RESEARCH

Knight Frank

ASIA-PACIFIC CAPITAL MARKETS

SEPTEMBER 2015

ECONOMIC SNAPSHOT | OCCUPIER MARKETS | INVESTMENT MARKETS | THE BEST DIVERSIFIER FOR ASIAN INVESTORS?

Investors set to navigate a US interest rate hike and Chinese slowdown

KEY FINDINGS

While the Chinese slowdown, along with an impending US interest rate hike, is weighing on the region, more positive news from the US and Eurozone should support export markets of Asia-Pacific economies (see page 2-3)

A number of office occupier markets are feeling a slowdown, with large future inventories and uncertain demand likely to temper rental growth prospects in certain markets (see page 4)

Despite the transformation of retail due to the growth in e-commerce, prime retail markets continue to see rental growth in H1 2015 (see page 6)

Australia saw the most significant growth in transaction volumes in H1 2015, with prime yields continuing to compress, while China saw yields de-compress and volumes recede during the period (see page 8)

The Asia-Pacific region has had two major dark clouds hanging over it throughout the recent cycle: firstly, the impact of rising US interest rates; and secondly, the inevitable slowdown of China. As both of these clouds close in upon the region, generating much uncertainty in the markets, the impact on real estate as an asset class is worthy of attention.

With the US unemployment rate dropping to 5.1% in August (the Federal Reserve's definition of the full employment level), it seems more than likely that there will be an interest rate hike this year. Within the region, expectations of a normalising rate have already resulted in capital outflows and broad-based currency depreciation. When the Federal Reserve does move, countries with high US dollar-denominated corporate debt will come under the greatest financial stress.

Simultaneously, China's slowdown, brought to the world's attention by the 40% plunge in China's CSI 300 stock market, due in part to gloomy manufacturing PMI readings, is also causing jitters around the region. Although China's exact trajectory is still to be determined, the seemingly kneejerk reaction of policymakers has done nothing to calm speculation about the state of the world's second largest economy.

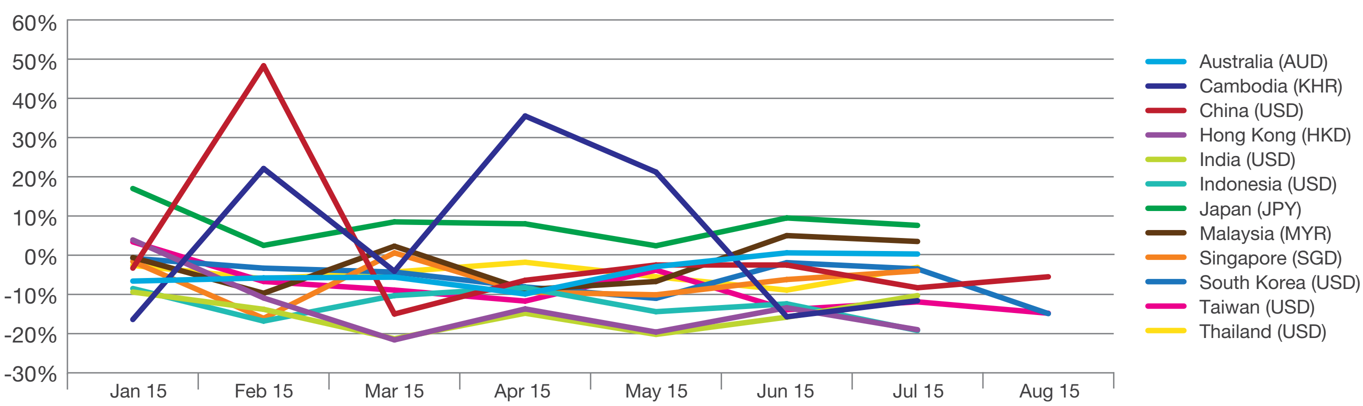
While the rising cost of debt and the knock on impact of a drop-off in Chinese external demand will inevitably impact real estate negatively, the eventual outcome of these events is not straightforward to assess, due to the amount of moving parts in an increasingly linked global economy. The interest rate hike in the US, for example, is actually indicative of a strengthening US economy, which, along with a recovering Eurozone is positive news for exporters in the region. In particular, emerging Asia's export volume, which tumbled 4.7% in H1 2015 due to weaker external demand (see Figure 1) should benefit through the trade channel going forward.

Similarly, the continued stock market volatility is likely to ensure that demand for prime real estate assets will remain strong, while new sources of capital looking to increase exposure to property markets will ensure the sheer weight of capital looking at a limited amount of supply will continue.

Given the limited liquidity in many Asia-Pacific markets, investors looking for real estate opportunities outside the region as a diversifier should consider Australia, Europe and the UK (see page 11) – the markets showing mostly negative capital value correlation coefficients to those in Asia.

FIGURE 1

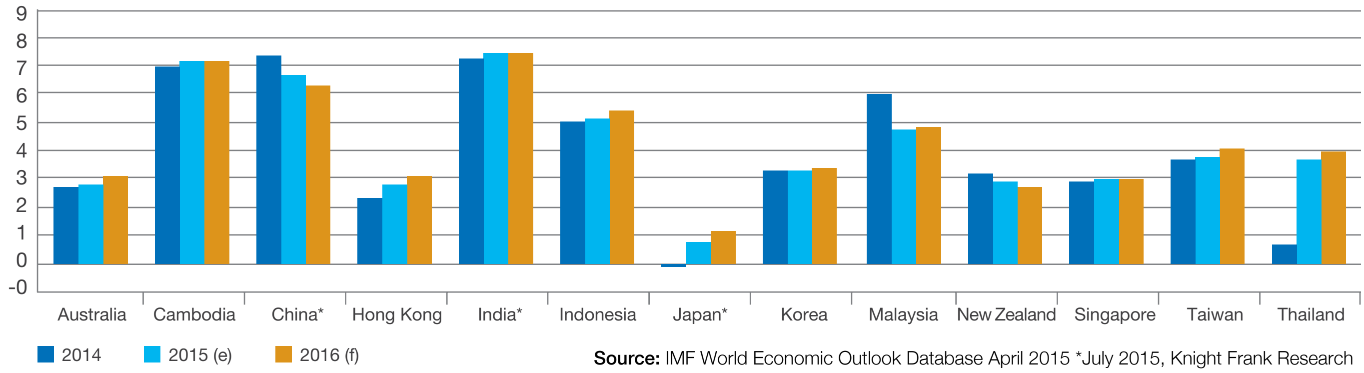
Year-on-Year Export Growth



Source: National sources, Knight Frank Research

ECONOMIC SNAPSHOT

FIGURE 2
Real GDP Growth per Annum (%)



Source: IMF World Economic Outlook Database April 2015 *July 2015, Knight Frank Research

At the time of writing, **China**'s CSI 300 stock market index has plunged by almost 40% from its peak, due in part to gloomy manufacturing PMI readings. However, other downbeat data may actually be slightly misleading. The fall in exports, as well as the acceleration of both import decline and producer price deflation, reflects the drop in commodity prices, which allow manufacturers to charge less, rather than a sharp downturn in economic growth. The growth rates of industrial production and fixed asset investment are slowing, but in a steady manner.

Nonetheless, a slowing China means weaker demand for the exports of other markets in the region, especially **Hong Kong**, **Taiwan** and commodity producers. Coupled with the expectation of a US rate hike, this has resulted in capital outflows from the region and broad-based currency depreciation. One exception is Hong Kong, which pegs its currency to the US dollar and may see its export competitiveness wane. The Taiwanese dollar meanwhile has slumped to a six year low against the US$.

Japan's recovery remains uneven, but there are signs for hope. Year-on-year industrial production growth seems to have bottomed out as manufacturing PMI improves. The labour market has continued to tighten, although that has not translated into solid wage growth. However, with the growth and inflation targets looking increasingly unattainable, there is speculation that the Bank of Japan will expand its Quantitative and Qualitative Easing programme.

South Korea and **Thailand** share similar fates. Both have been hit by droughts, adding to the commodity woes Thai farmers are facing. While the tourism industry in the former has suffered as a result of the outbreak of Middle East Respiratory Syndrome, that in the latter is suffering as well due to a recent terrorist attack. These, on top of the high household debt in both economies, will weigh on retail sales. In Thailand, bureaucracy is also hampering the disbursement of the much anticipated government expenditure.

With some cabinet reshuffling taking place, there is hope that reforms to realise **Indonesia**'s potential can still be actualised. In the near future, however, economic growth will likely stay subpar. 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. Meanwhile monetary policy is constrained by elevated inflation – especially after the hike in import tariffs – and current account deficit, thanks to the fall in commodity prices and the resultant weak Rupiah.

Being a net energy exporter, the current account and fiscal balance of **Malaysia** are also adversely affected by cheaper oil. However, another reason the Ringgit

FIGURE 3
Asia-Pacific Economic Indicators

City	Manufacturing PMI in August	Change in manufacturing PMI (Mar - Aug 15)	Year-on-year retail sales growth in July (%)	Change in exchange rate against US$ (Mar - Aug 15)
Australia	51.7	5.4	4.45	-6.8%
China	47.3	-2.3	10.5	-2.9%
Hong Kong	44.4	-5.2	-2.8	0.0%
India	52.3	0.2	–	-5.6%
Indonesia	48.4	2	4.8	-6.8%
Japan	51.7	1.4	1.6	-1.2%
Malaysia	47.2	–	7.2	-11.2%
Singapore*	49.3	-0.3	1.2	-2.4%
South Korea	47.9	-1.3	1.9	-5.9%
Taiwan	46.1	-4.9	-1.87	-4.3%
Thailand	–	–	–	-9.1%

Source: CEIC, Knight Frank Research

*Retail sales exclude motor vehicles

has plummeted by almost 20% year-to-date is ongoing political issues within the country.

Singapore is slowing in transition as it seeks to restructure its economy to increase productivity. Industrial output languished as firms are faced with weak global demand and a labour shortage. Looking forward, a 21.8% year-on-year drop in non-oil retained imports of intermediate goods in July does not bode well for output and exports in the near future. More positive news is that private investment excluding residential building finally grew at a robust pace in Q2 2015, after falling 5.5% for the whole of last year. This could help to boost productivity, in line with the government's plan.

In **India**, political gridlocks have blocked much needed reforms. For instance, the implementation of a national Goods and Services Tax – considered a low-hanging fruit that will nevertheless yield significant economic benefit by combining India into a single market more than six decades after gaining independence – now looks set to miss its 1 April 2016 deadline. While there is growing frustration with the lack of progress, the economy is still performing relatively well. In particular, consumer confidence is at the highest level in more than four years, propelling motor vehicle sales higher.

Finally, while **Australia** is likely to see growth stuck below trend, the lower Australian dollar has been the key for attracting investment, especially in services, notably tourism and education. The recent political changes are also likely to bring more stability and investor confidence to the market.

REAL ESTATE OCCUPIER MARKETS

Office | H1 2015 continues to see the rise of technology firms driving leasing demand

Knight Frank's *Asia-Pacific Prime Office Rental Index* increased 2.5% in the first half of this year, despite the average vacancy rate inching up by 0.1 percentage points. While a number of markets in the region are plagued by excess supply, sectors empowered by technology, such as online peer-to-peer financial services in Shanghai and e-commerce in India, are driving leasing demand.

Strong supply in H1 2015 continued to lift the vacancy rate and lower rents in **Beijing**. Moving forward, a dearth of new completions in the second half of the year will reduce pressure on landlords. The situation in **Shanghai** is the inverse. Office space added was significantly less than that in the previous six months, allowing rents to rise. However, the market will be barraged by over one million sq m of planned new supply in H2 2015. Rents in **Guangzhou** will also experience downward pressure due to increased supply later this year.

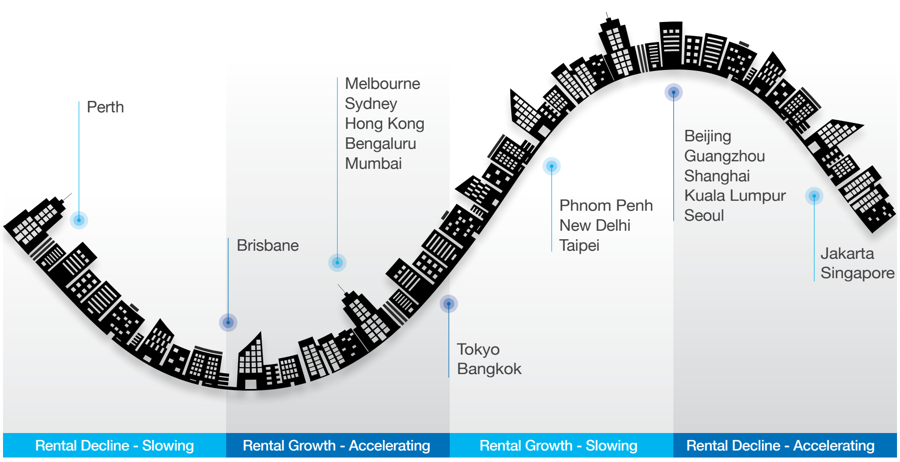
Hong Kong and **Taipei** both saw rental growth. Leasing demand in the former was generated by Mainland financial institutions, especially fund houses, taking advantage of the Mutual Fund Recognition Scheme implemented in May, while that in the latter was supported by foreign banks and high-technology firms.

Elsewhere in East Asia, **Tokyo** saw an acceleration in rental growth, on the back of an uptick in economic cyclical conditions. In **Seoul**, both demand for and supply of office space slowed down; prime rents edged up marginally.

In Southeast Asia, increasing competition from Grade-B office buildings led prime rents in **Phnom Penh** to stay flat. Similarly, a strong supply pipeline is capping rental growth in **Kuala Lumpur**. However, limited good-grade dual-compliant (MSC and Green) buildings will afford these landlords higher bargaining power.

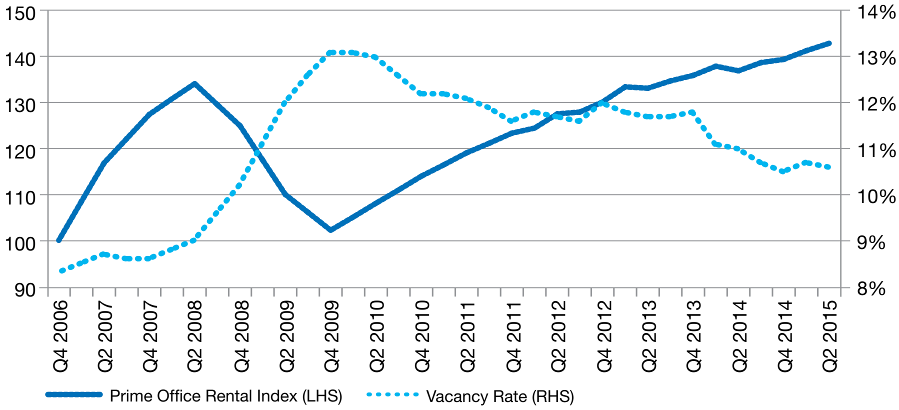
Between mid-2011 and the end of last year, prime rents in **Jakarta** surged by

FIGURE 4
Asia Pacific Prime Office Rental Cycle



Source: Knight Frank Research
The diagram does not constitute a forecast and is intended only as an indicative guide to current rental levels. Rents may not necessarily move through all stages of the cycle chronologically.

FIGURE 5
Asia Pacific Prime Office Rental Index



Source: Knight Frank Research

a phenomenal 2.7 times. The resultant construction boom is finally reversing the very rental growth that inspired it. In H1 2015, a huge increase in supply caused prime rents to slide by 5.3% as the vacancy rate soared. Meanwhile, **Singapore** faces a double whammy of strong future supply and lower take-up on the back of a slowing economy. Although **Bangkok** also saw a significant addition of office space, net absorption swelled by more than two times over the corresponding period last year, bringing vacancy down to the lowest rate since 2006.

In South Asia, e-commerce is emerging as a major demand driver in India, although the IT/IT-enabled service sector still accounted for half of the office take-up in **Bengaluru** and 30% in **New Delhi**. Notably, Amazon and Flipkart signed up almost 300,000 sq m of space in Bengaluru recently. In **Mumbai**, the banking, financial services and insurance (BFSI) sector still leads in terms of leasing demand.

In Australia, **Sydney** remained the bright spot with Twitter and Amazon's recent expansion, continuing the trend of technology occupier demand growth. Net absorption in the first half of 2015 continued to be negative in **Brisbane** and **Perth**, and a strong future supply pipeline will add to their woes through 2016. **Melbourne**, on the other hand, saw demand double on a year-on-year basis, as tenants continued to centralise in the CBD.

FIGURE 6
Asia-Pacific Prime Office Rents
H1 2015

↑ Increase
→ No Change
↓ Decrease

City	Submarket	Prime Net Headline Rent	Local Measurement	6 mths % change	US$/sqm/mth	Forecast next 12 mths
Brisbane	CBD	560.0	AUD/sq m/annum (Net Floor Area)	0.0%	35.7	→
Melbourne	CBD	486.0	AUD/sq m/annum (Net Floor Area)	0.0%	31.0	↑
Perth	CBD	612.0	AUD/sq m/annum (Net Floor Area)	-7.6%	39.1	↓
Sydney	CBD	800.0	AUD/sq m/annum (Net Floor Area)	1.9%	51.0	↑
Phnom Penh	City Centre	22.1	USD/sq m/month (Net Floor Area)	0.6%	22.1	↑
Beijing	Various	368.6	RMB/sq m/month (Net Floor Area)	-1.0%	60.5	↓
Guangzhou	CBD	178.2	RMB/sq m/month (Gross Floor Area)	1.4%	29.3	↓
Shanghai	Puxi, Pudong	279.9	RMB/sq m/month (Gross Floor Area)	2.6%	46.0	↓
Hong Kong	Central	124.8	HKD/sq ft/month (Net Floor Area)	4.3%	173.3	↑
Bengaluru	CBD	1,116.0	INR/sq ft/annum (Gross Floor Area)	1.9%	15.7	↑
Mumbai	BKC	3,090.0	INR/sq ft/annum (Gross Floor Area)	1.3%	43.5	↑
New Delhi	Connaught Place	3,304.8	INR/sq ft/annum (Gross Floor Area)	3.0%	46.6	→
Jakarta	CBD	6,332,820.0	IDR/sq m/annum (Semi-Gross Floor Area)	-5.3%	39.6	↓
Tokyo*	Central 3 Wards	33,392.0	JPY/Tsubo/month (Net Floor Area)	9.2%	82.3	↑
Kuala Lumpur	City Centre	5.4	MYR/sq ft/month (Net Floor Area)	3.8%	15.4	→
Singapore	Raffles Place, Marina Bay	10.6	SGD/sq ft/month (Net Floor Area)	-1.1%	84.5	↓
Seoul	CBD	31,669.0	KRW/sq m/month (Gross Floor Area)	2.8%	28.1	↓
Taipei	Downtown	2,611.0	TWD/ping/month (Gross Floor Area)	1.8%	25.5	↑
Bangkok	CBD	810.6	THB/sq m/month (Gross Floor Area)	5.0%	24.0	

Source: Knight Frank Research / *Sanko Estate

“To compete with e-commerce, shopping centres in China are allocating more space for food & beverage and entertainment”

Retail | Knight Frank’s Prime Shopping Centre Index increases amidst mixed retail sales performance

Technology is also changing the retail landscape. To compete with e-commerce, shopping centres in China are allocating more space for food & beverage and entertainment, although these businesses typically yield lower rental income. This, along with reduced rents to attract quality tenants, contributed to a slight rental decline in **Beijing** and **Shanghai**. **Guangzhou**, however, managed to register a marginal rental improvement. In the second half of 2015, abundant new retail space will be added to these markets, even as retail sales growth is decelerating. The positive news is that the government has cut import tariffs in order to boost domestic consumption.

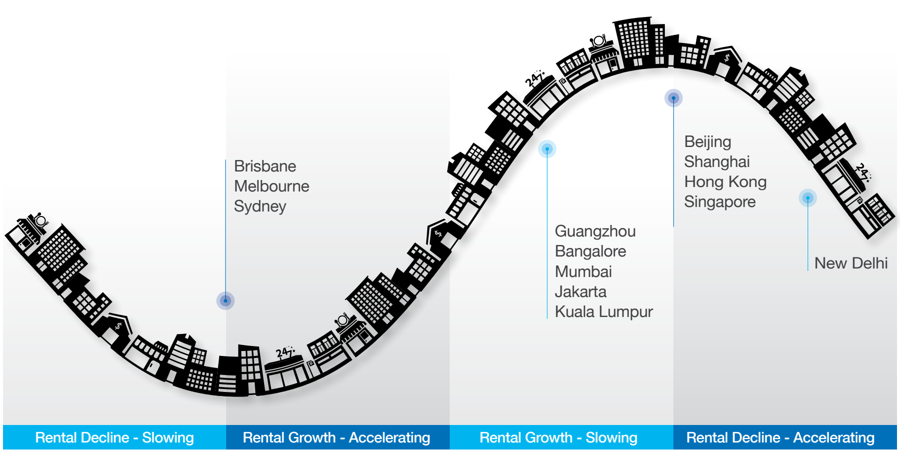
Rental growth remained on a downward trend in **Hong Kong** as Mainland visitors continued to cut down on conspicuous consumption. However, mid-tier retailers targeting the mass market are seizing the opportunity to acquire prime space.

In Southeast Asia, prime rents defied strong headwinds to remain in the positive-growth territory. Squeezed between a labour crunch and anaemic retail sales (excluding motor vehicles), a number of retailers in **Singapore**, including department stores which served as anchor tenants, consolidated their businesses to focus on the best locations. As a result, the tough operating environment has paradoxically helped prime rents edge up.

Retailers in Malaysia are similarly facing significant challenges. Q2 2015 saw consumer confidence hit the lowest level in six and a half years, as a result of continued economic and political woes as well as the implementation of a Goods and Services Tax. While prime rents in **Kuala Lumpur** were also driven higher by tenants looking for malls with proven track record, the upcoming strong supply will drag on their growth in the near future.

Although Indonesia as a whole registered enviably robust retail sales growth, the picture is gloomier in **Jakarta**, where the economic slowdown is most manifest. On a year-on-year basis, real retail sales in the capital shrank 22.1% in June, the seventh consecutive month of double-digit contraction, as consumers went into a saving mode. However, thanks in part to the dearth of new supply due to a

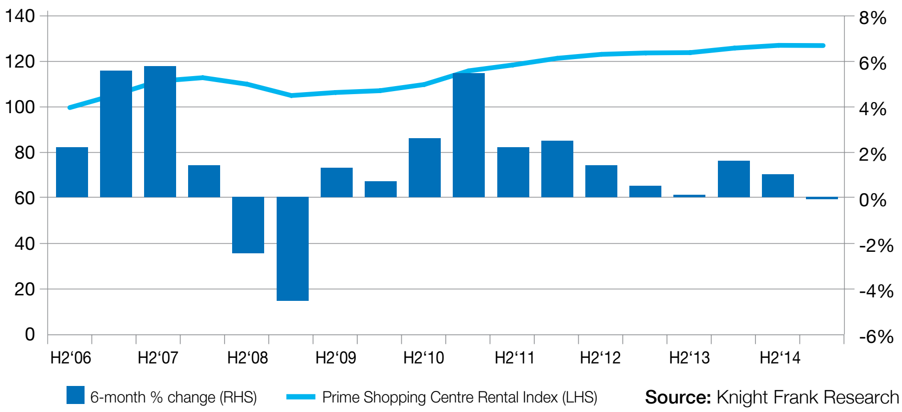
FIGURE 7
Asia Pacific Prime Shopping Centre Rental Cycle



Source: Knight Frank Research
The diagram does not constitute a forecast and is intended only as an indicative guide to current rental levels. Rents may not necessarily move through all stages of the cycle chronologically.

FIGURE 8

Prime Shopping Centre Rental Index



Source: Knight Frank Research

moratorium, prime retail space is proving resilient, with rents rising slightly as the vacancy rate dropped.

In India, demand for prime shopping centres slowed in **New Delhi** and **Mumbai**. Ample upcoming supply is also weighing on rents in the capital. Demand remained steady in **Bengaluru**.

Continued weakness in the Australian dollar has lifted visitor arrivals, contributing to a healthy growth in retail sales. In the retail leasing market, international brands are also driving demand for space. **Melbourne** registered a moderate rental increase while rents were steady in **Brisbane** and **Sydney**.

FIGURE 9

Asia-Pacific Prime Shopping Centre Rents

H1 2015

City	Prime Net Headline Rent	Local Measurement	6 mths % change	US$/sqm/mth
Brisbane	1,450.0	AUD/sq m/annum	0.0%	92.5
Melbourne	3,000.0	AUD/sq m/annum	1.7%	191.4
Sydney	3,075.0	AUD/sq m/annum	0.0%	196.2
Beijing	42.7	CNY/sq m/day	-1.4%	213.2
Guangzhou	19.0	CNY/sq m/day	1.5%	94.8
Shanghai	56.4	CNY/sq m/day	-3.1%	281.7
Hong Kong	1,126.7	HKD/sq ft/month	1.0%	1,564.4
Bengaluru	5,100.0	INR/sq ft/annum	0.0%	71.8
Mumbai	5,929.5	INR/sq ft/annum	0.3%	83.5
New Delhi	5,040.0	INR/sq ft/annum	-4.5%	71.0
Jakarta	8,962,641.2	IDR/sq m/annum	1.6%	56.0
Kuala Lumpur	1,938.2	MYR/sq m/annum	1.1%	42.8
Singapore	386.5	SGD/sq m/annum	0.8%	256.8

Source: Knight Frank Research

5 Key Trends Shaping Retail Markets in Asia Pacific

1 **Trade barriers and deals.** For foreign retailers, regulations and new trade deals have the potential to open or close markets. India, having cut off the possibility of foreign multi-brand retailers is still considering regulations for e-commerce, while the ASEAN Economic Community should allow an enlarged market for retailers within Southeast Asia.

2 **The growth of m-commerce.** Mobile devices (m-commerce) are set to become a much more common channel for retailing. In China for example, smartphones now account for over 80 percent of new phone sales, so it's not surprising m-commerce sector is growing faster than the e-commerce industry itself, seeing a doubling in volumes between 2013 and 2014.

3 **E-commerce in India.** While the e-commerce story has been well documented in China, expect India to see significant growth over the coming years as high-speed internet connections through broadband networks become better and also more affordable. Knight Frank forecasts that the e-tail share of the total retail market in India's top 7 cities will grow from 2% in 2014 to 11% in 2019.

4 **Local customs and climate.** Different local shopping customs in some countries mean that certain bricks-and-mortar shops still dominate in the face of competition from e-commerce, for example bargain hunting in Hong Kong or self-collect kiosks in Japan. Meanwhile the tropical climate in Southeast Asia will continue to mean that air-conditioned shopping malls remain an attractive destination.

5 **Smaller growth markets.** Vietnam, Indonesia, Philippines are all set to see strong growth in retail sales over the coming years. Given some of the challenges in China and India, a large number of foreign retailers, are now targeting these smaller growth markets.

REAL ESTATE INVESTMENT MARKETS

Slowdown in regional transaction volumes offset by Australian and Indian growth

The Asia-Pacific region saw a slowdown in activity in the first half of 2015, with volumes (excluding land sales) reaching US$ 58 billion, 12.4% below the level recorded in the same period of 2014. Of the major investment markets, only Australia saw a significant increase in activity compared to the same period of 2014, while Japan, China, South Korea and Hong Kong all saw volumes recede.

Cross-border deals continued to be significant within the region, with intra-regional flows led by Chinese and Singaporean groups. In the first half of 2015, Chinese groups invested nearly 50% (US$ 5 billion) of their outbound capital within the region, of which Australia captured 40%. Inbound capital originating from outside the region was led by the US, while Middle Eastern investors, following a quiet 2014 were active in 2015, with the sovereign wealth funds Qatar Investment Authority and ADIA most notably investing in core Asia-Pacific markets.

Australia, an economy very much tied into the Chinese growth story, has seen market liquidity increase, with volumes up 8.7% in the first half of the year compared to same period of 2014. Supported by the lower cost of debt and a weaker Australian dollar, prime yields continued to compress in Sydney and Melbourne over the first half of 2015. However, the impact of the Chinese slowdown, which has already hit resource driven economies such as Perth, has flagged the potential issues around city economies that are significantly reliant on external Chinese demand.

In **China**, along with a slowdown in the development land market, income-producing property saw a 25.9% decline in volumes in H1 2015 compared to the same period last year. Policy makers have responded by adjusting rules for foreign investors (see next page) which should improve the availability of debt on the Chinese Mainland for Wholly Foreign Owned Enterprises (WFOE).

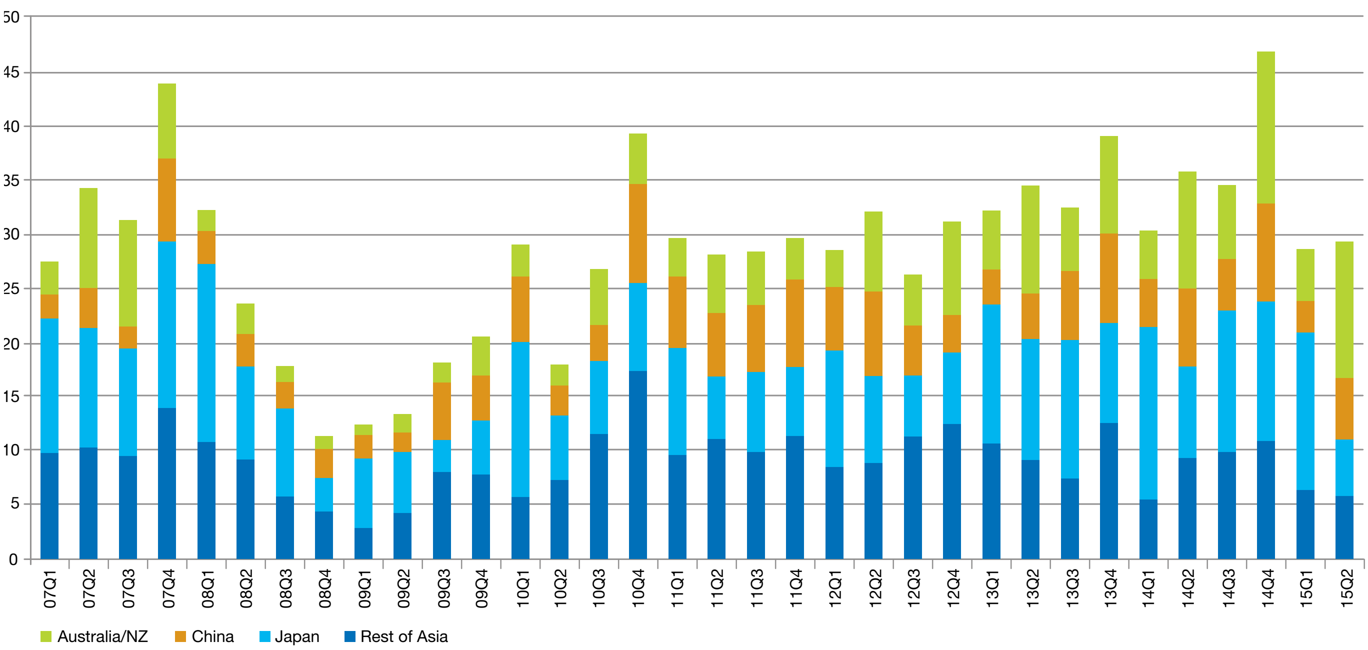
With the country's growth figure overtaking that of China, **India** has seen a 40.7% increase in volumes in the first half of 2015, year-on-year. A relative surge in inbound capital into the country over the last 12 months has meant that foreign investors accounted for over 50% of investment activity over the period. Blackstone and Brookfield, two major North American groups, top the list of foreign investors.

In **Japan**, 2015 has seen none of the huge deals that the market witnessed in 2014. The most significant liquidity remains for deals around the US$ 100 million mark, with a significant amount of transactions being carried out between related companies. Yields continue to compress for prime, well-let assets and now stand at the lowest levels seen since the second half of 2007.

Singapore and **Hong Kong**, the two most significant international financial hubs, continue to be thinly traded with little

FIGURE 10

Transaction Volumes Asia-Pacific in US$bn (excluding land sales)



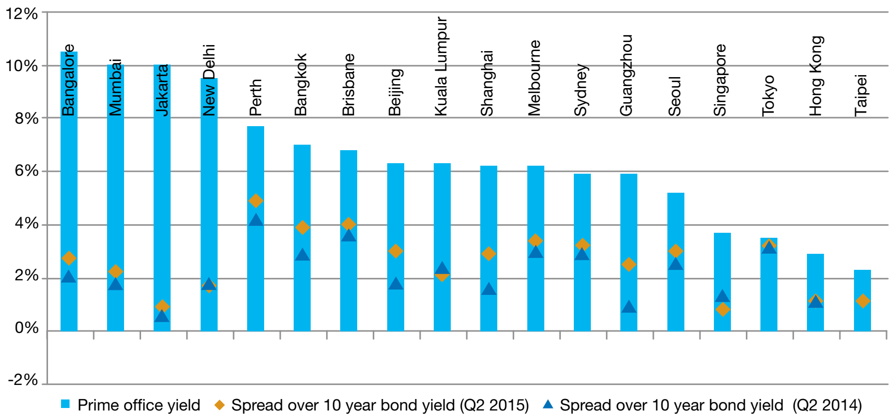
Source: Real Capital Analytics, Knight Frank Research significant stock coming to the market. With both currencies tied to an extent to the US Dollar, and a raising of US interest rates likely to impact the cost of debt, prime yields have remained stable.

Despite yield compression, spreads over cost of debt remain significant

Prime yields continued to soften in the tier-one Chinese cities, reflecting fears of weakening occupier markets as the economy encounters some volatility. Spreads over the cost of 10-year government debt in China and indeed many Asia-Pacific markets actually increased over the year, reflecting the monetary easing policies that we have witnessed across much of the region. With an interest rate hike in the US on the cards, and with a number of currencies likely to be directly or indirectly impacted, the potential rise in the cost of debt is likely to narrow these spreads in 2016.

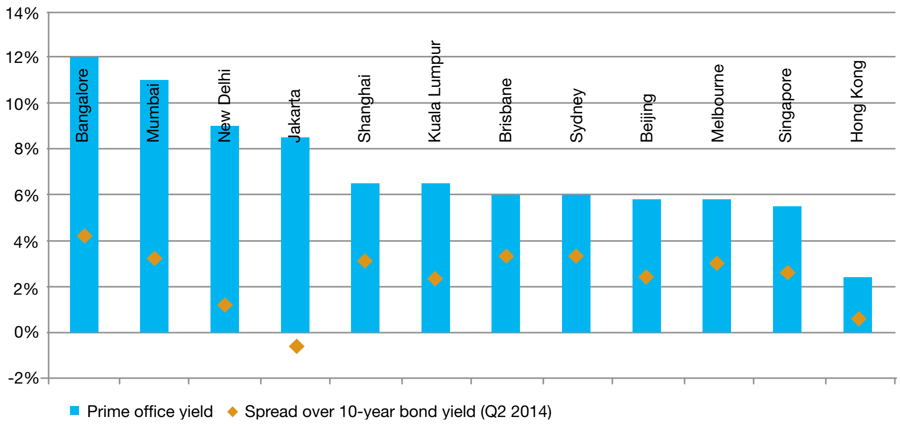
While prime retail yields have held firm across the region, some secondary markets have seen pricing come under pressure, as the impact of e-commerce and changing trends have added vacancy risk and reduced rental growth prospects.

FIGURE 11
Prime Office Yields and Spreads over 10-yr Bonds



Source: Knight Frank Research

FIGURE 12
Prime Shopping Centre Yields and Spreads over 10-yr Bonds



Source: Knight Frank Research

China relaxes rules for foreign real estate investors

Although the economic slowdown causes concerns for occupier markets

Moves by policy makers to shore up the Chinese economy during the recent market volatility have included an easing of some of the cooling measures imposed during the upswing of the cycle, most notably aimed at the residential market. Policy makers however have also acted to relax regulations for Wholly Foreign Owned Enterprises (WFOEs), who are investing in large-scale real estate projects as outlined in Notice 122, issued on the 19th August 2015.

Overview of Notice 122

Leverage Ratio

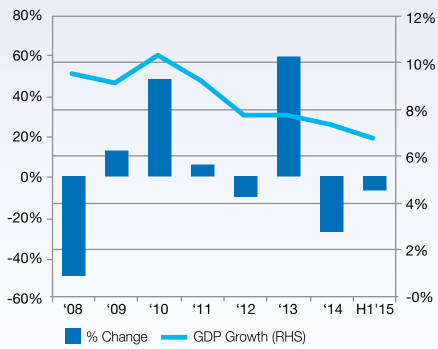
The leverage ratio (between registered capital and total investment of foreign-invested enterprises) has been increased to 1:3 for investments greater than US$ 30 million from 1:2 previously.

Onshore Borrowing

Onshore loans are now allowed even when registered capital is not contributed in full.

The impact of these changes is likely to be minimal for the time being, especially since there seems to be little distress in the Chinese market and concerns remain about the on-going slowdown of the economy and its impact on occupier markets. While these measures will enable more financing flexibility, the market still has some way to go in terms of structural changes in policy to make it meaningfully more attractive to foreign investors.

FIGURE 13
Change in Chinese Inbound Investment Volumes vs GDP Growth

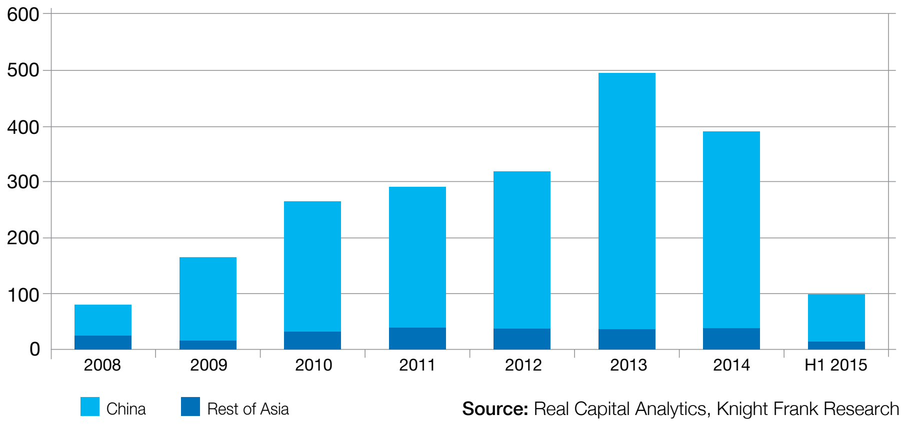


Source: Real Capital Analytics, Knight Frank Research

FIGURE 14

Investment Volumes in Asia

US $ Billion, development sites > US $10 million



Source: Real Capital Analytics, Knight Frank Research

Land price continues to climb amid lower volumes

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%.

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 13). However, Chinese insurance companies such as Ping An 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. In India, political deadlock, especially when it comes to the contentious reform on land acquisition act, has resulted in 64.1% less investment year-on-year. While foreign purchase of land in the region as a whole also has slowed, that in Southeast Asia saw a fourfold jump.

FIGURE 15

Selection of Recent Major Transactions H1 2015

Property Name	Market	Type	Buyer	US$m	Comments	Date
Investor portfolio	Australia	Office	CIC	1,790	Australian office portfolio, comprising nine office towers reflecting a weighted average cap rate of circa 5.6%.	July-15
Hilton Sydney	Sydney	Hotel	Bright Ruby Resources	349	Continues to be managed by Hilton, subject to a 50-year management agreement.	May-15
Guoson Centre Beijing Dongzhimen	Beijing	Dev Site	China Cinda AM	1,691	Property still undeveloped due to long-term equity disputes.	Aug-15
Site 1 Plot AH50107, Guangzhi Area, Haizhu District	Guangzhou	Dev Site	Guangzhou Huibang Real Estate, subsidiary of Guangzhou Greenland	430	Can be developed into a residential/commercial mixed-use property.	Jun-15
Corporate Ave 1 & 2	Shanghai	Office	The Link REIT	1,066	Tenants include PwC and CIMC.	Pending
247 Business Park	Mumbai	Office	Blackstone	166	Tenants include Siemens and DHL.	May-15
Integra Tower	Kuala Lumpur	Office	KWAP	288	Sold by BlackRock. Tenants include Michael Page.	Apr-15
AXA Tower	Singapore	Office/ Retail	Perennial Real Estate, HPRY Holdings Ltd and Low Keng Huat	864	Sold by BlackRock. Building may house medical suite of no more than 32,000 sq ft.	Feb-15
Tower 8	Seoul	Office/ Retail	Deutsche AWM	303	Upon completion legal ownership transferred (deal completed in H12014).	May-15
13-1 13-7 Ankang Sec Neihu District	Taipei	Industrial/ Office	Chinatrust Financial	166	Bought for self-occupancy.	July-15
Sun Towers	Bangkok	Bangkok	Singha Estate	129	Tenants include Halliburton and Fuji Xerox.	Aug-15

Source: Knight Frank Research

DIVERSIFICATION? LOOK TO AUSTRALIA, EUROPE AND THE UK

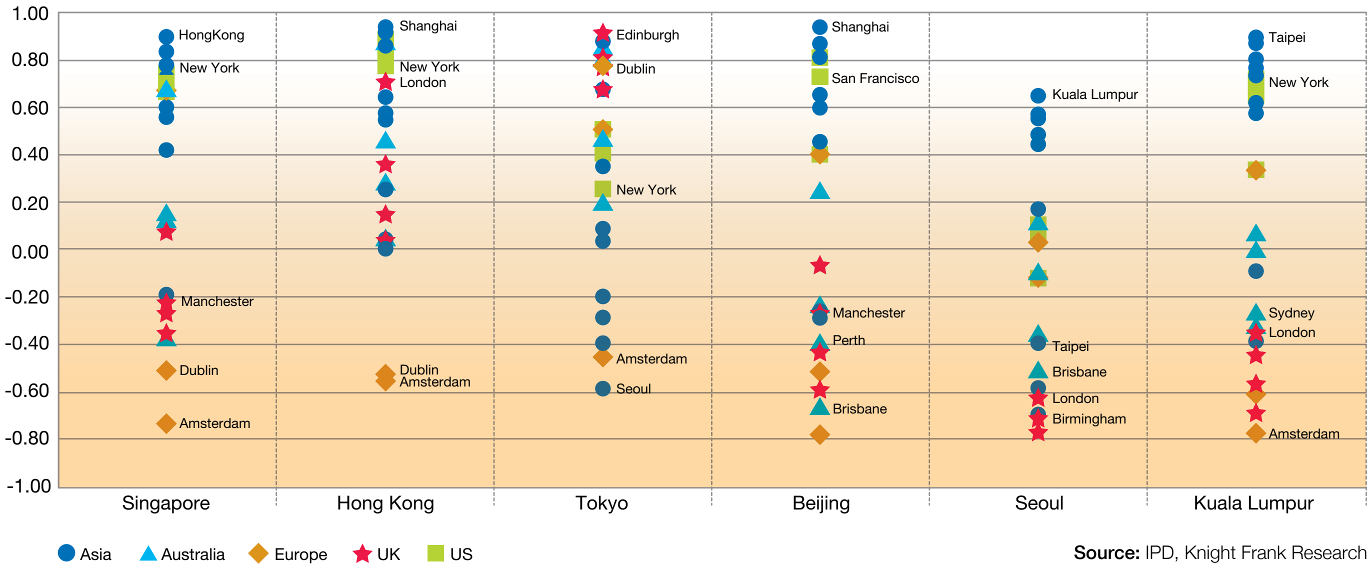
Diversification can come in a number of forms, whether asset class diversification or geographic diversification. For the latter, investing in real estate in different cities and countries around the world can reduce risk and yield higher returns.

The chart below shows prime office capital value correlation coefficients between key Asian city hubs and other office markets around the world (1 being perfect positive correlation and -1 a perfect negative one). Splitting the results by region, they show fairly clearly that the US and Asian markets are in many cases quite highly correlated, with the exception being Tokyo (and to a lesser extent Hong Kong). Investors from the other Asian markets looking for diversification should therefore consider investing in Australia, Europe and the UK, which tend to have more negative correlations.

Are past correlations indicative of future correlations? It has to be viewed on a case-by-case basis, as an increasingly interconnected global economy and other long-term trends are changing the way economies and office markets move in synch with one another.

FIGURE 16

Global Prime Office Capital Value Correlations with Key Asian City Hubs



Source: IPD, Knight Frank Research

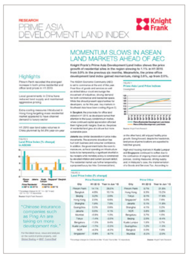
RISKS	A prolonged or sharp slowdown in the Chinese economy would further weigh on the region through the trade channel, affecting corporate leasing demand.
	An economic recovery in the US and Eurozone would: – boost leasing demand for commercial properties in the West, with Germany in particular already attracting investor interest; and – increase export demand for Asia-Pacific goods and services, thereby supporting corporate demand for commercial space here.
OPPORTUNITIES	Potential further monetary easing policies in Australia and Japan for instance could: – help maintain yield spreads; – create opportunities for currency play to foreign investors; and – weaken currencies and buoy up visitor arrivals, supporting the hotel and retail industries, as seen in Japan.
	The booming e-commerce sector around the region, not just China, creates demand for prime logistics space.
	China's One Belt One Road initiative could spur long-term economic development in the Greater Mekong Subregion.

Source: Knight Frank Research

Knight Frank Commercial Research provides strategic advice, consultancy services and forecasting to a wide range of clients worldwide including developers, investors, funding organisations, corporate institutions and the public sector. All our clients recognise the need for expert independent advice customised to their specific needs.

RECENT MARKET-LEADING RESEARCH PUBLICATIONS

The Wealth Report 2015



Prime Asia Development Land Index H1 2015

Chinese Outward Investment in Australia May 2015

European Quarterly Report Q2 2015

Knight Frank Research Reports are available at **KnightFrank.com/Research**

ASIA PACIFIC RESEARCH

Nicholas Holt
Asia Pacific Head of Research
+65 6429 3595
nicholas.holt@asia.knightfrank.com

Ying Kang Tan
Asia Pacific Senior Research Analyst
+65 6429 3589
yingkang.tan@asia.knightfrank.com

GLOBAL CAPITAL MARKETS

Neil Brookes
Asia Pacific Head of Capital Markets
+65 6429 3585
neil.brookes@knightfrank.com

ASIA PACIFIC CAPITAL MARKETS

Australia
James Parry
+61 2 9036 6758
james.parry@au.knightfrank.com

China
Graham Zink
+86 21 60321700
graham.zink@cn.knightfrank.com

Hong Kong
Henry Lam
+852 2846 9568
henry.lam@hk.knightfrank.com

India
Rajeev Bairathi
+91 9999 70552
rajeev.birathi@in.knightfrank.com

Indonesia
Willson Kalip
+62 21 570 7170 (100)
willson.kalip@id.knightfrank.com

Japan
Daisuke Naoi
+65 6429 3597
daisuke.naoi@asia.knightfrank.com

Malaysia
James Buckley
+6010 511 4906
james.buckley@my.knightfrank.com

New Zealand
Layne Harwood
+64 3 377 1460
layne.harwood@nz.knightfrank.com

Singapore
Ian Loh
+65 6228 6823
ian.loh@sg.knightfrank.com

Taiwan
Michael Tseng
+866 2 8729 8700
michael.tseng@repro.knightfrank.com

Thailand
Phanom Kanjanathiemthao
+66 2 643 8223
phanom.kanjanathiemthao@th.knightfrank.com

Knight Frank