Singapore

A Deep and Compelling Opportunity Set

The supportive growth profile and diversification outlined in the previous sections underpin a deep and compelling opportunity set. The broad scope of value-add opportunities fostered by secular growth trends both in traditional and alternative asset classes have been supplemented by resilient, low-volatility sectors with strong rental growth. We observe differing risk/return profiles from other global regions (and within Asia) with meaningful differences by sector (most notably office).

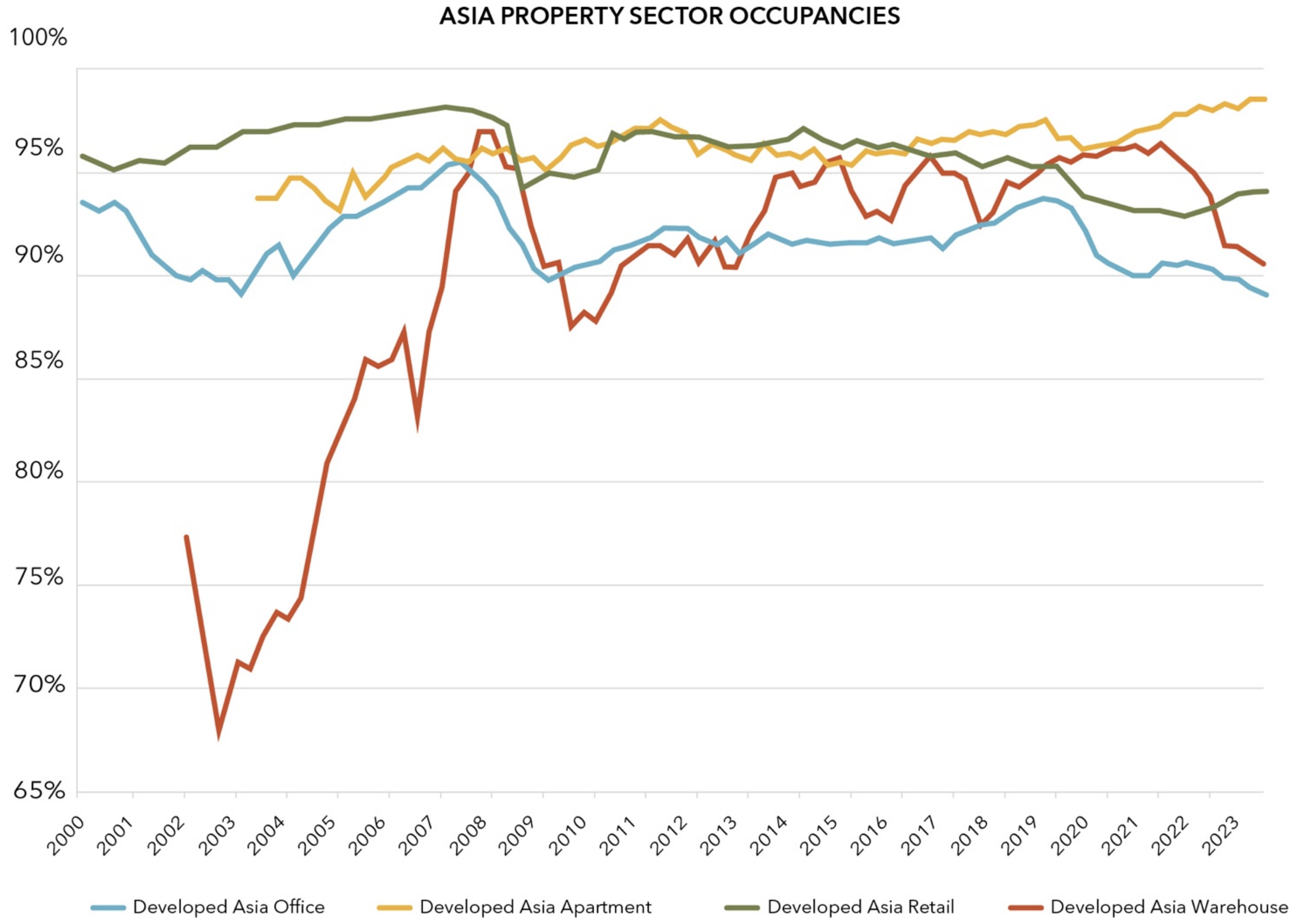
In aggregate, real estate fundamentals across Developed Asia have been positive. With healthy labor markets and unemployment at or close to record lows, real estate demand has been strong. As an example, Developed Asia office markets continue to exhibit positive momentum with trailing 12-month absorption (as of Q1 2024) improving for four successive quarters and reaching the highest level since Q2 2019, surpassing the long-term average[1]. New supply in the region has been broadly contained, with only a few market/sector combinations facing challenges presented by new development.

As an illustration, Exhibit 6 showcases the historical occupancy trends across Developed Asia's key property sectors: apartments, offices, retail, and warehouses.

[1] Source: JLL / Hines Research. As of Q1 2024.

Exhibit 6

Fundamentals in Developed Asia Have Been Strong



Past performance cannot guarantee future results.

Sources: JLL, CoreLogic, ARES, Hines Research. As of Q4 2023. Developed Asia includes Australia, Hong Kong, Japan, New Zealand, Singapore, and Korea. All of Asia includes China and India.

The retail sector is on an improving trajectory, aided by phenomena like post-pandemic revenge spending and a boost in tourism. The warehouse segment, however, even amidst high demand, has seen the sharpest rise in vacancies due to increased supply. As an example, the South Korean warehouse sector saw demand growth of almost 25% over the last year, but this was outpaced by a 40% increase in supply. Within this context, local expertise with the capability to identify sub and micro markets with the best underlying fundamentals is critical to delivering outperformance.

Rent Growth

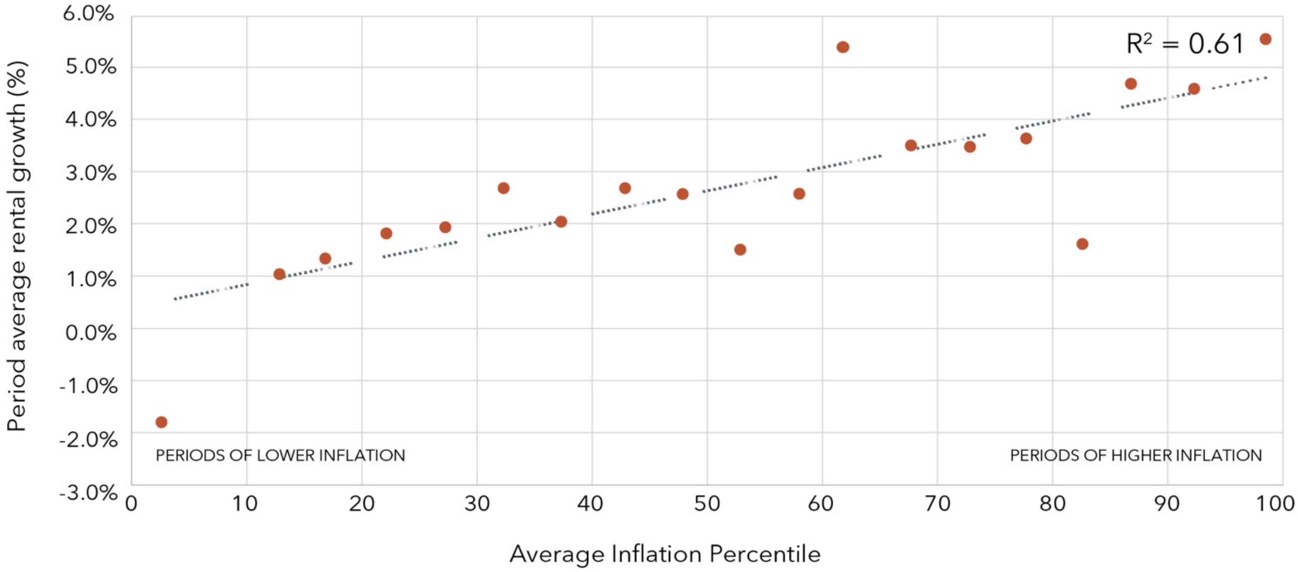
Regional rental growth remains robust. Our proprietary 5-year forward rent forecasts (based on long-term rent trends and fundamental demand and supply analysis) remain positive. Specifically, our rent growth projections for Developed Asia are double that of both the U.S. and Europe[2]. We have done considerable analysis on the evolving policies of global central banks in response to inflation. Based on the data, in our view it is likely that inflation will remain higher for longer than expected, allowing central banks to inflate their way out of current debt loads.

This will likely benefit Asian real estate due to rental growth acceleration. There is a very strong historical correlation (R^2= 0.77)[3] between trailing annual rent growth and inflation in Developed Asia. While this pattern is observable across the globe, as shown in Exhibit 7, the correlation in Asia is higher than the global aggregate. In other words, the relationship between inflation and rents is stronger in Developed Asia than for Europe or the U.S. At the same time, higher costs for developers (materials, insurance, labor, and financing) have significantly slowed the pipeline of new supply. Given this backdrop, there is some likelihood that our current growth forecasts will likely be further revised upward via further reductions in supply.

[2] As of Q3 2023.
[3] The R^2 is defined as the coefficient of determination (ranging as a value between 0 o and 1) that reflects the percentage of the variation of the model. The higher the number, the more correlation, with a value of 1 representing a complete correlation.

Exhibit 7

Global Real Estate Rents Have Historically Risen in Line with Inflation[4]



Source: Oxford Economics, JLL, CBRE, NCREIF, CoStar, Hines Research. As of Q3 2023.

Currency Impacts

Combined with the likelihood of long-term Asian currency appreciation against the U.S. dollar, we see positive tailwinds for real estate in Asia. As of year-end 2023, many Asian currencies were trading at significant discounts[5] to the dollar. Examples include Japan, China, India, Malaysia, the Philippines, Hong Kong, and Australia. While a strong U.S. dollar generally increases buying power in countries with the weaker currencies, this opportunity can be fleeting.

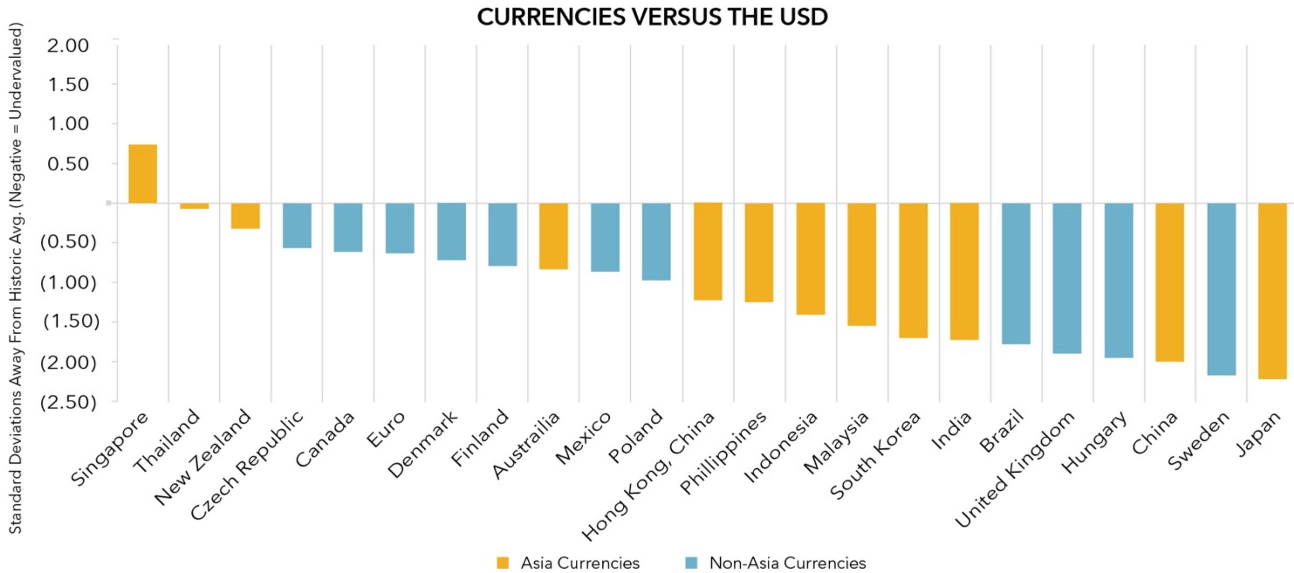
Historically, these discounts are mean-reverting and are likely to shrink and/or reverse to premiums. As shown in Exhibit 8, Hines Research calculated a basket of Developed Asia currencies versus the long-term trend. This currency basket, as of Q1 2024, was trading 20% beneath the long-term trend (Exhibit 9). As such, we believe investing on the back of a strong U.S. dollar may help make the case for Asia all the more compelling.

[4] Hines Research took country-level trailing annual inflation and scored each quarter's (normal distribution) against the country's own history. This was applied to all markets under coverage in Europe, Asia, and North America. All datapoints were bucketed into bands of 5 points (i.e., 0-5, 5-10, etc.). Then the trailing annual rent growth associated with each datapoint (each quarter for the market in question) was averaged for each band. The results are charted here or quoted in the table as shown by each blue dot. The period covered is from 1981 to present, though data availability differs by market. * R2 is a measure that indicates the proportion of the variance in the dependent variable that can be explained by the independent variables in a regression model. It provides an assessment of how well the regression line fits the observed data points. R2 values range from 0 to 1, where a higher value indicates a better fit of the model to the data. An R2 value of 1 indicates that all the variability in the dependent variable can be explained by the independent variables, while a value of 0 suggests that the independent variables have no explanatory power.

[5] Oxford Economics, Hines Research. As of Q1 2024.

Exhibit 8

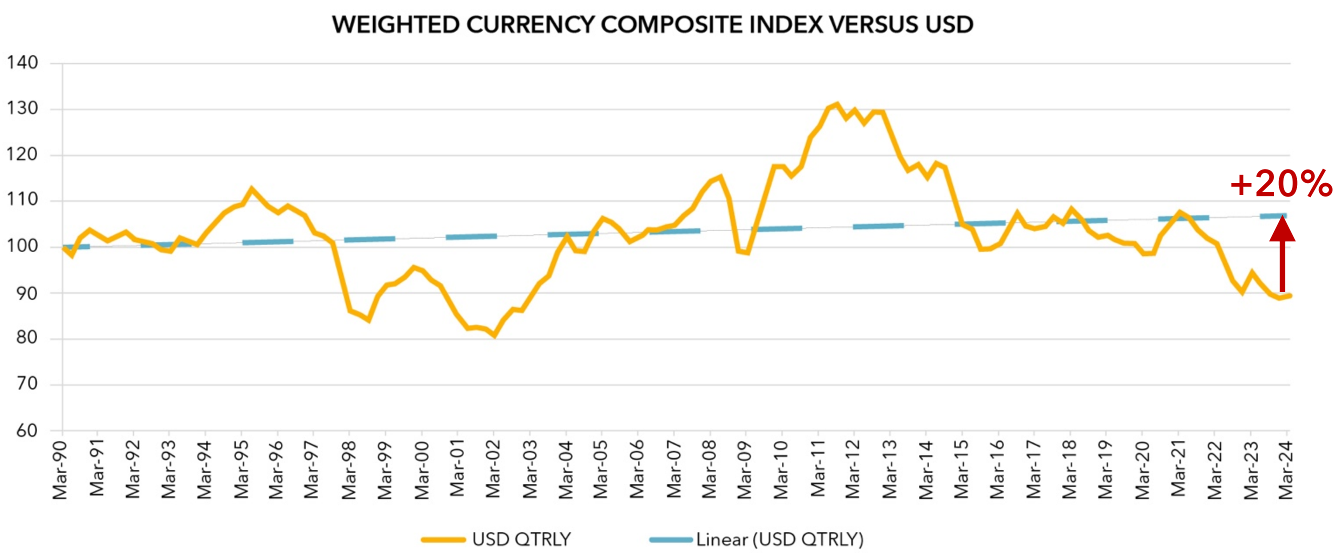
Asia's Currencies Are Trading at Discounts to Their Long-Term Average Exchange Rate with the USD



Source: Oxford Economics, Hines Research. As of Q4 2023.

Exhibit 9

Potential Upside over the Medium-Term as Currencies Revert to the Mean[6]



Source: Oxford Economics, Hines Research. As of Q1 2024.

[6] Based on Asia currency basket with weightings of: Australia 39.5%, Japan 26.6%, South Korea 18.6%, Hong Kong 15.3%.

A Closer Look at the Region's Major Sectors

OFFICE: WORK FROM HOME (WFH) DISTORTIONS HAVE ABATED

While some countries have experienced these distortions more than others, the COVID-related work from home revolution never really caught on in Asia. By the end of 2023, the level of employees returning to the office full-time[7] had surpassed 80%, significantly higher than Europe and about 30 percentage points above the U.S. Office absorption rates reflect this trend. These have been positive for three consecutive years[8], and in our view, available space will likely remain in demand.

APARTMENTS

Compared to (for example) the U.S., the Asian apartment market is fairly small. Nonetheless, average occupancy has equalled or exceeded 95% since the global recession over 15 years ago, with some areas (such as Japan and Australia) doing even better[9]. Build-to-rent is now a focus in Australia, with considerable development needed (and underway) based on demand.

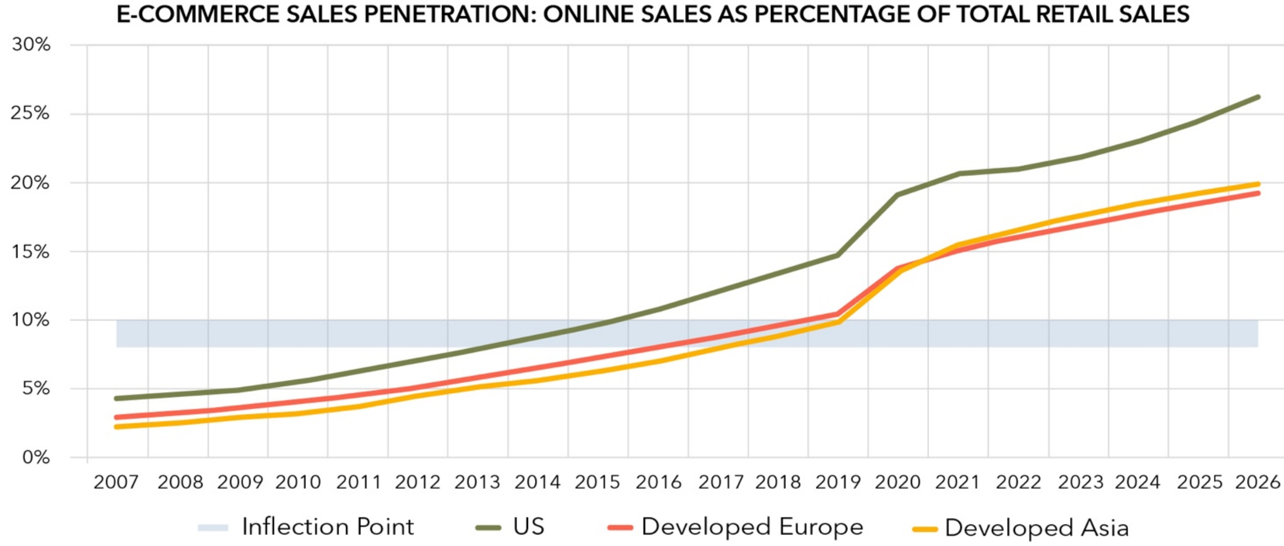
INDUSTRIAL AND LOGISTICS

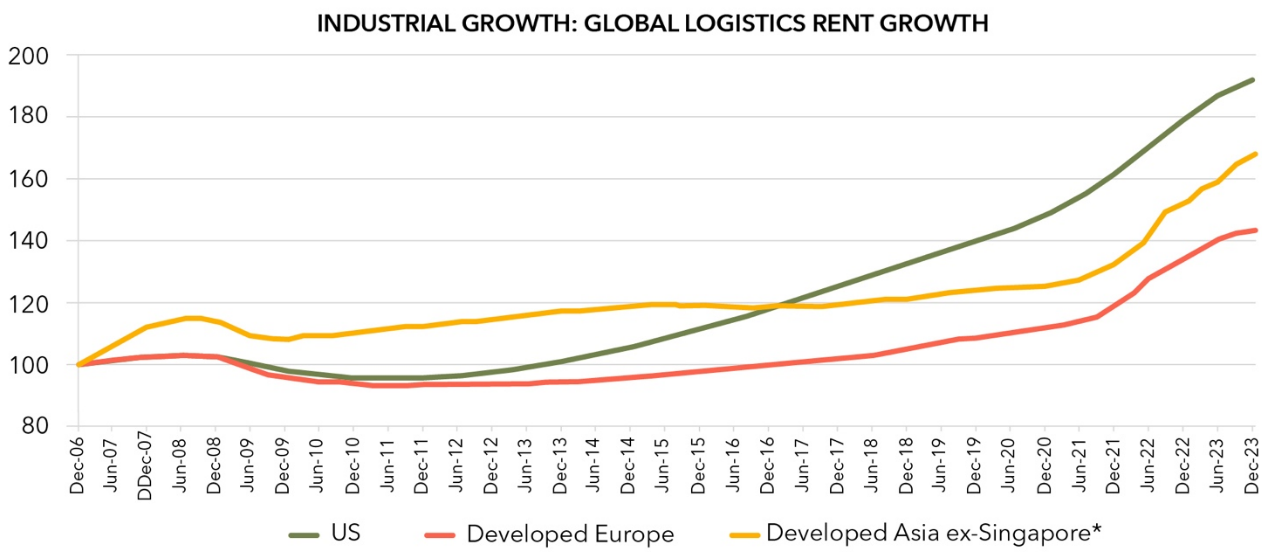
The industrial sector in Asia remains healthy by our measures, and based on supply chain reorientation and e-commerce trends, more growth is likely. Based on an in-depth analysis, we have discovered that once e-commerce penetration rates reach 10%, warehouse rents accelerate as more facilities are sought for packaging, shipping, and return processing. The U.S. reached this point back in 2013, with Europe and Asia breaking through this level around 2018 and 2019, respectively. Rents subsequently accelerated in all three regions, but with Asia last to reach 10%, we believe its rent growth has longer to run. Our estimates suggest that if Asia matches the e-commerce trajectory in the U.S. and Europe, rents could rise by 21%[10] over the next few years.

[7] JLL Research, Hines Research. As of Q4 2023. These are based on survey results led by JLL Research.
[8] JLL, CBRE, Hines Research. As of 3Q2023. Asia markets include only the developed economies of Australia, Hong Kong, Japan, Singapore, and South Korea.
[9] Sources: JLL, CoreLogic, ARES, Hines Research. As of Q4 2023. Developed Asia includes Australia, Hong Kong, Japan, New Zealand, Singapore, and Korea. All of Asia includes China and India.
[10] Euromonitor International, JLL, CBRE, CoStar, NCREIF, Hines Research. As of Q3 2023.

Exhibit 10

E-commerce as a Driver of Warehouse Rent Growth





Sources: Euromonitor International, JLL, CBRE, CoStar, NCREIF, Hines Research. As of Q4 2023 but using annual data for online sales penetration which starts in 2006 for the chart above. The period of 2023 and onwards are forecasts per Euromonitor.
*Singapore is excluded as its rent growth had a uniquely sharp increase in 2007 that skews the Asian line upwards inappropriately.

RETAIL

In Asia, retail has followed the global trend of improving fundamentals. Based on our proprietary data, after bottoming in mid-2021, Asian retail seems to be on the path to recovery. In fact, based on our proprietary scores which measure the health of leasing markets, Asian retail has been on a sharp upward trend since mid-2021. This is consistent with data showing that despite recent weakness, more than half of developed global retail markets are predicting positive rent forecasts.

Key Takeaway:

We see a broad array of opportunities in all sectors, with robust rent growth forecasts in the Asia region supported by strong fundamentals and limited new supply. Our work on the strength of the historic relationship between rent growth and inflation in Asia suggests the potential for upgrades in our rent forecasts, should supply be further constrained due to persistent construction cost inflation.