RESEARCH

PRIME ASIA DEVELOPMENT LAND INDEX

MOMENTUM SLOWS IN ASEAN LAND MARKETS AHEAD OF AEC

Knight Frank's Prime Asia Development Land Index shows the price growth of residential sites in the region slowing to 1.1% in H1 2015 from 3.0% in the previous six months. Meanwhile, the prime office development land index gained momentum, rising 3.6%, up from 2.6%.

Highlights

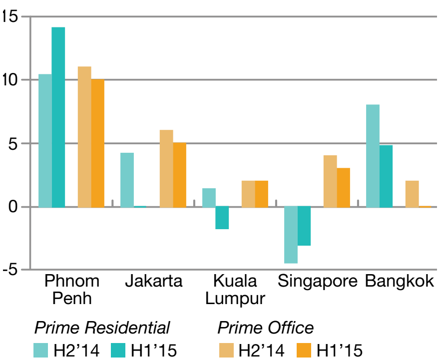
Phnom Penh recorded the strongest increase in both prime residential and office land prices in H1 2015

Local governments in China have reduced land supply and maintained aggressive pricing

Extra cooling measures introduced in Hong Kong targeting mass residential market appeared to have channel demand to luxury sector

H1 2015 saw land sales volumes in China plummet by 54.8% year-on-year

FIGURE 2
Land Price Index (% change) in ASEAN



Source: Knight Frank Research

"Chinese insurance companies such as Ping An are taking on more development risk."

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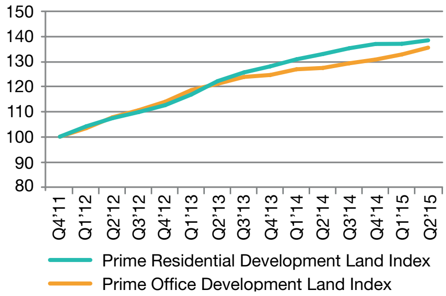
The ASEAN Economic Community (AEC) is set to commence at the end of this year. Freer flow of goods and services as well as skilled labour could encourage the movement of industries, driving demand for both commercial and residential space. While this should present opportunities for developers, so far this year, key markets in Southeast Asia have been cooling (Figure 2).

In **Bangkok**, the price index for office land stalled in H1 2015, as developers turned their attention to the luxury condominium market, where continued capital appreciation afforded them higher profit margins. Even so, the prices of residential land grew at a slower but more sustainable pace.

Jakarta saw similar deceleration in price index movements. The economic slowdown has hurt both business and consumer confidence. In addition, the government lacks the room to manoeuvre, as fiscal spending on infrastructure looks to be hampered by a significant shortfall in tax receipts while monetary policy is constrained by elevated inflation and current account deficit. The residential market was further tempered by a proposed luxury tax hike. Commercial land, on the other hand, still enjoyed healthy price growth. Going forward, despite the headwinds, land prices at prime locations are expected to hold their ground.

High-end housing markets in **Kuala Lumpur** and **Singapore** continued to soften due to the confluence of ongoing macro-prudential policies, cooling measures, strong supply and, in Malaysia's case, the implementation of a Goods and Services Tax. According to

FIGURE 1
Prime Asia Land Price Indices
Unweighted



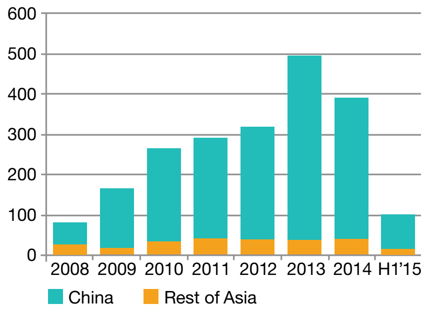
Source: Knight Frank Research

FIGURE 3
Land Price Index (% change)

Prime Residential			Prime Office		
City	H1 2015	Year to Jun '15	City	H1 2015	Year to Jun '15
Phnom Penh	14.1%	26.0%	Phnom Penh	9.7%	21.8%
Bangkok	4.8%	13.1%	Hong Kong	9.3%	13.2%
Beijing	3.2%	2.0%	Tokyo	8.1%	17.6%
Hong Kong	2.5%	6.6%	Jakarta	5.1%	11.8%
Shanghai	1.9%	7.0%	Shanghai	4.1%	5.2%
Guangzhou	0.5%	0.9%	NCR	3.8%	3.8%
Jakarta	0.0%	4.1%	Bengaluru	3.7%	1.5%
Mumbai	-0.9%	1.5%	Singapore	2.9%	6.8%
Tokyo	-1.4%	-3.5%	Beijing	2.5%	-0.4%
Bengaluru	-1.5%	9.4%	Kuala Lumpur	1.9%	3.7%
Kuala Lumpur	-1.7%	-0.3%	Guangzhou	1.2%	-1.3%
Singapore	-3.0%	-7.3%	Bangkok	0.0%	1.9%
NCR	-4.2%	-4.2%	Mumbai	-5.3%	-2.0%

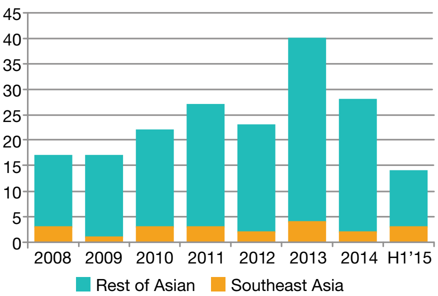
Source: Knight Frank Research

FIGURE 4
Investment Volumes in Asia
US$ billion, development sites > US$10 million



Source: Real Capital Analytics, Knight Frank Research

FIGURE 5
Cross-Border Investment in Asia
US$ billion, development sites > US$2.5 million



Source: Real Capital Analytics, Knight Frank Research

Knight Frank's *Prime Global Cities Index*, high-end home prices in the two cities slipped for three and eight consecutive quarters respectively. This has weighed on prime land prices. Meanwhile, commercial land remained resilient in both markets.

With prime residential and commercial land prices surging by 14.1% and 9.7% respectively, **Phnom Penh** topped the table once again. Foreign investment continued to fuel strong performance in the residential sector; however, it should be noted that growth decelerated in the second quarter, suggesting that prices are peaking and the momentum will likely moderate in H2 2015. Whilst office rents were flat in the first half of the year, approvals for higher density developments have propelled commercial land prices upwards.

Despite the soft housing markets in general and the plentiful new office supply in the first-tier cities, local governments have been leveraging their monopoly power to reduce land supply and maintain aggressive pricing, as this is their main source of revenue. As a result, developers in **China** face a double whammy of high land prices and weak sales. With the recent stock market crash, their ability to raise capital is further restricted. Anecdotally, more developers are partnering other firms to pool financial resources and pursue an asset-light strategy. However, there is a silver lining: a recent survey conducted by China Household Finance and Survey Centre registered "signs of capital leaving the stock markets for the housing sector" in Q2 2015, even before the crash, probably due to a series of stimulus measures to rekindle the property industry.

Against this backdrop, along with a nascent recovery in the residential markets, land prices rose moderately in **Beijing**, **Shanghai** and, to a lesser extent, **Guangzhou**. Moving forward, land prices will continue to be supported by these factors.

In **Hong Kong**, both residential and commercial land enjoyed robust capital appreciation. In addition to the existing healthy demand, the extra cooling measures – i.e. lower maximum loan-to-value ratio and debt-servicing ratio – introduced in February 2015 targeting the mass residential market appeared to have channelled demand to the luxury sector. Office space continued to see strong leasing demand from financial institutions amid limited supply. **Tokyo** also saw a similar demand-supply imbalance drive prices of commercial land higher.

Reeling under the pressure of high unsold inventory and increased construction costs, prime apartments in **Delhi** and **Mumbai** experienced muted price growth. This translates into a decline in our residential land price indices. On the commercial side, prices in Mumbai were further affected as developers wait on the sidelines before the revised Mumbai Development Plan 2034 is unveiled.

In H1 2015, the dearth of new supply in **China** has led development land investment volumes in **Asia** to plunge by 51.3% year-on-year (Figure 4). However, Chinese insurance companies such as Ping An (Figure 6) are taking on more development risk. Their land investment swelled by 234.3% year-on-year and 83.2% over the previous six months to reach US$3.3 billion. Political deadlock, especially when it comes to the contentious reform on land acquisition act, has resulted in 64.1% less investment year-on-year in **India** as well. While foreign purchase of land in the region as a whole also slowed (Figure 5), that in **Southeast Asia** saw a fourfold jump.

FIGURE 6
Recent Prime Development Land Transactions

Market	Address	Development	Buyer	US$(mil)	US$/sqm land	US$/sqm max GFA	Date
Beijing	Plot HD-0402-0030, Zhongguan Village Yongfeng Industrial Base, Xibeiwang Town, Haidian District	Mixed Use	Beijing Capital Land	922	14,136	4,417	Q2 '15
Beijing	Plot 1516-0665, Baipenyao Rd, Hua Town, Fengtai District	Mixed Use	China Resources, Beijing Capital and Ping An Insurance	1,404	9,016	3,352	Q1 '15
Guangzhou	Site 1 Plot AH50107, Guangzhi Area, Haizhu District	Mixed Use	Yuexiu Group	1,452	5,636	2,612	Q2 '15
Shanghai	Plot N070501 Lot 09-03, Shibei High Technology Services Park, Zhabei District	Mixed Use	China Resources and Huafa Industrial Share	1,433	16,431	6,200	Q2 '15
Hong Kong	Lot No. 6512 at the junction of Hung Yip St, Wai Yip St and Shun Yip St and Hoi Bun Rd, Kwun Tong	Commercial	Link Reit and Nan Fung Group	756	110,461	9,205	Q1 '15
Hong Kong	Lot No. 6313 at the junction of Cheung Yip St, Sheung Yee Rd and Wai Yip St, Kowloon	Commercial	Billion Development, CSI Properties and Sino Land	392	103,260	8,605	Q2 '15
Tokyo	3-166-1 Minami-Aoyama, Minato-ku	Commercial	Tokyo Tomin Bank	122	63,518	–	Q2 '15
Singapore	Paya Lebar Rd and Sims Ave	Mixed Use	Lend Lease and Abu Dhabi Investment Authority	1,215	31,157	7,390	Q1 '15

Source: Knight Frank Research

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