

Highlights

- H2 2015 witnessed development land investment volumes in Asia rise by 14.1% year-on-year
- Cross-border volumes increased by 55.3%, driven by intra-Asian investment flows
- China bought almost two times more land in the rest of Asia
- While the average price of a piece of development land has been climbing steadily since mid-2012, the average land size has been shrinking
- In Indonesia, the government's efforts to tackle tax evasion is discouraging big-ticket purchases

FIGURE 1
Prime Asia Land Price Indices
Unweighted



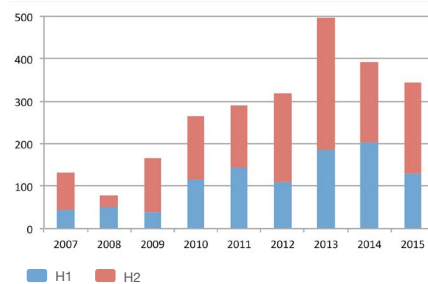
Source : Knight Frank Research

LAND INVESTMENT VOLUMES PICK UP IN H2 2015

Knight Frank's *Prime Asia Development Land Index* shows prices of residential sites in the region appreciating 3.0% in H2 2015, up from the 1.2% seen in the previous six months. On the other hand, the price growth of office land slowed to 1.5% from 3.6% (Figure 1).

H2 2015 witnessed development land investment volumes in Asia surge 65.3% over the previous six months. On a year-on-year basis, volumes rose by 14.1% (Figure 2). The increase was led by China, which accounted for nearly 95% of the total Asian volume in the second half of the year. Other countries that saw phenomenal growth on a year-on-year basis include Vietnam (559.5%) and Thailand (272.3%) as private investment accelerated. Looking forward, China's new policy implemented in late February 2016 to restrict land sales in cities with an overhang of unsold houses will likely dampen transaction volumes, especially in tier-two and tier-three cities.

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

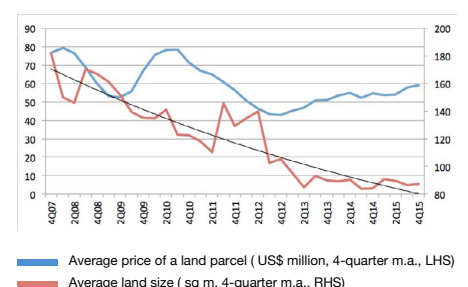


Source : Real Capital Analytics, Knight Frank Research

Cross-border land transaction volumes in H2 2015 jumped by 55.3% year-on-year, driven by intra-Asian investment flows (Figure 2). In particular, China bought almost two times more land in the rest of Asia during the period.

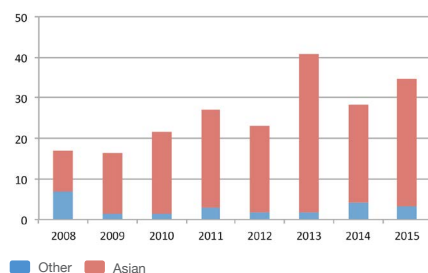
Interestingly, while the average price of a piece of development land has been climbing steadily since mid-2012, the average land size has been shrinking. As a result, the average price per unit area of land has surged during this period (Figure 3). In the prime space, Knight Frank's *Prime Asia Development Land Index* indicates more moderate price growth of 32.9% and 27.5% for residential and office sites respectively since mid-2012.

FIGURE 3
Average Price and Average Size
Development sites ≥ US\$ 10 million



Source : Real Capital Analytics, Knight Frank Research

Cross-Border Investment In Asia
Origin of cross-border investment volumes
US\$ billion, development sites ≥ US\$ 2.5 million



Source : Real Capital Analytics, Knight Frank Research



Source : Real Capital Analytics, Knight Frank Research

“With Japan joining the negative interest rate club, there could be more yield compression and price appreciation.”

PRIME ASIA DEVELOPMENT LAND INDEX

In China, as housing developers shunned smaller cities with over-supply and flocked to tier-one cities with stronger fundamentals, the price growth of prime residential land in **Beijing, Guangzhou and Shanghai** accelerated. The recovery in home prices and sales in these cities, thanks to a string of stimulus measures and stock-market routs that drove investors to seek alternative assets, also prompted the local governments to release more land, contributing to higher transaction volumes. Meanwhile, the strong supply pipeline of office space meant that commercial land did not perform as well. Interestingly, internet companies such as Alibaba and Tencent were among the investors who bought land in Guangzhou, as the government specifically required buyers to be from certain industries as part of its Internet+ project.

Our indices for **Hong Kong** turned south as China's drag on its economy, the expectation of increasing interest rates and strong future supply of homes and office space took their toll on sentiments.

Tokyo's prime residential land index recorded the fastest growth among the cities tracked in H2 2015. Office land also enjoyed healthy price growth as strong leasing demand amid limited supply brought prime vacancy rate down to the lowest level since the Great Financial Crisis, setting the stage for further rental growth. With Japan joining the negative interest rate club, there could be more yield compression and price appreciation.

The confluence of easing construction costs and rising residential prices and office rents propelled **Phnom Penh's** prime land prices upwards. Although the growth rates in H2 2015 moderated slightly from the previous six months, they nonetheless were among the fastest in the region. Next door, prices of prime sites in **Bangkok** were driven up by enduring demand amid limited availability, which is forcing investors to turn to renovating or redeveloping old buildings. The more lucrative

luxury condominium development helped prime residential land to outperform office site again in terms of price growth.

Neighbouring **Kuala Lumpur** and **Singapore** shared a similar fate. Soft demand in the housing and office rental markets as a result of both domestic and external economic challenges coincided with strong supply pipelines to weaken the demand for land. Particularly in Malaysia, a precipitous currency depreciation caused by the collapse of commodity prices and a political scandal, coupled with the implementation of a consumption tax, has battered consumer and business sentiments in Malaysia. Firms in Singapore continued to face challenges from economic restructuring in the face of weak demand, while homebuyers' confidence was hurt by the prospect of rising interest rates and volatility in financial markets. In both countries, residential cooling measures remained in place. Consequently, Kuala Lumpur's indices registered a slight decline while Singapore's saw no movement.

Similarly, Indonesia was grappling with a domestic economic slowdown amid lacklustre export demand, leading companies to put expansion plan on hold. Homebuyers were also staying on the sidelines, especially with the government stepping up efforts to tackle tax evasion discouraging big-ticket purchases. As a result, **Jakarta** also saw subdued price growth.

In India, a large inventory of unsold homes, construction delays and lags in the implementation of infrastructure and development projects have weighed on house prices and, in turn, the prices of residential land in **Mumbai** and **Delhi**. With a relatively healthier demand-supply balance, **Bengaluru** managed to see robust price growth. The picture for commercial land was rosier. Improved leasing demand, at a time when quality buildings remained in short supply, contributed to healthy price growth of commercial sites.

FIGURE 4
Land Price Index (% change)

Prime Residential

| City | H2 2015 | Year to Dec'15 |
|--------------|---------|----------------|
| Tokyo | 13.5% | 14.8% |
| Phnom Penh | 10.6% | 26.2% |
| Beijing | 7.9% | 11.3% |
| Shanghai | 4.3% | 6.2% |
| Bangkok | 4.0% | 9.0% |
| Bengaluru | 3.3% | 1.8% |
| Guangzhou | 2.0% | 2.5% |
| Jakarta | 0.8% | 0.8% |
| NCR | 0.5% | -3.7% |
| Singapore* | 0.0% | -5.8% |
| Hong Kong | -1.8% | 0.7% |
| Kuala Lumpur | -2.4% | -4.1% |
| Mumbai | -2.9% | -3.7% |

Prime Office

| City | H2 2015 | Year to Dec'15 |
|--------------|---------|----------------|
| Phnom Penh | 8.7% | 19.2% |
| Mumbai | 5.9% | 0.4% |
| Shanghai | 4.4% | 9.0% |
| Tokyo | 3.5% | 11.8% |
| NCR | 3.4% | 7.4% |
| Bengaluru | 2.8% | 6.6% |
| Bangkok | 2.7% | 2.7% |
| Guangzhou | 0.4% | 3.5% |
| Jakarta | 0.0% | 5.2% |
| Singapore* | 0.0% | 6.0% |
| Kuala Lumpur | -1.4% | 0.5% |
| Beijing | -4.7% | -1.8% |
| Hong Kong | -6.1% | 0.4% |

*Percentage changes for Six Months and Year to Sep'15 respectively

FIGURE 5
Recent Prime Development Land Transactions

| Market | Address | Development | Buyer | US\$ (mil) | US\$/sq m land | US\$/sq m max GFA | Date |
|-----------|--|-------------|--|------------|----------------|-------------------|---------|
| Beijing | Dongzhimen Outer St | Mixed Use | China Cinda Asset Management | 1,639 | 15,952 | 3,214 | Aug-15 |
| Guangzhou | Plot AH040224, Pazhou Zone A, Zhuhai District | Commercial | Guangzhou Huaduo Network Technology | 290 | 29,146 | 2,810 | Aug-15 |
| Shanghai | Unit WS5 Plot 188S-H-2, at the junction between Longyao Rd and Yunjin Rd, Xuhui District | Commercial | Ji-Ee Industry, a subsidiary of Henderson Land Development | 632 | 23,536 | 2,402 | Jul-15 |
| Hong Kong | New Kowloon Inland Lot No. 6542 | Residential | Shimao Property | 900 | 44,115 | 15,319 | Sept-15 |
| Tokyo | 4-1-11 Roppongi Minato-ku | Commercial | Great Eagle Holdings Limited | 179 | 44,768 | - | Jul-15 |
| Singapore | Alexandra View | Mixed Use | Tang Skyline, part of Tang Group | 265 | 31,530 | 6,435 | Nov-15 |
| Bangkok | Chidlom | Residential | SC Asset | 66 | 13,620 | - | Jul-15 |

Source : Various media outlets, Knight Frank Research



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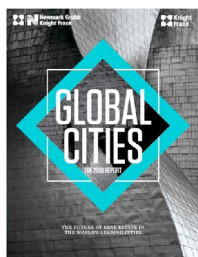
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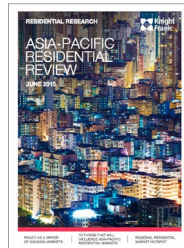
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