

# Market Update

27 January 2025





2 BLUE STREET,  
SYDNEY

01

# Australia

# Executive Summary – Sydney

## Key observations

- Flight-to-quality and flight-to-core trends have led to offices in Sydney CBD's core precinct outperforming other districts
- CBD office vacancies are expected to decline on the back of stable economic outlook and positive forecast employment conditions. Current market rents are below economic rents which discourages excessive speculative builds
- Effective rents are forecast to grow more than face rents due to amplified effects from increasing face rents and declining incentives

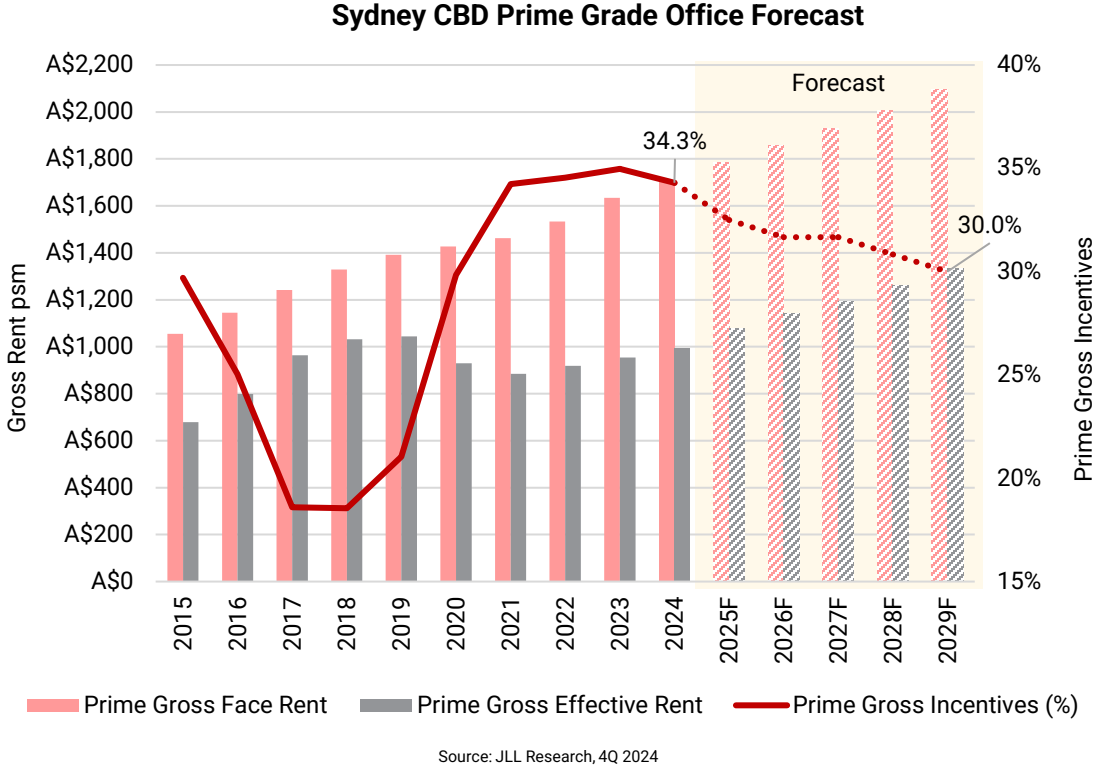
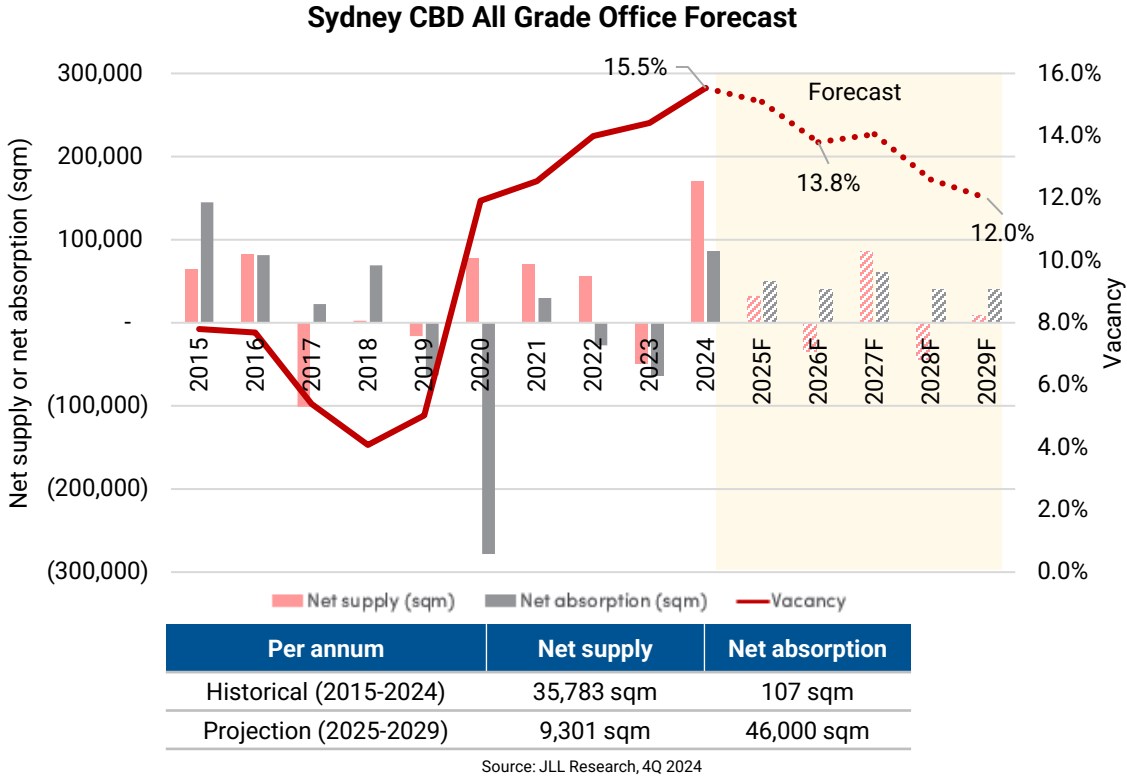
## Investment strategy

- Focus on premium or grade A offices in Sydney CBD, preferably in the core precinct

## Existing portfolio

- Continue to hold existing portfolio but seek to overweight CBD exposure

# Sydney prime office effective rents to grow



- JLL forecasts Sydney CBD's all grade office vacancy to decline
- Key drivers of demand include stable economic outlook and positive white collar employment growth projections<sup>1</sup>

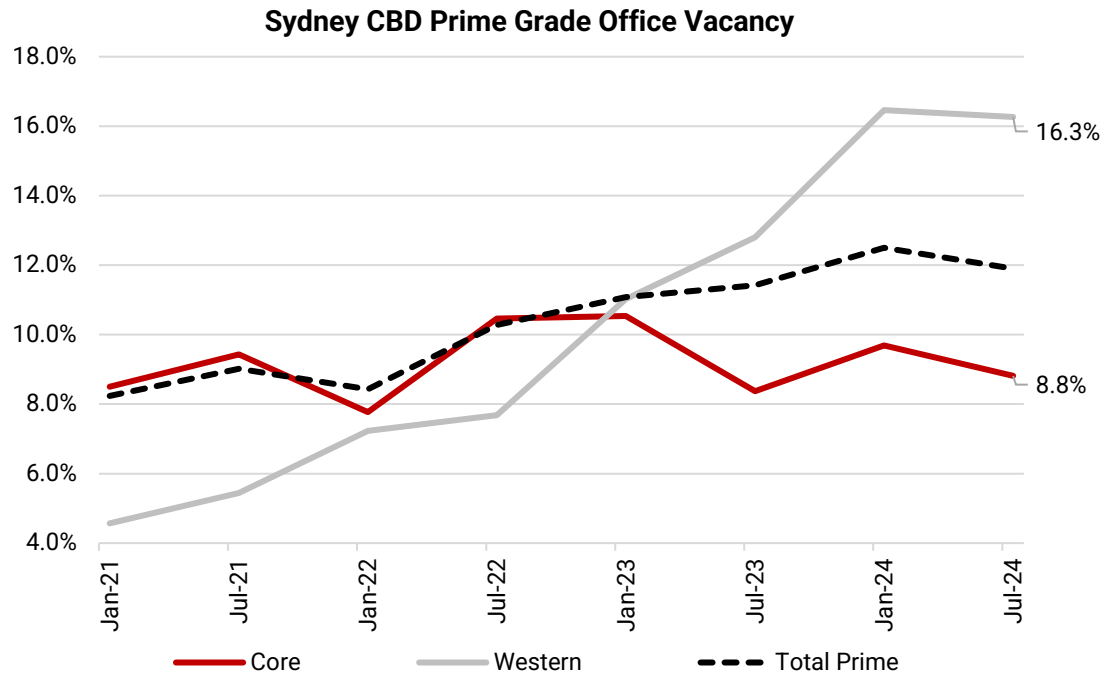
- JLL forecasts Sydney CBD prime office incentives to fall to 30% while face rents continue to rise. This leads to a greater increase in effective rents

Sydney CBD Prime office rental growth (2024-2029)

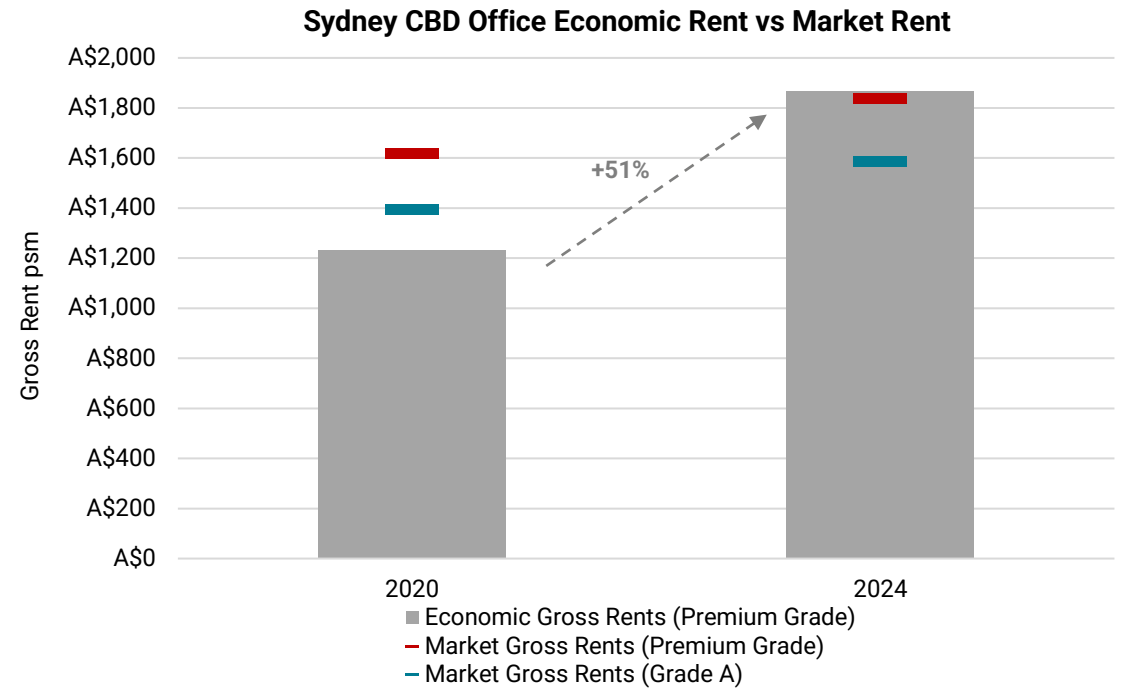
**6.1% p.a.** effective rent > **4.2% p.a.** face rent

(1) Sydney CBD Office Market Report 4Q 2024, JLL Research

# Sydney CBD driven by **flight-to-quality** & **flight-to-core** trends



Source: PCA OMR July 2024



Source: CBRE Research

- Sydney CBD's core precinct has significantly lower office vacancy
- Keppel REIT's Sydney CBD exposure is within the core precinct and has below-market vacancy

4Q 2024 vacancy **5.5%**<sup>1</sup> < Average vacancy **8.8%** < Average vacancy **16.3%**  
 Keppel REIT's portfolio in Sydney CBD Prime office in core precinct Prime office in Western corridor

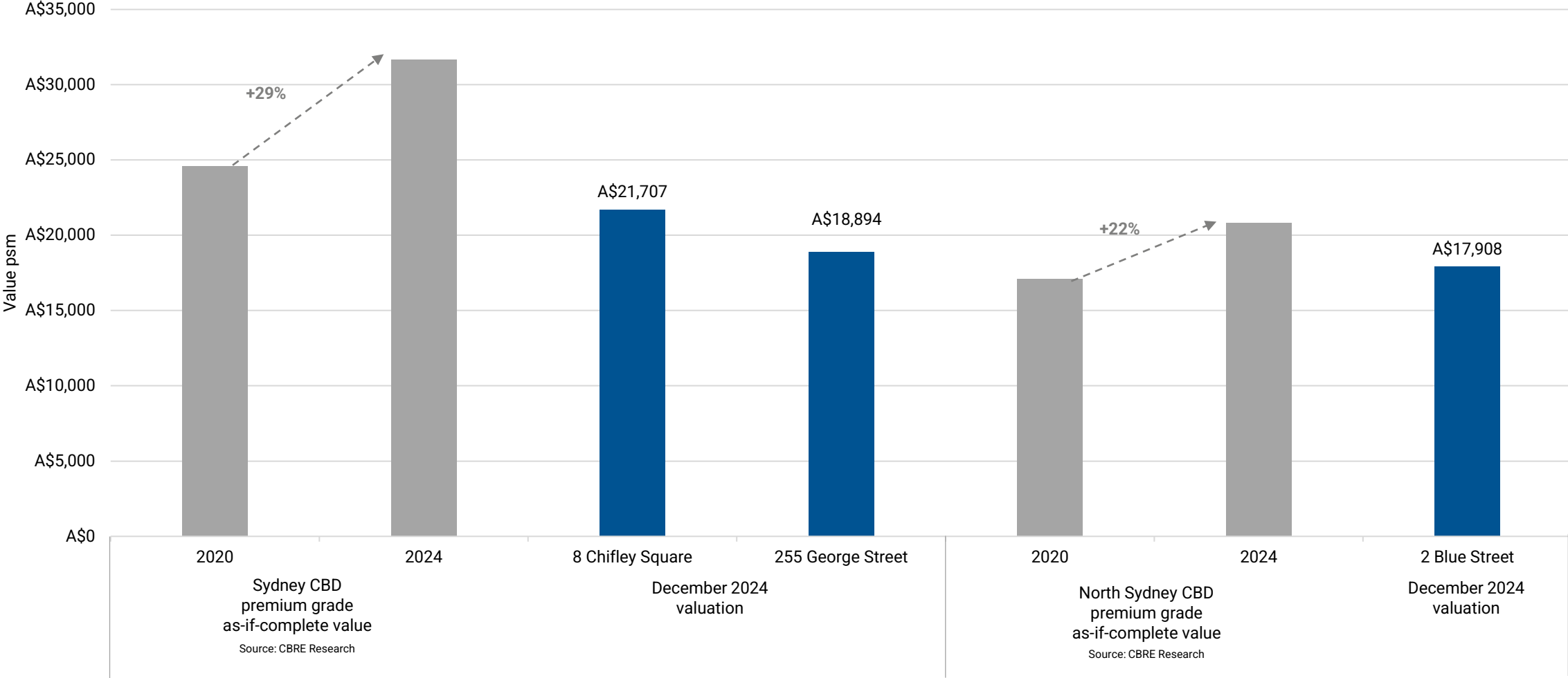
(1) Comprises 8 Chifley Square and 255 George Street; Occupancy weighted by valuation as of 4Q 2024

(2) CBRE Research, November 2024

- Economic rent reflects the average rent needed to make a project feasible on today's metrics. Historically, market rents have exceeded economic rents, encouraging supply<sup>2</sup>
- Office economic rents increased mainly due to higher construction costs and market cap rate expansion<sup>2</sup>
- Today, both premium and grade A market rents do not exceed economic rents

# Keppel REIT's Sydney portfolio **at below replacement value**

Keppel REIT's December 2024 Valuation against As-If-Complete Value



# Executive Summary – Melbourne

## Key observations

- With more companies implementing return-to-work mandates and lower-than-historical upcoming supply, office vacancies are forecast to decline
- Effective rental growth rate is slightly faster than face rental growth as incentives are expected to decline marginally
- Limited investor interest over recent years was due to comparatively higher Victorian state taxes

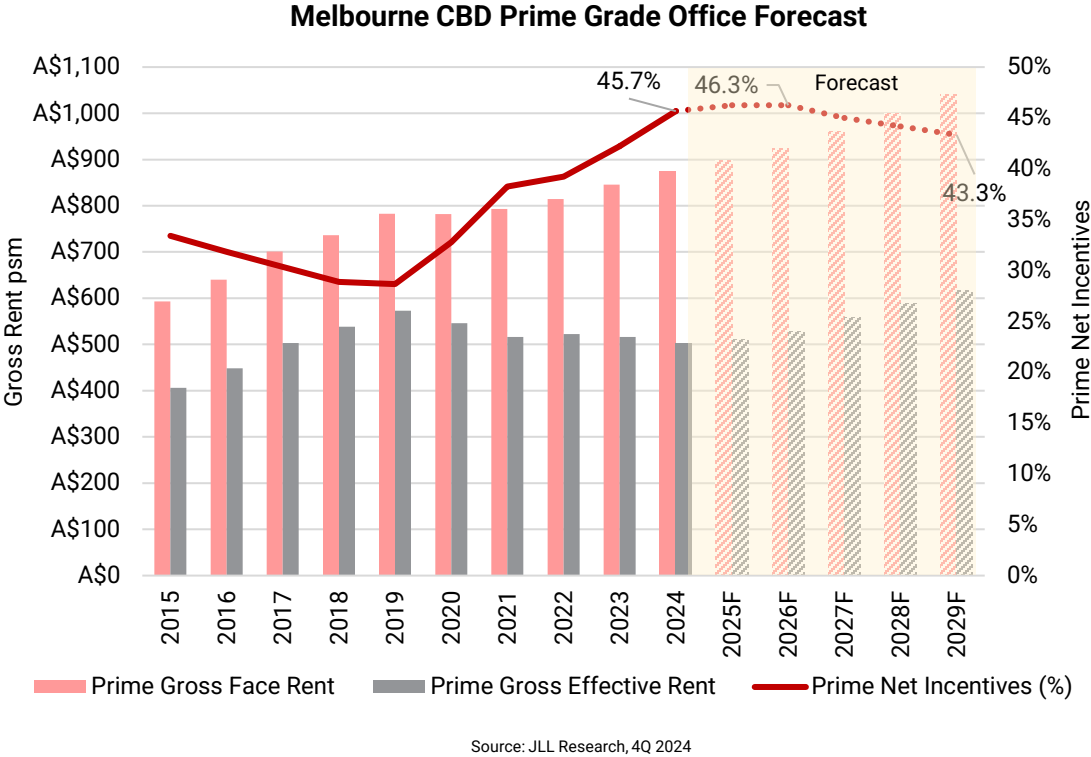
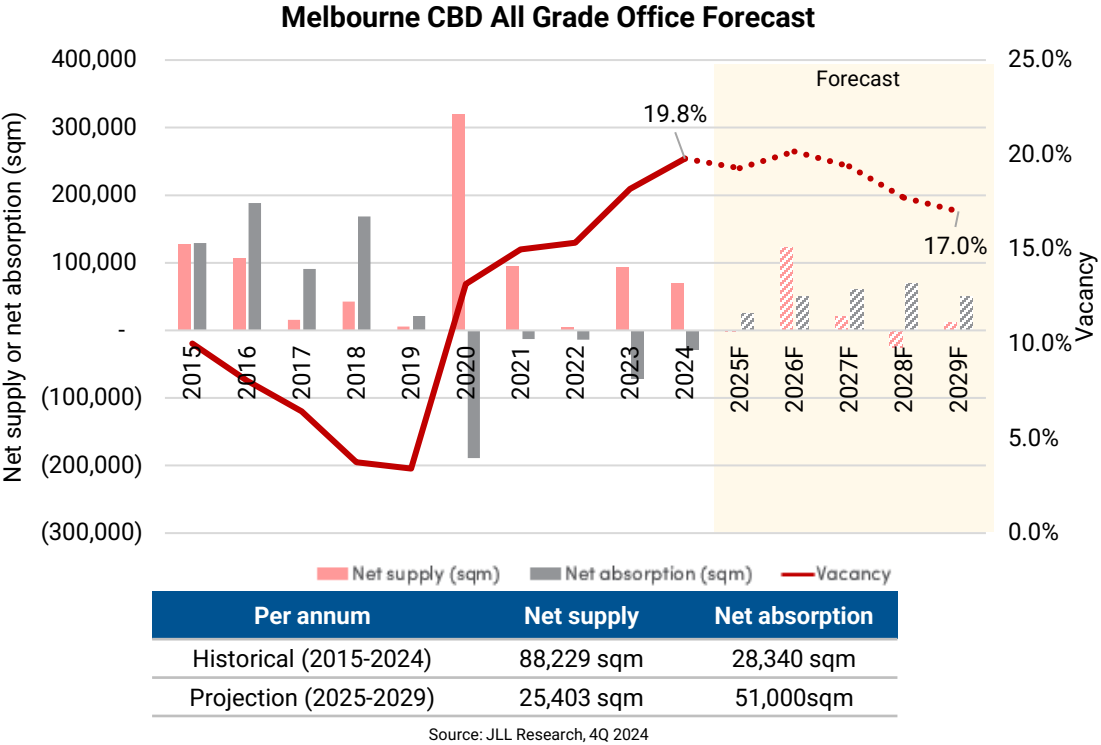
## Investment strategy

- Cautious on expanding further in Melbourne

## Existing portfolio

- Continue to hold current assets in Melbourne due to unique attributes like long WALE and location within the outperforming precinct in Melbourne CBD

# Melbourne CBD office **vacancy** to trend **downwards**



- JLL forecasts Melbourne CBD’s all grade office vacancy to trend downwards
- Key drivers
  - (i) More companies implementing return-to-office mandates<sup>1</sup>
  - (ii) Upcoming average annual supply is less than historical average annual level

- JLL forecasts Melbourne CBD prime office incentives to decline to 43.3%

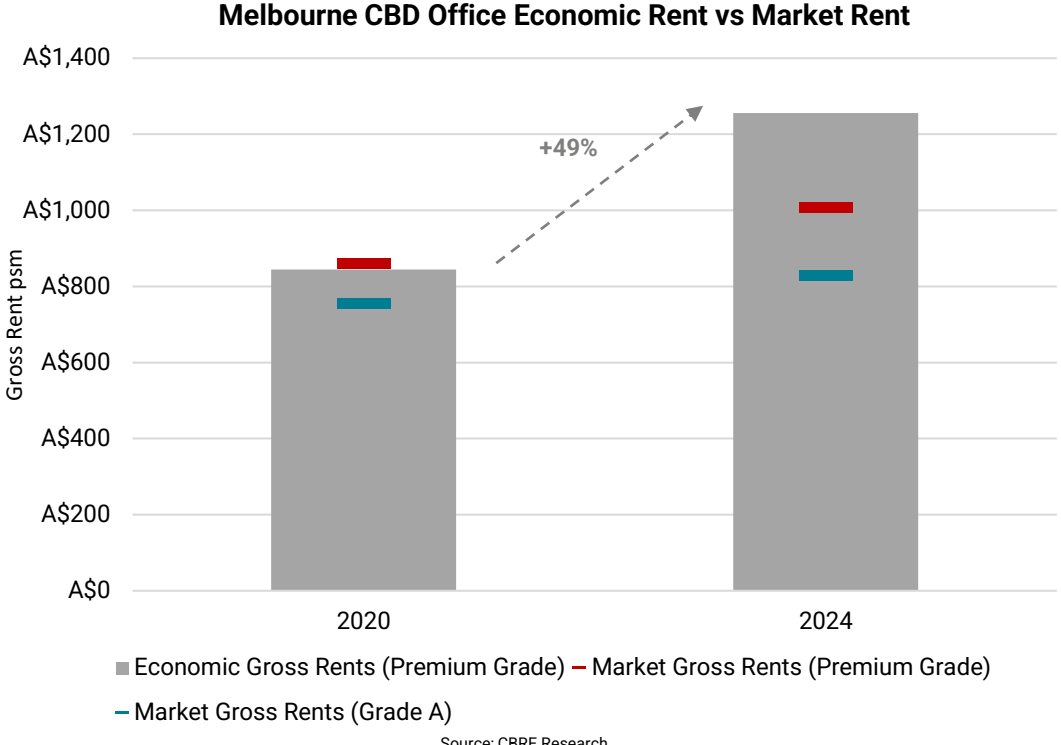
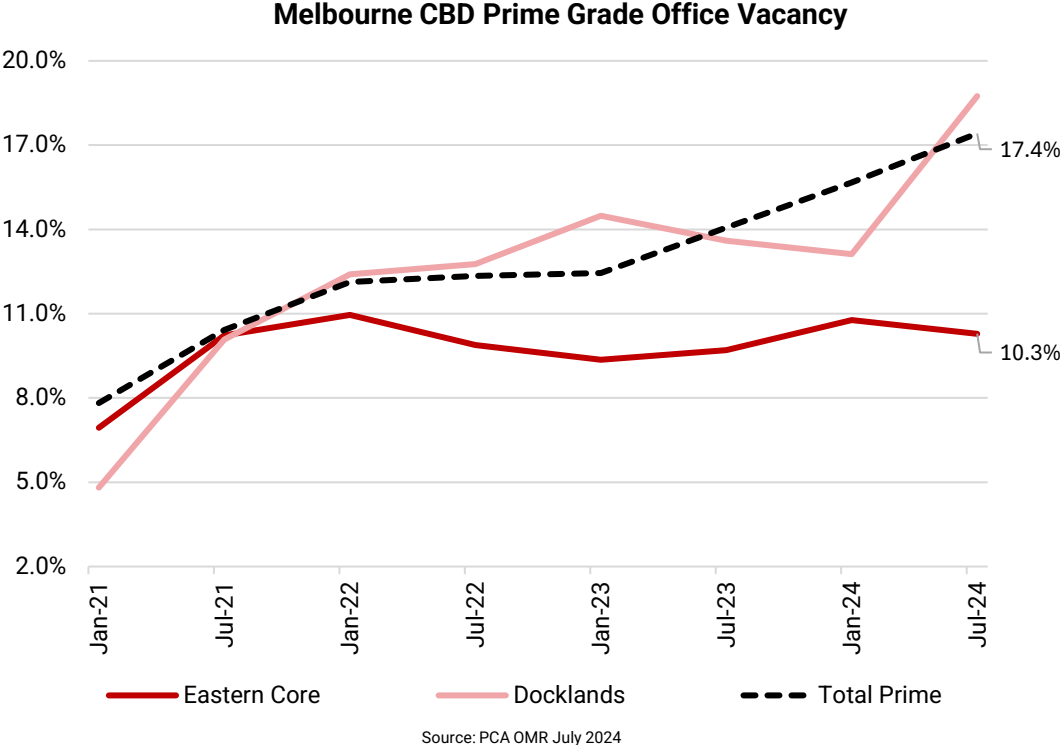
### Melbourne CBD Prime office rental growth (2024-2029)

**4.1% p.a.** effective rent **>** **3.5% p.a.** face rent

(1) Melbourne CBD Office Market Report 4Q 2024, JLL Research



# Eastern core of Melbourne CBD outperforms



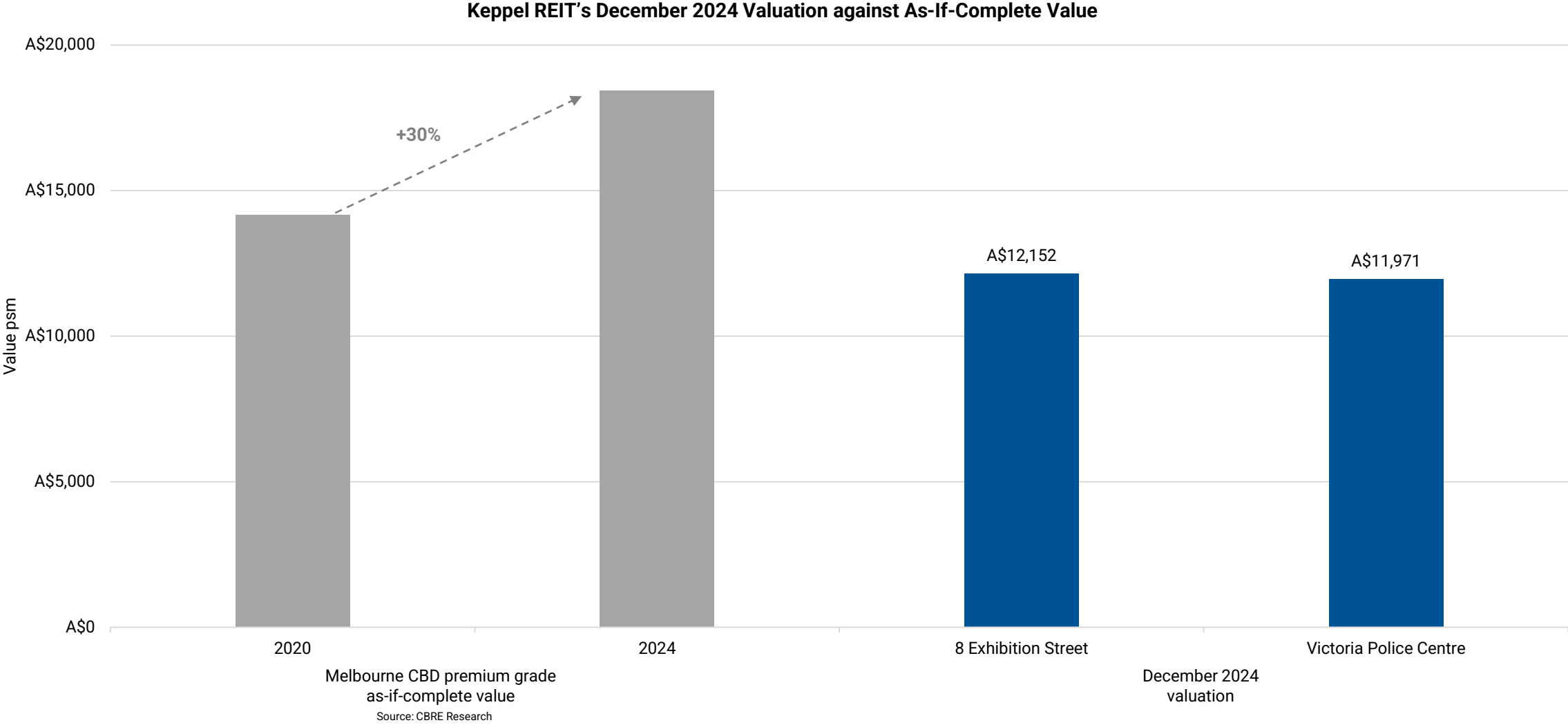
- Melbourne’s eastern core has consistently below-average vacancies
- Keppel REIT’s eastern core and Docklands portfolio has minimal vacancy

<p>4Q 2024 vacancy</p> <p><b>1.9%<sup>1</sup></b></p> <p>Keppel REIT’s portfolio in Melbourne CBD</p>	<p>&lt;</p>	<p>Average vacancy</p> <p><b>10.3%</b></p> <p>Prime office in eastern core</p>	<p>&lt;</p>	<p>Average vacancy</p> <p><b>17.4%</b></p> <p>Prime office in Melbourne CBD</p>
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- Economic rent reflects the average rent needed to make a project feasible on today’s metrics. Historically, market rents have exceeded economic rents, encouraging supply<sup>2</sup>
- Office economic rents increased mainly due to higher construction costs and market cap rate expansion<sup>2</sup>
- Today, both premium and grade A market rents do not exceed economic rents

(1) Comprises Victoria Police Centre and 8 Exhibition Street; Occupancy weighted by valuation as of 4Q 2024  
 (2) CBRE Research, November 2024

# Keppel REIT's Melbourne portfolio **at below replacement value**



# Executive Summary – Perth

## Key observations

- Office vacancies in Perth CBD are expected to decline to low teens on the back of record population growth, strength within the resources sector and limited supply pipeline
- Effective rents are forecast to grow faster than face rents due to declining incentives
- However incentives in the medium term are still expected at 40%

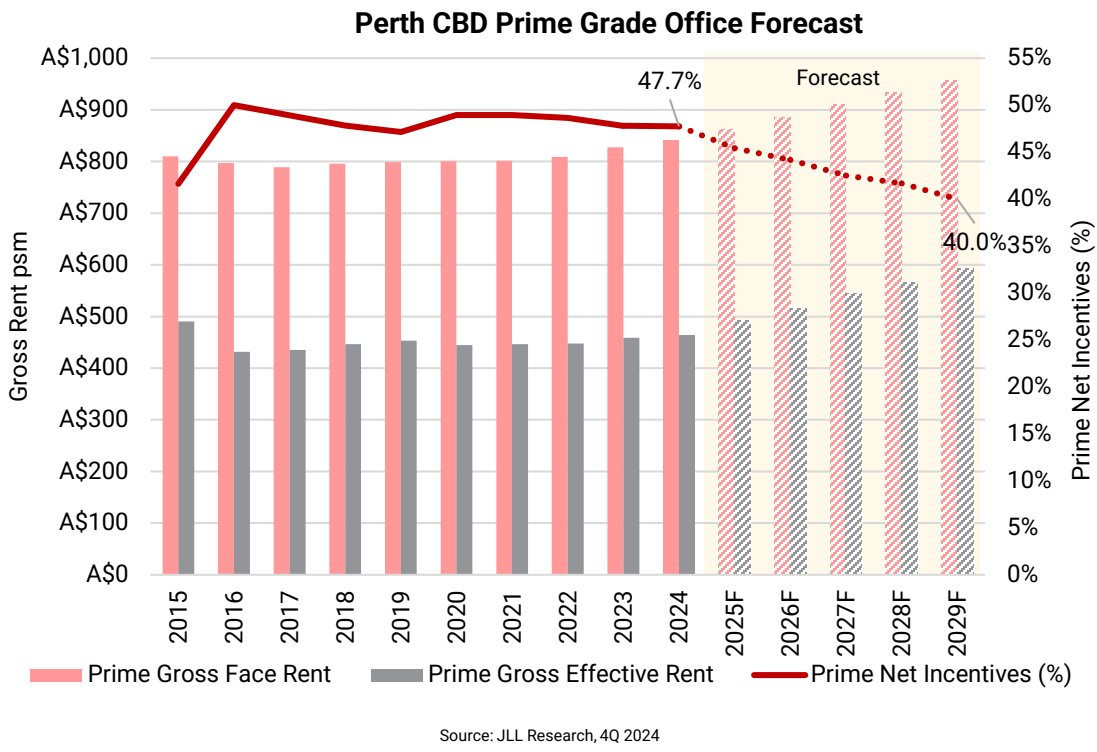
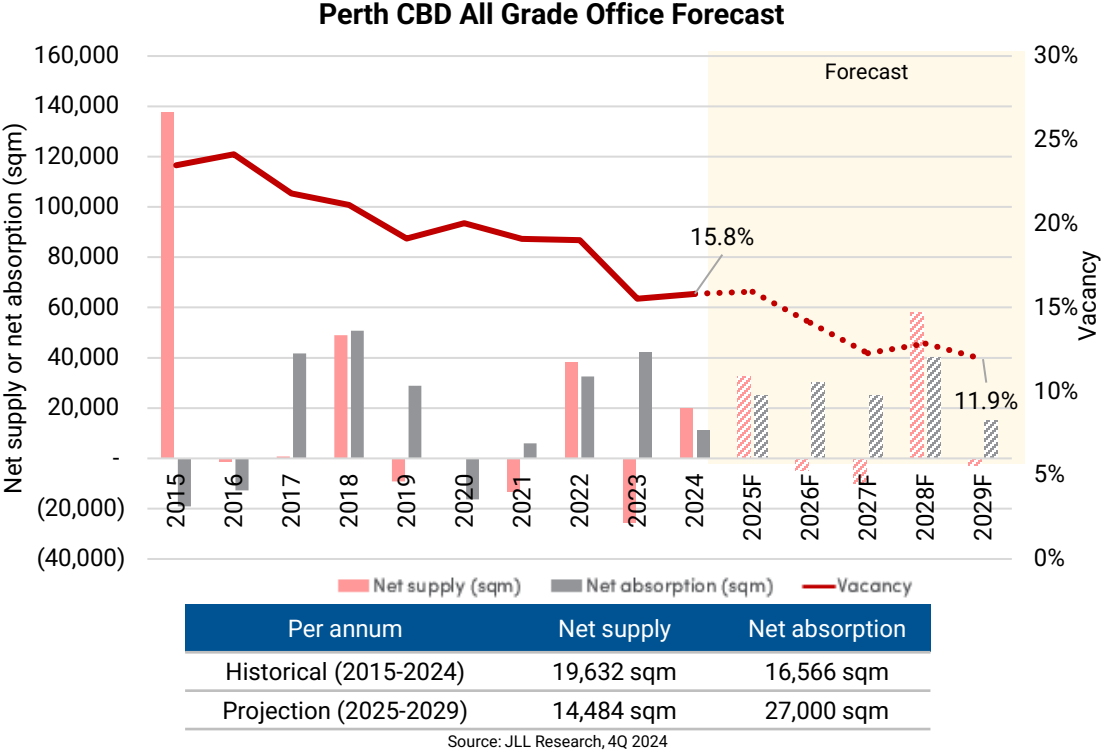
## Investment strategy

- Cautious about further additions in Perth

## Existing portfolio

- To hold our existing property in Perth considering its long WALE

# Perth CBD to see **waning vacancies**



- JLL forecasts Perth CBD’s all grade office vacancy to decline to 11.9%
- Key drivers
  - (i) Record population growth<sup>1</sup>
  - (ii) Strength within the resources sector<sup>1</sup>
  - (iii) Limited supply pipeline

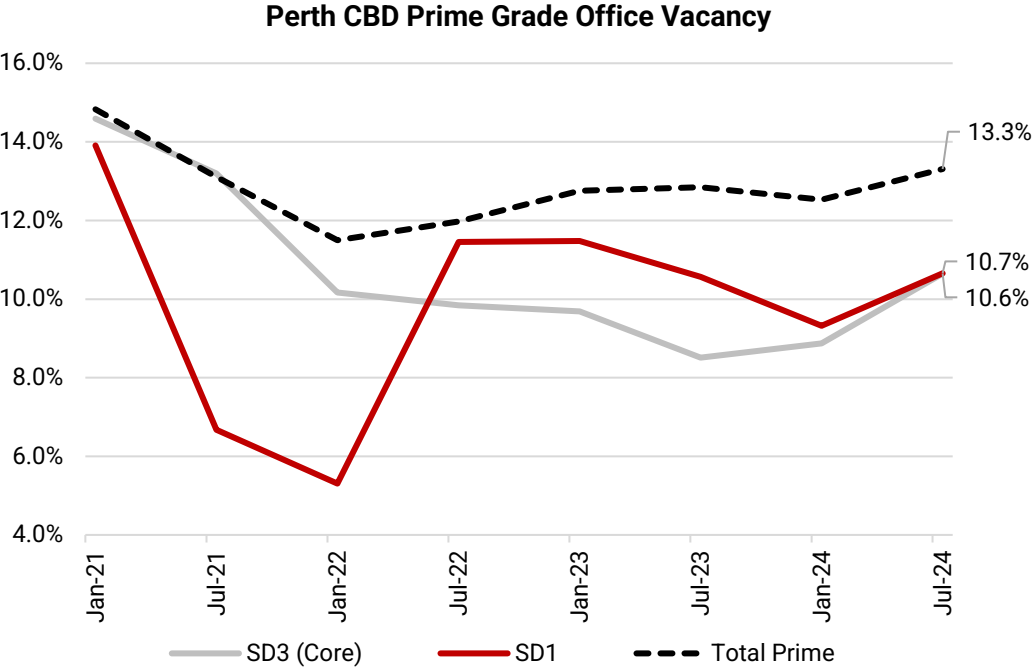
- Based on JLL data, Perth CBD prime face rents are forecast to rise while incentives trend downwards, leading to stronger effective rental growth

Perth CBD Prime office rental growth  
(2024-2029)

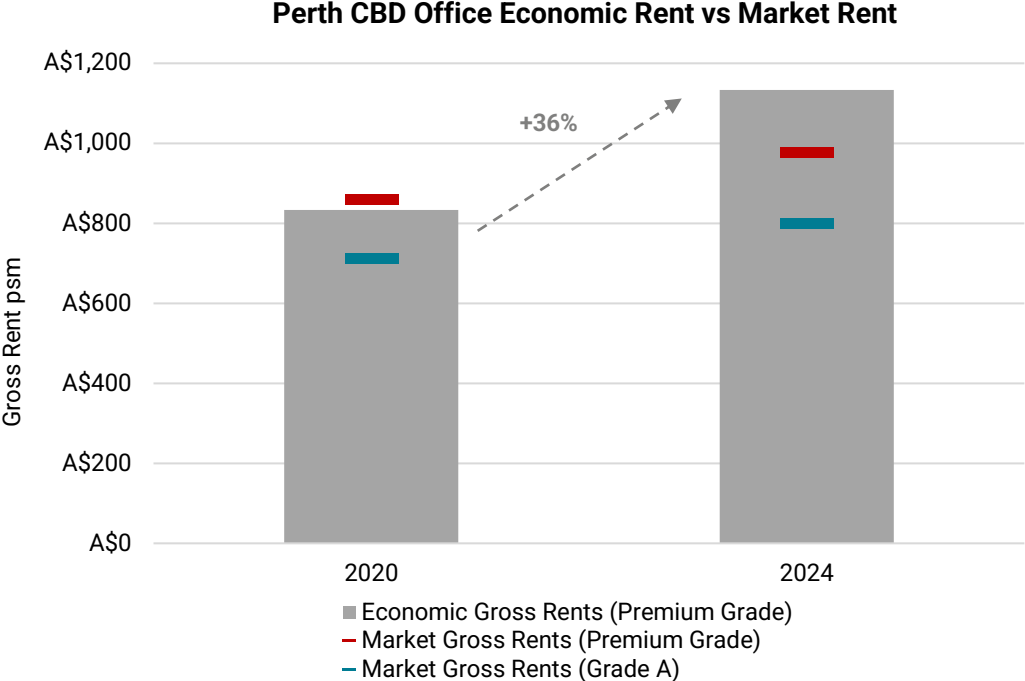
**5.0% p.a.** effective rent **>** **2.6% p.a.** face rent

(1) Perth Office Market Dynamic 3Q 2024, JLL Research

# Keppel REIT's Perth CBD property to remain **stable**



Source: PCA OMR July 2024



Source: CBRE Research

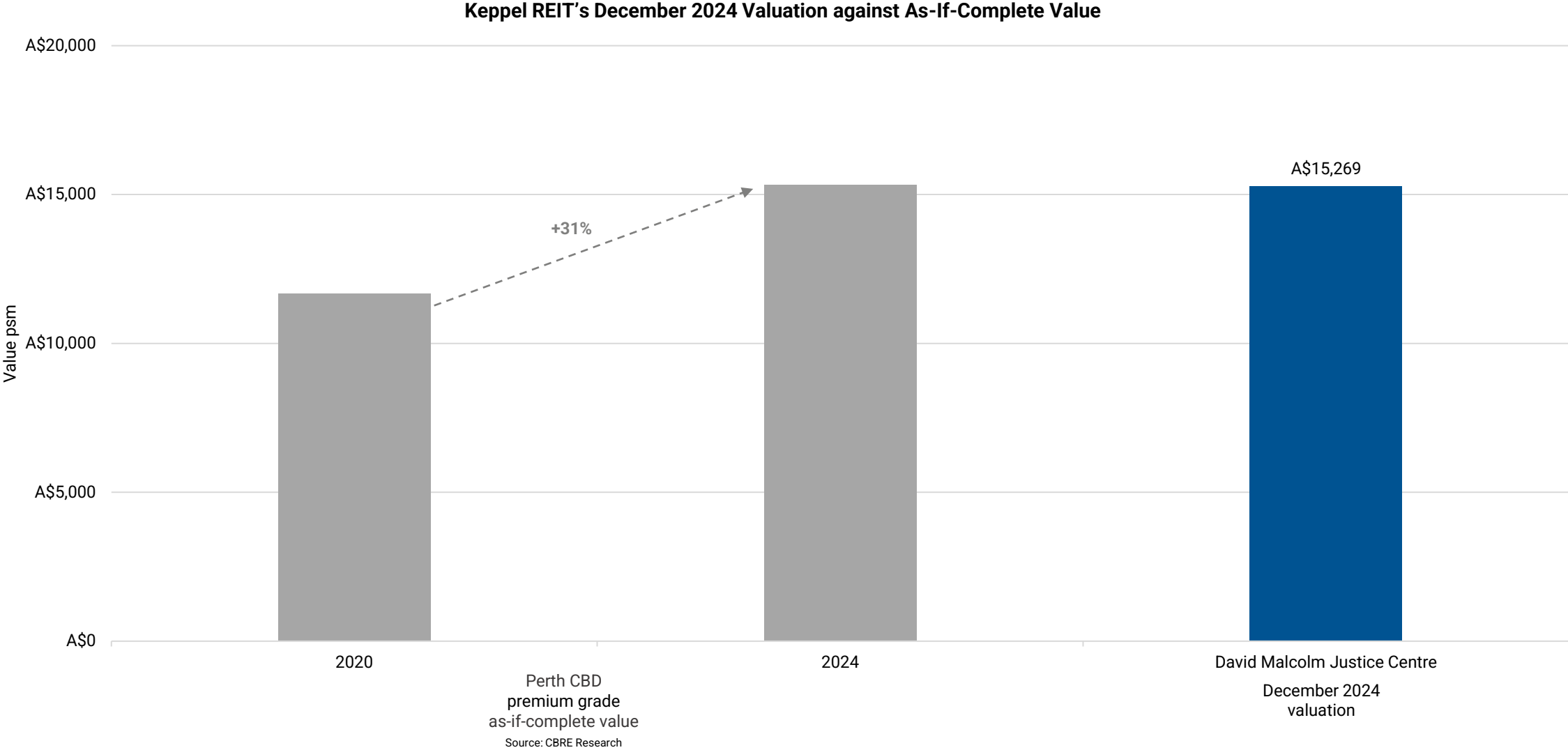
- Perth CBD's core district (SD3) and SD1 have below-average vacancies
- Keppel REIT's only property in Perth is located in SD1 and is fully occupied on long lease

4Q 2024 vacancy **0%** < Average vacancy **10.7%** < Average vacancy **13.3%**  
 Keppel REIT's portfolio in Perth CBD < Prime office in SD1 < Overall prime office in Perth CBD

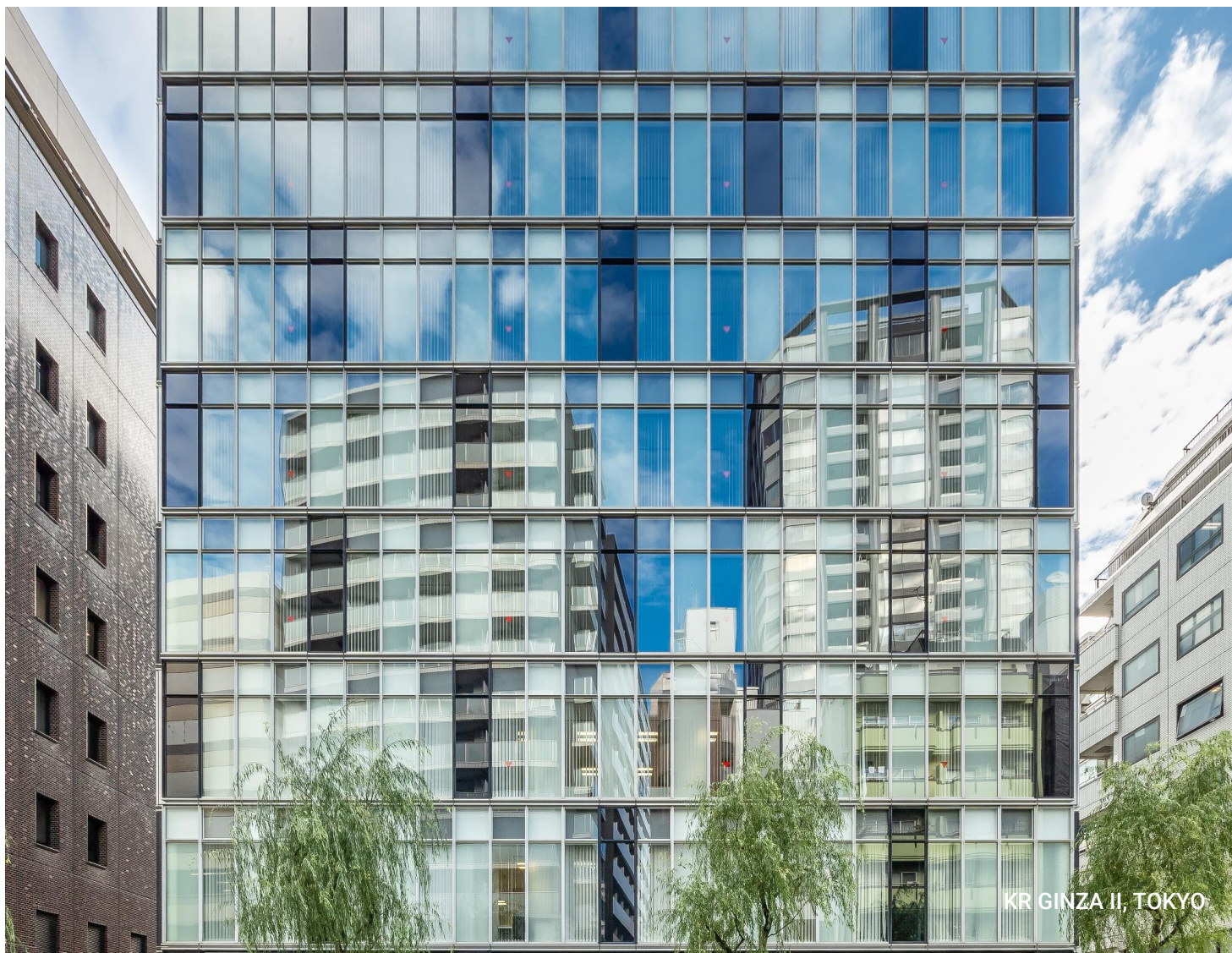
- Economic rent reflects the average rent needed to make a project feasible on today's metrics. Historically, market rents have exceeded economic rents, encouraging supply<sup>1</sup>
- Office economic rents increased mainly due to higher construction costs and market cap rate expansion<sup>1</sup>
- Today, both premium and grade A market rents do not exceed economic rents

(1) CBRE Research, November 2024

# Keppel REIT's Perth property **on par with replacement value**



02



KR GINZA II, TOKYO

# Japan

# Executive Summary – Japan

## Key observations

- Tokyo office should remain resilient despite some upcoming supply. Office vacancies within Tokyo's core 5 wards are forecasted at no more than 5%
- Office yields trended sideways despite higher Japan interest rates since December 2022
- With Japan getting to sustainable inflation, demand for real estate as an inflation hedge will grow

## Investment strategy

- Tokyo-only investment focus with preference for grade A offices to allow Keppel REIT to have meaningful presence in Japan

## Existing portfolio

- Continue to hold KR Ginza II as we expect further growth from this asset

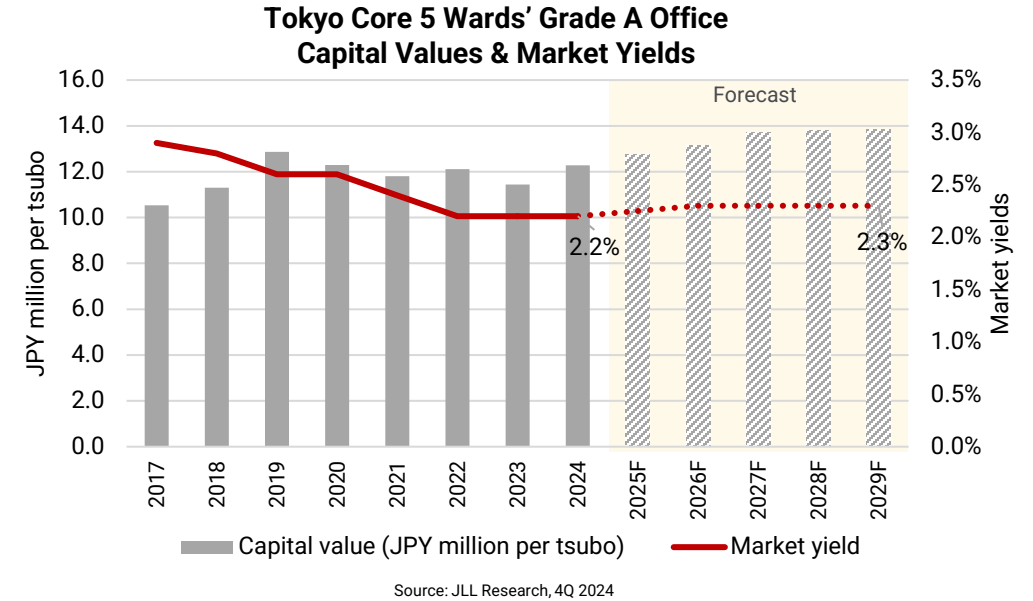
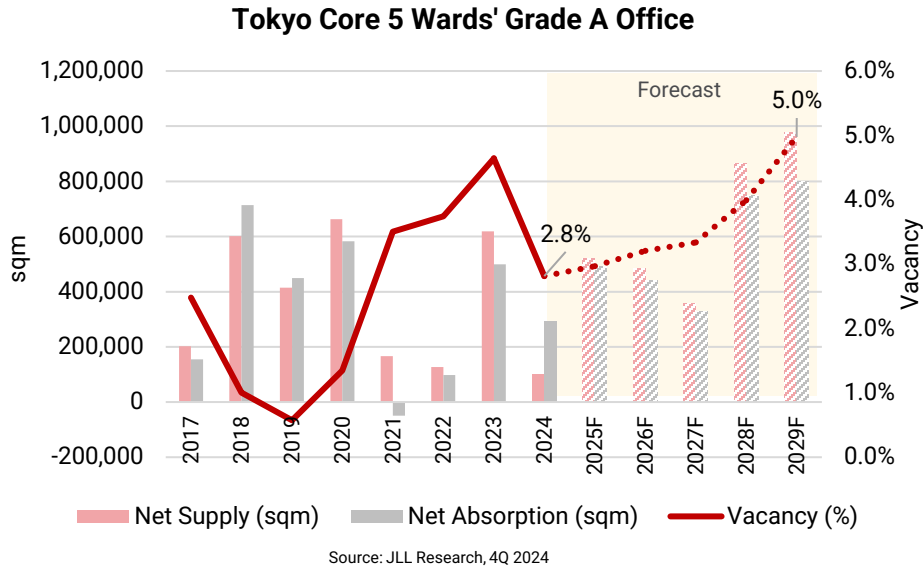


# Despite new supply, Tokyo office market expected to be **resilient**

## Grade A office

Based on JLL data,

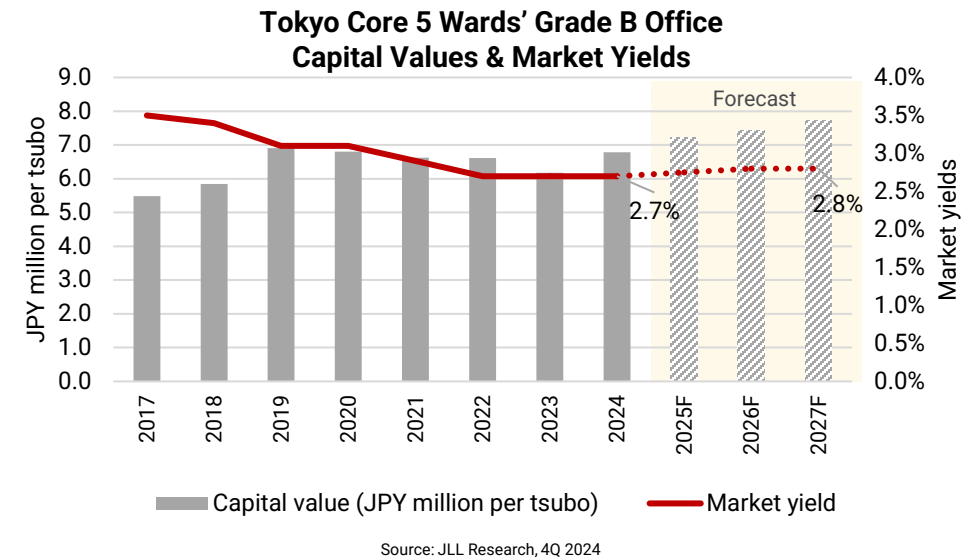
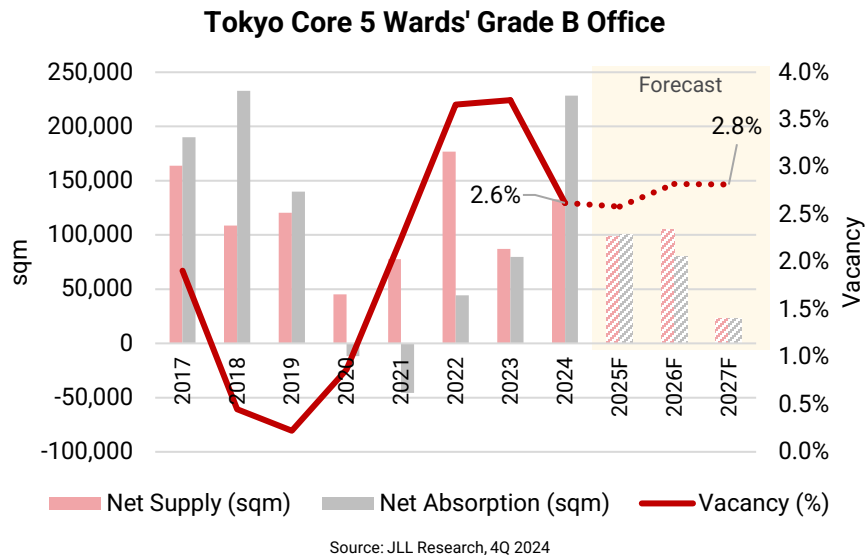
- Medium term vacancy still remains no more than 5%
- Capital values are expected to be on uptrend with stable market yield



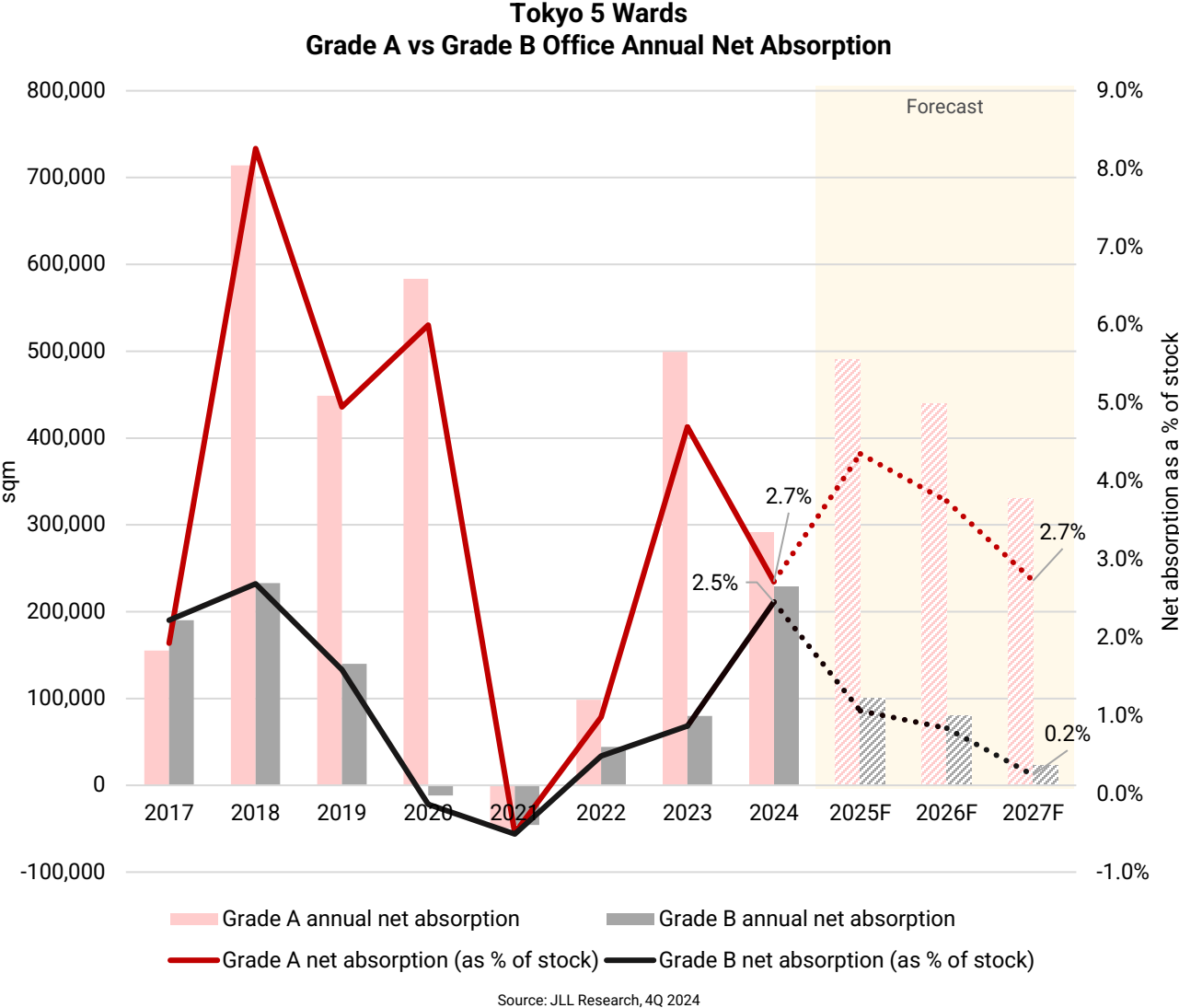
## Grade B office

Based on JLL data,

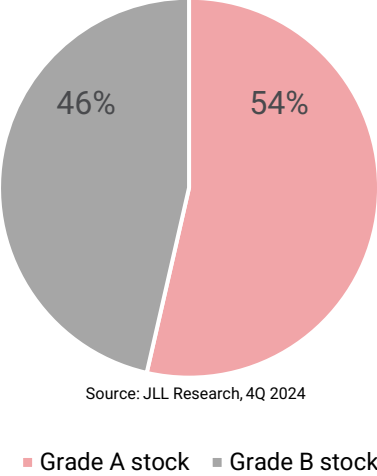
- Vacancy is expected to remain low at below 3%
- Capital values are expected to continue to rise



# Tokyo's grade A office net absorption continues to be high



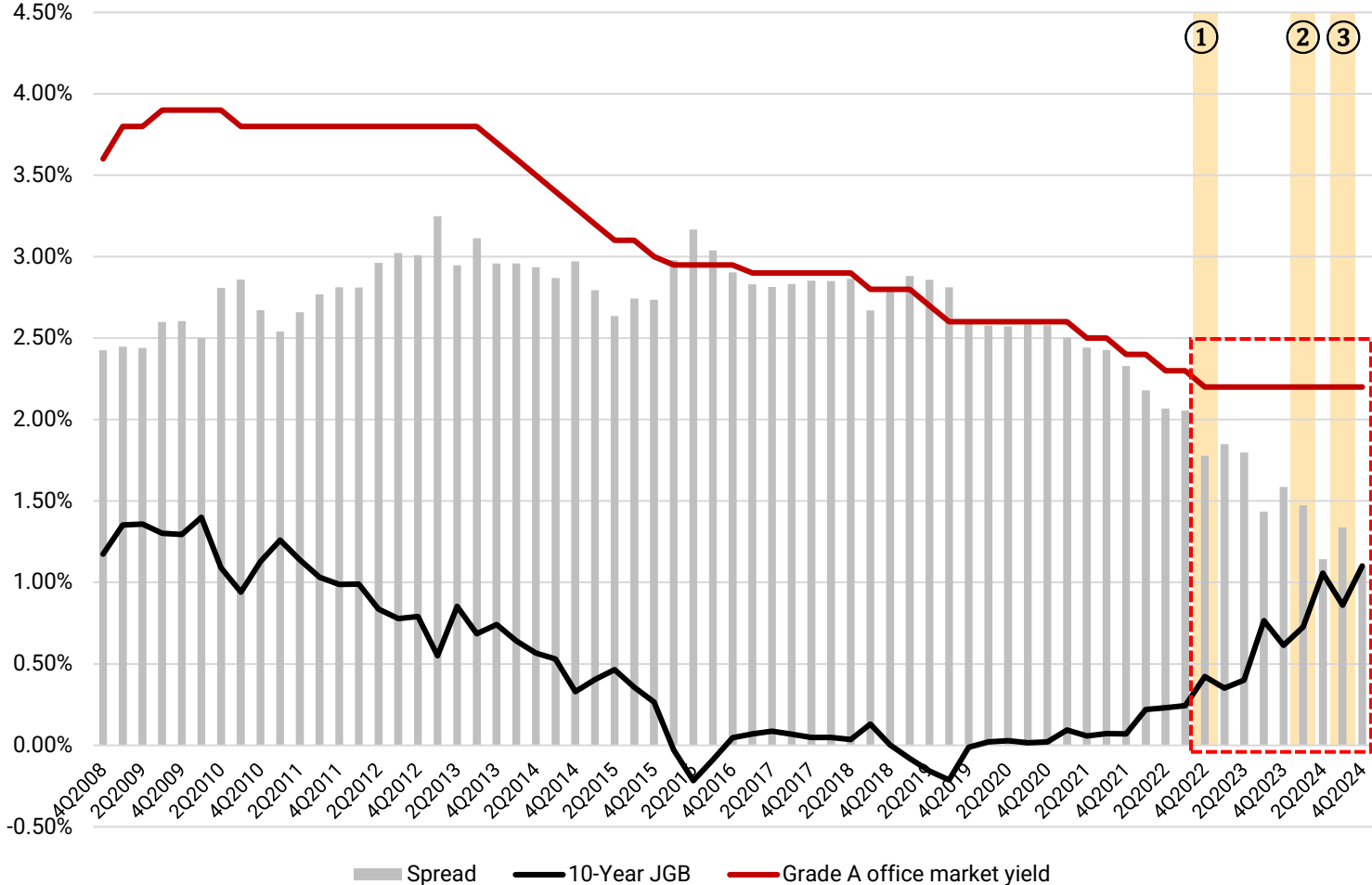
**Tokyo 5 Wards  
Grade A vs Grade B Office Stock (4Q 2024)**



- Based on JLL data, Tokyo's grade A office net absorption is high
- Keppel REIT seeks to expand in Tokyo, preferably in grade A offices to allow meaningful presence in Japan over the longer term

# Tokyo office yields trended sideways though interest rate rose

Tokyo Grade A Office Yield vs 10-year JGB Yield



Key Bank of Japan (BOJ) actions	Before	After
① <b>December 2022</b> Upper limit of long term interest <sup>1</sup>	0.25%	0.5%
② <b>March 2024</b> Short term policy rate (first time in 17 years) <sup>2</sup>	-0.1%	0% - 0.1%
③ <b>July 2024</b> Short term policy rate <sup>3</sup>	0% - 0.1%	0.25%

**Tokyo office yields unaffected by rate hikes thus far**

- Since the first hint of rate hike in 4Q 2022, 10-year JGB rose about 0.7 percentage points (up to 4Q 2024)
- Office market yields trended sideways

**Japan is getting to sustainable inflation<sup>4</sup>**

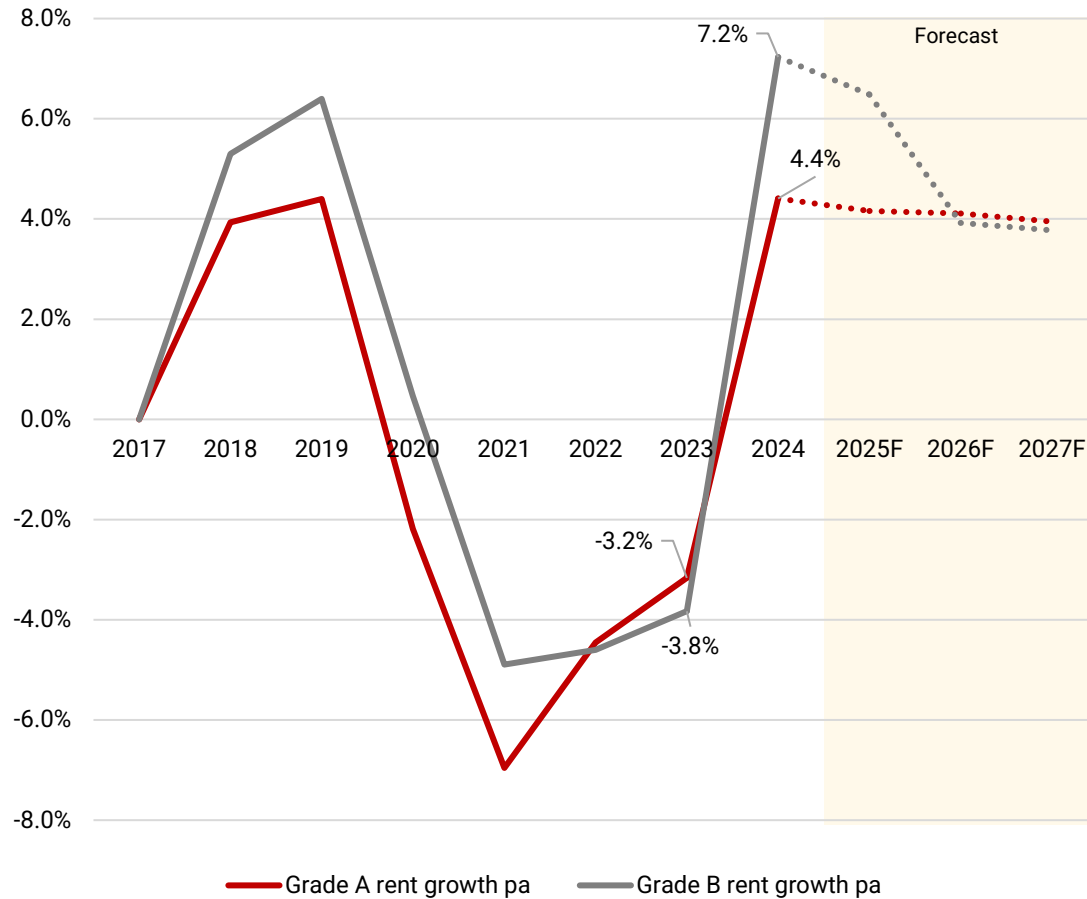
- Headline inflation stood at 3.6% in December 2024
- If expected inflation rate rises, demand for real estate as an inflation hedge will grow, leading to a compression in the risk premium component of cap rates<sup>5</sup>

Source: JLL Research, 4Q 2024 & Bloomberg

(1) <https://www.joneslanglasalle.co.jp/en/trends-and-insights/research/will-long-term-interest-rates-affect-japans-real-estate-market>  
 (2) <https://www.theguardian.com/world/2024/mar/19/bank-of-japan-raises-interest-rates-negative-scrapped-borrowing-costs#:~:text=In%20its%20first%20interest%20rate,further%20rise%20in%20borrowing%20costs>  
 (3) <https://www.bbc.com/news/articles/cw4yz4emgwko>  
 (4) <https://www.cnn.com/video/2025/01/24/more-confidence-that-japan-getting-to-sustainable-inflation-goldman.html>  
 (5) Nikkei Real Estate Report, October 2024, Issue 183

# Keppel REIT's KR Ginza II has been **performing well**

Tokyo 5 Wards  
Grade A & B Office Rent Growth

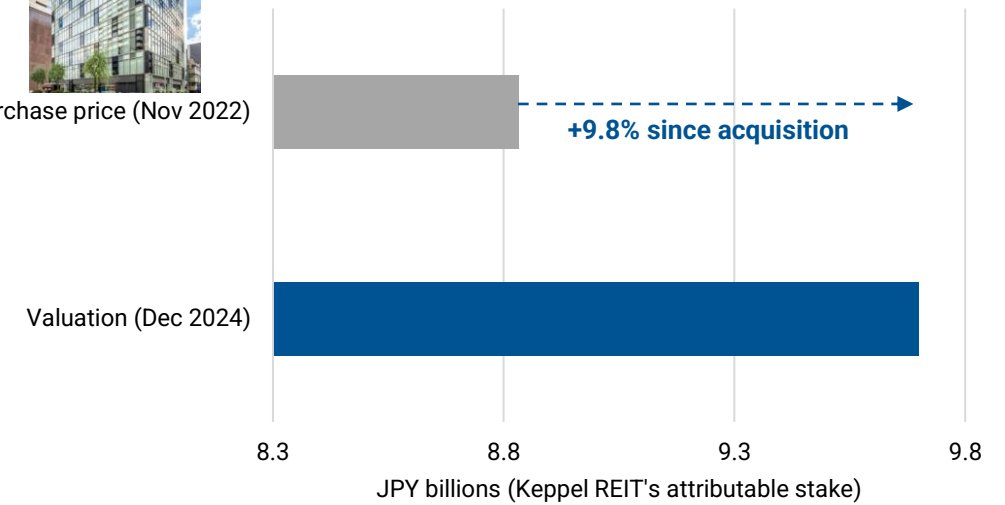


Source: JLL Research, 4Q 2024



Purchase price (Nov 2022)

KR Ginza II's Capital Value



- Strong asset management capabilities is evident in KR Ginza II achieving 100% committed occupancy within a year from acquisition
- KR Ginza II's December 2024's valuation increased by 9.8% as compared to purchase price
  - (i) Cap rate compressed from around 3% to 2.7%
  - (ii) NLA increased by 5%
- Continue to hold KR Ginza II

03



# Singapore

# Executive Summary – Singapore

## Key observations

- Sustained demand for office space is evidenced by the high occupancy levels
- Limited new supply is coming up in the core CBD
- Continued growth in rentals is expected

## Investment strategy

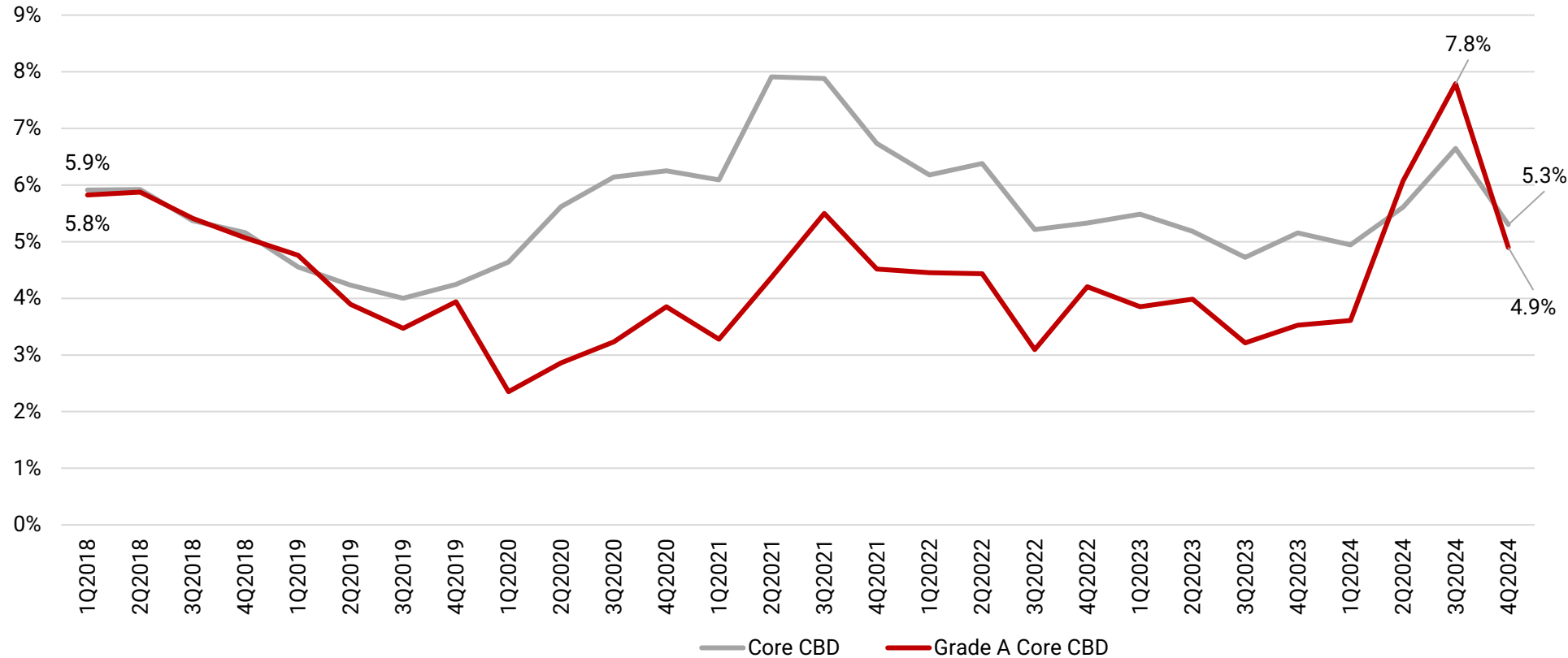
- Singapore continues to be a key market for Keppel REIT, with investment focus on grade A office building

## Existing portfolio

- To remain as long term owner and active asset manager of Singapore portfolio

# Singapore office driven by **flight-to-quality** and **flight-to-core** trends

Singapore Core CBD Office Vacancy



Source: CBRE Research, 4Q 2024

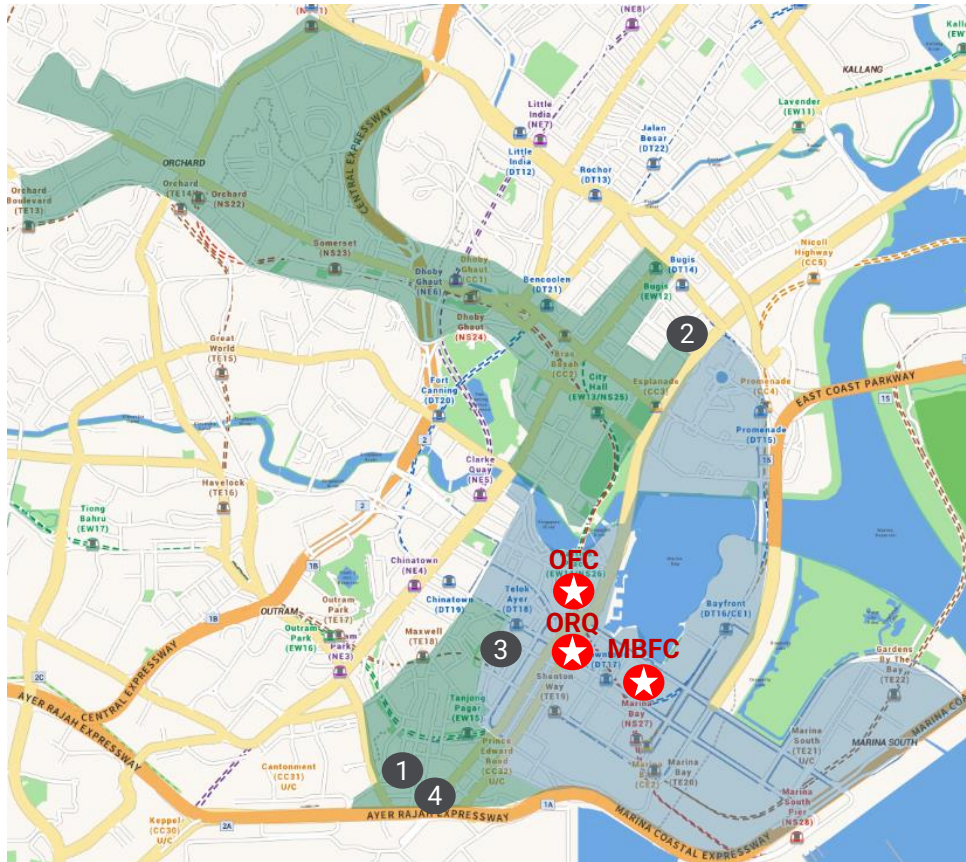
Based on CBRE data, vacancy spiked in 3Q 2024 due to the addition of 1.2 million square feet of prime office space during the quarter

Thereafter, grade A office within core CBD rebounded faster than the overall core CBD market, with steeper decline in vacancy in 4Q 2024

- Tenants are prioritising core CBD locations to attract and retain talent, with a focus on quality<sup>1</sup>
- Based on CBRE data, all grade and grade A office vacancies in core CBD were at similar levels in 2018, but grade A has seen a greater tightening of vacancies to 4.9% in 4Q 2024

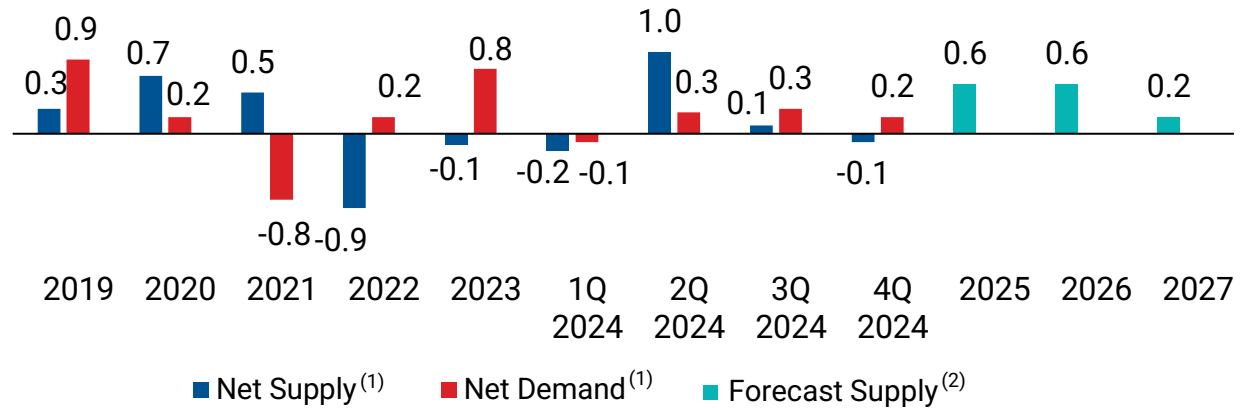
(1) Singapore Real Estate Research Report 3Q 2024, CBRE

# Singapore to see **limited** new supply of offices in core CBD



Core CBD  
Fringe CBD

**Demand and Supply** (million sf)



**Key Upcoming Supply in CBD(2)**

Year	Project	Supply (sf)
2025	① Keppel South Central	613,500
2026	② Shaw Tower Redevelopment	435,000
	③ Solitaire on Cecil	196,500
2027	④ Newport Tower	180,000
<b>Average per annum</b>		<b>475,000</b>

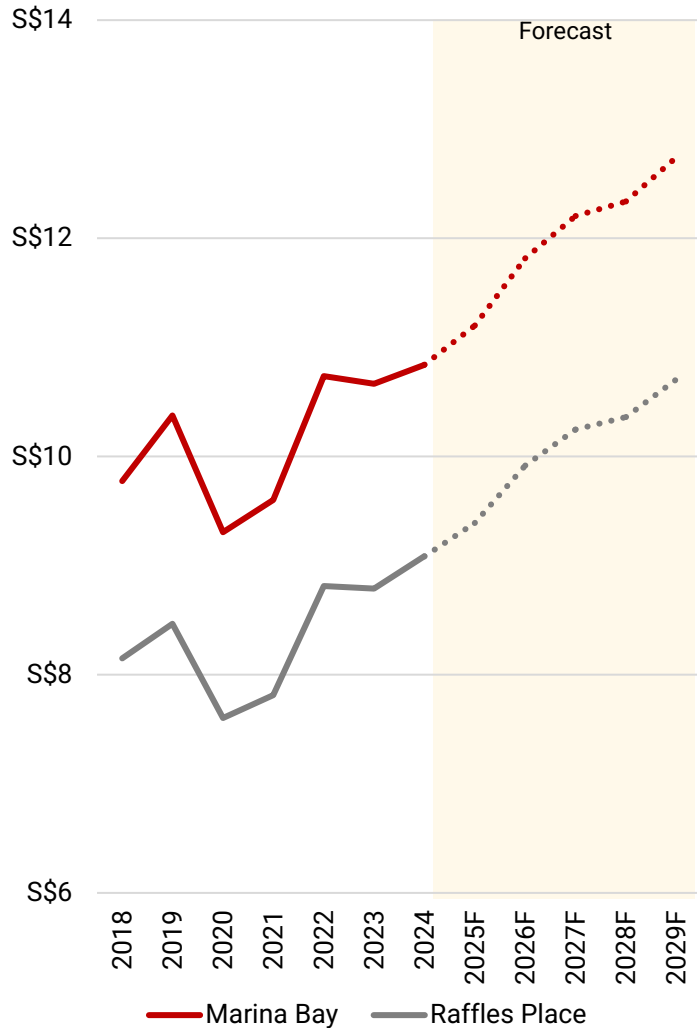
(1) Based on URA data on historical net demand and supply of office space in Downtown Core and Rest of Central Area as at 3Q 2024. Supply is calculated as net change of stock over the year and may include office stock removed from market due to demolitions or change of use

(2) Based on CBRE data on CBD Core and CBD Fringe



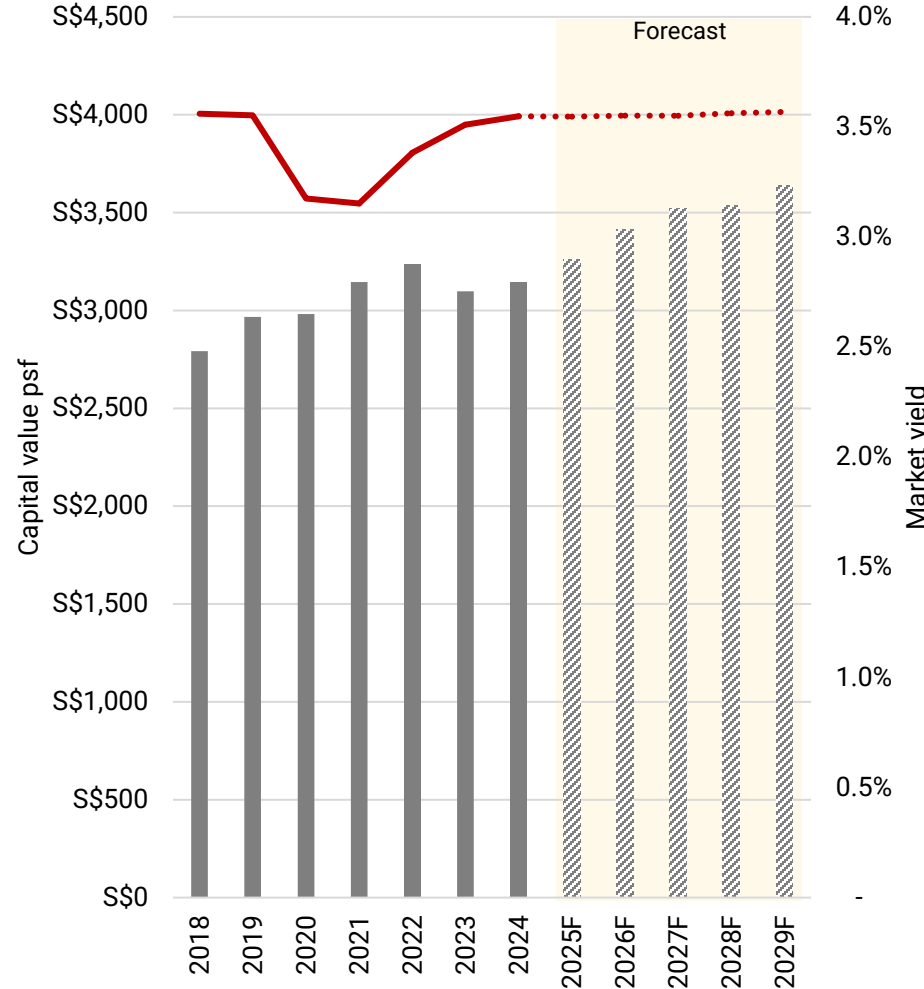
# Continued rental **growth** and increasing capital values in Singapore

Singapore CBD Grade A Office  
Net Effective Rents by Sub-Market



Source: JLL Research, 4Q 2024

Singapore CBD Grade A Office  
Capital Values & Market Yields



Source: JLL Research, 4Q 2024

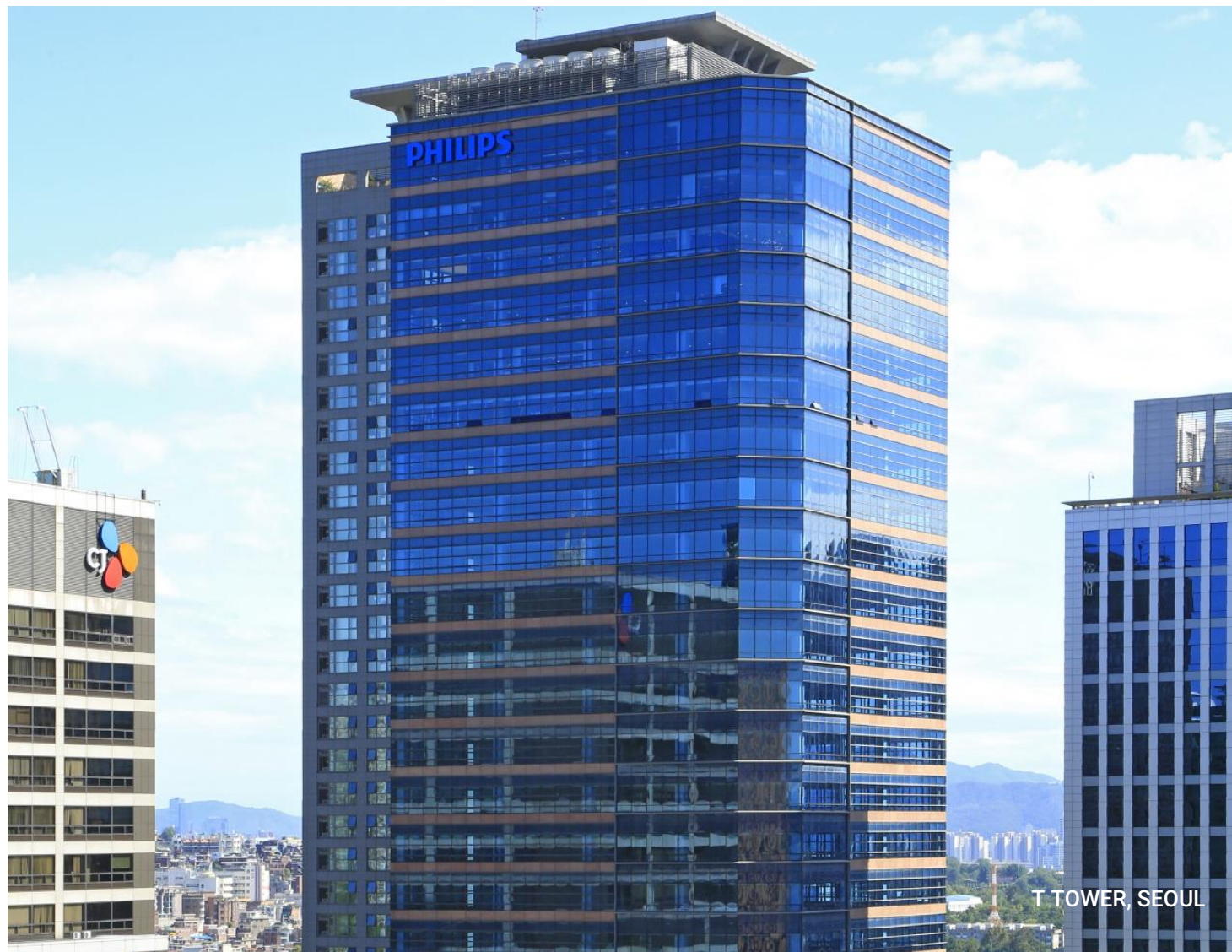
JLL forecasts that rental growth is expected in 2025 through 2029

Based on JLL data, capital values are expected to trend up in 2025 and continue to appreciate thereafter

## Key drivers<sup>1</sup>

- Limited new supply
- Healthy demand, especially for quality assets in core locations
- Increasing back-to-office momentum
- Singapore's status as key financial and wealth management hub

04



# South Korea

# Executive Summary – South Korea

## Key observations

- Office space demand is healthy. There was a trend of converting hotel to office space over the past years. Even through the Covid period, majority of the workforce in Seoul continued to work from office
- New supply is mainly in the eastern part of CBD. T Tower which is in the southern part of CBD is seeing a potential reduction in supply due to nearby redevelopment activities

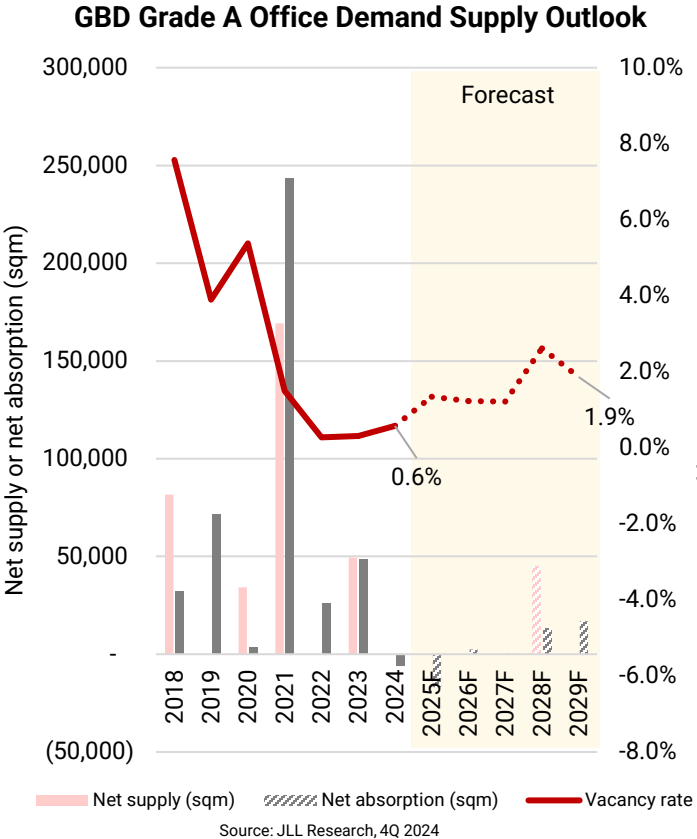
## Investment strategy

- To build up portfolio focusing on the three key business districts in Seoul (not seeking other sub-markets for now)

## Existing portfolio

- To hold T Tower in the short term to benefit from rejuvenation from nearby redevelopment activities

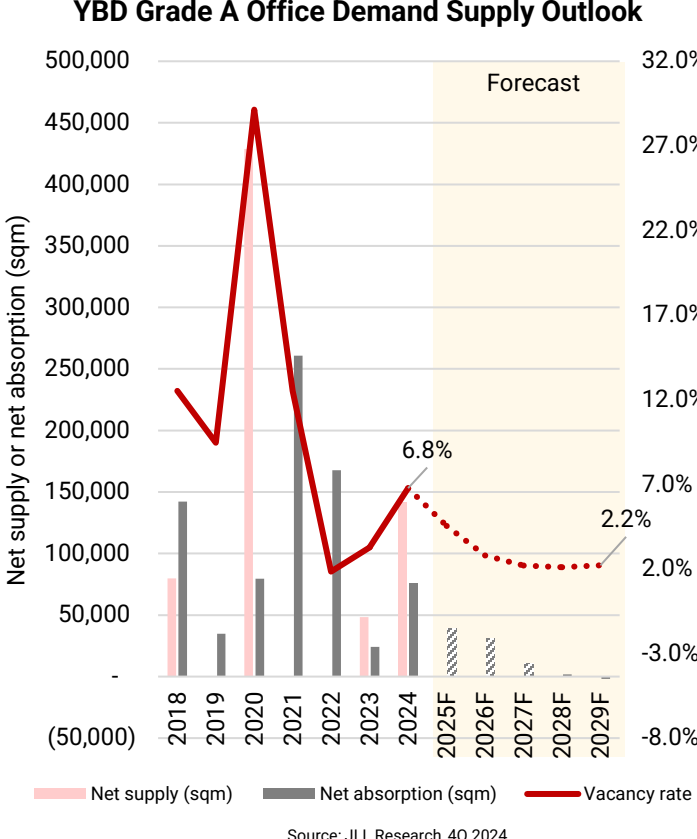
# Seoul's key business districts are expected to **perform well**



## Gangnam Business District

Based on JLL data,

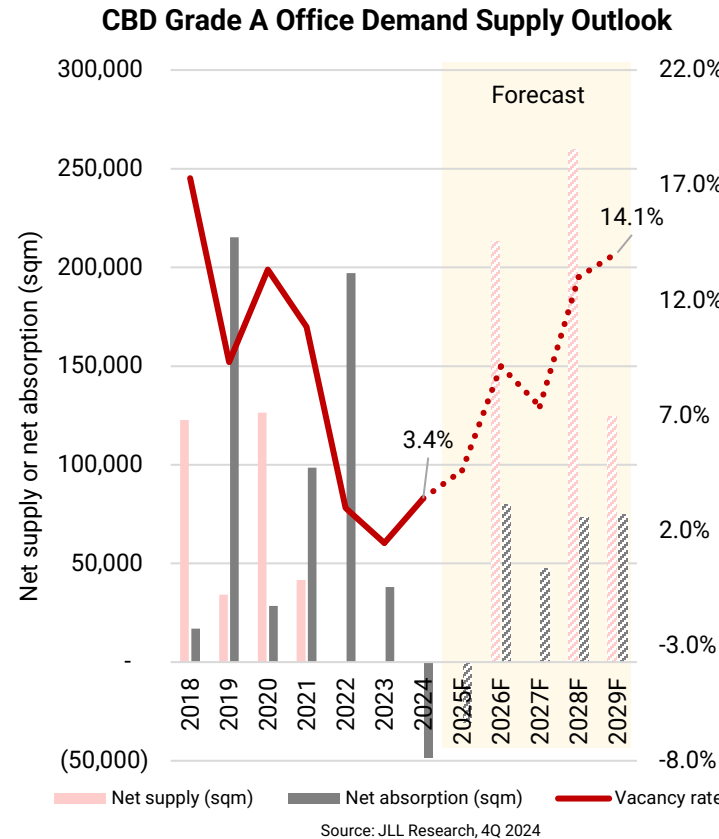
- No new supply in most of next few years
- Vacancy to remain low at less than 2%



## Yeouido Business District

Based on JLL data,

- No upcoming supply in 2025 & beyond
- Vacancy to decline to close to 2%



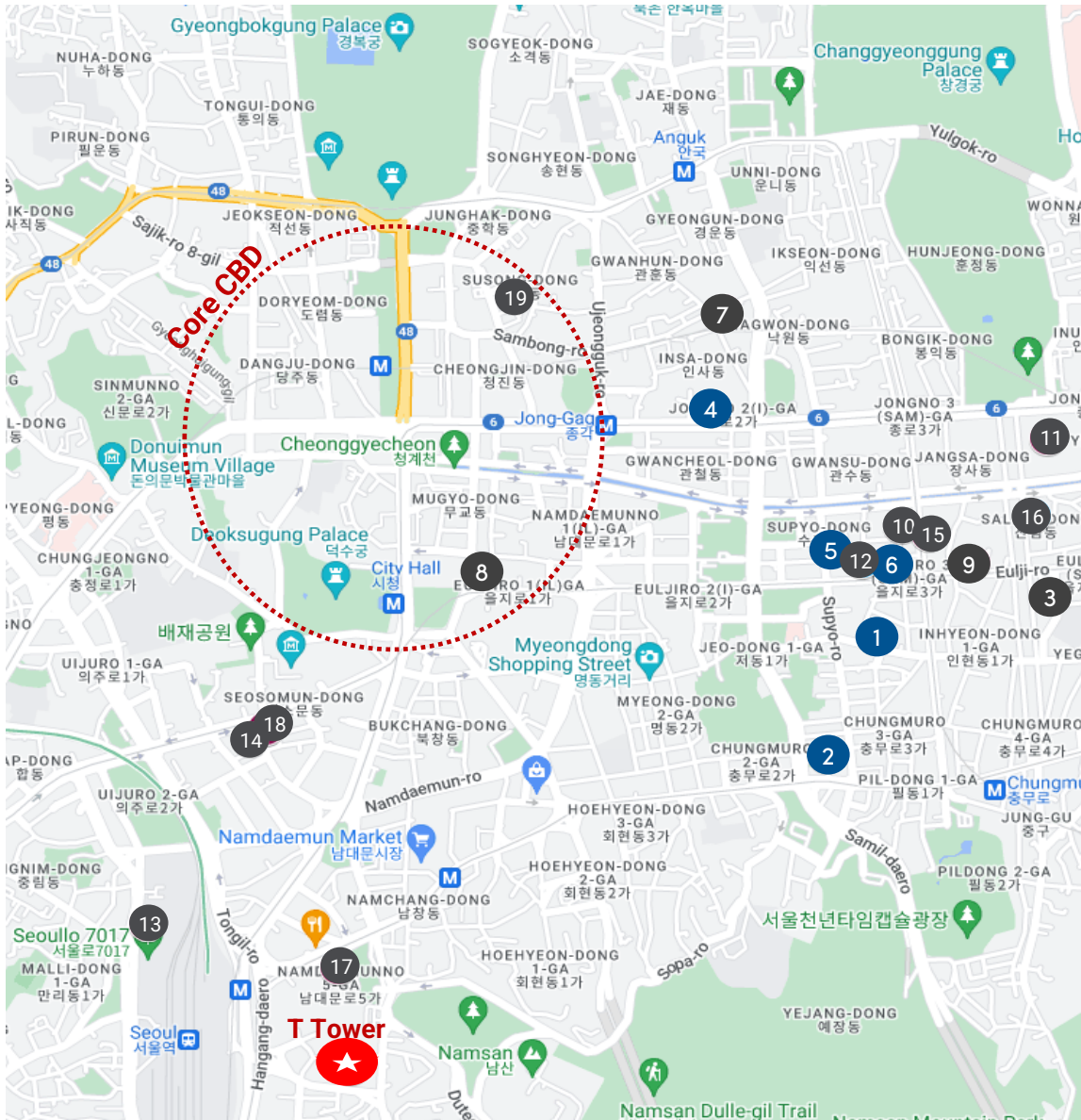
## Central Business District (CBD)

Based on JLL data,

- Most of the new supply in 2026 and 2028
- Some supply may not come online due to ongoing difficulties in securing project financing<sup>1</sup>

(1) Seoul Office Report, 3Q 2024, JLL Research

# Deep dive into Seoul CBD's upcoming supply



SN	Building	Status as of 4Q 2024
1	Project 107	Under construction
2	Namsan N Tower (Vermilion Namsan)	Under construction
3	Sewoon District 6-3-3	Proposed
4	G1 (Gongpyeong 15, 16 District)	Under construction
5	Euljiro 3-ga District 6	Under construction
6	Euljiro 3-ga 12 District	Under construction
7	Gongpyeong Development	Proposed
8	Geumsegi Building Redevelopment	Proposed
9	Sewoon District 3-8, 9, 10	Proposed
10	Supyo Urban Redevelopment Project	Proposed
11	Sewoon District 4	Proposed
12	Euljiro 3-ga 9 District	Proposed
13	Northern Seoul Station Project	Proposed
14	Seosomun District 11, 12	Proposed
15	Sewoon District 3-2, 3	Proposed
16	Sewoon 5-1, 3 District	Proposed
17	Seoullo Tower	Proposed
18	Seosomun District 10	Proposed
19	Koreanre Building Redevelopment	Proposed

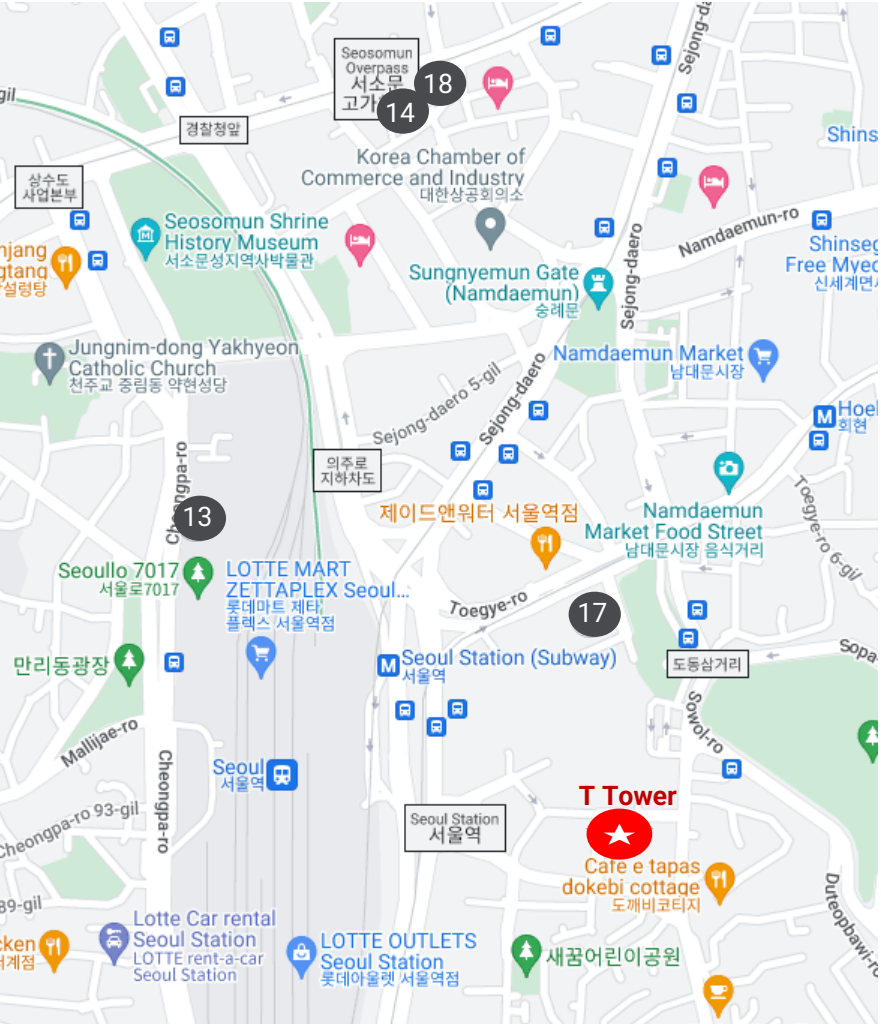
Source: JLL Research, 4Q 2024

**New supply is primarily in the eastern part of CBD**

**Only 5 out the 19 projects are under construction**

**Seoul's core CBD is relatively unaffected by new supply**

# T Tower's immediate vicinity to be rejuvenated



⑬ Northern Seoul Station  
GFA: 142,934 sqm<sup>1</sup>



- Mixed use comprising office, retail, hotel and residential<sup>2</sup>

⑰ Seoulo Tower  
GFA: 29,826 sqm<sup>1</sup>



- Will be redeveloped concurrently with adjacent office tower and hotel<sup>3</sup> into a 460,000 sqm mixed use project with hotel, office and retail spaces<sup>4</sup>

⑭ ⑱ Seosomun Districts  
GFA: 164,160 sqm<sup>1</sup>



- Samsung may consolidate its affiliates to this location

Proposed<sup>1</sup>

- Potential positive impact on T Tower from locational rejuvenation
- Medium term withdrawal of office stock due to redevelopment activities
- Continue to hold T Tower in the short term

(1) JLL Research, 4Q 2024  
 (2) <https://www.dezeen.com/2020/11/27/henning-larsen-seoul-valley-south-korea/>  
 (3) The three buildings are namely Metro Tower (acquired by IGIS in 2024), Seoulo Tower (acquired by IGIS in 2024) and Millennium Hilton Seoul (acquired by IGIS in 2021)  
 (4) <https://www.koreaherald.com/view.php?ud=20240318050600#:~:text=While%20the%20firm's%20redevelopment%20plan,measuredly%2C%20wrapping%20up%20by%202029.>

# Thank you



**Keppel** REIT

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