Knight Frank

NEW FRONTIERS

PROSPECTS FOR REAL ESTATE ALONG THE BELT AND ROAD INITIATIVE

THE 2018 REPORT

1ST EDITION

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New Frontiers

The "Project of the Century" will provide enormous opportunities in the built environment over the coming decades

Over the last two generations, we have seen a familiar trend of rising wealth and influence in Asia. It started with the Japanese in the 70s and was followed by the Koreans in 90s and the South East Asian "Tigers" in the early 2000s. For the past decade, China and India have been among the powerhouses of world economic growth. Given their ambitions and scale, they are both likely to be important contributors for a very long time.

The Belt and Road Initiative (BRI) is one of clearest manifestations of China's vision and influence. The infrastructure and investment underpinning the BRI will streamline trade flows and lift economic activity in much of Asia, the Middle East, and North and Eastern Africa. While the vision will bring huge opportunities for investors and developers, the BRI will also change the face of corporate China, which will have an enormous influence in the 21st century as Chinese brands become household names around the world.

This report aims to bring some clarity to the initiative, with Knight Frank's research teams developing a *Belt and Road Index* to rank 67 countries according to a number of key criteria, along with local analysis from a significant number of BRI markets. Our analysis shows that opportunities are widespread, with improving bilateral relations between BRI countries and China providing potential for real estate investment, development and business expansion. No doubt the BRI will provide further impetus to corporate China's growth and influence in global markets.

With this report, we are taking crucial steps in being able to provide the highest level of advice around tangible opportunities along the BRI. We hope you find the report useful and insightful.

Kevin Coppel
Regional Head
Knight Frank Asia-Pacific

/ The ubiquitous use of smartphones in modern-day China

/ Aerial view of the Central Business District in Beijing

With the BRI, China's outbound capital is set to be directed in a way that would help the country foster and deepen economic ties. It is also an ambitious attempt at growing markets in places where Knight Frank is also growing its footprint.

The BRI is, therefore, of paramount importance for China over the next 30 years, and will propel China into becoming the global economic power amongst industrialised nations.

With a vision so vast and impressive, the "project of the century" will undoubtedly be one of the most significant drivers in international real estate markets over the coming decades. Whether advising outbound investors, developers or corporates, we will ensure that Knight Frank is well positioned to help our clients ride this wave as China continues to go global.

New Frontiers is a timely report for us. It not only informs potential investors about the different markets included in the BRI, but also objectively assesses the various opportunities that may arise.

For many Chinese firms, the BRI will become a core part of their business strategy, either by greenfield or partnerships. We hope to be able to share our insights and help you enter into the Belt and Road markets from a real estate perspective.

Alan Liu
Managing Director
Knight Frank China

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Overview of the Belt and Road Initiative

ASIA PACIFIC

Ying Khuan Pow
Research Analyst
Knight Frank Asia Pacific

For centuries, the legendary Silk Road from the ancient Chinese capital of Xi'An provided a two-way link with bustling trading centres as far away as Rome and Malacca. Despite intermittent stoppages of this vibrant trade route, fast forward to the 21st century, China has become the world's largest exporter, with goods and services totalling US$2.2 trillion in 2016.

The Belt and Road Initiative (BRI) was launched by China in 2013, with an aim to revive the great Silk Road as well as provide a new platform for multilateral cooperation to create new trade routes, economic links and business networks. Six economic corridors have been identified from China to Central and South Asia, the Middle East and Europe (the Silk Road Economic Belt) and, along a maritime route, from Southeast Asia, Oceania to the Middle East, Africa, and Europe (the 21st Century Maritime Silk Road).

BELT AND ROAD IN NUMBERS

69
countries

60%
of the world's population

40%
of the world's GDP

US$900 billion
of investments projected

Sources: yidaiyilu.gov.cn, Foreign Affairs, Fitch

CHINA'S TRADE VOLUME WITH BRI SUB-REGIONS IN 2016 (US$ BILLIONS)

A	SOUTHEAST ASIA	455.4	(37.4%)
B	EAST ASIA	216.0	(17.8%)
C	MIDDLE EAST	204.1	(16.8%)
D	EASTERN EUROPE	136.8	(11.2%)
E	SOUTH ASIA	111.5	(9.2%)
F	CENTRAL ASIA	41.1	(3.4%)
G	AFRICA	37.6	(3.1%)
H	OCEANIA	13.8	(1.1%)

Source: yidaiyilu.gov.cn, State Information Centre of China, globalEDGE

/ First London-Yiwu train

Spanning across 69 countries and encompassing around 60% of the world's population and 40% of global GDP, the blueprint is also a collection of interlinking trade deals and infrastructure projects, set to be mutually beneficial to BRI countries and China. As one of BRI's goals is to further stimulate Chinese economic growth, expanding demand overseas will be crucial as the project will open new markets for Chinese goods and services, shoring up the country's economy against any potential slowdown in domestic demand as well as the potential rise of protectionism in other countries.

A significant number of participating BRI countries are undergoing rapid modernisation and urbanisation leading to soaring demand for roads, railways, ports, airports, pipelines, and technology infrastructure. In addition to infrastructure investment, the increased connectivity of some of the less developed markets will lead to increased commercial opportunities, helping integrate these nations with the wider, global economy.

Funding for this vast initiative is coming via a number of routes, including multilateral sources such as the China-led Asia Infrastructure Investment Bank (AIIB), the Silk Road Fund, in addition to allocations from the large state-owned banks. Ratings agency Fitch has estimated there to be US$900 billion of infrastructure project finance pledged to the initiative.

Notable projects underway across the BRI markets, include Gwadar Port in Pakistan, large sections of the Kunming-Singapore railway link, the Khorgos dry port between China and Kazakhstan along with the first freight trains from China to Tehran and London.

BELT AND ROAD DEVELOPMENT TIMELINE

2013

September
Silk Road Economic Belt first announced by Chinese President Xi Jinping

2014

November
China pledges US$40 billion to Silk Road Fund

2015

March
China unveils 'Vision And Actions On Jointly Building Silk Road Economic Belt And 21st-Century Maritime Silk Road'

December
Asian Infrastructure Investment Bank (AIIB) formally established in Beijing

2016

February
'One Belt One Road' is the most frequently mentioned concept in China's *People's Daily* newspaper

August
The name 'One Belt One Road' was renamed as the "Belt and Road Initiative' (BRI)

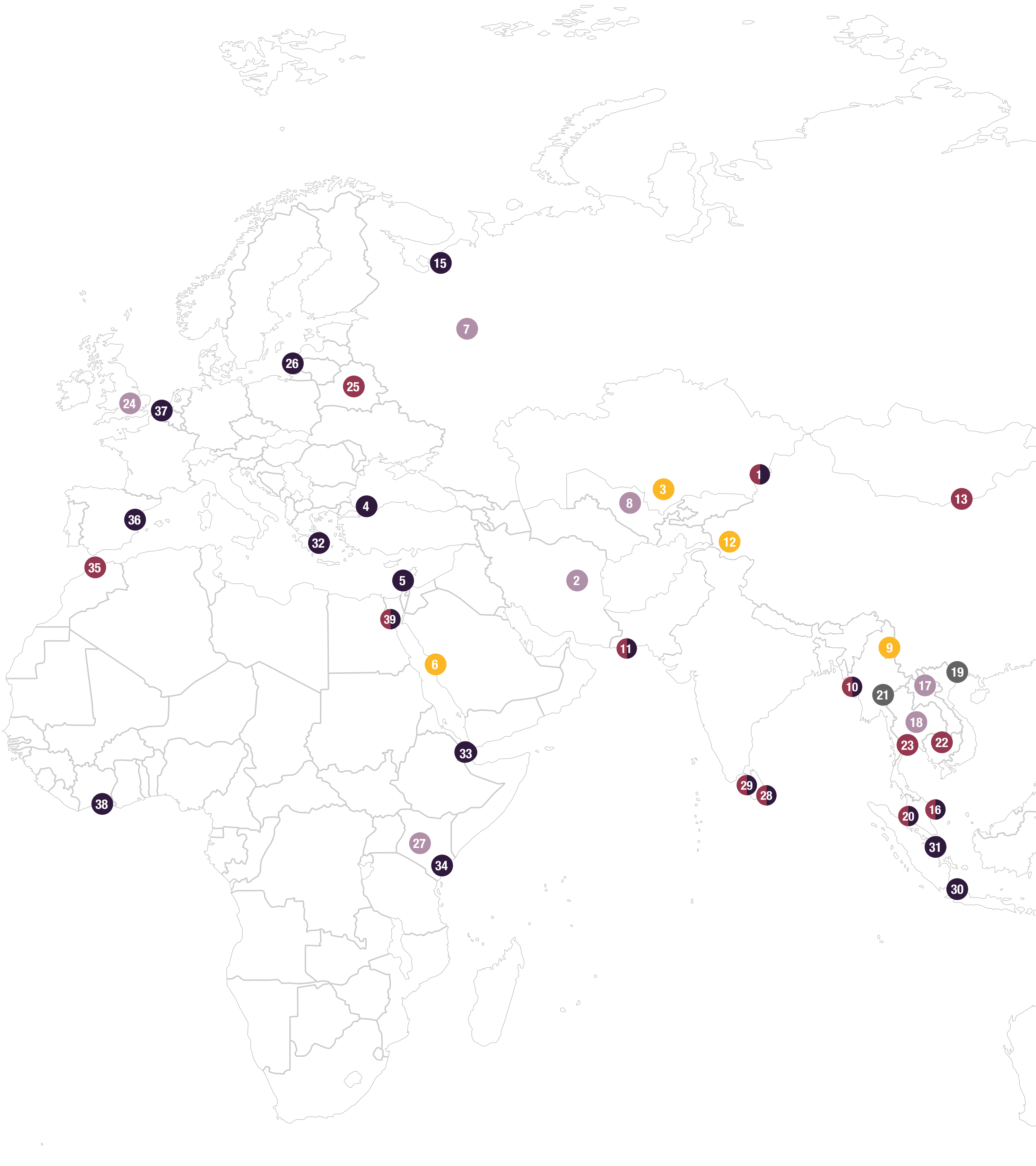
2017

March
BRI incorporated into United Nations Security Council resolution

May
Belt and Road Forum for International Cooperation held in Beijing

October
BRI officially enshrined in the Communist Party of China's constitution

Sources: yidaiyilu.gov.cn, CNBC, SCMP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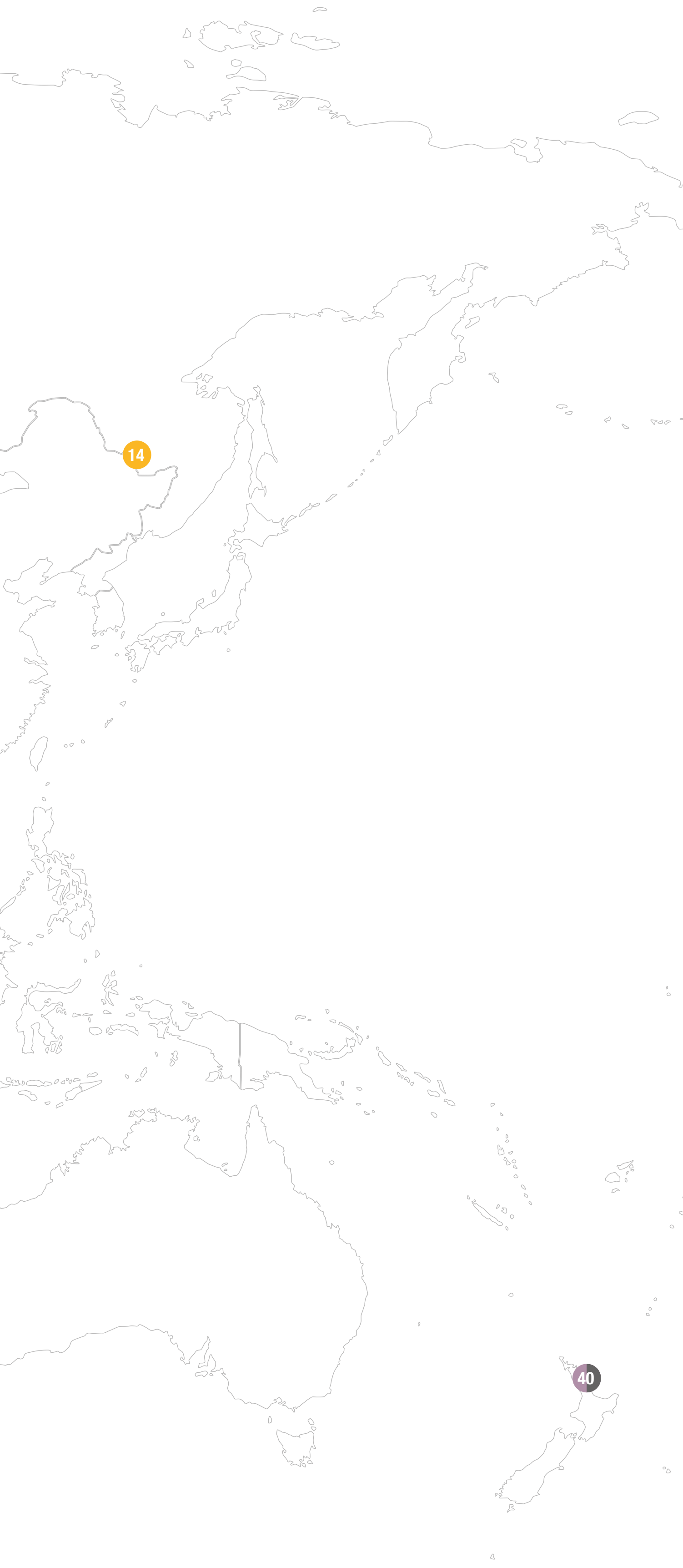


MAJOR BELT AND ROAD PROJECTS AND ACQUISITIONS

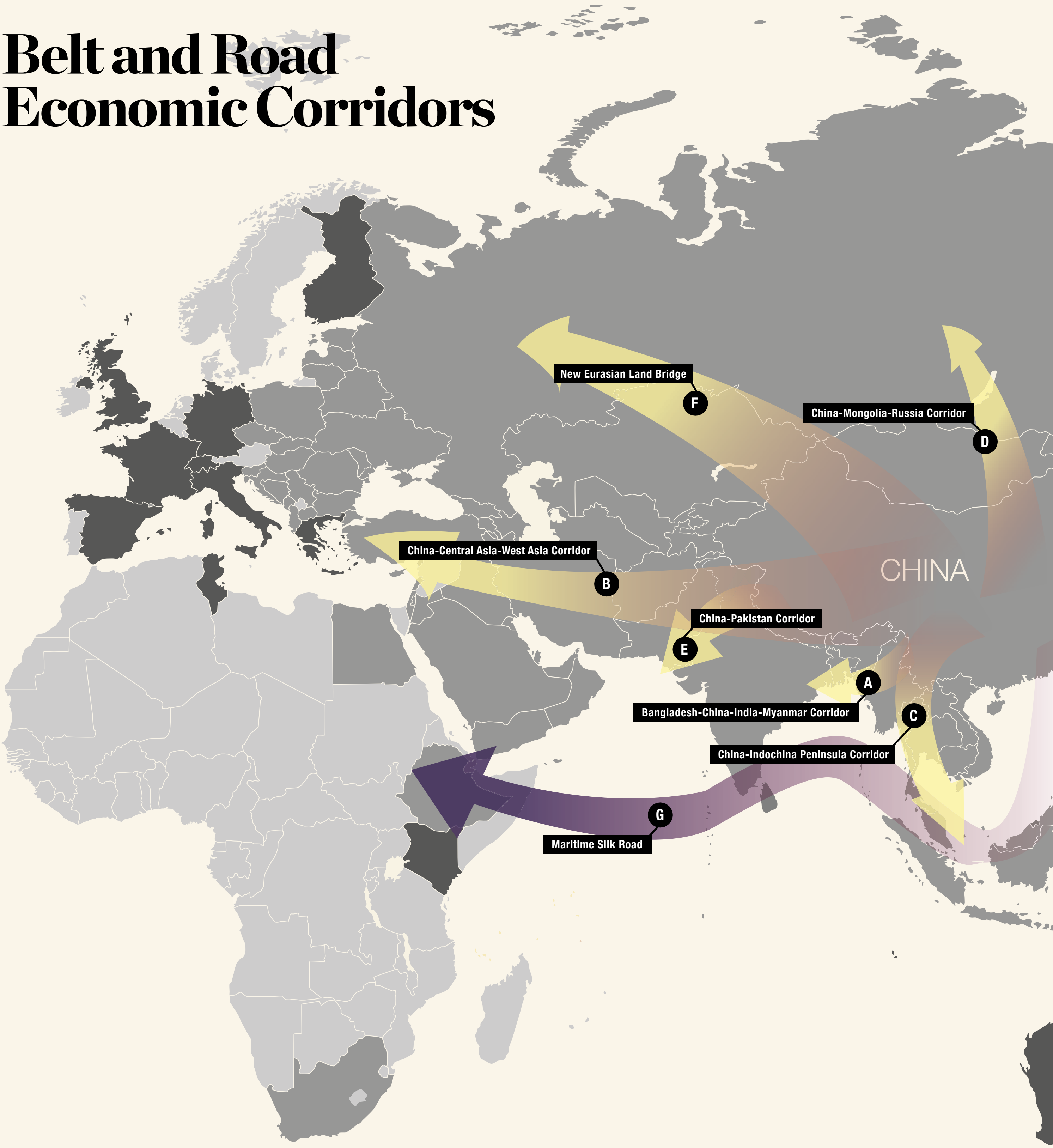
Energy Port Highway Economic Zone Railway

	Major Projects	Countries	Types
1	Khorgos Gateway and Free Trade Zone	China, Kazakhstan	Port, Economic Zone
2	Urumqi – Tehran Railway	China, Kazakhstan, Uzbekistan, Turkmenistan, Iran	Railway
3	Central Asia – China Gas Pipeline	China, Kazakhstan, Turkmenistan, Uzbekistan, Kyrgyzstan, Tajikistan	Energy
4	Kumport Terminal	Turkey	Port
5	Haifa Port	Israel	Port
6	Yanbu Refinery	Saudi Arabia	Energy
7	Moscow – Kazan High-Speed Railway	Russia	Railway
8	China – Kyrgyzstan – Uzbekistan Railway	China, Kyrgyzstan, Uzbekistan	Railway
9	China – Myanmar Crude Oil and Gas Pipeline	China, Myanmar	Energy
10	Kyaukpyu Port and Special Economic Zone	Myanmar	Port, Economic Zone
11	Gwadar Port and Special Economic Zone	China, Pakistan	Port, Economic Zone
12	Gwadar – Kashgar Oil Pipeline	China, Pakistan	Energy
13	China – Mongolia Cross-border Economic Cooperation Zone	China, Mongolia	Economic Zone
14	Power of Siberia	China, Russia	Energy
15	Arkhangelsk Port	Russia	Port
16	Malaysia – China Kuantan Industrial Park and Kuantan Port	China, Malaysia	Port, Economic Zone
17	Pan-Asia Railway	China, Vietnam, Laos, Myanmar, Cambodia, Thailand, Malaysia, Singapore	Railway
18	China – Thailand High-Speed Rail	China, Thailand	Railway
19	Guangxi – Vietnam Expressways	China, Vietnam	Highway
20	Melaka Gateway	Malaysia	Port, Economic Zone
21	ASEAN Regional Highway Integration	China, Vietnam, Myanmar, Laos, Thailand, Cambodia	Highway
22	Cambodia – China Comprehensive Investment Development Experimental Zone	Cambodia	Economic Zone
23	Thailand – Chinese Rayong Industrial Park	Thailand	Economic Zone
24	Trans-Asian Railway Network	China, Kazakhstan, Russia, Belarus, Poland, Czech Republic, Germany, Belgium, France, Netherlands, Spain, UK	Railway
25	China – Belarus Industrial Park	Belarus	Economic Zone
26	Klaipeda Port	Lithuania	Port
27	Mombasa – Nairobi Railway	Kenya	Railway
28	Hambantota Port	Sri Lanka	Port, Economic Zone
29	Colombo International Financial City	Sri Lanka	Port, Economic Zone
30	Kalibaru Port	Indonesia	Port
31	Tanjung Sauh Port	Indonesia	Port
32	Piraeus Port	Greece	Port
33	Doraleh Port	Djibouti	Port
34	Mombasa Port	Kenya	Port
35	Mohammed VI Tangiers Tech City	Morocco	Economic Zone
36	Noatum Port	Spain	Port
37	Zeebrugge Port	Belgium	Port
38	Abidjan Port	Côte d'Ivoire	Port
39	China-Egypt Suez Economic and Trade Cooperation Zone and Sokhna Port	Egypt	Port, Economic Zone
40	Whangarei – Northport Infrastructure Project	New Zealand	Railway, Highway

Note: The list is not exhaustive and it includes major projects that involve the Chinese government and Chinese state-owned enterprises

Sources: Bloomberg, South China Morning Post, Financial Times and various other media outlets

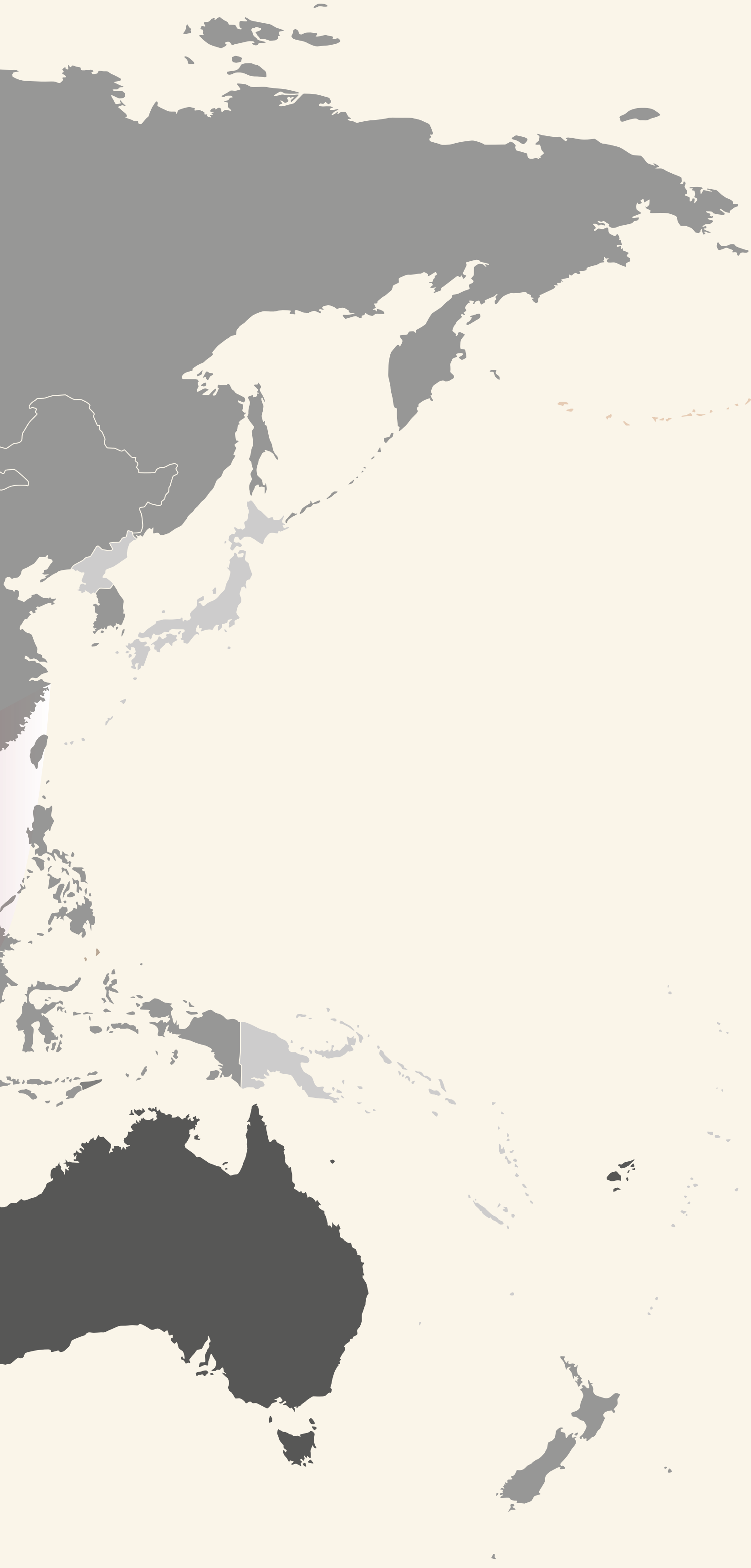
Belt and Road Economic Corridors



LEGEND

- Markets with BRI cooperation agreements
- Markets whose top political leaders were at the BRI summit in Beijing in May 2017

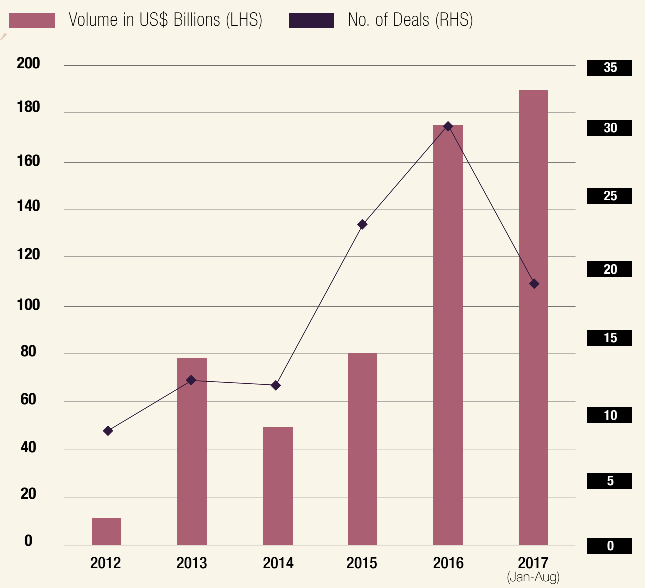
Sources: yidaiyilu.gov.cn, Knight Frank Research



Renewed focus and growing activity

China's commitment to the BRI was underlined at the recent 19th Party Congress in Beijing, where it was officially enshrined in the Party's constitution, leading to a renewed focus on opportunities in these markets. Along with infrastructure, M&A activity from China in the BRI markets has increased significantly since 2013, with over US$33 billion of deals concluded from January to August 2017, up 136% on the same period of 2016. Key sectors targeted have included industrials, logistics, energy and retail.

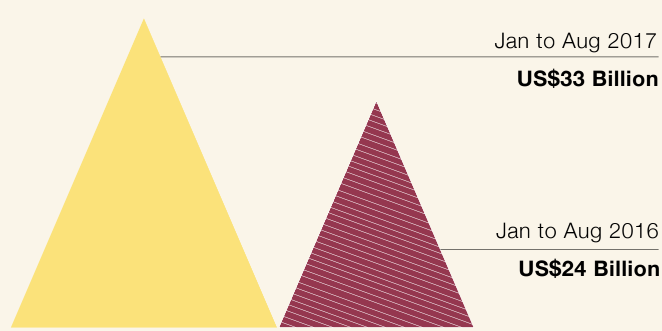
CHINESE ACQUISITIONS ALONG THE BELT & ROAD



Source: Thomson Reuters

The development of the built environment along the BRI, whether infrastructure related, logistics, townships or new urban settlements over the coming decades will be considerable. As new relations with China are forged – in tandem with the development of physical assets – the increasing activity of Chinese businesses in the 69 countries will also bring significant opportunities.

BOOMING M&A ACTIVITY



Source: Thomson Reuters

OVERALL RANKING OF THE BELT AND ROAD INDEX

Rank	Country	Score
1	Singapore	69.85
2	Qatar	59.98
3	United Arab Emirates	59.43
4	New Zealand	57.15
5	China	57.09
6	Malaysia	55.50
7	Estonia	55.42
8	Bahrain	54.64
9	Bhutan	54.21
10	South Korea	53.96
11	Brunei	53.32
12	Israel	53.15
13	Oman	53.04
14	India	52.46
15	Mongolia	51.72
16	Maldives	51.70
17	Poland	51.59
18	Czech Republic	51.51
19	Vietnam	51.45
20	Lithuania	51.19
21	Hungary	50.49
22	Latvia	50.14
23	Slovakia	50.14
24	Georgia	49.63
25	Slovenia	48.94
26	Saudi Arabia	48.59
27	Albania	48.09
28	Indonesia	47.48
29	Montenegro	47.41
30	Laos	46.94
31	Thailand	46.45
32	Turkey	46.33
33	Croatia	46.22
34	Kuwait	45.73
35	Romania	45.63
36	Bulgaria	45.46
37	Jordan	44.96
38	Cambodia	44.74
39	Kazakhstan	44.45
40	South Africa	44.19
41	Serbia	43.50
42	Ethiopia	43.36
43	Macedonia	42.78
44	Myanmar	42.74
45	Sri Lanka	42.44
46	Turkmenistan	41.80
47	Moldova	41.06
48	Bangladesh	40.91
49	Egypt	40.39
50	Armenia	39.88
51	Philippines	39.78
52	Bosnia and Herzegovina	39.76
53	Lebanon	39.53
54	Kyrgyzstan	39.49
55	Azerbaijan	39.12
56	Timor-Leste	38.97
57	Pakistan	38.07
58	Uzbekistan	37.75
59	Russia	37.67
60	Tajikistan	36.38
61	Iran	35.88
62	Ukraine	35.81
63	Belarus	34.41
64	Nepal	32.58
65	Afghanistan	27.63
66	Yemen	26.67
67	Iraq	26.45

Note: The 66 countries excluding China are identified as Belt and Road countries based on the official Belt and Road website yidaiyilu.gov.cn as at 5th October 2017. Palestine and Syria may have fulfilled the critieria but are not included in the Index due to the paucity of data.

/ Passengers on MTR in Hong Kong

Scoring the markets

The Belt and Road Index (BARI)

A

ASIA PACIFIC

Nicholas Holt
Head of Research
Knight Frank Asia Pacific

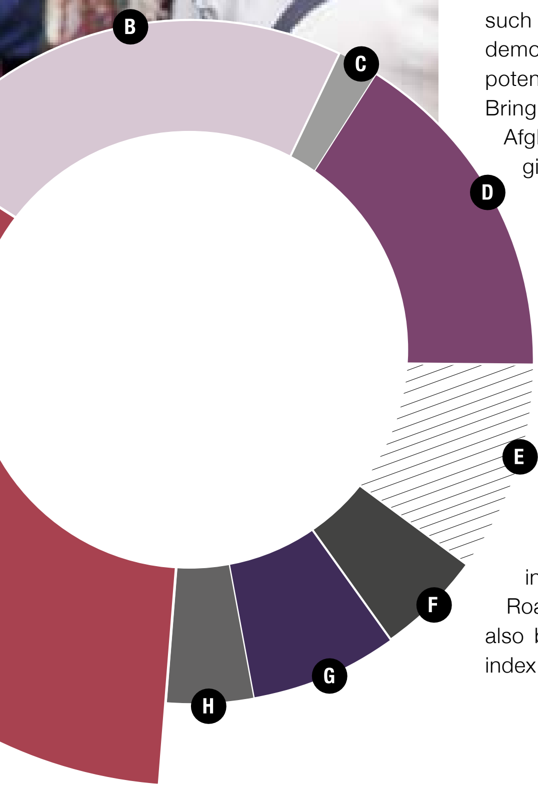
To bring another dimension and further insight into the analysis of the Belt and Road Initiative, Knight Frank has set out to assess each country market according to a number of key criteria.

The Knight Frank *Belt and Road Index* (BARI) has been developed using reliable and internationally-recognised data sources. The index is classified into six categories: economic potential, demographic advantage, infrastructure development, institutional effectiveness, market accessibility and resilience to natural disasters. The values within each category have been normalised to ensure the resulting figures are comparable and contextualised for the purpose of this study. All categories are assigned with specific weightings in accordance with their potential significance to investment decisions.

The index results provide not only a holistic macro view of each country, but also a level of detail on each of the key criteria, that can help inform investment strategies along the Belt and Road.

Other than the criteria listed, naturally it is also important to assess additional factors, such as restrictions on foreign ownership, local supply/demand dynamics, taxation and liquidity for any investment strategy.

The full methodology is detailed on page 40.



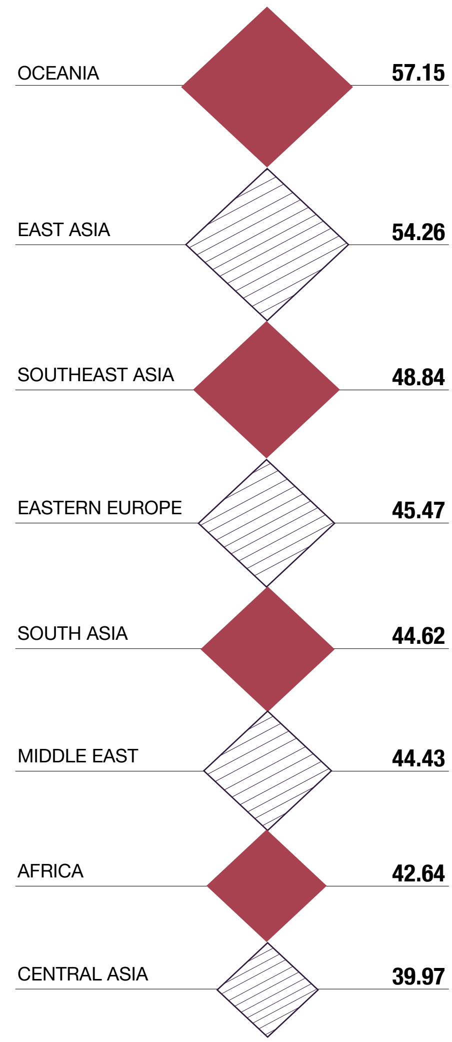
Asia-Pacific countries the strongest performers

Based on average scoring, Oceania tops the list, followed by East Asia, Southeast Asia, Eastern Europe and South Asia. Essentially, four out of the top five sub-regions are from within Asia-Pacific. In terms of the top country markets, the lofty positions of Singapore and New Zealand probably don't raise too much many eyebrows, although Estonia and Bhutan have probably surprised many by making the top 10. In the middle of the pack, some interesting findings, such as Lao, Vietnam and Thailand's favourable demographics, the Philippines strong economic potential and Poland's institutional effectiveness. Bringing up the bottom of the rankings are Afghanistan, Yemen and Iraq – not surprising given the conflicts in all three countries.

WHY 67 COUNTRIES IN BARI?

The criteria for inclusion in this main index is an official signed BRI cooperation agreement with China (as indicated on the official website yidaiyilu.gov.cn), with only Palestine and Syria excluded due to paucity of data. However, due to the growing engagement with the initiative, we have also included a secondary *Non-Core Belt and Road Index*, with criteria for inclusion being their presence at the Belt and Road Summit in May 2017, with the majority also being members of the AIIB. The non-core index is detailed on page 34.

SUB-REGIONAL PERFORMANCE OF BARI COUNTRIES — AVERAGE SCORING



GEOGRAPHIC DISTRIBUTION OF 69 BELT AND ROAD COUNTRIES

As the western end of the Belt and Road Initiative, Eastern Europe makes up the largest portion of the 69 countries involved in this initiative. Meanwhile, New Zealand is the only Oceanian nation identified as a Belt and Road country.

A
EASTERN EUROPE
(23 COUNTRIES)
33%

B
MIDDLE EAST
(16 COUNTRIES)
23%

C
OCEANIA
(1 COUNTRY)
2%

D
SOUTHEAST ASIA
(11 COUNTRIES)
16%

E
SOUTH ASIA
(7 COUNTRIES)
10%

F
AFRICA
(3 COUNTRIES)
4%

G
CENTRAL ASIA
(5 COUNTRIES)
7%

H
EAST ASIA
(3 COUNTRIES)
4%

Source: yidaiyilu.gov.cn

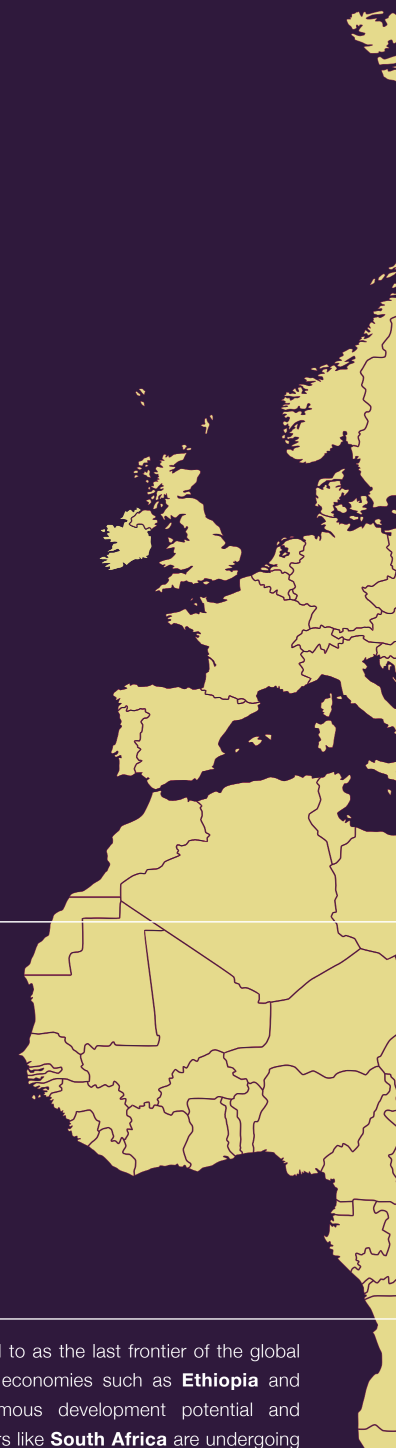
BREAKDOWN OF THE BELT AND ROAD INDEX

Ranking	BRI Country	Economic Potential	Institutional Effectivenes	Demographic Advantage	Infrastructure Development	Market Accessibility	Resilience to Natural Disasters
		25%	25%	20%	15%	10%	5%
1	Singapore	48.92	87.69	44.90	78.55	100.00	98.77
2	Qatar	60.10	63.47	57.68	50.84	49.31	100.00
3	United Arab Emirates	48.64	66.52	53.18	62.84	57.01	97.61
4	New Zealand	36.01	98.76	37.41	53.80	34.85	88.49
5	China	56.81	37.17	58.94	54.62	94.86	82.55
6	Malaysia	48.51	58.43	49.42	54.33	62.64	89.39
7	Estonia	35.24	82.40	28.54	56.15	70.42	96.74
8	Bahrain	36.98	44.45	69.03	71.46	50.11	94.83
9	Bhutan	64.78	59.73	57.92	19.71	41.58	87.65
10	South Korea	37.74	70.24	39.03	67.81	46.02	87.82
11	Brunei	55.46	66.61	45.52	28.82	48.94	89.59
12	Israel	38.42	69.01	37.54	52.31	62.56	93.66
13	Oman	36.52	55.12	71.87	45.37	46.92	85.09
14	India	62.40	42.54	49.77	33.83	72.08	79.74
15	Mongolia	52.18	52.02	50.91	19.15	82.41	87.41
16	Maldives	44.41	37.02	69.07	32.43	78.73	95.77
17	Poland	35.68	71.09	32.72	51.24	62.98	87.46
18	Czech Republic	31.42	77.23	33.13	48.50	60.41	87.99
19	Vietnam	52.85	38.03	60.11	38.98	72.99	71.31
20	Lithuania	37.40	76.00	28.00	52.59	46.62	93.77
21	Hungary	31.30	63.53	37.17	49.33	76.62	85.75
22	Latvia	38.77	72.24	23.80	50.35	55.04	91.52
23	Slovakia	38.65	70.15	32.44	44.86	51.77	90.92
24	Georgia	42.86	60.11	33.45	33.43	77.46	88.70
25	Slovenia	27.51	77.14	33.26	52.74	39.28	85.72
26	Saudi Arabia	37.27	43.18	48.75	47.78	69.07	93.10
27	Albania	35.74	48.25	50.48	33.19	75.33	89.59
28	Indonesia	48.61	42.16	51.17	30.94	58.13	81.98
29	Montenegro	31.07	52.07	35.44	41.81	89.87	85.59
30	Laos	58.83	28.49	62.55	12.21	63.80	87.75
31	Thailand	33.52	40.51	59.13	43.66	55.84	79.63
32	Turkey	42.94	38.68	46.45	41.52	58.54	91.02
33	Croatia	26.39	63.19	34.09	45.39	59.68	84.68
34	Kuwait	46.69	43.06	48.68	39.61	27.17	98.04
35	Romania	36.54	57.10	33.03	38.75	56.55	82.89
36	Bulgaria	29.80	55.57	32.16	38.67	75.31	87.11
37	Jordan	29.92	44.82	40.63	42.15	71.86	92.74
38	Cambodia	56.05	24.18	50.11	25.60	74.96	66.38
39	Kazakhstan	39.22	35.82	37.96	37.28	77.09	95.82
40	South Africa	24.33	55.77	44.40	42.19	47.64	83.76
41	Serbia	32.14	49.38	32.42	35.70	69.91	85.68
42	Ethiopia	64.52	19.04	58.92	13.96	43.64	84.52
43	Macedonia	34.65	44.10	36.93	35.50	58.97	89.67
44	Myanmar	61.35	18.64	53.59	18.18	56.84	72.30
45	Sri Lanka	47.21	44.84	37.18	29.45	34.37	82.71
46	Turkmenistan	58.81	9.58	47.49	15.57	81.93	93.47
47	Moldova	36.93	35.26	36.82	32.71	63.94	87.04
48	Bangladesh	56.90	21.75	58.93	21.06	34.68	56.67
49	Egypt	43.73	20.93	41.31	35.94	57.65	96.16
50	Armenia	33.39	40.05	31.69	27.35	64.04	93.63
51	Philippines	56.93	37.88	35.08	32.12	42.43	0.00
52	Bosnia and Herzegovina	32.67	38.90	37.85	30.66	54.18	85.65
53	Lebanon	29.89	24.70	35.28	42.99	77.26	93.00
54	Kyrgyzstan	40.96	23.24	42.44	20.62	73.96	89.31
55	Azerbaijan	25.91	27.69	45.39	31.13	73.09	93.24
56	Timor-Leste	46.58	26.24	46.63	8.59	56.11	90.83
57	Pakistan	45.68	20.77	50.33	23.93	38.92	78.19
58	Uzbekistan	55.20	14.30	44.22	17.60	42.90	92.11
59	Russia	24.00	24.85	34.63	45.08	75.48	84.41
60	Tajikistan	49.83	11.55	43.80	15.93	57.79	82.21
61	Iran	35.75	21.17	47.24	32.39	29.66	87.45
62	Ukraine	25.67	26.62	33.26	35.19	62.95	90.29
63	Belarus	18.89	27.38	37.36	33.54	55.83	95.16
64	Nepal	36.98	22.53	55.34	16.64	0.00	82.68
65	Afghanistan	39.12	6.18	48.40	6.41	17.72	77.87
66	Yemen	31.92	1.90	52.86	10.46	17.54	86.45
67	Iraq	30.05	7.51	39.35	10.01	29.38	95.10

Sources: International Monetary Fund, United Nations, World Bank, Transparency International, Germanwatch, Knight Frank Research

/ Mongolian kids looking at a laptop outside a Mongolian yurt

Belt and Road Hotspots



ASIA PACIFIC

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Research Analyst
Knight Frank Asia Pacific

Seizing the pole position in *BARI* 2018 is **Singapore** – Southeast Asia's leading financial and transportation hub, which has historically proven its importance along the ancient Maritime Silk Road. Although Singapore does not have any major BRI-related infrastructure projects on its shores, the fact remains that not only has Singapore the required synergy and connectivity with China and the other BRI countries, but it is also armed with an unprecedented depth of resources and expertise to facilitate the continuous development of BRI, including masterplanning, logistics and financing.

Eastern Europe

Streamlining logistics and bridging the gap between Asia and Europe are the top BRI priorities to countries like **Poland** and **Czech Republic**, as they forge a stronger partnership with China. The success of BRI will potentially allow China and Eastern European countries to diversify their economies further and attract investments into industrial assets as well as other sectors like agriculture, energy and technology along the Belt and Road. The importance of this region is not just geographic – as the endpoint of the Silk Road Economic Belt - but highlights how providing a relatively mature and transparent investment platform suits the needs of different groups of Chinese investors. Additionally, **Russia** is remarkably positioned to benefit from and contribute to BRI, given its strong historical influence in Eastern Europe and Central Asia, which has proven to be economically symbiotic. In recent years, Russia's trade with and investment from China has been on the rise, as both nations increasingly partner in various fields such as real estate, trade and infrastructure developments.

BARI Ranking

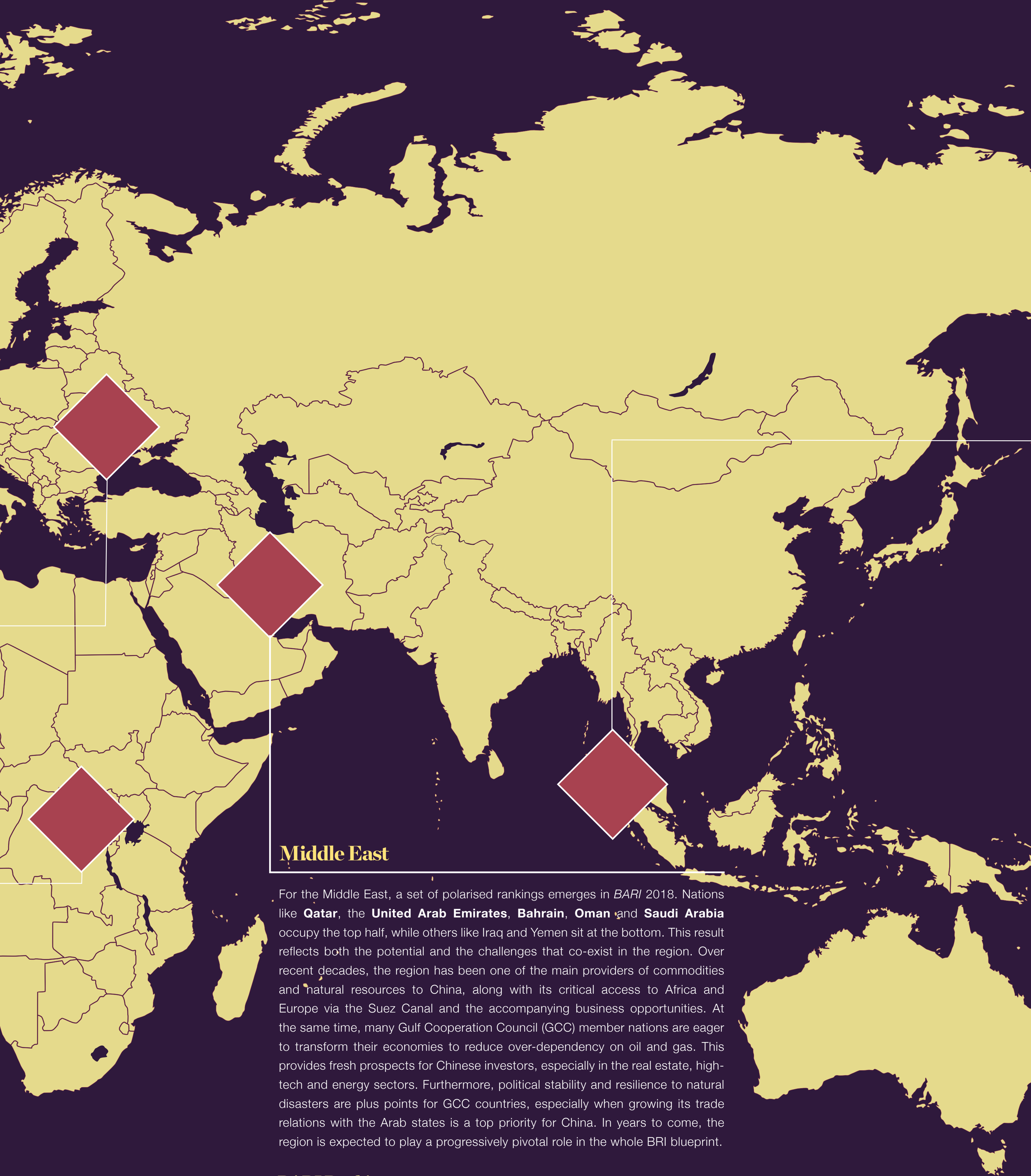
Poland	17TH
Czech Republic	18TH
Russia	59TH

Africa

Africa is sometimes referred to as the last frontier of the global economy. In recent years, economies such as **Ethiopia** and **Egypt** have shown enormous development potential and economic vitality while others like **South Africa** are undergoing structural reforms to revive their economic growth. In many ways, the BRI and the African Union's Agenda 2063 share the same goals in helping to accelerate the modernisation process and transform the economy of the continent. Beyond infrastructure projects like port and railway developments, BRI projects in Africa include mining, real estate and manufacturing. Support from African countries is key to the success of BRI which depends on the continuously improving investment environment for businesses to thrive in especially if, as envisioned, the private sector will become increasingly involved in BRI.

BARI Ranking

South Africa	40TH
Ethiopia	42ND
Egypt	49TH



Middle East

For the Middle East, a set of polarised rankings emerges in *BARI* 2018. Nations like **Qatar**, the **United Arab Emirates**, **Bahrain**, **Oman** and **Saudi Arabia** occupy the top half, while others like Iraq and Yemen sit at the bottom. This result reflects both the potential and the challenges that co-exist in the region. Over recent decades, the region has been one of the main providers of commodities and natural resources to China, along with its critical access to Africa and Europe via the Suez Canal and the accompanying business opportunities. At the same time, many Gulf Cooperation Council (GCC) member nations are eager to transform their economies to reduce over-dependency on oil and gas. This provides fresh prospects for Chinese investors, especially in the real estate, high-tech and energy sectors. Furthermore, political stability and resilience to natural disasters are plus points for GCC countries, especially when growing its trade relations with the Arab states is a top priority for China. In years to come, the region is expected to play a progressively pivotal role in the whole BRI blueprint.

BARI Ranking

Qatar	2^{ND}
UAE	3^{RD}
Bahrain	8^{TH}
Oman	13^{TH}
Saudi Arabia	26^{TH}

Southeast Asia

In terms of economic potential and demographic advantage, Southeast Asian countries performed above par, particularly **Malaysia**, **Vietnam** and **Brunei**. Members of the Association of Southeast Asian Nations (ASEAN) make a strong case as attractive foreign direct investment (FDI) destinations for China because of their fast-growing and large domestic markets; if growth potential is achieved within the region, collectively it could be the fourth-largest economic area by 2030. Strong population growth, accelerating urbanisation and rising affluence could drive solid demand for housing, transportation links, value-added goods and services. For Chinese companies, this presents a major opportunity as countries like **Indonesia**, **Thailand**, **Cambodia** and the **Philippines** are expected to make major investments in infrastructure projects, such as railways, road networks, and massive township projects. Except for highly-developed countries like **Singapore**, many ASEAN nations are mostly confronting major infrastructure financing deficits. With support from the Chinese government and Chinese commercial banks, one of BRI's main goals is to seed fund the infrastructure projects along the BRI, as part of its vision to improve connectivity between Asia and rest of the world.

BARI Ranking

Singapore	1ST
Malaysia	6TH
Brunei	11TH
Vietnam	19TH
Indonesia	28TH
Thailand	31ST
Cambodia	38TH
Philippines	51ST

TOP 10 ECONOMIC POTENTIAL

Bhutan	64.78
Ethiopia	64.52
India	62.40
Myanmar	61.35
Qatar	60.10
Laos	58.83
Turkmenistan	58.81
Philippines	56.93
Bangladesh	56.90
China	56.81

TOP 10 INSTITUTIONAL EFFECTIVENESS

New Zealand	98.76
Singapore	87.69
Estonia	82.40
Czech Republic	77.23
Slovenia	77.14
Lithuania	76.00
Latvia	72.24
Poland	71.09
South Korea	70.24
Slovakia	70.15

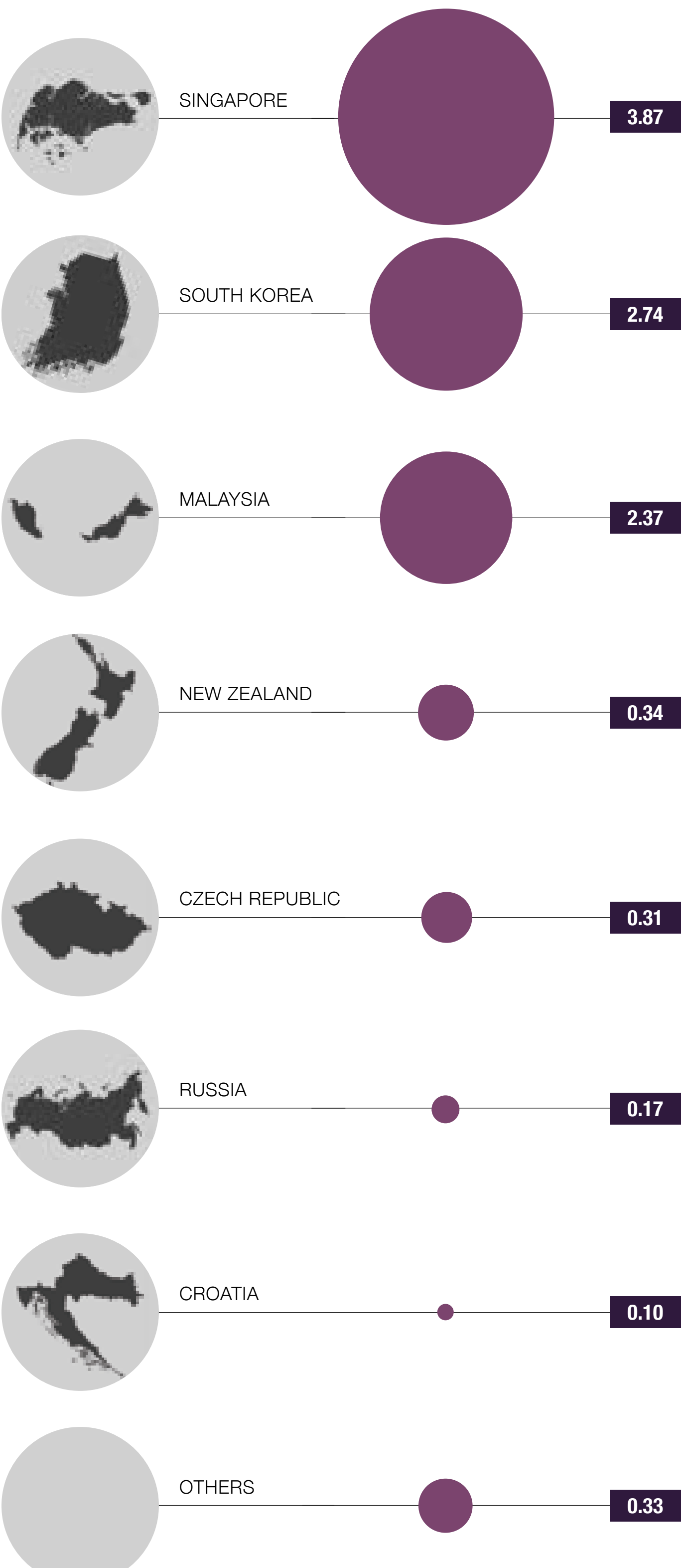
TOP 10 DEMOGRAPHIC ADVANTAGE

Oman	71.87
Maldives	69.07
Bahrain	69.03
Laos	62.55
Vietnam	60.11
Thailand	59.13
China	58.94
Bangladesh	58.93
Ethiopia	58.92
Bhutan	57.92

TOP 10 INFRASTRUCTURE DEVELOPMENT

Singapore	78.55
Bahrain	71.46
South Korea	67.81
United Arab Emirates	62.84
Estonia	56.15
China	54.62
Malaysia	54.33
New Zealand	53.80
Slovenia	52.74
Lithuania	52.59

CHINESE OUTBOUND REAL ESTATE INVESTMENT INTO BELT AND ROAD COUNTRIES FROM SEPT 2013 TO OCT 2017 (US$ BILLIONS)



Sources: Real Capital Analytics, Knight Frank Research

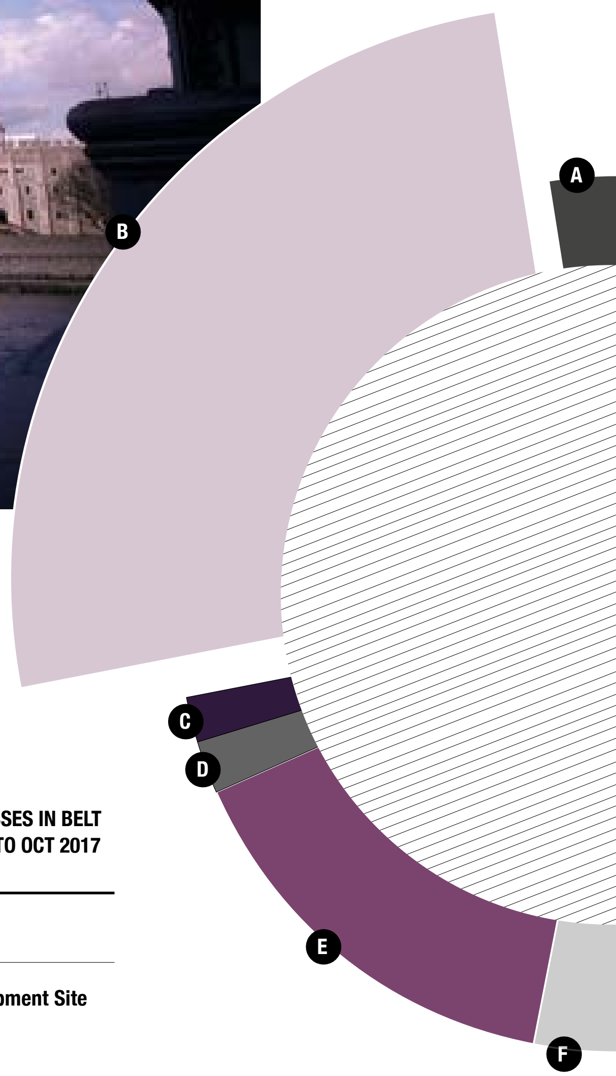
Investment Realities

Up to now investment along the BRI has been relatively patchy, in sharp contrast with the steady stream of Chinese investment that has targeted gateway markets of the US, UK and Australia.

While we are seeing a slowdown in the Western trophy asset craze of earlier years, investors have become prudent and thorough, evaluating the assets carefully and putting an emphasis on returns. And while there has been continued yield compression in Western gateway cities, markets in developing countries, many sitting on the Belt and Road, offer relatively higher yields.

Theoretically, this should offer incentive to some investors and developers, especially those that have borrowed heavily from domestic banks. But apart from a few, albeit large scale, residential developments, investment in developing countries such as those in Southeast Asia has so far been comparatively small.

/ Prime office buildings in London



CHINA

David Ji
Head of Research
Knight Frank China

The key reasons behind this is that developing countries do not offer the regulatory transparency, market depth and liquidity, asset quality and assured stability that gateway Western countries offer. Some of these developing countries sorely need infrastructure investment, while others are still developing a solid commercial real estate investment market. For these reasons, we expect the bulk of investment in real estate to continue to be in gateway Western locations.

Over the coming years, however, opportunities in BRI markets could begin to emerge. The improvement in infrastructure, multilateral trade relations and market access, as in the case of many BRI countries, bodes well for investment. A major policy drive will channel funds towards infrastructure building which, subsequently, could lead to large scale real estate investment.

CHINESE INVESTMENT INTO ASSET CLASSES IN BELT AND ROAD COUNTRIES FROM SEP 2013 TO OCT 2017 (US$ BILLIONS)

	Asset class	US$ billions
A	Apartment	0.52
B	Development Site	5.22
C	Hotel	0.37
D	Industrial	0.41
E	Office	3.10
F	Retail	0.60

Sources: Real Capital Analytics, Knight Frank Research

The East-West Rendezvous

SINGAPORE

Alice Tan
Head of Consultancy & Research
Knight Frank Singapore

Singapore, with its strong fundamentals in transportation, logistics and finance, is a potential key player in China's BRI. Strategically located at the crossroads of East and West, and along the BRI's 21st Century Maritime Silk Road, Singapore can expand its role as a global logistics and transportation hub along the corridor. The island state receives some 2,700 vessel calls daily and 6,800 flights weekly, strengthening its global position as a key maritime centre, the world's busiest port and one of the largest air transportation hubs in Southeast Asia. Yet, Singapore's position could be impacted should other mega infrastructure projects in the region, such as the Kra Isthmus Canal happen. China's focus on the region and on Singapore takes centre stage in Singapore's relevance in the BRI.

Critically, Singapore's coveted status as a key regional financial centre and one of the largest offshore Renminbi centres, provides a pivotal platform for Chinese companies to go global or via joint partnerships with Singapore companies. The country's strong track record in project financing, with its established ecosystem of insurance, legal and arbitration expertise, positions it as a centre for providing numerous businesses opportunities in the BRI. 60% of ASEAN infrastructure projects are mainly financed by Singapore-based banks. According to the Ministry of Trade and Industry, more than 6,500 Chinese companies have established their presence in the city, almost twice the number of companies compared with five years ago.

The BRI could be a substantial new boost to Singapore's external growth initiative. China remains the top expansion destination for Singapore companies. In recent years, more Singapore enterprises and projects have embraced BRI-related policies and platforms to access the Chinese market. One key area is the development of government-to-government (G2G) projects, such as Singapore's signing of a memorandum of understanding (MoU) with the Guangxi Government to jointly improve connectivity between Western China and Southeast Asia via Guangxi, as well as the Chongqing Connectivity Initiative.

Sino-Singapore cooperation on the BRI has reignited since Singapore's Minister for Foreign Affairs Dr Vivian Balakrishnan's meeting with his counterpart, Mr Wang Yi, Chinese Foreign Minister in June 2017. Mr Wang proposed to build three platforms for cooperation between both countries as part of the BRI. The first is a trade network that spans and interconnects China, Central Asia, Europe and Southeast Asia. The second, to bolster financial cooperation, which will see China leverages Singapore's strength as a regional financial centre to raise funds for the various BRI projects. The third being the training and the transfer of technology. The two countries will work together to open up third markets in Southeast Asia, South Asia and beyond by tapping on the respective strengths of each country. The recent official visit by Singapore's Prime Minister Lee Hsien Loong to China in September 2017 reaffirmed warm, long-standing ties between the two countries. As both countries are supporters of free trade in the face of rising protectionist sentiments around the world, the building of the BRI together is anticipated to be the biggest highlight of Sino-Singapore bilateral relations, further cementing the tradition of close cooperation.

> "Singapore has the world's busiest port and one of the largest air transportation hubs in Southeast Asia

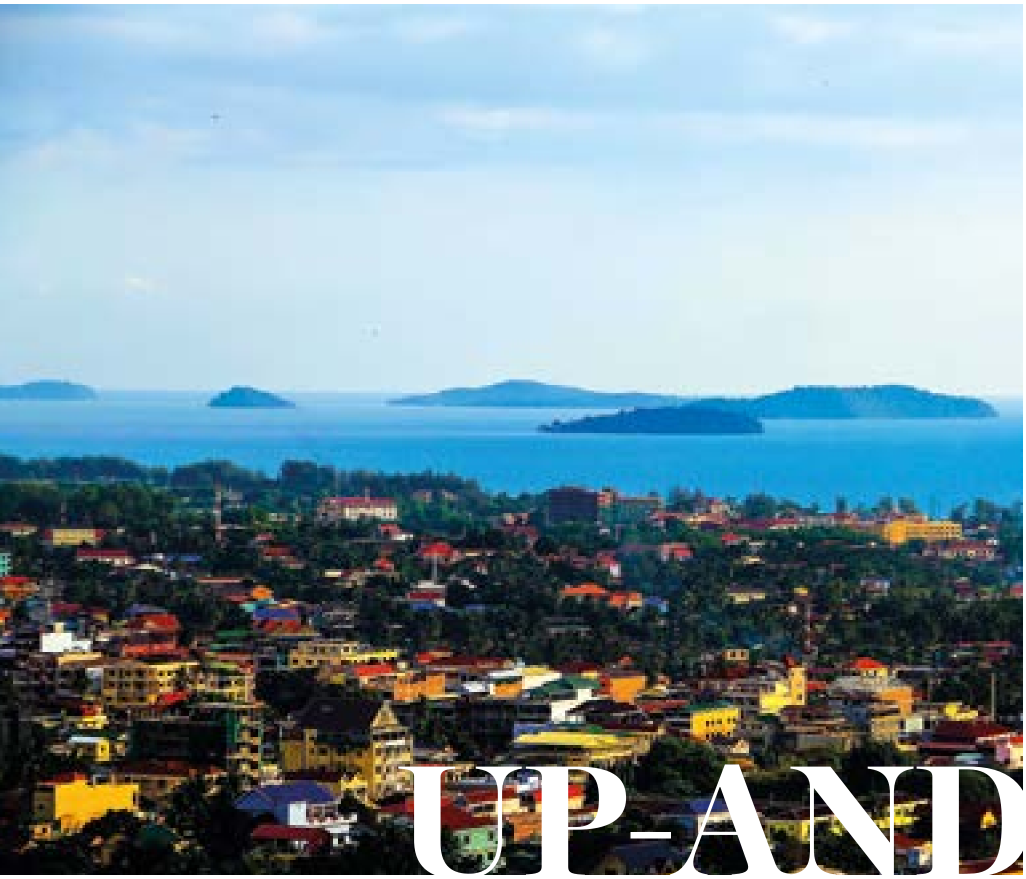
REAL ESTATE PROSPECTS

Office Retail Industrial Hospitality Residential

Ranked
1st
on BARI

Note: 'Real Estate Prospects' refers to the market outlook for each real estate sector in the medium term given the prevailing demand/supply dynamics and current position in the property market cycle.
Sources: World Bank, Knight Frank Research

/ City of Sihanoukville lookout from mountain nearby.



HIGHLIGHTS

68%
of the populations is below the age of 30

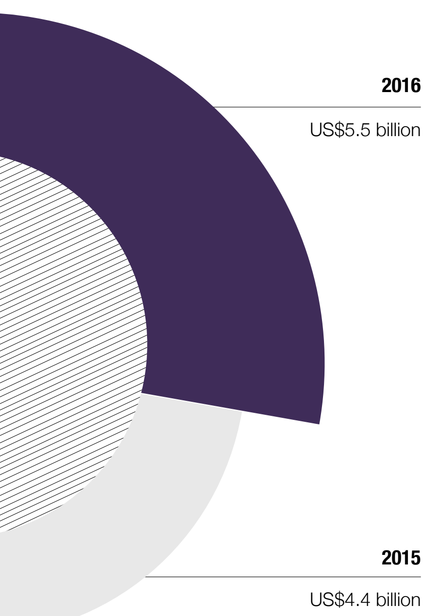
US Dollars
universally accepted – helping foreign investors to lower foreign exchange risk

UP-AND -COMING

CAMBODIA

Ross Wheble
Country Director
Knight Frank Cambodia

BILATERAL TRADE 2015-2016

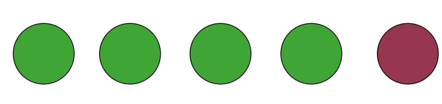


Sources: UN Comtrade, International Monetary Fund, United Nations, Knight Frank Research

While China had been investing in Cambodia long before the announcement of BRI, China's special relationship with Cambodia strengthened significantly when Chinese President Xi Jinping visited the kingdom in 2016 and purportedly signed as many as 31 economic agreements, including US$238 million in soft loans, US$89 million in debt forgiveness and US$15 million in military aid. According to Xi Jinping, bilateral trade reached US$4.4 billion in 2015 and was forecast to reach US$5 billion for 2016. China also pledged US$600 million in aid to Cambodia over the next three years.

Following the visit, there has been an increase in activity from Chinese groups investing in Cambodia which, in part, can be attributed to the looser monetary controls on overseas investment in BRI projects. These include the announcements that China Minsheng Investment Group had entered into a joint venture (JV) with local developer, LYP Group, and would invest US$1.5 billion in a 550 hectare mixed-use scheme on the outskirts of Phnom Penh. Guangzhou R&F Properties had teamed up with Cambodia's Royal Group to invest US$3 billion to build luxury hotels in Cambodia, although this has now been placed on hold, while the on-going 34,000 hectare mega project – Cambodia-China Comprehensive Investment Development Experimental Zone, along the coastal region of Koh Kong. There has been a number of smaller scale developers focusing on luxury residential schemes, but with the high-end condominium sector now slowing, the focus is shifting towards commercial and industrial development, as well as gaming and hospitality in Sihanoukville.

REAL ESTATE PROSPECTS



/ Mining at Kwaah Ijen, Indonesia

> “The government continues to announce policy reforms intended to ease red tape.

INDONESIA

Hasan Pamudji
Senior Associate Director
Knight Frank Indonesia

Land of *OPPORTUNITIES*

In relation to the BRI and to fund a massive infrastructure program, China’s investment in Indonesia has more than tripled since 2015 as President Joko Widodo’s frequent trips and meetings with Chinese President Xi over the past two years have started to yield results. Supported by the investment cooperation in more than 4,000 projects over the last seven and a half years, China’s FDI in Indonesia has grown by a staggering 1,024% to US$1.9 billion in the first half of 2017, compared with only US$174 million in 2010.

Besides investing in electricity, transportation, infrastructure and mining sectors, Chinese investors are also interested in investing in property developments. Several large Chinese developers including China Communications Construction Group, China Fortune Land Development, China Road and Bridge Corporation, China Sonangol, Country Garden, Wuzhou Investment Group and many others have entered the market over recent years.

The medium-term outlook for the Jakarta property market remains cautiously optimistic with opportunities and challenges. Despite the successful local election and tax amnesty program in early 2017, investors are still adopting a wait-and-see approach due to uncertainties relating to the political situation as well as concerns over bank transparency for tax purposes. This sentiment will likely continue until the presidential election in 2019 subject to a peaceful outcome and improved economic conditions. Given its large population, rising middle-income class and strong commitment to accelerate infrastructure projects and connectivity, Indonesia is expected to remain an important investment destination for long-term international investors including those from China.

HIGHIGHTS

Largest
economy in Southeast Asia – with a nominal GDP of more than US$ 1 trillion in 2017

4th
most populous country in the world with a population of more than 261 million – providing a huge domestic market

Sources: UN Comtrade, World Bank, International Monetary Fund, Knight Frank Research

REAL ESTATE PROSPECTS

Office Retail Industrial Hospitality Residential

/ Traffic in Chinatown, Bangkok

HUB of the road

THAILAND

Marcus Burtenshaw
Executive Director of Occupier Services & Commercial Agency
Knight Frank Thailand

The fraternal bond of cultural and familial ties between Thailand and China has been established for over 200 years, but Chinese direct investment in the property sector has been limited by Thailand's foreign land ownership restrictions.

Sino-Thai joint ventures have always played an important role in the trading and manufacturing sectors but a notable example in the property sector in recent years has been the partnership between China's Holley Group and the Thai public-listed industrial estate developer, Amata PCL. Together, they developed the Thai-Chinese Rayong Industrial Park located in Thailand's Eastern Economic Corridor, which has benefitted from China's 'Go Out' policy, which encouraged almost 100 Chinese manufacturers to invest US$2.5 billion in this park, which now employs over 20,000 Thai staff and over 3,000 Chinese expatriate workers.

The recent announcement that HNA Innovation Finance and CT Bright will contribute equally to 20%of a fund, which may reach US$5 billion next three to five years, to invest in Thailand's US$43 billion Eastern Economic Corridor project also has the potential to have a profound impact on the area and competitiveness of the country.

Thailand's role as a transportation and logistics hub for China in Southeast Asia has been underscored following the Thai cabinet's approval for the US$5.2 billion, 256-kilometre railway from Bangkok to the northeastern province of Nongkhai on the border of Laos. Chinese expertise will be enlisted to develop this first phase of a railway network that will eventually link China to Malaysia and Singapore, via Laos and Thailand.

Aside from the growing presence of Chinese corporates in manufacturing and e-commerce sectors, we expect to see more JVs to be formed in the hospitality sector as a way to capitalise on the growing numbers of tourists flocking to get 'Lost in Thailand', and expect further Chinese participation in infrastructure developments in rail networks and possibly even the Kra Isthmus Canal project, which could shorten the Maritime Silk Road by 1,200 km, reducing the shipping time of Chinese commodities to Europe.

HIGHLIGHTS

2nd
most visited country in Asia in 2016

2nd
lowest corporate income tax among ASEAN countries

Strategic
location in the centre of the Indochinese peninsula – making it a hub of regional road and rail network

Sources: Board of Investments of Thailand, United Nations, Knight Frank Research

REAL ESTATE PROSPECTS

Office Retail Industrial Hospitality Residential

Malaysia continues to benefit from China's BRI due to its strategic location along the economic corridors. A large part of why China has invested heavily into Malaysia is the deep diplomatic relations between the two countries. In November 2016, Prime Minister Najib Razak led an entourage of government ministers and business leaders in a visit to China and secured record levels of bilateral deals, with 14 business-to-business MoUs and agreements worth about US$35 billion in various areas such as trade and investment, development of technology parks as well as supply of goods and services.

> "A robust economy, multilingual population and a pro-business government.

CHINESE INVESTMENT *MAGNET*

/ Legoland theme park in the up-and-coming Iskandar Malaysia

MALAYSIA

Judy Ong
Executive Director of Research & Consultancy
Knight Frank Malaysia

In addition to that, 16 government-to-government MoUs and agreements were also signed. These include more than US$13 billion in soft loans from China for the East Coast Rail Line connecting Malaysian east coast states with the west coast, as well as the Malaysia-China Kuantan Industrial Park in Pahang. The close ties between the two countries have also led to the appointment of Jack Ma, founder of China's e-commerce giant, Alibaba Group, as Malaysia's digital economy adviser in late 2016 and the subsequent formation of the KLIA Aeropolis Digital Free Trade Zone (DFTZ) Park. The latter, Alibaba's first regional hub outside China, will be a boost Malaysia's e-commerce roadmap. In May 2017, during the Belt and Road Forum held in Beijing, another nine business-to-business MoUs with a total value of circa US$7.5 billion were inked.

Also noteworthy are the inroads made by top Chinese developers into the Malaysian property market and they include China Vanke, Country Garden, Greenland Group, China Overseas Land & Investment and China Fortune Land Development.

HIGHLIGHTS

3rd
globally in terms of pay to productivity ratio

Jack Ma
founder of China's e-commerce company - Alibaba Group, is now Malaysia's digital economy adviser

Sources: Malaysia Digital Economy Corporation, Malaysian Investment Development Authority, Knight Frank Research

REAL ESTATE PROSPECTS

Office | Retail | Industrial | Hospitality | Residential

FAST WARMING TIES

/ Lion Dance in Manila during Chinese New Year

PHILIPPINES

Jan Custodio
Senior Director of Research & Consultancy
Santos Knight Frank

Pledged funds from China
US$15 billion
as direct investments

Pledged funds from China
US$9 billion
in the form of loans

Sources: UN Comtrade, United Nations, Asia Telecom Holdings Ltd, ABS-CBN, Knight Frank Research

Chinese investments in the Philippines have been slowly gaining momentum over recent years. Earlier informal investments came via Chinese operated online gaming companies that set up operations in the country. These companies have the versatility to operate out of any fitted or retrofitted space available which is the reason why it is becoming one of the fastest emerging sectors of the business process outsourcing (BPO) industry. Sources say of the US$26 billion revenues generated by casinos in 2016, around 85% came from online betting.

> “The business process outsourcing (BPO) sector has become the Philippines’ largest source of private employment.

Enhanced trade relationship with China was the main objective during President Duterte’s state visit in October 2016. Together with an entourage of reporters and businessmen they managed to secure pledges amounting to US$24 billion to fund mostly infrastructure projects such as toll roads and railway systems along with other investments. The pledges were broken down into US$9 billion of loans, with the remaining US$15 billion as direct investments. However, it may take some time before these pledges come into fruition as they go through the proper channels.

There are some Chinese groups that have expressed willingness to invest in real estate and have started looking for opportunities. Some have come via the bulk acquisition of residential condominium units, which are more likely to be used as accommodations for large tour groups. Others are partnering with local companies to make offers to undertake projects such as building schools, hospitals and smaller infrastructure projects under the government’s private-public-partnership (PPP) program.

REAL ESTATE PROSPECTS

Office | Retail | Industrial | Hospitality | Residential

“Opportunities also lie in the tourism industry, which is facing a shortage of hotel rooms.

Road further SOUTH

NEW ZEALAND

Layne Harwood
Country Head
Knight Frank New Zealand

China's long-term BRI development strategy to orientate infrastructure, investment and cooperation between Eurasian countries extends to New Zealand. Chinese Premier Li Keqiang visited New Zealand in early 2017 to discuss road and rail infrastructure projects in the country. State-owned China Rail signed a MoU recently with the Northland Regional Council to build road, rail and digital infrastructure that would link Whangarei, New Zealand's northernmost city to NorthPort - a deep-water commercial port- and population centres of the North Island.

New Zealand has seen increasing investment activity from China into the property market. The most significant include Shanghai Pengxin Group Co Limited's (SPGL) investment of roughly US$14 million into 16 North Island farms, it also acquired 13 South Island farms including milk production plants. In 2014, SPGL purchased an office building in Auckland CBD for US$54.7 million and last year a hotel in Queenstown in the South Island for US$52.2 million. Fu Wah International Group is investing approximately US$140 million in a luxury hotel and a further investment of more than US$200 million in a second hotel and apartment complex. Both developments are part of Wynyard Quarter on the Auckland waterfront, New Zealand's largest urban regeneration project. Changda International Development is currently developing a US$487 million residential project in Auckland. A further US$210 million apartment building is estimated to be built in Auckland by 2020 funded by Chinese development company Hengyi.

The New Zealand residential sector has recently been challenged by legislation that restricts foreign buyers – although opportunities still remain in the new build sector. There are also opportunities in the tourism industry, which is facing a shortage of hotel rooms.

HIGHLIGHTS

1st
for ease of doing business globally

1st
in BARI's institutional effectiveness rankings

Sources: World Bank, Knight Frank Research

REAL ESTATE PROSPECTS

Hub of the Belt

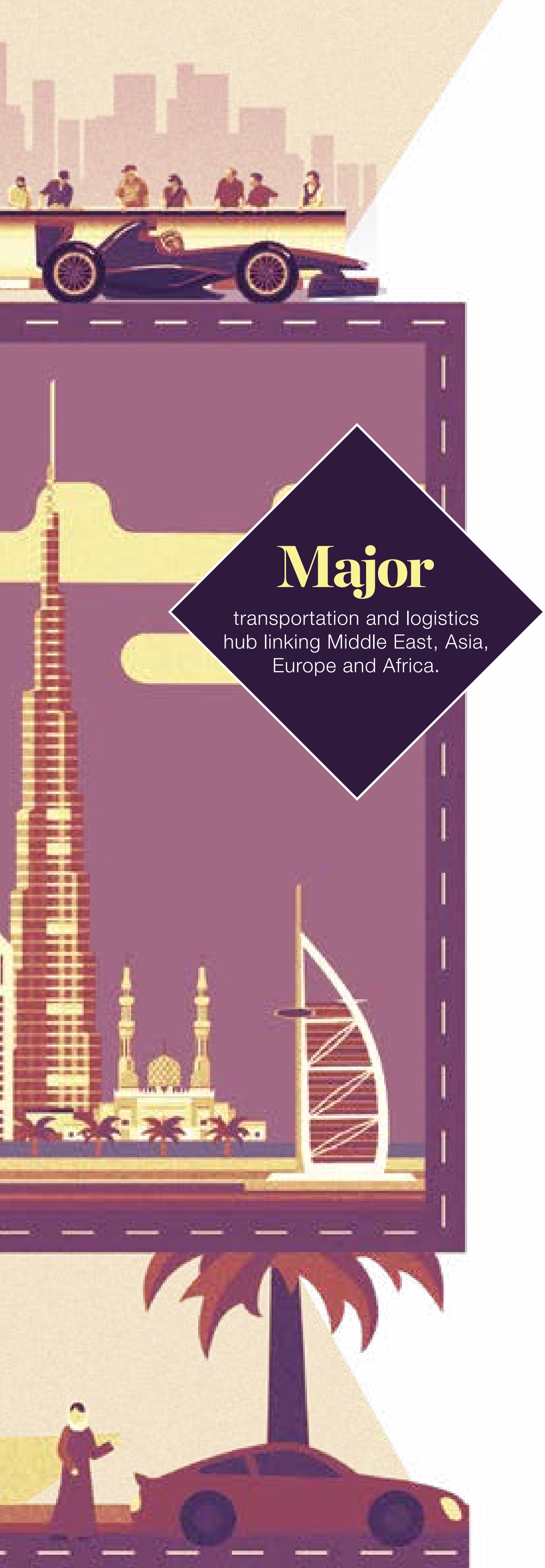
UNITED ARAB EMIRATES

Taimur Khan
Senior Research Analyst
Knight Frank Middle East

China and the United Arab Emirates' (UAE) partnership is not a new story, with Beijing and Abu Dhabi first establishing a formal diplomatic partnership in 1984. In recent years, China and the UAE have continued to strengthen their bilateral relations, these efforts have resulted in China becoming one of the UAE's major trading partners. With further integration planned, we expect the relationship to flourish further in the future.

Over 4,200 firms have set up base in the UAE, a gateway to access not only the Gulf countries but also Africa. A focal point for Chinese investment has been the UAE's most populous emirate – Dubai. The signing of a MoU at Dubai Week in China is a case in point with countries looking to enhance trade and investment cooperation. General trade levels between Dubai and China now surpass those that Dubai has with India, USA, Saudi Arabia and Switzerland. The Dubai International Financial Centre (DIFC) has played a central role in this success story; the offering of independent regulators and judicial systems has already attracted many of China leading financial firms, especially with an agreement signed with the Shanghai High People's Court to foster further closer cooperation and reinforce commercial links for more secure trade.

Increased trade has also paved the way for an increase in tourism and real estate investment. The number of Chinese tourists increased by 60% in the year to Q1 2017, ranking



Major

transportation and logistics hub linking Middle East, Asia, Europe and Africa.

RISE OF CHINESE INVOLVEMENT

60%

annual increase in Chinese tourists visiting Dubai as at Q1 2017

4th

most active real estate investors in H1 2017 were Chinese

4,200

Chinese firms have set up base in the UAE

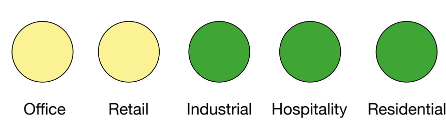
Sources: UN Comtrade, Institute for Economics and Peace, Knight Frank Research

them as the fourth largest nationality to visit Dubai, up from eighth in the same period a year earlier. In the first six months of 2017, Chinese investors registered as the fourth most active real estate investors in Dubai, up from sixth in the same period a year earlier. China's Cosco Shipping Ports will invest US$$400 million in building a container terminal in Abu Dhabi as the emirate aims to expand trade with the world's second largest economy. Dragon City in Dubai, developed by Nakheel, has more than 3,000 shops managed by 1,700 Chinese traders and receives 65,000 visitors daily. Dragon Mart in Dubai is the largest trading centre of Chinese products outside of China.

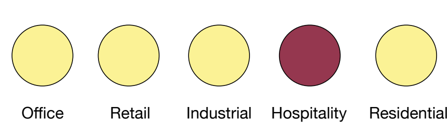
The ties between China and the UAE are expected to grow further in the coming years as Dubai strengthens its position as a global hub for trade, travel and investment ahead of the Dubai Expo 2020, hence creating more opportunities for Chinese businesses to use Dubai as a platform for growth and expansion. These factors provide a strong platform for the BRI to succeed.

Lower oil prices, higher interest rates and a strong dollar have underpinned the slowdown in GDP growth over the last two years. As the economy adjusts to the new norm in oil prices and diversifies to cut its reliance on crude oil revenues (2030 Dubai Industrial Strategy), the UAE's GDP growth is expected to gain momentum in 2017 (+2.7%) and 2018 (+3.3%) in the run up to Expo 2020. We have started to see market sentiment in real estate stabilise in the first half of 2017 and start to turn positive at the back end of 2017.

REAL ESTATE PROSPECTS (Dubai)



REAL ESTATE PROSPECTS (Abu Dhabi)



Beyond *Oil*

> Government initiatives aim to stimulate the real estate sector in Saudi Arabia by creating a favourable environment for private sector investments.

/ Riyadh skyline in dawn

SAUDI ARABIA

Raya Majdalani
Research Manager
Knight Frank Middle East

Saudi Arabia and China have historically maintained strategic economic ties as China is a top destination market for Saudi's crude oil, while the kingdom has been among China's largest trading partners in the Middle East. In March 2017, bilateral economic relationship strengthened significantly when Saudi Arabia's King Salman visited China, which led to the signing of investment cooperation deals worth US$65 billion including schemes to develop refineries and petrochemicals plants.

Various regulatory efforts aiming at stimulating the kingdom's property market and help ease the shortage of housing have come underway. Key measures include: the approval to levy a 2.5% tax on undeveloped land plots, the development of a home building programme and the implementation of a regulatory framework for the listing of REITs; among others. These initiatives are in line with the strategic reforms defined in the Saudi Vision 2030 and the National Transformation Plan aiming at diversifying the Saudi economy away from oil while encouraging private sector participation in this process.

HIGHLIGHTS

US$65 billion
worth of cooperation deals signed in early 2017

100,000
housing units to be built in Al-Ahsa Province

Strategic
ties with the Chinese

Sources: British Offset, World Bank, Knight Frank Research

In light of these strategic reforms, the kingdom is showing interest in partnering with international real estate development firms. This appears to be a good opportunity for Chinese developers looking to gain exposure to the Saudi real estate market, which in turn provides a strong platform for the success of the BRI.

We have recently seen an increased appetite from Chinese investors in Saudi Arabia's real estate sector as witnessed by various agreements for cooperation in the field of housing. The signing of a MoU between the Saudi Ministry of Housing and the Government of Ningxia Region in China to develop Al-Asfar outskirts in Al-Ahsa Province and build 100,000 housing units is a good example.

Saudi Arabia's GDP growth has been slowing down over the past two years as a result of the decline in oil prices. The strategic reforms are expected to produce positive returns even in the medium-term with GDP forecast to grow 1.3% in 2018 and with non-oil growth projected to pick up to roughly 3%. Going forward, we should start seeing a more favourable real estate market sentiment as the sector starts bearing the fruits of current initiatives.

REAL ESTATE PROSPECTS

Office | Retail | Industrial | Hospitality | Residential

Bordering *the Far* *EAST*

RUSSIA

Olga Shirokova
Director of Consultancy & Research
Knight Frank Russia

/ Vladivostok, view from bridge top to Russky Island.

Bilateral investment cooperation is one of the most important directions in the development of close trade and economic collaboration between Russia and China. Back in 2012, the Russian Direct Investment Fund (RDIF) and Chinese Investment Corporation (CIC) founded the Russian-Chinese Investment Fund with a capital of US$2 billion, and in 2014 the Russian-Chinese Intergovernmental Commission for investment cooperation was created. In April 2017, the Commission approved the creation of two joint investment funds with the participation of the Far East Development and Baikal Region Development Fund, Metropoly Holdings and Sinohigh Investment with a capital of US$2 billion, and a list of 73 joint investment projects. In the same month, a meeting between presidents Vladimir Putin and Xi Jinping took place in the Kremlin, which resulted in the signing of a statement on the further deepening of the partnership, including the continuation of work on the construction of the Eurasian Economic Union and the China-led BRI. According to the Chinese Ministry of Commerce, the accumulated investment volume from China to Russia in 2016 totalled US$9.5 billion. The main sectors of interest for Chinese investors are energy, agriculture and forestry, construction, trading, light and textile industries as well electrical engineering.

HIGHLIGHTS

US$9.5 billion
accumulated investment volume from China to Russia in 2016

>140 million
population - a tremendous consumer market

Largest
country in the world in terms of territory

Sources: Ministry of Economic Development of the Russian Federation, Knight Frank Research

Notably, there are increasing Chinese interests in development projects of the Far East Region. Sheen Creation Holdings is implementing a project in Vladivostok to create a hotel-residential and administrative complex called 'House in the Sea', which will include a five-star hotel, a shopping center and a sports center. Guo Wei group is planning on investing in the construction of a casino, hotel and yacht club in the gaming zone Primorye. Additionally, Yu Peng and its subsidiary Hongbo are interested in investing in the commercial construction of housing in Vladivostok, as well as in cooperative participation with the Vladivostok authorities in the project 'Housing for the Russian land' – a construction of housing for orphans and people relocated from emergency housing stock.

REAL ESTATE PROSPECTS

Office Retail Industrial Hospitality Residential

/ View on Brno street in historical center at twilight

CZECH REPUBLIC

Renata Pražáková
Research Analyst
Knight Frank Czech Republic

IMPORTING CHINESE goods & money

CZECH-CHINA BUSINESS RELATIONS

30
trade agreements signed

TOP 5
Chinese investors were among the top five foreign investors in 2016

Sources: UN Comtrade, Knight Frank Research

REAL ESTATE PROSPECTS

Office	Retail	Industrial	Hospitality	Residential

China is the Czech Republic's 4th largest trading partner and since 2006, it has been the second largest importer. Additionally, the Czech Republic exported far less to China than it imports – China is the 18th largest export market for Czech Republic. In 2016, Czech companies exported goods to China worth almost US$1.5 billion, while goods from China amounted to more than US$13 billion .

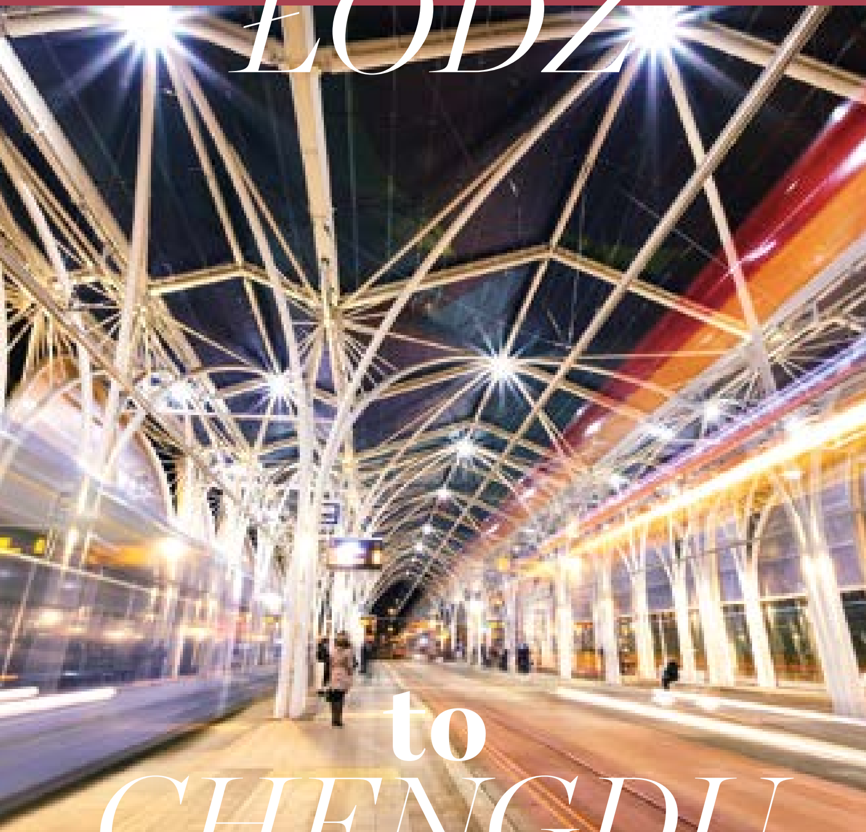
The president of the Czech Republic has long supported the entry of Chinese investors into the Czech Republic and he described the Silk Road Economic Belt as 'fascinating'. In March 2016, the Chinese President visited the Czech Republic and subsequently 30 trade agreements were signed throughout various industries - for example with Škoda Auto, J&T and the Czech Export Bank. These agreements should aid Czech exporter's foray into the Chinese market. Collaboration was also confirmed in aviation – China Eastern Airlines started a direct line from Shanghai to Prague.

The investment activity of Chinese companies in the country has grown dynamically over the past two years. In 2016, Chinese investors were among the top five foreign investors in the Czech Republic, the most active being the China Energy Company Limited. The company chose Prague as the headquarters of its European activities and subsequently invested in several important Czech companies: airline company Travel Service, brewers Lobkowicz Group, media companies Médea Group and Empresa Media, travel company Invia.cz and football club Slavia. CEFC also took advantage of rapid increase in the number of Chinese tourists, and purchased several major Prague hotels – namely the Mandarin Oriental, Le Palis Art Hotel and Motel One. The company also became and the owner of the Florentinum office complex (49,000 sq m) with retail and restaurants in Prague 1. The building is fully leased on long-term contracts.

Exported goods from Czech Republic to China
US$1.5 billion

Exported goods from China to Czech Republic
US$13 billion

From ŁÓDŹ to CHENGDU



/ Modern station platform in Łódź, Poland

POLAND

Elżbieta Czerpak
Head of Research
Knight Frank Poland

The business partnership between Poland and China has been strengthening since 2012. Currently, Poland is the largest economy, except for China, in the '16+1' initiative created to increase cooperation between China and Central and Eastern European countries. The flagship project was the 2013 launch of the cargo rail link between Łódź, in the heart of Poland, and Chengdu in Sichuan province. In 2015, the railway was extended to Xiamen in Fujian province. Due to the new railway connection, there was roughly 30% growth in bilateral trade volumes.

HIGHLIGHTS

500 million
European market consumers served by Polish strategic logistics hubs

2016
FDI volume from China was higher than the total volume of the past 16 years in Poland

Sources: Polish Investment and Trade Agency, UN Comtrade, Knight Frank Research

TOTAL FDI FROM CHINESE INVESTORS IN POLAND

2016
US$563 million

In 2016, President Xi Jinping's visited Poland and signed nearly 40 new agreements to take another step forward to realise the idea of the new Silk Road, while in May 2017 Polish Prime Minister Beata Szydlo took part in the Belt and Road Forum for International Cooperation in Beijing. Overall, total FDIs from Chinese investors amounted to US$563 million in 2016 – a sharp rise from the US$10 million in 2015. The 2016 FDI volume was higher than the total volume of the past 16 years. It is noteworthy that most of the deals were concluded in the industrial sector.

Chinese investors are also active in the Polish real estate market. The first acquisitions of commercial property started a few years ago, when the Bank of China was involved in the refinancing of office buildings in Poland. Currently there are other Chinese groups in the process of acquiring new assets or exploring new property investment opportunities. Poland is also the most active investment market among all Central and Eastern European countries – both foreign and domestic investors are looking for investment opportunities within the commercial sectors, such as office, retail and industrial. Together with an increasing interest of CEE and Polish investment market by international funds and institutional investors, China Investment Corporation has also seen an opportunity in the region. In Q4 2017, one of the largest logistic platforms Logicor sold to CIC the entire portfolio of warehouse assets worth nearly US$ 15 billion, of which 43 are in the CEE region. It also included 28 properties situated in Poland with a total area of 900,000 sq m, valued at US$ 640 million.

REAL ESTATE PROSPECTS

Office | Retail | Industrial | Hospitality | Residential

2015
US$10 million

Non-Core Belt and Road

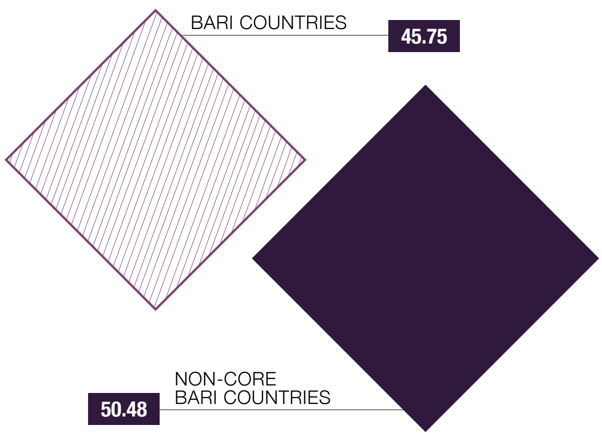
The Initiative goes Wider and Further

ASIA PACIFIC

Ying Khuan Pow
Research Analyst
Knight Frank Asia Pacific

The inclusive nature of the initiative is encouraging more and more countries to align themselves with the BRI, even if official cooperation agreements do not exist. This was underlined in the May 2017 Belt and Road Forum, which concluded with China pledging US$124 billion to the new Silk Road, with aims to bolster "win-win results through greater openness and cooperation, avoid fragmentation, refrain from setting inhibitive thresholds for cooperation or pursuing exclusive arrangements".

PERFORMANCE OF BARI COUNTRIES VS. NON-CORE BARI COUNTRIES - AVERAGE SCORING

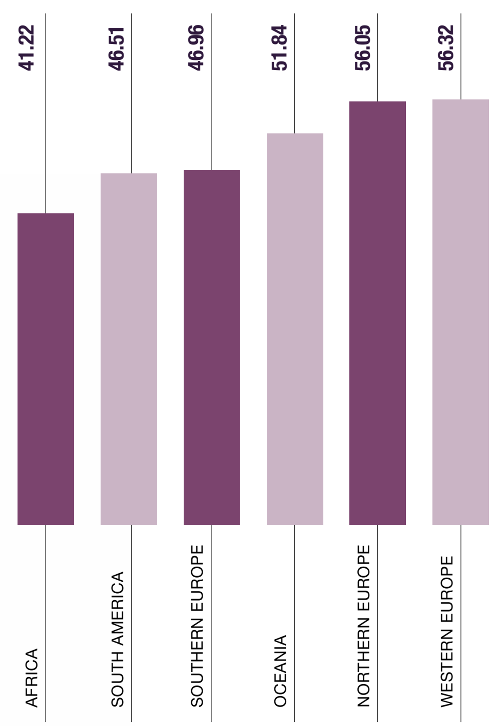


Indeed, the attendance of top delegates from many non-official BRI countries at the Belt and Road Forum, including the United Kingdom, Australia and Germany – and the growing dialogues between these countries and China demonstrate that the number of BRI markets will likely only grow over the coming years. Led by the UK, several developed economies have also joined the Asia Infrastructure Investment Bank (AIIB), which shares a similar goal with BRI to promote interconnectivity and economic integration in the region.

Factoring in attendance at the Belt and Road Forum, as well as membership of the AIIB, we have also prepared a *Non-Core Belt and Road Index* which analyses these markets using the same methodology as the main index. While this list of 15 markets are yet to be considered as core BRI countries, they are increasingly becoming part of the conversation and therefore warrant a more detailed examination.

The results of the Index show western developed markets dominating the top of the rankings, with institutional effectiveness, market access and infrastructure development scoring significantly higher than the less developed markets, and the vast majority of our core index markets. Perhaps unsurprisingly, these same developed markets score less well on economic potential and demographic advantage.

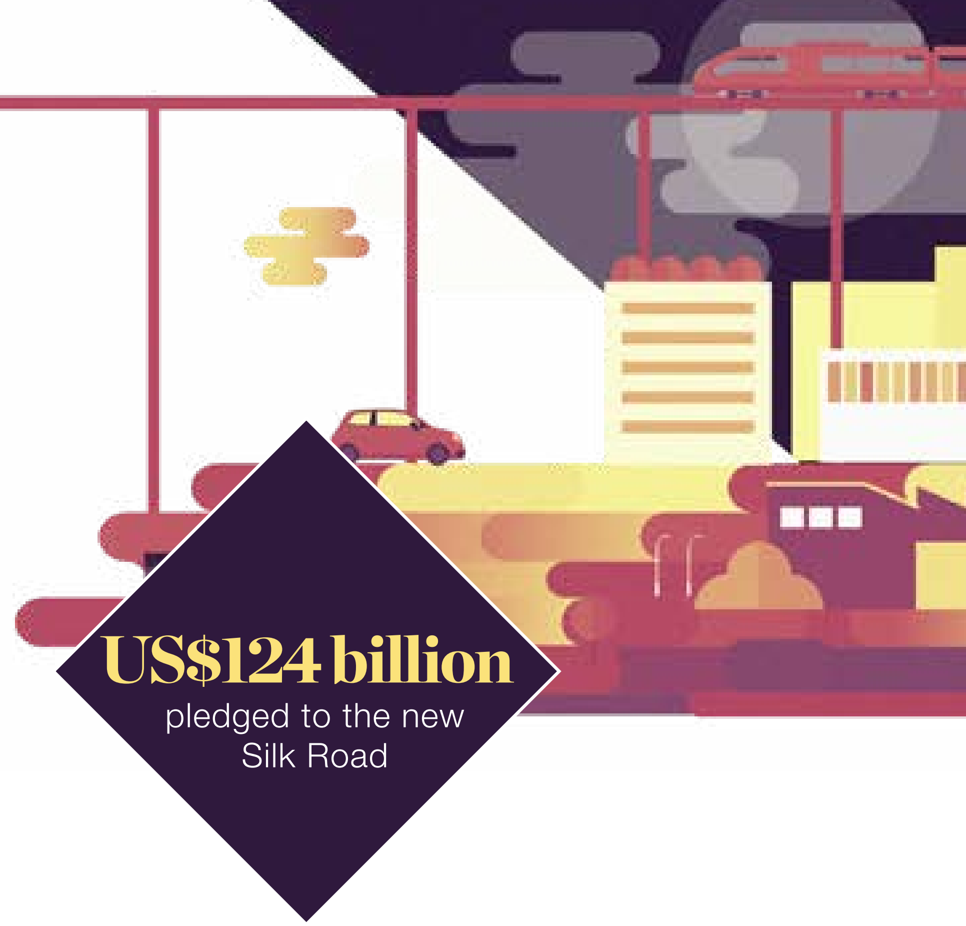
SUB-REGIONAL PERFORMANCE OF NON-CORE BARI COUNTRIES - AVERAGE SCORING



THE ASIA INFRASTRUCTURE INVESTMENT BANK: AN IMPORTANT INSTITUTION TO THE BRI

With China contributing US$50 billion capital – half of the total committed capital – AIIB was launched in 2016 with 57 prospective founding member nations. Together with the Silk Road Fund and the New Development Bank, AIIB will fund and finance new regional infrastructure projects including, but not exclusively, those covered in BRI, specifically in energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, environmental protection, and urban development and logistics. The AIIB's approved projects largely overlap with the geographic area of the BRI and many of the approved projects are closely aligned.

For many markets facing challenges and concerns over increasing barriers from protectionism, BRI and its related entities provide an attractive platform which carries opportunities for these nations to new frontiers, hence the growing engagement with the initiative. By furthering interconnectivity and economic development in the region through advancements in infrastructure and other productive sectors, BRI is likely to be an important locomotive driving sustainable growth.



NON-CORE BELT AND ROAD INDEX

Ranking	Non-Core BRI Country*	Economic Potential **(25%)**	Institutional Effectiveness **(25%)**	Demographic Advantage **(20%)**	Infrastructure Development **(15%)**	Market Accessibility **(10%)**	Resilience to Natural Disasters **(5%)**	Overall BARI **(100%)**
1	Switzerland	33.37	97.74	39.80	61.76	72.14	86.37	61.54
2	Australia	39.56	91.40	41.19	52.79	79.46	84.48	61.07
3	United Kingdom	31.11	86.51	37.67	70.28	91.14	86.91	60.94
4	Germany	29.63	89.50	36.40	69.20	70.22	84.26	58.68
5	Finland	26.19	95.51	34.61	57.08	52.73	97.38	56.05
6	France	28.85	77.02	35.25	65.97	68.13	84.21	54.44
7	Chile	34.03	77.24	38.99	44.01	80.40	83.35	54.43
8	Spain	27.81	74.52	35.18	60.41	73.90	85.49	53.35
9	Italy	20.46	64.62	32.72	54.89	58.05	83.64	46.04
10	Brazil	20.96	44.86	39.69	36.50	84.08	88.88	42.72
11	Fiji	34.82	48.55	40.53	17.63	74.25	71.85	42.61
12	Argentina	28.62	46.59	36.14	43.28	54.09	89.04	42.38
13	Kenya	50.72	29.81	54.17	26.22	25.33	82.71	41.57
14	Tunisia	33.06	39.41	42.35	29.54	52.38	92.28	40.87
15	Greece	19.17	54.90	34.54	50.75	31.81	86.90	40.57

Note: These 15 countries have not been listed or indicated as Belt and Road countries as per the official Belt and Road website as at 5th October 2017. Top officials and delegates from these countries however attended the Belt and Road Forum for International Cooperation in May 2017. Hence, these countries are included in the Index for analysis purpose as 'non-core' Belt and Road countries. Aside from Kenya and Tunisia, the other 13 countries have also joined the AIIB: they are either a regional member, a non-regional member or a prospective member as at 5th October 2017. North Korea may have fulfilled the criteria but is excluded from the Index due to the paucity of data.

Sources: International Monetary Fund, United Nations, World Bank, Transparency International, Germanwatch, Knight Frank Research

The GOLDEN AGE

/ Inside view of Leadenhall Market, Gracechurch Street, in London

UK

Anthony Duggan
Head of Capital Markets Research
Knight Frank UK

Recent years have seen increasingly close relations between China and the United Kingdom. This includes a 'Memorandum of Understanding on enhancing Cooperation in Infrastructure' in 2011 and a visit by the Chinese Premier in 2014 and again in 2015 where further agreements were put in place. At the time the UK government hailed a "golden age" between the two countries. While the vote to leave the European Union and a change in Prime Minister raised concerns that the relationship might wain, the reality is continued long-term investment into the UK.

Interest in the UK from Greater China has been diverse and includes major real estate projects, consumer goods, financial services, energy and healthcare. Real estate has been a particular focus with large high-profile deals including Advanced Business Parks US$1.5 billion investment in Royal Albert Docks, various large scale residential developments and globally recognised office buildings such as The Leadenhall Building and 20 Fenchurch Street in the City of London.

Activity is not just limited to London with significant interest in other major UK cities including Manchester and Birmingham. Manchester has direct flights to both Beijing and Hong Kong and investment has included a stake in the airport as well as a number of real estate development schemes.

HIGHLIGHTS

2011

first signed 'Memorandum of Understanding' on enhancing Cooperation in Infrastructure'

World-Class

transport links, top educational institutions and UK's status as the world's leading financial hub

Source: Knight Frank Research

REAL ESTATE PROSPECTS

Office | Retail | Industrial | Hospitality | Residential

“

China is a strong consumer of Australian agricultural products, resources and services, with services dominated by tourism and education

/ Chinese touists, Sydney Paddy Market

STUDENTS, tourists & *DEVELOPERS*

AUSTRALIA

Jennelle Wilson
Senior Director of Research & Consultancy
Knight Frank Australia

Although Australia has not formally joined the BRI, bilateral ties remain strong to China, enhanced by Xi Jinping's visit to Australia in March 2017 and the signing of the China-Australia Free Trade Agreement in late 2015. Additionally, Australia is also a signatory to the Asian Infrastructure Investment Bank (AIIB).

CLOSER TRADE TIES

2015
China-Australia Free Trade Agreement was signed

10%
Annual growth in Chinese visitors to Australia

>US$12 billion
invested into Australian real estate since 2015

Sources: UN Comtrade, Knight Frank Research

China is a strong consumer of Australian agricultural products, resources and services, with services dominated by tourism and education. In fact, 2017 has been dedicated as the China-Australia Year of Tourism and 1.16 million Chinese visitors visited Australia in the year to June 2017 (Tourism Research Australia), representing an annual growth of 9.5%. Education is also an important export with 212,200 Chinese students enrolled in Australian education facilities during the first nine months of 2017 (Australian Department Education & Training).

On the real estate side, Australia has been a significant destination for Chinese investment with approximately US$9 billion invested directly since the start of 2015 (transaction value greater than A$10million) with much of this made up of development site purchases with further significant investment in the construction cycle. Significant investments have included the YMCI Homebush City Garden site in Sydney, purchased by Yunan Metro Construction for US$502 million and the Zhengtang Group's US$509 million investment into The Ribbon, the W Sydney Hotel and luxury residential development at Darling Harbour.

REAL ESTATE PROSPECTS

Office · Retail · Industrial · Hospitality · Residential

2016
Kenya's import from China
US$3.4 billion

KENYA

Charles Macharia
Head of Research
Knight Frank Kenya

NEXT GROWTH DRIVER

/ Giraffe against city skyline

In the past 10 years, China has gone from having a small presence in Kenya to becoming one of its most important trading and investment partners. Thanks to shipments of rolling stock and other equipment, Kenya's imports from China ballooned to nearly US$3.4 billion in 2016 — an almost threefold increase from 2010 — against US$478 million from the US. This figure is set to increase further with the construction of China's BRI projects, which include the Standard Gauge Railway and the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) Corridor, both of which are largely Chinese funded. These, amongst other projects, have resulted in the country's debt to China increasing almost tenfold, from US$366 million in 2012 to US$3.1 billion in 2016.

Major real estate investments in Kenya are in the country's capital Nairobi and its immediate environs. Chinese investors such as China National Aero-Technology International Engineering Corporation (AVIC), and Jiangxi Water and Hydropower Construction Co have taken a nearly 40% stake that amounts to US$70 million in the Two Rivers Project in Nairobi. The project will consist of five-star hotels, office blocks, residential homes and shops, the retail component of which was launched in February 2017.

AVIC International Africa are also investing in a US$100 million development being built in Nairobi's Westlands district. The complex will be the hub of AVIC International's African operations. The tallest tower in the scheme will stand at 178m with 43 storeys. Chinese property developer Erdemann Property is also building a US$60 million residential housing project in Athi River on the outskirts of the capital. The investment will be the company's third phase of Great Wall Gardens, which includes a development of 2,000 units comprising two-bedroom and three-bedroom apartments.

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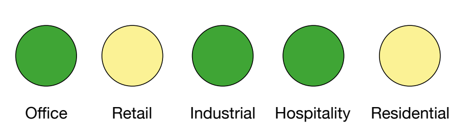
GDP is forecast to grow by at least 6% annually from 2017-2021

REAL ESTATE PROSPECTS



2010
Kenya's import from China
US$478 million

Sources: UN Comtrade, World Economic Forum, Knight Frank Research

/ Highway development in Manila, Philippines

Final Word

Transitioning from a low-risk, pure-play – to a patient, long-term strategy

ASIA PACIFIC

Nicholas Holt
Head of Research
Knight Frank Asia Pacific

Assessing the opportunities around a project of such enormous scale and vision – with so many unknowns – is a challenge. However, with the push behind the initiative picking up steam, investors and developers are increasingly broadening their horizons and willing to explore a broader range of opportunities along the Belt and Road.

Fluctuating bilateral relations, varying levels of institutional effectiveness and market risks – in addition to language and culture barriers, remain key challenges to the success of the BRI. These obstacles, coupled with the sheer scale of the vision mean that we believe that progress will be patchy and opportunities will be staggered.

One thing, however, is clear: the BRI is a long-term initiative that will play out over decades, not simply years. Therefore it will take patient capital that is prepared to look at new frontier markets with greater levels of country risk and at greenfield projects that have a long-term time horizon. For many, this transition away from pure-play, low-risk investment, requires detailed market knowledge and advice in terms of deal sourcing, evaluation, execution and asset management.

While we expect the bulk of Chinese real estate investment to continue to target the major gateway markets in the West, as infrastructure improves and capital flows increase, Belt and Road markets will become a more common investment avenue.

New Frontiers not only brings into sharper focus the potential of many of the BRI markets, but also helps identify where, within the jigsaw of the various geographies, the opportunities could lie. We hope this report provide the data and insights to help you develop and steer a Belt and Road investment strategy.

Methodology

The Knight Frank *Belt and Road Index* (BARI) has been developed using reliable and internationally-recognised data sources. The index is classified into six categories: economic potential, demographic advantage, infrastructure development, institutional effectiveness, market accessibility and resilience to natural disasters. The values within each category have been normalised to ensure the resulting figures are comparable and contextualised for the purpose of this study. All categories are assigned with specific weightings in accordance with their potential significance to investment decisions.

'Real Estate Prospects' in each market write-up refers to the market outlook for each real estate sector in the medium term given the prevailing demand/supply dynamics and current position in the property market cycle.

THE BELT AND ROAD INDEX (BARI)

	Unit	Weight	Year	Source
Economic Potential		**25%**		
GDP per capita PP	US$		2016	International Monetary Fund
Future GDP Growth Rate	%		Average 2017 - 2022	International Monetary Fund
GDP Growth Rate	%		Average 2011 - 2016	International Monetary Fund
Institutional Effectiveness		**25%**		
Government Effectiveness	Percentile Rank (0 - 100)		2016	World Bank
Regulatory Quality	Percentile Rank (0 - 100)		2016	World Bank
Voice and Accountability	Percentile Rank (0 - 100)		2016	World Bank
Political Stability and Absence of Violence/Terrorism	Percentile Rank (0 - 100)		2016	World Bank
Rule of Law	Percentile Rank (0 - 100)		2016	World Bank
Corruption Perceptions Index	Scale (0 - 100)		2016	Transparency International
Demographic Advantage		**20%**		
Urbanisation Rate	%		2015-2020	United Nations
Population Growth	%		2015-2020	United Nations
Dependency Ratio	Ratio		2015-2020	United Nations
Infrastructure Development		**15%**		
Quality of Port Infrastructure	Scoring (1-7)		2016 or latest	World Bank
Logistics Performance Index	Aggregate indicators (1-5)		2016	World Bank
Road Density	Km of road per 100 sq. km of land area		2011 or latest	World Bank
Liner Shipping Connectivity Index	Index (maximum value in 2004=100)		2016 or latest	World Bank
Internet Subscriptions	% of population		2016 or latest	World Bank
Fixed Broadband Subscriptions	per 100 people		2016 or latest	World Bank
Mobile Cellular Subscriptions	per 100 people		2016 or latest	World Bank
Market Accessibility		**10%**		
Foreign Direct Investment (% of GDP)	%		Average 2007 - 2016	World Bank
Foreign Direct Investment, Inward Flows and Stock	US$		Average 2007 - 2016	United Nations
Resilience to Natural Disasters		**5%**		
World Risk Index	Aggregate indicators		2016	United Nations
Climate Risk Index 2017	Aggregate indicators		Average 1997 - 2016	Germanwatch

About the group

At Knight Frank, we build long-term relationships, which allow us to provide personalised, clear and considered advice on all areas of property in all key markets. We believe personal interaction is a crucial part of ensuring every client is matched to the property that suits their needs best – be it commercial or residential.

Operating in locations where our clients need us to be, we provide a worldwide service that is locally expert and globally connected.

We believe that inspired teams naturally provide excellent and dedicated client service. Therefore, we have created a workplace where opinions are respected, where everyone is invited to contribute to the success of our business, and where they are rewarded for excellence.

The result is that our people are more motivated, ensuring your experience with us is the best that it can be. Together, Knight Frank has a global platform of more than 15,000 people across 418 offices in 60 markets.

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