MARKET OVERVIEW

1 OVERVIEW OF SINGAPORE ECONOMY

1.1 ECONOMIC INDICATORS

Economic growth and outlook moderated in 2019

The Singapore economy grew by 3.2% year-on-year ("y-o-y) in 2018 according to the Ministry of Trade and Industry ("MTI"), boosted by the expansion of the electronics cluster in the manufacturing sector. However, the economy showed signs of weakness in 2019. The manufacturing sector contracted in 2019, as the demand for electronics declined due to the maturing technology cycle. The Gross Domestic Product ("GDP") for the manufacturing sector declined by 3.8% y-o-y in 2Q2019. MTI also narrowed Singapore's GDP growth for 2019 to come in at 1.5% to 2.5% in May, compared with the previously estimated 1.5% to 3.5% range forecasted at the beginning of 2019.

Correspondingly, consumer confidence in Singapore also weakened in 1Q2019 with Singaporeans surveyed being more prudent in 2019[1]. Separately, Singapore's population grew marginally by 0.5% y-o-y in 2018 to 5.6 million. Notwithstanding the tight labour market, the average unemployment rate in 1Q2019 was at 2.2%, marginally higher than the 2.0% a year ago.

1.2 RETAIL SALES

Retail Sales Index ("RSI") for some goods improved amid cautious sentiments

The RSI (excluding Motor Vehicles, at constant prices) continued to improve in 2018, inching up by 0.5% y-o-y. Retail sales of Medical Goods & Toiletries and Furniture & Household Equipment grew by 5.1% and 3.3% y-o-y respectively. In 2019, the consumers' confidence took a hit after the announcement of the slower economic indicators. The RSI declined 12.3% from January to May 2019, more than the 7.1% decline y-o-y over the same period last year. Moving forward, consumers are likely to be more cautious amid the uncertain external environment.

1.3 ONLINE SALES

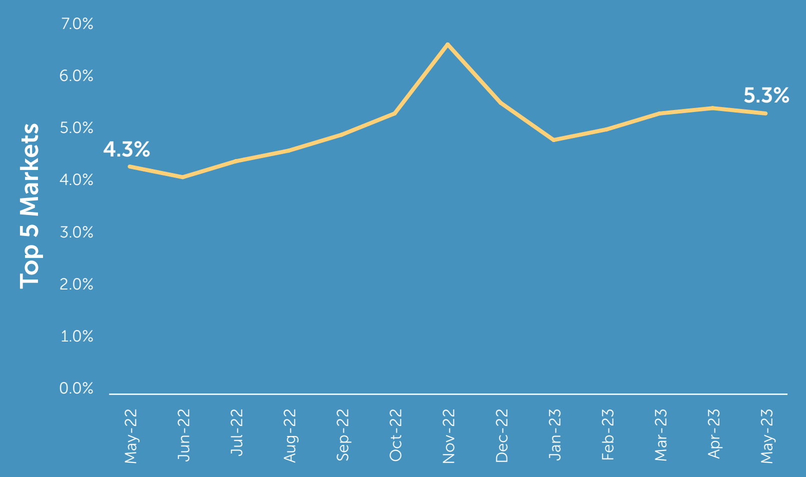
Online sales to form larger proportion of retail sales

According to the Department of Statistics Singapore ("Singstat"), about 5.3% of total retail sales in May 2019 were transacted online, higher than the 4.3% of total retail sales a year ago. The proportion of retail sales transacted online has increased progressively, given the improvements in logistics and last-mile delivery services, online payment options, and website user-interfaces.

More online retailers are contributing to demand of physical retail space

Notwithstanding the growth in online sales, more online retailers are coming offline to increase their outreach and differentiate themselves. Love, Bonito, a Singapore online fashion retailer, recently opened its largest physical store at Funan. Separately, most physical retailers have some form of online presence, be it marketing platforms to encourage awareness or transaction platforms. The advent of e-commerce platforms has also hastened the evolution of the physical retail landscape, with greater emphasis on improving shoppers' experience and the use of omnichannel marketing.

Exhibit 1.3.1: Percentage of total retail sales transacted online (%)



Source: Department of Statistics Singapore, Knight Frank Research

1 Conference Board Global Survey, published on 12 May 2019, The Conference Board and Nielsen.

Exhibit 2.1.1: International visitor arrivals, by Top 5 inbound markets (million)

		2016	2017	2018	Y-o-Y Change
	Total	**16.40**	**17.42**	**18.51**	**6.3%**
Top 5 Markets	China	2.86	3.23	3.42	5.9%
	Indonesia	2.89	2.95	3.02	2.4%
	India	1.10	1.27	1.44	13.4%
	Malaysia	1.15	1.17	1.25	6.8%
	Australia	1.03	1.08	1.11	2.8%

Source: Singapore Tourism Board, Knight Frank Research

2 TOURISM MARKET

2.1 TOURIST ARRIVALS & SPENDING

Visitor arrivals reached a record high in 2018

According to Singapore Tourism Board ("STB"), the total International Visitor Arrivals ("IVA") to Singapore in 2018 increased 6.3% y-o-y to a record high of 18.51 million visitors since 1978. The growth in visitor arrivals was largely fuelled by higher volume of visitors from China (+5.9%) and India (+13.4%). The increase in visitor arrivals was due to major business travel and meetings, incentives, conventions and exhibition sector ("BTMICE") events held in Singapore such as the Trump-Kim Summit, the World City Summit, and the ASEAN Summit. Visitors from key regions such as Southeast Asia, Europe and Americas grew 4.8%, 11.3%, and 13.6% y-o-y respectively, largely attributable to such high-profile summits. There was also greater awareness of Singapore through the successful hit movie Crazy Rich Asians, boosting organic interest in Singapore as a tourist destination[2].

A stronger Singapore dollar weighed on tourists' spending on shopping

Tourism Receipts ("TR") in 2018 grew 0.5% y-o-y to S$26.94 billion, lower than the 4.0% growth in 2017. Total tourism receipts was lifted by higher expenditure on Sightseeing, Entertainment & Gaming (+4%), and other TR Components (+17%). The increase was offset by lower spending by visitors on shopping (-13%). A stronger Singapore dollar likely led to a decline in dollars spent on shopping.

Growth in visitor arrivals and spending likely to stay at sustainable levels in 2019

The outlook for Singapore's tourism sector remains favourable, barring any external shock. Singapore is well-positioned to leverage on a growing South East Asian economy with increased flight connectivity to boost tourist arrivals and excellent infrastructure to support BTMICE events. The newly launched international flights by Vistara will connect Delhi and Mumbai to Singapore, while Urumqi Air and Guangxi Beibu Gulf Airlines opened up new flights between Singapore and Tier 2 and Tier 3 cities in China. The new flights will help support sustainable growth in visitor arrivals.

Nevertheless, the stronger Singapore dollar remains a potential risk overhanging in 2019. STB maintained a cautiously optimistic growth forecast for 2019 of a 1.0% to 4.0% y-o-y increase in IVA by the end of 2019.

Exhibit 2.1.2: Tourism spending per capita on shopping (S$)

		2016	2017	2018	Y-o-Y Change for 2018
	Total	**363.2**	**354.2**	**291.0**	**-17.8%**
Top 5 Markets	China	529.9	548.1	538.3	-1.8%
	Indonesia	338.6	297.9	264.6	-11.2%
	India	269.6	244.8	205.8	-15.9%
	Malaysia	223.5	254.7	184.0	-27.8%
	Australia	240.4	216.0	176.5	-18.3%

Source: Singapore Tourism Board, Knight Frank Research

2 Straits Times, Crazy Rich Asians, Trump-Kim summit propel tourist arrivals, spending in Singapore to record highs

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3 SINGAPORE RETAIL PROPERTY MARKET

Landlords and retailers bringing shoppers back through new initiatives

Besides increasing competition from online retailers and narrowing margins due to higher operating costs, weaker consumer sentiments also contributed to the slower sales. To boost footfall and tenant sales, landlords and retailers experimented with various initiatives to attract shoppers back to physical stores. These included incorporating community spaces, bringing in activity-based tenants to foster innovative retail ecosystems, and offering mass-customisation of goods and services to create personalised shopping experiences.

3.1 RETAIL RENTS OF ORCHARD ROAD AND SUBURBAN PRECINCTS

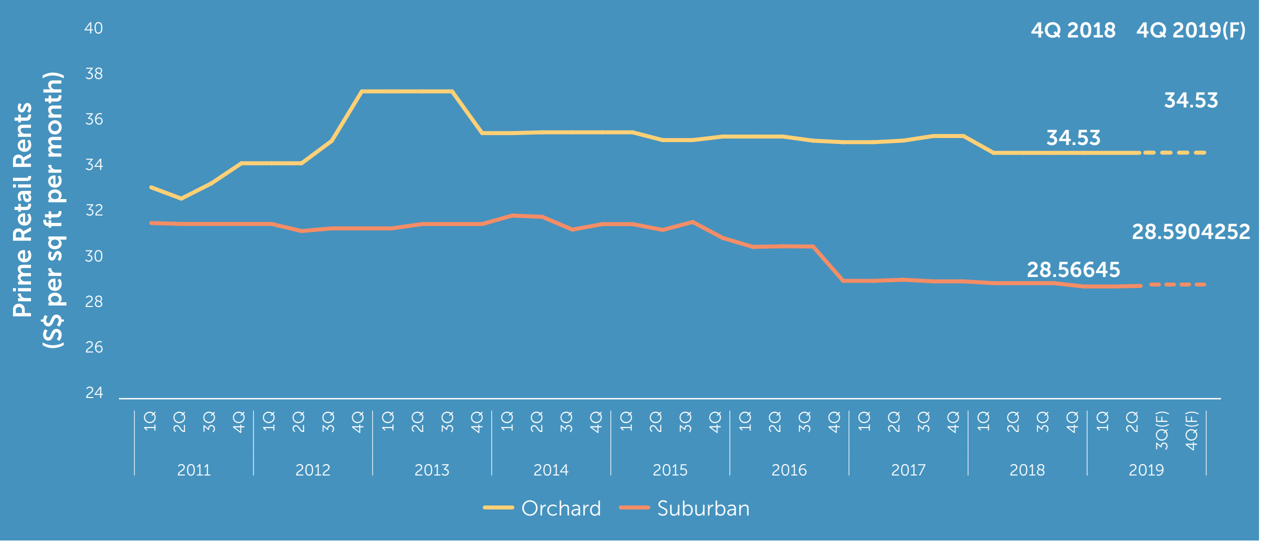
Rents of prime retail spaces stayed flat despite uncertain economic outlook

Rents of prime retail spaces in 2Q2019 stayed flat amid softened consumer sentiments and moderated growth in tourism arrivals and spending. Based on rents tracked under Knight Frank's basket of prime retail units, average prime rents in the Orchard Road precinct stayed flat y-o-y in 2Q2019, supported by the limited supply. Prime rents in the suburban precincts declined 0.4% y-o-y in 2Q2019 on the back of cautious consumer sentiments, although the decline mainly originated from strata-titled malls.

Rents of prime retail spaces in choice malls expected to outperform by improving shopper experience

Despite the continued challenges in the retail sector and expected downside risks from the uncertain macro environment, Knight Frank envisages average prime rents in the Orchard and suburban precincts to remain flat y-o-y by end 2019. The rents of older and strata-titled malls would likely face higher downward pressure, but the rents of prime spaces at choice malls may recover, albeit at a slower pace. The improvements in shopper experience through events, more lifestyle and pop-up stores and the use of technology to engage and widen the network of consumers will help support the growth in rents.

Exhibit 3.1.1: Prime retail rents*



Source: Knight Frank Research

* Prime spaces refer to rental-yielding between 350 and 1,500 sq ft with the best frontage, connectivity, footfall, and accessibility in a mall which are typically ground level of a retail mall and/or the basement level of a retail mall that is linked to an MRT or bus station.

3.2 RETAIL DEMAND AT ORCHARD, CLEMENTI, AND BUKIT PANJANG PLANNING AREA

Occupancy rates of retail spaces at Orchard/Scotts Road continued to improve

The occupancy rates of retail spaces island-wide have stayed flat, hovering between 90% to 92% from 1Q2016 to 1Q2019. Orchard/Scotts Road, the most popular shopping and free-access attraction in Singapore, with a total of 7.4 million sq ft of retail net lettable area in over 44 retail developments, is supported by approximately 13,000 hotel rooms and serviced apartments in the vicinity. Occupancy rates of retail spaces in the **Orchard** Planning area increased from 94.0% in 4Q2017 to 94.9% in 4Q2018 before easing to 93.9% in 1Q2019.

Plans to rejuvenate Orchard Road expected to increase appeal to retailers

The occupancy of retail spaces in Orchard Road is expected to remain high, given the limited upcoming supply in the area and the appeal from the forthcoming plans to revitalise Orchard Road. With Paragon's excellent location, it is well-positioned to leverage on increased visitorship from the planned rejuvenation and revitalisation of Orchard Road. In particular, the Orchard Road Business Association plans to launch a series of experiential street activities to liven up the shopping scene at Orchard Road, which is likely to allow the mall to capture higher footfall from the greater number of visitors to Orchard.

Growing resident population within Clementi Planning Area likely to support demand

The retail spaces in the suburban precincts also saw improving occupancies with growing residential catchment. In the **Clementi** planning area, the occupancy of retail spaces has steadily improved from 89.0% in 4Q2017 to 90.6% in 4Q2018, and subsequently rose to 91.2% in 1Q2019. The Clementi Mall is strategically located at the heart of the Clementi Planning Area and enjoys a healthy catchment. Apart from serving about 93,000 residents in the Clementi Planning area, and about 175,000 residents in the neighbouring Bukit Timah and Queenstown Planning areas, Clementi is supported by 80,000 full and part-time students from tertiary institutions in the area. The residential catchment is envisaged to continue to grow with over 4,100 new private residential homes and 1,900 public flats in the pipeline supply, benefitting The Clementi Mall in the long term.

Upcoming supply of residential homes supports retail demand in Bukit Panjang Planning Area

Occupancy of the retail spaces in the **Bukit Panjang** planning area stayed at a high level, improving steadily from 98.4% in 4Q2017 to 98.8% in 2Q2019. Located in a rustic part along Upper Bukit Timah Road, The Rail Mall offers a prominent main-road frontage for shops and restaurants. The Rail Mall serves about 285,000 residents in the Bukit Batok and Bukit Panjang planning areas. It enjoys pedestrian traffic from hiking enthusiasts due to its proximity to the Rail Corridor, which is a popular hiking route. In the near future, the residential catchment in the area is expected to increase with the completion of private and public housing developments in the planning area. Government land sites such as Dairy Farm Road and Hillview Rise and private home supply from the Bukit Panjang and Bukit Batok planning area will add approximately 1,850 homes, while the upcoming Build-To-Order HDB flats in the Bukit Batok planning area will add another 6,973 homes by end 2019. This will boost residential catchment for The Rail Mall.

Lifestyle elements introduced in malls are likely to boost shopper experience and support occupancy moving forward

To maintain the occupancy at high levels, landlords are making efforts to improve shoppers' experience by introducing placemaking and more lifestyle components in the mall. Separately, retailers are offering mass personalisation of goods, with the help from technology advancements, to appeal to millennial shoppers.

3.3 RETAIL TRENDS

Landlord and retails adopt placemaking concepts to improve foot traffic and increase repeated visitorship

Placemaking capitalises on the local community's assets and potential, thus creating and promoting the identity of the area. Successful placemaking creates shared community experiences and memories that connect individuals and communities to their heritage, thereby enhancing

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shopper experiences and encouraging repeated visitorship. A recent example is Our Tampines Hub, which is designed to induce synergy between the complementary spaces, catering for interaction and bonding among residents. Several established malls also make use of their event spaces to hold exhibitions and events to bring people together. For instance, Paragon celebrated the Ikebana International Singapore Chapter's Golden Jubilee by showcasing works from international Ikebana artists from 26 April to 5 May 2019.

Landlords introduce lifestyle components in malls to draw shoppers

Landlords are rebranding shopping malls into an entertainment destination for shoppers by introducing lifestyle components via activity-based tenants. This strategy could help increase footfall and raise sales for other tenants. Notable examples include State Swim swimming school and Super Park at Suntec City, as well as Absolute Cycle at OUE Downtown. Paragon also introduced and expanded its 'athleisure' brands such as K.BLU to draw shoppers who are keen in health and fitness.

Malls are supporting more green initiatives

More consumers are environmentally conscious and are willing to pay a premium for products that are procured ethically and are environmentally friendly, according to a study by KPMG in 2018. Correspondingly, retailers and landlords in Singapore are positioning their brands by increasing their efforts to supporting recycling and green initiatives. A case in point was SPH REIT, which announced the launch of a 6-month long campaign for waste reduction at two of the malls under its portfolio.

Retailers are offering personalisation of goods to appeal to millennial shoppers

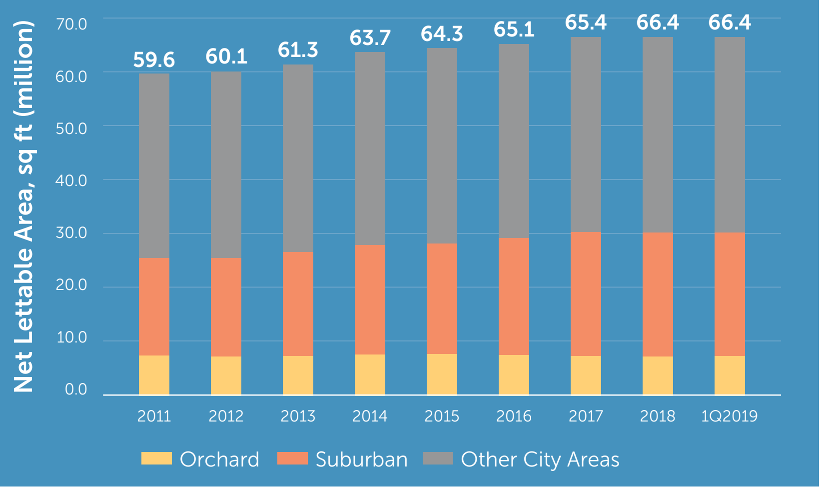
The millennials are likely to account for an increasing proportion of retail sales, and they have a stronger preference for goods that allow them to express their individuality as well as services that offer unique experiences. This started a trend in which retailers provide more personalisation and customisation options for millennial shoppers. The use of robotics and automation also enabled the personalisation of goods for the masses. For instance, HoneyMill at Paragon offers drinks made by a robot and shoppers can personalise their drinks according to their taste and preference.

3.4 RETAIL SUPPLY

There were more completions in 2018 than in 2017

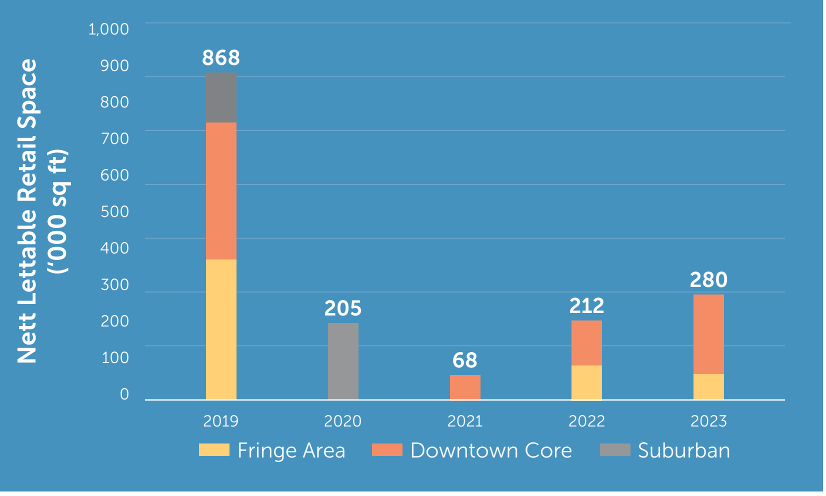
The annual net supply of retail space rebounded in 2018, with 1.0 million sq ft of retail Net Lettable Area ("NLA") coming onstream, compared to 312,000 sq ft new retail NLA in 2017. In 1Q2019, the completion of Jewel Changi Airport (approximately 576,900 sq ft NLA) and the completion of the asset enhancement initiative of TripleOne Somerset (approximately 83,000 sq ft NLA) contributed to the increase in retail stock. Including the new completions in 1Q2019, the island-wide retail stock amounted to 66.4 million sq ft NLA.

Exhibit 3.4.1: Historical Retail Supply



Source: REALIS, Knight Frank Research

Exhibit 3.4.2: Major upcoming retail supply in key precincts*



Source: URA (as at 1Q2019), Knight Frank Research

The average annual supply in the pipeline is lower than the 5-year annual average supply in the past

Moving forward, a total of 2.0 million sq ft of retail NLA is expected to come onstream from 2Q2019 to 2023. The annualised average new retail supply of major malls is estimated to be about 344,000 sq ft per year over the same period. Much of the upcoming supply will emanate from Downtown Core, Fringe Area, and North-East region. Notable developments coming onstream by end 2019 include Chevron House (35,000 sq ft), Paya Lebar Quarter (304,000 sq ft) and Tekka Place (70,000 sq ft). From 2014 to 2018, the average annual new retail supply is approximately 1.0 million sq ft.

4 SINGAPORE MEDICAL SUITE PROPERTY MARKET

4.1 HEALTHCARE SERVICES INDUSTRY TRENDS

The demand for healthcare is expected to grow due to the ageing population

Singapore saw a significant growth in the elderly population due to the ageing baby boomers' population. According to Singstat, the proportion of elderly among the resident population in Singapore has increased from 13.0% in 2017 to 13.7% in 2018. The number of local inpatient admissions has grown in tandem with the ageing population, with a 0.6% increase y-o-y in FY2018.

The Singapore government has continued to introduce healthcare packages as well as implement policies to reduce healthcare costs. The average total inpatient bill in the private sector has increased by 9% from 2007 to 2017, double the 4.9% increase in the public sector's Class A wards. In hopes of mitigating high medical bills incurred by patients, the government has introduced fee benchmarks for the private sector in 2018. Subsidised healthcare schemes have also been provided for the elderly population, among both the Pioneer and Merdeka generations. These schemes will likely encourage more frequent medical check-ups and boost the demand for medical services in Singapore.

Singapore's medical tourism sees a shift towards the high-end market

According to the International Medical Travel Journal, the value of Singapore's medical tourism stands at US$150 million as of 2018. While Singapore still ranks highly as one of the top medical tourism destinations worldwide, other ASEAN counterparts pose as lower cost alternatives for such medical services, with Thailand and Malaysia valuing at US$600 million and US$350 million respectively. The strong Singapore dollar against regional currencies have resulted in more costly medical services, reducing foreign demand from the middle-high income group.

* Major retail development(s) refer to projects of at least 50,000 sq ft NLA.

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While healthcare in Singapore is more costly compared to its neighbouring nations, it remains as one of the top medical tourism destinations among high-net-worth individuals ("HNWI"). HNWIs are individuals with a net worth of over US$1 million excluding their primary residence. Based on the Bloomberg Health-Efficiency Index, Singapore ranked second, making it one of the most efficient healthcare systems worldwide, providing medical care of good value without draining as much resources.

A study jointly done by Grab and the Urban Redevelopment Authority ("URA") in 2018 also showed that healthcare facilities in Singapore were the third most visited location by tourists. The bulk of these trips were made by Southeast Asian travellers, forming approximately 63% of these trips in total. Other major contributors of these trips were tourists from United States, China as well as India.

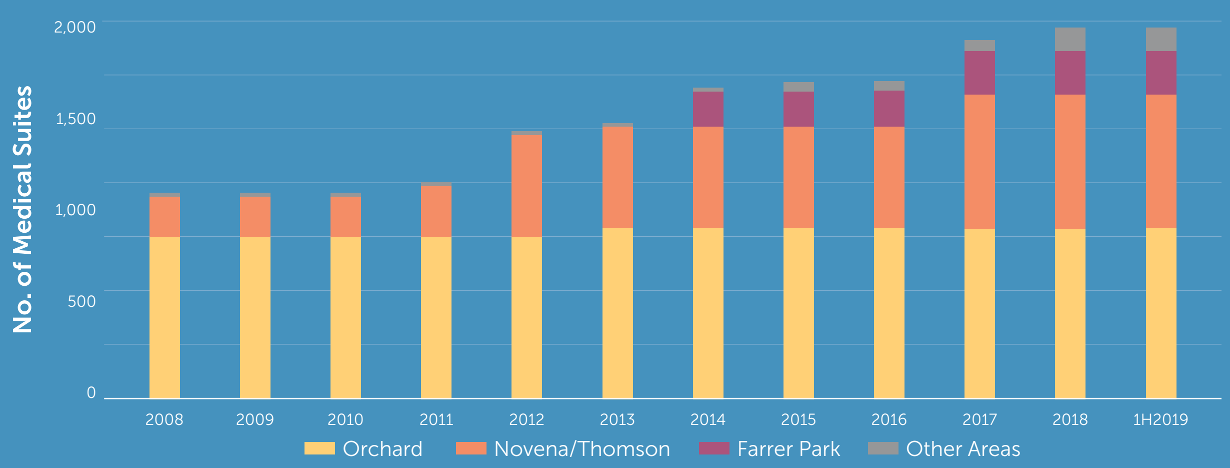
4.2 MEDICAL SUITE SUPPLY

Rents will be supported by the limited pipeline supply of medical suites

As at 1H2019, Knight Frank estimates that there are approximately 1,963 medical suites island wide. The Orchard and Novena/Thomson medical precincts are currently the largest clusters with approximately 903 and 707 medical suites respectively, forming about 82.0% of the total medical suites in Singapore. While the main medical clusters saw no change in the number of completed units in 2018, the medical suites located in other parts of Singapore saw an increase of 64 units with the completion of Vision Exchange and The Flow located at Jurong East and Marine Parade respectively.

Excluding areas earmarked as future medical hubs, the upcoming supply of medical suites is expected to be limited, with only 71 units foreseeable from 3Q2019 to 2023. The upcoming medical suites, namely units at TripleOne Somerset and Centrium Square,

Exhibit 4.2.1: Medical Suite Supply



Source: Knight Frank Research

Exhibit 4.2.2: Upcoming Medical Suite Supply (3Q2019 – 2023)

	No. of Units	
Medical Precinct	**Existing Supply**	**Incoming Supply**
Orchard	903	31
Novena/Thomson	707	0
Farrer Park	231	39
Other Areas	122	0
Total	**1,963**	**70**

Source: Knight Frank Research

will increase the current stock of medical suites at Orchard and Farrer Park medical precincts by a slight margin. This lack of supply is expected to stabilise rents for medical suites within the next one year.

4.3 IMPLICATION ON PARAGON MEDICAL

The medical cluster at Orchard Road will appeal to high net worth individuals

Despite increasing healthcare costs and the availability of other lower cost alternatives in neighbouring countries, Knight Frank envisages Singapore's medical tourism market to remain as one of the key destinations for HNWIs. According to Knight Frank's 2019 Wealth Report, HNWIs have continually chosen Singapore as one of the top cities due to the burgeoning nature of the economy as well as the nation's reputation for providing quality services. With Orchard Road being a key location for high-net-worth medical tourists and well-established healthcare services, rents and prices of medical suites are expected to stay resilient, given the limited upcoming stock in the precinct.

4.4 MEDICAL SUITE RENTS

Rents for medical suites in the Orchard precinct expected to improve

The average asking rents for medical suites in the Orchard precinct continue to remain at S$12.60 per sq ft per month ("psf pm"), higher than the asking rents of S$8.50 psf pm and S$5.10 psf pm at the Novena/Thomson and Farrer Park medical precincts respectively. This could be attributed to the optimal location of the medical suites given its proximity to the established Mount Elizabeth Orchard Hospital as well as the premier Orchard Road shopping belt. As Orchard Road is one of the main tourist sites in Singapore with a plethora of shopping amenities as well as great accessibility, medical travellers will have an ease of mind as their day activities could be carried out within the same vicinity without extensive travelling.

Exhibit 4.4.1: Asking Monthly Gross Rents (S$ psf pm)

	Asking Monthly Gross Rents (S$ psf pm)		
Precinct	**Low**	**Average**	**High**
Orchard	11.0	12.6	13.0
Novena/Thomson	5.6	8.5	11.6
Farrer Park	3.9	5.1	5.6

Source: Knight Frank Research

Moving forward, Knight Frank forecasts that rents of medical suites will continue to see steady growth of about 2.0% to 4.0% in the next 12 months. This stable trend is largely attributable to the lack of supply of medical suites in the key medical precincts.

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5 AUSTRALIA RETAIL PROPERTY MARKET

5.1 OVERVIEW OF AUSTRALIAN ECONOMY

Growth slowing as household consumption softens

The Australian economy has lost momentum since the second half of 2018. Persistent slow growth in household income and recent falls in residential property prices have weighed on household consumption, while housing investment has declined sharply as the boom in residential construction begins to unwind. By contrast, growth continues to be supported by stronger non-mining business investment, public sector consumption, infrastructure spending, and exports. In response to slowing growth and ongoing subdued inflation, the Reserve Bank of Australia ("RBA") cut interest rates by 25 basis points each in June and July, with financial markets pricing in further monetary stimulus over the next 12 months.

Discretionary consumer spending weak, with stronger non-discretionary spending

The outlook for the retail market remains challenging as the sector grapples with weaker household consumption, structural changes such as the shift to online shopping, and changes in consumer spending patterns. Growth in retail trade has slowed in recent years, driven by a pronounced slowdown in discretionary spending, while spending on non-discretionary items such as food and groceries has picked up recently.

5.2 RETAIL TRENDS IN NEW SOUTH WALES

Retail trade is relatively weak in New South Wales compared to Australia overall

Consistent with national trends, growth in retail trade in New South Wales (NSW) has slowed significantly over the past year. Retail trade is growing at a weaker pace in NSW compared to Australia on the whole, with weaker housing market conditions driving a decline in household goods trade over the year.

Retailers are adapting to the challenging environment

The challenging macro backdrop and technological innovation are leading to some notable emerging trends in the retail sector. The rise of omnichannel retailing has led many retailers to streamline their technology platforms to capture growth in this new environment. Last-mile logistic warehouse demand requirements are growing within densely populated urban areas to meet increasing demand for 'click and collect' services and fast delivery options. In line with this, an increasing number of retailers such as Coles and Woolworths are establishing warehouses that cater exclusively to online fulfilment so that they can compete with global e-commerce retailers such as Amazon.

Changes in uses of retail space and tenant mix

Owners of large retail spaces such as shopping centres are increasing allocation of retail space to alternative uses like co-working and diversifying their tenant mix to include more experience-focused amenities such as bars, cafes and restaurants. In July 2018, Mirvac opened The Third Space, a free co-working space, in Broadway shopping centre in Sydney for an initial three-month trial before moving the concept to Orion Springfield Central in Queensland. The proposed expansion and redevelopment of Chatswood Chase on Sydney's North Shore includes plans for new restaurants, co-working offices, a rooftop garden and a pool.

Significant pipeline of retail supply in Sydney over the next five years

Despite the challenging conditions in the retail sector, the pipeline of retail supply in Greater Sydney over the next five years is expected to be significant. Around 40% of estimated development over this period is intended for new projects, 45% for extensions of existing retail centres, and 15% is for refurbishment projects. Shopping centre development accounts for almost 70% of the pipeline, while the retail component of mixed-use projects makes up 24%. Projects in the Sydney city centre account for 6% of the pipeline, including refurbishment works for Hermes, Louis Vuitton, David Jones department store and the MLC Centre.

5.3 IMPLICATIONS FOR FIGTREE GROVE SHOPPING CENTRE

Figtree Grove Shopping Centre is a dominant shopping centre located in Figtree, NSW with a captive catchment. It is located approximately 3 km south-west of the Wollongong Central Business District ("CBD") and approximately 85 km south-west of the Sydney CBD. The total trade area population for Figtree Grove Shopping Centre is estimated at 206,140 at 2018, with around 82,000 residents within the main trade area. Based on the 2016 Census of Population and Housing, residents in the Figtree Grove trade area earn incomes about 10.7% above benchmark levels in tertiary sectors.

Despite a significant pipeline of supply in Greater Sydney, new supply in Wollongong is expected to remain limited, supporting the dominance of Figtree Grove Shopping Centre as the main sub-regional shopping centre for the catchment.