

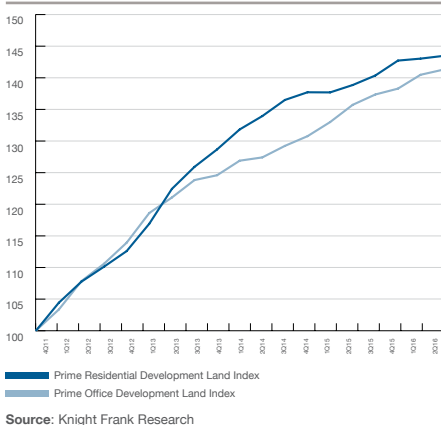
Highlights

H1 2016 saw development land investment volumes in Asia match the level registered in the corresponding period last year

With state-owned enterprises purchasing land aggressively, China saw a 6.0% year-on-year increase in volumes

Cross-border land investment volumes fell by 11.5% year-on-year

FIGURE 1
Prime Asia Land Price Indices
Unweighted



TIER-1 CHINESE CITIES SEE LAND PRICE PREMIUMS DRIVEN HIGHER

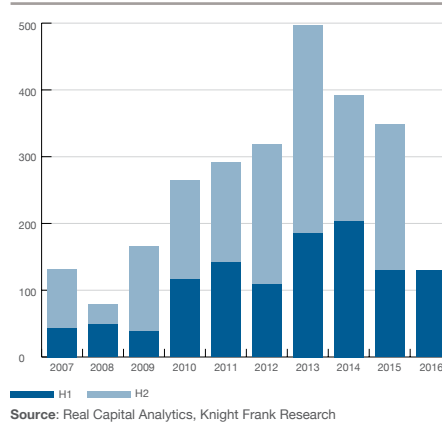
Knight Frank's Prime Asia Development Land Index shows prices of residential sites in the region increase at a slower pace of 1.9% in H1 2016, down from 2.8% in the preceding six months. Price growth of office land, however, picked up speed to 2.2% from 1.9%.

In H1 2016, development land investment volumes in Asia matched the level registered in the corresponding period last year. As compared to the preceding six months, however, they were 40.4% lower, as land markets tend to be more active in the second half of the year, which accounts for 60% of the transactions historically. With state-owned enterprises purchasing land

aggressively, China, which accounts for more than 90% of the deals in Asia, saw a 6.0% year-on-year increase in volumes. Meanwhile, a few big-ticket transactions boosted volumes in Thailand by 190.4%.

By area, transactions continued to shrink, falling 19.3% year-on-year in H1 2016, meaning that the investment volumes were supported by rising per unit area prices.

FIGURE 2
Investment Volumes in Asia
US\$ billion, development sites ≥ US\$10 million

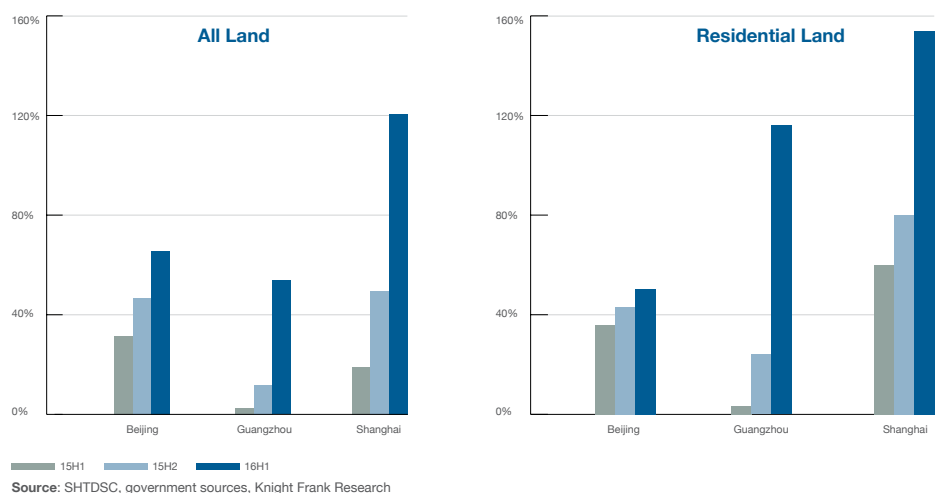


Cross-border land investment volumes fell by 11.5% year-on-year. Part of the reason is that while Chinese developers have previously snatched up land in Hong Kong and Singapore, they now appeared to have joined their local counterparts to become more cautious amid the ongoing correction in housing prices in these markets; as a result, China bought 88.8% less land year-on-year in the rest of Asia.

In China, among the cities tracked, **Shanghai** experienced the strongest growth in prime residential land prices. While the government raised the downpayment requirement on second and subsequent properties as well as tightened non-locals' purchase eligibility, shadow banking and peer-to-peer financing

"In Jakarta, if the recently passed tax amnesty scheme succeeds, the repatriation of funds, together with the easing of monetary and macro-prudential policies... could boost demand for prime residential properties."

FIGURE 3
Average Premium over Auction Reserve Price in China



PRIME ASIA DEVELOPMENT LAND INDEX

have helped home buyers circumvent these rules, although authorities are closing the loopholes. Together with loose monetary policy, these financing options have fuelled residential investment in **Beijing** and **Guangzhou** as well. As a result, according to the National Bureau of Statistics, residential prices in Beijing, Guangzhou and Shanghai surged by 15.3%, 12.8% and 19.5% respectively in H1 2016. This has emboldened developers to bid for land aggressively. In particular, Shanghai witnessed the average premium over reserve price in residential land auctions soar to 154% in H1 2016 from 60% in the corresponding period last year. Meanwhile, given the massive upcoming supply of office space, the prices of commercial land in these cities grew at a more moderate but still robust rate.

The tables turned in India. As a result of an overhang of unsold prime housing inventory in **Mumbai** and **New Delhi** that requires an estimated four and seven years to clear respectively, our indices registered a decline in prime residential land prices. **Bengaluru** is in a relatively better shape. The Silicon Valley of India topped the country in terms of office space take-up as it continues to draw firms to establish or expand their presence there, creating employment and hence housing demand. At less than three years, the time needed to sell the prime inventory is significant but much shorter. The strong office leasing demand has also boosted the

FIGURE 4

Land Price Index (% change)

Prime Residential

City	H1 2016	Year to Jun'16
Tokyo	16.8%	30.8%
Shanghai	9.6%	14.3%
Beijing	6.7%	15.2%
Phnom Penh	5.8%	16.2%
Bangkok	3.2%	7.3%
Guangzhou	2.8%	4.7%
Jakarta	0.7%	2.9%
Bengaluru	0.4%	3.1%
Kuala Lumpur	-0.2%	-2.2%
Mumbai	-1.0%	-4.8%
Singapore*	-2.5%	-2.5%
Hong Kong	-6.3%	-7.8%
NCR	-9.9%	-9.5%

Prime Office

City	H1 2016	Year to Jun'16
Bengaluru	6.1%	9.1%
Beijing	6.0%	7.0%
Phnom Penh	5.6%	14.8%
Shanghai	4.5%	9.3%
Tokyo	3.9%	7.5%
Bangkok	3.5%	6.5%
Hong Kong	2.5%	-3.9%
Guangzhou	2.3%	2.6%
NCR	0.0%	3.5%
Jakarta	-0.2%	0.7%
Kuala Lumpur	-0.4%	-2.3%
Mumbai	-0.8%	5.9%
Singapore*	-4.4%	-4.4%

*Percentage changes for 6 months and year to Mar'16 respectively
Source: Knight Frank Research

prices of prime office development sites in Bengaluru, which grew the fastest in the region. Similarly, prices of commercial land in Mumbai and New Delhi outperformed those of residential sites.

Tokyo registered the largest increase in our residential index. The negative interest rate introduced by the Bank of Japan has brought mortgage rates down,

supporting housing demand. Recent condominium launches with hefty price tags were met with much enthusiasm from home buyers, with one development in Minato ward even fetching a record high average price of JPY 11.6 million per tsubo (approximately USD 33,800 per sq m), prompting us to adjust the achievable gross development value upwards. Sites

FIGURE 5

Recent Prime Development Land Transactions

Market	Address	Development	Buyer	US\$ (mil)	US\$/sq m land	US\$/sq m max GFA	Date
Beijing	Plot OS-06A, OS-10B, North of Beitucheng Middle Road, Chaoyang District	Commercial	Beijing Urban Construction, Beijing Inno-Olympic	631	34,448	5,284	Jan-16
Shanghai	Plot 33-02, 46-02, 44-01, 46-01, Zhabei District	Mixed Use	Shenzhen Overseas Chinese Town, China Resources	1,054	16,037	-	Jan-16
Guangzhou	Plot AH040163, Pazhou West, Zhuhai District	Commercial	Guangzhou Industry and Commerce Union Investment, Guangdong Highsun, Guangzhou Yuetian Investment Management, Guangzhou Jingheng Investment	330	47,792	1,994	Feb-16
Hong Kong	Sheung Shing Street, Ho Man Tin	Residential	Goldin Financial	821	90,466	15,078	May-16
Singapore	Corner of River Valley Close and Martin Place	Residential	Guocoland	441	27,693	9,890	Jun-16
Bangkok	Corner of Silom Road and Convent Road, Bang Rak	Commercial	NYE Development, Royal Garden Plaza	330	34,348	-	Feb-16

Source: Various media outlet, Knight Frank Research

for office development also enjoyed healthy price growth given by a slight compression in yields and the eight-year low prime vacancy rate at the end of H1 2016.

Similarly, prices of office land in prime locations in **Hong Kong** were also buoyed by limited availability. However, on the residential side, the confluence of weak demand due to economic headwinds and abundant future supply exerted downward pressure on prices.

In Southeast Asia, a strong supply pipeline in the prime office markets of **Jakarta**, **Kuala Lumpur** and **Singapore** weighed on rents. Meanwhile, the lacklustre global economy has softened leasing demand. In particular, the Jakarta and Kuala Lumpur office markets continued to be impacted by the slump in the oil and gas industry, while the slowdown in financial services sector is dampening demand in Singapore. Consequently, the prime office land indices for these cities registered negative growth in H1 2016. In addition to economic slowdown, the prime

residential market in Jakarta was also adversely affected by the government's effort to tackle tax evasion as well as lower affordability following years of rapid price appreciation. Residential land prices barely moved as a result. However, if the recently passed tax amnesty scheme succeeds, the repatriation of funds, together with the easing of monetary and macro-prudential policies by raising loan-to-value and financing-to-value ratios for instance, could boost demand for prime residential properties. In Singapore, the prices of luxury homes started rising in H2 2015 after tumbling by more than 20% in the previous one and a half years according to Knight Frank's Prime Global Cities Index. As such, prime residential land prices could stabilise in the near future.

Demand for prime land in **Bangkok** remained robust due to limited availability. Nearby, **Phnom Penh** continued to outperform other cities in Southeast Asia, although price growth is decelerating.

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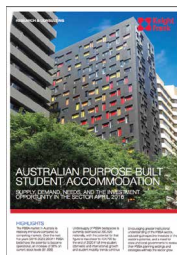
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