



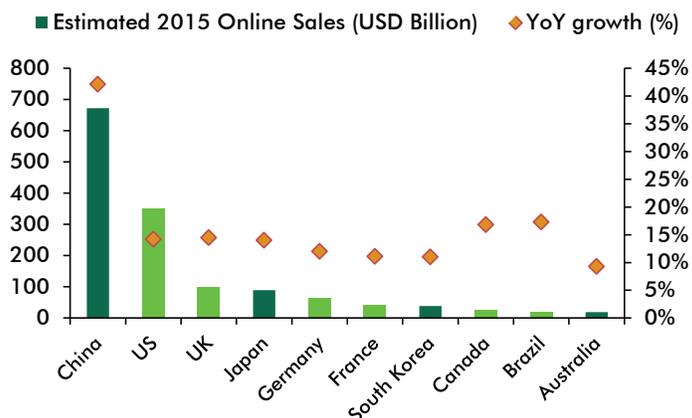
ASIA PACIFIC WATCH

Several Asian cultures celebrated the arrival of the Lunar New Year in recent weeks, and in the Chinese astrological tradition this will be the Year of the Fire Monkey! Apparently this sign is known to be full of tricks, surprises and fun. Monkeys are claimed to be clever, playful and enjoy practical jokes, they are impulsive in nature and have short attention spans. We are unsure how relevant this psychology may play out in the region given the volatile start to the year that many markets globally have been experiencing. While market watchers have generally been focused on the hourly/daily reportage of (often negative) cyclical data, perhaps it is time to also consider a few of the structural trends unfolding in this region. The resounding growth of e-commerce and its impacts on logistics facilities is one such trend that we examine in this month's Watch. Retail e-commerce sales in Asia Pacific now account for 10.2% of all retail sales in the region and is forecasted to increase to 20.4% by 2019. As the growing urban middle class rapidly adopts mobile technology and increasingly purchase goods online, distribution facilities will be a coveted property type in many markets. The region is rebalancing from the "world's factory" to the "world's marketplace". Real estate which is positioned to accommodate this growing flow of goods should be structurally well positioned regardless of whatever monkey business takes place in the near term.

2015 RETAIL E-COMMERCE SALES AND YOY GROWTH

China is estimated to already have the world's largest retail e-commerce base by a considerable margin according to established industry source eMarketer. This base does not include the sizable wholesale e-commerce or business-to-business (B-2-B) volumes. China is thought to have accounted for around 40% of the total retail e-commerce sales in the world in 2015 a share which is likely to grow in the outlook period. By 2019, eMarketer expects that around one third of China's total retail sales volume may be transacted via E-commerce. While this may cause some pain for certain shopping center managers, it will likely result in ongoing demand for modern logistics space, especially for domestic distribution facilities near the major metro areas.

Global: 2015 Projected E-commerce Sales



Source: eMarketer
2015 projection done as of September 2015

WATCH SERIES MARCH 2016

Nikkei 225	16,026.76	▼	-8.5%
Hang Seng	19,111.93	▼	-2.9%
Shanghai Composite	2,687.98	▲	1.8%
Yen/Dollar	113.16	▲	4.9%

Data points through end of February 2016.
Change represents month-over-month change.

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STEADY RETAIL SALES GROWTH

Overall retail sales forecasts suggest a mixed bag for the outlook. The EIU forecasts an average of 7.9% and 6.9% retail sales growth for India and China, respectively, between 2015 and 2016. These remain well above global average rates of expansion - albeit down from China's own historic LTA. A strong forecast rise of retail sales in Southeast Asia is thanks in large part to its demographic underpinnings and to urbanization and middle class expansion. Forecasts for China and Hong Kong are skewed by the sizable falls in jewelry and other luxury items and also for Hong Kong, by its now strong currency (being pegged to USD). We have documented these trends in previous reports. Hong Kong's forecast decline (by -4.1% p.a.) in average retail sales for 2016 and 17 is impacting high street rents in particular (see our December 2015 Watch issue).

EXPORTER PAIN ACROSS THE REGION

No wonder that producers of goods and policy makers alike are turning more attention to domestic demand. With consumers in the Americas and Europe still very cautious, exports of goods at the end of 2015 for all major markets in Asia Pacific had decelerated notably YoY. In USD terms, exports were in fact down YoY. Export growth of outliers (not graphed) like India and Indonesia were in fact considerably lower: -20% y/y and -19% YoY in December 2015. In such an environment, exporters should realize the value of having more modern and efficient facilities. For some, margins have improved given the sizable fall in their fuel costs over the past year and may also see this as a time to consider facility upgrades. But in general, markets which have a preponderance of foreign trade-occupiers should be viewed with caution.

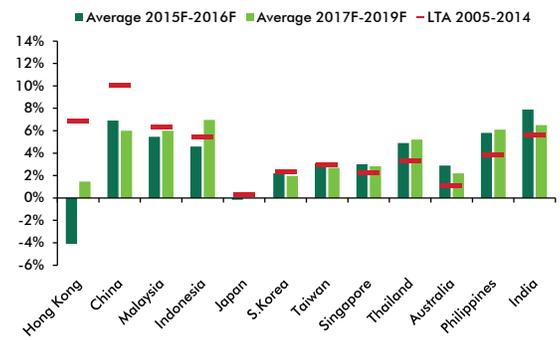
CHINA'S LOGISTICS VOLUMES AND EXPECTATIONS ARE POSITIVE

The "Business Volume" sub-index of the China Logistics Prosperity Index showed a slight decrease in January 2016 to 53.3 from 55 in December. The "Business Expectations" component has been moving up since November 2015. Launched in May 2013, this monthly survey goes to around 300 logistics enterprises across China and is one forward-looking indicator of the health of the sector. An index reading above 50 indicates an overall positive change suggesting expansionary activity ahead.

INDUSTRIAL/LOGISTICS INVESTMENT PERFORMANCE

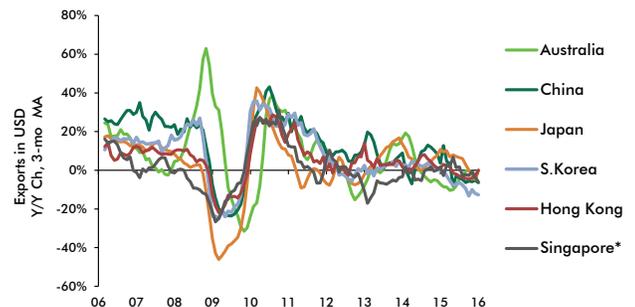
The total return performance of the industrial/logistics sector in several major APAC markets has been historically strong and with comparatively less volatility than other property types. The total returns for this property type in Australia and New Zealand were more than 12% in 2014 on an unlevered basis. We expect 2015 results (data shortly to be released) to be similarly strong. Japan and Thailand have also enjoyed rising total returns for this sector over the past few years. This is a less transparent sector than office and retail and we note that several large markets in the region - including Hong Kong and South Korea - lack four years of comparable consecutive data although other indications suggest they have performed well.

APAC: Retail Sales Forecasts Relative to LTAs



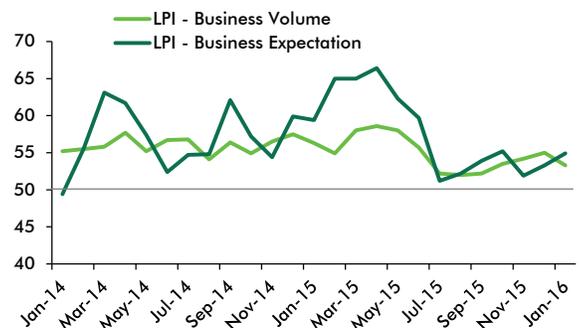
Source: EIU Note: Markets ranked left to right by the difference between LTA and 2015/16F

APAC: Exports in USD terms YoY



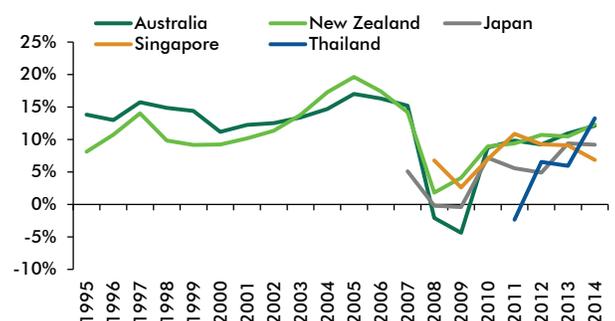
Source: CEIC
*Non-oil domestic exports

China: Logistics Prosperity Index



Source: CEIC, China Logistics Information Center

APAC: IPD Industrial/Logistics Total Return (%pa)



Source: MSCI. Note: returns are unlevered and in local currency units