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ASIA PACIFIC

Betting on Asia Pacific's Next Core Cities

JUNE 2017

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SHANGHAI, CHINA

The investment climate in Asia Pacific will continue to stand out in 2017 relative to other regions. Steady economic growth and job creation across the region will provide impetus for strong office asset performance. Many central banks are still singing their own tune such as those in Japan, Australia, South Korea, India and Indonesia – which are comfortably on hold or easing while the United States (U.S.) Federal Reserve is now in tightening mode. Liquidity also remains abundant; our recent global research shows that there is more capital today targeting Asia rather than Europe.

Indeed, the dynamics point to another vibrant year of investment activity. A wide range of buyers and sellers are also repositioning portfolios as they recalibrate their strategies in light of continuing economic and office market momentum in the region and generally accommodative financial conditions. Of course, many unknowns surround this outlook. Policy uncertainty in the U.S. in relation to fiscal policy, regulation and trade as well as geopolitical risk in Europe will likely drive bouts of volatility. On the upside, we have less political dislocations in Asia compared to the rest of the world.

Investors continue to focus on core assets, but the lower volume of transactions in the past year largely reflects a shortage of available assets in major markets. Nonetheless, the high volume of capital that is seeking core properties has helped to push pricing past prior peaks in selected key markets of Australia and Greater China. This is likely to prompt investors to turn their attention to secondary and tertiary markets and even to non-core property types. Against this backdrop, we have articulated in this report some of the strategies that investors can consider as they seek much-coveted core product in the region. Additionally, using our proprietary tool, the Strategic Location Indicator* (SLI), we have selected the next core markets in Asia Pacific which we believe are poised to maintain their relevance and predominance over the next five to ten years.

** Please refer to methodology on page 26*

KEY ISSUES TO
WATCH IN 2017

To set the stage, let us revisit the investment themes over the past year. Demand for core assets in gateway cities remained as strong as ever, even if sourcing investable assets came at or near-record high prices. With liquidity aplenty in the region, property prices have continued to rise. Concurrently, the region's emerging markets drew a lot of interest as they increasingly offer opportunities that would provide the desired yields. For 2017 and beyond, we expect similar investment themes to persist amid a backdrop of five important transitions:

1. REAL ESTATE GOING PUBLIC

Institutional investors, including financial intermediaries, Real Estate Investment Trusts (REITs) and public developers, have dominated investment activity over the last two years, thus indicating that real estate in Asia Pacific has become an established investment asset class. With nearly US$3 trillion of assets acquired since 2010, these investors have been the largest source of investable capital over the last five years. Recent government efforts to implement pro-investor legislation in many emerging countries are expected to improve transparency and efficiency that should continue to widen the investor base in the region. While Tokyo and Singapore have been the region's hubs for REIT, with conducive legislations in Singapore contributing significantly to the securitization of cross border real estate, the next wave will be propelled by the region's emerging markets, in particular, China and India.

2. POLICY TRUMPS POLITICS

Investors have had mixed feelings about recent developments in the global political arena. Economic policy uncertainty is on the rise, especially with the change in leadership in many parts of the world, and rhetoric on protectionist trade policies remains front and center.

Nonetheless, we view political developments posing a slight downside risk to the outlook across the region, as leaders increasingly focus on stability and growth in Asia Pacific.

3. ASIA'S GREAT WALL OF CAPITAL

Chinese capital has increasingly shown its heft, especially as outbound investments continually set records over the last five years. Even Singapore investors have been equally active and behind the most significant transactions. Such flow of capital is not likely to change over the long-term. Investors are keen to put their capital to work for safe harbor consideration, growth opportunities in new markets and sectors, migration patterns, or just the need to deploy savings.

4. FOLLOW THE INFRASTRUCTURE

Investments in infrastructure will be a key economic stimulus tool in many markets across the region. The improvements in infrastructure should beget more rapid economic growth over time, spur urban development, and notably, improve the emerging markets' standing.

5. ALTERNATIVE ASSETS ARE HOT

Data centers still remain lucrative in the region, as consumers increasingly turn online for shopping and data needs for cloud-based systems. Student housing, retirement living, and healthcare are increasingly popular alternative property types.
Australia, which offers one of the finest educational systems in the world, has increasingly drawn more international students, thanks to a weak Australian dollar. With residential property prices still skyrocketing, we expect a shortage of student housing especially in key cities. The region is not only home to some of the young population (India, Vietnam, Indonesia, and the Philippines) but also to an ageing yet wealthy boomer population (Singapore, Hong Kong, South Korea, Japan, and China). Hence, investing in retirement homes and other senior housing will be a growth opportunity over the long term.

BRISBANE, AUSTRALIA

STRATEGIC LOCATION INDEX

Opportunities In Core Markets

AUSTRALIA: CONTINUED STRENGTH

Australia's core markets earned the highest SLI score, with their strength based upon sustained economic growth and strong occupational markets. Limited new supply is expected to be completed in Sydney through 2019 but completions are expected to pick up in Melbourne over the next two years. However, we expect vacancy rates in both markets to remain in the single digit on the back of strong demand, allowing rents to continue tracking upwards. In light of strong fundamentals, we expect ongoing competition between investors to purchase assets, allowing potential for further albeit modest, yield compression.

Appetite for core product in Sydney and Melbourne Central Business District (CBD) office markets remains, however available stock for purchase has tightened over the past 18 months. While investors continue to seek core opportunities, they have also diversified into different sectors and/or geographical locations in an effort to deploy capital. Metropolitan Sydney has been in strong demand, supported by favorable fundamentals and substantial public investment into a range of infrastructure projects. Brisbane's office market is also back on the radar, having largely past the bottom of the tenant demand cycle. Further support is also given by the average prime yield spread of over 125 basis points (bps) to Sydney.

SINGAPORE: THE LION CITY ROARS BACK

The city-state, which has seen a revival in investor interest over the past year, has placed prominently in the SLI core office market rankings. Office sales were the highest ever and have been supported by two mega deals - BlackRock's SGD3.38 billion sale of Asia Square Tower 1 to Qatar Investment Authority and the government's SGD2.57 billion sale of a white site slated for mostly office use along Central Boulevard to a unit of IOI Properties Group. The office sector is expected to have another banner year in 2017 with the potential sale of Asia Square Tower 2. While there has been a lack of enthusiasm towards the Singapore economy, we expect government efforts, as indicated in the 2017 budget, to focus on improving the long-term prospects for the city-state's economy.

TOKYO: GRADUAL SHIFT TO A HIGHER GEAR

The Japanese economy continued to push forward, posting an annualized 1.2% growth in the last quarter of 2016. This is the fourth straight quarter of growth for Japan; a feat that has not been accomplished since Prime Minister Shinzo Abe's first year of return to power. While leasing conditions might turn less favorable for landlords due to a spike in new office completions from 2018-19, we expect vacancy rates to remain manageable. The expansion in office supply, however, will rejuvenate an ageing market and at the same time, increase the choices for institutional investors, who remain keen to acquire assets in Tokyo's red hot market. Yield spreads on offer remains one of the widest relative to other top-tiered core markets in the world while Tokyo 2020 Olympics-led infrastructure improvements continue to sustain value, offering opportunities to overseas investors seeking to enter or expand on existing platforms. This is the main reason Japan's capital places highly on our SLI index. Lending for private investors is also likely to remain accommodative as economic conditions remain positive.

For 2017 and beyond, we expect similar themes to persist. The markets filling out the top half of this year's SLI comprise a geographically diverse group. Strengthening office demand enabled Australia's core markets of Sydney, Melbourne, and Brisbane to secure the highest rankings. In addition, elevated performance allowed Shanghai to retain its position as the highest-rated Chinese Tier 1 market.

SHANGHAI: STRONG AND STEADY

Shanghai's core office markets remain on an upward trend given the moderate supply and strong demand since 2015. Still, with substantial supply in the non-core areas leading to competition for tenants, some rental correction has been observed. However, office leasing in the core markets have been robust. The vacancy rate in most core-markets have been steady at single digits and almost all landmark new supply such as Shanghai Tower and HKRI Centre have achieved over 50% pre-leasing rates by completion time. Chinese domestic buyers continued to show strong purchasing power while limited assets in the core areas have compressed yields to historical lows. Investors are turning to value-add opportunities, especially lower grade buildings in prime locations as well as those in the emerging business districts, which could see price appreciation as these locations mature.

HONG KONG: MAINLAND APPETITE

Rising rental markets saw investors shifting their focus to the core-office areas especially in Central and Wanchai/Causeway Bay districts. In Central, limited availability of saleable Grade A office stock and relatively low vacancy in the submarket gave vendors the upper hand in negotiations, leading to several buildings transacted at record highs. Looking ahead, we expect investors to remain active in the core office areas against a tight availability environment and a stable rental market. Capital values for Central are likely to reach new heights in the aftermath of the land sale tender of Murray Road multi-storey carpark, the first commercial development site in Central to be offered by the government in over 20 years, which was acquired by Henderson in May for a record-breaking HK$ 50,064 per square foot on an A.V. basis. As a result, office yields are likely to compress further over the near-term.

SEOUL: GOING COUNTERCYCLICAL

Increased vacancy rates in office buildings are beginning to negatively affect investment sentiments in a slow economy. Still, capital values remain supported by competition for office assets, which has persisted due to record low interest rates while returns from financial market instruments stay relatively unattractive. Seoul's commercial properties last year drew record investment volumes due to a number of significant acquisitions by cross border capital and momentum is expected to be sustained. Opportunities will continue to emerge as South Korean conglomerates deleverage by selling non-core assets. While Seoul's score in our SLI index is moderate, it is a market to watch for as foreign investors will consider Korean assets as a component to diversify their portfolios, especially in well-leased assets. Returns ranging 4-4.5% remains attractive as yields across the region's core markets continue to remain tight.

SEOUL, SOUTH KOREA

KEY INVESTMENT THEMES

HONG KONG

Mainland Appetite

1. Rising rentals in the core CBD
2. Strong demand from Mainland occupiers/investors

Kowloon East: The New Dragon

1. New MTR connections
2. Affordable, High Quality Projects

SHANGHAI

Strong and Steady

1. Robust leasing demand
2. Value-add/repositioning opportunities
3. New business districts are potential game changers

INDIA

Time To Get Bullish

1. Fastest growing economy in the region
2. Push for transparency
3. Highest yields among emerging markets

VIETNAM

Slowly But Surely

1. Strong FDI inflows
2. Supportive policies and market liberalization
3. Major infrastructure and urban developments

BANGKOK

Managing Well in a Tough Political Environment

1. Low development pipeline
2. Gateway to the IndoChina region
3. Infrastructure spending to reach $50 billion in the next 5 years

SINGAPORE

The Lion City Roars Back

1. Investor interest reviving
2. Strong fundamentals
3. Policy support for long term economic growth

The Rise of The City Fringe

1. Decentralized opportunities

SEOUL

Going Countercyclical

1. Consistent interest from foreign investors
2. Countercyclical/diversification play
3. Corporate deleveraging unveils opportunities

TOKYO

Gradual Shift to a Higher Gear

1. Positive economic and business sentiments
2. Olympics-led infrastructure improvements and urban regeneration
3. Attractive yield spreads

Expanding Core Markets

1. Population growth in central wards
2. Opportunities in data centers, student housing, healthcare and self-storage

THE PHILIPPINES

Going Beyond Manila

1. Southeast Asia's fastest growing economy
2. Opportunities in Manila Bay reclamation
3. Initiatives to extend economic base beyond the capital

KUALA LUMPUR

Looking Beyond The Near-Term Slowdown

1. Major infrastructure developments
2. Economic transformation initiatives
3. 2020: Population to rise 40% in Greater Kuala Lumpur

JAKARTA

Turning a New Page

1. Expanding middle class
2. Policy reforms and infrastructure developments
3. Rentals bottoming out; favorable price points

AUSTRALIA

Continued Strength

1. Expanding transport infrastructure
2. Current development cycle ending
3. Continued employment growth

Fringe Markets Heating Up, Brisbane is Turning The Corner

1. Population growth, new infrastructure
2. Geographical/risk diversification
3. Potential in student accommodation and senior housing

ASIA PACIFIC'S NEXT CORE MARKETS?

While the region's core assets will remain vital components in portfolio construction, the limited opportunities in safe haven markets will be played out again this year. The continual weight of capital moving into the Asian core space also means that deals have become tougher to execute and originate. Still, the region's diverse development backdrop and deepening property markets will allow investors to play into the wider economic and real estate trends in the region, and set the stage for next core strategies. The region's emerging markets will also offer investors the opportunity to tap into its long-term growth fundamentals, which will become increasingly viable due to sustained reforms and economic initiatives.

CENTRAL, HONG KONG

AUSTRALIA:
FRINGE MARKETS HEATING UP, BRISBANE IS TURNING THE CORNER

With abundant equity targeting Australia and available stock in core markets tightening, investors are geographically diversifying. Metropolitan Sydney is one area that has gained significant interest from investors, not least as AUD11.3 billion in public investment has been announced to improve Sydney metropolitan transport infrastructure alone.

Outside of Sydney, investors are increasing their focus on Brisbane's office market. After a sustained period of negative net absorption and declining rents, the bottom of the tenant demand cycle has now largely passed. Notwithstanding this, on current metrics, we expect the recovery to be relatively protracted, rather than the swift turnaround associated with the mining boom in 2011. Overall, we forecast a gradual, but sustained recovery in demand and for rents to largely track sideways over the near term. In line with this, assets with significant vacancy may require longer letting up periods.

To help accommodate population growth in Sydney's North Shore over the next decade, several infrastructure projects are underway including Stage 2 of the Sydney Metro, the NorthConnex road project and the new Northern Beaches Hospital.

With strong fundamentals across Sydney's North Shore office markets and extensive infrastructure investment across the region, there are opportunities across wide tranches of the Sydney metropolitan area, with varying degrees of risk along the spine from North Sydney to North Ryde/Macquarie Park.

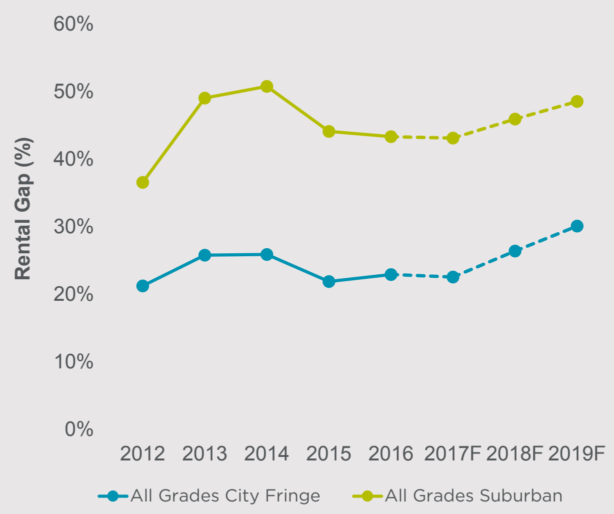
SINGAPORE:
THE RISE OF THE CITY FRINGE

A fresh look at decentralized opportunities is warranted as high prices will persist - rents are starting to stabilize or even edge up as new supply eases in the core CBD beginning next year, in addition to the general limited availability of core products. Such rent recovery will continue to widen the differential between the CBD and those in non-CBD locations. This advantage of being less costly, combined with higher availabilities, provides compelling values for some cost-sensitive companies.

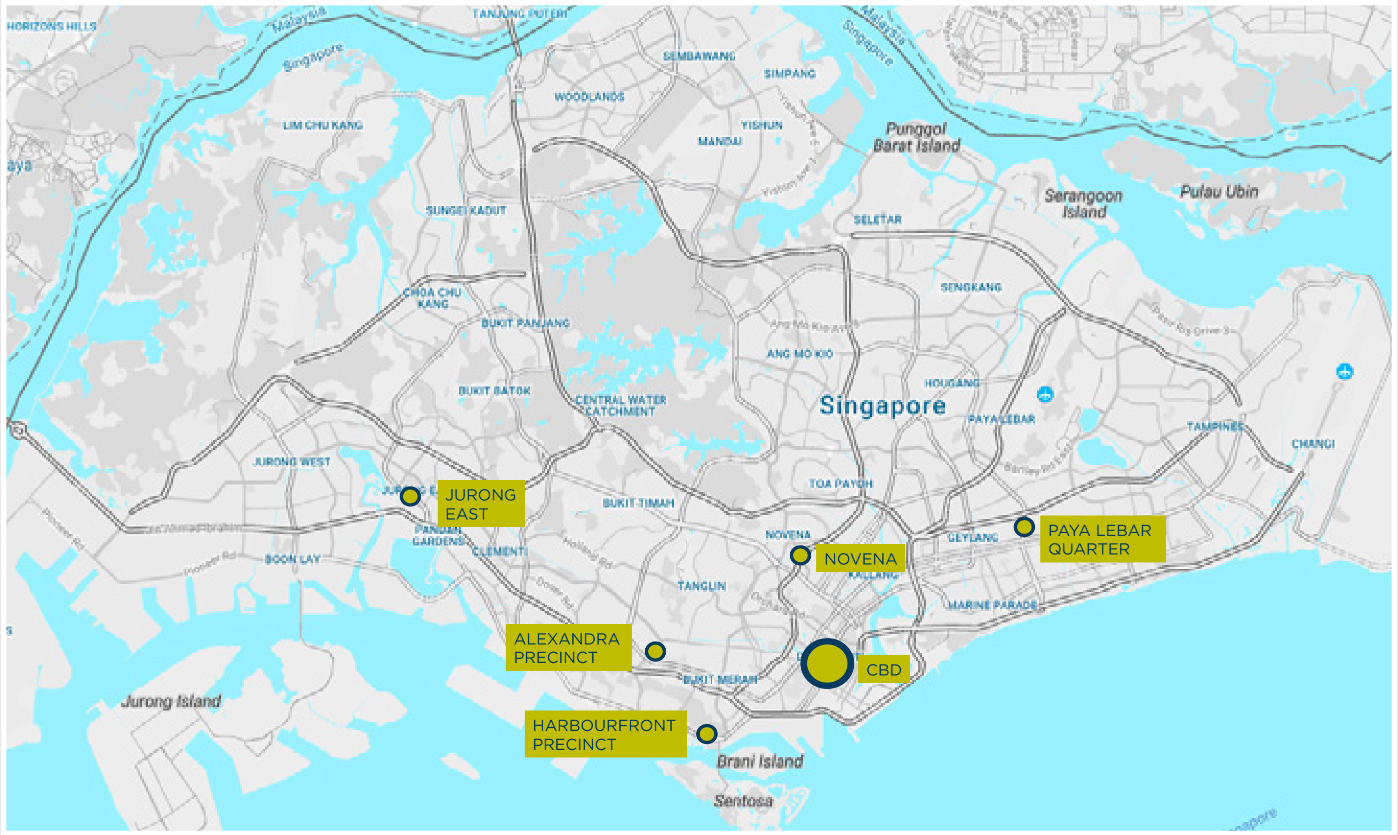
Some recent high-profile moves include Google's relocation to Mapletree Business City II and international bank consolidations of their back offices, citing substantial rent savings of up to 60% as the main draw.

These city fringe and suburban facilities are gaining popularity as they have evolved into "suburban downtowns"— transit-oriented, and often, mixed-use.

Rental differential projected to widen further by 2019



Note: as compared against CBD Grade A Offices



TOKYO:
EXPANDING CORE MARKETS

Similar to the growing interest in new segments and styles of investing in all global regions, investors in Japan can also play into the country's demographic themes. With Tokyo's population growth bucking the country's declining birth rate, the continued shift of inhabitants into the capital is expected to expand the traditional Tokyo core market to include submarkets with positive growth stories.

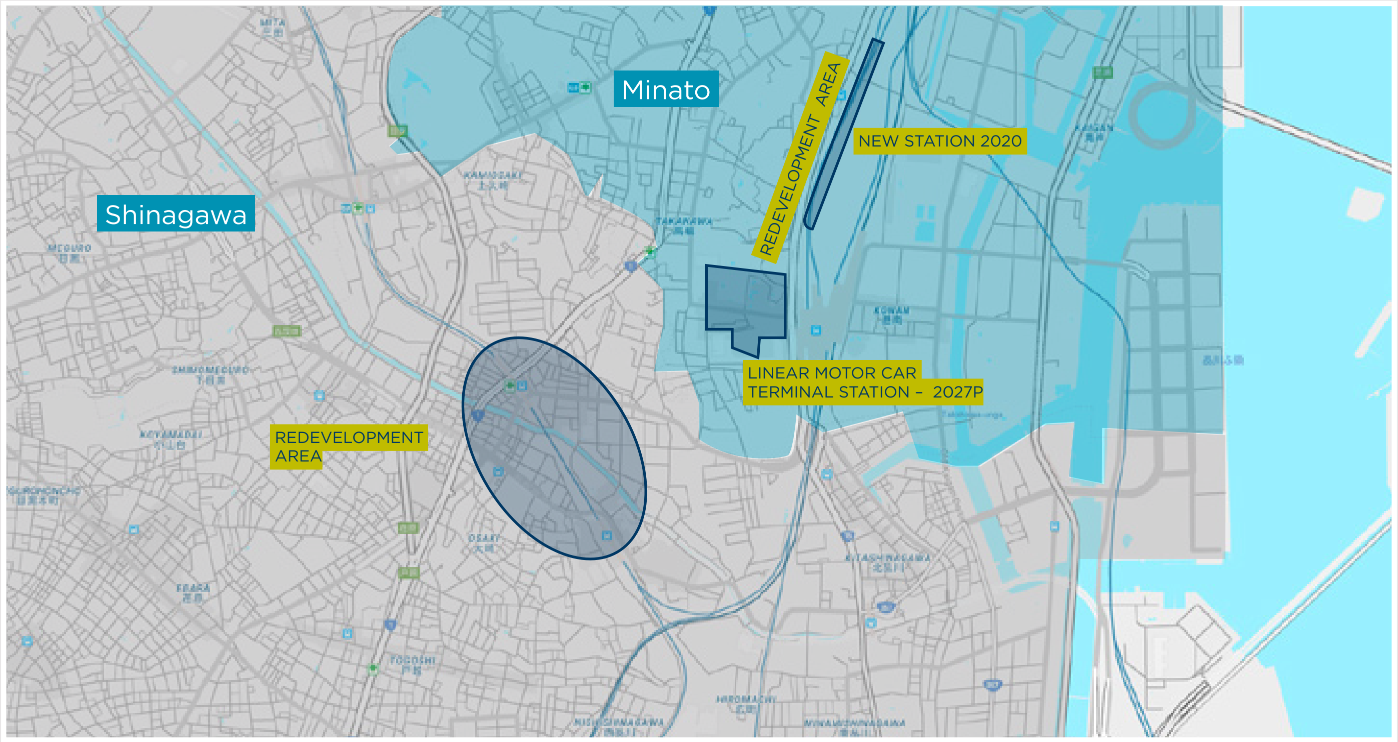
The Shinagawa area is one such area that has the potential to experience this. Shinagawa already benefits from excellent connectivity due to its proximity to Haneda Airport; the Shinagawa station is also a stop on the Shinkansen and Narita Express. However, new connections being planned will serve to cement the ward as a major transportation hub, which will create a clear need for residential and hospitality properties. This new demand should serve to improve asset prices and elevate the surrounding areas into the core space.

Ikebukuro is another submarket that we believe has the potential to elevate to core status but at more appealing price points, as compared to the Central Five Wards.. Ikebukuro station sees approximately 2.6 million daily passengers, making it Tokyo's third busiest. As a direct result of the number of passengers, Ikebukuro occupies a spot in the top ten retail markets in terms of rent across Japan.

Shinagawa: The area between Shinagawa and Tamachi stations will receive a major facelift with the first new station on the Yamanote line in almost half a century. World renowned architect Kengo Kuma has been selected to design the yet to be named station, which is expected to be completed just in time for 2020 Olympic Games. In the longer term, the planned Linear Chuo-Shinkansen, train line will have its termnial station at Shinagawa. Set to open in 2027, it will enable travel to Nagoya in under 45 minutes

Ikebukuro:

Both the east and the west side of the station are expecting major redevelopments, which should help bolster the area's overall image and elevate the area's overall status. The clear sectors that will benefit are retail and residential



HONG KONG'S KOWLOON EAST: THE NEXT CBD

Outside core office areas, Kowloon East stands to reap the biggest benefits on the back of government policy support, improving transportation infrastructure, and the increasing supply of Grade A office buildings. Under the current plan, Kowloon East is envisioned to be the city's second CBD, with the total Grade A office stock expected to overtake that in Central over the next 10-15 years. Looking ahead, we expect investors to remain on the lookout for value-added opportunities with a focus on industrial and/or office buildings with redevelopment potential in the district.

Much of the growth will be realized in the Kai Tak Development Area, where the old airport was located and could potentially yield about 24.5 million sq ft of commercial GFA via public land sale tenders.

Wong Chuk Hang, in Hong Kong South, has recently emerged as an up-and-coming office market. Investors and developers are shifting their focus to the district, with a handful of transactions in both the land sales and strata-titled office markets achieving record unit prices.

41 Heung Yip Road

The opening of the MTR South Island line in late 2016 and the completion of a handful of high-specs Grade A office developments have seen tenants relocating their offices from core office areas into the district.

SHANGHAI: POISED FOR A NEW STAGE OF GROWTH

While a shortage of quality office spaces and subsequent rental increases in the core CBDs have curtailed existing office expansion and raised occupation costs for many occupiers, fast-maturing emerging markets are set to be game-changers in Shanghai's office market. Planning by the municipal government for new emerging business districts started early into the new millennium, most of which will gradually mature over the next 5-10 years. These locations will provide alternatives to occupiers as well as investment opportunities.

Q2 2017-2021 TOTAL NEW SUPPLY

Downtown:
2.0 million sqm

Suburban:
4.0 million sqm

SEOUL:
INNOVATION LED

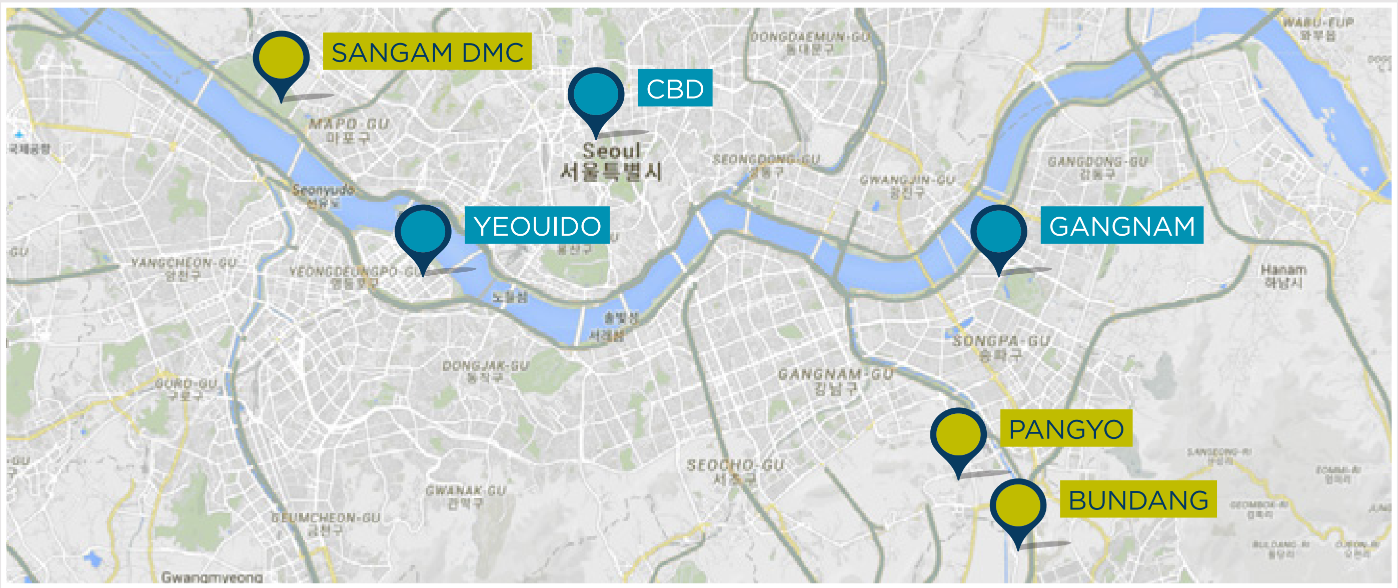
With core office assets hard to source, Korea's institutional investors are adopting value-add strategies and showing interest in non-core markets. Sangam Digital Media City (DMC), Pangyo and Bundang have emerged as viable alternative office locations. In particular, many Information Technology (IT) companies have moved out of the Gangnam Business District (GBD) area to the newly built Pangyo Techno Valley, which is relatively close to Gangnam. Pangyo Techno Valley in Seongnam, Gyeonggi Province, is positioned to be South Korean's innovation cluster hub specializing in IT, biotechnology, media content and nanotechnology. Pangyo district is forecast to grow and continue to benefit from companies opting to relocate from the Gangnam and Bundang Business Districts. Once construction of the new Pangyo Creative Economy Valley is completed, Pangyo is set to solidify its appeal to investors and occupiers.

Rapidly expanding IT companies requiring large spaces for their corporate headquarters are relocating to Pangyo.

Further transportation infrastructure projects are expected to strengthen Pangyo district's transportation infrastructure, such as the extension of Seoul Subway Line 8 and Great Train Express (GTX) project, which are underway.

LIG Nex1 · NHN Entertainment · NEXON · SK chemicals · AhnLab · KTNET · SAMSUNG TECHWIN

Moving in droves: a number of Korea's leading tech companies are making Pangyo their home.



ASIA PACIFIC'S EMERGING MARKETS

MUMBAI, INDIA

MANILA, PHILIPPINES

THE PHILIPPINES: BEYOND MANILA

The Philippines is still projected to be a stellar performer in the Asia Pacific region for the coming years, despite concerns over a recent shift in foreign policy direction away from the U.S., and towards other Asian countries. This is due in large part to the economy being heavily driven by local demand and consumption. Investments are playing a bigger role in the country's development as the administration hopes to lift the country higher from the status quo. The push for more infrastructure and industrial developments are firming up interest in areas outside of Metro Manila like Laguna, Cavite, Batangas, and Mandaue, Cebu. On the real estate front, high-end and prime office spaces still benefit from stable demand, largely driven by the Information Technology-Business Process Outsourcing (IT-BPO) industry. Rental yields are projected to be stable at around 7.0% over the next few years, making strata-title offerings appealing.

Investments are playing a bigger role in the country's development as the administration hopes to lift the country higher from the status quo

BANGKOK, THAILAND

BANGKOK: MANAGING WELL IN A TOUGH POLITICAL ENVIRONMENT

The military-backed government has lent some stability in the short to medium term and the acceleration in public spending on infrastructure has become a crucial cog in the Thai economy. Given its proximity and close economic ties to the CMLV (Cambodia, Myanmar, Laos, and Vietnam) economies, which are expected to be major beneficiaries of an integrated Southeast Asia, Thailand has attracted several foreign multinational corporations (MNCs) keen to establish a base for expansion in Indochina. Demand for office spaces in Bangkok has remained robust as a result of sustained foreign investments, with the low supply pipeline driving tight availabilities and rent increases into the medium term. The extension of the city's mass transit train routes will continue to sustain interest in residential developments.

Thailand has attracted several foreign multinational corporations (MNCs) keen to establish a base for expansion in Indochina

JAKARTA, INDONESIA

JAKARTA:
TURNING A NEW PAGE

Indonesia rose 15 places in the World Bank's 2017 Ease of Doing Business index, putting it among the top-10 gainers. The economy's long-term structural fundamentals remain intact and the government's reform packages, unveiled from late 2015, together with higher public spending and infrastructure development, are boosting the country's investment climate. Immediate gains from reforms and foreign investments will feed greater consumer spending, increasing the demand for retail space while the manufacturing sector will require more warehouse and logistics space. While Jakarta's office sector is currently oversupplied, the imbalance is expected to tilt after 2018. Attractive valuations coupled with low costs of doing business and increasing foreign flows of capital will underpin the office market recovery, especially after 2018.

> While Jakarta's office sector is currently oversupplied, the imbalance is expected to tilt after 2018

KUALA LUMPUR:
LOOKING BEYOND THE NEAR-TERM SLOWDOWN

With the capital's first Mass Rapid Transit (MRT) line expected to be completed by June this year and a further two added by 2021, the expected impact from these transport links will be a key market drivers. The southern part of the capital, which have traditionally played second fiddle to the north, will be a major beneficiary of the improved transport links. As convenience is a key selling point, integrated and transit-oriented developments will be favored. These ongoing projects will continue to lend viability to future plans as these develop critical infrastructure and foster commercial activities. We expect real estate values to benefit from the government's sustained efforts to raise the level of economic development and income in the country.

> As convenience is a key selling point, integrated and transit-oriented developments will be favored.

KUALA LUMPUR, MALAYSIA

HO CHI MINH CITY, VIETNAM

VIETNAM:
SLOWLY BUT SURELY

As an emerging market, Vietnam displays many of the characteristics of its Asia-Pacific neighbors but perhaps is not as well understood. Namely, factors such as legal titles in the form of 50-year land leases granted by the state, a regulatory and tax environment that facilitates the placement of foreign capital, a real estate market cycle that is now at a stage of controlled expansion without the threat of chronic oversupply and Grade A office yields that are in line with risk-free rate spreads seen in core markets at 200-300 bps above five-year bonds, stand out as examples. In addition, limited country and political risk, a steady inflation of 2-3% per annum, and a currency that has devalued on average of no more than 2% per year over the last 10 years provide evidence of the stability of Vietnam's current economic situation. With the adoption of revised banking regulations bringing Vietnam in line with Basel III, we are seeing capital controls being placed on banks and developers. The regulations have acted as a catalyst for real estate owners to start seeking partners, both active and passive, to move their real estate business forward. We expect to see more cross-border investment activity as a result.

Tighter lending requirements are compelling developers and owners to seek partners to move their real estate business forward.

MUMBAI, INDIA

INDIA:
TIME TO GET BULLISH

Long considered as one of the hottest "emerging" real estate investment destinations, India finally seems to be poised to enter the list of "core" investment destinations. 2016 saw total private equity (PE) investments in the real estate sector reach USD6.0 billion, a 25% increase from the USD4.8 billion in 2015 and the highest in nine years. Hence, 2017 is expected to witness similar highs, especially in the commercial office segment as several high value deals comprising of stake sales and a REIT listing are expected to take place. Traditional markets will continue to deepen (Mumbai, Delhi National Capital Region and Bengaluru) and secondary markets (Chennai, Hyderabad, and Pune) will strengthen. New markets will open up along its industrial nodes and opportunities are expected to develop in industrial, warehousing, and logistics assets – an unorganized and underserved asset class.

Given their experience from investing in India since the mid to late 2000's, PE and institutional funds will continue to look at developers' profiles, track records, and management practices as guides in investing in specific projects or a portfolio of assets. Most Indian developers offer assets across cities, though regionally they may only be strong in one or two cities. Hence, though Bengaluru and Hyderabad may seem to be the most attractive office markets given their favorable demand-supply dynamics, investors will actively scour deals in Chennai, Gurgaon, Mumbai Noida, and Pune.

New markets will open up along its industrial nodes and opportunities are expected to develop in industrial and logistics assets.

STRATEGIC LOCATION INDICATOR METHODOLOGY

The SLI ranks the major cities in Asia Pacific based on three factors - the economy, real estate performance and risks. We assumed that investors will put a premium on real estate performance (50% for core opportunities and 70% for opportunistic): by looking at vacancy, rent growth, yield spreads and capital value appreciation. For vacancy and rent growth, we included historical and our five-year forecast. For excess returns, we compared yields with 10-year bond rates (or whatever is the applicable risk-free asset in that market). For capital value appreciation, we looked at significant transactions data for the past 10 years and also estimated future movement.

Economic performance is the next most critical factor – with a weight of 30% for core and 20% for opportunistic. We looked at historical and future GDP on a country or city level. We also included population, economic size and Sovereign Debt Rating.

For risks, we assumed that investors in this region are not that risk-averse given the volatility of our region relative to more established markets in the West – so a relatively low weight was assigned: 20% for core opportunities and 10% for opportunistic. We used several indicators to quantify risks which include among others transparency (from Corruption Perceptions Index) and liquidity via the transaction velocity in the region.

A score between 1.00 and 1.49 means that the location is a strong buy – it is worth entering and we strongly recommend to make an investment. A score in the next quartile also indicates that it is worth entering the market. A score in the range of 2.00 and 2.49 would mean to hold off as it may not be a good idea yet. A score of 2.5 and 2.99 indicates that you should consider reducing your positions in those locations. And a score of 3.00 tells you to exit or avoid this market.

AUTHORS:

SIGRID G. ZIALCITA
Managing Director
Research and Investment Strategy, Asia Pacific
+65 6232 0875
sigrid.zialcita@cushwake.com

DOMINIC BROWN
Head of Research, Australia & New Zealand
+61 0 431 947 161
dominic.brown@cushwake.com

REED C HATCHER
Director
Head of Research, Hong Kong
+852 2956 7054
reed.hatcher@cushwake.com

SIDDHART GOEL
Senior Director
Research Services, India
+91 80 40465555
siddhart.goel@cushwake.com

ARIEF RAHARDJO
Director
Research & Advisory, Indonesia
+62 21 2550 9540
arief.rahardjo@cushwake.com

HIDEAKI SUZUKI, PhD MRICS
Director
Head of Japan Research
+81 3 3596 7804
hideaki.suzuki@cushwake.com

JANLO DE LOS REYES
Manager
Research & Consultancy, Philippines
+63 2 554 29 27
janlo.delosreyes@cushwake.com

SHAUN BRODIE
Senior Director
Head of Occupier Research, Greater China
+86 21 2208 0529
shaun.fv.brodie@cushwake.com

CHRISTINE LI
Director
Research, Singapore
+65 6232 0815
christineli.mw@cushwake.com

JUDY JANG
Senior Manager
Research, South Korea
+82 2 318 8322
judy.jang@cushwake.com

PHUOC VO
Director
Valuation & Research, Vietnam
+848 3823 7968
phuoc.vo@cushwake.com

For all information on Asia Pacific Capital Markets, please contact:

JAMES QUIGLEY
Head of Capital Markets
Australia and New Zealand
+61 2 8243 9974
james.quigley@cushwake.com

STEVE SAUL
Managing Director
Singapore
+65 6232 0878
steve.saul@cushwake.com

PRIYARANJAN KUMAR
Regional Executive Director
Capital Markets, Asia Pacific
+65 6232 0840
priyaranjan.kumar@cushwake.com

FRANCIS LI
Head of Investment & Advisory Services
Greater China
+852 2992 4321
francis.cw.li@cushwake.com

DIWAKAR RANA
Managing Director
Capital Markets, India
+91 124 469 5544
diwakar.rana@ap.cushwake.com

HANDA SULAIMAN
Head of Capital Markets Group
Indonesia
+62 21 2550 9570
handa.sulaiman@cushwake.com

YOSHIYUKI TANAKA
Senior Executive Director
Head of Capital Markets, Japan
+81 3 3596 7060
yoshiyuki.tanaka@cushwake.com

SHAUN POH
Head of Capital Markets
Singapore
+65 6232 0882
shaun.poh@cushwake.com

RICHARD HWANG
Managing Director
South Korea
+82 2 318 8322
richard.hwang@cushwake.com

BEN GRAY
Director
Capital Markets, Vietnam
+84 8 3823 7968
ben.gray@cushwake.com

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3 Church Street, #09-03,
Samsung Hub
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