HONG KONG[1]

HONG KONG ECONOMY

According to the Census and Statistics Department, Hong Kong's Gross Domestic Product ("GDP") expanded by 3.8% in 2017, faster than the 2.1% growth in 2016, supported by a broad-based global economic upswing and robust domestic consumption. The unemployment rate also reached a 19-year low of 3.1% in 2017. 01

For 2018, Hong Kong's GDP is predicted to grow by 3% to 4% attributed to the still buoyant global economic climate, near full employment and resilient domestic demand. From 2018 to 2022, its economy is forecasted to grow at an average of 3% per annum, compared to the previous five-year (2013-2017) average of 2.8% per annum, according to the Census and Statistics Department. 01

HONG KONG RETAIL MARKET

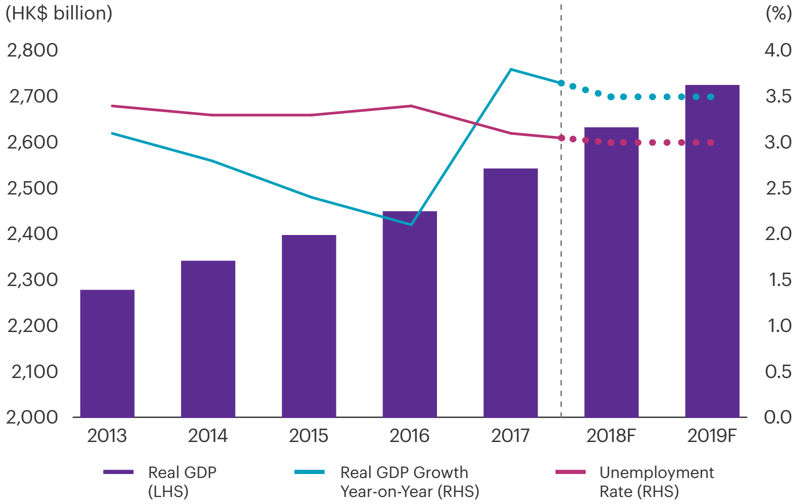
Existing Supply and Vacancy

As of end 2017, there was 160.9 million sq ft of gross floor area ("GFA") of retail stock space, of which shopping malls accounted for 54.9 million sq ft or 34.1%. Approximately 14.3 million sq ft of shopping mall space is concentrated within the core retail areas of Central, Causeway Bay/ Wanchai, Tsim Sha Tsui, and Mong Kok, while approximately another 10.7 million sq ft are located in three main key decentralised retail locations, namely Kowloon East, Sha Tin and Island East (collectively known as "seven key retail districts"). Festival Walk is located within the seven key retail districts, namely in Kowloon Tong, the eastern part of Kowloon.

Shopping malls spanning a total of 2.7 million sq ft (GFA) were completed in 2017 and these were largely concentrated in Tsim Sha Tsui, Yuen Long and Tseung Kwan O. Within the seven key retail districts, about 175,000 sq ft of retail space was added in 2017. However, none was situated in the vicinity of Festival Walk. Average vacancy rate of shopping centres in the seven key retail districts improved from 7.7% in 2016 to to 7.0% in 2017. 02

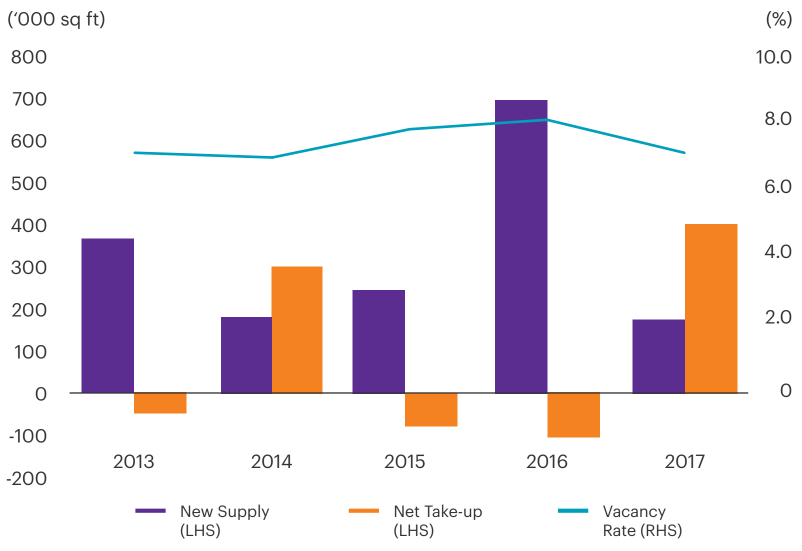
1 The figures relating to stock, new supply, net take-up are detailed as "internal floor area" unless otherwise stated, which is defined as the area of all enclosed space of the unit measured to the internal face of enclosing external and/or party walls. Net take-up refers to the change in occupied stock.

01 HONG KONG REAL GDP, REAL GDP GROWTH AND UNEMPLOYMENT RATE, 2013 – 2019F



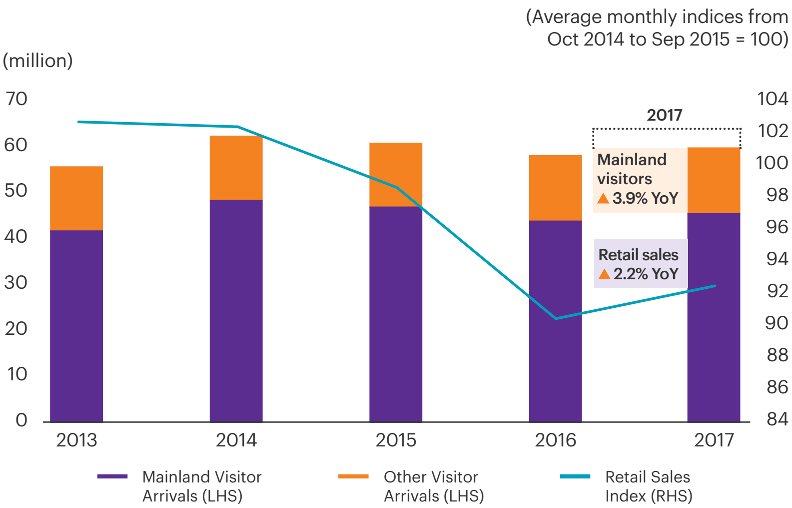
Source: Census and Statistics Department
Note: Figures for 2018 to 2019 are based on forecasts

02 NEW SUPPLY, NET TAKE-UP AND VACANCY RATES OF SHOPPING MALLS IN THE SEVEN KEY RETAIL DISTRICTS, 2013 – 2017



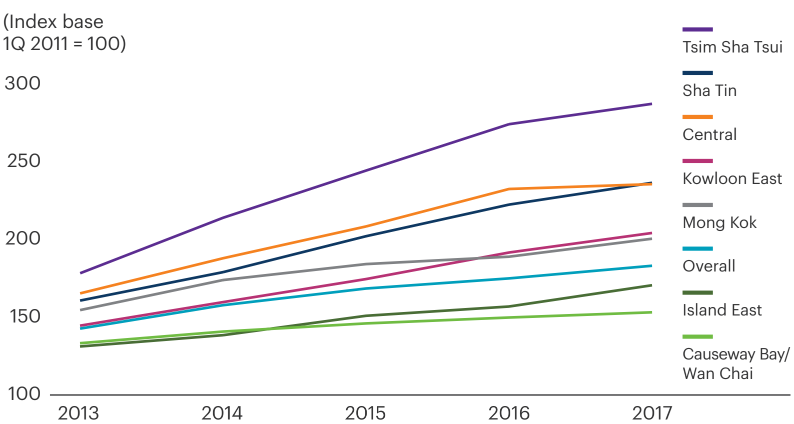
Source: Rating and Valuation Department, Colliers International

03 HONG KONG VISITOR ARRIVALS AND RETAIL SALES INDEX, 2013 – 2017



Source: Census and Statistics Department, Hong Kong Tourism Board

04 HONG KONG SHOPPING MALL RENTAL INDEX OF THE SEVEN KEY RETAIL DISTRICTS, 2013 – 2017



Source: Colliers International

Potential Supply

There are plans for approximately 4.4 million sq ft (GFA) of shopping mall space to be added in Hong Kong between 2018 and 2022. These include large-scale developments (of over 200,000 sq ft) in Causeway Bay/Wan Chai, Kowloon (Nam Cheong and Kai Tak) and the New Territories (Yuen Long, Tai Wai, Tsuen Wan and Tseung Kwan O).

Demand

Hong Kong's retail market ended 2017 on a positive note with retail sales growing 2.2% year-on-year ("YoY") to HK$446.1 billion, compared to a decline of 8.1% YoY in 2016. The jewellery, watches and luxury items sector was one of the top contributors in sales, registering a 5.2% increase in 2017 compared to 2016. Sales of food, alcoholic drinks and tobacco grew 3.2% while food and beverage sales receipts was up 5.0% in 2017, compared to a year ago. Sales in the clothing and footwear category and supermarket category were relatively stable. **03**

Steady economic growth, a healthy employment rate, improving visitor arrivals and strong stock market performance were major drivers leading to the turnaround in retail sales in the second half of 2017, after the sharp decline in sales between 2014 and 2016. Annual volume of inbound visitors increased by 3.2% YoY to 58.4 million in 2017, led by a 3.9% growth in Mainland Chinese tourist arrivals.

Rents

Overall shopping mall rents in 2017 improved 4.3% YoY, supported by a steadily growing economy, healthy domestic consumption and recovery of inbound tourism. In Kowloon East, rental growth for shopping malls recorded 6.2% YoY. Comparing 1Q 2018 to 4Q 2017, overall rents for shopping malls increased by 1.6% quarter-on-quarter ("QoQ"), while retail rents in Kowloon East were 1.3% higher QoQ. **04**

Key Retail Trends in 2017 & 2018

With online shopping on the rise, some retail brands in Hong Kong have been investing more in their e-commerce operations and adopting in-store digitisation tools to integrate online and offline channels. While e-commerce has changed the retail landscape, it cannot replace the experience provided by physical stores or shopping malls. Shopping malls are still lifestyle destinations offering a mix of shopping, entertainment and leisure experiences. Although Hong Kong's online retail revenue increased by 12% to HK$29.0 billion in 2017 from HK$25.9 billion in 2016, online retail revenue of HK$29.0 billion in 2017 was only 6.5% of the total Hong Kong retail revenue, according to Statista.

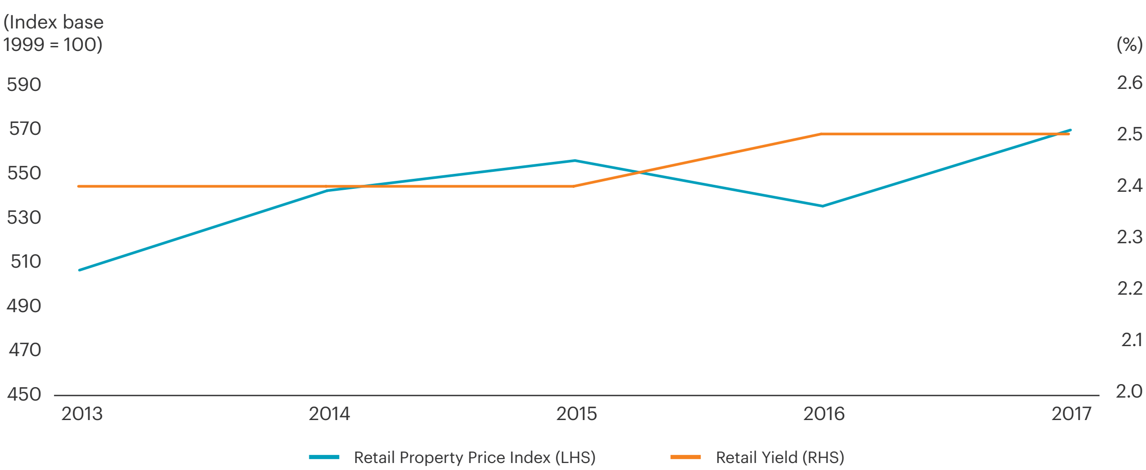
Retail Yields

The average yield of retail properties reached a tight level of around 2.5% in 2017, while the overall average retail property price increased by 6.4% YoY. This was due to strong investors' interest for retail malls in decentralised locations targeting local demand. In 1Q 2018, average retail yield compressed further to 2.4%, while overall retail property price increased 2.2% QoQ. 05

Outlook

With the growing number of technological initiatives, a sustained strong employment market, and continuing recovery in inbound tourism and retail sales, the retail market is expected to gain further momentum in 2018. Shopping malls with the ability to integrate new retail concepts with technology to understand customer preferences and provide excellent shopping experiences will offer greater value-added propositions and therefore be able to enhance their rents and capital values.

05 HONG KONG RETAIL PROPERTY PRICE INDEX AND RETAIL YIELD, 2013 – 2017



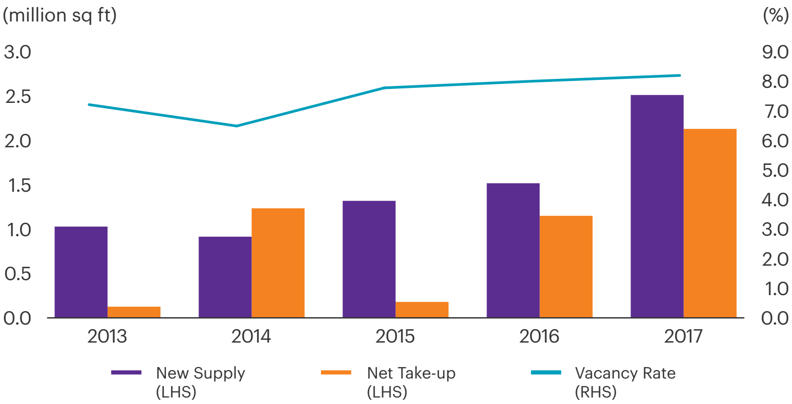
Source: Rating and Valuation Department, Colliers International

HONG KONG OFFICE MARKET

Existing Supply and Demand

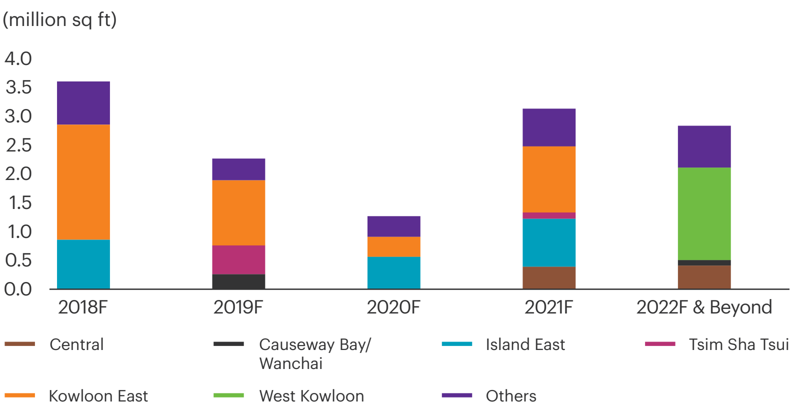
While the Central district, the core business district ("CBD") in Hong Kong, used to be where most large banking, legal and financial services companies as well as Asian headquarters of multinationals ("MNCs") were located, relocation out of CBD to other key business clusters (such as Causeway Bay/Wanchai, Island East, Tsim Sha Tsui, West Kowloon and Kowloon East) has continued to grow in 2017. At the same time, there are increasingly more mainland China based companies taking up office space in the CBD area.

06 HONG KONG OVERALL GRADE-A OFFICE NEW SUPPLY, NET TAKE-UP AND VACANCY RATES, 2013 – 2017



Source: Colliers International

07 POTENTIAL NEW SUPPLY OF GRADE-A OFFICES IN HONG KONG, 2018 – 2022



Source: Colliers International

As of end-2017, total Grade-A office stock reached 81.7 million sq ft (GFA), of which 2.5 million sq ft (or 3.1% of the total office stock) were newly completed Grade-A office supply. Most of the new Grade-A office developments were located outside of the CBD, with about 19.2% of the new supply or approximately 479,000 sq ft in Kowloon East, also known as the second CBD ("CBD2") of Hong Kong. 06

Overall net take-up in office space increased from 1.2 million sq ft in 2016 to 2.2 million sq ft in 2017, largely driven by mainland China based firms seeking to establish their offices in the core districts (CBD and Causeway Bay/Wanchai). With office rents in these core districts reaching new record highs, MNCs have become increasingly attracted to decentralised office locations, which offer more affordable and wider range of attractive office specifications. Despite stronger office demand in the core districts, the sizable volume of new supply led to a slight increase in the overall Grade-A office vacancy rate to 8.2% by end 2017, compared to 8.0% a year ago. It is noteworthy to mention the new supply in Kowloon East did not pose a significant impact on office demand in Festival Walk, as it is mainly a retail complex with a small office component, and is well-located atop a major MTR interchange. 06

Potential Supply

Approximately 13.1 million sq ft (GFA) of new Grade-A office space is in the pipeline between 2018 and 2022, of which about 35.4% (4.7 million sq ft) will be concentrated in Kowloon East. With the ongoing trend of decentralisation from CBD to cheaper decentralised office areas, Colliers estimates that the percentage of total Grade-A office space in Kowloon East will increase from 17.1% in 2017 to about 19.5% in 2022, roughly on par with Central. The new supply in Kowloon East includes Mapletree Investments' Mapletree Bay Point (about 660,300 sq ft of GFA) due for completion in the first half of 2018. 07

Rents

Despite a higher overall vacancy rate, overall Grade-A office rents increased by 2.4% YoY to HK$73.7 per sq ft per month (effective rent based on net floor area) in 2017 mainly driven by sustained demand from mainland Chinese firms. For Kowloon East, rents in 2017 experienced a mild growth of 0.6% YoY to HK$34.7 per sq ft per month (effective rent based on net floor area). While there is a steady stream of tenant relocations from the more expensive Central office areas, further growth in rentals in Kowloon East was offset by the increasing new supply in the area. In 1Q 2018, overall Grade-A office rents increased 1.8% QoQ to HK$75.0 per sq ft per month, supported by the continuing relocation trend. For Kowloon East, office rents in 1Q 2018 saw a steady growth of 0.7% QoQ to HK$34.9 per sq ft per month, driven by a net take-up of space. 08

Key Office Trends

Co-working space providers have emerged as a key occupier in 2017, particularly in non-core and fringe CBD areas, providing an economical option for the start-up community as well as MNCs and small medium enterprises ("SMEs") looking for more flexible office space options. As the footprint of co-working space providers expands further, non-core areas and fringe CBD are expected to be the major beneficiaries.

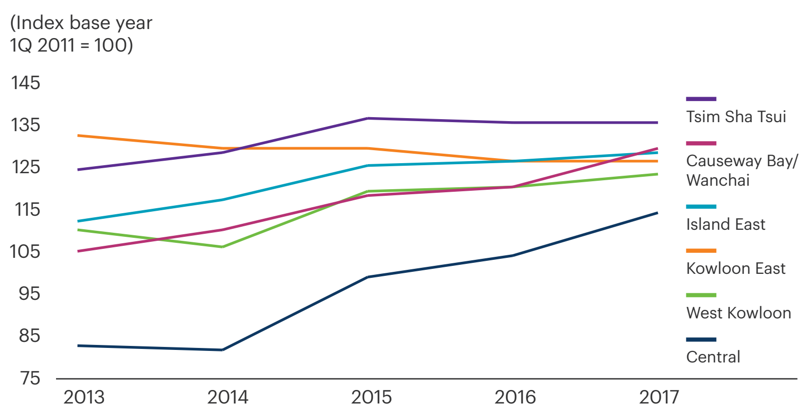
Office Yields and Office Prices

In 2017, the overall Hong Kong office investment market recorded a strong year with record price breaking transactions and robust investment activities from mainland Chinese companies and local investors/developers. As such, Grade-A office prices accelerated by 15.6% YoY to HK$26,122 per sq ft (based on net floor area) in 2017 while the average Grade-A office yield compressed to 2.6%, from 3.0% a year ago. In 1Q 2018, overall Grade-A office prices further increased by 8.6% QoQ to HK$28,368 per sq ft, underpinned by record transactions in Central, while the average Grade-A office yield compressed to 2.4%. 09

Outlook

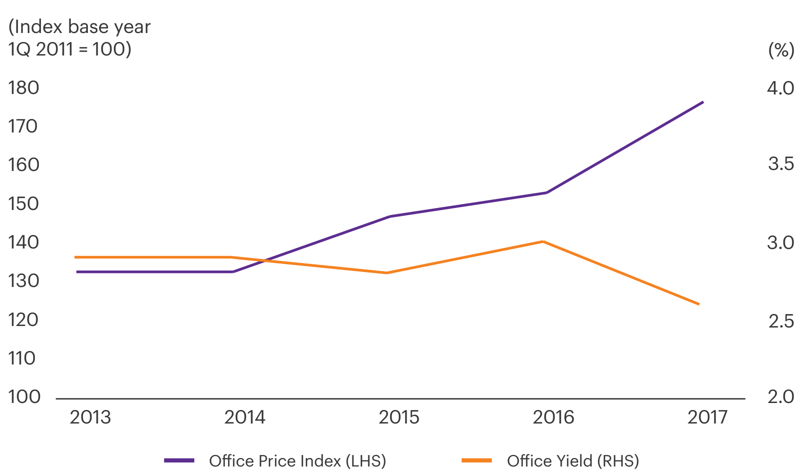
Amid increasing new office supply, Colliers is of the view that overall Grade-A office rents are likely to grow at a moderate pace in 2018. The non-core office market will continue to appeal to value conscious tenants and thus, should benefit from a demand pickup. For Kowloon East, with additional new supply over the coming years, vacancy rate is expected to increase slightly and rents will continue to be competitive. As the CBD2 initiative continues to garner stronger interest in the long run, Kowloon East is expected to transform into another important core business district outside of the Central district.

08 HONG KONG GRADE-A OFFICE RENTAL INDEX BY DISTRICT, 2013 – 2017



Source: Colliers International

09 HONG KONG GRADE-A OFFICE PRICE INDEX AND OFFICE YIELD, 2013 – 2017



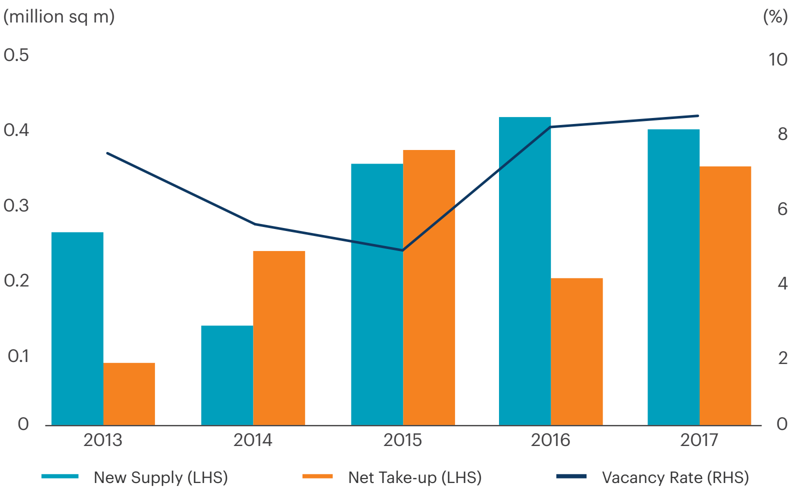
Source: Colliers International

CHINA

CHINA ECONOMY

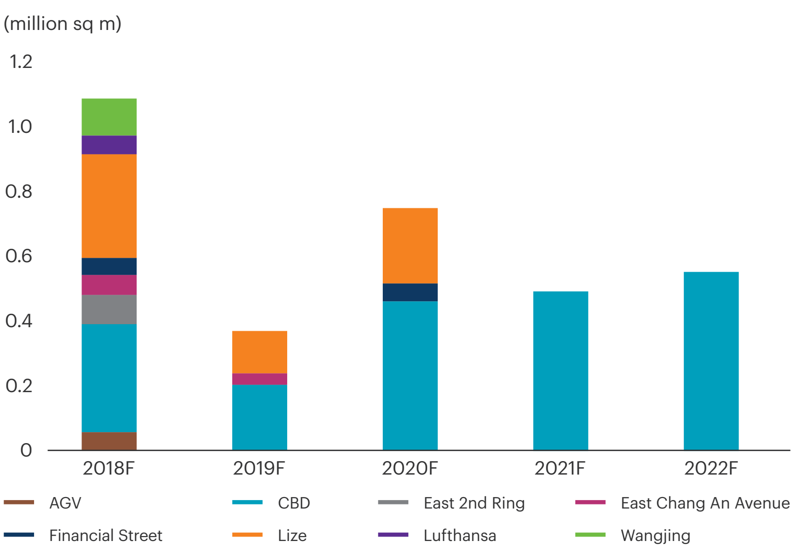
According to the National Bureau of Statistics, China's economy grew at 6.9% in 2017, higher than 2016's growth of 6.7%, as the economy continues its transition from a tertiary-driven to a consumption-oriented model. GDP growth is expected to moderate to 6.5% in 2018, according to the report delivered at the 13th National People's Congress in March 2018.

10 BEIJING GRADE-A OFFICE MARKET NEW SUPPLY, NET TAKE-UP AND VACANCY RATE, 2013 – 2017



Source: Colliers International

11 BEIJING GRADE-A OFFICE MARKET FUTURE SUPPLY, 2018 – 2022



Source: Colliers International

BEIJING OFFICE MARKET

Existing Supply, Demand and Vacancy

As at end of 2017, there were close to 6.37 million sq m Grade-A office space in Beijing, a 6.5% or 390,500 sq m increase from 2016. Beijing Grade-A office market can be divided into nine submarkets, including Central Business District ("CBD") (34.0% of the total stock), Lufthansa (where Gateway Plaza is located) (15.0%), Financial Street (13.2%), Asian Games Village ("AGV") (9.3%), Zhongguancun ("ZGC") (9.2%), East Chang An Avenue (9.1%), Wangjing (7.6%), East 2nd Ring (2.6%) and Lize (less than 1%). Of the eight newly completed projects in 2017 amounting to approximately 390,500 sq m of space, AGV accounted for 45.5% (by GFA), followed by East Chang An Avenue (19.8%), CBD (15.4%), Lufthansa (10.1%) and Wangjing (9.2%). Only one office project of 40,000 sq m (GFA) was completed in Lufthansa during 2017. 10

Demand for Beijing's Grade-A office space in 2017 was largely driven by established domestic firms, across all sectors from finance to technology. The market also witnessed more consolidation and relocation activities in the pharmaceutical and energy sectors, while MNCs remained sensitive to high rental costs. As the domestic corporations extended their footprint, this had resulted in a 77.1% YoY increase in the annual net take-up to 341,000 sq m in 2017. Though demand was higher, the additional new supply in Beijing edged up the average vacancy rate to 8.3% as of end-2017, compared to 8.0% a year ago. 10

Potential Supply

Colliers estimates that the total projected Beijing Grade-A office space from 2018 to 2022 will increase by approximately 3.12 million sq m (GFA), with more than 30% scheduled for completion in 2018. The new supply for the next five years (2018-2022) will be distributed among CBD (63.6%), Lize (21.1%), Wangjing (3.4%), Financial Street (3.1%), East Chang An Avenue (2.8%), East 2nd Ring (2.7%), AGV (1.7%), Lufthansa (1.6%) and ZGC (less than 1%). One new office project of approximately 51,000 sq m is expected to be completed in 2018 at the Lufthansa area. To date, no other new projects are scheduled in this area beyond 2018. 11

Tenant Mix

As at end-2017, 46.8% of the Grade-A office tenants in Beijing are from the financial sector, reflecting Beijing's status as an important financial centre. The other two key sectors are professional services (13.0%) and information technology ("IT") (12.0%). 12

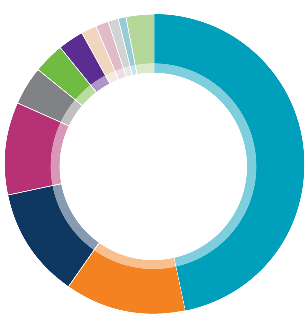
Key Office Trends

The rising popularity of co-working space in Beijing in recent years could be attributed to two reasons. First, as the capital of China, Beijing is the hub for innovation with a large number of start-ups, which are attracted to flexible co-working space. Furthermore, the local government offers tax benefits to operators in several districts including Haidian District.

Rents

Overall average rent in Beijing saw a mild growth of 0.4% YoY in 2017 to RMB331.8 per sq m (psm) per month due to competitive rents offered by the new buildings as well as weaker demand from MNCs. Despite the slight increase, office rents in Beijing remain the highest in Mainland China. The average rent in Lufthansa increased by 1.3% YoY to RMB295.2 psm per month by end-2017, supported by steady demand and limited new supply. In 1Q 2018, the overall average rent in Beijing was down slightly by 0.1% QoQ to RMB331.5 psm per month as a result of competitive rents offered by new projects. For Lufthansa, the average rent increased by 0.7% QoQ to RMB297.3 psm per month. 13

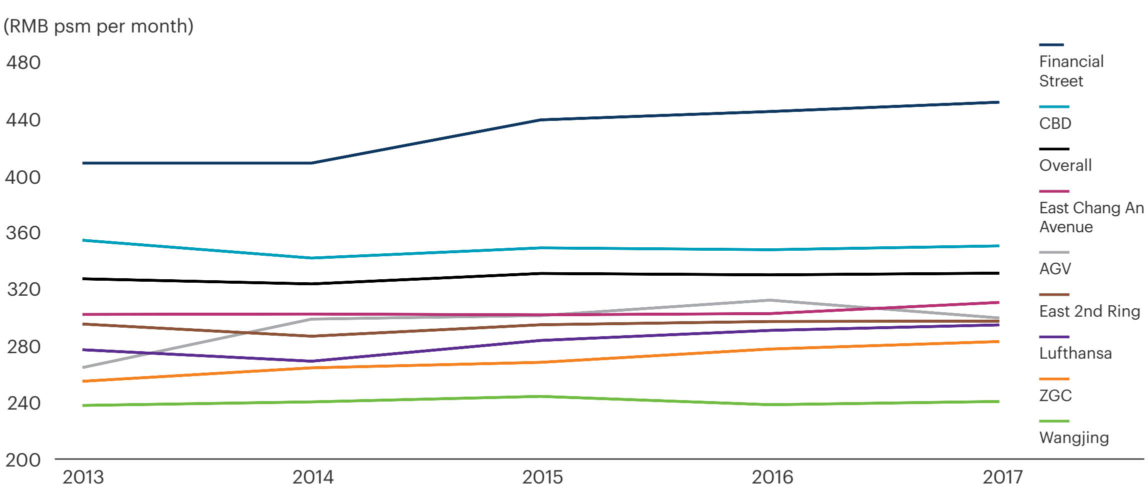
12 BEIJING GRADE-A OFFICE MARKET DEMAND DRIVERS (GFA BY INDUSTRY), AS OF END-2017



Financial Services	46.8%
Professional Services	13.0%
IT	12.0%
Real Estate	9.9%
Service	4.4%
Energy	3.3%
Media	2.6%
Pharmaceutical	1.8%
Manufacturing	1.3%
Automobile	1.1%
Trade	1.0%
Others	2.8%

Source: Colliers International

13 BEIJING GRADE-A OFFICE MARKET RENT BY SUBMARKET, 2013 - 2017



Source: Colliers International

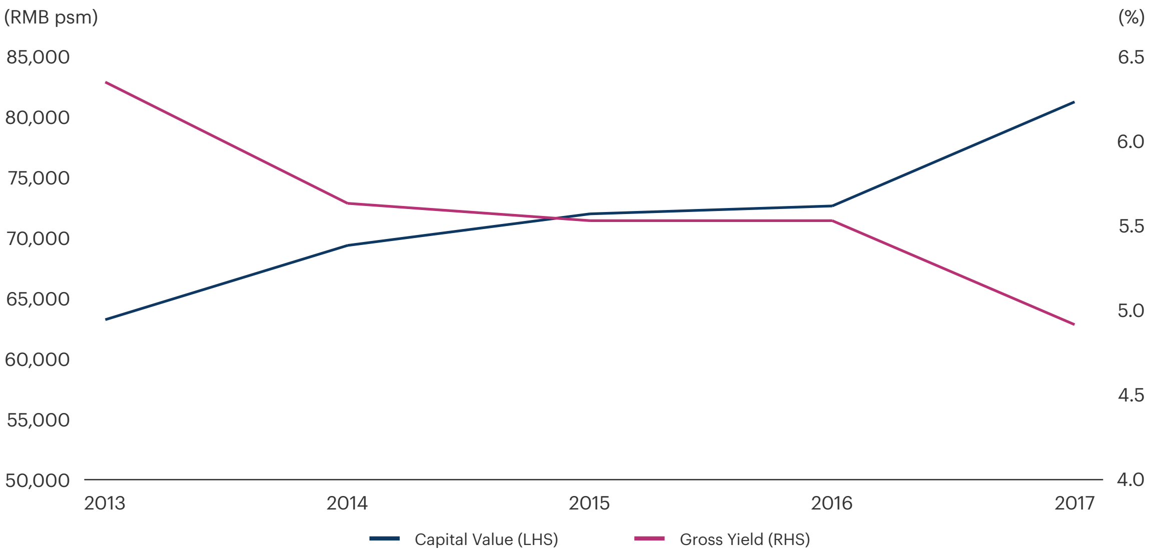
Capital Values and Gross Yields

Domestic and overseas investors continued to show strong interest in Beijing office market for self-use and/or investment purposes. With limited Grade-A office stock available for sale, growth in capital values exceeded rental growth and increased by 11.7% YoY to RMB80,600 psm while gross yield continued to compress in 2017, edging down to 4.9% as of end-2017 from 5.5% a year ago. In 1Q 2018, capital values grew by 0.5% QoQ to almost RMB81,003 psm while gross yield stood at 4.9%. 14

Outlook

Rapid growth of domestic tenants in the tertiary industry, especially finance and IT industries, will continue to drive leasing demand for quality office space. However, MNCs remain cost sensitive and is likely to continue downsizing or consolidating office spaces. Tenant mix is expected to become more diversified with companies from varied industries, such as media, flexible working space, and fintech coming onstream in the medium term. With about 1.3 million sq m of new Grade-A office supply in the next two years, overall occupancy rates and average rents could face downward pressure. Landlords in some submarkets are expected to offer discounts to retain current tenants or attract potential tenants. Supply is expected to peak in 2018 and the Lufthansa area will likely see increased competition for tenants from new building completions.

14 BEIJING GRADE-A OFFICE MARKET CAPITAL VALUE AND GROSS YIELD, 2013 - 2017



Source: Colliers International

SHANGHAI BUSINESS PARK MARKET

Existing Supply, Demand and Vacancy

The business parks in Zhangjiang, Caohejing and Lujiazui ("LJZ") Software Park are the most established in Shanghai, as these offer clear planning, centralised management and mature amenities. Jinqiao, Linkong and Caohejing ("CHJ") Pujiang are emerging submarkets with less developed infrastructure and facilities. The total stock of Shanghai's Grade-A offices in the above six key business park submarkets increased by 24.9% or about 945,000 sq m year-on-year to 4.7 million sq m by end-2017. The business parks in Zhangjiang are the largest, accounting for 30% of the total stock, followed by Caohejing (23%), Jinqiao (18%), Linkong (16%), CHJ Pujiang (9%) and LJZ Software Park (4%). Of the new 945,000 sq m added in 2017, three new Grade-A properties with a combined GFA of 607,095 sq m were completed in Zhangjiang. 15

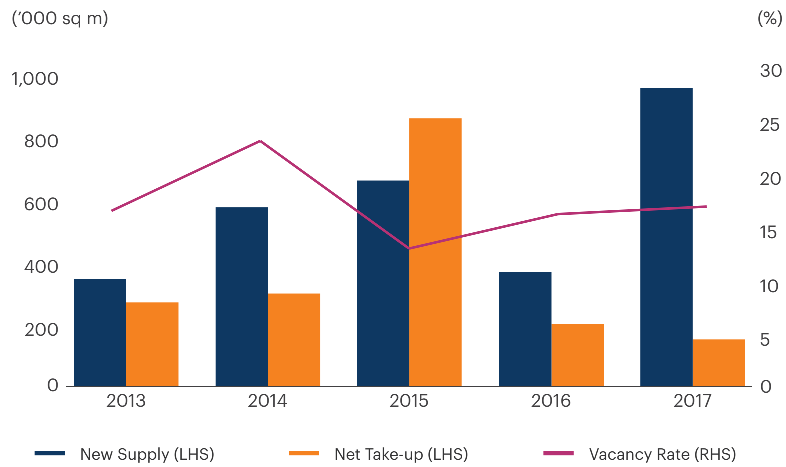
Despite a substantial increase in supply, vacancy rate in Shanghai's business park market increased slightly from 15.9% as of end-2016 to 16.6% as of end-2017, due to a net take-up of about 143,700 sq m in 2017 from the tertiary industry, especially from the financial and technology sectors.

The business park tenants were drawn to rental savings, increasingly convenient transport connections, improved building specifications and a conducive business environment. In 2017, more leasing transactions were seen in the central zone of Zhangjiang ahead of the scheduled completion of the extension of Metro Line 13 in 2018. In addition to new tenants, existing tenants also took the opportunity to consolidate their offices or establish their offices as headquarters. 15

Potential Supply

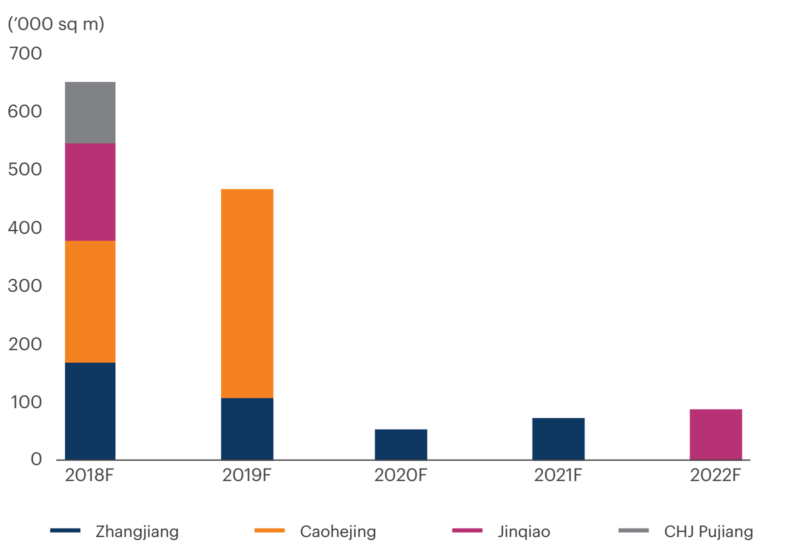
Colliers estimates that over the next five years (2018-2022), the total projected Grade-A office supply in these six parks will increase by approximately 1.3 million sq m, bringing the total stock to nearly 6.1 million sq m by end-2022.

15 NEW SUPPLY, NET TAKE-UP AND VACANCY RATE IN SHANGHAI'S KEY BUSINESS PARKS, 2013 – 2017



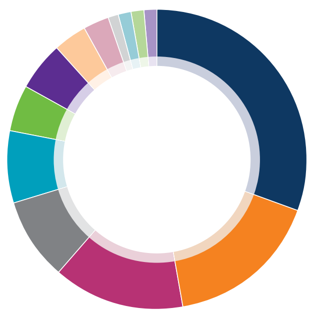
Source: Colliers International

16 POTENTIAL GRADE-A OFFICE SUPPLY IN SHANGHAI'S KEY BUSINESS PARKS, 2018 – 2022



Source: Colliers International

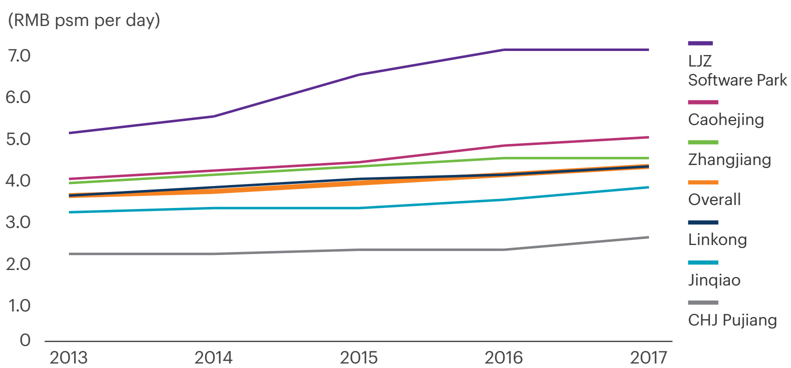
17 SHANGHAI GRADE-A BUSINESS PARK PROPERTY MARKET DEMAND DRIVERS (GFA BY INDUSTRY), AS OF END-2017



Technology	30.8%
IT	16.7%
Trading	14.1%
Financial Services	9.0%
Manufacturing	7.7%
Chemical	5.1%
Professional Services	5.1%
Real Estate	3.8%
Logistics	2.6%
Biomedical	1.3%
Incubator	1.3%
Insurance	1.3%
Media	1.3%

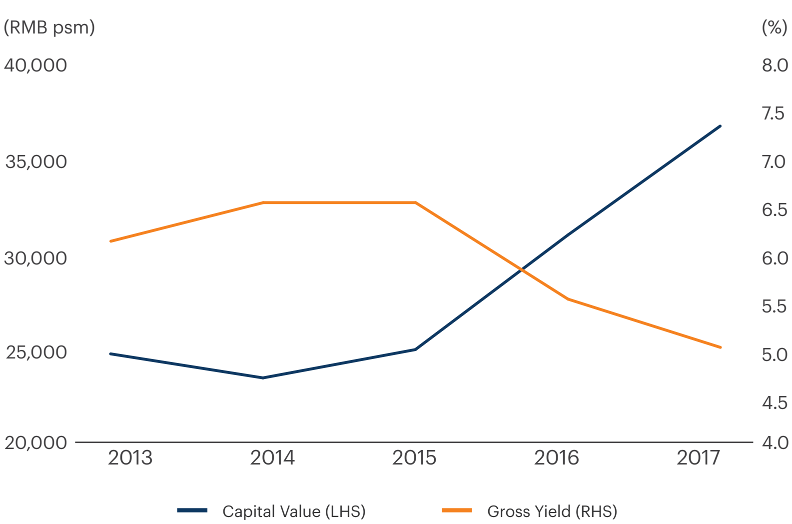
Source: Colliers International

18 SHANGHAI GRADE-A BUSINESS PARK RENT BY SUBMARKET, 2013 – 2017



Source: Colliers International

19 CAPITAL VALUE AND GROSS YIELD IN SHANGHAI'S KEY BUSINESS PARKS, 2013 – 2017



Source: Colliers International

The majority of the potential supply in these six parks by GFA will be in Caohejing (43%) and Zhangjiang (30%). Notably, a significant portion of the new supply in Zhangjiang will be located in the Central and the South zones (note that Sandhill Plaza is located in the North zone), where there are plans for improvements to the infrastructure and amenities in order to attract further business park or office developments to these locations. 16

Tenant Mix

Key driver of demand for Grade-A office space in Shanghai's key business parks was from the Technology, Media and Telecom ("TMT") sector, accounting for nearly half of the total occupied area as of end-2017. Traditional sectors such as Trading, Financial Services and Manufacturing accounted for 14.1%, 9.0% and 7.7% of space respectively as of end-2017. 17

Rent

Overall average rent for the six submarkets increased 3.7% to RMB4.2 psm per day as of end-2017. This represents a discount of 57% compared to Grade-A office space in the city's central business districts (RMB10.21 psm per day). In Zhangjiang, average rent of Grade-A office properties was RMB4.4 psm per day as of end-2017. For 1Q 2018, the average rent for the six submarkets increased by 0.9% QoQ to RMB4.4 psm per day. In Zhangjiang, the average rent increased 1.8% QoQ to RMB4.5 psm per day, supported by low vacancies of some Grade-A buildings and sustained demand. 18

Capital Value and Gross Yield

Capital values increased 18.3% YoY to an average of RMB36,466 psm for Shanghai's Grade-A business park properties as at end-2017. Amid positive investment sentiment from both foreign and domestic investors, average gross yield compressed to about 5.0% as of end 2017, as compared to 5.5% as of end 2016. In 1Q 2018, gross yield was stable at 5.0% while capital values increased by 0.9% QoQ. Over the remaining three quarters of 2018, average yield is however expected to compress. 19

INDEPENDENT MARKET RESEARCH
BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Outlook

With about 649,000 sq m of new supply scheduled to enter Shanghai's business park market in 2018, the pace of rental growth may moderate to around 4% per annum in 2018. However, with continued demand for business park space, positive economic fundamentals and limited new supply in 2020, Colliers believes that the absorption of new space will further improve from 2019 to 2020, while vacancy rate will gradually decrease and rental growth is expected to remain steady at around 3% to 5% per annum. Demand for high-quality Grade-A office space in business parks is likely to remain supported by the growing TMT industries. Properties with good accessibility and professional management will be well positioned to enjoy high occupancy rates and stable tenant mix, thus supporting an above-average rental growth.

> **"With continued demand for business park space (in Shanghai), positive economic fundamentals and limited new supply in 2020, Colliers believes that the absorption of new space will further improve from 2019 to 2020, while vacancy rate will gradually decrease."**

LIMITATIONS ON THE REPORT

The projections or otherwise incorporated within this research report are projections only and may prove to be inaccurate. Accordingly, such market projections should be interpreted as an indicative assessment of potentialities only, as opposed to certainties.

Projections and forecasts are based on assumptions of variable factors, which, in turn, are extremely sensitive to changes in the market and economic contexts. For this reason, the figures mentioned in this report were not computed under any known or guaranteed conditions. Rather, these are projections and forecasts drawn from reliable sources of data and information and made in the best judgment and professional integrity of Colliers International. Notwithstanding this, Colliers International advises that it will not accept any responsibilities in the face of any claims that might result from any error, omission or recommendations, viewpoints, judgments and information provided.

We draw your attention to the fact that there will be a number of variables within acceptable market parameters that could be pertinent to this research and the projections adopted are representative of only one of these acceptable parameters.

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For and on behalf of **Colliers International (Hong Kong) Limited**

VINCENT CHEUNG
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