

Real Estate Monthly

Updates and views



INVESTMENT SOLUTIONS & PRODUCTS
Global Real Estate Strategy

August 2021

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Agenda

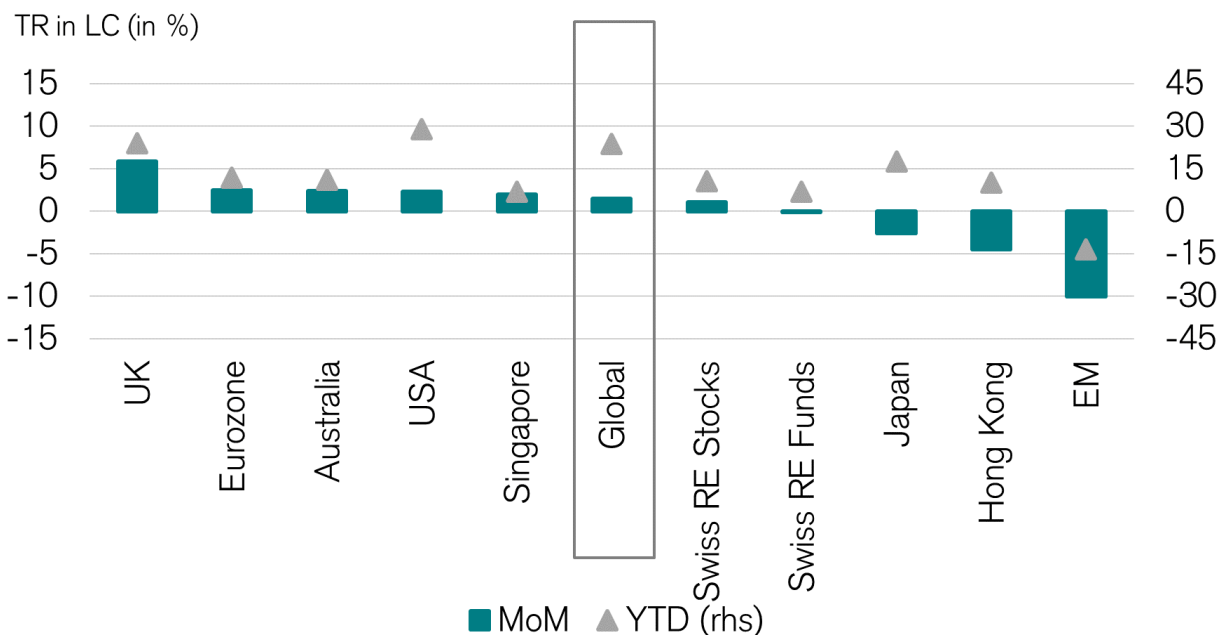
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Listed real estate*:

The sector underperformed equities

- Global: Listed real estate delivered a positive return of +1.5% over the last 30 days (as of 13/08/2021), but underperformed global equities as a relatively weak earnings season weighed on the sector. Real estate sectors supported by strong underlying tailwinds such as industrials outperformed.
- Regions: Developed markets outperformed emerging markets as China listed real estate corrected 14% over the last 30 days (as of 13/08/2021). Within developed markets, cyclical regions such as the UK outperformed, while more defensive regions such as Switzerland lagged.



*MSCI Real Estate indices; Switzerland: SXI Real Estate Shares and Funds

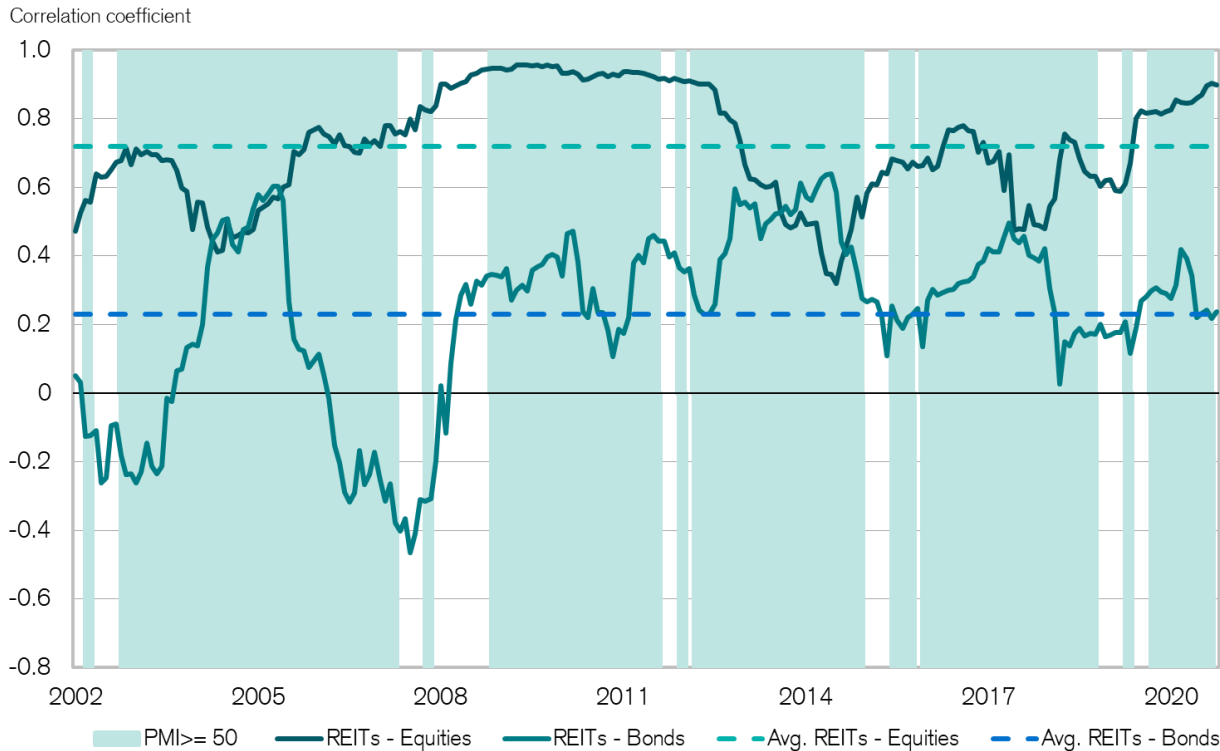
Last data point: 13.08.2021

Source: Datastream, Credit Suisse/IDC

Listed real estate:

Correlation with equities remains elevated

- Real estate equities' correlation with the broader equity market is on average higher and more stable than that with bonds. Correlation with equities remains above its long-term average level. This suggests that investors continue to focus on the cyclical component of real estate and its sensitivity to economic growth.
- Listed real estate's correlation with bonds peaked in December 2020 but has come back to its long-term average, indicating that sensitivity to interest rates is now just in line with historical levels.



Last data point: 31.07.2021

Source: Bloomberg, Datastream, Credit Suisse

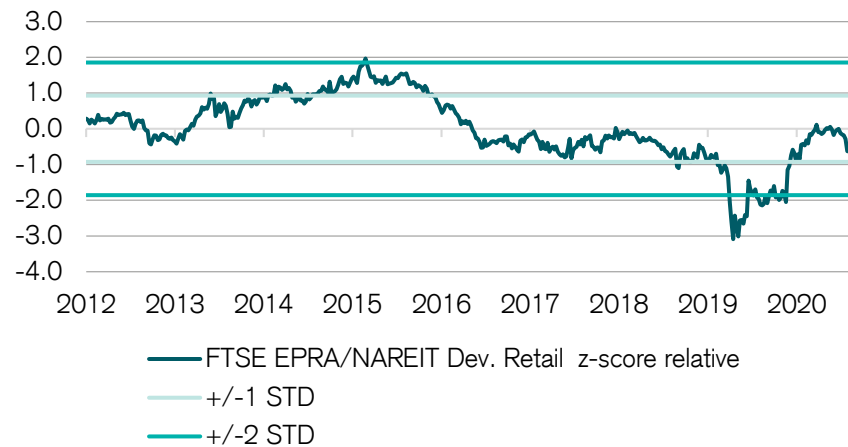
Global listed real estate*:

Unattractive return potential relative to global equities

- Vaccine news triggered a recovery in cyclical sub-sectors such as retail and office, but we believe that further upside is limited given less attractive valuations and continued structural headwinds related to e-commerce and work-from-home arrangements.
- The negative impact from the pandemic is starting to be gradually reflected in underlying real estate markets, with increasing pressure on vacancy rates and rents. This results in continued weakness in real estate companies' earnings growth, which is significantly below its long-term average level and also lagging broader equities.
- Rising interest rates pose further downside risks as real estate tends to underperform broader equities when bond yields rise, impacting property valuations via higher discount rates and increasing leverage costs being a capital intensive sector.

Valuations in listed retail real estate above pre-COVID-19 levels

Valuation z-score (Average of P/B, P/E, div. yield and yield spread) of retail sub-sector vs. global real estate



Last data point: 06.08.2021

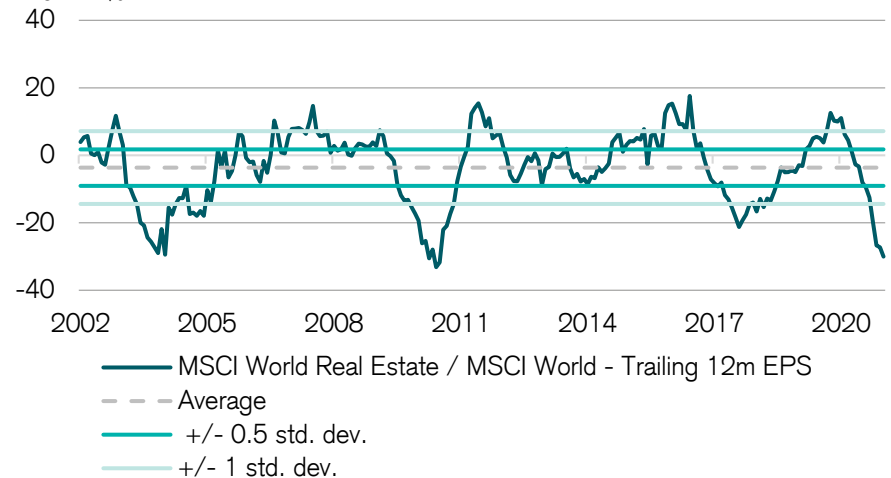
* Relative to MSCI World Index

Source: Datastream, Credit Suisse

Earnings growth continues to weaken amid slowing fundamentals

Relative 12m trailing earnings growth YoY

YoY in %



Last data point: 04.08.2021

Source: Datastream, Credit Suisse

Listed real estate: Key views (3-6 months)*

REITs and other listed real estate securities / funds**

Global	↘	We expect the sector to underperform broader equities. The earnings picture continues to slow amid continued structural concerns, while rising interest rates pose further downside risks.
US	→	Valuation metrics are elevated amid a slowing earnings picture, but large exposure to defensive sectors as well as sectors underpinned by structural growth is supportive.
Eurozone	→	High exposure to the German residential market provides a defensive element benefitting from strong secular trends, but upside risks are more limited in case of a strong economic rebound compared to more cyclical sectors.
UK	↗	UK listed real estate should benefit from better economic prospects due to relatively quick pace of vaccination and a favorable sector exposure.
Swiss RE stocks	→	Relative valuation multiples are below long-term average levels, but large exposure to structurally challenged sectors such as office and retail mute the outlook.
Swiss RE funds	↘	Swiss real estate funds are trading at a premium to net asset values which is significantly above its long-term average, while growth potential in underlying markets is muted. Funds tend to underperform in our base case of a continued economic global recovery.

Last data point: 12.08.2021

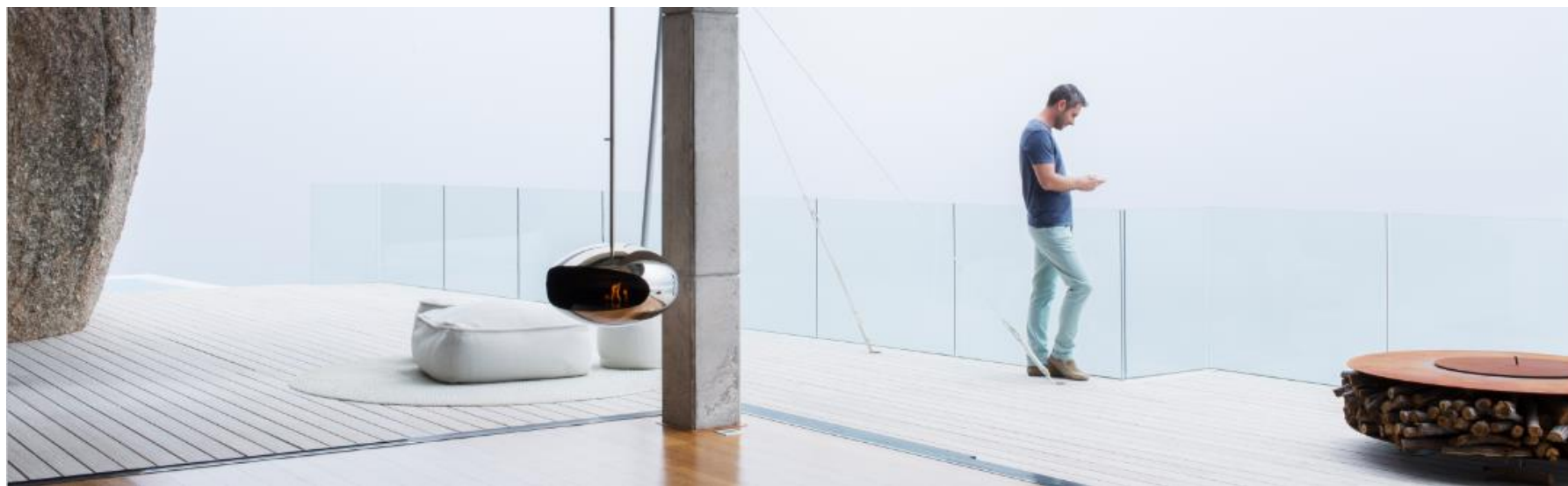
Source: Credit Suisse

* Global real estate relative to global equities (MSCI World); Real estate regions relative to global real estate (MSCI World Real Estate)

** Regional MSCI Real Estate indices (except Swiss RE stocks and funds)

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US listed*: ➔

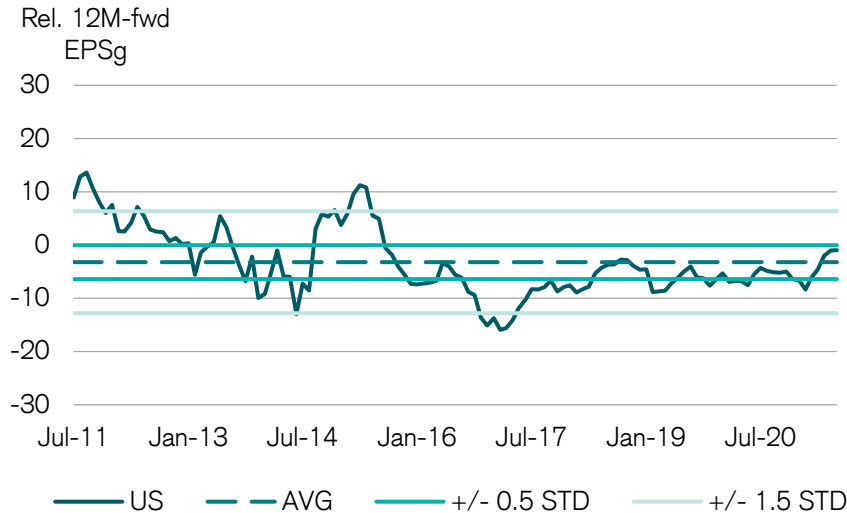
Marketperform view

Value* ➔ Tech* ➔

- Recent moves in US long-term interest rates are not fully reflected in the performance of listed real estate, implying moderate downward pressure. A further increase in long-term rates on the back of larger fiscal spending and inflation pressure poses an additional risk.
- Analysts' earnings expectations have increased over recent months but are still modest from a historical perspective.
- US listed real estate has a large exposure to defensive sectors such as residential, as well as to sectors underpinned by structural growth. As such, the region should deliver resilient performance across different economic cycles.
- Valuation multiples relative to the global real estate index are in line with long-term average values.

US real estate equities: Relative earnings growth expectations have increased, but remain modest from a historical perspective

MSCI US Real Estate 12m forward expected earnings growth, relative to global listed RE



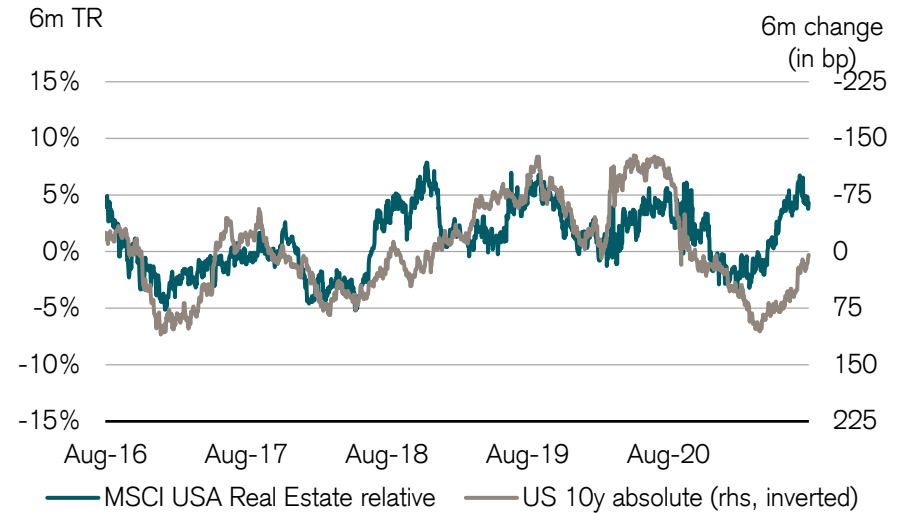
Last data point: 20.07.2021

Source: Datastream, Credit Suisse

* Relative to global real estate.

Pricing against interest rates suggest downside potential

US 10-year government bond yields vs. MSCI US Real Estate, relative to global listed RE



Last data point: 04.08.2021

Source: Datastream, Credit Suisse

Eurozone listed*: ➔

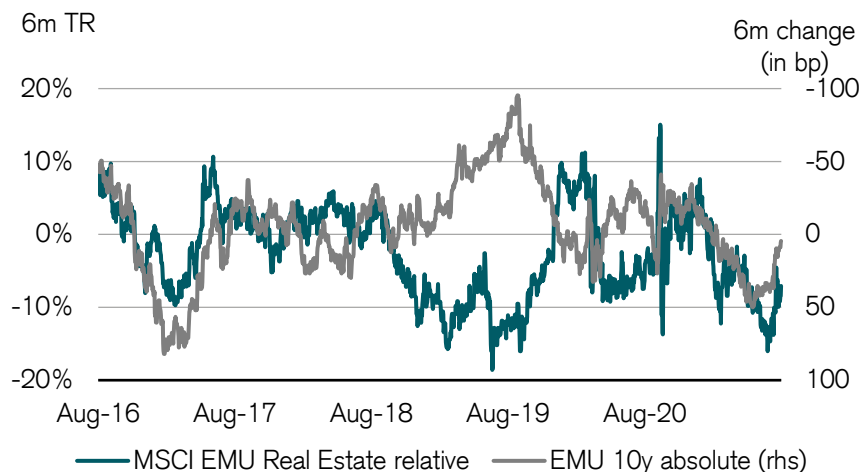
Marketperform view

Value* ➔ Tech* ➔

- The environment remains challenging for retail landlords (15% of the index) due to both e-commerce and COVID-19 outbreak related store closures. However, vaccinations and gradual reopening of economies later this year should ease the pressure somewhat.
- Large exposure to the German residential sector (> 70% of the index) adds defensiveness as a continued supply-demand imbalance is supportive of structural, long-term growth in prices and rents. However, it also limits upside potential in case of a strong economic rebound compared to more cyclical sectors.
- Earnings expectations relative to global benchmark have been revised higher recently but remain below their long-term average.
- Valuation (relative to global listed real estate) is in line with its long-term average level.

Pricing against bond yields suggesting small upside potential

Relative Eurozone real estate equities vs. Eurozone 10-year government bond yields**



Last data point: 04.08.2021

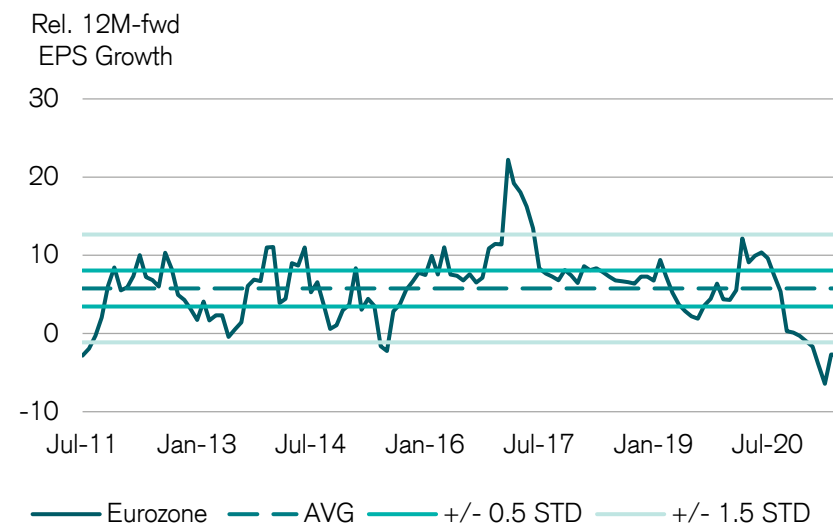
Source: Bloomberg, Datastream, Credit Suisse

* Relative to global real estate.

**10-year government bond yields weighted by country weights in MSCI Eurozone Real Estate.

Relative earnings expectations remain below long-term average levels

MSCI Eurozone Real Estate 12m fwd. earnings expectations, relative to global listed RE



Last data point: 20.07.2021

Source: Datastream, Credit Suisse

UK listed*:

Outperform view

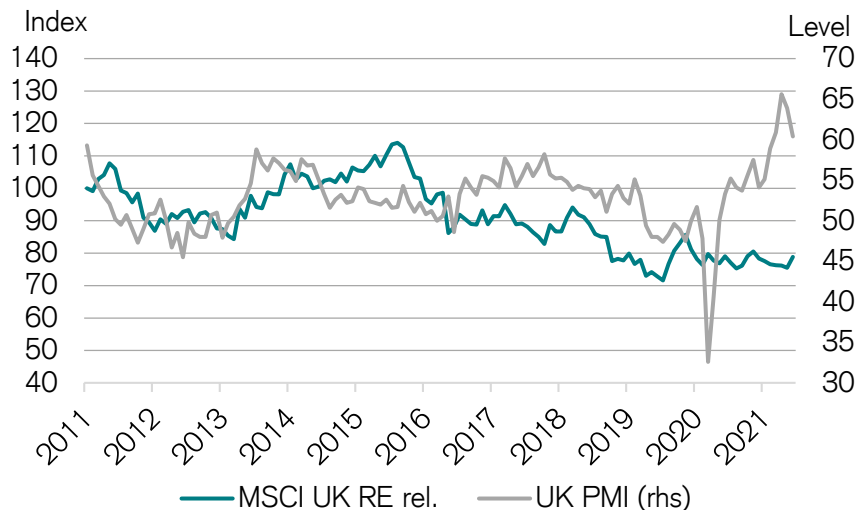
Value* Tech*



- Pace of vaccination rollout has been quicker than in other major European economies and we expect a strong economic rebound from Q2 2021 onward. This is supportive of cyclical sectors such as office and retail, which have a relatively high index weight than in the global benchmark. UK listed real estate therefore tends to outperform in times of rising purchasing managers' indices (PMIs).
- UK listed real estate has exhibited resilience in rising interest rate environment indicating that economic growth is a more relevant performance driver for the region than interest rates. UK real estate companies tend to have a relatively large share of developments, which allows them to benefit from improving momentum in underlying markets and grow income streams accordingly. This makes them less of a bond proxy.
- Valuation multiples have improved since their temporary peak in early 2021 and are now in line with long-term average values.

Cyclical component: UK listed real estate tends to outperform when PMIs increase

MSCI UK Real Estate Index rel. to MSCI World Real Estate vs. UK PMIs



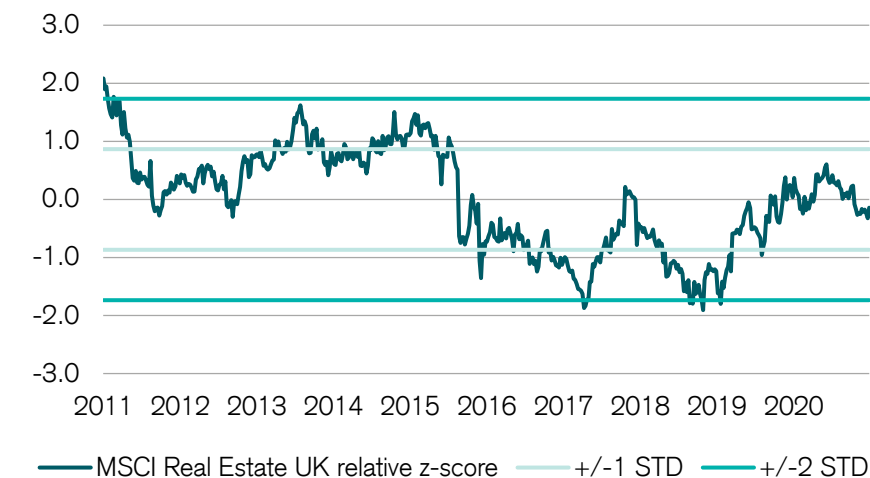
Last data point: 31.07.2021

Source: Datastream, Credit Suisse

* Relative to global real estate.

Valuation has improved since the start of 2021

Valuation z-score (Average of P/B, P/E, div. yield and yield spread), rel. to MSCI World Real Estate



Last data point: 04.08.2021

Source: Datastream, Credit Suisse

Swiss RE equities*: ➔

Marketperform view

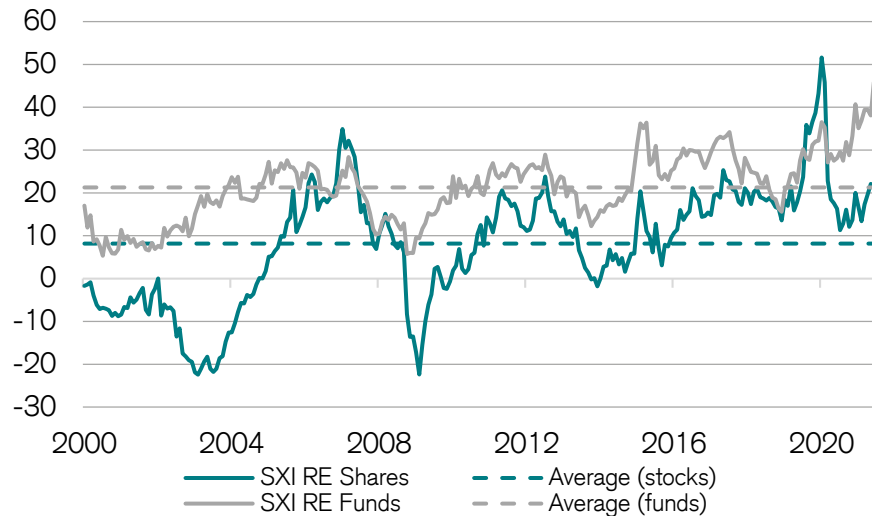
Value* Tech*



- The average premium to net asset values (NAV) for the Swiss real estate stocks remains above its long-term average. However, relative multiple based valuation vs. global listed real estate is below its long-term average level.
- The Swiss real estate companies have large exposure to cyclical sectors such as office and retail, which suffer from intensified structural concerns due to working-from-home and e-commerce.
- Having said that, large exposure to central business district (CBD) within the office segment should offer some downside protection.

Premiums to net asset values are above long-term average levels

SXI Real Estate Shares and SXI Real Estate Funds: Average premiums to net asset values

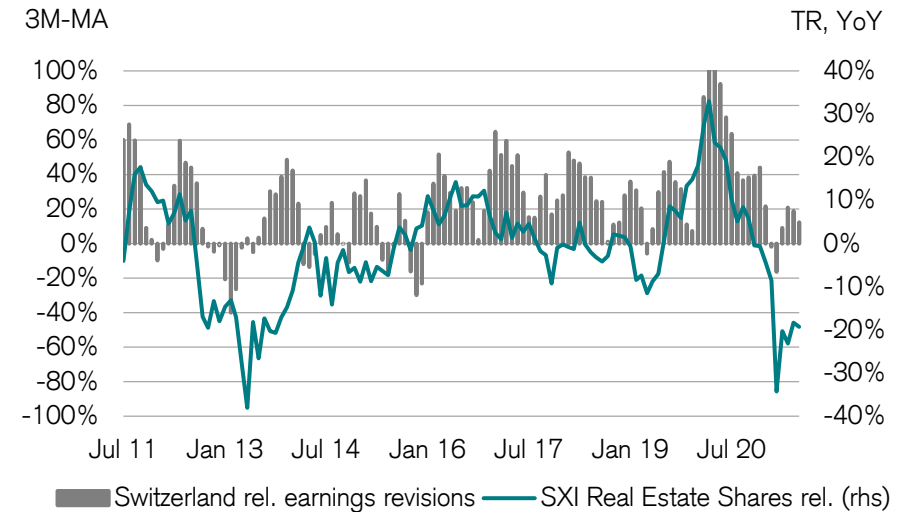


Last data point: 31.07.2021

Source: CSAM, Credit Suisse /IDC

Momentum in earnings revisions remains positive

Net positive earnings revisions vs. performance, rel. to MSCI World Real Estate 3M-MA





Last data point: 20.07.2021

Source: Datastream, Credit Suisse/IDC

Swiss RE funds*:

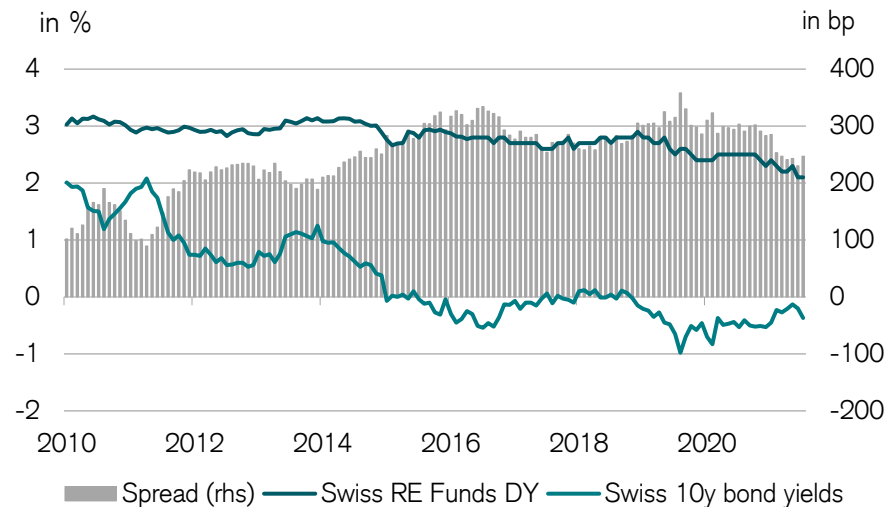
Underperform view

Value*  Tech* 

- The average premium to NAV for the listed Swiss real estate funds currently stands at a new historical high of 46%, significantly above its 10-year average of 26%. Relative multiple based valuation vs. global listed real estate is in line with long-term average levels.
- Valuation looks even more stretched when taking into account very limited potential of Swiss real estate funds to grow future earnings. The funds are mostly invested in the Swiss rental apartment market, which is expected to continue suffering from oversupply resulting in rising vacancy rates and negative expected rental growth in 2021.
- Spreads between the funds' distribution yields and Swiss long-term interest rates have tightened since the start of the year, reducing the funds' attractiveness relative to alternative fixed income investments.

Yield spreads to government bonds have come down recently

Swiss real estate funds dividend yield, Swiss 10-year government bond yield and spread



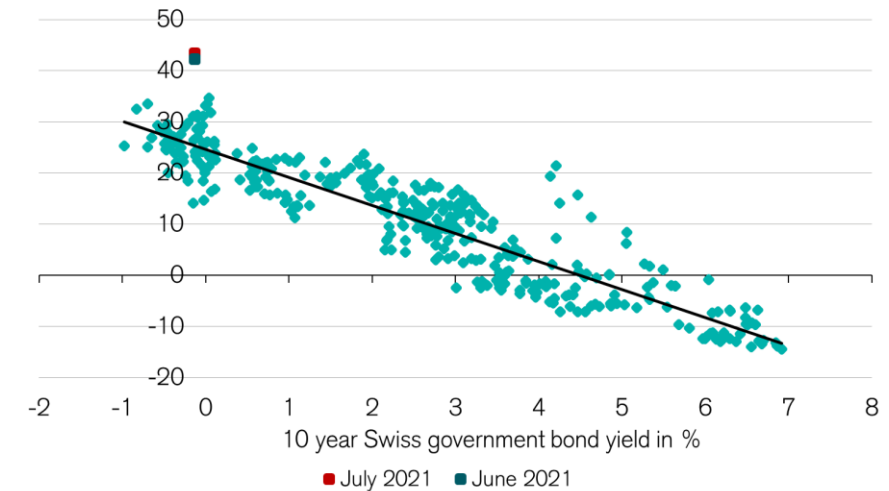
Last data point: 31.07.2021 Source: CSAM, Datastream, Credit Suisse/IDC

* Relative to global real estate.

Premia elevated vs. current level of interest rates

Premium to NAV of Swiss real estate funds in %

Correlation: -0.92

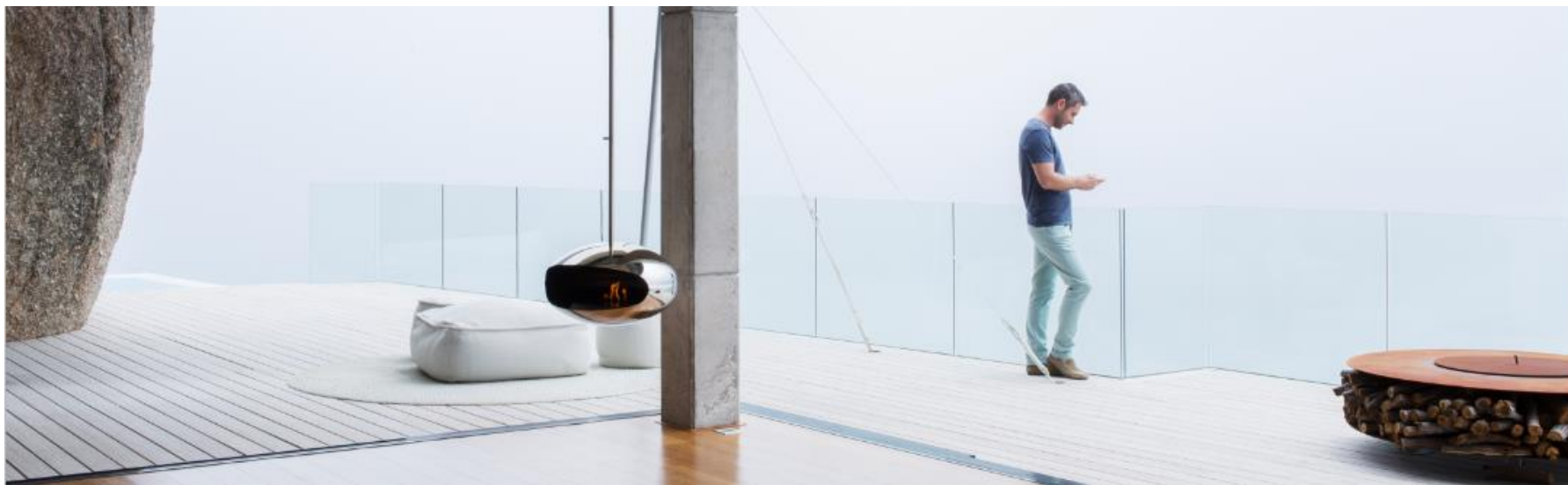


Last data point: 31.07.2021













Source: CSAM, Datastream, Credit Suisse/IDC

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Regional market views (key statistics)

<input type="checkbox"/>	Regional Indices ¹	Market data -			Outlook ⁵ -			
		Last 30 days	13 Aug 2021	YTD %	Absolute	Target 3M	Target 12M	Relative
<input type="checkbox"/>	 MSCI World Real Estate		1486	22.2	→	1480	1550	Benchmark
<input type="checkbox"/>	 MSCI USA Real Estate		1654	28.9	→	1640	1720	Marketperform
<input type="checkbox"/>	 MSCI EMU Real Estate		486.8	11.7	→	480	500	Marketperform
<input type="checkbox"/>	 MSCI UK Real Estate		1326	25.2	↗	1340	1430	Outperform
<input type="checkbox"/>	 SXI Real Estate Shares ⁶		3375	10.5	→	3360	3430	Marketperform
<input type="checkbox"/>	 SXI Real Estate Funds ⁷		517.0	7.0	↘	505	501	Underperform

1) Gross total return indices in local currency.

5) Outlook is overall view for 3-6 months. Targets are indicative levels expected to be reached during the stated time horizon. Relative view is expressed as expected performance relative to specified benchmark.

6) Weighted dividend yield of the six largest index components, representing ca. 90% of the index (according to SXI Real Estate factsheet as of 31/12/2017).

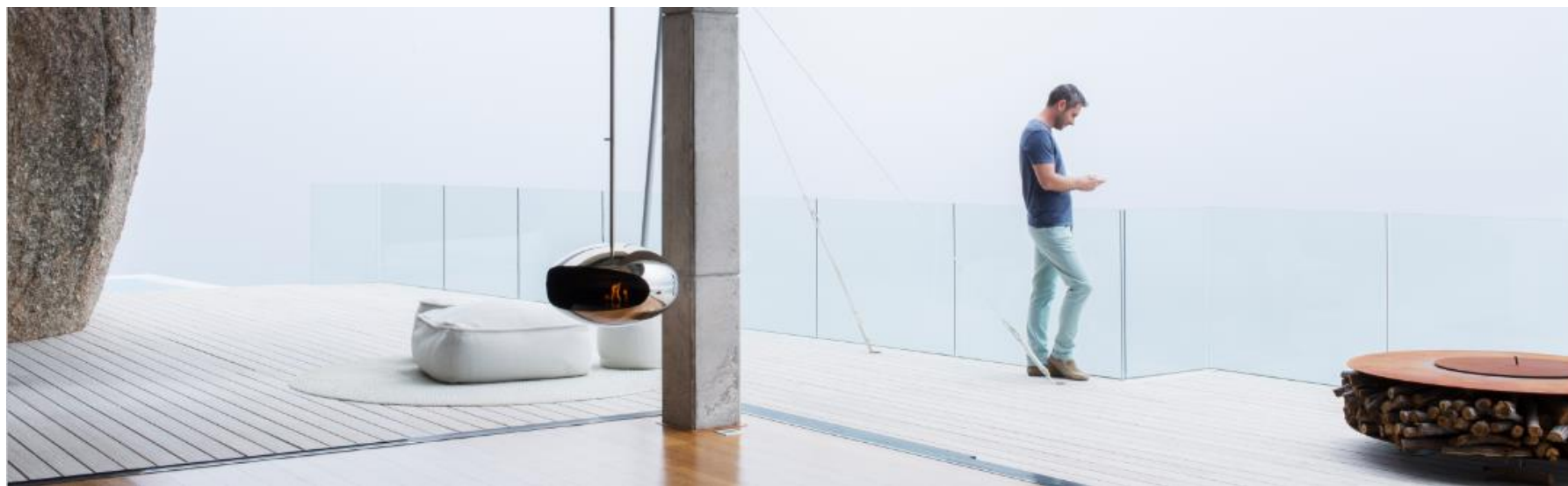
7) SXI Real Estate Funds Index has dominant exposure to residential real estate, unlike SXI Real Estate Shares Index.

Last data point: 13.08.2021

Source: Bloomberg, Datastream, Credit Suisse/IDC

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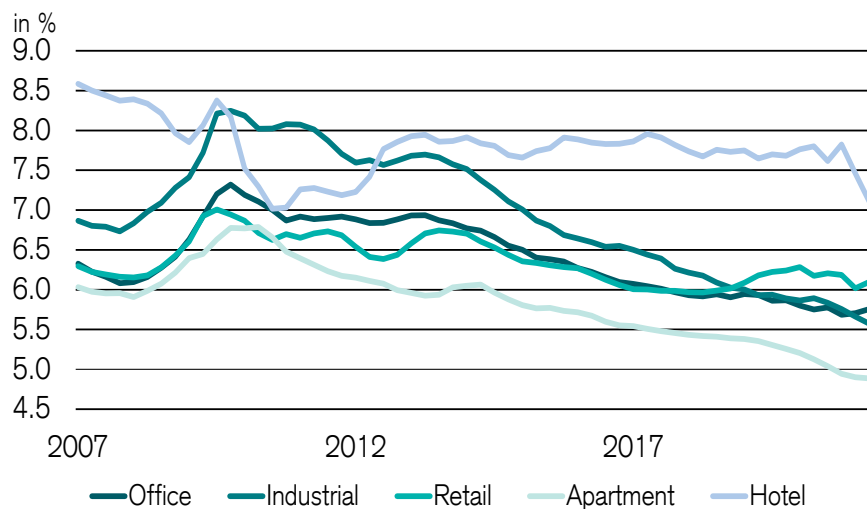


Global commercial real estate:

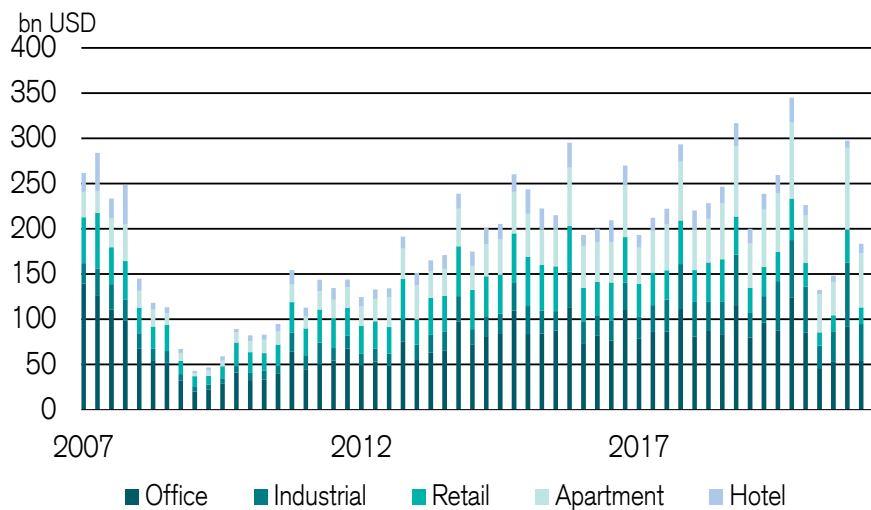
Strong rebound in transaction activity in Q2 2021

- Investment volume rebounded strongly in Q2 2021 due to the reopening of economies, vaccination progress and a continued global economic recovery. Transaction activity for existing properties increased by +81% YoY, while sales volume for development sites was slightly weaker (-11% YoY). Growth was mainly driven by the USA which saw a tripling in investment volume compared to the second quarter of last year.
- Investment volumes increased across all major sectors in Q2 2021, with hotels, senior housing and industrial displaying the largest rebound. However, overall volumes for H1 2021 show that investors remain cautious toward the office and retail sector as structural concerns due to work-from-home arrangements and e-commerce linger.
- We expect a further recovery in transaction volumes in H2 2021 amid a successful vaccine rollout and a continued economic recovery.

Capitalization rates by sector: Sector divergence accentuates



Transaction volumes by sector: Strong second quarter



Last data point: 30.06.2021

Source: RCA, Credit Suisse/IDC

Last data point: 30.06.2021

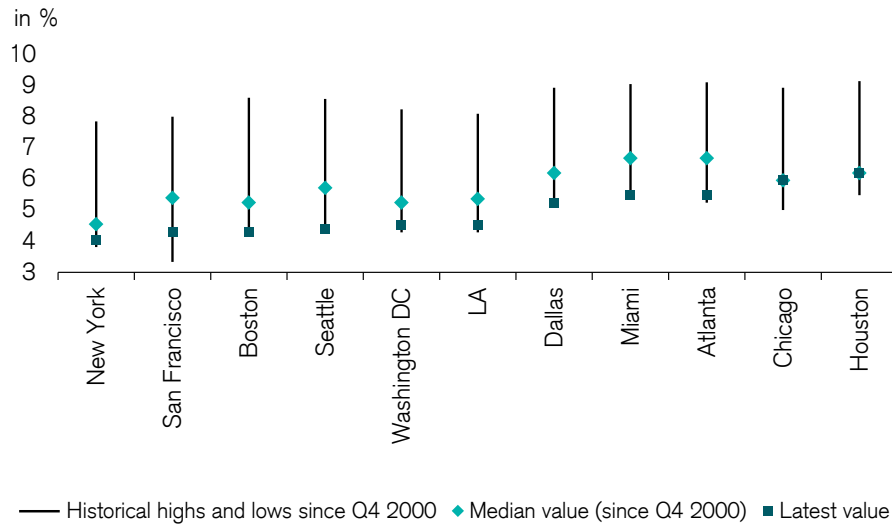
Source: RCA, Credit Suisse/IDC

Global office markets:

Low-yield environment supports investment markets despite COVID-19-related uncertainty

- Global prime office yields were mostly at the lower end of their historical range, at or below their median values as of Q4 2020.
- Within Europe, several German markets, Paris, Stockholm and Amsterdam offer lowest office yields, while London and non-core European markets are at the upper end of the range.
- The major US office markets offer somewhat higher yields, on average, than the key European office markets.
- Yields are expected to remain stable across major US office markets in 2021, and to compress by on average 10 bp in major European office markets (source: PMA).

US prime office net yields – actual vs. median: Office yields are at the lower range of their historical values in most markets

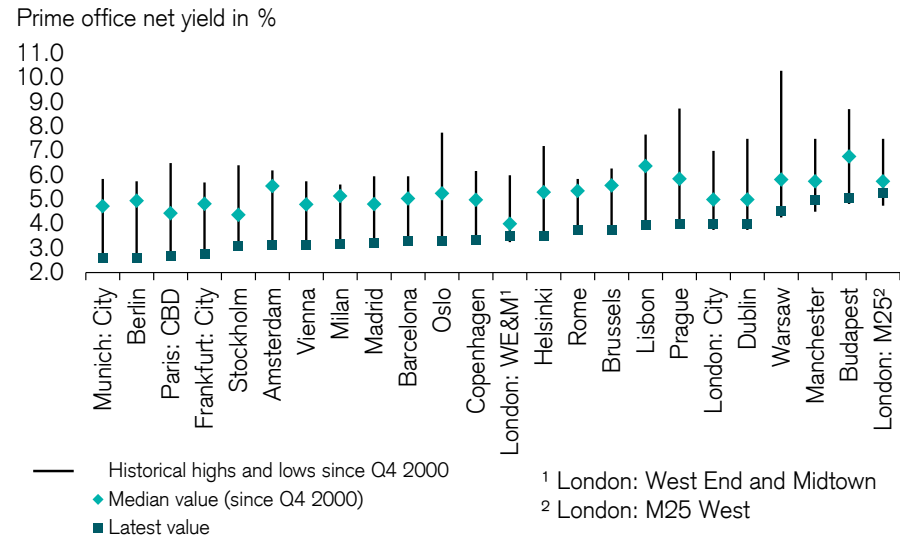


Last data point: 31.03.2021

Source: PMA, Credit Suisse / IDC

* Please find corresponding chart showing Asian markets in Appendix I.

European prime office net yields – actual vs. median: London and non-core European markets offer higher yield advantage



Last data point: 31.03.2021

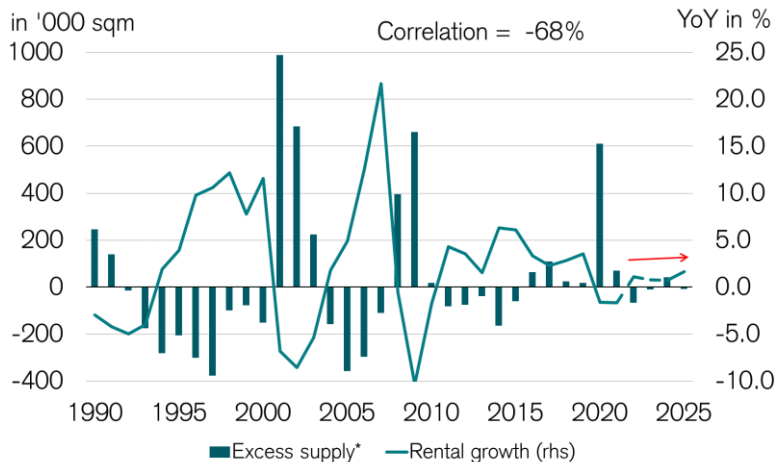
Source: PMA, Credit Suisse / IDC

Global office markets:

Occupational market^{**}: Covid-19 weighs on take-up of space and rental growth

- Global office markets benefited from moderate construction activity and healthy space absorption over recent years, supporting rental growth.
- Expected supply for 2021 is below its 20-year average in Europe, while somewhat above its long-term average in the US. Nevertheless, absorption is expected to rebound in the USA but to remain muted in Europe, leading to a higher expected excess surplus for the latter.
- Rental growth in the USA and Europe is expected to remain negative in 2021, but to turn positive again from 2022 onward supported by a recovery in net absorption and moderate supply.

US prime office excess supply & rental growth: Balance expected to improve after 2020, supporting modest rental growth



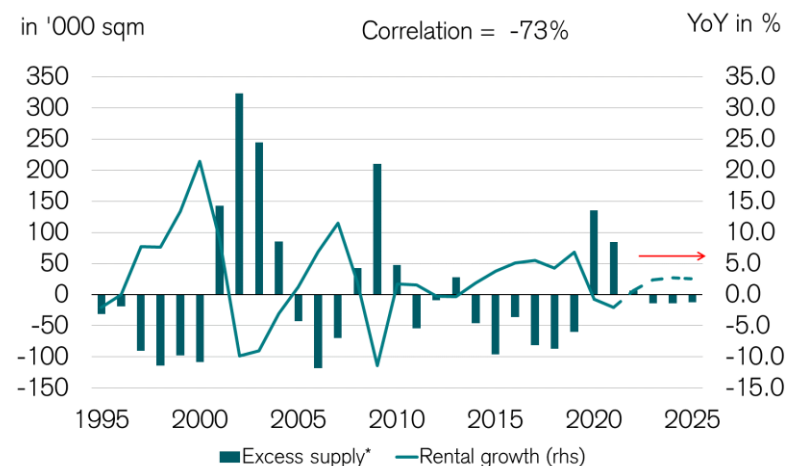
Last data point: 31.12.2020; PMA forecasts: 2021-2025

Source: PMA,
Credit Suisse

* Excess supply refers to the change in available floorspace on the market, taking into account newly built or substantially refurbished as well as withdrawn space and take-up of space.

^{**}Please find corresponding chart on Asia in Appendix I

Europe prime office excess supply & rental growth: Negative balance supports future rental growth



Last data point: 31.12.2020; PMA forecasts: 2021-2025

Source: PMA,
Credit Suisse

Office market data:

Occupational markets have entered the Covid-19 phase in a solid condition, but momentum has started to slow

	OFFICE							
	Vacancy rate	Rental growth		Net initial yield	Space net addition		Space net absorption	Employment growth
	latest vs. -1Q	latest vs. -1Q	latest vs. 5Y-average	latest vs. -1Q	next 2Y-average vs. long-term average	latest vs. -1Y	latest vs. -1Y	next 5Y-average vs. long-term average
USA	17.1% ↗	-3.7% ↘	2.5% ↘	4.7% =	1.1% ↗	1.6% ↗	1.2% ↗	2.4% ↗
Eurozone	6.8% ↗	0.0% =	5.3% ↘	2.9% =	1.1% ↘	1.6% ↗	0.4% ↗	1.1% ↘
UK	10.5% ↗	-5.6% ↘	-0.4% ↘	3.8% =	0.3% ↘	0.4% ↘	1.0% ↗	1.7% ↗
Hong Kong	8.5% ↗	-15.8% ↗	-0.4% ↘	2.9% =	0.9% ↘	0.1% ↗	0.4% ↗	2.1% ↘
Australia	10.3% =	-0.3% ↘	8.0% ↘	4.4% =	0.0% ↘	0.5% ↘	0.9% ↗	2.7% =
Singapore	11.3% ↗	-6.2% ↘	-0.7% ↘	3.3% =	0.8% ↘	0.5% ↗	0.8% ↗	3.0% ↘
Japan	6.3% ↗	-8.6% ↘	4.2% ↘	2.5% =	1.1% ↘	0.3% ↘	0.5% ↗	1.2% ↗
Emerging Markets (China)	15.1% ↘	-5.3% ↗	-0.9% ↘	4.3% =	4.4% ↘	6.2% ↘	4.2% ↗	3.1% ↘
Switzerland	5.4% =	2.8% ↗	0.4% ↗	2.0% ↘	n/a ↘	n/a =	n/a	n/a

Last data point: Different dates due to different data sources, frequency and time of update.

Property Market Analysis (PMA) data: Q1 2021

Japan office: 06/2021

Jones Lang LaSalle (JLL) data: Q1 2021

Office space and employment forecasts: Property Market Analysis (PMA) until 2025

Source: Baublatt, Datastream, Jones Lang LaSalle, Property Market Analysis, Credit Suisse

Retail and residential market data:

Negative trend in retail markets persists.

Mixed picture for residential markets.

	RETAIL				RESIDENTIAL		
	Vacancy rate		Rental growth	Net initial yield	House price growth		Sales growth
	latest vs. -1Y	[Min-Max] latest vs. median	latest vs. 5Y- average	latest vs. -1Y	nominal latest vs. -1Y	real latest vs. -1Y	latest vs. -1Y
USA	10.5% ↗	[6.4% - 11.0%] =	-0.5% ↘	6.5% =	17.0% ↗	11.5% ↗	24.6% ↗
Eurozone	7.9% ↗	[0.0% - 7.9%] ↗	-9.8% ↘	3.1% ↗	9.3% (GER) ↗	7.8% (GER) ↗	n/a
UK	13.5% ↗	[0.0% - 13.5%] ↗	-19.4% ↘	3.5% ↗	10.5% ↗	10.6% ↗	183.3% ↗
Hong Kong	13.0% ↗	[6.9% - 13.0%] ↗	3.1% ↗	2.5% ↘	2.0% ↗	1.2% ↗	16.5% ↗
Australia	n/a	n/a	-4.3% ↘	4.8% ↗	8.9% ↗	7.7% ↗	-2.0% ↘
Singapore	8.5% ↘	[4.5% - 9.6%] ↘	-13.9% ↘	n/a	7.1% ↗	4.7% ↗	14.1% ↗
Japan	n/a	n/a	-0.7% =	3.7% ↗	-2.8% ↘	10.7% ↗	151.9% ↗
Emerging Markets (China)	8.5% =	[2.4% - 10.4%] =	-3.1% ↘	5.3% =	5.9% =	4.7% ↗	11.6% ↗
Switzerland	n/a	n/a	n/a	n/a	2.4% ↗	1.9% ↗	n/a

Last data point:

Retail PMA data: Q1 2021

Residential data: Q1 2021 for Eurozone, Australia; Q2 2021 for Singapore, Switzerland

May 2021 for USA; June 2021 for Hong Kong, Japan, China; July 2021 for UK

Please note that retail data for Australia incorporates better quality assets - Sydney High Street

Source: Bloomberg, Datastream,
PMA, Credit Suisse

US commercial RE:

Muted outlook in the months ahead

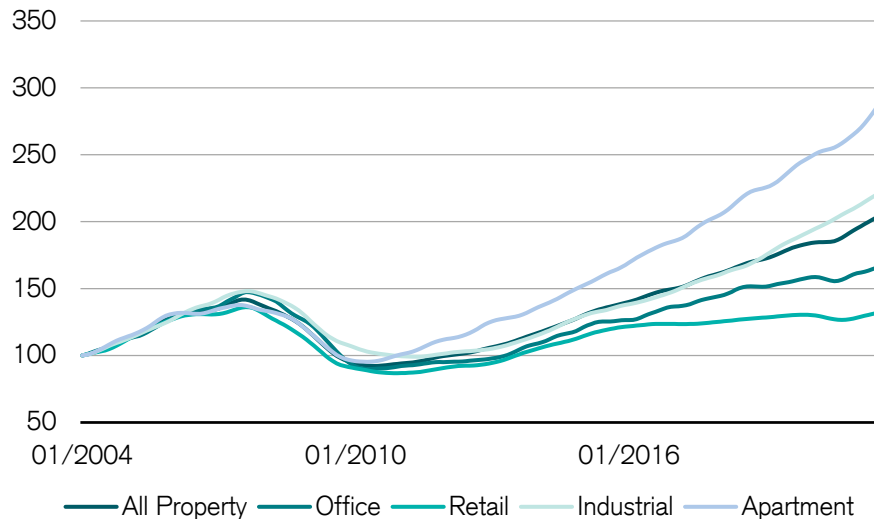
Qualitative 6-12 month
market outlook



- Transaction activity for US commercial property grew at a triple-digit annual rate in Q2 2021, given depressed levels in 2020 due to the pandemic. However, volume in Q2 2021 was actually 14% above the average in the 5 years prior to the pandemic (2015-2019), indicating that the market is on a strong recovery path.
- Capitalization rates have been relatively resilient during the pandemic, although sector differences have become evident. As of June 2021, sectors with solid market fundamentals and healthy demand (such as apartment and logistics) saw cap rates compressing by c. 20-30 bps over the past 12 months, while cap rates in other sectors were largely stable.
- Higher expected long-term interest rates are likely to put upward pressures on cap rates. However, sector divergence is likely to continue as structural trends have intensified since the outbreak of Covid-19.

Property prices resilient despite COVID-19

Index (31.01.2004 = 100)



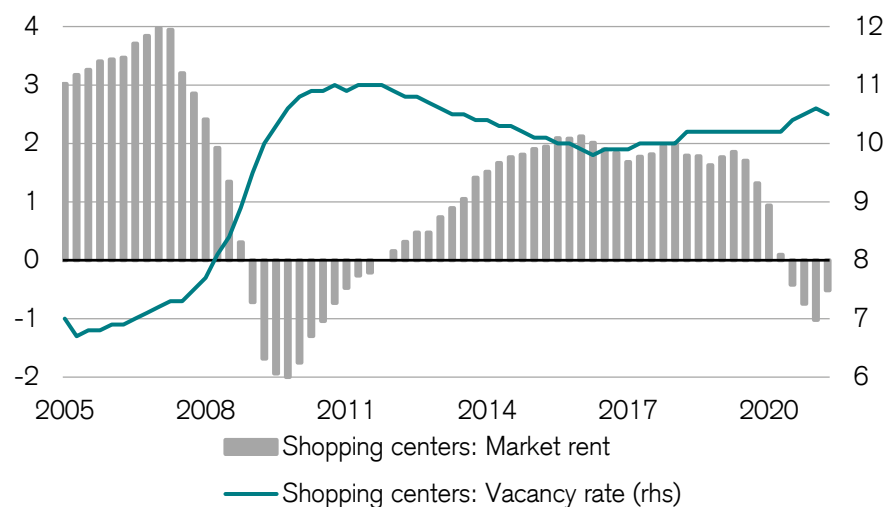
Last data point: 30.06.2021

Source: Datastream, Credit Suisse

Shopping centers: Rental growth remains negative

YoY in %

in %



Last data point: 30.06.2021

Source: Datastream, Reis Inc., Credit Suisse / IDC

Europe (ex UK) commercial RE:

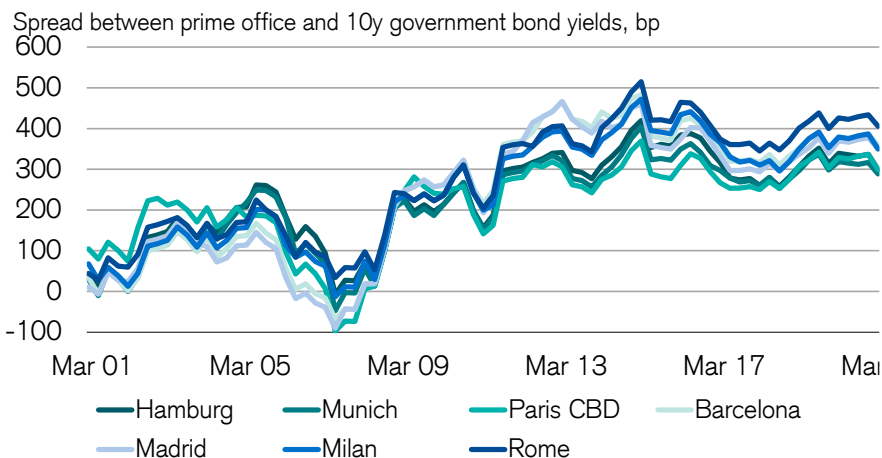
Short-term outlook is muted

Qualitative 6-12 month
market outlook



- Investment volume in the EMEA region increased by 34% YoY to EUR 79.2 bn in Q2 2021, ahead of the Asia Pacific region (-10% YoY), but lagged the Americas (+200% YoY). Sector divergence in Europe continued as transaction activity for industrial assets increased +138% YoY, but remained weak for retail properties (-2% YoY).
- The impact of Covid-19 has started to show in European office market data. Rents have been under pressure and the vacancy rate has started to increase in the majority of markets, particularly in Eastern European countries but also in selected markets such as Paris La Défense or Dublin. In 2021, rents are expected to fall by 2% on average, and the vacancy rate is expected to increase by 90 bp across European prime office markets*.
- Nevertheless, European office markets should continue offering a significant yield advantage (spreads over government bond yields) given relatively stable prime office yields and a continued low interest rate environment.

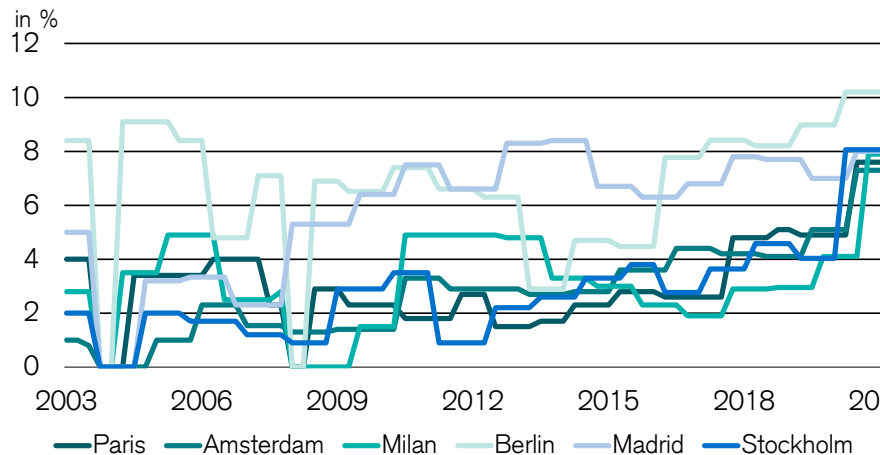
European prime office: Yield spreads remain high from historical perspective



Last data point: 31.03.2021

Source: PMA, Credit Suisse / IDC

European prime retail: Increasing vacancies reflect structural challenges in retail sector



Last data point: 31.03.2021

Source: PMA, Credit Suisse/IDC

*Vienna, Brussels, Prague, Copenhagen, Helsinki, Lille, Lyon, Marseille, Paris: CBD, Paris: Central, Paris: La Défense, Paris: Western Business District, Berlin, Cologne, Dusseldorf, Frankfurt, Hamburg, Munich, Stuttgart, Budapest, Dublin, Milan, Rome, Luxembourg, Amsterdam, Rotterdam, Oslo, Warsaw, Lisbon, Barcelona, Madrid & Stockholm

UK commercial RE:

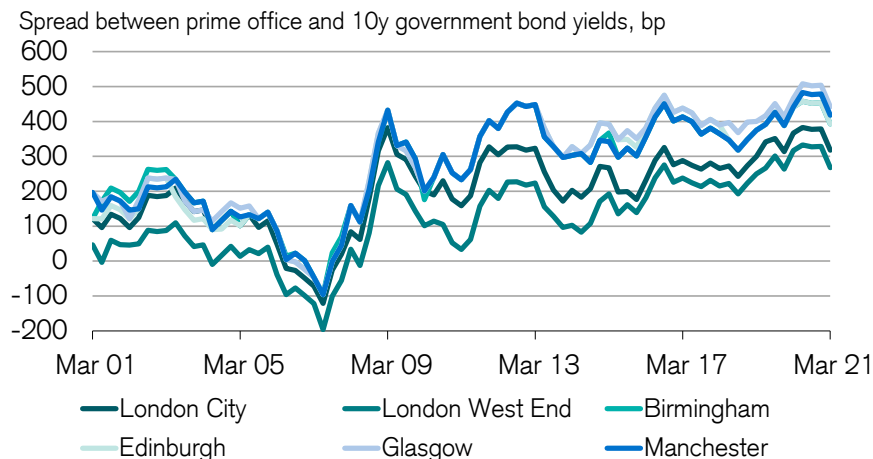
London office market: solid outlook

Qualitative 6-12 month
market outlook



- The outbreak of Covid-19 and its economic impact weigh on Central London office markets. Prime office rents declined c. 5% YoY and the vacancy rate has increased by 370 bps over the last twelve months to 10.5% (as of Q1 2021).
- However, the Central London office market is expected to recover earlier and stronger than major Continental European markets with rents forecasted to grow by on average 3% p.a. until the end of 2025.
- Prime office net yields have remained broadly unchanged since H2 2016 and are relatively high in a European context, which should continue to attract investors. Yields are expected to decline by around 30 bps by the end of 2023 (all mentioned data/forecasts: PMA).
- Retail capital values are likely to remain under pressure as structural challenges from e-commerce persist.

UK prime office vs. long-term government bond yields: Spreads remain relatively high from a historical perspective

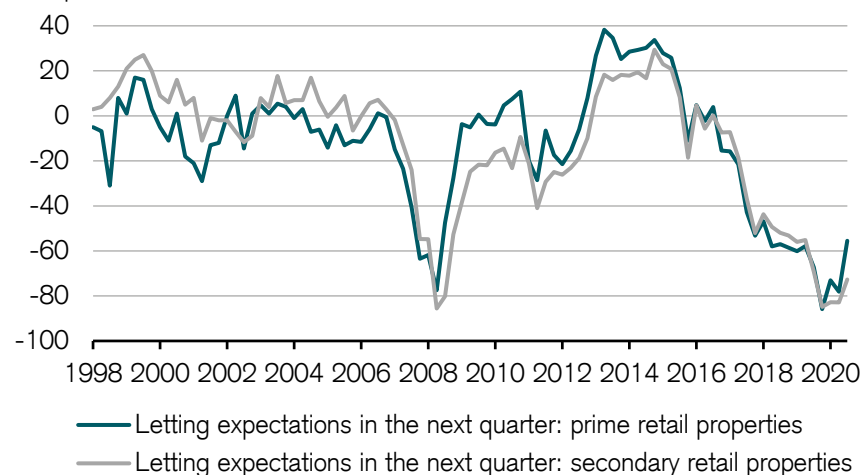


Last data point: 31.03.2021

Source: PMA, Credit Suisse / IDC

Landlord survey: Retail space letting expectations have started to improve from very depressed levels

Landlords reporting positive minus those reporting negative expectations in %



Last data point: 31.03.2021

Source: Datastream, Credit Suisse

Switzerland commercial market:

Recovery in office markets stalled

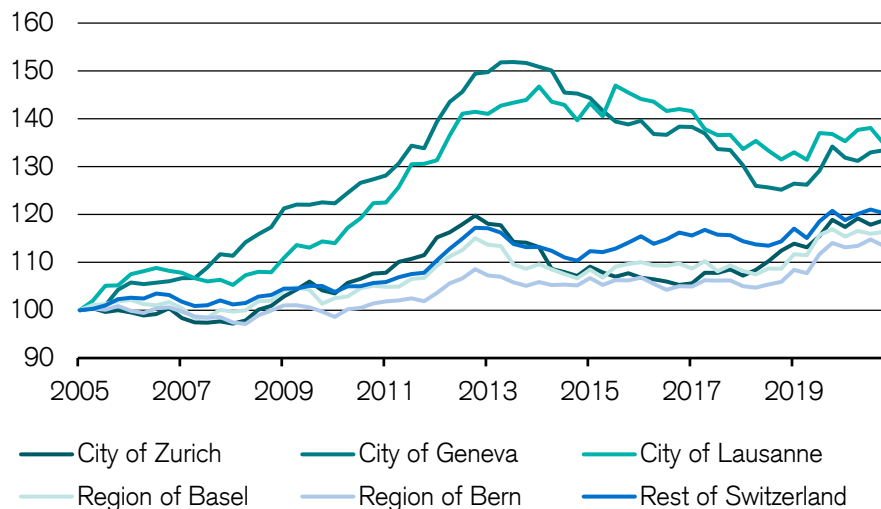
Qualitative 6-12 month
market outlook



- Healthy office employment growth fueled demand for office space in 2018/2019 helping the market recover, particularly in CBD areas.
- However, the outbreak of the coronavirus has put a halt to the recovery in Swiss office markets. Rents have started to reflect the impact as year-on-year growth turned negative in Q4 2020 across major Swiss office markets. Economic uncertainty from the pandemic and structural challenges due to increased work-from-home arrangements mute the outlook in the short term.
- We expect even more adverse consequences for retail space. Earnings losses due to temporary lockdowns occur in addition to a long-term decline in earnings potential due to structural change.
- Hotels are suffering from the travel restrictions in the short term, but should recover in the long term as tourism picks up.

Switzerland office rents: Covid-19 has put an end to the rental recovery

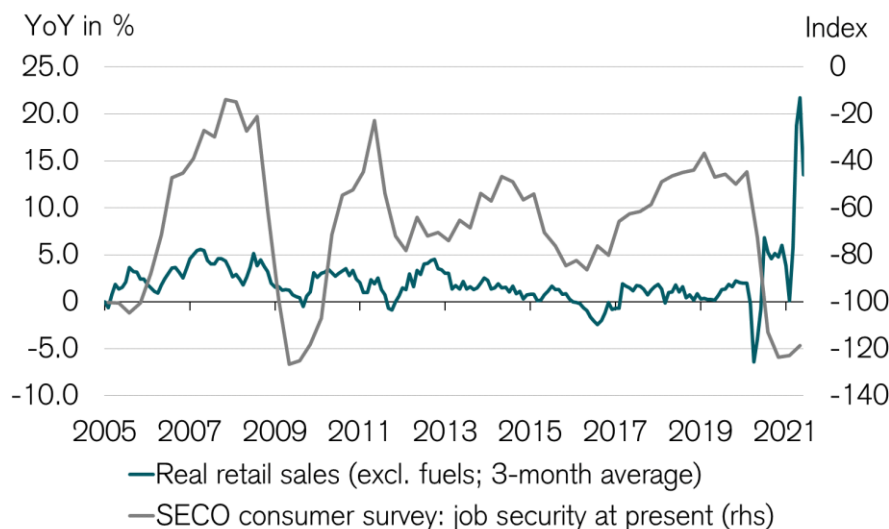
Q1/05=100



Last data point: 31.12.2020

Source: Wüest Partner, Credit Suisse/IDC

Switzerland: Rebound in retail sales, but consumer sentiment remains muted

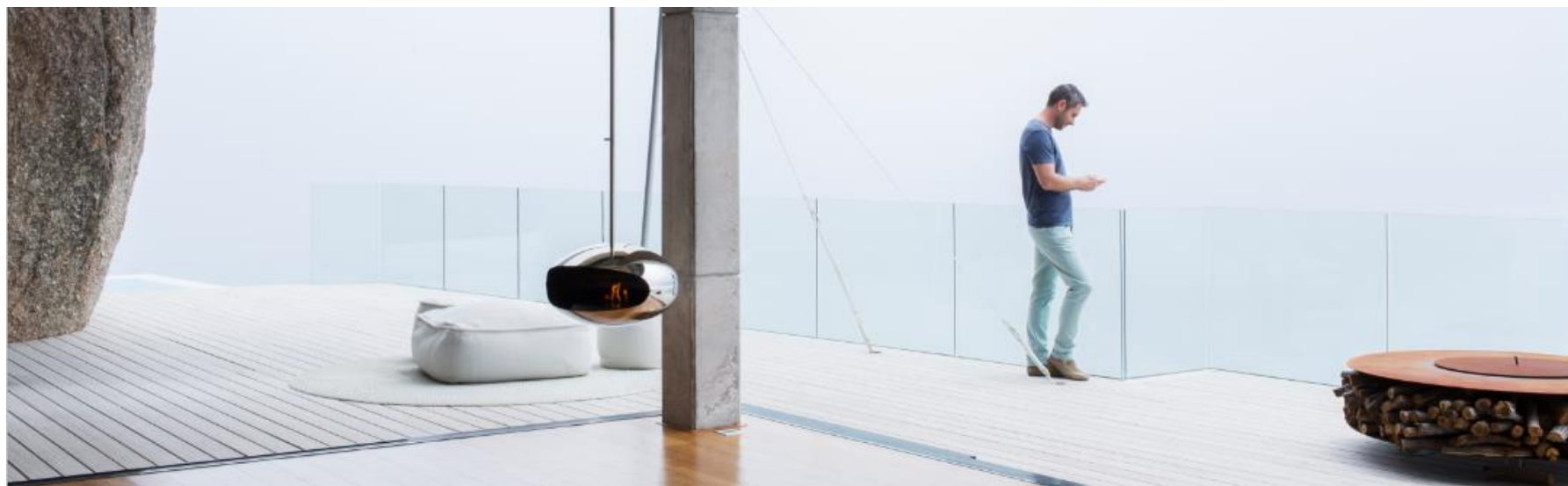


Last data point: 30.06.2021

Source: Datatstream, Credit Suisse/IDC

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Global housing market risks

Country ranking* based on “key housing indicators”

	Real house price change since Q1 2016 in %	Standardised price-to-income ratio**	Standardised price-to-rent ratio**	Household debt in % of GDP
Canada	38	162	212	101
New Zealand	32	167	211	
Hong Kong	20	171	171	
Sweden	21	151	178	88
Denmark	28	144	154	
Netherlands	36	143	136	103
Norway	14	142	179	100
Austria	23	145	121	49
Belgium	14	142	154	61
Australia	12	141	173	120
Ireland	32	104	126	
France	15	127	140	60
Portugal	44	112	109	
Spain	18	119	127	59
Germany	30	107	121	54
United Kingdom	11	132	152	87
United States	30	96	123	76
Switzerland	16	118	119	
Greece	15	100	105	
Singapore	12	91	118	
Finland	4	96	117	
Italy	-2	100	90	41
Korea	5	63	112	
Japan	9	80	88	58
Brazil	-17			
China	29			
Russia	16			
South Africa	-1	105		

Decreasing vulnerability / risks
(based on price change, price-to-income and -rent ratio)

Source: BIS, Bloomberg,
Datastream, IMF, OECD

Last data points: house prices, price-to-income and price-to-rent ratios mostly as of Q1 2021/ some as of Q2 2021; mortgage debt in % of GDP 31.12.2018

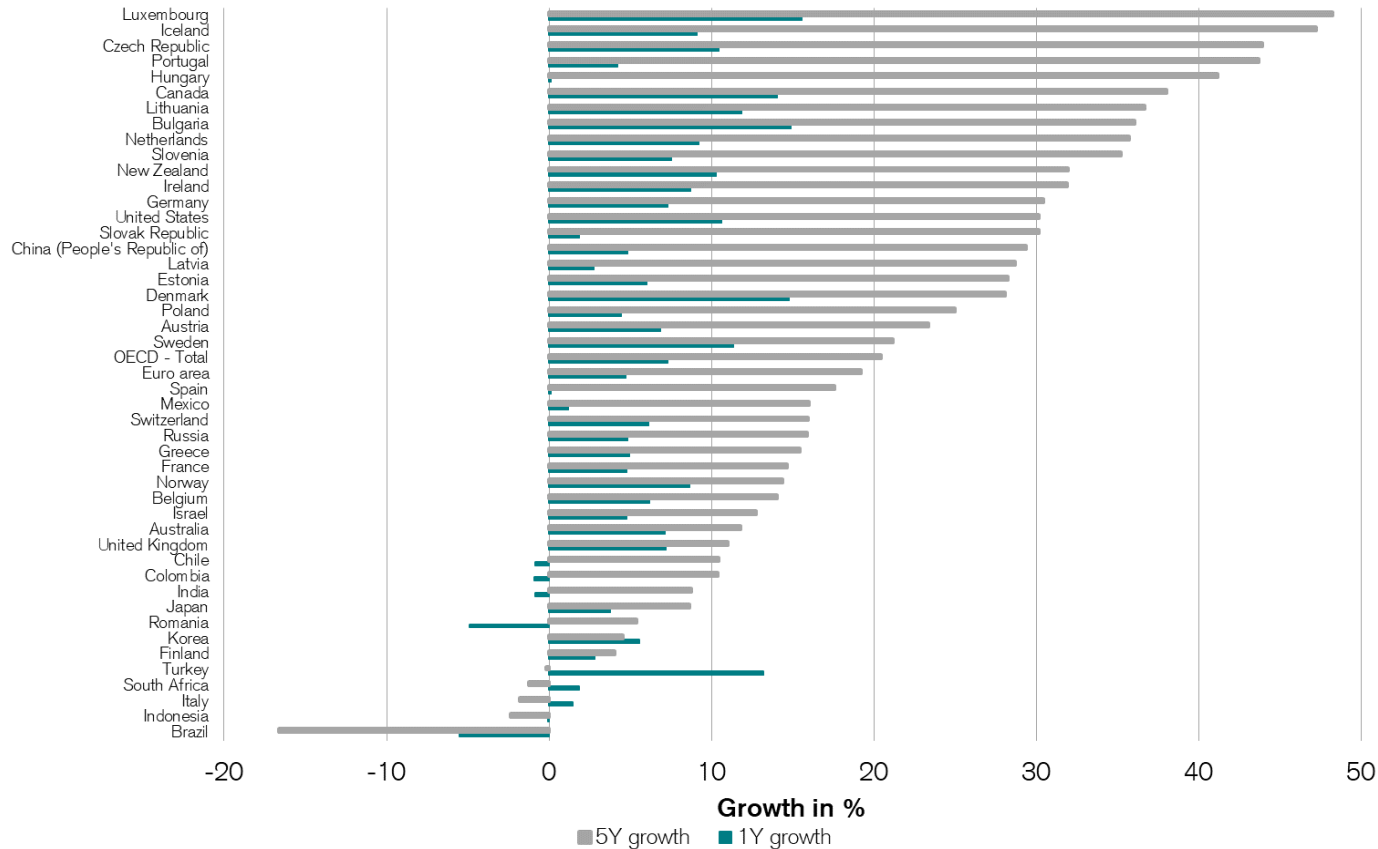
* Ranking based on real house price changes, standardized price-to-income and price-to-rent ratios. Excluding Brazil, China, Russia, South Africa due to lack of data.

** Ratios relative to their respective long-term averages, which are set equal to 100.

Global housing market risks

Real house price growth in the short- and long-term

- In the majority of countries, real house prices have been on an upward trend both shorter-term (1 year) as well as longer-term (5 years). A number of Eastern European countries display 5-year growth of over 30%, but also the Netherlands and Germany.
- In very few countries, price growth turned negative more recently due to pandemic related uncertainty. However, this is mostly the case for emerging market countries.



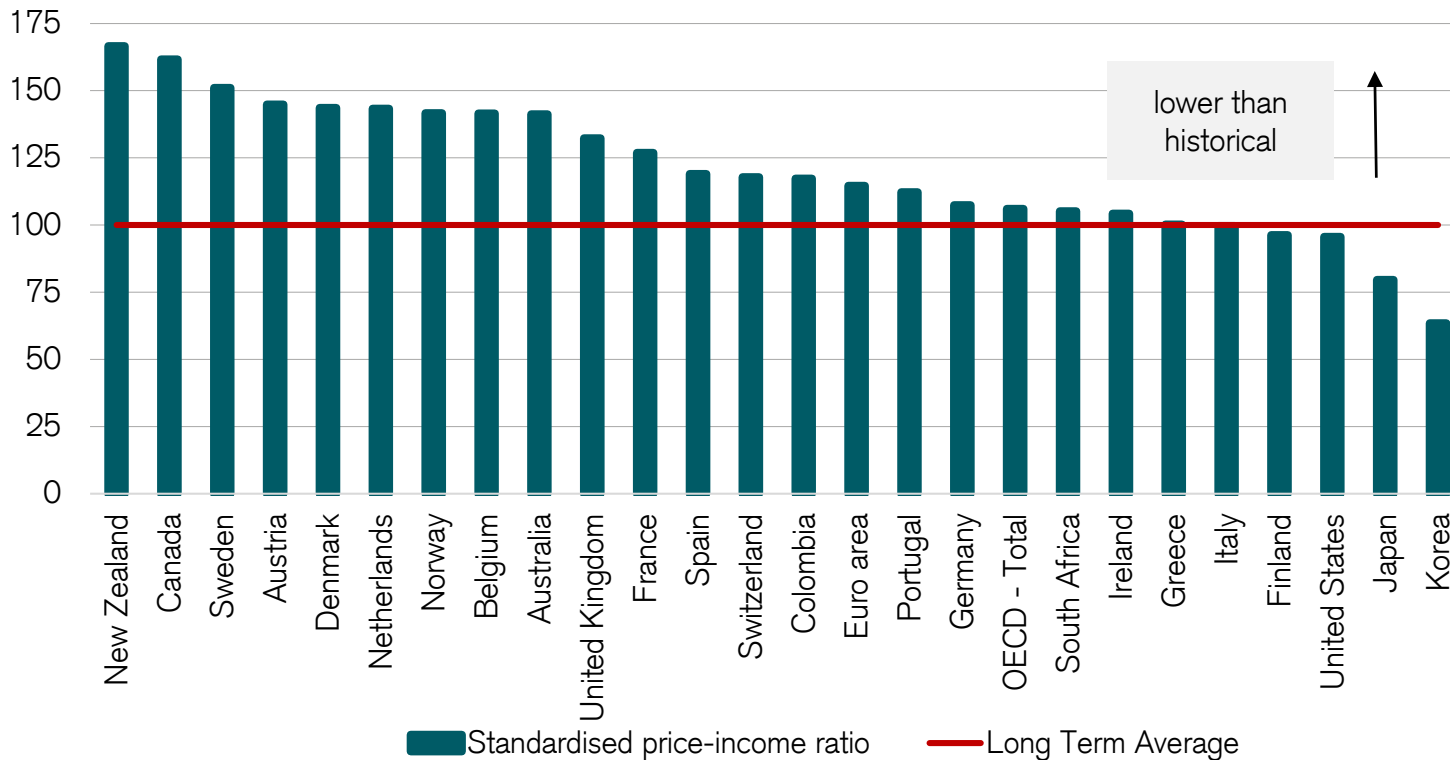
Last data point: mostly as of Q1 2021/ some as of Q2 2021

Source: BIS, Bloomberg, Datastream, IMF, OECD

Global housing market risks

House price to income ratio vs. historical average

- In New Zealand, Canada and a number of selected European countries such as Sweden and Austria, house-price-to-income ratios are significantly above their long-term average values, indicating that housing affordability is more stretched when measured against household income than it has been in the past.
- Nevertheless, affordability is not significantly stretched in larger economies such as the USA, and only slightly across the Eurozone. Despite significant growth over recent years, house-price-to-income ratio in Germany is just slightly above its long-term average.



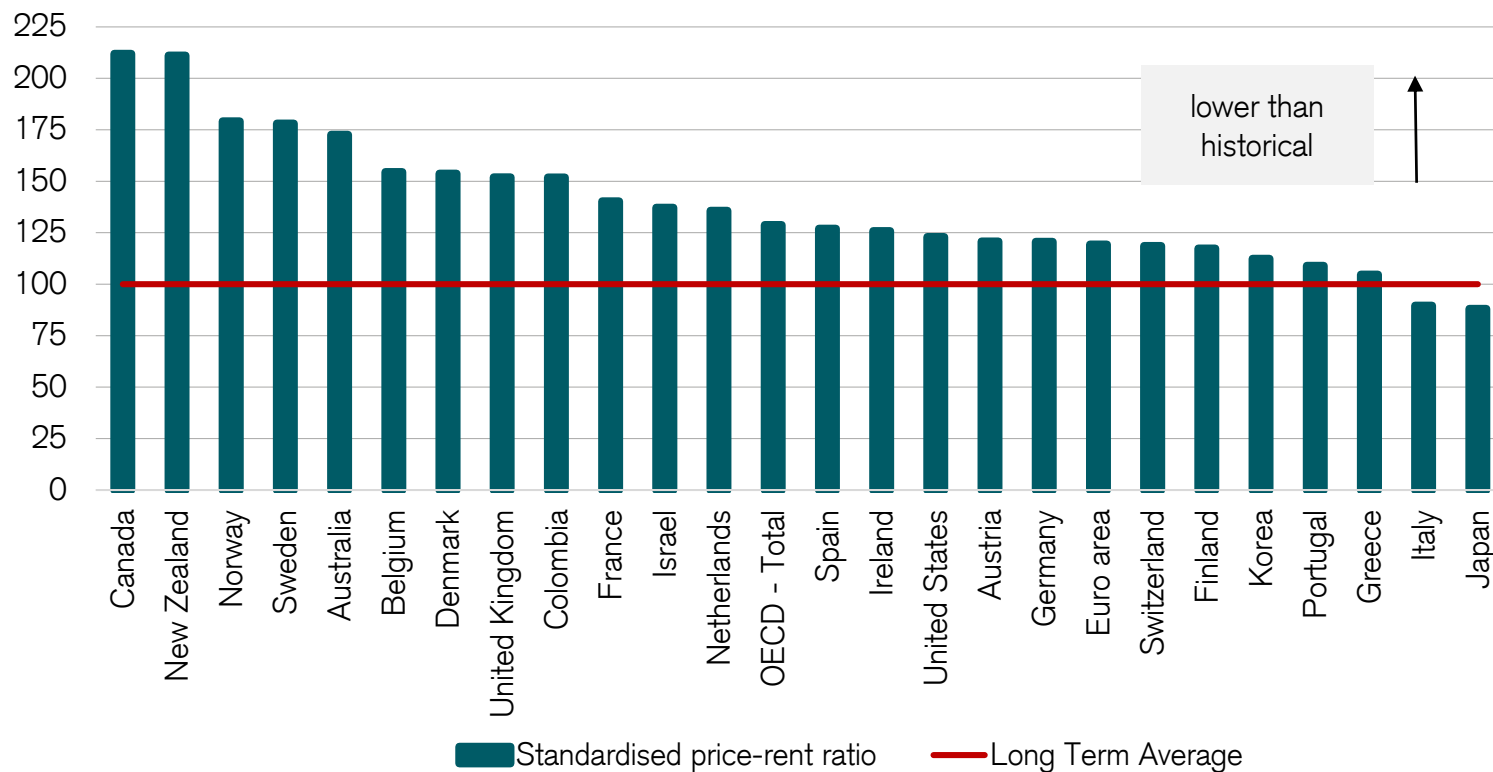
Last data point: mostly as of Q1 2021/ some as of Q2 2021

Source: OECD, Credit Suisse

Global housing market risks

House price to rent ratio vs. historical average

- Over 50% of countries analyzed display house-price-to-rent ratios which are more than 25% above their long-term average, indicating that it is significantly more expensive than in the past to buy a house compared to renting it. Canada, selected Scandinavian countries (Sweden and Norway) as well as Australia and New Zealand display most elevated ratios.
- However, similarly to house price to income ratios, affordability is not significantly stretched in the USA or on average across Euro area countries, giving no or only little indication of an overheating of local housing markets across major economies.



Last data point: mostly as of Q1 2021/ some as of Q2 2021

Source: OECD, Credit Suisse

US housing market:

Resilient, but headwinds persist

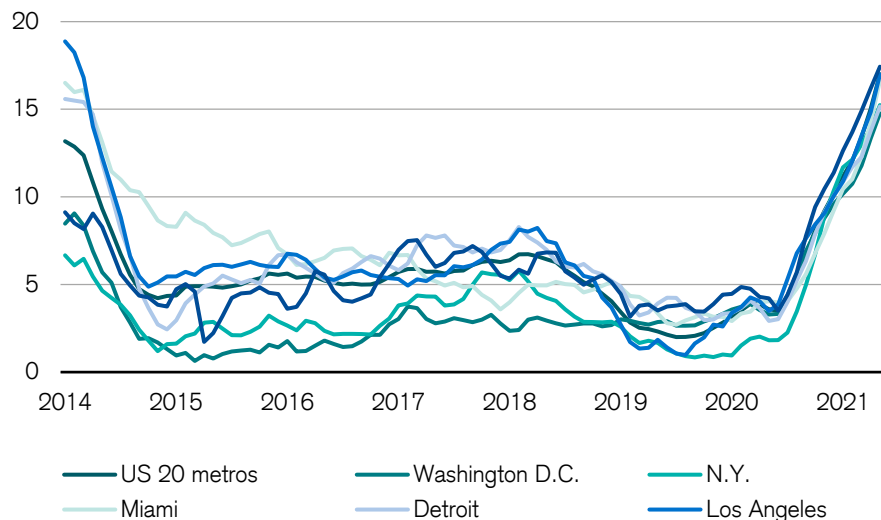
Qualitative 6-12 month
market outlook



- The US housing market has shown resilience despite the COVID-19 pandemic. As such, house price growth across the 20 US major metropolitan areas has re-accelerated significantly since mid-2020. In May 2021, house prices rose by 17% YoY.
- June sales figures rose for existing one-family homes (1.4% MoM) but were weaker for new one-family homes (-6.6% MoM).
- New building permits declined by 5.3% MoM in June while housing starts were up +6.3% MoM. Overall construction activity remains above its long-term average.
- Short-term economic uncertainty from the pandemic is counterbalanced by low mortgage rates, government support such as unemployment benefits as well as low inventory. We therefore believe that the positive trend in sales and price growth is likely to continue, although rising interest rates pose a risk in the medium-term.

House price growth surged in H1 2021

House price index (YoY %)

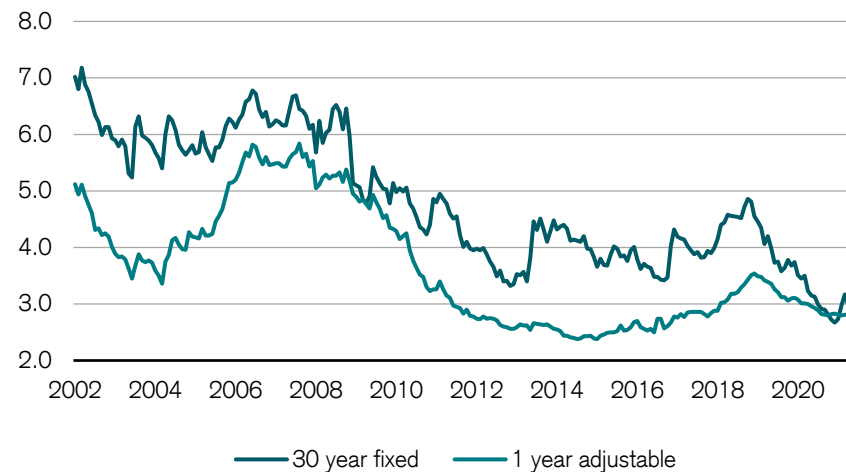


Last data point: 31.05.2021

Source: Datastream, Credit Suisse / IDC

Mortgage rates: Historically low levels

Avg. mortgage rate, in %



Last data point: 31.07.2021

Source: Bloomberg, Credit Suisse/IDC

Europe housing market:

Regional differences to rise

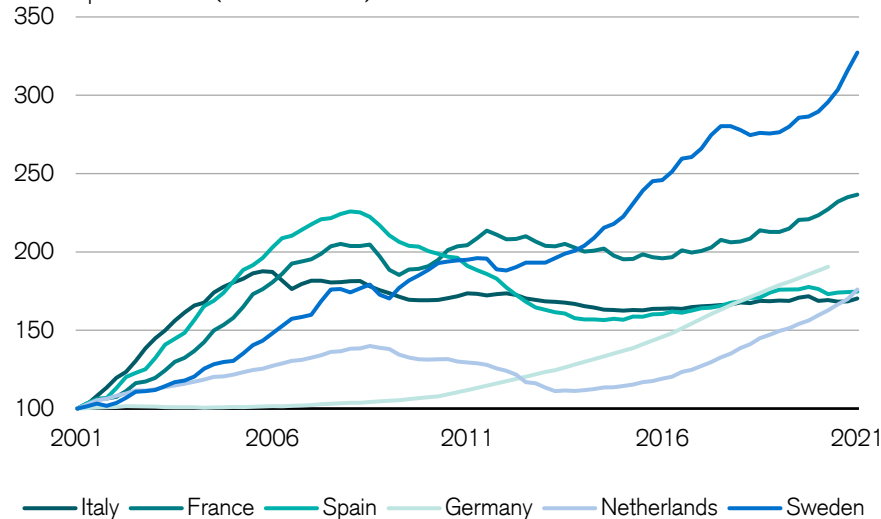
Qualitative 6-12 month
market outlook



- House prices across major European countries have been on an upward trend over the last couple of years supported by solid economic growth and moderate construction activity.
- In Germany, house prices increased by more than a third over the past 5 years from a relatively low base. House prices in Italy and France have barely corrected following the great financial crisis, which gave little room for a post-crisis rebound. By contrast, house prices in Spain corrected sharply before returning to growth in 2014.
- The weaker economic outlook due to Covid-19 weighs on the outlook for European housing markets, with fiscal support packages and low mortgage rates providing some support. Countries like Germany should be more resilient due to a structural shortage in supply.

House prices across European countries: Upward trend pre-Covid-19

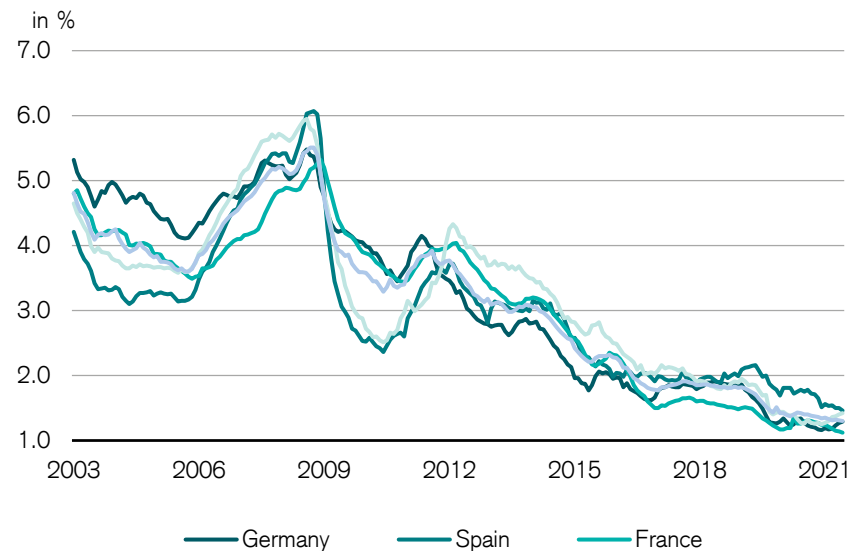
House price indices (Q1 2001=100)



Last data point: 30.06.2021

Source: Datastream, Bloomberg,
Credit Suisse / IDC

Interest rates on loans for house purchases: Historically low



Last data point: 30.06.2021

Source: Eurostat, Credit Suisse

UK housing market:

Buoyant despite the pandemic

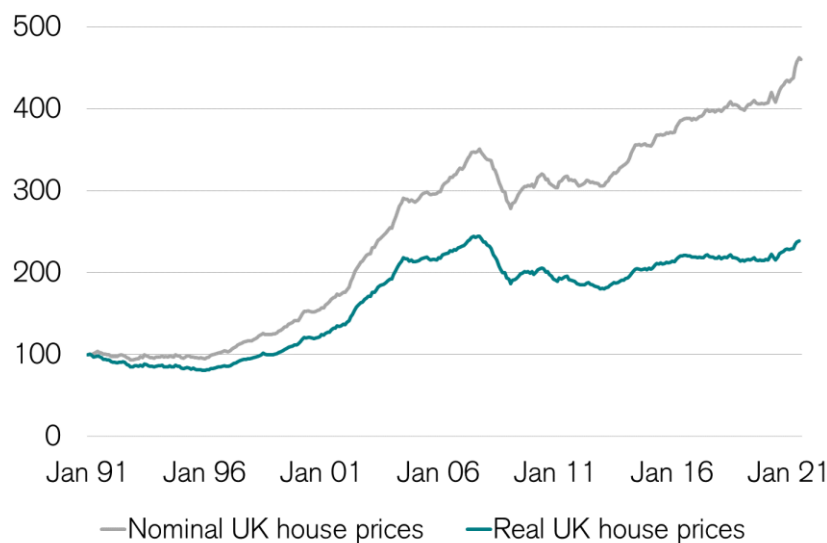
Qualitative 6-12 month
market outlook



- National house price growth decelerated slightly in June 2021 but remains at a relatively high level of +10.5% YoY.
- Property transactions surged in June (+74% MoM) ahead of the expiry of the stamp duty holiday. Although transactions are likely to fall from here, pent-up demand and a continued economic recovery should underpin activity in the months ahead.
- Construction activity rebounded further in Q1 2021 in response to solid demand. The number of housing completions increased 4% QoQ, while the number of housing starts was up 7% QoQ.
- A rebound in the economy, continued low interest rates and limited supply are supportive for the housing market in the short- to medium-term.

National house prices trending higher

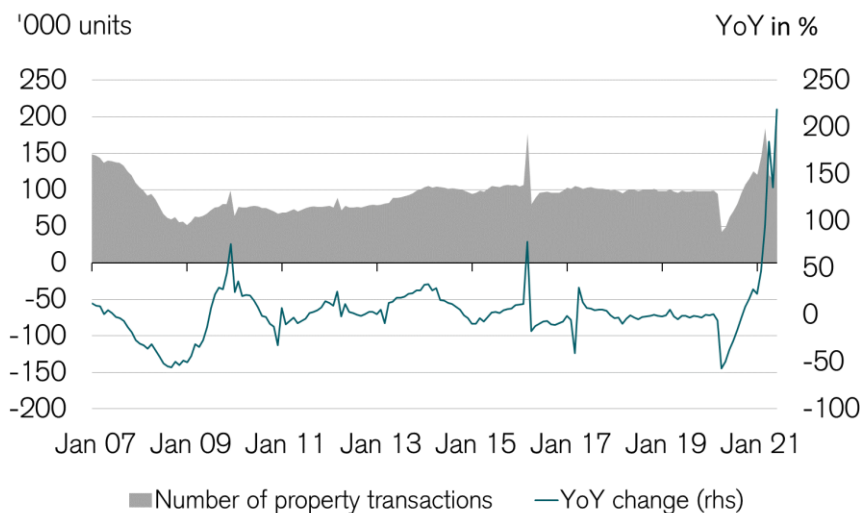
Index (01/1990 = 100)



Last data point: 31.07.2021

Source: Datastream, Credit Suisse / IDC

Residential property transactions: Activity rebounds as the stamp duty holiday got extended



Last data point: 31.05.2021

Source: Datastream, Credit Suisse

Switzerland housing market:

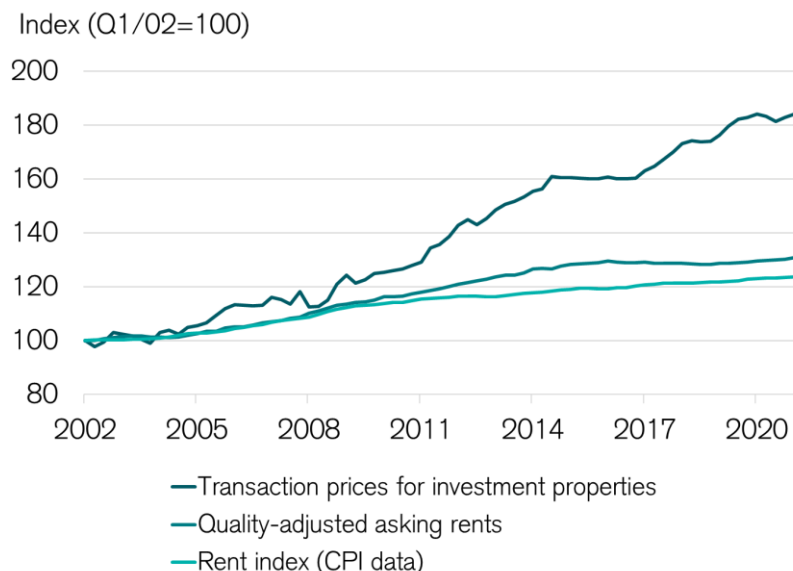
Weaker outlook for rental housing

Qualitative 6-12 month
market outlook



- Price growth in the residential investment market was flat on a year-on-year basis in Q1 2021, and the vacancy rate continued to increase from 2.64% to 2.75% within 12 months, as of June 2020. Total returns still offer a significant premium over government bond yields, but net cash flow yields remain under pressure as rental growth remains muted.
- The short-term outlook for the rental housing market is somewhat muted. While net immigration is surprisingly robust, weaker consumer sentiment dampens demand. Nevertheless, furlough schemes prevent a massive increase in unemployment and defaults on rental payments.
- In the owner-occupied segment, prices of single-family dwellings and condominiums were up +6.3% YoY and +6.8% YoY as of Q2 2021, supported by low interest rates, solid fundamentals and homebuyers accepting less central locations due to remote working. Despite low short-term supply and low vacancies, we expect price growth to weaken due to high regulatory financing requirements and economic uncertainty.

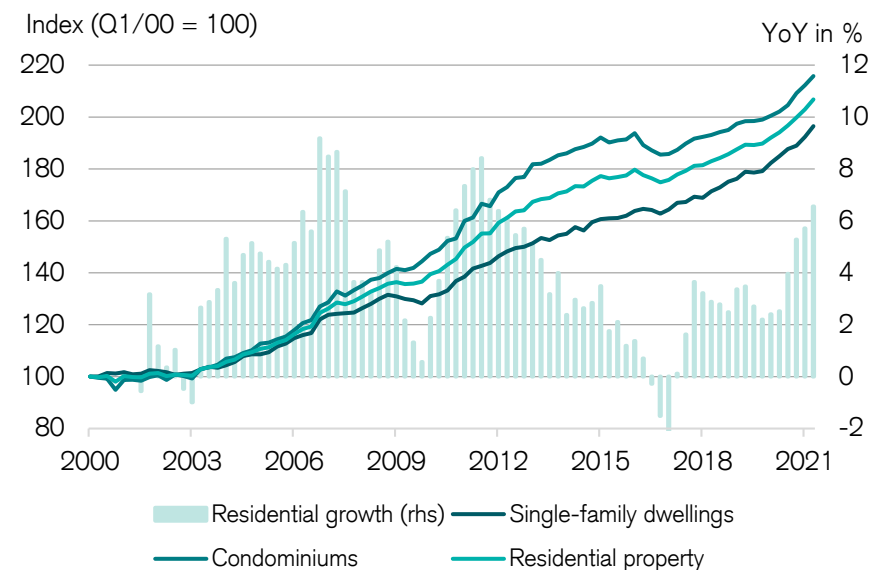
Rental housing market: Rental growth has already been muted before the coronavirus outbreak



Last data point: 31.03.2021

Source: IAZI, Federal Statistical Office,
Homegate, Credit Suisse / IDC

Owner-occupied housing market: Resilient despite Covid-19



Last data point: 30.06.2021

Source: Wüest Partner, Credit Suisse/IDC

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Asia and Emerging Markets

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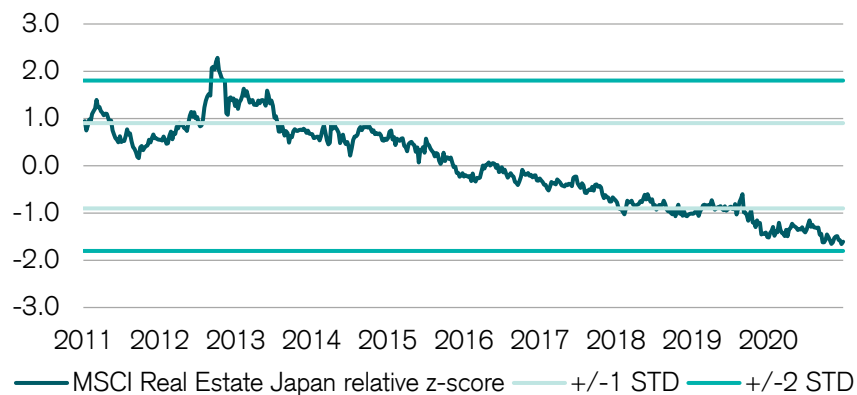
Japan listed real estate

Value*



Valuation multiples remain below their long-term average

Relative valuation z-score (Average of P/B, P/E, div. yield and yield spread)*

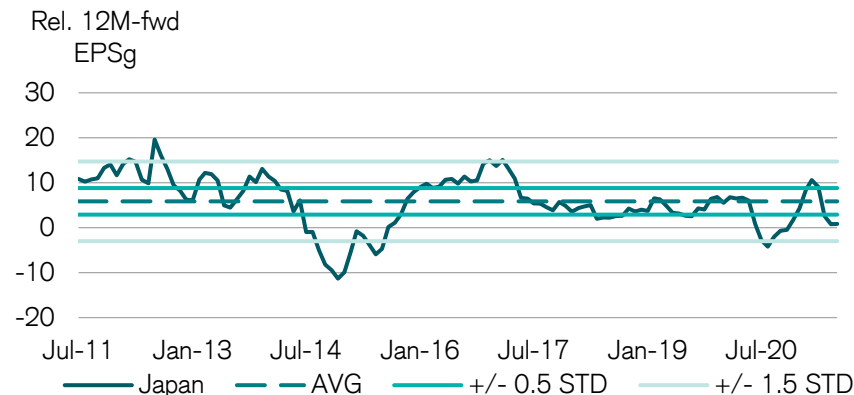


Last data point: 04.08.2021

Source: Bloomberg,
Datastream, Credit Suisse

Earnings expectations have decreased over recent months

Relative 12m fwd. earnings expectations*

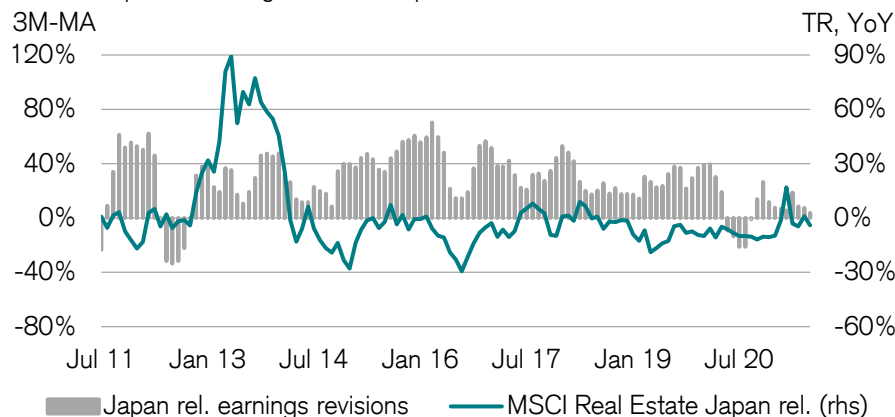


Last data point: 20.07.2021

Source: Bloomberg,
Datastream, Credit Suisse

Positive momentum in earnings revisions is fading

Relative net positive earnings revisions vs. performance*



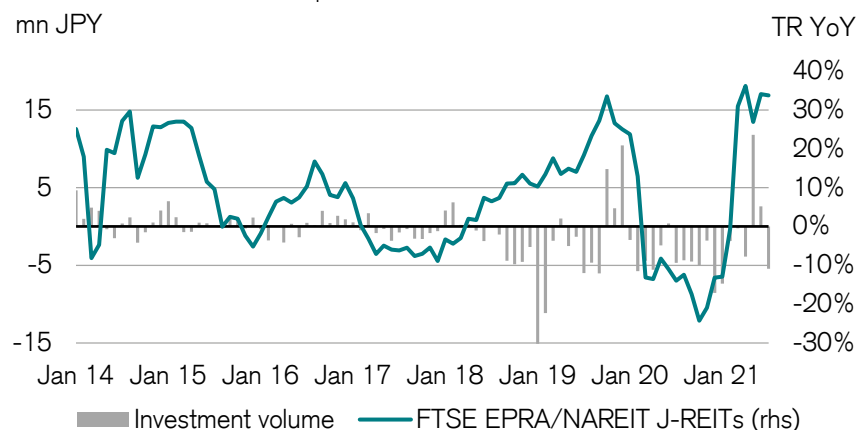
Last data point: 20.07.2021

Source: Bloomberg,
Datastream, Credit Suisse

* relative to MSCI World Real Estate

Outflows for J-REITs in July after temporary improvement

J-REITs investment volume vs. performance



Last data point: 31.07.2021

Source: Bloomberg,
Datastream, Credit Suisse

Hong Kong listed real estate

Value*



Valuation multiples remain below their long-term average

Relative valuation z-score (Average of P/B, P/E, div. yield and yield spread)*

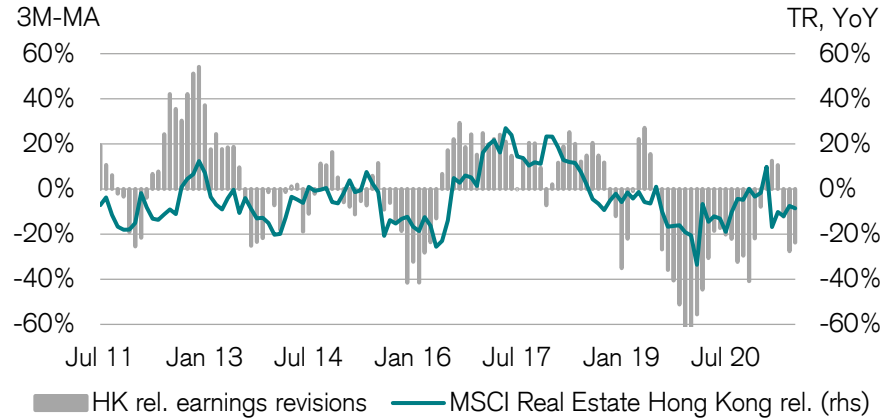


Last data point: 04.08.2021

Source: Bloomberg,
Datastream, Credit Suisse

Momentum in earnings revisions remains negative

Relative net positive earnings revisions vs. performance*



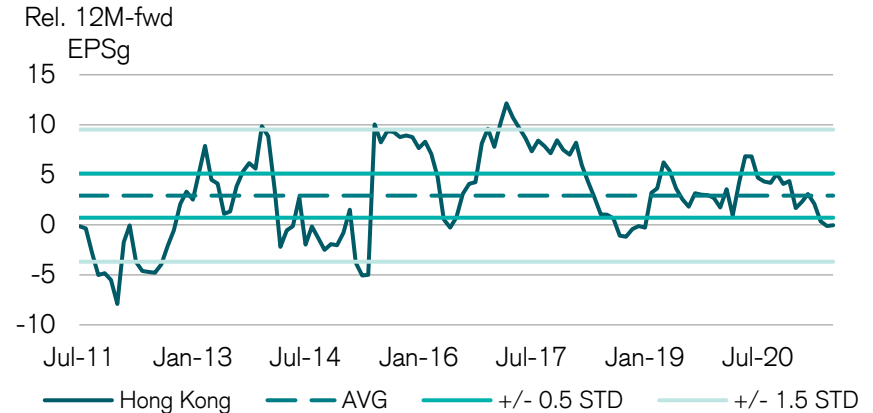
Last data point: 20.07.2021

* relative to MSCI World Real Estate

Source: Bloomberg,
Datastream, Credit Suisse

Earnings expectations are low from historical perspective

Relative 12m fwd. earnings expectations*

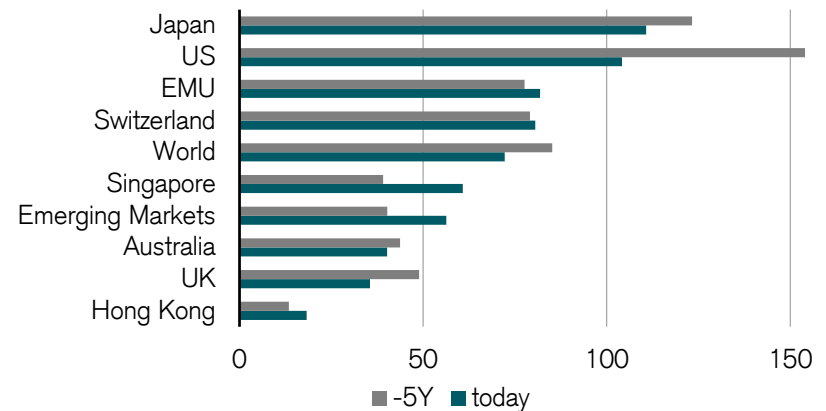


Last data point: 20.07.2021

Source: Bloomberg,
Datastream, Credit Suisse

Hong Kong real estate equities display low net leverage

Net debt to equity



Last data point: 13.08.2021

Source: Datastream, Credit Suisse/IDC

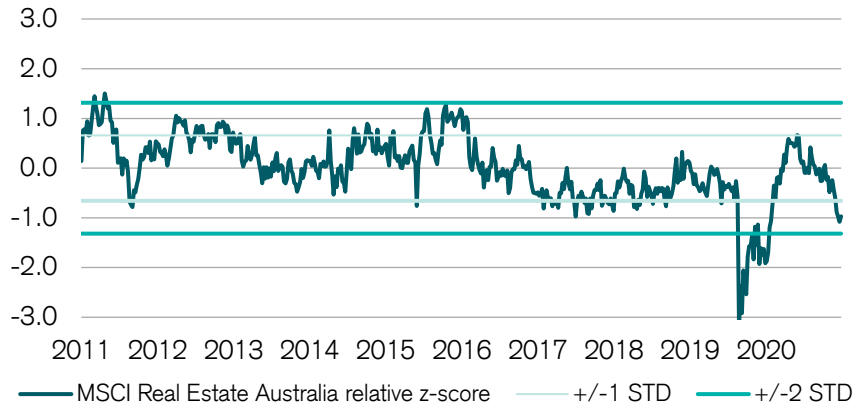
Australia listed real estate

Value*



Valuation multiples are below long-term average levels

Relative valuation z-score (Average of P/B, P/E, div. yield and yield spread)*

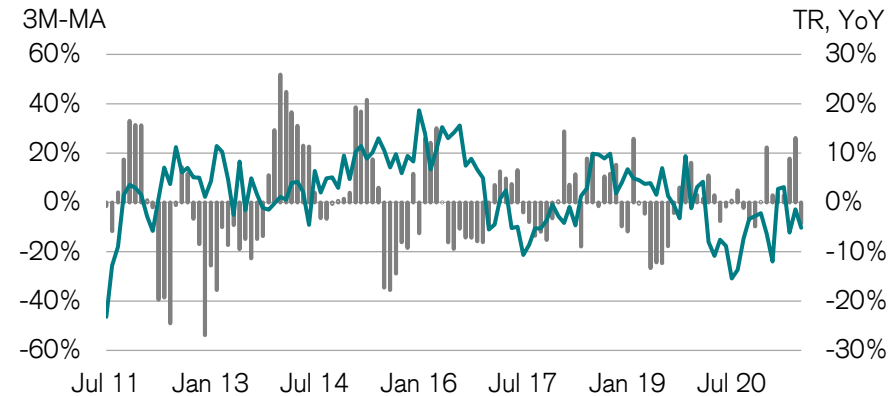


Last data point: 04.08.2021

Source: Bloomberg, Datastream, Credit Suisse

Earnings revisions have turned negative in July

Relative net positive earnings revisions vs. performance*



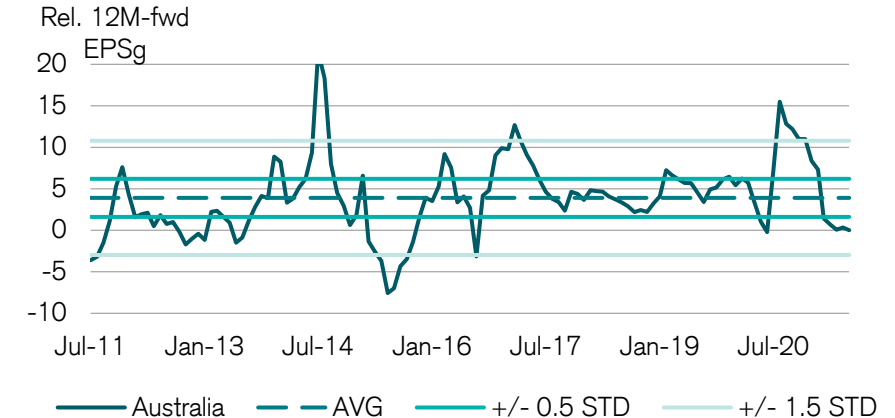
Last data point: 20.07.2021

* relative to MSCI World Real Estate

Source: Bloomberg, Datastream, Credit Suisse

Earnings expectations dropped sharply

Relative 12m fwd. earnings expectations*

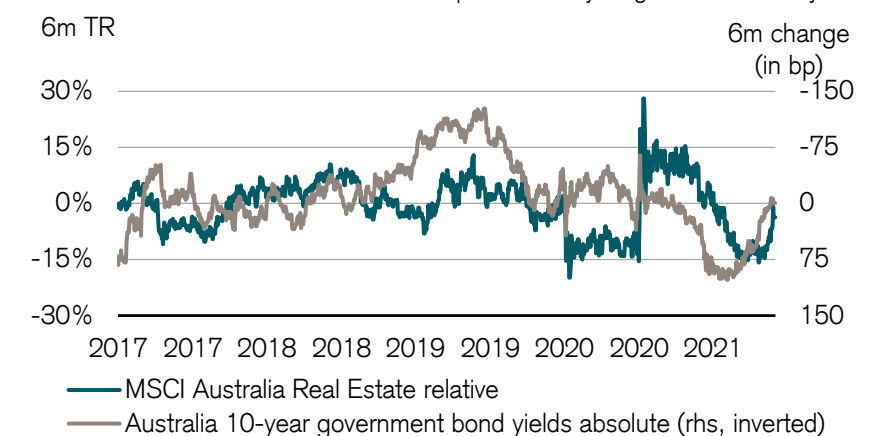


Last data point: 20.07.2021

Source: Bloomberg, Datastream, Credit Suisse

Pricing against bond yields looks fair

MSCI Real Estate Australia rel. to broader equities vs. 10-year government bond yields



Last data point: 13.08.2021

Source: Datastream, Credit Suisse/IDC

Singapore listed real estate

Value*



Valuation multiples have dropped sharply

Relative valuation z-score (Average of P/B, P/E, div. yield and yield spread)*

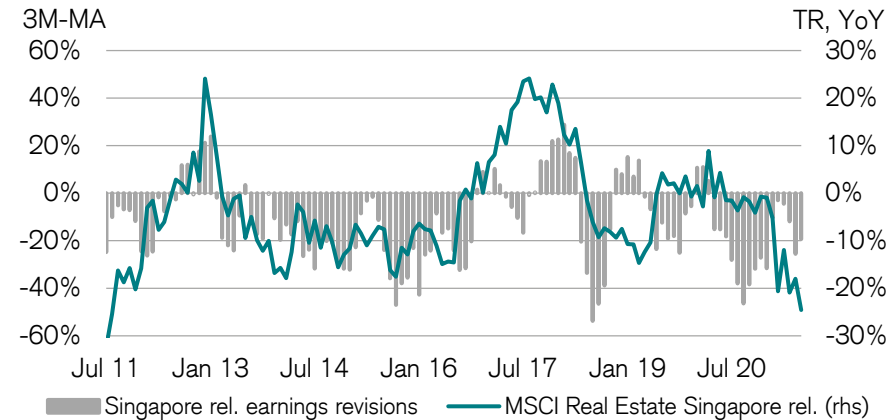


Last data point: 04.08.2021

Source: Bloomberg,
Datastream, Credit Suisse

Momentum in earnings revisions remains depressed

Relative net positive earnings revisions vs. performance*



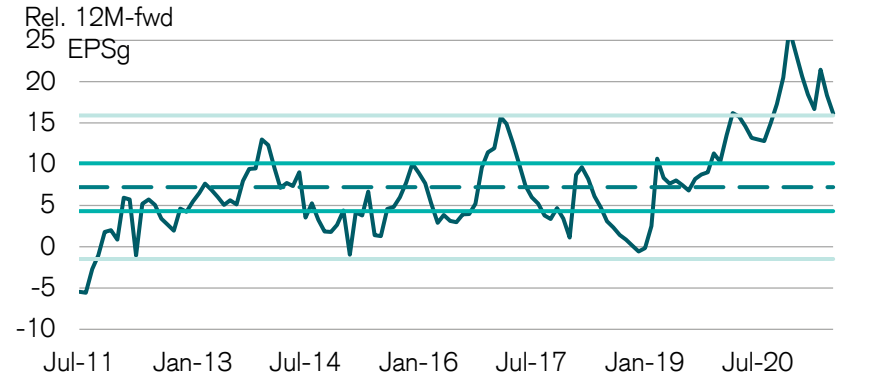
Last data point: 20.07.2021

* relative to MSCI World Real Estate

Source: Bloomberg,
Datastream, Credit Suisse

Relative earnings expectations are elevated, posing downside risk

Relative 12m fwd. earnings expectations*

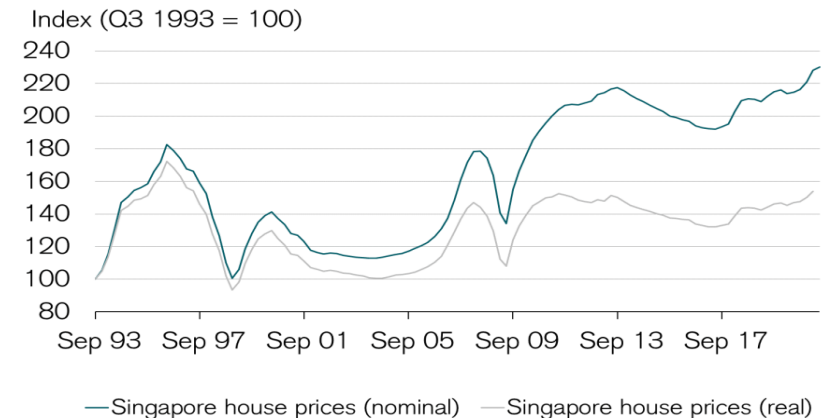


Last data point: 20.07.2021

Source: Bloomberg,
Datastream, Credit Suisse

Singapore house prices have increased despite the pandemic

Singapore residential: real and nominal house price growth



Last data point: 30.06.2021

Source: Datastream, Credit Suisse

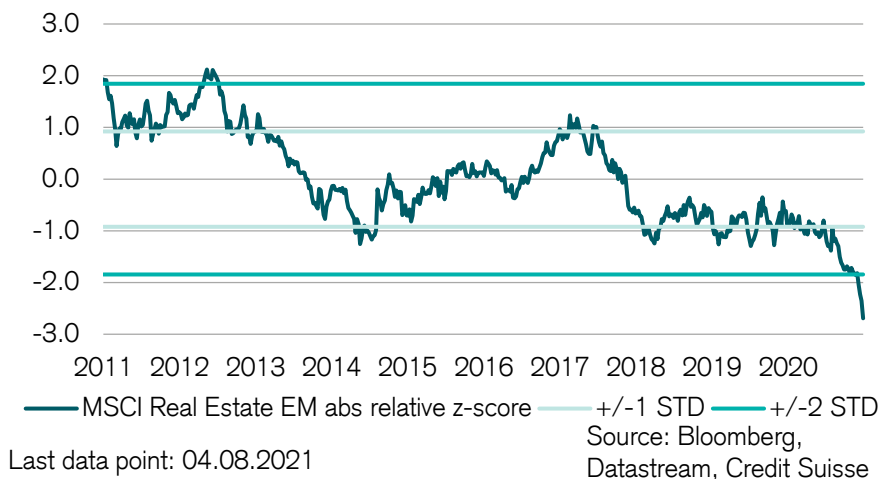
EM listed real estate

Value*



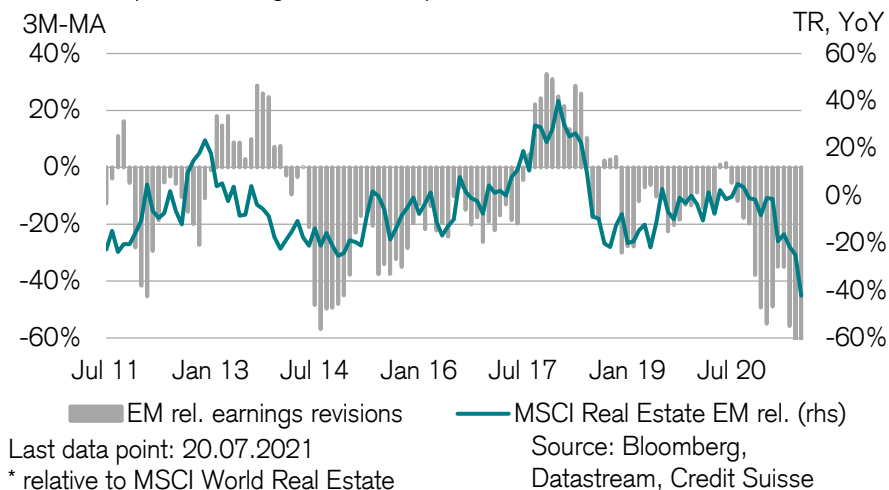
Valuation multiples remain low from historical perspective

Relative valuation z-score (Average of P/B, P/E, div. yield and yield spread)*



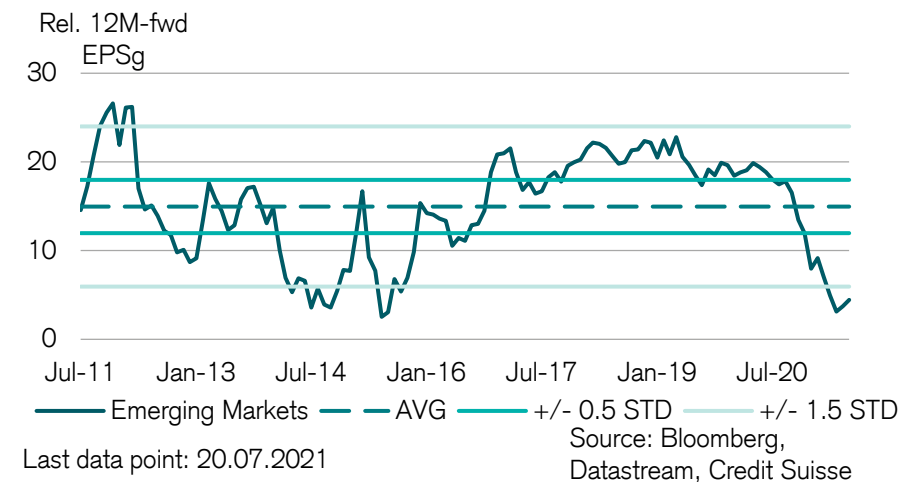
Earnings revisions are negative, but reflected in performance

Relative net positive earnings revisions vs. performance*



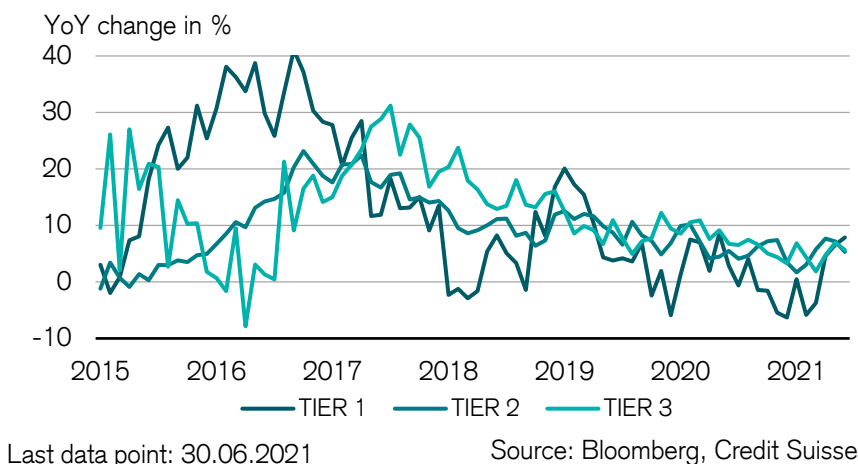
Relative earnings expectations dropped below long-term average

Relative 12m fwd. earnings expectations*



China residential property price growth positive across tiers

Nominal house price growth by city type



Japan commercial RE:

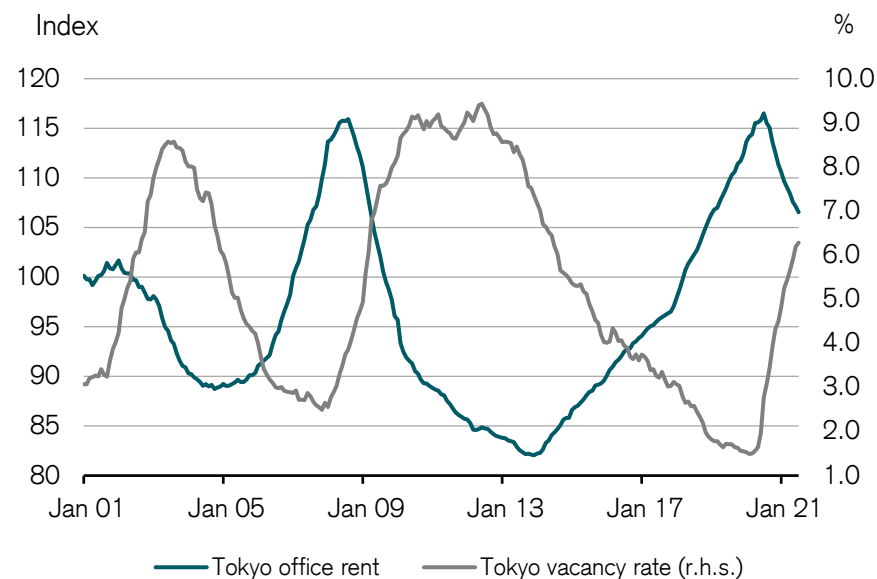
Tokyo office market: Moderate supply is supportive

Qualitative 6-12 month
market outlook



- The Tokyo CBD office vacancy rate increased by c. 10 bp to 6.3% and rental growth slowed to -8.6% YoY, both as of July 2021.
- Rents are expected to decline by c. 2% in 2021, followed by a moderate recovery of c. 2.5% p.a. on average from 2022-2024 as new supply remains moderate (net additions of c. 0.9% of existing stock p.a. over the same period, below its long-term average value).
- Similarly, office capital values are likely to grow by c. 4% p.a. from 2022-2024 after a small correction this year. This leads to solid expected total returns of c. 6% p.a. over the same time period, which is slightly below the average of major Asia-Pacific office markets.

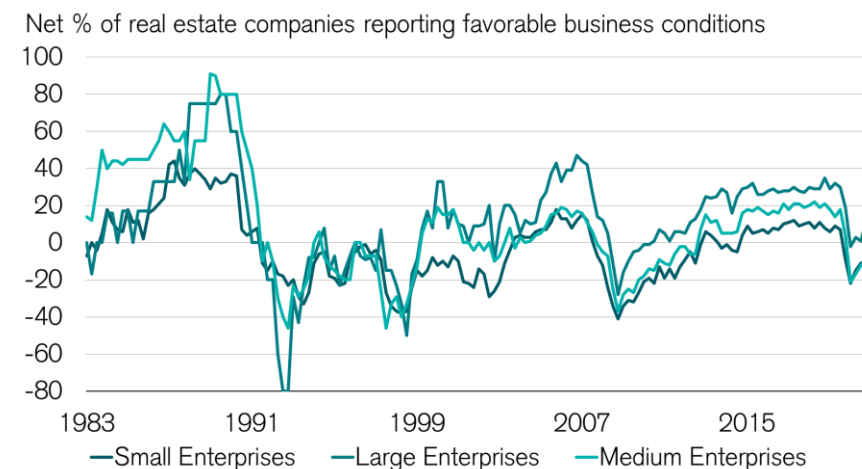
Tokyo office market: Momentum deteriorates quickly



Last data point: 31.07.2021

Source: Datastream, Credit Suisse / IDC

Real estate Tankan survey: Sentiment improving from a low level



Last data point: 30.06.2021

Source: Bloomberg, Credit Suisse/IDC

Hong Kong commercial RE:

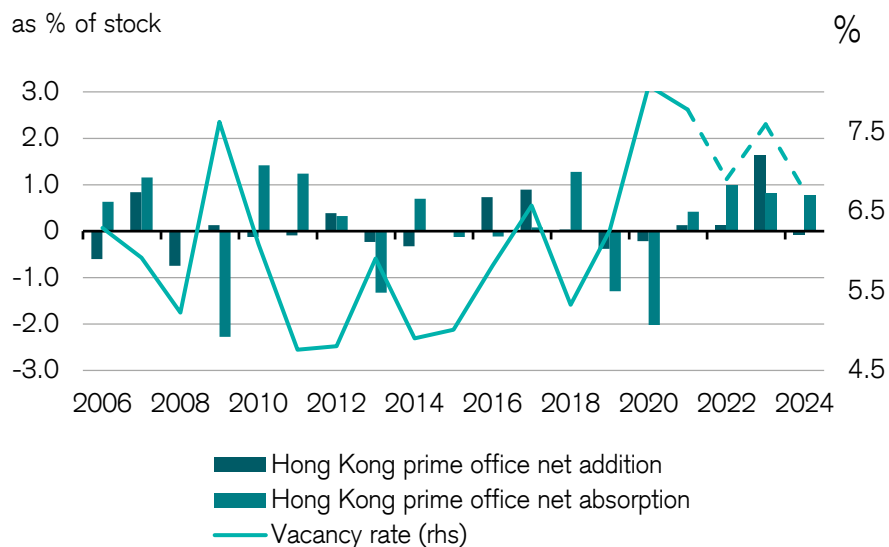
Short-term headwinds

Qualitative 6-12 month
market outlook



- Domestic political uncertainty and the outbreak of Covid-19 have negatively impacted the Hong Kong office market. Rents have corrected by 16% YoY, and the vacancy rate has increased by 180 bp over the last twelve months (data as of Q1 2021).
- Rental growth is likely to remain weak in 2021. However, a strong front-loaded recovery is expected for the following years, with c. 8% p.a. rental growth over the 2022- 2024 period. Limited development and therefore a further decline in the vacancy rate are supportive. However, stretched affordability and increasingly competitive decentralized submarkets are headwinds to the longer-term outlook (source of all mentioned data and forecasts: PMA).
- The outlook for the retail sector remains challenging. The outbreak of the coronavirus is putting further pressure on retail sales via lower tourist arrivals, in addition to political unrests and structural changes in the light of growing e-commerce.

Hong Kong office space supply: Higher construction activity driving increase in the vacancy rate



Last data point: 31.12.2020;
PMA forecasts 2021 - 2024

Source: PMA, Credit Suisse

Retail sales rebounded, but visitor arrivals from China remain depressed



Last data point: 30.06.2021

Source: Datastream, Credit Suisse/IDC

Singapore commercial RE:

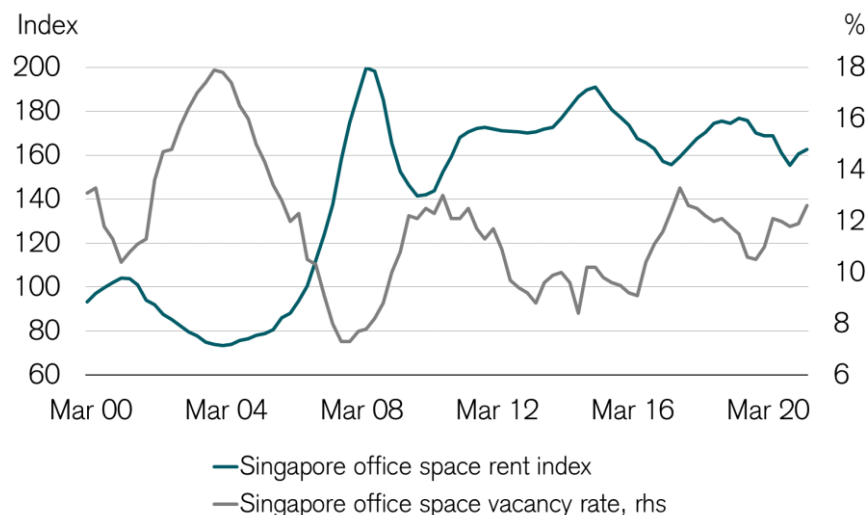
Front-loaded recovery

Qualitative 6-12 month
market outlook



- The Singapore office market has shown further signs of recovery in Q2 2021 as rents increased by +1.3% QoQ in Q2 2021. However, the vacancy rate also moved out by 70 bps in the same quarter.
- Rental growth is expected to remain weak in 2021, but to rebound strongly during 2022–2023 supported by limited office completions. Momentum is likely to ease thereafter as supply concerns return. Overall, rents are likely to remain well below the levels seen before the great financial crisis.
- Expected average total return for Singapore is c. 9% p.a. over 2022-2024, which is in the upper range compared with other Asia-Pacific office markets (source of all mentioned data and forecasts: PMA).
- Momentum in retail markets remains weak as both capital and rental values continued to decline in Q1 2021.

Singapore office market: Rents improve, but the vacancy rates continues to climb higher



Last data point: 30.06.2021

Source: Bloomberg, Credit Suisse/IDC

Singapore retail market: Capital value and rental growth remain negative



Last data point: 30.06.2021

Source: Datastream, Credit Suisse/IDC

Australia commercial market:

Regional divergence persists

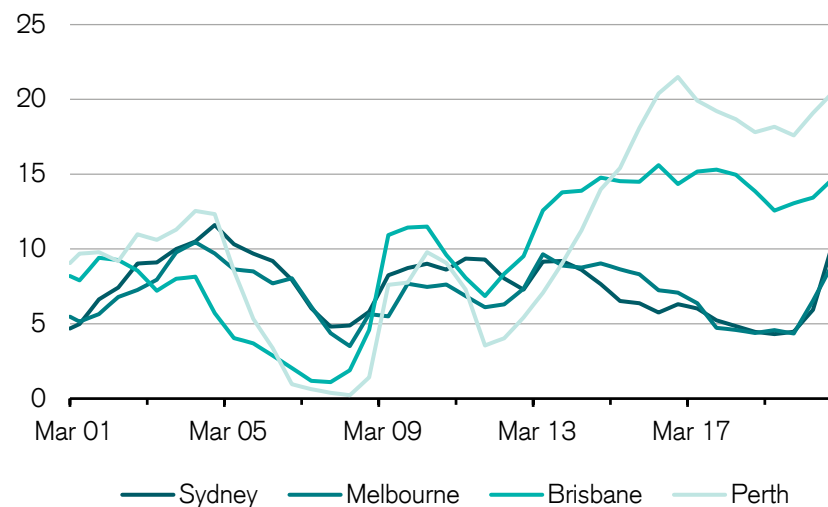
Qualitative 6-12 month
market outlook



- Australian office markets have started to show the impact of COVID-19, with Sydney and Melbourne hit relatively harder due to stretched affordability of rents and a peaking supply cycle. Effective rents have declined 18% and 13% YoY in Sydney and Melbourne, but have been more resilient in Perth (-9% YoY) and Brisbane (-4% YoY, all data as of Q1 2020). Vacancy rates have increased in 2020 across all four markets.
- Rental growth is expected to remain muted in 2021 but to recover in all four office markets in subsequent years, with stronger upside in Sydney and Melbourne.
- Australian prime office yields are relatively high in a global context, ranging from c. 4.4% for Sydney to up to 5.9% for Perth (as of Q1 2021). Modest yield compression is expected in the years ahead (source of all mentioned data and forecasts: PMA).

Australia prime office vacancy rates have increased in 2020 across all markets

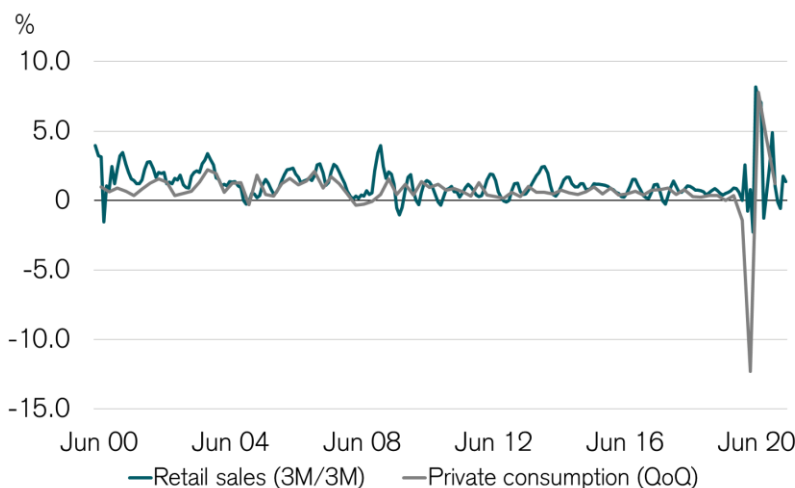
Vacancy rate in %



Last data point: 31.12.2020

Source: PMA, Credit Suisse / IDC

Retail sales remain volatile amid continued uncertainty from the pandemic



Last data point: 30.06.2021

Source: Datastream, Credit Suisse / IDC

China commercial market:

Moderate recovery expected

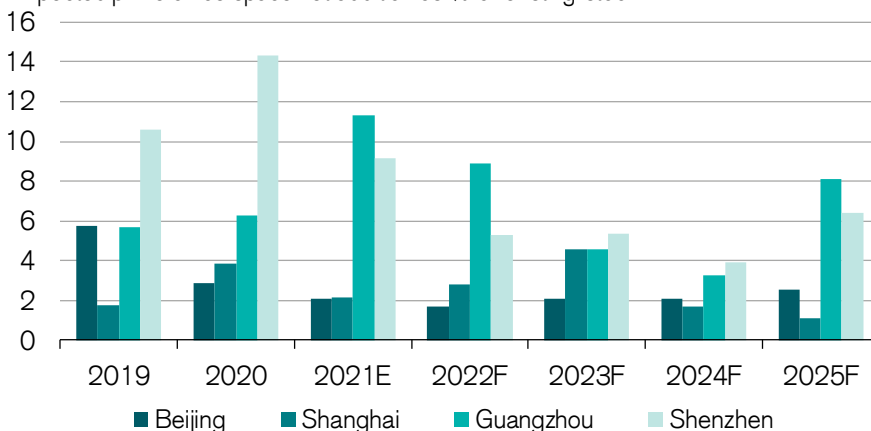
Qualitative 6-12 month
market outlook



- Rents in the four largest Chinese office markets (Beijing, Shanghai, Guangzhou, Shenzhen) continue to trend lower. Rents in Shanghai and Shenzhen corrected the most, down c. -7% YoY. The vacancy rate increased over the last 12 months, with the exception of Shenzhen (all data as of Q1 2020).
- The rental growth outlook for 2021 remains negative, but an economic rebound is supportive of a moderate rental recovery in subsequent years across all four major office markets. Vacancy rates are expected to stabilize at elevated levels in Beijing and Shanghai, but to decline in Guangzhou and Shenzhen as development is expected to moderate.
- Prime office yields are expected to remain stable in 2021 followed by moderate yield compression in subsequent years (source of all mentioned data and forecasts: PMA).

China office space supply: Supply remains high, but is expected to moderate over the forecast period

Expected prime office space net addition as % of existing stock

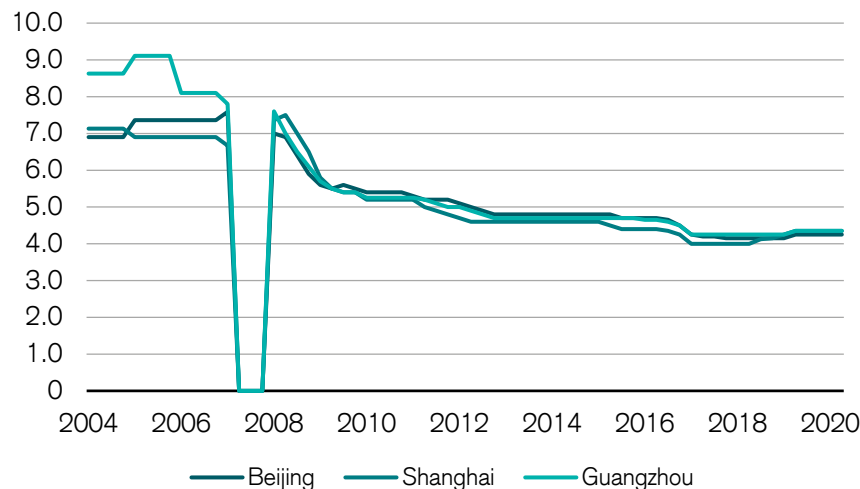


Last data point: 31.12.2020;
2021-2025: PMA forecasts

Source: PMA, Credit Suisse / IDC

China prime office markets: Yields are resilient

Prime office yield, %



Last data point: 31.03.2021

Source: PMA, Credit Suisse / IDC

Japan housing market:

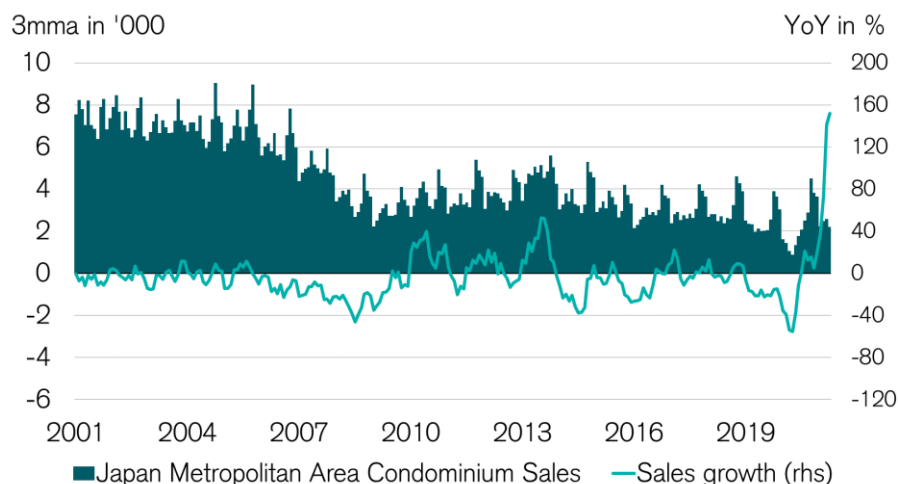
Rebound in transactions

Qualitative 6-12 month
market outlook



- Condominium prices in the Japanese metropolitan area increased slightly in June, and year-on-year growth improved to -3% YoY. The average price is JPY 942 per square meter (psm) as of June 2021.
- Sales activity rebounded in June. The 3-month moving average sales figure was 152% higher than that of the last year, at c. 2,200 units as of June 2021.
- Affordability remains stretched and we expect price growth to remain muted, although low borrowing costs remain supportive.

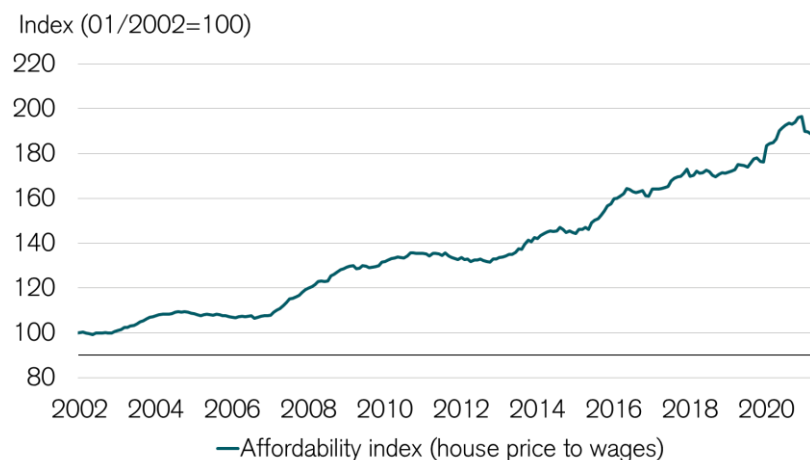
Residential property transactions (units) have started to rebound



Last data point: 30.06.2021

Source: Bloomberg, Credit Suisse

Housing affordability (price-to-income): Recent improvement



Last data point: 30.06.2021

Source: Bloomberg, Datastream,
Credit Suisse

Hong Kong housing market:

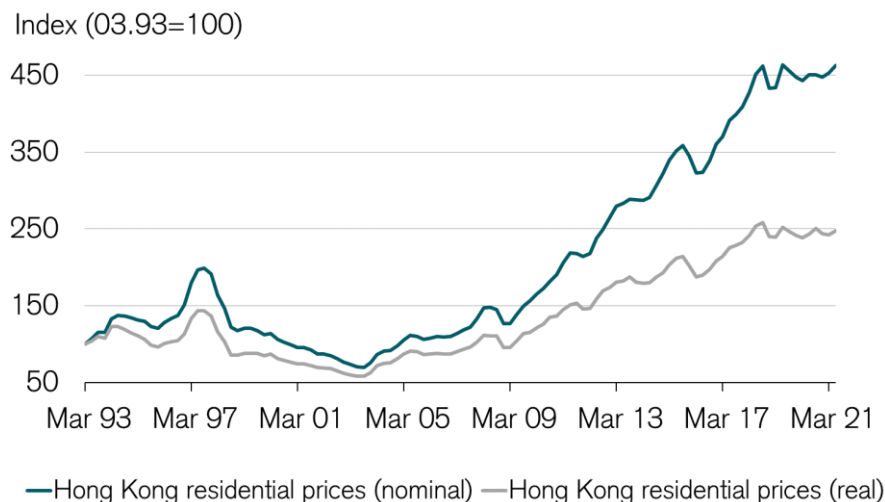
Muted short-term outlook

Qualitative 6-12 month
market outlook



- Residential house prices have increased since the beginning of 2021 and year-on-year growth is positive at +2% as of June 2021.
- The number of property transactions (3-month moving average) improved to c. 7,400 units in July 2021, slightly above long-term average.
- Stretched affordability, political domestic turbulences and the negative impact from the coronavirus on both transactions and broader economic activity pose headwinds in the short-term.

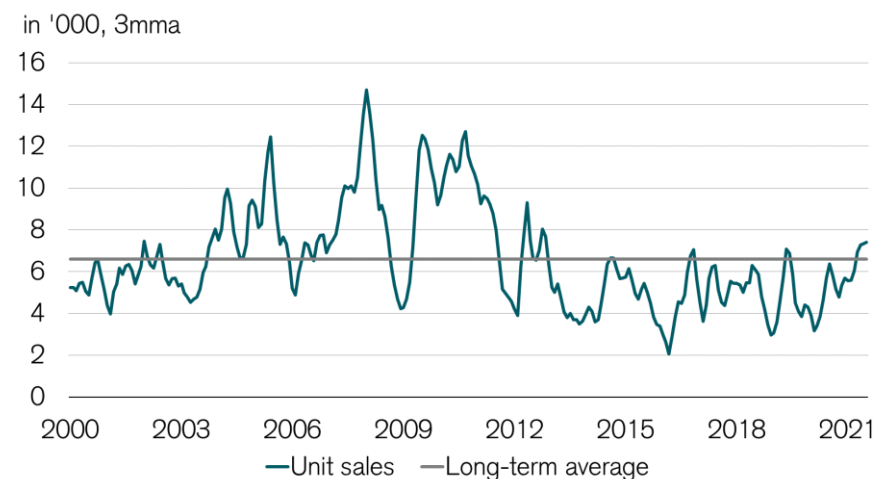
Residential property prices: Moving sideways



Last data point: 30.06.2021

Source: Bloomberg, Datastream,
Credit Suisse / IDC

Property transactions improved to above long-term average levels



Last data point: 31.07.2021

Source: Bloomberg, Credit Suisse

Singapore housing market:

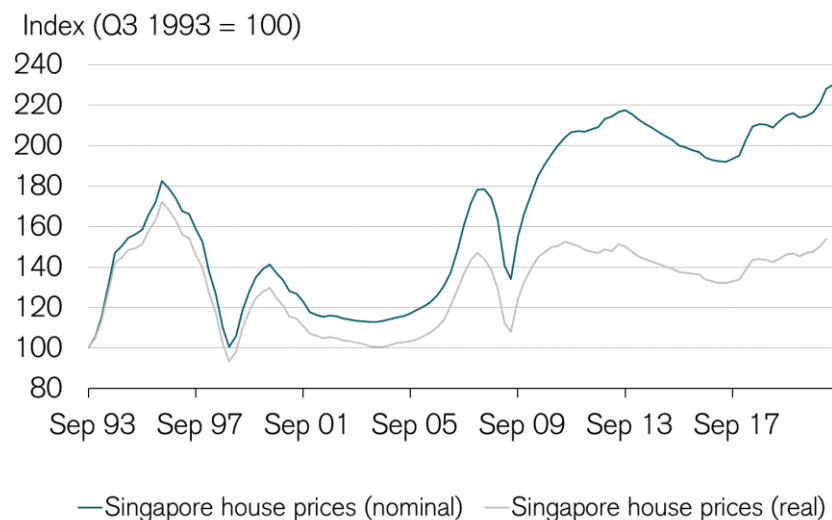
House prices rebound strongly

Qualitative 6-12 month
market outlook



- The outbreak of the coronavirus has temporarily slowed the recovery in the housing market, but house prices bottomed in mid-2020 and growth has accelerated to +7.3% YoY in Q2 2021.
- Residential property transactions continued to recover in Q2 2021 (+4% QoQ) contributing to a solid first half of 2021.
- The recent strong increase in house prices increases the risk of further cooling measures by local authorities, and the government is likely to carefully assess the pace of further price increases over the next quarters. Nevertheless, tight supply, resilient demand from buyers looking for an upgrade of their current housing situation as well as low interest rates are supportive.

Singapore house prices: Uptrend continues

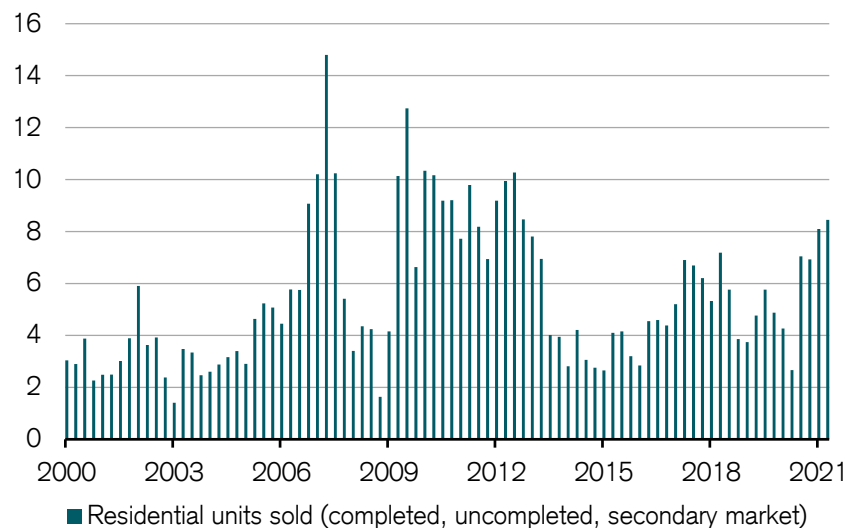


Last data point: 30.06.2021

Source: Datastream, Credit Suisse

Residential property transactions: Strong first half 2021

Units in '000



Last data point: 30.06.2021

Source: Urban Redevelopment Authority
Singapore, Credit Suisse

Australia housing market:

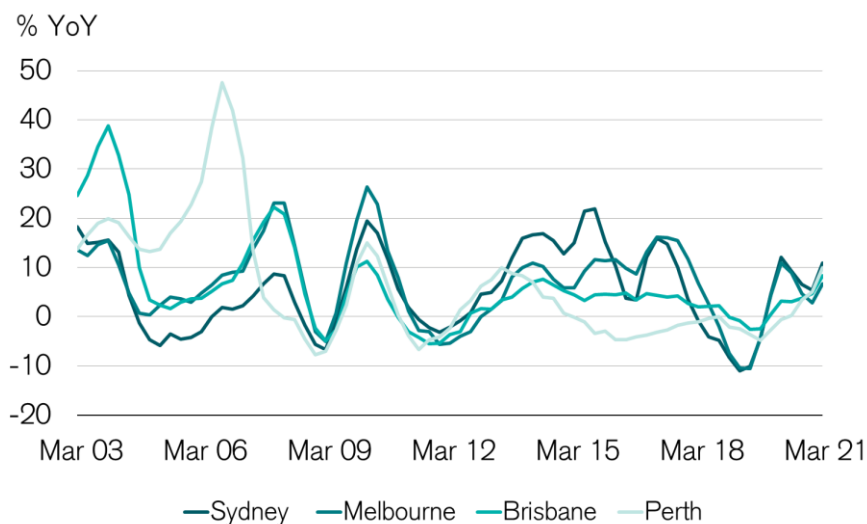
Gradual recovery in 2021

Qualitative 6-12 month
market outlook



- The outbreak of the coronavirus has put a halt to the recovery in the Australian housing market, but house price growth has rebounded strongly in Q1 2021 across all major cities.
- Construction activity remained elevated in Q1 2021 as the number of commenced dwellings increased c. 13% YoY. Overall levels are above long-term average values. Having said that, direct government stimulus should further bolster activity going forward.
- Low population growth and oversupply in parts of the rental market are likely to act as a restraint in the cyclical rebound, while households are structurally vulnerable through elevated debt levels. However, low interest rates and government stimulus are supportive and we expect house prices to continue their positive growth path throughout the remainder of the year.

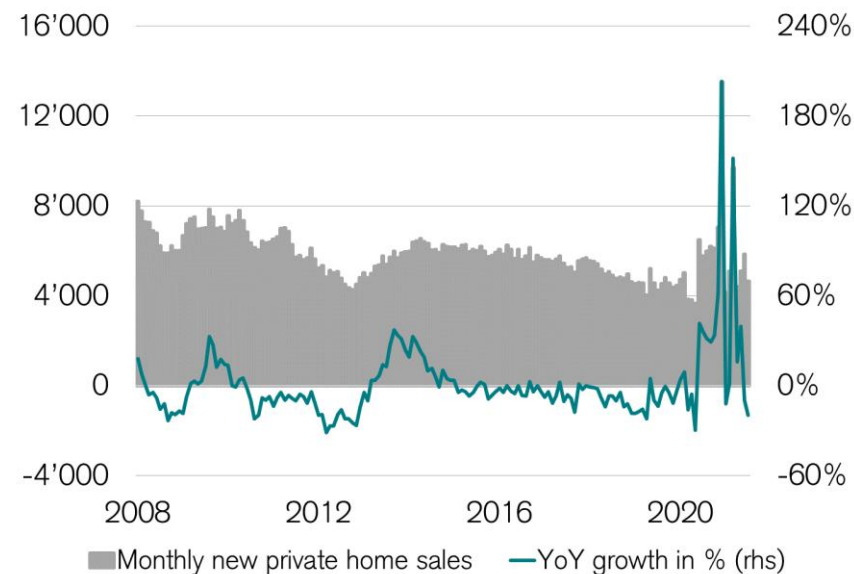
House prices in major Australian cities: House price growth has rebounded in the first quarter of 2021



Last data point: 31.03.2021

Source: Datastream, Credit Suisse / IDC

Private home sales: Transaction activity weakened in July



Last data point: 31.07.2021

Source: Datastream, Credit Suisse

China housing market:

Coronavirus impact was short-lived

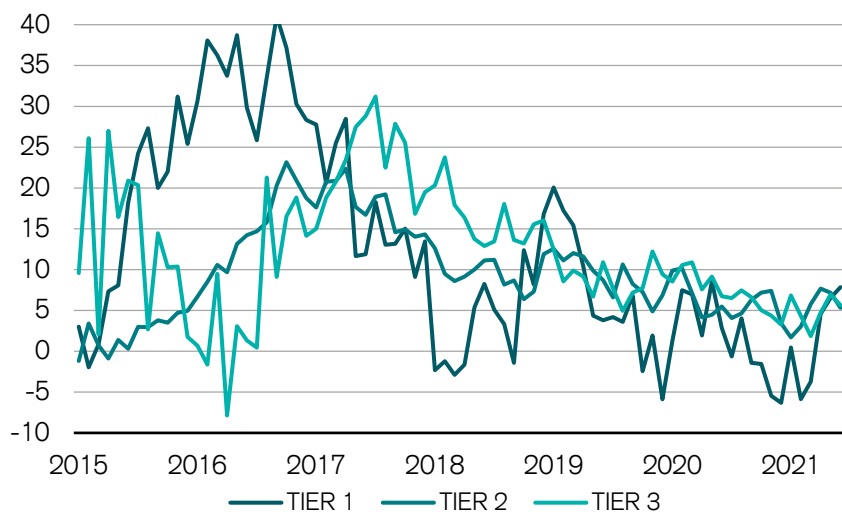
Qualitative 6-12 month
market outlook



- House price growth in Chinese cities remains strong across tier-1, -2 and -3 markets, ranging between 5% and 8% YoY as of June 2021.
- Residential floor space for sale has halved compared to its peak in 2016 reflecting the strong sales momentum over the past few years. Inventory levels have decreased again since reaching a temporary peak in March this year.
- The outlook for the Chinese housing market remains solid and we believe that the Chinese government is likely to prevent both an overheating of the market as well as any significant cool-down given its importance to the Chinese economy.

China house prices: Improving momentum across tiers

YoY change in %

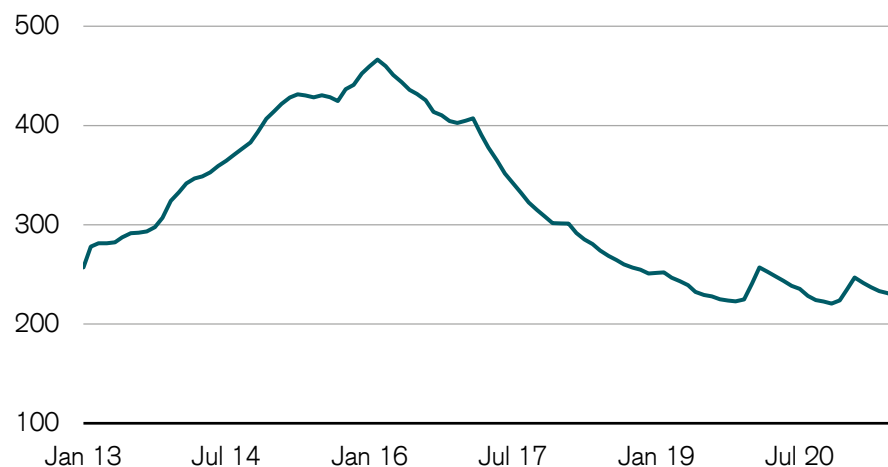


Last data point: 30.06.2021

Source: Datastream, Credit Suisse

Residential floor space for sale: Inventory levels declined again after temporary increase caused by the outbreak of coronavirus

in m sqm

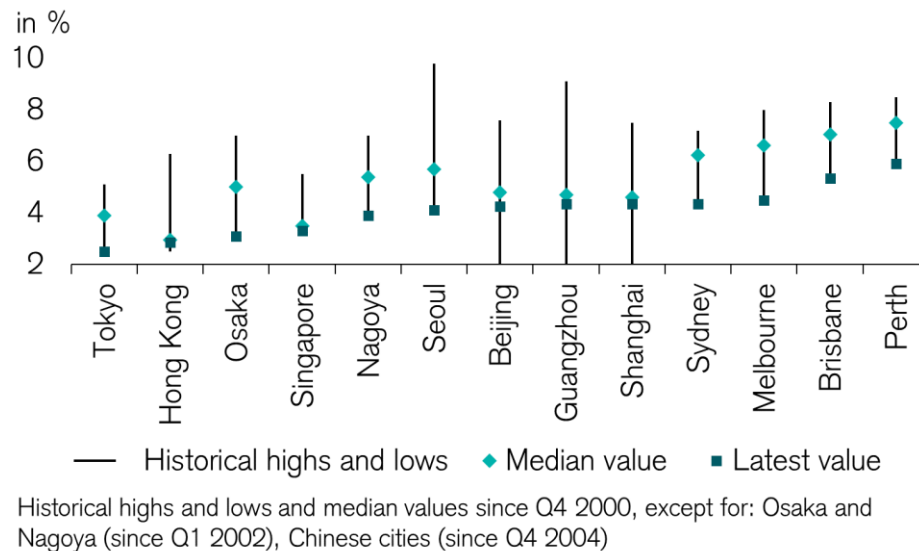


Last data point: 31.07.2021

Source: Datastream, Credit Suisse

Appendix I: Asia office market data

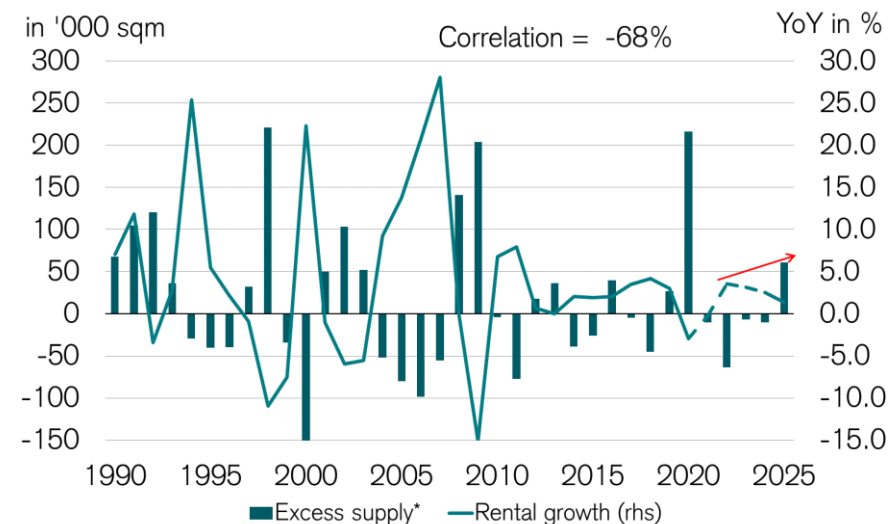
Asian prime office net yields – actual vs. median



Last data point: 31.03.2021

Source: PMA, Credit Suisse

Asia prime office available space & rental growth



Last data point: 31.12.2020;
PMA forecasts: 2021-2025

Source: PMA, Credit Suisse

* Excess supply refers to the change in available floorspace on the market, taking into account newly built or substantially refurbished as well as withdrawn space and take-up of space.

Alternative Investments Strategy Team – Real Estate



Jelena Kucenko

Head of Alternative Investments Strategy



Sarah Leissner

Real Estate Strategist

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