

GREATER CHINA ENDS 2014 ON A BRIGHTER NOTE

Knight Frank's Prime Asia Development Land Index reflected a generally positive land market in the region. Helped by improvements in several markets, the land price index for office sites picked up speed, growing 2.7% in H2 2014, faster than the 2.3% increase seen in the previous six months. The growth of residential land prices, however, moderated to 3.4% from 3.8% (Figure 1).

The Chinese prime land markets in general underwent ups and downs in 2014. After a positive start, land markets languished in the middle of the year, as house prices corrected and office rents declined amid an economic slowdown. They finally returned to life towards year end after the government implemented a series of stimulus measures, including a relaxation of mortgage rules and a reduction of interest rates. For instance, Shanghai saw a record USD 4 billion transaction in November and another deal fetching a record USD 10,834 per sq m of developable Gross Floor Area in December (see Figure 5). Among the major markets surveyed, Shanghai's commercial land proved to be the exception, with our index showing positive movement in all four quarters of 2014. Beijing, on the other hand, was the worst performer, especially for commercial land, as construction costs surged. With the likely further easing of monetary policy, we expect the land markets to stay buoyant this year.

After falling for five quarters, the Hong Kong land indices finally bounced back in H2 2014. Although construction costs remained elevated, the recovery in prime residential and office prices provided a lift. Even as the government continues to release more sites, for residential development especially, we expect the prices of prime land to be supported by the limited supply in urban areas moving forward.

Land markets in the other Asian financial hub, however, did not share the same fate. While office land prices in Singapore inched upwards due to strong rental growth, existing property cooling measures and the Total Debt Service Ratio ruling continued to weigh on the residential market and hence developers' confidence.

Likewise, a series of macro-prudential policies combined with the uncertainties concerning the impending implementation of Goods and Services Tax in April 2015 slowed down activities and caused residential land prices to move sideways in Kuala Lumpur. Commercial land had a similar experience due to a strong office supply pipeline.

Highlights

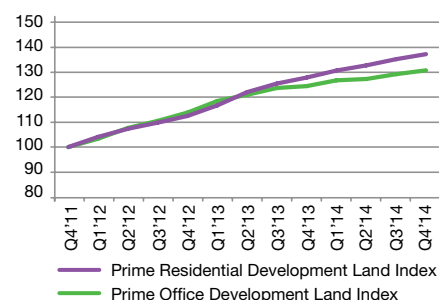
Bengaluru saw the largest increase in the prime residential development land index in H2 2014; Phnom Penh topped Asia for the prime office development land index

A weaker Yen is making luxury condominiums in Tokyo more attractive to foreigners

After falling for five quarters, the Hong Kong land indices finally bounced back in H2 2014

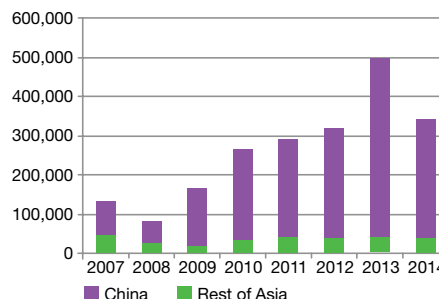
Land sales volumes in China plunged by 33.5% in 2014

FIGURE 1
Prime Asia Land Price Indices
Unweighted



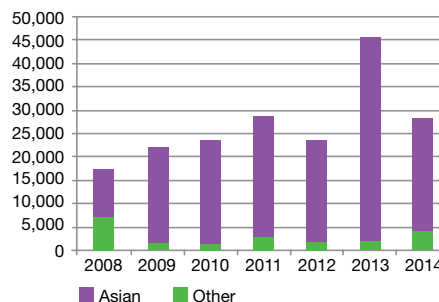
Source: Knight Frank Research

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



Source: Real Capital Analytics, Knight Frank Research

FIGURE 3
Cross-Border Developer Activity
Origin of cross-border investment volumes in Asia
(US\$ million, development sites > US\$ 10 million)



Source: Real Capital Analytics, Knight Frank Research

“While Asian developers are making less cross-border acquisitions within the region, non-Asians pumped in 118.5% more investment.”

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PRIME ASIA DEVELOPMENT LAND INDEX

FIGURE 4

Land Price Index (% change)

Prime Residential			Prime Office		
City	H2 2014	2014	City	H2 2014	2014
Bengaluru	11.0%	18.5%	Phnom Penh	11.1%	19.5%
Phnom Penh	10.7%	25.9%	Tokyo	8.8%	15.2%
Bangkok	8.0%	27.6%	Jakarta	6.3%	15.2%
Shanghai	4.7%	11.2%	Hong Kong	3.9%	-0.8%
Jakarta	4.2%	12.5%	Mumbai	3.5%	1.4%
Hong Kong	2.8%	-1.6%	Bangkok	1.9%	4.8%
Mumbai	2.4%	8.9%	Kuala Lumpur	1.7%	0.3%
Kuala Lumpur	1.4%	4.0%	Singapore	0.8%	1.5%
Guangzhou	0.4%	1.0%	Shanghai	0.7%	2.1%
Beijing	-1.1%	-3.4%	Bengaluru	0.0%	9.2%
Singapore	-1.6%	-3.1%	Guangzhou	-2.6%	-1.2%
Tokyo	-2.2%	-0.9%	Beijing	-2.8%	-3.9%

Source: Knight Frank Research

Following the deceleration in house price and office rental growths, land prices increased at a less rapid pace in Jakarta.

In India, the performance of land markets has been mixed. A large inventory of unsold houses limited the price growth of residential land in Mumbai. However, increased rental demand from the financial and consultancy sectors amid a shrinking supply pipeline in the commercial capital contributed to an uptick in office land price. The Silicon Valley of India experienced just the opposite: capital improvement and consistent sales in the prime housing market helped Bengaluru see the fastest growth in residential land prices in the region, while office land prices stayed flat. However, with healthy demand from the information technology and e-commerce sectors, prospects look set to improve.

In Bangkok, residential sites continued to outperform commercial land in terms of price

growth. High profit margin and quick project turnover have been allowing condominium developers to outbid others for scarce prime sites in central Bangkok. In H2 2014, the prices of residential land rose by an impressive albeit slower 8.0%.

In contrast, Tokyo saw the price growth of commercial land accelerating to 8.8%, on the back of improved corporate earnings, which has propelled leasing demand for office space which in turn drove investment demand. In the residential sphere, while the impact of consumption tax hike per se was mitigated by incentives for homebuyers in the form of tax breaks, the technical recession experienced in the middle of the year dampened demand. However, a weaker Yen due to the Bank of Japan's expansion of its quantitative easing programme is making luxury condominiums more attractive to foreigners and should support residential land prices.

Phnom Penh was the star performer with residential and office land prices registering 10.7% and 11.1% increases respectively over the last six months of 2014. Residential properties continued to enjoy robust sales to overseas investors – particularly Taiwanese, Japanese and Singaporeans – and fetch benchmark prices while commercial buildings witnessed sustained healthy leasing demand from foreign firms seeking to tap into the strong economic growth in the city.

Although land prices on the regional level continued to climb upwards, the sales volumes in Asia tumbled by 31.0% last year from an extraordinarily high base in 2013 (Figure 2). This is due to a 33.5% plunge in China, as the inventory of unsold houses swelled. In the meantime, the rest of Asia still saw volumes increase marginally. While Asian developers are making less cross-border acquisitions within the region, non-Asians pumped in 118.5% more investment (Figure 3). As the land markets in several major cities improve, we are sanguine about the prospects for increased sales this year.

“With the likely further easing of monetary policy, we expect the Chinese prime land markets to stay buoyant this year.”

FIGURE 5

Recent Prime Development Land Transactions

Market	Address	Development	Buyer	US\$(mil)	US\$/sqm land	US\$/sq m GFA	Date
Beijing	Plot 0110-663 (C2) and 0110-634 (R2), Xicheng District	Mixed Use	Beijing Huarong Infrastructure	1,213	58,683	10,302/sq m	Q3 '14
Guangzhou	Plot AF040131, Liwan District	Residential	Shenzhen Zhenye Group	330	11,582	2,970/sq m	Q3 '14
Shanghai	Plot 616 and 735, Xiaodongmen Sub-district, Huangpu District	Mixed Use	China Minsheng Investment, Shanghai Bund Investment Group and Shanghai Jiadu Real Estate	4,046	31,920	5,762/sq m	Q4 '14
Shanghai	Plot 36-01	Residential	Sanxiang and Kangsheng Development	303	21,668	10,834/sq m	Q4 '14
Hong Kong	Inland Lot No. 11237, Tsim Sha Tsui, Kowloon	Commercial	Henderson Land Development	605	229,990	19,151/sq m	Q3 '14
Bangkok	Corner of Rama 4 and Wireless Road	Mixed Use	Univentures and TCC Assets	-	-	-	Q3 '14

Source: Knight Frank Research



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