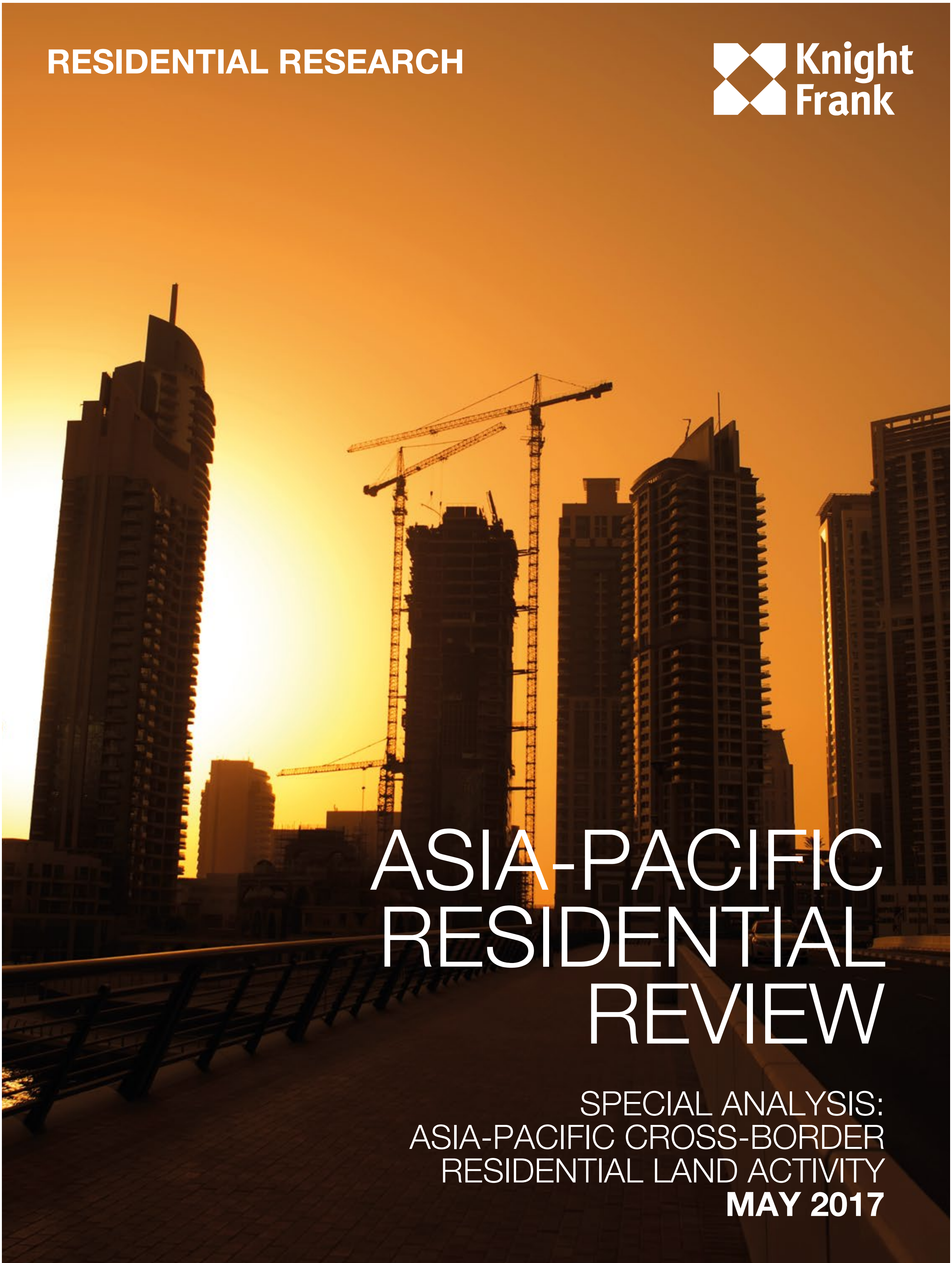
RESIDENTIAL RESEARCH

Knight Frank



ASIA-PACIFIC RESIDENTIAL REVIEW

SPECIAL ANALYSIS:
ASIA-PACIFIC CROSS-BORDER
RESIDENTIAL LAND ACTIVITY

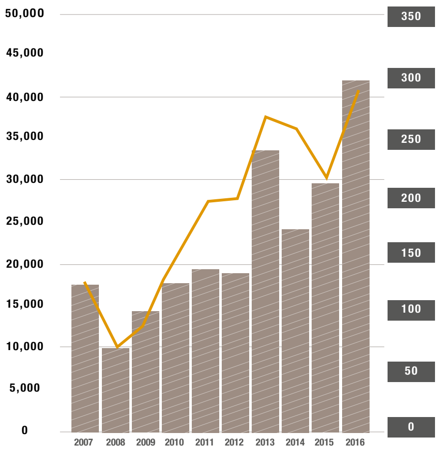
MAY 2017

REGIONAL RESIDENTIAL MARKET SNAPSHOT | REGIONAL CROSS-BORDER DEVELOPMENT ACTIVITY | COUNTRY ANALYSIS

ASIA-PACIFIC CROSS-BORDER RESIDENTIAL LAND ACTIVITY

Brand building, diversification and cooling measures have all helped drive a significant increase in cross-border residential development acquisitions over the last ten years

FIGURE 1
Cross-Border Residential Land Acquisitions in Asia-Pacific



Volume in US$ millions (LHS)
No.of sites acquired (RHS)

Note: Non-local deals between Hong Kong and China are classified as cross-border for analysis purpose

Source : Real Capital Analytics, Knight Frank Research

NICHOLAS HOLT
Asia Pacific Head of Research

"The buyer's profile is an interesting mix – from institutional investors to private developers – and they venture into foreign markets with sometimes differing motivations."

Despite a slowdown during the Global Financial Crisis and its aftermath, cross-border residential land buying activity in Asia-Pacific has been on an upward trajectory over the past decade. When comparing 2016 to 2007, the number of acquisition of residential development sites from overseas investors more than doubled, with volumes hitting more than US$42 billion last year. Although domestic buyers remain the majority group in all Asia-Pacific countries, the increasingly cross-border nature of development activity has been one of the most striking trends of the last few years.

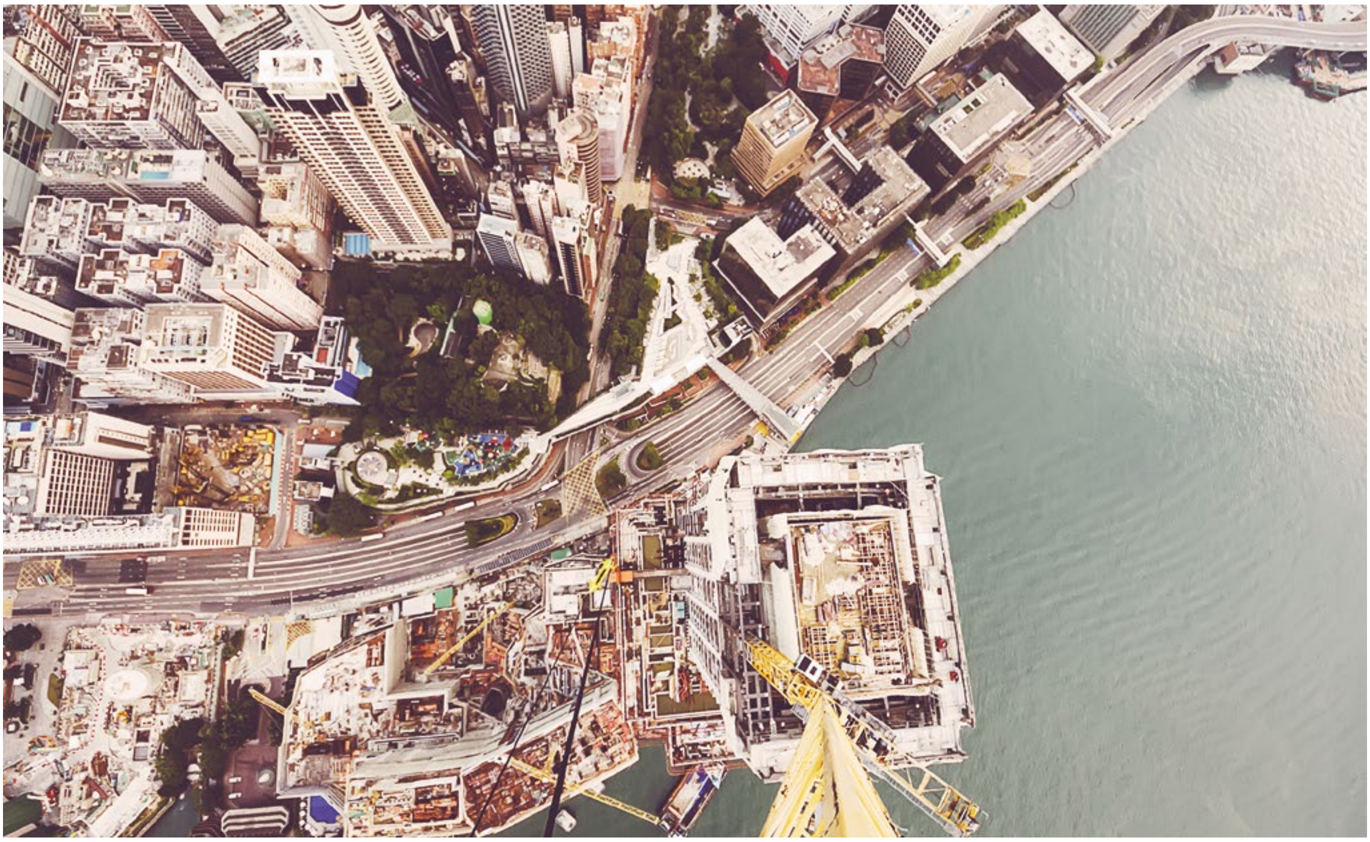
In this edition of *Asia-Pacific Residential Review*, we discuss the diversity of residential development land buyers across Asia-Pacific - analysing the most active developers, their origin, the most popular markets, the type of residential land and the most significant deals. We also provide a localised analysis of land deals done in the past five years in selected countries.

When studying the drivers behind this trend, both pull and push factors are equally important. Evidently, the buyer's profile is an interesting mix – from institutional investors to private developers – and they venture into foreign markets with sometimes differing motivations. In some markets, such as Singapore and Hong Kong, obtaining developable land for domestic players is increasingly a challenge due to limited land supply, strict financing rules, comprehensive cooling measures, slowing population growth and sometimes ironically, increasing competition from foreign buyers. Thus, many have taken the steps to manage their exposure to a tough domestic market by venturing abroad.

On the other hand, some developers make their foray into a relatively mature market for the transparency in legal frameworks, protection of property rights and stability of economic fundamentals. A good case study includes developers from mainland China, the most active cross-border residential land buyers in Asia-Pacific from 2012 to 2016. In Australia, some of these developers have been willing to take the risk to build a first-time bespoke development at a minimal profit margin to help build their brand in overseas markets. Furthermore, driven by a need to diversify their portfolio, many for the first time have been venturing into foreign markets after becoming a household name in homeland China. However, the recent capital controls imposed by the Chinese authority may impact such overseas development activities.

As many residential markets mature over time, the hunt for the next high-yielding property development opportunities may happen in selected developing countries such as Cambodia, the Philippines and Indonesia. Investors and developers will find these locations attractive given the consistently high economic growth, huge young population, rapid urbanisation rate combined with the rising need for different housing types. Similarly, developers may also choose to invest in selected hot spots in mature economies such as Kyoto in Japan, suburbs near major cities in Australia and the city fringe in Singapore.

With all the above reasons, it is not hard to understand why developers and investors go abroad to seek more opportunities. Consequently, this gives birth to a diverse array of buyers in various Asia-Pacific markets with each of them bringing their expertise, adding vibrancy to the local residential property scene.



Regional Snapshot

In **Australia**, the market saw 1.5% price growth in Q4 2016 and 3.5% growth across 2016. Meantime, policy makers have encouraged tighter lending restrictions of the major banks across the board, including limiting interest-only loans to 30% of total new mortgage lending, down from 40% previously. This closer scrutiny has extended to include low-doc loans pushing beyond the 90% loan-to-value ratio (LVR), to include those also at 80% LVR.

In **China**, national house price growth is slowing gradually – from 10.8% year-on-year to just 1.9% in Q4 2016. Strong interventions from the authorities to cool down the red-hot property markets in Tier-1 and Tier-2 cities are showing early results. In Beijing, some of the strictest restrictions were introduced, for example, down payments for second-time buyers of private sector-developed homes were raised to at least 80% of the purchase price, up from 70%, and the definition of "second-time buyer" was broadened to include those who have any mortgage history, regardless of where or whether they currently own a flat.

Hong Kong house prices continue to increase, with the upward trend expected to persist throughout 2017. From Q2 2016 to Q4 2016, house prices increased by 11.2% – the strongest growth of markets tracked. Rebalancing the dynamics in the property market and providing affordable housing for the low and middle classes will be vital for Hong Kong's newly-elected Chief Executive.

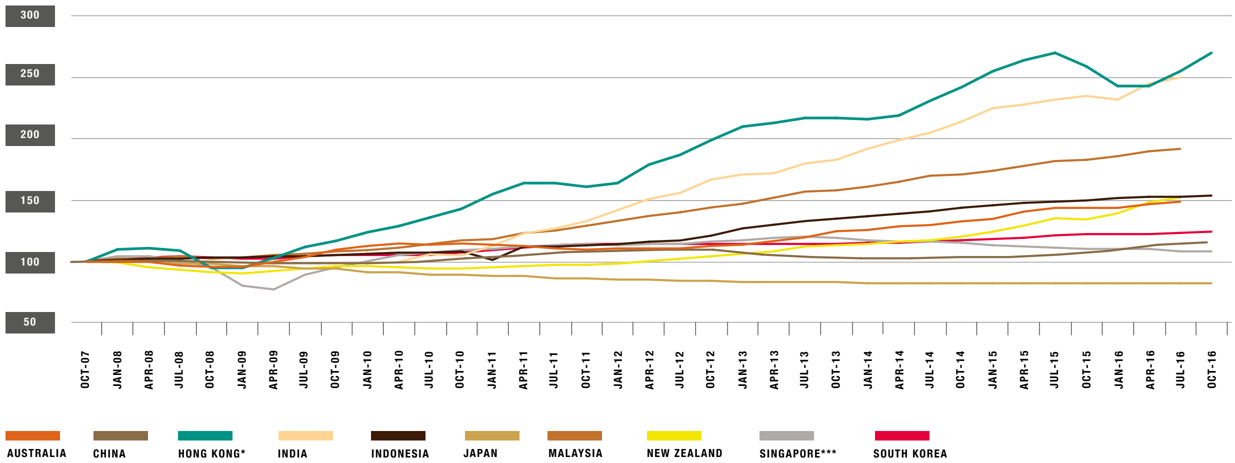
The highly controversial demonetisation initiative in **India** is believed to be softening price growth in the short term, as it poses an unpredictable disruption. In recent months, developers refrained from announcing any new launches and buyers turned extremely cautious before committing to purchases. In the long run, however, the reduction in the black money economy is projected to augur well for the industry, with positive impacts expected to start to be felt by the end of 2017.

Considering all factors such as global and domestic economic conditions, **Indonesia's** property market has entered a mature or consolidation phase. Quarter-on-quarter, house price in Indonesia slowed to a growth of 0.4% compared to the 2.4% increase year-on-year. The outlook for 2017 remains cautiously optimistic with opportunities and challenges. Despite the successful local election and tax amnesty program in early 2017, buyers are still adopting a wait-and-see approach. However, the new infrastructure underway and plans for its acceleration are expected to see increased consumer confidence and optimism in the near term.

House prices in **Japan** stayed flat in the second half of 2016, recording a marginal drop of 0.2% for the whole of 2016. The government relaxed its immigration policy and now allows highly-skilled foreigners to apply for permanent residency after as little as a year. As an attempt to boost its declining young working population, this new point system may potentially propel more demand in housing, further strengthening the appeal of Japanese residential properties.

FIGURE 2

10-Year Country-Level House Price Performance



Source : Knight Frank Research

Indexed (Q4 2007 = 100)

Note: *Provisional ***Island-wide price index for non-landed private properties

Data for Australia, India, Malaysia, New Zealand is to Q3 2016

The general performance and outlook for **Malaysia's** property market is still lacklustre as both economic conditions and public sentiments are down. Given the relatively solid economic fundamentals, and a weak Ringgit (it slid close to 4.5% against the US dollars in 2016), some investors, including overseas buyers, may opt to capitalize on this opportunity to purchase discounted properties that offers stability and long-term potential.

A lack of supply, rising demand and record low interest rates fuelled a 12.7% price growth in **New Zealand**, making it the second strongest-performing market worldwide last year. In recent months, however, market activity has seen some slowdown as the Reserve Bank of New Zealand continues to lobby the government to add debt-to-income limits to its macroprudential cooling measures.

Taiwan's housing market was the second weakest-performing globally in 2016, with a 6.5% year-on-year decline. The local property market has been affected by the integrated Housing and Land Tax and high holding tax at the beginning of 2016. As a result of the Government's cooling measures, transaction volumes declined by 35% to 245,000 last year.

The slight tweaking of cooling measures in **Singapore** was a surprise move in March. The government reduced the holding periods for residential property purchase down to three years from four years while also lowering the Seller's Stamp Duty by four percentage points. Additionally, the total-debt-servicing ratio framework for mortgage equity withdrawal loans with loan-to-value ratios of 50% and below has been removed. On the other hand, regulators also imposed the Additional Conveyance Duties on residential property holding entities, which closed a tax loophole that allowed developers to offload apartments in bulk to institutional investors and wealthy Singaporeans.

2016 was another strong year for **Thailand**'s prime and super prime condominium market, particularly in Bangkok. Despite a slowing economy, demand stayed high, supporting price growth. With limited land and growing competition for capital from other real estate classes, the prime residential sector is expected to witness moderate price growth amidst potentially slower sales activities in 2017.

SPECIAL ANALYSIS

Asia-Pacific Cross-Border Residential Land Acquisition Activity

KEY POINTS

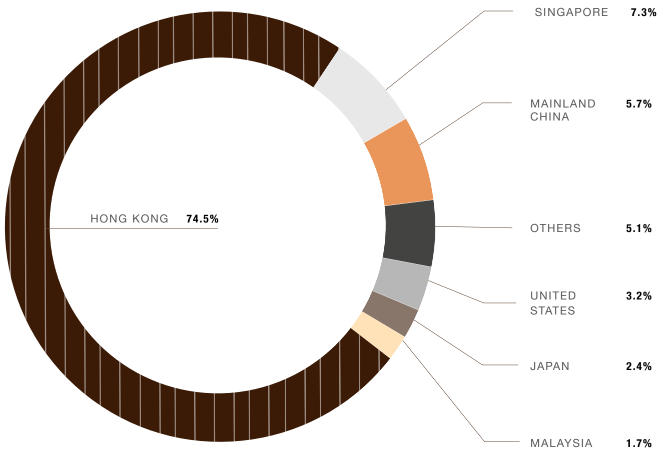
Over the last ten years, close to a total of US$2.1 trillion was invested in Asia-Pacific residential land sites, with approximately 11% (amounting to US$230 billion) originated from cross-border deals

Over 94% of this cross-border buyer activity came from Asia-Pacific developers, with merely around 6% of buyers originating from outside the region

Contrastingly, over the same period, Asia-Pacific developers invested a total of only US$6 billion in residential land sites in Europe, the Americas and Africa, therefore demonstrating a strong preference for opportunities within their home region

FIGURE 3

Cross-border Buyer Nationality as % of Total Volumes 2007 - 2016

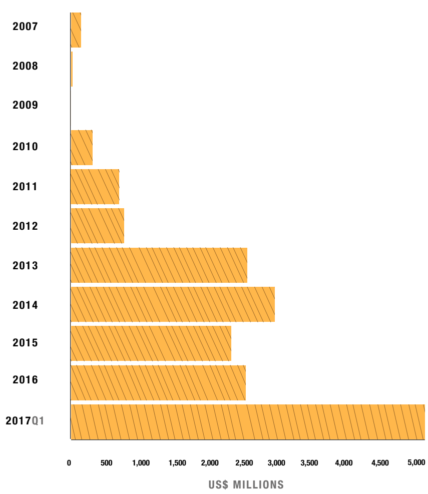


Source : Real Capital Analytics, Knight Frank Research

The main bulk of this cross-border capital originated from Hong Kong and mainland China, constituting 80.2% of the total money spent on acquiring overseas residential lands within Asia-Pacific. On the surface, Hong Kong alone is the front-runner with 74.5% of the market share but in fact the most acquisitive companies have roots in the mainland. For instance, three out of the top five most aggressive overseas housing developers listed in Hong Kong are subsidiaries of Chinese state-owned enterprises. Thus, it is no surprise that Chinese money has been in the limelight recently. Notably, as an island-state, Singapore-based developers are trailing behind Hong Kong, snapping up 7.3% of the total cross-border volume as they actively pursue more overseas development opportunities. Other notable players include United States (3.2%), Japan (2.4%), Malaysia (1.7%) and United Arab Emirates (1.1%).

FIGURE 4

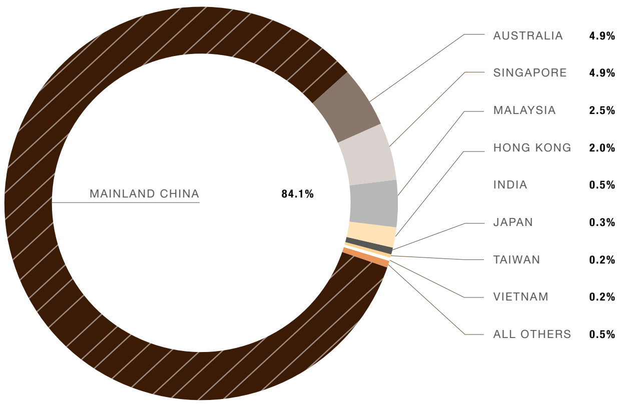
The Growing Wave of Chinese Capital



Source : Real Capital Analytics, Knight Frank Research

The growth in outbound activity by mainland Chinese developers has been one of the key trends over the past decade, with volumes going from practically zero in 2009 to more than US$2.5 billion in 2016. From 2012 to 2016, their favourite destination was Australia (36.5%) along with other key markets include Hong Kong (23.7%), Malaysia (19.7%) and Singapore (15.4%). Following the flurry of cooling measures introduced in major Chinese cities and the recently enforced capital controls, we expect Chinese developers to put more money into Hong Kong and smaller Tier-3 Chinese cities this year. In the first quarter of 2017 alone, Chinese developers invested over US$5.1 billion in the region, with more than US$4.9 billion or 95% concentrated in Hong Kong.

FIGURE 5
Most Popular Investment Destinations for Residential Land in Asia-Pacific 2012 - 2016



Source : Real Capital Analytics, Knight Frank Research

From 2012 to 2016, the top five overseas investment destinations for residential land in Asia-Pacific were ranked in the following order: mainland China, Australia, Singapore, Malaysia and Hong Kong. The biggest gainers during this period include Hong Kong, Australia and Malaysia. The first two countries saw investments into their countries increased by about nine times and 26 times respectively while Malaysia grew from zero foreign investment into residential development sites in 2012 to over US$1.4 billion in 2015. Meanwhile, the average investment into Singapore's housing land from 2012 to 2015 was about US$1.6 billion but it declined to US$671 million in 2016.

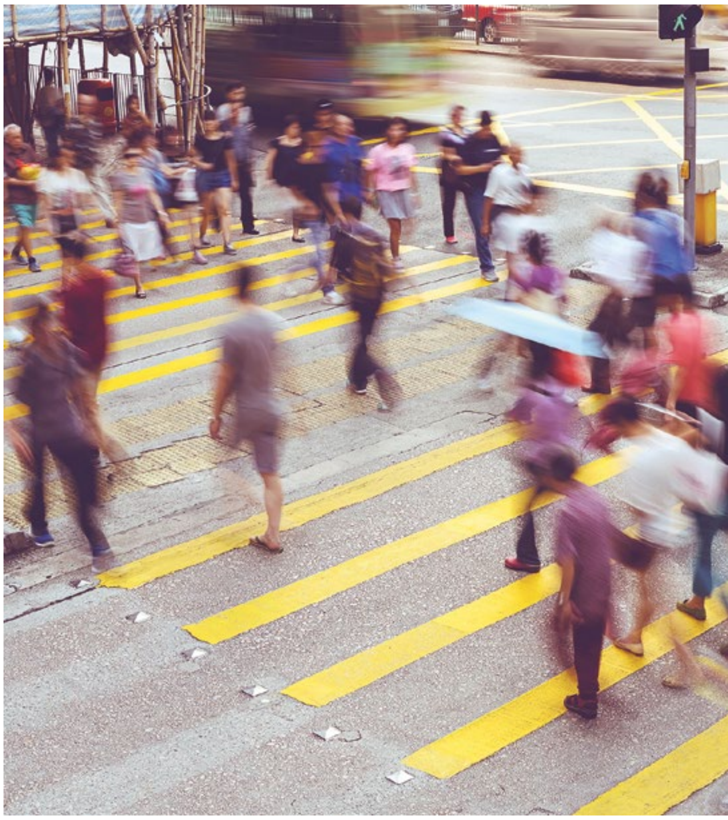
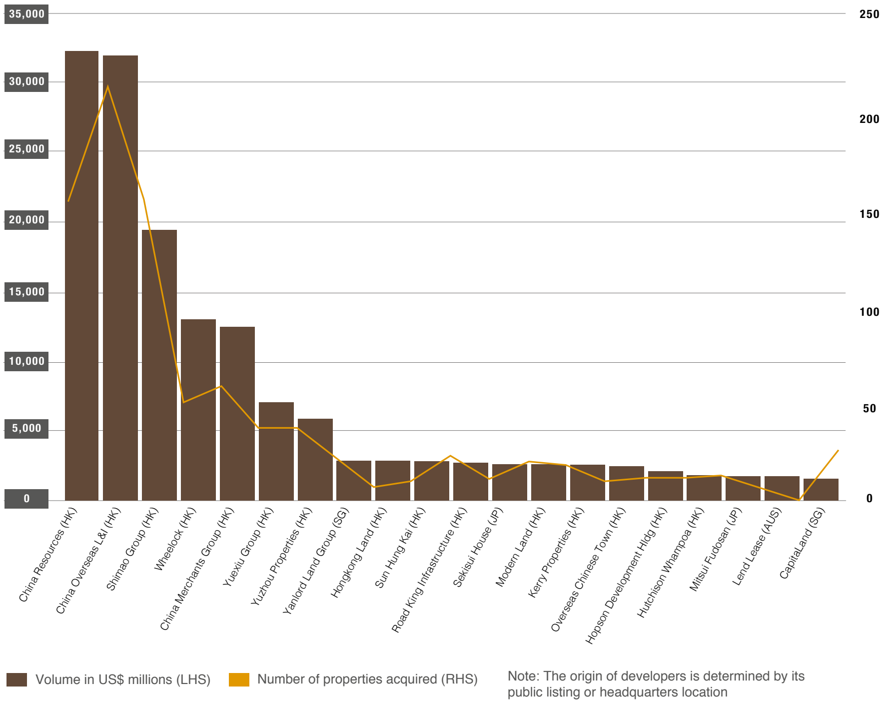


FIGURE 6
Top 20 Asia-Pacific Cross-Border Developers 2007 - 2016



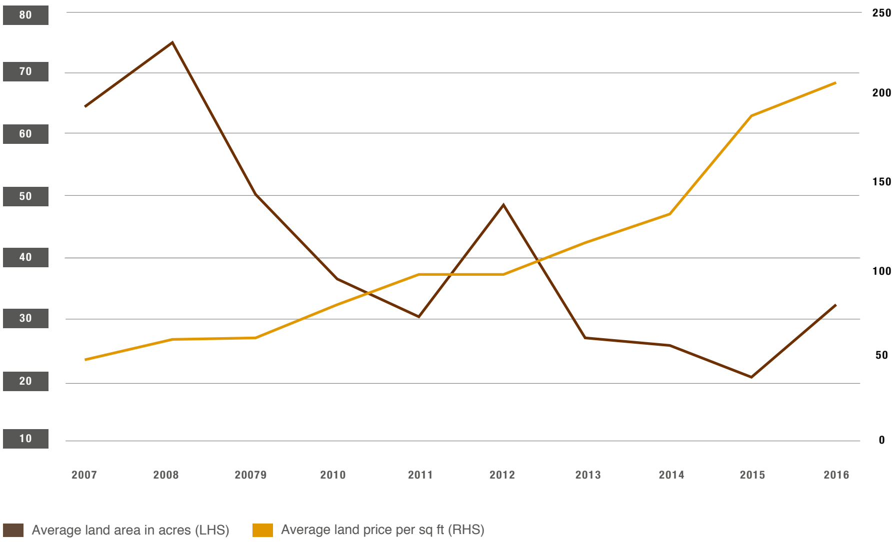
Note: The origin of developers is determined by its public listing or headquarters location

Source : Real Capital Analytics, Knight Frank Research

15 of the developers on the top 20 list of most active developers are based in Hong Kong. However, as aforementioned, companies like China Resources, China Overseas Land & Investment and China Merchants Group are listed in Hong Kong but have origins in the mainland. As a result, most of their 'overseas' deals are done in mainland China. At the same time, the average number and percentage of deals done in joint venture was 13.6%, as both local and foreign developers recognise the importance of local knowledge and foreign capital as well as expertise.

FIGURE 7

Average Price (per sq ft) vs. Average Land Area (acres)



Source : Real Capital Analytics, Knight Frank Research

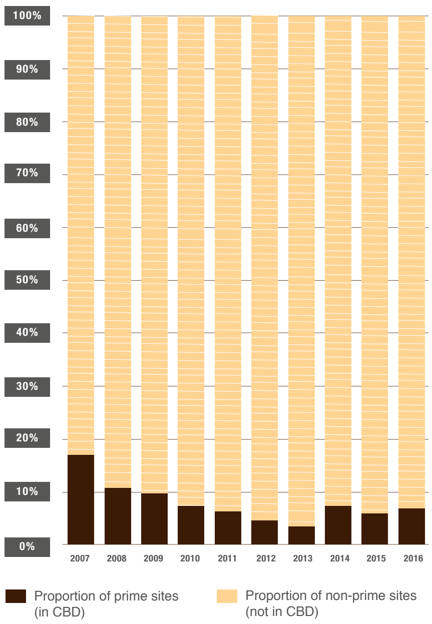
In Q1 2017, we continue to see more cross-border investment activities in Asia-Pacific – with close to US$10 billion representing 15.2% of the total sales volume. In addition, this is also the highest Q1 figure ever recorded since at least 2007. Three of the top five deals transacted in Hong Kong were all purchased by Chinese developers; the rest of the top ten deals were in mainland China.

Analysing the deals done over the last ten years, we see that developers have been acquiring more expensive, less prime and smaller sites. Both the average quantum price and price per sq ft have grown gradually on a CAGR basis – increasing 4.7% per year from US$154 million to US$242 million and 15.9% per year from US$47 to US$208 per sq ft. For land size, the acquired sites now have much smaller land area – averaging 32 acres today compared to 65 acres 10 years ago. Likewise, the percentage of acquired sites that are in a CBD area has dropped tremendously – from about a fifth in 2007 to just 6.0% in 2016. This trend can be attributed to a couple of factors: limited supply of big, prime sites and the increasing understanding of the local residential market. Usually, first-time entrants prefer to build a bespoke development as a statement-making landmark in a central location. As they obtain deeper foothold in the market, it is not unusual for them to build houses in secondary locations.

In addition to increasingly tightly controlled Chinese outbound activity, the residential development sector may have to compete for funds with other alternative investment-grade real estate classes such as logistics and hospitality. Given the growing uncertainties in the world, Asia-Pacific developers may also choose to invest in selected hot spots in mature economies such as Kyoto in Japan, suburbs near major cities in Australia and city fringe in Singapore.

FIGURE 8

% of CBD Sites

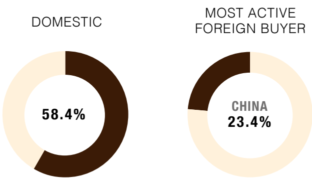


Source : Real Capital Analytics, Knight Frank Research

COUNTRY ANALYSIS

Five-year breakdown of market share between domestic and foreign developers, notable deals and localised analysis over the period of 2012 to 2016.

Australia



Notable Mentions:
Singapore, Hong Kong, Japan, Malaysia and United Kingdom

From 2012 to 2016, domestic developers and investors purchased 58.4% of residential development land in Australia, while the largest foreign developer group hailed from China (23.4%). Last year, Chinese developers and investors purchased $2.4 billion worth of residential development sites in Australia – a 9.4% increase from 2015. Boasting an economy record without recession for over 25 years, Australia has also seen a steady population growth partially fulfilled by a healthy immigration rate especially the high-net-worth individuals.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2016	YMCI Homebush City Garden	Lidcombe, Sydney	501.8	China	Apartment and Retail
2016	Hill Road	Wentworth, Sydney	275.7	Japan	Apartment
2016	50A Hacketts Road	Point Cook, Melbourne	144.4	China	Houses

Source : Real Capital Analytics, Knight Frank Research

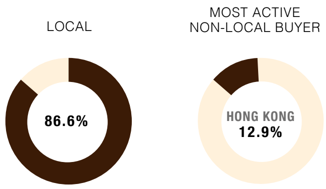
Cambodia

Real estate developers from across Asia, particularly from China, Singapore, Taiwan and Korea have gone into Phnom Penh, seeking a share in one of the last frontier markets in Asia. Additionally, legislation in 2010 that allowed foreigners to buy high-rise property paved the way for more inbound investments. The country's economy has been growing around seven percent on average since 2010, attracting investors to buy up residential lands and units to tap on the growth opportunity in this fast-urbanizing nation.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2013	-	Phnom Penh	13.2	Singapore	Apartment
2013	-	Phnom Penh	11.3	Singapore	Apartment
2015	D'Seaview	Krong Preah Sihanouk	7.9	Singapore	Apartment and Retail

Source : Real Capital Analytics, Knight Frank Research

Mainland China



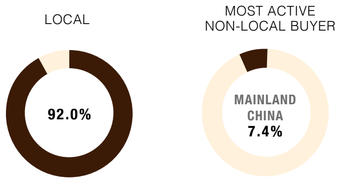
The acquisition of residential development sites had been dominated by local buyers; the only major foreign group of buyers came from Hong Kong. In first-tier Chinese cities, domestic developers accounted for 86.6% of the total sales value while Hong Kong took up 12.9% of the share for 2012 - 2016. As the market matures, to some, the incentive to expand domestically is thinning as competition toughens and profit margin returns to a normal level; to others, aggressive moves on land-banking is necessary given a persistently strong demand and undersupply in certain cities.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2014	-	Foshan, Guangdong	1,370.4	Hong Kong	Residential, Retail and Hotel
2007	-	Nan'an, Chongqing	1,005.2	Hong Kong	Residential and Retail
2011	-	Qingdao, Shandong	551.6	Hong Kong	Residential and Retail

Note: Only deals in Tier-1 cities are included for the market share breakdown analysis

Source : Real Capital Analytics, Knight Frank Research

Hong Kong SAR



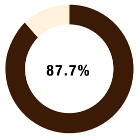
The land-buying activities in Hong Kong by mainland Chinese developers is widely reported in the press. In the past two quarters (Q4 2016 to Q1 2017), mainly driven away by harsh cooling measures and the need to hedge against the declining Renminbi, mainland Chinese developers have outspent Hong Kong developers and accounted for 62.1% of the total sales volume. Even though on the surface, from 2012 to 2016, developers based in Hong Kong had stayed as the dominant buyers (92.0%), many of the developers listed in Hong Kong have roots in the mainland.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2016	-	Kai Tak, Kowloon	697.9	Mainland China	Apartment and Retail
2013	-	Tsuen Wan, New Territories	438.7	Mainland China	Apartment
2015	-	Castle Peak Bay, New Territories	223.2	Mainland China	Apartment

Source : Real Capital Analytics, Knight Frank Research

India

DOMESTIC



Notable Foreign Buyers:
United States, United Kingdom, Mauritius and Singapore

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2014	-	Multiple locations	376.8 (Partial Interest)	United States	Portfolio of seven apartment sites
2014	-	Chengalpattu, Tamil Nadu	108.0 (Partial Interest)	Israel	Residential and Commercial
2014	Aquapolis	Ghaziabad, Uttar Pradesh	86.3 (Partial Interest)	United States	Apartment

Source : Real Capital Analytics, Knight Frank Research

Recent property-related reforms such as the Real Estate Regulation Act, REITs, foreign direct investment (FDI) and goods and services tax are encouraging to investors in the long term. For foreign developers, this is especially true as the Indian government now allows 100% FDI into the real estate industry. As such, increasingly, foreign investors are partnering with local Indian developers to expand their footprints in India. For 2017, the Indian economy is expected to grow by 7.4% which will help put its real estate market on the radar of many investors.

Indonesia

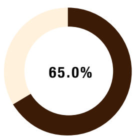
With about 29 million Indonesians in their productive age, the fourth-most populous country in the world presents huge market potential for residential developers and investors. Through joint ventures and outright purchases, many overseas investors are partnering with Indonesian developers to share risks and increase funding. Also, local developers will be able to speed up the development of their large land banks and leverage on international brand names and technical expertise from foreign investors to boost the marketability of their projects.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2014	-	Jakarta	33.0	Singapore	Apartment and Retail
2012	-	Jakarta	30.8	Malaysia	Apartment
2015	-	Jakarta	30.8	Singapore	Apartment and Retail

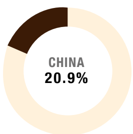
Source : Real Capital Analytics, Knight Frank Research

Malaysia

DOMESTIC



MOST ACTIVE FOREIGN BUYER



Notable Mentions:
Singapore, Australia and Canada

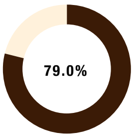
Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2013	R&F Princess Cove	Johor Bahru, Johor	1,396.1	China	Apartment, Retail, Office and Hotel
2015	Tebrau Bay Waterfront City	Johor Bahru, Johor	850.8	China	Apartment, Retail, Office and Hotel
2015	Tun Razak Exchange Lifestyle Quarter	Kuala Lumpur	497.8	Australia	Apartment, Retail, Office and Hotel

Source : Real Capital Analytics, Knight Frank Research

Favourable foreign residency scheme, low cost of living and strong economic potential make Malaysia appealing to international investors. In the past five years, about 35.0% of residential lands were purchased by foreign buyers, of which the majority was from mainland China. Johor state, which is just across the border from Singapore, has emerged among the top destinations for Chinese developers. Barren ground and reclaimed lands are being turned into high-rise luxury flats, targeting buyers from China as well as overseas buyers like Singaporeans. As its closest neighbour, the investment into Malaysian residential land by Singaporean investors has been healthy – but significantly lower than the Chinese from 2012 to 2016 ($964 million versus $2.4 billion).

Singapore

DOMESTIC



Notable Foreign Buyers:
Australia, China, Hong Kong, Japan, Malaysia and United Arab Emirates

From 2012 to 2016, domestic developers constituted most of the market share at 79.0%; the rest of the share was split among different countries with none of them having shares of more than 10.0%. In Singapore, developers face some of the most stringent regulations such as Qualifying Certificate rules and Additional Buyers' Stamp Duty, as the government aim to prevent land hoarding and encourage reasonable pricing.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2010	Guoco Tower	Tanjong Pagar	1,323.4	Hong Kong	Apartment, Retail, Office and Hotel
2015	Paya Lebar Quarter	Paya Lebar	1,226.9	Australia and UAE	Apartment, Retail and Office
2008	Pinnacle Collection	Sentosa Cove	761.7	Malaysia and local JV	Apartment

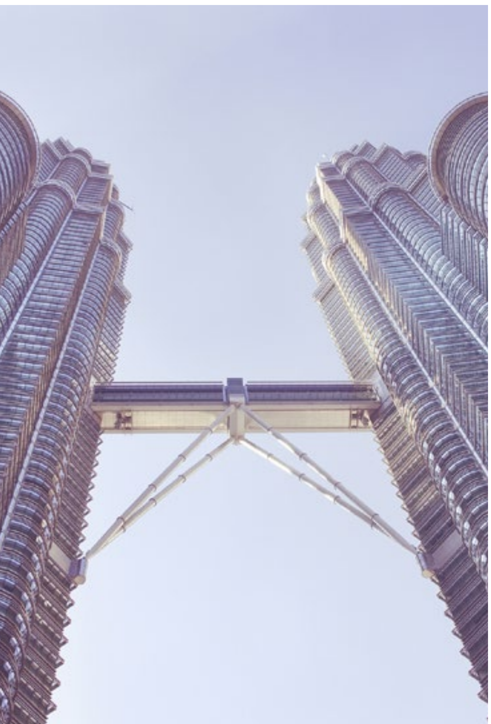
Source : Real Capital Analytics, Knight Frank Research

Thailand

The Thai residential sector is often favoured by foreign investors as a gateway to other ASEAN countries. While residential land investment activity by overseas developers to date seemed limited on the surface, some of the transactions were done in joint ventures with local Thai developers or acquisitions of stakes in Thai property companies, due to government's restrictions on foreign ownership. Such strategic joint ventures are symbiotic as local developers may tap on the networks their foreign partners have in their home countries.

Year	Name	Location	Price (US$ millions)	Buyer Origin	Type
2008	The Lofts Southshore	Bang Lamung, Chonburi	129.3	Kuwait and local JV	Apartment and Retail
2008	Mahanakhon	Bangkok	74.1	Israel and local JV	Apartment, Retail and Hotel
2013	Ideo Q Chula Samyan	Bangkok	45.7	Japan and local JV	Apartment

Source : Real Capital Analytics, Knight Frank Research



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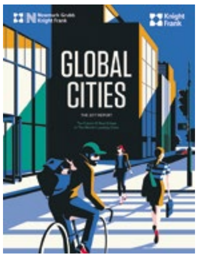
The Wealth Report 2017



Global Cities 2017

Global House Price Index Q4 2016

Prime Office Rental Index Q4 2016

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