

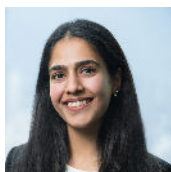
AEW RESEARCH & STRATEGY

Asia Pacific Research Perspective

Q1 2024



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Markets Moving Out of Sync

RATE CUT EXPECTATIONS RECEDE, NOISE AND VOLATILITY TO CONTINUE

- For much of Q1 2024, views converged on anticipated interest rate cuts by H2 2024. Late March, however, brought new data which painted a story of economic resilience (especially in the U.S.) and lingering price pressures - the rhetoric has shifted for now, but noisy data will likely continue to contribute to volatility in futures and swap markets.
- Although the delay in rate cuts indicates a healthier-than-expected economy, elevated debt costs have hindered efficient market transactions, and these delays are a net negative for private real estate markets.
- Based on information available at the time of this report, it seems likely that Asia Pacific’s markets (excluding Japan and China) will lag the Fed on a pivot and begin a cutting cycle. China and Japan are running contrary to the rest of the world, for different reasons - in China, monetary policy has remained loose with multiple interest rate cuts since 2023 to spur economic growth - positive production and export data between March and April 2024 are prompting “green-shoots” commentary, but concerns of overcapacity and a lack of demand-side stimulus should not be dismissed. Meanwhile, Japan is out of its deflationary cycle, with increasing wages and healthy corporate earnings.

INVESTMENT INTEREST SKEWS NORTH, RE-PRICING IS PEEKING THROUGH

- Negotiation timelines on commercial property transactions continue to be extended with failed sales still common.
- Up to April 2024, transaction volumes for the major markets were close to USD 40 billion, signaling no improvement in pace from 2023, but a notable skew towards Japan and specifically South Korea office. As closing timelines have increased - many deals that went into contract in Q4 2023 were only officially closed in March and April 2024. REITs have been the most active sellers of the last few quarters, as they seek to diversify into growth sectors or fund their development pipeline.
- Given the slow start, we now expect a 5 to 7% increase in transaction volumes in 2024, revised down from our initial expectation of a 15% increase. An increase is still likely due to growing pressures for forced selling over 2024 and 2025. This pressure is driven by: 1) equity shortfalls during refinancing; 2) private fund life expirations; and 3) the need to satisfy redemption queues in open-ended funds, cumulatively supporting USD 200 billion in assets.
- In Q1, there have been several heavily discounted sales, primarily in the office markets of Melbourne, Hong Kong, and China, indicating that broader repricing is imminent. However, some sellers have managed to secure more patient capital structures, either through refinancing or extending fund life, which may delay transaction evidence, potentially extending into 2025 or beyond.

DIVERSE CYCLES, GROWTH & VALUE OPPORTUNITIES

- Despite today's weak market sentiment, there are positives for real estate in the Asia Pacific region as we navigate this changing cycle. We see diverse opportunities because no one market or sector (from Japan to China to Australia) is at the same point in its cycle.
- In traditional sectors, fundamentals have improved in selected markets and sublocations, mainly due to supply-side constraints. While demand conditions in office and industrial sectors are weaker than historical averages, clearer patterns and preferences can be leveraged. Demand today is strongest in alternative sectors such as living, life sciences, and data centers.
- We are enthusiastic about the prospects for the 2024/2025 period and see opportunities across the risk spectrum. This includes the repricing of core assets, repurposing well-located properties for modern use, and capitalizing on market cycles where we anticipate positive lease reversion.

EXPECTED DOWNWARD REPRICING IN KEY SECTORS AND MARKETS



Source: AEW Research, as of April 2024

Growth Persists, Amid Risks

GROWTH UPGRADED IN U.S., BUT NOT IN ASIA PACIFIC - MIXED IMPLICATIONS

- In April, global growth forecasts for 2024 were revised upwards, due to an upgrade in U.S. GDP (from 2.1% to 2.7% year-on-year).
- However, in Asia Pacific, the growth outlook for most countries remains unchanged, indicating a slow grind for our monitored markets. Notably, recession probabilities have fallen even lower today (< 20%), and China appears to be exiting its deflationary spiral which engulfed the market for the bulk of 2023.
- Current growth forecasts for the next five years suggest year-on-year growth to stay below its pre-pandemic levels, with Australia being the only exception, seeing its growth levels pushed up by solid population growth through overseas migration.
- In the North Asian economies, a recovery in the semiconductor cycle is expected to lift growth. Japan deserves some distinction as positive wage growth should translate into positive rental growth, although the wage growth cycle is likely to have peaked with diminishing benefits by 2025.

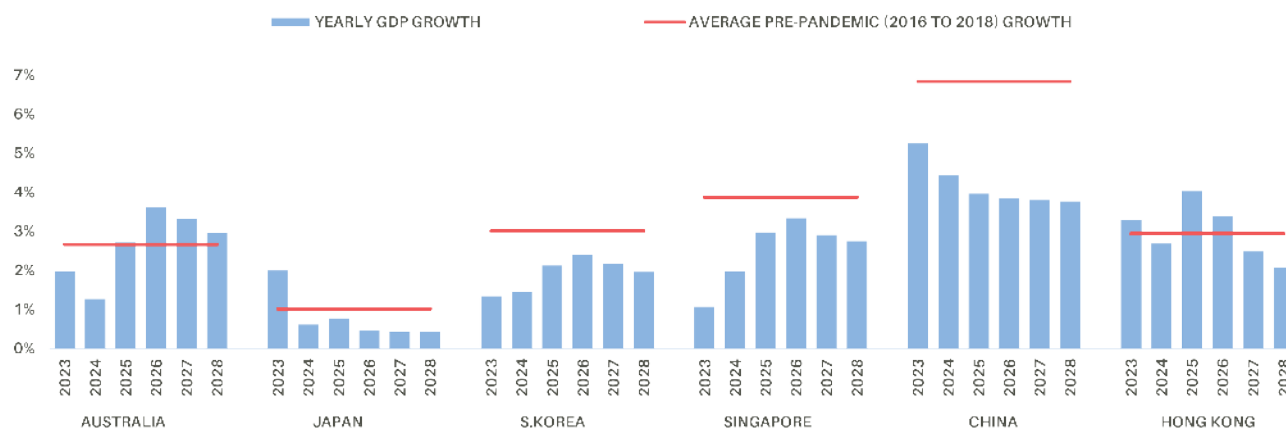
CONSUMER WEAKNESS APPARENT WITH UNIQUE DOMESTIC CIRCUMSTANCES

- The impact of higher interest rates and inflation is evident in consumption habits, with retail sales staying at non-expansionary levels for more than six months across Singapore, South Korea, and Australia. Labor markets remain tight, but we expect slack to build, especially across industries that overexpanded in 2021 and 2022. Anecdotally job cuts in technology, banking, and consulting are being reported.
- Pent-up housing demand and lack of supply remain contentious issues for Australia. In the latest Treasury Budget Report, the government is starting to manage demand by adding more controls on migration policies, specifically for students.
- Tourism recovery was a strong theme in 2023, and may have further legs especially in Japan, where currency weakness has been a big draw. Visitation to Japan from most countries has returned to pre-pandemic levels, except for China, which could grow in H2 as flight and visa capacity have increased.

MONETARY POLICY EXPECTATIONS ARE DIVERSE

- Our expectation on the timing of rate cuts has shifted, with Asia Pacific central banks expected to lag behind the Fed (especially as currency management has become more crucial). Despite expected rate cuts in 2024, these will be limited, as we hold on to the expectation of higher rates for longer. In the next decade, debt will have a real cost, and meeting returns going forward will be more dependent on attractive entry or asset-specific qualities.
- Meanwhile, the Bank of Japan's next rate increase in efforts to normalization is expected in July 2024. Floating and fixed debt costs in Japan have increased by 20 bps and 30 bps respectively, while yield spreads remain positive (150 to 200 bps). We acknowledge the increasing cost of debt and see the need to factor in mild cap rate expansion of new deals going forward.
- The PBOC easing path has injected more liquidity into the system, but credit growth has been weak as confidence remains low.
- Asian currency weakness (and USD strength) has been a feature of currency markets over the last 3.5 years, with forward curves and forecasts showing differing paths going forward.

ASIA PACIFIC GDP GROWTH 2023 TO 2028



Source: Oxford Economics, Bloomberg & AEW Research, as of end April 2024. There can be no assurances that any prediction, projection, or forecast will be realized.

— Investing for the Next Cycle

OFFICE

SOME IMPROVEMENT IN DEMAND WITH WIDE MARKET VARIATIONS

Across major Asia Pacific markets, net absorption in Q1 2024 was slightly over 2.2 million square feet—about 40% below pre-pandemic averages but the strongest quarterly take-up in the last two years, indicating gradual improvement. Demand was weakest in Shanghai and Beijing, where occupiers remain cost-conscious, but increased in Tokyo and Osaka alongside the completion of large supply. In Australia, Singapore and Japan – positive take-up skews to core locations and prime grade buildings, where large tenant incentives (TI) are on offer. Seoul and Brisbane stand out as markets that have been in positive rent cycles for 3.5 and 1.5 years, respectively. Historically, upward rent cycles last 5 years, but due to construction constraints, this trend may continue longer.

OFFICE REPRICING TO TAKE SHAPE IN 2024

Distressed sales are emerging in Greater China, where leasing fundamentals are weak, and recovery is unlikely in the next five years. In markets with stronger fundamentals but constrained capital, like Australia and Singapore, more assets are hitting the market, with some discounts expected. Investor interest is shifting away from the office sector, however a focus on attractive entry points and growth fundamentals in micro-locations could achieve interesting risk-adjusted returns.

LOGISTICS

DEMAND READJUSTS LOWER, SOME MARKETS STILL REMAIN LANDLORD FAVORABLE DUE TO SUPPLY DELAYS

Demand in traditional logistics is projected to drop by 10 to 20% year-on-year in 2024 compared to 2023. However, markets like Japan and South Korea have surpassed their supply peaks, and new completions in 2024 are expected to moderate in a similar fashion. For occupiers serving large markets, automation and transportation access remain crucial. In Japan, selecting the right micro-locations is essential, while in South Korea, the cold storage segment is expected to be tenant-favorable for at least another 1.5 years. Currently, there is no rental premium for cold storage in South Korea.

INVESTOR INTEREST STRONG, PRICING DISLOCATION

Despite being past its major expansionary phase, the sector continues to attract investors due to its attractive total return outlook. In Australia, there is a notable pricing dislocation between long and short WALE logistics, presenting an opportunity to buy repriced long WALE assets and benefit from value appreciation over the lease term. In South Korea, leasing challenges have created a significant gap between stabilized and unstabilized cap rates. In Japan, although pricing is currently stable, some large investors are anticipating cap rate expansion, necessitating slight adjustments in entry pricing.

RETAIL

OCCUPIER CONDITIONS LOOK POSITIVE, BUT CAUTION IS WARRANTED AS CONSUMER CONFIDENCE CONTINUES TO DIP

The retail sector is particularly interesting because its fundamentals have not been strong for several years. The sector has endured significant challenges, including store rationalizations and bankruptcies, resulting in a healthier underlying tenant pool today. Additionally, leases are now recovering from COVID-19 lows and subsidies, reverting at higher rates.

VALUE PLAYS IN RETAIL: AUSTRALIA & HONG KONG

In Australia, while neighborhood yields have been tight, subregional malls are trading at pre-GFC levels. Similarly, Hong Kong shopping center assets present a comparable value proposition. In Australia, private syndicates have been active, and institutional players are showing increasing interest. In Hong Kong, the market is predominantly driven by private players.

LIVING

PLAIN SAILING FOR JAPAN MULTIFAMILY, BUT INCREASING COMPLEX IN AUSTRALIA BUILD TO RENT (BTR) AND STUDENT ACCOMMODATION

Japan multifamily is a straight-forward case – the sector benefits from strong demand. Rent increases are also more frequent with real wage growth and we believe this can offset yield expansion in the sector, at least in the near-term. On the flip side – Australia's BTR faces complexities. Despite high demand and insufficient supply, various issues impede development. Capital investment is deterred by unfavorable tax policies (especially for foreign investors), lack of transaction evidence, and high debt and construction costs. Student accommodation can offer better risk-adjusted returns and is seen as a more compelling option today, but caution is required due to tightening student migration policies which will have an uneven impact across cities and academic institutions.

Office

AUSTRALIA: SYDNEY'S LEASING IMPROVES AHEAD OF MELBOURNE

- In Sydney's CBD, the core precinct is a bright spot for leasing, with vacancy rates improving and landlords recently gaining leverage on rent negotiations. Conversely, institutional landlords in Melbourne are still competing with private asset owners that offer large incentives - between 50 to 60%.
- Repricing is emerging, but slowly. The latest sale of 255 George (50% stake) in Sydney CBD had a cap rate of 6% up an estimated 100-125 bps from the market peak in Q2 2022.

SINGAPORE: RENT CYCLE COULD TURN POSITIVE IN 2024

- Some brokers are predicting a rent cycle uptick by mid-2024—these forecasts are conditional on economic resilience holding and given the strong flight to quality theme, the Grade B segment is expected to lag.
- High interest rates are stalling capital markets. No core CBD office sales have occurred since mid-2022. Some investors are turning to strata office sales, but progress is slow.

HONG KONG: RENT DOWNGRADES & DISTRESSED SALES

- Five consecutive quarters of rental downgrades indicate worsening conditions in Hong Kong; vacancy rates have surpassed historical peaks (last reached in 1999), and market rents are 37% below 2019 levels.
- Several examples of deep discounts have closed in the first few months of 2024. The most recent was a 40% leased building located in Sheung Wan sold at slightly over HKD8,000 psf, about 50% of the initial asking price one year ago, marking the lowest price for a new office building in more than 10 years.

CHINA: WEAK LEASING AND INVESTMENT MARKETS PERSISTS

- Leasing demand over the last few quarters was about 60% below typical volumes seen prior to 2020. Given the backdrop of large new supply and prevailing cost consciousness from tenants, rents are expected to continue to fall over the next two years.
- Many assets are available for sale, but buyers are limited. Those that have secured interest (typically from end-users or insurance companies) are stuck in an extended due diligence process.

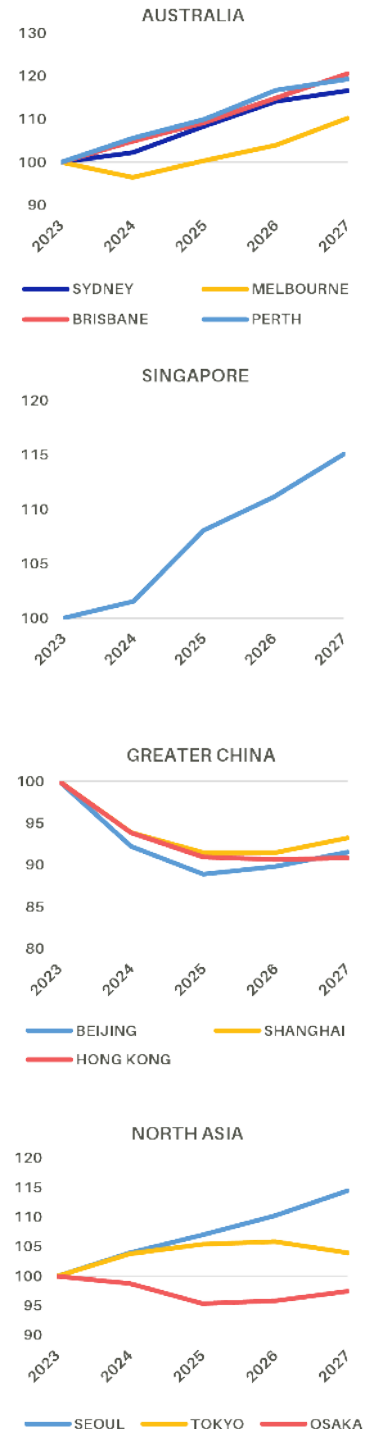
SOUTH KOREA: SOLID FUNDAMENTALS, INVESTOR INTEREST AGAINST THE GRAIN

- Seoul's office market has been a global outperformer with effective rents increasing more than 30% since the pandemic - while growth momentum is slowing, leases reverting in 2024 and 2025 will offer attractive increases.
- While regional investment interest is shifting away from the office sector, there were numerous trades year-to-date, some hitting record pricing. Investors were not deterred by the high interest rates in South Korea, which is a testament to the solid fundamentals of the office market.

JAPAN: RENT OUTLOOK UPGRADED, MODERATE YIELD EXPANSION

- The near-term rental outlook in Tokyo has significantly improved this quarter, driven by increased demand for premium and Grade A buildings. Concerns about the 2025 supply have eased due to potential project delays, possibly extending the current rent cycle. Although tenant movement between building grades in Tokyo has historically been limited, higher vacancy rates and rents about 25% below 2019 levels are fueling upgrade demand.
- Domestic investors remain active despite global aversion to the office sector. While yield spreads are attractive and rent growth is expected over the next 12 months, gradually rising interest rates are likely to marginally impact returns.

OFFICE RENT INDEX 2023=100



Source: AEW Research, JLL, Q1 2024
There can be no assurances that any prediction, projection, or forecast will be realized.

Logistics

AUSTRALIA: DEMAND SLOWS BUT VACANCY TO REMAIN LOW, PRICING DISLOCATION

- Despite slowing demand and peak new construction in 2024, all three Australian East Coast markets boast the strongest rental outlook for the next two years. We foresee limited downside for continued rental growth in the near-term. Even in a worst-case scenario where none of the 2024 supply is leased, vacancy rates would still remain below frictional levels.
- Investment activity has rebounded to long-term historical average volumes, after surges in 2021 and 2022, but some large portfolio sales in 2024-to-date indicate the sector is still strongly sought after. Pricing dislocation between long- and short-WALE logistics assets present an interesting opportunity for long-term investors.

SINGAPORE: DIVERSE DYNAMICS - LOGISTICS, LIGHT INDUSTRIAL & BUSINESS PARKS

- Prime logistics continue to show favorable fundamentals, with limited vacancy in modern facilities. Rents increased by approximately 15% in 2023, as anticipated, with projected growth expected to taper to between 3% and 5% in 2024 and 2025. The sector remains actively traded due to higher yields and accretive debt.
- Leasing in business parks and high-tech spaces has become challenging. Vacancies and shadow space in eastern and western submarkets, alongside new completions, present overall market challenges.

HONG KONG: DEMAND HEADWINDS INCREASE

- A recent large completion has caused vacancy rates to spike, with a four million square foot project still largely available, likely dragging market rents lower. We see limited upside in the near-term and remain cautious about downsizing from trade-related sectors and competition from mainland Chinese ports.
- Liquidity is restricted due to current interest rates, with investment volumes down 90% over the quarter. However, with the government's relaxation of LTV for non-domestic properties, we expect some improvement as interest rates moderate.

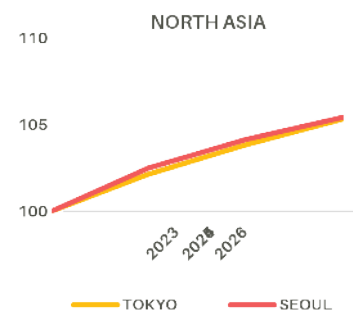
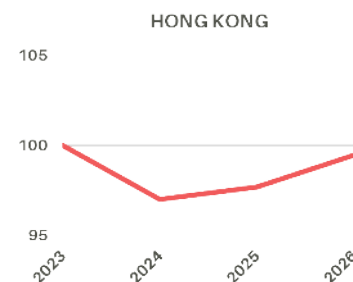
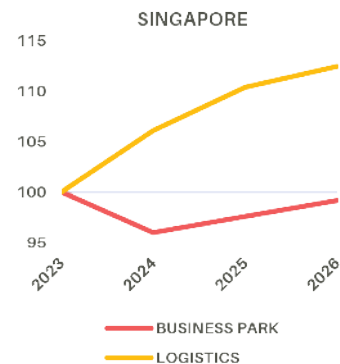
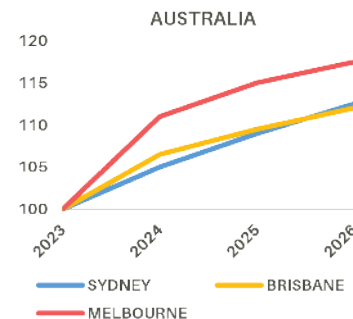
SOUTH KOREA: OCCUPIER DEMAND AND ASSET PRICING BIFURCATED

- While new completions' outpaced absorption, demand for dry logistics space remained resilient.
- Domestic investors dominated investment activity this quarter, accounting for about 90% of the volume. Investors are becoming more cautious and selective, showing a greater preference for stabilized assets.
- Cold storage space is losing favor with investors due to high vacancy levels and a diminishing rental premium.

JAPAN: BETTER CONDITIONS IN INNER-CITY LOCALE, INVESTMENT ACTIVITY TO MODERATE

- Occupier conditions for dry logistics vary by location. Near-city areas with good port access see limited construction and rising rents, while inland markets face heavy competition and new construction.
- Japan's cold storage sector is not well-institutionalized, presenting an opportunity to create modern, fit-for-purpose facilities, especially in port areas where aging stock is running at near-full capacity.
- The logistics market remains highly sought after, with Q1 investment volumes up by around 66% year-over-year. Strong interest is expected to continue in H2 2024, despite potential impacts from BOJ's monetary policy and reduction in cash-on-cash returns.

LOGISTICS RENT INDEX
2023=100



Source: AEW Research, JLL, as of Q1 2024
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Retail

AUSTRALIA: WEAK CONSUMER BUT POSITIVE PROPERTY FUNDAMENTALS

- Removing population fueled growth, Australia is facing a consumer recession, with spending hindered by higher interest rates and inflation. Real retail sales have been negative for the past 12 months across major states as of Q1 2024.
- The retail sector is at an interesting juncture. Despite weak consumer conditions, major landlords are seeing positive leasing spreads, and retailers are benefiting from lower occupancy costs, enabling expansion. Future supply remains constrained.
- Retail yields have steadily widened since 2017, now offering great value with yields exceeding the cost of debt.
- Private syndicates have been active buyers in the last couple of months, offering unsolicited bids across several assets. Foreign capital interest is also growing.

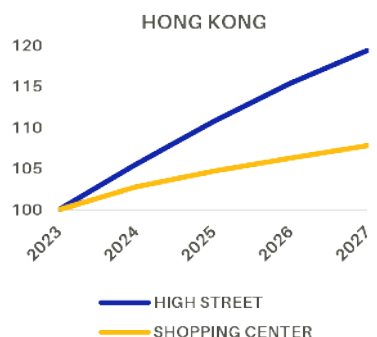
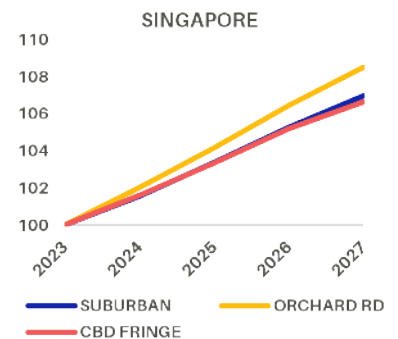
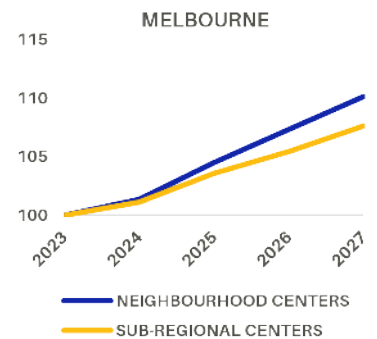
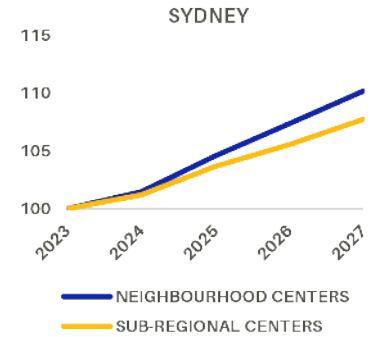
SINGAPORE: TOURISM SUPPORTED RETAIL SALES IN Q1

- Retail sales Q1 was bumpy - with February posting a high monthly increase alongside a surge in Chinese tourist arrivals - this was underpinned by the mutual 30-day visa extension between Singapore and China that went into effect that month.
- Leasing demand has been varied so far this year, but limited vacancy is expected to drive rental increases in 2024, especially in prime areas, bolstered by improved tourism numbers.
- A few portfolio deals involving neighborhood shop units, negotiated in Q4 2023, were finalized in Q1 2024. However, overall retail sales activity remained sparse over the quarter.

HONG KONG: OUTBOUND SPENDING, INVESTMENT IN LARGE CENTERS COULD INCREASE

- Recovery is slowed by domestic spending leaking through outbound travel. Many Hong Kong residents shop in Southern China, especially Shenzhen, for better discounts, leveraging the strong Hong Kong dollar. Meanwhile, mainland Chinese tourists in Hong Kong are spending more on services than goods.
- Non-institutional domestic investors have dominated the market, focusing on high-street and strata retail.
- Expect more sales of large centers soon, as vendors face increased pressure and are likely to be more flexible on pricing. For instance, a major mall in Tsuen Wan recently sold at a 33% discount from its mid-2022 asking price.

RETAIL RENT INDEX
2023=100



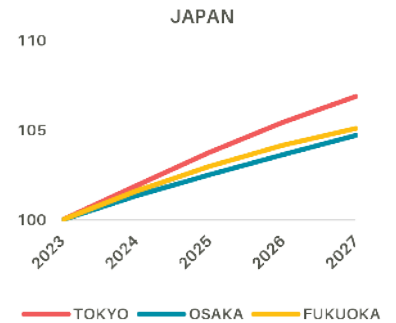
Source: JLL, as of Q1 2024
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Multifamily

JAPAN: STRONG DEMAND AND RENT GROWTH BOLSTER NEAR-TERM CV GROWTH

- Driven by solid corporate hiring, earnings, and increased office attendance - both domestic and foreign population growth in main city areas is rising. Q1 2024 net migration, including Spring's moving season, has surpassed pre-2020 averages.
- Inner-city leasing conditions have strengthened compared to last year, with a renewed demand for units in areas with easy access to CBD locations.
- Rental growth projections have been slightly upgraded this quarter, providing landlords a cushion against rising maintenance and financing costs.
- Investor interest in the sector remains strong, but portfolio deals are less common. Most investors already have significant exposure and prefer to cherry-pick assets to supplement their existing portfolios rather than seeking immediate scale.
- Despite anticipated interest rate hikes, yields are expected to stay stable in the near-term, with rental growth supporting increases in capital values.

MULTIFAMILY RENT INDEX 2023=100



Source: PMA, as of Q1 2024
There can be no assurances that any prediction, projection, or forecast will be realized.