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# Table of Contents

1 / Executive Summary........................................................................................................... 3  

2 / The Economy .................................................................................................................. 5  
   2.1 Economic Outlook........................................................................................................... 8  
   2.2 Risks to the Forecast .................................................................................................... 9  

3 / Strategic Real Estate Outlook.......................................................................................... 10  
   3.1 Strategic Investment Themes......................................................................................... 11  
   3.2 Capital Markets ........................................................................................................... 13  

4 / Property Sectors and Returns.......................................................................................... 19  
   4.1 Office .......................................................................................................................... 19  
   4.2 Retail .......................................................................................................................... 23  
   4.3 Industrial ..................................................................................................................... 25  

5 / Property Risks (office sector)............................................................................................ 28  

6 / Overview of Key Asia Pacific Markets............................................................................. 30  

Important Information............................................................................................................ 36  

Research & Strategy—Alternatives.......................................................................................... 40  

The opinions and forecasts expressed are those of Asia Pacific Real Estate Strategic Outlook and not necessarily those of DWS. All opinions and claims are based upon data at the time of publication of this article (August 2018) and may not come to pass. This information is subject to change at any time, based upon economic, market and other conditions and should not be construed as a recommendation.
1 / Executive Summary

Macroeconomic conditions in Asia Pacific saw a significant recovery in 2017 and the first half of 2018, supported by the stronger-than-expected cyclical upturn in global trade conditions since the latter part of 2016. Meanwhile, unemployment rates either held steady or continued to decline, particularly in Japan and Australia. Despite the tightening in global financial conditions and higher economic growth, monetary policies in Asia remain broadly accommodative underpinned by low inflationary pressures. Nonetheless, risk factors persist ranging from uncertainties surrounding China’s growth and economic health, tightening of interest rate policies in major developed nations to global geopolitical risks, which could adversely impact regional trade and export demand. Barring any shocks or unexpected shifts in the baseline, regional economic growth is expected to remain broadly stable at 5.6% in 2018 and 2019\(^1\).

Real estate performance across much of the Asia Pacific region remains healthy on the back of strong capital markets and stable occupier fundamentals. Across the region, key cities in Japan, China, Hong Kong, Singapore and Australia continued to see healthy office leasing demand in the first half of 2018, while the weight of capital targeting quality assets have contributed to further cap rate compression in core markets. The regional markets in Japan with healthy fundamentals appear increasingly attractive from a risk-return perspective within the context of a core strategy portfolio.

The outlook of property returns which have been heavily front loaded in our previous forecast could flatten over our forecast horizon through 2022. Total returns in the coming years are likely to be driven mostly by income yields with capital growth likely capped by yield expansion driven by increasing prospects of higher interest rates. Nevertheless, in our view, Asia Pacific commercial real estate markets are expected to deliver healthy core unlevered aggregate total returns ranging between 5.5% - 7.3% per annum (by sector) over the next five years with industrial returns outperforming office and retail returns\(^2\).

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1 IMF Regional Economic Outlook: Asia Pacific, May 2018.
2 Source: DWS, as at July 2018.
Note: f = forecast. There is no guarantee the forecasts will materialize.
Asia Pacific Real Estate Strategic Outlook

### ASIA PACIFIC REAL ESTATE KEY STRATEGIES:

<table>
<thead>
<tr>
<th>Theme</th>
<th>Sector</th>
<th>Countries/Cities</th>
<th>Main Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Locations with Strong Fundamentals</td>
<td>Office</td>
<td>Sydney, Melbourne and Osaka</td>
<td>Further rental upside potential with stable occupier demand outpacing limited supply in the next couple of years.</td>
</tr>
<tr>
<td></td>
<td>Prime Retail/Suburban/Neighbourhood centres</td>
<td>Sydney, Melbourne and Osaka</td>
<td>Limited supply across prime retail. Suburban/neighbourhood centres provide cushion against fluctuations in discretionary spending.</td>
</tr>
<tr>
<td>High Yields Underpinned by Stable Cash Flows</td>
<td>Logistics</td>
<td>Japan, South Korea, Singapore, Australia</td>
<td>High income yields and stable rental growth underpinned by favourable demographic dynamics and rising e-commerce retail trends.</td>
</tr>
<tr>
<td>Cyclical Uplift in Recovery Markets</td>
<td>Office</td>
<td>Singapore</td>
<td>Rents poised for a cyclical recovery as leasing sentiment improves coupled with diminished supply pressures over next few years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Brisbane</td>
<td>Rents approaching cyclical trough and receding office supply to lift pressure from vacancy rates.</td>
</tr>
<tr>
<td>Mid-Term Opportunities</td>
<td>Office/Retail</td>
<td>Tokyo, Seoul</td>
<td>Selective approach with near-term returns in Central Tokyo capped by tough competition from local J-REITs. Subdued office demand in Seoul with limited rental growth till 2019.</td>
</tr>
<tr>
<td>Regional Markets</td>
<td>Office/Retail/Logistics</td>
<td>Regional cities in Japan</td>
<td>Historical low vacancy rates and borrowing costs present opportunities for high levered returns with local financing in place.</td>
</tr>
<tr>
<td><strong>Core Plus and Value Added Strategy</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active Asset Management</td>
<td>Office</td>
<td>Japan, South Korea, Australia, Shanghai, Beijing</td>
<td>Utilize asset management specialty and local knowledge to enhance asset performance and improve cash flows of older but well-located assets.</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>Japan, South Korea, Australia, Shanghai, Beijing</td>
<td>Improvement of foot traffic and reposition tenant mix for underperforming high street retail and shopping centres.</td>
</tr>
<tr>
<td>Forward Commitments</td>
<td>Office/Retail/Logistics/Hotel</td>
<td>Japan, South Korea and Australia</td>
<td>Potential for higher returns compared to investments in core stabilized assets.</td>
</tr>
</tbody>
</table>

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3 See chapter 3 for further discussion on Core Strategy, Core Plus and Value Added Strategy. No assurance can be given that investment objectives will be achieved.
2 / The Economy

2.1 Regional Economic Outlook

Following strong performance in 2017, economic conditions in Asia Pacific remained positive in the first half of 2018, supported by the recovery in global trade, sustained rally in commodity prices and robust domestic demand. China’s economy continued to demonstrate signs of stabilization, though recent economic indicators suggest further cooling in economic growth ahead, as fixed asset investment and retail sales growth moderated from previous quarters. Australia’s transition towards a more diversified growth led by the non-mining sectors has continued, particularly in the main Eastern states. In Japan, South Korea and Singapore, export demand continued to pick up strongly while business sentiment improved significantly in Japan and Singapore. Labour market conditions across the region stood firm except for South Korea, as evidenced by the declining or stable unemployment rates in most countries.

The region’s growth momentum remains partially supported by favourable monetary policies where central banks continue to balance between the risks of high asset prices and stimulating domestic demand amidst low inflationary pressures. Nonetheless, risks persist ranging from rising anti-globalisation sentiments which could potentially lead to increased protectionism, to global geopolitical risks involving trade tensions and political uncertainties, which poses risks to the recent global recovery. Barring any unexpected shocks or shifts in the baseline, growth for the region is expected to remain relatively stable at 5.6%⁴ in 2018 and 2019.

EXHIBIT 1: ASIA PACIFIC REAL GDP GROWTH & UNEMPLOYMENT RATES

Notes: f – forecast. There is no guarantee the forecasts will materialize. Sources: DWS, Oxford Economics, Bloomberg. As of July 2018

⁴ IMF Regional Economic Outlook: Asia Pacific, May 2018.
External demand

In the U.S, growth momentum remains supported by consumer spending, a steady labor market, and further boosted by recent tax reforms and increased government stimulus. Meanwhile in the Eurozone, GDP growth moderated to 2.5% year on year in the first quarter of 2018, following strong growth in the previous year.

Notwithstanding the positive economic backdrop, elevated asset prices and rising expectations of the U.S Federal Reserve stepping up monetary tightening set off a sudden correction in the U.S. and global equity markets in early February 2018, highlighting the susceptibility of investment markets to swings in investor sentiments.

In the Asia Pacific region, a stronger external environment underpinned export and economic growth across the Asia Pacific economies. China, which constitutes the largest single trading partner for many neighboring countries in the region, continued to see rising import demand which remains a major driver of the broad-based exports recovery in many Asian countries including Japan, South Korea, Australia and Singapore. However, downside risks have increased following the escalating trade conflicts between the United States and its trading partners, mainly China and the European Union. Recent tariff conflicts between the United States and China started off initially from U.S. tariffs on solar panels and steel imports, and subsequently, in early July, escalated to US$34 billion tariffs which each country imposed on imports from the other. The United States has also announced another US$200 billion of tariffs on China’s imports for review, demonstrating further signs of the deterioration in global trade relations with the erection of trade tariff barriers posing a major and rising threat to the ongoing global economic recovery.

EXHIBIT 2: GROWTH IN ASIA’S EXPORTS AND CHINA’S IMPORTS (Y-O-Y %)

![Chart showing growth in Asia's exports and China's imports from 2007 Q1 to 2018 Q1.](chart.png)


Monetary policy

Despite gradual interest rate hikes and the tapering of quantitative easing in the western countries, major central banks in Asia Pacific have kept monetary policies broadly accommodative in support of domestic demand. The Bank of Japan (BoJ), Reserve Bank of Australia (RBA) and the People’s Bank of China (PBoC) continued to hold their domestic policy rates at all-time lows, though the more cyclically driven economies of Hong Kong and Singapore saw interest rates rise in tandem with the U.S. rate hikes. Going forward, while central banks in the region are expected to remain supportive in favour of growth, a stronger U.S. and global economy would likely propel global interest rates higher, exerting upward pressures on policy rates in Asia Pacific to bridge the differential with global interest rates and prevent excessive capital outflows into other regions.
Inflation

Inflationary pressures have largely remained stable across Asia Pacific, especially in the major economies of China, Japan, South Korea and Australia, though inflation is expected to pick up in later years on the back of improving demand and consumption, averaging 1.6% - 2.7% over the next five years in the key countries in our coverage (excluding Japan). Vis-à-vis current levels, ten year bond yields in key core countries (excluding China/HK) are generally expected to rise by 10-50 basis points over the next five years. The risks of cap rate increases are higher in some markets, especially in the trade dependant economies of Hong Kong and Singapore.
2.2 Country Outlook

**Japan**: Japan’s GDP growth is forecast to be 1.5% in 2018 on the back of a solid corporate sector and a recovery in private consumption. Commercial sales growth was robust at 4.0% year to date in April 2018, boosted by an historically low unemployment rate and record foreign tourist arrivals. Business sentiment climbed to an 11-year peak, though the outlook remains cautious over the slowdown in the global trade. With an extension of its dovish governor’s term for another five years, B of J is expected to keep up its monetary easing to boost inflation and wage growth. The inflation rate was 0.7% in 2017 in Japan and is expected to be around 1% in 2018.

**South Korea**: South Korea’s real GDP is forecast to grow by 3.0% in 2018, mainly driven by strong export activity, recording double-digit growth up to the first quarter of 2018. The recovery of private consumption remained slower than expected due to a sluggish employment market and the stalled growth of inbound tourist arrivals. Bank of Korea has kept its benchmark interest rate at 1.5% since November 2017 with another hike expected within 2018 following successive U.S. rate hikes but only to the extent so as not to cool down its economic momentum.

**China**: China’s economy demonstrated resilience with strong GDP growth of 6.9% in 2017, though tighter capital controls and ongoing deleveraging have led to weaker infrastructure investment and will likely lead to a lower government growth target of 6.5% in 2018. Economic activity has been underpinned by improving exports and retail sales with household consumption supported by rising incomes remaining a key long term driver. Tightened government controls over capital outflows since early 2017 have successfully reversed the decline in foreign reserves, and reduced the pace of outbound corporate and real estate investments.

**South East Asia**: Growth in ASEAN economies is expected to remain robust. A recovery in exports is supported by an improving external trade environment, while private investment and consumption remains major drivers of domestic demand supported by long-term structural trends of rising urbanization and household incomes. Notwithstanding, risks abound from volatility in commodity prices and potential capital outflows atop currency weakness triggered by the prospect of higher U.S. interest rates. Latest projections by IMF\(^5\) forecast GDP growth of 5.0% for the leading ASEAN economies in 2018.

**Singapore**: Singapore’s economic growth of 4.3% in the first quarter of 2018 remains underpinned by a cyclical recovery in manufacturing output and exports in line with better global economic data. Growth momentum has spilled over to the services industries including the expanding wealth, insurance and healthcare sectors. Domestic interest rates have risen gradually in line with U.S. rate hikes, with the trend likely to continue in the near future.

**Australia**: Australia’s economic growth has been performing better than expected underpinned by higher net exports and an acceleration in private sector investments. However, employment growth has softened compared to a year ago, while consumer spending has remained subdued given muted wage growth. GDP growth is expected to average circa 2.7% from 2018-2022 in line with a pickup in non-mining business investments. The RBA is expected to keep the cash rate on hold at 1.5% throughout 2018 as weak wage growth continues to weigh on household spending, with a potential interest rates increase towards late 2019.

\(^5\) IMF Regional Economic Outlook: Asia Pacific, May 2018.
2.3 Risks to the Forecast

**Slowdown in China:** Risks to the Asia Pacific region center around the outlook for China’s growth. Being the largest trading partner for most APAC nations from natural resources in Australia to intermediate electronic and machinery products of export dependant nations Singapore and South Korea, a sharper-than-expected slowdown in China’s economy would see trade flow and economic growth decline in the region. Credit lending has tightened in China in efforts to rein in rising leverage risks in the financial system, while the relatively high debt-to-GDP ratio remains a concern.

**Interest rate volatility and cap rate widening:** Prospects of successive rate hikes by the U.S. Fed could affect key REIT markets, which are structurally sensitive to the long term interest rate volatility. These REIT markets could have an impact on the broader direct real estate markets in terms of transaction volume, yields and the market sentiment. We have reflected this in our cap rate assumptions although risks remain that cap rates might widen more significantly than anticipated. Further successive rate hikes in the United States in coming years could widen the spread between the U.S. bond yield and the government bond yields in the region, and it could trigger capital flight from some emerging countries.

**Global Geopolitical Risks:** Despite increasing domestic consumption, Asia Pacific’s economies remain highly dependent on exports trade. Rising anti-globalisation sentiments pose a serious threat, particularly the recent tariff conflicts between the United States and China. The rising threat of a tit-for-tat retaliatory trade conflict between both nations, if left unchecked, could directly reduce China’s demand for industrial exports and adversely impact export and trade volumes, limiting economic growth across the region. On a positive front, any denuclearization process undergoing in the Korean Peninsula could relieve the increased tensions across the region, though this is still in a preliminary stage before final resolution.

**Increased Government Debt levels:** High levels of foreign debt was a major contributor leading to the Asian financial crisis in 1997-98. Though many countries in the Asia Pacific are now on stronger financial footing, government debt levels have generally increased across the region over the past 20 years. As of 2017, the Debt-to-GDP ratio in Japan was 200%, much higher than other APAC countries such as South Korea (38%), Australia (38%) and Singapore (113%)\(^6\). In Japan, risks from high government debt levels are partly mitigated by the fact that the majority of government debt is domestically held with limited reliance on external borrowings, supported by significant levels of foreign exchange reserves and ultra-low interest rates. Nonetheless, higher debt levels present a potential long-term risk, limiting the flexibility of governments to either adopt expansionary fiscal policies to stimulate economic growth or tighten monetary policies.

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\(^6\) Bank for International Settlements Database, June 2018.
3 / Strategic Real Estate Outlook

3.1 Real Estate Performance

Real estate performance across much of the Asia Pacific region has been relatively healthy on the back of sustained cap rate compression in key core markets. The gateway cities of Sydney, Melbourne and Singapore led office rental growth in the region, underpinned by stable occupier demand and limited new supply. Leasing activity also remained healthy in key Tier 1 cities in China, driven by domestic financial services and technology firms. Vacancy rates in Tokyo and regional cities in Japan continued to fall on the back of healthy occupier demand and controlled supply levels. However, performance in other markets including Perth, Adelaide and Seoul remain subdued due to a surge in new supply or weak tenant demand.

Core unlevered aggregate total returns in the region fell marginally to 8.1% in 2017, lower compared to 8.8% recorded in 2016 and the three-year average of 9.9% recorded from 2014 to 2016.\(^8\) The weight of capital targeting quality assets in the region has contributed to further cap rate compression (albeit less pronounced compared to the earlier years which led to significant capital gains), especially in Australia and Japan (where regional cities have experienced cap rate compression trends seen in the key gateway cities). The trend was compounded by active investments from sovereign capital, pension funds and insurance firms, which have increased their real estate allocations. As such, much of the capital growth was front loaded and realized in recent years, leading to diminished prospects of further capital growth in the forecast horizon. We anticipate negative impacts from the possible widening of cap rates in most markets in coming years, albeit offset by positive income growth trends, with future returns likely driven mostly by income yields.

Looking ahead, in terms of sector performance, core unlevered aggregate total returns are expected to range between 5.5% - 7.3%\(^9\) annually over the next five years with the industrial sector likely to yield higher returns compared to office and retail. Near term returns are capped in Tokyo and Seoul given strong competition for good quality assets and subdued tenant demand, respectively. Nevertheless, the potential widening of cap rates in the medium term could create good entry opportunities for investors seeking higher exposure within the region.

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\(^7\) DWS. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.

\(^8\) Source: DWS Calculations, July 2018, from Colliers, Miki Shoji, JREI, BAC, CBRE, Mateplus, Cushman & Wakefield, Korea Appraisal Board.

EXHIBIT 5: PROJECTED ANNUAL TOTAL RETURN BY SECTOR AND COUNTRY IN ASIA PACIFIC, 2018-2022F

Note: f = forecast. Projected returns are based on compounded basis. There is no guarantee the forecast returns shown will materialize.
Source: DWS. As of July 2018.
Country returns are stock-weighted based on city level data. As such, the performance and forecast shown represent hypothetical and simulated performance, which has many inherent limitations. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. No assurance is made that forecast returns will be achieved.

3.2 Strategic Investment Themes

Since the second half of 2016, real estate cap rates continued to tighten in Japan, Australia and South Korea, and remained at tight levels in Singapore and Hong Kong as interest rates remain at historically low levels. Investors are increasingly finding it challenging to secure good income producing core-type opportunities which fit their target returns in these markets, with some investors opting to move up the risk curve and/or diversify their target sectors. Notably, in spite of cap rate compression trends, spreads to long-term bond yields across some Asia Pacific markets remain above their long-term averages, providing investors some buffer in the event of rising domestic bond yields in the future.

We continue to hold the view that while cap rate compression was in part driven by the anticipation of a stronger rental outlook, other structural factors were also at play: (1) geographical diversification needs as evident from the gradual increase in cross-border transactions, and (2) a continuous amount of capital available for real estate investments with an estimated US$31 billion of dry powder available through Asia-focused closed-end private real estate funds, an increase from US$29 billion as at the end of 2017.

We favour markets with relatively good yield spreads to mitigate risks arising from the potential widening of cap rates, and healthy leasing fundamentals to provide rental income growth to drive returns going forward. While investors are likely to retain interest in core gateway cities with good fundamentals, elevated asset prices in these locations have enhanced the appeal of quality assets in secondary locations and regional cities. As such we expect to see increasing investment activities into the secondary markets as investors seek higher-yielding assets to fulfill their returns requirements.

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10 Japan – Tokyo (All sectors), Osaka/Yokohama/Nagoya/Fukuoka (Office); Australia – Sydney/Melbourne/Brisbane/Perth/Adelaide; China Tier 1 – Beijing/Shanghai (All sectors), Guangzhou (Office & Retail); South Korea – Seoul.
11 Preqin Quarterly Update: Real Estate, Q1 2018.
Core Strategy

Core Locations with Strong Fundamentals: Good income producing assets providing meaningful returns in key gateway cities, i.e. Osaka, Sydney and Melbourne, have continued to attract global capital. Although forward returns are projected to moderate vis-à-vis the strong outperformance achieved in the past two years, this strategy continues to offer investors the potential for further income growth with stable corporate occupier demand outpacing limited supply. Prime retail assets in major shopping destinations with access to high footfall as well as suburban or neighbourhood retail centres with large catchments in Osaka, Sydney and Melbourne also remain attractive. Supply is tight across major prime locations while suburban neighborhood centres provide a cushion against fluctuations in discretionary spending, although accessing stock may often require partnership with a retail specialist. Another option could also include tie ups with experienced retail operators to leverage their scale and asset management capabilities.

High Yields Underpinned by Stable Cashflows: For investors looking for higher income returns, attractive opportunities persist in the logistics sector given the steady income stream nature underpinned by favourable demographic dynamics and ongoing proliferation of online retail, and higher yields of logistics properties – typically in excess of 6% (4% for greater Tokyo). Target market which appear attractive include prime logistics centres in key transportation hubs including Japan, Korea, Singapore and Australia.

Cyclical Uplift in Recovery Markets: For investors willing to look beyond the current low rental trends, markets poised for a near-term recovery offer an attractive combination of higher entry yields and potential for market-driven returns. We see opportunities in the office markets in Singapore, where rentals are in the midst of a recovery following improved leasing sentiments and lower supply pressures, and in Brisbane with improved occupier demand supported by low development pipeline and shortage of Grade A space.

Mid-term Opportunities: Monitor progress and look out for optimal entry timing in core investable markets with near-term returns capped by intense competition for assets with domestic REITs i.e. Central Tokyo or facing short-term vacancy issues i.e. Seoul. Despite current weak rental prospects in the latter markets, demand-supply dynamics are expected to improve gradually in favour of landlords as occupier demand recovers, leading to cyclical rental uplifts in later years.

Regional Markets with Good Fundamentals and attractive excess returns: The ten-year Japan government bond yield remains near zero levels and borrowing costs are extremely cheap. Vacancy rates have declined to historical lows supporting future rental growth.

Core Plus and Value Added Strategy

Active Asset Management: We see opportunities in key cities in mature North Asian and Australian markets by taking on leasing risks for vacant office properties or refurbishment/re-positioning of older but well-located properties. Prime retail and shopping centres are also strong candidates for a value-add proposition including improvements in retail footfall and repositioning of tenant mix. In China, opportunities could arise from repositioning underperforming office assets and improving tenant mix for retail assets in prime locations such as Beijing and Shanghai. Investors should be mindful of the higher leasing risks involved which require asset managers with strong local networks and deep market knowledge to successfully create value enhancement.

Forward Commitments: In certain markets, entering into joint ventures with strong local operating partners for forward commitments provides a viable route to access good real estate assets with the potential for enhanced returns compared to investments in core stabilized assets. We see selective opportunities in commercial sectors including the hotel, office and logistics sectors in Japan, South Korea and Australia. Construction risk and lease-up risk are key considerations that can be mitigated through partnerships with reputable local operators and leasing agents.

Source: DWS Forecasts, June 2018.
3.3 Capital Markets

Transactions
Across the Asia Pacific region, commercial real estate transaction activities remained robust as transaction volumes reached new highs in the first quarter of 2018. This was achieved on the back of tight yields and higher asset prices underpinned by strong investor appetite. China remained the top destination for capital inflows, accounting for 23.3% of APAC volumes, with Japan (23.0%) Australia (17.3%) and Hong Kong (14.7%) following behind.

EXHIBIT 6: APAC REAL ESTATE TRANSACTION VOLUME

Volume By Country

Volume By Sector

Note: Figures shown based on rolling 12-month period. Exclude land transactions.
Source: DWS, Real Capital Analytics. As of July 2018.

At the city level, Hong Kong and Tokyo remain the most active transaction markets, with Shanghai, Seoul and Sydney following close behind. Foreign investors continued to participate actively, accounting for over 30% of recent transaction volumes in major Australian cities (Sydney, Melbourne, Brisbane), as well as in Singapore and Yokohama.

EXHIBIT 7: COMMERCIAL REAL ESTATE TRANSACTION VOLUME BY CITY (AS AT 2018 1Q)

Note: Figures shown based on rolling 12-month period. Exclude land transactions.
Source: DWS, Real Capital Analytics. As of July 2018.
From a global perspective, Australia, Japan, China ranked among the top ten investment destinations for foreign real estate buyers, just behind the United States and leading European nations in 2017.

**EXHIBIT 8: CROSS-BORDER REAL ESTATE INVESTMENTS BY DESTINATION**

Notes: Commercial real estate transactions exclude non-income producing assets, such as development site transactions. Source: DWS, Real Capital Analytics. As of July 2018.

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**Investor Profile:**

Cross-border investors remain active in the region, accounting for 31% of transaction volumes in Asia Pacific in the 12-month period to the first quarter of 2018. Foreign investors acted as buyers in a number of billion dollar deals in Hong Kong, Seoul and Tokyo, the largest being the takeover of GLP by a consortium of Chinese buyers, while overseas capital accounted for between 30-45% of investments in Sydney, Melbourne and Singapore. Listed corporations and REITs form the next largest buyer group in the region, accounting for 21% of transaction volumes, followed closely by private investors (17%).

**EXHIBIT 9: COMMERCIAL REAL ESTATE TRANSACTION IN APAC (BY INVESTOR TYPE)**

Note: Figures shown exclude land transactions. Source: DWS, Real Capital Analytics. As of July 2018.
In recent times, Chinese investors have been emerging as a significant buyer group in global and Asia Pacific real estate markets. This is especially so in the Hong Kong and Australian markets, where in 2016, Chinese investors accounted for a peak share of 30% and 10% of the respective market transaction volumes. Going forward, in lieu of the tighter restrictions on outbound Chinese investments in place since early 2017, we expect to see less participation from this group of investors, though this, is unlikely to create any major distortions on transactional activities in the region, with the exception of the Hong Kong market where Chinese capital has been particularly influential.

EXHIBIT 10: CHINA OUTBOUND REAL ESTATE INVESTMENTS IN ASIA PACIFIC

REITs
The REIT market in developed Asia Pacific is gradually approaching maturity since the initial stages of development at the start of the millennium. Following strong performances over the last two years, Asia Pacific REITs turned in a mixed performance in the first half of 2018. While REIT indices rose 6.1% in Japan and 3.8% in Australia, indices declined by 7.9% in Singapore and 2.2% in Hong Kong on the back of concerns over rising interest rates.

EXHIBIT 11: MARKET CAPITALIZATION OF LISTED REITS IN ASIA PACIFIC

Source: DWS, Bloomberg. As at July 2018.
Office
The trend of global and domestic capital chasing income producing office assets has contributed to cap rate compressions in the majority of countries across the region including Japan, South Korea and Australia, while cap rates remain broadly flat in other markets such as China and Hong Kong, in line with interest rate movements. The tight conditions were supported by active investments by sovereign capital, pension funds, insurance firms and cross border investors chasing large deals. We anticipate a marginal expansion in cap rates over the next few years on the back of rising interest rates, with the smaller economies of Singapore and Hong Kong being more susceptible to rising yields.

Exhibit 12: Office Sector: Cap Rate Spreads to 10Y Government Bond Yield

Note: f = forecast. There is no guarantee the forecast returns shown will materialize. LT denotes period of past 20 years or shorter where data is available.


Retail
Sizable institutional grade assets in the retail sector remain tightly held by local developers and REITs in markets like Hong Kong, Singapore and Australia, capping deal volumes. High street retail sales benefited from increasing tourist arrivals in Japan and Australia, while private wealth capital is more dominant in transactions in prime high street areas in Hong Kong, Shanghai, Tokyo Ginza and Seoul Gangnam where cap rates remain extremely tight. Institutional investors have been observed to be exploring suburban assets in Japan, Australia and to a lesser degree in South Korea, where investors and REITs have tried to reshuffle existing portfolios.

Industrial
Investor interest in the industrial and logistics sector remains strong due to the relatively higher yields and the recent evolution and gradual maturity of the sector, though acquisition opportunities of institutional grade assets remain limited. The supply of modern facilities is catching up to increasing demand with multiple large assets currently in the development pipeline in major metros in Japan, South Korea and China in 2018 and beyond. Further yield compression (albeit marginal) could occur in regional cities in Japan, while yields have stabilized in other markets.
Credit markets

The financing environment remains largely positive due to favorable monetary policy and supportive measures. Compared to six months ago, base reference rates have remained largely stable across the region, with the exception of Singapore where rates have increased by approximately 50 basis points. Meanwhile, spreads and consequently financing costs have increased by about 10-30 basis points in Australia, but otherwise largely unchanged in other locations. With the exception of China and Hong Kong, office cap rate spreads over financing costs remain positive across core markets with the highest positive carry of circa 200-300 basis points in Australian and Japan markets.

Nonetheless, there are signs that lenders are becoming sensitive to high valuations especially for assets with weaker leasing covenants or in inferior locations. This could potentially lead to moderate cap rate widening from 2018 onwards.

Exhibit 15: Typical commercial lending terms (Up to 5Y Swap)

<table>
<thead>
<tr>
<th>Market</th>
<th>LTV (%)</th>
<th>Base Reference rate</th>
<th>Spread (bps)</th>
<th>Financing Cost (bps)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>50-55%</td>
<td>5Y Swap Rate : 2.50%</td>
<td>160 - 200</td>
<td>410 - 450</td>
</tr>
<tr>
<td>China</td>
<td>50-60%</td>
<td>1-5 year base lending: 4.75%</td>
<td>300 - 500</td>
<td>775 - 975</td>
</tr>
<tr>
<td>Japan</td>
<td>50-60%</td>
<td>5Y JPY swap rate + TL spread: 0.2%</td>
<td>40 - 60</td>
<td>60 - 80</td>
</tr>
<tr>
<td>Singapore</td>
<td>50-60%</td>
<td>4Y Swap Rate: 2.3%</td>
<td>130 - 190</td>
<td>360 - 420</td>
</tr>
<tr>
<td>South Korea</td>
<td>50-60%</td>
<td>5Y KTB: 2.35%</td>
<td>135 - 175</td>
<td>370 - 410</td>
</tr>
</tbody>
</table>

Source: DWS, Bloomberg. As at July 2018. For illustrative purposes only.
EXHIBIT 16: TYPICAL BASE REFERENCE RATES FOR COMMERCIAL LENDING

Source: DWS, Bloomberg. As at July 2018.
* Figures before Dec 2014 refer to the 1-3 year PBOC rate.
4 / Property Sectors and Returns

4.1 Office

**Current Conditions:** Office markets in core cities across Asia Pacific continued to perform relatively well, underpinned by steady occupier demand trends. Over the past twelve months, Singapore, Sydney and Melbourne led the region in effective rental growth driven by a broad base recovery in tenant demand led by business services. Rents in Hong Kong Central were supported by occupier demand from mainland Chinese financial services firms, and in Tokyo rental growth was supported by tight vacancy levels. At the other end, rents in markets such as Seoul and Kuala Lumpur remain in cyclical downturn weighed down by subdued demand and significant short-term supply pressures. Rents in some Australian cities (Brisbane, Perth, Adelaide) have shown some early signs of stabilization amidst a recovery in tenant demand.

Looking back a decade since the global financial crisis, office rents in most cities across the region have recovered significantly from lows in recent years. Falling interest rates contributed to the ongoing yield compression and growth in asset values which led to the significant outperformance of capital value growth to date compared to rental growth in the past decade.

**EXHIBIT 17: OFFICE SECTOR: DECLINE AND RECOVERY IN PRIME RENTS AND CAPITAL VALUES (LAST PEAK = 100)**

Changes in prime rents

![Graph showing changes in prime rents](image)

- Decline From Pre-Crisis Peak
- Increase Until 1Q18

Changes in prime capital values

![Graph showing changes in prime capital values](image)

- Decline From Pre-Crisis Peak
- Increase Until 1Q18

Source: DWS, Miki Shoji, Colliers. As at July 2018.

From an occupier perspective, structural shifts in office demand remain underway in the region, underpinned by the increasing usage of technology-related applications, rising number of millennials in the workforce, and the changing conceptualization of the typical workplace environment. Technology firms ranging from big multinational corporations to smaller local technology

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13 DWS. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.
start-ups have been increasingly taking up office spaces in the CBD, at the same time when major financial institutions are consolidating their office space requirements, with the exception of growing niche sectors such as Fintech or wealth management activities.

Co-working operators have been expanding rapidly in Asia Pacific, with larger established operators increasingly venturing from secondary locations or lower-grade offices to higher specification offices in core locations. One notable example was the U.S. co-working giant WeWork which has grown rapidly across Asia through acquisitions of local rival co-operators and new office set-ups, with the firm making its first foray into Singapore and Southeast Asia in late 2017 having already established operations in North Asia and in Sydney. There are also increasing trends of collaboration opportunities between major real estate developers and local co-working operators in core office locations around the region.

Though the market share of space leased by these firms remains relatively small and hinges on the sustainability of demand from end-users (i.e. start-ups, small business owners and corporations looking at flexible working arrangements), the segment’s rapid growth and increasing trends of collaboration opportunities with office landlords should likely exert some influence on the leasing market over time.

Outlook: The regional outlook for the office sector remains broadly positive with a reacceleration in economic activity and favorable demand-supply dynamics for most key office markets. Over the five year forecast period till 2022, vacancy rates in key office markets in Japan, Australia and Hong Kong are expected to increase only marginally from the current tight levels. On the other hand, while short-term vacancy pressures currently persist in the Australian regional cities of Brisbane, Adelaide and Perth, occupancy levels are forecast to improve gradually on the back of a recovery in occupier demand, particularly in Brisbane. Singapore, which experienced a supply surge in 2017, is expected to benefit from a strong cyclical recovery as supply pressures subside significantly. On the other hand, vacancy levels are projected to increase in Kuala Lumpur, Beijing and Guangzhou where large development pipelines are underway.

EXHIBIT 18: OFFICE SECTOR: PROJECTED VACANCY RATES IN SELECTED MARKETS (2018F – 2022F)

Note: f = forecast. There is no guarantee the forecasts will materialize.
Source: DWS, Miki Shoji, Colliers. As of July 2018
The medium term rental growth outlook remains relatively healthy across the region. We expect to see the highest rental growth momentum in Singapore underpinned by cyclical demand recovery combined with limited supply. Robust growth is also expected in the core cities of Australia, while rental growth in Japan’s regional cities is supported by strong corporate demand. At the other end, significant incoming supply pressures are likely to cause negative rental reversion in Kuala Lumpur in the same period.

EXHIBIT 19: OFFICE SECTOR: PROJECTED RENTAL GROWTH (2018F – 2022F)

Combining our rental growth and vacancy projections, we expect improving occupancy levels to underpin moderate to strong rental growth in the eastern seaboard cities in Australia, Singapore, Shanghai, and the regional cities in Japan. Markets with projected high vacancy levels such as Perth, Adelaide and Guangzhou over the five year forecast period should see a more modest rental growth profile with further downside risks should demand pan out to be weaker than expected. Moderate rental growth is expected in Auckland as supply pipeline is beginning to rise. On the other hand, rents in Kuala Lumpur remain curtailed by significant oversupply and vacancy issues.
Performance: The APAC office sector is projected to yield mid to high single digit annual total returns in most cities over the next five years through to 2022, on the back of healthy demand and moderate supply. While we continue to expect good returns from the core Australian cities of Sydney and Melbourne, regional cities in Japan such as Osaka, Fukuoka and Nagoya look increasingly attractive providing decent income and capital returns, and in turn some of the highest excess returns over the local risk free rate as well as levered returns with local financing. Good opportunities are also appearing for investors willing to ride on the current cyclical rental recovery in Singapore, while offices in Seoul are projected to yield moderate returns underpinned by decent income yields. On the other hand, returns in Tokyo should be more subdued due to current tight cap rates, while forecast five-year performance in Hong Kong is also projected to be relatively weak on the back of future potential cap rate increases.
4.2 Retail

Current conditions: The rise in e-commerce remains a major driver in redefining the retail landscape in Asia Pacific. Multi-channel or ‘Omni-channel’ retailing as well as the emergence of mobile-based transactions have seen retailers changing their retail operating models and increasing the selection of goods and services available online often at lower prices than in-store. As a result, this could undermine profit margins for physical retail stores and consequently turnover rent leases at retail centres. Notwithstanding, anecdotal evidence has also showed that some pure play e-commerce companies are merging their online and high street presence by venturing into bricks and mortar store operations for brand building as well as for showroom display.

Data from eMarketer\(^4\) indicates the e-commerce market in Asia Pacific grew strongly at 31% in 2017, far outpacing the 7.7% growth in total retail sales in the region. These trends were most notably observed in China, the largest e-commerce market in the world, which accounts for 83% of the online retail sales in Asia Pacific. The share of e-commerce sales as a proportion of total retail sales in China had grown rapidly from approximately 15% in 2015 to over 23% in 2017. Similarly, online retail sales in South Korea have grown strongly, ahead of the United States where e-commerce accounts for only about 9% of retail sales. E-commerce share levels in Japan and Australia are currently just shy of the United States, but emerging trends such as the entry of Amazon into the Australian market towards end-2017 indicate that the online retail is likely to gain momentum in the region.

Diverging trends have also developed in the retail environment across the region. Retail sales continue to underperform in some major markets in the region including Hong Kong, Singapore and Malaysia due to soft domestic consumption and subdued tourist spending. Rents have declined in Singapore and Hong Kong, as retailers face margin pressures from weaker retail spending as well as increasing labour costs.

\(^{14}\) eMarketer – Asia-Pacific Retail and Ecommerce Sales, January 2018.
On the other hand, key cities in China, Australia, South Korea and Japan continue to see healthy, moderate rental growth underpinned by resilient domestic consumption trends or strong tourist arrivals, despite competition from the ongoing proliferation of online retail. Nonetheless, structural shifts in consumer shopping behavior continue to exert pressures on retailers to divert resources from traditional bricks-and-mortar sales building up Omni-channel marketing strategies. As a result, the retail environment remains in favour of tenants as landlords are increasingly forced to offer better incentives especially in the discretionary retail space. Vacancy rates could start to inch upwards in decentralized areas on the back of growing supply while occupier demand from retailers is likely to remain stable in the majority of locations in 2018.

Outlook: Over the five-year forecast horizon, Shanghai and Australian top cities are expected to experience the strongest growth in retail rents in the region, although growth should be modest in sub regional centers (SRC) in Australia, where demand could be adversely affected by e-commerce and a slowdown in the housing market. In Seoul and Tokyo, retail rental growth is likely to be kept modest below 2% per annum, broadly in line with inflation expectations. Near-term rental growth is projected to be minimal in Hong Kong, Singapore and Kuala Lumpur with rental growth affected by high occupancy costs and diminished tourist spending.


Performance: Given the emergence of online retailing, there is a preference among investors toward long term leases in the retail sector. The impact from online retail is expected to be felt more keenly in the discretionary retail segments such as apparel and electronics, compared to the non-discretionary segments such as staple food and daily necessities. Correspondingly, the divergent trends across different retail assets is likely to intensify with a “winner-takes-all” outcome, as well-located malls with strong positioning and good tenant mix continue to command premium rents while poorly-managed malls with weak or unclear positioning may be forced to reduce rents or explore significant repositioning or exit strategies.

Looking ahead, retail assets in China and Australia appear attractive underpinned by higher income yields. While Tokyo looks attractive with the highest projected excess returns (i.e. annual total returns minus bond yields), healthy spreads of circa 2%-4% are expected in most other key retail markets in the region.
### 4.3 Industrial

**Current Conditions:** Prime logistics space across the region continues to see healthy take-up driven by e-commerce and third party logistics providers, resulting in positive rental growth trends across the region. The availability of prime development land and quality modern warehousing facilities is critical for logistics markets undergoing modernization changes coupled with rising domestic consumption, particularly for locations such as Seoul and tier-one cities in China.

The rise of e-commerce trends is also gradually taking place in Southeast Asia, driven by the region’s rapidly rising middle class population and consumption trends. Amazon established its foray into the Singapore market in the second half of 2017 with the launch of Amazon Prime Now, with its Singapore facility serving as its largest Prime Now only fulfillment centre in the world, while it also entered the Australian market in late 2017. This followed Alibaba’s own expansion through several acquisitions of local and regional e-commerce players operating within and outside China, outlining the increasing growth potential of online retail and needs for logistics spaces in the region.
EXHIBIT 24: INDUSTRIAL SECTOR: NET RENT INDEX (BASE YEAR 4Q2006 = 100)


Outlook: In the industrial sector, e-commerce and third party logistics (3PL) companies are expected to remain major leasing demand drivers in the modern logistic space across the region, underpinned by rising e-commerce trends as described in the retail section. Rental growth is expected to be moderate in the region at around 1.0-3.0% per annum, broadly in line with inflation trends as tenants, 3PL companies, retailers and consigners remain mindful of logistics costs, with the exception of Perth and Adelaide where industrial conditions remain tough due to weaker leasing demand.


Note f = forecast.  † Projected returns are based on compounded basis. There is no guarantee the forecasts will materialize.
Source: DWS. As at July 2018.
Performance: Owing to higher yields, increased transparency and strong underlying occupier demand, the industrial sector has provided consistently higher returns than the office and retail sectors, and is expected to remain attractive in the next five years (see Exhibit 5 on page 8). Five-year return forecasts for key cities in Australia, China, Singapore and Seoul look favourable at high levels in excess of 7%, though investors could find themselves constrained by the limited deal flow of high quality completed assets in most of these markets. While total returns in Tokyo look to be one of the lowest in the comparison group, excess returns could turn out to be the highest on the back of expected low bond yields.

EXHIBIT 26: INDUSTRIAL SECTOR: PROJECTED COMPOUNDED ANNUAL RETURN AND EXCESS RETURN (2018F – 2022F)

Note: f = forecast. Projected returns are based on compounded basis. There is no guarantee the forecast returns will materialize. Excess return is calculated from income return plus capital appreciation over the local 10 year sovereign bond rate.

5 / Risk Return Profile (office sector)

It is insufficient to compare property-level total returns on a stand-alone basis without factoring the associated risks, especially in the Asia Pacific region where a significant divergence in market maturity and transparency persists. Several factors were considered in the computation of associated risks related to each submarket such as volatility, liquidity, transparency and the effect of obsolescence, along with domestic risk-free rates. The associated risks were formulated using a combination of quantitative and qualitative modeling which have been integrated in our House View.

Exhibit 27 highlights the positioning of the various markets in reference to this framework. The total forecast returns on the vertical axis are plotted against associated risks on the horizontal axis for each office market. Returns are based on the same office sector forecasts outlined on Exhibit 18. A Market Neutral zone (shaded) is added to indicate the level of attractiveness of each market from a risk-return perspective (cities above this line are deemed more attractive and vice versa). We categorize the major office markets into the following three groups:

**Overweight:** Core target markets include major cities in Japan and Australia where total return forecasts look favorable compared to their associated risks. These are among the most established and mature markets in the region and core investors focused on income yields should center their portfolio investments mainly in these markets. This is broadly in line with the Core Strategy in the Strategic Investment Themes outlined on page 9.

**Market Neutral:** Markets with a lower but nonetheless favourable risk-return profile. This includes Tokyo where lower returns are balanced with lower associated risks, and other cities currently either in the mid-late cycle downturn or early stages of market rental recovery such as Seoul, Singapore and Brisbane. A cyclical market recovery is expected in the mid-term as demand-supply fundamentals improve. These are similar to the “Mid-Term Opportunities” and “Recovery Markets” in the Strategic Investment Themes outlined on page 9.

On the other hand, while top tier markets in China are expected to provide higher returns in the next five years, the associated risks are higher partly due to the high risk-free rate as well as lower market transparency and other investment hurdles. These markets should be more suitable for value added strategies in line with “Active Asset Management” in the Strategic Investment Themes on page 9.

**Underweight:** Markets where forecast returns lag associated risks on the back of low forecast returns, high risks or a combination of both. Perth and Kuala Lumpur are examples where demand-supply fundamentals remain largely in favour of tenants at the expense of office landlords.
Despite favourable performance expectations in some markets there are other challenges and constraints that should be
factored for commercial real estate investments which cannot be fully captured in the risk scoring computations, especially for
cross border investors.

Currency hedging costs remain relatively expensive in Australia and South Korea for Euro-denominated investors and this
can be an impediment for cross border investors when competing with domestic investors, despite favourable returns
projections. In Japan, local investors and developers command the upper hand due to extremely cheap borrowing costs in
the local debt market, whereas access to cheap capital is limited for foreign investors.

Foreign investors also face additional regulatory and compliance risks compared to domestic investors. In China, onshore
holding structures with equity investments from foreign parties require the formation of foreign-invested enterprises (FIEs) or
wholly owned foreign enterprises (WOFEs). Conversion of structures is required if the existing holding structure is not in either
of these forms and is subjected to regulatory approval, which introduces regulatory uncertainties. Foreign investors also have
to deal with the complexities of capital controls and taxation issues which pose considerable challenges to new foreign
investors.

Therefore, it is critical for investors to find capable investment managers who have a good foothold in each of these markets
when making investments.
6 / Overview of Key Asia Pacific Markets

COUNTRY REAL ESTATE OUTLOOK: JAPAN

Economy: The third largest economy in the world. GDP growth is expected to be 1.4% in 2018, in line with the historical five-year average, supported by a low interest policy. The unemployment rate remains below 3%, the lowest level in decades, while tourist arrivals to the country hit a historical record, more than trifold in the last five years.

Real Estate Market: The largest real estate transaction volume in the region. Good transparency with a well-established REIT market. Relatively healthy yield spreads attracting more cross-border investors, despite domestic investors remaining dominant due to the extremely low capital cost. Main Target Markets: Tokyo, Osaka, Nagoya.

Risks: Potential slowdown of wage growth could hinder further CPI growth.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office | Positive | - Very healthy real estate fundamentals with historically low vacancy rates in all major cities in Japan.  
- Attractive real estate spreads over government bond yield.  
- Returns capped in central Tokyo due to tight cap rate at around 3%. |
| Retail | Neutral | - Increasing numbers of inbound foreign tourists to Japan but growth in high street consumption is moderating.  
- Opportunities in assets with exposure to discretionary spending. |
| Industrial | Positive | - Modern logistics assets remain highly sought after by institutional investors with relatively higher yields than other sectors.  
- Vacancy rates expected to remain elevated in some sub markets, such as Osaka Bay area where supply is concentrated. |

EXHIBIT 28: ECONOMIC INDICATORS (YEAR 2010 = 100)

EXHIBIT 29: TOKYO OFFICE SUPPLY AND VACANCY RATE (%)

Source: DWS, Real Capital Analytics, Bank of Japan, Miki Shoji, Mori Trust. As of July 2018.
Note: F = forecasts. There is no guarantee the forecasts will materialize. %Percentage share of enterprises responding ‘favourable’ minus percentage share of enterprises responding ‘unfavourable’ over business conditions.
COUNTRY REAL ESTATE OUTLOOK: SOUTH KOREA

Economy: The fourth largest economy in the region (after China, Japan and India). GDP growth is expected at 3.0% in 2018 on the back of a recovery in exports, which accounts for around 40% of its entire GDP. Domestic consumption is expected to recover modestly towards 2019, notwithstanding the still sluggish labor market.

Real Estate Market: With a lack of listed developers and listed sizable REITs, the market is still rated as “semi-transparent,” while the office sector is relatively mature and more established.

Main Target Market: Seoul.

Risks: Though geopolitical risks in the Korean peninsula have subsided along with the denuclearization talks between the United States and North Korea, any deterioration in relations remains a threat to its export-driven economy.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office | Neutral | - Vacancy rate remains at 10% in Seoul CBD due to weaker office demand.  
- Effective rents pressured by elevated tenant incentives, though a gradual recovery is expected in the medium term. |
| Retail | Neutral | - Despite healthy economic growth, high street retail sales still remain soft given the slow recovery of the employment market. It is expected to grow modestly, boosted by an increase in overseas tourist arrivals. |
| Industrial | Positive | - The sector is in the process of rapid institutionalization and modernization, while good quality assets are still limited.  
- Assets with strong leasing covenants are highly sought after by investors, notwithstanding the record new supply expected in 2018 and 2019. |

EXHIBIT 30: ECONOMIC INDICATORS (YEAR 2010 = 100)

EXHIBIT 31: SEOUL OFFICE SUPPLY AND VACANCY RATE

f = forecast. There is no guarantee the forecasts shown will materialize.
Sources: DWS, Bank of Korea, Mateplus, Oxford Economics. As of July 2018
*Percentage share of enterprises responding ‘favourable’ minus percentage share of enterprises responding ‘unfavourable’ over business conditions.
COUNTRY REAL ESTATE OUTLOOK: CHINA

Economy: China’s economy performed better-than-expected with GDP growth of 6.9% in 2017 underpinned by improving exports, rising housing sales and a construction boom, amidst tighter capital controls and deleveraging efforts by the government. Barring unexpected shocks in the global economy and foreign relations, growth is generally expected to ease gradually towards a lower but more stable rate.

Real Estate Market: China constitutes the largest real estate market in Asia though affected by modest albeit improving transparency levels. Domestic capital remains the predominant source of funds; foreign investor participation is limited to select Tier-1 cities due to challenges from limited transparency, cash repatriation and taxation issues.

Risks: Export dependency risks to global demand, worsening of foreign relations with trade partners and a build up of excessive corporate leverage.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office | Positive | - Leasing demand remains relatively robust, mainly from domestic finance and professional firms.  
- New supply completions have peaked in Shanghai though Beijing should see vacancy rise from significant supply over the next two years. |
| Retail | Neutral | - Prime retail remains driven by demand from new retail entrants and expansion and high income growth, though growing e-commerce sales and rising supply in decentralized areas pose stiff competition particularly to retailers in non-prime areas.  
- Currently one of the world’s most advanced e-commerce markets with leading online retail sales exceeding US$ 1 trillion in 2017. |
| Industrial | Positive | - Stable cashflows underpinned by growing occupier demand catering to domestic demand and high industrial yields in excess of 6%. Opportunities for foreign investors limited by small pool of investable core assets. |

EXHIBIT 32: ECONOMIC INDICATORS

EXHIBIT 33: OFFICE SUPPLY IN BEIJING AND SHANGHAI

Note: F = forecasts. There is no guarantee the forecasts will materialize.  
COUNTRY REAL ESTATE OUTLOOK: HONG KONG

Economy: Strong GDP growth of circa 3.6% in 2017 on the back of a healthy labour market and higher exports supported by robust regional trade. Buoyant asset prices have bolstered consumer spending while a rebound in inbound tourism has aided retail sales performance. Notwithstanding, momentum is likely to slow with GDP growth of 2.4% per annum from 2018-2022 due to weaker exports.

Real Estate Market: Strong transparency levels but lack of investment opportunities as institutional grade assets are tightly held by local developers and REITs.

Risks: Slowing demand from mainland China will affect Hong Kong via trade and tourism. Interest rates to move higher due to its currency peg to the USD.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office  | Neutral | - Tenant decentralisation continues to gain momentum as rental gap widens between core and non-core areas.  
- Office investment remains predominantly driven by end-users. |
| Retail  | Neutral | - Gradual recovery expected on the back of an improvement in inbound tourism and private consumption.  
- Luxury retailers particularly continued to remain cautious and expansion requirements were limited. |
| Industrial | Neutral | - Leasing activity largely underpinned by renewals and relocation requirements.  
- Recovery in external trade volumes and limited supply should support rental recovery from 2019 onwards. |

EXHIBIT 34: ECONOMIC INDICATORS

EXHIBIT 35: HONG KONG OFFICE SUPPLY AND VACANCY RATE

Ⅰ = forecast. There is no guarantee the forecasts shown will materialize.
Sources: DWS, Hong Kong Rating and Valuation Dept, Oxford Economics. As of July 2018.
COUNTRY REAL ESTATE OUTLOOK: SINGAPORE

Economy: Brighter economic prospects led by recovery in manufacturing output and exports, with GDP growth of 2.5% - 3% projected over the next few years. Growth industries include wealth management, insurance and healthcare sectors. Technology, Fintech and Co-working constitute other major office demand drivers.

Real Estate Market: Strong transparency levels, highly liquid market. One of the largest REIT markets after Japan and Australia. High levels of foreign investor participation.

Risks: High export dependency risks to global demand and interest rate volatility from rising global rates.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office | Positive | - Office leasing conditions underpinned by improving occupier sentiment and significantly lower completions over the next few years till 2021.  
- Strong rental recovery expected led by higher quality offices. |
| Retail | Neutral | - Prime retail continues to face challenges from competition posed by suburban retail and weaker tenant sales.  
- Suburban retail with excellent resident catchment provides better cushion against fluctuations in discretionary spending. |
| Industrial | Positive | - Stable cashflows and high industrial yields in excess of 6%.  
- Focus on logistics warehouses with underlying exposure to non-discretionary spending (refrigerated) or growing regional consumption. |

EXHIBIT 36: ECONOMIC INDICATORS

EXHIBIT 37: SINGAPORE OFFICE SUPPLY

Note: F = forecasts. There is no guarantee the forecasts will materialize.  
Source: Deutsche Asset Management, Real Capital Analytics, Urban Redevelopment Authority of Singapore. As at July 2018.
COUNTRY REAL ESTATE OUTLOOK: AUSTRALIA

Economy: Growth is expected to remain steady supported by non-mining investment and a positive contribution from net exports. Consumer spending will remain subdued given the weak wage growth. GDP growth is expected to average circa 2.7% from 2018-2022.

Real Estate Market: Strong transparency levels, highly liquid with a mature Australian REIT market. High levels of foreign investor participation.
Main Target Markets: Sydney, Melbourne, Brisbane

Risks: Low wage growth, persistently low inflation and moderating residential prices may have a negative impact on consumption.

Real Estate Performance Outlook 2018-2022f

<table>
<thead>
<tr>
<th>Sector</th>
<th>Outlook</th>
<th>Summary View</th>
</tr>
</thead>
</table>
| Office | Positive| - Strong rental growth momentum underpinned by tightening vacancy and falling incentive levels, particularly in Sydney and Melbourne.  
- Perth and Adelaide remain laggards behind in the rental cycle. |
| Retail | Positive| - CBD shopping centres and super-prime high street retail continue to enjoy strong levels of demand supported by population growth within the CBD and strong in-bound tourism.  
- Neighbourhood retail provides a cushion against fluctuations in discretionary spending with steady cash flow, although accessing stock may often require partnership with a retail specialist. Another option could also include tie ups with experienced retail operators to leverage their scale and asset management capabilities. |
| Industrial | Positive| - Sydney and Melbourne continue to see limited speculative development and supply is largely driven by built-to-suit.  
- Industrial assets remained keenly sought after by investors due to relatively higher yields in excess of 6%. |

EXHIBIT 38: ECONOMIC INDICATORS

EXHIBIT 39: SYDNEY OFFICE SUPPLY

I = forecast. There is no guarantee the forecasts shown will materialize.  
Sources: DWS, Colliers, Oxford Economics. As of July 2018.
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Investments are subject to risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested.

The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring. Environmental liabilities may pose a risk such that the owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about, under, or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.
Investments in Real Estate are subject to various risks, including but not limited to the following:

- Adverse changes in economic conditions including changes in the financial conditions of tenants, buyer and sellers, changes in the availability of debt financing, changes in interest rates, real estate tax rates and other operating expenses;
- Adverse changes in law and regulation including environmental laws and regulations, zoning laws and other governmental rules and fiscal policies;
- Environmental claims arising in respect of real estate acquired with undisclosed or unknown environmental problems or as to which inadequate reserves have been established;
- Changes in the relative popularity of property types and locations;
- Risks and operating problems arising out of the presence of certain construction materials; and
- Currency / exchange rate risks where the investments are denominated in a currency other than the investor’s home currency.

An investment in real estate involves a high degree of risk, including possible loss of principal amount invested, and is suitable only for sophisticated investors who can bear such losses. The value of shares/ units and their derived income may fall or rise.

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