INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

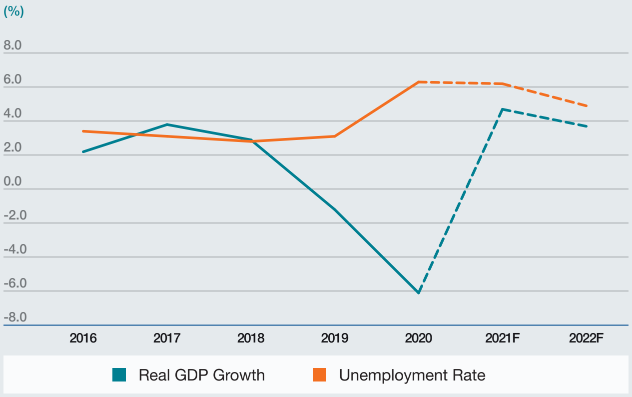
Hong Kong SAR

ECONOMY

- Hong Kong SAR's economy was significantly affected by the disruptions brought about by COVID-19, contracting by 6.1% in 2020. This marks its worst recession on record. The retail, hospitality, and leisure sectors were the hardest hit due to the restricted international travel and the implementation of social distancing measures.
- The unemployment rate at the end of December 2020 rose to 6.3%, the highest since SARS in 2003, compared to just 3.1% at the end of 2019.
- While private consumption expenditure over 2020 fell by 10.1% year-on-year ("YoY") in real terms, there were signs that consumption was gradually improving towards the end of 2020 with 4Q showing a YoY decline of 7.2% in real terms, compared to a YoY decline in 2Q of 14.2%.

OUTLOOK

- According to Oxford Economics, GDP is expected to rebound by 4.7% in 2021, as the rollout of vaccinations and a more controlled COVID-19 situation will hopefully lead to a normalisation of the economy.
- Private consumption should increase in 2021 as the economy rebounds and confidence returns to the market. After a year of living under pandemic related restrictions, we also expect to see greater adaptation to the new environment, driving a return to pre-pandemic levels of private consumption.



Source: GDP and Unemployment Rate figures from 2016 to 2020 are from Census and Statistics Department. Forecast figures from 2021 to 2022 are from Oxford Economics.

Hong Kong Retail Market[1]

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

165.9m sq ft (End-2020)[2]   ↑ **0.6%** YoY

- Hong Kong SAR's retail market has seven key retail districts, which can be classed into two groups – core areas which include Central, Tsim Sha Tsui, Mong Kok and Causeway Bay/Wan Chai and the non-core decentralised areas of Kowloon East, Island East and Sha Tin.
- The core areas and non-core decentralised areas comprise 43% and 57% of total shopping mall stock, respectively.
- The top 10 malls in terms of total GFA make up 10.9% of the total shopping mall stock. Festival Walk mall[3] is ranked 9th largest.
- 2020 saw relatively little new shopping mall space added to the market with only around 963,000 sq ft of new completions as there were no major re-development projects within 2020. The largest of the new shopping malls was The LOHAS by MTRC at approximately 480,000 sq ft.

Shopping Mall GFA in the Seven Key Retail Districts, End-2020

■	Kowloon East	29%
■	Tsim Sha Tsui/Mong Kok	29%
■	Sha Tin	22%
■	Central	7%
■	Causeway Bay/Wan Chai	7%
■	Island East	6%

Source: Rating and Valuation Department, Colliers International Research

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[1] All data and figures on the retail market are from Colliers International (Hong Kong) Limited and they relate to the seven key retail districts as defined on this page, unless otherwise stated. Please refer to Page 54 for the limitations of the report. All references to floor area refers to GFA, unless otherwise stated.

[2] Source: Rating & Valuation Department. Net floor area was converted to GFA for the purpose of this report.

[3] Festival Walk, situated in Kowloon Tong (Kowloon East), is owned by MNACT and has a total GFA of 980,089 sq ft of retail space.

INDEPENDENT MARKET RESEARCH

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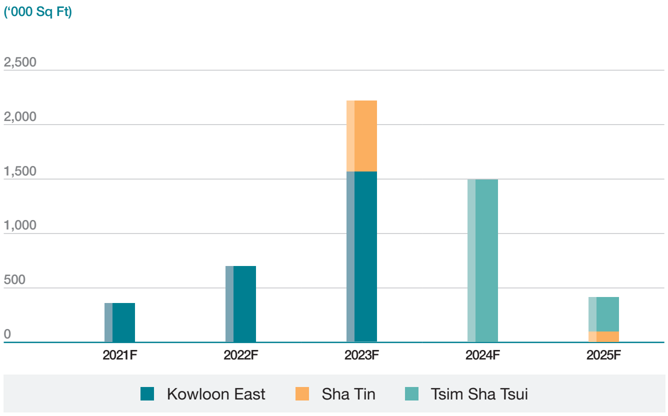
Upcoming Shopping Mall Supply

(Within the Seven Key Retail Districts)

5.2m sq ft From 2021F to 2025F

- In 2021, only one new shopping mall of approximately 357,577 sq ft (Kwun Tong Town Centre Project) in Kowloon East is expected to be completed. Most of the anticipated new stock is due for completion around 2023 to 2024, including the site owned by Lifestyle International at Kai Tak (807,164 sq ft), 98 How Ming Street (500,000 sq ft) and the retail element of West Kowloon Cultural District (1,493,796 sq ft).
- In Kowloon East, there will be 2.3 million sq ft of new shopping mall stock slated for completion from 2022 to 2025, principally around Kwun Tong and Kai Tak. These new projects are some distance away from Festival Walk, which is located in Kowloon Tong.

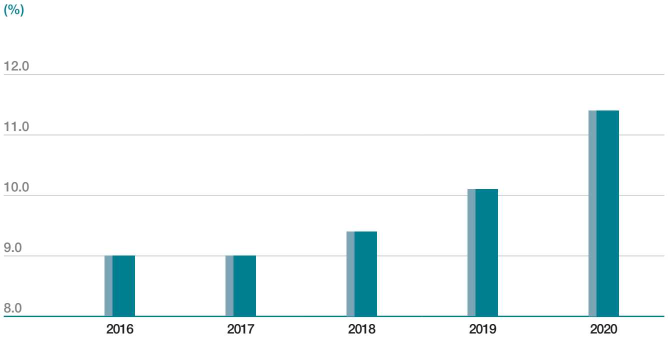


Source: Buildings Department, Colliers International Research

Vacancy Rate

11.4%[1] (End-2020) ↑ **1.3%** Percentage Points YoY

- Restrictive social distancing measures during the year such as a limit on the number of diners and reduced business hours dissuaded local shoppers from visiting shopping malls, putting pressure on retailers' businesses. Several traditional luxury retail brands and fast fashion retailers such as Victoria's Secret and Prada in Causeway Bay, and GAP and Topshop in the core areas downsized and consolidated their footprint.
- As a result, the overall vacancy rate climbed to 11.4% at the end of 2020, 1.3% percentage points higher than the year before.
- Vacancy pressures were most evident in prime high street areas where the drop in foreign tourists and retail spending forced numerous retailers to close. Non-core areas, such as Kowloon East, were less affected by rising vacancy levels as retailers in these areas did not face the same pressures as those in core areas. Vacancy rates in shopping malls also remained relatively stable as landlords offered support to tenants by way of rental relief packages.

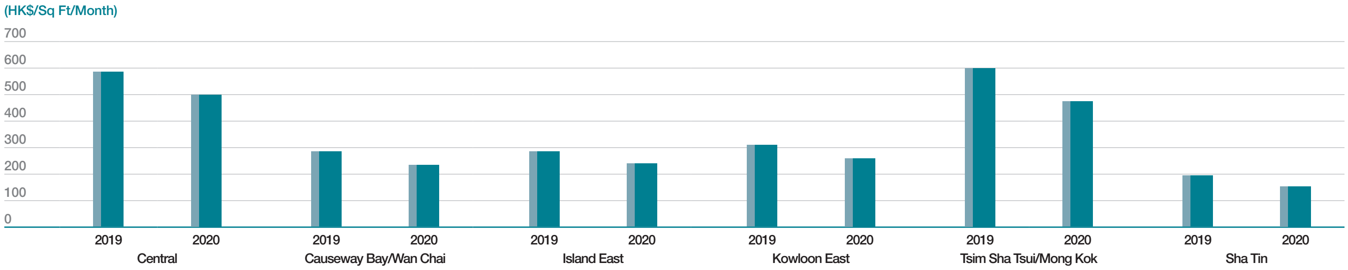


Source: Rating and Valuation Department

Shopping Mall Rents

↓17.5% YoY (Gross Effective Rate End-2020)

- Overall, shopping mall rents within the seven key retail districts were down by 17.5% across Hong Kong SAR as a combination of reduced business hours, limited overseas visitors and a deep economic recession impacted sales at physical stores for most trades.
- Many landlords offered tenants temporary rental relief packages, alongside a rise in the number of landlords offering turnover based rental leases.
- In 1Q 2021, overall rents in the seven key retail districts continued to record a decline of 4.9% compared to 4Q 2020, as tight social distancing measures remained in place for most part of the quarter, impacting footfall and sales volume.



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[1] This refers to the average vacancy rate of all retail properties across Hong Kong SAR, including shopping malls, high street shops and retail podiums and is published by the Rating and Valuation Department.

Total Retail Sales

HK$326.5b (in 2020)

24.3% YoY

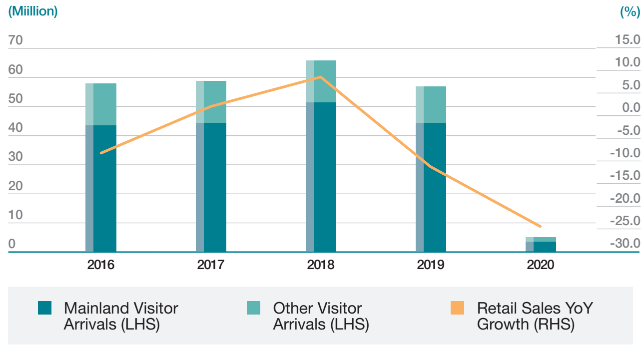
- Retail sales in terms of value recorded a 24.3% YoY drop.
- During the year, retail sales were highly sensitive to the situation of COVID-19 in the city; though, there were moderate periods of recovery in consumption as the social distancing measures were loosened.
- With virtually no tourist arrivals, sales were driven by local demand, resulting in demand for luxury goods, medicines & cosmetics and apparel declining by 54.0%, 50.0% and 41.3% YoY, respectively. Meanwhile, supermarket sales and furniture & fixtures saw retail sales increase by 9.7% and 0.4% YoY, respectively, as local demand focused on food products, furniture, and household goods.
- In 1Q 2021, retail sales posted an increase of 7.5% YoY as restrictions were eased from around mid-February 2021. There was also a low base effect as 1Q 2020 was heavily impacted by the onset of COVID-19.

Tourist Arrivals

3.6m (in 2020)

93.6% YoY

- The number of overseas visitors in 2020 reduced to a record low, falling by 93.6% YoY. Mainland Chinese visitor arrivals fell to 2.7 million, a drop of 93.8% compared to 2019.
- While domestic consumption can support some retail sectors, tourist arrivals are essential for leading the recovery. It is hoped that the mass vaccination roll-out will enable plans for travel bubbles to progress and for an increased opening of the border between Hong Kong SAR and Mainland China.



Source: Census and Statistics Department, Hong Kong Tourism Board

Online Retail Sales[1]

7.7% of Total Hong Kong SAR Retail Sales in March 2021

- Driven by social distancing measures, consumers increasingly turned to online shopping in 2020. The online retail sales penetration rate has witnessed significant growth since the start of COVID-19, with the value of online sales making up 7.7% of total Hong Kong SAR retail sales in March 2021 compared to 3.3% at the start of COVID-19 in January 2020.
- The value of online retail sales typically decreased during months where social distancing restrictions were relaxed, with online sales in June 2020 only accounting for 5.2% of total retail sales, compared to December 2020 where online sales represented 8.7% of total retail sales in terms of value.
- This has also prompted a shift by shopping mall landlords to enhance their retail mix by offering more experiential and F&B brands which provide experiences that cannot be replicated online. Some have also introduced more reward-based programmes and aggressive promotions to enrich digital touchpoints and entice purchases.

Leasing Demand

- Soft leasing demand in 2020 continued, with most tenants focusing on existing stores rather than seeking new premises as expansion plans were paused and the capital expenditure costs associated with moving became prohibitive.
- Some sectors performed more strongly than others such as retailers targeting local consumption and non-discretionary spending. This was most evident with F&B operators, supermarkets (especially those offering Japanese and Korean food products) and home living trades, which helped to drive leasing momentum.
- Shopping malls remain a top priority for retail tenants as they are able to attract better footfall than prime high streets and are supported by their tenant mix and various promotional events such as discount coupons and loyalty programmes.

Key Retail Trends

- While e-commerce penetration in Hong Kong SAR lagged behind other peer cities in Asia, more retailers are recognising the need to invest in digital and e-commerce business lines, accelerated by COVID-19 through necessity. Retailers will look at ways they can interweave their physical stores with their online presence with options such as ‘click and collect’ and offering in-store discounts to retain footfall.
- Landlords will revise their retail portfolio strategies to be more flexible, such as accepting shorter-term leases, subdivided units, pop-up stores, or leases focused on turnover rents to keep anchor tenants. In particular, short-term pop-up stores will continue to be popular as retailers look at ways of minimising capex and maintaining business flexibility.
- New F&B retailers will also leverage on the currently affordable rents to expand their footprint in Hong Kong.

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[1] Source: Census and Statistics Department.

INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Average Retail Property Price

↓**5.6%** (End-2020)

Average Retail Yield[1] (Citywide)

2.6% (End-2020)

↓ **0.1** Percentage Points YoY

- Ongoing tensions between the US and China, the implementation of the national security legislation along with the continuation of the COVID-19 weighed on the real estate market, hurting transaction volumes, which witnessed a drop of 14.4% YoY in 2020. However, the situation improved in the final months of the year. As China's economy began to recover, there was growing participation by Mainland Chinese investors keen to buy into one of the world's hottest property markets at relatively attractive prices.
- Retail property prices contracted by 5.6% YoY at the end of 2020 in tandem with the decline in average rentals.
- The retail yield slightly compressed to 2.6% at the end of 2020, compared to 2.7% in 2019 mainly due to the increased participation by Mainland Chinese investors towards the end of the year.
- As at end 1Q 2021, the average retail property price increased slightly by 2.9% compared to end December 2020, while the average retail yield compressed slightly to 2.5%. This was due to the progressive easing of restrictions and consequential recovery in retail sales leading to improved investment sentiment.

Outlook

- While the impact of COVID-19 will continue to weigh on the performance of the retail sector in 2021, the retail market is not expected to deteriorate further as the retailers and consumers are becoming more used to the COVID-19 situation and restrictive measures in place. The mass vaccination campaign should also stimulate economic recovery and boost the retail sector. However, a return to pre-COVID-19 retail sales will still largely be dependent upon the re-opening of international borders.
- Sales will still be largely dependent on local consumption with travel curtailments still likely in place for the most part of 2021.
- Limited new retail supply is expected in 2021 which will help to mitigate against further downward rental pressure. Overall rents should bottom out and stabilise around the middle of 2021.
- With the initial impact of COVID-19 now passed, further rental reliefs from shopping mall landlords are not expected to continue after mid-2021, although the number of tenants on turnover based rents is likely to increase as retailers seek greater levels of flexibility.
- We expect a higher deal flow for retail assets on the back of quantitative easing and the abolition of double stamp duty on non-residential properties.

Hong Kong Office Market[2]

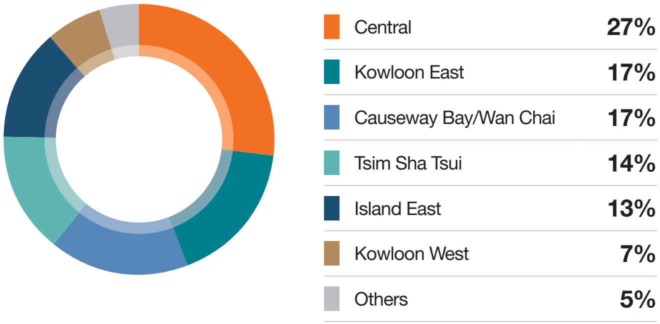
Existing Grade-A Office Supply[3]

86.8m sq ft (Net) (End-2020)

↑ **0.6%** YoY

- The Hong Kong SAR office market is divided into core and non-core areas. The core areas include Central[4], Tsim Sha Tsui and Causeway Bay/Wan Chai, whereas the non-core areas include the emerging office sub-markets of Island East, Kowloon East[5] and Kowloon West.
- Only a total of 498,373 sq ft (net) (0.6% of total Grade-A stock) of Grade-A office space was completed in 2020, concentrated in the non-core areas of Tsuen Wan and Tuen Mun in the New Territories. The tight new supply is due to land shortages and a lack of land sales, restricting office development activities.

Total Grade-A Office GFA by District, End-2020



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[1] Information published by the Rating and Valuation Department and includes shopping malls, high street shops and retail podiums across Hong Kong SAR.

[2] All data and figures on the office market are from Colliers International (Hong Kong) Limited, unless otherwise stated. Please refer to Page 54 for the limitations of the report.

[3] Source: Rating and Valuation Department and Colliers International Research.

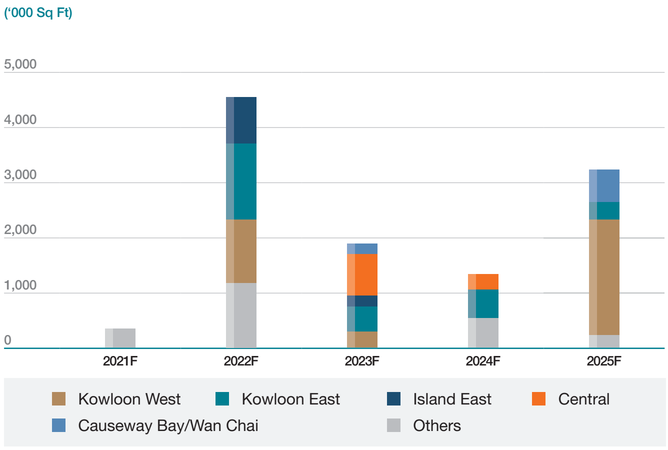
[4] For the purpose of this report, Central refers to the Central, Sheung Wan and Admiralty sub-markets which are generally considered the Central Business District.

[5] MNACT's Hong Kong SAR property, Festival Walk, is located in Kowloon Tong, within the Kowloon East area and it has 228,665 sq ft (GFA) of office space.

Potential Grade-A Office Supply

11.2m sq ft (GFA) From 2021F to 2025F in Total

- Grade-A office supply in 2021 will be limited to two small-scale office buildings in the non-core area of Wong Chuk Hang amounting to approximately 329,000 sq ft (GFA) in total. Given the current weak office market performance, landlords are not inclined to push for faster office completions.
- From 2022 to 2025, approximately 3.5 million sq ft (GFA) of new office supply is planned on Hong Kong Island, while only approximately 1.0 million sq ft (GFA) is expected in the core Central office district.
- Kowloon East is set for approximately 2.6 million sq ft (GFA) of new Grade-A office supply by 2025, which may create further pressure on both rents and occupancy levels in the district.



Source: Buildings Department, Colliers International Research

Vacancy Rate

9.4% (City-wide)(End-2020) ↑ **2.8** Percentage Points YoY

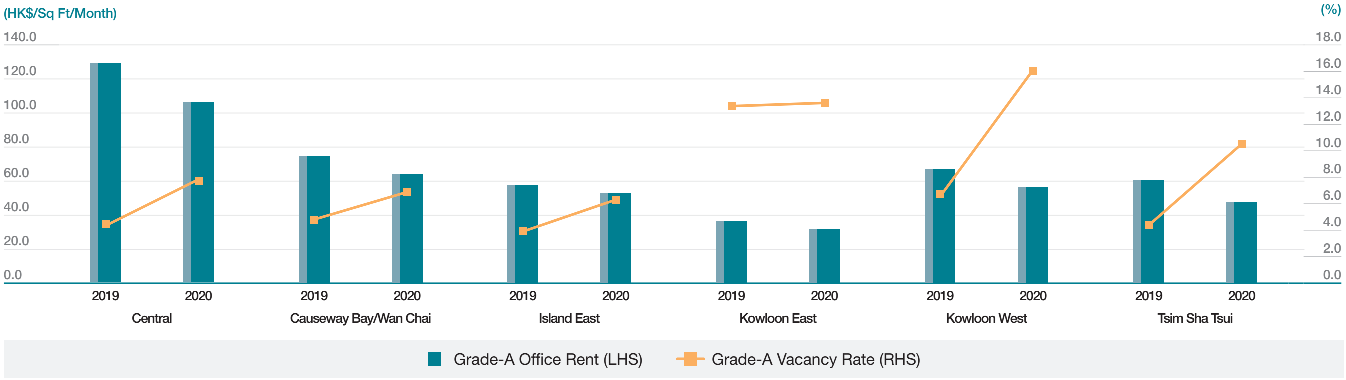
- The overall vacancy rate increased from 6.6% at the end of 2019 to 9.4% at the end of 2020. The worldwide economic recession led to many businesses surrendering part or all of their existing space, as downsizing and cost savings took priority.
- Coupled with concerns over lingering geopolitical tensions and the aftershocks of 2019's social incidents, international financial institutions and multinational corporations ("MNCs") were taking a wait-and-see approach in lease renewals or expansion in the city. In addition, travel restrictions imposed as a result of COVID-19 slowed down the entry of Mainland Chinese businesses to the city, pushing up vacancy rates, particularly in core office submarkets.
- For Kowloon East, the vacancy rate at the end of 2020 remained relatively stable at 13.6% compared to 13.4% a year ago, showing resilience due to the relatively affordable rental levels in the sub-market.
- For 1Q 2021, the overall vacancy rate increased slightly to 10.1% due to overall negative net absorption recorded for the quarter.

Grade-A Office Rents

(Effective Rent Based on Net Floor Area)

HK$62.3 **per sq ft per month** (End-2020) ↓ **15.9%** YoY

- The higher vacancy rate of Grade-A office buildings, cost-savings prioritisation for businesses and the surrendering of a significant amount of space within the more expensive office districts resulted in an overall rental decline of 15.9% YoY.
- The districts which saw the biggest declines in rent over 2020 were Central (-17.9%), Tsim Sha Tsui (-21.7%) and Kowloon West (-15.7%), as falling demand in these districts created downward rental pressure. Some non-core decentralised districts such as Island East (-8.7%) and Kowloon East (-12.9%) fared slightly better as these decentralised locations offered cheaper rental rates, which were seen as a more affordable rental proposition for some corporates.
- As tenants focused on saving costs, there were also more landlords contributing towards initial capital expenditure or providing extended rent-free periods.
- For 1Q 2021, the Grade-A office rents declined slightly by 1.9% quarter-on-quarter ("QoQ") to HK$61.1 per sq ft per month as the rising vacancy rates continued to create downward rental pressure.



INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Net Take Up[1]

-1.5m sq ft (in 2020)

- Overall net take-up for 2020 was negative for the first time since 2013. The weaker leasing demand reflects the significant impact that COVID-19 had on businesses, in particular for tenants associated with tourism, retail and aviation.
- In addition, concerns over economic uncertainties, geopolitical tensions and travel restrictions also caused many Mainland Chinese corporates and MNCs to pause their expansion and lease renewal plans.

Key Office Trends

- COVID-19 has accelerated the adoption of remote working, which may decrease workspace requirements in the future. Larger businesses are also considering flex and core models, partnering with co-working operators for greater office space flexibility. There is some anecdotal evidence of an increasing number of smaller businesses re-locating into co-working spaces.
- However, as social distancing requirements become important for workspace considerations, tenants might be required to allocate larger spaces between desks, which could offset the space reduction needs arising from remote working or flexible working.
- Most businesses and employees would argue that it is still important to have a physical office space as productivity can suffer when working from home for extended periods due to the small apartment size and the lack of social interaction with colleagues. Therefore, the longer term impact of COVID-19 will be seen more in how we work, with greater flexibility to choose to work from the office, home or elsewhere.
- One key leasing priority for tenants is cost optimisation. Hence, the decentralisation trend is expected to prevail as the rental gap between core and non-core districts remains significant.

Average Grade-A Office Capital Value

HK$20,202 per sq ft[2] (End of 2020)

17.0% YoY

Average Grade-A Office Yield

2.3% (End-2020)

0.1 Percentage Points YoY

- While the overall volume of investment transactions for 2020 was down by 20.3%[3] YoY, the sale of Cityplaza One for HK$7.3 billion in 4Q 2020 reflects that there is still liquidity and investor interest.
- Capital values across Hong Kong SAR saw a decrease of 17.0% at the end of 2020 compared to a year ago as both office rents and transaction volume decreased. As some strata-titled office units were transacted at relatively low prices, this also accelerated the price decline. The average Grade-A office yield at the end of 2020 remained relatively resilient, compressing by 0.1 percentage points, indicating that investors have not significantly adjusted their yield expectations despite the rental decline and vacancy pressure.
- As at end 1Q 2021, average Grade-A office capital value lowered slightly by 2.3% QoQ due to the drop in average rent, while average Grade-A office yield remained stable at 2.3% as investor sentiment held firm.

Outlook

- We expect rents to fall by a further 7.0% in 2021, and the vacancy rate to continue rising given sluggish leasing activity and 329,000 sq ft of new supply due to complete in 2021. However, rents and vacancy rates may stabilise in 2H 2021 depending on the implementation of the vaccination programme and the status of cross-border restrictions.
- Hong Kong SAR remains among the top three global IPO markets in the world and has recently seen a number of high-profile Mainland firms' listings. Office demand is also expected to come from these listed companies, as well as financial institutions related to the IPO process. As the negative impacts from the pandemic are reduced, other Mainland corporates will likely return to take up space.
- As Mainland firms traditionally prefer core office sub-markets such as Central, if there is another round of Mainland firms moving into the city, then the decentralisation trend may gather increased momentum as existing tenants move out to non-core areas like Kowloon East, similar to what was seen between 2015 and 2018.
- Capital values are forecast to further decline by 5% to 10% with market rents likely to fall further during 2021. Yields are likely to remain stable as investors have not materially changed their expectations.
- In the longer term, the National Security law is expected to create a more stable business environment in Hong Kong SAR and attract more Mainland Chinese companies to Hong Kong SAR.

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[1] Net take up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

[2] Based on GFA.

[3] Source: Rating and Valuation Department.

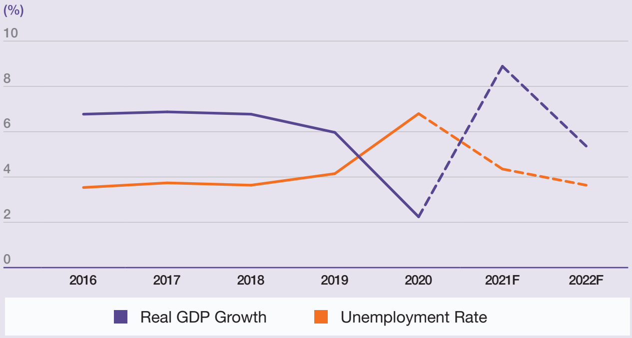
China

ECONOMY

- Despite the global economic recession caused by the impact of the COVID-19 pandemic, China outperformed major global economies in 2020 and was the only large economy to see positive GDP[1] YoY growth of 2.3% for 2020. This can largely be attributed to COVID-19 being mostly brought under control across the country by 1Q 2020, enabling businesses to continue without significant restrictions for most of the year.
- The unemployment rate across the country increased to reach 6.8% at the end of 2020 (compared to 4.2% at the end of 2019) as manufacturing businesses were affected by the reduction in international demand.

OUTLOOK

- The China National Bureau of Statistics forecast the economy to grow by 8.9% in 2021 as the country continues its post COVID-19 recovery.
- With the economy still dependent on manufacturing, future policy decisions by the new US administration on its China trade policy could have a bearing upon economic performance, although the EU-China trade deal could help to mitigate to a certain extent against future trade tensions with the US.
- Over the next few years, China's 'Dual Circulation' policy is expected to spur growth in technology-focused and innovation-led manufacturing and bring about more reliance upon domestic consumption and technological innovation, further boosting economic development.



Source: Oxford Economics

Beijing Office Market[2]

Existing Grade-A Office Supply

10.3m sq m (End-2020) **5.9%** YoY

- The Beijing office market consists of eight major sub-markets, comprising the Central Business District ("CBD"), Beijing Financial Street ("BFS"), Zhongguancun ("ZGC"), Dongcheng[3], Lufthansa[4], Wangjing, Asia-Olympic and Lize[5].
- In 2020, six major projects were completed, adding 604,950 sq m of new supply to the overall market.
- The total new supply for 2020 was less than initially predicted as construction delays in 1Q 2020 caused by COVID-19 resulted in three project completions being deferred to 2021.
- 16% of the new supply was concentrated in the CBD with the completion of Samsung Tower adding 100,000 sq m of new stock. Elsewhere, the new supply was distributed across Lize (51%), Dongcheng (18%), Lufthansa (7%), with the remaining 8% in other locations.

Beijing Grade-A Office Supply by Sub-market as at End-2020

CBD	**31%**
Dongcheng	**11%**
Asia-Olympic	**11%**
Lufthansa	**11%**
BFS	**9%**
Wangjing	**8%**
ZGC	**8%**
Lize	**7%**
Others	**4%**

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[1] GDP and unemployment rate figures are from Oxford Economics.

[2] All data and figures on the office market are from Colliers International (Hong Kong) Limited, unless otherwise stated. They relate to the eight office submarkets as outlined on this page. Unless otherwise stated, all area measurements are based on GFA. Please refer to Page 54 for the limitations of the report.

[3] The Dongcheng Business District comprises East Chang'an Avenue and East 2nd Ring.

[4] MNACT owns Gateway Plaza which is situated in the Lufthansa district with a GFA of 106,456 sq m.

[5] Lize is now included as one of the major office sub-markets as 307,950 sq m of new supply has been added in 2020.

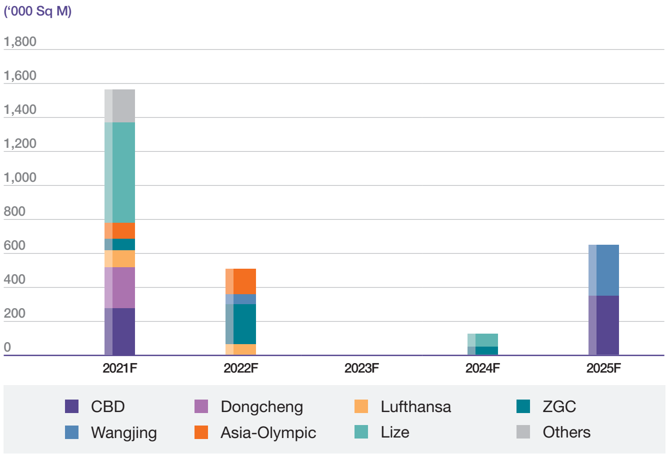
INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Potential Grade-A Office Supply

2.9m sq m From 2021F to 2025F in Total

- As some projects in 2020 were delayed by COVID-19, it is expected that 1,569,000 sq m of new completions, more than twice the new supply in 2020, will take place in 2021, with 38% of it occurring in the Lize sub-market.
- Over the next 5 years, the CBD is forecast to add another 625,000 sq m (22%) of new stock, while ZGC will add approximately 357,000 sq m (12%) of new stock. Lufthansa will add approximately 165,000 sq m (6%) of new stock with approximately 100,000 sq m (World Innovation Fusion Centre) due in 2021 and approximately 65,000 sq m (Zhong Tou on Xiao Yun Road) due in 2022. For Wangjing, approximately 360,000 sq m (13%) is expected to be completed by 2025.



Vacancy Rate

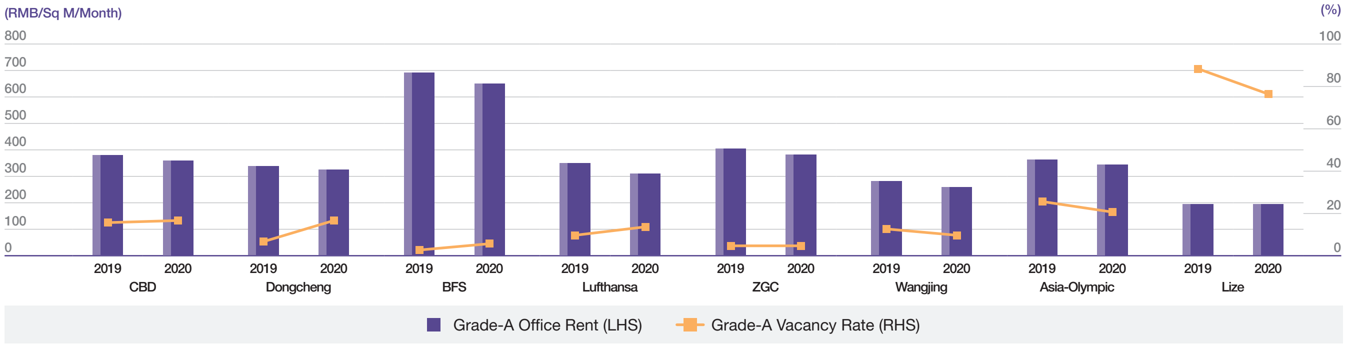
19.4% (Citywide)(End-2020) ⬆ **3.5** Percentage Points YoY

- Despite the lower than expected level of new supply in 2020, the citywide vacancy rate increased by 3.5 percentage points YoY as net take-up hit its lowest level since 2015.
- This was driven by the waning of the demand for office space from IT and co-working companies. Increased uncertainty about the short-to mid-term outlook also forced some companies in other sectors to scale back expansion plans and reduce operational costs.
- All sub-markets except for Wangjing, Asia-Olympic and Lize saw increases in vacancy rates. Wangjing in particular, saw vacancy decrease due to strong demand from technology companies, while Asia-Olympic and Lize saw vacancy fall as a result of limited new supply compared to previous years and the further absorption of existing stock. A number of tenants have also moved to Lize to take advantage of the lower rental levels.
- The vacancy rate in Lufthansa at the end of 2020 stood at 14.0%, up from 9.8% at the end of 2019. The government takeover of HNA Group resulted in some tenants moving out of HNA Plaza, which is located in the area. Some tenants also relocated to CBD and Wangjing, attracted by the new supply and lower rents, respectively.
- In 1Q 2021, Grade-A office vacancy improved by 0.6 percentage points QoQ to 18.8% as demand continued to gradually recover.

Grade-A Office Rents

RMB350.6 **per sq m per month** (Net Effective Rent End-2020) ⬇ **8.4** YoY

- Most landlords lowered their rents to attract tenants and accelerate absorption in response to the high vacancy rates caused by weak demand and new supply. Consequently, Grade A rentals fell by 8.4% YoY, representing the biggest annual rental decrease since 2010.
- The Lufthansa sub-market saw the biggest decline in rent of 11.8% over 2019, in part due to the pressure of new projects offering lower rentals in the southern CBD area. There was also a price gap between Lufthansa and the increasingly popular Wangjing sub-market, serving as a push-pull factor between the sub-markets and creating downward rental pressure in Lufthansa.
- For 1Q 2021, the average Grade-A office rent fell 1.2% to RMB 346.4 per sq m per month compared to 4Q 2020. While demand has started to gradually pick up, rents remain under pressure from the high level of supply coming on stream in 2021 and the existing high vacancy rate.



Net Take-up[1]

123,257 sq m (in 2020)

- While the COVID-19 pandemic has undoubtedly accelerated the slowdown in net take-up, demand had actually been dropping since 2H 2019 due to reduced levels of demand from IT and co-working companies as a result of the economic slowdown and trade tensions.
- Net take-up in 2020 fell by 66.8% as both the domestic and global economy felt the impacts of COVID-19. Whilst leasing activity began to pick up again towards the end of the year, led by a resurgent domestic IT sector, reduced activity in the first part of the year and continuing weaker demand from MNCs and co-working companies resulted in an overall negative figure for net take-up.
- Although current market conditions held back demand, domestic companies still formed the bulk of leasing demand, making up almost 80% of leasing transactions. Demand from foreign tenants was weak as many of their headquarters continued to face market uncertainties abroad.

Net take-up of Grade-A Office Space (GFA) by Industry in 2020[2]

■	Internet Technology	**37%**
■	Finance	**30%**
■	Manufacturing	**7%**
■	Professional Services	**7%**
■	Real Estate	**6%**
■	Medical and Healthcare	**5%**
■	Consumption Goods	**5%**
■	Others	**3%**

Key Office Trends

- One of the ongoing effects of COVID-19 is the rise in flexible working practices and home working, which may dent expansion plans of some companies and therefore, may have a slight impact on demand. However, the need for social distancing in offices, including placing desks further apart, may also offset the impact on demand. In the short term, however, the shift in working habits is likely to be more profound in other countries where cultural preferences, larger personal residences and working styles may be better suited to remote working.
- In September 2020, the State Council announced the formation of Beijing Free Trade Zone ("FTZ") and rolled out policies relating to tax deduction and talent introduction to attract high-end technology and services sector companies to expand or setup new offices in Beijing within the FTZ. This should effectively stimulate market demand for office space, reducing the vacancy rate.

Average Grade-A Office Capital Value

RMB68,350 per sq m (End-2020)

↓ **15.6%** YoY

Average Grade-A Office Gross Yield[3]

5.1% (End-2020)

↑ **0.4** Percentage Points YoY

- Following on from a small drop in 2019, capital values in 2020 continued to fall as the combined impact of tighter financing conditions, a global economic recession and rising vacancy rates tempered investor appetite, resulting in the average capital value falling by 15.6% YoY.
- The increase in Grade-A office yields by 0.4 percentage points over 2020 illustrated the reduced levels of investors' demand and risk appetite.
- As at end 1Q 2021, capital value increased by 2.8%, while gross yield contracted by 0.2 percentage points to 4.9% due to the slight improvement in investor sentiment and the continued economic recovery.

Outlook

- With a forecast 1.6 million sq m of new stock anticipated for 2021, the supply and demand imbalance should continue in the short term, which in turn should result in a decline in office rents and an increase in vacancy rate to around 23%.
- In the near term, as China's economy continues to recover and demand from IT and foreign companies begins to return, rents should start to bottom out by the second half of 2021 and recover gradually thereafter.
- In the longer-term, renewed leasing demand from the financial, IT and co-working sectors are expected to be seen from Beijing's opening-up of the services industry, development of the Beijing Free Trade Zone and the implementation of a digital trade pilot zone[4] within the ZGC submarket.
- There are a number of assets available for sale in Beijing and greater room for negotiation which should help to stimulate increased activity in 2021. Investment activities are also expected to increase with the introduction of the Three Red Lines policy[5] which will result in developers having to offload assets in order to help ease gearing ratios.

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[1] Net take up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

[2] Based on leasing transactions of 5,000 sq m or greater.

[3] Gross yields assume 100% occupancy.

[4] This zone will focus on digital trade and big data exchange, boosting the city's digital economy by improving the digital infrastructure. Its six key areas are namely construction, digital industrialisation, industry digitalisation, digital governance, data valuation, and digital trade development.

[5] China imposed the Three Red Lines guidance on developers against a backdrop of growing debt levels and rising land prices. Specifically, developers will have to meet three requirements before they can increase their debt levels. These include a ceiling on liabilities to assets ratio, a cap on net debt to equity and a minimum cash to short term borrowing ratio.

INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Shanghai Business Park Market[1]

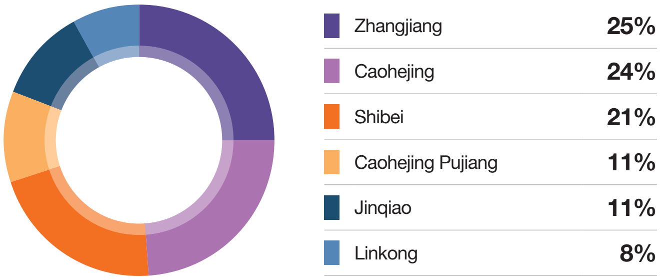
Existing Grade-A Business Park Office Supply

11.2m sq m (End-2020)[2]

⬆ **4.7%** YoY

- The six key business parks in Shanghai are Zhangjiang Science City[3] ("Zhangjiang"), Caohejing, Jinqiao, Linkong, Shibei and Caohejing Pujiang which have a total GFA of around 11.2 million sq m as at the end of 2020.
- As a result of weakened leasing demand and lockdown induced construction delays, new supply in 2020 was down by 18.3% compared to 2019, with around 530,000 sq m of new supply being added to the market.
- Of the new stock added in 2020, the majority was in Caohejing which added 213,000 sq m, followed by Jinqiao which added 156,000 sq m. There was only 74,000 sq m of new supply added in Zhangjiang in 2020.

Grade-A Office Stock by Six Business Parks as at End-2020

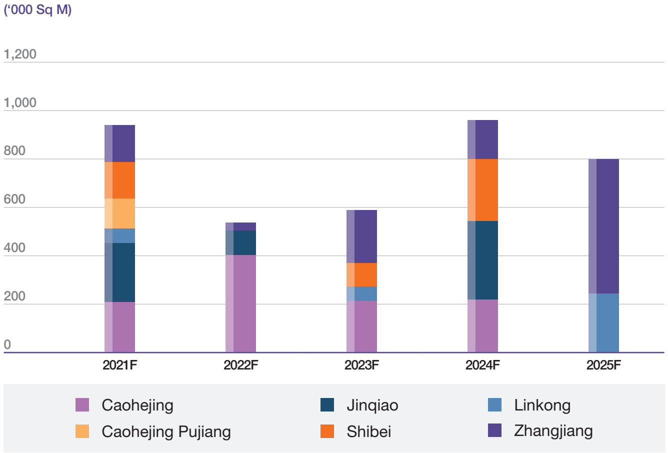


Potential Grade-A Office Supply

Around 3.8m sq m

From 2021F to 2025F in Total

- By the end of 2025, the total Grade-A office supply across the six key business parks is expected to reach approximately 15 million sq m.
- The majority of future supply over the next five years (approximately 3.8 million sq m) will be located in Zhangjiang (29%), Caohejing (27%), Jinqiao (18%) and Shibei (13%).
- In 2021, about 941,000 sq m of new stock will be added.
- Zhangjiang is expected to receive five new projects in 2021, totalling approximately 154,000 sq m. The largest of which is a retail and office composite scheme comprising 86,500 sq m of office space near to Guanglan Road Station on Line 2.



Vacancy Rate

20.6% (End-2020)

⬇ **1.1** Percentage Points YoY

- At the end of 2020, the average vacancy rate in the six key business parks of 20.6% was lower by 1.1 percentage points YoY, aided by the reduced new supply over the year and helped in part by the government's supportive stimulus plan and the relatively short lockdown period for COVID-19.
- Zhangjiang's vacancy rate dropped by 6.9 percentage points at the end of 2020 to reach 18.0%, the best performing business park in terms of reduction in vacancy, attributable to a healthy net take-up and reduced level of new supply in 2020 relative to previous years.
- For the other markets, all except for Shibei and Caohejing Pujiang saw increases in vacancy rates. The lower vacancy rates for the two markets were mainly due to lower than usual levels of new supply in 2020.
- For 1Q 2021, the average vacancy rate in the six business parks saw a slight increase of 0.3 percentage points to 20.9% compared to 4Q 2020 due to new supply in Caohejing and negative take-up for the quarter in Linkong and Jinqiao.

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[1] All data and figures are from Colliers International (Hong Kong) Limited and they relate to the six business parks as outlined on this page, unless otherwise stated. Please refer to page 54 on the limitations of the report.

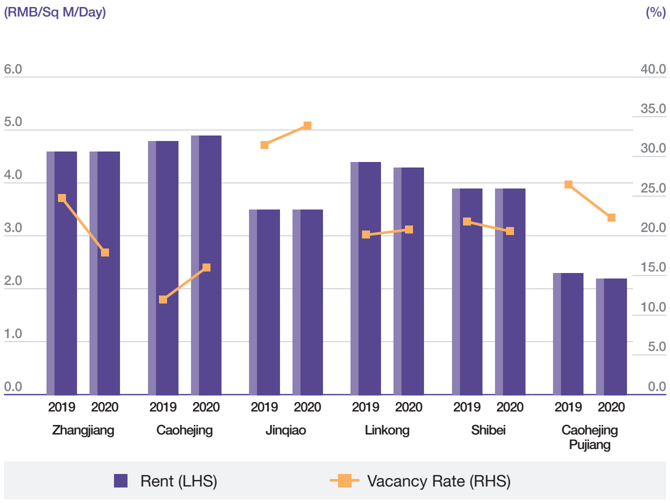
[2] Unless stated otherwise, all measurements are based on GFA.

[3] MNACT owns Sandhill Plaza located in Zhangjiang which has a total GFA of 83,801 sq m.

Grade-A Business Park Office Rents

RMB3.9 per sq m per day (End-2020) ⬇ **0.3%** YoY

- The average rent for Grade-A office space in the six key business parks stood at RMB3.9 per sq m per day, which is well below the RMB9.9 per sq m per day average for the prime high-rise office district of Lujiazui.
- The average rent was relatively resilient despite COVID-19 and only fell by 0.3%. While leasing improved over the course of the year, many firms focused on conservative strategies like renewals or cost-saving options.
- Zhangjiang Grade-A office rents increased by 0.7% as it continued to benefit from the further expansion of the technology and medical sectors, which have proven to be more resilient to COVID-19. In fact, Zhangjiang recorded the highest level of net take-up over 2020 compared to the other business parks.
- For the other business parks, only Linkong and Caoheijng Pujiang saw rents decline, decreasing by 3.0% and 3.3%, respectively. Both markets have been driven by vacancy pressures and negative take-ups, which exacerbated during COVID-19.
- For 1Q 2021, the average rents of the six key business parks edged up by 1.2% to RMB4.0 per sq m per day, supported by stronger demand as tenants continued to be attracted to the affordability of business parks compared to the CBD.



Net Take-up[1]

544,797 sq m (in 2020)

- Net take-up in 2020 recorded its lowest figure since 2016. At the onset of COVID-19, many tenants postponed expansion plans and instead looked to downsize. Demand did somewhat recover as the COVID-19 situation eased.
- The share of take-up from domestic companies continued to rise, fuelled in particular by e-commerce, IT and medical tenants who have continued to grow despite COVID-19 and trade tensions.
- By sector, IT companies continued to drive demand during 2020, accounting for 48.0% of take-up. This sector provided a boost to business parks such as Zhangjiang which are popular with the IT sector companies due to the pool of high-quality properties when compared to other business parks.

Net Take-up of Business Park Grade-A Office Space (GFA) in 2020 by Industry

■	Software Services	48%
■	Medical & Health	12%
■	Electronics	8%
■	Professional Services	5%
■	Finance & Insurance	4%
■	Real Estate	3%
■	Machinery	3%
■	Consumption	3%
■	Telecommunications	2%
■	Energy	2%
■	Chemicals	2%
■	Others	8%

Key Office Trends

- With office rents in CBD locations still averaging close to RMB10 per sq m per day, the decentralisation trend is set to continue as there remains significant value for tenants to decentralise to business park locations.
- The relatively short and successful lockdown in Shanghai allowed for a quick return to the offices with little time to fundamentally change working habits. Domestic corporates also have a cultural and business preference to work in the office, which is believed to maximise productivity as well as collaboration. Hence, the reduction of space in general in Shanghai due to remote working policies should be limited.
- Shanghai aims to be a global centre of science and technology by 2035 and the business parks are key to achieving this goal. We expect technology tenants will lead demand and dominate markets, helping determine rents, incentives, and deal structures. Specifically, the electronics hardware, pharmaceuticals and TMT sectors have shown resilient demand during COVID-19 and should support Shanghai's industry transformation in the long run.

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[1] Net take up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Average Grade-A Business Park Office Capital Value

RMB24,980 per sq m (End-2020) | ⬇ **9.5%** YoY (estimate[1])

Average Grade-A Business Park Office Gross Yield[2]

5.5% (End-2020) | ⬆ **0.5** Percentage Points YoY

- The average yield edged up 0.5 percentage points at the end of 2020, primarily as a result of investors' expectations based on the market conditions. Based on the yield of 5.5%, it would imply that the average Grade-A capital value could fall by 9.5%.
- As at end 1Q 2021, average capital value increased slightly by 1.0% QoQ following the increase in average rent while the average gross yield remained stable.

Outlook

- Rents should increase across most business parks in 2021, supported by the expansion demand from the IT, medical and integrated circuits sectors. Given these tenants' preference for high quality properties, core business parks with higher quality space will outperform the emerging parks.
- With the addition of new supply in 2021, the overall vacancy rate is expected to increase slightly.
- Yields are expected to remain stable as institutional investors are expected to place greater emphasis on business parks which are seen as providing more sustainable and stable cashflows.
- Under the Yangtze River Delta Master Plan, Shanghai will lead the region's technology innovation and promote the growth of two major science corridors, encouraging more advanced technology industries to congregate in the major business parks.
- The C-REIT pilot scheme was launched in early June 2021 and initially comprises nine REITs which have been approved to list. Of the nine, six of them predominantly own infrastructure assets, while three have business park assets in Shanghai, Suzhou and Shenzhen. The nine REITs will be listed on the Shanghai and Shenzhen Exchanges with a total fund raising of RMB31.4 billion. We may expect more launches of C-REITs with business park assets.

LIMITATIONS ON THE REPORT

This report is based upon Colliers' ("The Consultant") analysis, opinions and conclusions regarding market movement and trends. In making the assessment, the Consultant has relied to a considerable extent on the statistics and data that is available from third parties. The Consultant has not undertaken any independent verification of this data or information, and is unable to warrant the veracity or accuracy of the information.

The outlook, forecasts and opinions provided by the Consultant are based on events that have not yet happened and should therefore be regarded as a best guess projection, rather than a statement of fact.

Market evidence is, by its very nature, subject to a time lag and an element of projection is necessary in providing any outlook. Any market projections incorporated within this report are projections only and must be viewed as such, rather than as certainty.

The Consultant is unable to provide any warranty or assurance that any of the forecasts provided within the report will happen and the reader should not place any reliance upon the information provided.

This report is based on what is known at the date of writing. Any unforeseen future events or changes in any of the variables considered could significantly affect the outlook and the reader should be aware of this possibility.

All references to measurements are approximate only and the Consultant has not independently verified any measurements referred to in the report. Colliers International (Hong Kong) Limited can accept no liability to any third party who relies upon this information.

HANNAH JEONG

Head, Valuation & Advisory Services,
Colliers Hong Kong

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[1] As there were limited transactions during the year, the capital value was computed based on the citywide average rents for business parks of RMB3.8 per sq m per day and average yield of 5.5%.

[2] Average yields assume 100% occupancy.

INDEPENDENT MARKET RESEARCH

BY CBRE K.K.

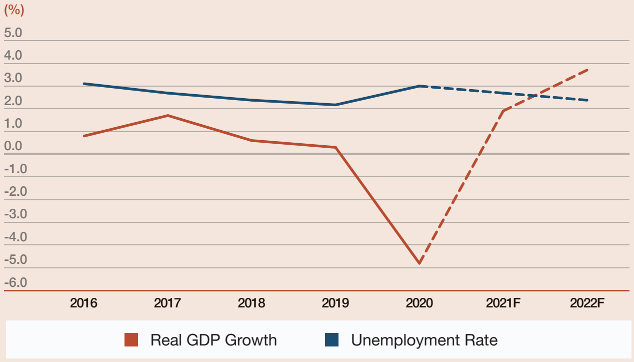
Japan

ECONOMY

- The Japanese economy sharply contracted following the onset of the COVID-19 pandemic and the government's declaration of a nationwide state of emergency during April and May 2020. Real GDP fell by 4.8% yoy in 2020, the first contraction since 2009.
- While the contraction in the economy has affected the labour market which saw an increase in unemployment rate from 2.2% at the end of 2019 to 3.0% at the end of 2020, the impact has been relatively limited, thanks to the emergency economic measures by the government, including enhanced subsidy for leave allowance, provision of zero interest non-collateral loan, and cash payments to small and medium enterprises. The projected size of the stimulus measures totalled JPY307 trillion, equivalent to approximately 55% of 2019 real GDP.

OUTLOOK

- For 2021, while CBRE expects the GDP to recover YoY by 1.9% due to the dissemination of COVID-19 vaccines starting from February 2021 and an increase in personal consumption and manufacturing activity, the resurgence of infections and emergency measures to curb economic activities are likely to impact the economic recovery.
- The Tokyo Olympics/Paralympics will be held as planned. However, the likely restrictions on audiences and no foreign audiences would mean that the economic benefits of the Tokyo Olympics/Paralympics would be considerably smaller than initially expected.



Source: 2016 – 2020 GDP growth figures from the Cabinet Office of Japan, while 2021 and 2022 GDP forecasts are from CBRE. 2016 to 2020 unemployment figures are year-end figures from Ministry of Internal Affairs and Communications while the 2021 and 2022 forecasts are from Oxford Economics.

Greater Tokyo Office Market[1]

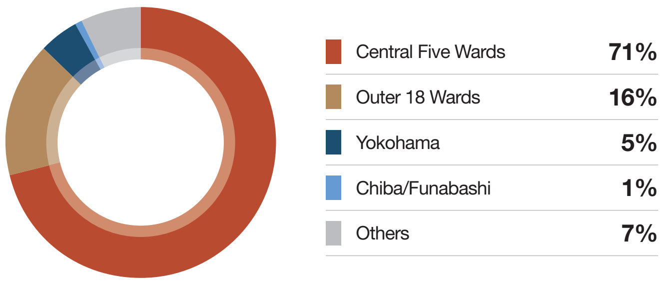
Existing All-Grade Office Supply

8.6m tsubo[2] (End-2020)

⬆ **3.4%** YoY

- The Greater Tokyo Area's office market[3] comprises Tokyo Metropolis (including the 23 wards of Tokyo), Chiba Prefecture, Kanagawa Prefecture (with Yokohama City as the capital) and Saitama Prefecture.
- As at 4Q 2020, existing All-Grade office supply in the Greater Tokyo Area is 8.6 million tsubo. A majority of the office stock in Greater Tokyo is concentrated in the central five wards (Chiyoda, Chuo, Minato, Shinjuku and Shibuya), accounting for 71% of the stock by net lettable area. The outer 18 wards make up another 16% of total office stock in Greater Tokyo, with the remaining in suburban Tokyo and the other prefectures.
- New supply of office space of approximately 0.3 million tsubo in 2020 increased the overall supply by 3.4% YoY. 77% of the new supply in 2020 was in the central five wards, reflecting high demand for the area. New additions included Grade-A buildings[4] such as Otemachi One Tower in Chiyoda ward and Kamiyacho Trust Tower in Minato ward.
- In Ikebukuro where one of MNACT's Japan Properties, TS Ikebukuro Building, is located, Hareza Tower, a Grade-A minus building with approximately 12,000 tsubo of net lettable area, was completed.

Existing All-Grade Office Supply by Area



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[1] All data and figures on the office market are from CBRE K.K., unless otherwise stated. Please refer to page 58 for the limitations of the report.

[2] The data covers office buildings for lease in office markets in 13 major cities nationwide with GFA of 1,000 tsubo or more, and compliant with Japan's 1981 earthquake resistance standards. 1 tsubo = 3.3058 sq m = 35.58 sq ft.

[3] The office areas in each city/ward are classified based on CBRE's internal specifications.

[4] Grade-A buildings are located in the central five wards, have GFA of more than 10,000 tsubo, NLA of more than 6,500 tsubo with typical floor plates of more than 500 tsubo and are less than 11 years of building age.

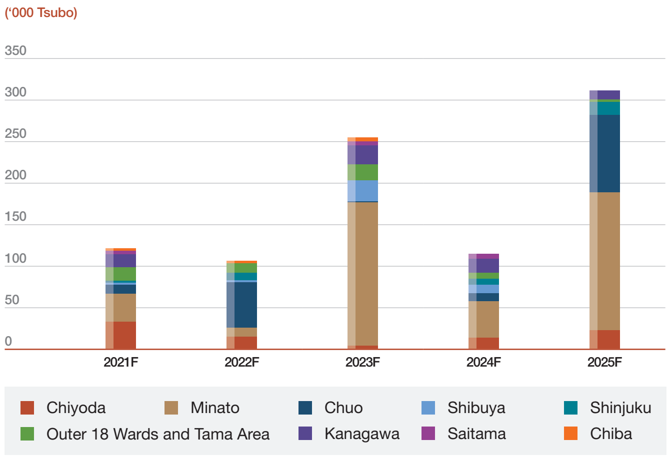
INDEPENDENT MARKET RESEARCH

BY CBRE K.K.

Potential Office Supply[1] in Greater Tokyo

0.9m tsubo From 2021F to 2025F in Total

- The volumes of new supply planned for 2021, 2022 and 2024 are relatively limited. However, supply volumes in 2023 (at 27.7%) and 2025 (at 34.0%) are expected to far exceed the average, impacting the supply-demand balance.
- Upcoming office supply over the next five years will be concentrated in the central five wards (at 83.3%). The outer 18 wards of Tokyo will only receive 6.8% of the new office supply over the next five years, while Yokohama will receive 7.4% of the new office supply.
- There is no identified supply in Makuhari, Chiba from 2021 to 2025.



All-Grade Vacancy Rate

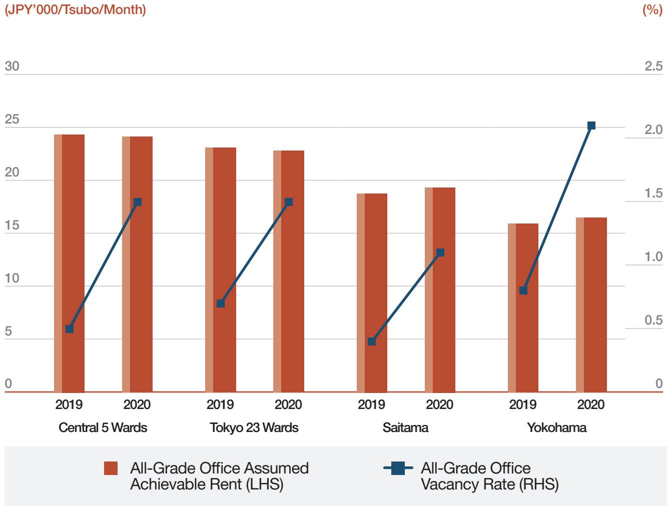
1.5% (Tokyo 23 Wards, End-2020)[2] ▲ **0.8** Percentage Points YoY

- 2020 saw the downsizing of some office space for the purposes of cost cutting as well as due to changes in work styles promoted by COVID-19 (such as telecommuting), particularly among small-to-medium-sized buildings. Moreover, the take-up of secondary vacancies in existing buildings caused by new buildings that came onstream during the year was slow due to weakened demand. As a result, the all-grade vacancy rate for Tokyo 23 wards ticked up from an all-time low of 0.7% to 1.5% at the end of 2020.
- For the central five wards, vacancy rate increased from 0.5% at the end of 2019 to 1.5% at the end of 2020.
- For Yokohama, vacancy rate rose to 2.1%. This was not due to negative net absorption, however, but due to a secondary vacancy which was belatedly actualised in 2020, a few years after a large-scale tenant's relocation.
- In the Chiba/Funabashi market, the impact of the pandemic was not noticeably observed. Conversely, due to no new supply and positive demand for decentralised office space during the year, vacancy rate improved from 3.5% to 1.3%[3].

All-Grade Office Rents[4]

JPY22,870 **per tsubo per month** (Tokyo 23 Wards)(End-2020) ▼ **1.2%** YoY

- Cancellations and contractions in floor space due to cost cutting and changes in office strategy which was relatively frequent in small-to-mid scale buildings at the beginning of 2020 began to be more evident in larger properties, leading to asking rents being slightly lowered in several Grade-A buildings. As a result, rents for the central five wards and Tokyo 23 wards slightly fell, by 0.9% and 1.2%, at the end of 2020, respectively.
- On the other hand, Yokohama saw a rise by 3.4% in rentals in 2020. In addition to the steady office demand, the higher rentals secured by a newly delivered building, which is competitive in both location and building specifications, contributed to the positive trend.
- In 1Q 2021, rents for the central five wards and Tokyo 23 wards fell by 1.2% and 1.3%, respectively, while rents for the Yokohama area also followed the trend with a slight drop by 0.3%.



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[1] The data covers identified pipelines of new office buildings for lease in office markets set by CBRE, with more than 2,000 tsubo of GFA.

[2] Only units that are available for immediate occupancy are included.

[3] CBRE's vacancy rate data for the Chiba/Funabashi market covers 53 buildings that are reasonably similar in terms of locations and specifications.

[4] Assumed achievable rent estimated by CBRE (face rent including common area maintenance ("CAM")). CBRE does not have data available for the Chiba/Funabashi Area.

Net Take-up[1]

210,000 tsubo (in 2020)(Greater Tokyo Area)

- There was a positive net absorption of approximately 210,000 tsubo in the Greater Tokyo Area, the lowest level over the past five years.
- Concerns over the economic outlook have made many corporations cautious about capital expenditure, leading to a decrease in new office openings or expansions. Spaces sought after have become smaller compared to pre-pandemic. This has led to several larger buildings currently under construction, located mostly in the central five wards, taking longer to secure pre-leased tenants.

Key Office Trends

- In addition to economic stagnation, the pandemic has also served as a catalyst in changing the role of the office. Many companies are now reviewing their office strategies in consideration of changes in work styles. Although small-to-mid size buildings have experienced vacancy increases due to downsizing and cancellations, the outlook for office demand will be more certain, be it contraction or expansion, as larger-scale tenants fix their office strategies.
- Although cost cutting and contraction are trends in the current market, the role of the office may be more important in a different way than in pre-pandemic times. In addition, satellite office is expected to expand its market presence as more satellite offices were opened in 2020 than ever before. According to CBRE's Occupier Survey[2], occupiers experience a number of issues in implementing remote working. The most commonly raised issues in the survey were "communication among employees" and "management of team and subordinates", both of which were identified by more than 70% of respondents. In future, offices are likely to be required to take on a more prominent role as facilitators of communication than they have in the past. The volume and quality of communication are considered to impact efficiency and productivity of work. This renewed focus on the importance of the office's role in communication may even lead to increased office occupancy rates with the return of workers to the office in the post-pandemic market.

Average Prime Office Capital Value[3]

JPY17.4m **per tsubo** (End-2020) ↓ **3.0%** YoY

Average Prime Office Yield

2.6% (End-2020) No Change YoY

- Office investment volume increased slightly in 2020 compared to 2019, which suggests that investors' appetite for offices is still steady from a long-term perspective, with a view to post COVID-19, although there is uncertainty about the demand outlook due to changes in work styles.
- However, average capital value of Grade-A buildings was lower by 3.0% in 2020 compared to 2019, due to a more cautious attitude among investors in response to the uncertainty wrought by the pandemic and a decline in rents.
- Average prime office yield in the central five wards hovered at 2.6%, the same level as 2019. The flat cap rate reflects the tight demand-supply balance in the real estate investment market in Tokyo, as investors' appetite for real estate remains high amidst the low interest rate environment.
- The outer 18 wards and Yokohama area saw slight decompression in their prime cap rates at 3.9% and 3.9%, respectively, while Chiba/Funabashi area saw more decompression to 4.8%.
- At the end of 1Q 2021, average capital values (based on CBRE's assumed achievable rent and estimated prime cap rate) of Grade-A office buildings was down 1% QoQ, while average prime cap rate remained flat QoQ at 2.6%.

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[1] Net take up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

[2] Conducted in October 2020.

[3] CBRE estimates are based on Grade-A assumed achievable office rents as well as cost assumptions.

INDEPENDENT MARKET RESEARCH

BY CBRE K.K.

Outlook

- While CBRE forecasts that GDP will recover by 1.9% in 2021, the rebound in real estate occupier market is likely to lag that of the overall economy because many companies are in the midst of reviewing their office strategies. Because those strategies are likely to be formulated at the start of the new fiscal year in April, office leasing activity is not likely to materialize until mid-2021.
- A noticeable increase in vacancy rate is anticipated in 2021. The increase is likely to be more severe in the central five wards compared to the other 18 wards with more large-scale tenants who will formulate office strategies and move forward.
- The downward rent adjustment will become more evident in 2021. Downsizing of office space as a cost-cutting measure, as well as due to changes in work styles is more likely to be apparent in large-scale buildings, which will lead to the slower take-up of new Grade-A office spaces.
- The above trend is expected to be moderate in the other 18 wards and areas surrounding Tokyo 23 wards such as Yokohama and Chiba/Funabashi areas. Due to the higher concentration of headquarters of large companies within the central five wards, the negative impact on vacancy rate caused by contractions/move-outs by these tenants is anticipated to be much larger compared to other areas. The decentralised and suburban areas, on the other hand, have relatively smaller tenants, and thus, the above trend has less impact on the market. In addition, these areas have a potential to absorb needs for cost cutting with their relatively affordable rental levels.
- As for real estate investments, CBRE estimates the total volume for 2021 to be about the same as in 2020. Since loose monetary policy is likely to continue, interest rates should remain low for longer, keeping the cost of capital low, while also ensuring real estate continues to attract investors. Given the unclear outlook for office demand due to the introduction of remote working, investors are likely to become more selective with regard to offices. Expecting further decline in rents and the above-average new supply in 2023 and 2025, a slight increase in prime office yield is anticipated.

LIMITATIONS ON THE REPORT

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

This report presents current as well as the likely future market conditions as perceived by the markets. For any “forward-looking statements” in the report, CBRE assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. The estimation of the future demand and supply for office market may not materialize and unanticipated events and circumstances may occur; therefore, actual results may vary from our estimates and variations may be material.

CBRE does emphasize that the estimation of future market conditions and outlook should be regarded as an indicative assessment of possibilities rather than absolute certainties. CBRE confirm that, as at 30 April 2021, 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 quality, contradict or have an impact on the information disclosed.

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水谷 賀子

SHIGEKO MIZUTANI
Executive Director
Head of Valuation Advisory & Consulting Services

INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED AND COLLIERS INTERNATIONAL (KOREA) LIMITED

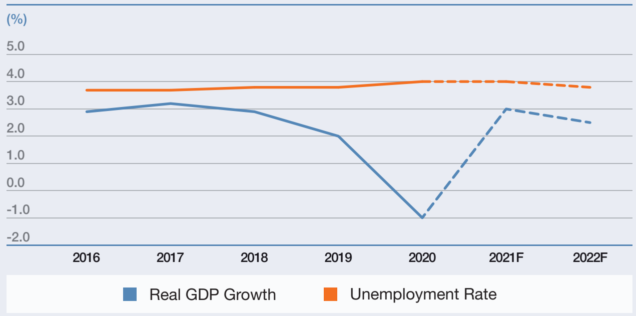
South Korea

ECONOMY

- South Korea recorded a marginal negative growth of 1.0% YoY in 2020, representing one of the best performances among major economies, second to China, as its large manufacturing industry, well-established online shopping base and pandemic-response measures buoyed its economy.
- The country's unemployment rate remained subdued at 4.0% at the end of 2020 amid the economic fallout from COVID-19. Nonetheless, South Korea's unemployment rate is still significantly lower than other major economies.

OUTLOOK

- The country's economy is expected to pick up with real GDP growth forecasts at 3.0% in 2021 and 2.5% in 2022, according to the Bank of Korea, led by recovery in exports and investments.
- The unemployment rate is expected to remain at 4.0% in 2021. This is due to restrictive measures to contain a resurgence in COVID-19 infections, partially mitigated by the government's KRW3.06 trillion budget to create job opportunities and support employment.



Note: Real GDP and YoY variance represents chained 2015 year prices, seasonally adjusted.

Source: Real GDP and unemployment rate figures from 2016 and 2022F are from the Bank of Korea (based on February 2021 estimates).

Seoul Office Market[1]

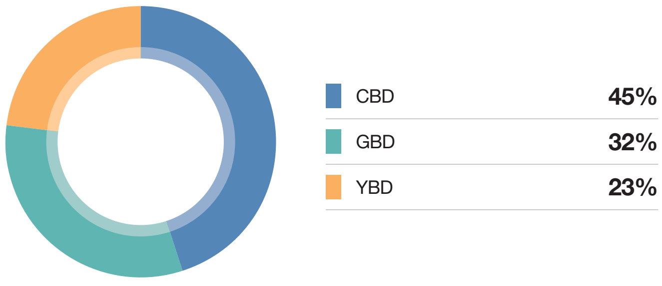
Existing Grade-A Office Supply

(Within the Three Core Business Districts)

2.6m py (End-2020) ↑ **8.1%** YoY

- The Seoul office market consists of three core business districts: the Central Business District ("CBD"), the Gangnam Business District ("GBD")[2] and the Yeouido Business District ("YBD").
- The CBD, being the historical centre of Seoul, is home to many headquarters of multinational companies and Korean conglomerates. The GBD is the second largest business district in Korea, known to be the preferred location for IT, technology, media, fashion and pharmaceutical corporates. The YBD is a financial hub housing financial and business services firms and major securities firms.
- There are also several secondary business districts including Bundang and Pangyo Business Districts ("BBD") spread across Seoul.
- A total of 194,000 py of space was completed in 2020, the highest level over the past ten years.
- In the GBD, new supply remained limited with only one Grade-A office building added in 2020, namely the HJ Tower (12,700 py).

Grade-A Office Supply by the Three Business Districts in Seoul, as at End-2020[3]



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[1] All data and figures on the office market are from Colliers International (Hong Kong) Limited and Colliers International (Korea) Limited and relates to the three core business districts outlined on this page, unless otherwise stated. 1 pyeong ("py") = 3.30579 sq m. Please refer to page 62 for the limitations of the report.

[2] MNACT has an effective interest of 50.0% in one office property – The Pinnacle Gangnam – in GBD, Seoul with a GFA of 44,444 sq m.

[3] This pie chart includes new and existing office supply stock as at end-2020.

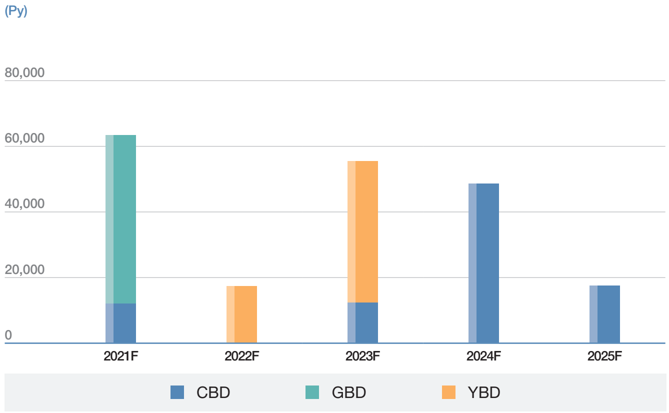
INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED AND COLLIERS INTERNATIONAL (KOREA) LIMITED

Potential Grade-A Office Supply

0.2m py From 2021F to 2025F in Total

- In 2021, office supply in Seoul will be limited to two new Grade-A office buildings in the CBD and the GBD, totalling 63,100 py. Located in the GBD, Centerfield (formally Renaissance Parc) was completed in January 2021 and occupies a total GFA of 51,100 py.
- From 2022 to 2025, approximately 138,600 py of new Grade-A office stock is expected to come onstream in Seoul, of which approximately 57% and 43% will be located in the CBD and the YBD, respectively, with no new supply in the GBD area.



Vacancy Rate

(For the Three Core Business Districts)

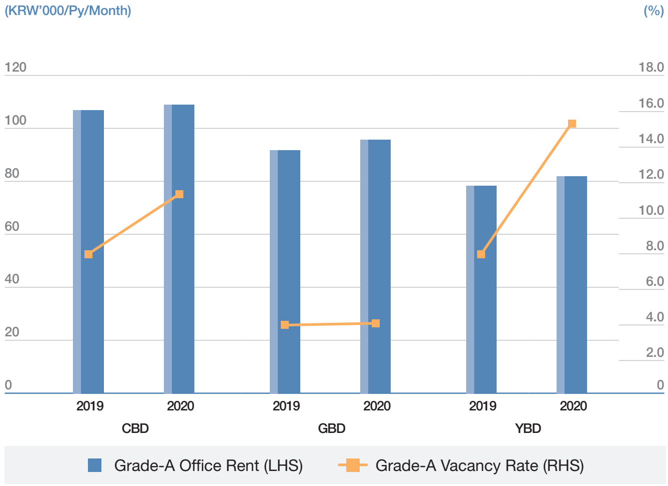
9.9% (End-2020) ↑ **3.4** Percentage Points YoY

- The overall Seoul Grade-A office vacancy rate increased by 3.4 percentage points, as leasing demand tapered due to the recession induced by COVID-19. Vacancy was also driven up by the launch of new buildings particularly in the YBD.
- In the CBD, the average vacancy rate was 11.3% (+3.4 percentage points YoY) while the average vacancy rate was 15.3% (+7.4 percentage points YoY) in the YBD.
- In the GBD, however, the average vacancy rate recorded only a slight increase to 4.0%, from 3.9% at the end of 2019 due mainly to strong resiliency in leasing demand from the manufacturing, banking and finance services and IT sectors.
- Overall, the Seoul Grade-A office vacancy rate at the end of 1Q 2021 edged up slightly by 0.2 percentage points to 10.1%, mainly driven by the relocation of some major tenants from the GBD to other districts and the completion of Centerfield in the GBD.

Grade-A Office Rents

KRW98,800 **per py per month** (Net Effective Rate End-2020) ↑ **2.6** YoY

- Average Grade-A office net effective rent in the three key submarkets in Seoul increased 2.6% YoY despite COVID-19. In general, tenants of Grade-A office buildings in the three core business districts are subject to step-up rents during their lease terms, ranging from 2% to 3% per annum.
- By district, the GBD saw a 4.4% YoY increase to about KRW96,000 per py per month by the end of 2020, reflecting continued demand from the manufacturing, banking and finance services and IT sectors amid limited new supply. The average net effective rent in the CBD grew by 2.1% YoY due to step-up rents in most lease terms and higher rents achieved from new office completions, despite a notable increase in new supply. Buoyed by the high rentals of new prime buildings such as Parc 1 Tower 1 and 2, the YBD enjoyed a notable rental growth of 4.5% YoY by the end of 2020.
- For 1Q 2021, the average Grade-A office net effective rent edged up by 1.1% QoQ, supported by the higher rents achieved for new Grade-A office spaces. This was particularly noted in the GBD, which saw the highest growth (+2.4% QoQ) in net effective rent among the three core business districts.



Net Take-Up[1]

46,900 py (in 2020)

- Net-take up fell by 48.8% in 2020 from 91,600 py recorded in 2019. The impact of COVID-19 materialised in the form of space reductions, relocations to cheaper secondary office buildings and even business shutdowns, especially for industries hard-hit by the pandemic.
- Similarly in the GBD, the net-take up declined significantly due to several large-scale tenant relocations seen throughout 2020. Nonetheless, upgrade demand from IT, banking and financial services sector as well as new demand from flexible workspaces partially mitigated such negative absorption. As a result, the net take-up was 7,400 py, down 57.5% YoY from 17,500 py in the previous year.
- The CBD was the most impacted district, with net take-up of 8,300 py, declining by 87.5% from 2019.
- However, for the YBD, net take-up increased by 310.5% to 31,100 py mainly due to low-base effect of lower absorption in 2019, higher take-up of new leases at newly completed buildings and expansion needs of existing tenants.
- Overall, Seoul's net take-up in 2020 was led by Banking, Finance & Insurance (35%), Manufacturing & Energy (20%) and IT (11%) sectors.
- Sectors which saw elevated demand during 2020 were the IT, gaming, biotech, and pharmaceutical industries, while industries directly affected by COVID-19 include overseas construction and international consumer brand sectors.

Net Take-up of Grade-A Office Space in 2020 by Industry

Banking, Finance & Insurance	35%
Manufacturing & Energy	20%
Information Technology	11%
Professional Services	11%
Public, Government & Non-profit	6%
Telecommunications, Media & Communication	4%
Construction & Engineering	4%
Flexible Workspace	3%
Others	6%

Key Office Trends

- 2020 saw several large corporates consolidate all of their dispersed subsidiaries in their headquarter buildings to increase productivity and inter-departmental synergies.
- Attracted by newer supplies and lower-cost options, companies are now increasingly considering other submarkets and emerging business districts like BBD in addition to the three key submarkets of the CBD, GBD and YBD.
- Nonetheless, demand for office space in the three key submarkets in Seoul remains strong with continued expansion plans mainly from large IT companies.
- In addition to the consolidation initiatives to traditional office spaces, companies are also increasingly adopting flexible working policies and satellite offices as part of their business continuity plans and social distancing measures. This has resulted in increasing demand for distributed and shared offices within the major business districts as well as outer Seoul.

Average Grade-A Office Capital Value

KRW23.2m per py (End-2020) | ↑ **5.4%** YoY

Average Grade-A Office Net Yield

3.8% (End-2020) | ↓ **0.4** Percentage Points YoY

- In 2020, Seoul's office investment market remained active, recording KRW12.9 trillion, and Grade-A office capital value saw a 5.4% YoY increase at the end of 2020.
- The resilient investment activity and prices were a result of South Korea's effective control measures during COVID-19, low interest rates and the government's decision to expand already accommodative fiscal policies put in place to offset the effects of COVID-19. The GBD remains a popular submarket for office space due to the scarcity of offerings in the area, constantly achieving record-high transactions throughout 2020.
- Accordingly, the average net market yield for the overall Seoul Grade-A office market, as at 4Q 2020, compressed by 0.4 percentage points to 3.8% on the back of strong investor sentiment. By submarket, the net market yield for the CBD remained the most compressed ranging between 3.25% to 4.0%, followed by the GBD (3.5%-4.0%) and the YBD (3.75%-4.25%).
- At the end of 1Q 2021, the average capital values of transacted Grade-A office buildings in Seoul fell slightly by 0.9% QoQ, as the majority of the assets transacted were situated in non-core locations and/or of lower specifications compared to those transacted in 4Q 2020. The average Grade-A office net market yield, however, further compressed to 3.5% on the back of robust investment sentiment.

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[1] Net take up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

INDEPENDENT MARKET RESEARCH

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED AND COLLIERS INTERNATIONAL (KOREA) LIMITED

Outlook

- In line with the economic recovery in 2021, the average performance of the Grade-A office market in Seoul is expected to improve.
- Average net effective rent of the Grade-A office market in Seoul is forecast to see continuous growth, increasing by approximately 1.1% to KRW99,900 per py per month in 2021 and further to KRW100,800 per py per month in 2022.
- The overall Grade-A office stock supply in Seoul is expected to be limited from 2021 to 2023, growing at approximately 2% per annum, one of the lowest rates in Asia Pacific. In the GBD, the average vacancy rate is expected to rise slightly to 6% mainly due to the recent new supply in the short term but gradually decline to around 4% by 2024, supported by the stable demand from the IT industry and no new supply until 2025.
- The investment market outlook for Grade-A offices in Seoul remains positive, fuelled by both domestic and international players looking for opportunities in a stable yet growing market. In addition, given abundant liquidity and low interest rates, there is incentive to invest in Grade-A offices in Seoul, where the average net market yield as at 1Q 2021 is considered relatively high at 3.5% compared to other developed cities in Asia Pacific.
- With the recent announcement of the K-New Deal, a KRW160 trillion spending programme by the government in response to the COVID-19 induced recession, the GBD is expected to strengthen its position as the IT hub, acting as the main base for the Digital New Deal programme aimed at accelerating Seoul's transition towards a digital economy.

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