

CHINA SLOWS DOWN AS BANGKOK, JAKARTA AND PHNOM PENH POWER ON

The first half of 2014 saw Knight Frank's Prime Asia Development Land Index advance 4.9% and 2.9% for office and residential sites respectively. This represents a loss in momentum when compared to the 9.8% and 7.7% respective growth rates in H1 2013.

Highlights

Bangkok saw the largest increase in the prime residential development land index in H1 2014; Bengaluru topped Asia for the prime office development land index

Land prices appeared to have peaked in most key Chinese markets in Q1 2014

Abenomics continued to drive demand for commercial land in Tokyo

While land transaction volumes in Asia dropped 5.0% year-on-year in H1 2014, investment inflows from outside Asia increased 423.9% year-on-year



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"The confluence of softening property prices as a result of cooling measures, (and) elevated construction costs has led the prices of prime residential and office sites in Hong Kong to slide..."

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One reason for the deceleration is the slowdown in China, although activity also fell across the rest of Asia: in H1 2014, investment volumes totalled only 37.6% of the amount achieved in the whole of last year (see Fig. 2). Interestingly, despite these, investment inflow originating from outside Asia during H1 2014 has already surpassed its total volume in 2013 by 76.1% (Fig. 3).

Prices appeared to have peaked in the key Chinese markets in Q1 2014, except those of Shanghai's office sites – which managed to hold up – and Beijing's residential sector – which has been easing since Q4 2013 (Figure 4). Guangzhou provides a stark contrast: after values reached record highs with the entry of new comers such as Zhuhai Huafa and Financial Street in Q1 2014, the land market cooled off substantially in Q2 2014 with nine failed auctions in June alone. Faced with a slowdown in the property market, a resultant large inventory and credit constraints, developers have become more cautious. In Beijing, moving forward, with merely 124 sq km of land left for development, the National Land Bureau intends to decelerate the pace of land supply. Notwithstanding, land in the capital is expected to be fully utilised by 2020. Shanghai is scarcely better positioned, with 153 sq km remaining against its 2020 target. Against this backdrop, we expect land prices in Beijing and Shanghai to be well supported in the medium-to-long term.

The confluence of softened property prices as a result of cooling measures, elevated construction costs and an uncertain external economy has led the prices of prime residential and office sites in Hong Kong to slide 4.9% and 4.4% respectively in H1 2014. However, the limited supply of land in urban areas was still highly sought after, while suburban areas faced some challenges due to the government's commitment to boost land supply in such areas. We expect such divergence to continue.

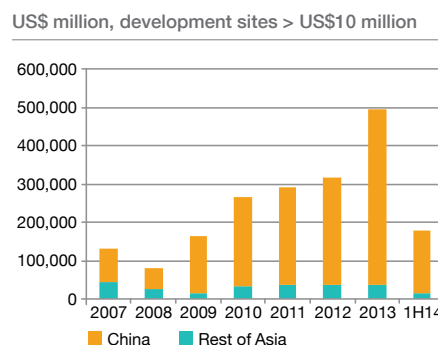
Singapore's land price indices stayed flat. The residential market, in particular, faced strong headwinds. In Q2 2014, as compared to the same period last year right before the impact of

FIGURE 1
Prime Asia Land Price Indices



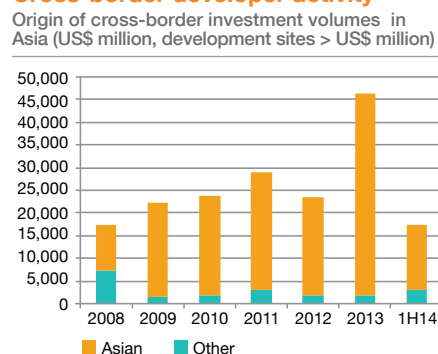
Source: Knight Frank Research

FIGURE 2
Investment Volumes in Asia



Source: Real Capital Analytics, Knight Frank Research

FIGURE 3
Cross-border developer activity



Source: Real Capital Analytics, Knight Frank Research

PRIME ASIA DEVELOPMENT LAND INDEX

FIGURE 4

Land Price Index (% change)

Prime Residential					Prime Office				
City	H1 2014	Q1 2014	Q2 2014	Year - Jun '14	City	H1 2014	Q1 2014	Q2 2014	Year - Jun '14
Bangkok	18.2%	9.1%	8.3%	20.3%	Bengaluru	9.2%	9.2%	0.0%	9.2%
Phnom Penh	13.7%	6.1%	7.2%	25.0%	Jakarta	8.3%	4.2%	4.0%	17.8%
Jakarta	11.6%	5.8%	5.5%	23.6%	Phnom Penh	7.6%	2.8%	4.7%	14.7%
Bengaluru	6.8%	6.8%	0.0%	9.7%	Tokyo	5.8%	3.7%	2.1%	11.7%
Mumbai	6.3%	2.8%	3.4%	9.1%	Bangkok	2.9%	2.9%	0.0%	13.7%
Shanghai	6.2%	6.8%	-0.6%	18.8%	Beijing	2.4%	2.5%	-0.2%	11.7%
Tokyo	1.3%	1.3%	0.1%	7.7%	NCR	1.4%	1.4%	0.0%	1.4%
Guangzhou	0.4%	1.6%	-1.2%	4.8%	Guangzhou	1.3%	1.6%	-0.3%	10.4%
Kuala Lumpur	0.0%	0.0%	0.0%	9.0%	Shanghai	1.3%	0.5%	0.8%	6.3%
Singapore	0.0%	0.0%	0.0%	0.9%	Singapore	0.0%	0.0%	0.0%	0.0%
Beijing	-2.5%	-1.8%	-0.7%	-0.1%	Mumbai	-2.0%	-1.0%	-1.0%	-0.5%
NCR	-4.9%	-4.3%	-0.6%	-1.5%	Kuala Lumpur	-2.7%	-2.7%	0.0%	5.8%
Hong Kong	-4.9%	-3.0%	-2.0%	-8.0%	Hong Kong	-4.4%	-3.8%	-0.6%	-8.1%

Source: Knight Frank Research

the Total Debt Servicing Ratio ruling was felt, prices of non-landed houses in Core Central Region dropped 4.8% as transactions plunged 52.5%, softening demand for land.

Prices of residential sites in Kuala Lumpur also did not register any movement, mirroring the trend in the underlying luxury home market, which has lost steam due to cooling measures. On the other hand, commercial land was bogged down by a challenging leasing environment.

In India, the anticipated change in political regime which culminated in Bharatiya Janata Party's landslide victory with a historic mandate has infused confidence in the markets. Already, there are talks of incentives for REITs to attract

fresh funds. Except for Mumbai, improved business sentiment has helped commercial sites to outperform residential land in terms of price growth. In particular, the Silicon Valley of India, Bengaluru witnessed a 9.2% increase in the prices of office sites in H1 2014, as the emergence of newer sectors besides the IT industry sustained upward momentum. Its residential market, however, was weighed down by a mounting inventory.

In Tokyo, improved corporate earnings have been driving up prime office rents at the same time when core investment needs of both domestic and foreign investors continued to exert downward pressure on the cap rate. Together, these two forces pushed

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FIGURE 5

Recent Prime Development Land Transactions

Market	Address	Development	Buyer	US\$(mil)	US\$/sqm land	US\$/sq m GFA	Date
Beijing	North of Fengbei Road, Lugouqiao Town	Mixed Use	Thai Hot Group	818	8,490	4,799/sq m	Q1 '14
Guangzhou	Plot AF040417, AF040418 and AF040419, Liwan District	Residential	Zhuhai Huafa Industrial	481	6,067	3,842/sq m	Q1 '14
Shanghai	Plot 325 in Daning Sub-district, Zhabei	Residential	Shanghai Tuoping Property Development, subsidiary of Franshion Properties (China)	1,654	17,148	7,795/sq m	Q1 '14
Shanghai	Plot 18 in Pingliang Sub-district, Yangpu	Residential	Shanghai Longwei Investment, subsidiary of Poly Property Group	525	15,900	6,360/sq m	Q2 '14
Hong Kong	Inland Lot No. 761, Kwun Tong, Kowloon	Commercial	Sunstone KB	486	95,080	7,923/sq m	Q1 '14
Kuala Lumpur	Jalan Bukit Bintang	Mixed Use	Agile Property Holdings	137	10,819	1,082/sq m	Q2 '14
Bangkok	Sukhumvit 6	Residential	Quality Houses	77	13,820	-	Q1 '14

Source: Knight Frank Research



prices of commercial sites up by 5.8% in H1 2014. Meanwhile, the residential sector was weighed down by rising construction costs; consequently, prices increased only marginally.

While business confidence and hence appetite for commercial sites in Bangkok was dampened by the political turmoil, the residential land market shrugged it off and delivered a stellar 18.2% price growth in H1 2014, as condominium development remained the most profitable use of prime sites in the city and accounted for most land transactions. However, the prospect of commercial sites will likely improve, given the limited supply in the pipeline and the ongoing demand for high-grade office space.

Land prices of both residential and office sites in Jakarta continued on their impressive upward trajectories, rising 11.6% and 8.3% respectively in the first half of this year. However, with the growth in the prices of premium residential properties decelerating and prime office rents declining in Q2 2014, we expect future increments to moderate.

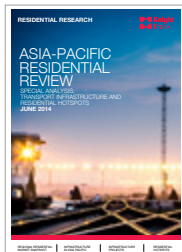
In Phnom Penh, with the launch of The Bridge and the opening of Vattanac Tower setting record condominium prices (≥ US\$3,000 per sq m) and office rents (≥ US\$25 per sq m) respectively in Q2 2014, growths in the prices of residential and office development sites accelerated in the first six months, registering 13.7% and 7.6% respectively.

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