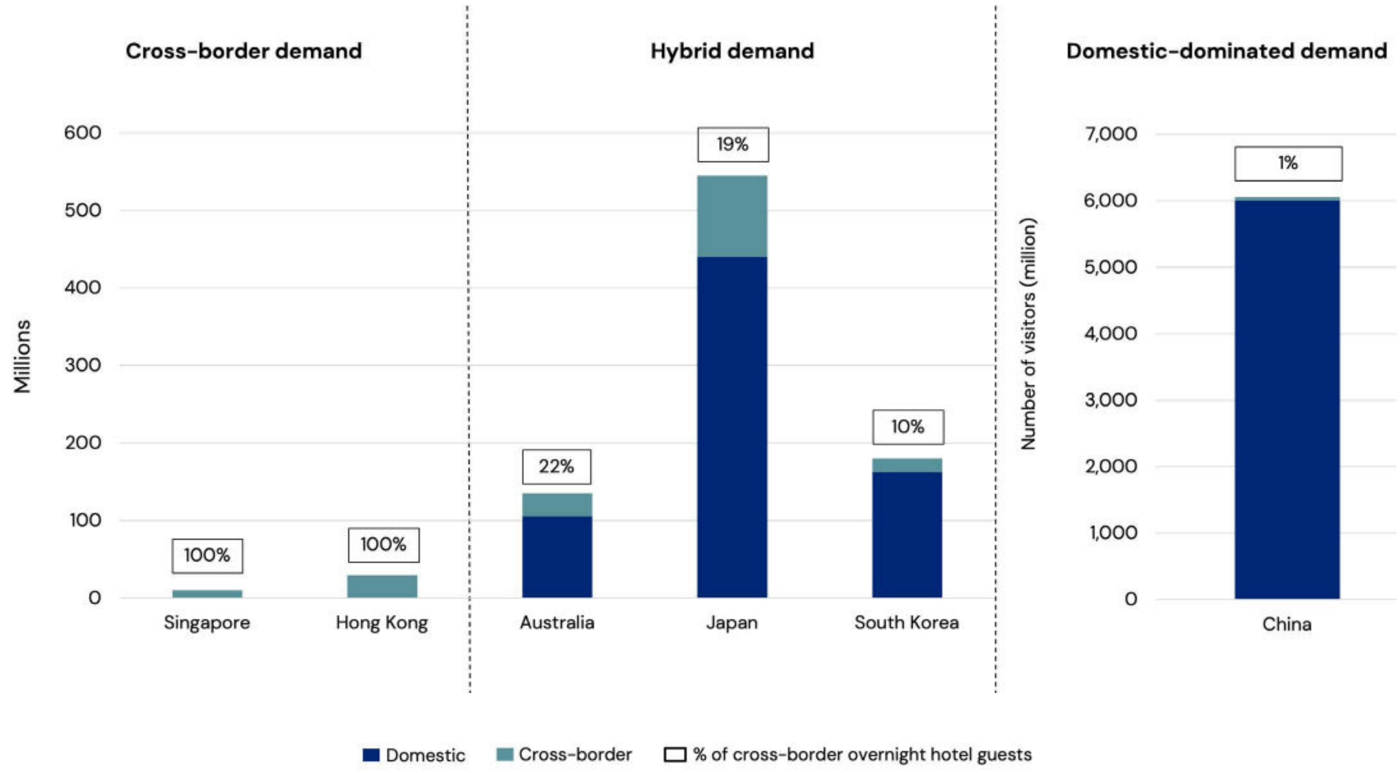
Share of household income required to service mortgage and rent



Note: The residential unit size used in the above analysis is based on the typical unit size in each market: 65 sqm for Australia, 75 sqm for China, 49 sqm Hong Kong, 70 sqm for Japan and 85 sqm for Singapore. The down payment requirements for 25- to 35-year mortgage loans are based on local practices: 20% of the purchase price for Australia, 30% of the purchase price for China, 10% of the purchase price for Hong Kong, 10% of the purchase price for Japan and 25% of the purchase price for Singapore.
Source: Household income: Australia Bureau of Statistics, Oxford Economics (China) and Singstat (Singapore), as of December 2022; and the Census and Statistics Department of Hong Kong, as of March 2023. Home price and rent: The Rating and Valuation Department of Hong Kong, as of December 2022; CREIS (China home price) and WIND (China home rent), as of March 2023; the Urban Redevelopment Authority of Singapore, as of Q3 2023; Tokyo Kantei (Japan home rent) and the Japan Real Estate Economic Institute (Japan home price), as of September 2023; SQM Research (Australia), as of 27 October 2023. Mortgage rates: the RBA (Australia), the People's Bank of China (China), Centaline Property (Hong Kong), Diamond Fudosan (Japan) and DBS Bank (Singapore), as of October 2023.

AP-g Diverging hotel demand base in Asia Pacific

Number of overnight hotel guests (millions) domestic versus cross-border, pre-pandemic (proxy of a normalized environment)



Note: All data are as of 2019 except for Hong Kong (2018). We applied 2018 data to reflect Hong Kong's pre-pandemic condition as the city's tourism industry was affected by social unrest in 2019. We applied the number of visitors for China, since the overnight hotel guest information is not available.
Source: United Nations World Tourism Organization (Singapore, Australia and Japan, as of 2019); China National Statistics Bureau (number of visitors), as of 2019; Hong Kong Tourism Board (number of overnight visitors), as of 2018; and OECD (South Korea number of domestic overnight visitors and number of total international visitor arrivals), as of 2019

LOOKING AHEAD

- **Japan is expected to remain the largest and most liquid institutional real estate market in Asia Pacific for the foreseeable future, albeit with some volatility.**
- **The worst is likely over for China's economy, but the recovery could be gradual and bumpy. Domestic investors are expected to continue to dominate the capital market in China and some could even speed up the pace of investment in the next 12 to 18 months. Real estate capital market liquidity is expected to recover in 2024 but could remain low by historical standards.**
- **Logistics and multi-family are expected to continue to offer attractive relative value among major commercial real estate sectors in the near term, but there could be strong entry prices coupled with a decelerating rental growth outlook in select markets with rising supply pipelines. Spotting unique occupier dynamics in these favored sectors are critical in driving investment performance going forward.**
- **There could be a short-term investment window for Seoul offices ahead of the supply influx in 2027 and beyond and Sydney offices with green credentials if entry prices adjust.**

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