Independent Market Research

By Savills (Hong Kong) Limited

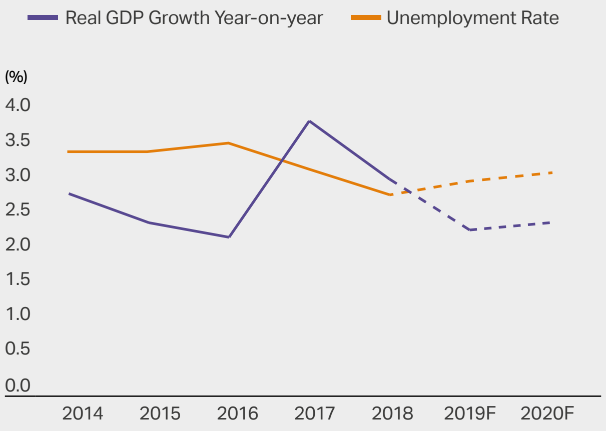
Hong Kong SAR[1]

Economy

- According to the Census and Statistics Department, Hong Kong SAR's GDP increased by 3.0% in 2018, easing from the 3.8% growth rate recorded in 2017.
- Exports grew moderately in 2018, but slowed sharply in the latter part of the year as Hong Kong SAR faced risks from the US-China trade dispute and softer global demand.
- Underpinned by a low unemployment rate of 2.8%, domestic demand was broadly resilient. However, growth in private consumption expenditure moderated in the second half of 2018 due to the market uncertainties and softer sentiment.

Outlook

- GDP growth is expected to be 2.3% in 2019, according to FocusEconomics.
- Supported by a low unemployment rate, domestic consumption is expected to grow by 2.9% in 2019.



Source: Census and Statistics Department and FocusEconomics

Hong Kong SAR Retail Market

Existing Shopping Mall Supply in Hong Kong SAR: 123M sq ft (End-2018)

↑ 1.4% Year-on-year

- At the end of 2018, shopping malls accounted for 123 million sq ft in terms of gross floor area ("GFA"). Around 39% is situated within the four core retail areas of Central, Tsim Sha Tsui, Mong Kok and Causeway Bay/Wanchai while about 17% is concentrated in three key decentralised retail areas, namely, Kowloon East[2], Sha Tin and Island East. Collectively, the main retail areas are referred to in this report as the "seven key retail districts". The remaining 44% comprises malls in other emerging areas on Hong Kong Island, in the New Territories and on Lantau Island.
- The top 10 malls in terms of GFA, of which Festival Walk is ranked 4th largest, made up 8.5% of total shopping mall space at the end of 2018.
- In 2018, a total of 1.35 million sq ft of shopping malls was completed, an increase of 25% over 2017. Approximately 44% was concentrated in the seven key retail districts and these include T.O.P. (114,000 sq ft) in Mong Kok.
- There were no new malls completed in Kowloon East in 2018.

● Tsim Sha Tsui / Mong Kok	34%	● Island East	11%
● Central	18%	● Kowloon East	11%
● Causeway Bay / Wan Chai	18%	● Sha Tin	8%

Source: Rating and Valuation Department, Savills Research and Consultancy

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[1] All data and figures on the retail market are from Savills Research & Consultancy and they relate to the seven retail districts as outlined on page 44, unless otherwise stated. Please refer to page 56 on the limitations of the report. All floor areas in this section are "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.

[2] MNACT's Hong Kong SAR retail property, Festival Walk, is located in Kowloon Tong, within the Kowloon East area. It has 980,089 sq ft (GFA) of retail space.

Potential Shopping Mall Supply : 4.0M sq ft

(Within the Seven Key Retail Districts)

From 2019F to 2023F in Total

- In 2019, new shopping malls (including the K11 MUSEA located in Tsim Sha Tsui) occupying a total of 1.0 million sq ft within the seven key retail districts is scheduled to be completed.
- From 2020 to 2023, an additional 3.0 million sq ft of new shopping mall space within the seven key retail districts is in the pipeline, 2.8 million sq ft of which will be located in Kowloon East. However, these malls are located away from Kowloon Tong and are not likely to impact Festival Walk's operations.
- Outside the seven key retail districts, another 1.3 million sq ft of shopping centre supply will be completed in 2019, 1.0 million sq ft of which is mostly located in the New Territories.

Vacancy Rate : 9.3% (End-2018)

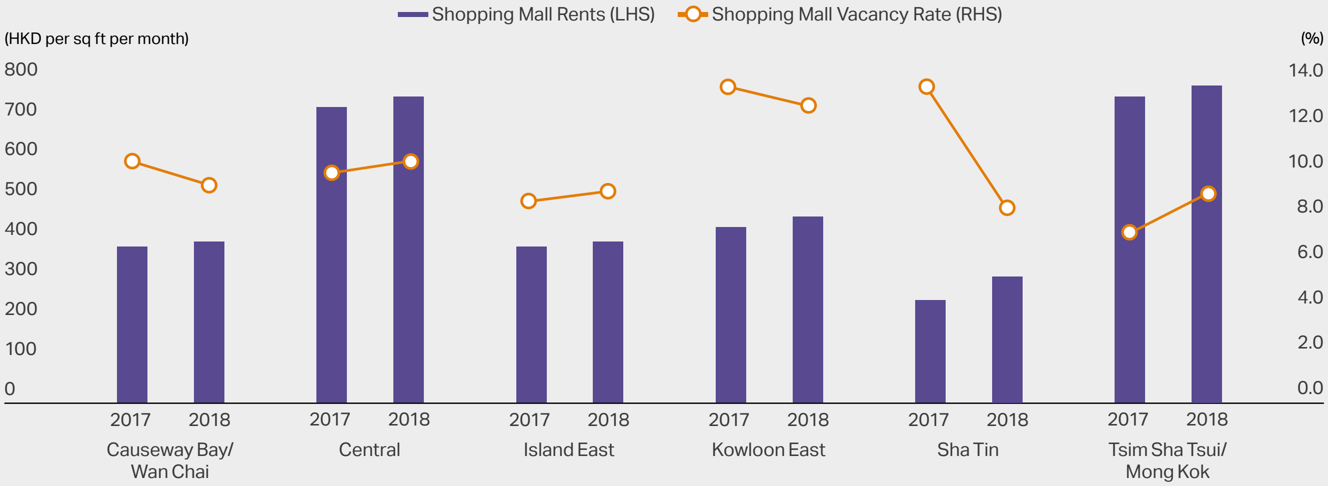
0.1 Percentage Points Year-on-year

- The average vacancy rate of shopping malls in the seven key retail districts increased from 9.2% at the end of 2017 to 9.3% at the end of 2018.
- Vacancy rate edged up mainly due to the increase in new supply in 2018.
- Kowloon East's vacancy rate was 12.5% in 2018, slightly lower than the 13.0% recorded in 2017, as more companies relocated their offices to the area, bringing additional demand for retail.
- Sha Tin's vacancy rate dropped to 7.9% in 2018 from 13.1% in 2017, given that there was no new supply in 2018 and 2016-2017's supply had been steadily absorbed.

Shopping Mall Rents : 1.6% Year-on-year

(Gross Effective Rate End-2018)

- Rents were driven by the rising number of tourist arrivals, a steady economy and stable domestic consumption expenditure.
- Rents for malls in Kowloon East grew 3.0% over 2018 supported by strong local consumption due to a healthy labour market and limited competition in the area.
- For 1Q 2019 compared to 4Q 2018, overall shopping mall rents in the seven key retail districts were lower, while rents in Kowloon East remained unchanged.



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Total Retail Sales : HKD485B (in 2018)

↑ 8.8% Year-on-year

- Retail sales rebounded significantly by 8.8% year-on-year to reach HKD485.2 billion in 2018.
- The numbers were underpinned by a rebound in Mainland visitor arrivals and higher local consumption.
- The fastest-growing categories by sales were *medicines and cosmetics*, which grew 14.3% year-on-year, and *jewellery, watches and clocks, and valuable gifts*, which increased 13.7% year-on-year. Sales in the *clothing and footwear* category registered a 6.7% increase in 2018 compared to 2017. *Food and beverage* sales receipts grew 4.7% while the supermarket category was up 1.2%.
- While retail sales growth returned in the first half of 2018, it moderated in the second half of 2018. Weak stock markets, a softer property market, uncertainties surrounding the US-China trade spat and a weak RMB clouded spending sentiment.
- For the first three months of 2019, Hong Kong SAR's retail sales saw a decline by 1.2% compared to the same quarter in 2018, reflecting the cautious consumption sentiment amid external uncertainties.

Tourist Arrivals : 65.1M (in 2018)

↑ 11.4% Year-on-year

- Tourist arrivals in Hong Kong SAR grew 11.4% to a record 65.1 million in 2018 led by a surge in Mainland Chinese visitor arrivals numbers, which increased by 14.8%.
- The opening of two major cross-border transport links, the Guangzhou-Shenzhen-Hong Kong SAR High Speed Rail Link in September 2018 and the Hong Kong SAR-Zhuhai-Macau Bridge in October 2018, made it more convenient for visitors to travel to Hong Kong SAR.
- The new cross-border day-trippers from China spent more on daily necessities such as *health care, F&B* and *cosmetics* against luxury items.

Source: Census and Statistics Department, Hong Kong Tourism Board

Online Retail Sales : HKD17.3B (in 2018)

Only 3.6% of Total Hong Kong SAR Retail Sales

- According to Euromonitor, online retail revenue rose 14.3% in 2018 compared to a year ago. However, online sales are still a long way from replacing physical stores as their share of total retail sales in Hong Kong SAR stood at only 3.6% in 2018.
- Nevertheless, amid the evolving retail landscape, shopping malls are increasingly marketing, selling and serving customers via multiple channels including physical stores, e-commerce, mobile applications and social media to provide a seamless shopping experience.
- There is also a growing adoption of AI-driven smart stores, robots and self-service checkouts by mall tenants and landlords.
- More retailers are harnessing customer data to better understand shoppers' preferences.

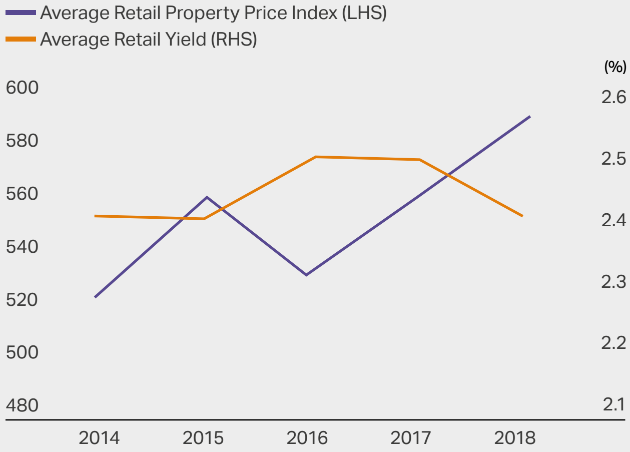
Average Retail Property Price (City-wide) : ↑ 5.9% Year-on-year (End-2018)

Average Retail Yield : 2.4% (End-2018)

(City-wide)

↓ 0.1 Percentage Points Year-on-year

- The recovery of retail sales supported the 5.9% growth in the average retail property price and the low average retail yield of 2.4% at the end of 2018.
- For 1Q 2019, the average retail yield reached 2.8% while the average retail property price remained unchanged compared to 4Q 2018.
- For 2019, the change in average retail property price is expected to range between -5% and +5% compared to 2018. The average retail yield is expected to remain compressed.



Other Retail Trends in Hong Kong SAR

Children's retailers are expected to continue to expand, as well as fitness centres, sportswear brands and other tenants promoting a healthy lifestyle.

Increasingly more shopping mall space will be allocated to F&B, along with the introduction of differentiated concepts and cuisines.

More stores are now putting more emphasis on experiential retail to offer a holistic retail experience, where shoppers can eat, shop and attend workshops all in one space.

Pop-up stores will remain popular as retailers test new products and gauge the market response.

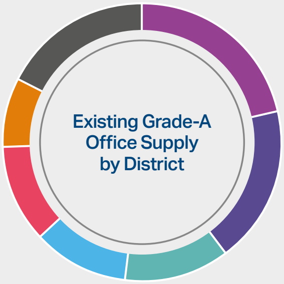
Outlook

- Amidst the cautious consumer sentiment and in the absence of a major stimulus, retail sales are expected to moderate to around 1.9% in 2019, followed by a slightly higher growth of 2.8% in 2020, according to the latest forecasts by FocusEconomics.
- Moving forward, a rebounding stock market, a possible resolution of the US-China trade conflict and a more dovish stance by the US Federal Reserve on interest rate hikes could improve consumer sentiment.
- Given the cautious sentiment of retailers, Savills has projected a single-digit increase in shopping mall rents over 2019.
- In addition, demand in Hong Kong SAR's retail market will shift more towards the mass market, in view of the changing profile and spending patterns of Mainland Chinese visitors.
- As the retail landscape grows and evolves, malls which continually differentiate themselves in terms of asset enhancements, marketing events and tenant mix are expected to command higher rents.

Hong Kong SAR's Office Market[1]

Existing Grade-A Office Supply : 83.7M sq ft (End-2018)
↑ 2.4% Year-on-year

- The office districts in Hong Kong SAR comprise core office areas (Central and fringe-CBD areas namely Tsim Sha Tsui and Causeway Bay/Wan Chai) as well as non-core office areas including Kowloon East[2], Island East and Western Corridor.
- A notable trend in recent years is the shift in tenant demand to non-core locations, supported by the significant rental differential between core and non-core areas.
- A total of 1.9 million sq ft net of new Grade-A office space was added in 2018, and this was all in non-core office areas.
- 795,000 million sq ft net or 40.3% of overall new office space in 2018 was completed in Kowloon East. New buildings include Mapletree Bay Point (528,000 sq ft net) and FTLife Tower (266,500 sq ft net).



Central	21%	Tsim Sha Tsui	11%
Kowloon East	18%	Island East	10%
Causeway Bay / Wan Chai	12%	Others	17%
Western Corridor	11%		

Source: Rating and Valuation Department, Savills Research and Consultancy

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[1] All data and figures on the office market are from Savills Research & Consultancy. Please refer to page 56 on the limitations of the report.
[2] MNACT's Hong Kong SAR property, Festival Walk, is located in Kowloon Tong, within the Kowloon East area. It has 228,665 sq ft (GFA) of office space.

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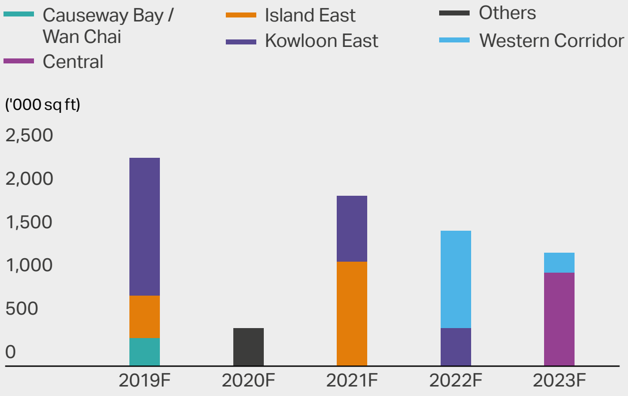
Potential Grade-A Office Supply : 7.2M sq ft Net

From 2019F to 2023F in Total

- Over the next five years, 83% of new supply will be in non-core office areas, in line with the decentralisation trend as occupiers relocate from the more expensive core office areas. About 2.8 million sq ft net will come on stream in Kowloon East.
- Kowloon East is expected to surpass Central, to account for 18% of total Grade-A office stock by 2022.
- This will inevitably create some short-term pressure on both occupancy and rental levels in Kowloon East, but in the long-run, the potential clustering of high-quality Grade A offices should strengthen the area as it emerges as the second CBD of Hong Kong SAR.
- In 2019, the two largest projects to be completed in the area are The Quayside (627,000 sq ft net) and NEO (424,000 sq ft net).



Source: Buildings Department, Savills Research & Consultancy

Vacancy Rate : 8.7% (City-wide End-2018)

↓ 0.9 Percentage Points Year-on-year

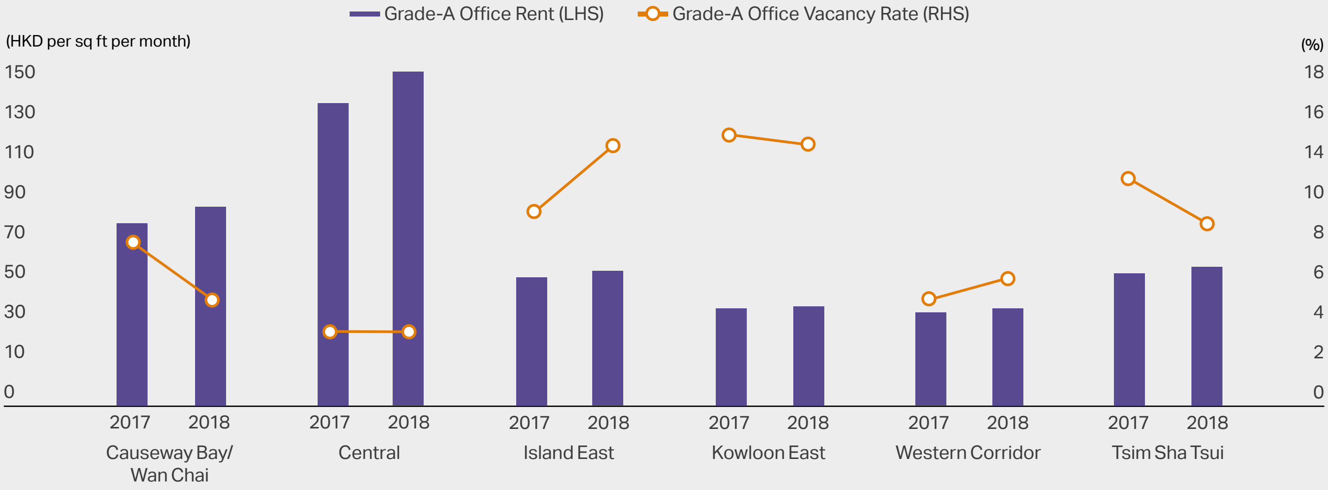
- The overall vacancy rate dipped to 8.7% compared to 9.6% at the end of 2017.
- Approximately 82% of the vacancy is in strata-titled stock held by investors.
- In the Kowloon East area, although there has been a large amount of new supply, the vacancy rate stabilised at 14.8% at the end of 2018, supported by strong take-up by co-working operators as well as the back offices of banks and insurance companies.

Grade-A Office Rents : HKD76.7 per sq ft per month (End-2018)

(Effective Rent Based on Net Floor Area)

↑ 7.8% Year-on-year

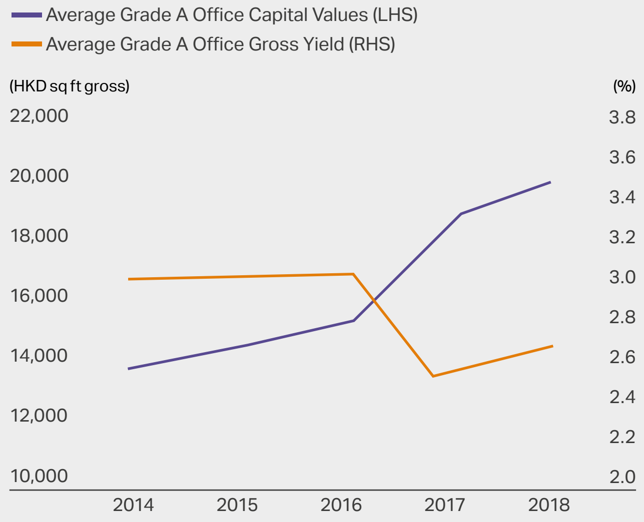
- Rents continued to rise in most districts as tenants searched for a falling number of decentralised alternatives.
- Take-up was underpinned by expansion demand by Mainland Chinese firms in Central and cost-saving relocation demand in decentralised areas.
- By sub-market, Kowloon East recorded the lowest annual rental growth, with rents increasing by 1.9% in 2018 to reach HKD35.5 per sq ft per month due to abundant new supply.
- Rents in core office areas posted faster growth than rents in non-core office areas due to a low vacancy rate environment in the core office areas.
- For 1Q 2019 compared to 4Q 2018, average Grade-A office rents grew 1.6%.



Average Grade-A Office Capital Value : **HKD20,272 per sq ft (End-2018)**
↑ 4.5% Year-on-year

Average Grade-A Office Gross Yield : **2.6% (End-2018)**
↑ 0.1 Percentage Points Year-on-year

- 2018 proved to be another strong year for Hong Kong SAR's office investment market as Mainland Chinese firms and local investors continued to push up capital values which were in turn supported by the limited availability of investment grade stock.
- However, in light of the financial volatility in the second half of 2018, the growth in average Grade-A capital value of office buildings moderated to 4.5%, down from the 26.2% growth achieved in 2017.
- The average Grade-A office gross yield also moved up marginally at the end of 2018 to 2.6% compared to 2.5% in 2017. Due to worries about the trade war between China and the US, and stock market adjustments, office prices were down in the second half of 2018. However, office rents remained on an upward trend as limited availability continued to support the market.
- In 1Q 2019, overall Grade-A office price increased by 0.1% quarter-on-quarter while the average Grade-A office yield rose to 2.6%.
- We expect the average office price to drop by 5% in 2019, and investment yields to stabilise with rising capital costs.



Net Take-up[1] : **2.52M sq ft (in 2018)**

- Overall leasing demand was strong in 2018 with net take-up of around 2.52 million sq ft.
- Net take-up was mainly driven by Mainland Chinese companies, technology firms, finance and professional services companies, as well as flexible workspace operators.
- Mainland Chinese corporates accounted for the majority of leasing demand in core office areas while co-working operators took up space in both core and non-core office locations.
- With office rents in core office areas, especially Central, at new highs, more multinationals and the back offices of banks and insurance companies moved to more affordable non-core locations such as Island East and Kowloon East.
- However, towards the second half of 2018, leasing activity softened due to tight capital controls in China, stock market volatility and the ongoing US-China trade conflict.

Key Office Trends

Co-working space providers and technology companies have continued to expand.

The co-working space providers are increasing their footprint outside Central. Over 80% of co-working space was situated in the fringe CBD and non-core areas at the end of 2018.

More new buildings are also adopting green features while some have been certified as green buildings.

Outlook

- Technology companies and flexible space providers will remain the major sources of demand in 2019, though it is uncertain if co-working demand is sustainable.
- Average Grade-A rents are expected to grow modestly in 2019 but a protracted trade war and/or a sustained stock market sell off could reverse the upward trend.
- Although the US-China trade war has not yet had a significant negative effect on the office leasing market, there could potentially be negative knock-on effects into the broader economy in 2019.
- In the mid to long term, Hong Kong SAR's office sector is well-positioned for growth with the development of the Greater Bay Area as well as other potential cross-border investment programmes between Hong Kong SAR and Mainland financial markets.

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[1] Net take-up is the change in total occupied space in 2018 compared to 2017.

Independent Market Research

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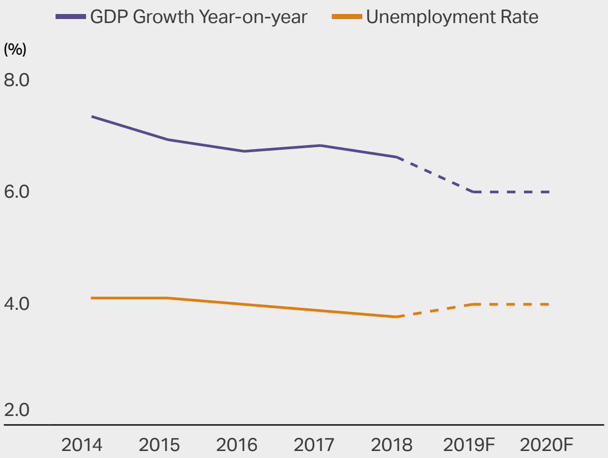
China[1]

Economy

- China's GDP growth[2] cooled slightly to 6.6% in 2018 from a year earlier, weighed down by weaker investment and exports, and lower consumer confidence as a result of US-China trade tensions, leaving 2018 growth the weakest in 28 years.
- Utilised foreign direct investment[2] ("FDI") into China increased by 3% year-on-year to US$142 billion in 2018, marking a slowdown from a growth rate of 7.9 percent in 2017.
- While the unemployment rate[2] remained low at 3.8% at the end of 2018, concerns have been growing since late 2018 regarding the impact of the trade war on jobs and incomes, thus affecting personal spending.

Outlook

- According to FocusEconomics, China's economic growth is expected to moderate to 6.0% in 2019 and 2020.
- However, the impact could be somewhat mitigated by positive progress from the US-China trade talks and the government's provision of more stimulus measures.



Source: GDP and Unemployment Rate figures from 2014 to 2018 are from the National Bureau of Statistics. Forecast figures from 2019 to 2020 are from FocusEconomics.

Beijing Office Market

Existing Grade-A Office Supply : 11.0M sq m (End-2018)

↑ 2.6% Year-on-year

- Beijing's Grade A office stock can be divided into nine major submarkets, namely three prime districts – Central Business District ("CBD"), Beijing Financial Street ("BFS") and Zhongguancun ("ZGC"), as well as six non-prime locations comprising Lufthansa[3], CBD Vicinity, East 2nd Ring, East Chang'an Avenue, Wangjing and Asian-Games Village ("AGV"). Emerging districts such as Lize and others currently host minimal levels of stock.
- Nine projects amounting to approximately 520,000 square metres ("sq m") of office space were completed in 2018, of which 68% was developed for self-use.
- About 47% of the new supply was concentrated in Wangjing which has remained a favoured leasing choice, particularly for tenants with large space requirements (of above 2,000 sq m). Meanwhile, the remainder was distributed across non-traditional business precincts such as Sanyuanqiao (12.5%), Andingmen (8.8%), Chongwenmen (10.6%) and Caishikou (21%).
- There were no new buildings in the CBD area during 2018 as developers continued to face delays including having to meet new height restrictions imposed by the government as well as a lack of power supply in the area.
- Lufthansa area saw no new supply during the year.

○ CBD	20%	○ East Chang'an Ave	5%
○ BFS	18%	○ East 2nd Ring	5%
○ CBD Vicinity	12%	○ AGV	4%
○ Wangjing	10%	○ Lize	3%
○ ZGC	10%	○ Others	6%
○ Lufthansa	7%		

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1 All data and figures on the office market are from Savills Research & Consultancy and they relate to the ten office submarkets (including Lize) as outlined on page 50, unless otherwise stated. Please refer to page 56 on the limitations of the report.

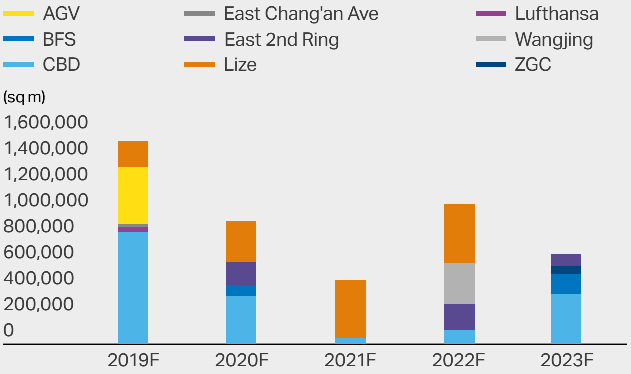
2 National Bureau of Statistics.

3 MNACT has one office property – Gateway Plaza – in Lufthansa, Beijing. It has a GFA of 106,456 sq m.

Potential Grade-A Office Supply : 4.4M sq m

From 2019F to 2023F in Total

- With the delayed 2018 CBD projects coming on stream, 2019 is expected to see a record high of about 1.5 million sq m of new supply.
- 36% of the future five-year supply will be concentrated in the CBD, namely the CBD Core Plot Area.
- Lize Financial Business District, an emerging master-planned financial hub located in the south of the city, will account for 31% of the new supply.
- New supply in Lufthansa over the next five years is limited, with only one 48,500 sq m office project to be completed in 2019.



Vacancy Rate : 7.0% (City-wide End-2018)

↓ 0.6 Percentage Points Year-on-year

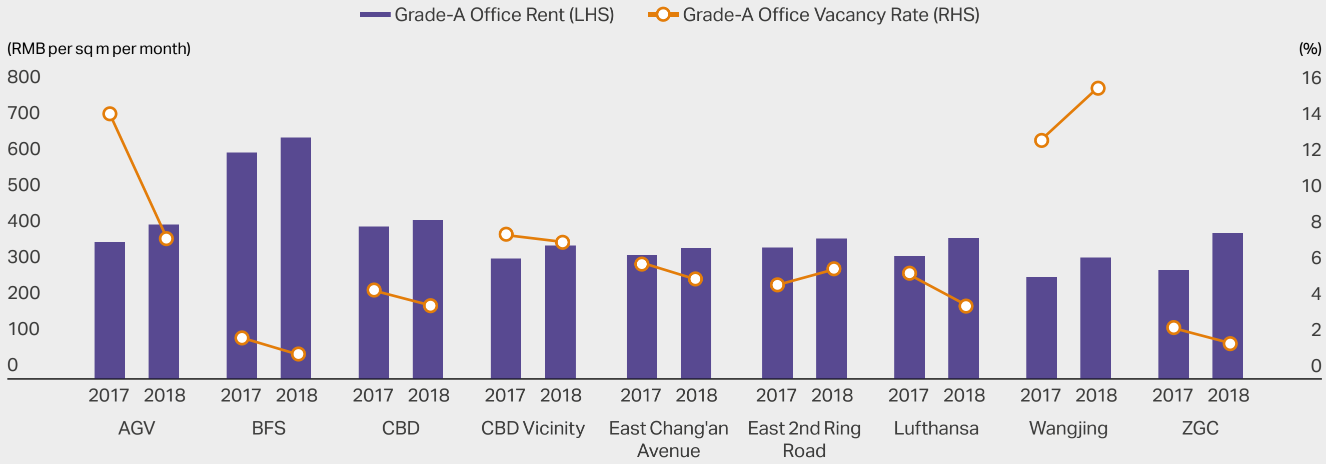
- The city-wide vacancy rate edged down by 0.6 percentage points at the end of 2018 to 7.0% compared to a year ago.
- This is due to the higher take-up from mainly technology firms and to a lesser extent, finance companies, coupled with limited new supply.
- The two technology and financial hubs – Zhongguancun and Financial Street – maintained their low vacancy rates of 1.5% and 1.3% respectively.
- The vacancy rate in the Lufthansa submarket also held steady at 3.6% in 2018. While not a traditional precinct for technology and financial companies, in recent years, the burgeoning tertiary sector has seen these two sectors emerge as the main drivers of tenant demand in the Lufthansa area which is well-known for its cluster of embassies, multi-national corporations ("MNCs") and international hotels.
- At the end of 1Q 2019, the average vacancy rate inched slightly lower to 6.9%.

Average Grade-A Office Rent : RMB369 per sq m per month

(Net Effective Rate End-2018)

↑ 10.9% Year-on-year

- Robust demand from the technology and services sector, supported by limited new supply in the city, led to the 10.9% year-on-year growth in the average Grade-A office rent to RMB369 per sq m per month at the end of 2018.
- Lufthansa's average rents also grew in tandem by 11.0% to RMB352 per sq m per month.
- At the end of 1Q 2019, overall average Grade-A office rents were slightly lower by 0.3% quarter-on-quarter to RMB368 per sq m per month. Lufthansa's average Grade-A office rent was 0.3% lower quarter-on-quarter at RMB351 per sq m per month.



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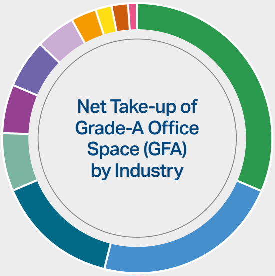
Net Take-up[1] : 541,000 sq m (in 2018)

- Domestic enterprises were the main driver behind the net-take up of 541,000 sq m in 2018.
- By comparison, MNCs were cautious in terms of their leasing needs due to the protracted trade spat and moderating economy.
- The *information technology ("IT") & high-tech* sector took the top spot in terms of net take-up and accounted for 31.6% of all lease transactions in 2018. This is in line with Beijing's innovation-driven strategy to further develop the city's R&D and manufacturing expertise across a range of high-tech industries.
- Affected by tighter regulation, the *financial* sector, which was the top sector in terms of net take-up of space in 2017, saw slower leasing demand in 2018, accounting for 22.6% in terms of net take-up.



IT & High-tech	31%	Manufacturing	5%
Finance	22%	Bio/Medicine	3%
Professional Service	15%	Real estate	2%
Culture & Media	7%	Fast-moving Consumer Goods	2%
Energy/Chemistry	6%	Conglomerates	1%
Co-working space	6%		

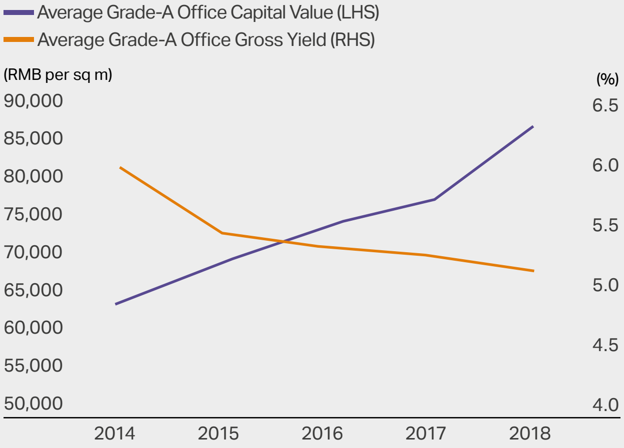
Average Grade-A Office Capital Value : RMB87,476 per sq m (End-2018)

↑ 13.6% Year-on-year

Average Grade-A Office Gross Yield[2] : 5.1% (End-2018)

↓ 0.2 Percentage Points Year-on-year

- While concerns about a trade war have pulled China's stock markets down by approximately 20% and the Renminbi has weakened during the year, these headwinds have not dampened investment appetite for office properties in Beijing. As a result, the overall Grade-A average office gross yield tightened by 0.2 percentage points to 5.1% at the end of 2018.
- The average Grade-A office capital value increased by 13.6% year-on-year at the end of 2018 to RMB87,476 per sq m as a result of limited investable office opportunities.
- At the end of 1Q 2019, the average capital value of Grade-A offices was slightly lower by 0.1% at RMB87,390 per sq m while the average Grade-A office gross yield remained at 5.1%.



Key Office Trends

While Beijing saw rapid growth in the co-working sector in the first half of 2018, some local co-working operators started to scale back their expansion plans. In addition, landlords have adopted a more cautious approach in terms of leasing office space to co-working operators.

As the digital economy rapidly develops in the future, leasing demand from related companies is expected to continue to rise.

Landlords who can provide better service differentiation and property management are preferred.

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1 Net take-up is the change in total occupied space in 2018 compared to 2017.

2 The computation of gross yields is based on the average of actual rental values (assuming full occupancy) as a percentage of gross property values. The computation of capital values is based on the unweighted average of capital values of selected market transactions.

Outlook

- The technology and finance sectors are expected to remain the major demand drivers.
- Cost sensitivity among multinationals will continue to drive decentralisation in markets with high CBD rental costs such as Beijing.
- A slowdown in economic growth and uncertainty surrounding the trade dispute with the US may see a softening of leasing demand, which might cause rental growth to moderate in 2019.
- By the end of 2019, city-wide vacancy is expected to increase to 11.1%.
- Policies to relax foreign investment restrictions to accelerate the opening up of certain sectors coupled with a potentially positive outcome from the US-China dispute may boost office demand in the city.
- Despite a city-wide supply peak coming onstream in 2019, landlords of projects in precincts with limited supply pipelines such as Lufthansa are likely to see resilient rents.
- In the longer term, office submarkets with limited supply pipelines will benefit from the new urban planning policy[1] which restricts future supply of commercial assets. Vacancy is expected to slowly decline in Lufthansa, while the average rent will continue to edge up.

Shanghai Business Park Market[2]

Existing Grade-A Office Supply : 10.6M sq m (End-2018)

⬆ 5.4% Year-on-year

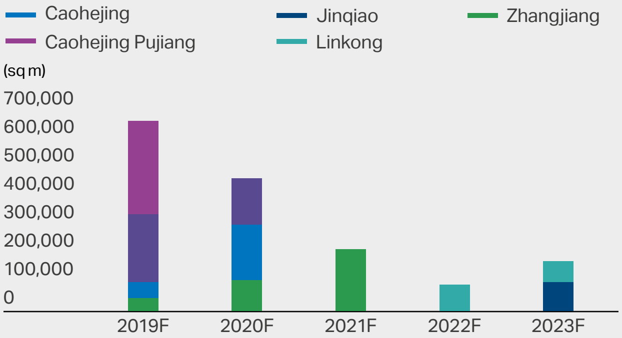
- The six key business parks in Shanghai are Zhangjiang Hi-tech Park[3] ("Zhangjiang"), Caohejing, Jinqiao, Linkong, Caohejing Pujiang and Lujiazui Software Park. They had a total of about 10.6 million sq m (GFA) of Grade-A office stock at the end of 2018.
- Zhangjiang, Caohejing, Jinqiao and Lujiazui business parks are more mature, providing better connectivity and a wider range of amenities, while Linkong and Caohejing Pujiang have less developed infrastructure and facilities.
- In 2018, these six business parks received 540,300 sq m of new Grade-A office supply, with over 60% located in the three largest business parks, namely Zhangjiang, Caohejing and Jinqiao.
- In Zhangjiang, two new projects, Sandhill Central and Zhangrun Building, totalling 106,800 sq m by GFA were completed during the year.

Zhangjiang	26%	Linkong	12%
Caohejing	24%	Caohejing Pujiang	10%
Jinqiao	21%	Lujiazui Software Park	7%

Potential Grade-A Office Supply : Around 1.5M sq m

From 2019F to 2023F in Total

- Total Grade-A stock is estimated to reach about 12.1 million sq m (GFA) by the end of 2023.
- A majority of the future supply will be located in Jinqiao (31%), Caohejing Pujiang (23%) and Zhangjiang (22%).
- Within Zhangjiang, new completions for the next five years are concentrated in the central zone. The north zone, where Sandhill Plaza is located, is more established and has good transport connectivity.
- For 2019, the central zone of Zhangjiang is expected to see only one new project, Haiqu Park Phase 2 (48,000 sq m), come on stream.



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[1] Based on the new urban planning policy announced in September 2018, the development of new commercial facilities of over 10,000 sq m is largely forbidden within the central area of Beijing (within the North, East and West Fifth Ring Road and South Fourth Ring Road).

[2] All data and figures are from Savills Research & Consultancy and they relate to the six business parks as outlined on page 53, unless otherwise stated. Please refer to page 56 on the limitations of the report.

[3] MNACT has one property – Sandhill Plaza – in Zhangjiang, Shanghai. It is located within the north zone of Zhangjiang Hi-tech Park and has a GFA of 83,801 sq m.

Independent Market Research

By Savills (Hong Kong) Limited

Vacancy Rate : **10.1% (End-2018)**

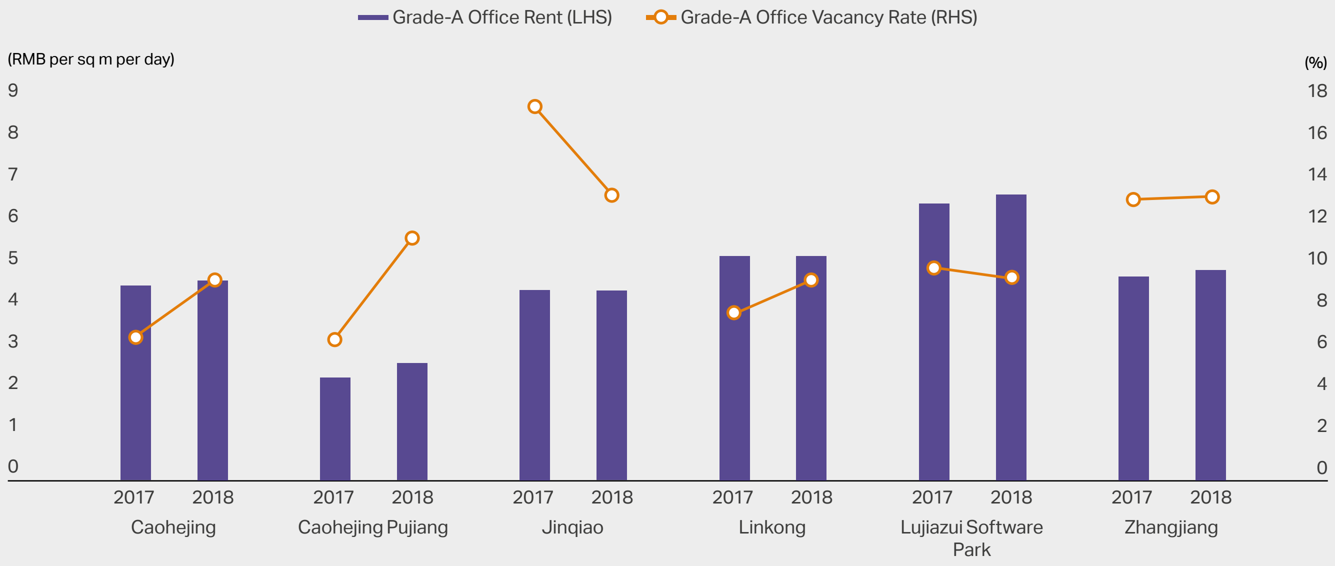
↓ 0.2 Percentage Points Year-on-year

- Healthy net take up of the 497,100 sq m of business park space in 2018 led to a slight improvement in overall vacancy by 0.2 percentage points to 10.1% at the end of 2018, despite the influx of new supply.
- Vacancy rates differ across the six business parks. Among the three largest business parks, the vacancy rate in Zhangjiang and Caohejing rose by 0.1 percentage points and 2.4 percentage points to 12.9% and 9.1% respectively at the end of 2018 while the vacancy rate in Jinqiao declined by 3.4 percentage points to 13.6% at the end of 2018.
- Comparing the end of 1Q 2019 to the end of 4Q 2018, overall vacancy rate in the six business parks increased 0.5 percentage points to 10.6%.

Average Grade-A Office Rent **: RMB4.8 per sq m per day (End-2018)**

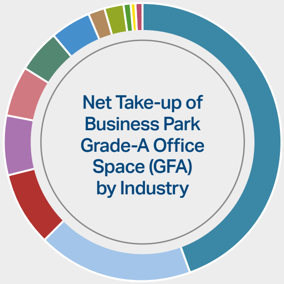
↑ 0.6% Year-on-year

- Average Grade-A office rent in the six business parks ranged between RMB2.3 and RMB6.8 per sq m per day, maintaining a sizeable rental discount compared to Shanghai's CBD office markets with an average office rent of RMB9.0 per sq m per day.
- In general, healthy leasing demand was seen in most of the business parks in 2018, resulting in the modest pick-up in average Grade-A rents of 0.6% compared to a year ago. However, the new supply and the subdued economic outlook limited the pace of rental growth.
- For Zhangjiang, rents edged up 0.9% year-on-year at the end of 2018 to RMB4.8 per sq m per day. Zhangjiang remained attractive due to its improving connectivity and better quality developments.
- Lujiazui Software Park was a notable exception. Its 6.3% increase in rental growth was mainly attributable to its close proximity to Pudong's financial district and limited new supply.
- Comparing the end of 1Q 2019 to the end of 4Q 2018, the average rent for the six business parks remained stable at RMB4.8 per sq m per day.



Net take-up[1] : 500,000 sq m (in 2018)

- Of the net take-up of approximately 500,000 sq m in 2018, domestic companies accounted for over 70% of leasing transactions, with the remainder from multinational corporates.
- There was more demand from domestic companies as some foreign companies were more cautious with relocations and expansions in light of the ongoing trade tensions.
- About 45% of net take-up in 2018 was from the *information technology (IT)* companies, in line with the country's macro-economic transition to higher value-added sectors.
- Key demand also came from the *retail & trade, healthcare and manufacturing* sectors. There was also increased take-up of space from the *co-working* sector.



○ Information Technology	45%	○ Finance	5%
○ Retail and Trade	18%	○ Commercial and Professional Services	1%
○ Healthcare	9%	○ Transportation	1%
○ Manufacturing	7%	○ Consumer Services	1%
○ Media and Entertainment	6%	○ Real Estate	1%
○ Business Centres and Co-working Spaces	5%	○ Energy and Raw Materials	1%

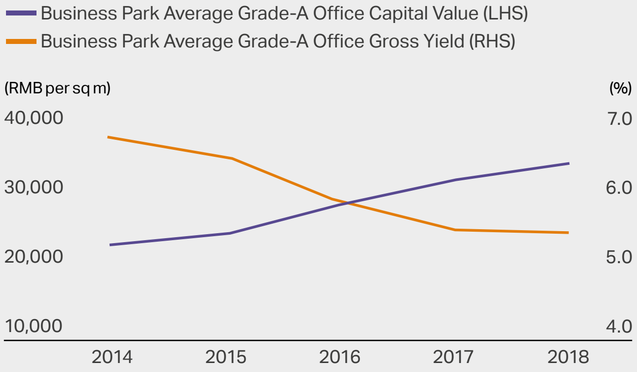
Average Grade-A Office Capital Value : RMB31,900 per sq m (End-2018)

↑ 2.4% Year-on-year

Average Grade-A Office Gross Yield : 5.4% (End-2018)

↓ 0.1 Percentage Points Year-on-year

- Investment activity in the business park market increased in 2018, accounting for as much as 25% of Shanghai's total office transaction volume compared to 13% a year ago.
- Compared to the end of 2017, the average Grade-A office capital value increased by approximately 2.4% to an average of RMB31,900 per sq m at the end of 2018 while the average Grade-A gross yield[2] compressed by 10 basis points to 5.4% at the end of 2018.
- There was strong investment appetite from both domestic and foreign investors, who took advantage of the wider yield spread offered by the business park sector compared to the low average Grade-A office yield of 4.6% in the CBD area.
- At the end of 1Q 2019, both average gross yield and average capital value per sq m held steady compared to the end of 4Q 2018, given the more subdued business outlook and macro-economic environment.



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[1] Net take-up is the change in total occupied space in 2018 compared to 2017.

[2] Based on assumed 100% occupancy rates.

Independent Market Research

By Savills (Hong Kong) Limited

Key Business Park Trends

Demand from IT (including the semi-conductor industry), co-working, manufacturing, as well as healthcare (including the bio-medical industry) sectors is expected to continue as these tenants are attracted to the expanding infrastructure and Zhangjiang's transformation into a global innovation and technology hub ("Science City").

In addition, there are increasingly more amenities such as hospitals, schools and rental apartments in the business park submarkets.

New developments, redevelopments and renovations are also raising the quality of building stock in the six business parks.

Outlook

- Healthy leasing demand, especially from the domestic IT, semiconductor and bio-medical sectors, is expected to mitigate the impact of rising supply, thus supporting a steady average vacancy of around 11% to 12%. The increase in average rents is expected to remain modest at between 2% to 3% in 2019.
- New leasing opportunities may emerge for some foreign companies as China gradually removes barriers to entry to certain industries such as the financial and automobile industries for foreign players. However, companies in the manufacturing and trading sectors which are vulnerable to higher tariffs arising from the ongoing trade tensions are expected to become more cautious with their relocation and expansion plans.
- Business park transactions are expected to remain active as the asset class offers higher yields compared to prime office assets in the central business district of Shanghai.
- The newly expanded Metro Line 13 and plans to further improve the transport connectivity to the city area are expected to attract more companies to business parks, in line with Zhangjiang's vision to be a global innovation and technology hub.

LIMITATIONS ON THE REPORT

This report contains forward-looking statements which state Savills (Hong Kong) Limited's (the Consultant) beliefs, expectations, forecasts or predictions for the future. The Consultant stresses that all such forecasts and statements, other than statements of historical fact, outlined in this report should be regarded as an indicative assessment of possibilities rather than absolute certainties. The process of making forecasts involves assumptions about a considerable number of variables which are very sensitive to changing conditions. Variations of any one may significantly affect outcomes and the Consultant draws your attention to this.

The Consultant therefore can give no assurance that the forecasts outlined in this report will be achieved or that such forecasts and forward-looking statements will prove to have been correct and you are cautioned not to place undue reliance on such statements. The Consultant undertakes no obligation to publicly update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise, except as required by law, and all forward-looking statements contained in this summary report are qualified by reference to this cautionary statement.

The report is prepared by the Consultant for information only. While reasonable care has been exercised in preparing the report, it is subject to change and these particulars do not constitute, nor constitute part of, an offer or contract. Interested parties should not rely on the statements or representations of fact but must satisfy themselves by inspection or otherwise as to the accuracy. No representation, warranty or covenant, express or implied, is given and no undertaking as to accuracy, reasonableness or completeness of the information contained in this report. In producing this report, the Consultant has relied upon external third-party information and on statistical models to generate the forward-looking statements. It should be noted, and it is expressly stated, that there is no independent verification of any of the external third-party documents or information referred to herein. This report is limited to the matters stated in it and no opinion is implied or may be inferred beyond the matters expressly stated herein.

Simon Smith
Senior Director
Head of Research & Consultancy, Asia Pacific

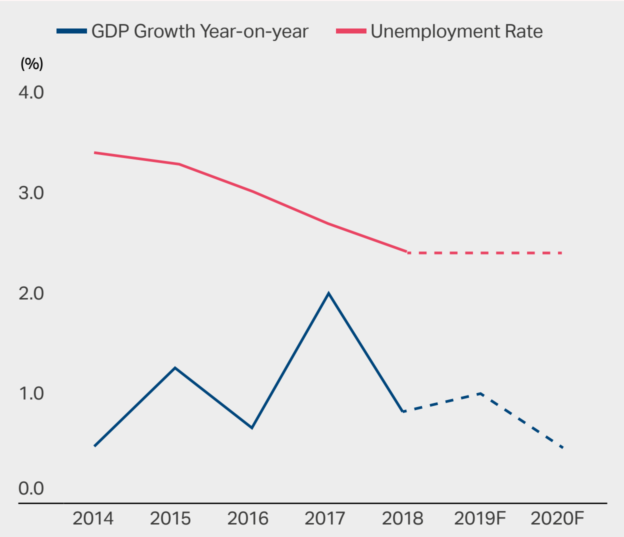
Japan[1]

Economy

- Based on preliminary estimates from the Cabinet Office of Japan, Japan's GDP grew by 0.8% year-on-year in 2018, marking its seventh consecutive year of increase.
- The growth was underpinned by improvements in private capital investments, increased household consumption and higher tourist spending. The job market also remained tight with a low unemployment rate at below 3% at the end of 2018.
- However, compared to 2017's GDP growth of 1.9%, GDP growth in 2018 was lower as Japan was temporarily affected by natural disasters in the third quarter of 2018.

Outlook

- According to International Monetary Fund, Japan's GDP is expected to grow by 1.0% in 2019 before moderating to 0.5% in 2020.
- Trade agreements to bolster exports, tax rebates and public spending leading up to the 2020 Tokyo Olympics are expected to contribute positively to GDP growth.
- The Bank of Japan's policy decision in April 2019 to continue to keep short term and long term interest rates low is also expected to sustain growth.
- Key risks include the impact of protracted trade tensions and the consumption tax hike to be effective October 2019.



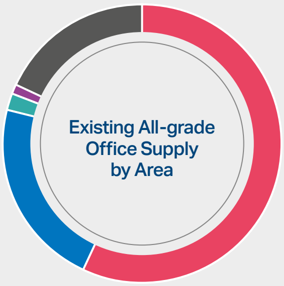
Source: GDP figures from 2014 to 2018 are from Cabinet Office of Japan, while the forecasts from 2019 to 2020 are from International Monetary Fund. Unemployment figures from 2014 to 2018 are year-end figures from Ministry of Internal Affairs and Communications while the forecasts from 2019 to 2020 are from Oxford Economics.

Greater Tokyo Office Market

Existing All-Grade Office Supply: **23.0M tsubo[2] (End-2018)**

↑ 1.3% Year-on-year

- The office market of the Greater Tokyo Area comprises the Tokyo Metropolis (including the 23 wards of Tokyo)[3], Chiba Prefecture, Kanagawa Prefecture (including Yokohama City) and Saitama Prefecture.
- As of end 2018, 57% of the office stock by net lettable area is concentrated in the central five wards in Tokyo (Chiyoda, Chuo, Minato, Shinjuku and Shibuya), with another 22% in the outer 18 wards in Tokyo, and the remaining in the other prefectures.
- Approximately 0.3 million tsubo of office space were added in 2018, an increase of 1.3% over the total office supply end-2017, to meet tenant demand for newer buildings especially in the central five wards.
- Of the new supply in 2018, about 80% were in the central five wards. These include large-scale buildings[4] such as Otemachi Place East/West Towers in Chiyoda ward and Nihonbashi Takashimaya Mitsui Building in Chuo ward.
- There were no new large-scale buildings in 2018, which are in close proximity to MNACT's Japan Properties.



○ Central Five Wards	57%	○ Chiba/Funabashi	1%
○ Outer 18 Wards	22%	○ Others	18%
○ Yokohama	2%		

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1 All data and figures on the office market are from Cushman & Wakefield unless otherwise stated. Please refer to page 60 on the limitations of the report.

2 1 tsubo = 3.30579 square metres.

3 Three of MNACT's Japan Properties are located in the outer 18 wards of Tokyo and they comprise IXINAL Monzen-nakacho Building (in Koto ward), Higashi-nihonbashi 1-chome Building (in Chuo ward) and TS Ikebukuro Building (in Toshima ward). The other three properties comprise SII Makuhari Building and Fujitsu Makuhari Building (both in Chiba) and ABAS Shin-Yokohama Building (in Yokohama).

4 Large-scale offices are defined as buildings with net lettable area of more than 6,000 tsubo.

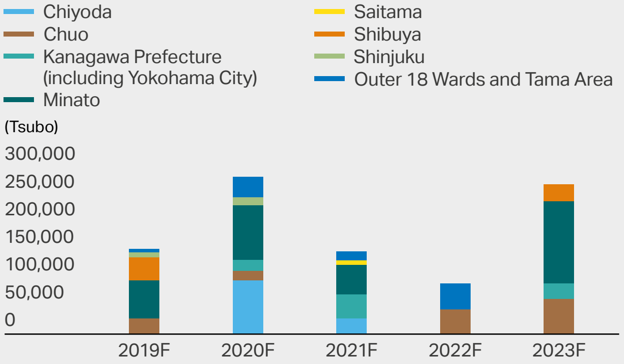
Independent Market Research

By Cushman & Wakefield K.K.

Potential Office Supply in Greater Tokyo : 826,653 tsubo

From 2019F to 2023F in Total

- The majority of the upcoming office supply in the next few years will be in the central five wards, while only 12.3% of large-scale office supply will be added to the outer 18 wards and Tama area in Tokyo in Tokyo. New large-scale office supply in the Yokohama area over the next five years will be limited, accounting for around 48,061 tsubo or about 5.8% of the total supply.
- While new buildings to be completed in 2019 have achieved high commitments, new supply in 2020 and beyond may exert downward pressure on rents.
- No new large-scale office supply has been planned for the Makuhari, Chiba area from 2019 to 2023.



All-Grade Vacancy Rate : 1.3%

(Tokyo 23 Wards as of End-2018)

↓ 0.9 Percentage Points Year-on-year

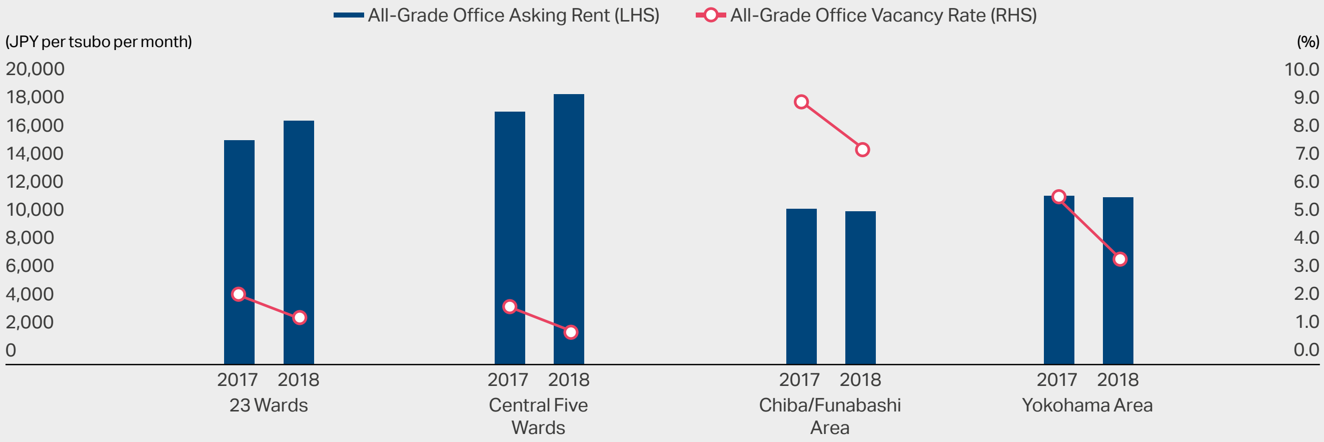
- Vacancy rate of the Tokyo office market remained tight at 1.3% as of end-2018 despite the influx of new supply.
- For the central five wards, the record low vacancy of 1.0% was due to strong pre-leasing commitments from technology and professional services companies as well as robust demand from co-working operators.
- The other 18 wards also saw lower vacancy rates as of end-2018 compared to as of end-2017 as they attracted a deep, diverse pool of tenants due to the spillover demand from the central five wards, in addition to strong pre-leasing commitments from technology and professional services companies.
- For Yokohama, vacancy rate dipped to 3.2% due to new demand from co-working operators and expansion demand from Japanese multinational corporates.
- Expansion demand from existing tenants in Chiba also led to the improvement in vacancy rate to 7.2% as of end-2018.

All-Grade Asking Office Rents : JPY16,338 per tsubo per month

(Tokyo 23 Wards as of End-2018)

↑ 5.0% Year-on-year

- The tight vacancy in 2018 led to the moderate growth in asking office rents of 5.0% as of end-2018 compared to as of end-2017 for the 23 wards.
- In the Yokohama and Chiba areas, asking rents held relatively steady as of end-2018, as landlords were more conservative in terms of rental expectations in order to lease vacant space.
- Comparing 1Q 2019 to 4Q 2018, asking rents in the central five wards, 23 wards, Yokohama Area and Chiba Area grew 0.8%, 1.7%, 5.4% and 1.3%, respectively due to the tight vacancy, improved leasing sentiments and stronger macroeconomic conditions.



Source: Sanko Estate

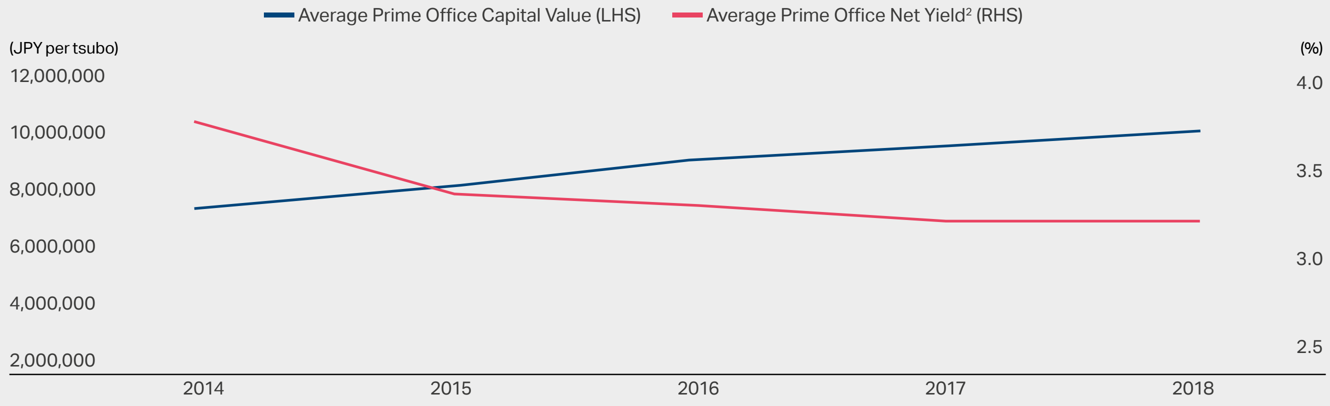
Net Take-up[1] : **420,000 tsubo in 2018**
(For the Greater Tokyo Area)

- During the year, net take-up for office space was positive with 420,000 tsubo recorded in 2018 compared to 365,000 tsubo in 2017.
- Comparing 2018 to 2017, tenants in the *information technology, flexible working and professional services* sectors were the major demand drivers.
- Demand was also driven by tenants who upgraded their offices to improve their working environment. Other companies expanded their space as a result of consolidation to convenient locations in the Greater Tokyo area.

Average Prime Office Capital Value : **JPY10,218,786 per tsubo (End-2018)**
(Central Five Wards)
↑ 4.6% Year-on-year

Average Prime Office Cap Rate : **3.2% (End-2018)**
(Central Five Wards)
Remained the Same Year-on-year

- In light of increased rents and improving macroeconomic fundamentals in Japan, the average capital value of Grade-A office buildings in the central five wards recorded a 4.6% increase to JPY10,218,786 per tsubo as of end-2018 as compared to end-2017.
- The average prime office cap rate for the central five wards remained compressed at 3.2% as of end-2018. As such, more investors seeking higher yields have expanded to locations outside the central five wards, bringing down the average prime rates at areas such as Yokohama and Chiba to 3.9% and 4.5% as of end-2018 respectively.
- As office assets in Tokyo offer a wider yield spread over 10-year bonds at 3.5 to 4.0 percentage points as compared to other key Asian cities, investment transactions are expected to remain robust in 2019.
- With continued demand from investors into 2019, capital value and capitalisation rate are expected to remain at the current levels compared to 2018.



Key Office Trends

- Strong demand from co-working space providers and technology companies.
- Several domestic landlords are starting their own co-working service products.
- More employers are placing priority to providing a positive working environment for their employees.
- Increasing preference for buildings with amenities such as childcare facilities to attract the female workforce.

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[1] Net take-up is the change in total occupied space in 2018 compared to 2017.

[2] Net yields (cap rate) are derived from the percentage of stabilised net income to market price of indicative transactions. Capital values are valuation based, taking into consideration the weighted average of actual market rent, expense ratio and the above market net yields.

Independent Market Research

By Cushman & Wakefield K.K.

Outlook

- The positive trend in the Greater Tokyo office market should persist in 2019.
- Vacancy rate is expected to remain tight in 2019, especially for the areas outside of the central five wards where incoming supply is limited.
- Strong demand is expected from tenants for lower grade and more affordable buildings, typically with monthly rents of below JPY30,000 per tsubo.
- However, economic uncertainty stemming from the on-going trade tensions could weigh on business sentiment. Based on Bank of Japan's March 2019 business sentiment survey ('Tankan'), large enterprises have already shown signs of a weakening outlook in their profits.
- This may result in tenants having more bargaining power over landlords, leading to a moderation in rents in coming years although rents in 2019 is still likely to show a slight increase.

LIMITATIONS ON THE REPORT

Cushman & Wakefield K.K. (C&W) prepared this market report with data from the Government of Japan, reliable research institutions and C&W proprietary databases. C&W does not perform any independent verification for data or information provided by external third-party and does not warrant its accuracy or completeness.

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C&W does emphasise that the estimation of future market conditions and outlook should be regarded as an indicative assessment of possibilities rather than absolute certainties. Our Directors confirm that, as of the 30 April 2019, to their best knowledge after taking reasonable care, there is no material adverse change in the market information since the date of this report which may qualify, contradict or have an impact on the information disclosed.

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Hideaki Suzuki

Hideaki Suzuki
Director
Head of Research & Consulting, Japan