SEE A BRIGHTER WAY

Asia Pacific Capital Tracker Q3 2023

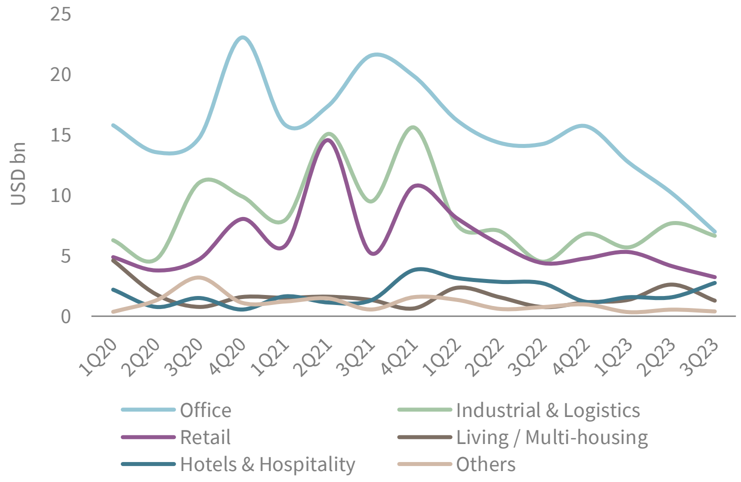
Emerging paradigms

October 2023

APAC volumes lowest in 13 years

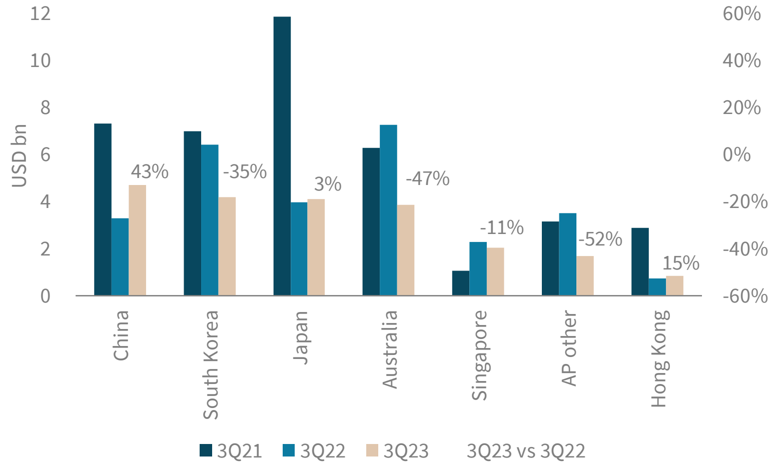
- Asia Pacific investment volumes moderated 22% YoY to **USD 21.3bn** in Q3, the lowest quarterly figure recorded since Q2 2010. Office and retail continued to experience sharp contractions, while industrial & logistics and living / multi-housing remained resilient.
- **China** was the most active market with volumes of USD 4.7bn, increasing 43% YoY from a low base, despite limited participation of overseas investors. Domestic investors and corporate occupiers were interested in industrial & logistics and business park flex/R&D assets.
- **South Korea** garnered USD 4.2bn worth of transactions, falling 35% YoY as domestic investors have already exhausted a large portion of their blind funds. Office volumes shrank as sentiment amongst global core investors remained subdued.
- **Japan** volumes were USD 4.1bn, growing 3% YoY. Industrial & logistics remained an active sector, with two notable portfolio acquisitions made by domestic investors. Listed J-REITs acquired hotel portfolios amid a rapid tourism recovery and rising prices.
- **Australia** registered USD 3.8bn, declining 47% YoY. The investment market remained slow as price discovery continued amid rapid funding cost changes. Yet institutional investors made notable acquisitions of industrial & logistics and student housing assets.
- **Singapore** volumes declined 11% to USD 2.0bn. Notable acquisitions were recorded in the hotels & hospitality and retail sectors.
- **Hong Kong** volumes reached USD 0.8bn, rising 15% YoY from a low base. Most of the transactions were of small lump sums involving strata-title assets for owner occupation.

Asia Pacific transaction volumes by sector



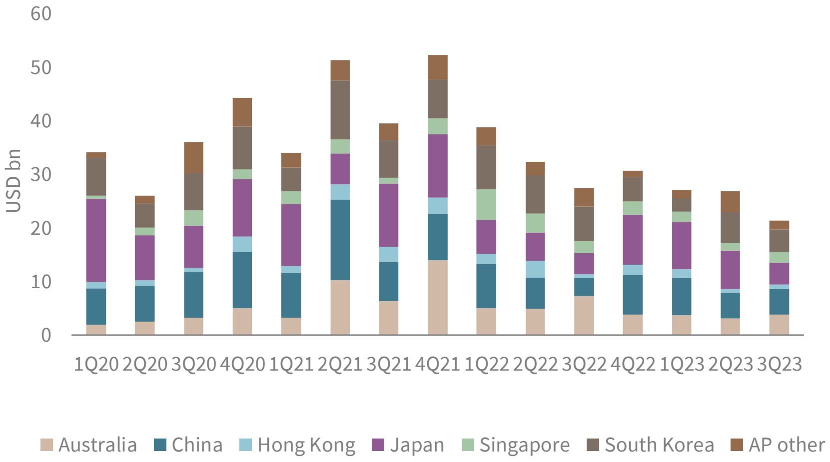
Source: JLL Research, as at Sep 23

3-year transaction volume comparison



Source: JLL Research, as at Sep 23

Transaction volumes by geography



Source: JLL Research, as at Sep 23

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Cross-border slump

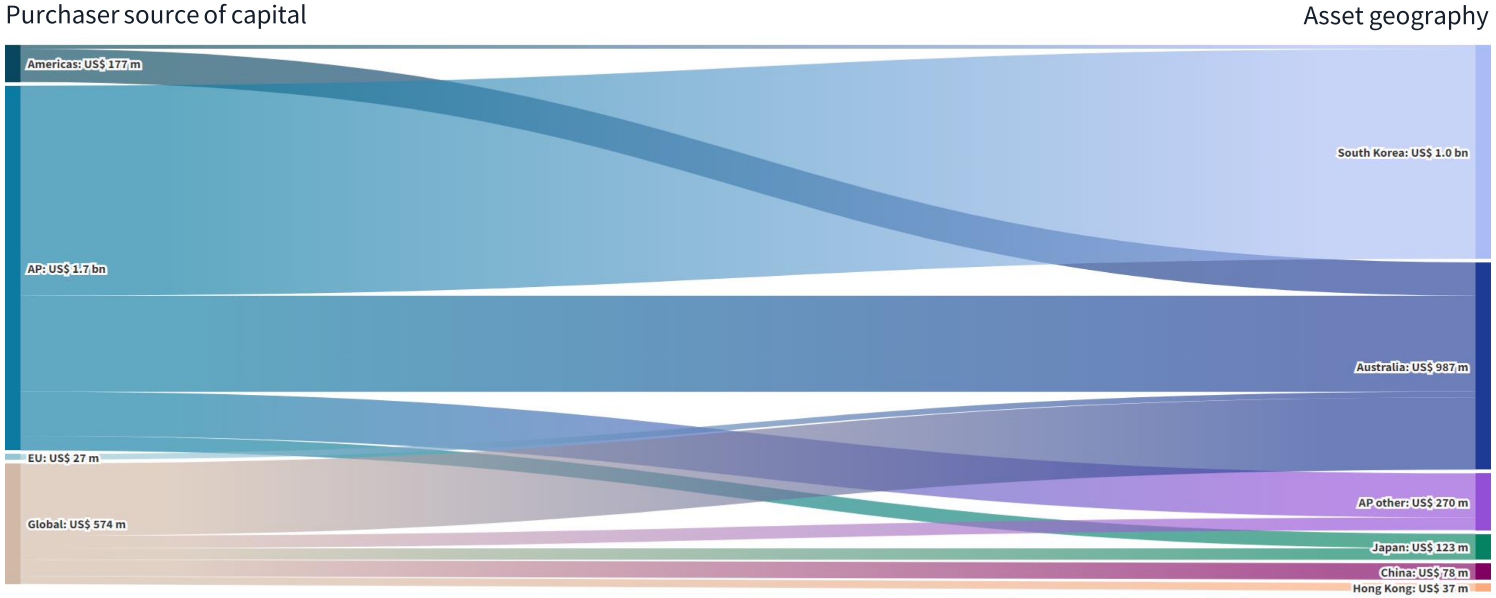
- In Q3 2023, cross-border investment volumes in APAC registered **USD 2.5bn**, plummeting 66% YoY. Interest rate and pricing uncertainties continued to keep cross-border activities modest. **Singapore** capital was the most active cross-border investors, making large acquisitions in Australia and South Korea and accounting for 56% of the quarterly volume, in a drive to diversify geographically.

- **South Korea** attracted the most cross-border capital amongst APAC geographies, most of which were from Singapore. As domestic institutional investors were facing liquidity issues, foreign investors could be in a better position to acquire competitive assets in the country, wherein the cost of debt has started to come down.

- Overseas investors remained interested in **Australia** due to its strong fundamentals and well-capitalised commercial real estate market. Living / multi-housing has been a burgeoning sector with strong rental demand and diversified product offering. Notably, **Blackstone** acquired a student housing portfolio in Brisbane from **Valparaiso Capital Partners** on the back of the influx of international students.

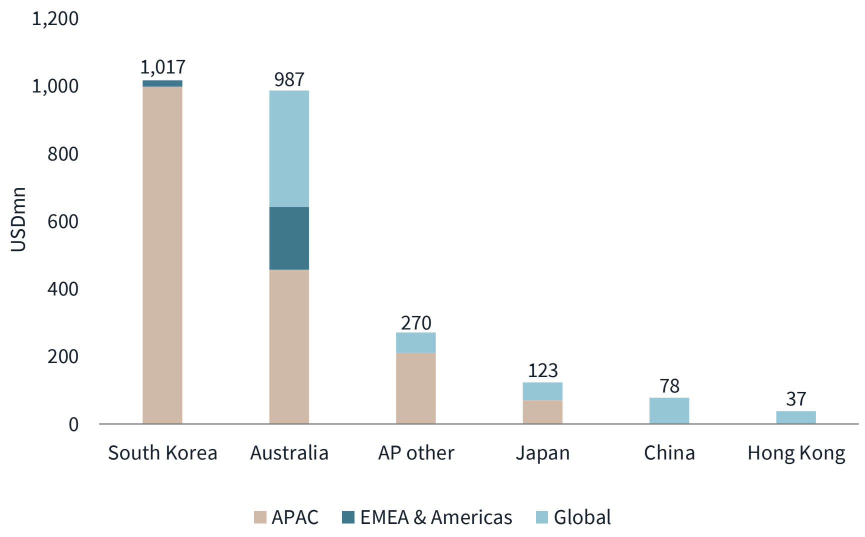
- The ultra-low interest rates in **Japan** remained appealing to cross-border investors. Sectors with income growth potential, such as hotels & hospitality and living / multifamily, gained traction, despite the smaller deal sizes.

Cross-border transaction activity to Asia Pacific



Source: JLL Research, as at Sep 23
*Transaction >USD 5mn, excluding land/development and entity-level deals; global capital refers to deals with >30% coming from multiple geographies

Cross-border volumes to Asia Pacific by purchaser source of capital



Source: JLL Research, as at Sep 23

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Currency hedging impact

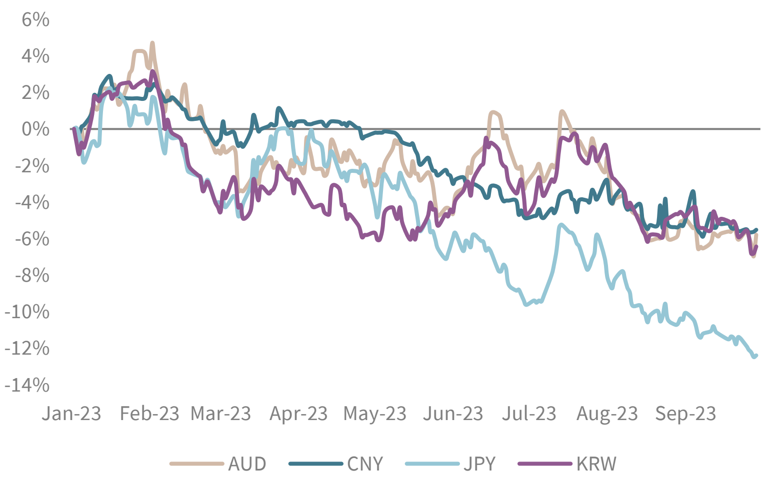
- Many major APAC currencies have depreciated against USD since the beginning of 2023, which can be explained by the rising interest rate differentials between the U.S. and APAC economies. Therefore, the investment volume performances of these markets were better when measured in their local currencies instead of USD. For instance, USD 3.2bn were wiped out from APAC investment volumes in 9M 2023 due to exchange rate fluctuations. The YTD APAC investment volume dropped by 20% YoY when measured in local currencies, as compared to declining 24% when measured in USD.

- This implies a pick-up on cash-on-cash returns from cross currency hedging for cross-border investors purchasing APAC assets. For instance, all cross-border investors from major economies would have a positive impact from hedging when investing in JPY-assets, as the BOJ maintains its ultra-loose policy. USD investors could also benefit from hedging when investing in South Korea and Singapore.

- In contrast, APAC investors would experience a negative trend with lower currency hedging impact when investing outside the region. This may direct some of the cross-border flows back to APAC, as investors diversify their geographical exposure intra-regionally. Australia and Hong Kong investors can enjoy positive hedging impact when investing in other APAC markets.

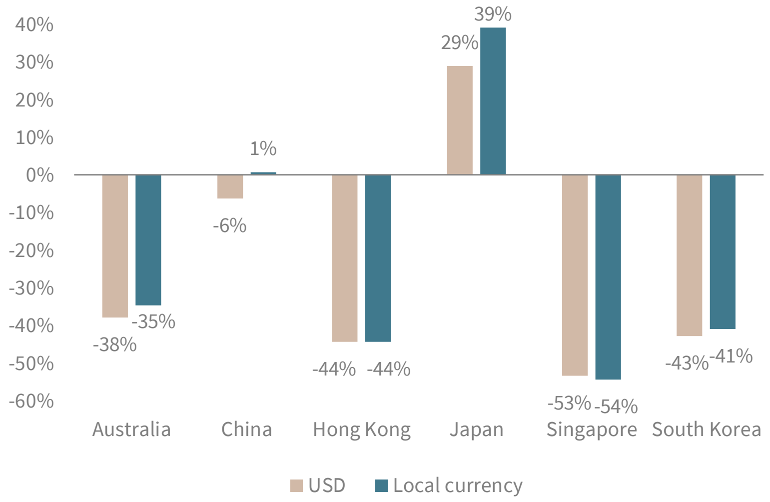
- The existing currency dynamics can be altered by central bank decisions. As the weakening yen is putting pressure on the BOJ to tighten its monetary policy, the potential withdrawal from yield curve control will reverse the hedging trend of Japan.

Depreciation of APAC currencies against USD



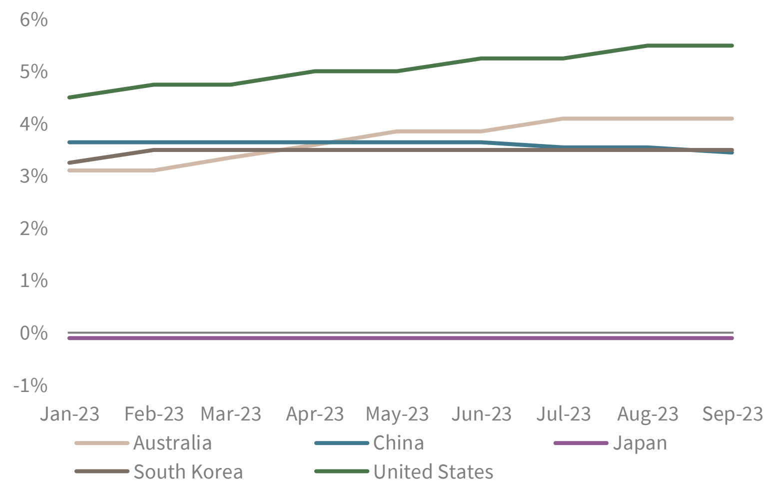
Source: Bloomberg, as at Sep 23

Transaction volume changes by geography (9M 2023 vs 9M 2022)



Source: JLL Research, as at Sep 23

Policy rates by geography



Source: Bloomberg, as at Sep 23

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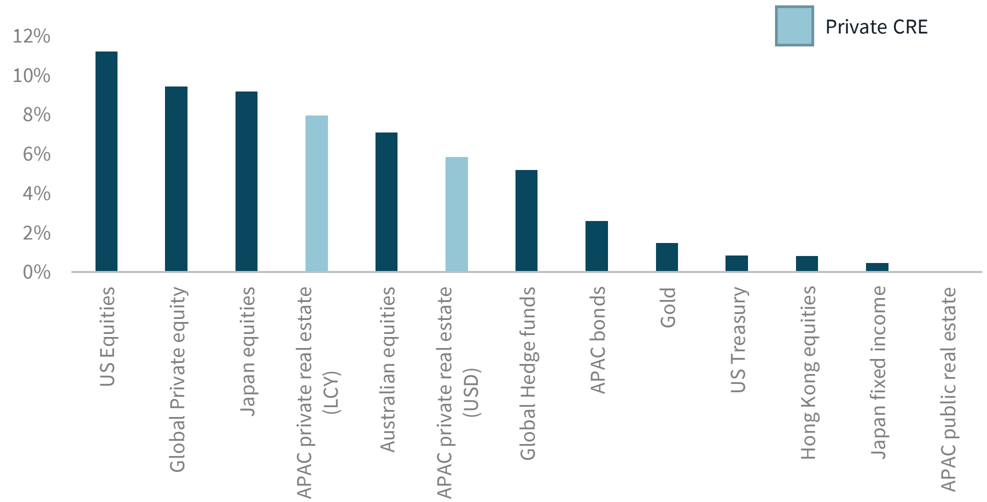
CRE’s long-term attractiveness outweighs short-term challenges

- Due to the rise in rates, fixed income instruments have once again become yield-attractive assets to institutional investors, causing them to reconsider allocations to fixed income vs other asset classes.
- Further, in 2022, when the value of bonds and equities both dropped, and commercial real estate (CRE) maintained its value – real estate’s share in institutional portfolios increased (denominator effect). In 2022, 32% of global investors reported overweight exposure to real estate, up from 8.7% in 2021, according to Hodes Weill. This suggests a short-term challenge to real estate, as investors look to maintain target asset allocations.
- However, these challenges are short-term and investment into CRE is a long game. Considering 10-year annualised returns, private CRE has stacked up well against other APAC asset classes in returns, as seen in the chart. Private CRE also offers lower volatility and correlation to other assets, while acting as an inflation hedge as it captures rental reversion alongside rising price levels.
- In APAC, we are seeing maintaining or increasing allocations into real estate and expect asset allocation targets to trend upwards. For example, Singapore’s **GIC** has continued to increase their portfolio share of real estate – from 8% (2021) to 10% (2022) to 13% (2023). Similarly, Korea’s **NPS** is increasing their target allocation to alternatives (real estate, PE, hedge funds) from 13.8% (2023) to 15% (2027).

Real estate returns vis-à-vis other asset classes, 10-year annualised returns



Source: Bloomberg, ANREV, EPRA, Capital IQ, as at Oct 2023

LP real estate current vs target real estate allocation

Firm	Country	Firm Type	AUM (USD mn)	Current RE %	Target RE %
Colonial First State (CFS)	Australia	Wealth Manager	112,673	1%	5%
Taiwan Life Insurance	Taiwan	Insurance Company	77,912	4.4%	10%
CBUS Super	Australia	Superannuation Scheme	56,758	11.01%	12%
Dongguan Trust	China	Wealth Manager	10,748	5%	13.61%
Foundation North	New Zealand	Foundation	1,192	3.4%	5.3%
Scientists and Engineers Mutual Aid Association	Korea	Public pension fund	7,775	26.35%	28%

Source: Preqin, as at Oct 2023

Note: Total return index used – US equities (S&P 500), Global Private Equity (S&P Listed private equity), Japan equities (Nikkei 225), APAC Private Real estate (ANREV), Australian equities (S&P/ASX 200), Global hedge funds (Eurekahedge), APAC bonds (Bloomberg APAC Aggregate TR Hedged), Gold (HUI Gold), Hong Kong equities (Hang Seng), Japan fixed income (Invesco JGB), APAC public real estate (EPRA NAREIT Asia).

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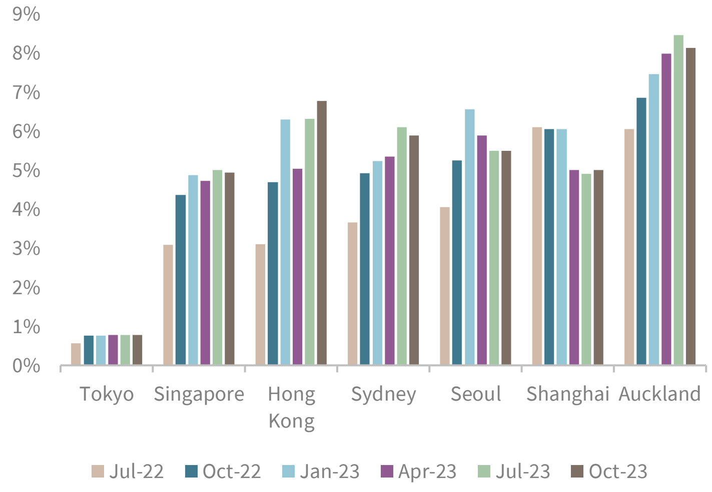
Long-term yields suggest lasting high rates

- During Q3 2023, APAC floating yields for senior CRE loans stayed relatively stable as most major central banks in the region kept their policy rate unchanged.
- Regionally, interest rate hike cycles are nearing their end; The RBNZ and BOK are likely to conclude their monetary tightening without any hikes whilst the RBA may have one more. Thus, regional floating rates are expected to stay similar or experience a modest increase.
- The notable exception would be Japan as BOJ plans to normalize their monetary policy rate by removing both negative policy rate and yield curve control - many anticipate these regime changes to occur early 2024 although the pace of hikes will remain marginal and gradual.

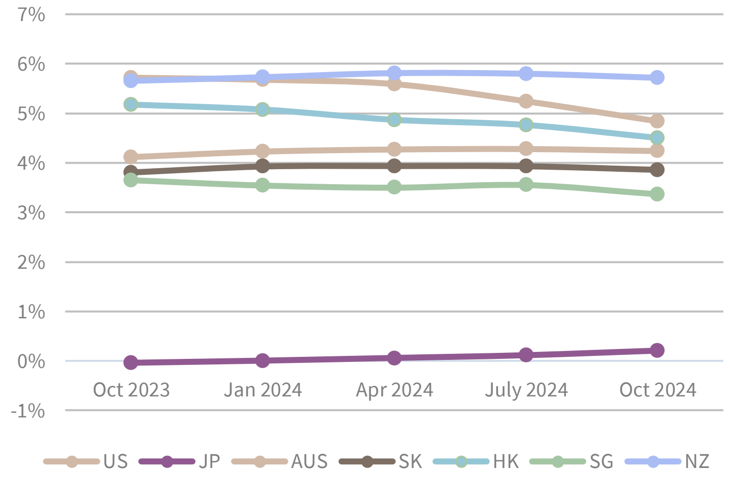
- Uncertainty lies in longer-term borrowing yields. From May to July, major global benchmark rates reversed course, reaching previous highs in this hike cycle as bond markets wagered rates will stay elevated for a longer duration.
- The combination of runaway oil price, surprisingly resilient US job market, potential upward adjustment of US neutral rate, and concerns over Asian currency depreciation have further raised Asian long maturity yields to decade-highs alongside their US counterparts.
- Against these backdrops, all 3-year fixed rates now closely resemble corresponding floating rate levels as rates in the 2024-25 period are expected to stay much closer to 2023 levels based on the 3M forward rate trend

APAC 3-month indicative floating rate for senior loan (core assets)



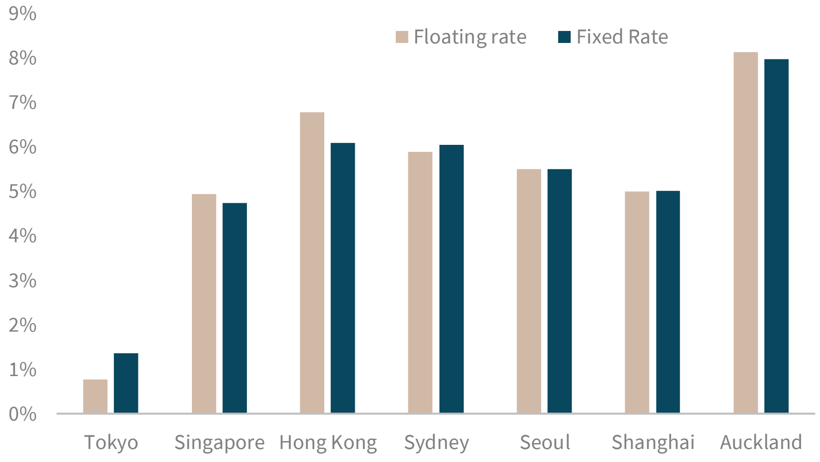
Source: JLL estimates, as at Oct 2023

1M forward rates between Oct 2023 and Oct 2024



Source: JLL, Bloomberg as at Oct 2023

Oct 2023 APAC 3-month floating vs 3-yr fixed for senior loan



Source: JLL estimates, as at Oct 2023

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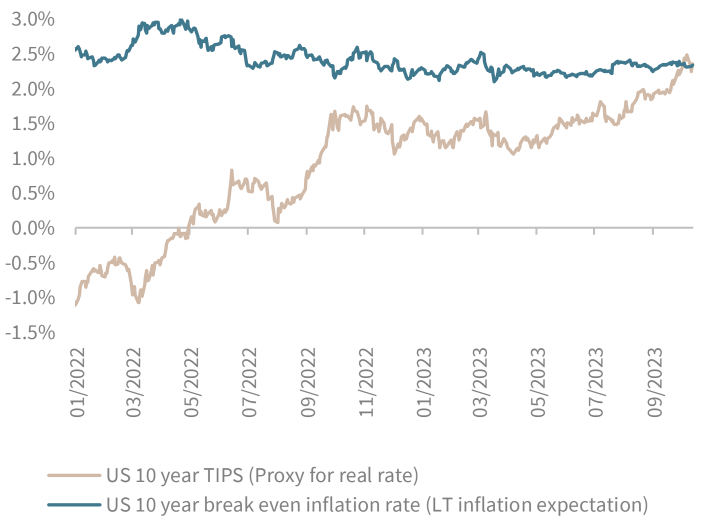
Portending to shorter plateau before policy reversal

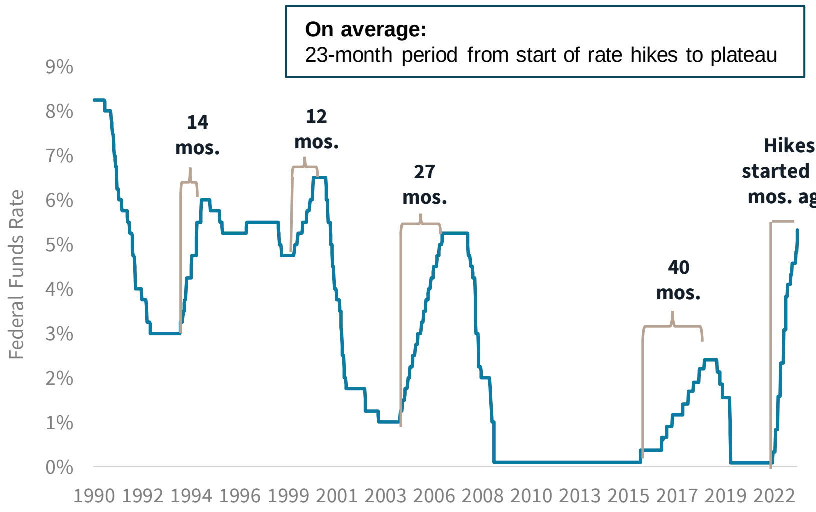
- Over the last two quarters, global bond market has witnessed a historical run-up in the 10-year US treasury yield. The global benchmark rate has climbed to 4.8%, reaching the highest level in 16 years. In April, the 10-year yield was tightly held at 3.2-3.4%. Since then, markets reassessed, resulting in an increase of about 150 basis points in bond yields. This time, bond yields are moving higher in sync with policy rates, including Asian key rates.
- Many have labelled this a structural shift, potentially marking the arrival of a new era of high interest rates. The excessive level has pushed the long-term "real rate" to the most restrictive level since the post-GFC period, further straining global economic activity
- The speed and scale of the current cycle are unprecedented. In this campaign, the Fed took just 15 months to raise 525 bps. On the contrary, in the prior four hike cycles, on average, each cycle increased rates by 280 bps over a 23-month period. Similar to the 10-year rate, the US 2-year treasury now remains at 5.1-5.2%, at 16-year highs.
- As a consequence, for the first time in this cycle, both long and short maturity yields around the world are now in a "very restrictive territory," likely to temper economic growth globally at a rapid pace.
- Considering the potential impact of this historically unprecedented campaign, coupled with global yields remaining highly restrictive at the moment, the length of the plateau in rates before subsequent rate cuts could potentially be shorter compared to previous rate hike cycles

US long term real rate and inflation expectation



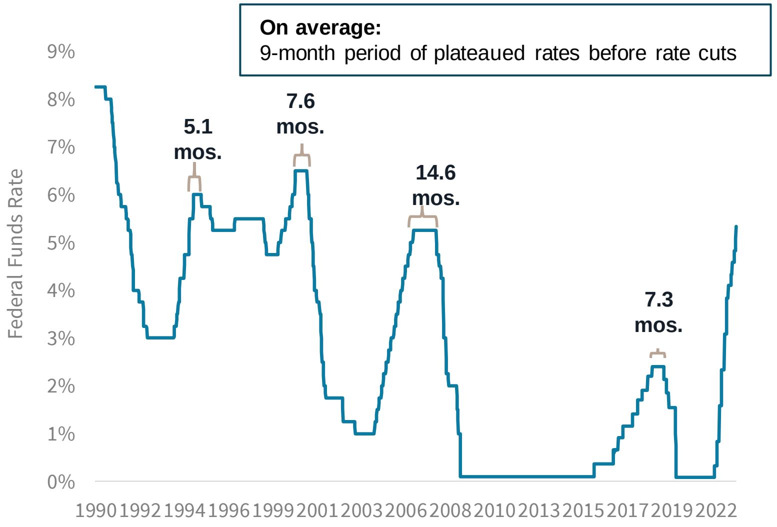
Source: JLL, Bloomberg as at October 2023

Duration of rate hike cycles



Source: JLL, Fed

Length of plateau in rates before subsequent easing



Source: JLL, Fed

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Localized stress presents opportunities

- Interest coverage ratio(**ICR**) has become top of mind for lenders. Since early 2022, ICR has trended downward, falling below the threshold of 1.5x cover imposed by banks in some markets. It determines how many times your income covers interest expense. To normalize the ICR level, banks have lowered their acceptable leverage levels by 5-10% as of late.

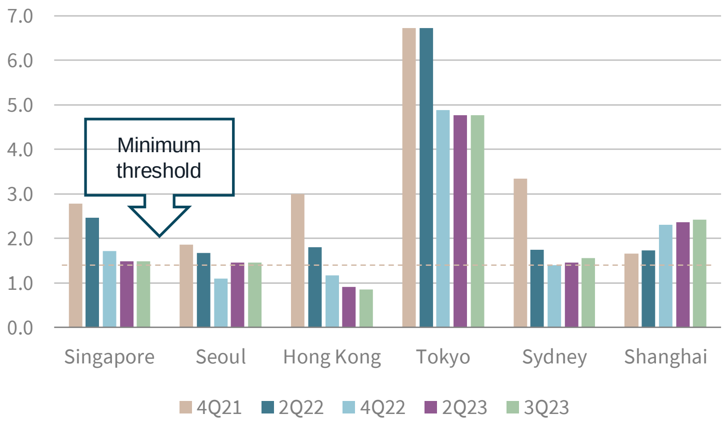
- A company's ICR determines whether debt can be paid off. Higher ICR indicates higher chance of payment. The ICR challenge sees equity injections during refinancing across the region. With anticipated higher rates for an extended period, 'cash in refi' is expected to become more prevalent.

- Yet, there's no systemic distress as most landlords are well capitalized. Sound CRE fundamentals, stable credit margins, and lenient approach of Asian banks help mitigate refinancing challenges. The region's conservative valuation practices, smaller policy rate increases compared to the US, and non-bank debt financing are other positive factors in managing the risk.

- The refinancing risk remains fairly localized to certain sectors/markets, particularly those with muted rental growth trends in past years. These could translate into bargain opportunities for regional funds.

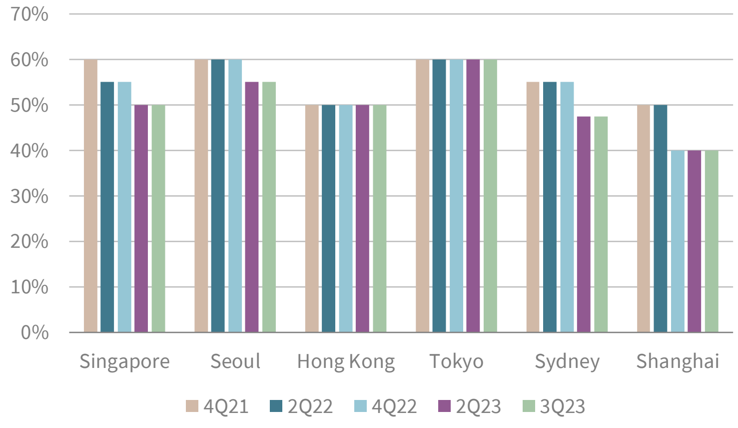
  - **HK office**: Due to the steep rental erosion (-34% between 1Q 2019 and 3Q 2023) and the highest cost of capital in the region creating stress. yet distress seen to be confined to few assets as majority of landlords and developers are not facing liquidity risks.
  - **China**: Weaker than anticipated fundamentals, muted liquidity, leading to capital value correction; some foreign banks pulled out of the debt market; local banks tightened grip by reducing leverage.
  - **Australia office**: A 20-25% repricing in asset values coupled with a 5-10% decline in leverage raising refinancing risk for office assets.
  - **Korea logistics**: Virtually no liquidity for project and land financing in logistics development; investors in the junior tranches of existing project financing loans aspire to exit, but a wide pricing gap exists.

APAC office ICR trends between Q4 2021 and Q3 2023



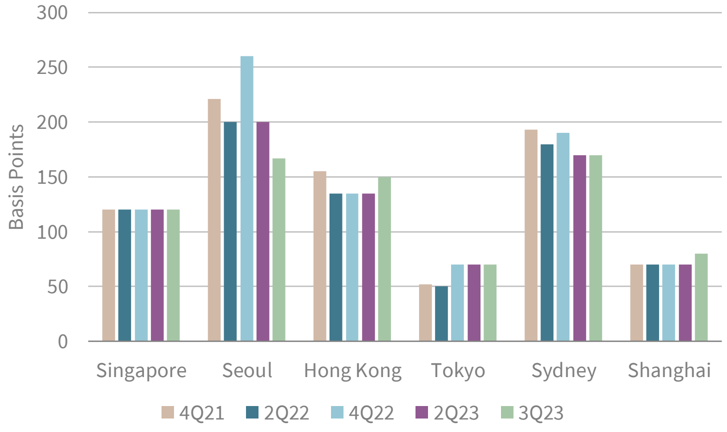
Source: JLL estimates, as at 3Q 2023
ICR is calculated by dividing Asset income (EBIT)/ interest expense

APAC office LTV trends between Q4 2021 and Q3 2023



Source: JLL estimates, as at 3Q 2023

APAC office credit spread trend between Q4 2021 and Q3 2023



Source: JLL estimates, as at 3Q 2023

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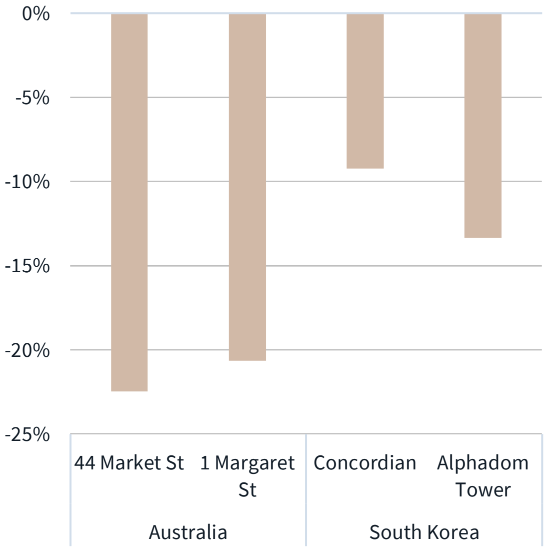
Valuation sets Sydney and Seoul offices up to trade

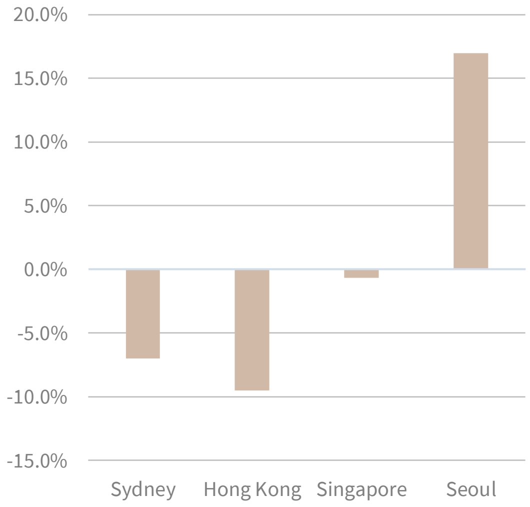
- APAC repricing evidence remains fragmented, primarily confined to South Korea and Australia office markets. Currently, asset values have been primarily adjusted to absorb an increase in borrowing costs, with the required cost of capital by equity investors remaining steady during this period of price discovery. We expect this trend to continue in this repricing cycle.
- According to JLL brokers' opinion, compared to Q4 2022, office values are estimated to have moved down further save for Seoul office affected by limited liquidity, a further increase in borrowing cost and the recent uptick in 10-year Asian government bond yield.
- However, JLL's valuation model indicates good value in Seoul and Sydney offices. Office landlords in **Seoul** can command 20-30% rental uplifts at the upper range, with CBD effective rents leaping by 31% over the past three years. This boost in net operating income appears to be large enough to offset high borrowing costs, indicating that office assets may be trading at undervalued prices. Likewise, even with the downgraded rental growth trajectory in **Sydney** office assets being inevitable, a 20-25% decline in value seems to reflect an overly pessimistic rental growth outlook on the market, implying current price levels could present a good bargain for Sydney office assets.

1H23 repricing in office value relative to Q4 2021 (based on transactional evidence)



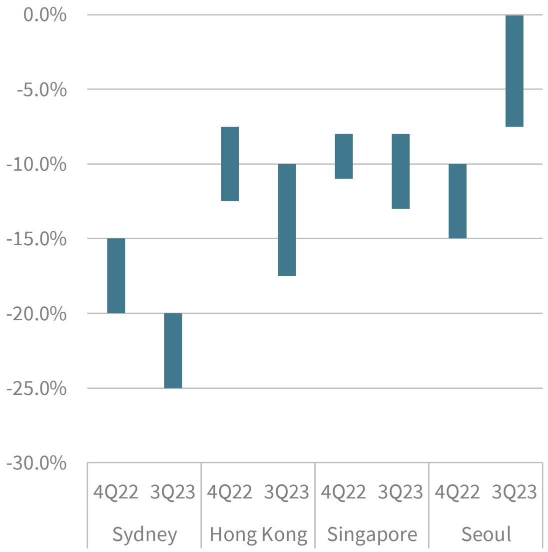
Source: JLL; Australia figures estimated against the book value as at June 21

Estimated repricing in office value between Q4 2021 and Q3 2023 (based on research)



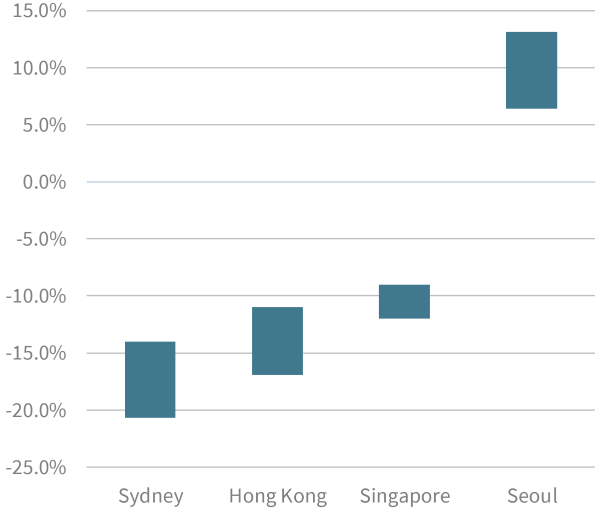
Source: JLL estimates based on capital values at REIS

Estimated repricing range in office values between Q4 2021 and Q3 2023 (based on broker's opinion)



Source: JLL estimates

Estimated repricing range in office values between Q4 2021 and Q3 2023 (based on valuation)



Source: JLL estimates based on CBD markets assuming required cost of capital demanded by equity investors stay the same

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JLL

Dry powder builds as deployment slows

- APAC fundraising recorded USD 4.37bn in Q3 2023 – down 28% qoq. YTD fundraising is at USD 15.11bn, falling 35% from the same period a year ago. This is in part due to the denominator effect, where a rise in the share of CRE allocation in portfolios exceeding allocation targets – new fundraising for CRE has thus slowed. Furthermore, capital committed in previous years has not yet been drawn down.

- The average fund size has increased to USD 589mn, indicating that investors are backing known names, rather than smaller or new funds.

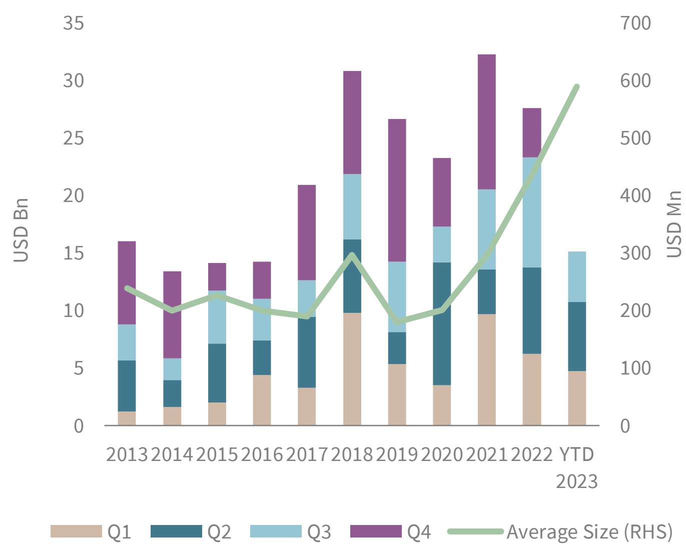
- Additionally, uncertainty and recession concerns have prolonged periods for funds to reach final close – average time on the road reached 23 months in the current quarter, the longest ever.

- Dry powder remains elevated at USD 70bn. In today's climate, investors require higher returns and wait to see valuations reflect current capital costs. 48% of dry powder is focused on opportunistic strategies, reflecting opportunities for bargain hunting in traditional sectors or considering higher returns in niche high-conviction sectors.

- Notable Q3 2023 fund closings:

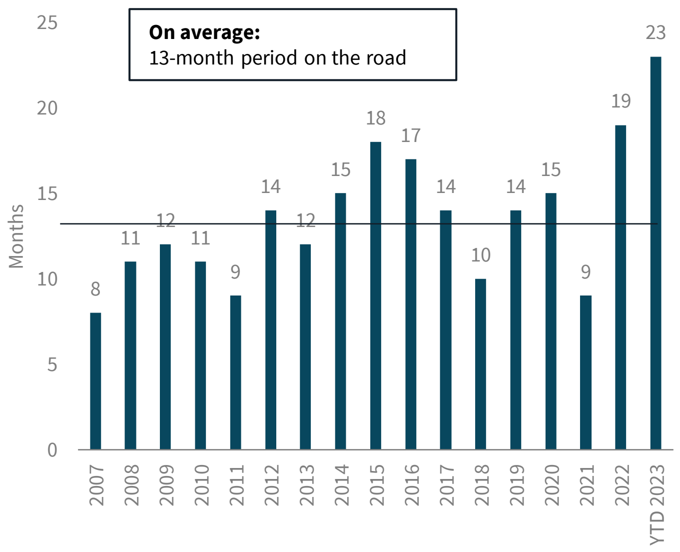
PAG Real Estate Partners III (USD 1.8bn, core-plus, office + multifamily)
DNE Life Science Fund II (USD 490, core-plus, life science)
GLP China Income Fund VIII (USD 358mn, core, L&I)
Altis Industrial Fund 1 (USD 337mn, value-add, L&I)

Aggregate Capital raised (LHS) and average fund size (RHS)



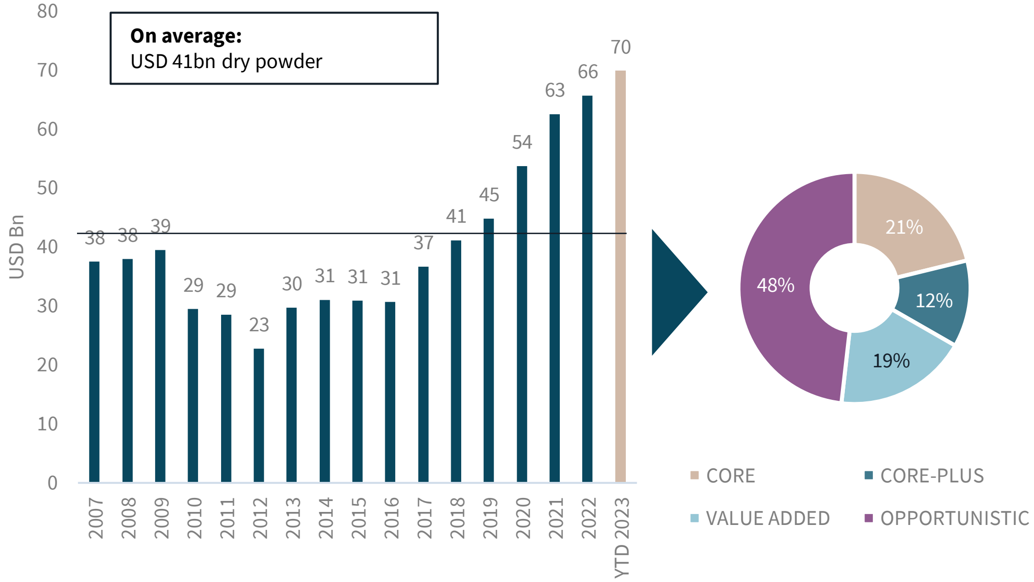
Source: Preqin, JLL as at Sep 2023

Average months to reach final close (APAC)



Source: Preqin, JLL as at Sep 2023

APAC dry-powder, 2007-2023



Source: Preqin, JLL as at Sep 23

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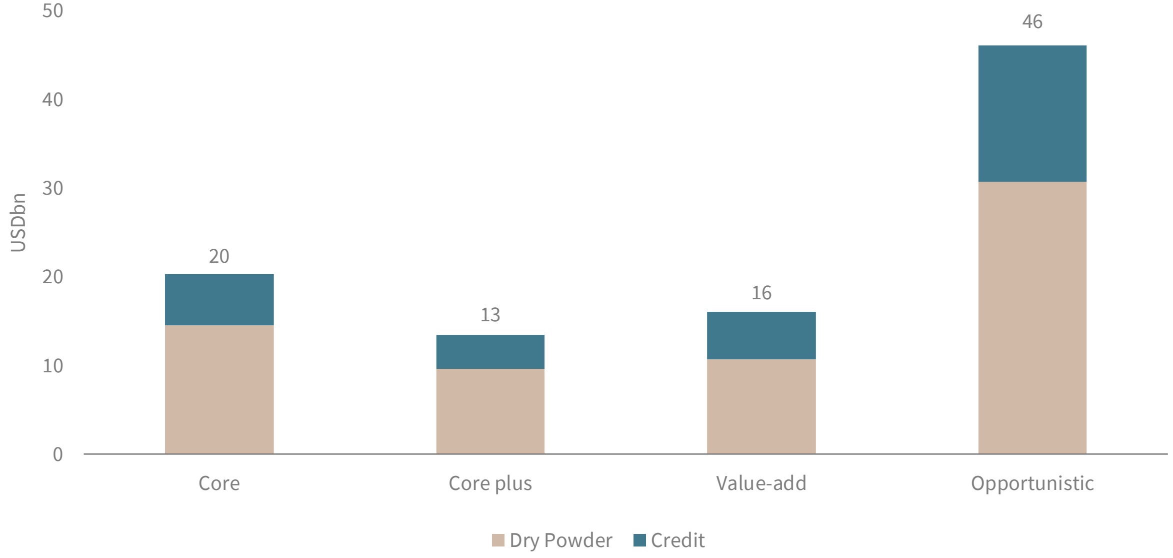
Buying power for APAC nears USD 100bn

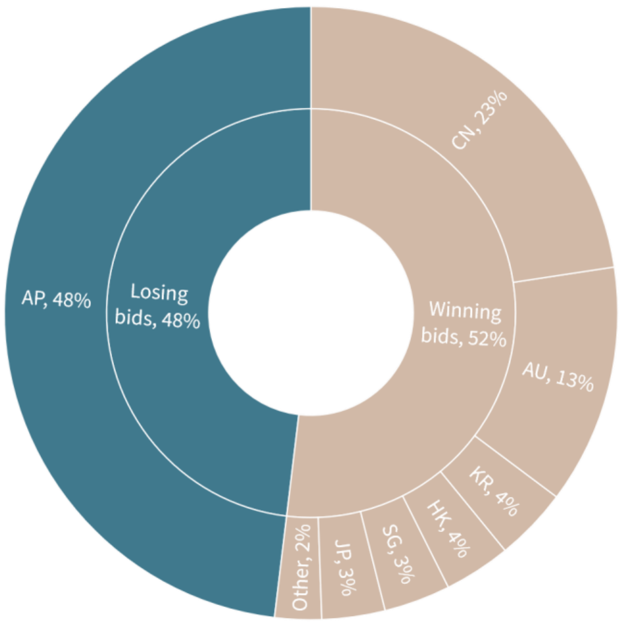
- The current investment market slowdown means that capital has been underutilised. Taking into account the dry powder from funds raised and borrowed funds, total buying power available to be deployed in APAC real estate by private equity investors is estimated at USD 96bn.
- About half of the buying power is earmarked for **opportunistic** investments, which is expected to be in fashion as the current high interest rate environment erodes the returns provided by other strategies. The growing opportunities in acquiring distressed assets in discounted prices are also boosting the volume of opportunistic investments.
- Not all the excess equity is going to be directly translated into investment volume. According to the bidding data on JLL proprietary Capforce analytics system, the value of successful bids in 2023 only accounts for 52% of that of all bids received. This implies that the amount of frustrated capital readily available to be redeployed in the market is nearly as much as the amount of deal volume recorded.
- We will likely see the ultimate buying power unleashed into the investment market once the pricing discovery phase concludes. Most investors believe that time will arrive in H2 2024

Estimated private equity buying power by strategy



Source: Preqin, JLL, as at Oct 2023
Note: Assuming 40% loan-to-value ratio for core and core plus, 50% for value-add and opportunistic.

Bidding data in 2023



Source: JLL, as at Oct 2023

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ESG First Mover Advantage

- As more occupiers realise that green-certified buildings are not enough, they will demand truly energy-efficient buildings, which will keep green premiums intact.

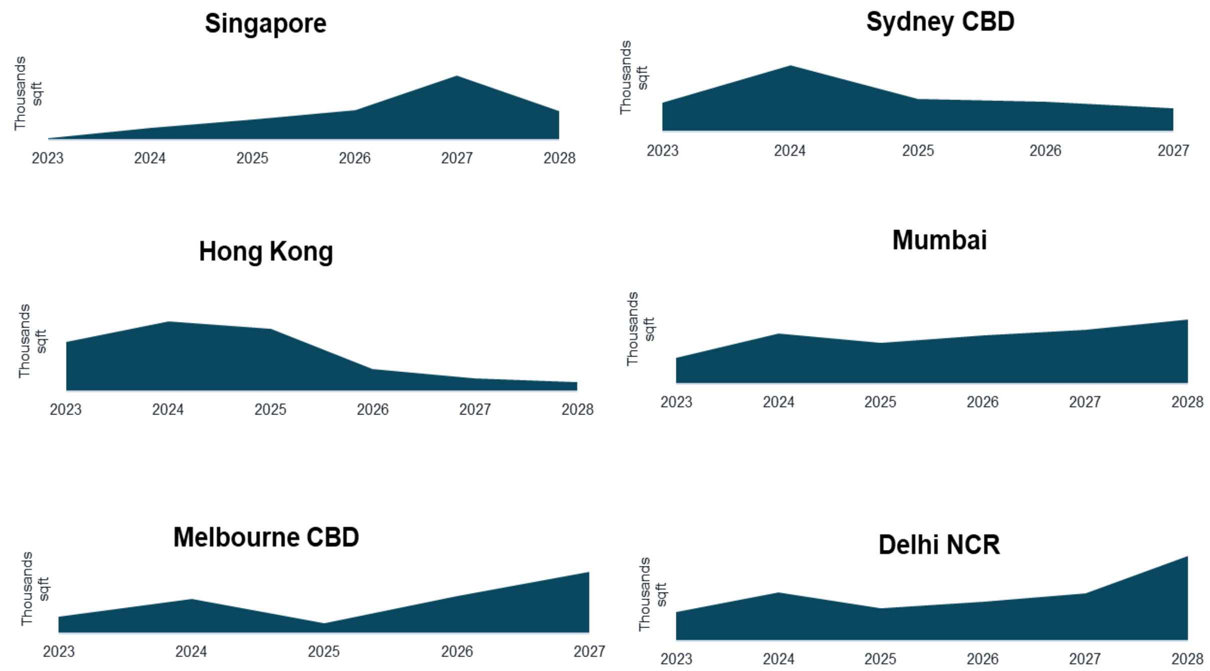
- Through analysis of lease expiry timelines over the next 5 years, in Singapore, sustainable office demand is expected to peak in 2027 vs in Sydney and Hong Kong, it is earlier, in 2024-2025. This highlights the urgency required in shift to ESG-spaces.

- Analysis of leases of occupiers with ESG commitments (demand for ESG space) and evaluating sustainability credentials of under-construction building pipeline (supply of ESG space), showcases a green deficit that will widen as we move closer to 2030. Sydney, Hong Kong and Mumbai are likely to see green deficit of >60%.

- Owners and investors who prioritise Net Zero Carbon buildings in their portfolios will be the best-performing, lowest-risk and most resilient as they are able to secure their cashflows.

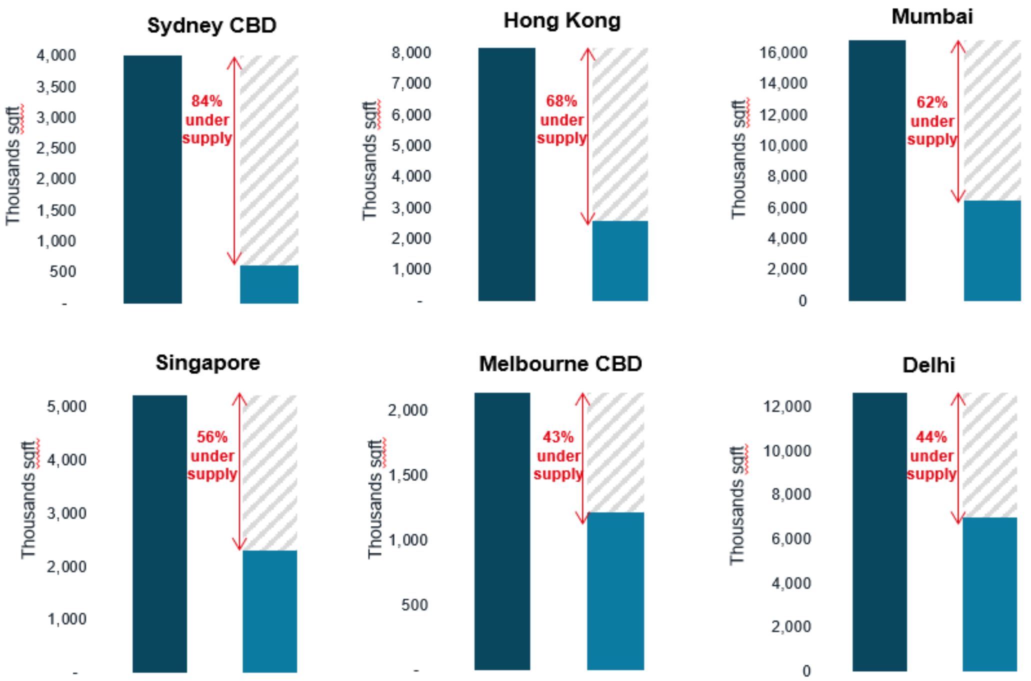
For more info, The impending green divide: Supply deficit of sustainable workplaces in Asia Pacific

ESG Demand peaks by market (up till 2028)



Source: JLL, as at Sep 2023

Demand-Supply deficit of ESG office space (till 2028)



Source: JLL, as at Sep 23

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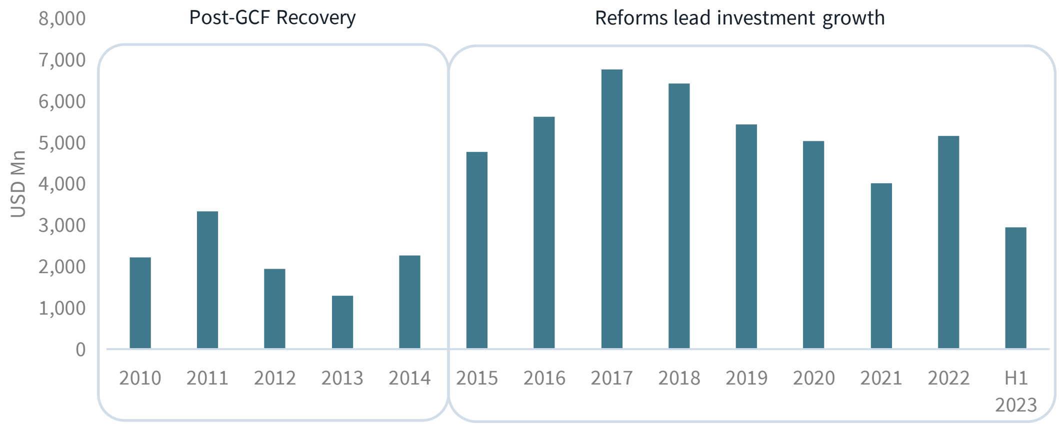
Untapped domestic liquidity in India

- Institutional investment in India CRE has picked up since 2015 – nearing USD 3bn in 1H 2023. This is largely due to improving transparency and accountability in real estate, including reforms and relaxation of foreign direct investment norms and the introduction of REITs guidelines.
- Domestic capital is increasingly exploring public and private real estate:
  - **REITs**: Among the 20 major anchor investors in Nexus Select Trust REIT, 81% were domestic insurance companies, mutual funds, pensions such as HDFC, ICICI, SBI Life/General. For Brookfield REIT, 82% of entire anchor allocation was from domestic institutions, highlighting their capacity and willingness to invest in real estate.
  - **Private capital**: Private wealth will be major contributor to domestic private real estate. Total net private wealth in India has increased by 4.6% yoy in 2022, according to UBS Global wealth, and the number of family offices is anticipated to increase from 300 to 750 by 2030. With tax incentives and CRE's long-term merits, private capital's allocation to real estate will increase.
  - **Insurance**: Insurance companies are a key source of domestic capital. Currently, life insurance companies have invested 6.7% (USD 1.33bn) and general insurance companies 10.5% (USD 225mn) of their permissible allocation to physical and financial real estate instruments – emphasizing the scale of untapped domestic capital in this segment.
  - **Mutual funds (MF)**: MFs in India have expanded significantly– the average Indian MF AUM rose from USD 100bn in 2013 to USD 564bn in 2023. MFs can invest in REITs, subject to the 10% of NAV limit. With the AUM of equity schemes till Q1 2024 at USD 213 bn, potential deployment in REITs/InvITs (Infrastructure Investment Trust) is USD 21bn.

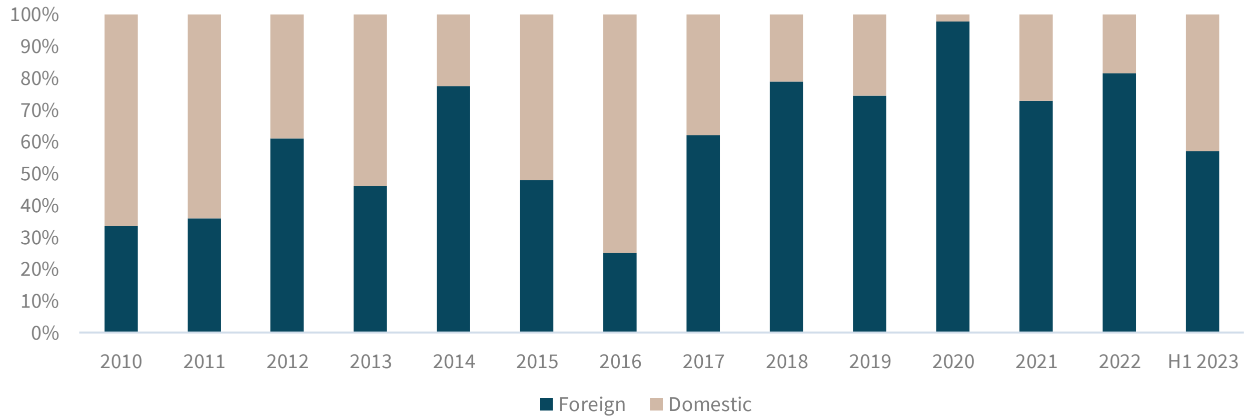
For more info, The rise of domestic capital in Indian real estate

India institutional investment volumes



Source: JLL, as at Sep 2023

% of domestic vs foreign capital



Source: JLL, as at Sep 23

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Sectors

1. Office
2. Logistics
3. Retail
4. Living
5. Alternatives
6. Hotels
7. REITs

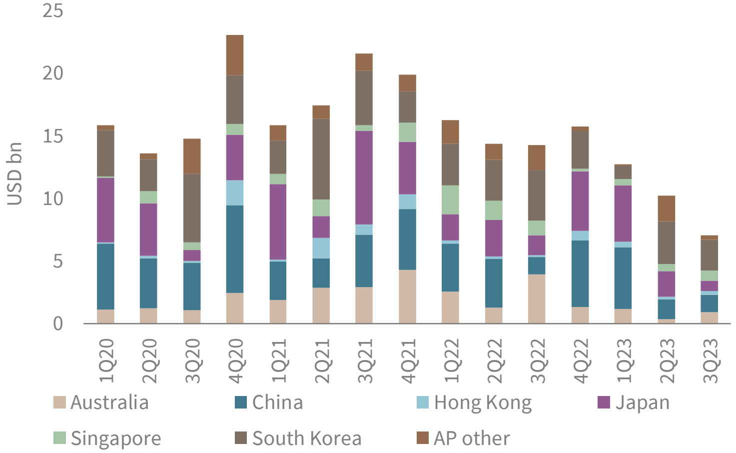
Into the abyss

- APAC office volumes contracted 51% YoY to USD 7bn in Q3 2023, the lowest level ever since records began in 2007. Australia, Japan, Singapore and South Korea all experienced decline in office transactions from a year ago, while China and Hong Kong recorded volume growth, benefitting from the low base effect.

- Transaction activities were driven by end-user demand with more corporate occupiers acquiring office assets for their own operational usage. Investors were lukewarm about office investment owing to concerns about weakening demand, vacancy levels and hybrid adoption. The poor sector outlook and higher cost of capital made investors re-assess their investment strategies, with some seeking to diversify to other sectors for higher returns and to mitigate concentration risk.

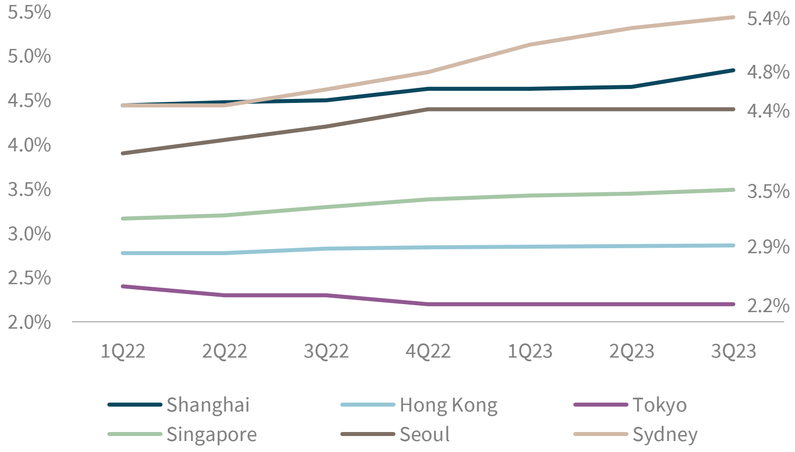
- Re-pricing pressure for office assets persisted, with many investors expecting prices of prime office buildings to correct downwards by 5-10%. As such, yields are predicted to continue to soften over the coming quarters and the investment market would remain illiquid.
  - **Australia:** prime yields near their cyclical peaks and would stay at these levels over the short-medium term.
  - **China:** more distressed selling anticipated, leading to asset depreciation and further yield decompression.
  - **Hong Kong:** capital values to drop by 5-10% and yields to expand moderately amid the high interest rate environment.
  - **Japan:** yields to remain stable while interest rates are kept low.
  - **South Korea:** tight liquidity amongst domestic investors could lead to more buildings trading at higher yields.
  - **Singapore:** further decline in asset prices as interest rates remain elevated for longer.

Asia Pacific office transaction volumes by geography



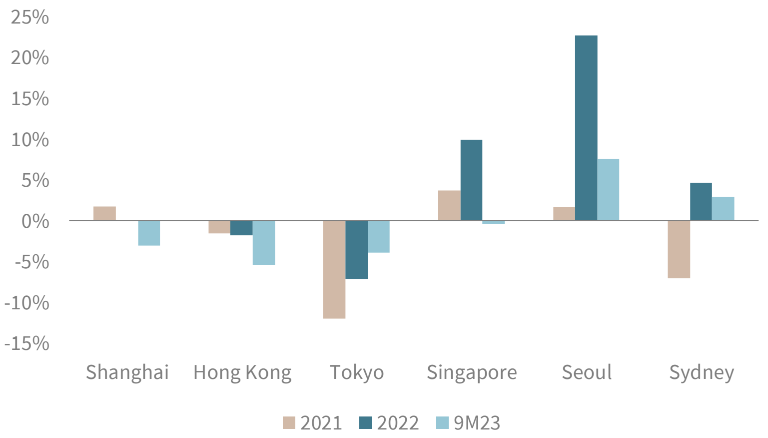
Source: JLL Research, as at Sep 23

APAC office yield trend by city



Source: JLL Research, as at Sep 23

Office net effective rental changes by city



Source: JLL Research, as at Sep 23

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Repurposing office to hotel

39 York Street

39 York Street, Sydney | Australia

Overview

- Broad process covering groups domestically and across APAC - a highly competitive bidding process with 23 formal bids lodged in Round 1.
- Bidder profiles ranged from global institutions to HNW private investors with ‘brown to green’ opportunity being a key drawcard
- First office asset below AUD 150mn to transact in Sydney CBD in 2023
- Sold to Invictus Developments of Singapore after 4 rounds of competitive bidding who plan to convert the asset into a boutique hotel, taking advantage of the vacant possession offering

Profile

- Built in 1965 and refurbished in 2005, the property is located on a prominent corner of York Street & Erskine Street and provided 14 levels of office with ground floor retail
- Vacated in 2020 with no major upgrades since construction resulted in BCA compliance issues and a 0-star NABERS rating, it provided a blank canvas opportunity in core Sydney CBD

Key Metrics

Location	Australia	**Price (AUD)**	52.58 mn
Property Type	Office	**Passing yield**	Vacant
NLA	4,412 sqm	**Vendor**	*Nil*
Occupancy	Vacant	**Purchaser**	Invictus Developments

“As cities move closer to greening real estate to target Net Zero goals, we see more capital interested in brown-to-green development. Repurposing older buildings continues to be a key value-add strategy for investors.”

Mitch Noonan
Director, Capital Markets – NSW, Australia

- Tenants show a distinct preference for newer space, as supported by the bifurcation in office market performance based on building age
- Across APAC, there is a rising inventory of ageing office buildings at risk of obsolescence, especially with new environmental regulations. They present a major challenge for both occupancy and capital value preservation.
- Retrofitting, refurbishment and redevelopment will be key strategies to retain value of these existing properties

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India office developments expand

Sanmar Group Divestment

Perungudi–OMR, Chennai | India

Overview

- Closed bid process and negotiated sale approach to ensure transparency
- The buyer, Sattva Group, is South India's leading commercial developer who intends to develop Grade A office assets in the premises

Profile

- Located in the IT Corridor of Chennai, the land property sits within a bustling commercial hotspot with sprawling IT campuses surrounding it – a micro-market with high net absorption levels, appreciating rentals and lower vacancies
- The micro-market has Global Capability Centers (offshore units of MNCs) with tenants in sectors such as banking/finance, IT, auto, pharma, telecoms.

Key Metrics

Location	India	**Price (USD)**	19.27 Mn
Property Type	Land	**Purchaser**	Sattva Group
Land Area:	2.5 acres	**Vendor**	Sanmar Group

"India office demand is rapidly rising as more domestic and global firms expand in India, riding India's growth wave. As new supply moves to meet this demand, new and high-quality assets will be prioritised."

Lata Pillai
Senior Managing Director & Head of Capital Markets, India

- Banking, financial services and insurance (BFSI) segment dominates office demand in Chennai, accounting for 42% of leasing activity. This is followed by manufacturing/industrial at 16%.
- The upcoming new supply of high-quality projects commanding above-average market rents is expected to result in a rise in rents in the OMR sub-market.
- Corporate divestments of non-core real estate assets witnessed a surge recently owing to better pricing for those assets by developers and companies' efforts in being asset light.

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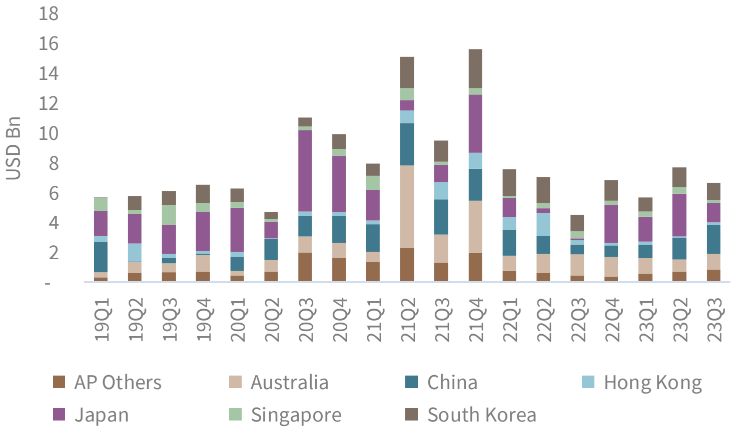
^Contracts exchanged – currently in pre-emptive period with co-owner. Settlement subject to co-owner waiving the pre-emptive right.

Recycling into logistics

- AP industrial volumes remain resilient, reaching USD 6.7bn in Q3 2023, marking a 47% yoy increase and USD 375mn shy of office volumes
- Bearish outlook toward office continued, spurring investors to pivot toward logistics; some cornerstone investors have already started or are planning to reallocate capital from office to logistics.
- Much anticipated large-scale transactions came through including the sales of **NPS** stakes in **Dexus** fund for USD 367mn in AU and **Invesco's** divestment of Logisco Yangji for USD 356mn in SK, serving as benchmark cases, providing repricing evidence.
- The sector is facing greater repricing risk especially in AUS and SK; greater negative carry than office remains a challenge in the former whilst higher cost of debt than office acts as a deterrent in the latter

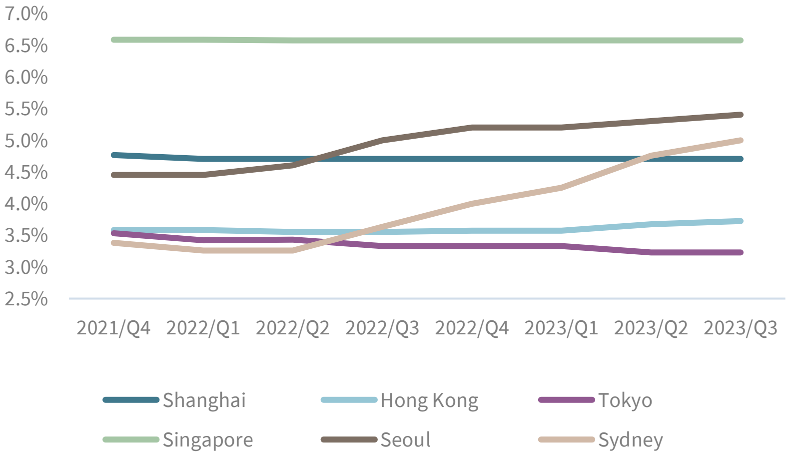
- **China:** slower leasing demand along with large supply pipeline softening rental growth outlook; muted demand for recap opportunities with fewer capital sources in the market
- **Japan:** competition among offshore capital intensifying with brand new capital (SG, SK) entering the fray; many pursuing opportunities at regional cities and more distant outer areas of greater Tokyo
- **South Korea:** recent deals and campaigns indicating yields have moved up to mid 5% with potential for further softening; overseas buyers remain engaged but are seeking higher returns
- **Australia:** GPs face no refinancing gap/redemption risk due to capital gains; some foreign LPs want to exit but limited transactional evidence and repricing pressure holding back trades

Asia Pacific logistics volume trend Q1 2019-Q3 2023



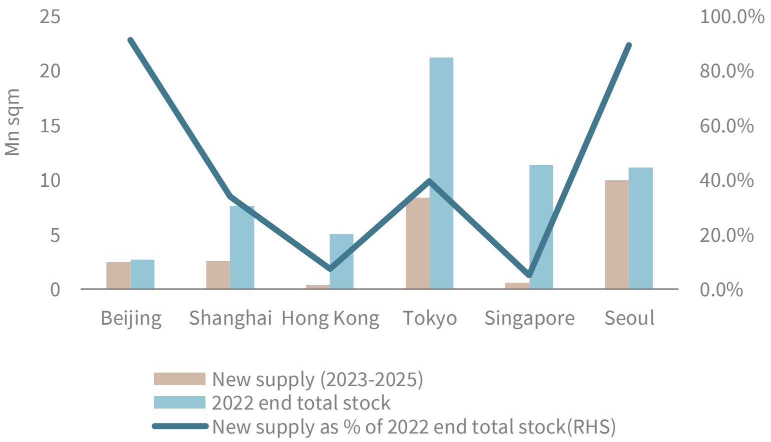
Source: JLL estimates, as at Q3 2023

Asia Pacific logistics yield trend Q4 2021-Q3 2023



Source: JLL estimates, as at Q3 2023

Asia Pacific logistics new supply 2023-2025



Source: JLL estimates, as at Q2 2023

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Strong income overshadows tight financing

LogisCo Yangji

113 Nampyeong-ro, Yangji-myeon, Cheoin-gu, Yongin, Gyeonggi-do | Korea

Overview

- 100% freehold interest of the land and the building. The target buyer pool was CORE capital given its master-lease structure with fixed escalation.
- A total of 4 bids received during the bidding process after launch in Q2 2022. Interest came from both domestic and offshore buyers
- Purchaser is a local asset manager, deploying their recently closed discretionary fund from the domestic institution
- It is the largest logistics trade in terms of GFA in Korea (except for forward-purchase and development)

Profile

- Completed in December 2021, the property is located in Yangji, Yongin, an optimal location as a core logistics hub, positioned for Seoul Metropolitan area and nationwide delivery.
- This high-quality Grade A mixed-use warehouse with 10 upper floors and a basement floor, with a WALE 9.4 years (as of May 2023).
- As a trophy logistics center, it provides a strong income profile with blue-chip tenant, Coupang, an e-commerce company using 100% of the leasable storage area

Key Metrics

Location	South Korea	**Price (USD)**	348.9 mn
Property Type	Logistics	**Passing yield**	5.4%
Gross Floor Area	205,789 sqm	**Vendor**	Invesco
Occupancy	100%	**Purchaser**	Mirae Asset Global Investment

"Due to difficulty in procuring development funds in the current financing environment, existing core logistics centers with high-profile anchor tenants and a stable income profile appeals to domestic investors looking to deploy funds locally"

Chaehun Chang
Managing Director, Korea

- Seoul logistics demand was strong in 3Q 2023 in all submarkets, with vacancy rates dropping 290 bps qoq, to 13.1%. Net absorption recorded in 3Q 2023 was the highest ever, with e-commerce accounting for a major share, highlighting the strength in demand.
- A larger amount of supply is scheduled in 2024, so vacancy rates are expected to rise next year. Tenants in old centers are likely to demand moving to newer centers
- While there are assets for sale appear on the market, potential buyers lack availability to close the transactions due to a lack of liquidity. Assets in key location, with quality tenants and long WALE are preferred.

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Retail: a contrarian bet

The APAC retail market has seen a decline in deal activity, with only USD 3.2bn recorded in Q3 2023, the lowest since Q2 2009. Liquidity for large shopping mall remains thin in the region, except for Singapore. Investors still favor other asset classes over retail. Nevertheless, given their reasonable pricing and wide bid-ask spread, shopping malls are now well positioned to offer better relative value, setting the asset class up as a great contrarian bet. Compared to offices in the region, shopping malls boast tight vacancy rates and a limited supply cycle whilst experiencing healthy same-store sales. Thus, shopping malls could deliver better rental growth over office in many markets. High-street momentum slowed, registering only USD 1.5 bn in Q3 affected by fewer sales in JP and SG.

- **Singapore:** Tight vacancy at suburb and prime malls resulting in steady rental growth; portfolio reshuffling efforts among operators leading to suburban mall opportunities
- **China:** Liquidity depth especially for big ticket transactions diminished; leasing momentum is picking up but occupancy/rental growth trends remain lower than in other regional markets
- **Hong Kong:** Retail sentiment moderated with inbound arrivals losing momentum due to a weak RMB, resulting in softened turnovers at high street and shopping malls
- **South Korea:** Sagging hypermarket and department store performance continuing, driving away institutional capital; some underperforming assets likely to be offloaded later this year
- **Australia:** After a two-year hiatus, a large format shopping mall trade returned to the market with opportunistic capital pulling off a sizable bargain
- **Japan:** Shopping mall turnovers growing at about a 10% yoy, benefiting from post pandemic momentum in international tours; investors prioritizing income stable neighbourhood malls

Midland Gate, Australia

PAG purchased Midland Gate at Perth for USD 304mn from Commonwealth Bank Group Super and Vicinity manged retail fund

Changi City Point, Singapore

Frasers Centrepoint Trust sold a suburban mall near Changi airport to a mainland Chinese family for USD 250mn

Asia Pacific property yields and cost of debt

Source: JLL, as at Q3 2023; cost of debts based on floating rates; Japan retail yield based off high street

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Largest Australian CBD Retail transaction since 2021

170 Queen Street Mall

170 Queen Street, Brisbane QLD | Australia

Overview

- Off-market deal - one of the largest CBD retail transactions in Australia since 2021.
- The purchaser, a private investor, was attracted to the trophy nature of the asset and potential longer-term repositioning of the tenants to higher spend / luxury retailers.
- CBD Retail transactions in Australia have been thinly traded with 2023 YTD transactions 61% down YoY and 79% down on the 5-year average.
- In the last 10-years, only three (3) assets along Queen Street Mall have traded, making it one of the most tightly held retail locations in Australia.

Profile

- Located along the prime section of Queen Street Mall with over 30 metres of frontage.
- Anchored by H&M, Uniqlo, Daiso and supported by six specialties and a childcare.
- Major tenants contribute 79% of total gross income and are paying on average $1,489/sqm in gross rent.
- The property has dual street frontage, 34 car bays and further a relatively short WALE of 3.1 years by income allowing repositioning.

Key Metrics

Location	Australia	**Price (AUD)**	145.0mn
Property Type	Retail	**Market yield**	5.75%
Gross Floor Area	10,779 sqm	**Vendor**	ISPT (Core Fund)
Occupancy by lettable area	94.2%	**Purchaser**	Private Investor

"We continue to see strong demand from private capital in this higher debt environment, realizing an opportunity to acquire assets that historically would not become available. The CBD retail investment thematic is improving and we are starting to see increased trades in this sub-sector."

Nick Willis
Senior Director, Retail Investments, Australia & New Zealand

- CBD Retail transactions within Australia typically represent 10% of the total retail transaction volumes, making it the mostthinly traded retail sub-sector.
- Transaction yields for assets above AUD 50mn average 5.1% in the 24 months to December 2019 (pre-covid), however now illustrate 6.0% in the 24 months to September 2023.

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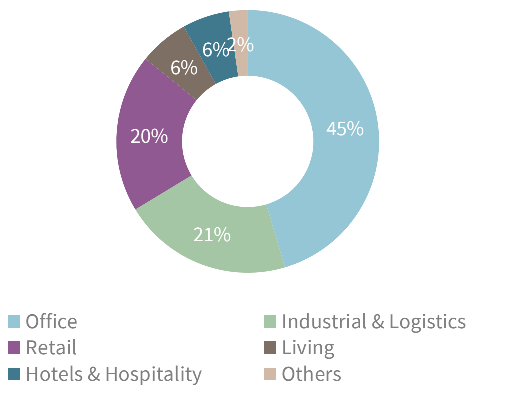
APAC multifamily in motion

- **Core**: Investors plan to increase asset allocation in multifamily as they remain under-allocated to the sector and find its risk-adjusted returns attractive. Also, partially to reverse heavy dependence in office. These forces will increase demand for core products and lead to expansion of the regional core market. Japanese cities and Shanghai being top destinations in the next few years. Thereafter, within 3 to 5 years, Australian cities will join the ranks with build to core funds selling stabilized assets to investors. Subsequently, Beijing, Shenzhen, and Seoul could also join the reputed core destinations, providing further scale and diversification benefits. By 2030, the regional core investible universe is projected to double.
- **Value-add**: conversion opportunities accelerating in regional gateways as demand for rental housing in urban centers surpasses supply. Younger generations prefer city center living, but desirable greenfield sites remain limited. Value-add funds are actively pursuing the repurposing of underperforming properties into institutional-grade multifamily projects. Other value-add plays: asset enhancement, forward purchases, buying and leasing vacant projects, and bargain purchases, are also gaining popularity. These opportunities are most prominent in Japan, China, and Australia due to pronounced supply shortages, ample fund through opportunities, and robust demand for middle to high-end products.
- **Development**: build to core opportunities gaining traction. In Australia, roughly USD 6.5bn of equity raised so far and other raisings underway. Completed projects have exceeded initial assumptions in terms of lease-up velocity and rental growth. Recent tax changes regarding withholding and depreciation taxes expected to further heighten interest. In China, conversion strategies favored over development opportunities, but increasing competition and the potential for listing multifamily assets as C-REITs leading more investors to explore greenfield projects. In Japan, forming partnerships with domestic platforms seem more feasible as opposed to running their own development teams due to limited scalability

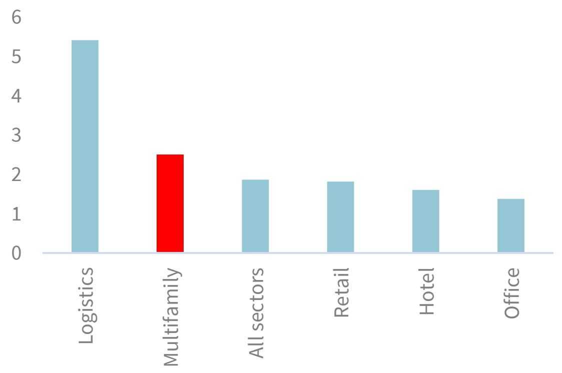
For more info: Multifamily in motion: A deep dive into APAC's living sector

Asset allocation by sector



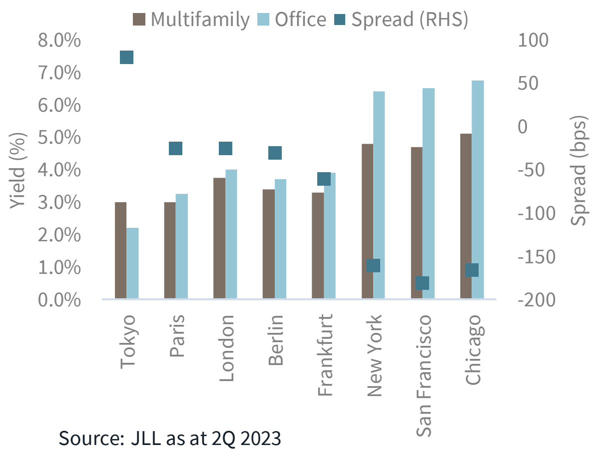
Source: Source: JLL, RCA based on APAC CRE portfolios held by equity funds and investment managers as of Sept 2023

Sharpe ratio by sector in Japan



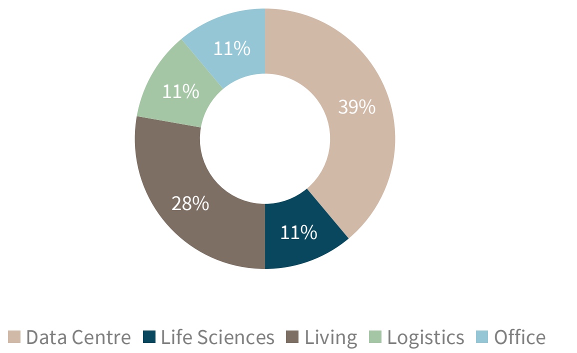
Source: JLL, ARES using quarterly returns from 2Q 2008 to 1Q 2023

Yield spreads between multifamily and office



Source: JLL as at 2Q 2023

Q. Which asset class will experience the strongest capital appreciation over the next five years?



Source: JLL capital markets survey

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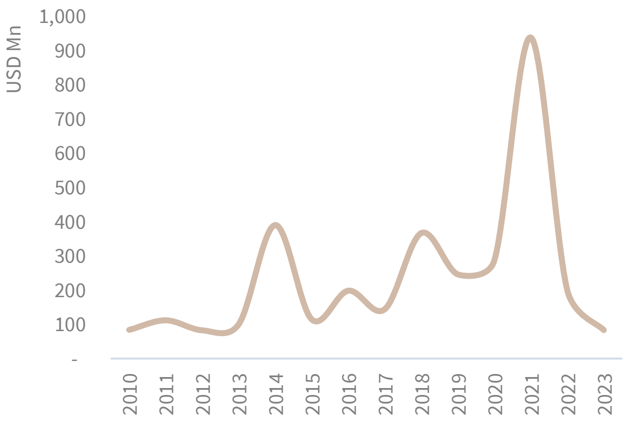
No freeze in cold storage demand

- The global cold storage sector had significant growth from 550mn m^3 in 2014 to 800mn m^3 in 2022. Strong growth will persist due to a rise in consumption levels and ecommerce use among APAC's emerging middle class. The shifting towards groceries/F&B delivery and a burgeoning life sciences market are tailwinds.
- Low liquidity in the sector are attributed to high barriers to entry due to complexity around temperature-controlled environments and regulations.
- Yet, more investors are turning towards alternatives and higher-yielding assets for portfolio diversification, and attractive risk-adjusted returns. Cold storage typically attracts a 50-100bps yield premium to general L&I facilities. They also tend to have higher rents and longer lease terms, ensuring stability in cash flows.
- In the past few years, investment managers and REITs executed their L&I mandates and allocated capital to the sector, but this has slowed with higher capital costs. Going forward, a growing investible universe, increasing occupier demand and smaller ticket sizes may support transaction activity.

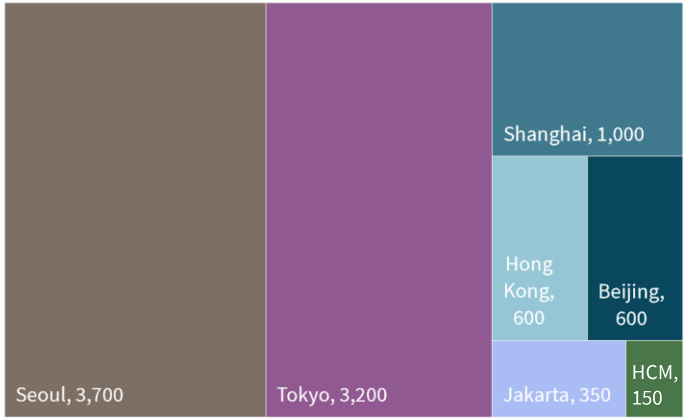
ESR sold a 30% stake in its USD 1.4bn Hong-Kong based Kwai Chung Cold Storage Logistics Centre project, set for completion in 2027

AP cold storage investment volume 2010-Q3 2023



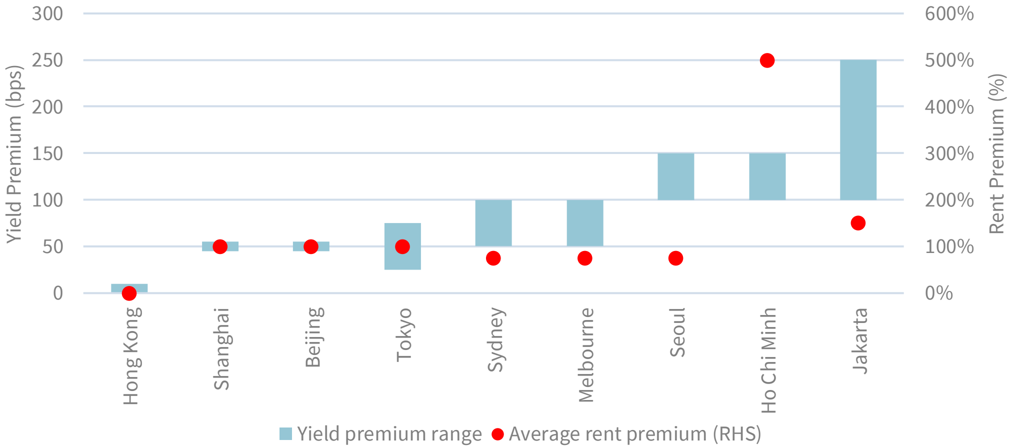
Source: RCA, JLL

Cold storage market size for select cities ('000 sqm)



Source: JLL

Cold storage yield and rent premiums to general logistics



Source: JLL, as at Sep 23

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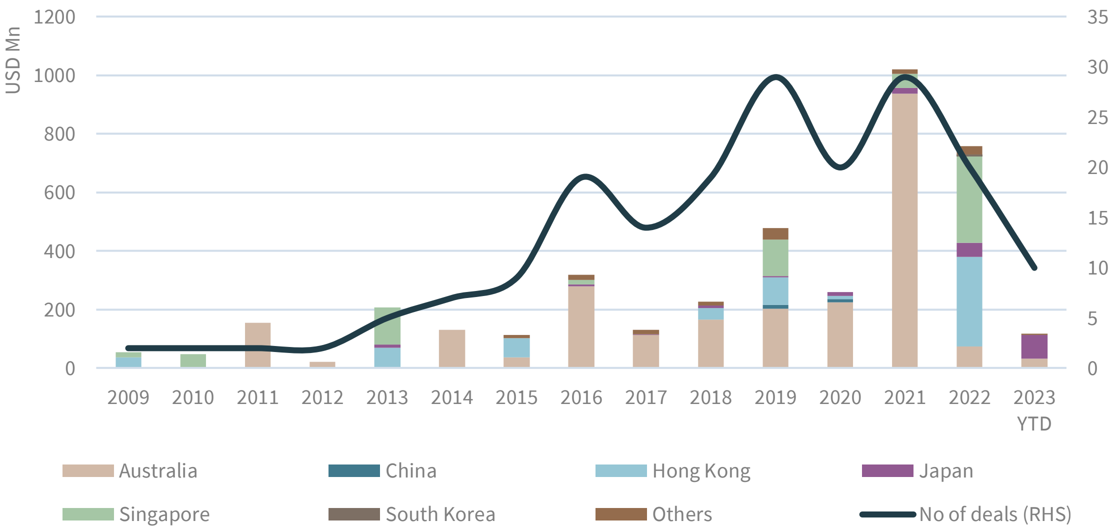
More space for self-storage growth

- Key factors driving self-storage demand:
  1. Urbanisation and lower housing affordability has led to more opting for smaller living quarters or renting, thus requiring separate storage spaces
  2. The continued growth of e-commerce: business groups are renting spaces. They tend to rent larger units, for longer lease periods at higher rents – typically those with value-add services like security/insurance.

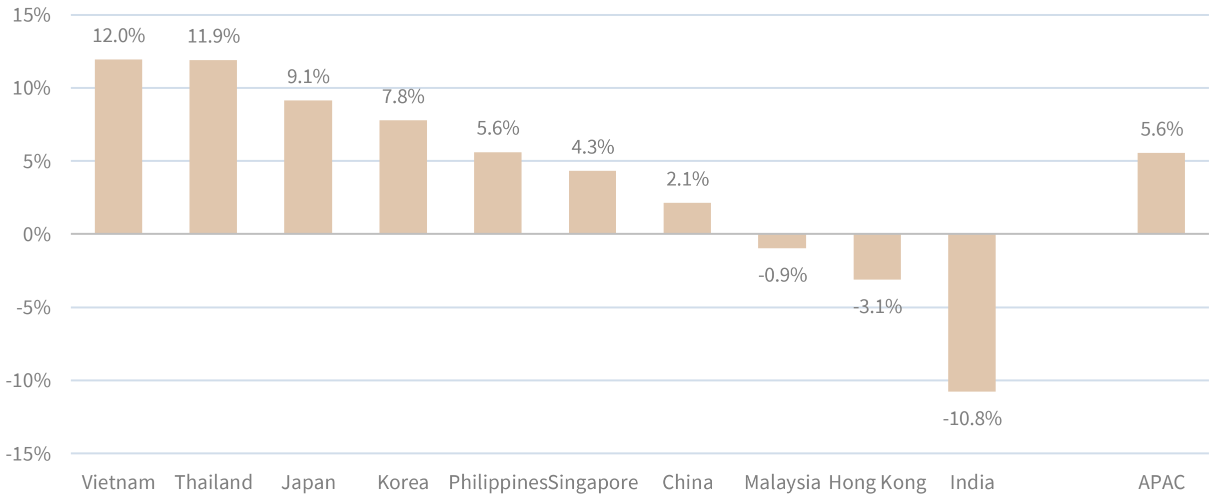
- On average, operators are planning to add 6 new facilities each year in 2024 and 2025, with Japan, China, India and Hong Kong leading expansion. Asset creation is likely to attract capital and liquidity into the sector, especially as operators become more attractive when they achieve scale.
- According to the 2023 SSAA Survey, more operators expect rental growth in APAC to continue – 86% of respondents are expecting positive rental growth in the next 3-5 years (vs 72% pre-COVID).

AP Self-storage investment volumes and number of deals



Source: RCA, JLL, as at Sep 2023

Self-storage y-o-y rental growth, local currency



Source: JLL, Self-Storage Association Asia (SSAA) Survey 2023

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One of Japan’s largest self-storage M&A transactions

Storage Plus

Tokyo, Kanagawa, Hokkaido, Fukuoka | Japan

Overview

- 100% acquisition of the shares of Ichigo Inc’s Japan-focused self-storage subsidiary, Storage Plus.
- StorHub acquired Storage Plus along with its existing assets and 13 employees who are currently part of the business.
- One of the largest self-storage platform transactions in a fragmented but fast-growing market.

Profile

- Founded in 2006, Storage PLUS is an integrated self-storage owner-operator in Japan focused on high-quality indoor self-storage facilities and storage services.
- The platform comprises over 4,500 storage units across 35 facilities over 4 prefectures, operating on a mix of owned and leased model.
- While the current portfolio is largely stabilised, the platform is poised for future growth in the sector in Japan.

Key Metrics

Location	Japan	**Price**	*Confidential*
Property Type	Self-storage	**Passing yield**	*Confidential*
GFA (est.)	>14,000 sqm	**Vendor**	Ichigo Inc.
Occupancy	91.4%	**Purchaser**	StorHub

“Rising housing costs and a structural shift toward e-commerce have contributed to robust fundamentals in the self-storage sector. It continues to attract investor interest with its stable returns and opportunities to scale.”

Anirudha Ganguli
Senior Director, Equity Advisory APAC

- Japan self-storage occupancy remains strong at an average of 89%, higher than the APAC average of 75%, according to SSAA 2023 Survey.
- Self-storage rental growth in Japan is 9.1%, one of the highest rates in APAC, as self-storage proves itself as an income-resilient sector, even in a low growth market .
- Experienced domestic self-storage operators remain scarce and continues to be an attractive target for offshore players looking to expand their self-storage operations into Japan and achieve scale. Operators in Japan are looking to expand operations in the near-term, according to SSAA 2023 Survey.

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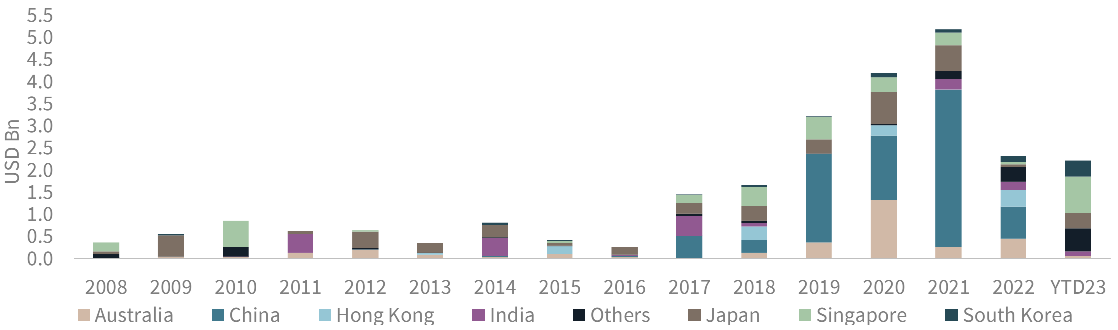
OTT and renewable energy generation drive Data Centre development

- The strong growth of Over-the-top media (OTT) in high-population countries such as India, Indonesia, and Philippines will drive data centre (DC) development in those markets. More than 95% of internet users consume OTT data such as streaming services and will only expand as new media and gaming platforms emerge. Growth projected for esports and streaming services is at roughly 25% - 35% CAGR in the next five years.
- This increases demand for data centers, and particularly edge facilities to have improved connectivity and low latency. OTT providers continue to demand higher computational capability due to the growing need of processing and storage, as well as higher usage of AI/machine learning in their operations.
- Both government and business are under pressure to consider the role of power consumption to meet their ESG obligations and have made commitments to meet carbon emission targets as part of climate change agreements. Data centres are large consumers of electricity and a focus for governments and other environmental stakeholders. Production and consumption of sustainable energy is an important solution for data centres to become sustainable.
    - Ramping up their renewable energy generation, Korea is targeting to add 30-gigawatt solar power to account for 20% of its power consumption by 2030. Malaysia is targeting 31% (13-gigawatt) by 2025. Other markets such as Indonesia and Philippines are also ramping up their renewable energy sector.
- Notable Q3 2023 DC activity:
    - **KKR** committed USD 800mn to take a 20% stake in Singtel's regional data center business, with the aim of expanding its SEA business
    - **EdgeConneX** chose Bukit Jalil and Cyberjaya for its 300MW foray into Malaysia, and inked milestone commitments on its sustainable initiative in Indonesia

AP data centre investment volume 2008- 3Q 2023



Source: JLL, as at Sep 23
Note: Includes entity deals

GDS launched its data center campus in Johor, Malaysia - first phase offers 69.5MW

India's Sify raised USD 73mn from Kotak data center fund, for new data centers and to pay debt

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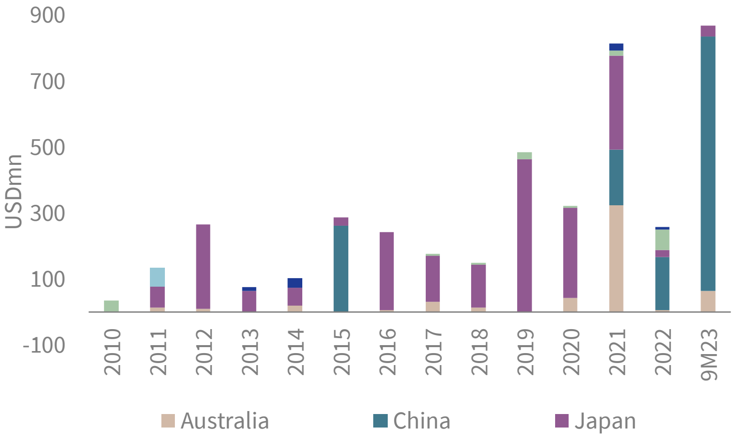
Life sciences expands in China

- Riding on favourable demographics and government support, China's life sciences industry is developing rapidly. As having access to modern and specialised real estate is essential to realise the growth potential of the sector, there is an upsurge in demand for R&D labs and business parks across life sciences clusters in the country.
- Life sciences R&D real estate in China must obtain an Environment Impact Assessment (EIA) permit, which requires higher ceilings, greater floor loads and bigger power supply. There is currently a scarcity of EIA-compliant properties, which ensures the strong rental performance and low vacancy of such properties.
- Domestic investors in China have shown an increasing appetite for R&D assets. While core investors may look for existing business park assets, the investable stock is limited. Value-add and opportunistic investors can consider conversion or build-to-suit projects off the back of the current supply shortage of quality R&D space.
- Selected life sciences transactions in China in Q3 2023:

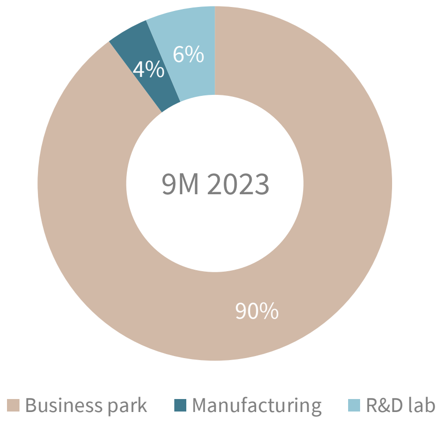
Property	City	Price (USD mn)	Vendor	Purchaser
368 Zhangjiang Road	Shanghai	129	Starcrest	Chengdu Tianfu Biology
Kangqiao Caohejing Business Park Blocks 4 & 5	Shanghai	22	Hunan Yandi Biology	Kangsheng Universal

APAC life sciences investment volumes by geography



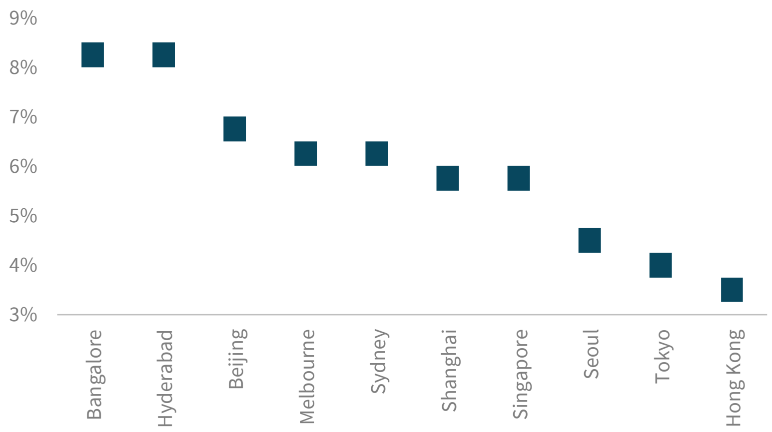
Source: RCA, JLL

APAC life sciences investment volumes by asset type



Source: RCA, JLL

Estimated life sciences going-in yields



Source: JLL

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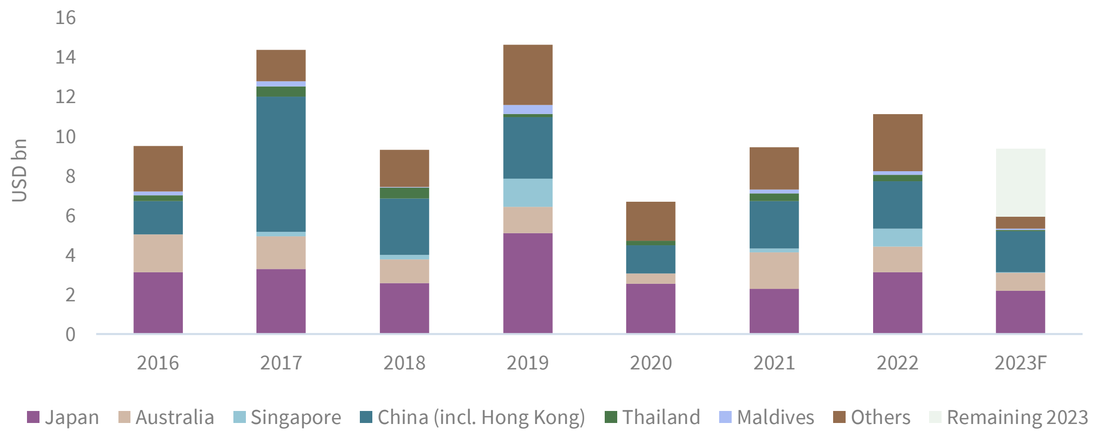
Hotels still face macroeconomic headwinds

Capital market activity in the hotel sector continues to face headwinds of high interest rates and inflationary pressures, despite ongoing travel momentum leading to continued improvement in hotel trading performance. As a result, hotel investment volume in APAC reached USD1.5 bn in Q3 2023, down by 52% from the same period a year ago. Transaction activity this quarter was mostly active in China, Japan and Korea, all three countries representing 86% of the region's total hotel investment volume.

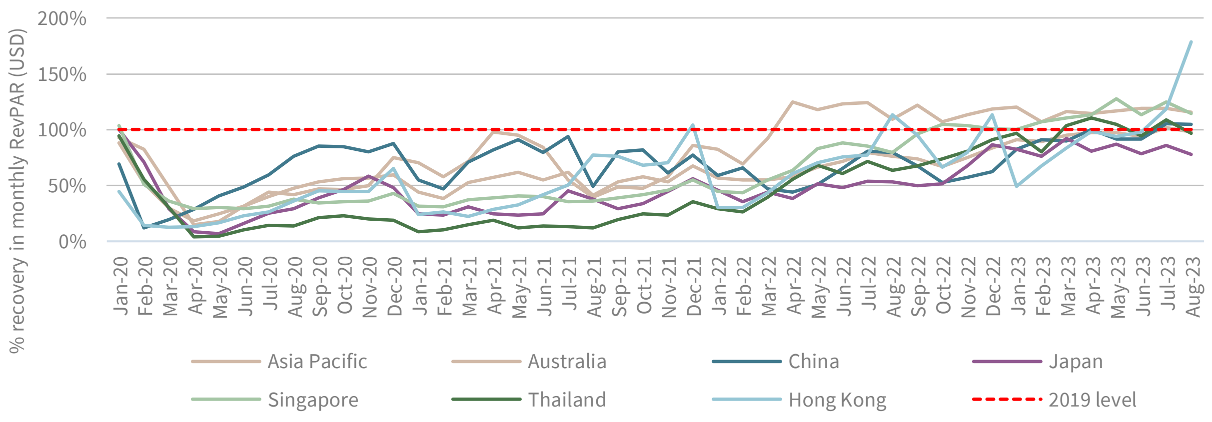
- **Australia:** A clear trend of 'flight to quality,' with capital predominately targeting aspirational assets and properties with genuine value-add and upside potential
- **China:** A transformation towards a more institutional and sophisticated hotel investment market still underway, with downwards pressure on value helping to adjust pricing expectations
- **Hong Kong:** Significant bid-ask gap persists as investors underwrite a higher cap rate for hotels to take into account the current debt market and an operational risk premium
- **Japan:** Domestic Hotel REIT's and diversified REIT's returning to the market on the back of the strong trading performance and attractive financing terms; Overseas investor interest remains buoyant on the back of the weak yen and cheaper debt financing than anywhere else in the world
- **Singapore:** Singapore hotels remain an attractive asset class for investment due to the city state's safe haven status and strong operating performance
- **Thailand:** Regional and local developers selectively expanding their portfolio, with high demand for assets in central Bangkok and beachfront locations

Asia Pacific Hotel Investment Volume, 2016 to 2023F



Source: JLL estimates, as at Q3 2023

Monthly RevPAR (USD) recovery



Source: STR, JLL

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Record demand in Japan

Smile Hotels Portfolio

Overview

- Nippon Accommodations Fund Inc. (NAF) is a Japan-based J-REIT focused on achieving sustainable growth and stable mid- to long-term earnings through investment in rental housing and a portfolio of hospitality facilities.
- Through the asset manager Mitsui Fudosan Accommodations Fund Management Co., Ltd., NAF acquired a Smile Hotels portfolio, which consists of three hotels and a total of 331 rooms under the Smile Hotel brand.
- The acquisition, for a total price of JPY3.1 billion (c. $21.2 million), was made to ensure the diversification and further enhancement of the investment portfolio.

Key Metrics

Location	Nishi Akashi, Matsuyama, Naha (Japan)
Property Type	Hotels
Buyer	Nippon Accommodations Fund Inc. (NAF)
Seller	Confidential
Total Price (USD)	21.2 million
Closing date	1 September 2023

"Investor demand in Japanese hotels is currently at an all-time high, surpassing recent records. The combination of robust performance and positive trading outlook, and a favourable interest rate environment has created a compelling environment for offshore investors as well as domestic corporates and institutional investors to invest in the sector."

Nihat Ercan
CEO Asia Pacific, JLL Hotels & Hospitality Group

- Interest in Japanese hospitality assets remains buoyant on the back of the strong recovery and attractive borrowing costs in comparison to other markets across the world.
- H1 2023 was particularly active in Japan's hotel transaction market as the first half of the year recorded a significant growth of 68.5% from the same time last year. The country registered an additional $527 millions of closed hotel transactions in Q3 2023, and we expect this buoyant trend to continue in the last three months of 2023.

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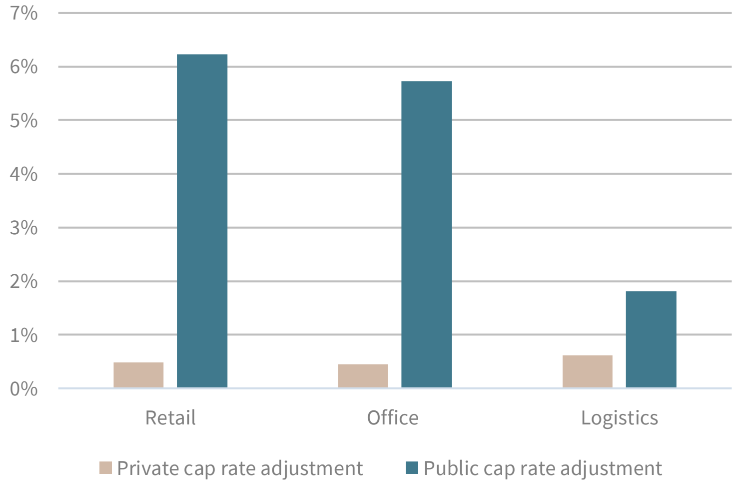
Public-private valuation reset

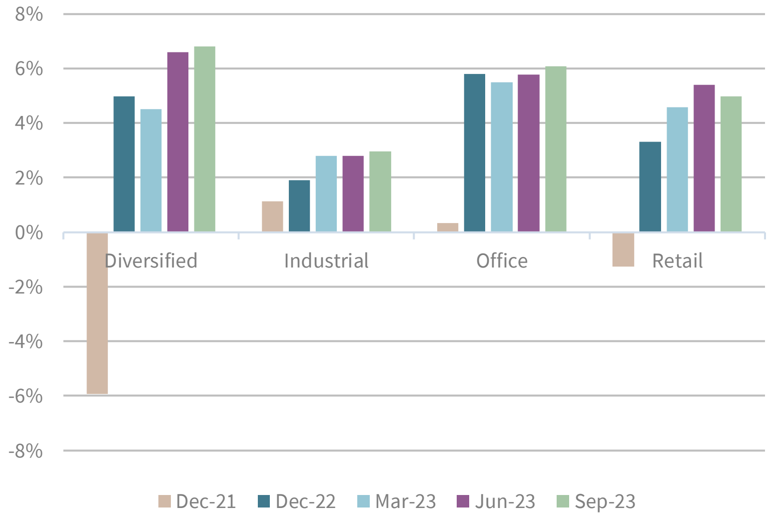
- Comparing public vs private markets, public markets are pointing to a further cap rate expansion in retail, office and logistics assets. Retail still faces the steepest downward pressure, followed by office, then logistics.
- Based on REITs implied cap rate, office and retail have already adjusted drastically since Dec 2021 as hybrid work and e-commerce have called into question future office and retail rental growth. Investors perception of logistics' strong fundamentals, has led to relatively lesser readjustment, mostly due to cost of capital increases demanding higher returns.
- However, while they offer directional indications in valuation, they may be unreliable as indicators of extent of valuation changes as REITs pricing tends to overreact (compared to eventual market impacts) during volatile periods.
- Historically, when REITs trade at a deep discount, either NAVs fall to align with market decline, or REITs self-correct post-overreaction.
- Liquid publicly traded REITs serve as sentiment trackers, providing insight into future pricing/valuation changes of private real estate.

Cap rate adjustment – Dec 2021 to Sep 2023
Public market vs private market



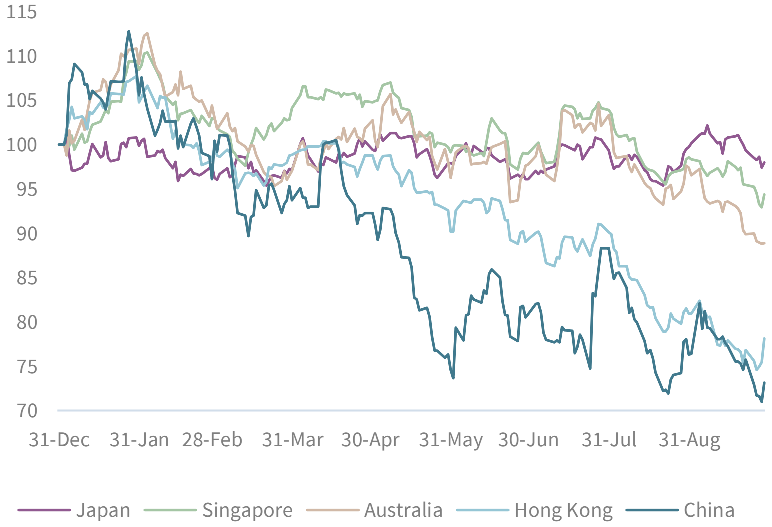
Source: S&P Capital IQ, JLL REIS, as at Sep 23
Note: REITs markets of Australia, Hong Kong, Singapore.

APAC REITs Implied Cap Rate



Source: S&P Capital IQ, JLL as at Sep 23
Note: REITs markets of Australia, Hong Kong, Singapore

YTD APAC REITs performance by country



Source: S&P Capital IQ, S&P Asia Pacific REIT Index USD total return, as at Sep 23

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Geographies

1. China
2. Hong Kong
3. South Korea
4. Japan
5. Singapore
6. Australia
7. India

R&D demand underpins investment activities

Vlinker Pujiang

Shanghai

Key trends:

- **Proactive easing:** The PBOC cut the one-year loan prime rate and reserve requirement ratio for yuan deposits to 3.45% and 7.4% respectively to shore up the economic. There were some signs of improvement in the August readings of industrial production and retail sales.
- **Domestic purchasers favour R&D assets:** As cross border investors remained inactive, most of the investment volume was attributable to domestic investors and corporate occupiers, who were interested in flex/R&D assets in the industrial & logistics and life sciences sectors.
- **Sluggish office demand:** Most investors were generally wary of the office sector and transactions were mainly driven by corporate end-users. Opportunistic investors were interested in discounted sales.

Outlook:

- **Economic uncertainties:** Weak overseas demand and the ongoing property crisis cloud the prospects of economic recovery. More aggressive easing and support measures, such as deregulation and fiscal support may be needed to overcome the current challenges on economic growth.
- **Sector diversification:** While the office sector is falling out of favour, investors seen diversifying to sectors with stronger demand and better outlook, such as living / multi-housing and business parks.
- **Retail:** The better-than-expected retail sales performance and the inclusion of department stores and shopping malls to the CREITs scheme is expected to enhance the turnover of retail assets.

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	Zhongzhou Binhai Commercial Centre	313	USD 7,589 psm	Centralcon Group	Zheshang Bank
Q3 2023	Vlinker Pujiang	155	USD 2,208 psm	Vlinker	China Construction Bank

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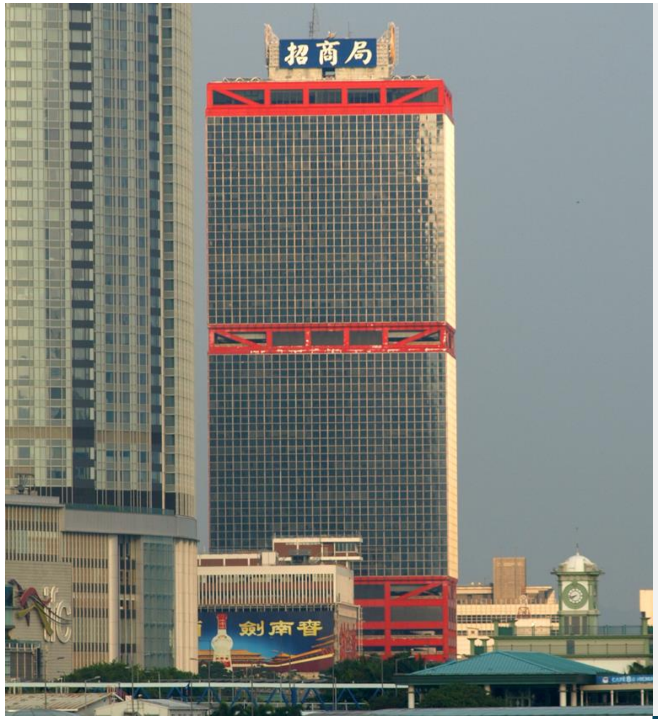
Still in the doldrums



China Merchants Tower

Hong Kong

Key trends:

- **Slow growth and high interest rate:** Real GDP growth weakened to 1.5% YoY in Q2 2023 as good exports plummeted and investment mildly declined. The 1-month HIBOR interest rate benchmark rose to 5.4% as of end-September, while CPI growth hovered at a low level of 1.8% in August.
- **Lack of institutional participation:** Institutional investors have been on the sidelines amid tightened financial conditions. The office investment market was especially quiet as investors remained cautious about the weak rental performance and high vacancy situation of the sector.
- **End-user demand:** Transactions were primarily driven by end-user demand, with corporate occupiers acquiring office floors and self-storage operators expanding their real estate portfolio.

Outlook:

- **Higher rates for longer:** Market consensus anticipates interest rates to stand at a high level until mid-2024. Investment volumes are forecast to stay low during the high interest rate period, while market yields for commercial properties would continue to expand.
- **Tourism revival:** On the back of more inbound tourists, cash-rich investors are likely to shift their focus to retail assets in core shopping districts in a bid to capture the rental and capital value growth potential.
- **Investor concerns:** Interest rate and pricing uncertainties, geopolitical tension and China's property crisis are major concerns dampening investor sentiment in the commercial real estate market.

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	28/F, Shun Tak Centre - China Merchants Tower	99	USD 42,146 psm	Private investor	China Merchants Energy Shipping
Q3 2023	G/F-3/F, Oliv	38	USD 43,448 psm	Private investor	Private investor

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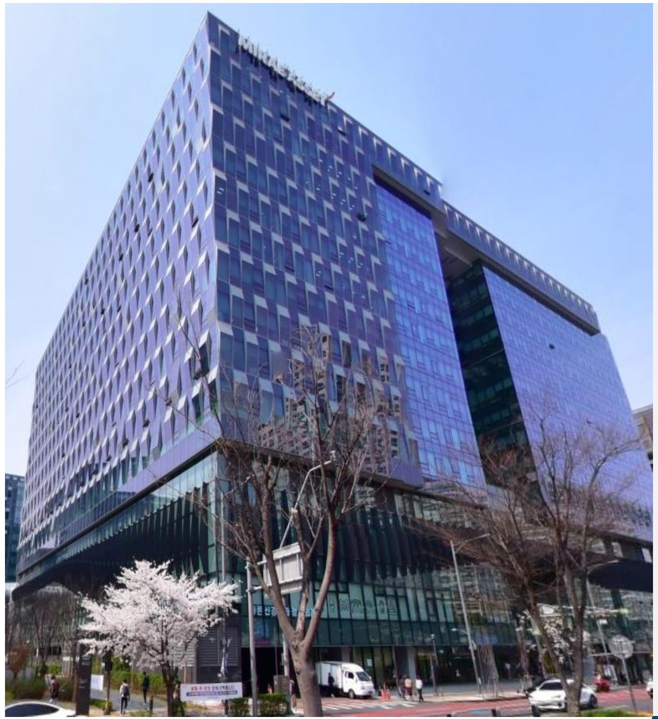
Investor caution curtails liquidity



Key trends:

- **Inflation picks up:** The benchmark interest rate has been maintained at 3.5% since January 2023. The high interest rate condition is expected to be prolonged as inflation has been climbing in recent months. The U.S.-South Korea rate differential has risen to the all-time high of 200bps.
- **Office slump:** Global investors are diversifying and reducing exposure to office assets due to the unfavourable sector outlook. Domestic institutional investors are selectively reviewing core office assets and becoming more conservative on pricing.
- **Singaporean connection:** Singapore investors accounted for about a quarter of investment volumes in South Korea in Q3 2023. Notably, GIC acquired a 45% stake in Pangyo Tech One from Korean conglomerate Naver.

Outlook:

- **Thin liquidity:** Both global and domestic investors are reviewing investment opportunities cautiously, with some waiting for distressed assets. Transactions would take longer to conclude since it is challenging to close the bid-ask gaps.
- **Industrial & logistics:** Dry logistics facilities are expected to garner investor attention owing to strong leasing performance. However, the considerable amount of new supply could potentially hamper rental growth and occupancy rates.
- **Strategic investors:** Amid thin liquidity, institutional investors would look for strategic investors, corporates seeking offices for occupation, as partners. This could lead to outliers in sales prices, particularly for Gangnam offices, as replacement costs are considered instead of financial returns.

Pangyo Tech One

Seongnam

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	Pangyo Tech One (45.08% stake)	537	USD 6,042 psm / 4.3%	Naver	GIC
Q3 2023	Tower 8	419	USD 8,102 psm / 4.2%	DWS Asset Management	Mirae Asset Global Investments

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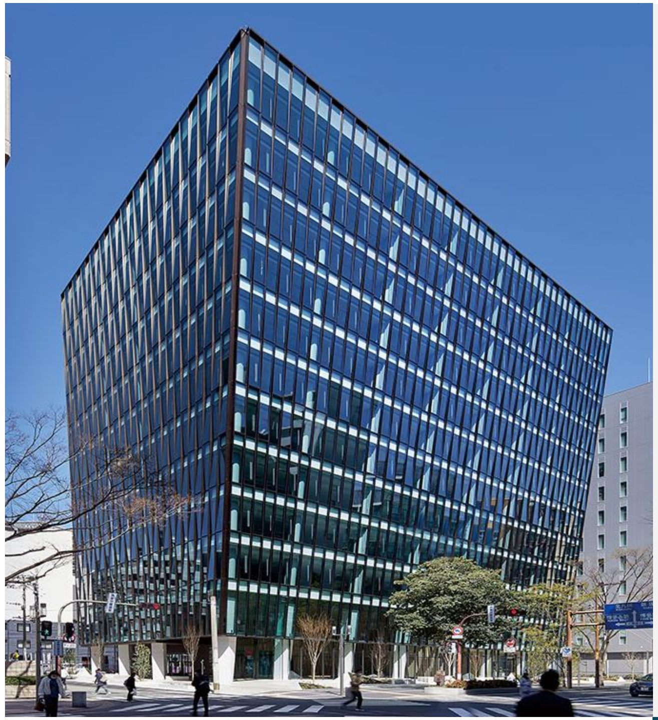
Robust demand supported by loose monetary policy



Hakata FD Business Center

Fukuoka

Key trends:

- **Loose monetary policy:** Japan is still enjoying positive cash-on-cash yield spreads under the current monetary policy of ultra low interest rates, which, coupled with the weak yen, attracts global investors to deploy capital in Japanese real estate assets.
- **Robust logistics demand:** Industrial & logistics remains attractive to investors as rental growth is still achievable on the back of strong occupier demand from third-party logistics operators and e-commerce retailers.
- **Mature living market:** While the multifamily sector is generally regarded as core investment, some value-add and opportunistic investors have shown interest. The deal flow remains healthy, with some student housing assets being traded, but the deal sizes have been trending smaller.

Outlook:

- **BOJ decision:** The current monetary policy would be maintained in the short term as signalled by the BOJ. However, the continued weakness in the yen, inflation expectations and evidence of wage increases may propel the BOJ to raise interest rates marginally in the medium term.
- **Yield stabilisation:** Yields have somewhat stabilised across sectors and would stay largely flat while interest rates remain stable. There may be slight yield compression in selected sectors with strong fundamentals, such as industrial & logistics and living / multi-housing.
- **Hotel bets:** With higher visitor arrivals and higher inflation, more investors would acquire hotel assets to benefit from the rising room rates.

Key deals	Asset	Price (USD mn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	Hakata FD Business Center (77% stake)	98	USD 6,206 psm / 4.1%	Fukuoka Jisho	Fukuoka REIT Corporation
Q3 2023	Hulic Kobunacho Building	76	USD 9,752 psm / 4.0%	Fuyo General Lease	Hulic REIT

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Investors selective on sectors

Parkroyal Kitchener Hotel

Singapore

JLL Deal

Key trends:

- **Sector bifurcation:** CBD Investment Grade office rents succumbed to downward pressure in Q3 2023 as occupier demand was weighed down by prolonged economic uncertainties. Coupled with high interest rates, this kept capital values on a downtrend and market yields expansionary. Meanwhile, rents for logistics/warehouse and prime retail space continued to rise, supporting capital value growth and keeping market yields steady.
- **Positive yield spreads:** Retail, hotels & hospitality and industrial & logistics assets remained favoured by investors for their positive yield spreads over the current high interest rates.
- **Major sales transactions:** Notable transactions in Q3 2023 include the collective sale of Far East Shopping Centre for redevelopment, Worldwide Hotels' acquisition of the luxury Parkroyal Kitchener Hotel and Frasers Centrepoint Trust's divestment of the suburban shopping mall Changi City Point.

Outlook:

- **Investor preferences:** Institutional investors are expected to continue favouring opportunities in the retail, hotels & hospitality and industrial & logistics sectors for their positive yield spreads over interest rates, while remaining cautious on office assets.
- **Private investors:** Family offices and UHNWIs are expected to stay keen on freehold assets priced below SGD 500 mn.
- **Re-pricing:** Office asset prices are likely to fall further on expectations of interest rates staying elevated for longer and continued downward pressure on CBD Investment Grade office rents in the coming quarters. Yields for retail and logistics/warehouse assets should hold steady on the back of rental growth prospects and sustained institutional investor demand.

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	Parkroyal Kitchener Hotel	389	USD 717,757 per key	UOL Group Limited	Worldwide Hotels
Q3 2023	Changi City Point	250	USD 12,929 psm / 4.3%	Frasers Centrepoint Trust	TBC

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Pricing uncertainties moderate volumes

Midland Gate Shopping Centre

Perth

Key trends:

- **Price discovery:** The fall in investment volumes is indicative of the price discovery as a result of rapidly changing funding costs and a low-leverage environment relative to other global markets that prolongs this period. Investors are in the mindset of reviewing opportunities, but still re-assessing market pricing and how far asset values may adjust.
- **Asset re-allocation:** While the institutional real estate market in Australia is well capitalised relative to other markets, some capital recycling activities for sector re-allocation purposes are expected to drive asset sales. Industrial & logistics and build-to-rent are becoming even higher conviction strategies for many investors. Furthermore, some funds are looking to divest assets to fund development and to de-lever to maintain conservative gearing.
- **Fundraising:** There has been new capital raising involving offshore institutions, including the AUD 1.3 bn raised for the HomeCo Healthcare and Life Sciences fund and the AUD 500 mn raised for Centuria's industrial fund, which will drive future transactions.

Outlook:

- **Wait and see:** Capital continues to wait for price discovery to build conviction on sectors for deployment and to identify where value will emerge.
- **Interest rate movements:** There is more clarity around the interest rate outlook, with most expecting one more rate rise and interest rate peaking at 4.35%. The high bond yield environment is creating some uncertainties around the long-term risk-free rate and expected returns for real estate.
- **Silver linings:** Opportunistic investors will prevent a complete freezing of the market and global capital is likely to remain interested in Australian real estate assets going forward, driven by the nation's political stability, high sovereign credit rating and transparent regulatory system.

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	NPS Industrial & Logistics Portfolio (20 assets)	367	N/A	National Pension Service of Korea	UniSuper
Q3 2023	Midland Gate Shopping Centre	304	USD 4,406 psm	Vicinity Funds & Commonwealth Bank Group Super	Fawkner Property Group

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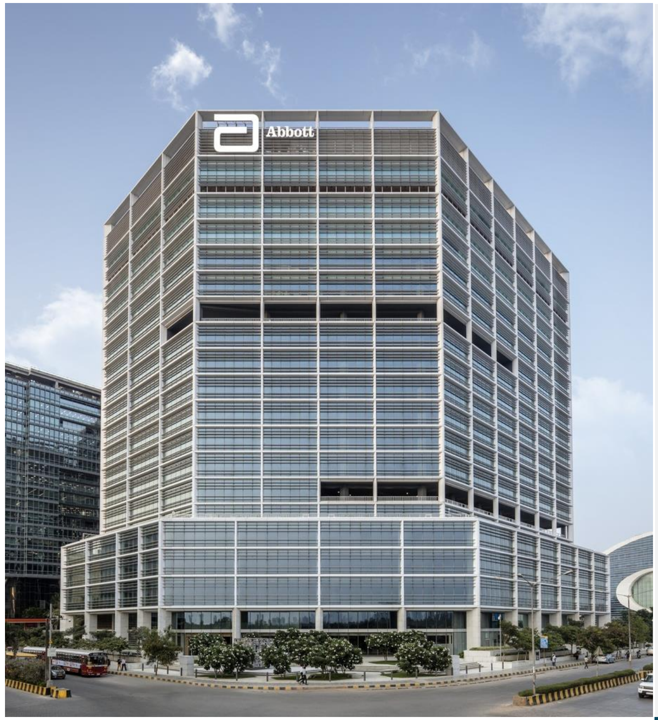
Resilient and attractive emerging real estate market



Godrej BKC
Mumbai

Key trends:

- **Economic strength:** Real GDP grew to 7.8% YoY in Q2 2023, up from 6.1% in Q1, beating market consensus. Investment rose 8% YoY on the back of more government capital expenditure, while private consumption expanded 6% YoY.
- **Capital influx:** Global institutional investors continued to bulk up their investments in India. Besides direct acquisitions, some investors opted to pursue platform deals, with healthcare and data centres being preferred.
- **Mixed-use development:** Investors were also engaging in development deals of mixed-use projects. Notably, Japanese developer Sumitomo Realty & Development bought a land parcel in central Mumbai from local textile manufacturer Bombay Dyeing in the city's largest ever land deal.

Outlook:

- **Continued growth:** The economy is forecast to grow faster than other major economies, underpinned by government spending and investment growth. High inflation and global economic uncertainties would not be deterring capital flowing into India.
- **Investment activities:** Real estate investment volumes are going to be maintained despite a regional slowdown. Office and industrial & logistics will be the favoured sectors.
- **Challenges:** The full effects of monetary policy tightening have not yet been fully realised. The increasing cost of debt and worsening financing conditions may lead to investors reassessing the viability of investment and development projects.

Key deals	Asset	Price (USDmn)	Unit price / NOI yield	Vendor	Purchaser
Q3 2023	Mumbai Land	605	N/A	Bombay Dyeing	Sumitomo Realty & Development
Q3 2023	Godrej BKC (3 floors)	109	USD 5,859 psm	Godrej Fund Management	Max Life Insurance

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Direct deals

Transaction	Date	Sector	Price (USDmn)	Vendor	Purchaser	Remarks
China						
188 Xueyuan Line	Jul-23	Industrial & Logistics	191	Saleen Automotive & Private investor	Nantong Jiahe Technology Investment Development Co Ltd	
Pinggao Cold Storage Phase 2	Sep-23	Cold Storage	138	Pinggao	New Ease	
Peninsula Science & Technology Park	Sep-23	Industrial & Logistics	123	Shanghai New Hope	Ningbo Fenghua SOE	
627 Huaihai Road	Sep-23	Retail	110	Blackstone	EP Yaying	
Hong Kong						
B/F-G/F, Cheong K. Building	Aug-23	Retail	47	Joy Express Ltd	Polysane Ltd	
Various units, Star House	Jul-23	Office	33	Winley Properties	Perfect Day Devs (Hong Kong) Ltd	
South Korea						
KAL Building	Sep-23	Office	201	Hanjin KAL	Korean Air	
Yongsan The Prime	Aug-23	Office	182	Shinhan REITs Management	IGIS Asset Management	
HJ Industries Headquarters	Aug-23	Office	172	Koramco REITs & Trust	Koreit	
Logi-spot Busan Logistics Center	Aug-23	Industrial & Logistics	141	HY Logis	HHR Asset Management	
Citibank Center	Sep-23	Office	128	CapitaLand	Keppel Corporation	
Gwangju Docheok Logistics Center	Aug-23	Industrial & Logistics	111	Gold First	Kolon Industries	
Japan						
Invincible Investment Corporation Hotel Portfolio	Aug-23	Hotels & Hospitality	386	Fortress Investment Group	Invincible Investment Corporation	5 assets
Star Asia Investment Corporation Hotel Portfolio	Sep-23	Hotels & Hospitality	314	Star Asia Group	Star Asia Investment Corporation	7 assets
Ichigo Hotel REIT Investment Corporation Portfolio	Aug-23	Hotels & Hospitality	104	Ichigo	Ichigo Hotel REIT Investment Corporation	5 assets
Sapporo 22 Square	Aug-23	Office	73	Domestic SPC	Orix JREIT	
Advance Residence Investment Corporation Multifamily Portfolio	Sep-23	Living / Multi-housing	73	Itochu Corporation	Advance Residence Investment Corporation	7 assets
La'gent Stay Sapporo Odori	Sep-23	Hotels & Hospitality	69	J Hotel Sapporo LLC	Japan Hotel REIT Investment Corporation	
Singapore						
Far East Shopping Centre	Sep-23	Retail	673	TBC	Bright Ruby Resources	Collective sale
Sime Darby Business Centre	Jul-23	Industrial & Logistics	50	TBC	Eagle Land	
Australia						
Blackstone Student Housing Portfolio	Sep-23	Living / Multi-housing	327	Valparaiso Capital Partners	Blackstone	3 assets
7 Spencer Street	Jul-23	Office	205	Mirvac Group	Daibiru Corporation	50% stake
1 Margaret Street	Aug-23	Office	194	Dexus Property Group	Quintessential	
189 Kent Street	Sep-23	Office	131	Barana Group	Gurner Build-to-Sell Development Fund	
Switchyard	Jul-23	Industrial & Logistics	116	Mirvac Group	Australian Retirement Trust	49% stake

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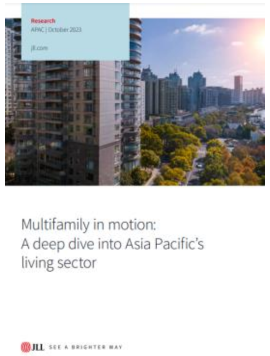
JLL thought leadership compendium

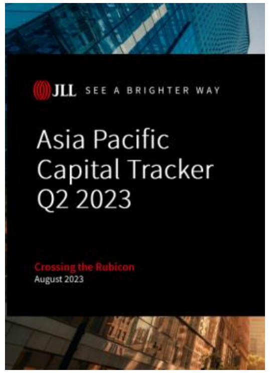
Investor Intel



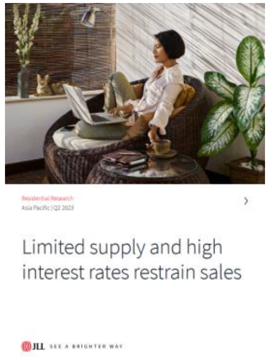
Multifamily in motion: A deep dive into Asia Pacific's living sector

Global Real Estate Perspective August 2023

Green Hotel Management Agreements in Asia Pacific



Asia Pacific Capital Tracker Q2 2023: Crossing the Rubicon

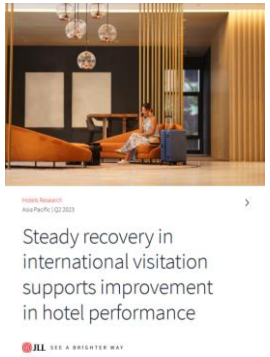


Asia Pacific Residential Q2 2023

Asia Pacific Office Q2 2023

Asia Pacific Retail Q2 2023

Asia Pacific Logistics & Industrial Q2 2023



Asia Pacific Hotels Q2 2023

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SEE A BRIGHTER WAY

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