INDEPENDENT MARKET OVERVIEW

BY COLLIERS INTERNATIONAL (HONG KONG) LIMITED

Singapore

1.1 Economy

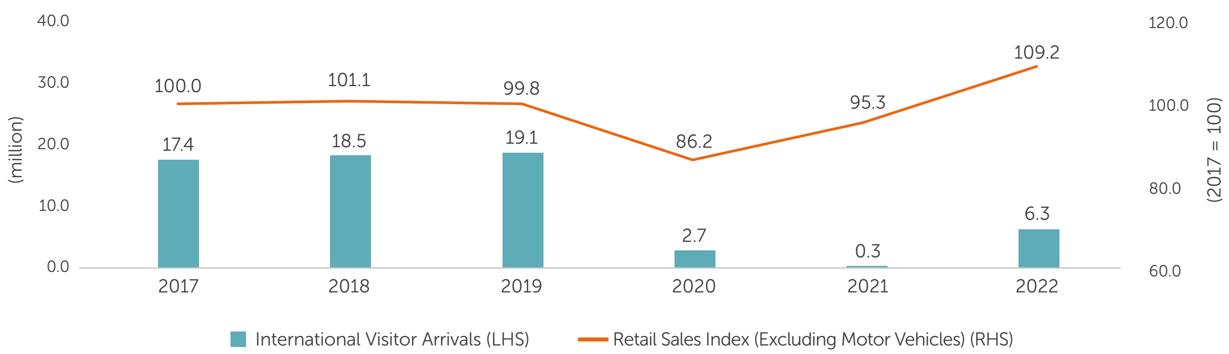
- According to the Ministry of Trade and Industry ("MTI"), Singapore's economy expanded by 3.6% in 2022, moderating from the 8.9% growth in 2021. The growth was mainly supported by a recovery in the construction, services producing (including food & beverage and retail trade), aviation and tourism-related sectors arising from the easing of border and domestic restrictions, but dampened by the weakened external demand and slowdown in manufacturing output.
- Singapore was one of the first countries in Asia to shift towards an endemic COVID-19 phase and benefitted from an early economic recovery through a moderated relaxation of border and domestic restrictions, active vaccination rollouts and government support schemes.
- Singapore's headline inflation rose steeply to 6.1% in 2022, up from 2.3% in 2021. The sharp increase in global commodity prices, supply chain disruptions and the tight domestic labour market contributed to inflationary pressures. In conjunction with the GST rate hike from 7.0% to 8.0% which took effect from 1 January 2023, the Government announced a series of financial support in the 2023 Budget, including vouchers and rebates, to help households cope with the increase in daily expenses.
- Singapore's unemployment rate dropped from 2.7% in 2021 to 2.1% in 2022. The lifting of border restrictions, tight labour market and sustained economic growth allowed unemployment rates to return to pre-pandemic levels. However, from the second half of 2022, an uptick in retrenchments was observed particularly in the electronics, information technology and wholesale trade sectors due to the global wave of layoffs in these sectors.

Tourist Arrivals

6.3M (In 2022) ↑ **1,810.5% yoy**

- International visitor arrivals rose to 6.3 million in 2022, reversing the negative growth in the last two years. This is about 33% of the pre-pandemic level observed in 2019 but exceeded the forecast by the Singapore Tourism Board ("STB") of between 4 million and 6 million international visitors.
- The return of Meetings, Incentives, Conferences & Exhibitions ("MICE") and leisure events, strong demand from both business travellers and leisure travellers from Singapore's key source markets (led by Indonesia, India, and Malaysia) and the recovery of the cruise industry supported the rebound.
- The tourism sector is expected to continue its growth momentum in 2023, on the back of global relaxation of travel restrictions, China's border reopening, increasing flight connectivity and capacity, and recover to its pre-pandemic level by 2024.

International Visitor Arrivals and Retail Sales Index

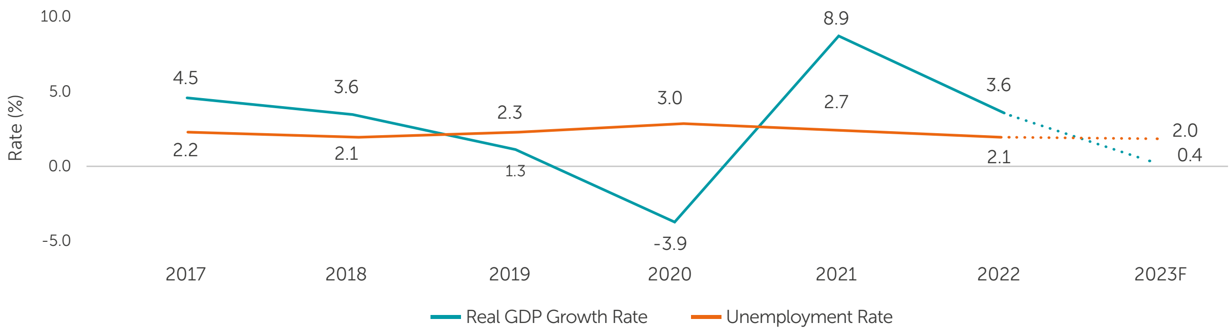


Source: STB, Singapore Department of Statistics

1.2 Outlook

- According to Oxford Economics, GDP growth is expected to slow to 0.4% in 2023, which is lower than MTI's broad forecast of 0.5% to 2.5% on the back of a deteriorated external economic outlook, geopolitical uncertainties, and downside risks in the global economy.
- Inflation is expected to remain elevated due to sustained wage increases and commodity price pressures. Retail expenditures from the domestic market will likely taper in 2023 with the GST rate hike. However, international tourist expenditure is expected to lend some support as visitor arrivals are anticipated to double in 2023 from 2022.

Real GDP Growth Rate and Unemployment Rate



Source: GDP and Unemployment Rate figures from 2017 to 2022 are from the Singapore Department of Statistics and the Ministry of Manpower. Forecast figures for 2023 are from Oxford Economics.

1.3 Singapore Retail Market[1]

Total Retail Sales

S$**41.9**B ↑ **14.8% yoy**
(In 2022)

- Retail sales in total value terms recorded a 14.8% yoy increase from 2021 to 2022.
- Relaxation of most pandemic and border restrictions since April 2022 had spurred healthy retail sales from the domestic market and international tourists, and the retail sector continued to ride on this growth momentum till the end of 2022. The return of major physical events including the Formula 1 Grand Prix, contributed to greater physical retail sales in comparison to the previous year.
- Apparel & footwear, food & alcohol, department stores, and watches & jewellery were the largest contributors to retail sales value growth yoy. The overall higher sales value was also driven by higher prices due to inflation, post-COVID "revenge-spending", and some purchases made ahead of the GST rate hike.

Online Retail Sales

14.7% of Total Retail Sales
(In 2022)

- The proportion of online retail sales had rapidly increased over the past three years and accelerated to double-digit growth 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 easing of COVID-19 restrictions over 2021 and 2022, the online retail sales penetration rate remained high, with the value of online sales making up 14.7% of total Singapore retail sales in 2022 and 15.9% in 2021 compared to the pre-COVID level of 6.8% in 2019.
- Online shopping promotional events such as Singles' Day, Black Friday, and Brands Festival Sale will typically boost online retail sales during the respective sale periods. Online sales value in these selected months had risen in comparison to the same period in past years, signalling the significant traction e-commerce had gained and shifting consumer spending patterns.

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

INDEPENDENT MARKET OVERVIEW

Existing Retail Stock

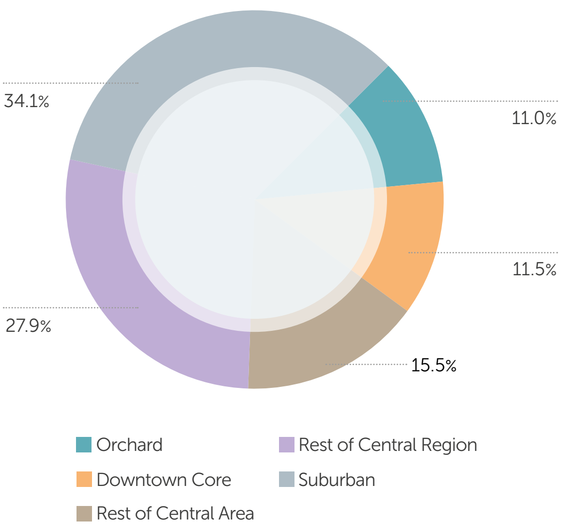
67.1M square feet[1] ↑ **0.6% yoy**

(As at 31 December 2022)

- Singapore's existing retail stock stood at 67.1 million square feet as at 31 December 2022, the bulk of which is located in the Central Region (65.9%) while the remainder is located in the Suburban submarket (34.1%).
- The Central Region is made up of four major submarkets comprising Orchard, Downtown Core, Rest of Central Area, and Rest of Central Region. The Rest of Central Region is also referred to as the City Fringe[2].
- There was relatively low net retail supply of about 387,500 square feet added to the market in 2022. The key completions include Grantral Mall @ Macpherson and Shaw Plaza (asset enhancement work), injecting about 67,500 square feet and 64,300 square feet of retail NLA, respectively, into the Rest of Central Region submarket.

Retail Stock by Submarket

(As at 31 December 2022)



Source: Urban Redevelopment Authority ("URA"), Colliers

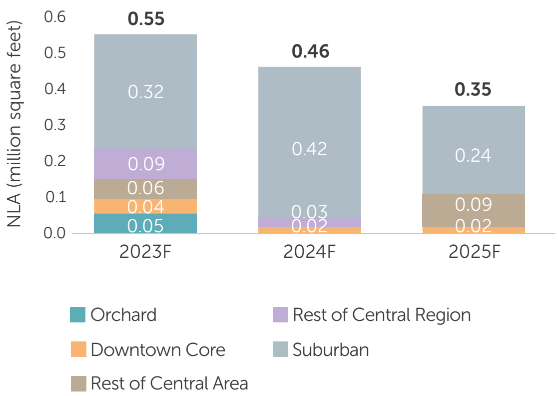
Potential Retail Supply

1.4M square feet

(From 2023 to 2025)

- Approximately 1.4 million square feet of space is expected to be delivered from 2023 to 2025, translating into an average of 0.5 million square feet per year, lower than the past five-year annual average of 0.6 million square feet.
- Overall, the Suburban submarket will account for the majority of the upcoming retail supply, representing 71.5% of new supply from 2023 to 2025. 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 into the submarket in the second half of 2023 and in 2024, respectively. However, the former will comprise mostly restaurants and bars, fitness centre, and meeting/ballroom amenities, and the latter will comprise mostly ancillary retail and restaurants, as well 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

1 Source: URA.

2 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 and Downtown Core. Mapletree Business City, mTower and VivoCity, owned by MPACT, are located in the City Fringe.

Retail Vacancy Rate

7.1%[1]
(Islandwide as at 31 December 2022)

↓ **1.0 Percentage Points ("p.p.") yoy**

- Islandwide retail vacancy rate tightened to 7.1% as at 31 December 2022, 1.0 p.p. lower than the year before. This was supported by the easing of COVID-19 restrictions and reopening of borders since April 2022. A broad-based decline in vacancy rates across all submarkets was observed over the last two quarters of 2022.
- In the first quarter of 2023, islandwide retail vacancy rate rose by 0.5 p.p. quarter-on-quarter ("qoq") to 7.6%. This was largely due to new supply additions and vacated space associated with asset enhancement works as well as a slight drop in leasing demand, especially in the Orchard submarket.

Vacancy Rate by Submarket

Source: URA, Colliers

Average Retail Rent

S$**12.34**
per square foot per month[2]
(Islandwide as at 31 December 2022)

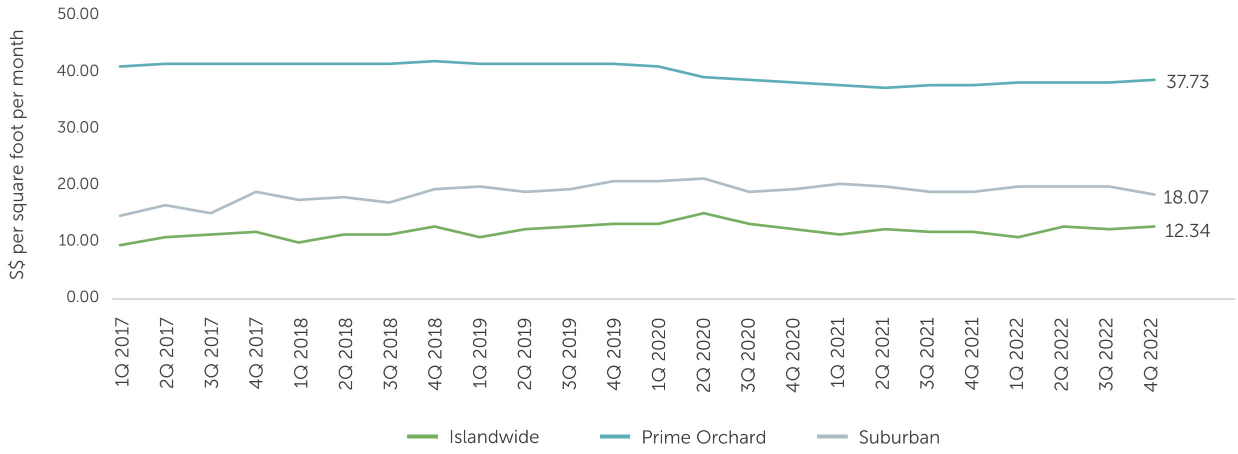
↑ **6.7% yoy**

- Average islandwide retail rent increased to S$12.34 per square foot per month as at 31 December 2022, 6.7% higher yoy. This was similarly supported by the relaxation of COVID-19 measures.
- Prime Orchard retail rent[3] has been on an upward trajectory since the third quarter of 2021 in tandem with the resumption of travel. The better-than-expected recovery of tourism in 2022 led to a 1.9% yoy increase in retail rent to S$37.73 per square foot per month as at 31 December 2022. Although Islandwide and Prime Orchard retail rents have surpassed levels in 2020 and 2021, they are still lower than pre-pandemic levels in 2019 by 5.1% and 7.2%, respectively.
- Suburban retail rent recorded S$18.07 per square foot per month as at 31 December 2022, 1.5% lower yoy. While retail rent was 10.5% lower than the pre-pandemic level in 2019 due to resistance towards rent increases in secondary suburban retail submarket, rents in the first three quarters were resilient and close to pre-pandemic levels.
- In the first quarter of 2023, islandwide retail rent declined by 13.2% qoq to S$10.71 per square foot per month, amid lower transaction volume as leasing demand was weighed down by costs and operational challenges. Suburban retail rent rose 7.0% qoq due to the steady recovery in tourism and a strong catchment population.

1 This refers to the islandwide average vacancy rate of all retail properties and is published by the URA.
2 This refers to the islandwide median gross monthly rent of all retail space and is published by the URA.
3 Prime Orchard retail rent are based on Colliers' research/valuation metrics on ground floor, basement, and MRT-level average retail rent in selected basket of prime retail malls.

INDEPENDENT MARKET OVERVIEW

Retail Rent by Submarket



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

Retail Net Take-up[1]

1.0M square feet[2] ↓ **8.0% yoy**

(Islandwide in 2022)

- Retail leasing demand continued its recovery with Islandwide net absorption of close to 1.0 million square feet in 2022, driven mainly by F&B operators and fashion retailers including athleisure and international new-to-market brands. This was however 8.0% lower than 2021.
- The substantial easing of COVID-19 measures supported the broad-based recovery of leasing demand in 2022. The Orchard and Central Area Singapore retail submarkets[3] benefited from the uptick in international tourist retail expenditures and return of workforce to the CBD. The Suburban and City Fringe submarkets remained resilient, with demand continuing to outperform the other retail submarkets.
- In the first quarter of 2023, islandwide net absorption declined to about -75,000 square feet, down from about 710,000 square feet in the previous quarter, as leasing demand declined in the Orchard and Rest of Central Area submarkets amid rising costs and a challenging operating environment by retailers. Positive leasing demand continued to extend to the City Fringe and Suburban submarkets.

Average Retail Capital Value

S$**3,155** per square foot ↑ **2.0% yoy**

(Islandwide as at 31 December 2022)

Average Retail Yield

4.7% ↑ **0.2 p.p. yoy**

(Islandwide as at 31 December 2022)

- Islandwide retail capital value and yield have both risen slightly to an average of S$3,155 per square foot and 4.7%, respectively, as at 31 December 2022 as compared to 31 December 2021, on the back of some sizeable transactions, higher rents and interest rate.
- Some of the key recent retail transactions include the sale of Mercatus' portfolio of retail malls – Jurong Point and Swing By @ Thomson Plaza were divested to Hong Kong-based Link REIT for S$2.2 billion collectively (S$2,926 per square foot based on property value of S$2,107.0 million and S$1,764 per square foot based on property value of S$194.0 million, respectively), while Mercatus' 50% interest in NEX was divested to Frasers Centrepoint Trust and Frasers Property for S$652.5 million (S$3,274 per square foot based on property value of S$2,077.8 million).
- In the first quarter of 2023, islandwide retail capital value and yield remained flat amid limited transactions.

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 Except for the Downtown Core submarket where negative net absorption was recorded for the entire 2022.

- Over the longer term, with the trend of investors increasing their capital allocation to quality assets in Asia's key gateway cities, Singapore's retail mall asset class is expected to be favoured amongst investors due to its relative scarcity and stability.

Retail Trends

- In response to the challenges presented by e-commerce, retail malls have evolved to incorporate more experiential retail elements, technology platforms and digital uses, as well as activity-based and F&B offerings to generate physical visits. The COVID-19 pandemic has also brought about changes in the way people work, including the increased adoption of working-from-home or remote working, and it is expected that the future of work will be a hybrid of office and remote work. Retail malls located near residential estates are expected to benefit from higher footfall and retail sales, as more people choose to dine, shop, or opt for food deliveries near their homes.

Retail Outlook

- China's re-opening since the start of 2023 has led to a steady increase in the number of Chinese tourist arrivals in Singapore. This is projected to increase further and drive improvement in retail footfall.
- However, weaker economic outlook, inflationary pressures, GST rate hike, and manpower shortages remain key challenges for retailers in 2023.
- The expected recovery in tourism coupled with limited upcoming supply could provide some support to the demand for retail space, improve occupancy levels, and lead to a broad-based recovery of retail rents, albeit at a moderated pace.

1.4 Singapore Office Market[1]

Existing Office Stock

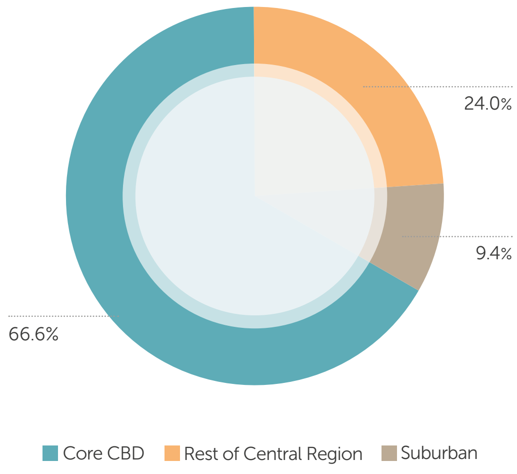
87.0M square feet[2] ↓ **1.1% yoy**

(As at 31 December 2022)

- Singapore's total existing office stock stood at 87.0 million square feet as at 31 December 2022, the bulk of which is concentrated in the Core CBD (66.6%) while the remainder is located in the Rest of Central Region (24.0%) and outside the 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 supply has reduced by nearly 926,000 square feet in the market in 2022, mainly due to several developments being taken out of the market for redevelopment and asset enhancement works, such as AXA Tower, Certis Cisco Centre, and Shaw Tower. The key completions in 2022 were Rochester Commons and the redevelopment of Hub Synergy Point, injecting about 266,000 square feet and 131,000 square feet of office NLA into the City Fringe and Core CBD submarkets, respectively.

Office Stock by Submarket

(As at 31 December 2022)



Source: URA, Colliers

[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 and 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 the Core CBD.

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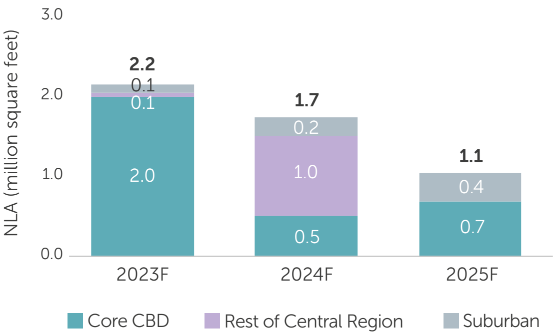
Potential Office Supply

5.0M square feet
(From 2023 to 2025)

- Approximately 5.0 million square feet of space is expected to be delivered from 2023 to 2025, translating into an average of 1.7 million square feet per year, higher than the past five-year annual average of 1.1 million square feet.
- Overall, the Core CBD submarket accounts for the majority of upcoming office supply, representing 64.8% of new supply from 2023 to 2025. The City Fringe and Suburban submarkets will account for 21.4% and 13.8%, respectively.
- Within the Alexandra/HarbourFront submarket, Labrador Tower is expected to add about 681,400 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 526,100 square feet and 262,600 square feet of space in 2024 and 2025, respectively.

Potential Supply by Submarket



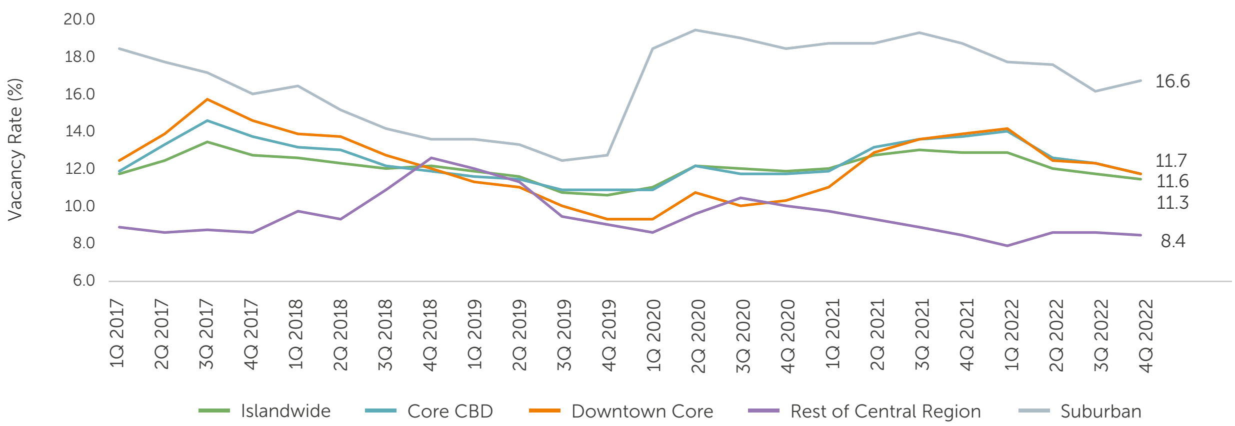
Source: URA, Colliers, Project Announcements

Office Vacancy Rate

11.3%[1] **1.5 p.p. yoy**
(Islandwide as at 31 December 2022)

- Islandwide office vacancy rate tightened to 11.3% as at 31 December 2022, 1.5 p.p. lower than the year before.
- The easing of restrictions since April 2022 had fuelled a strong back-to-office momentum, which supported a broad-based tightening of vacancy rates.
- Vacancy rates as at 31 December 2022 in the Downtown Core and Core CBD were 11.7% and 11.6%, respectively, tightening by about 2.1 and 2.0 p.p., respectively, from the year before. The CBD remains the preferred submarket for premium and good quality office assets, amid occupiers' ongoing flight-to-quality. The tight office supply and limited office space availability in the CBD further pushed CBD occupancy rates upward during 2022.
- Vacancy rate in the City Fringe remained flat at 8.4% in 2022, the lowest among all submarkets. It is notable that the vacancy rate in the City Fringe has remained at or below 10% for the past four years despite 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 cemented the City Fringe as a popular and resilient office submarket.
- In the first quarter of 2023, islandwide office vacancy rate dipped slightly by 0.1 p.p. qoq to 11.2%, largely due to a continued recovery in leasing demand on the back of tight vacancies and flight-to-quality moves, despite additional supply in the Core CBD from the completion of Guoco Midtown.

Vacancy Rate by Submarket



Source: URA, Colliers

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

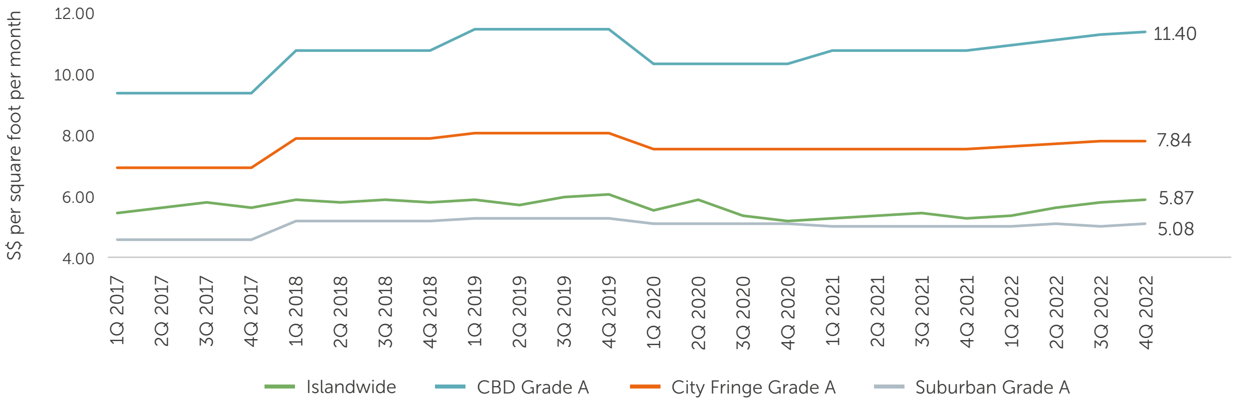
Average Office Rent

S$**5.87** per square foot per month[1] (Islandwide as at 31 December 2022)

↑ **11.0% yoy**

- Average islandwide office rent increased 11.0% yoy to S$5.87 per square foot per month as at 31 December 2022.
- Higher rents were partly driven by increased service charges as some landlords passed on higher operating costs to tenants arising from higher utilities.
- Grade A office rents in the CBD and City Fringe picked up pace in 2022 with a yoy growth of 5.9% and 4.5%, respectively.
- In the first quarter of 2023, islandwide office rent rose by 7.0% qoq to S$6.28 per square foot per month, led by sustained growth in leasing demand. However, rental growth in the Grade A segments has slowed from the previous quarter amid a reduction in occupier leasing demand.

Office Rent by Submarket



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

Office Net Take-up[2]

0.5M square feet[3] (Islandwide in 2022)

From -0.6m square feet

- Office leasing demand rebounded from two consecutive years of negative absorption to record islandwide net absorption of nearly 0.5 million square feet in 2022.
- Work-from-home requirements were gradually lifted towards the end of 2021 to allow more employees to return to physical offices. As Singapore transitioned to an endemic phase, the return and pick-up in business activities had supported broad-based office leasing confidence and demand in 2022.
- Office demand in Singapore's CBD has historically been driven by core sectors such as banking & finance, professional services, and energy & shipping. However, there has been an increase in demand from technology, media, and telecom occupiers in recent years due to the rapid growth in technology and digital economy globally. On the other hand, non-core occupier sectors have seen a decline in demand and have gradually moved out of the CBD. Towards the end of 2022, leasing demand from technology firms tapered off in tandem with the sector's slowdown, leading to the emergence of shadow space.
- In the first quarter of 2023, islandwide net absorption increased further to about 226,000 square feet, up significantly from about 97,000 square feet in the previous quarter, with all submarkets recording positive demand except for the Suburban submarket.

1 This refers to the islandwide median gross monthly rent of all office space and is published by URA.
2 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.
3 Source: URA.

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Average CBD Grade A Office Capital Value
S$**3,050** per square foot ↑ **5.2% yoy**
(As at 31 December 2022)

Average CBD Grade A Office Yield
3.3% **Unchanged yoy**
(As at 31 December 2022)

- CBD Grade A capital value rose slightly to S$3,050 per square foot while the yield remained flat at 3.3% as at 31 December 2022 as compared to 31 December 2021 on the back of positive rental growth and tight supply.
- In the first quarter of 2023, CBD Grade A office capital value and yield remained flat due to limited transactions as well as the strong holding power and long–term view held by asset owners.
- In spite of the rising interest rate environment in the short term, it is expected that the Singapore market will record moderate capital appreciation of office assets in the medium to long term given the strong occupier demand, rising rental rates and Singapore's strong economic fundamentals.

Office Trends

- Evolving needs of occupiers and industries have led to changes in office locations, facilities, and formats over the years. This includes the rise of flexible workspace formats, decentralised office locations, and emphasis on sustainability and wellness elements in offices. The technology industry boom has also created a new demand driver for Singapore's office sector in recent years, especially with the increasing presence of Asian technology occupiers in the CBD. This demand has however slowed down in 2022.

Office Outlook

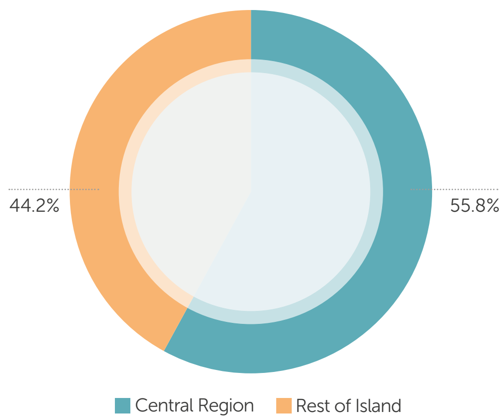
- Weaker economic outlook, inflationary pressures, and rising borrowing costs may make occupiers take on a more cautious approach in 2023, resulting in a slowdown in office leasing demand. As global technology firms continue to consolidate space and reduce headcounts, shadow space is expected to increase further and may become more difficult to backfill.
- Nonetheless, with Singapore's reputation as an international financial hub and safe capital haven, occupiers of other industries may be able to support demand and backfill a portion of the vacated space. These include traditional occupiers from banking and finance, fast-moving consumer goods ("FMCGs"), legal sectors, and increasingly others including family office, asset managers (particularly set-ups from Chinese companies), energy, biotech and hardware companies.
- As significant new supply is expected from 2023 onwards, vacancy rates are expected to edge up islandwide and in the CBD. Coupled with weakened market dynamics, rental rates are expected to increase in 2023 but at a slower pace islandwide and in the CBD.

1.5 Singapore Business Park Market[1]

Existing Business Park Stock
25.6M square feet[2] ↑ **4.3% yoy**
(As at 31 December 2022)

- Singapore's total existing business park stock stood at 25.6 million square feet of NLA as at 31 December 2022, the bulk of which is clustered in selected areas of the Central Region (55.8%) while the remaining is located across the Rest of Island (44.2%).
- 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 is made up of supply in the East Region (which comprises Bedok and Tampines planning areas) and the West Region (which comprises Jurong East and Western Water Catchment planning areas)[3].
- Approximately 1.1 million square feet NLA of net new business park supply was added to the market in 2022. Some key new projects completed in 2022 are CleanTech Three (222,400 square feet), Perennial Business City (62,000 square feet), and Surbana Jurong Campus (55,800 square feet) in the Rest of Island (West Region) submarket[4].

Business Park Stock by Submarket
(As at 31 December 2022)



Source: JTC Corporation, Colliers

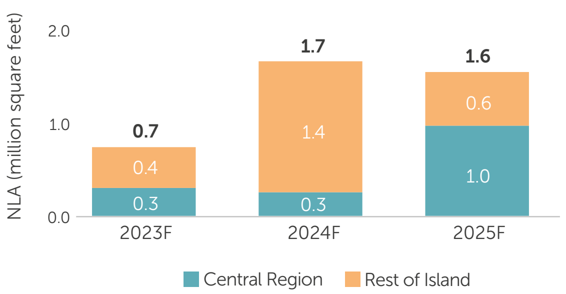
[1] All references to floor area refer to NLA, unless otherwise stated.
[2] Source: JTC Corporation.
[3] Mapletree Business City, owned by MPACT, is located in the Central Region.
[4] Figures do not represent the full project NLA due to phased completions.

Potential Business Park Supply

4.0 M square feet
(From 2023 to 2025)

- Approximately 4.0 million square feet of business park space is expected to be delivered from 2023 to 2025, translating into an average of 1.3 million square feet per year, higher than the past five-year annual average of 0.5 million square feet.
- Overall, the Rest of Island submarket will account for the majority of upcoming business park supply, representing 61.9% of new supply from 2023 to 2025. The Central Region will account for the remaining 38.1%.
- Within the Central Region, Elementum is expected to add close to 0.3 million square feet of new supply in 2023, while 7 Science Park Drive and 1 Science Park Drive are expected to add about 0.3 million square feet and 1.0 million square feet of new supply in 2024 and 2025, respectively, in the Buona Vista/one-north submarkets.

Potential Supply by Submarket



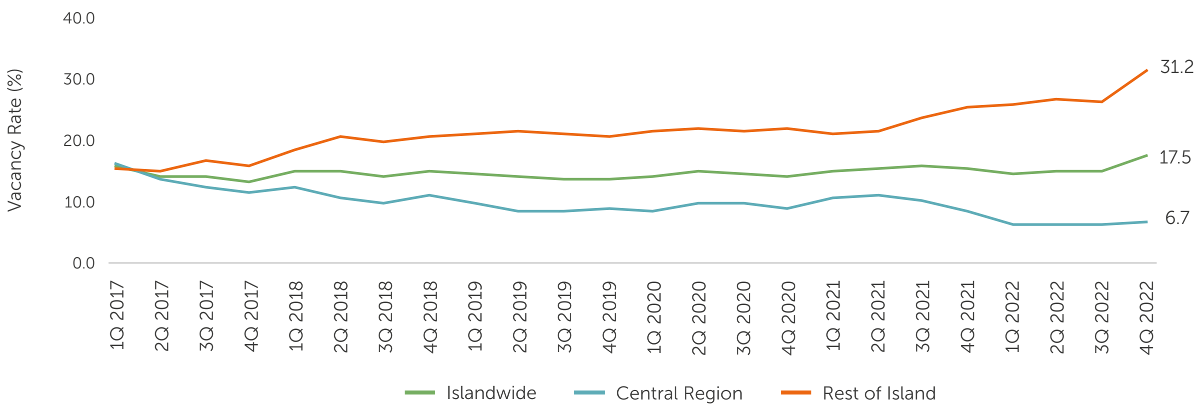
Source: JTC Corporation, Colliers

Business Park Vacancy Rate

17.5%[1] ↑ 2.0 p.p. yoy
(Islandwide as at 31 December 2022)

- Islandwide business park vacancy rate rose 2.0 p.p. from 31 December 2021 to 17.5% as at 31 December 2022, the highest vacancy rate observed since the third quarter of 2016.
- Vacancy rates compressed from 2017 to 2021 on the back of overall tight supply in the market, but rose again in 2022 mainly due to the injection of new business park supply in the market.
- As all the newly completed projects are located in the Rest of Island, vacancy rates for this submarket increased the most to 31.2% as at 31 December 2022, the highest vacancy level observed over the past seven years. Particularly in the West Region, where CleanTech Three, Perennial Business City and Surbana Jurong Campus are located, vacancy rates climbed to 39.3% as at 31 December 2022.
- On the other hand, the Central Region recorded its lowest vacancy rate in seven years, closing 2022 at 6.7%. Supply has been tight for the Central Region submarket and most of the newly completed projects in the past three years were built-to-suit headquarters and facilities.
- In the first quarter of 2023, islandwide business park vacancy rate increased by 1.2 p.p. qoq to 18.7%, largely due to new supply additions in the Rest of Island submarket. The vacancy rate in the Central Region rose to 7.7% but remained considerably lower than historical levels.

Vacancy Rate by Submarket



Source: JTC Corporation, Colliers

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

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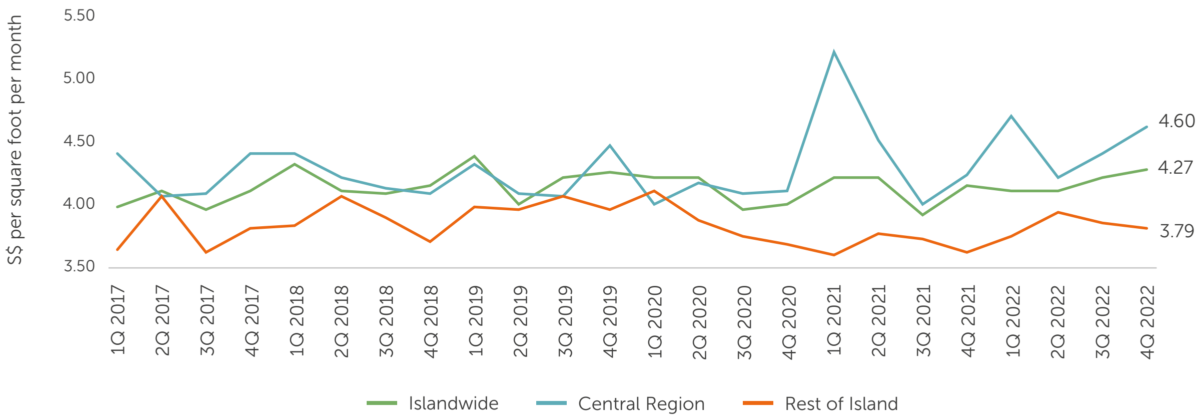
Average Business Park Rent

S$**4.27** per square foot per month[1] ↑ 3.4% yoy

(Islandwide as at 31 December 2022)

- Average islandwide business park rent was S$4.27 per square foot per month as at 31 December 2022, 3.4% higher yoy. Higher rents were partly driven by increased service charges from some landlords as a result of higher operational costs.
- Average rent for the Central Region submarket was S$4.60 per square foot per month as at 31 December 2022, 9.0% higher than 31 December 2021. The sustained rental growth was driven by overall tight vacancy in the region, especially in the City Fringe areas particularly supported by high value-add and knowledge industries coupled with limited supply.
- Average rent in the Rest of Island submarket also grew by 5.3% to S$3.79 per square foot per month as at 31 December 2022, due to improved business park space demand for the year despite the increase in vacancy.
- In the first quarter of 2023, islandwide business park rent increased by 3.0% qoq to S$4.40 per square foot per month, mainly driven by a spike in average rent in the West Region arising from newly completed developments. Rent in the Central Region dipped slightly to S$4.40 per square foot per month but remained comparable to historical levels.

Business Park Rent by Submarket



Source: JTC Corporation, Colliers

Business Park Net Take-up[2]

0.4M square feet[3] ↓ 18.3% yoy

(In 2022)

- Demand for business park space observed a slowdown with islandwide net absorption of about 0.4 million square feet in 2022, mainly due to a fall in demand in the Central Region. This was 18.3% lower than 2021.
- After a year of strong leasing demand from 2Q 2021 to 1Q 2022, the Central Region submarket recorded three consecutive quarters of negative take-up towards the end of 2022. Downturn in the technology sector has impacted business park space leasing during the year, including SEA Group's termination of about 200,000 square feet of business park space at Rochester Commons in Buona Vista/one-north.
- Nonetheless, occupiers of other high-value and knowledge industries had lent some support to leasing demand. The Central Region recorded a net absorption of nearly 0.3 million square feet in 2022 due to a strong take-up at the start of the year.
- The Rest of Island submarket registered its first positive net absorption of approximately 0.1 million square feet in 2022, reversing the overall negative

[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.

[2] 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.

[3] Source: JTC Corporation.

take-up which had impacted the submarket from 2017 to 2021. The introduction of new business park supply including CleanTech Three and Perennial Business City in the West Region had boosted leasing activities in the Rest of Island submarket.

- In the first quarter of 2023, islandwide net absorption reverted to a negative level for the first time since the fourth quarter of 2021 at near -200,000 square feet, with all submarkets recording negative demand except for the Rest of Island (West Region). Weaker business sentiments along with manufacturing output contractions contributed to occupiers' re-evaluation and consolidation of business park space.

Average Business Park Capital Value

S$**1,100** per square foot
(As at 31 December 2022)

Unchanged yoy

Average Business Park Yield

6.2%
(As at 31 December 2022)

Unchanged yoy

- There were no business park transactions in 2022, as business park assets continued to be tightly held by landlords.
- In the absence of business park transactions, there were no direct comparables to revise yields for business parks despite the increase of interest rates. Based on Colliers' valuation metrics, the average net market yield and capital value have remained flat in 2022.
- In the first quarter of 2023, islandwide business park capital value and yield continued to remain flat with no transactional evidence.

Outlook

- Global economic uncertainties have weakened the outlook of outward-oriented sectors including manufacturing industries, and continued layoffs in the technology sector are expected to weigh down demand for business park space in 2023.
- Weakened market dynamics coupled with the remaining new supply to be injected into the market will likely lead to further increase in vacancy levels islandwide, and more significantly in the Rest of Island submarket. Islandwide rents are expected to remain flat or stable with minimal growth in 2023 despite the expected rise in vacancy, as new, good quality business parks will command higher rental rates.
- In the long-run, Singapore's business park market is expected to remain attractive given the government's continued efforts to elevate the country as a leading advanced manufacturing, innovation and research hub with a focus on high-value and knowledge-intensive industries.

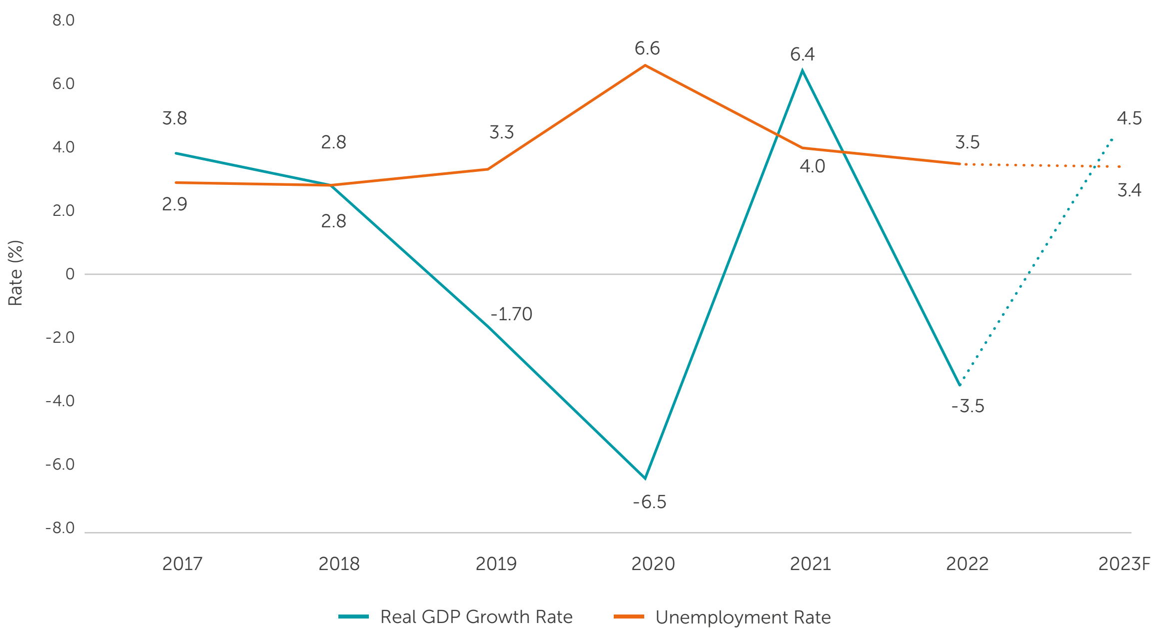
INDEPENDENT MARKET OVERVIEW

Hong Kong

1.1 Economy

- The Hong Kong economy in 2022 was largely impacted by prolonged COVID-19 measures and spillover effects from China's zero-COVID policies. With its borders almost fully closed in the first three quarters of 2022, the hospitality, retail and leisure sectors were the hardest hit. In addition, weakening global demand and higher interest rates hit exports and spending, resulting in a 3.5% yoy contraction of the economy in 2022. A strong Hong Kong Dollar made exports from the city increasingly expensive for trade partners other than the US and potentially contributed to a slowdown in export figures. The weakening trade outlook, Russia-Ukraine conflict and the potential decoupling of China and US also further impacted the economy.
- Due to a considerable net outflow of people, Hong Kong's population recorded a yoy drop of 0.9% in 2022.
- Despite the economic slowdown, the unemployment rate edged down from 4.0% in 2021 to 3.5% at the end of 2022, inching closer to pre-pandemic levels. This was a result of the abolishment of most COVID-19 measures.
- In its latest 2023-24 Budget, the government announced plans to spend HKD250 million on events, with an additional HKD300 million for international meetings, conventions and exhibitions. Hong Kong will also give away 500,000 flight tickets, as well as a welcome pack with vouchers and coupons for 1 million visitors as part of the Hello Hong Kong campaign to revive the economy. With the lifting of the mask mandate from 1 March 2023, Hong Kong is poised to return to normalcy. A new round of consumption vouchers to Hong Kong residents is also expected to boost local consumption in 2023. Overall, Hong Kong's GDP is forecast to grow between 3.5% to 5.5% in 2023.

Real GDP Growth Rate and Unemployment Rate



Source: GDP and Unemployment figures from 2017 to 2022 are from the Census and Statistics Department. GDP forecast figure 2023 is from the Government of the Hong Kong SAR and unemployment rate forecast figure is from the International Monetary Fund.

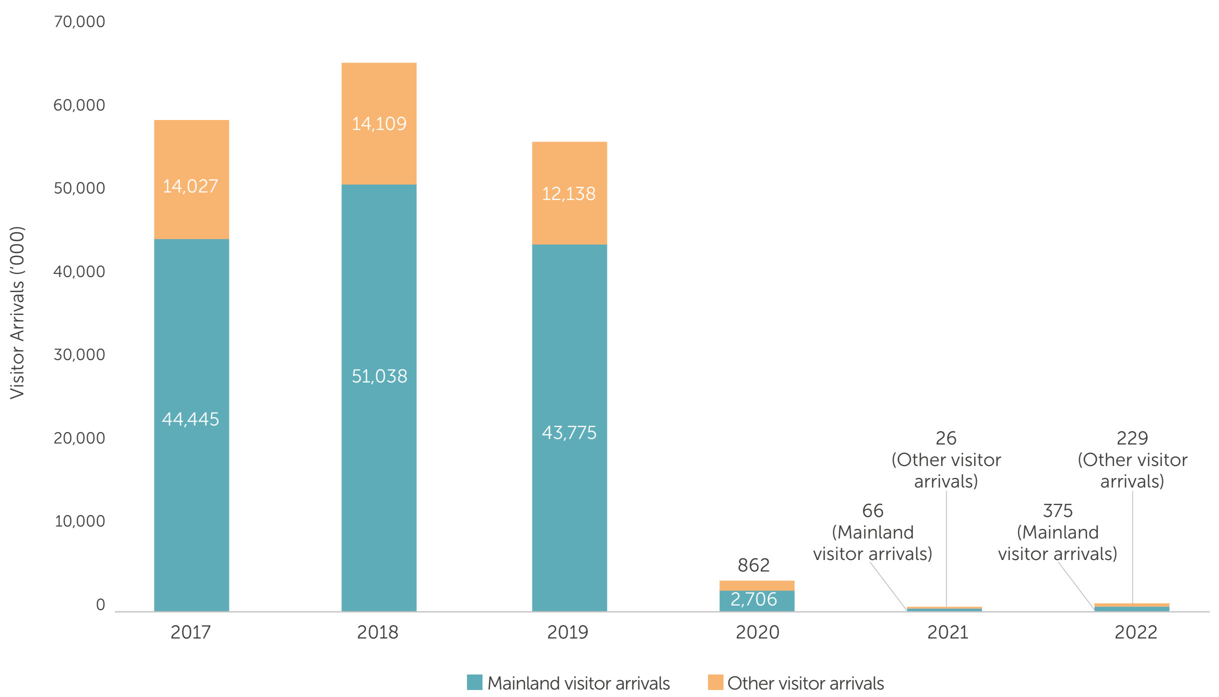
Tourist Arrivals

605,000
(In 2022)

↑ **561.5% yoy**

- Hong Kong's visitor arrival numbers started to recover from 91,398 in 2021 to 604,564 in 2022, mainly due to the relaxation of COVID-19 measures. As a result, a yoy growth of 561.5% was recorded. However, the total number of visitors in 2022 was only around 1% of the visitors in 2019.
- Compared to a low base in 2021, the number of Mainland Chinese visitors rose by 470.8% yoy in 2022 due mainly to the lifting of entry ban on non-residents in May 2022 and the relaxation on quarantine requirements from September to December 2022. With a shift away from 'zero-COVID' in Mainland China and a pent-up desire to travel, the upward trend of Mainland Chinese arrival numbers is expected to continue.
- As visitor arrivals picked up after the re-opening of all cross-border checkpoints with Mainland China and the removal of all COVID-related measures, the total number of visitors of 1Q 2023 was around 4.4 million, recording a qoq growth of 1,144%.

Visitor Arrivals



Source: Hong Kong Tourism Board

INDEPENDENT MARKET OVERVIEW

Total Retail Sales

HKD**350.0**B ↓ **0.8% yoy**

(In 2022)

- Overall, retail sales contracted 0.8% yoy in 2022. Retail sales in the first quarter of 2022 were tepid due to stringent pandemic measures implemented in 1Q 2022. There was an uptick in sales since April 2022 as a result of the gradual relaxation of COVID-19 restrictions and the Government's 2022 consumption voucher scheme to drive local consumption and accelerate the economic recovery.
- However, the re-introduction of quarantine-free travel resulted in Hong Kong residents resuming outbound international travel. Consequently, the uptick in retail sales in 2H 2022 was dampened by the significant number of Hong Kong residents travelling abroad.
- Retail sales increased by 24.1% in 1Q 2023 yoy to HKD102.9 billion. The removal of COVID-19 restrictions in March 2023, re-opening of the border with mainland China, as well as the low base in 1Q 2022 facilitated a significant increase in retail sales, with the cosmeceutical sector emerging as a major demand driver.

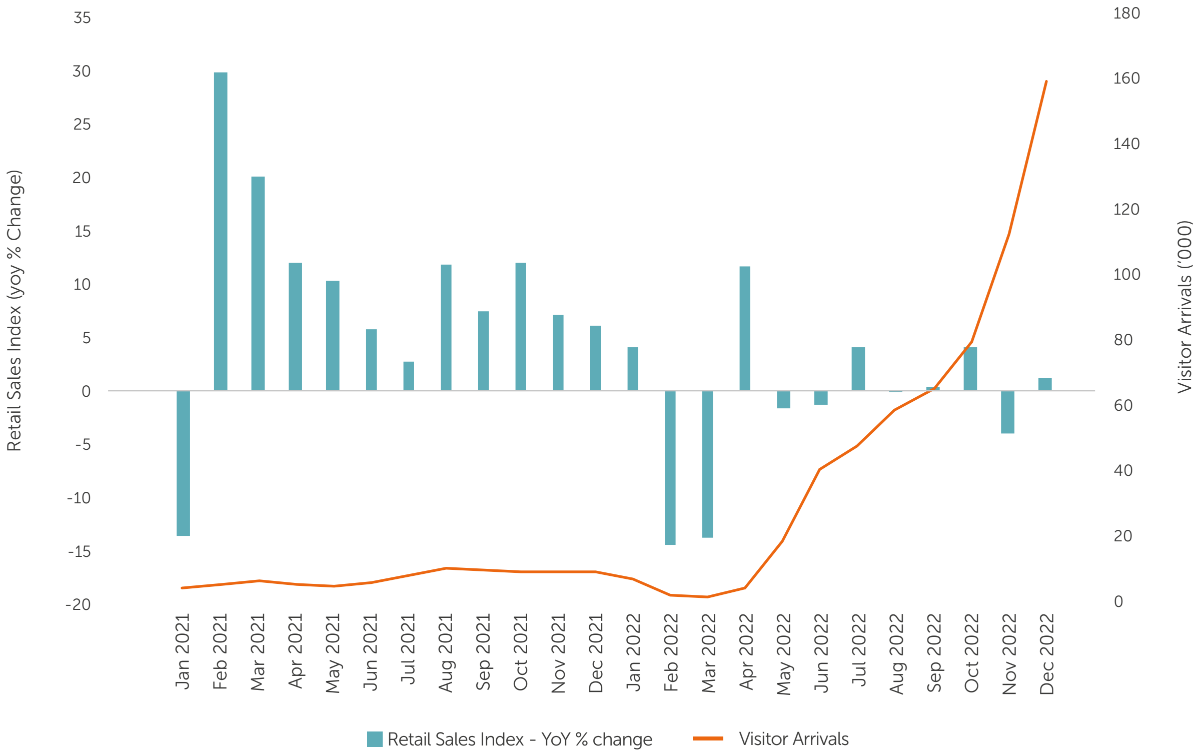
Online Retail Sales

12.0% of Total Retail Sales

(As at 31 December 2022)

- The value of online retail sales increased by 20.7% yoy to HKD34.6 billion in 2022. The proportion of online retail sales also grew from 10.8% as at 31 December 2021 to 12.0% as at 31 December 2022. The increment was mainly driven by a new series of consumption vouchers, which were also valid for online spending, and the online shopping habits that developed during the pandemic.
- In response to the online shopping trend and decreasing footfall during the pandemic, shopping malls launched incentive loyalty programmes with exclusive discounts and reward systems, and also provided pick-up lockers.
- The proportion of online sales dropped by 4.1 p.p. yoy to 7.6% in 1Q 2023. The cancellation of all COVID-19 restrictions encouraged consumers to return to in-person shopping and social activities, leading to a shift back to physical shopping.

Retail Sales Index (yoy Change) and Visitor Arrivals



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

1.2 Hong Kong Retail Market[1]

Existing Shopping Mall Stock

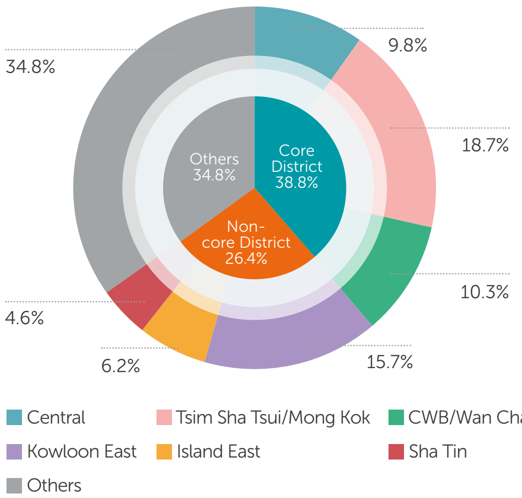
125.9M square feet[2] ↑ **0.7% yoy**

(As at 31 December 2022)

- 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.
- The core districts constitute around 38.8% of Hong Kong's retail stock while the non-core districts take up 26.4% of Hong Kong's retail stock, respectively.
- Retail shopping mall new supply in 2022 was around 1.3 million square feet, with Airside in Kai Tak, The Wai in Sha Tin, The Millennity in Kwun Tong, YOHO Mix and One North in Yuen Long obtaining their occupation permits. As of 1Q 2023, these shopping malls were still in their pre-leasing stage, with targeted grand opening dates in 2H 2023.

Retail Stock by Submarket

(As at 31 December 2022)



Source: Rating and Valuation Department, Colliers Research

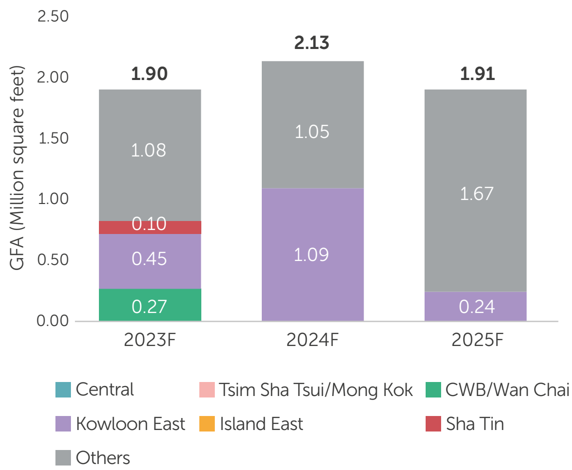
Potential Shopping Mall Supply

5.9M square feet[4]

(From 2023 to 2025)

- About 1.9 million square feet of new retail space is due to enter the market in 2023. New supply is mostly from newly developed areas such as SOGO Kai Tak Phase 1 in Kai Tak and 11 Skies (Retail Portion – Phase 1) in Chek Lap Kok.
- With 1.1 million square feet, Kowloon East has the lion's share of potential retail supply in 2024, with most of the supply concentrated in Kai Tak. However, considering the strong pipeline of residential developments in Kowloon East including CK Asset's NKIL 6604 and NKIL 6649, retail shopping malls in Kowloon East including Festival Walk are forecasted to benefit from a population inflow in the catchment areas.

Potential Supply by Submarket



Source: Rating and Valuation Department, Colliers Research

1 All data and figures on the retail market are from Colliers International (Hong Kong) Limited and relate to the six key retail districts as defined on this page, unless otherwise stated. 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.
4 According to the Buildings Department's Monthly Digest, Occupation Permit (OP) has been issued for The Arles (The Mall). As this building has not announced its official opening date, we have included the area of The Arles (The Mall) in the calculation of the potential supply for 2023.

INDEPENDENT MARKET OVERVIEW

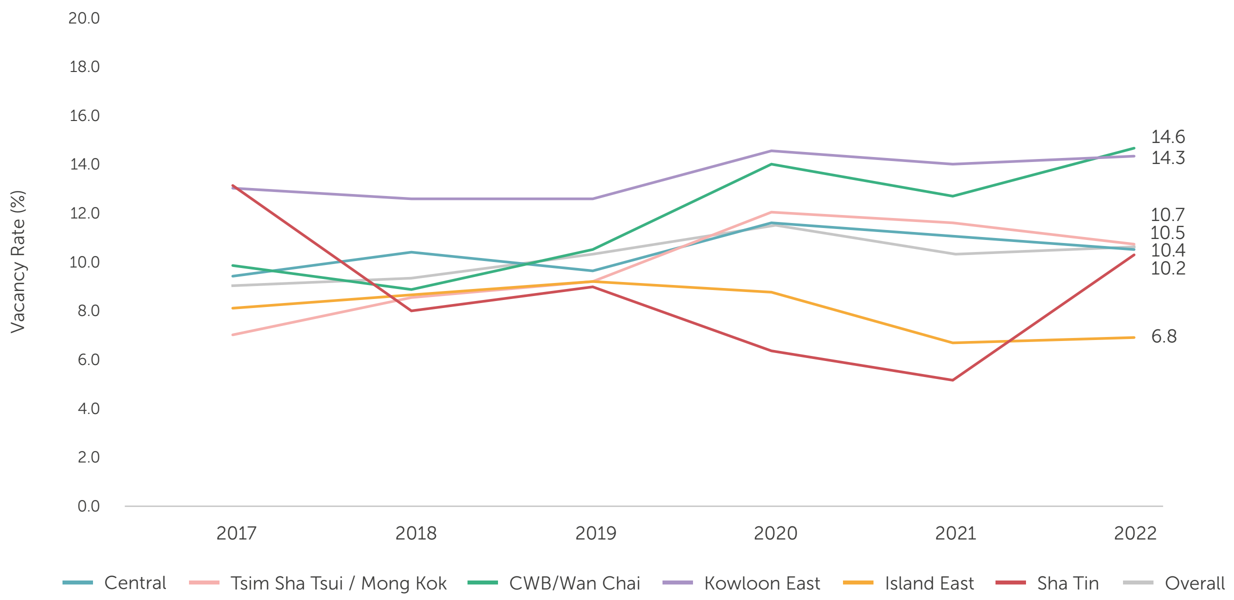
Retail Vacancy Rate

10.5%[1] ↑ **0.3 p.p.**

(Overall as at 31 December 2022)

- Vacancy rates in the first half of 2022 were severely impacted by the 'Fifth Wave". As a result, although there was a slight improvement in vacancy rates in the second half of 2022 with a marginal recovery in demand, the overall retail vacancy rate still increased by 0.3 p.p. to 10.5% at the end of 2022.
- While the overall retail vacancy rate went up by 0.3 p.p. yoy, prime shopping malls in the core districts fared slightly better, driven by the easing of pandemic-related restrictions and an increase of incentives offered by landlords.
- Supported by an improved local retail demand in the aftermath of the "Fifth Wave", the vacancy rate of retail properties in Kowloon East increased only 0.3 p.p. yoy to 14.3%.

Vacancy Rate by Submarket



Source: Rating and Valuation Department, Colliers Research

Average Shopping Mall Rent[2]

HKD**279** per square foot per month ↓ **4.2% yoy**

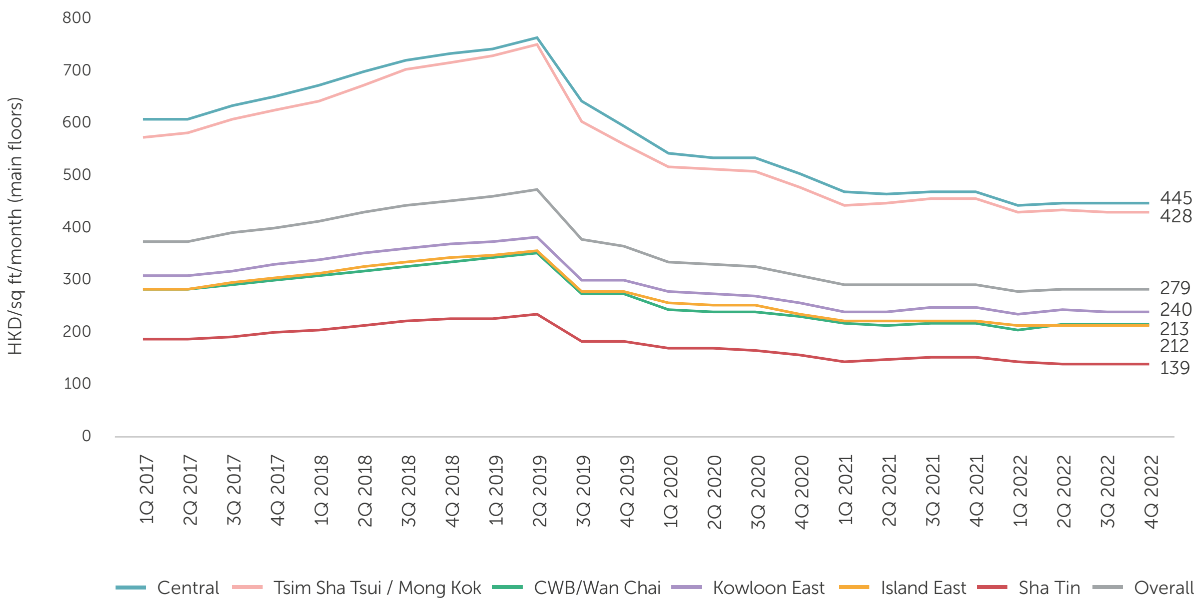
(Overall as at 31 December 2022)

- Removal of restrictions on public gatherings, social activities and dining-table headcounts stimulated consumers' appetite for spending and led to increased footfall, which helped to partially stabilise rents. However, the "Fifth Wave" and its adverse effects outweighed these measures and together with an increase in rent-free periods offered weighed on effective shopping mall rents across all key submarkets, resulting in a 4.2% yoy drop in 2022.
- The full resumption of cross-border travel, abolishment of the remaining pandemic measures and the announcement of a new round of consumption vouchers in 1Q 2023 helped boost market sentiment. As a result, overall shopping mall rents increased by around 2.2% qoq.

[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.

[2] Refers to the 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.

Retail Rent by Submarket



Source: Rating and Valuation Department

Leasing Demand

- Due to COVID-19 restrictions, retail demand remained soft at the beginning of 2022. However, leasing momentum in core districts recovered slightly from the second quarter of 2022 as some COVID-19 restrictions were gradually eased and key international brands sought new leases or relocated to core districts.
- Despite the anticipated return of tourists which helped boost leasing demand, tenants in shopping malls retained a cautious outlook as increasing numbers of Hong Kong locals headed abroad following the relaxation of COVID-19 regulations.
- In 1Q 2023, leasing demand came primarily from pharmaceutical and F&B due to improved local consumption and anticipated demand from Mainland Chinese tourists.

Average Retail Capital Value[1]

HKD**33,288** per square foot
(As at 31 December 2022)

↓ **17.5% yoy**

Average Retail Yield[1]

2.6%
(As at 31 December 2022)

↑ **0.1 p.p. yoy**

- Average capital value dropped 17.5%[2] yoy from HKD40,330 per square foot as at end of 4Q 2021 to HKD33,288 per square foot as at end of 4Q 2022, arising from a limited number of transactions with untypically low capital values in Kowloon and the New Territories. Rising interest rates and an uncertain economic outlook led to a decrease in investor demand and a decline in prices.
- Higher interest rates led to a slowdown in transaction activity as the buyer-seller price gap widened. With limited data points, yields only moved up slightly.

[1] Information published by the Rating and Valuation Department includes shopping malls, high street shops and retail podiums across Hong Kong. 2022 data is provisional at this stage.

[2] Due to a limited number of willing sellers, the above information on capital values and net yields was derived from a basket of limited retail transactions and distressed sales in 4Q 2022, which were not entirely representative of general market expectations following the global interest hike cycle. Therefore, the information is for reference only and should be treated with caution before making general conclusions.

INDEPENDENT MARKET OVERVIEW

- The retail sector came into focus after the border re-opening, with individual investors being the majority of the buyers. For the limited transactions that took place in 1Q 2023, capital value increased 20.1% qoq, while the average retail yield expanded by 0.1 p.p. to 2.7%.

Key Retail Trends

- Retailers recognise the need to invest more in digital and e-commerce as online sales grow and will continue to integrate their brick-and-mortar stores with their online presence. Meanwhile, landlords will seek to enhance the offerings to support hybrid shopping models by providing self-collection lockers at carpark receptions and near the concierge. Loyalty programmes and free carparking promotions will also be used to attract more footfall.
- Local consumption will remain a significant driver for the market in the first half of 2023, buoyed by the disbursement of HKD5,000 consumption vouchers by the Government. In the second half of 2023, a more noticeable retail demand is expected from Mainland Chinese tourists. Premium lifestyle & accessories, health-related trades and the family entertainment sector will continue to expand due to strong demand from local shoppers and day-trippers from the Guangdong province. Luxury goods and cosmetics will also pick up gradually.
- A potential shift in Mainland Chinese visitors' shopping patterns, like a focus on essentials and online shopping brought about by the pandemic over the past three years, may paint a new picture of the retail market.

Outlook

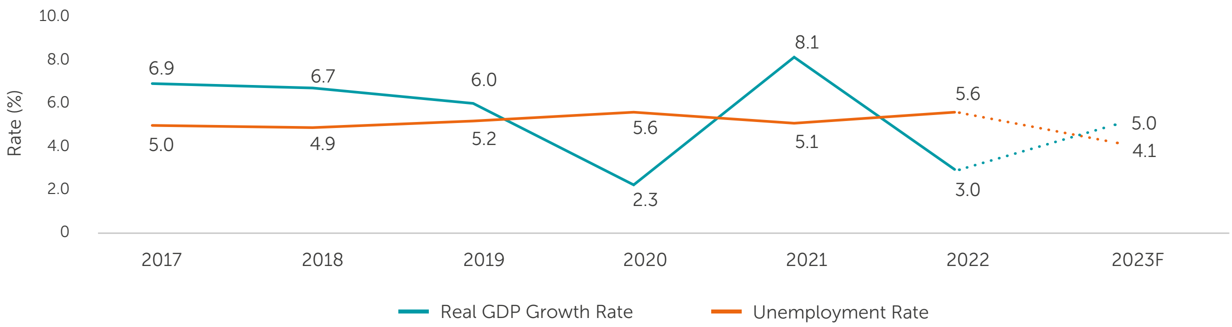
- Approximately 1.9 million square feet of retail supply will enter the market in 2023. However, given improving leasing demand, vacancy rates are expected to gradually decrease as vacant spaces are being absorbed.
- Among the key retail districts, Kowloon East will be the main area for potential supply, in particular Kai Tak. Shopping malls will have to be creative in trying to draw footfall to their premises and stand out against competitors. A considerable population influx with a number of new residential developments should lend support to the retail landscape in Kowloon East.
- Despite the border reopening in January 2023, a more noticeable recovery is only expected from 2H 2023. This is because most of the initial visitors will be Mainland Chinese day-trippers from Guangdong, whose retail demand is primarily focused on groceries and convenience goods. As a result, areas close to the border will benefit first. Core retail districts are expected to benefit from the arrival of overnight visitors from 2H 2023.
- Renminbi has weakened against the Hong Kong Dollar as a result of rate hikes by the US Federal Reserve. While a narrowing currency differential could potentially hurt luxury retail sales, the impact on total retail sales is expected to be mild. After deducting price factors, a 2.9% yoy growth in disposable income per capita in Mainland China was recorded in 2022. The pent-up desire to "revenge-travel" and an increase in disposable income are expected to benefit Hong Kong retail sales in the longer term, should the Mainland visitors return.
- With the end of the pandemic and the return of overseas and Mainland visitors, retail rents are expected to increase in 2023 from a low base. Core retail and tourist districts, namely Central, Causeway Bay/Wan Chai and Tsim Sha Tsui / Mong Kok, will be the main beneficiaries of the border reopening and their rents are expected to outperform other submarkets. On the other hand, neighbourhood districts will likely see more moderate growth backed by local consumption demand.

China

1.1 Economy

- Largely affected by the pandemic and its strict "zero-COVID" policy, economic activities were adversely disrupted in 2022. China's GDP grew at the second slowest pace since 1976 at 3.0% yoy in 2022, 5.1 p.p. down yoy and lower than the 5.5% annual target.
- Subdued consumer demand as a consequence of stringent COVID-19 measures, and a significant drop in China's real estate sector resulted in a stable inflation rate of 2.0%. This translated to a yoy increase of 1.1 p.p. from the low base of 2021.
- The "zero-COVID policy" continued to impact China's labour market. According to the National Bureau of Statistics, urban unemployment increased by half a p.p. yoy to 5.6%.
- The abolishment of China's strict COVID-19 protocol and the opening of its borders on 8 January 2023 are expected to help enterprises and residents resume work and production, and boost economic output.
- However, global economic headwinds such as rising interest rates, the continuation of the war in Ukraine, and tense Sino-US relations are expected to weigh on China's recovery. Consequently, the Chinese government announced a relatively moderate GDP growth target of around 5% for 2023.

Real GDP Growth Rate and Unemployment Rate



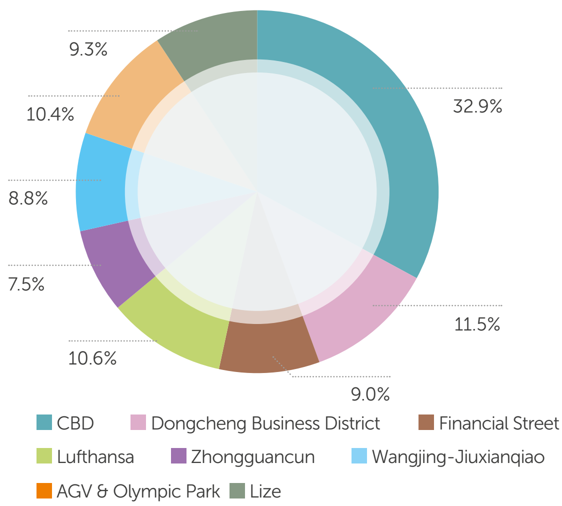
Source: National Bureau of Statistics, Colliers Research[1]

1.2 Beijing Office Market

Existing Grade A Office Stock
10.8 M square metres ↑ **0.6% yoy**
(As at 31 December 2022)

- Beijing comprises eight major office submarkets – the Central Business District ("CBD"), Beijing Financial Street ("BFS"), Zhongguancun ("ZGC"), the Dongcheng Business District[2], Lufthansa, Wangjing-Jiuxianqiao, Asian Game Village ("AGV") & Olympic Park and Lize.
- As at 31 December 2022, the CBD dominated the market with 32.9% (approximately 3.5 million square metres) of the Grade A office stock. The remaining Grade A office stock was split between other major submarkets, with Lufthansa contributing about 10.6%.

Grade A Office Stock by Submarket
(As at 31 December 2022)



Source: Colliers Research[1]

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

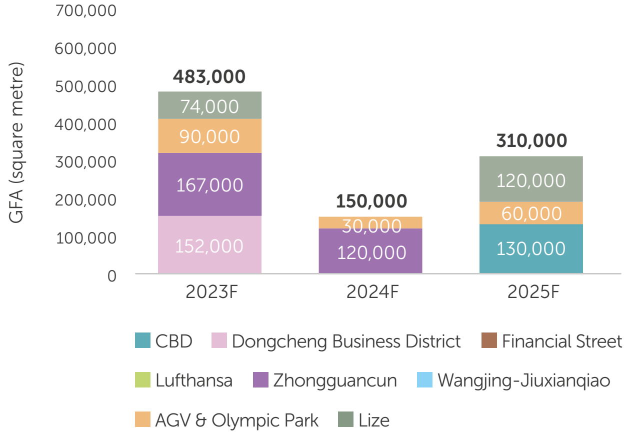
- With an average new supply of 750,000 square metres per year, the city's Grade A office stock has grown to 10.8 million square metres in 2022.
- New office supply was limited in 2022. The only new development, Xiaoyun Road No. 33 in Lufthansa, was launched in 1Q 2022, adding around 65,000 square metres. All projects with an expected completion date in 2Q-4Q 2022 were postponed due to stringent COVID-19 measures and lockdowns.

Potential Grade A Office Supply

0.9M square metres
(From 2023 to 2025)

- With the completion of previously postponed projects in 2023, the market is expecting a short term supply peak of around 483,000 square metres. However, new supply in 2024 and 2025 is set at around 150,000 square metres and 310,000 square metres, respectively. The slowdown in new supply in 2024 and 2025 is expected to ease supply pressures from the market that is facing a surplus of stock in 2023.
- In the next three years, Zhongguancun will add around 287,000 square metres of new space. Completions in the CBD will add 130,000 square metres. AGV & Olympic Park will add 180,000 square metres, Dongcheng Business District around 152,000 square metres and Lize 194,000 square metres. However, no new supply is due in Lufthansa in the near future.

Potential Supply by Submarket



Source: Colliers Research

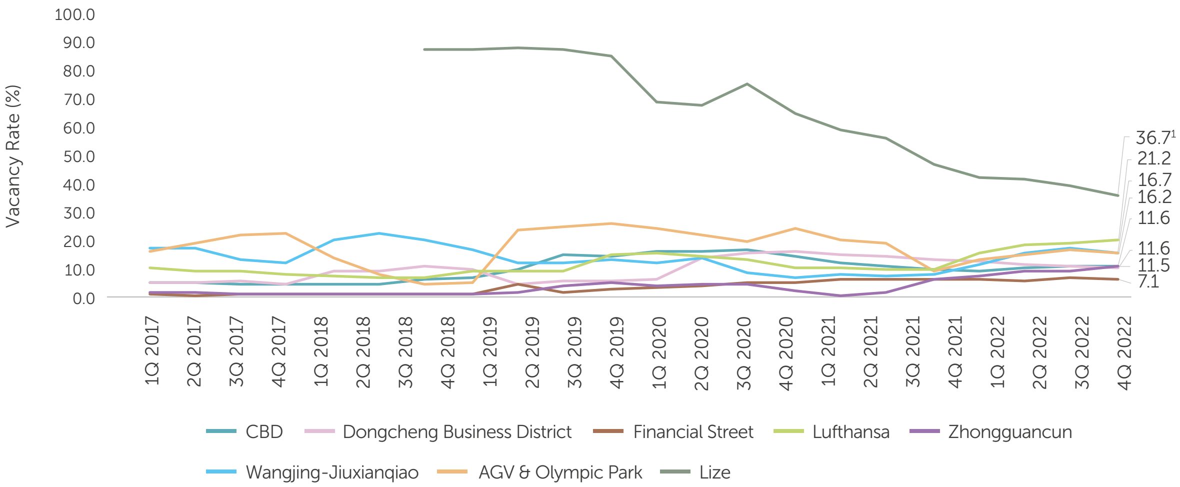
Grade A Office Vacancy Rate[1]

16.0%
(Overall as at 31 December 2022)

↑ **0.9 p.p. yoy**

- As at 31 December 2022, the vacancy rate of Beijing's overall Grade A office market was 16.0%, up 0.9 p.p. yoy. The increase was moderate due to delayed new projects and a slight pick-up in leasing activities towards the year-end, as COVID-19 measures were removed and economic activities partially resumed.
- Affected by strict lockdowns in large parts of Chaoyang in the early part of 2022, Lufthansa's vacancy rate spiked 10.8 p.p. yoy to 21.2%. The completion of Xiaoyun Road No. 33 in Lufthansa further weighed on the district's occupancy rate.
- For 1Q 2023, the overall vacancy rate increased by another 0.9 p.p. qoq to 16.9% due to the changes in space requirements by internet companies.

Vacancy Rate by Submarket



Source: Colliers Research

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

Average Grade A Office Rent[1]

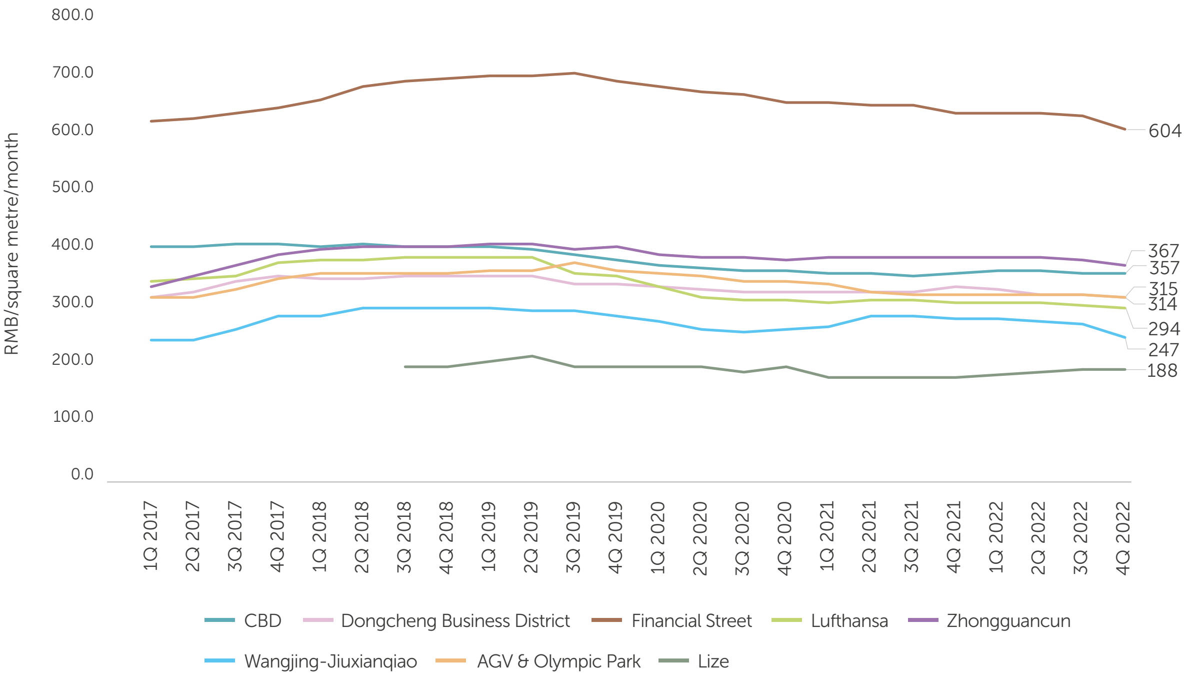
RMB**331** ↓ 2.7% yoy
per square metre per month
(Overall Net Effective Rent as at 31 December 2022)

- As a result of strict COVID restrictions for most part of the year, Beijing's office rent retreated by 2.7% yoy.
- Lufthansa's rent decreased 3.6% yoy to RMB294 per square metre per month and has been declining since 2019, now almost back to 2016 levels.

The decline in rent was also due to the supply of new Grade A office buildings in neighbouring submarkets such as the CBD. Consequently, landlords of existing properties in Lufthansa were pressured to lower their rents to both retain tenants and attract new ones.

- In 1Q 2023, overall rent dropped by 0.7% qoq to RMB329 per square metre per month due to insufficient demand, oversupply and rising vacancy rates caused by tech companies adjusting their space requirements. Wangjing-Jiuxianqiao and Zhongguancun experienced the largest declines in rent, down 2.5% and 1.4% qoq, respectively.

Grade A Office Rent by Submarket



Source: Colliers Research

Office Net Take-up[2]

-0.06M square metres
(Overall in 2022)

From 1.1 m square metres

- Beijing's net take-up in 2022 was negative at -62,850 square metres, with most demand still coming from finance and professional services companies. The tech sector, one of the key demand drivers in previous years, reported weak demand.
- With companies implementing cost-optimisation measures including reducing office space, 2022's net take-up was down by 1.2 million square metres yoy.
- Lufthansa's net take-up in 2022 was negative at around -65,000 square metres due to COVID-19 restrictions, space adjustments by internet companies and multinational corporations ("MNC"), competition from new supply in the CBD and lowering rental levels in Wangjing-Jiuxiangqiao.

[1] Data for Lize's Grade A office rent is only available after 3Q 2018 as it is a newly developed office submarket.
[2] Net take-up is the sum of space that became occupied during the year minus the sum of space that was vacated over the course of the year.

INDEPENDENT MARKET OVERVIEW

- Net take-up in the Beijing Grade A office market turned negative again in 1Q 2023 at around -58,000 square metres due mainly to tech companies surrendering spaces.

Key Office Trends

- The pandemic has had an adverse impact on office demand, especially from internet technology companies.
- Occupiers prioritised cost optimisation and efficiency enhancement. In a tenant-favoured market, properties with better specifications performed better than older, low-specification buildings, which saw more significant declines in occupancy and rental levels.

Average Grade A Office Capital Value

RMB**73,239** per square metre
(As at 31 December 2022)

↑ **4.2% yoy**

Average Grade A Office Gross Yield

4.5%
(As at 31 December 2022)

↓ **0.3 p.p. yoy**

- Capital value rebounded by 4.2% to RMB73,239 per square metre in 4Q 2022 from a low base a year ago. Although this followed the slight increase in 2021, prices remained below pre-COVID levels.
- The increase in capital value was supported by a slight decline in China's benchmark interest rate in August 2022, which was in contrast to most markets globally where interest rate hikes were prevalent. This was however partially offset by a decline in rental levels. Consequently, the average yield compressed by 0.3 p.p.
- In 1Q 2023, average capital value of transacted office buildings in Beijing picked up slightly by 1.4% qoq following the reversal of the country's "zero-COVID" policy. The gross market yield further compressed to 4.4% due to declining rents and increasing capital values.

Outlook

- Economic activities are expected to recover with the return of nearly all employees to work and a shift away from the "zero-COVID" policy. This in turn is expected to enhance businesses' appetite for expansion and boost office demand in Beijing. Despite these positive signs, macroeconomic headwinds remain due to financial distress of a number of real estate companies, an ageing and declining population, and recession fears of China's important trade partners which could dampen the country's exports.
- With the supply of new high-specification Grade A office space in the CBD, the CBD submarket is expected to outperform others with regards to net take-up. However, Lize, with its significantly lower rents, is likely to remain a popular destination for high-tech companies looking to reduce their overheads.
- Occupancy rates and rents in Lufthansa are expected to remain under pressure due to the space adjustment of internet companies and MNCs, and new supply of office space in neighbouring submarkets. Lufthansa is situated between the CBD and the Wangjing-Jiuxianqiao submarkets. The completion of the south area of the Zhongfu Plot in 2025 in the CBD and lower rental levels in Wangjing-Jiuxianqiao may weigh on Lufthansa's office market performance in the short term.
- During China's "Two Sessions" in March 2023, President Xi underlined the need to optimise the environment for private enterprises, stressing the importance of incorporating equal treatment requirements for state-owned and private enterprises into the system and the law. The State Council further emphasised innovation in science and technology, financial regulation and the digital economy. These measures can potentially support businesses and drive office demand in Beijing by creating a more supportive and equal business environment.

1.3 Shanghai Business Park Market[1]

Existing Grade A Business Park Stock

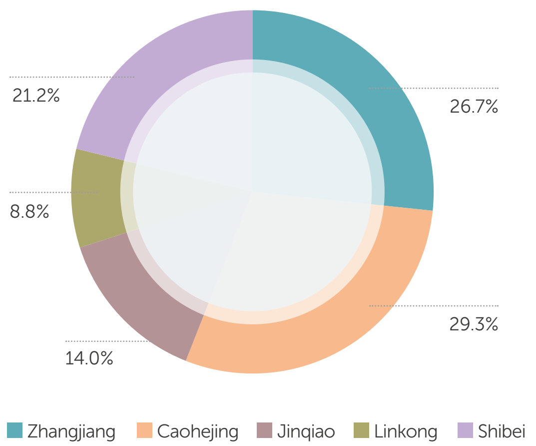
10.9M square metres[2] ↑ **5.0% yoy**

(As at 31 December 2022)

- As at 31 December 2022, Shanghai's five core business park submarkets, Zhangjiang Science City[3] ("Zhangjiang"), Caohejing, Jinqiao, Linkong, and Shibei accounted for 10.9 million square metres of GFA of Shanghai's business park total stock, increasing 5.0% yoy.
- With 3.2 million square metres and 2.9 million square metres of business park stock, respectively, Caohejing (29.3%) and Zhangjiang (26.7%) accounted for the majority of Shanghai's business park stock.
- A total of around 513,500 square metres of new business park space was completed in 2022. Of the total supply, three properties with an aggregate of over 67,000 square metres, namely ZTE Phase III (2Q 2022, 26,000 square metres), Qingshe Microelectronics Port Building 6 (4Q 2022, 12,000 square metres) and Pinyu Zhangjiang Jiabao Biomedical Industrial Park (4Q 2022, 29,600 square metres), are located in the submarket of Zhangjiang.
- In 1Q 2023, a total new supply of about 145,000 square metres was completed in Shanghai's five core business park submarkets. As a result, the existing stock of the five core business park submarkets increased by 1.3% qoq to 11.0 million square metres.

Business Park Stock by Submarket

(As at 31 December 2022)



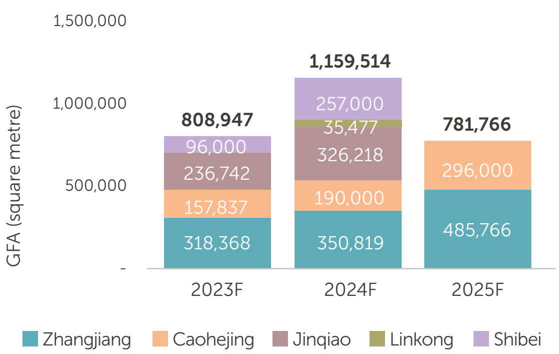
Potential Business Park Supply (2023-2025)

2.8M square metres

(From 2023 to 2025)

- About 2.8 million square metres of business park space supply across the five core business park submarkets are forecast to enter the market between 2023 and 2025, averaging about 920,000 square metres per year. This figure is higher compared to 2018-2022's annual average of 721,000 square metres as delayed projects in 2022 are expected to be completed in 2023.
- Zhangjiang, with around 1.2 million square metres of new space entering the market between 2023 to 2025, will remain the key supply driver. New projects include several small- to medium-scale developments developed and held by local state-owned enterprise platforms, such as the Information Technology Industry Platform (152,000 square metres) in 2023, The Gate of Science 57-01 (171,000 square metres) in 2025, and The Gate of Science 58-01 (171,000 square metres) in 2025. This submarket will account for 42.0% of new supply in 2023-2025.
- Caohejing, Jinqiao and Shibei are expected to deliver 23.4%, 20.5% and 12.8% of the future supply, respectively, between 2023 to 2025. Notable projects include Jinke Park (105,000 square metres) in 2023, Golden Union Park Phase II (160,000 square metres), Jinqiao Fifth Centre (165,000 square metres), City of Elite PDP (161,000 square metres), Shibei Yunmenghui (200,000 square metres) in 2024, and Aerospace Science & Technology City Urban Renewal (216,000 square metres) in 2022.

Potential Business Park Supply by Submarket



[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.

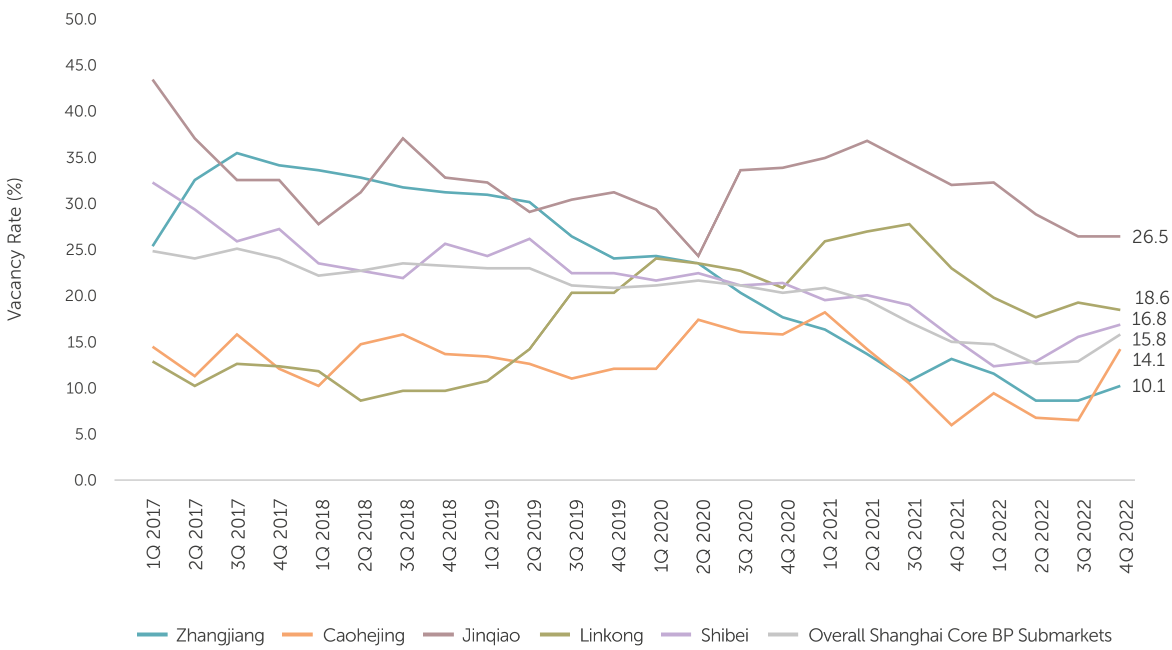
[3] MPACT owns Sandhill Plaza which is located in Zhangjiang.

INDEPENDENT MARKET OVERVIEW

Business Park Vacancy Rate
15.8% ↑ **0.6 p.p. yoy**
(Overall as at 31 December 2022)

- In 2022, the vacancy rate of Shanghai's core business park submarkets increased by 0.6 p.p. yoy to 15.8%. The increase in vacancy rate was due to new supply in 2022, as well as soft leasing demand due to the resurgence of COVID-19.
- Prior to 2019, the vacancy rate in Zhangjiang had soared with an influx of supply. Driven by government policy support, occupiers especially from the biomedical and semiconductor sectors gradually digested the new stock, and the vacancy rate declined and stabilised. Notwithstanding 67,000 square metres of new supply from three completed projects in 2022, there was noticeable demand from biomedical companies. As a result, the vacancy rate in Zhangjiang dropped further by 2.9 p.p. yoy to 10.1% by the end of 4Q 2022.
- Driven by new supply of 145,000 square metres, the vacancy rate of Shanghai's core business park submarkets increased to 16.5% qoq in 1Q 2023. For Zhangjiang, the vacancy rate rose by 0.3 p.p. qoq to 10.4% because of surrendered space by large tenants.

Business Park Vacancy Rate by Submarket



Source: Colliers Research

Average Business Park Rent

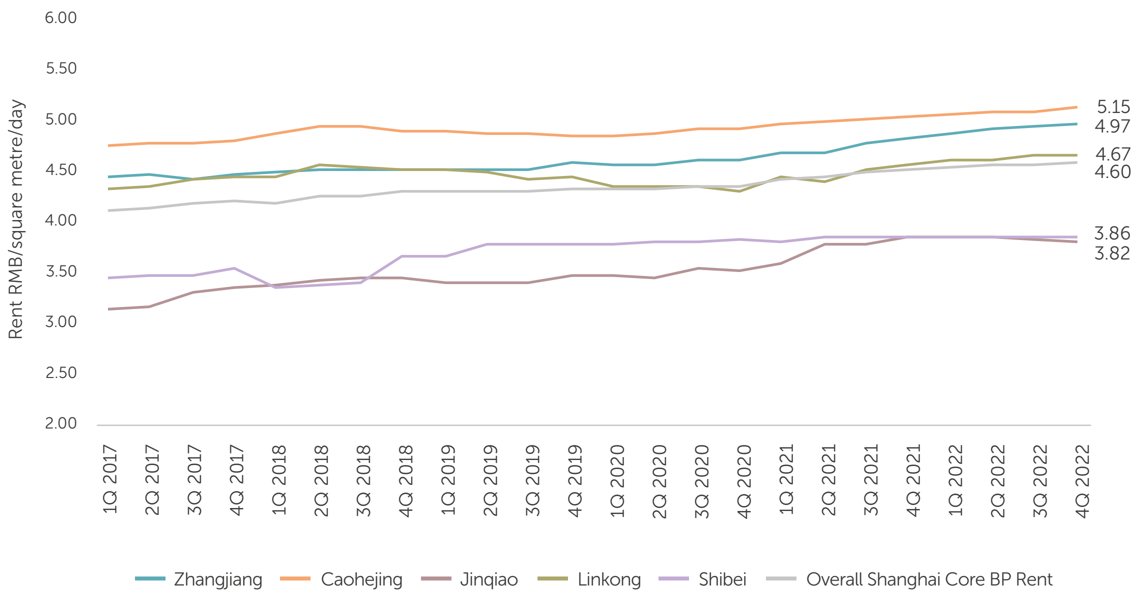
RMB**4.60** ↑ 1.8% yoy

per square metre per day

(Overall Net Effective Rent as at 31 December 2022)

- As the city's semiconductor sector contributed around 25%[1] of the country's nationwide chip value output and the biomedical sector continued to be supported by government initiatives, average rent in the five core business park submarkets registered positive yoy growth for nine consecutive quarters, from 4Q 2020.
- Core business park submarket rent edged up 1.8% yoy to RMB4.60 per square metre per day by the end of 2022. Such growth was registered as new projects with better specifications were able to contract higher net effective rents.
- Driven by higher rents from completed buildings, Zhangjiang's rent increased by 2.9% yoy, while Caohejing saw rent picking up by 2.1% yoy. Rent in Linkong rose 2.2% yoy with better rents from existing projects. Softer leasing demand weighed on Jinqiao and Shibei, which saw rents drop by 1.0% and 0.1% yoy, respectively.
- For 1Q 2023, average rents stayed broadly at the same level as compared to the previous quarter.

Business Park Rent by Submarket



Source: Colliers Research Shanghai Business Park

[1] Source: South China Morning Post

INDEPENDENT MARKET OVERVIEW

Business Park Net Take-up[1]

0.4M square metres ↓ **64.9% yoy**
(Overall in 2022)

- The net take-up in Shanghai core business park submarkets stood at 368,000 square metres by the end of 2022 and declined by 64.9% yoy. Lockdowns in Shanghai in 1H 2022 took a toll on the economy which resulted in delayed leasing plans. While the city-wide lockdown ended in June 2022, sporadic lockdowns of residential complexes continued to impact leasing demand.
- Zhangjiang, Caohejing, Jinqiao and Linkong benefited from strong leasing demand buoyed by the Government's policy support for biomedical, technology and telecommunications and recorded positive net absorption in 2022 in spite of lockdowns. Shibei was the only submarket with negative net take-up in 2022 due to softer leasing demand from the consumer product manufacturing sector.
- Net take-up of Shanghai Business Park in 1Q 2023 moved into positive territory of around 42,000 square metres as compared to -36,400 square metres in 4Q 2022. The positive net absorption was mostly driven by net take-up in Jinqiao as the submarket's favourable rents attracted budget-sensitive tenants. Other submarkets saw less movements qoq with less activities overall.

Key Trends

- Benefitting from government support, the biomedical sector was the major demand driver in Zhangjiang and its share of the total leased space increased by around 5.0 p.p. yoy. The semiconductor sector was also prioritised by the local government to resume business after the Shanghai lockdown. In tandem with the government's taxation support, the sector is expected to continue to be the largest occupier in the Zhangjiang submarket.
- The lifting of "zero-COVID" policies is expected to boost market confidence and lead to a gradual economic recovery. Employees have also largely returned to the office, reversing the trend of flexible working arrangements during lockdowns.
- In the long term, Shanghai and the Central Government are expected to continue to promote the biomedical and tech sectors with preferential measures such as government subsidies and tax breaks, particularly for life sciences and semiconductors businesses. The government's focus on R&D is expected to drive strong demand from the tech sector for business park space.

Average Business Park Capital Value

RMB**37,298** per square metre ↑ **1.8% yoy**
(As at 31 December 2022)

Average Business Park Gross Yield

4.5% **Unchanged yoy**
(As at 31 December 2022)

- Shanghai core business parks' capital value increased 1.8% yoy to RMB37,298 per square metre, while rent rose at the same rate of 1.8% yoy. Therefore, the yield remained unchanged at 4.5% compared to the previous year, but was about 40 bps higher than the pre-pandemic levels in 2019.
- Investors have mainly focused on the core submarkets, especially Zhangjiang, Caohejing and Jinqiao, due to strong rental growth and high liquidity. In the past two years, investment demand for biomedical parks has surged and spilled over to Zhoukang. Looking forward, Pujiang and Waigaoqiao are likely to benefit from the spillover investment demand as they both have a variety of tradable assets and mature biomedical industry clusters.
- As of 1Q 2023, average gross yield remained unchanged qoq as average capital value and average rent were mostly flat.

[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.

Outlook

- In spite of a moderate GDP target set for 2023-2024, China's reopening is expected to help improve 2023's economy, resulting in positive leasing demand and rental growth. Despite the COVID-19 outbreak and the Chinese New Year effect in 1Q 2023, the market is expected to remain relatively stable in the first half of 2023, followed by an improvement in market sentiment in the second half.
- Over 40% of new business park supply from 2023-2025 is concentrated in Zhangjiang, which is expected to push up vacancy rates in the short term. However, in view of continuous demand from the biomedical and tech sectors which are supported by Government policies, new stock is expected to be filled up, leading to a stabilisation of vacancy rates in the mid-term.
- Science and technology firms require specialised devices and environments throughout the R&D, clinical trial and manufacturing stages. In general, business park properties with specially designed amenities for laboratory uses in Zhangjiang are able to accommodate to these needs and tenants are therefore more likely to extend their leases. Coupled with policy support from the government, moderate year-on-year growth in rent in Zhangjiang is expected in 2023.
- Shanghai's "14th Five-Year Plan" covers three pillar industries: integrated circuits, biomedicine, and artificial intelligence, as well as fast-growing tech industries. Zhangjiang was highlighted for its transformation into a world-class science cluster, with specific support from Shanghai's Office for Promoting the Construction of Science and Technology Innovation Centre. Thus, companies in these sectors are expected to remain key demand drivers for Shanghai's business parks.
- The State Council's institutional reform plan focuses on innovation in science and technology, including rebuilding the Ministry of Science and Technology to expedite the distribution of national funds. For the semiconductor industry, it remains to be seen if government support will outweigh US restrictions.

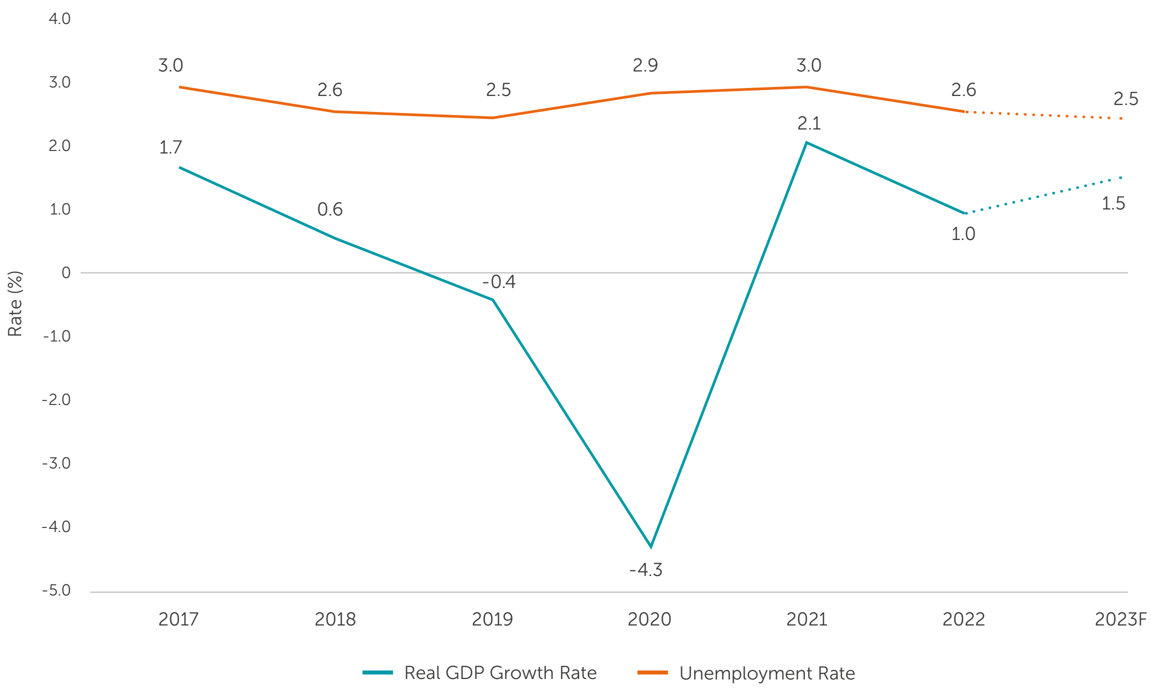
INDEPENDENT MARKET OVERVIEW

Japan

1.1 Economy

- In 2022, Japan's real GDP grew 1.0% yoy, supported by a recovery in domestic leisure consumption, such as eating out and hotel accommodation, and increased foreign visitors' spending. However, GDP growth was limited due to a decline in external demand caused by the global economic slowdown and high commodity prices.
- The Bank of Japan's new governor, Kazuo Ueda, announced that the ultra-low interest rate policy would remain unchanged. Recent inflation was mainly driven by cost-push factors such as rising energy costs rather than demand, and these factors are expected to subside over time. However, some extraordinary easing policies like negative interest rates implemented by the former governor may be terminated.
- Unemployment rate was 2.6% by end-2022, 0.4 p.p. lower yoy.
- Foreign tourist numbers increased faster than expected after travel restrictions eased in October 2022. This is expected to boost the Japanese economy, which is forecasted to grow by 1.5% in 2023. However, the economy will continue to face headwinds from a slowdown in overseas economies due to soaring global commodity prices and tightening monetary policies.

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

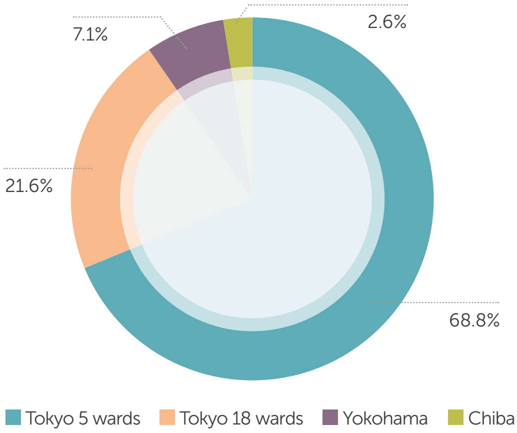
10.2M tsubo ↑ **1.3 % yoy**

(As at 31 December 2022)

- As at 31 December 2022, Tokyo 5 wards[1] accounted for 68.8% of the existing Grade A office stock, with the other 18 wards accounting for 21.6%. The Yokohama and Chiba areas held a relatively small share of 7.1% and 2.6%, respectively. These submarkets make up Greater Tokyo.

Office Stock by Submarket

(As at 31 December 2022)



Source: Colliers

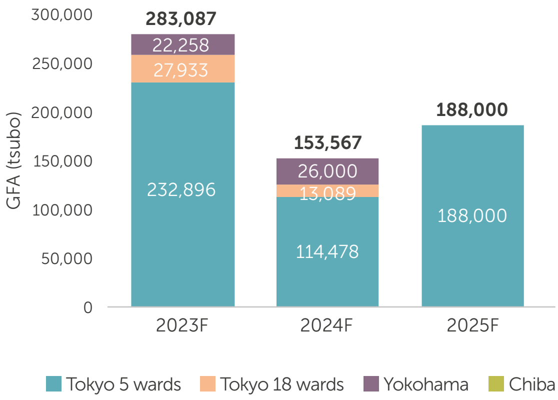
Potential Office Supply

625,000 tsubo

(From 2023 to 2025)

- In 2023, the new supply is expected to be about 283,000 tsubo, the most significant volume for the next three years. In 2024, the figure is expected to drop to 154,000 tsubo, then increase to 188,000 tsubo in 2025.
- Tokyo 5 wards' new supply, which includes large-scale redevelopment projects, will be the largest, accounting for 85.7% of Greater Tokyo's total supply. The remaining 14.3% will be from Yokohama and the 18 outer wards. No new supply is expected in Chiba in the next three years.

Potential Supply by Submarket



Source: Colliers

Office Vacancy Rate

4.8% ↑ **0.7 p.p. yoy**

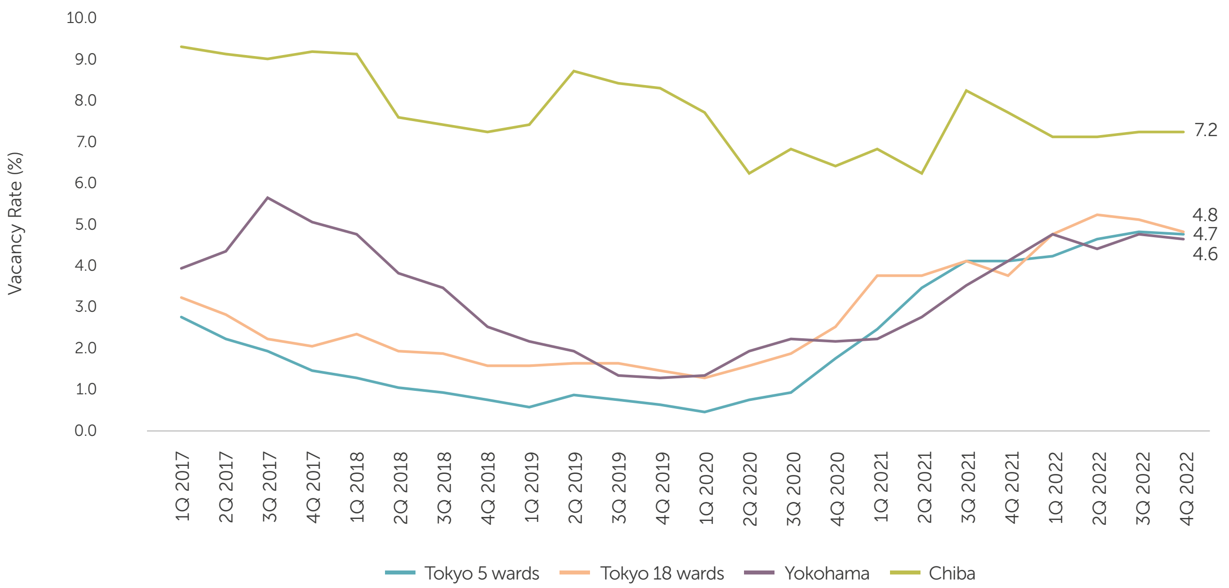
(Overall as at 31 December 2022)

- Vacancies in Greater Tokyo rose by 0.7 p.p. yoy to 4.8% in 2022. This was largely due to higher vacancies in newly completed buildings in Tokyo 5 wards. For Tokyo 18 wards, vacancy was higher at 4.8% from 3.7% a year ago as new supply outpaced demand levels. The slight increase in vacancy in Yokohama from 4.1% a year ago to 4.6% was because Yokohama has a large portion of smaller tenants, which have so far been less active. With an uptick in demand at the beginning of 2022, the vacancy rate in Chiba dropped from 7.7% to 7.2%.
- In 1Q 2023, vacancies decreased slightly in Tokyo 5 wards qoq. Notably, Yokohama saw a significant increase due to new supply. The other submarkets Tokyo 18 wards and Chiba saw a slight increase to 4.9% and 7.7%, respectively.

[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), 1 property in Yokohama (ABAS Shin-Yokohama Building) and three properties located in Chiba (mBAY POINT Makuhari, Fujitsu Makuhari Building and SII Makuhari Building).

INDEPENDENT MARKET OVERVIEW

Vacancy Rate by Submarket



Source: Colliers

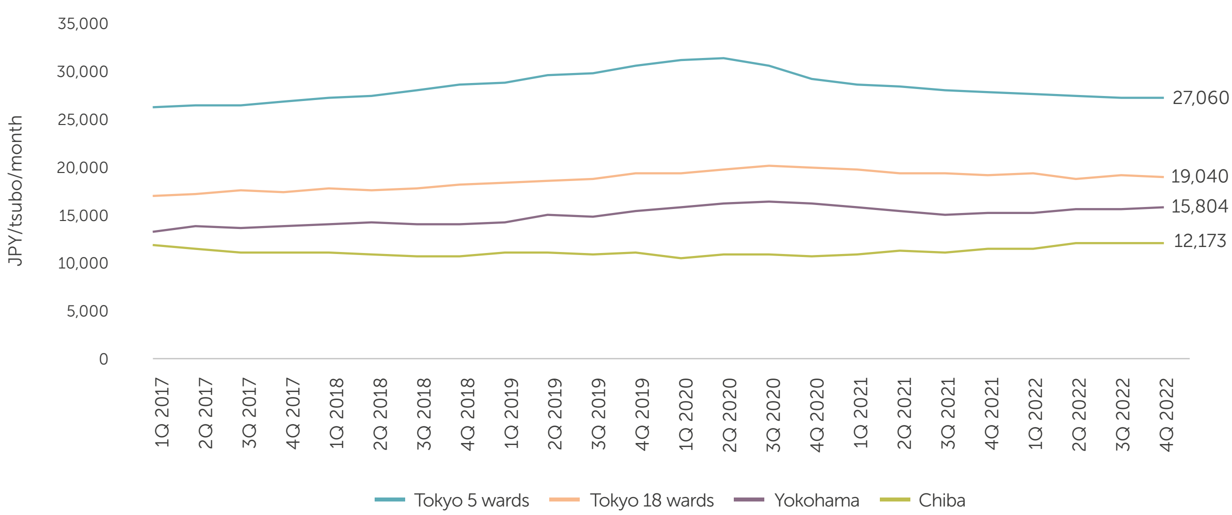
Average Office Rent

JPY**24,151**
per tsubo per month
(Overall as at 31 December 2022)

↓ 1.8% yoy

- For Tokyo 5 wards, the rapid rent decline that began in 2020 moderated in 2022, as occupier demand picked up, allowing for vacancies to be backfilled without significant rental discounts.
- Tokyo 18 wards' rent followed a similar trend, but vacant units were backfilled at lower rents due to subdued demand.
- Rents in Yokohama and Chiba increased slightly yoy, buoyed by a few leasing transactions for higher-grade offices.
- In 1Q 2023, average rents in Tokyo 5 wards and Yokohama increased slightly from the previous quarter, primarily due to new completions. In contrast, rent in Tokyo 18 wards continued to decline due to subdued demand during the same period. A lack of newly supplied, good quality offices with high rent also contributed to the decline in rent for Tokyo 18 wards. Rent in Chiba fell around 4.8% qoq, due to discounts offered for vacant units.

Office Rent by Submarket



Source: Colliers

Office Net Take-up[1]

59,300 tsubo (In 2022) — **From -26,923 tsubo**

- In 2022, net take-up in Greater Tokyo turned positive, indicating a recovery in demand as workers returned to office post-COVID.
- After a negative net take-up in the first half of 2022, demand in Tokyo 23 wards improved in the second half as some large companies resumed relocation plans that had been suspended in the last few years.
- Demand for office space in Yokohama and Chiba is mainly driven by business outposts of Tokyo-based companies. While expansions and pent-up demand partially contributed to the net take-up recovery in 2022, the impact was relatively mild since these tenants occupy small units. Yokohama experienced a steady recovery in demand, with net take-up turning positive. Meanwhile, Chiba remained stable with a low transaction volume.
- Net take-up in 1Q 2023 was positive in the Tokyo 5 wards and Yokohama, with a significant increase of 50,109 tsubo and 16,611 tsubo, respectively, from the previous quarter. The Tokyo Midtown Yaesu development, which was almost fully occupied, boosted net take-up in Tokyo 5 wards. Conversely, the Tokyo 18 wards and Chiba saw a slight decrease in net take-up over the same period due to subdued tenant activity.

Average Office Capital Value

JPY**4,843,000** per tsubo ↑ **6.9% yoy**
(As at 3Q 2022[2])

Average Office Net Yield

3.6% ↓ **0.2 p.p. yoy**
(As at 3Q 2022)

- The pandemic had created uncertainty in the office market in 2021, with concerns about a potential decline in demand for offices. As a result, investors took a more conservative approach, leading to flat capital value and yield in 2021. With the return to office by large parts of the workforce and a sustained low interest rate environment, capital values started to recover in 2022.
- While many other countries hiked interest rates in response to inflationary pressures, the Bank of Japan continued with a negative key short-term interest rate. Consequently, the yield gap became more favourable than in other countries, leading to more competition for office assets and an increase in capital value of 6.9% in 3Q 2022 as compared to 3Q 2021, particularly in Tokyo 5 wards.
- Capitalisation rates have declined slightly over the same period and remained low at 3.6% in 3Q 2022 due to Japan's low interest rates, which were lower than in other major countries.
- In 1Q 2023, average office capital value increased 0.2% qoq and capitalisation rates remained almost unchanged when compared to 3Q 2022. Institutional investors made up majority of the buyers, while J-REITs were the major sellers.

Outlook

- In 2023, new supply is expected to come from large-scale redevelopments in Tokyo 5 wards. Increase in vacancies and stagnant rents are expected for older properties as demand is not likely to keep pace and companies are relocating to new buildings. However, the other areas are not expected to be significantly impacted.
- New supply in Tokyo 18 wards is expected to be limited relative to the amount of existing stock and hence its impact on the market is likely to be minimal. Demand in Yokohama and Chiba mostly comes from Tokyo-headquartered companies' need for branch offices and sales outposts. While the smaller individual tenants in these markets have limited impact on overall market trends, incoming new supply could affect rental levels in Yokohama.
- With increasing uncertainties about the economic outlook, rising inflation and the Bank of Japan's fine-tuning of monetary policy, it is unlikely that capital values will continue to rise at the same pace.
- With macroeconomic uncertainties, leasing demand is likely to slow down. Capitalisation rates are also expected to come under pressure if interest rates increase.

[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] 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.

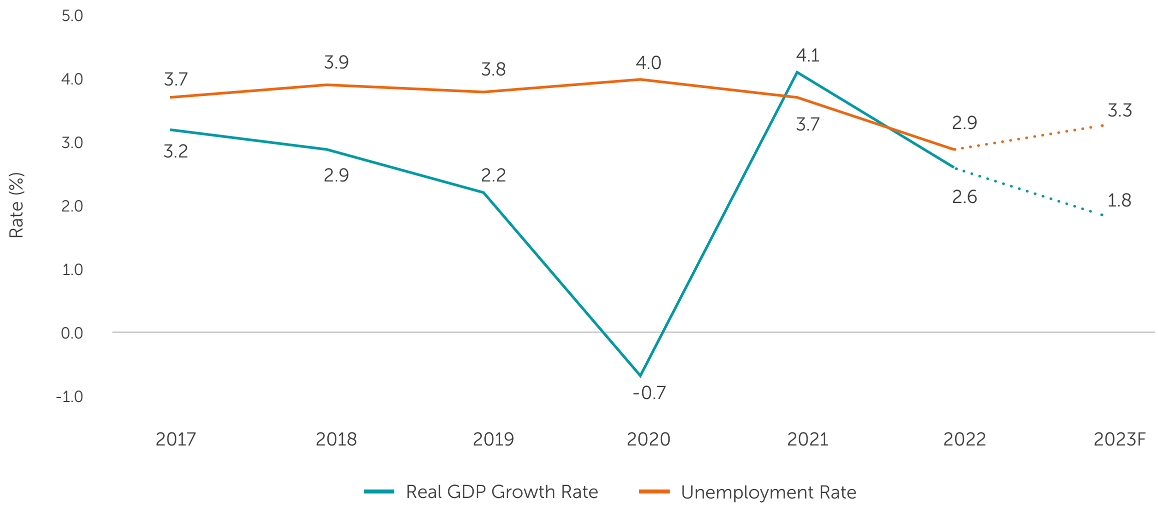
INDEPENDENT MARKET OVERVIEW

South Korea

1.1 Economy

- South Korea recorded GDP growth of 2.6% in 2022 as compared to 4.1% in 2021. While there was revenge-spending post COVID-19 on semi-durable goods (clothes and shoes) and services (accommodation and food services), exports were more subdued on the back of a slowdown in global demand. Higher lending costs in response to the rate hikes also led to higher raw material and freight prices, contributing to a dip in economic growth.
- National unemployment improved by 0.8 p.p. to 2.9% in 2022.
- The Korea Development Institute ("KDI") predicts a GDP growth of 1.8% for 2023. This GDP forecast is based on several factors, including the global economic slowdown caused by the energy crisis and interest rate hikes, the semiconductor industry downturn, and high levels of domestic household debt and inflation.

Real GDP Growth Rate and Unemployment Rate



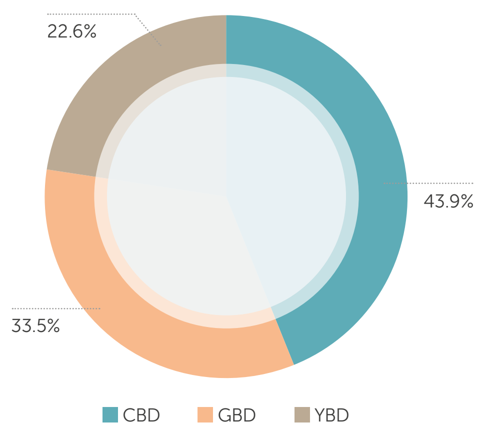
Note: Real GDP and yoy variance represents chained 2015 prices, seasonally adjusted.
Source: KDI, Bank of Korea

1.2 Seoul Office Market

Existing Office Stock
(Within the Three Core Business Districts)
2,686,000 pyeong[1] **Unchanged yoy**
(As at 31 December 2022)

- The Seoul office market comprises three core districts: the Central Business District ("CBD"), the Gangnam Business District[2] ("GBD") and the Yeouido Business District ("YBD"). The GBD is the second largest business district in Seoul. It 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.
- In 1Q 2023, SK D&D Gangnam Station building 'Tiger 318' in the GBD and the Bank of Korea Ancillary Building in the CBD were completed.

Office Stock by Submarket
(As at 31 December 2022)



[1] 1 pyeong = 3.30579 square metres.
[2] MPACT owns The Pinnacle Gangnam which is situated in the GBD.

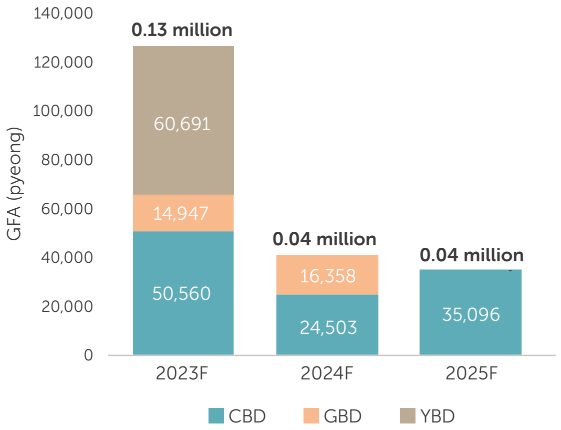
Potential Office Supply

202,000 pyeong

(From 2023 to 2025)

- Approximately 202,000 pyeong of new supply is expected to enter the market in the next three years, resulting in approximately 2.9 million pyeong of office stock in Seoul by 2025.
- In the GBD, the Baekam Building Redevelopment (8,200 pyeong) and Centrepoint Gangnam (8,200 pyeong) are scheduled for completion in 4Q 2024, accounting for 8.1% of potential upcoming office supply in the next three years.

Potential Supply by Submarket



* 2023F supply figure includes office stock that was completed in 1Q 2023

Office Vacancy Rate

(Within the Three Core Business Districts)

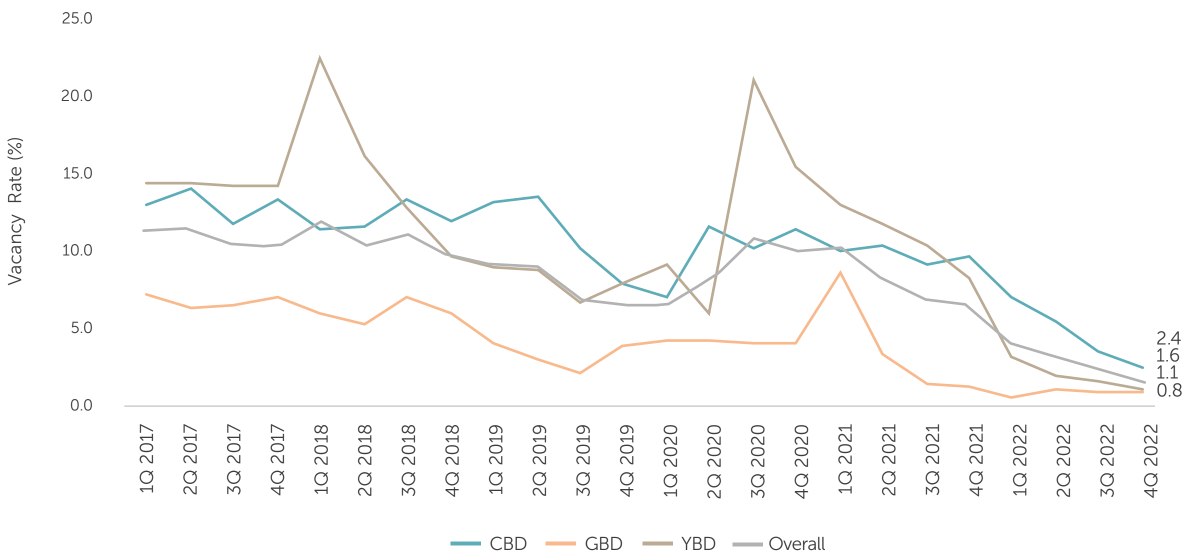
1.6%

4.8 p.p. yoy

(As at 31 December 2022)

- Strong leasing demand for office space continued through 2022. With limited supply during 2022, Seoul's overall vacancy rate dropped to 1.6% as at 31 December 2022 – its lowest since 2010 and down from 2021's 6.4%.
- Global tech companies underwent large-scale job cuts and reduced their investments in start-ups. However, companies were unwilling to reduce their office space despite the job cuts because of the risk of not being able to expand later when the market recovers. Established tech companies sought to expand, while start-ups snapped up space in the GBD. Consequently, the GBD's average vacancy rate reached a record low of 0.8% at the end of 2022, down 0.3 p.p. from 2021.
- With the completion of 'Tiger 318', the vacancy rate in the GBD increased from 0.8% in 4Q 2022 to 2.1% in 1Q 2023. Seoul's overall vacancy rate also increased from 1.6% to 2.3% qoq.

Vacancy Rate by Submarket



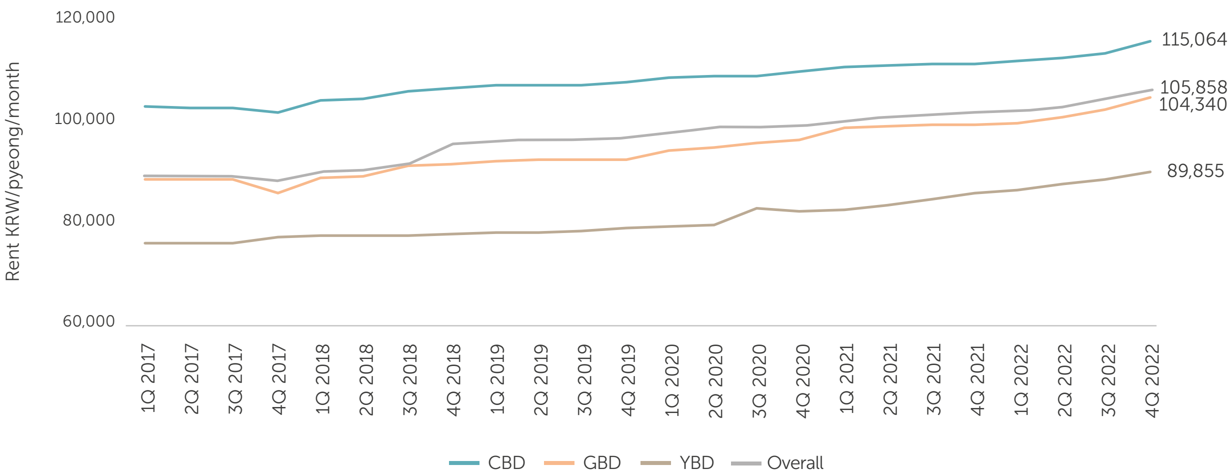
Source: Colliers

INDEPENDENT MARKET OVERVIEW

Average Office Rent
KRW**106,000** ↑ **4.6% yoy**
per pyeong per month
(Overall Net Effective Rate as at 31 December 2022)

- The average net effective rent in the Seoul office market increased 4.6% yoy to about KRW 106,000 per pyeong per month in 4Q 2022 due to limited availability of high-quality office stock and tight new supply. Resulting from a reduction of rent-free incentives, the gap between effective rents and face rents also narrowed.
- The GBD market saw higher growth with a 5.5% yoy increase to about KRW104,000 per pyeong per month by the end of 2022. Manufacturing, banking and finance, IT, software, and technology solution sectors were the key drivers of leasing demand.
- Due to inflationary pressures and new supply of prime office assets, Seoul's overall net effective office rent increased by about 3.1% from KRW106,000 per pyeong per month in 4Q 2022 to KRW109,000 per pyeong per month in 1Q 2023.

Office Rent by Submarket



Source: Colliers

Office Net Take-Up[1]
127,000 pyeong ↓ **15.9% yoy**
(Overall in 2022)

- Overall, Seoul's office net take-up for the year was approximately 127,000 pyeong.
- Net take-up for the GBD submarket remained positive in 2022 at approximately 3,000 pyeong compared to the previous year's 56,000 pyeong, due to tight vacancies leading tenants looking elsewhere for space outside the GBD. In 2022, the CBD and YBD recorded a total net take up of 82,000 pyeong and 42,000 pyeong, respectively, mainly due to limited availability of prime offices in the GBD.
- For 1Q 2023, net take-up turned negative at -14,436 pyeong. This was due to the departure of tenants from CBD offices for scheduled refurbishments. Several tenants in the YBD, for example in Parc 1 Tower and IFC, have surrendered space, leading to a decrease in the net take-up.

Average Office Capital Value
KRW**29.4**M per pyeong ↑ **26.4% yoy**
(As at 31 December 2022)

Average Office Net Yield
4.0% ↑ **0.7 p.p. yoy**
(As at 31 December 2022)

[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.

- With consecutive interest rate hikes by South Korea's central bank, Seoul's office capitalisation rate recorded an expansion to 4.0% as at 31 December 2022, 0.7 p.p. higher than the 3.3% as at 31 December 2021. The shift in investor's return requirements was caused by the increase in lending costs.
- With the buyer-seller price gap widening, the number of transactions was limited towards the end of 2022. Assets that transacted in 4Q 2022 were higher-specification buildings with over 10,000 pyeong in core locations. Hence, there was a 26.4% yoy increase in capital value as at 31 December 2022 compared to a year ago. However, given the limited number of transactions, the increase in capital value was not entirely representative of general market movements as they were primarily related to the transaction of high-quality properties that took place in the final quarter of the year.
- In 1Q 2023, the average capital value and yield of transacted office buildings in Seoul remained flat qoq, with transactions slowing down further from the previous quarter.

Key Office Trends

- Tech companies still prefer the GBD where IT companies and professionals are clustered. However, limited supply has made available space extremely scarce, and occupiers are forced to look for space in the CBD or smaller secondary business districts such as Mapo, Seongsu, Yongsan, Jamsil/Songpa and Sangam Digital Media City ("DMC").
- With the higher interest rate environment, securing financing becomes increasingly challenging for start-ups and expansion demand within the three core business districts started to slow down in 4Q 2022.
- To support cost savings and enhance efficiency, companies have been active in consolidating their operations, and more relocation cases have been observed. These consolidations, generally to buildings of higher quality, have led to an increase in the vacancy rate of lower-specification offices in the core business districts, notably in the CBD.

Outlook

- Effective rents are expected to continue increasing with almost no rent-free incentives in the GBD. With stable leasing demand, tight vacancies and limited supply, the market will continue to favour landlords in the GBD.
- With new supply of around 130,000 pyeong in 2023, a marginal increase in Seoul's vacancy rate is expected. However, as most new supply is concentrated in the CBD, low vacancy rates will likely be maintained in the GBD.
- In 2023, Seoul office investment market is expected to witness higher transaction volumes, as the monetary tightening cycle is likely to end by the second half of 2023 and revitalise investor sentiment.

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