# INDEPENDENT MARKET **OVERVIEW**

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

## Singapore

### 1.1 Economy

- According to the Ministry of Trade and Industry ("MTI"), Singapore's economy expanded by 1.1% in 2023, moderating from the 3.8% growth in 2022. Growth was mainly supported by the construction and services sectors, aviation, and tourism-related sectors, given the continued recovery of air travel, tourism, and improving consumer spending. However, the manufacturing sector contracted given a decline in external demand.
- For 1Q 2024, Singapore's GDP grew by 2.7% yoy, extending the 2.2% expansion from the previous quarter. This was driven by finance & insurance, transportation & storage, and wholesale trade.
- Singapore's headline inflation eased to 4.8% in 2023, down from 6.1% in 2022. Although inflation continues to linger, moderating supply chain frictions, global energy and commodity price pressures, together with easing inflation in major trading partners have gradually cooled overall inflationary pressures.
- According to the Ministry of Manpower ("MOM"), Singapore's unemployment rate dropped from 2.1% in 2022 to 1.9% in 2023. Labour demand was observed to have cooled and retrenchments rose amid weaker economic conditions. Layoffs were notably observed in the wholesale trade, information technology, and electronics manufacturing sectors. However, most of the retrenched workers were able to re-enter employment in other industries quickly, which kept the labour market tight and unemployment rates low.

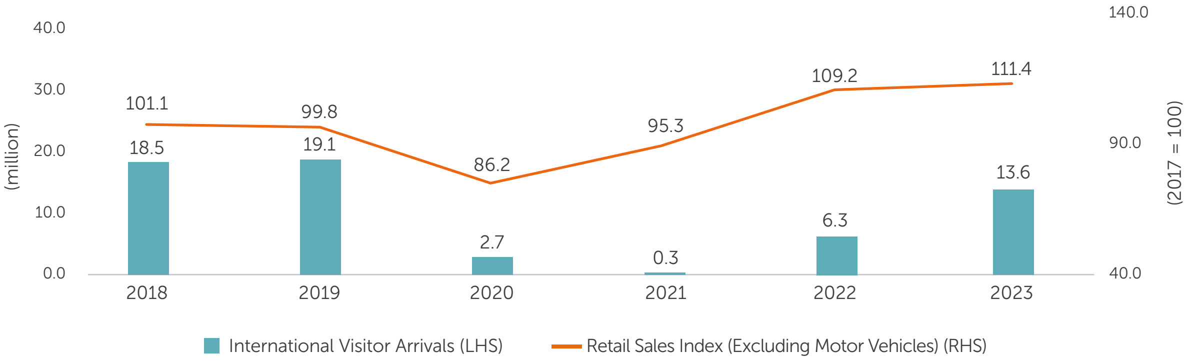
**Tourist Arrivals**

**13.6**M
(In 2023)

▲ **115.8% yoy**

- International visitor arrivals continued to recover strongly in 2023, reaching 13.6 million, which is about 71.2% of the pre-pandemic level in 2019. This figure falls within the Singapore Tourism Board ("STB")'s forecast of between 12 million and 14 million international visitors for the year.
- The robust recovery can be attributed to the strong line-up of Meetings, Incentives, Conferences & Exhibitions ("MICE"), leisure, sporting and entertainment events, healthy performance of the cruise industry, and STB's efforts in launching new concepts, experiences, and marketing campaigns. Such campaigns include the "Made in Singapore" global campaign to inspire travel to Singapore by showcasing experiences that are quintessentially Singaporean, new, and innovative experiences for travellers. These measures attracted travellers particularly from Singapore's key source markets, led by Indonesia, China and Malaysia.
- Chinese visitor arrivals have been steadily recovering since the reopening of China in early 2023, recording nearly 1.4 million visitors in 2023, which is approximately 37.6% of the pre-pandemic level in 2019.
- The tourism sector is expected to continue its strong recovery in 2024, driven by improved flight connectivity and capacity, the implementation of 30-day visa-free travel between China and Singapore since February 2024, and a strong pipeline of live entertainment acts and events.

**International Visitor Arrivals and Retail Sales Index**

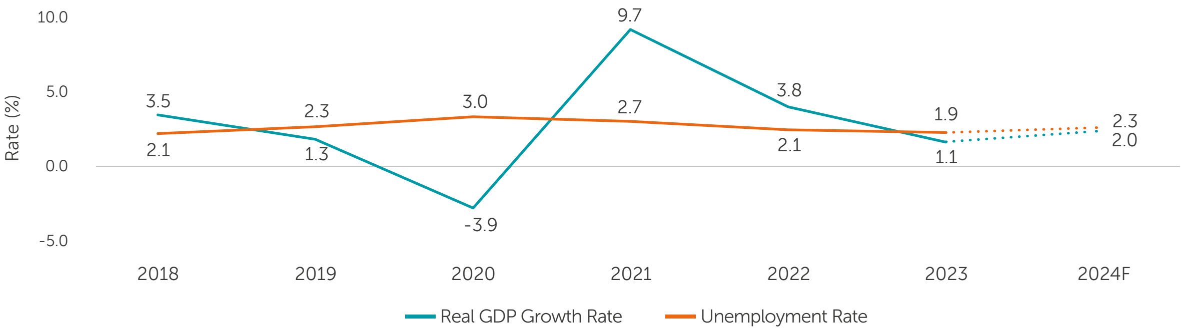


Source: STB, Singapore Department of Statistics

## 1.2 Outlook

- According to MTI, Singapore's economy is expected to grow by 1.0% to 3.0% in 2024. The modest forecast could be mainly attributed to a weak outlook for major external economies, particularly China, a prolonged high inflationary and interest rate environment, and significant uncertainties and downside risks in the global economy, including persistent and expanding geopolitical conflicts.
- Inflation is expected to moderate further in 2024 due to the expected stabilisation of global energy and food commodity prices, and slower wage increases. However, cooling labour demand and wage gains may reduce discretionary retail spending from domestic consumers. This, coupled with the implementation of an additional GST rate hike from 8% to 9% effective from 1 January 2024, may further impact domestic spending. Despite these challenges, increased tourist arrivals and tourism receipts are expected to contribute to higher retail sales volume in 2024, albeit at a moderated pace.

**Real GDP Growth Rate and Unemployment Rate**



Source: GDP and Unemployment Rate figures from 2018 to 2023 are from the Singapore Department of Statistics, MTI and MOM. Forecast figures for 2024 are from MTI (for GDP) and Oxford Economics (for unemployment).

## 1.3 Singapore Retail Market[1]

**Total Retail Sales**

S$**42.7**B ▲ **1.7% yoy**

(In 2023)

- Retail sales in total value terms recorded a 1.7% increase from 2022 to 2023.
- This was driven by the continued recovery of tourism, resilient domestic disposable incomes, as well as increased large-scale events, boosting retail spending from both locals and tourists.
- Food & alcohol, apparel & footwear, and cosmetics, toiletries & medical goods were the largest contributors to the yoy growth in retail sales value.
- As in previous years, retail sales were higher towards the end of the year, supported by year-end festivities and online shopping events. However, retail sales in December 2023 were lower yoy, which could be attributed to a higher level of outbound travels by locals, resulting in reduced overall domestic retail spending.

**Online Retail Sales**

**14.4**% of Total Retail Sales

(In 2023)

- The proportion of online retail sales rose from 6.8% in 2019 to 10.5% during the early phase of COVID-19 in March 2020, as consumers shifted towards online shopping in light of lockdown measures and restrictions.
- Despite the gradual easing of COVID-19 restrictions since 2021, the online retail sales penetration rate remained higher than pre-COVID levels, recording 14.4% at the end of 2023.
- The online sales value recorded during the shopping promotional months in 2023 remained comparable to the same period in 2022, suggesting the continued influence of e-commerce on consumer spending habits.

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[1] All references to floor area refers to net lettable area ("NLA"), unless otherwise stated.

# INDEPENDENT MARKET **OVERVIEW**

**Existing Retail Stock**

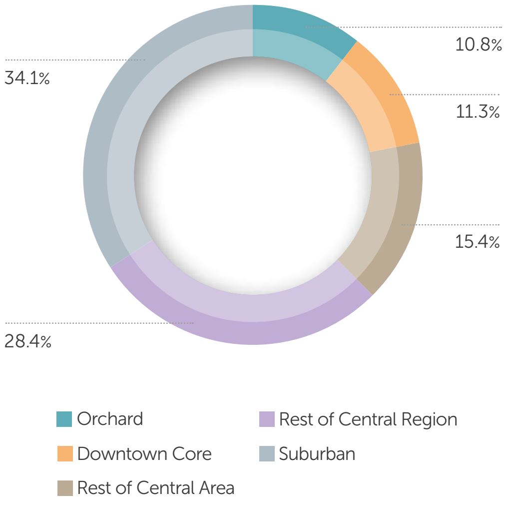
**67.6**M square feet[1] ▲ **0.7% yoy**

(As at 31 December 2023)

- Singapore's existing retail stock stood at about 67.6 million square feet as at 31 December 2023, and the majority located in the Central Region (65.9%) and the remaining in the Suburban submarket (34.1%).
- The Central Region comprises four major submarkets: Orchard, Downtown Core, Rest of Central Area, and Rest of Central Region (also known as the City Fringe).[2]
- 441,320 square feet of net retail supply was added to the market in 2023, with the completion of One Holland Village injecting about 81,500 square feet of retail NLA into the Rest of the Central Region submarket.
- As of 31 March 2024, Singapore's existing retail stock stood at nearly 67.8 million square feet, with a net addition of 204,514 square feet of retail supply in 1Q 2024 including Plantation Plaza of about 69,000 square feet in the Suburban submarket.

**Retail Stock by Submarket**

(As at 31 December 2023)



Source: URA, Colliers

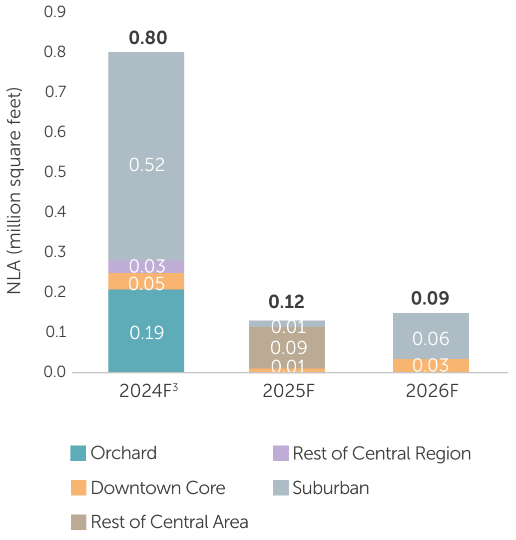
**Potential Retail Supply**

**1.0**M square feet

(From 2024 to 2026)

- Approximately 1.0 million square feet of space is expected to be delivered from 2024 to 2026, translating into an annual average of about 0.3 million square feet, which is lower than the past five-year annual average of 0.5 million square feet. The Suburban and Orchard submarkets account for the majority of the upcoming retail supply, representing 59.0% and 19.1%, respectively.
- Within the Alexandra/HarbourFront submarket, Raffles Sentosa Resort & Spa Singapore and Labrador Tower are expected to add about 5,000 square feet and 26,000 square feet of space, respectively, by the end of 2024. However, the former will primarily comprise restaurants and bars, fitness centre, and meeting/ballroom amenities, while the latter will primarily comprise restaurants and ancillary retail such as convenience shops and services. No major retail shops are expected in these two new developments.

**Potential Supply by Submarket**



Source: URA, Colliers, Project Announcements

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[1] Source: URA.

[2] The Central Area consists of the following planning areas as defined by the Urban Redevelopment Authority ("URA"): Outram, Museum, Newton, River Valley, Singapore River, Marina South, Marina East, Straits View, Rochor, Orchard, Downtown Core. Mapletree Business City, mTower, and VivoCity, owned by MPACT, are located in the City Fringe.

[3] 2024F supply includes stock that was completed in 1Q 2024 for all markets covered in this Independent Market Overview.

### Retail Net Take-up[1]

**0.8**M square feet[2] 18.5% yoy
(Islandwide in 2023)

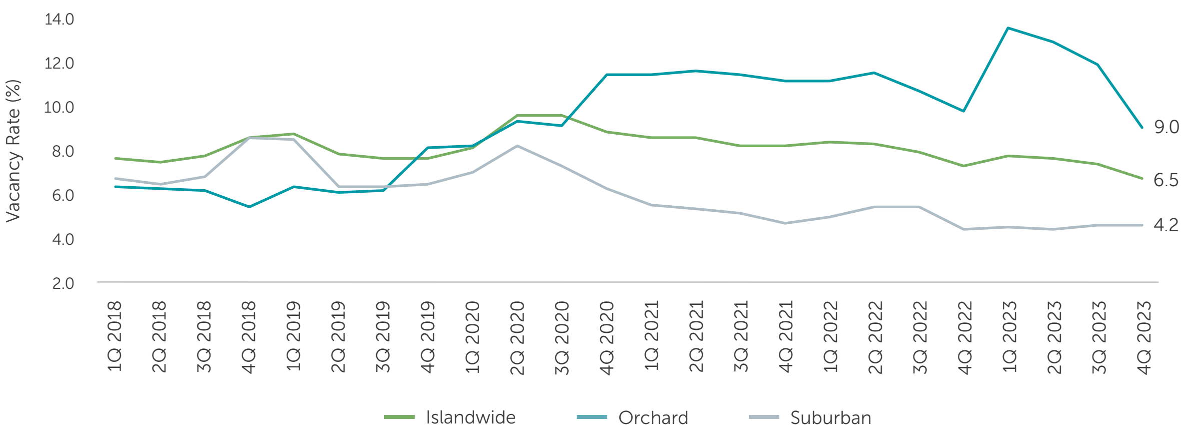
- Retail leasing demand continued its recovery, with Islandwide net absorption of about 0.8 million square feet in 2023, driven mainly by F&B operators and fashion brands. However, this was 18.5% lower than in 2022.
- Leasing demand experienced contractions in the first and third quarters of 2023, with closures observed due to steep rental increases, a tight labour market, and inflationary pressures contributing to a high cost environment for retailers. Nonetheless, a recovery of tourism, together with a boost from the year-end holidays supported retailers' business confidence, leading to a strong take-up of retail space in the last quarter of 2023.
- The Rest of Central Region, Downtown Core, and Suburban submarkets were the largest contributors to retail leasing demand, supported by increased return-to-office arrangements, and tourist and domestic retail expenditure.

### Retail Vacancy Rate

**6.5**%[3] 0.6 Percentage Points ("pp") yoy
(Islandwide as at
31 December 2023)

- Islandwide retail vacancy rate tightened to 6.5% as at 31 December 2023, 0.6 pp lower yoy. This was supported by strong retail leasing demand, limited new supply, and the removal of some retail developments from the overall stock due to asset enhancement works and redevelopments. Vacancy rates tightened across all submarkets, except for the Suburban submarket, which saw a slight uptick but remained the submarket with the lowest vacancy rate islandwide.
- Islandwide retail vacancy rate in 1Q 2024 rose by 0.2 pp quarter-on-quarter ("qoq") to 6.7%, largely due to new supply and cost pressures leading to consolidations and closures of retail businesses. Orchard was the only submarket with a tightened vacancy rate, declining by 2.2 pp qoq to 6.8% as strong recovery in tourism boosted retailers' confidence and space take-up.

**Vacancy Rate by Submarket**



Source: URA, Colliers

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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] Source: URA.
[3] This refers to the islandwide average vacancy rate of all retail properties and is published by the URA.

# INDEPENDENT MARKET **OVERVIEW**

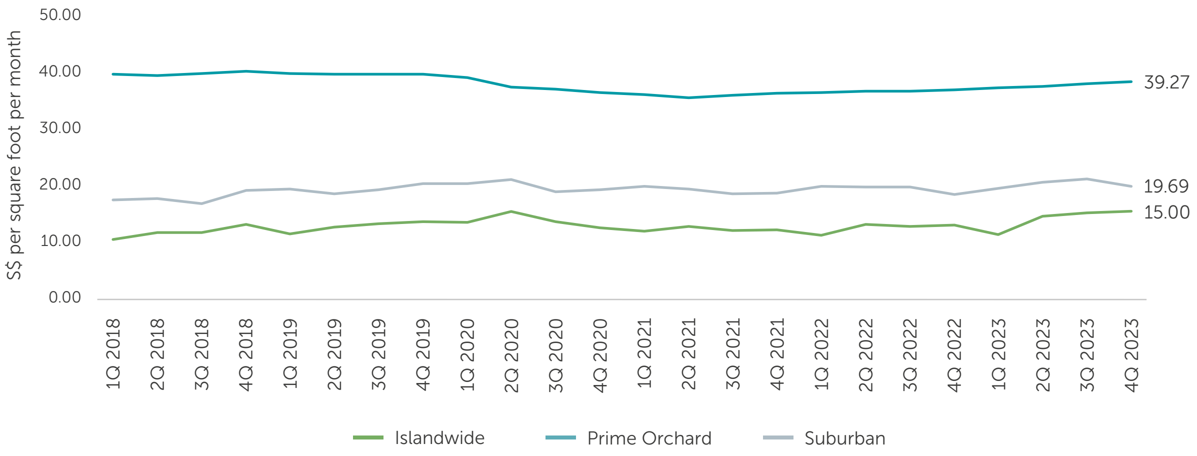
**Average Retail Rent**

S$**15.00** per square foot per month[1] ▲ **21.3% yoy**

(Islandwide as at 31 December 2023)

- Average islandwide retail rents increased to S$15.00 per square foot per month as at 31 December 2023, 21.3% higher yoy. This was supported by strong take-up of retail space amid limited new supply. Average islandwide rents surpassed pre-pandemic levels and recorded their highest levels since 31 December 2013.
- Average prime Orchard retail rent[2] has been on an upward trajectory since 3Q 2021, in tandem with the reopening of borders and return of tourists. Rents increased by 4.1% yoy to S$39.27 per square foot per month as at 31 December 2023, narrowing the gap from the pre-pandemic level of S$40.65 per square foot per month as at 31 December 2019.
- Suburban retail rents recorded S$19.69 per square foot per month as at 31 December 2023, 8.8% higher yoy. Rents remained resilient due to strong catchment populations supporting suburban malls, although they remained 2.5% lower than the pre-pandemic level in 2019.
- Islandwide retail rent for 1Q 2024 declined by 11.2% qoq to S$13.32 per square foot per month, contributed by softened demand particularly for non-prime retail spaces. On the other hand, Prime Orchard retail rent continued its upward trajectory since 2Q 2021 supported by robust retail demand, while Suburban retail rent in 1Q 2024 rose to its highest since 31 December 2013, partly driven by new development completions which command higher rents.

**Retail Rent by Submarket**



Source: URA (Islandwide and Suburban Rents), Colliers (Prime Orchard Rent)

**Average Retail Capital Value[3]**

S$**3,210** per square foot ▲ **1.7% yoy**

(Islandwide as at 31 December 2023)

- Islandwide retail capital value and yield as at 31 December 2023 both rose slightly on a yoy basis to an average of S$3,210 per square foot and 4.8%, respectively. This was due to resilient demand for retail assets, evidenced by several sizeable transactions coupled with a healthy rental growth.

**Average Retail Yield**

**4.8**% ▲ **0.1 pp yoy**

(Islandwide as at 31 December 2023)

- Key recent retail transactions include the sale of Changi City Point from Frasers Centrepoint Trust to an undisclosed buyer for S$338 million (S$1,621 per square foot based on NLA of 208,453 square feet), and the sale of Seletar Mall from Cuscaden Peak Investments and United

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[1] This refers to the islandwide median gross monthly rent of all retail space and is published by the URA.

[2] Average prime Orchard retail rent is based on Colliers' research and valuation metrics on ground floor, basement, and MRT-level average retail rent in selected basket of prime retail malls.

[3] Average retail capital value and yield is based on Colliers' research and valuation metrics of prime retail malls.

Engineers to Allgreen Properties for S$550 million (S$2,900 per square foot based on transaction price and NLA of 189,500 square feet).

- In 1Q 2024, prime islandwide retail capital values increased in tandem with nearly proportionate growth in prime retail rents. As a result, the average retail yield remained stable.
- With Singapore increasingly positioned as an appealing investment destination among international investors, Singapore's retail mall asset class is expected to be favoured due to its relative scarcity, stability, and higher yields compared to other asset classes.

**Retail Trends and Outlook**

- Retail malls have evolved to incorporate more experiential elements, technology platforms, digital interfaces, and activity-based and F&B offerings to generate physical visits. The continued adoption of hybrid work arrangements will continue to benefit footfall and retail sales of malls located near residential estates as more people choose to dine, shop, or opt for food deliveries near their homes.
- Retailers continue to face cost pressures arising from manpower shortages and high operating and transport costs. The additional GST rate hike and continued appreciation of SGD, which encouraged more outbound travel, may impact local retail spending.
- However, modest economic growth and high household disposable incomes are expected to provide some support. The recovery in tourism and the pipeline of live entertainment acts and events, could also potentially contribute to footfall and demand for retail space.
- The overall healthy demand for retail space, alongside relatively limited upcoming supply, is expected to support the upward trajectory of rents, albeit at a moderated pace.

## 1.4 Singapore Office Market[1]

**Existing Office Stock**

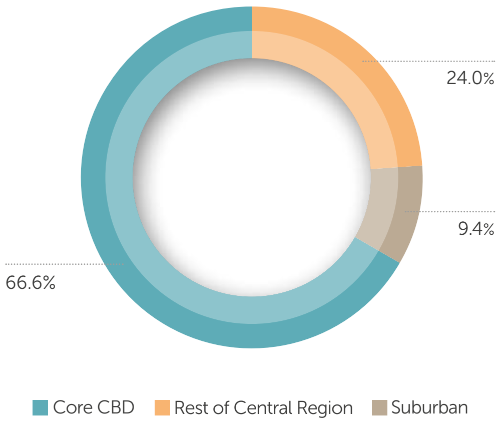
**86.6**M square feet[2] ▼ **0.4% yoy**

(As at 31 December 2023)

- Singapore's total existing office stock stood at 86.6 million square feet as at 31 December 2023, with the majority concentrated in the Core CBD (66.6%), with the remaining in the Rest of Central Region (24.0%) and Outside of Central Region (also referred to as the Suburban submarket) (9.4%).
- The Core CBD refers to the Central Area of Singapore, while the Rest of Central Region is also referred to as the City Fringe.[3]
- Office stock decreased by about 355,200 square feet in 2023, mainly due to redevelopment and asset enhancement works on properties such as PIL Building and Golden Mile Complex. However, the completions of Guoco Midtown and One Holland Village added about 709,000 square feet and 50,000 square feet of office NLA to the Core CBD and City Fringe submarkets, respectively.
- As of 31 March 2024, Singapore's existing office stock stood at nearly 86.2 million square feet, with a net reduction of 441,320 square feet of office supply in 1Q 2024. The removal of developments includes Central Square & Central Mall in the Core CBD.

**Office Stock by Submarket**

(As at 31 December 2023)



Source: URA, Colliers

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[1] All references to floor area refers to NLA, unless otherwise stated.

[2] Source: URA.

[3] The Central Area comprises the following planning areas as defined by the URA: Outram, Museum, Newton, River Valley, Singapore River, Marina South, Marina East, Straits View, Rochor, Orchard, Downtown Core. For the properties owned by MPACT, Mapletree Business City, mTower, and Bank of America Harbourfront are located in the City Fringe, while Mapletree Anson is located in Core CBD.

# INDEPENDENT MARKET **OVERVIEW**

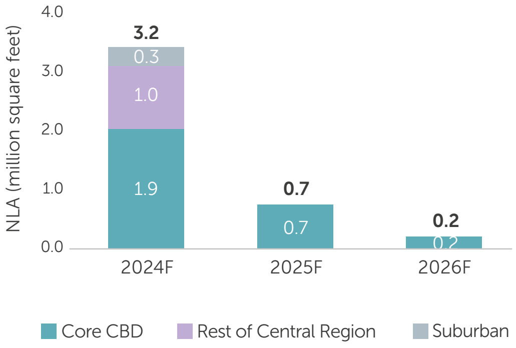
**Potential Office Supply**

**4.1**M square feet

(From 2024 to 2026)

- Approximately 4.1 million square feet of space is expected to be delivered from 2024 to 2026, translating into an annual average of about 1.4 million square feet, which is higher than the past five-year annual average of 1.0 million square feet.
- The Core CBD submarket will account for the majority of upcoming office supply (68.3%) from 2024 to 2026, while the City Fringe and Suburban submarkets will account for 25.2% and 6.5% respectively.
- Within the Alexandra/HarbourFront submarket, Labrador Tower is expected to add about 696,800 square feet of space in 2024. Within the Core CBD (Tanjong Pagar/Anson submarket), Keppel South Central and Newport Tower are expected to add about 613,500 square feet and 262,600 square feet of space in 2024 and 2025, respectively.

**Potential Supply by Submarket**



Source: URA, Colliers, Project Announcements

**Office Net Take-up**

**0.9**M square feet[1] ▲ **88.6% yoy**

(Islandwide in 2023)

- Office leasing demand recovered strongly and maintained its positive leasing momentum from the previous year, recording islandwide net absorption of nearly 0.9 million square feet in 2023, 88.6% higher on a yoy basis.
- However, macroeconomic uncertainties have resulted in right-sizing and consolidation of spaces by companies, while the continued slowdown and layoffs in the technology sector contributed to a build-up of shadow space. Occupiers also exhibited caution in expansion plans and capital expenditure, with many opting to renew leases instead of relocating.
- Despite these challenges, occupiers continued to seek for efficiency and flight-to-quality, which coupled with the tight new supply situation, especially for prime grade office developments, resulted in strong demand and tightened vacancies across most submarkets.
- Office demand in Singapore's CBD has historically been driven by the core sectors of banking & finance, professional services, and energy & shipping. In 2023, healthy demand for office space continued to be observed from diversified industries, including family offices, energy, biotechnology, hardware, transport sectors, and new set-ups from Chinese companies.

**Office Vacancy Rate**

**9.9**%[2] ▼ **1.4 pp yoy**

(Islandwide as at 31 December 2023)

- Islandwide office vacancy rate tightened to 9.9% as at 31 December 2023, 1.4 pp lower yoy. This improvement can be attributed to continued back-to-office momentum and the removal of office developments from the overall stock, which fuelled growth in office leasing demand and a broad-based decline in vacancy rates across most submarkets.
- Vacancy rates as at 31 December 2023 in the Downtown Core and Core CBD were 9.3% and 9.9%, respectively, tightening by about 2.4 pp and 1.7 pp yoy. The CBD remained the preferred submarket for premium and good quality office assets, as occupiers continued their flight-to-quality. The tight office supply and limited availability of office space in the CBD further pushed CBD occupancy rates upwards in 2023.
- The City Fringe submarket, despite a slight uptick in vacancy to 8.7% in 2023, remained the submarket with the lowest vacancy rate. Notably, vacancy rate in the City Fringe has remained at or below 10% for the past four years despite challenges posed by COVID-19 and work-from-home arrangements. The quality of assets, proximity to the CBD, relatively reasonable rents, and the current tight office supply situation in the CBD, have cemented the City Fringe as a popular and resilient office submarket.

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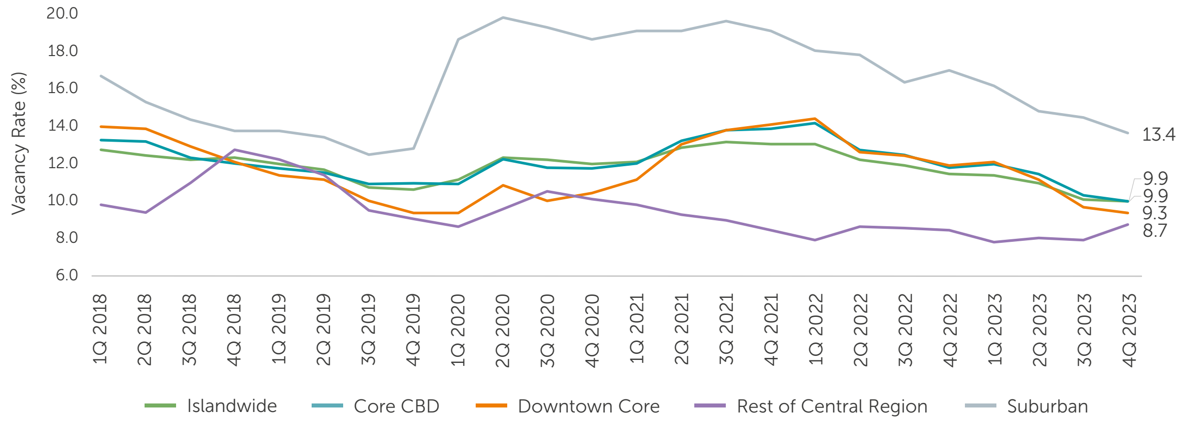
[1] Source: URA.

[2] This refers to the islandwide average vacancy rate of all office properties and is published by the URA.

- 1Q 2024 islandwide office vacancy rate tightened by 0.3 pp qoq to 9.6%. The removal of office developments from the overall stock, coupled with a lack of new completions, outweighed the decline in office occupancy as occupiers optimised their space requirements.

## Vacancy Rate by Submarket



Source: URA, Colliers

**Average Office Rent**

S$**6.44**

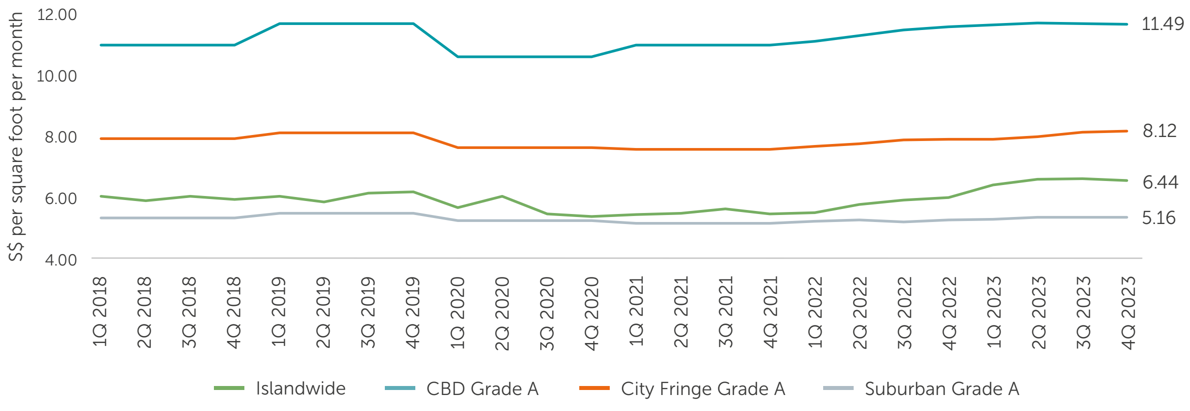
per square foot per month[1]

(Islandwide as at 31 December 2023)

▲ **9.9% yoy**

- Average islandwide office rents increased to S$6.44 per square foot per month as at 31 December 2023, 9.9% higher yoy. The overall growth in rents was supported by stronger office take-up and tight vacancies across the markets.
- Grade A office rents in the CBD and City Fringe continued to grow in 2023, with yoy growth of 0.8% and 3.6%, respectively.
- In 1Q 2024, islandwide office rent increased by 1.7% qoq to S$6.55 per square foot per month. This was mainly driven by rental growth in the CBD where limited prime spaces were snapped up or renewed at higher rates as occupiers viewed it as a more economical option than relocating.

## Office Rents by Submarket



Source: URA (Islandwide Rents), Colliers (Submarket Rents)

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[1] This refers to the islandwide median gross monthly rent of all office space and is published by the URA.

# INDEPENDENT MARKET **OVERVIEW**

**Average CBD Grade A Office Capital Value**

S$**3,100** per square foot ▲ **1.6% yoy**

(As at 31 December 2023)

**Average CBD Grade A Office Yields**

**3.3**% **Unchanged yoy**

(As at 31 December 2023)

- CBD Grade A capital values rose slightly to S$3,100 per square foot, backed by near-proportionate rental growth and resilient demand for these assets, resulting in yields remaining flat at 3.3% in 2023 as compared to 2022.
- In 1Q 2024, CBD Grade A office capital value and yield remained flat with limited transactional evidence.
- Despite facing a prolonged period of elevated interest rates, economic uncertainties, and a continued bid-ask gap that led to lower transaction volumes, investors continue to have strong conviction on commercial assets in Singapore. This confidence is underpinned by Singapore's long-term stability and resilient rental levels.
- Key recent office transactions include the en-bloc sale of Shenton House to Shenton 101 for S$538 million (S$1,921 per square foot based on reported existing NLA of 280,000 square feet).

### Office Trends and Outlook

- The new Tripartite Guidelines on Flexible Work Arrangements Requests, which require employers to consider employees' requests for flexible work arrangements properly and fairly, such as work-from-home arrangements for office jobs, will take effect from 1 December 2024. While these guidelines are not expected to significantly impact demand for office space, more firms may consider right-sizing according to the work arrangements and corresponding space requirements of their workforce.
- In the near term, demand for office space is likely to remain muted as occupiers are expected to remain cautious in their spending and focus on space optimisation, given the ongoing global economic uncertainties and continued job cuts observed across sectors. Significant incoming new supply, coupled with a build-up of shadow and secondary spaces, is expected to add pressure to office vacancies and rental levels in both the CBD and islandwide as competition for tenants intensifies.
- However, an improvement to office leasing demand and rents is expected in the second half of 2024, supported by a modest economic recovery and projected easing of inflationary pressures and interest rates.
- With Singapore's reputation as an international financial hub and safe capital haven, prime quality office space remains a prized asset in the long run, backed by resilient rents and overall tight vacancies.

## 1.5 Singapore Business Park Market

**Existing Business Park Stock**

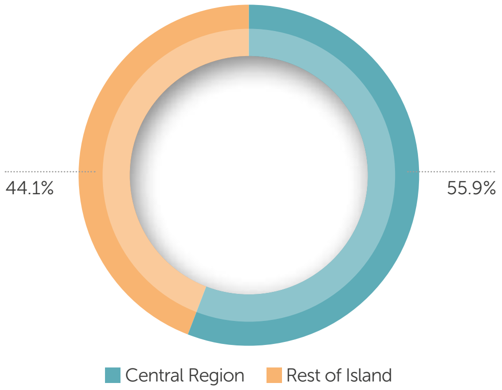
**26.5**M square feet[1] ▲ **3.5% yoy**

(As at 31 December 2023)

- Singapore's total existing business park stock totalled about 26.5 million square feet as at 31 December 2023. The majority of this is clustered in selected areas in the Central Region (55.9%), with the remaining located across the Rest of Island (44.1%).
- The Central Region comprises the Queenstown planning area and the business parks in the region (Mapletree Business City, one-north and Singapore Science Park). The Rest of Island comprises the East Region (Bedok and Tampines planning areas) and the West Region (Jurong East and Western Water Catchment planning areas).[2]
- Approximately 0.9 million square feet NLA of net business park supply was added to the market in 2023. The completion of Elementum and Geneo contributed about 306,000 square feet and 248,200 square feet, respectively, into the Central Region submarket.
- As at 31 March 2024, Singapore's existing business park stock stood at 26.5 million square feet, with a net addition of 43,540 square feet of business park supply in 1Q 2024.

**Business Park Stock by Submarket**

(As at 31 December 2023)



Source: JTC Corporation, Colliers

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[1] Source: JTC Corporation.

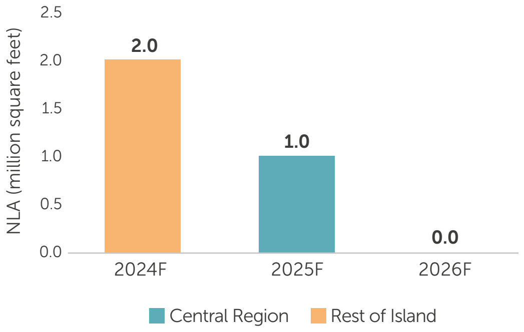
[2] Mapletree Business City, owned by MPACT, is located in the Central Region.

**Potential Business Park Supply**

**3.0**M square feet
(From 2024 to 2026)

- Approximately 3.0 million square feet of business park space is expected to be delivered from 2024 to 2026, translating into an annual average of 1.0 million square feet, higher than the past five-year annual average of 0.6 million square feet.
- The Rest of Island submarket will account for the majority (67.5%) of upcoming business park supply from 2024 to 2026, while the Central Region will account for the remaining supply (32.5%).
- Within the Central Region, 1 Science Park Drive is expected to add about 1.0 million square feet of new supply in 2025 in the Buona Vista/one-north submarket.

**Potential Supply by Submarket**



Source: JTC Corporation, Colliers

**Business Park Net Take-up**

**-0.4**M square feet[1]

194.4% yoy

(In 2023)

- Demand for business park space experienced a significant contraction in 2023, resulting in negative islandwide net absorption of approximately -0.4 million square feet, a decline of 194.4% from 2022. The fall in demand was observed across all submarkets, with the Rest of Island (East Region) being the most impacted. Weakened macroeconomic conditions and manufacturing output contractions have led to re-evaluation and consolidation of space, with more lease renewals than expansions observed. Demand from the traditional business park occupier sectors, including technology, R&D, and pharmaceuticals, remained more muted in 2023.
- Following two consecutive years of recovery in leasing demand from 2021 to 2022, the Central Region submarket recorded a significant contraction in the first quarter of 2023. Demand reverted to slightly positive levels in the next two quarters, before it observed another decline at the end of 2023.
- After registering its first positive net absorption of approximately 0.1 million square feet in 2022, the Rest of Island submarket reverted to record a significant contraction of about 0.2 million square feet in 2023, which was mainly contributed by the East Region.

**Business Park Vacancy Rate**

**21.6**%[2]

4.1 pp yoy

(Islandwide as at 31 December 2023)

- Islandwide business park vacancy rate rose 4.1 pp from 2022 to 21.6% as at 31 December 2023, the highest level observed in a decade. This was particularly driven by the Rest of Island (West Region), where vacancy rate climbed to 42.2%.
- The sharp rise in vacancy was due to the completion of new projects, including Perennial Business City and Surbana Jurong Campus in the West Region.
- In contrast, the Central Region has generally maintained low vacancy levels over the past seven years and remained the tightest submarket for the business park sector. However, due to weakened demand for business park space and the completion of new developments, vacancy levels in the Central Region increased to 11.0%.
- In 1Q 2024, islandwide business park vacancy rate increased by 0.4 pp qoq to 22.0%, largely due to newly injected business park supply yet to be absorbed.

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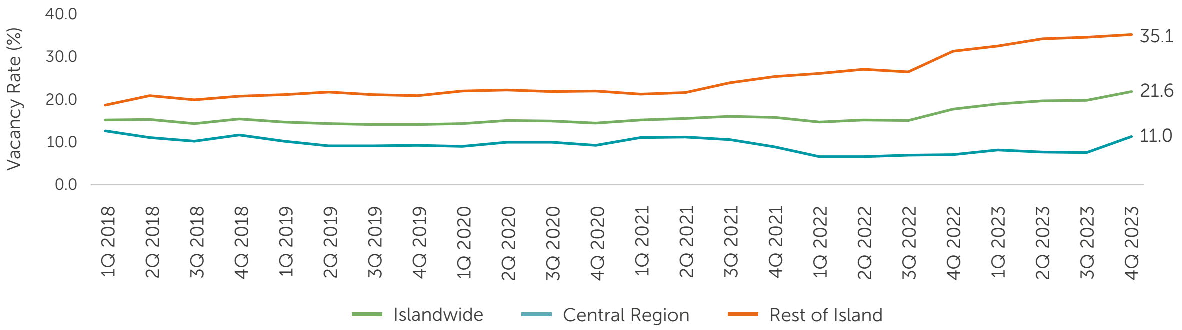
[1] Source: JTC Corporation.

[2] This refers to the islandwide average vacancy rate of all business park properties and is published by the JTC Corporation.

# INDEPENDENT MARKET **OVERVIEW**

**Vacancy Rate by Submarket**



Source: JTC Corporation, Colliers

**Average Business Park Rent**

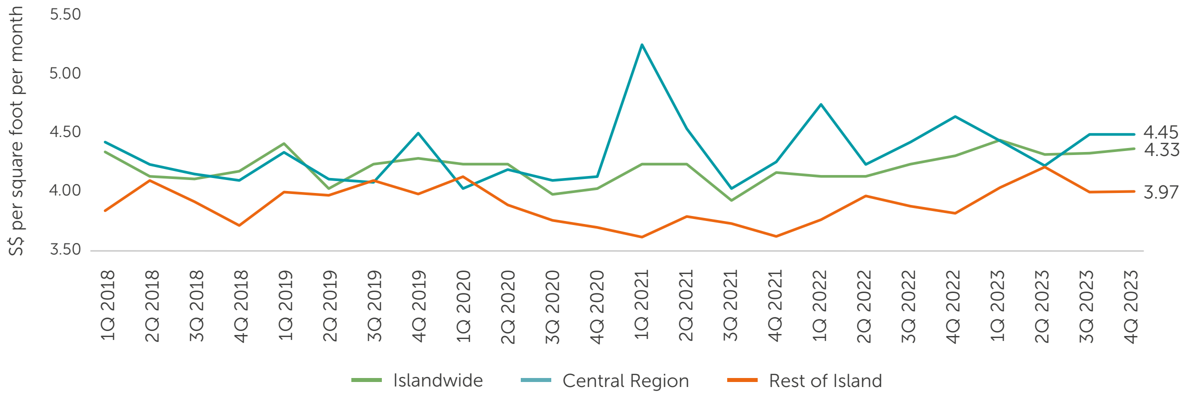
S$**4.33** ▲ **1.4% yoy**

per square foot per month[1]

**(Islandwide as at 31 December 2023)**

- Average islandwide business park rent was S$4.33 per square foot per month as at 31 December 2023, 1.4% higher yoy.
- Average rent for the Central Region submarket was S$4.45 per square foot per month as at 31 December 2023, 3.3% lower yoy. The decline was in tandem with a contraction in business park space demand and the injection of new supply into the submarket.
- Average rent in the Rest of Island submarket increased by 4.7% yoy to S$3.97 per square foot per month as at 31 December 2023. This was mainly driven by the continued increase in average rents in the West Region arising from several newly completed developments, such as Perennial Business City and Surbana Jurong Campus, which commanded higher rents.
- In 1Q 2024, islandwide business park rent increased by 2.3% qoq to S$4.43 per square foot per month. This was mainly due to the higher rents commanded by the newer and better-located business parks, but mitigated by lower overall rents in the older or decentralised business parks as landlords became more flexible in rental and incentive negotiations to attract or retain tenants.

**Business Park Rent by Submarket**



Source: JTC Corporation, Colliers

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[1] This refers to the average islandwide monthly unit contracted gross rent of all business park space as declared by tenants to Inland Revenue Authority of Singapore through its e-Stamping system and is published by the JTC Corporation. Contracted gross rent includes the base rent and all charges in connection with the lease (such as additional rent, service charge, payment for hire of fittings or equipment, fees for advertising and promotion). It may or may not include any rent-free period and other incentives.

**Average Business Park Capital Value**

S$**1,100**
per square foot
(As at 31 December 2023)

**Unchanged yoy**

**Average Business Park Yield**

**6.2**%
(As at 31 December 2023)

**Unchanged yoy**

- There were limited business park transactions in 2023, as business park assets continued to be tightly held by landlords. The only known business park transaction was the sale and leaseback of The Shugart from Seagate to CapitaLand Ascendas REIT for S$218 million (S$496 per square foot based on NLA of 440,028 square feet). There were no sufficient transactional evidence to revise yields for business parks despite the increase of interest rates. As such, the average net market yields and capital values have remained flat at about 6.2% and S$1,100 per square foot, respectively, in 2023.
- In 1Q 2024, islandwide business park capital value and yield continued to remain flat with no transactional evidence.

### Business Park Outlook

- On the back of cost pressures and soft external demand, demand for business park space is projected to remain muted as occupiers remain cautious of new space take-ups and expansion plans. Leasing activity may pick up with new supply coming on stream in the later part of the year and a projected modest economic recovery.
- With the significant new supply to be injected, islandwide vacancy levels are expected to remain elevated in 2024, more significantly in the Rest of Island. Islandwide rents are expected to observe minimal growth despite the expected rise in vacancy as new developments would typically command higher rents.
- Notwithstanding, Singapore's business park market remains attractive in the long run due to the government's efforts in promoting high-value and knowledge-based manufacturing industries.

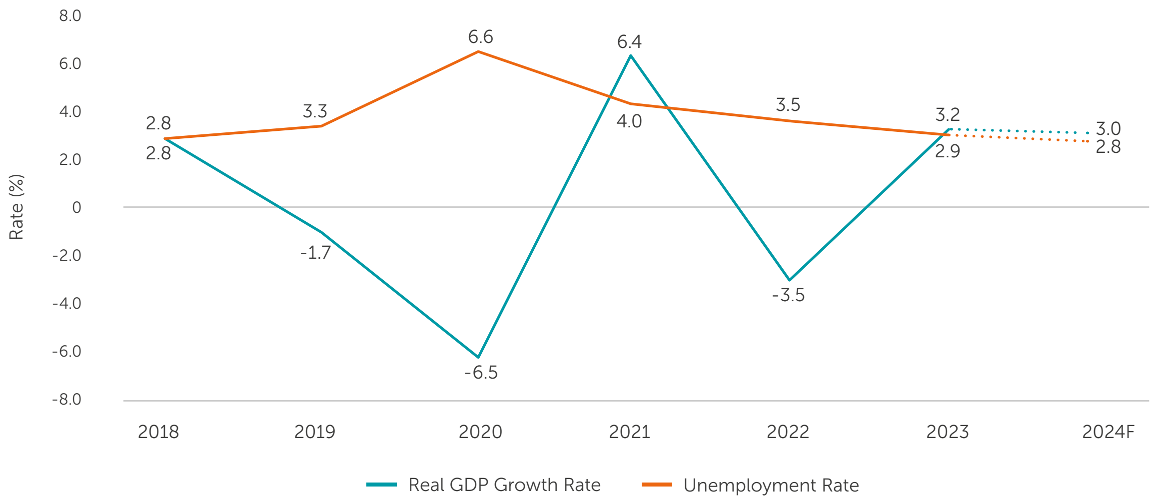
# INDEPENDENT MARKET **OVERVIEW**

## Hong Kong

### 1.1 Economy

- Buoyed by the abolishment of COVID-19 related restrictions together with a series of support measures by the government, the full resumption of border traffic with mainland China, and the return of visitors, Hong Kong's GDP expanded by 3.2% yoy in 2023, following a contraction of 3.5% in 2022. However, headwinds remained. US-China tensions and a slower-than-expected global economic recovery in light of tight financial markets continued to weigh on the economic performance. In particular, the total export and import of goods decreased compared with 2022.
- The abolition of travel restrictions enabled the return of overseas Hong Kong residents. Furthermore, with the promotion of various immigration schemes, Hong Kong has seen an influx of foreign workers, mostly from mainland China. The combination of residents returning and the admission of external talent led to a marginal increase of Hong Kong's population by 0.4% yoy as of the end of 2023.
- On the back of a recovery of inbound tourism and increased private consumption, the unemployment rate continued to edge down from 3.5% in 2022 to 2.9% at the end of 2023, back to the pre-pandemic level.
- In 2023, the government introduced a range of initiatives aimed at enhancing Hong Kong's competitiveness. To foster the attraction of foreign talents and investments, the government has relaxed the criteria and implemented various schemes, including the Top Talent Pass Scheme,[1] the new Capital Investment Entrant Scheme,[2] the launch of the first Saudi Arabia ETF in Hong Kong, and the pledge to develop a "Headquarter Economy" to attract domestic and international companies to establish headquarters or branch operations in Hong Kong.
- Furthermore, in an effort to bolster the tourism industry, the government has actively promoted campaigns such as "Hello Hong Kong",[3] "Happy Hong Kong",[4] "Night Vibes Hong Kong".[5] These campaigns encompass a series of events designed to restore Hong Kong's reputation as a desirable travel destination.
- Looking forward, Hong Kong's 2024 GDP growth is forecast at 2.5% to 3.5%, similar to the level seen in 2023. Hong Kong's export figures are expected to remain under pressure but may see some relief if central banks start cutting interest rates later in the year. Lower borrowing costs should also support private consumption although no further issuance of consumption vouchers is being planned by the government unlike previous years. External factors like Mainland China's economic recovery and US-China relationship will continue to play an important role in Hong Kong's GDP growth in 2024.

**Real GDP Growth Rate and Unemployment Rate**



Source: GDP and Unemployment figures from 2017 to 2023 are from the Census and Statistics Department. GDP forecast figure 2024 is from the Hong Kong government SAR and unemployment rate forecast figure from the International Monetary Fund.

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[1] The Top Talent Pass Scheme aims to attract highly skilled professionals with extensive work experience and exceptional academic qualifications from all around the world to explore opportunities in Hong Kong. The scheme targets high-income talents and graduates from the world's top universities.

[2] This scheme allows individuals with net assets or net equity of HKD30 million or more to relocate to Hong Kong.

[3] "Hello Hong Kong" is a campaign launched in February 2023 that includes promotional activities such as free air tickets, cash vouchers, sponsored visits for prominent guests, and Hong Kong delegations visiting mainland China to promote the city and launch more MICE and mega events.

[4] "Happy Hong Kong" is a government-led large-scale global promotional campaign. Since April 2023, in collaboration with various participating organisations, the government has held a series of diverse activities, including gourmet marketplaces and carnivals.

[5] "Night Vibes Hong Kong" was initiated in September 2023 to promote the key characteristics of Hong Kong, with different parts of the community playing their part in staging night-time events like wine and dine festivals and public holiday related festivities.

## 1.2 Tourist Arrivals

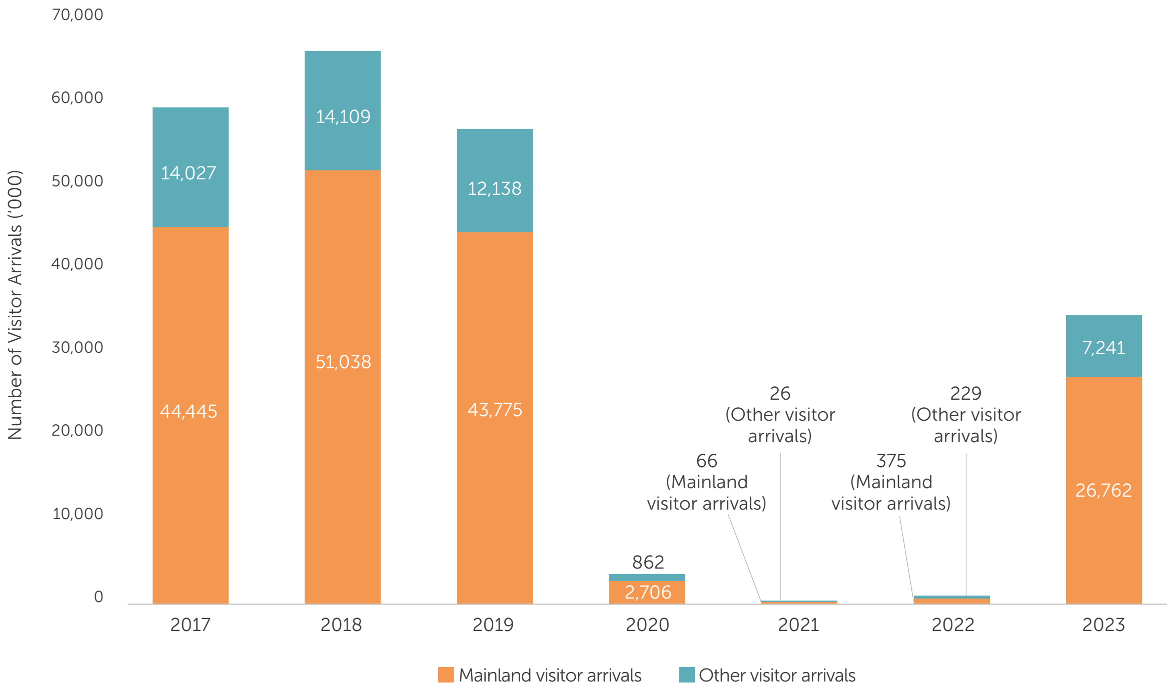
**Tourist Arrivals**

**34M** (In 2023)

**5,524.4% yoy**

- Total tourist arrivals picked up significantly to about 34,000,000 in 2023 from about 605,000 in 2022 due to the full border reopening and resumption of inbound tourism. However, this remained at about 60% and 52% of the visitors received in 2019 and 2018, respectively.
- The number of mainland Chinese visitors spiked by 7,034.2% yoy in 2023 following the progressive re-opening of all cross-border checkpoints. Notwithstanding, this represents approximately 61% and 52% of the total number of mainland Chinese visitors received in 2019 and 2018, respectively. With the promotion of cruise tourism, hosting of mega events and campaigns including Happy Hong Kong, and the extended operation hours of border checkpoints at Shenzhen Bay and Lo Wu, the number of mainland Chinese and overseas tourists is expected to rise.
- In part due to the support provided by the government for the tourism sector, Hong Kong experienced an influx of approximately 11.2 million visitors in the first quarter of 2024, a growth rate of 5.1% against the typically strong final quarter of the previous year. However, this was still only about 62% of the number of tourist arrivals seen prior to the pandemic in 1Q 2019.

**Visitor Arrivals**



Source: Hong Kong Tourism Board

# INDEPENDENT MARKET **OVERVIEW**

## 1.3 Total Retail Sales

**Total Retail Sales**

HKD**406.7**B
(In 2023)

▲ **16.2% yoy**

- For the whole of 2023, the value of retail sales rose 16.2% yoy. Retail sales in the first half of 2023 recorded significant growth after the removal of pandemic-related measures. Sales were further boosted by the government's various campaigns to promote tourism, as well as the 2023 consumption voucher scheme.
- However, a slowdown of retail sales growth was recorded in the second half of 2023 due to tepid consumer sentiment caused by high interest rates and a weak economy, the growing trend of Hong Kong residents' weekend travel to Mainland China, overseas trips during public holidays and a slower-than-expected return of tourists from both Mainland China and other parts of the world. As a result, the significant increase in tourist arrivals did not directly translate into more significant growth in retail sales. Furthermore, part of the increment in retail sales can be attributed to the low base in 2022.
- In 1Q 2024, retail sales decreased 1.3% yoy to a total of HKD101.5 billion. Retail sales mainly declined due to weaker figures in March, that were lower in part due to the rising trend of residents traveling abroad during weekends and holidays, as well as a high base of comparison for visitor spending last year.

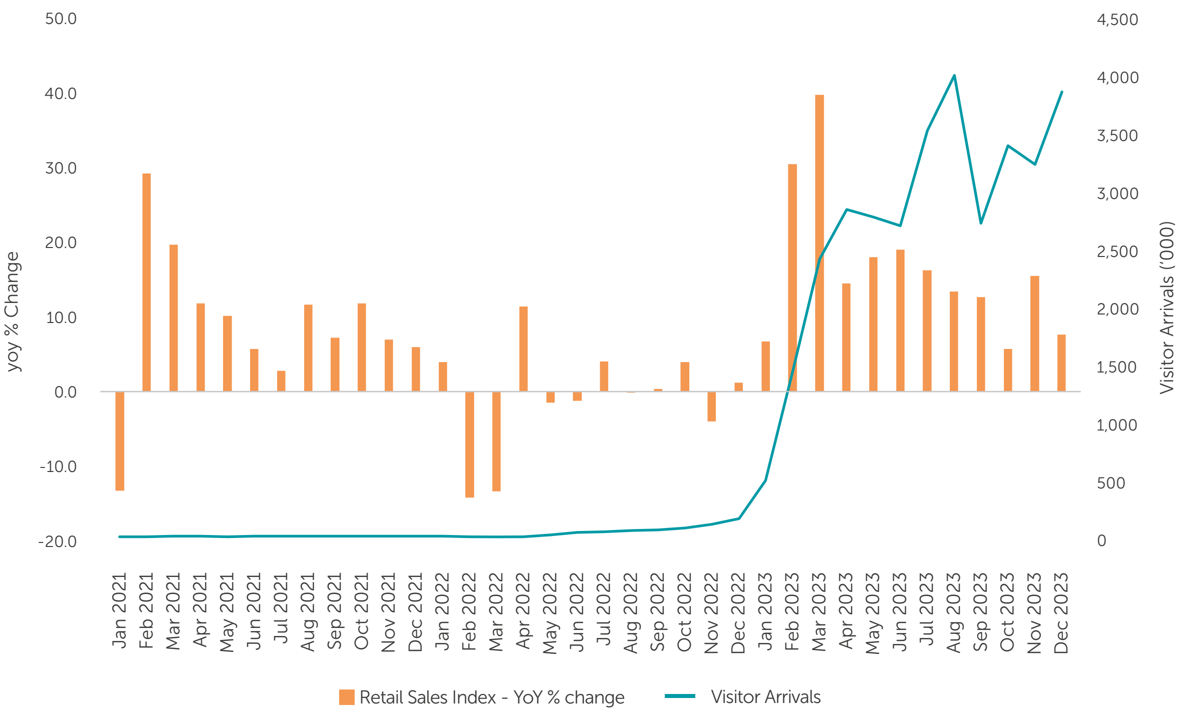
## 1.4 Online Retail Sales

**Online Retail Sales**

**7.9**% of Total Retail Sales
(As at 31 December 2023)

- The value of online retail sales dropped by 5.9% yoy to HKD32.5 billion in 2023. The proportion of online sales also dropped from 12.0% as at 31 December 2022 to 7.9% as at 31 December 2023. The drop was primarily because of the return of high-street retailing after the lifting of pandemic-related restrictions.
- While the convenience of online shopping had been valued during the pandemic, in the post-COVID era, retailers are focusing more on improving customers' shopping experience at physical stores and broadening their customers' base particularly to the older demographic groups.
- In March 2024, the proportion of online sales remained relatively stable, experiencing a modest increase of 0.2 pp yoy to 7.8%.

**Retail Sales Index (yoy change) and Tourist Arrival**



Source: Retail Sales figures are from the Census and Statistics Department and Tourist Arrivals figures are from the Hong Kong Tourism Board

## 1.5 Hong Kong Retail Market[1]

**Existing Shopping Mall Stock**

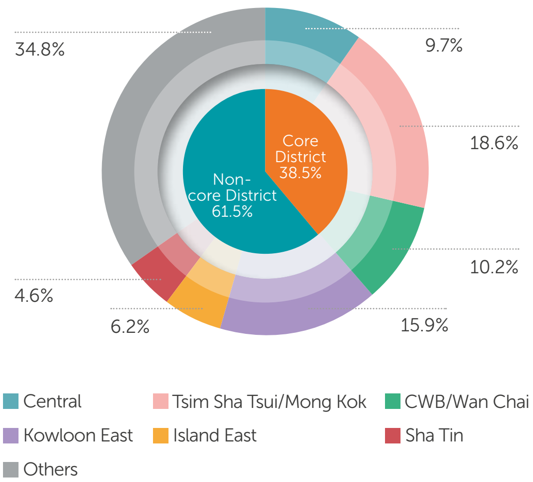
**126.8**M square feet[2] ▲ **0.8% yoy**

(As at 31 December 2023)

- Hong Kong's retail market's core districts are Central, Tsim Sha Tsui/Mong Kok and Causeway Bay ("CWB")/Wan Chai. Together with the non-core or decentralised areas of Kowloon East,[3] Island East and Sha Tin, they form the city's six key retail districts.
- Core districts and non-core districts account for around 38.5% and 61.5% of Hong Kong's retail stock, respectively.
- New retail shopping mall supply in 2023 was around 1.0 million square feet. This includes The Southside Mall (0.5 million square feet) that opened in 4Q 2023.
- Approximately 0.1 million square feet of new retail space was added in 1Q 2024, bringing the total existing supply to approximately 127.0 million square feet. The most recent completions are within integrated projects, notably the NOVO Land Phase 1B.

**Distribution of Retail Stock by Submarket**

(As at 31 December 2023)



Source: Rating and Valuation Department, Colliers

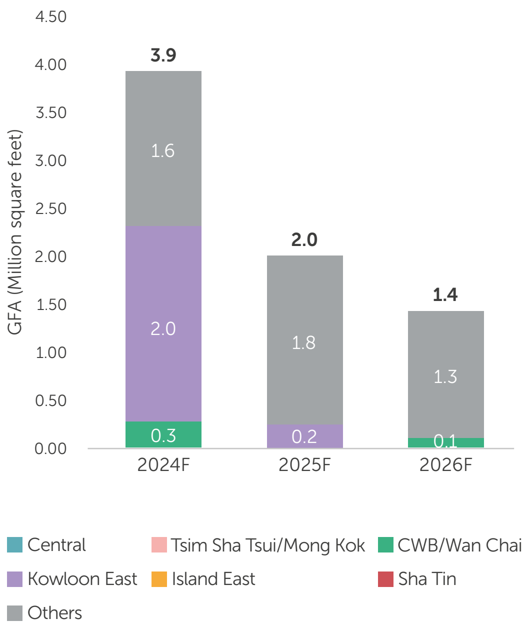
**Potential Shopping Mall Supply**

**7.36**M square feet

(From 2024 to 2026)

- In 2024, approximately 3.9 million square feet of new retail space is expected to be added, with the main hubs being Kai Tak and Chek Lap Kok. Kai Tak, a newly developed area in Kowloon East, will see the completion of two developments, namely the Kai Tak Sports Centre and The Twins. Chek Lap Kok, the island housing the Hong Kong International Airport, will contribute to the supply with a large-scale development named 11 Skies.
- Looking further ahead, Kowloon East is set to provide about one-third of the new supply until 2026. An influx of new retail space is expected in Kowloon East in 2024, with The Twins providing 0.9 million square feet and Kai Tak Sports Centre providing 0.6 million square feet. This will increase competition among landlords and put temporary pressure on rental levels in the area.

**Future Supply by Submarket**



Source: Rating and Valuation Department, Colliers

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[1] All references to floor area refer to GFA, unless otherwise stated.

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

[3] MPACT's Festival Walk is located in the Kowloon East submarket.

# INDEPENDENT MARKET **OVERVIEW**

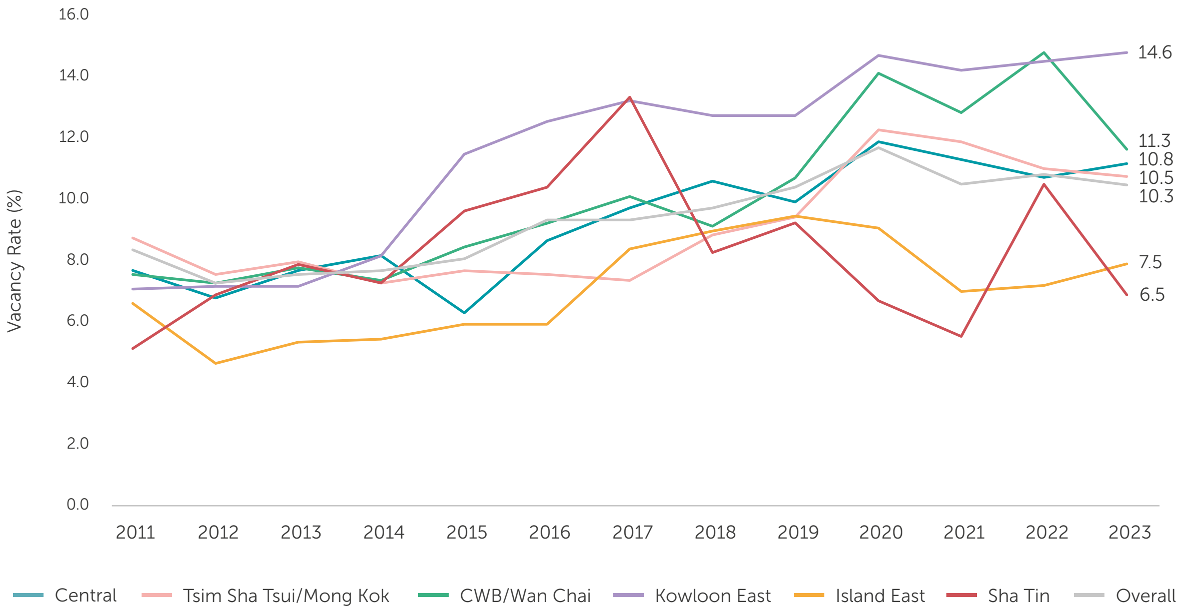
**Vacancy Rate**

**10.3%**[1] **0.2 pp yoy**

(Overall as at 31 December 2023)

- The retail vacancy rate decreased slightly to 10.3% at the end of 2023, down 0.2 pp yoy. This was driven by a combination of factors, including the return of inbound tourism, government initiatives to boost demand and limited new supply. However, recovery was tempered by increased outbound travel and high interest rates which weighed on consumer spending.
- CWB/Wan Chai, one of the core districts heavily dependent on tourism, saw a 3.3 pp yoy decrease in vacancy rate, outperforming most other submarkets. The only submarket that surpassed this performance was Sha Tin, which posted a 3.7 pp yoy drop in vacancy rate, mainly attributed to the gradual leasing of the newly completed mall, The Wai.
- Kowloon East, not being one of the core districts reliant on tourists, did not fully enjoy the benefit from the rebound in tourist arrivals. As a result, the vacancy rate of retail properties within Kowloon East experienced a modest yoy increase of 0.3 pp, reaching 14.6%.

**Vacancy Rate by Submarket**



Source: Rating and Valuation Department, Colliers

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

**Average Shopping Mall Rent**[1]

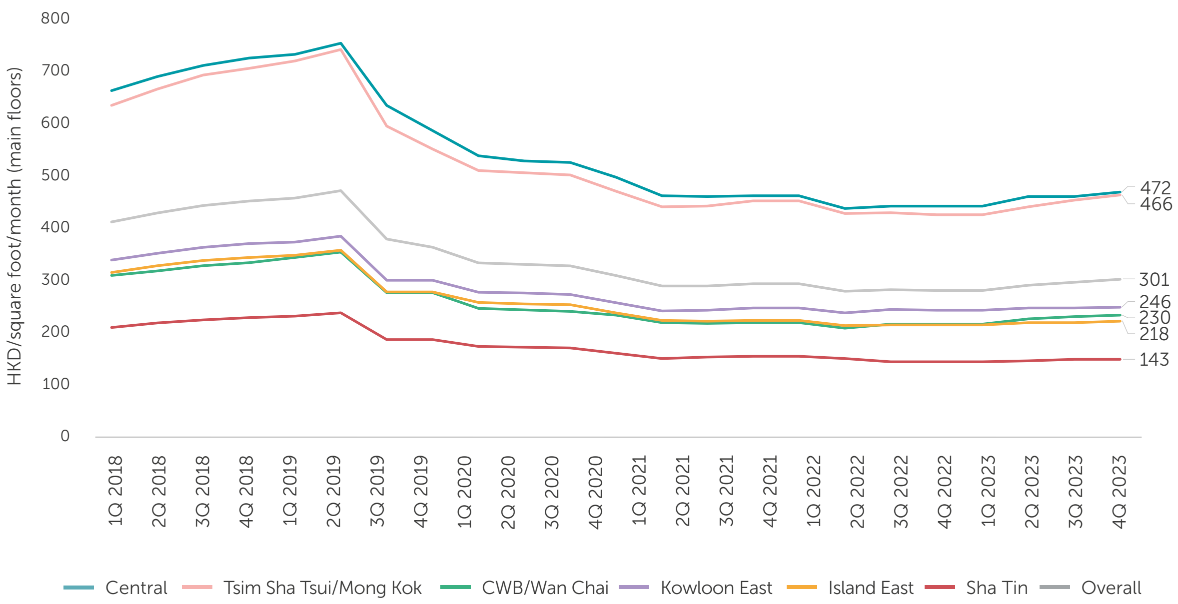
HKD**301** ▲ 7.7% yoy
per square foot per month
(Overall as at 31 December 2023)

- Overall rents in Hong Kong rose 7.7% yoy, driven by pent-up leasing demand from occupiers. The adjustment was primarily due to the end of the COVID-19 pandemic, and occupiers' optimistic expectations for the return of tourists, particularly those from mainland China.
- The key areas benefitting from this growth were Central, CWB/Wan Chai, Tsim Sha Tsui & Mong Kok, with significant rental increases of 6.0%, 7.9% and 9.0%, respectively. These core districts remain prime tourist destinations and were the main beneficiaries of the recovery in tourism.
- Decentralised areas that rely more on domestic demand, such as Sha Tin and Kowloon East, experienced lower rental growth of 3.0% and 2.7%, respectively. This is possibly due to an increase in outbound travel and a considerable outflow of Hong Kong residents throughout 2023.
- In 1Q 2024, overall rents increased by 1.8% qoq, reaching HKD306 per square foot per month. This growth was primarily fuelled by rising rents in the core districts, while decentralised areas, such as Kowloon East, remained unchanged from the previous quarter.

### Leasing Demand

- In 2023, there was significant leasing demand from F&B, gym and athleisure apparel retailers relocating to prime areas. However, leasing momentum from luxury stores slowed down due to changing consumer preferences and lower purchasing power of mainland Chinese tourists caused by a softer economy and a weak RMB.
- Leasing demand mostly came from Chinese retailers, including classic retailers like Laopu Gold, financial institutions like CITIC, FUTU and Anxin Trust and F&B establishments such as Tai Er, Mixue Bingcheng, Hey Tea, Hefu Noodles and Peking Hotpot. These retailers were likely using Hong Kong as a stepping stone for global expansion.
- In 1Q 2024, the demand from F&B groups slowed down due to extensive outbound travel by Hong Kong residents. Demand was predominantly driven from jewellery retailers and gyms that were still looking to expand.

**Retail Rent by Submarket**



Source: Colliers

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[1] Refers to the average rents of shops situated on main floors of the shopping malls from Colliers' database. Main floors are the floors with the highest amount of footfall within a shopping mall.

# INDEPENDENT MARKET **OVERVIEW**

**Average Retail Capital Value**[1]

HKD**32,798** per square foot
(As at 31 December 2023)

▼ **1.5% yoy**

**Average Retail Yield**[1]

**2.9%**
(As at 31 December 2023)

▲ **0.3 pp yoy**

- Average capital values dropped 1.5% yoy from HKD33,288 per square foot at end of 2022 to HKD32,798 per square foot at end of 2023. This was mainly attributable to a high interest rate environment and elevated borrowing cost, with investors looking for discounts on asking prices.
- Despite the gradual recovery of retail rents, higher interest rates had led to a decline in capital values, resulting in yields further expanding by 0.3 pp yoy to 2.9% as at 31 December 2023.
- In 2023, retail transactions exceeding USD50 million primarily involved neighbourhood malls, such as Parkside at the Henley, West9Zone Kids, Golden Wheel Plaza and Concord Square. Notably, half of the more significant transactions were of financially distressed sales, including Concord Square and Golden Wheel Plaza.
- High borrowing costs continued to put pressure on retail prices and yields in 1Q 2024. The average capital value declined 4.6% qoq to HKD 31,299 per square foot. With an increase in rents and a decline in capital values, the average yield softened 0.2 pp qoq to reach 3.1%.

### Key Retail Trends & Outlook

- Capitalising on the attractive rental levels, leasing demand in 2023 from F&B was strong, particularly from mainland Chinese F&B operators. With shifting consumption patterns from both Hong Kong residents and mainland Chinese tourists, a noticeable uptick in the proportion of F&B can be expected in shopping malls.
- Weekend cross-border travel from Hong Kong to mainland China, particularly to cities like Shenzhen, is increasing due to more diverse and affordable entertainment and retail options. This trend is also encouraged by a stronger HKD and improved accessibility. While core markets remained more resilient due to higher tourist arrivals, decentralised submarkets near the border have been impacted by this trend.
- Visitor arrivals to Hong Kong are expected to continue to recover in 2024, while outbound travel may level off, supporting local retail sales. Outbound travel numbers may also stabilise once the pent-up demand for travelling built up during the pandemic subsides. A stronger RMB could also support arrivals and spending by mainland Chinese tourists, and also moderate the trend of weekend cross-border travel. However, this will largely depend on the monetary policies of the US and China, with both central banks considering (further) rate cuts later in the year. In February 2024, China's central bank announced a 25 bps reduction of its five-year loan prime rate, one of its key benchmark rates.
- The retail market, particularly in prime retail areas like Central, Causeway Bay and Tsim Sha Tsui, is expected to continue recovering, with potential rental growth of up to 10% in 2024, outperforming the neighbourhood retail segment.
- While the potential supply of new retail space in Kowloon East will increase competition among landlords, the demand for retail space in the Kai Tak area is also expected to rise in the medium to long term, driven by new residential developments and office developments, as well as the relocation of government institutions.
- The F&B, entertainment, healthcare, gym and athleisure sectors are expected to drive demand in 2024. However, certain sectors such as jewellery and cosmetics & pharmacies, will be more cautious and adopt a wait-and-see approach to adjust to the changing shopping behaviours of mainland Chinese visitors.
- Many tourists plan their visits using social media platforms such as Xiaohongshu and Instagram, prompting retailers to increase their presence on these platforms. This is becoming an important driver for young tourists from mainland China when planning their trips, choosing dining destinations and areas to visit. While online retailing is expected to continue as a trend, with retailers embracing digitalisation, there will also be a focus on improving the in-store shopping experience and expanding their customer base.
- In the 2024-2025 Budget, the government announced the allocation of resources towards mega-events like international and regional trade fairs, arts and cultural exhibitions, sports competitions, in-depth tours, and various activities, including monthly pyrotechnic and drone shows, with the aim of boosting tourism.
- The Hong Kong Monetary Authority relaxed LTV ratios for non-residential properties from 60% to 70%. Although we do not expect a significant impact on pricing of retail assets, it might help lift transactions volumes once interest rates start to fall.

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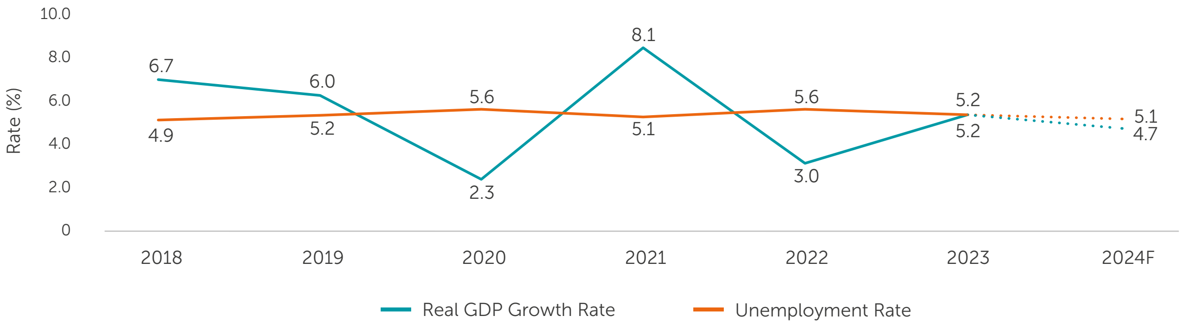
[1] Information published by the Rating and Valuation Department includes shopping malls, high street shops and retail podiums across Hong Kong. 2023 data is provisional at this stage.

# China

## 1.1 Economy

- China's GDP grew by 5.2% yoy in 2023, slightly above the official target of around 5%. This growth, however, was mainly due to a low base in 2022 and fell short of market expectations for a more significant post-pandemic rebound. The country's property crisis, deflationary risks, weaker demand, tariffs and export controls imposed by the US and global economic headwinds hindered growth. Despite these challenges, high-tech industries witnessed good growth momentum, supported by the Chinese government.
- Deflationary pressure emerged in mid-2023 with weak domestic demand, resulting in a 0.3% deflation. This marked the third consecutive month of decline in consumer prices, mainly due to lower food and energy prices. Oxford Economics forecasted a return to inflation of 0.7% in 2024, due to low base effect and an easing of supply-side deflationary pressure.
- The lifting of strict COVID-19 measures and border reopening in January 2023 supported the resumption of economic activities. Consequently, the unemployment rate dropped 0.4 pp yoy to 5.2% in 2023.
- However, the property and debt crisis, stagnant domestic demand, global economic headwinds and US-China political tensions may persist. Hence, China's GDP is expected to grow at a slower pace of 4.7% in 2024.

**Real GDP Growth Rate and Unemployment Rate**



Source: National Bureau of Statistics, Oxford Economics, International Monetary Fund, Colliers

## 1.2 Beijing Office Market[1]

**Existing Grade A Office Stock**

**11.2**M square metres ▲ **3.6% yoy**

(As at 31 December 2023)

- Beijing comprises eight major office sub-markets – the Central Business District ("CBD"), Beijing Financial Street ("BFS"), Zhongguancun ("ZGC"), the Dongcheng Business District,[2] Lufthansa, Wangjing-Jiuxiangqiao, Asian Game Village ("AGV") & Olympic Park and Lize.
- As at 31 December 2023, the CBD remains the submarket with the largest share of the total stock at 32.2% (3,592,228 square metres). The share of total stock in the other submarkets is distributed relatively evenly with Lufthansa making up about 10.0% of the stock.
- New office supply entered the market as pandemic-related measures loosened and construction activities resumed. With the completion of about 400,000 square metres of space, Beijing's Grade A office stock reached 11.2 million square metres by the end of 2023.

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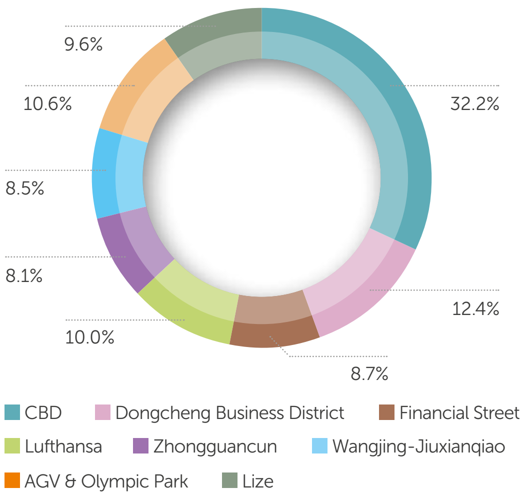
[1] All data and figures on the office market are from Colliers International (Hong Kong) Limited and they relate to the eight office submarkets as outlined on this page. Unless otherwise stated, all area measurements are based on Gross Floor Area ("GFA"). MPACT owns Gateway Plaza, which is located in Lufthansa.

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

# INDEPENDENT MARKET **OVERVIEW**

- The bulk of the new supply was added in 3Q 2023 when four projects were completed: two in Zhongguancun, one in AGV & Olympic Park, and one in Dongcheng Business District. There were no new completions in the Lufthansa submarket in 2023.

**Grade A Office Stock by Submarket**
(As at 31 December 2023)



Source: Colliers

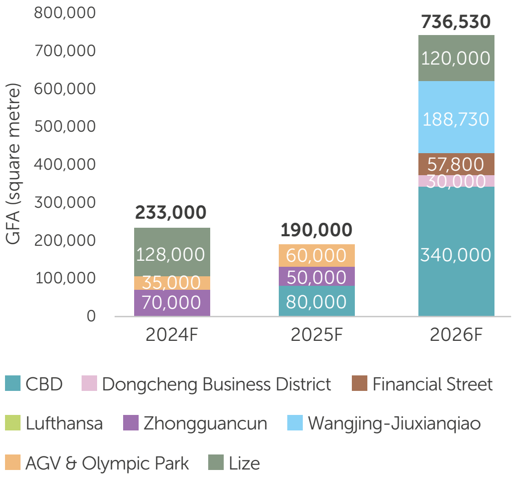
**Potential Grade A Office Supply**

**1.2**M square metres
**(From 2024 to 2026)**

- Supply in 2024 and 2025 will slow down from 2023, with approximately 233,000 square metres and 190,000 square metres, respectively. However, supply will pick up again in 2026 given the scheduled completion of several large-scale projects within the year, increasing the total Grade A office stock by around 736,530 square metres.

- Within the next three years, the CBD will introduce around 420,000 square metres of new office space. Other submarkets namely, Lize (248,000 square metres), AGV & Olympic Park (95,000 square metres), Dongcheng Business District (30,000 square metres), Zhongguancun (120,000 square metres), Financial Street (57,800 square metres) and Wangjing-jiuxianqiao (188,730 square metres), will also add to the new office supply. Lufthansa is the only main submarket without any supply scheduled in the near future.
- Sizeable upcoming projects include: National Financial Information Center (128,000 square metres) and New Fujian Tower (120,000 square metres) in Lize, CICC & GLP & Hongkong Land Z3 (120,000 square metres) in the south area of the Zhongfu plot, Dajia Insurance Z5 (90,000 square metres) and Sino-Ocean Group Z6 (130,000 square metres) in the CBD and Indigo Phase II (188,730 square metres) in Wangjing-Jiuxianqiao.

**Potential Supply by Submarket**



Source: Colliers

**Office Net Take-up**

**86,000** square metres
(Overall in 2023)

**From -63,000 square metres**

- Beijing's net take-up turned positive in 2023, mainly due to the leasing of space in newly completed properties in 3Q 2023. Newly occupied space in Hevol Group Headquarters Building and King Region Saga in Zhongguancun, Beijing Polpas Center in AGV & Olympic Park and Cinda Center in Dongcheng Business District contributed to the positive net take-up.
- Additionally, the large amounts of surrendered space by tech companies that had led to a negative net-take up in 1H 2023 decreased in the second half of the year. The submarkets most affected by the surrendered space were CBD, Zhongguancun and AGV & Olympic Park, where local firms like ByteDance and foreign tech companies decreased their footprints significantly.
- The higher net-take up in 2023 was mostly due to the demand for newly completed premium space driven by state-owned enterprises' pre-committed leases in 3Q 2023.
- In the Lufthansa submarket, net take-up was close to zero as the surrendered space was fully taken up by newly signed leases, offsetting each other. While the first three quarters of 2023 showed a slightly positive net take-up, vacated space by finance and professional services companies surpassed newly occupied space in the final quarter of the year, leading to a negative net-take up in 4Q 2023.
- Net take-up in 1Q 2024 continued to be positive at around 11,000 square metres. However, this was primarily driven by relocations, whereas new demand remained subdued.

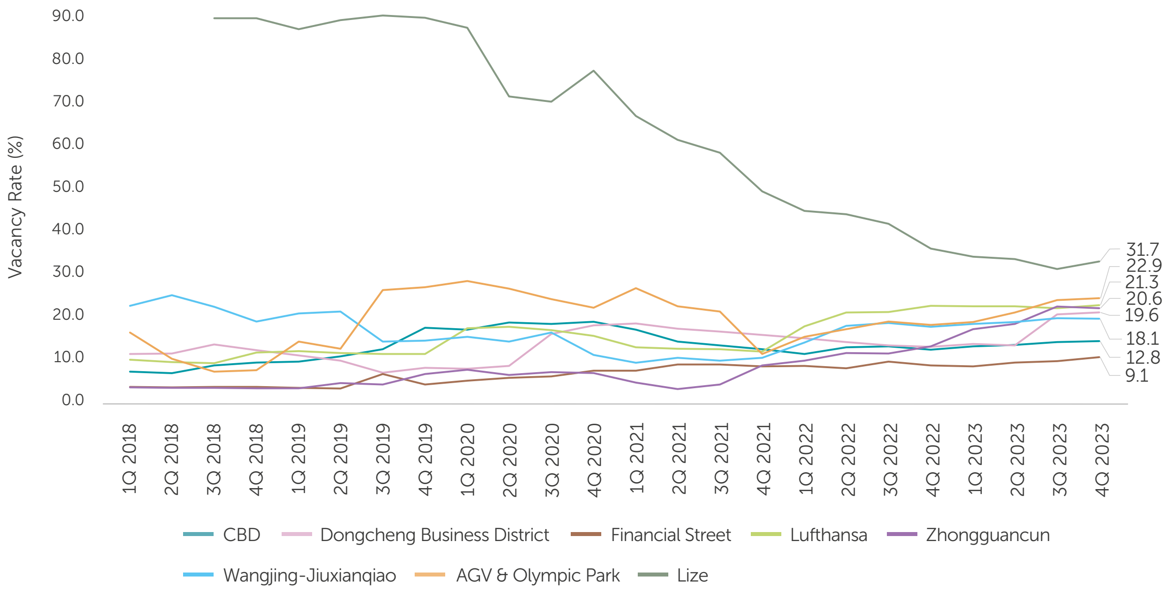
**Grade A Office Vacancy Rate[1]**

**19.8**%
(Overall as at 31 December 2023)

**4.3 pp yoy**

- The vacancy rate of Beijing's office market reached a 10-year high of 19.8%, up 4.3 pp yoy as at 31 December 2023. The increment in the vacancy rate was mostly due to a lack of demand in the first half of 2023 and significant new supply in 3Q 2023. The northern submarkets of Zhongguancun, Wangjing-Jiuxianqiao, and AGV & Olympic Park particularly contributed to the rise in vacancy rate.
- Without any new supply and a balance between newly signed and surrendered leases, Lufthansa's vacancy rate remained almost flat at 21.3% by the end of 2023, showing a marginal increase of 0.1 pp yoy.
- As a result of the arrival of new supply, the vacancy rate of Beijing's office market experienced a qoq increase of 0.3 pp, reaching 20.1% in 1Q 2024. This marks the first time in the past decade that the vacancy rate surpassed the 20% threshold.

**Grade A Office Vacancy Rate[1]**



Source: Colliers

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[1] Data for Lize's Grade A office vacancy rate is only available from 3Q 2018 since it is a newly developed office submarket.

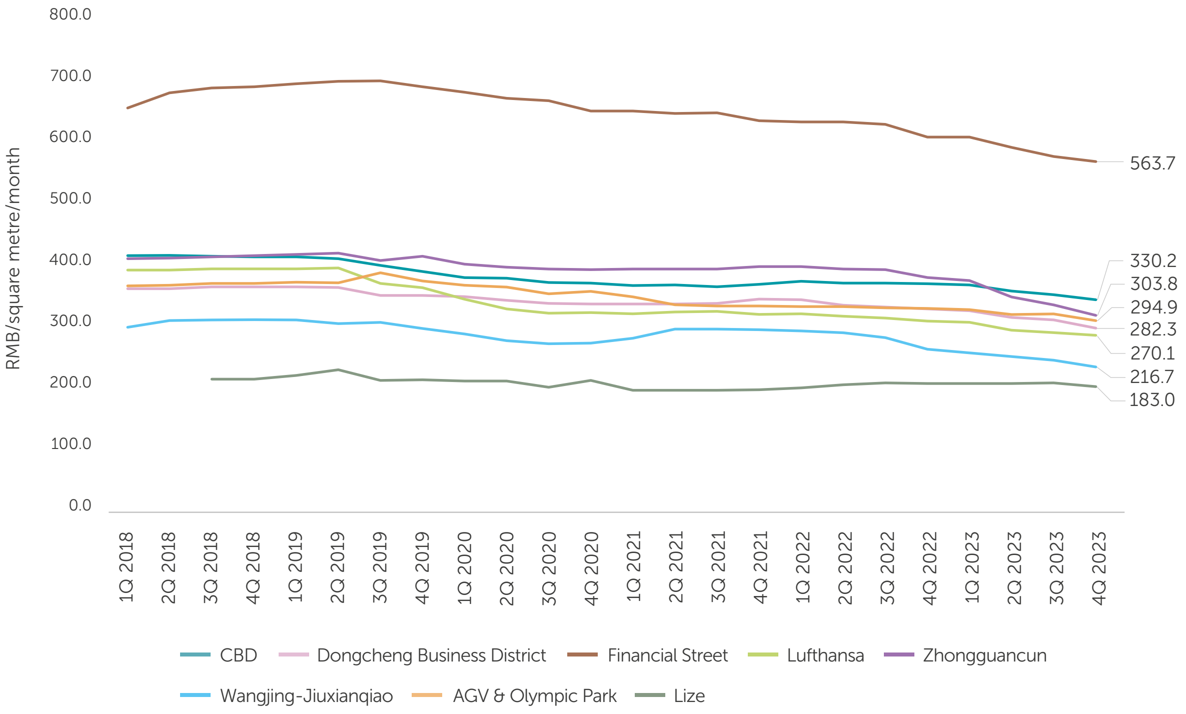
# INDEPENDENT MARKET **OVERVIEW**

**Average Grade A Office Rent**[1]

RMB**300** 9.4% yoy
per square metre per month
(Overall Net Effective Rent as at 31 December 2023)

- The decline in office rents was evident during the pandemic, but its pace accelerated in 2023 with the completion of new projects and increased competition among landlords. Optimism after the pandemic waned quickly and weaker market sentiments dominated 2023. As a result, landlords adjusted net effective rents by offering longer rent-free periods or direct discounts on rents to stabilise occupancy levels. Consequently, Beijing's office rents dropped 9.4% yoy to RMB300 per square metre per month by the end of 2023.
- The decline in rents in Lufthansa was in line with the overall market at 8.2% yoy to RMB270 per square metre per month. A high vacancy rate of 21.3% and new competition from other submarkets in its close proximity, such as Dongcheng Business District and the CBD, contributed to the decline.
- In 1Q 2024, office rents in Beijing experienced a further decline of 2.9% qoq, down to RMB291 per square metre per month. The primary factor contributing to this rental decrease continued to be the provision of incentives by landlords to secure tenants in a very competitive market favouring tenants.

**Grade A Office Rent by Submarket**



Source: Colliers

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[1] Data for Lize's Grade A office rent is only available from 3Q 2018 since it is a newly developed office submarket.

**Average Grade A Office Capital Value**

RMB**75,896** ▲ **3.6% yoy**
per square metre
(As at 31 December 2023)

**Average Grade A Office Yield**

**3.9**% ▼ **0.6 pp yoy**
(As at 31 December 2023)

- Transaction volume in Beijing's office market was very low in 2023, with the few transactions that occurred being dominated by domestic capital. Capital values rose by 3.6% yoy to RMB75,896 per square metre in 4Q 2023, mostly due to higher than average prices for prime assets like COFCO Landmark Plaza in Dongcheng Business District that transacted at around RMB84,000 per square metre. However, the drivers for this increase in capital value were not conclusive due to the limited number of transactions available to support it. Despite the increase, the capital value remained below the pre-pandemic peak in 3Q 2019 by around 10.2%.
- With an increase in capital values and a simultaneous drop in rents, the average yield compressed 0.6 pp yoy to 3.9%. The reduction in China's one-year loan prime rate by 10 bps each in May and August 2023, from 3.65% at the start of the year to 3.45% in August 2023, provided support for the compression of the average yield.
- Capital values dropped 1.5% qoq as of 1Q 2024, while net yields remained stable as rents decreased in tandem with capital values.

## Outlook

- Although net take-up rebounded in 2023, leasing demand was almost entirely from the pre-leasing of newly completed projects. Existing stock continued to face difficulties in terms of demand. The pace of surrendering space by tech companies slowed down in the second half of 2023, alleviating some pressure on the demand side.
- An improvement in accessibility and higher affordability are favouring more decentralised districts with lower rents as companies try to reduce rental costs.
- To stay competitive against other submarkets and properties, landlords are expected to provide additional reduction in rents, offer longer rent-free periods, or attract tenants through building enhancements or other services.
- Around 233,000 square metres of office space is expected to be added to the Beijing office market in 2024. This is lower than the previous year but will nonetheless add further pressure on occupancy rates and rents as demand is not expected to pick up as quickly.
- As long as the overall market vacancy rate remains high at around 20%, the possibility of a rebound in average market rents is unlikely. The longer the high vacancy rate persists, the greater the pressure on rents. As a result, rents are expected to drop in 2024.
- In view of the weak macroeconomic outlook, tenants are expected to be more cautious when making business decisions, including considerations on space requirements.
- Occupancy rates and rents in Lufthansa are expected to decrease due to the space adjustment by MNCs and new supply of office space in neighbouring submarkets like the south area of the Zhongfu Plot in the CBD in 2026.

# INDEPENDENT MARKET **OVERVIEW**

## 1.3 Shanghai Business Park Market[1]

**Existing Grade A Business Park Stock**

**11.4**M square metres[2] **6.9% yoy**

(As at 31 December 2023)

- As at 31 December 2023, Shanghai's five core business park submarkets – Zhangjiang Science City[3] ("Zhangjiang"), Caohejing, Jinqiao, Linkong, and Shibei – contributed a total of 11.4 million square metres of GFA into Shanghai's business park total stock. This was a 6.9% increase from the previous year.
- Caohejing and Zhangjiang remained the two largest submarkets, accounting for 3.3 million square metres (29.1%) and 3.1 million square metres (27.0%) of the core business park stock, respectively. Together, they comprise more than half of Shanghai's core business park space.
- In 2023, the market added 738,415 square metres of new business park space. Notable completions in Zhangjiang included Zhangjiang 368 Industrial Park (20,700 square metres), Zhangjiang AI Industry Innovation & Service Platform (32,100 square metres) and Information Technology Industry Platform (115,400 square metres).
- In 1Q 2024, 336,428 square metres of new business park space was added to the market, raising the existing supply by 3.0% qoq to 11.7 million square metres. The majority of new supply (310,973 square metres) was concentrated in Zhangjiang.

**Potential Business Park Supply (2024-2026)**

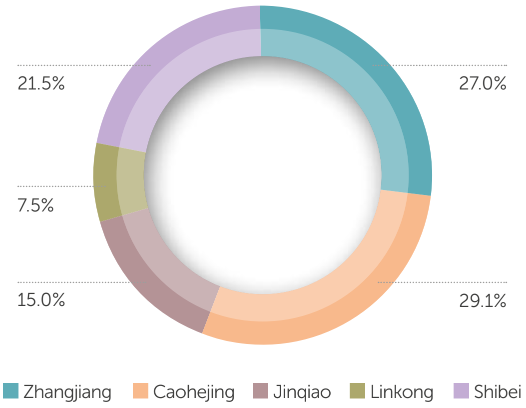
**4.4**M square metres

(From 2024 to 2026)

- Approximately 4.4 million square metres of business park space is expected to be added to Shanghai's five core submarkets between 2024 and 2026, averaging around 1.5 million square metres annually. This is almost double the previous annual average from 2019 to 2023. The increase was due to the resumption and completion of previously delayed projects resulting from COVID-19 restrictions.
- Zhangjiang and Jinqiao will be the two main contributors to this upcoming supply, adding around 2.2 million and 1.4 million square metres of new space, respectively. Together, these two submarkets will account for approximately 81.4% of the total future supply.
- In Zhangjiang, the new supply will mostly come from large-scale state-owned development projects, including six plots at the Shanghai Riverfront Harbor development (746,000 square metres), six plots at the Gate of Science development (632,000 square metres) and the Zhangjiang Online New Economy Park (337,000 square metres).
- Notable projects in Jinqiao include Jinding Plot Nos. 13-01, 18-01/18-04 and 20-01 (251,000 square metres), Jinqiao Fifth Center (165,000 square metres), City of Elite PDP (161,200 square metres), Jinwan Qicheng (107,000 square metres) and six plots in the Yunjin Eco Community development (637,000 square metres).

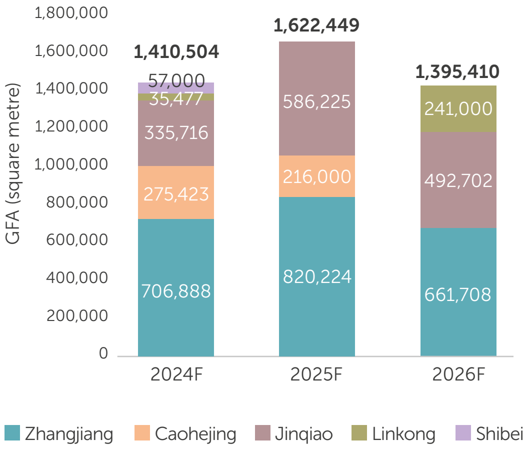
**Distribution of Business Park Stock by Submarket**

(As at 31 December 2023)



Source: Colliers

**Future Supply by Submarket**



Source: Colliers

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

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

[3] MPACT owns Sandhill Plaza which is located in Zhangjiang.

- The remaining 18% of the upcoming supply will come from the other three submarkets. Caohejing and Linkong are projected to account for 11.1% and 6.2% of the future supply, respectively. Sizeable projects include Golden Union Park Phase II (160,000 square metres), Aerospace Science & Technology City Urban Renewal (216,000 square metres) and IBP Phase II (241,000 square metres). Shibei will only account for about 1.3% with one project, Shibei AI Industrial Park (57,000 square metres).

**Business Park Net Take-up**

**0.1**M square metres (Overall in 2023)

▼ **72.4% yoy**

- In 2023, Shanghai's business park experienced a positive net take-up of 0.1 million square metres. This was mainly due to the leasing of the entire Information Technology Industry Platform in Zhangjiang (115,352 square metres) upon its completion in 4Q 2023.
- Competition among the submarkets was intense as occupiers sought to reduce rental expenses by relocating to emerging submarkets with lower rents. Consequently, Jinqiao, the core submarket with the lowest rent, recorded a positive net take-up of 56,945 square metres in 4Q 2023, outperforming other submarkets besides Zhangjiang, which benefitted from the aforementioned lease at Information Technology Industry Platform.
- In 1Q 2024, the core business park markets in Shanghai maintained a positive net take-up of 69,635 square metres. This positive net take-up can primarily be attributed to Jinqiao, which generally offered more affordable rents, and Caohejing, where rents had dropped significantly to increase the submarket's attractiveness to occupiers.

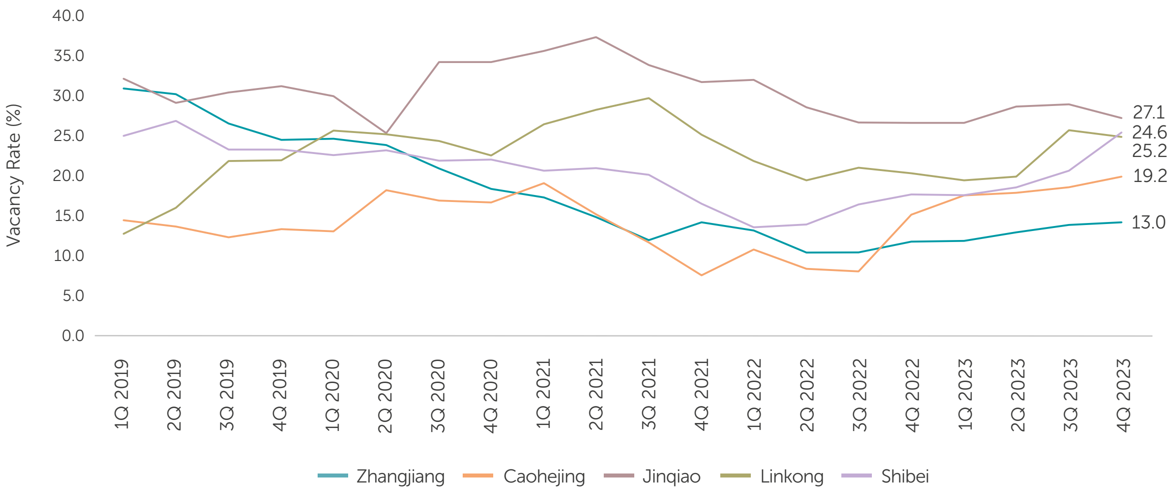
**Business Park Vacancy Rate**

**20.4**% (Overall as at 31 December 2023)

▲ **4.6 pp yoy**

- In 2023, following the completion of over 738,000 square metres of business park space amid tepid demand, the vacancy rate of Shanghai's core business park submarkets rose by 4.6 pp yoy to 20.4%, with all submarkets experiencing an increase in vacancies.
- The vacancy rate in Zhangjiang increased 2.6 pp yoy to 13.0%. This was partly due to lower demand from the government-supported biomedical and semiconductor sectors, which remained under pressure to reduce overheads. These sectors had previously boosted occupancy rates between 2019 and 2022. The leasing of the entire Information Technology Industry Platform at the end of 2023 helped Zhangjiang achieve a less significant rise in its vacancy rate compared to the overall market.
- In 1Q 2024, the vacancy rate of Shanghai's core business park markets experienced a further increase of 1.7 pp qoq, reaching 22.1%. One of the primary factors contributing to this rise was the significant amount of supply, with the completion of seven new projects spanning 336,428 square metres in the quarter. Zhangjiang's vacancy rate increased by 7.7 pp qoq to 20.7%, as Zhangjiang accounted for 92.4% of the total core business park new supply in 1Q 2024.

**Business Park Vacancy Rate**



Source: Colliers

# INDEPENDENT MARKET **OVERVIEW**

**Average Business Park Rent**

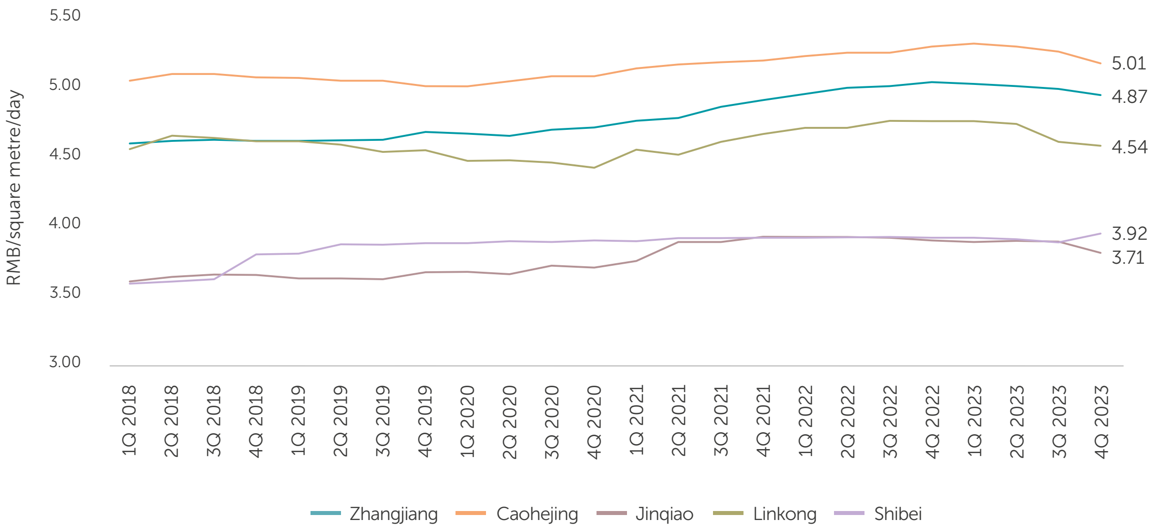
RMB**4.51** ▼ **2.4% yoy**

per square metre per day

(Overall Net Effective Rent as at 31 December 2023)

- Average rents in Shanghai's core business park submarkets started a downward trend in 2Q 2023 and continued to do so for the rest of 2023. This came after registering an upward trend for ten consecutive quarters from 4Q 2020 to 1Q 2023 which was mainly fuelled by the semiconductor and biomedical sectors.
- To tackle the soft demand, landlords across most of the core submarkets began to offer more rent incentives, such as extended rent-free periods, to stabilise occupancy rates. As a result, by the end of 2023, rents in the core business park submarkets had decreased by 2.4% yoy to RMB4.51 per square metre per day.
- Shibei was an exception with new completions in the Shibei Hi-Tech Park in 4Q 2023 driving up average rents by 1.2% yoy. Conversely, rents decreased across all other core business park submarkets in 2023 due to competition among landlords arising from increased availability of space. Rents in Zhangjiang decreased 2.1% yoy, slightly outperforming Caohejing, Jinqiao and Linkong, where rents dropped 2.8%, 3.6% and 4.3% yoy, respectively.
- As landlords in the core business park submarkets continued providing rent incentives to attract tenants, rents declined by a further 1.1% qoq, reaching RMB4.46 per square metre per day by the end of 1Q 2024. Rents in Zhangjiang remained largely unchanged qoq.

**Business Park Rent by Submarket**



Source: Colliers

**Average Business Park Capital Value**

RMB**32,118**
per square metre
(As at 31 December 2023)

▼ **10.7% yoy**

**Average Business Park Yield**

**4.6**%
(As at 31 December 2023)

▲ **0.4 pp yoy**

- Capital value in Shanghai's core business parks fell 10.7% yoy to RMB32,118 per square metre as at 31 December 2023. After peaking at the end of 2022, prices had lowered to levels seen about seven years ago. With the capital value decline outpacing the rental decline, yield expanded 0.4 pp yoy to 4.6% at the end of 2023. Softer demand and considerable upcoming supply, as well as a lower rents had made investors more cautious, adjusting their investment metrics with regards to pricing and yields.
- Negatively affected by the weak broader economy, investment activities in Shanghai's core business parks slowed down in 2023. However, as the most well-established business park submarket, Zhangjiang's investment market remained active, as evidenced by several large-scale transactions in 2023. These include Information Technology Industry Platform, that was transacted at RMB507 million, or RMB31,192 per square metre. Furthermore, 85% of the shares in Jinchuang Plaza were transferred for RMB3,306 million, equivalent to a unit rate of RMB45,000 per square metre. Lastly Hongyuan Tech Building was transacted at RMB719 million, or RMB25,000 per square metre.
- As of 1Q 2024, capital values in the core business park submarkets declined 4.0% qoq to RMB30,826 per square metre. However, due to the comparatively smaller decrease in rents compared to the capital value, the net yield experienced a more moderate softening of 0.2 pp qoq, reaching 4.8%.

### Outlook

- In November 2023, Shanghai was named a pilot zone for the Silk Road e-commerce cooperation by the State Council. This move aimed at improving digital economic cooperation among countries participating in China's Belt and Road initiative, promoting innovation and strengthening international cooperation.
- Towards the end of 2023 and in the March 2024 policy meetings, the Chinese government made clear its intention to shift the country's economic focus towards sophisticated, high-tech industries such as semiconductors, renewable energy and artificial intelligence. Through announcements made at the Central Economic Work Conference and the Two Sessions, the government signalled its commitment to providing additional financial support for companies operating in these strategically important, emerging sectors. This concerted emphasis on cultivating China's strategic emerging industries might help support demand for business park space.
- In addition to shifting the economic focus, the introduction of the enablement of accelerated local bond issuance and cuts in the loan prime rate, demonstrate the government's willingness to enhance business sentiment, which would in turn benefit the business park sector.
- However, due to weak domestic consumption and declining corporate profits, and the resulting decline in economic sentiments, the leasing environment remained subdued without clear signs of recovery. This subdued leasing market condition is expected to persist throughout 2024.
- Coupled with ample supply in 2024, the Shanghai business park market is anticipated to face continued pressure in the near term. However, once the supply peak has passed, and with government support, the negative near-term trend could be reversed.
- The performance in Zhangjiang is expected to remain under pressure in the near term as the submarket accounts for over 40% of the upcoming business park supply in Shanghai between 2024 and 2026.

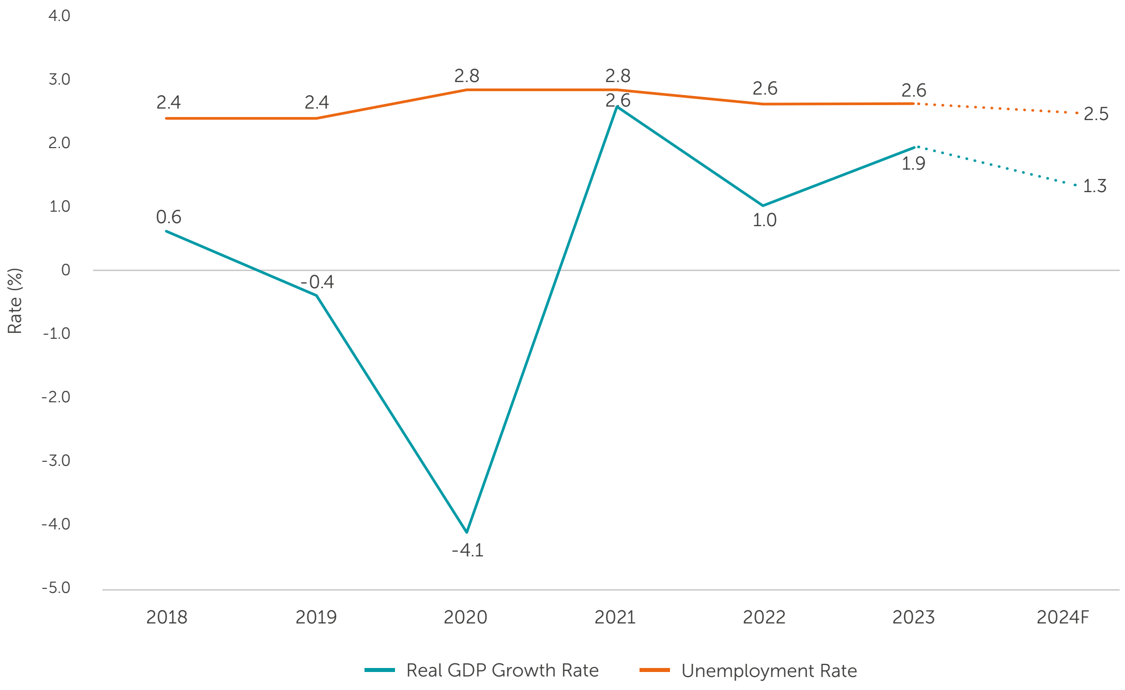
# INDEPENDENT MARKET **OVERVIEW**

## Japan

### 1.1 Economy

- Driven by a recovery in the tourism sector, Japan's 2023 real GDP grew 1.9% yoy, surpassing the previous year's growth rate of 1.0%. This was mainly due to a strong growth in the first half of the year. However, the country narrowly avoided a technical recession in 4Q 2023, as lower private domestic consumption and capital spending slowed down growth. Elevated inflation rates appeared to have impacted the Japanese economy more than previously expected.
- In 2023, speculation mounted regarding a potential reversal of Japan's loose monetary policy. The initial release of lower-than-expected GDP figures for 4Q 2023 cast doubt on this possibility. However, a subsequent upward revision of these figures, coupled with higher-than-expected wage growth, gave the Bank of Japan more room to consider raising interest rates. On 19 March 2024, the Bank of Japan announced its first rate hike in 17 years, moving from negative territory to a range of 0% to 0.1%. Furthermore, the yield curve control programme, which had been designed to maintain a 1% cap on 10-year government bonds, was discontinued.
- Although inflation has decreased significantly from early 2023 and interest rates are now slightly higher, inflation is expected to stay above 2% in 2024.
- According to the Statistics Bureau of Japan, the unemployment rate in 2023 remained unchanged at 2.6% compared to the previous year.
- Japan's economy is projected to grow by 1.3% in 2024, a slower pace as compared to 2023. Sustained high inflation may weaken private consumption in 1H 2024. However, government measures such as income tax cuts and fuel subsidies are expected to provide some relief. Despite the rate hike and the discontinuation of ETF and J-REIT stock purchases, the JPY has not yet strengthened against the USD. Japan's monetary policy remains relatively accommodative, with the Bank of Japan continuing its bond purchases and the benchmark rate still hovering near 0%. As of now, further rate hikes by the Bank of Japan are not scheduled. However, with the possibility of rate cuts by the US Federal Reserve and other major central banks, the JPY may appreciate, potentially weakening exports.

**Real GDP Growth Rate and Unemployment Rate**



Source: Cabinet Office of Japan, Statistics Bureau of Japan

## 1.2 Greater Tokyo Office Market

**Existing Grade A Office Stock**

**10.5**M tsubo

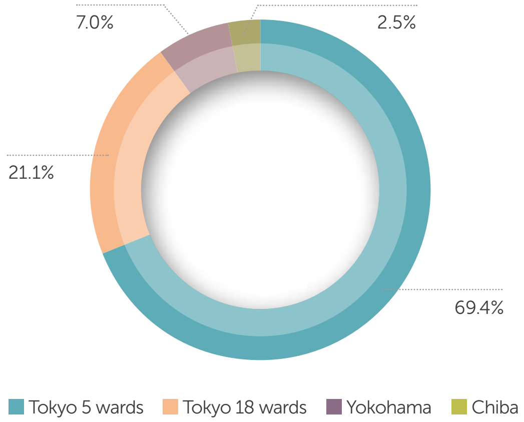
(Existing Office Stock as at 31 December 2023)

**3.4 % yoy**

- In 2023, approximately 346,000 tsubo of office space was completed in the Greater Tokyo office market.[1]
- As at 31 December 2023, Tokyo 5 wards accounted for 69.4% of the total Grade A office stock, followed by Tokyo 18 wards (21.1%), Yokohama (7.0%) and Chiba (2.5%). Together, these submarkets make up the Greater Tokyo office market.
- In 1Q 2024, approximately 22,500 tsubo of new Grade A office space was completed, with approximately 80% of the new supply located in Tokyo 5 wards.

**Distribution of Office Stock by Submarket**

(As at 31 December 2023)



Source: Colliers

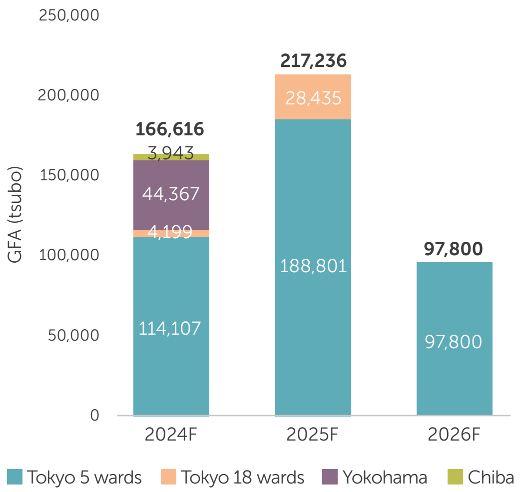
**Potential Office Supply**

**482,000** tsubo

(From 2024 to 2026)

- The completion of TODA Building and Akasaka Trust Tower in 3Q 2024 will add about 50,000 tsubo to the market. The new office supply in Greater Tokyo is projected to be about 167,000 tsubo for 2024. Nearly half of the expected supply for the next three years is scheduled to be ready in 2025, with the supply estimated to rise to about 217,000 tsubo before falling to about 98,000 in 2026.
- With about 401,000 tsubo in the supply pipeline, the Tokyo 5 wards will account for 83.2% of Greater Tokyo's upcoming office space, followed by Yokohama (9.2%), Tokyo 18 wards (6.8%)[2] and Chiba (0.8%).[3]

**Future Supply by Submarket**



Source: Colliers

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[1] We define four submarkets in Greater Tokyo: Tokyo 5 wards, Tokyo 18 wards, Yokohama and Chiba. Tokyo 5 wards comprises five central wards: Chiyoda-ku, Chuo-ku, Minato-ku, Shinjuku-ku and Shibuya-ku. Tokyo 18 wards comprises the rest of Tokyo's 23 wards. Yokohama refers to Yokohama city and its 18 administrative wards. Chiba refers to Chiba city and its 6 administrative wards. MPACT has one property located in the Tokyo 5 wards (Higashi-nihonbashi 1-chome Building), four properties located in the Tokyo 18 wards (Hewlett-Packard Japan Headquarters Building, IXINAL Monzen-nakacho Building, Omori Prime Building and TS Ikebukuro Building), one property in Yokohama (ABAS Shin-Yokohama Building) and three properties located in Chiba (mBAY POINT Makuhari, Fujitsu Makuhari Building and SII Makuhari Building).

[2] In 2026, Mitsui Fudosan is set to finish a significant redevelopment in Nakano, Tokyo 18 wards. This mixed-use project integrates offices, retail, and residential spaces, but the specific area allocation for each use remains undisclosed. Due to this uncertainty, the anticipated supply from the project has been excluded.

[3] It has been announced that the Next Site Chiba Building, located near the Chiba station, is currently under construction and is scheduled for completion in August 2024. Initially, only the retail space on the lower floors were available for lease, as the office component of the building was intended to be fully occupied by NTT Group for their internal use. Consequently, the office portion was not considered an addition to the future office supply. However, as of 31 December 2023, 3,943 tsubo of the office has become available for lease, and this portion has been included in the future supply.

# INDEPENDENT MARKET **OVERVIEW**

**Office Net Take-up**

**151,300** tsubo **155.3% yoy**
(In 2023)

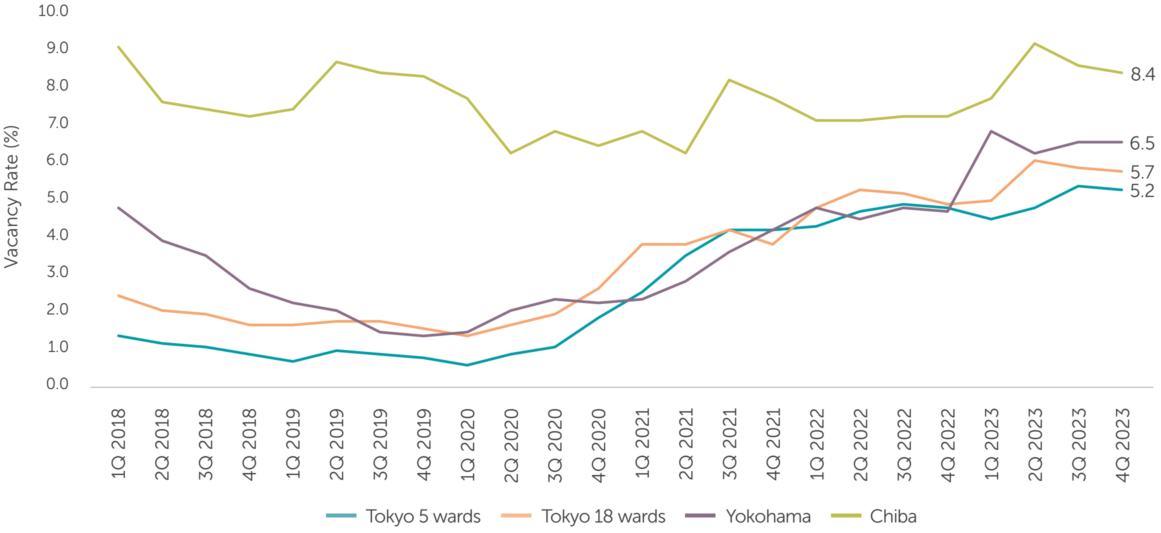
- Driven by strong leasing demand in Tokyo 5 wards and a low base from the previous year, office net take-up increased by 155.3% yoy to about 151,300 tsubo in 2023, with significant take-up in 1Q and 4Q 2023. The near 100% commitment rate for Tokyo Midtown Yaesu in Tokyo 5 wards and the substantial commitment achieved by the newly completed Shibuya Sakura Stage from the same submarket in 4Q 2023 contributed to this growth.
- The net take-up in Tokyo 5 wards doubled from 55,950 tsubo in 2022 to 126,342 tsubo in 2023, as companies moved from other areas to more prime locations.
- Tokyo 18 wards experienced a shift to positive net take-up, increasing from -8,266 tsubo in 2022 to 8,549 in 2023. This was evident by the significant commitment achieved by the newly completed Gotanda JP Building in 4Q 2023, indicating a flight-to-quality trend.
- In Yokohama, the higher net take-up was mainly due to demand for newly completed properties in the Minato Mirai area in early 2023. On the other hand, net take-up in Chiba turned negative as demand remained muted, as highlighted by the low commitment rate at the newly completed GRANODE CHIBA FUJIMI.
- In 1Q 2024, Tokyo 5 wards, Tokyo 18 wards and Chiba all recorded positive net take-up, although it slowed down qoq due to fewer Grade A office completions and less space available for leasing. Net take-up in Yokohama showed weakness towards the end of 2023 and this trend continued in 1Q 2024, with net take-up recorded at -3,109 tsubo.

**Office Vacancy Rate**

**5.5**% **0.7 pp yoy**
(Greater Tokyo as at 31 December 2023)

- Despite the considerable supply in 2023, vacancies in Greater Tokyo rose only slightly by 0.7 pp yoy to 5.5% at the end of 2023. This was due to robust leasing demand particularly driven by relocations to high-quality offices in prime locations.
- In Tokyo 5 wards, vacancy rate increased 0.5 pp yoy to 5.2% at the end of 2023. This slight increase was due to the strong supply in 2023 but offset by robust leasing demand, as evidenced by substantial pre-commitments at Shibuya Sakura Stage that was completed in 4Q 2023.
- Yokohama recorded a 1.9 pp yoy increase in vacancy to 6.5% as at the end of 2023, primarily due to the completion of Yokohama Connect Square in 1Q 2023.
- Chiba experienced a 1.2 pp yoy increase in its vacancy rate to 8.4% by the end of 2023, attributed to the completion of GRANODE CHIBA FUJIMI in 2Q 2023, which added a notable amount of vacant space to the submarket.
- In 1Q 2024, vacancies in the Greater Tokyo office market decreased qoq in Tokyo 5 wards, Tokyo 18 wards and Chiba as there was limited new supply and overall demand remained positive. With a negative net take-up, vacancy in Yokohama increased to 6.9%, up 0.4 pp qoq.

**Greater Tokyo Vacancy Rate**



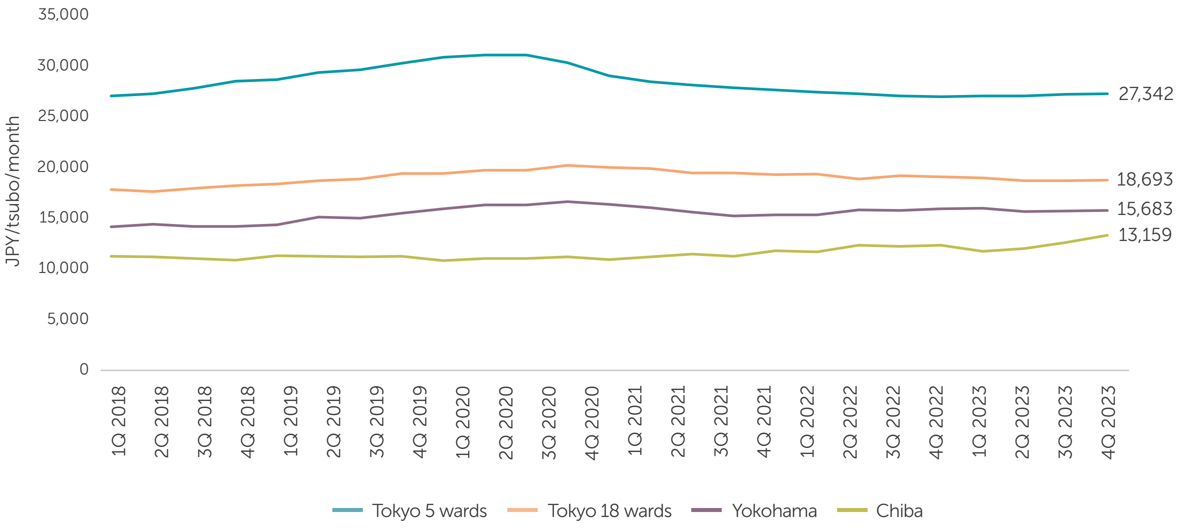
Source: Colliers

**Average Office Rent**

JPY**24,346** ▲ **0.8% yoy**
per tsubo per month
(Greater Tokyo as at 31 December 2023)

- The average rent of Greater Tokyo increased by 0.8% yoy to JPY24,346 per tsubo per month. This was supported by leasing demand from flight-to-quality and rental transactions in high-grade office buildings in the vicinity of the Chiba station.
- As occupiers favoured good quality office space in prime locations, the average rent in Tokyo 5 wards picked up by around 1.0% from a year ago.
- However, relocations to more central areas resulted in an increase in vacancy in Tokyo 18 wards, which adversely affected rental rates, leading to a 1.8% yoy decline in rents.
- Rents in Chiba increased significantly due to rental transactions in new high-grade office buildings near the Chiba station with higher-than-average unit rents. In Yokohama, rents decreased slightly by 0.8% yoy due to vacancies being backfilled using rental discounts.
- In 1Q 2024, rents in the Greater Tokyo office market rose between 0.7% to 1.7% compared to 4Q 2023, further indicating that pandemic-related rental declines were bottoming out. However, rents in Tokyo 5 wards, Tokyo 18 wards and Yokohama had not returned to pre-pandemic levels. The Chiba submarket posted 1.2% qoq rental growth, largely driven by new high-grade buildings in close proximity to the Chiba station, such as GRANODE CHIBA FUJIMI and Next Site Chiba, with the latter having commenced pre-leasing activities.

## Greater Tokyo Office Rents



Source: Colliers

# INDEPENDENT MARKET **OVERVIEW**

**Average Office Capital Value**

JPY**4,511,783** per tsubo ⌄ **6.8% yoy**

(As at 3Q 2023[1])

**Average Office Net Yield**

**3.7**% ▲ **0.1 pp yoy**

(As at 3Q 2023)

- The total volume of office transactions in 2023 declined significantly from 2022. This decline was partially due to a lower number of high-grade building transactions, such as Otemachi Place, which had contributed to higher average capital values in 2022. As a result, the average capital value of offices decreased 6.8% yoy as of 3Q 2023, despite Japan's continued ultra-loose monetary policy characterised by a negative key short-term interest rate.
- Although capital values dropped significantly, office rents picked up slightly by 0.8% yoy, expanding the net yield by 0.1 pp to 3.7%.
- The average borrowing rate for J-REITs has risen since 2022, indicating an increase in commercial real estate loan rates. The recent policy shift by the Bank of Japan to increase rates will lead to higher borrowing costs. However, overall rates still remained low, especially when compared to other markets in the region.
- Average office capital values remained relatively stable in 1Q 2024, showing a marginal increase of 0.3% against 3Q 2023. At the same time, capitalisation rates compressed slightly by 10bps as compared with 3Q 2023. There has not been any visible negative impact from the rise in interest rates as of 1Q 2024.

## Outlook

- Office supply for 2024 is estimated at 166,616 tsubo, down from 346,000 tsubo in 2023. The new supply comprises about 114,000 tsubo in Tokyo 5 wards, 4,000 tsubo in Tokyo 18 wards, 44,000 tsubo in Yokohama, and a new office building in Chiba to be completed in late 2024.
- The flight-to-quality trend is expected to continue. Despite high pre-leasing rates in new developments and fewer new developments in 2024 compared to 2023, relocations to new developments with higher specifications in more prime locations could lead to increased vacancies in older and less well-located properties.
- Although Japan has shown signs of economic recovery in 2023, it continues to face headwinds from the global economic slowdown and inflation challenges. The economic contraction in 3Q 2023 and marginal growth in 4Q 2023 have created uncertainty around Japan's economic state. The decision by the Bank of Japan to raise its benchmark rate may have limited impact on yields and capital values for now. However, if further rate hikes occur, there will be increased pressure on cap rates to expand and capital values to decline, unless they are supported by rental growth.

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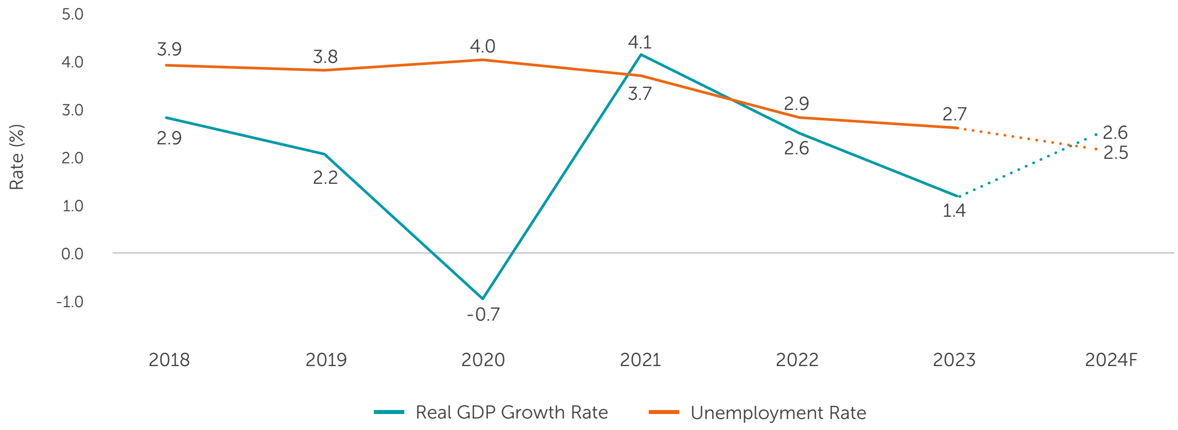
[1] Capital value and net yield data are based on the latest available information in J-REIT disclosure documents as J-REITs close their books and update their disclosure materials semi-annually.

# South Korea

## 1.1 Economy

- South Korea recorded 1.4% GDP growth in 2023, moderating from 2.6% in 2022. This was largely due to softer private consumption amidst higher interest rates. However, exports in the semiconductor and automobile sectors experienced a late-year increase.
- The national unemployment rate improved slightly, dropping 0.2 pp yoy from 2.9% in 2022 to 2.7% in 2023. The service sector recorded consistent employment growth while the construction and manufacturing sectors recorded declines.
- The lower consumption of goods resulting from the high interest rate environment also led to a lower inflation of 3.6% in 2023, down from 5.1% in 2022.
- The Korean Development Institute predicts a GDP growth rate of 2.6% for 2024, attributed to the lower base from the comparatively slower growth in 2023 and an increase in exports. Strong demand from the semiconductor space and higher-than-expected global economic growth are likely to be key drivers for export growth.

**Real GDP Growth Rate and Unemployment Rate**

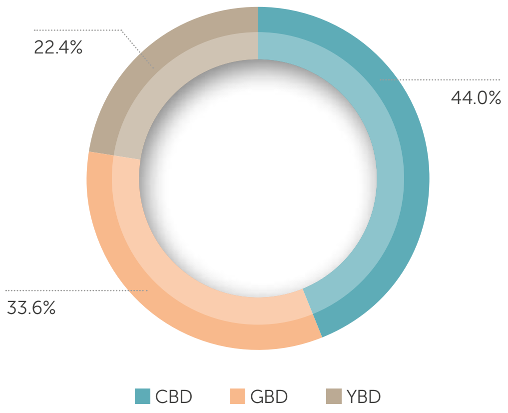


Note: Real GDP and yoy variance represents chained 2015 prices, seasonally adjusted.
Source: KDI, Bank of Korea

**Existing Office Stock**
(Within the Three Core Business Districts)
**2,723,000** pyeong[1] ▲ **1.3% yoy**
(As at 31 December 2023)

- The Seoul office market comprises three core districts: the Central Business District ("CBD"), the Gangnam Business District ("GBD")[2] and the Yeouido Business District ("YBD"). The GBD, Seoul's second largest business district, is known to be the preferred location for information technology ("IT"), technology, media, fashion, and pharmaceutical companies. Other key submarkets include the Bundang Business District ("BBD") and the Pangyo Business District ("PBD"), which accommodate IT, technology, and start-ups.
- Completed in February 2024, TP Tower stands as the sole high-specification office space in Seoul, adding 42,862 pyeong of new supply to the YBD in 1Q 2024. The building has an occupancy rate of 95% as of March 2024.

**Office Stock by Submarket**
(As at 31 December 2023)



Source: Colliers

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[1] 1 pyeong = 3.30579 square metres.
[2] MPACT has a 50% effective interest in The Pinnacle Gangnam, which is located in the GBD.

# INDEPENDENT MARKET **OVERVIEW**

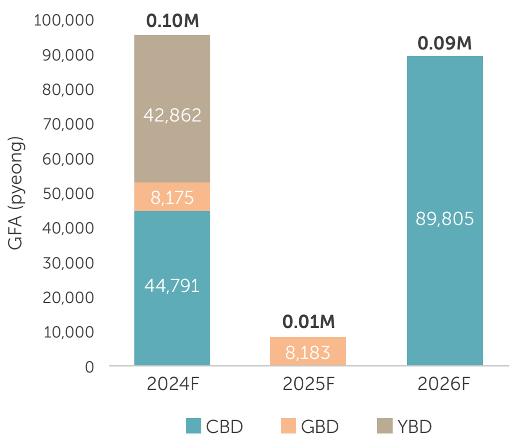
**Potential Office Supply**

**194,000** pyeong

(From 2024 to 2026)

- Approximately 194,000 pyeong of new office supply is expected to be added to Seoul's office market over the next three years, bringing the total office stock to approximately 2.9 million pyeong by 2026.
- Upcoming supply in the GBD will be limited, with Centrepoint Gangnam (about 8,200 pyeong) and the Baekam Building Redevelopment (8,200 pyeong) scheduled for completion in 3Q 2024 and 1Q 2025, respectively. These two projects will contribute approximately 8.4% of the new office supply over the next three years.

**Potential Supply by Submarket**



Source: Colliers

**Office Net Take-Up**

**39,000** pyeong

(Overall in 2023)

▼ **68.5% yoy**

- Seoul's office market recorded a net take-up of approximately 39,000 pyeong in 2023.
- The GBD experienced a significant increase in net take-up from approximately 3,000 pyeong last year to approximately 39,400 pyeong in 2023. This was primarily driven by tenants moving into newly-completed buildings such as Tiger 318. However, net take-up slowed down towards the end of 2023 as tech companies and startups began relocating from the GBD to emerging submarkets in decentralised locations for more cost-effective options.
- The net take-up was positive in the CBD at approximately 6,800 pyeong, while the YBD recorded negative net take-up of 7,100 pyeong in 2023 largely due to non-renewals of several leases at Parc 1 Tower and IFC at the beginning of 2023. Notably, several startups did not renew their leases and Sony downsized its footprint in IFC.
- In 1Q 2024, net take-up in Seoul was negative at approximately 12,400 pyeong, primarily due to the relocation of small and medium-sized IT, healthcare, and e-commerce companies from the CBD and GBD. Economic uncertainty and rising rental costs have compelled these companies to seek affordable office space outside the core business districts of Seoul.

**Office Vacancy Rate**

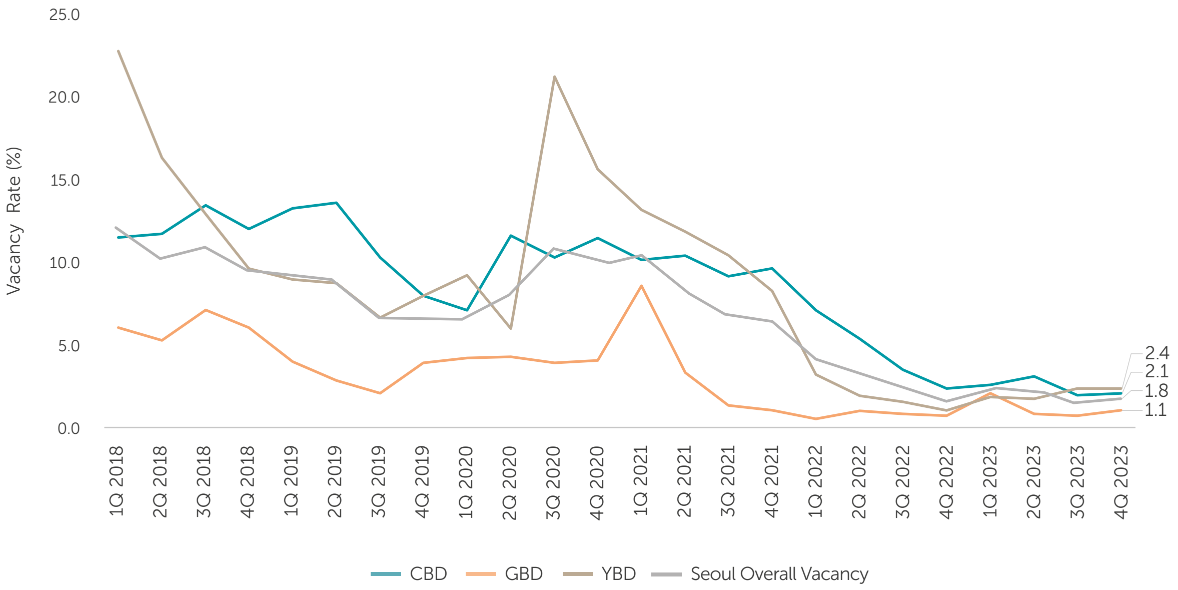
(Within the Three Core Business Districts)

**1.8%** ▲ **0.2 pp yoy**

(As at 31 December 2023)

- The overall vacancy in Seoul's three core business districts rose slightly from 1.6% in 2022 to 1.8% in 2023, mainly due to the completion of new offices and relocations from the three core business districts to lower-cost decentralised locations.
- The GBD's vacancy rate rose slightly by 0.3 pp from 0.8% to 1.1% by the end of 2023, as some anchor tenants and tech startups with financial difficulties moved to Seoul's fringe areas such as Pangyo, Seongsu and Jamsil to reduce costs.
- Seoul's overall vacancy rate as at 1Q 2024 increased by 0.2 pp qoq from 1.8% to 2.0%. The GBD's vacancy rate also increased from 1.1% to 1.5%, up slightly by 0.4 pp qoq. The slight increase in vacancy rates was due to tenants' relocations. However, vacant spaces are expected to be backfilled gradually due to limited supply and continued demand for quality offices.

**Vacancy Rate by Submarket**



Source: Colliers

# INDEPENDENT MARKET **OVERVIEW**

**Average Office Rent**

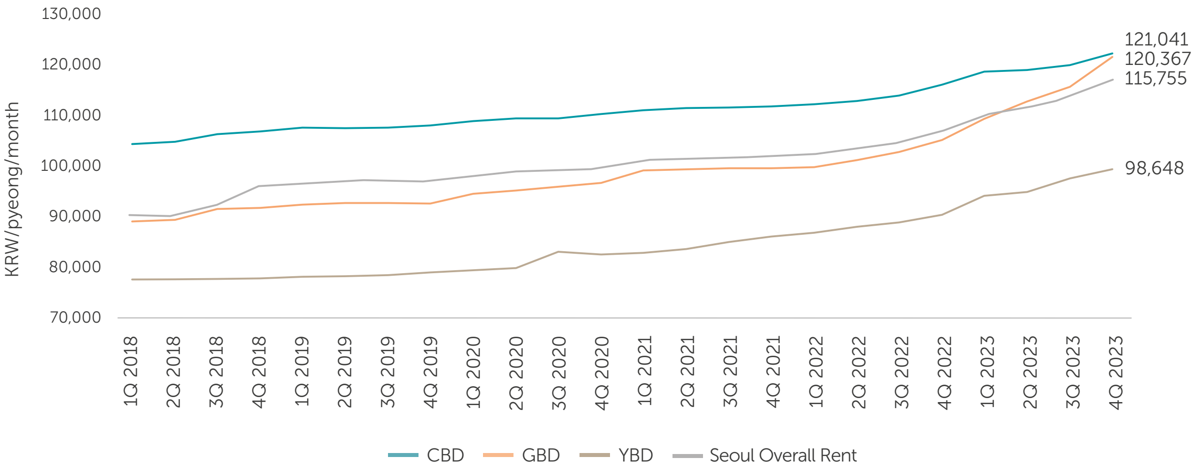
KRW**115,755** ▲ **9.3% yoy**

per pyeong per month

(Overall Net Effective Rate as at 31 December 2023)

- The average net effective rent in the Seoul office market has been increasing since 1Q 2018. In 4Q 2023, rents increased 9.3% yoy, reaching KRW115,755 per pyeong per month, driven by limited new supply and large-scale leases at new and high-quality offices which were signed at higher rents.
- The GBD saw higher rental growth of 15.4% yoy to about KRW120,367 per pyeong per month by the end of 2023. The rental growth was supported by a limited supply of high-quality offices, higher rents secured by newly completed buildings, and robust demand as more companies returned to work-at-office.
- In 1Q 2024, the average net effective rent in the Seoul office market saw a 0.8% qoq increase from 4Q 2023 to approximately KRW117,000 per pyeong per month, driven by the high rents in recently completed buildings and strong demand. For instance, rents in TP Tower, a newly built high-specification office building in the YBD, are approximately 40% above the YBD average with 95% of the building leased prior to its completion.

**Office Rent by Submarket**



Source: Colliers

**Average Office Capital Value**

KRW**28.3**M per pyeong ▲ **5.8% yoy**
(As at 31 December 2023)

**Average Office Net Yield**

**4.3**% ▲ **0.3 pp yoy**
(As at 31 December 2023)

- After multiple interest rate hikes by the Fed in 2022, South Korea's central bank raised its base rate once in January 2023 by 25 bps to 3.5% . This led to a 0.3 pp expansion in Seoul's office capitalisation rate to 4.3% as at 31 December 2023, as higher borrowing costs drove investors to seek higher yields.
- Towards the end of 2023, significant transactions in the GBD lifted capital values by 5.8% yoy as at 31 December 2023. These transactions were driven by strategic investors looking for new headquarters and also three high-specification offices that were transacted in 4Q 2023.
- Rental growth outpaced capitalisation rate expansion, leading to a higher average capital value in 2023 compared to 2022.
- There were three major transactions above USD50 million in 1Q 2024. The average office capital value as at 1Q 2024 stood at KRW29.4 million per pyeong with an average net yield of 4.4%.

### Key Office Trends & Outlook

- The surge in rents and limited leasing options are prompting companies to purchase office spaces for headquarters usage.
- Secondary office districts such as Seongsu/Jamsil enjoyed spill-over effects and have emerged to be popular office hubs with their relatively affordable rents. Their appeal is expected to be enhanced with the growing presence of major companies around the area.
- Office space requirements in Seoul are evolving given growing demand for larger individual desk spaces, more meeting rooms, and collaborative spaces to facilitate teamwork.
- Approximately 96,000 pyeong of new office space is expected in 2024 across all the three major business districts. However, the impact on the overall vacancy rate is likely to be marginal in 2024 due to the high pre-leasing rates for newly completed buildings – Centrepoint Gangnam to be owner-occupied by F&F – as well as rising demand for high-quality office spaces driven by the shift away from remote working.
- In the GBD, limited supply, low vacancy rates and steady leasing demand resulted in a landlord favoured market. Despite tech startups relocating to secondary office districts, more established tech companies and logistics companies are filling up the vacancies, and the trend of low vacancy rates and rising effective rents will likely continue.
- The office investment market is expected to remain attractive to domestic and foreign investors, with transaction volumes in 2024 to be similar to 2023. However, potential challenges in fundraising and fluctuations in market liquidity could introduce uncertainty to the market. This will however be largely dependent on the interest rate decisions by the U.S. Federal Reserve and the Bank of Korea in 2024.

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