INDEPENDENT MARKET RESEARCH
BY SAVILLS (HONG KONG) LIMITED

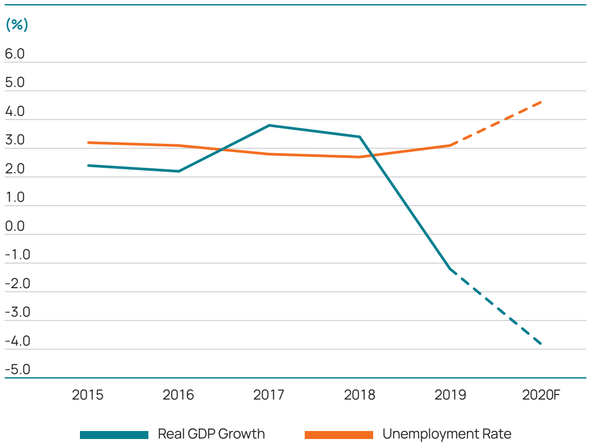
Hong Kong SAR[1]

ECONOMY

- Hong Kong SAR entered into a technical recession in 2019, with GDP[2] falling by 1.2% from the year before. This marks its first full-year negative growth since 2009 as the economy has been overshadowed by weaker global economic growth, protracted US-China trade tensions, and the social unrest which started in June 2019.
- In tandem with a lacklustre global trade outlook, exports of goods fell by 4.1% in 2019. Private consumption expenditure in 2019 also posted a decline by 1.1% due to softer consumer sentiment.
- The unemployment rate rose to 3.1% in December 2019, from 2.7% in December 2018. In particular, the retail, accommodation and food services sectors were the hardest hit and recorded an increase in unemployment from 3.6% in December 2018 to 5.2% in December 2019.

OUTLOOK

- COVID-19 and the ongoing unrest are expected to hamper any economic recovery in Hong Kong SAR. According to FocusEconomics, GDP growth in 2020 is expected to remain negative for a second year at -3.8%.
- Should the outbreak be prolonged, the unemployment rate is expected to increase to 4.6%, leading to a drop in private consumption of 3.5% in 2020.



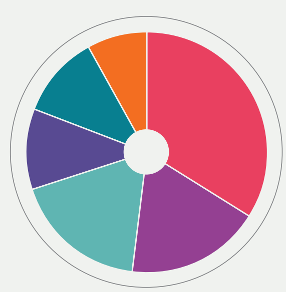
Source: Census and Statistics Department and FocusEconomics

HONG KONG SAR RETAIL MARKET

Existing Shopping Mall Stock in Hong Kong SAR
(Within the Seven Key Retail Districts)

165m sq ft (End-2019)[3] ↑**0.8%** Year-on-year ("YoY")

- Shopping mall stock totalled 165 million sq ft in terms of gross floor area ("GFA") at the end of 2019, of which 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[4], 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.
- At the end of 2019, the top 10 malls accounted for 8.5% of total shopping mall space in terms of GFA. Festival Walk was ranked 5th largest.
- In 2019, a total of 2.34 million sq ft of new shopping mall space was added. Of the new shopping mall space, 61% was situated within the seven key retail districts, among which is K11 MUSEA (1 million sq ft) in Tsim Sha Tsui.



Shopping Mall GFA in the Seven Key Retail Districts, End-2019

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

[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 46, unless otherwise stated. Please refer to page 58 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] Census and Statistics Department, Hong Kong SAR.

[3] In MNACT's FY18/19 Annual Report, the existing shopping mall stock in Hong Kong SAR of 123 million sq ft as of end 2018 was in terms of net area as defined by the Rating and Valuation Department. In terms of GFA, the shopping mall stock in Hong Kong SAR as of end 2018 was approximately 164 million sq ft.

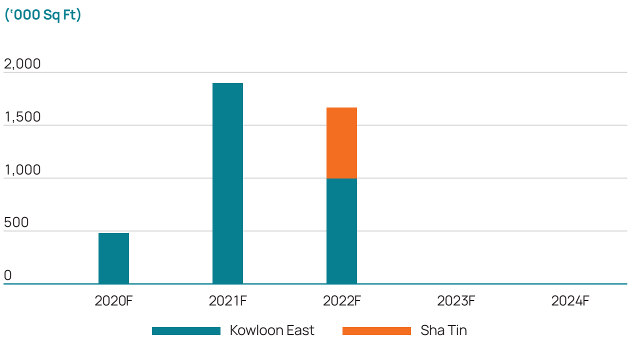
[4] MNACT's Hong Kong SAR retail property, Festival Walk, is located in Kowloon Tong, within the Kowloon East area. It has 980,089 sq ft (GFA) of retail space.

Upcoming Shopping Mall Supply

(Within the Seven Key Retail Districts)

4.0m sq ft From 2020F to 2024F in Total

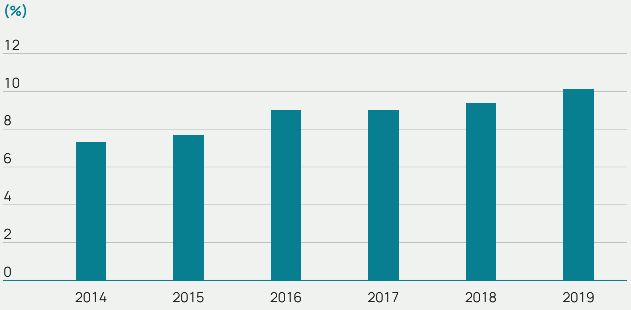
- Within the seven key retail districts, new retail supply in 2020 remains limited and only a 480,000 sq ft shopping mall (THE LOHAS located in Kowloon East) is expected to be completed in 2020. Outside the seven key retail districts, another 220,000 sq ft of shopping centre space is slated to come onstream in the New Territories and Kowloon West.
- From 2021 to 2024, there will likely be new shopping mall supply of 3.5 million sq ft situated in the seven key retail districts, 2.8 million sq ft of which will be located in Kowloon East. Most of these new shopping malls are located in Kai Tak and Kwun Tong, which are some distance away from Kowloon Tong where Festival Walk is located.



Vacancy Rate[1]

10.1% (End-2019) ↑0.7 Percentage Points YoY

- As months of social unrest and COVID-19 deterred tourists and local shoppers, some retailers have closed stores in order to consolidate their operations. The overall vacancy rate stood at 10.1% at the end of 2019, higher compared to the 9.4% recorded at the end of 2018.
- Kowloon East's vacancy was less affected by the social unrest, compared to traditional tourist areas, such as Central, Causeway, Mong Kok and Tsim Sha Tsui, where protests took place with greater frequency. Neighborhood retail demand was another driver supporting Kowloon East which performed better in terms of vacancy than the traditional tourist areas against a background of social unrest and COVID-19.

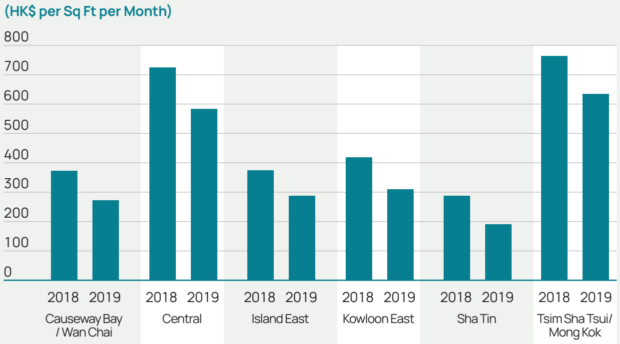


Source: Rating and Valuation Department, Savills Research and Consultancy

Shopping Mall Rents[2]

-25.9% YoY (Gross Effective Rate End-2019)

- Most shopping malls in Hong Kong SAR were affected by business disruptions during the months of social unrest, with incidents frequently occurring inside the malls especially during weekends. Some malls shortened their business hours.
- With the outbreak of COVID-19 from January 2020, consumers have been avoiding public places and switching to online shopping.
- In the face of tougher operating conditions, retail landlords have been offering assistance to tenants through rental rebates and/or lease restructuring.
- As a result, shopping mall rents have fallen across all the seven key retail districts. Rents dropped sharply by 25.9% at the end of 2019, the steepest fall in the markets' recent history.
- Comparing 1Q 2020 to 4Q 2019, overall shopping mall rents in the seven key retail districts tapered by 16.5%, with Kowloon East recording a 18.2% decline.
- In the year ahead, landlords are likely to continue giving rebates as the retail market in Hong Kong SAR is expected to face continued headwinds from COVID-19.



[1] Refers to average vacancy rate of private retail commercial properties (including shopping malls, street shops and retail podiums in core and suburban locations) by Rating and Valuation Department.

[2] Savills Shopping Centre Rental Index by Savills Research and Consultancy.

INDEPENDENT MARKET RESEARCH

BY SAVILLS (HONG KONG) LIMITED

Total Retail Sales

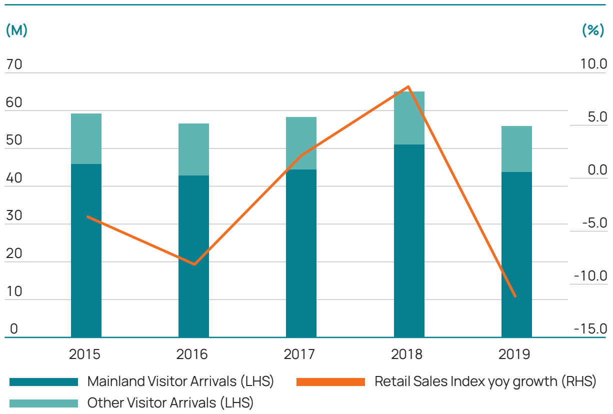
HK$431b (in 2019) ↓**11.1%** YoY

- Faced with many months of social unrest, inbound tourism and local consumption continued to weaken and retail sales in Hong Kong SAR declined by 11.1% to HK$431 billion in 2019.
- The last quarter of 2019 was the hardest hit as retail sales fell significantly by 22.4% compared to the same quarter a year ago, the largest quarterly fall in recent history. Retail sales fell across most of the trade categories during the quarter. The *jewellery, watches and clocks, and valuable gifts* saw the largest decline of 40.7% while, conversely, *supermarket and fuels* were the most resilient with lower sales of 0.05% and higher sales of 9.4% respectively. With the decline in cross-border day-trippers from China, retail sales by value of *medicines and cosmetics* also fell by 32.0%.
- In the first three months of 2020, retail sales in Hong Kong SAR posted a further decline of 35.0% compared to a year ago, exacerbated by COVID-19.

Tourist Arrivals

55.9m (in 2019) ↓**14.2%** YoY

- In 2019, tourist arrivals in Hong Kong SAR declined by 14.2% to 55.9 million and Mainland Chinese visitor arrivals numbers recorded a steep fall of 14.2% to 43.8 million. At the end of December 2019, more than 40 countries had issued travel warnings against visiting Hong Kong SAR in light of the social unrests.
- The fourth quarter of 2019 also saw another steep decline in visitors since the SARS outbreak in 2003 with total tourist arrivals declining by 50.5% and Mainland Chinese visitor arrivals declining by 52.5%.
- For the first quarter of 2020, with the travel curtailments due to COVID-19, tourist arrivals continued to fall, registering a huge drop of 80.9% compared to a year ago.



Source: Census and Statistics Department, Hong Kong Tourism Board and Savills Research & Consultancy

Online Retail Sales

HK$24.4b (in 2019) **5.6%** of Total Hong Kong SAR Retail Sales

- Since June 2019, with the various protests which have been taking place on the streets and in shopping malls, consumers have increased online shopping and food delivery transactions.
- Due to COVID-19, consumers are also expanding their purchases to include daily necessities and medical products such as masks and sanitizers.
- According to Euromonitor, online retail sales by value rose by 13.3% in 2019 compared to 2018, accounting for 5.6% of Hong Kong SAR's total retail sales value.

Leasing Demand

- Leasing demand remains subdued, with activity largely focused on renewals and short-term leases. Many retailers have also postponed renewal and new lease negotiations. Further closures and consolidations are expected in 2020.
- Supermarkets and other non-discretionary trades are faring relatively better, as consumers focus more on procuring necessities than discretionary items.
- Some retailers, especially restaurants, temporarily reduced their opening hours, laid off staff or were forced to close stores due to COVID-19.

Other Retail Trends

- Augmenting omni-channel offerings may prove useful for retailers to increase their connectivity with consumers, especially so in the current climate where consumers are limiting visits to physical stores.
- Pop-up stores will continue to drive leasing activity as retailers limit overheads and capital expenditure.
- Shop requirements for space are expected to become smaller with more landlords subdividing larger premises to minimise vacancy risk.
- The lower rental costs might also attract new brands to enter the Hong Kong SAR retail market, which has traditionally been one of the most expensive globally.
- 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.

Average Private Retail Price[1]

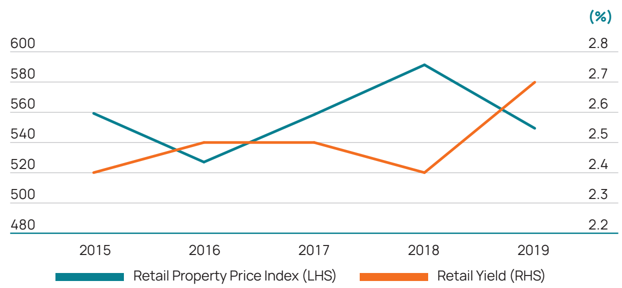
(City-Wide) (End-2019) ↓7.1% YoY

Average Private Retail Yield[2]

(City-Wide)

2.7% (End-2019) ↑0.3 Percentage Points YoY

- The challenging retail environment in 2019 negatively impacted investment activity, resulting in a 7.1% fall YoY in the average private retail price.
- Along with a 3.7% drop in the average private retail rents compared to 2018, the average private retail yield decompressed to 2.7% at the end of 2019, compared to 2.4% at the end of 2018.
- Based on available data by the Rating and Valuation Department, sentiments improved towards year-end following peaceful district elections in November 2019. Accordingly, the average private retail price in January 2020 rose slightly by 1.5% compared to December 2019 and the average private retail yield stood at 2.7%. In February 2020, the average private retail price dropped modestly by 1.0% while the average private retail yield rose to 2.8% from 2.7% compared to December 2019 due to the COVID-19 outbreak which soured investment sentiment. We expect investment sentiment to deteriorate further in March 2020 as the World Health Organization had declared COVID-19 as a pandemic on 11 March 2020.
- Growing uncertainties will continue to curb investment activity in the coming year until there is more certainty surrounding the pandemic and its containment. However, limited investable stock will mean that downward pressure on retail yields and property prices will be kept within a narrow range.



Outlook on Hong Kong SAR Retail Market

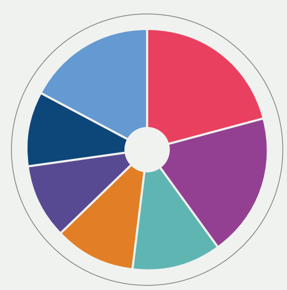
- COVID-19, lingering issues surrounding the social unrest (which remain unresolved) and a weaker economic outlook point to another tough year for the Hong Kong SAR retail market. Lower consumption taxes in China, a weaker Renminbi, and more competition for Mainland Chinese tourists from other destinations are expected to further add to retail woes.
- Consumer and retailer confidence are expected to be more sluggish. Coupled with an absence of major positive stimulus, retail sales are projected to decline further by 4.9% in 2020, according to the latest forecast by FocusEconomics.
- The average vacancy rate is expected to rise in the first half of 2020. Improving occupancy will remain a priority for landlords as they lower expectations and possibly cut rents or continue with short-term rental rebates. For 2020, Savills has projected a double-digit decline in shopping mall rents over 2019.
- Retail properties serving local residential populations and near MTR transport nodes, however, tend to perform better in general.
- On 15 March 2020, the US Federal Reserve Board decided to lower the target range for the federal funds rate to between 0 and 1/4 percent. Low interest rates will prove supportive for retail investment activities.

HONG KONG SAR OFFICE MARKET[3]

Existing Grade-A Office Supply

86.3m sq ft (End-2019) ↑3.1% YoY

- The office submarkets in Hong Kong SAR are divided into core office areas (including Central, Tsim Sha Tsui and Causeway Bay/Wanchai) and non-core office areas which include Island East, Kowloon East and Kowloon West.
- In 2019, a total of 2.6 million sq ft net of Grade-A office space was completed, adding 3.1% to total Grade-A office stock. With the exception of One Hennessy (246,000 sq ft net) in Wanchai, a majority of the new supply is in non-core office areas. Of the new supply in the non-core office areas, three new buildings in Kowloon East, namely, NEO (403,000 sq ft net), Capital Tower (380,000 sq ft net) and The Quayside (666,500 sq ft net), accounted for 55.6% or 1.45 million sq ft net of the overall new office space in 2019.



Total Grade-A Office GFA by District, End-2019

Central	21%	Island East	10%
Kowloon East	19%	Kowloon West	10%
Causeway Bay/ Wan Chai	12%	Others	17%
Tsim Sha Tsui	11%		

Source: Rating and Valuation Department, Savills Research and Consultancy

[1] Average private retail price indices (including shopping malls, street shops and retail podiums in core and suburban locations) are provided by the Rating and Valuation Department.

[2] Private retail market yields (including shopping malls, street shops and retail podiums in core and suburban locations) are provided by the Rating and Valuation Department. Changes in the yields are subject to changes in private retail prices and rental indices by the Rating and Valuation Department.

[3] All data and figures on the office market are from Savills Research & Consultancy. Please refer to page 58 on the limitations of the report.

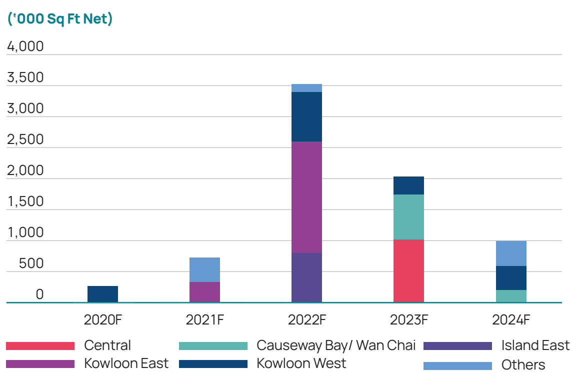
INDEPENDENT MARKET RESEARCH

BY SAVILLS (HONG KONG) LIMITED

Potential Grade-A Office Supply

7.5m sq ft net From 2020F to 2024F in Total

- In 2020, supply will be limited to only one 250,000 sq ft net project in Tsuen Wan, the Yeung Uk Road project.
- Over the next four years, approximately 7.5 million sq ft net of new Grade-A office stock is expected to come onstream, of which 74% will be located in non-core office areas. Specifically, in Kowloon, there are nine new projects equivalent to approximately 3.9 million sq ft net. In addition, the development atop West Kowloon Terminus, which will amount to over 2.0 million sq ft net in total, is estimated to be completed in phases from 2024 to 2028. The abundant upcoming supply is expected to create pressure on both occupancy and rental levels in non-core areas.
- In Central, there will be no major new projects until 2023, with the expected completion of the Murray Road Carpark Redevelopment (360,000 sq ft net), Hutchison House Redevelopment (395,000 sq ft net) and Peel Street/Graham Street Project (Site C) (256,000 sq ft net). The limited supply coming onstream in Central prior to 2023 is expected to support both occupancy and rental levels in that area over the short-term.



Source: Buildings Department, Savills Research and Consultancy

Net Take-up[1]

2.12m sq ft (in 2019)

- Net take-up in 2019 was lower at 2.12 million sq ft, compared to the 2.52 million sq ft recorded in 2018.
- The lower take-up was mainly due to the lack of leasing activities from Mainland Chinese companies and co-working operators.
- There was also weaker demand from tenants in the tourism, trading and retail-related sectors who were adversely affected to a large extent by the social unrest from June 2019 and COVID-19 in early 2020.
- While the rental difference between Central and decentralised areas may be attractive to some tenants considering relocation, capital expenditure involving a substantial cash outlay on fit-out became an overriding concern in 2019 in view of the uncertain economic environment.

Vacancy Rate

9.0% (City-wide End-2019) ↑0.3 Percentage Points

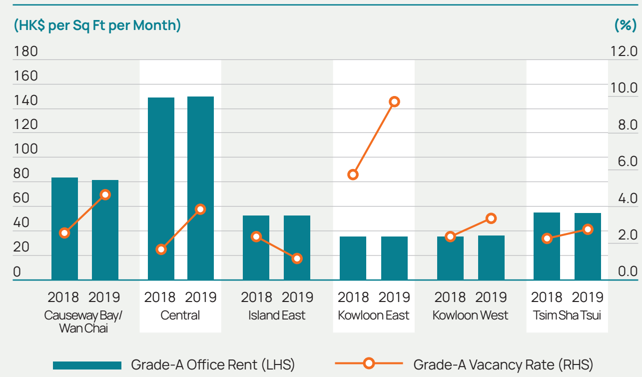
- The overall vacancy rate edged up to 9.0% at the end of 2019, compared to 8.7% at the end of 2018, as leasing demand from Mainland Chinese companies tapered in view of the US-China trade war and local social unrest, in addition to co-working space providers surrendering space during the year.
- For Kowloon East, the vacancy rate was higher at 9.7% mainly due to availability from new buildings (amounting to about 1.5 million sq ft net in 2019), and landlords were reluctant to cut rents significantly to fill vacancy quickly given their holding power.

Grade-A Office Rents

(Effective Rent Based on Net Floor Area)

HK$76.5 per sq ft per month (End-2019) ↓0.1% YoY

- Average Grade-A office rents dropped marginally by 0.1% in 2019, as rents increased in the first half of the year and started falling only from the third quarter of the year.
- The key drivers of leasing demand over the past few years have been Mainland Chinese firms and co-working operators. However, having been negatively impacted by the US-China trade tensions, the social unrest and the ongoing consolidation in the co-working sector, demand from these two tenant groups faded especially in the second half of the year.
- By submarket, Causeway Bay/Wanchai, which is considered a hub for co-working operators, posted the largest decline in rents of 2.6% in 2019, followed by Tsim Sha Tsui (-0.3%). Grade-A office rents in Kowloon East and Central recorded slight increments of 0.5% and 0.8% in 2019, due to strong rental growth achieved over the first half of 2019, partially offset by the decline in the second half of the year.



[1] Net take-up is the change in total occupied space in 2019 compared to 2018.

Key Office Trends

- Despite the volatile environment, Hong Kong SAR remains a favorite regional headquarters location for multinational corporations who consider the city to be a gateway to the China market. As such, there have not yet been indications of major companies or investors withdrawing from the city.
- As far as Mainland Chinese firms are concerned, they are expected to remain committed to China given the active IPO market.
- The Hong Kong Monetary Authority issued eight virtual banking licenses in 2019, opening opportunities for fintech companies to the banking industry. These could fuel the next wave of demand for office space.

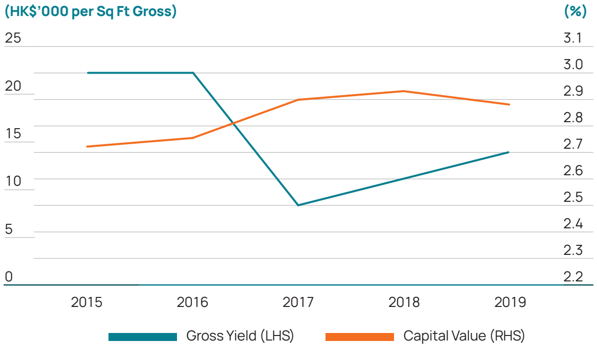
Grade-A Office Capital Values

HK$18,909 per sq ft (End-2019) ↓6.7% YoY

Average Grade-A Office Gross Yield

2.7% (End-2019) ↑0.1 Percentage Points YoY

- In 2019, Hong Kong SAR's office investment market slowed down considerably compared to a year earlier, with transaction volumes declining by 35% YoY. Grade-A office capital values also saw a drop of 6.7% in 2019 YoY compared to an increase of 4.5% YoY in 2018.
- The decline in investment activity and prices were a combined result of economic uncertainty and weakening occupier demand which resulted in falling rents across the core office areas, except for Central.
- Cap rates edged up to 2.7% at the end of 2019 from the 2.6% achieved at the end of 2018, as the trade tensions and the social unrest undermined both the office investment and leasing markets, especially during the second half of 2019.



Source: Savills Research and Consultancy

Outlook on Hong Kong SAR Office Market

- While the office sector has been relatively less affected by the social unrest and COVID-19 compared to the retail and hospitality sectors, the outlook for 2020 is expected to remain volatile and uncertain. Real estate decisions will be delayed while near-term demand will remain muted, until the outbreak is contained. Vacant space will take longer to occupy. As a result, the average vacancy rate is expected to rise.
- The average Grade-A office rent for the overall market in 2020 is projected to fall by around 20%, considering COVID-19's negative impact on various business sectors.
- In 2020, office prices are expected to fall by 10% to 15%, in line with our forecast for office rents as the weakened outlook, continuing social unrest and COVID-19 are likely to curb investment activity. Cap rates are also expected to retreat to a range of 2.75% to 3.00%.
- We observe there have been companies postponing their Hong Kong IPOs due to the coronavirus outbreak, which has resulted in a sell-off in the local stock market. This will affect the rental affordability of the financial and professional services sectors concentrated in Central.
- Since the retail and hospitality sectors have been heavily hit by COVID-19, their rental affordability has been affected. These tenant types will likely cut costs by laying off staff and downsizing which will have a negative impact on rental levels and vacancy in non-core areas where their offices are concentrated in.
- COVID-19 has caused widespread disruption to production and trading activity globally. With so much uncertainty, the solvency of the corporate sector is expected to come under severe pressure. This will negatively affect rental affordability and demand for office space.
- The economic fallout of COVID-19 has made tenants more cautious in their decision-making concerning real estate requirements. This could well lead to an increase in the number of surrender cases.
- Although the first phase of a trade deal between the US and China was signed in mid-January 2020, negotiations for a second phase may prove more difficult and will add to uncertainties.
- In the long run, however, Hong Kong SAR remains attractive to investors due to its strategic position in the Greater Bay Area.
- Ongoing infrastructure works are expected to further improve linkages between Hong Kong SAR and Mainland China, attracting more corporates from other cities within the Greater Bay Area to take up office space in Hong Kong SAR.
- Fintech, which includes Virtual Banking and Insurtech, will continue to grow at a fast pace and become a more important demand driver.

INDEPENDENT MARKET RESEARCH
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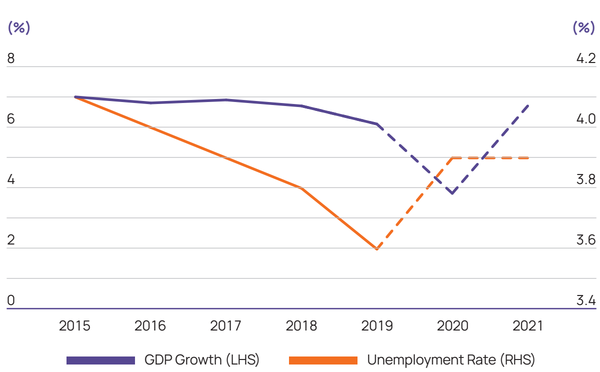
China

ECONOMY

- China's GDP growth[1] reached 6.1% in 2019, the slowest pace in 29 years, as weaker exports, investment and consumer spending weighed on the economy, and were compounded by the ongoing financial de-risking campaign.
- Despite the challenges, efforts by the government including the number of support measures have helped shore up the key indicators. The registered urban unemployment rate remained low at 3.6% by the end of 2019. Utilised foreign direct investment[1] into China only decreased by 0.1% YoY to US$138.1 billion in 2019, down from a growth rate of 1.5% in 2018.

OUTLOOK

- According to FocusEconomics, China's economic growth is expected to moderate to 3.8% in 2020 and 6.7% in 2021. As the eventual scale and duration of COVID-19 spread remains unclear, economic forecasts are being constantly revised. Consumption is likely to be hardest hit in the short term given the strict containment measures while the disruption to supply chains and weaker business sentiment will also weigh on investment and exports respectively.



Source: GDP and Registered Urban Unemployment Rate figures from 2015 to 2019 are from the National Bureau of Statistics. Forecast figures from 2020 to 2021 are from FocusEconomics (Based on March 2020 estimates).

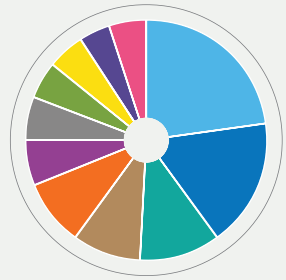
Beijing

BEIJING OFFICE MARKET[2]

Existing Grade-A Office Supply

12.4m sq m (End-2019) ↑12.7% YoY

- Beijing's Grade-A office stock can be divided into nine major submarkets, namely three prime markets – Central Business District ("CBD"), Beijing Financial Street ("BFS") and Zhongguancun ("ZGC"), as well as six sub-prime locations comprising Lufthansa[3], CBD Vicinity, East 2nd Ring, East Chang'an Avenue, Wangjing and Asia-Olympic. Emerging markets such as Lize currently have limited stock but will see more supply launched starting 2020.
- 11 projects were completed and handed over in 2019, bringing approximately 1.4 million sq m to Beijing's office market, a record high since 2008. This was mainly because some of the delayed 2018 CBD projects were added during 2019.
- Around 48% of the new supply in 2019 was concentrated in CBD, including several large projects such as CITIC Tower (known as China Zun), CP Centre and China Life Financial Centre. The remainder were primarily distributed across Asia-Olympic (24%), Lize (21%), BFS (4%) and East Chang'an Avenue (3%).
- ZGC, CBD Vicinity, East 2nd Ring, Lufthansa and Wangjing saw no new additions in 2019.



Beijing Grade-A Office Supply by Submarket as of End-2019[4]

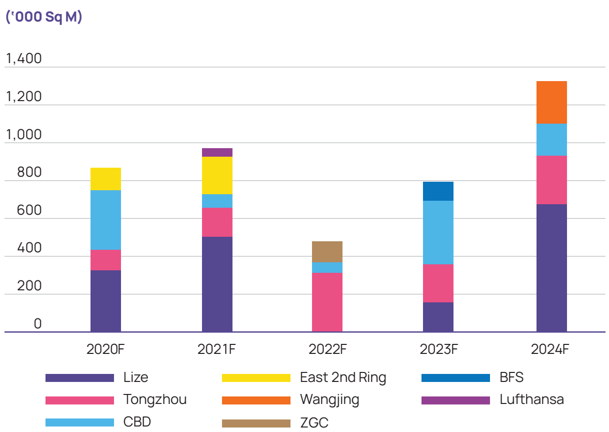
CBD	23%	Wangjing	9%	Lize	5%
BFS	17%	Lufthansa	6%	East 2nd Ring	4%
CBD Vicinity	11%	Asia-Olympic	6%	Others	5%
ZGC	9%	East Chang'an Ave	5%		

[1] National Bureau of Statistics.
[2] All data and figures on the office market are from Savills Research & Consultancy and they relate to the nine office submarkets as outlined on page 52, unless otherwise stated. Please refer to page 58 on the limitations of the report.
[3] MNACT has one office property – Gateway Plaza – in Lufthansa, Beijing. It has a GFA of 106,456 sq m.
[4] This pie chart includes new and existing office supply stock.

Potential Grade-A Office Supply

4.4m sq m from 2020F to 2024F in total

- New supply totalling 869,164 sq m is anticipated to complete and handover in 2020, increasing the competition for tenants. However, the ongoing COVID-19 concerns and delayed resumption of constructions may postpone some of the completion dates.
- The majority of the new supply in 2020 will concentrate in the CBD core area (36%) and Lize Financial Business District (37%). Lufthansa has no projects scheduled for handover in the foreseeable future, except for one project that is currently completed though provisionally placed in 2021 supply.
- Future international Grade-A buildings in the CBD core area in 2020 include Samsung Tower and Taikang Insurance Project, while East 2nd Ring Road will welcome one office project, namely Zhaotai International Centre.
- Another 3.6 million sq m of new supply is expected to complete during 2021-2024, with about 63% in emerging areas such as Lize and Tongzhou, another 18% in CBD and the remaining 19% in other areas.



Vacancy Rate

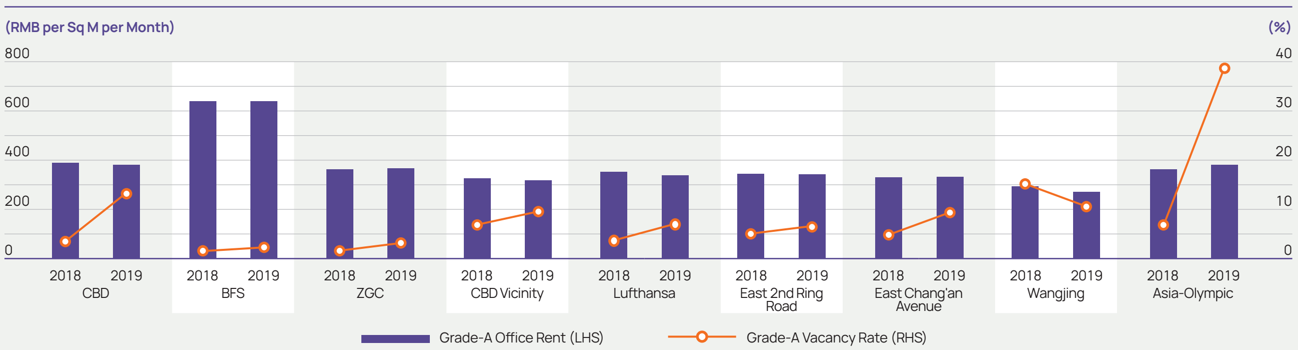
12.7% (City-wide End-2019) ↑5.7 Percentage Points YoY

- As the significant new supply in 2019 saw lower commitment rates, this pushed up the citywide Grade-A office vacancy rate to 12.7%, up 5.7 percentage points YoY. Downsizing activity, as a result of the soft economy, also weighed on occupancy rates.
- The two technology and financial hubs – ZGC and BFS, which were less affected by the trade tensions, maintained their low vacancy rates, ending the year at 3.0% and 2.1%, respectively.
- CBD's vacancy rate, in view of the new supply, rose from 3.4% at the end of 2018 to 13.2% at the end of 2019.
- The Lufthansa submarket saw its vacancy rate increase from 3.6% to 6.9% YoY. Some tenants relocated to newer buildings in other submarkets, though on the whole, Lufthansa remains one of the more resilient submarkets in the city. The government takeover of HNA Group has also encouraged some tenants to move out of HNA Plaza, which is located in the area, to seek alternative arrangements with more stable landlords.
- With COVID-19, site inspections and leasing enquiries were temporarily suspended during 1Q 2020. As a result, Grade-A office vacancy rate increased by 0.5 percentage points quarter-on-quarter ("QoQ") and 6.0 percentage points YoY to 13.2%.

Grade-A Office Rents

RMB364.9 per sq m per month (Net Effective Rate End-2019) ↓1.6% YoY (Rental Index)

- Landlords adjusted leasing strategies as they sought to balance occupancy and rents in view of the realities of the market. The Grade-A office rental index fell 1.6%, bringing rents to an average of RMB364.9 per sq m per month at the end of 2019.
- For Lufthansa, the Grade-A office rental index fell 3.5%, bringing rents to an average of RMB336.8 per sq m per month by the end of 2019.
- Less affected by the macro-economic environment, the Grade-A office rental index of BFS and ZGC recorded a growth in 2019 of 1.8% and 3.2% respectively. Rents also increased in Asia-Olympic, which saw the completion of Asian Financial Center, taken up by the Asian Infrastructure Investment Bank ("AIIB") as their new headquarters. The new high-specification BIC tower at East Chang'an Avenue saw strong demand, which helped to boost the average rents in the area.
- For 1Q 2020, the rental index of Grade-A office fell 0.2% QoQ and 2.6% YoY, bringing rents to an average of RMB363.0 per sq m per month due to softening demand and the stagnate leasing market citywide.



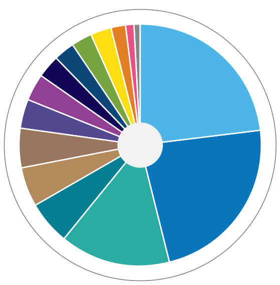
INDEPENDENT MARKET RESEARCH

BY SAVILLS (HONG KONG) LIMITED

Net Take-up[1]

459,831 sq m in 2019

- Net take-up fell by 16.7% in 2019. There was weaker demand from certain key industries, such as the automotive section, which saw revenues come under pressure and were forced to control growth and cut costs.
- While finance and IT companies continued to lead office demand in 2019, there are signs that some are becoming more cost conscious, opting to renew rather than take on the added capex of fitting out a new space unless there were significant cost savings or operational efficiencies.
- There was also less demand from co-working operators and P2P lenders, who were two of the key demand drivers in 2018.



Net Take-up of Grade-A Office Space (GFA) in 2019 by Industry

Finance	23.2%	Business Centres/ Co-working Spaces	3.1%
Information Technology	23.0%	Consumer Services	2.8%
Professional Services	14.8%	Energy & Raw Materials	2.8%
Utilities	5.7%	Retail & Trade	2.6%
Real Estate	5.4%	Public Organisations	2.1%
Manufacturing	5.3%	Conglomerates	1.0%
Media	3.8%	Transportation	0.7%
Healthcare	3.6%		

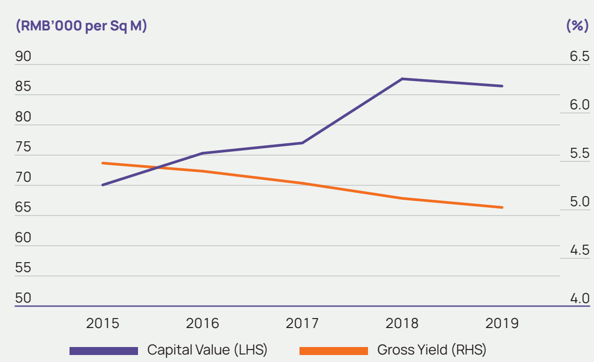
Grade-A Office Capital Values

RMB86,300 per sq m (End-2019) ↓1.3% YoY

Grade-A Office Gross Yield[3]

5.0% (End-2019) ↓0.1 Percentage Points YoY

- Beijing's investment market has always been highly sought after, though not particularly active given the lack of available stock for purchases with a large percentage of assets owner-occupied. The last three years have seen a pick-up in activity as more stock becomes available.
- During 2019, rising vacancy rates, increasing supply levels and a slowing economy, as well as tighter financing conditions restrained investor appetite. This led to Grade-A office capital values adjusting downwards by 1.3% to an average of RMB86,300 per sq m by the end of 2019.
- However, the still-resilient investor demand meant that capital values held up better than rents, resulting in a decline in gross yields. Grade-A office gross yield fell by 0.1 percentage points YoY in 2019 to end the year at 5.0%.
- As of end-1Q 2020, gross yield was up slightly at 5.1% QoQ while capital value was slightly lowered by 0.3% QoQ to RMB86,043 per sq m.



Key Office Trends

- A moratorium on large-scale new builds within the Fourth/Fifth Ring Road[2] will restrict new supply in the core office areas, though demand for space has already started to drive a wave of urban regeneration, project repositioning and upgrading of underperforming/underutilised assets, especially in prime areas. Examples include the conversion of ZRT Plaza from retail to office in 2018, as well as the acquisition of the retail mall "Aegean" by GoHigh Fund in 2019 for conversion to an office building.
- District governments are likely to continue providing different incentives to attract larger enterprises with significant taxable incomes to relocate from other districts.

[1] Net take-up is the change in total occupied space in 2019 compared to 2018. In MNACT's FY18/19 Annual Report, it was noted that the net take-up was recorded as 541,000 sq m at the end of 2018. During Savills' annual review, vacancy rates of certain projects were amended mildly according to information provided by relevant landlords, bringing the revised net take-up to 552,228 sq m at the start of 2019.

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

[3] The computation of gross yields is based on the average of actual rental values (assuming a 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 major properties.

Outlook

- 2019 represented an inflexion point for the Beijing office market with new supply being met by muted demand, resulting in rising vacancy rates and rental declines after close to a decade of growth.
- New supply totalling 869,164 sq m is anticipated to complete and handover in 2020. Given the sluggish macro economic environment due to trade tensions and COVID-19 ,as well as increasingly conservative leasing strategies, vacancy rates are expected to continue to rise while rents will trend downward for the foreseeable future. High-quality buildings with experienced property management teams and reputable tenant profiles are expected to better weather the tough times ahead.
- The impact on the office market will depend on the scale and duration of COVID-19, with office demand recovering once COVID-19 is fully contained. In the long term, the office market will be supported by the continued expansion of the tech industry (including 5G, AI, and big data companies) and the accelerated opening of China's financial sector (insurance firms, asset managers and securities companies) to foreign investment. These industries will also require a network of service companies to support their operations.
- Beijing is expected to see the continued decentralisation of its office market as a result of strict urban planning guidelines and master planning designed to reduce pressure and congestion on the city centre, as well as tenants (especially those from the IT sector) seeking cost efficiency and greater availability of new high quality office space.

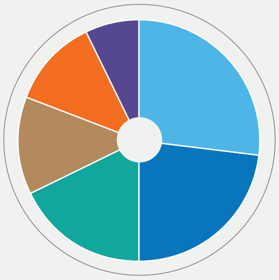
Shanghai

SHANGHAI BUSINESS PARK MARKET[1]

Existing Grade-A Office Supply

10.3m sq m (End-2019)[2] ↑**2.3%** YoY

- Shanghai's six key business parks are Zhangjiang Science City[3] (formerly known as "Zhangjiang Hi-tech Park") ("Zhangjiang"), Caohejing, Jinqiao, Linkong, Caohejing Pujiang and Lujiazui Software Park. They contribute about 10.3 million sq m (GFA) of Grade-A office stock as of the end of 2019.
- Zhangjiang, Caohejing, Jinqiao and Lujiazui Software Park 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.
- Amid weakening leasing sentiment and construction delays, a number of projects originally scheduled for 2019 were postponed to 2020. As such, these six business parks received 311,200 sq m of new Grade-A office supply in 2019, compared to 540,300 sq m in 2018.
- Of the new additions, two are located in Zhangjiang and two in Caohejing Pujiang. In Zhangjiang, the two new projects, Shengteng Park and Shanghai International Health Block, totalled 125,200 sq m by GFA.



Grade-A Office Stock by Six Business Parks as of End-2019

Zhangjiang	27%	Jinqiao	18%	Linkong	12%
Caohejing	23%	Caohejing Pujiang	13%	Lujiazui Software Park	7%

[1] All data and figures are from Savills Research & Consultancy and they relate to the six business parks as outlined on page 55, unless otherwise stated. Please refer to page 58 on the limitations of the report.

[2] In MNACT's FY18/19 Annual Report, it was noted that there were approximately 10.6 million sq m of Grade-A office space at the end of 2018. During Savills' annual review, 484,000 sq m of office stock was downgraded, bringing the revised stock to 10.1 million sqm at the start of 2019.

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

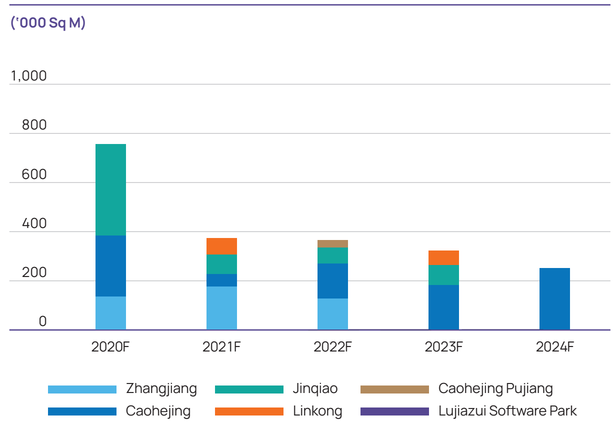
INDEPENDENT MARKET RESEARCH

BY SAVILLS (HONG KONG) LIMITED

Potential Grade-A Office Supply

Around 2.1m sq m From 2020F to 2024F in Total

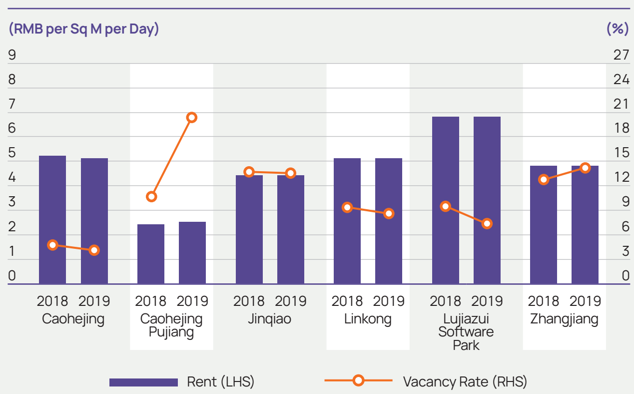
- Total Grade-A office stock in business parks is expected to reach about 12.4 million sq m (GFA) by the end of 2024, with about 6% expected to be added in 2020.
- The majority of future supply (approximately 2.1 million sq m) over the next five years will be located in Caohejing (42%), Jinqiao (29%) and Zhangjiang (21%).
- Within Zhangjiang, new completions (primarily self-use developments and low-density campuses) over the next five years will be concentrated in the central and north zone, the same region where Sandhill Plaza is located.
- Zhangjiang will receive three new projects in 2020 totalling 133,000 sq m. They comprise the Lenovo R&D Centre New Tower in the north zone and two in the central zone (U-Plus Ph2 and the C-8-1-2 projects by Zhangjiang Group).



Vacancy Rate

11.4% (End-2019) ↑1.3 Percentage Points YoY

- As net take-up in business parks slowed to 153,800 sq m in 2019, this led to an increase in the average vacancy rate of the business parks by 1.3 percentage points to 11.4% by the end of 2019.
- Vacancy rates differed across the six key business parks. Zhangjiang saw average vacancy rate rise by 1.2 percentage points in 2019 as a result of new supply, ending the year at 14.1%. Meanwhile, Caohejing and Jinqiao saw no new supply, and take-up was recorded in existing buildings, resulting in vacancy rates falling by 0.6 percentage points and 0.1 percentage points to 4.2% and 13.6%, respectively.
- For 1Q 2020, the average vacancy rate in the six business parks saw a slight increase of 0.04 percentage points to 11.4% due to a negative take-up recorded during the quarter.



Grade-A Office Rents

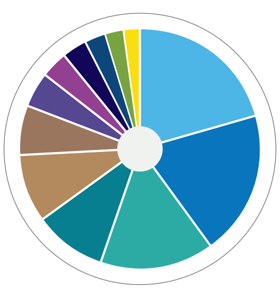
RMB4.7 per sq m per day (End-2019) ↓0.4% YoY

- Average Grade-A office rents in the six key business parks was RMB4.7 per sq m per day, maintaining a sizeable discount to Shanghai's CBD office rents, which averaged RMB8.8 per sq m per day by the end of 2019.
- With subdued economic growth, there was a general softening of leasing demand in most of the business parks in 2019, leading to a 0.4% drop in Grade-A office rents compared to a year earlier. This was the first rental decline witnessed in the city's business park market over the last five years.
- While some of the business parks suffered rental declines, Zhangjiang Grade-A office rents remained stable YoY ending 2019 at RMB4.8 per sq m per day. Compared to other business parks, Zhangjiang is positioned well given its strong connectivity, better-quality developments and growth in the technology sector.
- Caohejing Pujiang, which offered the lowest rents among the business parks at RMB2.5 per sq m per day, was the only other business park to see rental increase, rising 6.6% from a year earlier.
- For 1Q 2020, the average rents of the six key business parks was held steady at RMB4.7 per sq m per day, supported by the steady demand and rental differential compared to CBD rents amid COVID-19.

Net Take-up[1]

153,800 sq m in 2019

- Amidst increasing economic uncertainties, tenants became more conservative about adding headcount or taking additional office space, though some cost sensitive tenants sought out the more affordable space in decentralized areas. Net take-up fell to 153,800 sq m in 2019 compared to 500,000 sq m in 2018.
- Domestic companies accounted for over 80% of net take-up in 2019, with the remainder coming from multinational corporates.
- While trade tensions caused many international firms to put expansion plans on hold, prominent domestic companies seized the opportunity to expand or upgrade their office premises. The increase in demand from domestic occupiers is in line with China's ongoing transition towards a service-driven economy.
- The COVID-19 has already made a negative impact on demand, though the extent and nature of that impact is still uncertain. While the virus has been contained in China, it continues to spread overseas having an impact on global economic growth prospects.



Net Take-up of Business Park Grade-A Office Space (GFA) in 2019 by Industry

Retail & Trade	20.8%
Information Technology	19.3%
Manufacturing	15.2%
Healthcare	9.8%
Media & Entertainment	9.2%
Finance	6.6%
Business Centres/ Co-working Spaces	4.8%
Commercial & Professional Services	3.6%
Utilities	3.3%
Conglomerates	2.7%
Transportation	2.6%
Consumer Services	2.1%

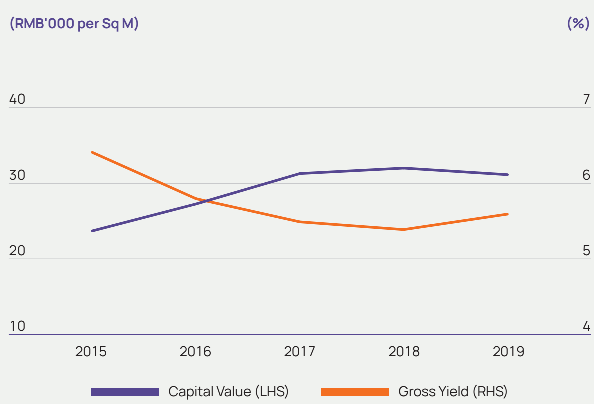
Grade-A Office Capital Values[2]

RMB31,100 per sq m (End-2019) ↓2.7% YoY

Average Grade-A Office Gross Yield

5.6% (End-2019) ↑0.1 Percentage Points YoY

- Investment activity in the business park market increased in 2019, eventually accounting for as much as 25% of Shanghai's total office transaction volume and up from 15% just a year ago.
- Overall, business park assets continue to provide an attractive opportunity for domestic and foreign investors as well as end-users, with a meaningful spread over CBD office gross yields at 5.0%.
- However, given the macro uncertainties and oversupply situation, some sellers were under pressure to discount asking prices. Capital values consequently fell by 2.7% in 2019 to an average of RMB31,100 per sq m, while gross yields[3] increased by 10 bps over the same period to 5.6%.
- At the end of 1Q 2020, gross yields remained stable and capital values fell 0.1% as increasing uncertainty meant that potential buyers required further price discounts to offset the increased risks.



[1] Net take-up is the change in total occupied space in 2019 compared to 2018.

[2] Capital values are based on a like for like comparison. Changes to the basket of properties tracked meant that the capital value at the end of 2018 (the base of comparison) was RMB31,900 per sq m.

[3] Based on assumed 100% occupancy rates.

INDEPENDENT MARKET RESEARCH

BY SAVILLS (HONG KONG) LIMITED

Key Business Park Trends

- As the core areas of business parks mature and fill out, fewer greenfield development opportunities remain, with investors instead looking to renovate or upgrade existing developments to meet the new needs of tenants.
- Zhangjiang has prioritised innovation and regional development, in line with Shanghai's ambition to become a global hub for science and technology. Zhangjiang Comprehensive National Science Centre, located in the north zone, will focus on the development of integrated circuits and life sciences, with more details expected in 2020. This, along with the national "China 2025" industrial policy and the roll out of 5G networks, is expected to drive demand for business parks.
- The outbreak of COVID-19 has caused construction and leasing activity delays as construction workers are unable to get back to work and project inspections are suspended. Co-working businesses are likely to be particularly affected because of their tenant mix and the intermingling of employees from different businesses.

Outlook

- Though current market sentiment has weakened, leasing demand in business parks in the mid-to long-term is expected to remain resilient, given the search for more cost-effective premises, improved connectivity and the government's push to develop advanced manufacturing, tech and R&D sectors.
- The six key business parks are expected to receive a large volume of new Grade-A office space in the next five years. Demand, especially from the domestic IT (5G, AI, etc.), semiconductor and healthcare sectors, is expected to help absorb a sizeable chunk of new supply, but vacancy rates are still forecast to rise further, adding downward pressure to rents.
- Business park Grade-A office yields are expected to remain flat or edge upwards in 2020 until the economy eventually recovers and the large supply in competing decentralised business districts is eventually absorbed.
- COVID-19 is likely to delay project completion dates and hinder leasing activity in the short term. Broader occupier demand may also be impacted as a result of the slowing economy though this may be mitigated by the government's measures to support impacted businesses as well as policies to stimulate the tech industry.
- Real estate investment activity is expected to slow in the short term as non-essential meetings and travel as well as site inspections are cancelled. However, relief measures such as supportive monetary policies and interest rate cuts could provide some support to pricing.

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

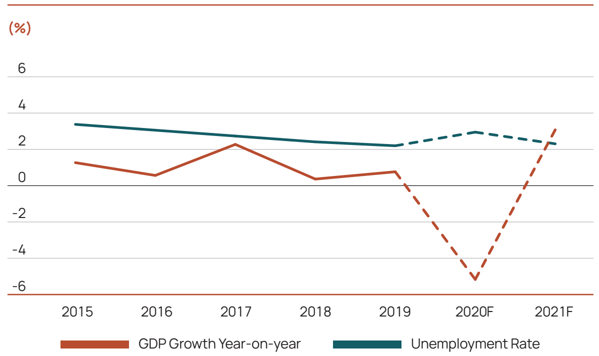
Japan[1]

ECONOMY

- According to the latest preliminary estimates by the Cabinet Office of Japan, Japan's GDP recorded a 0.7% YoY growth in 2019, marking the eighth consecutive year in positive territory.
- While growth in 2019 was supported by effective public investment, a rise in government consumption and record-high tourist spending, the economy was also dampened by lower exports and capex spending due to the US-China trade tensions.
- Greater pressure on the economy was especially felt during the fourth quarter of 2019 as consumer spending was impacted by Typhoon Hagibis and the implementation of the consumption tax hike from October 2019.
- Underpinned by the economic growth and limited working-age population, unemployment rate further tightened from 2.4% at the end of 2018 to 2.2% at the end of 2019.

OUTLOOK

- Japan's GDP growth is expected to contract by 5.2% in 2020 due to COVID-19 and bounce back by 3.0% in 2021, according to International Monetary Fund's World Economic Outlook Report in April 2020.
- In the short-term, Japan is most likely to witness negative growth for the first quarter of 2020 as the COVID-19 situation will largely reduce inbound tourism spending and the nationwide state of emergency (implemented on 16 April 2020) will impact domestic consumption. Trade volume is also anticipated to decrease in view of disruptions to supply chains.
- While the delay of the Tokyo Olympics to 2021 is expected to further weaken Japan's economy for the time being, the impact is anticipated to be softened by the government's JPY 108 trillion stimulus package.



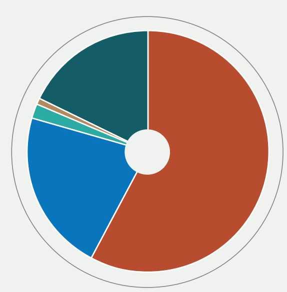
Source: 2015-2019 GDP figures are from the Cabinet Office of Japan, while 2020 and 2021 GDP forecasts are from International Monetary Fund. 2015-2019 unemployment figures are year-end figures from Ministry of Internal Affairs and Communications while the 2020 and 2021 forecasts are from Oxford Economics.

GREATER TOKYO OFFICE MARKET

Existing All-Grade Office Supply

23.2m tsubo[2] (End-2019) ↑0.9% YoY

- The Greater Tokyo Area's office market comprises Tokyo Metropolis (including the 23 wards of Tokyo)[3], Chiba Prefecture, Kanagawa Prefecture (with Yokohama City as the capital) and Saitama Prefecture.
- A majority of the office stock in Greater Tokyo is concentrated in the central five wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya), accounting for 58% of the stock by net lettable area. The outer 18 wards made up another 22% of total office stock in Greater Tokyo, with the remaining in suburban Tokyo and the other prefectures.
- New supply of office space of approximately 0.2 million tsubo in 2019 increased the overall supply by 0.9% YoY. Over 90% of the new supply in 2019 were in the central five wards to meet demand for top-quality office space. New additions included large-scale buildings[4] such as Okura Prestige Tower in Minato ward and Shibuya Scramble Square East Tower in Shibuya ward.
- There were no new completions of large-scale buildings in 2019 that were in close proximity to MNACT's Japan Properties.



Existing All-grade Office Supply by Area

Central Five Wards	57.9%
Outer 18 Wards	21.6%
Yokohama	2.0%
Chiba/Funabashi	0.9%
Others	17.6%

[1] All data and figures are from Cushman & Wakefield K.K. unless otherwise stated. Please refer to page 62 on the limitations of the report.
[2] 1 tsubo = 3.30579 square metres.
[3] Four of MNACT's Japan Properties are located in the outer 18 wards of Tokyo, namely IXINAL Monzen-nakacho Building (in Koto ward), Higashi-nihonbashi 1-chome Building (in Chuo ward), TS Ikebukuro Building (in Toshima ward) and Omori Prime Building (in Shinagawa ward). The other four properties of MNACT comprise SII Makuhari Building, Fujitsu Makuhari Building, mBAY POINT Makuhari (all 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.

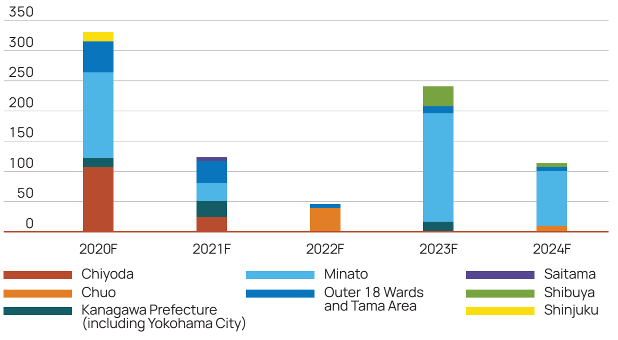
INDEPENDENT MARKET RESEARCH

BY CUSHMAN & WAKEFIELD K.K.

Potential Large-Scale Office Supply in Greater Tokyo

862,650 tsubo From 2020F to 2024F in Total

- Upcoming office supply in the next five years will be concentrated in the central five wards, with most of the supply expected to be completed come 2020. The outer 18 wards of Tokyo will only receive 13% of the new large-scale office supply.
- For Yokohama, the office pipeline for large-scale buildings over the next five years will be limited to approximately 38,777 tsubo, representing 4.5% of the total expected supply.
- There is no planned large-scale supply in Makuhari, Chiba area from 2020 to 2024.
- While pre-commitments for new completions in 2020 and 2021 have been strong, the secondary vacancy as a result of tenants moving out of existing premises might exert downward pressure on rents. The impact by COVID-19 on the completion date of the upcoming supply has been limited so far.



All-Grade Vacancy Rate

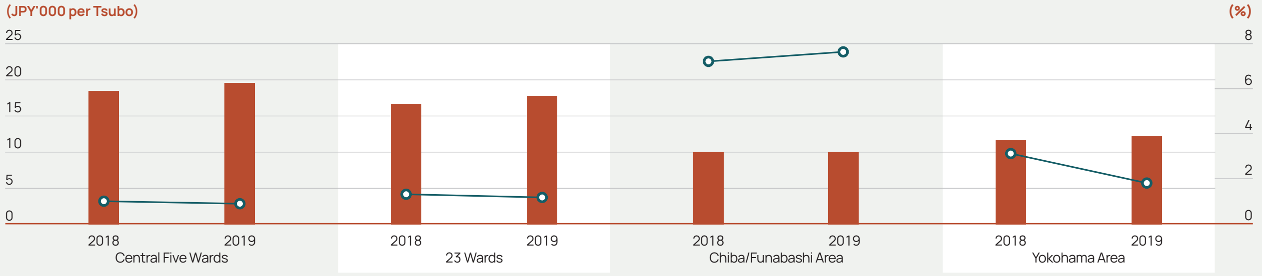
1.1% (Tokyo 23 Wards, End-2019) ↓**0.2** Percentage Points YoY

- Despite the large incoming supply in 2019, the average vacancy rate of the Greater Tokyo office market remained low. The tight office market was underpinned by demand among tenants to move to larger and new premises or improve their office environment. In line with the Work Style Reform Act[1], more tenants are also expanding their office footprint to cater for flexible working arrangements such as satellite offices.
- For the central five wards, vacancy rate dropped to a historical low of 0.9% at the close of 2019 as new supply were almost fully absorbed with pre-commitments.
- Vacancy rate of 23 wards also tightened in 2019 to 1.1% as demand from the central five wards spilled over to the outer 18 wards. For Yokohama, it saw a compression of vacancy rate by 1.3 percentage points to 1.9% in 2019 as the area benefited from the expansion of local enterprises in its Minato-Mirai area.
- The leasing market in the Chiba/Funabashi area saw a slightly higher vacancy rate of 7.6% at the end of 2019 due to negative net absorption caused by some tenants relocating to Tokyo for the proximity to the city core.

All-Grade Office Asking Rents

JPY17,613 per tsubo per month (Tokyo 23 Wards, End-2019) ↑**7.0%** YoY

- Reflecting the tight supply-demand balance, asking office rents for the central five wards rose 6.1% in 2019 compared to 2018. Benefitting from the relative affordability compared to the central five wards, asking rents in the 23 wards and the Yokohama area also rose 7.0% and 4.7% respectively in 2019 compared to 2018.
- There is no new supply in the Chiba/Funabashi area, and asking rent remained relatively steady at the end of 2019 compared to at the end of 2018.
- Similarly, for 1Q 2020, asking rents in the central five wards, 23 wards, and the Yokohama area went up by 0.5%, 1.6% and 6.0% while the Chiba/Funabashi area slightly slid by 0.1%, compared to 4Q 2019.



Source: Sanko Estate

[1] Work Style Reform Act, enacted on June 2018, is a legal package proposing amendments to eight existing laws. Major amendments enforced in April 2019 include an improvement of the flextime system, introduction of overtime working hours cap and an obligation to ensure a certain number of paid leave.

Net Take-up[1]

244,000 tsubo in 2019
(For the Greater Tokyo Area)

- There was a positive net take-up of office space of 244,000 tsubo in 2019 as tenants continued to seek better and larger workspace to attract and retain talents. Demand also came from occupiers in the professional services, information technology and large-scale manufacturing sectors which were less impacted by trade tensions.
- However, the net take-up in 2019 was lower than the 420,000 tsubo in 2018 mainly due to less new large-scale supply in 2019 compared to 2018 available for tenants, as well as weaker demand from the co-working space sector in 2019 with the co-working operators shifting from expansion into stabilisation mode.

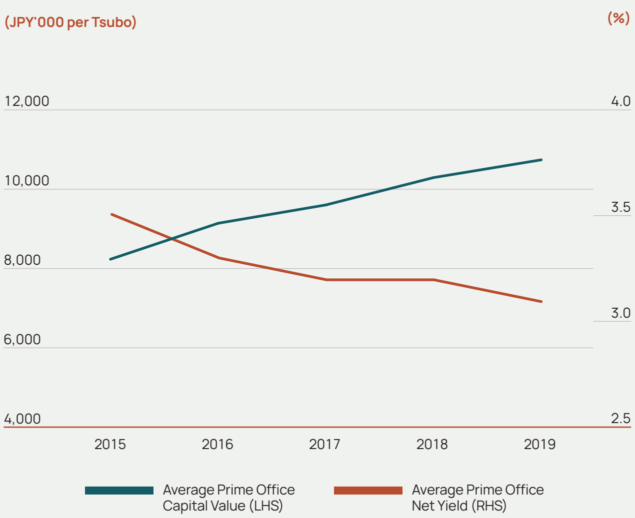
Average Prime Office Capital Value

JPY10,716,050 per tsubo
(End-2019) (Central Five Wards[2]) ↑4.2% YoY

- With its attractive prime office yield spreads over 10-year government bonds of 3.2%, coupled with the tight market conditions, Japan remained an appealing investment location within Asia Pacific.
- Average capital value of Grade-A office buildings in the central five wards were JPY 10,716,050 per tsubo in 2019, a 4.2% increase compared to 2018.
- The average prime cap rate in the central five wards continued to fall to a record low of 3.1% at the end of 2019. In search of higher yields, investors continued looking into secondary assets and markets with higher yields. The outer 18 wards, Yokohama area and the Chiba/Funabashi area also saw their prime cap rates compress to 3.8%, 3.8% and 4.4% respectively.
- As of the end of 1Q 2020, average capital values of Grade-A office buildings in the central five wards also went up to JPY 10,907,404 per tsubo, a 1.8% increase from 4Q 2019. The average prime cap rate stood at 3.1%.

Average Prime Office Cap Rate

3.1%
(End-2019) (Central Five Wards) ↓0.1 Percentage Points YoY



Key Office Trends

- There is now a slowdown in the expansion and consolidation of the co-working space after a few years of rapid growth. Demand for co-working space has further reduced in the light of COVID-19 as people refrain from going out.
- On top of the Work Style Reform Act which aims to improve work-life balance, the COVID-19 situation also led to a wide adoption of telecommuting in major cities in Japan.
- There is also a stagnation of leasing activities as more companies freeze their capital expenditure plans and headcount projections.
- Investors who prefer properties offering stable income are likely to continue keeping an eye on offices in Greater Tokyo which has a large pool of medium-sized offices, while those in search of higher growth potential could be drawn to offices in regional cities such as Osaka, Nagoya and Fukuoka.

[1] Net take-up is the change in total occupied space in 2019 compared to 2018.
[2] Historical data available on the office capital value and cap rates was limited to the central five wards.

INDEPENDENT MARKET RESEARCH

BY CUSHMAN & WAKEFIELD K.K.

Outlook

- A prolonged COVID-19 situation will result in a deterioration in demand and cause a delay in real estate decisions as businesses manage costs and business continuity plans.
- More cancellations and postponements in leasing activities are anticipated as more corporates hold off their hiring and capital expenditure plans due to COVID-19.
- We anticipate that corporates will look into cost savings by consolidating their office spaces and by downsizing the existing space on renewal. However, the current historically low vacancy levels in the Greater Tokyo office market is expected to mitigate some impact on the occupancy levels, as a result of such cost-saving measures.
- We are observing an increase in secondary vacancies as more space at existing properties become available when tenants move to other newly completed buildings, alongside the slowdown in Japan's economy and demand. As a result, the all-grade vacancy rate especially in the central five wards is anticipated to edge up and exert downward pressure on rental rates for the Greater Tokyo office market.
- In terms of business with growth potential, that would be satellite serviced or shared offices and co-working spaces. Currently, the satellite serviced or shared offices and co-working spaces have been severely impacted by the current COVID-19 situation. However, on a mid to long term basis and driven by the Work Style Reform Act, these will hold appeal for corporates who are looking into space downsizing and teleworking amid the ongoing COVID-19 and prefer to have a satellite location near residential areas.
- A disruption in the capital market is anticipated as investors will take a wait-and-see stance in asset purchases until they see a clearer direction of the COVID-19 situation. While this may lead to a price decrease, the adjustment is not likely to be as significant as what was seen during the Global Financial Crisis ("GFC"), as there are opportunistic players still very keen to purchase quality assets at discounted rates, if available, thus supporting the transaction volumes to some extent.

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