# Asia Pacific
# **Investment Quarterly**

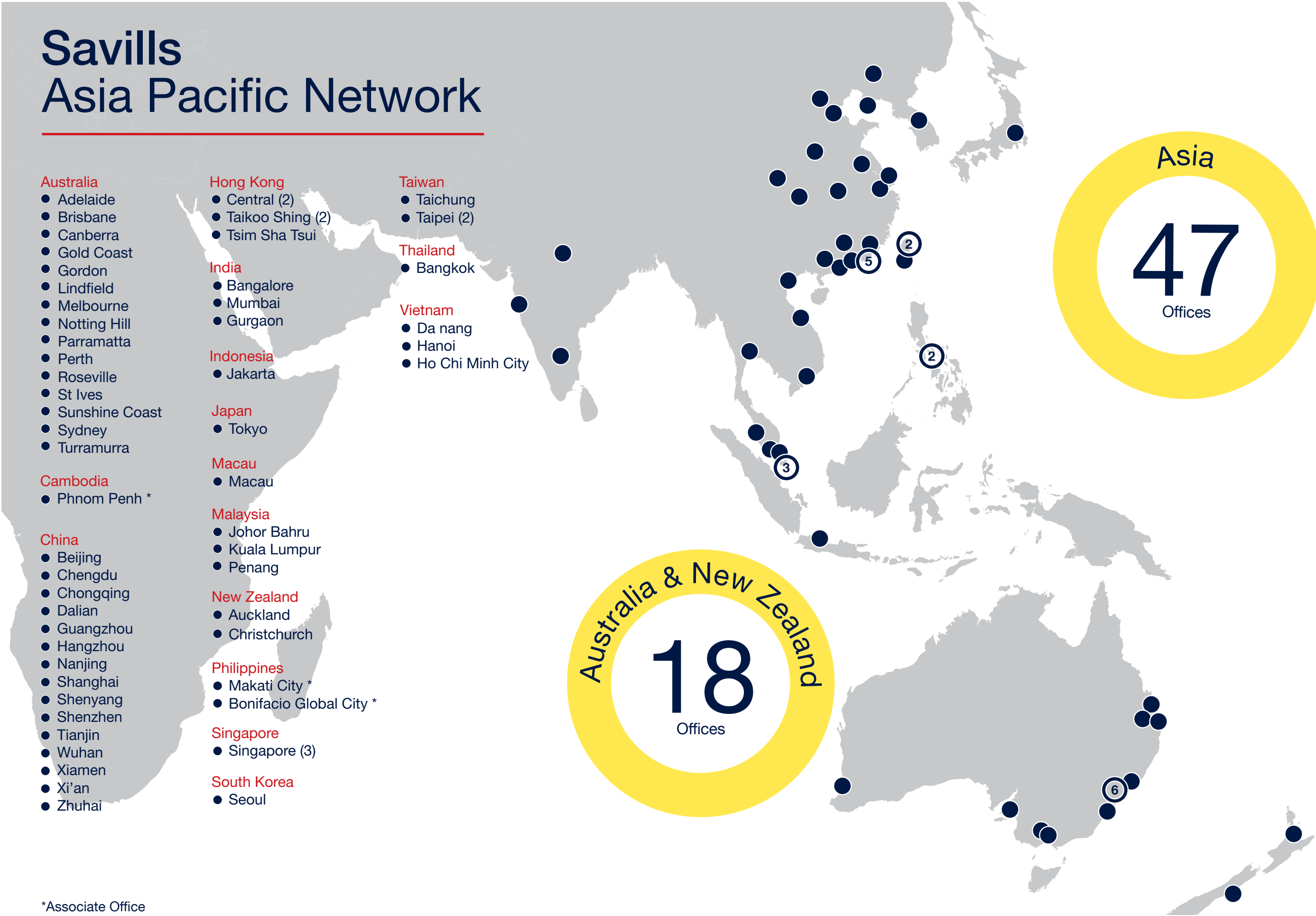
Q2 2018


## HIGHLIGHTS

For Japan, monetary policy remains supportive and the World Bank forecasts steady growth through 2020. Real estate fundamentals are strong, and international investors continue to target first and second tier cities in a display of confidence. Financial restrictions remain tight on the property market in China, with investment funds less active than owner-occupiers. This trend could continue for the rest of the year. In Hong Kong mainland money remains the dominant force and the focus this year has been on the office market while a recovering retail sector is gaining appeal. In Singapore, the July cooling measures had a particularly negative impact on residential collective sales. This will almost surely result in a precipitous drop in this segment of the investment sales market and we have revised our investment sales forecast down, from S$36 billion to S$25-27 billion as a result. Korea's investment market was more active than ever during the second quarter. Total volumes for the first half of this year have already reached 70% of those posted in FY2017 when the investment market saw its most active year. In Vietnam foreign capital is abundant but opportunities are limited across all sectors.

Simon Smith, Savills Research

# An introduction to Savills




Source: Savills Research & Consultancy

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. The company now has over 600 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

In Asia Pacific, Savills has 65 regional offices comprising over 25,000 staff. Asia Pacific markets include Australia, China, Hong Kong, India, Indonesia, Japan, Macau, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Thailand and Viet Nam. Savills provides a comprehensive range of advisory and professional property services to developers, owners, tenants and investors. These include consultancy services, facilities management, space planning, corporate real estate services, property management, leasing, valuation and sales in all key segments of commercial, residential, industrial, retail, investment and hotel property.

A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate expertise of the highest calibre.

We are regarded as an innovative-thinking organisation supported by excellent negotiating skills. Savills chooses to focus on a defined set of clients, offering a premium service to organisations and individuals with whom we share a common goal. Savills is synonymous with a high-quality service offering and a premium brand, taking a long-term view of real estate and investing in strategic relationships.

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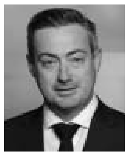
# Australia



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Australian direct property performance extended its gains over the equities markets according to the latest MSCI data. In the past five years, the average investment in commercial property has delivered an average unlevered total return of an impressive 72.4% (income and capital returns) while Australian equities has delivered 42.9% over the same period. This outperformance was stark over the past 12 months, with yield compression in commercial property driving an average return of 11.5% over the year to March-18 (latest available) while equities posted a total return of just 1.0% over the same period as the heavy weighting to resource and financial stocks drove continued volatility.

While the extent to which yield compression can continue to driver performance across major markets is a cause of debate, Australia is now in its 26th consecutive year of economic growth with the drag of low employment growth now appearing to be behind us. A surge in full-time employment over the last 9 months has driven employment growth across all states, fuelled by record company revenue growth across key industries. With this will likely to translate to rising wages growth (which has been largely stagnant since 2008), a turnaround in the previously ailing retail sector appears plausible in late 2018.

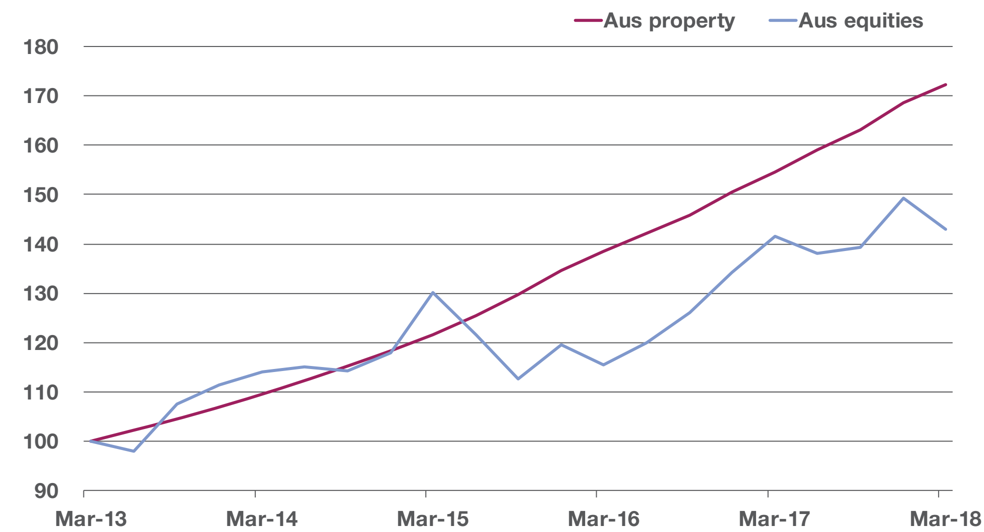
It was another record 12 month period for sales in the office and retail sectors. In FY-18, the retail sector recorded total sales of $10.33 billion, whilst $18.00 billion of office sales was only slightly below the $18.12 billion record set in FY-16. Transaction volumes in the industrial sector however are still well below the record set 3 years ago as quality offerings of scale remain in short supply.

Transactional evidence from 2017 and the first half of 2018 suggests demand for Regional and Super & Major Regional centres remains strong, as investors are increasingly attracted to the high income returns on Retail assets. Although, with the launch of Amazon Prime during the quarter in Australia, all eyes will be on retail trade performance over coming months.

We are now at a point in the commercial property sector, where we are seeing a shift in focus to income growth. Over the last 3 years, capital returns have accounted for the majority of total returns, with record capital value appreciation, particularly in Sydney and Melbourne's office markets, driving market yields to record low levels. Moving forward, capitalisation of income growth expected in these markets will most likely drive overall returns over the short to medium term.

GRAPH 1

## Australian property vs equities, Mar 2013 – Mar 2018




Source: Savills Research & Consultancy

TABLE 1

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Westpac Place | Sydney, NSW | AU$860 mil/US$635.4 mil | Mirvac | Office |
| Pacific Epping (50%) | Epping, VIC | AU$402 mil/US$301.5 mil | Queensland Investment Corporation (QIC) | Retail |
| Grand Plaza (50%) | Brown Plains, QLD | AU$215 mil/US$161.3 mil | Invesco Real Estate | Retail |
| Pacific Werribbe (50%) | Hopper Crossing, VIC | AU$215 mil/US$161.3 mil | Queensland Investment Corporation (QIC) | Retail |
| 117 Clarence Street | Sydney, NSW | AU$153 mil/US$114.8 mil | Investa Property Group | Office |
| Brandon Park S.C. | Wheelers Hill, VIC | AUS135 mil/US$101.3 mil | Newmark Brandon Core Plus Fund | Retail |
| Gateway Plaza S.C. | Leopold, VIC | AUS117 mil/US$87.75 mil | Charter Hall | Retail |

Source: Savills Research & Consultancy

# China (Northern) - Beijing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Activity in the en-bloc investment market was largely stable in Q2/2018. A total of four deals registering a total consideration of RMB4.9 billion were concluded during the period. Traditional asset classes proved popular during the quarter with the office, retail and hotel markets all witnessing deals.

Deal activity was dominated by domestic players during the quarter with both buyers and sellers coming from the mainland. Major transactions during the quarter included:

- New Everbright Centre Tower A was acquired by Postal Savings Bank of China for an undisclosed consideration. The office project will be positioned for self-use and is located in Tongzhou district, the new home of the Beijing Municipal Government headquarters.

- ICBC International Holdings Limited purchased an equity interest from Beijing Capital Land in the Beijing Financial Street International Hotel. The deal saw ICBC pick up a 59.5% equity share in the hotel for RMB667 million.

- Xinhua Cultural Centre, a retail project in Dongcheng district, was acquired by Jingrui Holdings for a total consideration of RMB240 million.

- FT. Mall in Daxing district was purchased by GoHigh Capital for an undisclosed consideration.

The strata-title office and retail markets posted a slight improvement from the previous quarter in Q2/2018. However, restrictive policies continued to see performance down from previous years.

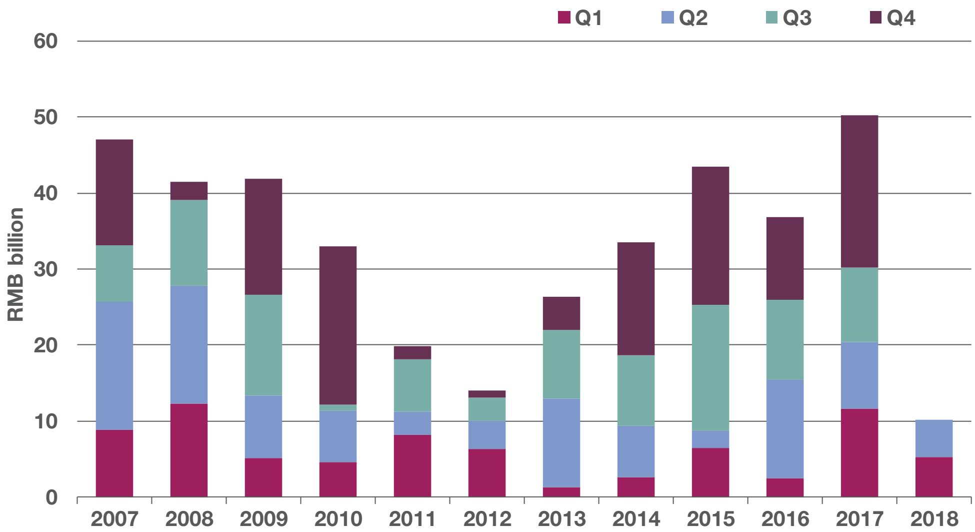
New supply in the strata-title office market reached 45,253 sq m GFA during the quarter, up 56.2% quarter-on-quarter (QoQ). Total transaction area also increased by 20.1% QoQ to 106,487 sq m GFA. Total consideration rose by 20.5% QoQ to RMB3.56 billion.

The first-hand, strata-title retail market received 25,173 sq m of new supply in Q2/2018, up 29.0% QoQ. Total transaction area reached 131,206 sq m, up 183.5% QoQ. Total consideration registered RMB3.76 billion, up 101.3% QoQ.

Institutional investors are expected to continue to diversify their acquisition targets. While traditional asset classes such as the office, retail and hotel markets will remain popular investment targets, a lack of tradable assets will see astute investors expand their investment horizons. The market for serviced apartments, long-term leasing apartments and detached office towers in industrial parks will continue to gain momentum. In addition to this, the impact from restrictive regulations and high land costs will see some developers target mature assets, which offer potential for value-add, and greater asset appreciation and return on investment.

GRAPH 2

## En-bloc investment volumes, 2007 – Q2/2018




Source: Savills Research & Consultancy

TABLE 2

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Beijing Financial Street International Hotel | Xicheng | RMB667 mil/US$99.55 mil | ICBC International Holdings Limited | Hotel |
| Xinhua Cultural Centre | Dongcheng | RMB240 mil/US$35.82 mil | Jingrui Holdings | Retail |
| New Everbright Centre Tower A | Tongzhou | Undisclosed | Postal Savings Bank of China | Office |
| FT. Mall | Daxing | Undisclosed | GoHigh Capital | Retail |

Source: Savills Research & Consultancy

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The residential land market saw upward trends in both supply and transaction volumes in Q2/2018. Land prices remained stable thanks to land auction regulations. However the proportion of developer-owned space for rent has fallen.

Land supply shot up by 384% quarter-on-quarter (QoQ) to 5.16 million sq m, up 279% year-on-year (YoY) in Q2/2018. Total transaction volumes rose by 106% QoQ to 3.39 million sq m, up 287% YoY. The city centre contributed only one new land plot, while suburban areas supplied almost half (47.8%) of the new land plots. Fringe areas and Binhai New Area provided 32.6% and 18.7% of land supply respectively. In terms of transaction volumes, suburban areas continued to lead city-wide, accounting for 53.7% of total transactions. Fringe areas and Binhai New Area contributed 28.5% and 16.3% of total transactions, and the city centre accounted for only 1.5% of total transactions.

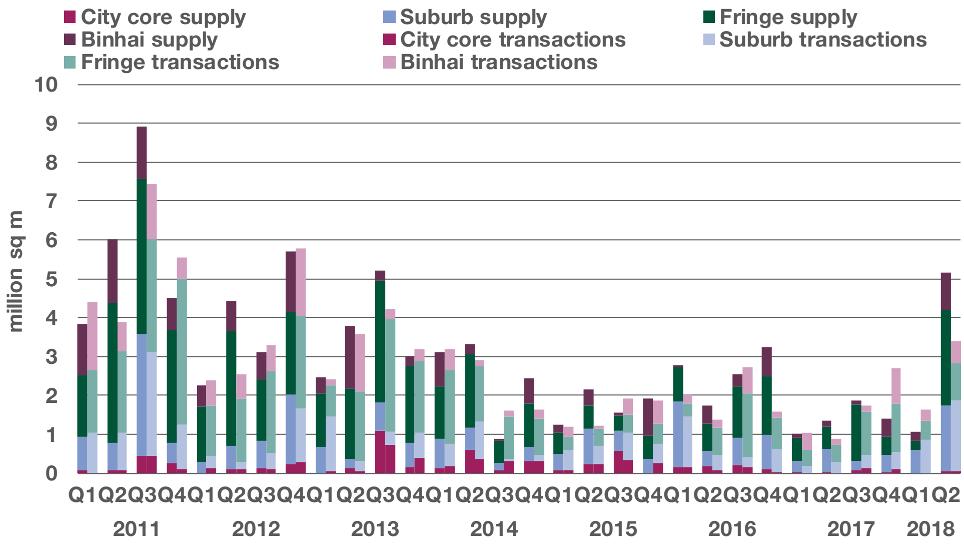
Financial Street Holdings acquired its third land plot in Dongli district for a total consideration of RMB677 million, with an accommodation value of RMB5,719 per sq m. The 147,304 sq m land plot is zoned for mixed-use development, including residential, commercial and education components. In line with government wishes, developer will carry out the planning and development of the education facilities and deliver them together with residential and commercial buildings. Afterwards, ownership of the education facilities will be transferred to Education Bureau of Dongli district.

Vanke purchased one land plot located in Xiqing district for a total consideration of RMB881 million, with an accommodation value of RMB10,717 per sq m. The 49,684 sq m land plot will have residences and education facilities. The bid price of this land plot was set at a ceiling price, hence the land auction process started with bidding on the land size reserved for lease-only residences. Vanke won the bid by committing to use 1,000 sq m of the land area for lease-only housing.

The announcement of a talent attraction policy and the improvement in the business environment continued to attract new immigrants. Therefore, developers showed confidence in the residential land market. As the third quarter is traditionally peak season, land transaction volumes are expected to climb higher over the next three months.

GRAPH 3

## Land supply and transaction volumes by area, Q1/2011 – Q2/2018




Source: Savills Research & Consultancy

TABLE 3

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Plot 2017-188 (JBB) | Beichen | RMB2.95 bil/US$444 mil | Tianfang | Mixed-use development site |
| Plot 2018-063 (JNB) | Nankai | RMB2.70 bil/US$406 mil | T. B. Infrastructure | Mixed-use development site |
| Plot 2018-04 (JXQ) | Xiqing | RMB755 mil/US$113 mil | Vanke | Residential development site |
| Plot 2017-040 (JW) | Wuqing | RMB1.39 bil/US$209 mil | Jiqing Real Estate | Mixed-use development site |
| Plot 2018-1 (JBS) | Binhai | RMB118 mil/US$17.7 mil | Jinyuan Investment | Commercial development site |

Source: Savills Research & Consultancy

# China (Western) - Chengdu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The hi-tech industry has flourished in Chengdu and become a new force supporting the absorption rate of Grade A office market. The proportion of hi-tech industrial tenants in Grade A office in Chengdu has risen from 4% to 14% in the past five years, ranking in the top three sources of leasing demand.

By the end of 2017, local Sichuan and other domestic companies have become the largest composition of hi-tech enterprises in Grade A office in Chengdu—each of them accounted for more than 40%. In 2017, more than half of newly leased hi-tech companies were local. However, since many local companies are still in their infancy and the scale of their businesses is limited, they only take up about 25% of total leasing area, far less than the proportion of domestic companies.

According to the Global Industry Classification Standard, the hi-tech industry mainly includes Internet services, software, information technology services, electronic equipment, computer hardware and related equipment, and communications equipment.

With the rapid development of the hi-tech industry, large office space leasing demand from hi-tech companies in Chengdu's Grade A office buildings has become increasingly common. More specifically, the biggest leasing demand for large office space comes from computer hardware companies; electronic equipment and Internet services companies also have significant demand, while the software and information technology services companies have relatively less demand for large office space.

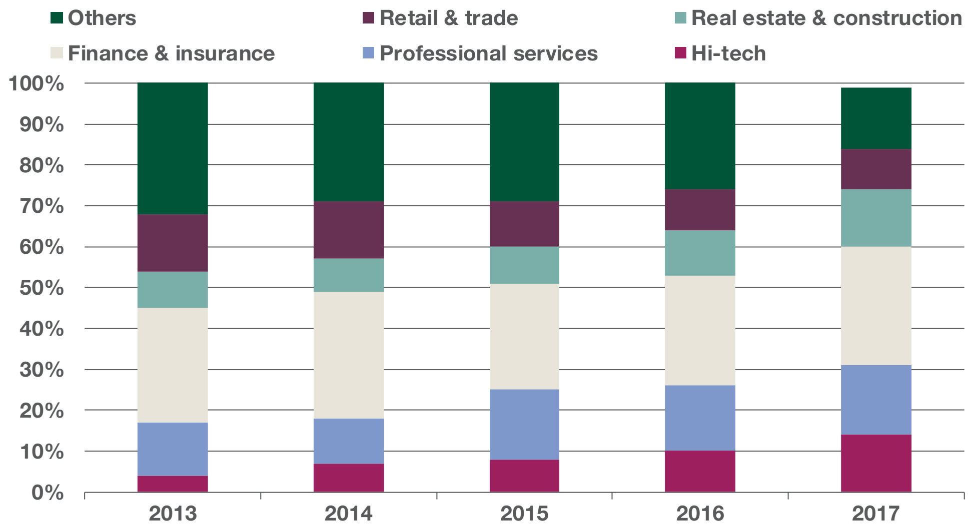
Regarding transaction type, new companies entering the Chengdu market are the main source of transactions, and both the number of such companies and their absorption rate contribute more than 60% in the hi-tech industry. The office upgrades have also become an important source of new office transactions. More than 30% of hi-tech tenants in Chengdu's Grade A office buildings relocates from non-A-grade office buildings.

78% of newly leased hi-tech tenants are located in Financial City and Dayuan. Information technology services companies are primarily in Dayuan, while the others are mainly in Financial City. More than 35% of electronic equipment and Internet services companies are in the CBD and Dongda Street. Moreover, more than half of foreign tenants are located in the CBD and Dongda Street, while local companies are mainly in Dayuan.

Due to the "mass entrepreneurship and innovation" policy and building a western technology center, hi-tech companies' demand for Grade A office buildings in Chengdu will increase. As a result, they will take up more leasing space and became a significant source of Grade A office tenants; it is also expected that the proportion of hi-tech companies in Chengdu's Grade A office will increase.

GRAPH 4

## Analysis of tenant structure of Grade A offices in Chengdu, 2013 – 2017




Source: Savills Research

TABLE 4

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Banyan Tree China Hotel Portfolio 2018 Laguna Chengdu | Wenjiang | RMB1.348 bil/US$203.3 mil | China Vanke | Hotel |
| Jinkong Square Tower A6 | Chengdu Hi-Tech Area | RMB520 mil/US$78.4 mil | China Vanke | Office |
| Senyu Shuangliu Huayang Street land site | Shuangliu | RMB2.315 bil/US$349.1 mil | CLR Real Estate | Development site |
| Wuhou New City land site | Wuhou | RMB190 mil/US$28.6 mil | COFCO Property | Development site |
| Anbang Chengdu Financial Plaza land site | Chengdu Hi-Tech Area | - | Sino-ocean | Development site |

Source: Savills Research

# China (Southern) - Guangzhou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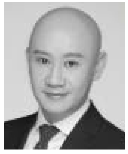

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The Guangzhou government released the Guangzhou City Land Supply Plan 2018 in May. According to the plan, 114 land plots will be suppled in 2018, 44 of which are for residential use, some of them in downtown areas, and 48 plots will be for business use (the other 22 plots will be used for other purposes, including public parking, schools and parks).

**Residential land supply**

The latest plan shows that the total volume of residential land supply sits at 625 hectares: 477 hectares for commercial housing and 148 hectares for low-income housing and rental housing. The 44 residential plots are mainly distributed in suburban areas such as Conghua, Huadu, Nansha and Zengcheng. However, some new supply is located in downtown areas like Liwan (Guanggang New City), Baiyun (Airport Economic Zone), Haizhu (Guangzhi New Town), and Tianhe (Huijing New Town E3AT050747 plot, which is the only residential land supply available in Tianhe this year).

The Guangzhou government is once again responding to the central government housing directive of "living but not speculating". Guangzhou is making every effort to develop a healthy and stable residential market through increasing the volume of housing land supply and long-term leasing houses. As a result, investment opportunities in the residential market have narrowed.

**Business land supply**

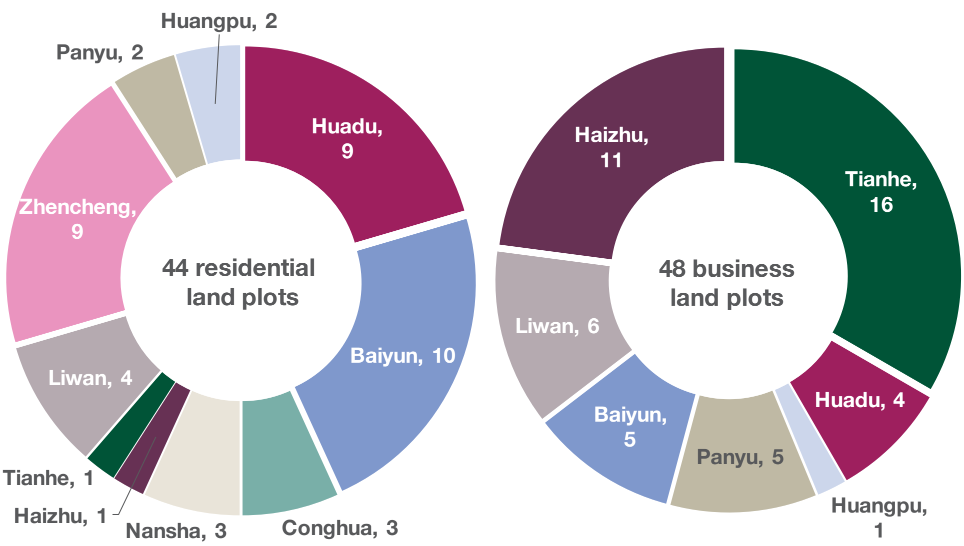
Currently, 48 business plots with a total of 400 hectares are distributed between International Financial Town, Pazhou Internet Innovation Cluster and Baiyun New Town.

According to the plan, 11 new business plots will open in Haizhu district, west of Pazhou. There will be 16 new business plots in Tianhe district, nine of which will be located at International Financial Town. Zhujiang New Town also received one new plot with a floor area of 6580 sq m, located at the junction of Huangpu Avenue and Huaxia Road, near the Poly Clover Commercial Centre and the Huacheng commercial area.

The Guangzhou government stated that the construction land supply in key areas must be guaranteed; the government is expected to pay more attention to developing International Financial City, Pazhou Internet Innovation Cluster, Baiyun New Town and the Huadu commercial area. Therefore, the land value of plots in these areas is expected to continue appreciating and driving up capital values.

GRAPH 5

## Residential and business land plots by district, May 2018




Source: Guangzhou City Land Supply Plan 2018, Savills Research

TABLE 5

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| 18 Baoying Avenue | 18 Baoying Avenue | RMB105.03 bil/US$16.23 mil | Delton Technology Guangzhou Inc | Commercial |
| Guangzhou Starry Sky City Project | Guangzhou Ave | RMB9.05 bil/US$1.40 mil | Yuexiu Property | Mixed-use |

Source: Savills Research

# China (Southern) - Shenzhen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Shenzhen has been one of the fastest-growing cities in the world since it was designated China's first Special Economic Zone in 1979. Shenzhen has experienced an economic miracle over the last 30 years, but rapid economic growth has also driven up Shenzhen house prices.

Shenzhen housing prices have roughly quadrupled since 2000, which has led to a series of public concerns—that homes are increasingly unaffordable and that the economy is too reliant on housing prices, potentially causing a bubble and subsequent crash.

Skyrocketing home prices may become a hurdle as the city tries to lure talent to its workforce. Shenzhen has always been a city of migrants; its fast development has depended largely on the influx of clever and ambitious workers from all over the country. However, surging property prices may discourage young talent from settling down in Shenzhen or prompt them to move to other cities where the cost of housing is less prohibitive.

The government has started talking about a "long-term mechanism" to calm the housing market. Several times during the past year China's president, Xi Jinping, has said that "homes are for living in, not for speculating on." Against such a backdrop, on 20th June 2018, the Shenzhen Construction Bureau issued a draft plan for housing market reform, aiming to build a differentiated and fully covered housing supply system.

According to the plan, there will be three categories of housing—commodity housing based on market price, government welfare-housing to attract talent, and public rental housing for low- and middle-income residents.

For talent with in-demand skills (such as technology), or those engaged in business management, social work or government services, the rental or selling price of welfare-housing will be about 60% of the cost of commodity housing in the same areas.

By 2035, Shenzhen's housing supply will reach 1.7 million units, which includes no less than one million units in welfare and public rental housing.

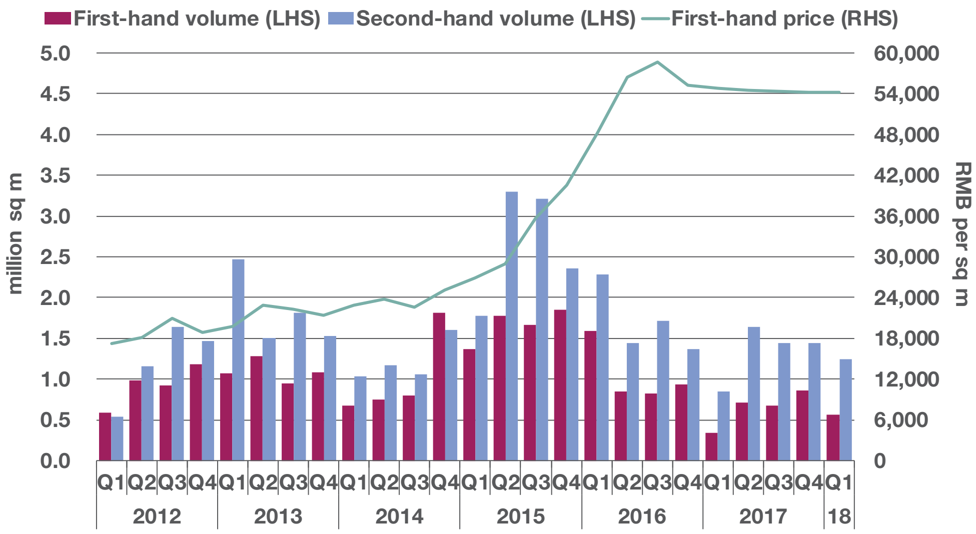
Currently, more than 80% of homes in Shenzhen are privately owned, while public housing represents only 10%. Thus, Shenzhen's move to ramp up the ratio of public housing to 60% represents a major policy U-turn.

Shenzhen's new approach resembles the Singapore model. The city state's public housing, known as Housing and Development Board (HDB) flats, accounts for 80% of total supply. The majority of Singaporeans live in these HDB flats and are little affected by private housing price moves.

The government appears to be seeking approaches which could significantly reshape the architecture of China's housing market.

GRAPH 6

## Shenzhen mass residential market transaction volumes, 2012 – Q1/2018




Source: Shenzhen Land & Real Estate Exchange Centre

TABLE 6

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Plot B105-92 | Futian FTZ | RMB984.5 mil/US$152.2 mil | Hubei Fuxing Science and Technology Co., Ltd | Commercial |

Source: Real Capital Analytics

# China (Eastern) - Shanghai

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2018 saw the government's continued efforts at deleveraging the property sector, which included crackdowns on M&A loans used to buy land, a ban on non-bank financial institutions from channelling funds into the property and infrastructure sectors via entrusted loans and restrictions on real estate developers from using funds raised via foreign debt for real estate investments or for working capital.

Unable to access previously plentiful sources of financing, some highly leveraged Chinese borrowers are under a lot of stress—especially those facing large amounts of debt coming due. This year has seen a wave of defaults that include a RMB1.1 billion bond default by listed developer Zhonghong Holdings, which purchased a 21% stake in SeaWorld Entertainment for US$449 million from Blackstone about a year ago. The average cash ratio of China's listed developers dropped to 95% at the end of March from 139% a year ago, according to Bloomberg, indicating an increasing liquidity risk for developers.

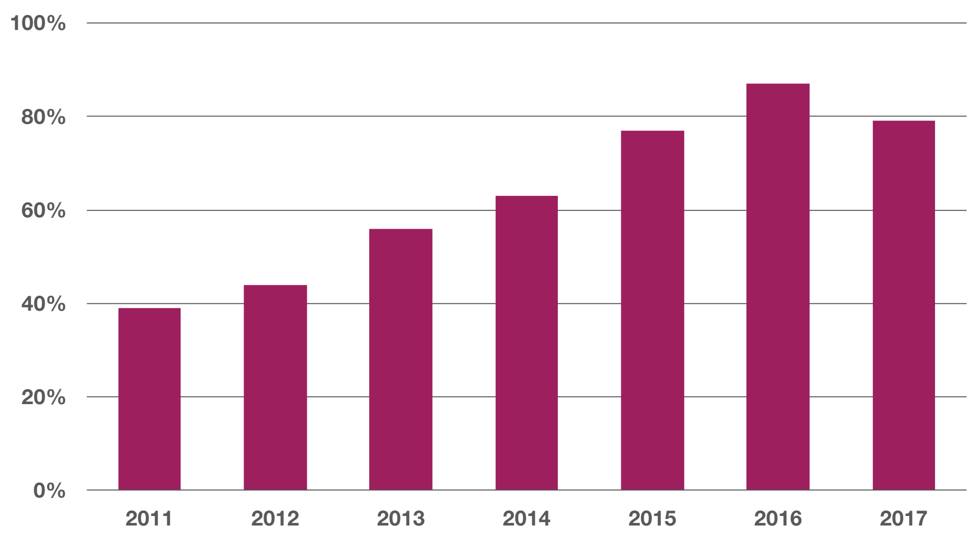
Meanwhile, as forecasted in the end of 2017, the en-bloc market has been slow in Shanghai and in China as a whole because of difficulty in accessing capital and rising financing costs. In Shanghai, only a total RMB19.6 billion deals were concluded in 1H/2018, less than half of those in 1H/2017. Domestic developers and investors who rely on heavy leverage to make investments have been affected the most.

To survive these tough times, mainland developers are seeking different financial channels to raise funds while facing restricted onshore liquidity, which includes raising funds offshore and taking more expensive mezzanine loans. In addition, property firms are also tapping asset-backed securities (ABS) by repacking rental income or property management fees in order to lower financing costs.

Highly capitalised investors, such as insurance companies, SOEs and pension funds with fewer needs for onshore leverage are expected to take up more transactions in 2H/2018. In addition, the market is expected to see more consolidation as the bigger developers use their size to squeeze out smaller ones which struggle with less-preferential lending rates and other market barriers. Moreover, alternative asset classes such as logistics, data centre and senior housing are expected to continue to be attractive to funds as they will need cash flow and higher yields to cover debt.

GRAPH 7

## China shadow banking's share of GDP, 2011 – 2017




Source: Moody's Investors Service

TABLE 7

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Qiantan 40-01 Land Plot | Pudong | RMB2.9 bil/US$438.2 mil | Fusheng Group | Development site |
| 90% of Shanghai Plaza | Huangpu | RMB2.5 bil/US$377.8 mil | JV (Sunac, Nova, Hualing, Metro) | Retail |
| Bay Valley B7 | Yangpu | RMB726 mil/US$109.7 mil | IDG Capital | Office |
| Fudu Plaza | Huangpu | RMB700 mil/US$105.8 mil | JV (Sunac, Nova, Hualing, Metro) | Retail |
| Hongkou Bailian | Hongkou | RMB465 mil/US$70.3 mil | Nova & InfraRed NF | Retail |

Source: Savills Research

# Hong Kong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We are seeing renewed interest in prime street shops in core retail areas as prime street shop rents finally rebounded in Q2/2018, signaling the end of the down cycle which has lasted for almost four years and seen a 50% correction. While investors were in general more optimistic about the prospects of prime street retail, the changing spending patterns of Mainland tourists towards more affordable luxury and necessity items meant investors are also being more realistic when assessing rental and price growth potential.

The suburban retail story continued to attract interest with sustained local spending supporting both street shops and shopping centres, and a number of transactions were concluded in areas such as Tuen Mun and Sheung Shui by local investors. Besides being drawn to the strong spending power of existing catchments, investors are also looking at future value, and are favouring areas where comprehensive planning initiatives have begun.

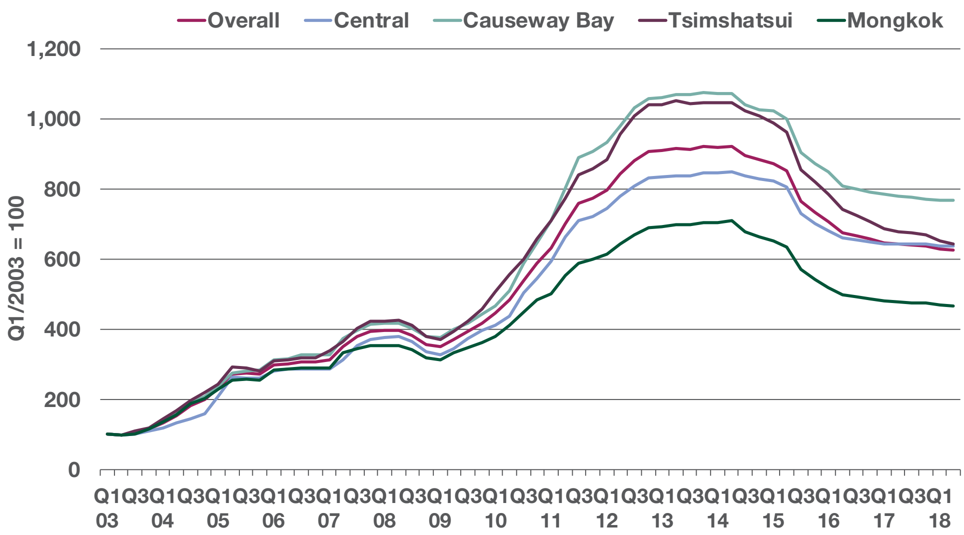
There are a number of key infrastructure and development programmes underway in the New Territories, which are concentrated in three main districts: Tuen Mun / Yuen Long, Tung Chung and the Northeastern New Territories (which includes Sheung Shui and Fanling). Among them, Tuen Mun has the highest concentration of infrastructure programmes with the upcoming Tuen Mun-Chek Lap Kok Link connecting the area directly with both the airport and the soon-to-be-completed Hong Kong-Zhuhai-Macau Bridge, which will vastly improve the area's connectivity with the airport and the western PRD, while the Tuen Mun South Extension will improve intra-district accessibility.

The completion of both the Hung Shui Kiu New Development Area (NDA) and the Yuen Long South NDA from 2024 onwards should bring an additional population of 300,000 to stations near Tuen Mun. All these developments will inevitably enlarge the retail catchment of Tuen Mun as a whole and thus prove beneficial to retail within the area.

We have seen a full-blown recovery in the retail sector in terms of leasing prospects and core retail rents, and with Mainland spending continuing to support retail sales we expect a bottoming out of prime street shop prices in the second half of 2018. Suburban retail looks set to continue to flourish, but investors may be more convinced that areas with comprehensive infrastructure and development programmes will prevail in the longer-term, and thus areas such as Tuen Mun, Sheung Shui / Fanling and Tung Chung may become more popular over time.

GRAPH 8

## Prime street shop price indices by district, Q1/2003–Q2/2018




Source: Savills Research & Consultancy

TABLE 8

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Cityplaza Three & Cityplaza Four | Quarry Bay | HK$15.0 bil/US$1.91 bil | Hengli Investments Holding | Office |
| OCTA Tower | Kowloon Bay | HK$7.5 bil/US$955.76 mil | TBC | Office |
| Brilliant Cold Storage | Kwai Chung | HK$1.6 bil/US$203.90 mil | TBC | Industrial |
| Butterfly on Waterfront Hotel | Sheung Wan | HK$810 mil/US$103.22 mil | Tai Hung Fai Enterprise | Hotel |

Source: EPRC, Savills Research & Consultancy

# Japan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Japan's real GDP grew 1.1% YoY in Q1/2018, despite a small QoQ decline which broke a streak of eight consecutive quarterly expansions. In June the World Bank trimmed its forecast of GDP growth for 2018 by 0.3 percentage points (ppts) to 1.0%, but held its 2019 and 2020 forecasts steady at 0.8% and 0.5%, respectively, highlighting strong employment and an increased labour participation rate.

The Prime Minister, Shinzo Abe, is still in hot water due to political scandal, but has seen public opinion of his cabinet improve recently, with the Nikkei's June public opinion survey reporting a 52% approval rating. In June, the government pushed back the target date for achieving a primary budget balance from 2020 to 2025, signalling continuous fiscal stimulus.

Overall loose policy from the Bank of Japan (BOJ) is likely to continue, though the market suspects some aspects could be reviewed. Belt-tightening by other central banks should make Japanese assets look relatively attractive. In Q2/2018 the BOJ maintained its 2.0% inflation target but removed the 2019 deadline. The 10-year JGB yield has traded in a narrow range throughout Q2/2018, implying some market confidence. Throughout Q2/2018 the BOJ purchased 14.4 billion yen's worth of J-REIT units, behind schedule on its annual JPY90 billion target, suggesting purchases are likely to pick up in 2H/2018.

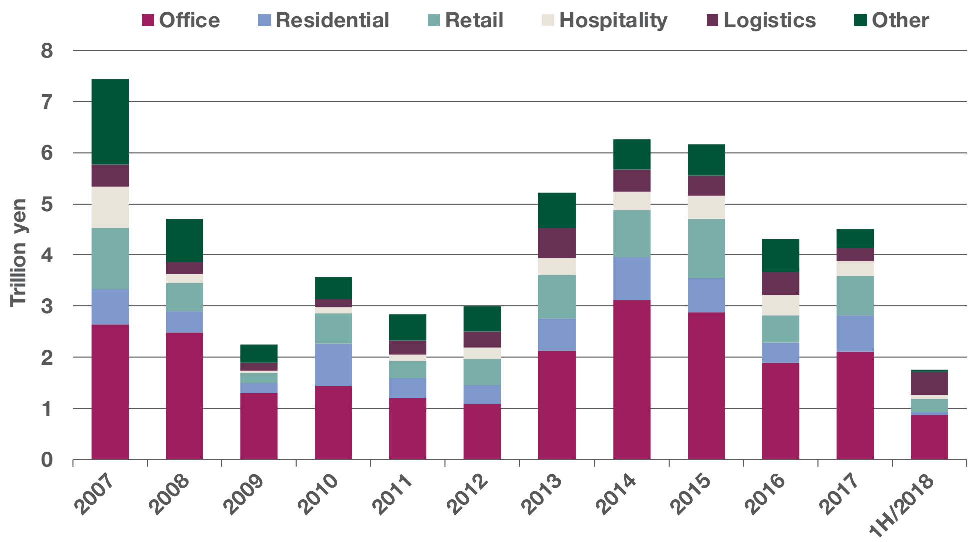
After reaching an 11-year high of +26 in December 2017, the headline index of the Tankan business confidence survey has declined for two consecutive quarters, landing at +21 as of June 2018, though confidence is still comfortably strong. More positively, JPY weakened in Q2/2018, rising from 106.2 per USD at March end to 110.5 at the end of June, a depreciation of 3.9%. An exchange rate of JPY per USD below 105 could start to weigh on corporate profits so this quarter's weakening has been welcomed by businesses. The TSE J-REIT index stood at 1,764.6 at the end of June, up 4.5% over the quarter, outperforming the TOPIX by 3.7% as the market favoured stable income products.

Total investment volumes in Japan were below market expectations in Q2/2018, according to preliminary data. The property market is still strong and sellers remain bullish. On the other hand, buyers do not feel comfortable paying increasingly higher asking prices while the cycle continues to extend. Global uncertainties such as possible trade wars remain and may somewhat slow down trading volumes, although the outlook is still positive.

Average Grade A office rents grew to JPY33,653 per tsubo in the central five wards (C5W) of Tokyo, up 0.8% QoQ and 3.9% YoY. Shinjuku Grade A office rents grew the most YoY, up 5.0% to JPY30,591 per tsubo but the least QoQ, up just 0.3%. Vacancy rates in the C5W tightened by a few basis points QoQ and 1.7 ppts YoY to end the quarter at 0.7%. Strong pre-leasing activity and an apparent lack of secondary vacancy appears to have helped push rents upwards despite initial concerns over a large volume of supply this year, and raises confidence in a sound 2H/2018.

GRAPH 9

## Property transactions by sector, 2007 – 1H/2018




Source: RCA, Savills Research & Consultancy

TABLE 9

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Nishi-Shinjuku Prime Square | Shinjuku, Tokyo | JPY34.8 bil/US$320 mil | Invesco Office J-REIT | Office |
| Hitachi Solutions Tower B | Shinagawa, Tokyo | JPY31.0 bil/US$280 mil | Hanwha Investment Securities and Hana Financial Group | Office |
| Himonya Shopping Centre | Meguro, Tokyo | JPY27.5 bil/US$250 mil | Undisclosed domestic company | Retail |
| Yokohama i-Land Tower | Naka, Yokohama | JPY22.1 bil/US$201 mil | IBJ Leasing | Office |
| Cross Place Hamamatsucho | Minato, Tokyo | JPY20.7 bil/US$180 mil | Kenedix Office J-REIT | Office |

Source: Nikkei Real Estate, RCA, Savills Research & Consultancy

# Macau

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Macau's economy is expected to grow at its fastest pace yet, with real GDP of Q1/2018 increasing by 12.9% compared to Q1/2017. This was helped by increases in gaming revenue and visitor spending. Gross Gaming Revenue (GGR) for Q1/2018 was MOP76.75 billion, which increased by 5% quarter-on-quarter (QoQ) and 20% year-on year (YoY). January to May 2018 spending by visitors (excluding gaming) reached MOP21.8 billion, up 28% YoY.

Boosted by the surging economy, in April the Macau Sun Tung Fong Group completed the acquisition of Macau Landmark Hotel with MOP4.6 billion from Macau Legend Development Ltd. The property is approximately 80,000 sq m with 439 rooms, a casino and a shopping mall. It is the largest hotel transaction project completed by a local enterprise in recent years.

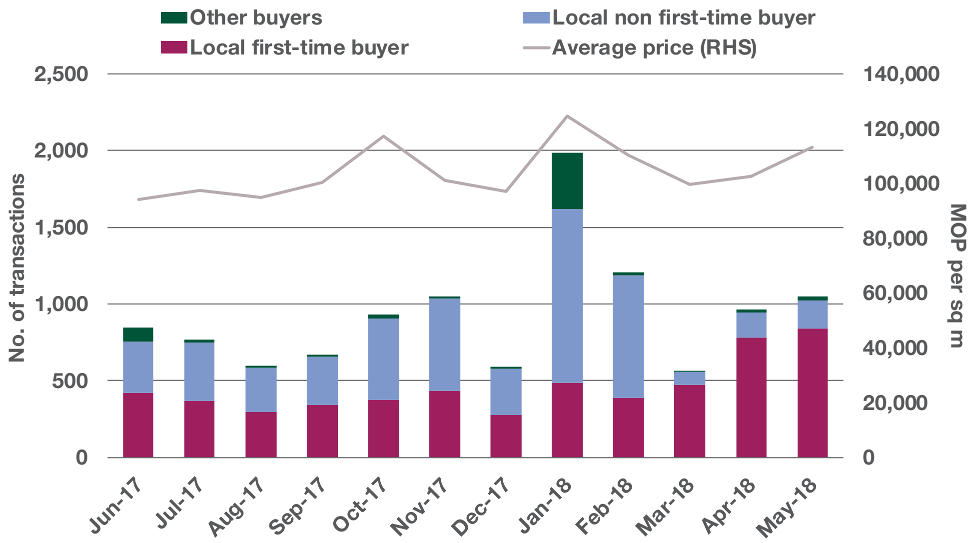
Demand in the primary sales market has remained strong, especially for off-plan unit sales in Taipa, which have been picking up since September 2017. Over 76% of total residential transactions within the first two months of 2018 were located on the Macau Peninsula, including 1,338 completed development units and 202 off-plan units. There were 119 off-plan unit transactions in Taipa with a high average unit price of MOP167,202 per sq m.

In light of the government's policy, launched in February, adjusting the proportion of mortgage loans for first-time homebuyers, residential transactions have grown sharply, particularly in the low- to mid-range home segment. Figures from the Financial Services Bureau revealed that first-time buyers accounted for 31.72% of activity in the first two months of the year followed by a surge from March to May with first-time buyers accounting for 83.12% of market activity, compared with 41.76% in the same period a year earlier. This policy has led to prices rising due to increased demand from a younger demographic seeking units priced below MOP8 million. Prices have risen by approximately 8% in the past few months. The average price achieved was MOP113,356 per sq m for the first five months in 2018, an increase of 13% YoY.

Residential construction activity is mixed—figures from the Land, Public Works and Transport Bureau show 10,405 residential units and 304 commercial and office units were under construction and inspection in Q1/2018. This represents a 2.0% QoQ decline in residential units and a 2.8% QoQ decline in commercial and office units. Concurrently, 20,707 residential units and 1,247 commercial and office units were in a design phase in Q1/2018, up 0.87% QoQ for residential and up 1.34% QoQ for commercial and office. Prices in the Macau residential market are likely to keep rising for the remainder of 2018.

TABLE 10

## Macau residential property transactions by buyer and average price, Jun 2017 – May 2018




Source: Savills Macau

TABLE 10

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| The Landmark Macau Hotel | Macau Peninsula | MOP4.6 bil/US$569 mil | Macau Sun Tung Fong Group | Hotel/ Casino/ Commercial |

Source: Savills Macau

# Malaysia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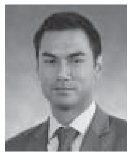

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This quarter Malaysia witnessed its first transition of governmental power since independence over 60 years ago. The long-ruling Barisan Nasional coalition has been replaced by Pakatan Harapan, led by returning Prime Minister Tun Dr Mahathir Mohamad. He left UMNO in 2015 in a bid to unseat Dato' Sri Najib Razak, whose administration was beset with allegations of corruption. The new administration campaigned on a promise of 10 key changes in the first 100 days, including restructuring and reviews of: government offices, Government-linked Companies (GLC) and mega infrastructure projects.

Since the election, the government announced the postponement of the Kuala Lumpur-Singapore (KL-SG) high-speed rail project and a potential review of the East Coast Rail Link, which was awarded on generous terms to a group of Chinese companies. Another key change is to the unpopular GST, which will be replaced by a Sales and Services Tax (SST) in September 2018. The government's anti-graft drive has led to the investigation and arrest of some senior executives at government departments and GLCs, while others have stepped down from their posts.

As a result of these changes, property investment activity during Q2/2018 was subdued and total transaction value dropped 50% year-on-year (YoY) to RM1.6 billion. Nevertheless, there were a few key transactions during the period, led by CIMB Group's acquisition of Wisma UOA Pantai from UOA REIT. CIMB acquired the building to support its restructuring exercise as it will vacate most of Menara Bumiputera-Commerce in the Kuala Lumpur CBD. The six-storey building transacted for RM120 million (RM764 per sq ft), assisted by low occupancy rates of 19% and UOA REIT's need to maximise returns to unitholders.

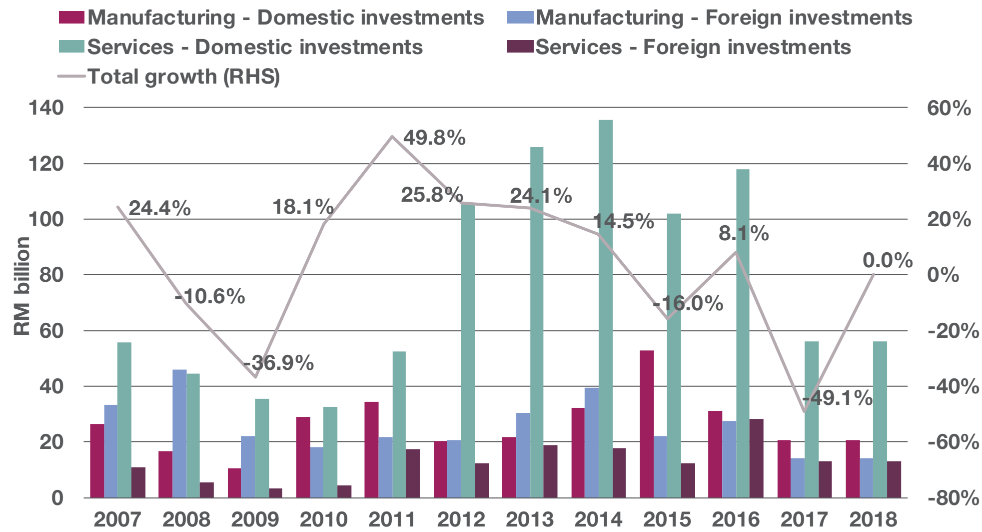
Developer land acquisitions remained healthy, especially in the Greater KL area, where UEM Sunrise Berhad acquired a 73-acre development plot in Kepong from DBKL for RM416 million. A similar-sized 74-acre land deal came with Asian Pac Berhad's acquisition of development land in Petaling Jaya, for RM300 million. Both sites are planned for development into mixed commercial projects.

In the industrial sector, Axis REIT continued its acquisition activity, with the purchase of a 5.7-acre freehold industrial premise in i-Park Indahpura, Johor for RM38 million, and a 10-acre freehold industrial premise in Shah Alam, Selangor for RM87 million. Both assets will be leased back to the current tenants with an average starting net yield of 7%.

Looking ahead, we expect limited market activity until Q4/2018, when the 100-day review period is over and investors have better visibility on the implications of changes undertaken by the new administration. Longer-term, we are hopeful of increased foreign investment, which is one of the stated objectives of the government. In the meantime, key policy changes such as the recent easing of housing loan requirements by Bank Negara Malaysia should serve to improve buyer sentiment.

GRAPH 11

## Malaysia's approved domestic and foreign investment in the manufacturing and services sector, 2007 – 2018




Source: Malaysian Investment Development Authority (MIDA)

TABLE 11

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Wisma UOA Pantai Commercial Office Building | Taman Bukit Pantai, Kuala Lumpur | RM120.0 mil/US$29.57 mil | CIMB Group | Office |
| 73 acre leasehold development land | Kepong, Kuala Lumpur | RM416.4 mil/US$102.62 mil | UEM Sunrise Bhd | Development land |
| 74 acre leasehold development land | Petaling Jaya, Selangor | RM300.0 mil/US$73.93 mil | Asian Pac Holdings Bhd | Development land |
| 5.7 acre freehold industrial premise | I-Park Indahpura, Johor | RM38.7 mil/US$9.54 mil | Axis REIT | Industrial |
| 10 acre freehold industrial premise | Shah Alam, Selangor | RM87.0 mil/US$21.45 mil | Axis REIT | Industrial |

Source: Company announcements, Savills Research & Consultancy

# New Zealand

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The New Zealand economy expanded by 0.5% in the first quarter of 2018 driven by growth in IT-related services, manufacturing and a recovery in the agricultural sector. Annual average GDP growth stood at 2.7% while GDP per capita growth fell to 0.6%, the lowest rate in seven years. The Auckland region's economy is expected to continue to grow at above average rates, supported by strong migration, ongoing construction activity, infrastructure development and a robust tourism sector.

Annual inflation dropped to 1.1% and is likely to remain stable in the near term. The lower than average long-term interest rates are continuing to support economic growth, though they are projected to start rising from Q3/2019.

The New Zealand housing market remained strong as indicated by the REINZ House Price Index (HPI) of June 18, which rose approximately 4% from June 2017. Over the same period the Auckland market stabilised as the Auckland HPI only rose 1% year-on-year (YoY). The widespread concerns about the impact of the changes to the Overseas Investment Act have been clarified whereby foreign investors are allowed to purchase in multi-unit housing developments such as new apartments, or to develop new homes. Additionally new government led projects are being developed across New Zealand which aim to provide thousands of affordable homes with a particular emphasis on Auckland and surrounding suburbs where demand is greatest.

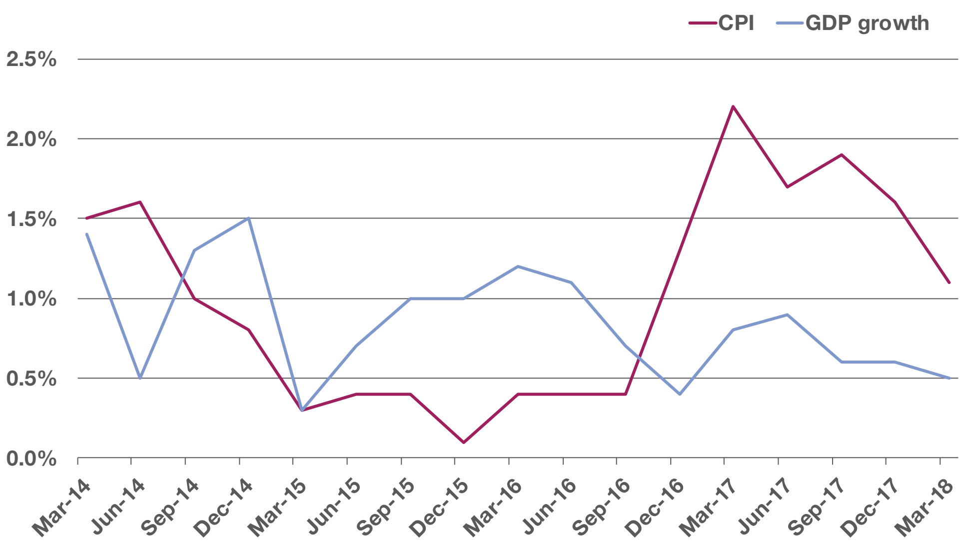
While GDP growth of the first quarter was slightly lower than forecast the outlook remains broadly positive. More construction activity occurred in Q2 than in Q1 with the rising number of new residential consents showing an increased percentage of apartments rather than houses. Strong population growth continues, particularly in Auckland, as a result of high levels of overseas net migration. In addition the unemployment rate, according to the Reserve Bank, fell to 4.4% (4.9% last year) and is forecast to fall further as employment is expected to grow ahead of the labour force.

- In May 2018, Augusta Industrial Fund announced the acquisition of four industrial properties, three in Auckland and one in Wellington, for over NZD114 million. These properties have a total net leasable area of approximately 70,000 sq m with a 100% occupancy rate. The industrial property sector remains attractive to both investors and occupiers at a time when the overall vacancy rate in Auckland is likely to hit its lowest level in two years.

- Another notable deal outside Auckland during the quarter was 704 Halswell Junction Road, Christchurch. The warehouse and showroom property erected on a 2.2 ha site occupied by a single tenant was transacted at NZD18.6 million, reflecting a net yield of 6.6 %.

GRAPH 12

## CPI and GDP growth, Mar 2014 – Mar 2018




Source: Statistics New Zealand, Savills Research

TABLE 12

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| 862-880 Great South Road | Auckland | NZD19 mil/US$13.3 mill | Augusta Industrial Fund Ltd | Industrial |
| 20 Paisley Place | Auckland | NZD25.34 mil/US$17.8 mil | Augusta Industrial Fund Ltd | Industrial |
| 704 Halswell Junction Road | Christchurch | NZD18.6 mil/US$13 mil | - | Industrial |
| 128 Broadway | Auckland CBD | NZD9.1 mil/US$6.4 mil | - | Office |

Source: Savills Research & Consultancy

# Singapore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In Singapore, the real estate investment market continued its strong momentum in the second quarter of 2018 with S$10.59 billion of sales, 5.3% higher than the S$10.06 billion recorded last quarter.

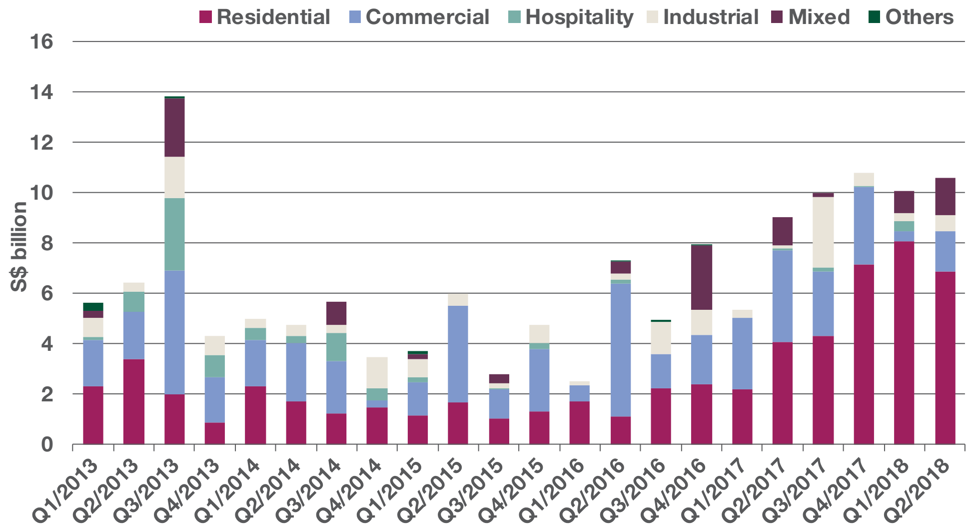
Investment sales of residential land and homes came in at S$6.88 billion of volume in Q2. Although falling by 14.5% quarter-on-quarter (QoQ), this sector continued to account for the lion's share of the total sales value, with 65.0% in the reviewed quarter. Twenty-one private residential sites were sold in Q2, 16 of which were transacted through collective sales. Together with the 18 sites sold in Q1, developers have acquired a total of 34 sites, spending S$9.84 billion in the collective sales market and already surpassing the S$8.24 billion spent on 29 sites in the whole of 2017. Although collective sales activity remained healthy, it was noted that developers have become more selective even as the number of sites launched for sale have increased. Consequently, the success rate for a collective sale has fallen significantly compared to 2016 and 2017. Developers' buying interests have shifted to freehold sites in the high-end and mid-tier markets with a quantum of less than S$500 million.

After a quiet first quarter, investment activity of commercial properties picked up with the sector recording a total of S$1.57 billion in transaction value in Q2, 286.3% higher than Q1's S$410.0 million. Two office buildings in the CBD – Twenty Anson and MYP Plaza – were sold for S$516 million and S$247 million, respectively. In the meantime, the buying activity of strata-titled office units has improved significantly in the best showing since 2018. Some benchmark prices have been achieved in popular developments with strata office units. For example, the 20th floor at Samsung Hub on Church Street was sold for S$3,550 per sq ft in April, while an office space with 20,828-sq ft in Springleaf Tower on Anson Road changed hands for S$2,602 per sq ft in June.

In the retail sector, there were also two notable bloc transactions sealed in Q2; the S$248 million sale of Sembawang Shopping Centre to a joint venture of Lian Beng Group and Apricot Capital and SPH Reit's S$63.2 million acquisition of The Rail Mall at Upper Bukit Timah.

GRAPH 13

## Transaction volumes of investment sales by property type, Q1/2013 – Q2/2018




Source: Savills Research & Consultancy

TABLE 13

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Government land | Holland Road | S$1,213.3 mil/US$890.1 mil | Stirling Land Holdings Pte Ltd, Stirling View Pte Ltd (as Trustee of Commons SR Trust) and Stirling Property Pte Ltd (as Trustee of Commons Commercial Trust) | Commercial & residential |
| Government land | Silat Avenue | S$1,035.3 mil/US$759.5 mil | UOL Venture Investments Pte Ltd, UIC Homes Pte Ltd and Kheng Leong Company (Private) Limited | Residential |
| Tulip Garden | Farrer Road | S$906.9 mil/US$665.7 mil | MCL Land and Yanlord Land Group | Residential |
| Twenty Anson | Anson Road | S$516.0 mil/US$378.8 mil | AEW Capital Management | Office |
| Dunearn Gardens | Dunearn Road | S$468.0 mil/US$343.5 mil | EL Development | Residential |

Source: URA, Savills Research & Consultancy

# South Korea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In Q2/2018, total office investment volumes were recorded at KRW3.8 trillion, nearly triple the ten-year average for the same period. Several deals over KRW200 billion were concluded in Seoul, including KDB Life Tower, SK Securities, Citi Center Tower, DSME headquarters, and Kumho Asiana Group headquarters. In Pangyo, ownership of Alphadom 6-3 and 6-4 were transferred, with a value of slightly over KRW1 trillion for the two deals.

Transactions of core stabilized assets showing around a 90% occupancy rate were prevalent, resulting in higher unit prices for those sales; while a number of buildings broke pricing records within their districts. Domestic blind funds were particularly active this quarter.

KB AMC purchased KDB Life Tower located near Seoul Station (CBD) for KRW423.3 billion with backing from a KB affiliate's blind fund. The KDB Life Tower was owned by Consus AMC; KDB Life was a major investor and occupier of the building. KDB Life sold their call option (option exercise price: KRW380 billion) and cashed in a premium of more than KRW40 billion. KDB Life also reinvested into the new fund set by KB AMC that acquired the building.

KB AMC also purchased the SK Securities building for KRW295 billion. SK Securities is located next to KB Financial Group's headquarters in Yeouido and KB Finance Town, scheduled to deliver in 2020. The unit price of the SK Securities Building (KRW20.6 million/pyeong) was higher than that of Citi Plaza which was the highest price in the YBD last year. The seller, KTB AMC, had purchased the Mirae Asset Building previously and reconstructed it as the SK Securities building, completing it in 2017. The major tenants are SK Securities and HPE Korea.

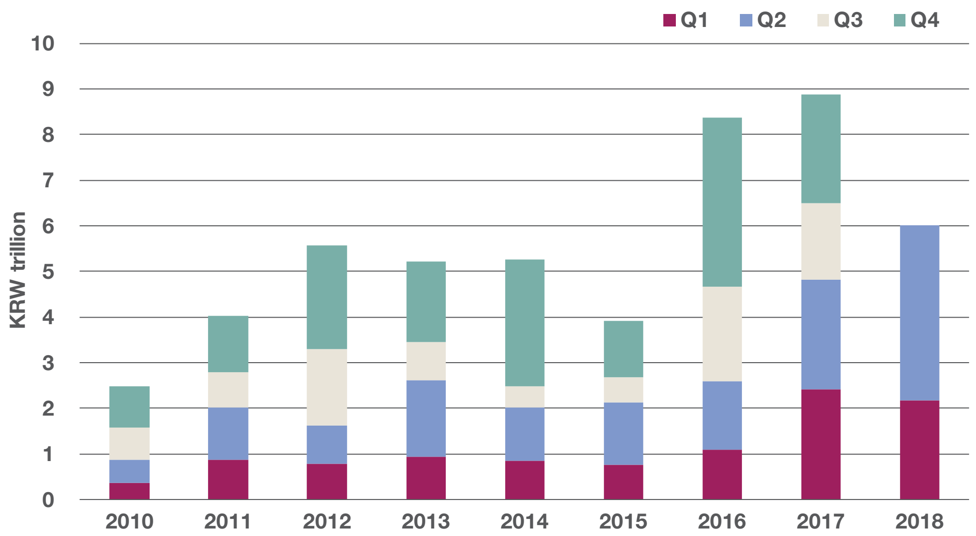
DGB AMC purchased the DSME Building in the CBD for KRW205 billion (KRW27.3 million/pyeong). DSME lease 2/3 of the space, and the remaining part will be used by the DGB Group as their headquarters. In October 2016, Capstone AMC (on behalf of Orion Partners) purchased the building from DSME for KRW170 billion before reselling it.

Hanwha AMC purchased Daechi 2 Building located in the GBD from Samsung Life for KRW190 billion with backing from a core strategy blind-pool fund from Hanwha Life Insurance, the parent company of Hanwha AMC. The major tenant of the building is Samsung Life Insurance.

GIC and CPPIB acquired the Kumho Asiana HQ building located in the CBD for KRW418 billion. GIC and CPPIB entered into a joint-venture partnership to acquire the asset, and each will own a 50% stake. Kumho Asiana Group, the parent of Asiana Airlines, sold the building to boost liquidity. The seller will lease back the building for one year. DWS, the asset manager, will convert the public areas, such as auditoriums, etc., into leasable spaces.

GRAPH 14

## Office transaction volumes, 2010 – Q2/2018




Source: Savills Korea

TABLE 14

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| KDB Life Tower | | KRW422 bil/ USD391 mil | KB AMC | |
| Kumho Asiana Group HQ | CBD | KRW418 bil/ USD387 mil | DWS | |
| DSME | | KRW205 bil/ USD190 mil | DGB AMC | |
| SK Securities Building | YBD | KRW295 bil/ USD273 mil | KB AMC | Office |
| Daechi 2 Building | GBD | KRW190 bil/ USD176 mil | Hanwha AMC | |
| Alphadom 6-4 | Pangyo | KRW541 bil/ USD501 mil | Shinhan REITs Management | |
| Alphadom 6-3 | | KRW466 bil/ USD432 mil | Mirae Asset AMC | |

Source: Savills Research & Consultancy

# Taiwan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Commercial property market sentiment turned positive, with transaction volumes totaling NT$31.7 billion in Q2/2018, up 237% quarter-on-quarter (QoQ) and 108% year-on-year (YoY). This is the largest volume increase recorded in the past eight quarters. Strong export demand and economic recovery have continued to drive corporate expansion. Three large deals concluded in the Neihu Technology Park.

With available stock extremely limited and priced highly in central areas, industrial offices in decentralised areas, such as Neihu Technology Park and Nankang Software Park, are attracting owner-occupiers looking for larger office space or headquarters. However, traffic congestion in decentralised areas remains a concern for both investors and tenants.

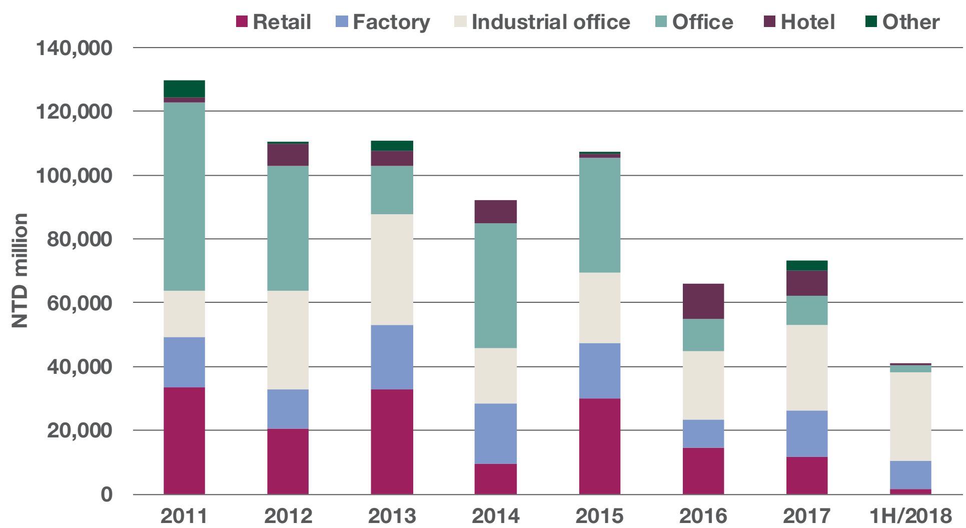
Notably Formosa Plastic Group acquired two-and-a-half en bloc industrial office buildings in Neihu Technology Park for NT$18.7 billion, the largest deal in Taiwan in the past three years. These buildings will be the company's corporate headquarters, while the original headquarters building in the Dunhua N. district undergoes redevelopment. A further two large deals located in the same area include Transcend Information, which purchased LIH PAO's headquarters in Neihu for NT$2.37 billion for office expansion, and Farglory Life Insurance, which disposed of en bloc buildings for NT$2.77 billion to a local investor with an estimated yield of 3%.

With more landlords considering office redevelopment, the stock of B and C Grade office space may decline in the short term. Forced tenant relocations and the growth of demand due to the economic recovery are providing strong momentum in the commercial leasing market. Pre-leasing for new office projects has been performing well, so some developers including Ruentex, Highwealth Construction Corp and King's Town Construction are trying to diversify their business with a shift in focus from residential to commercial property. Stable rental income generated from commercial properties can moderate the impact of the residential market cycle, providing opportunities for landlords to enjoy asset appreciation through the sale of high-quality properties to insurance companies or the launch of REITs.

Taiwan's REIT market turned active with two new REITs ready to be launched, after three REITs were liquidated during 2011-14. O-Bank No.1 Real Estate Investment Trust, which includes an en bloc office building in New Taipei City and a department store in Tainan City, will provide a yield of between 2.8% and 3%, with the REIT's size reaching NT$3 billion. The other REIT receiving FSC approval will be over NT$10 billion in size and includes a strata-title office in Taipei City and a shopping mall in Hsinchu County. It is difficult for REITs to find properties providing attractive yields due to the lack of available stock in the market. As developers become more involved in commercial property projects, the REIT market will have more room for future growth.

GRAPH 15

## Significant transactions by investor type, 2011 – 1H/2018




Source: Savills Research & Consultancy

TABLE 15

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| LIH PAO Neihu Headquarters | Taipei City | NT$2.37 bil/US$79 mil | Transcend Information, Inc. | Industrial office |
| London Technology Building | Taipei City | NT$2.77 bil/US$92 mil | Local investor | Industrial office |
| A1, A2, A5 buildings in T.CBD | Taipei City | NT$18.7 bil/US$623 mil | Formosa Plastics Group | Industrial office |

Source: Savills Research & Consultancy

# Thailand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Second quarter investment activity was dominated by Thailand's hospitality sector, with rising tourist arrivals, coupled with healthy growth in average daily hotel rates, driving demand.

Tourist arrivals rose by 6.3%, to a total of 2.8 million, over the first five months of the year, with Thailand's hotels seeing an increase in average daily rates of 5.3% year-on-year in May.

SET-listed Singha Estate acquired an international portfolio of six hotels from Honolulu-based hotel chain and management company, Outrigger. The portfolio included a 252-key resort in Phuket and a 52-key resort in Koh Samui, acquired in June for US$101.1 million (THB3.63 billion) and US$20.9 million (THB965 million) respectively.

Q2 further witnessed Grande Asset's acquisition of the 726-key Royal Orchid Sheraton Hotel & Towers in Bangkok for US$115.3 million (THB3.84 billion). Grande Asset acquired the hotel through the purchase of all shares held within Royal Orchid Hotel (Thailand) PLC (ROH), with prominent previous shareholders including Thai Airways International and Starwood Hotels (Thailand).

SET-listed Pace Developments (Pace) announced the sale of THB14 billion (US$420.8 million) worth of assets within their MahaNakhon project to duty-free operator King Power Group. The sale included the 154-key Edition Hotel, the building's observation deck, retail cube and a land component. The 209-unit freehold condominium component, branded as Ritz Carlton Residences Bangkok, was excluded from the deal. Pace stated intentions to use a portion of sales proceeds to reacquire project shares from Goldman Sachs Investment Holdings (Asia) and Apollo Asia Sprint, a unit of Apollo Global Management LLC.

While less active than over Q1, listed developers continued to explore central Bangkok land opportunities, with SET-listed residential developer Sansiri PLC purchasing a 1,980 sq m development site on Sukhumivit 34.

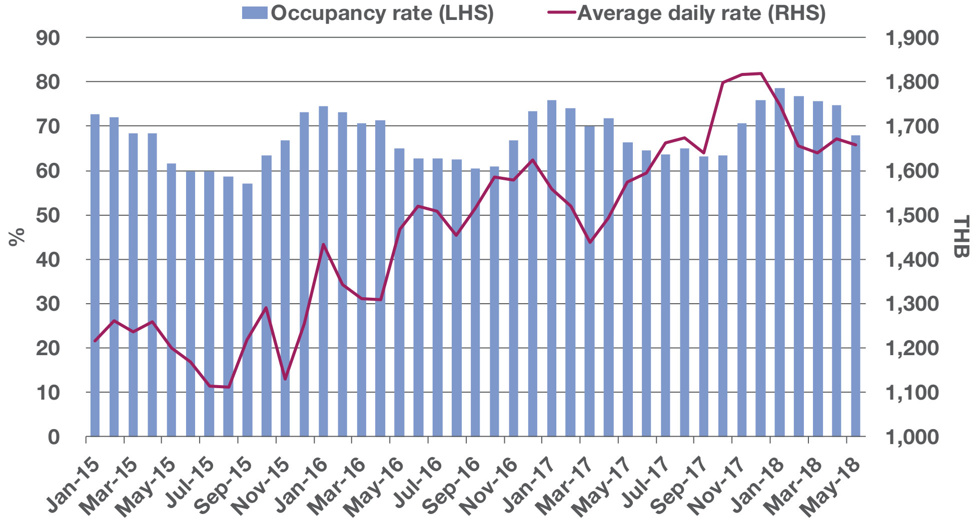
The Eastern Economic Corridor (EEC) gained further traction over Q2, with the long-awaited EEC Act coming into effect in May. The Act provides a number of incentives for targeted industries to establish operations within the zone, which spans 13,285 square kilometers across Chonburi, Rayong and Chachoengsao provinces.

Alibaba announced plans to invest THB10 billion (US$320.2 million) into a 'digital hub' within the ECC, set to break ground within the year and with operations expected to commence over 2019.

Thai Airways International and Airbus Commercial Aircraft announced a joint venture to develop a multi-billion-baht maintenance, repair and overhaul (MRO) facility for wide-bodied aircraft at U-Tapao international airport, within the EEC. The expansion of capacity and facilities at U-Tapao has been a long-stated ambition of the Thai government and is considered a key infrastructure milestone for the zone's wider commercialisation.

GRAPH 16

## Thailand hotel average occupancy and average daily rate, Jan 2015 – May 2018




Source: Ministry of Tourism and Sports, Savills Research & Consultancy

TABLE 16

## Major investment transactions, Q2/2018

| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| 252-key Outrigger Laguna Phuket Beach Resort | Phuket | THB3.37 bil/US$101.13 mil | Singha Estate | Hotel |
| 52-key Outrigger Koh Samui Beach Resort | Koh Samui | THB695 mil/US$20.87 mil | Singha Estate | Hotel |
| 726-key Royal Orchid Sheraton Hotel & Towers | Bangkok | THB3.84 bil/US$115.27 mil | Grande Asset | Hotel |
| c.1,980 sqm Land Plot, Sukhumvit 34 | Bangkok | THB355 mil/US$10.65 mil | Sansiri PLC | Development land |

Source: Company announcements, Savills Research & Consultancy

# Vietnam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In the first six months of 2018, Vietnam's GDP expanded 7.08% year-on-year, marking the highest first-half growth since 2011. The real estate sector continued to receive robust interest from foreign investors by ranking first in the contribution to FDI registration with US$4.971 billion, of which the Smart city project in Hanoi accounted for the majority. This mega project covering 271.82 ha, is jointly invested by four local investors and Japan's Sumitomo Corporation. The first phase is planned to commence in the third quarter of this year and is to be developed by a Sumitomo – BRG Group joint venture. Once completed, the Smart city is expected to be one of the most advanced smart cities in Southeast Asia with a modern transport system.

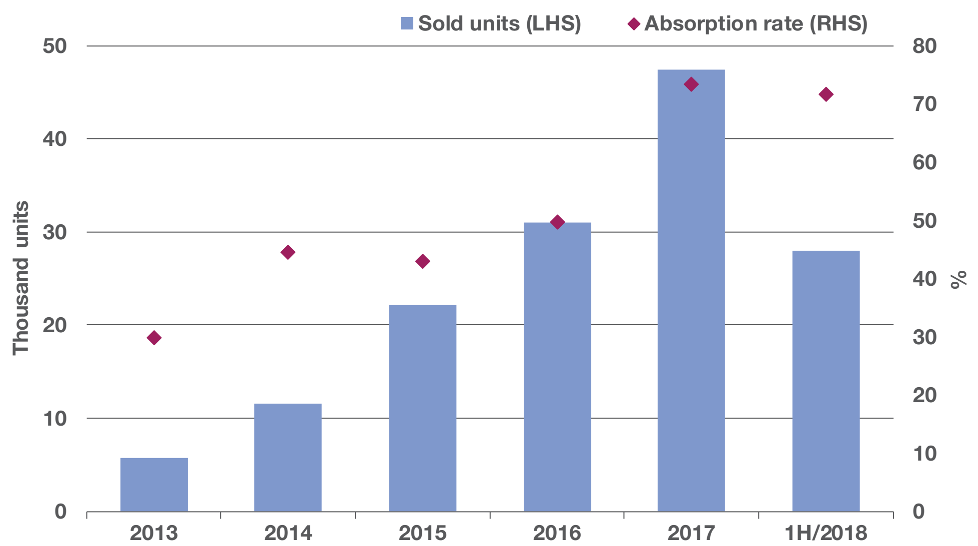
The property market in Ho Chi Minh City saw strong interest from major players this quarter. Frasers Property entered into a conditional purchase agreement to acquire 75% of the issued share capital of Phu An Khang Real Estate, which owns a mixed-use development plot in District 2, for circa US$18 million in April. In early June, Malaysia's Berjaya Land Berhad announced their proposed disposal of the Vietnam Financial Center project to Vinhomes and its affiliates for approximately US$39 million, following Vinhomes' capital contribution of nearly US$88 million to the project back in March. Upon completion of the transaction, Vinhomes and its affiliate will fully own the 6.6-ha project in District 10 for mix-used development. In addition, Vinhomes and its affiliates also injected approximately US$522 million as capital contributions and accordingly owned an 99.2% interest in the 925-ha Vietnam International University Town project, and was in the process of acquiring the remaining 0.8% stake from Berjaya.

The residential sector was still the focus of local players. Xuan Mai Corporation successfully acquired Eco-Green Saigon, a 14-ha project in District 7, Ho Chi Minh City. Nam Long Group continued their cooperation with Japanese investors, Hankyu Hanshin Properties Corporation and Nishi Nippon Railroad to develop Akari City, a 8.8-ha residential project in Binh Tan District, Ho Chi Minh City. Nam Long also kicked off their key project, Waterpoint township in Long An province in June. Covering 355 ha, Waterpoint consists of townhouses, villas, high-rise apartments, a mixed-use complex, a hospital, education and sports facilities.

The second quarter of 2018 also recorded the notable IPO of Vinhomes JSC, the residential property development unit of Vingroup, drawing strong interest from both domestic and foreign investors, including GIC who acquired a 5.74% stake as Vinhomes' cornerstone investor.

GRAPH 17

## Ho Chi Minh apartment market performance, 2013 – 1H/2018




Source: Savills Research & Consultancy

TABLE 17

## Major investment transactions, Q2/2018

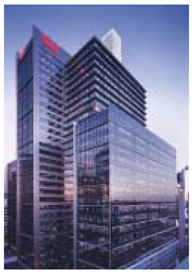
| Property | Location | Price | Buyer | Usage |
|---|---|---|---|---|
| Vietnam Financial Centre (32.5% interest) | District 10, Ho Chi Minh City | Approx. VND904.4 bil/US$39 mil | Vinhomes JSC & Can Gio Tourist City Corporation | Mixed-use development |
| A development site (75% interest) | District 2, Ho Chi Minh City | Approx. VND417.3 bil/US$18 mil | Frasers Property | Mixed-use development |

Source: Savills Research & Consultancy

# Australia

◄ **Brandon Park S.C.**
Wheelers Hill, VIC
AU$135M/US$101.3M
in April

**Grand Plaza (50%)** ▼
Browns Plains, QLD
AU$215M/US$161.3M
in April



**Westpac Place** ▲
Sydney, NSW
AU$860M/US$635.4M
in June

◄ **117 Clarence Street**
Sydney, NSW
AU$153M/US$114.8M
in June

**Pacific Epping (50%)** ►
Epping, VIC
AU$402M/US$301.5M
in June

# Beijing/Shanghai

▲**InterContinental Beijing Financial Street Hotel (59.5% shares)**
Xicheng district, Beijing
RMB667M/US$99.55M
in Q2

**Qibao Powerlong Building T2** ►
Minhang, Shanghai
RMB452M/US$68.3M
in Q2

**Buildings 2, 3, 4, 7, 8 of Xinhua Culture Mansion** ▲
Dongcheng district, Beijing
RMB240M/US$35.82M
in Q2

**Shanghai Plaza (90%)** ▲
Huangpu, Shanghai
RMB2.5B/US$377.8M
in May

**Fudu Plaza** ▲
Huangpu, Shanghai
RMB700M/US$105.8M
in June

▼ **Hongqiao World Centre (4/F-10/F)**
Qingpu, Shanghai
RMB403M/US$60.9M
in April

◄ **Bay Valley B7**
Yangpu, Shanghai
RMB726M/US$109.7M
in April

▲ **Jinkaili Square**
Huangpu, Shanghai
RMB430M/US$65.0M
in Q2

**608 Xikang Road Project** ►
Jing'an, Shanghai
RMB260M/US$39.3M
in Q2

◄ **Hongkou Bailian Shopping Mall**
Hongkou, Shanghai
RMB465M/US$70.3M
in June

# Hong Kong/Macau

**Butterfly on Waterfront Hotel**
Sheung Wan, Hong Kong
HK$810M/US$103M
in April

**OCTA Tower**
Kowloon Bay, Hong Kong
HK$7.5B/US$956M
in May

**Cityplaza Three & Cityplaza Four**
Quarry Bay, Hong Kong
HK$15B/US$1.91B
in June

**Centro Industrial De Macau**
Macau
HK$150M/US$19M
in Q2

# Japan

**Nishi-Shinjuku Prime Square**
Shinjuku, Tokyo
JPY34.8B/US$320M
in May

**Himonya Shopping Centre**
Meguro, Tokyo
JPY27.5B/US$250M
in May

**Hitachi Solutions Tower B**
Shinagawa, Tokyo
JPY31B/US$280M
in June

**Cross Place Hamamatsucho**
Minato, Tokyo
JPY20.7B/US$180M
in May

# Malaysia

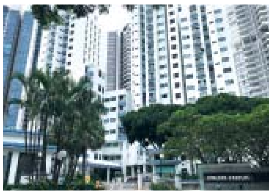
**Wisma OUA Pantai**
Kuala Lumpur
RM120M/US$30M
in June

# Major transactions Q2 2018

## Singapore

**Chancery Court ▶**
Dunearn Road
S$401.8M/US$294.9M
in May

**◀ Dunearn Gardens**
Dunearn Road
S$468.0M/US$343.5M
in April

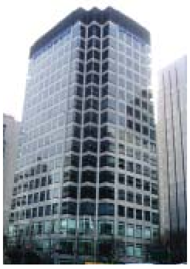


**Twenty Anson ▼**
Anson Road
S$516.0M/US$378.8M
in June

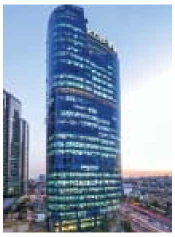
**Tulip Garden ▶**
Farrer Road
S$906.9M/US$665.7M
in April

## South Korea

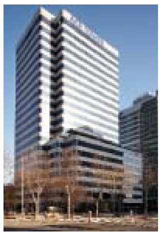
**▼ DSME**
CBD
KRW205.4B/US$190.4M
in April



**KDB Life Tower ▶**
CBD
KRW422.3B/US$391.5M
in June



**◀ ACE Tower**
CBD
KRW199.8B/US$185.2M
in May



**◀ Hyundai Card Capital HQ**
YBD
KRW177.5B/US$164.6M
in May

**Kumho Asiana HQ ▶**
CBD
KRW418B/US$387.6M
in May

## Taiwan

**◀ Inventec Daxi Factory**
Taoyuan City
NT$1.38B/US$46M
in June

**London Technology Building ▶**
Taipei City
NT$2.77B/US$92M
in April

**T.CBD ▼**
Taipei City
NT$18.7B/US$623M
in May

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