ASIA-PACIFIC OUTLOOK REPORT 2020

2019 has been a challenging year for the Asia-Pacific real estate markets

Business occupiers can benefit from more tenant-friendly markets

Investment opportunities still exist, but may require more effort to uncover

2019: A YEAR DOMINATED BY GEOPOLITICS, TRADE AND TECHNOLOGY

2019 has been a challenging year for the Asia-Pacific real estate markets. Growth slowed as occupier and investment demand turned more cautious amidst the overhang of the US-China trade tensions, a global slowdown and uncertainty around prospects for 2020.

In terms of the major market segments:

■ Asia-Pacific's Grade A office rental growth slowed to 0.6%* compared to 5.7% in 2018, with 12 out of 20 cities tracked still seeing stable or increased rents.

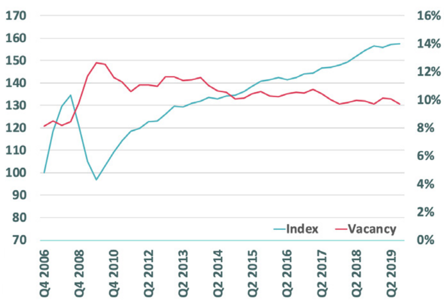
■ Occupier demand continued to be led by technology-related companies, with several markets benefitting from these new sources of growth.

■ Traditional retail markets continued to be challenged, while logistics and alternatives such as student housing saw buoyant demand from occupiers and investors.

■ Overall investments in income-producing assets fell 22% year-on-year to US$144 billion across the region, although Singapore, Beijing and Shanghai saw a year-on-year increase in volumes.

■ In the prime residential markets, Knight Frank recorded positive price growth in 16 of the 21 markets tracked compared to 18 in the prior year.

ASIA-PACIFIC PRIME OFFICE



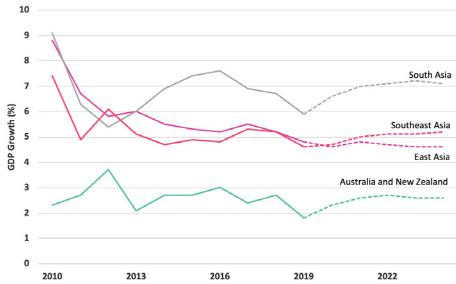
Source: Knight Frank Asia-Pacific Research

2020: ANOTHER YEAR OF CHALLENGES TO NAVIGATE

As we head into the new year, challenges from 2019 will remain, putting a dampener on growth. According to the IMF's latest growth forecast, the Asia-Pacific region's GDP is likely to record a 5.1% growth in 2020. However, despite some progress on US-China trade tensions, the impact of tariffs will continue to reverberate across the region's manufacturing sectors. As a result, corporate earnings will weaken which will have a knock-on effect on the consumer sector and labour markets.

Local governments across the region have taken steps to reinvigorate their economies by adopting more aggressive fiscal policies or interest rates cuts. In the longer term, this could be interpreted as 'kicking the can down the road', though it does provide opportunities to investors looking for value in the immediate term.

ASIA-PACIFIC GDP GROWTH OUTLOOK



Source: IMF

OUR 2020 VIEW

■ In 2020, we expect Grade A rents across the region to fall between 0 to -3%, down from the 0.6% rise seen in 2019*, as occupier demand continues to soften.

■ Overall cap rates for the region are expected to remain stable as diminished growth prospects within the commercial real estate sectors are balanced out by monetary stimulus.

■ Prime residential prices, already having to deal with tough operating conditions (e.g. additional stamp duties, tighter credit controls), should see prices remain stable or soften slightly.

BUSINESS OCCUPIERS CAN BENEFIT FROM MORE TENANT-FRIENDLY MARKETS

The flip side to weaker occupier demand in several cities is a more tenant-friendly marketplace. Occupiers will have more choices, with landlords more willing to provide incentives to entice companies into their buildings or ensure that they stay. Longer rent free periods, flexibility around lease terms and renewal rights, would be more apparent in many markets over the next 12 months.

KEVIN COPPEL
HEAD OF ASIA-PACIFIC

"Despite an uncertain outlook, there remains cause for optimism and opportunities for property investors. Private wealth will continue to grow across the region, particularly in China and Japan and there remains significant institutional capital looking for opportunities.

On the occupier side, businesses are increasingly looking for flexible workplace solutions to stay responsive to ongoing market challenges. The growth of e-commerce will also create more opportunities in the industrial sector for emerging markets like Thailand, Malaysia and India, as businesses compete on speed-to-market, and manufacturers look at alternative site options; particularly in Southeast Asian countries."

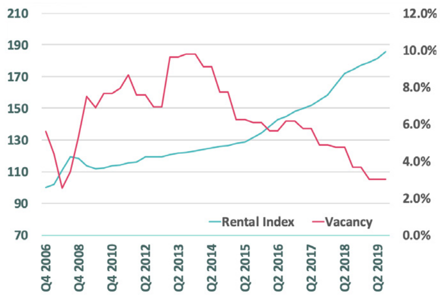
**as of 3Q 2019*

INVESTMENT OPPORTUNITIES STILL EXIST, BUT MAY BE HARDER TO UNCOVER

Despite the overall cautious outlook for next year, investment opportunities do exist but will require more effort in seeking them out.

Sydney Grade A Office: Office rents in Sydney continue to rise as Australia's economy holds steady despite the macro headwinds underpinned by strong public sector spending and growth in exports. Adding to this growth has been the limited new supply entering the market over the past few years coupled with stock being withdrawn by buildings being demolished to make way for the city's new rail network. Grade A office net face rents in Sydney have risen 4.9% in 2019* and is expected to rise another 25% between 2020-2024.

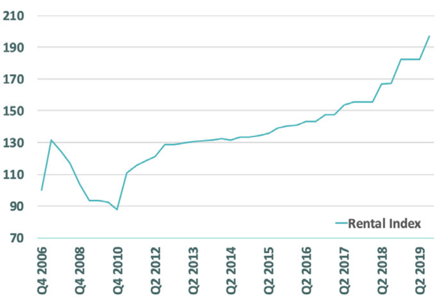
SYDNEY PRIME OFFICE



Source: Knight Frank Australia Research

Bengaluru Grade A Office: India's main office markets (e.g. Mumbai, NCR and Bengaluru) continue to enjoy healthy rental growth, despite the weaker economic print in 2019, mainly due to the rapid expansion witnessed in its IT industry. The IT industry accounted for 35% of total transaction volume in first half of 2019 across the top eight cities. This growth is most apparent within Bengaluru, India's own Silicon Valley, which recorded an 14% rental rise in H1 2019. Multinationals continued to expand robustly because of availability of right talent pool and new office assets at comparatively low rents. In 2020, while more supply is expected over the horizon, demand is expected to remain steady as the IT sector continues to expand.

BENGALURU PRIME OFFICE

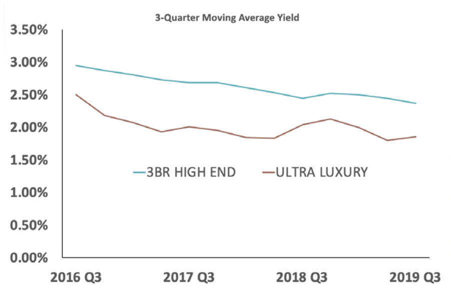


Source: Knight Frank India Research

Singapore Prime Residential: Despite the challenging external environment and a weaker outlook for Singapore's economy in 2019, prime residential sales volume and prices continued to improve on the back of firm demand from both local and foreign buyers. A key driver behind this has been the safe-haven status that Singapore's prime homes can provide, given the city-state's stable political and social status, pro-business environment, world-class education system and relatively stable currency.

Furthermore, the initial upfront cost hurdles of stamp duty on foreign buyers are offset by its low-income taxes, lack of capital gains taxes and no estate duties. These, coupled with a rental yield which has stayed relatively stable, positions the prime residential market as an attractive defensive asset class. Going forward, this perception of Singapore's prime residential as a safe-haven asset class is expected to continue into 2020 on further market volatility, which would support price and sales volume growth.

SINGAPORE PRIME RESIDENTIAL YIELD



Source: Knight Frank Singapore Research

China Greater Bay Area Prime Residential: While housing prices in China continues to slow with more cities recording price declines towards the end of 2019, local governments within the Great Bay Area (GBA) have taken active steps stimulate the market; most recently easing restrictions on Hong Kong residents which would boost investment opportunities and residential market within the region. Among the key GBA cities heading into 2020, we are constructive on Zhongshan, Jiangmen, Zhuhai and Dongguan who present the highest price growth potential given the recent infrastructure developments coupled with relatively lower housing prices. As such, we expect the GBA cities to register price growths of between 3 to 5% in the coming year.

TIM ARMSTRONG
HEAD OF OCCUPIER SERVICES & COMMERCIAL AGENCY, ASIA-PACIFIC

"With vacancy rates creeping up in a number of markets across the region, 2020 can be an opportunity for businesses to look at upgrading premises, securing better terms or revisiting their real estate strategy" Tim Armstrong, Head of Occupier Services & Commercial Agency, Knight Frank Asia Pacific."

RAJANI SINHA
CHIEF ECONOMIST & NATIONAL DIRECTOR RESEARCH, INDIA

"During the first six months of 2019, Bengaluru maintained its upmost position as India's healthiest office market with nearly a one-third share in total office spaces leased across the top eight cities. This sky-high leasing achievement is indicative of undying occupier interest which is only intensifying with an increase in availability of new office assets."

*as of 3Q 2019

JAN CUSTODIO
HEAD OF RESEARCH
SANTOS KNIGHT FRANK

"Our outlook for the prime residential market in Manila is upbeat for 2020. The robust demand has energized the market in 2019 with the fast absorption encouraging developers to create more product. Going forward, backed by a healthy economy and several projects in the pipeline from reputable property developers; the prime residential market is expected to do well next year."

BEN BURSTON
HEAD OF RESEARCH & CONSULTANCY, AUSTRALIA

"Boosted by favorable supply and demand fundamentals, and continued lower interest rates, the prospects for compressing yields will continue to draw investors searching for high quality assets in a low interest rate environment."

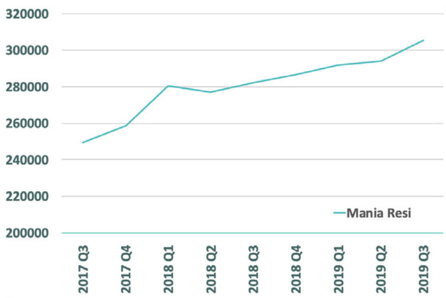
EMILY RELF
DIRECTOR, ASIA-PACIFIC CAPITAL MARKETS

"Most Asia Pacific investors who are looking to invest in student housing have been heavily weighted in traditional asset classes in their home region and are now looking to divest to other locations and sectors. To gain an immediate platform, large scale portfolios are at the top of the requirement list, leading to a big jump in cross-border investment in recent years – a trend we expect to continue."

Manila Prime Residential: Manila's prime residential market recorded a standout year with prices rising 6.5% year-on-year*, adding on from the 10.9% rise last year, as strong demand from investors continues to support the market.

The primary driver behind investor demand has been the rapid expansion of the business process outsourcing (BPO) and Philippine offshore gaming organization (POGO) sectors and the downstream housing needs of its workers looking for accommodation within the city. As such, investors have been snapping up homes aggressively to lease out to these sector's employees who generally prefer to live near their workplaces. With the BPO sector expected to account for 10% of the Philippines GDP by 2020 - compared to 6% in 2018 - demand from investors is expected to improve next year, and we could see price growth further accelerate.

MANILA PRIME RESIDENTIAL



Source: Santos Knight Frank Research

Australia Commercial Capital Markets: Australia's office and industrial sectors continue to provide investors with attractive investment propositions given their higher yields - relative to other developed markets - supportive macro-economic conditions and favourable growth prospects. Sydney's office rents continue to benefit from the market undersupply while Melbourne continues to benefit from occupier demand.

In the industrial sector, continued growth with e-commerce and the constant need to improve supply-chain efficiencies will further drive demand for prime industrial space.

Furthermore, the expected weight of capital flows into the commercial sectors is predicted to drive Australian commercial asset yields down further next year; for example, our expectations are for Sydney's Prime office yields to fall 50bps to 4.1% by end 2021.

Seoul Office Capital Market: Seoul's office sector remains an attractive destination for investor capital given its higher absolute yields compared to other major developed Asia-Pacific office markets, the availability of core trophy assets and a diversification play outside of the traditional investment markets within the region (e.g. Singapore, Hong Kong, Australia, Japan). This is further supported by the sector's healthy growth prospects given the rapid expansion of its technology sector and the flourishing co-working scene coupled with limited supply within its main CBD and GBD sub-markets.

Country	Sector	Cap Rate
Seoul	Office	4.5%
Hong Kong	Office	2.8%
Tokyo	Office	3.6%
Singapore	Office	4.0%
Sydney	Office	4.6%
Melbourne	Office	4.7%

Alternative Capital Markets: Despite interest rate cuts and the availability of cheap liquidity, growth prospects for the traditional asset classes remains elusive with the challenging outlook next year. As such, investors have been looking into alternative asset classes given their relatively attractive return potential and counter-cyclical risk diversification benefits. For example, the student housing sector recorded US$516 million, an 8-fold increase year-on-year; led mainly by Allianz's purchase of a student housing portfolio in Australia.

Going forward, demand for student housing within the region is expected to grow exponentially due to the region's expanding middle class, more students opting for a tertiary education and an increasing number of globally ranked universities making it more attractive to study within the region. Estimates are for student enrollments to expand 4.2% per annum on average till 2040. This will create opportunities for developers and investors to develop modern purpose-built student housing and fill in the gaps, especially in untapped markets across developing Asia.

**as of 3Q 2019*

ASIA-PACIFIC PRIME OFFICE RENTS

Markets	City	Local Measurements^	Prime Net Headline Rent	2019% Change*	Gross Effective Rent** (USD/sqm/mth)	Vacancy	Forecast next 12 months
Australia	Brisbane	AUD/sq m/annum (Net Floor Area)	613.0	2.2%	28.3	9.6%	Increase
	Melbourne	AUD/sq m/annum (Net Floor Area)	694.0	8.8%	38.4	2.2%	Increase
	Perth	AUD/sq m/annum (Net Floor Area)	610.0	3.2%	30.2	14.8%	Increase
	Sydney	AUD/sq m/annum (Net Floor Area)	1,165.0	4.9%	61.7	3.0%	Increase
East Asia	Tokyo	JPY/tsubo/month (Net Floor Area)	39,624.0	0.4%	106.4	0.6%	Same
	Beijing	CNY/sq m/month (Gross Floor Area)	360.0	-3.6%	74.4	10.1%	Decrease
	Guangzhou	CNY/sq m/month (Gross Floor Area)	193.4	0.4%	45.6	8.0%	Same
	Shanghai	CNY/sq m/month (Gross Floor Area)	282.9	-4.1%	60.3	12.1%	Decrease
	Hong Kong	HKD/sq ft/month (Net Floor Area)	150.5	-8.1%	210.7	3.9%	Decrease
	Taipei	TWD/ping/month (Gross Floor Area)	2,788.0	2.0%	41.3	5.5%	Increase
	Seoul	KRW/sq m/month (Gross Floor Area)	33,816.6	0.1%	69.2	9.7%	Same
India	Bengaluru	INR/sq ft/annum (Gross Floor Area)	1,615.0	8.0%	34.6	4.0%	Increase
	Mumbai	INR/sq ft/annum (Gross Floor Area)	3,640.0	1.1%	77.9	18.4%	Increase
	NCR	INR/sq ft/annum (Gross Floor Area)	4,079.0	4.4%	87.3	16.4%	Same
ASEAN	Phnom Penh	USD/sq m/month (Net Floor Area)	23.6	0.5%	30.9	12.4%	Same
	Jakarta	IDR/sq m/annum (Semi-Gross Floor Area)	4,200,624.0	0.0%	30.8	23.0%	Same
	Kuala Lumpur	MYR/sq ft/month (Net Floor Area)	5.9	1.5%	17.9	22.5%	Decrease
	Singapore	SGD/sq ft/month (Net Floor Area)	10.35	1.9%	92.7	9.9%	Increase
	Bangkok	THB/sq m/month (Gross Floor Area)	1,129.0	4.7%	41.0	8.1%	Same
	Manila	PHP/sq m/month (Net Floor Area)	1,095.0	5.1%	24.5	8.0%	Decrease

^Based on net floor areas for except for China, India, Korea, Taiwan, and Thailand (gross)
*** Inclusive of incentives, service charges and taxes. Based on net floor areas.*
Source: Knight Frank Research (as of 3Q 2019)

PRIME OFFICE RENTAL CYCLE

Source: Knight Frank Research

ASIA-PACIFIC CAP RATES

Cities	Sector	Cap Rate	Trends
China Tier 1	Office	4.7%	Stable
	Retail	5.5%	Stable
	Industrial	5.5%	Stable
Seoul	Office	4.5%	Stable
Hong Kong	Office	2.0%	Stable
	Retail	2.7%	Stable
	Industrial	3.4%	Stable
Tokyo	Office	3.6%	Favorable
	Retail	4.5%	Stable
	Industrial	4.5%	Stable
Manila	Office	5.9%	Favorable
	Retail	7.1%	Stable
Bangkok	Office	6.5%	Stable
Kuala Lumpur	Office	6.5%	Unfavorable
Greater KL	Retail	6.5%	Stable
	Industrial	6.8%	Favorable
Singapore	Office	4.0%	Stable
	Retail	4.7%	Stable
	Industrial	6.2%	Unfavorable
Jakarta	Office	6.5%	Unfavorable
	Retail	8.0%	Stable
Sydney	Office	4.6%	Favorable
	Industrial	5.5%	Favorable
Melbourne	Office	4.7%	Favorable
	Industrial	6.3%	Favorable
Perth	Office	6.5%	Favorable
	Industrial	6.8%	Favorable
India Tier 1	Office	8.6%	Favorable

Source: Knight Frank Research (as of 3Q 2019)

ASIA-PACIFIC PRIME RESIDENTIAL

City	Measurement	Local Price	2019 Growth
Hong Kong	sq ft	33,511	1.6%
Singapore	sq ft	3,553	2.1%
Beijing	sq m	104,559	2.4%
Shanghai	sq m	118,090	-1.4%
Guangzhou	sq m	76,104	5.7%
Taipei	ping	1,470,000	8.9%
Mumbai	sq ft	64,775	0.5%
Delhi	sq ft	33,511	4.4%
Bengaluru	sq ft	19,709	2.1%
Jakarta	Sq m	64,212,586	2.8%
Kuala Lumpur	sq ft	1,195	-0.4%
Sydney	sq m	27,613	1.4%
Melbourne	sq m	14,667	0.6%
Perth	sq m	12,034	-0.7%
Brisbane	sq m	11,387	-0.3%
Gold Coast	sq m	10,477	1.3%
Bangkok	sq m	355,000	0.5%
Tokyo	sq m	1,663,745	2.0%
Seoul	psm	20,470,446	15.7%
Auckland	sq m	17,431	2.1%
Manila	sq m	305,458	6.5%

Source: Knight Frank Research (as of 3Q 2019)

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