Asia Pacific
Investment Quarterly

Q2 2016

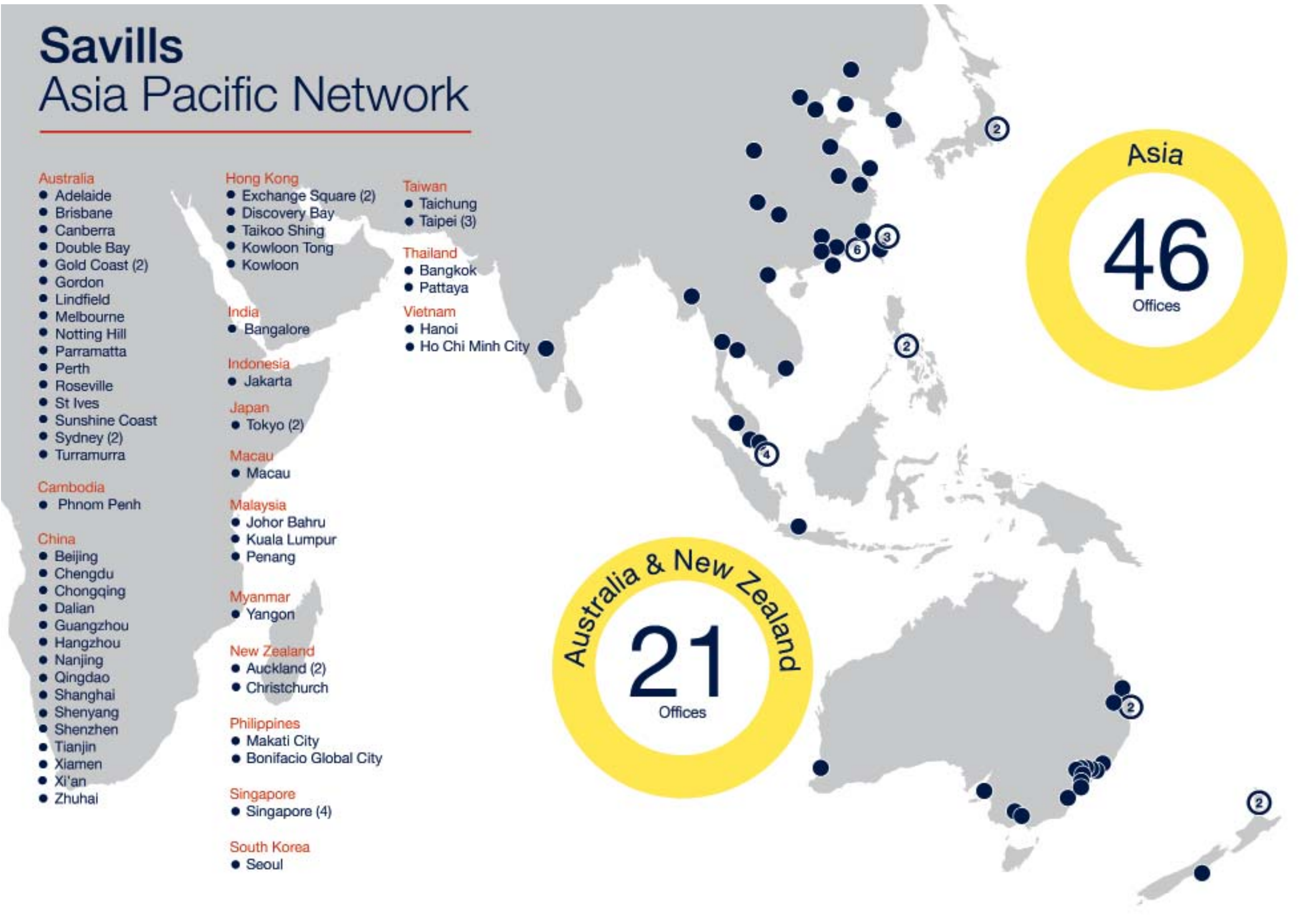
Image: Shanghai

HIGHLIGHTS

Australia has just seen the re-election of a conservative government by a narrow margin. With that uncertainty out of the way, focus now returns to the prospects of another interest rate cut, and speculation of the effects on asset prices and the currency. China's investment market was surprisingly quiet in the first half with only RMB44 billion worth of deals concluded. Nevertheless with a number of deals under negotiation and a growing weight of capital chasing income generating assets, activity is expected to pick up in the second half. Japan's outlook is still positive, but increasingly uncertain global economic conditions have slightly reduced market participants' growth expectations. In Vietnam, strong FDI and a burgeoning domestic economy combined with rapidly changing demographics continue to support growth across all major asset classes, ranking Vietnam as a compelling investment choice within the region. In Singapore, a lackluster economy, government cooling measures and ample new supply continue to conspire against price growth. While some major deals were inked in the second quarter, we expect volumes to remain relatively stable over the second half. In Hong Kong, while the retail market continues to take a beating, thanks to limited supply and strong end-user appetite, office prices are proving resilient.

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 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East.

In Asia Pacific, Savills has 67 regional offices comprising over 25,000 staff. Asia Pacific markets include Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Macau, Malaysia, Myanmar, New Zealand, Taiwan, Thailand, Singapore and Viet Nam, with associate offices in Cambodia and the Philippines. 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.

Contents

Australia

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More than half the world's population lives within a 10 hour flight of Australia. Of this group, more than 3.5 billion people live in conditions ranging from first world, second world and third world. More importantly, the standard of living in the region is being lifted and this has implications for Australia. The demand for resources, energy, minerals and agriculture appear obvious. Now all we have to do is haggle about the price.

What is less obvious, but more important, is the population ties that are expected to emerge over the next 20 years. According to the Federal Government's intergeneration report, Australia will require a population of approximately 35 million people by 2050 in order to cope with skill shortages and eroding tax base as the population ages. It is expected that a large proportion of this skilled migrant intake will come from Asia. Amongst the 3.5 billion people living in the region, a fortunate 8 million will make it to Australia. That means Melbourne and Sydney are expected to grow to become cities of 9 million people by 2050. This growth in the population can be expected to result in the need for a further 1.57 million dwellings in both cities.

The more striking figure from our point of view is the need for almost half a million apartments. This comes as little surprise to us. Savills is one of the biggest residential real estate agents in the world and has a long track record, strong research credentials and intellectual property in the sector. Cities of 9 million people require increased density in order to continue to operate efficiently.

A large part of the solution in large cities is apartment living. The forecasts of the DTPLI lead to a requirement of 13,700 apartments to be built every year for the next 35 years in Melbourne (and by Savills' deduction, also Sydney).

The opportunities presented by the rise of China for the Chinese, the populations of Asia and Australia in particular are not just confined to residential property but are many and varied. They are not confined to just a few countries but rather they abound. The challenge for investors is to understand and take advantage of the opportunities. Asia and Australia have a tied destiny. Asian capital is becoming more engaged overseas and Australian property markets will continue to be transformed by Asian investment.

GRAPH 1

Forecast additional residential construction Melbourne 2015 to 2050

Source: Victorian DTPLI

TABLE 1

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
1 Shelley Street	Sydney, NSW	AU$325.0 mil/US$240.0 mil	Brookfield	Office
191 Pitt Street	Sydney, NSW	AU$315.0 mil/US$233.1 mil	Tony Cheung (Foreign investor)	Retail
821-843 Pacific Highway	Chatswood, NSW	AU$279.0 mil/US$206.5 mil	Centuria	Office
Forest Hill Chase Shopping Centre#	Melbourne, Victoria	AU$265.7 mil/US$195.3 mil	Blackstone Group	Retail
Como Centre	Melbourne, Victoria	AU$236.5 mil/US$173.8 mil	Newmark Capital	Office
3-5 Rider Boulevard	Rhodes, NSW	AU$235.0 mil/US$173.9 mil	Altis	Office
Toombul Shopping Centre	Nundah, QLD	AU$228.1 mil/US$167.7 mil	Mirvac	Retail
Woolworths Cold Storage/ Distribution Centre, Portlink Industrial Estate, Dandenong South*	Melbourne, Victoria	AU$215.0 mil/US$158.0 mil	Charter Hall	Industrial

Source: Savills Research & Consultancy
Portfolio of 3 properties sold for AU$613.3 million.
* Under construction, fund through development with a leaseback.

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Limited prime investment stock, combined with steady demand from both domestic and overseas investors, saw the city's Grade A office capital values stabilise at an average of RMB74,900 per sq m in Q2/2016. Despite the lack of prime investment stock, investors are expected to continue seeking opportunities. Several projects are currently under negotiation, however, higher than expected prices continue to delay transaction finalisation.

On 1 May, the real estate sector welcomed the rolling out of the value-added tax (VAT) system, which will now see the sector join a list of other industries, including finance and services, to be taxed on the value they add instead of the previous business tax revenue-based system. Many expenses and costs will be eligible for deductions from the tax bill, which is anticipated to further support interest in the sales market.

The en-bloc sales market continued to witness a pick-up in activity from last quarter. Two deals were concluded in Q2/2016, for a total consideration of RMB4.8 billion, bringing the year-to-date total consideration to RMB7.03 billion. En-bloc transactions of the quarter included:

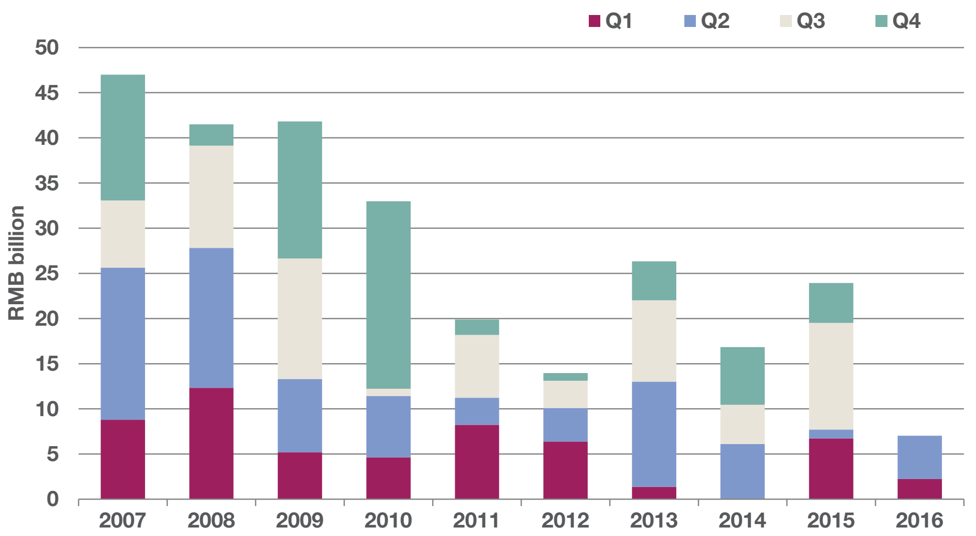
- Yili Group, a domestic FMCG company, acquired Tunghsu International Center from Tunghsu Group, for RMB1.83 billion.
- LeEco, a domestic video company, purchased Shimao Gongsan from the Shimao Group for approximately RMB2.97 billion.

Domestic buyers, known for having easier access to core assets, continued to stand out as the main demand driver this quarter, all purchases were for self use.

Limited prime investment stock, combined with steady demand from both domestic and overseas investors, is expected to support Grade A office capital values despite rental stagnation. As a result, Grade A office gross yields are anticipated to continue the trend of moderately declining throughout 2016.

While projects located in traditional business areas will continue to be the most favoured properties by investors, a lack of available investment stock will fuel interest in assets in non-prime areas. Currently undergoing rapid development backed by stimulation policies, combined with healthy pipelines of scheduled future supply, non-prime areas such as Tongzhou, Daxing and Fengtai are positioned well to show positive performance in both the office and retail strata-title markets.

GRAPH 2
Beijing en-bloc transaction volumes, 2007–Q2/2016



Source: Savills Research & Consultancy

TABLE 2
Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Tunghsu International Center (东旭国际中心)	Fengtai	RMB1.83 bil/US$278 mil	Yili Group (伊利集团)	Office
Shimao Gongsan (世茂工三)	Chaoyang	RMB2.97 bil/US$452 mil	LeEco (乐视)	TBC

Source: Savills Research & Consultancy

China (Northern) - Tianjin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In Q2/2016, Tianjin's land market remained relatively stable, though supply and transaction volume was slightly down from the last quarter. However, land prices in the city centre continued to rise, driven by the recovery of the residential market.

The recent sales of land plots for higher premiums suggests Tianjin is following in the footsteps of other major first-tier cities such as Beijing and Shanghai, where accommodation values may exceed the selling price of homes in the neighbourhood. Many wonder if this trend of land fetching more at auction than the value of the property is truly sustainable.

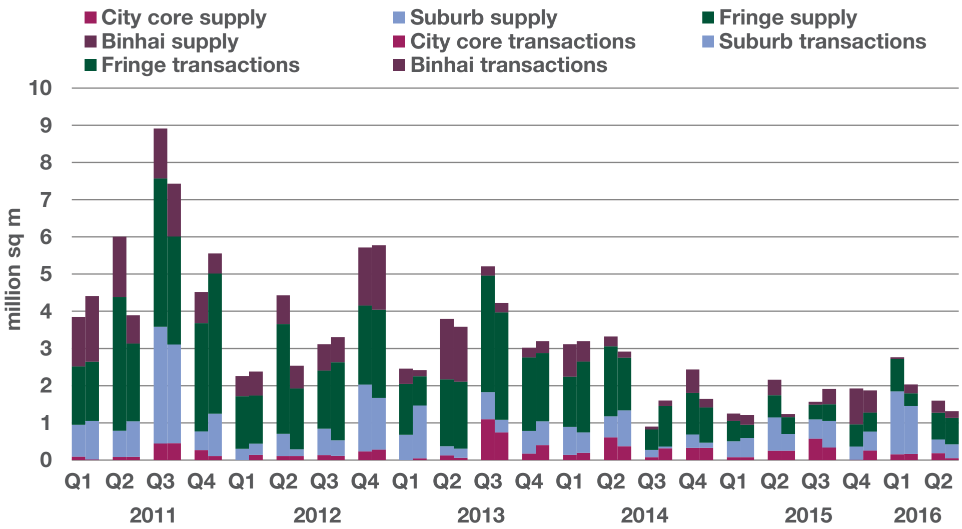
For example, a land deal in Tianjin in May raised eyebrows when a non-local developer from Hebei acquired a piece of land located in the Hebei district for RMB1.65 billion, with a premium of 152% and an accommodation value of RMB24,557 per sq m. This deal not only set the record for the largest accommodation value in the district, but also marked the first time that the accommodation value surpassed the average housing price, which is approximately RMB21,000 per sq m. The high price is mainly attributable to the scarcity of residential land in the city centre.

In early June, another land plot zoned for residential and commercial use, located within the commercial area of the Heping district, was officially listed for sale. The minimum price was set at RMB4.5 billion, which if purchased would make it the most expensive piece of land to be sold in 2016 in terms of total price. A high premium is also expected, as the Heping district, which is located in the city's core area, has received no new residential land in almost four years, with the exception of a single, mixed-use land plot which was transacted with a premium of 132.4% in January.

Record-breaking land deals in major cities are frequently making headlines. This is the result of a myriad of factors, including: imbalances between land supply and demand; the accelerating rate of home sales; and optimism among developers. However, higher premiums also lead to greater risks for subsequent development and sales, which should incentivise regulators to roll out measures aimed at cooling land prices in order to avert serious problems down the line.

GRAPH 3

Land supply and transaction volumes by area, Q1/2011–Q2/2016



Source: Savills Research & Consultancy

TABLE 3

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Plot 2016-037 (JBJ)	Hebei district	RMB1.65 bil/US$250.6 mil	Baoding Longyuan Real Estate Development Co., Ltd.	Mixed-use
Plot 2016-01 (JN)	Jinnan district	RMB828 mil/US$125.7 mil	Further Land	Mixed-use
Plot 2015-03 (JXQ)	Xiqing district	RMB700 mil/US$106.3 mil	Xiamen Lianfa Group	Mixed-use
Plot 2016-1/2/3/4	Binhai new area	RMB373 mil/US$56.7 mil	Tianjin Beike TEDA Investment Development Co.	Mixed-use

Source: Savills Research & Consultancy

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At the beginning of Q2/2016, the Chengdu Bureau of Land and Resources issued the "Chengdu Central Urban Area Land Supply Plan". The Plan required that the total supply of land within the central urban area should be limited to 9.15 million sq m. Compared with 2015, total land supply decreased by 800,000 sq m. Out of the 9.15 million sq m supply, residential use land supply increased 12% year-on-year (YoY) to 2.75 million sq m, accounting for more than 25% of total supply. At the same time, commercial use land supply decreased 43% YoY to 1.3 million sq m. This is predominantly due to an active supply adjustment currently being carried out by local government, which aims to decrease the destocking pressure of commercial projects from the supply side.

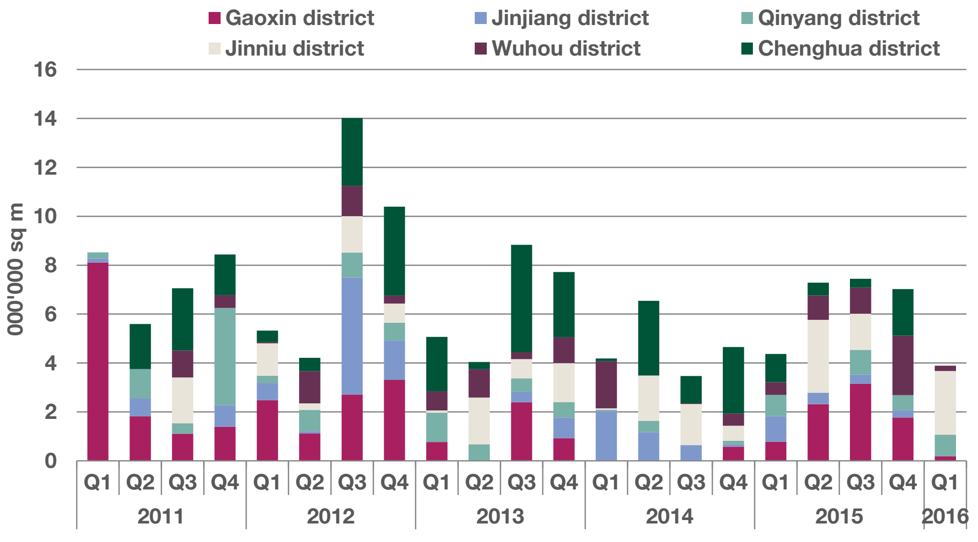
From the supply perspective, in Q1/2016, 11 residential and commercial use land plots launched onto the market, totalling 505,300 sq m, a decrease of 44% YoY. From a transaction perspective, Q1/2016 saw 18 residential and commercial use land plot transactions, totalling 388,700 sq m, decreasing 11.07% YoY. Affected by decreasing transaction volumes, the total transaction amount decreased 30.03% YoY to RMB6.192 billion.

Evolving land usage is shaping citywide land transactions. From the supply perspective, in Q1/2016, the proportion of residential use land supply increased 18.49 percentage points (ppts) to 72%, while the proportion of commercial use land decreased to 27.26%. Residential zoned land transactions increased 22.68 ppts, to 80%, while commercially zoned land decreased to less than 20%. Despite the land supply adjustment carried out by the government, developers' intention to acquire residential land has been roused by a series of policy measures. This policy includes market stimulating measures such as decreased interest rates and first down payments. The lowering of transaction taxes also played an important role in increasing the proportion of residential use land transaction volumes.

According to market data from Q1/2016, developers' land purchasing strategy and the government's land supply strategy are both conservative. However, with the restoration of the city's residential revival and less land plots available in central areas, developers are expected to become bolder in the land market. This should see the land market continue to heat up through the remainder of the year.

GRAPH 4

Land transaction volumes by district, Q1/2011–Q1/2016



Source: Savills Research & Consultancy

TABLE 4

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
TF 07/05 : 2016-08	Tianfu New Area	RMB1.57 bil/US$238.7 mil	Vanke	Mixed-use
WJ2016-05(251/211)	Gaoxin district	RMB221.13 mil/US$32.0 mil	Jinke	Mixed-use
GX2016-03(214)	Gaoxin district	RMB199.3 mil/US$30.2 mil	China Resources Land Limited	Commercial

Source: Savills Research & Consultancy

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Hoping to ease traffic congestion and transform the city into a key logistics and transportation hub, the Guangzhou city government has prioritised the improvement of the city's infrastructure. Projects ranging from road construction to the expansion of the international airport are currently underway, which are expected to further the city's development and lift the overall property market.

In 2015, the 13th Five Year Plan outlined Guangzhou's development into a comprehensive international transportation hub. The city already has two high-speed rail lines under construction, Guangzhou-Shantou and Guangzhou-Zhangjiang, with completion expected in 2017 and 2019 respectively. The high-speed rail will reduce the travel time between Guangzhou and other cities in western and eastern Guangdong province by 2 to 5 hours, which will make it easier for labour and business to flow in and out of Guangzhou.

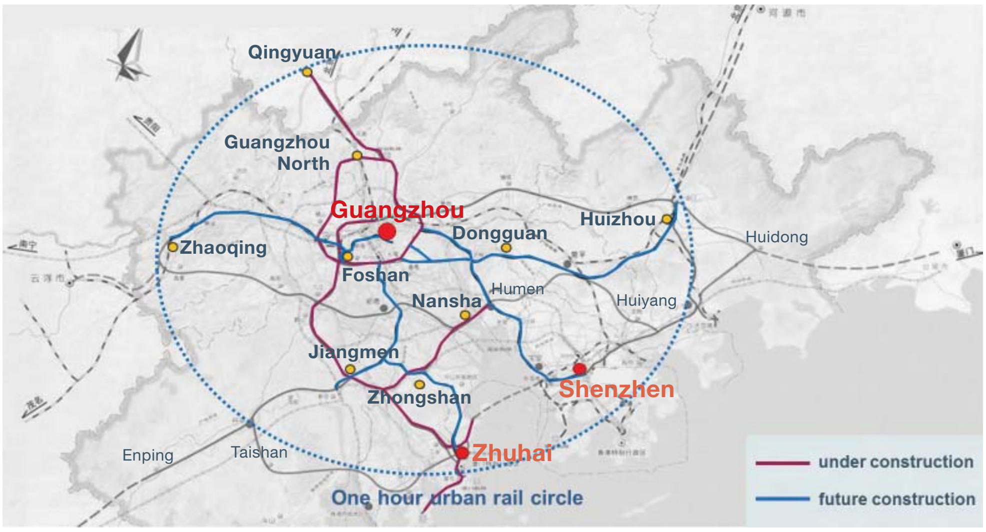
The construction of a one-hour intercity railway circle is also underway in Guangzhou. By the end of the current five-year period, 16 urban railways are expected to link the cities in the Pearl River Delta such as Dongguan-Huizhou, Guangzhou-Qingyuan, and Guangzhou-Foshan-Qingyuan. The urban rail transit system will not only provide a more energy efficient and environmentally friendly means of long-distance, intercity transit, but is expected to increase the value of local property markets.

Subway construction has been another focus of the municipal government. The existing system has 265.5 km of track and serves as the primary mode of transit for 40% of the city's population, making it the largest subway network based on total passenger footfall in China. Currently, 11 lines with more than 300 km of track are planned to integrate all of the city's 11 districts in the next five years. The subway system is predicted to increase property values in suburban areas by 20-25% and by 10-15% in outlying areas. The expansion of the subway into the suburbs will not only increase property values but help these areas destock relatively high inventories of existing supply.

The city has also planned to consolidate a comprehensive air transportation hub by improving Baiyun International Airport's infrastructure. More than RMB11 billion will be invested to construct the T2 Terminal and the 2nd Airport Express, as well as extend the ground traffic centre; construction is expected to be completed in 2018. Additionally, 30 cargo airlines will commence operations and annual passenger count is forecast to reach 80 million by 2020. The development of the aviation hub will generate new demand for logistics and storage facilities in the local market.

MAP 1

Map of "one hour intercity railway circle"



Source: Savills Research

TABLE 5

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Guangzhou plot AB2910019	Baiyun district	RMB2.01 bil/US$305.47 mil	Infinitus	Office
Guangzhou plot AB2910020	Baiyun district	RMB174.66 mil/US$26.54 mil	Country Garden	Office
Guangzhou plot 83002002A15028	Zengcheng district	RMB1.26 bil/US$191.49 mil	Times Property	Residential
Guangzhou plot HDJ07-10	Huadu district	RMB2.49 bil/US$379.6 mil	Greenland	Office
Liberation Tower	Yuexiu district	RMB138.0 mil/US$20.97 mil	Hon Kwok Land Investment Company	Office

Source: Savills Research

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One land plot with a 509,000 sq m floor area was transacted on 8 June 2016, and has gone down in history as the highest total land price in the city. Shenzhen Kaifeng Industrial (representative for Logan Property) pocketed the land located in the Guangming New Area in the New Tech Industry Park within Phoenix City. The plot, which totalled RMB14 billion, saw a floor price of RMB27,623 per sq m. The previous record holder was a plot bought in the Qianhai area in 2014.

According to the government's five-year land transaction database, total land prices in the Guangming New Area ranked the highest, followed by Qianhai and the Longhua New Area. Qianhai and Longhua have also recorded the most land plot titles in the last five years. In June 2016, the city saw the transaction of two plots of land which out-ranked transactions by total price seen over the last five years.

As two new districts in the city, Qianhai and Longhua have seen the largest growth in residential prices in the last two years. This has been influenced by the city's overall rising residential prices, combined with good access to a number of supporting facilities located in the area.

Looking at the distribution of recent land sales, the majority of land transactions in the top price tier are located in the core areas of the city. Although the Guangming New Area is located in a non-central district, there is a growing trend of development extending to non-central areas, due to the scarcity of land available in core areas.

Under the local government's future development plan, the city will see two metro lines built, connecting central areas to non-central areas located west of the city. In addition, more express roads will be built between core and outlying areas, improving the accessibility of non-central areas on the outskirts of the city. These infrastructure improvements are expected to raise citywide land prices which in turn will increase future development costs and overall property prices.

TABLE 6

Top five ranked land transactions by total price, 2013–2016

Ranking	Plot number	Year	District	Buyer	Total price (RMB mil)	Land area (sq m)	Floor area (sq m)
1	A646-0059	2016	Guangming New District	Shenzhen Kaifeng Industrial Co. Ltd.	14,060	152,441.9	509,000
2	T201-0080	2014	Qianhai	Silverstein Properties Inc. SPI & Shenzhen Qianhai International Energy Financial Center Co. Ltd	13,409	51,416.09	477,000
3	A811-0319	2015	Longhua New District	Shenzhen Logan Ascot Real Estate Development Co. Ltd.	11,250	87,044.55	577,900
4	T201-0078	2013	Qianhai	CR	10,900	61,831.29	503,000
5	A816-0060	2016	Longhua New District	Power China & Guangzhou Fang Rong Co. Ltd.	8,290	35,673.14	146,000

Source: Urban Planning, Land & Resource Commission of Shenzhen Municipality, Savills Research & Consultancy

TABLE 7

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Unspecified	Pingshan New district	RMB2.29 bil/US$0.34 bil	China Aoyuan Property Group Limited	Residential
Lot A646-0059	Guangming district	RMB14.0 bil/US$2.14 bil	Logan property	Residential and commercial
Lot A816-0060	Longhua New district	RMB8.29 bil/US$1.26 bil	Power China & Guangdong Fang Rong Investment Co., Ltd.	Residential and commercial

Source: Savills Research

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Developers remained bullish on Shanghai's land market in the first half of 2016 driving up land prices in the face of mounting supply-side restrictions.

Competition for land has intensified to all time highs with developers paying higher premiums at auction. In May 2016, a 106,400 sq m plot in the Baoshan district was bought for RMB 5.8 billion, a 303% premium over the reserve price and more than the current transaction price of first-hand residential properties in the surrounding area (RMB30,200 per sq m). This phenomenon has become increasingly common, as four of the eight land transactions in the first quarter of 2016 were sold above first-hand residential prices in their respective administrative districts. This land price inflation is likely to increase prices for home buyers down the line.

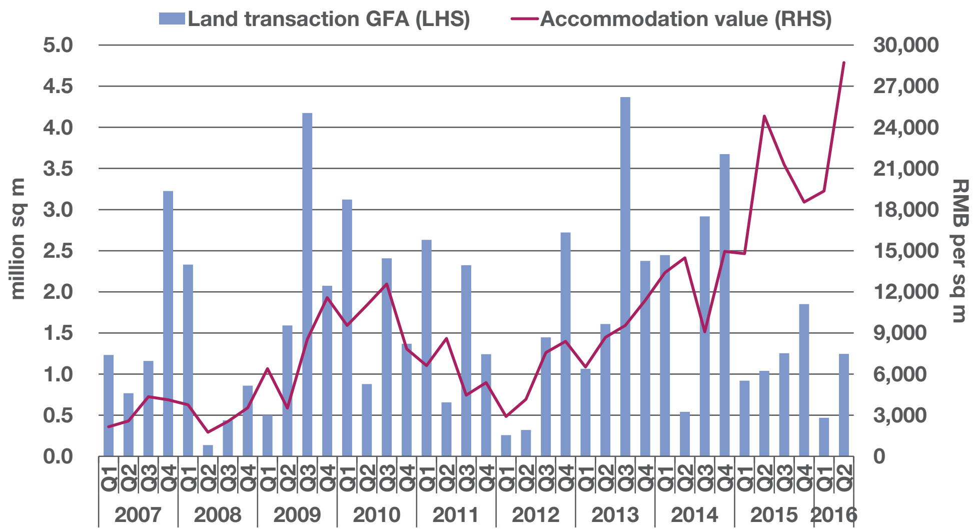
Unfettered land price growth may also harm developers' profits should markets start to cool as government restrictions on residential sales increase. Recently auctioned land parcels already require developers to sell their finished projects with 5% committed to the government's economical housing program and an additional 15% withheld from sale, under the assumption that it be placed on the leasing market. While these policies may help ensure local residents are able to find affordable housing in the city centre, they will impact developers' revenues, which have already been diminished by rising land prices.

On this basis, paying record-breaking premiums for land may be a misguided strategy, especially as first-hand residential sales volumes fell below one million sq m in March and April after recording 1.4 million sq m per month in the first quarter. Such a decrease in sales volumes could indicate that the growth of housing demand may not sustain the pace needed to justify some of the more expensive recent land transactions.

Many developers have adapted their strategies in response to this growing risk, turning to the second-hand land market where sites can be acquired at prices below those of the public land market. Developers are also increasingly seeking out partnerships with one another to share the burden of financing costs and spread their risks. There have been three such off-market deals this year between major developers: Shanghai Sunac and Shanghai Moke formed a joint venture to acquire two projects in Pudong, China Overseas Land and Investment Limited (COLI) acquired CITIC Group's residential assets for a RMB31 billion consideration, as well as the joint purchase of a commercial development site in Pudong for RMB855 million by Top Spring and a domestic third-party.

GRAPH 5

Shanghai residential land transaction area and accommodation value, Q1/2007–Q2/2016



Source: RCA, Savills Research & Consultancy

TABLE 8

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Amenity Garden	Pudong	RMB2.54 bil/US$386 mil	Chengli Properties	Serviced apartment
East Ocean Centre II	Huangpu	RMB2.4 bil/US$365 mil	Sino Ocean	Office
Riverside Plaza	Yangpu	RMB805 mil/US$122 mil	Shanying Paper	Office
Plot Gucun 10-03, 10-05	Baoshan	RMB5.8 bil/US$882 mil	Cinda Real Estate	Residential land
Plot Zhoupu a-03-11	Pudong	RMB5.5 bil/US$829 mil	Poly Real Estate	Residential land

Source: Savills Research & Consultancy

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Prices in the local retail market have followed rents and are now 40% to 50% below peak levels off very low volumes. There are still plenty of cash-rich owners out there who bought 20 years ago and can afford to ride out the current storm, even if rents have to be cut heavily. More recent buyers who bought retail units at or near the peak (around 2012) may have less flexibility however.

Investors currently in the market are looking for cheap unit rates (often below replacement cost) offering 3.5% yields (no longer 2%). This means older buildings (20-30 years) in non-core areas – New Territories malls for example. Local long term investors continue to dominate given their better understanding of the market and their ability and willingness to close deals quickly. Mainland buying activity remains negligible.

In the industrial market, a fire in a multi-storey building in East Kowloon on June 23rd has prompted government to boost lease enforcement efforts. The focus will be on activities which attract people (residential use, learning centres, cooking schools, war gaming etc.) alongside the manufacture and storage of dangerous goods. The enforcement action has not yet been reflected in our price index for the sector which continued to rise in Q2/2016 but the next quarter may see a negative adjustment depending on how far reaching the government action is.

In the office market values are holding firm and recent deals in Bank of America Tower and Lippo Centre reflect this. Kowloon East is under more pressure but landlords in the district are tending to lease space rather than reduce prices. More supply in 2017 should result in some downward pressure on rents, particularly in Kowloon where relocations are already freeing availability and undermining the negotiating position of landlords. Dramatic declines in the sector seem unlikely in the short term.

The super-luxury residential market is being increasingly dominated by Mainland purchasers, with the chairman of a Shenzhen company buying the house (9,212 sq ft saleable with 14,916-sq ft garden) at 15 Gough Hill Road, the Peak, which is still under construction, for HK$210 million (HK$228,000 per sq ft saleable), the highest average price for a residential development in the world. Another Shenzhen company, China Horoy, unified the ownership of Severn Villa (6 units with total saleable area of 8,166 sq ft) for a total consideration of HK$1.168 billion with an average price of HK$140,000 per sq ft saleable, eyeing its redevelopment potential into a 8,855-sq ft house.

GRAPH 6

Savills property price indices, Q1/2006–Q2/2016

Source: Savills Research & Consultancy

TABLE 9

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
79/F, The Centre	Central	HK$500 mil/US$64.3 mil	A Chinese based company	Office
The Mark	Kwun Tong	HK$560 mil/US$72.2 mil	Sitoy Group Holdings Limited	Office
NWS Kwai Chung Logistics Centre	Kwai Chung	HK$3.75 bil/US$483.3 mil	China Resources Enterprises Limited	Industrial
15 Gough Hill Road	The Peak	HK$2.1 bil/US$270.0 mil	Chen Family Assets Management Company Limited	Residential
18 Mosque	Mid-Levels	HK$820 mil/US$105.7 mil	Trillion Winner Enterprises Limited	Residential

Source: EPRC, Savills Research & Consultancy

Indonesia

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Despite slowing global growth, Indonesia's economic outlook remains upbeat. GDP growth in Q1 2016 was 4.92% as Bank Indonesia (BI) continues to monitor the impact from stimulus packages and structural reform aimed at underpinning growth.

In an effort to boost liquidity, BI decided to change the method used to determine the benchmark interest rate by imposing the 7-day reverse repo rate (currently pegged at 5.50%) whilst keeping its prime rate at 6.75%, the deposit rate at 4.75% and the lending rate at 7.25%.

While maintaining a loose monetary policy, the country is enjoying improving economic health – a declining deficit (2.1% from 2.4% of GDP) and rising foreign exchange reserves. Furthermore, the government is speeding up various infrastructure projects to boost the country's economic growth.

The appreciation of the Rupiah has helped to maintain retailing activity in 1H/2016 at healthy levels. Despite modest sales growth, the retail sector enjoys positive demand from retailers looking to tap into the growing consumer market. This, in turn, has supported rental growth over the period, albeit at a modest rate.

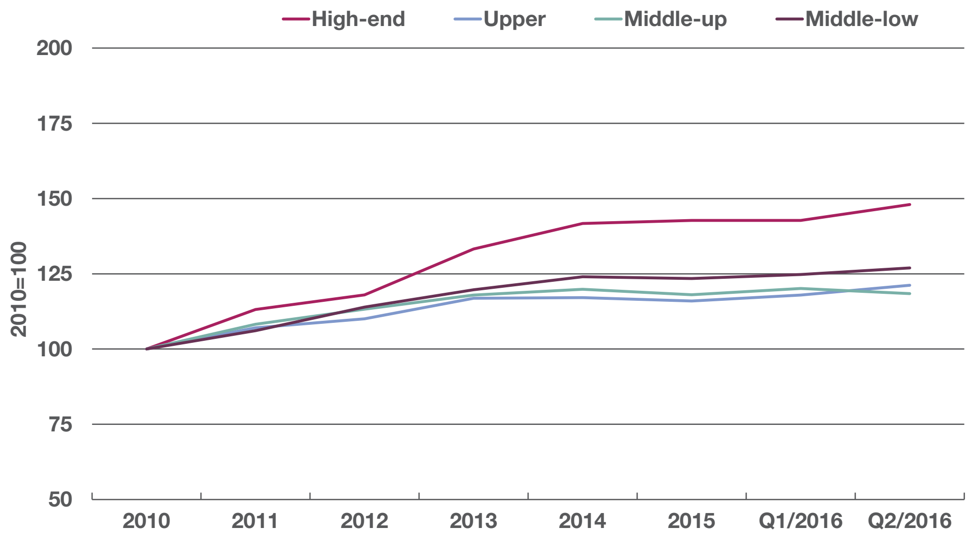
A quite different picture has emerged in the office sector during this period. The market in Jakarta's CBD (i.e. Golden Triangle Zone, where most MNCs and major domestic corporations are located) continues to be characterized by low tenant enquiry levels as a result of sluggish business activity and weak investor sentiment arising from the bleak global economy.

With several projects completing in 1H/2016, the market vacancy increased further to 16% as a result of low absorption levels. The spike in office stock has alarmed landlords causing some anxiety regarding the level of competition they will have to face going forwards. Accordingly, as landlords race to lure new tenants with attractive packages, office rents continue their downward trend with a 3% decline compared to end-2015.

In an effort to channel more money into the property sector, the government decided to relax the current loan-to-value regulations in June. Under the new regulations, home buyers are now eligible to borrow up to 85% of the total price.

GRAPH 7

Jakarta retail rental index, 2010–Q2/2016



Source: Savills Research & Consultancy

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Japan's real GDP growth for Q1/2016 came in at 0.4% quarter-on-quarter (QoQ), returning to positive territory after a decrease in Q4/2015, although the increase was partly due to an extra day in February from the leap year. Investment in fixed assets was up 4.2% year-on-year (YoY) across all sectors and an impressive 20.7% in Construction. Core CPI (all items less food and energy) was up 0.7% YoY and 0.3% month-on-month (MoM) in April, showing level inflation.

The government's decision to postpone its planned consumption tax hike to October 2019 has given the Japanese economy some short-term breathing room. A tax hike is still necessary; however, an extra three years may offer time to build momentum and avoid a repeat of the recession in 2014.

The UK's vote on June 23 to leave the European Union is a significant source of policy uncertainty. Investors have flocked to the yen in search of a safe haven, causing unwanted appreciation in a period when the Bank of Japan (BOJ) is already struggling to meet its inflation target of two per cent. It remains to be seen whether such appreciation will persist, and if so, how the BOJ may respond.

The coalition party won the majority in the July 2016 election in the House of Councillors, which may accelerate political reforms. The Abe administration has arguably secured one of the most powerful and stable governments in a few decades.

Real estate has remained resilient in light of this uncertain macro environment. Cap rates are still tightening across asset classes, but ultra-low borrowing costs continue to support a yield spread of 3% or more even for the country's most prime assets.

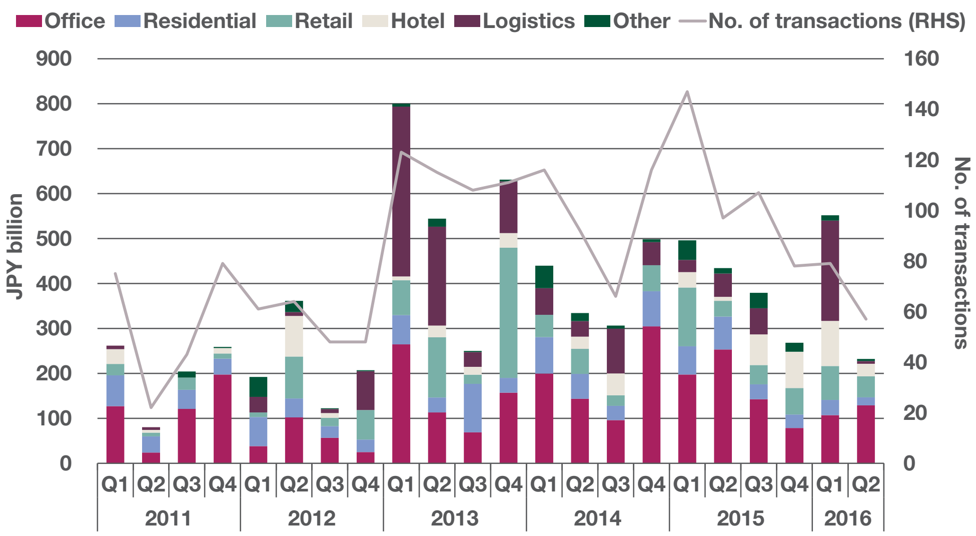
Japan's impressive inbound tourism figures have spurred a flurry of investment in the hospitality and retail sector. Recent explosive growth has shown few signs of letting up in 2016. 11.7 million visitors have arrived in Japan YTD as of the end of June, a 28.2% increase over the same period in 2015.

The BOJ's YTD J-REIT purchases amount to JPY50.4 billion as of the end of June, implying that the central bank is slightly ahead of its stated goal of JPY90 billion annually. The TSE J-REIT index has traded around 1900 for much of Q2/2016 and fell to 1844 at the end of June, 6.4% off its quarterly high of 1971. Negative BOJ rates are keeping the 10-year Japanese Government Bond yield low, which ended June at -0.22%.

Investment volume has fallen after a flurry of activity in Q1, which saw the listing of LaSalle Logiport REIT in February. J-REITs were the biggest buyers, announcing 57 transactions totalling JPY232 billion.

GRAPH 8

J-REIT property acquisitions by sector, Q1/2011–Q2/2016



Source: Savills Research & Consultancy

TABLE 10

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Roppongi Hills Mori Tower 26F, 27F, 29F	Minato Ward, Tokyo	JPY34.9 bil/US$280 mil	Mori Hills REIT	Office
Urawa Royal Pines Hotel	Saitama City, Saitama	JPY17.5 bil/US$140 mil	United Urban REIT	Hotel
Garden City Shinagawa Gotenyama (20% compartmentalized)	Shinagawa Ward, Tokyo	JPY15.9 bil/US$150 mil	Sekisui House REIT	Office
Hamamatsu Act Tower	Hamamatsu City, Shizuoka	JPY11.8 bil/US$100 mil	Orix JREIT	Mixed-use
Kirin Nihonbashi Building	Chuo Ward, Tokyo	JPY8.2 bil/US$71 mil	Daiwa Office REIT	Office

Source: Savills Research & Consultancy

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We saw signs of stabilization in the local economy in Q2/2016. Although Q2 GDP is not yet available, visitor arrivals in May 2016 fell by only 0.8% YoY (year on year) and the annual variance of accumulated gross gaming revenue by June was down by 11.4% YoY, compared with 13.3% by March. Meanwhile the labour market remained strong with the unemployment rate at a low level of 1.9% during the March to May period, reflecting reasonably strong underlying demand for labour.

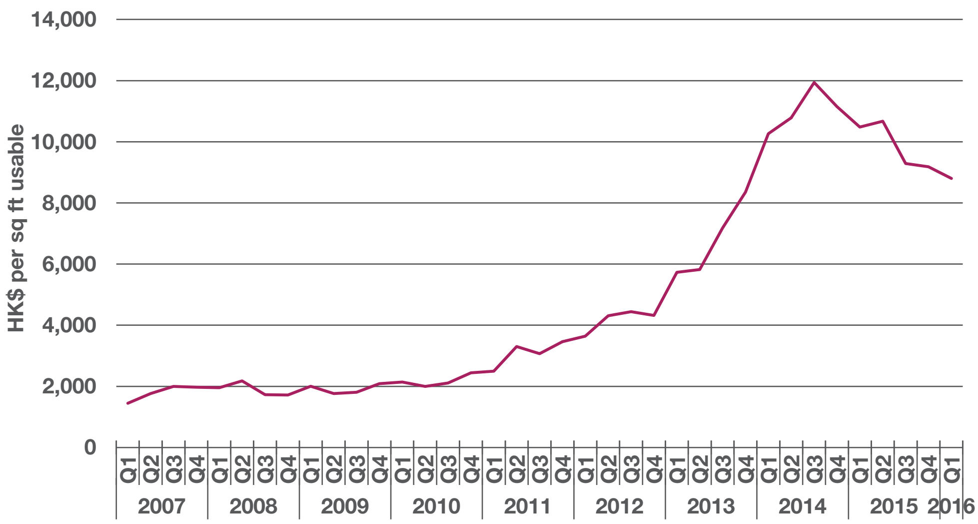
The office sector in Macau is characterized by its geographic concentration with most of the quality offices located in the Nam Van District near Nam Van Lake and NAPE. While some of the hotel and gaming operators occupy their own premises and retailers occupy offices in Hong Kong, the 2.3-million sq ft Grade A office cluster in Macau is home to banks, law firms, insurance companies, hotel operators, telecoms operators and the civil service. On the leasing front, we witnessed a 6% to 11% decline in average rents in some of the office buildings we monitor.

On a sales front, the average transacted office price was on a rising trend from 2007, even during the period of Global Financial Crisis in 2008. Prices reached a peak in Q3/2014, however, when Macau recorded its first YoY contraction in quarterly GDP of 3.2%, at HK$ 11,940 per sq ft usable. After that office prices fell alongside the contracting economy triggered by declining gaming revenues due to the anticorruption campaign in Mainland China. According to Statistics and Census Service data, the average transacted office price is now HK$8,800 per sq ft usable, 26.3% down from the peak in Q3/2014.

Looking forward, we are expecting office demand to stabilize in the short term. Given an increasing rate of recovery after 0.7% economic growth in 2017 according to the IMF, the lack of supply in the following years should support office rents going forwards.

GRAPH 9

Quarterly average transacted office price, Q1/2007–Q1/2016



Source: DSCE, Savills Research & Consultancy

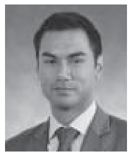
TABLE 11

Office rents in major developments, Q2/2016 vs Q4/2015

Building	Average rents per sq ft gross (MOP psf gross)	% change from Q4/2015
No. 39 Macau	34.4	0%
Bank of China Building	31.0	0%
Zhun Kuan Building	22.2	-9%
Finance & IT Centre	33.4	-11%
AIA Tower	33.4	-7%
Finance and Business Center	33.4	-7%
Macau Square	23.7	-6%
Edf. Comercial Nam Tung	18.8	0%

Source: Savills Research & Consultancy

Malaysia

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Q2/2016 recorded 18 investment transactions for a total value of RM1.38 billion, down from Q2/2015's RM5.26 billion. Most deals were in Kuala Lumpur and Selangor (four and ten transactions respectively), with an additional three assets in Johor and one in Penang.

RHB concluded the largest transaction in Kuala Lumpur (RM225 million) as part of an internal reorganisation that also included a second transaction for RM68 million. Dutaland and Oriental Interest Berhad's JV, KH Estates, disposed of its 9.01-acre development site in Sri Hartamas for RM150 million (RM482 per sq ft). Cititel Express Hotel in Jalan Tuanku Abdul Rahman KL was reportedly sold by IGB Corp Berhad to Singapore's Royal Group for RM37 million.

In Selangor, Compugates Holding Berhad sold a 62-acre freehold parcel of agricultural land in Sepang for RM62 million or RM23 per sq ft. Encorp Berhad disposed of a 20-unit office suite block ("Garden Office") for RM27 million to Koperasi Permodalan Felda Malaysia.

Xtra Touch S/B acquired 615 terrace and seven bungalow lots totalling 28.38 acres at RM57 per sq ft from Talam Transform Berhad while Bayu Melati S/B purchased three commercial sites totalling 9.16 acres in Gombak for RM195 per sq ft. Hap Seng Consolidated Berhad acquired 1,449.52 acres of agricultural land in Kuala Selangor for RM230 million, a deal brokered by Savills Malaysia.

Three investment transactions were recorded in the Petaling district: LTKM Berhad acquired four parcels totalling 6.39 acres of leasehold industrial land adjoining LTKM's poultry farm for RM584 million; Gabungan AQRS Berhad disposed of 7.977 acres of commercial land in Port Klang to Stratmont Development S/B for RM145 per sq ft; and MWE Holdings disposed of its nine parcels of leasehold land totalling 119 acres to Pristine Primavera S/B for RM54.93 million.

Malaysia Smelting Corporation Berhad acquired three parcels of industrial land, totalling 12.05 acres, for RM32.5 million, together with the plant and machinery situated on-site for an additional RM50 million.

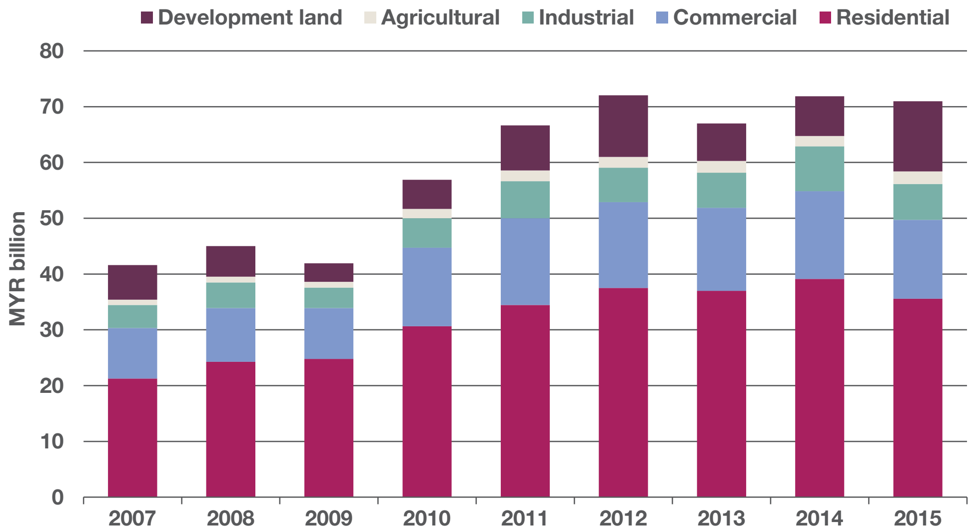
Axis REIT purchased a 10.41-acre industrial facility in Section 15 Shah Alam, Selangor, for RM61million from Lion Corporation Berhad. Axis REIT also purchased a 6.2-acre warehouse facility in Pasir Gudang, Johor for RM33 million with a reported net rental yield of 7.5%.

Other major acquisitions in Johor included a freehold industrial facility in Nusajaya by CIMB Islamic Trustee Berhad for RM24 million and the 1Segamat Mall by Hektar REIT for RM104 million or RM466 per sq ft.

Sunway REIT acquired 3.29 acres of leasehold commercial land directly adjacent to its Sunway Carnival Shopping Centre in Seberang Perai, Penang. The site had been previously leased to a Sunway subsidiary, Sunway Leisure S/B.

GRAPH 10

Total value of property transactions per subsector in Greater Kuala Lumpur, 2007–2015



Source: NAPIC
* In this chart, Greater Kuala Lumpur consists of the State of the Selangor and the Federal Territories of Kuala Lumpur and Putrajaya.

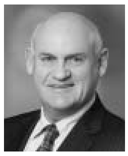
TABLE 12

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
2.4 acres of land	Kuala Lumpur	RM225.5 mil/US$56.7 mil	RHB Bank	-
9.01 acres of development land	Mukim Batu, Kuala Lumpur	RM150.0 mil/US$37.7 mil	Semanja Hartamas Sdn Bhd	Development land
1Segamat Mall	Segamat, Johor	RM104.0 mil/US$26.2 mil	AmTrustee Berhad	Retail
9.16 acres involving 3 parcels of leasehold commercial land	Gombak, Selangor	RM77.7 mil/US$19.6 mil	Bayu Melati Sdn Bhd	Commercial land
622 pieces of leasehold residential land measuring an approximate of 28.38 acres	Taman Putra Perdana, Selangor	RM70.0 mil/US$17.6 mil	Xtra Touch Sdn Bhd	Residential land

Source: Company announcements and news, Savills Research & Consultancy

New Zealand



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Foreign Investment, Tourism and Immigration continue to stimulate the New Zealand economy and property sector. Population growth has placed supply pressure on property markets in high growth locations within the country with the greatest effect being in Auckland.

Low vacancy rates, rising rentals and falling yield are the trends characterising the market leading from 2015 to mid 2016.

.
Investors chasing yield is being driven by continually falling interest rates.

New Zealand's economy grew slightly faster than market expectations in the December 2015 quarter, increasing by 0.9%. The majority of the growth came from the domestic sector with expansion in the construction, wholesaling and retailing, and the services sectors.

Factors that are likely to support economic growth includes:

- Inflation is continuing to trend below market expectation. This combined with falling economic growth may to result in further softening in monetary policy settings during 2016;

- Lower than average interest rates are supporting growth in economic activity;

- Stronger population growth, particularly in Auckland as a result of increased positive overseas net migration, is expected to continue to support growth. Net overseas migration is now projected to peak near a net gain of 68,000 to 70,000 per annum in mid-2016 before gradually easing.

- Strong growth in the number of overseas visitors, up 10% over the last year to 3.2 million visitors is supporting growth across the country. Tourism is one of our largest earners of overseas income;

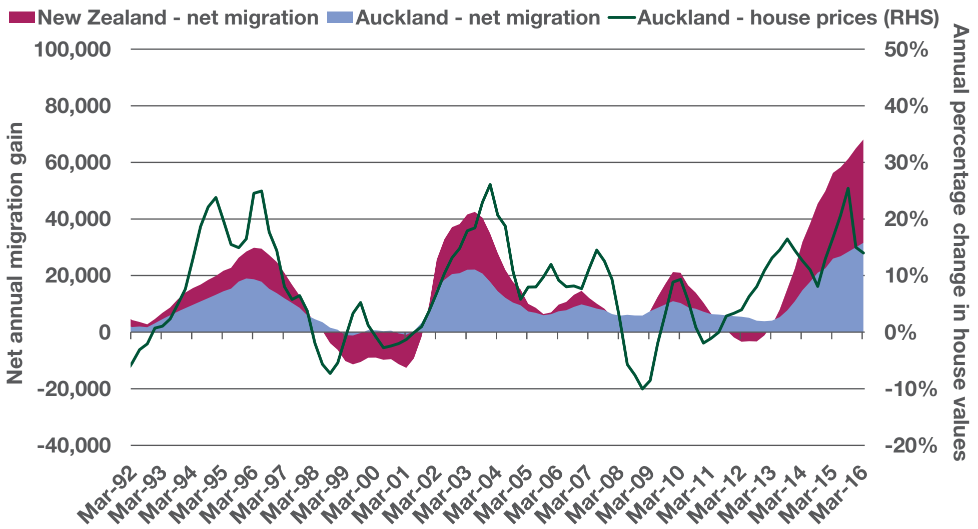
- The momentum in construction activity, particularly in the Auckland residential market, the strengthening of earthquake prone commercial buildings around the country and the remediation of leaky buildings are continuing to have a positive impact on the sector. However, the rate of growth from this sector is expected to slow due to capacity constraints.

Auckland's projected population growth will continue to generate growth in economic activity over the short to medium term. The region requires between 9,000 and 13,000 new dwellings every year to cater for the underlying demand generated by population growth. However, with the current high level of net inward overseas migration an additional 4,000 to 6,000 dwellings are required annually.

Pressures within the housing market including a shortage in the increase in supply relative to the growth in demand, has resulted in over inflated house prices and rents.

GRAPH 11

Net migration gain and residential house price growth, Mar 1992–Mar 2016



Source: Statistics New Zealand, Corelogic

TABLE 13

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
4 Williamson Avenue	Auckland	NZD93.0 mil/US$67.4 mill	Oyster Property Group	Office
16 State Highway	Auckland	NZD82.5 mil/US$59.8 mil	Kiwi Property	Retail
52 Anzac Street	Auckland	NZD90.2 mil/US$65.4 mil	Precision Group	Retail
Wairere Drive and Te Rapa Road	Hamilton	NZD385.0 mil/US$279.2 mil	Kiwi Property	Retail

Source: Savills Research & Consultancy

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If one thing is certain today, it is that there will be considerable uncertainty moving forward, brought about by the United Kingdom's decision to leave the European Union. As the global economy witnesses increased volatility while digesting this news, the Philippine economy was able to stand firm and remain relatively unharmed.

As expected, the sound macroeconomic fundamentals cushioned the market reaction in the country. The equity market barely witnessed any movement after the vote and in the bond market, the 10-year yields compressed by 35 basis points during the referendum date, but bounced back to 4.4% the day after along with the currency that has strengthened against the dollar as the appetite for emerging markets picked up.

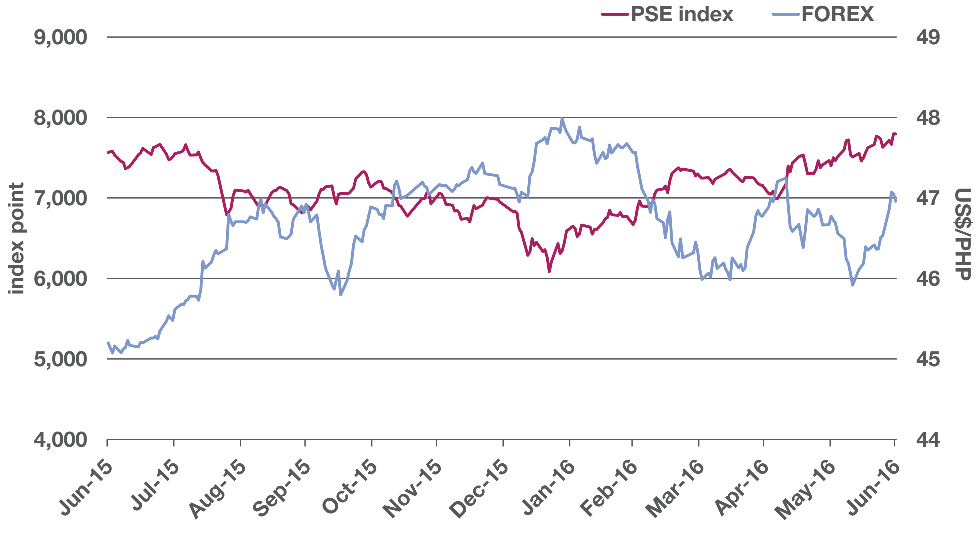
Despite Brexit's minimal impact in the financial markets, it is still possible to experience some disturbance in the mid- to long-term as there is still some exposure to UK. In 2015, UK was the third largest foreign direct investments (FDI) contributor in the country, with a 20% share of the total net flows. Given the country's already low levels of investments, a further decline in FDIs will reduce the inclusivity and sustainability of the current growth momentum. That said, the relaxation of foreign ownership restrictions is needed now more than ever as it could mitigate this risk, particularly amid the increasing flow of investments to emerging markets.

However, in terms of other indicators, the UK exposure is not significant. Foreign trade levels are not likely to witness any major shifts because UK is not one of the main trade partners. Likewise, the backbone of the current economy, Overseas Filipino Workers (OFW) remittances, is not expected to face any significant decline. Last year, UK was the fifth largest sender of OFW remittances, accounting for around 6% of the total inflow. Although the expected weakening sentiment in the UK job market might decelerate the flow of remittances, the decline may only be minor as majority of the OFWs in UK are employed in the nursing or caregiving sectors, which are crucial to the British economy regardless of its state.

Furthermore, we believe that Brexit will open opportunities, particularly in the Philippine real estate sector. While most of the office markets may see downside risks from the weakening global growth, we see that the Philippines' office market has only upside risks. Amid similar circumstances and uncertainty post-GFC, the country's office market witnessed increasing demand from the outsourcing industry as companies underwent cost-savings programs and transferred nonessential roles to cheaper locations such as Manila. Should the Brexit materialize and its repercussions become extremely negative on global growth, we believe that the strong fundamentals of the Philippine economy will alleviate the risks or even bring about a positive shock.

GRAPH 12

PSE index and foreign exchange rate, Jun 2015–Jun 2016



Source: PSE and BSP

TABLE 14

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
21st Drive BGC Property	BGC	PHP444.0 mil/US$9.4 mil	Petaluma Properties, Inc.	Development site
Las Pinas Property	Las Pinas	PHP859.0 mil/US$18.2 mil	8990 Housing Development Corporation	Development site

Source: KMC MAG Group, Savills Research & Consultancy

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After a slump in Q1/2016, the investment sales market sprung to life in the second quarter. S$7.1 billion worth of deals was recorded in Q2, almost tripling the S$2.4 billion in the previous quarter; this is the highest quarterly transaction figure recorded since Q4/2013.

The commercial segment saw a high note in the reviewed quarter with a total of S$5.1 billion worth of investment sales recorded; this accounted for 72.1% of Q2's investment value. On a quarter-on-quarter (QoQ) basis, the value recorded in the commercial segment represented a 757.6% rise from Q1's S$598.2 million. The biggest deal was Qatar Investment Authority's (QIA) S$3.4 billion acquisition of Asia Square Tower 1. This is the largest transaction of a single building in Singapore and it alone contributed 47.5% of the quarter's total investment sales. Other major deals included: CapitaLand Commercial Trust's (CCT) acquisition of the remaining 60% stake in CapitaGreen (S$960.3 million[1]); and Indonesian tycoon Tahir's purchase of the Straits Trading Building (S$560.0 million) through listed MYP Ltd. The latter's price per sq ft (S$3,524) is also the record price for office buildings in Singapore.

In the residential segment, the most notable deal was the collective sale of Shunfu Ville, a 358-unit Housing and Urban Development Company (HUDC) conurbation, to Qianjian Realty for S$638.0 million. Including the estimated S$217.0 million in differential premium payable for topping up the lease to 99-years, and also for intensifying the land use, the price works out to S$747 per sq ft per plot ratio. The success of Shunfu Ville reignited interest in the collective sales market. Soon after, several properties were or will again be put up for collective sales, including Harbour View Gardens, Jalan Besar Plaza and Katong Shopping Mall.

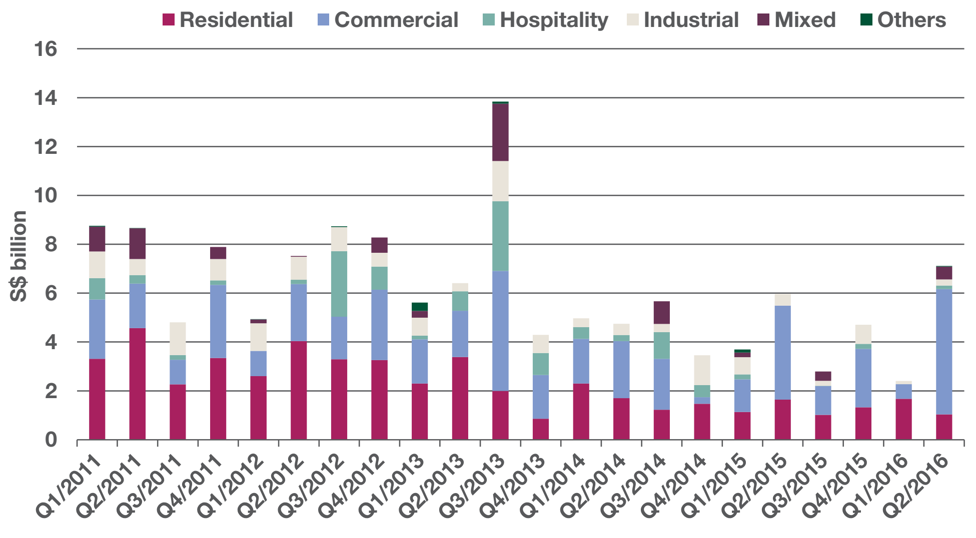
In addition, after a quiet six-month period, the hotel segment came back to life when Hong Kong-listed Shun Tak Holdings acquired a freehold site at 9 Cuscaden Road for S$145.0 million. This 25,741-sq ft site, currently being occupied by a two-storey bungalow, is zoned "hotel" under Master Plan 2014 with an allowable gross plot ratio of 4.2.

Moving forward, the fistful of mega deals concluded in the office and hotel sectors may win over more investors who have been deliberating for too long as to whether to allocate more capital to Singapore or elsewhere. However, because large investment finds like Asia Square Tower 1 are a rarity and seldom repeated, we expect the total investment sales for the remaining part of 2016 to return to a steady state. Nevertheless, the mega deals that were consummated in the first half of this year should lift the full year's total sales value to S$17 – 19 billion, up from our previous forecast of S$15 – 17 billion.

1 Based on the agreed market value (100%) interest of CapitaGreen of S$1,600.5 million

GRAPH 13

Transaction volumes of investment sales by property type, Q1/2011–Q2/2016



Source: Savills Research & Consultancy

TABLE 15

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Asia Square Tower 1	Marina View	S$3.4 bil/US$2.5 bil	Qatar Investment Authority	Commercial
CapitaGreen (60% stake)	Market Street	S$960.3 mil/US$712.1 mil*	CapitaLand Commercial Trust	Commercial
Shunfu Ville	Shunfu Road	S$638.0 mil/US$473.1 mil	Qianjian Realty Pte Ltd	Residential
Straits Trading Building	Battery Road	S$560.0 mil/US$415.3 mil	MYP Ltd	Commercial
Government land	Bukit Batok West Avenue 6	S$301.2 mil/US$223.4 mil	Qingjian Realty (BBR) Pte Ltd and Qingjian Realty (BBC) Pte Ltd	Commercial & Residential

Source: URA, Savills Research & Consultancy
*Based on the agreed market value (100%) interest of CapitaGreen of S$1,600.5 million

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In Q2/2016, office transaction volumes totalled KRW865 billion, which brought the aggregate transaction amount for 1H/2016 to KRW1.9 trillion. Prime office transactions accounted for the largest share in the market, representing more than half of the total transaction value in Q2.

There are an increasingly diverse range of properties which investors can consider for investment. A growing number of properties are being placed on the market by insurance companies, striving to improve their risk-based capital ratio (RBC), in anticipation of the introduction of Phase II of International Financial Reporting Standards 4 (IFRS4), with an increasing trend of small- and medium-sized assets being sold by companies pursuing asset liquidation.

Meanwhile, domestic asset management companies, when acquiring buildings with the possibility of vacancies, have shown a steady tendency to partner with co-investor companies which will actually lease in the investment property, or retain existing tenants. KORAMCO REIT & Trust had A+ Asset participate in its acquisition of Nara Building, which was owned by M&G. A+ Asset is expected to use four to five floors of the building after the completion of the purchase process. Nara Building was sold for KRW23 million/3.3058sq m (KRW 208.4 billion), setting a new record for the unit price of a prime office building in Gangnam.

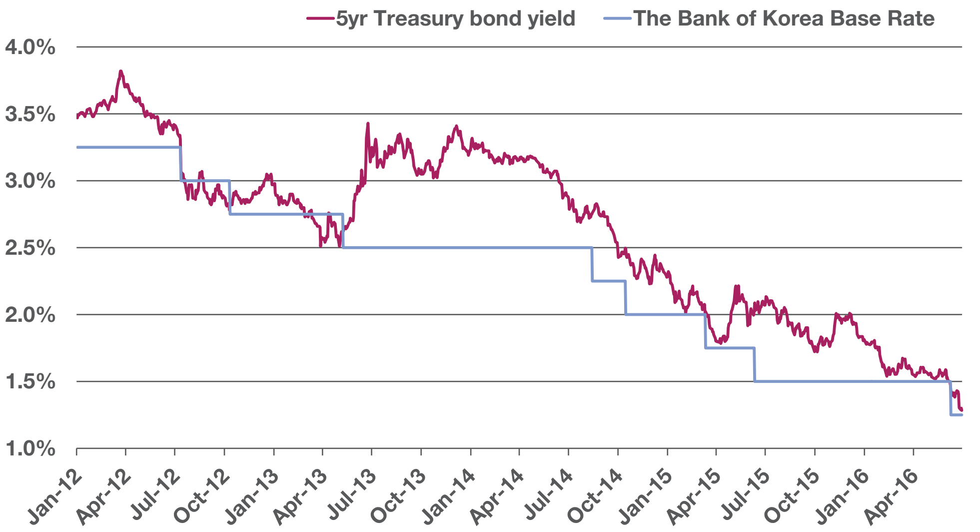
International investors continue to take an interest in the Korean real estate market. In addition to the stabilised prime properties purchased by core funds, value-add assets are being acquired in an increasing number of transaction cases for value appreciation, through asset restructuring by lease stabilisation strategies or a change of property use.

The Bank of Korea, as part of its measures to boost the economy, lowered the benchmark interest rate from 1.5% to 1.25% on 9 June. The government is known to be preparing an extraordinary budget of KRW10 trillion to counter the downward pressure on the economy in 2H/2016 and to stimulate growth.

As of 30 June, the yields of five-year government bonds were 1.28%, the lowest level ever. There is scope for cap rate compression on stabilised prime properties if long-term government bonds remain at the current level for a sustained period. However, given the generous incentives granted to tenants, considering the high vacancy rates in the office market, this should offset downward yield pressure rate and thus the rate is expected to remain at the current level.

GRAPH 14

Five-year national bond yield and base rate, Jan 2012–Jun 2016



Source: Bank of Korea

TABLE 16

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Nara Building	GBD	KRW208.4 bil/US$179.1 mil	KORAMCO Reits & Trust	Office
Hanwha Finance Center (45%)	YBD	KRW155.2 bil/US$133.4 mil	Hanwha General Insurance	Office
Donghwa Building (incl. annex)	CBD	KRW117.0 bil/US$100.6 mil	Mastern Investment Management	Office
Jongno Tower (18%)	CBD	KRW103.0 bil/US$88.5 mil	IGIS Asset Management	Office
Samsung Fire & Marine Insurance Yeoksam (50%)	GBD	KRW98.6 bil/US$84.8 mil	KB Real Estate Trust	Office

Source: Savills Research & Consultancy

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Exports remained weak in the second quarter of 2016 having fallen for 17 consecutive months. The Taiwan central bank cut the benchmark rate again by 1.25 basis point (bps) to 1.375% to stimulate the economy and keep the NT dollar stable at the end of June. The low mortgage rate environment, which ranged between 1.8% and 2.0%, successfully attracted some owner-occupiers to return to the residential market. The yield threshold for insurance companies to invest in income property has been lowered to 2.345% accordingly.

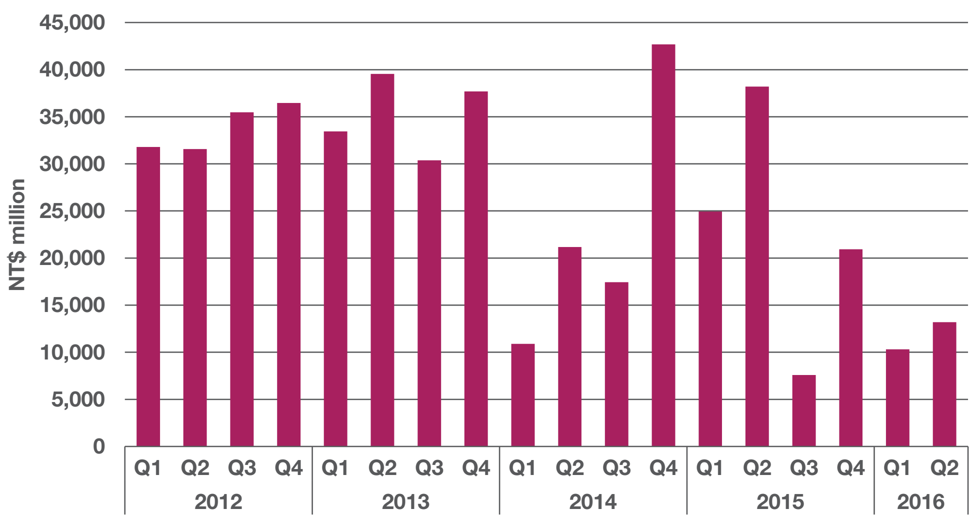
Two large deals meant that the total volume of commercial property transacted reached NT$29.3 billion in Q2/2016, an increase of 247% year-on-year (YoY). The largest deal involved Han-Lai New World Center which was acquired by Taiwan Life for NT$16.5 billion. This was the largest deal in Kaohsiung City and the second largest in the commercial property market so far this year. This 45-floor building is comprised of a department store on the lower floor and a 436-room five star hotel on the 9th floor and above. Reportedly, this sale and lease back deal could provide a 3% yield to Taiwan Life. Even though insurance companies have made several large-scale investments in the past 12 months and the yield threshold has been reduced significantly, their investment momentum is still weak and these types of firm are usually looking for property which provides a yield much higher than the threshold.

Owner-occupiers have dominated the market over the past several quarters. However, they only accounted for 47% this quarter, due to the transaction of Han-Lai New World Center. A notable owner-occupier deal was the pre-sale of an office building in Nankang Software Park, purchased by WPG Holding, a semiconductor distributor, for NT$6.5 billion to be their headquarters, representing NT$690,000 per ping. Meanwhile Yuanta Securities sold 2,200 ping of office in Taipei CBD to its affiliated company, Ta Chong Bank, for NT$2.9 billion, representing NT$12.7 million per ping.

Land transactions were slow with total volumes in Q2 decreasing by 66% YoY to NT$13.2 billion, much lower than the average quarterly amount of NT$27 billion over the past three years. Developers have slowed or even stopped their investment in land due to the recent price correction and the low transactions volumes in the residential market. Only one third of land transactions (NT$4.3 billion) was attributed to developers while around 75% of deals occurred in Kaohsiung City. Fubon Construction, Highwealth Construction and Da-Li Development purchased land by public tender with an average premium of 11%. Investment activity from both insurance companies and developers shows that property in central and southern Taiwan offering higher yields is succeeding in attracting investors' attention.

GRAPH 15

Significant land transactions, Q1/2012–Q2/2016



Source: Savills Research & Consultancy

TABLE 17

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Nankang pre-sale office building	Taipei City	NT$6.5 bil/US$200 mil	WPG Holding	Office
Han-Lai New World Center	Kaohsiung City	NT$16.5 bil/US$508 mil	Taiwan Life	Retail and hotel
Yangmei Yuanta Headquarters	Taipei City	NT$2.9 bil/US$90 mil	Ta Chong Bank	Office
AitTAC Tucheng Building	New Taipei City	NT$800 mil/US$25 mil	Jiun Yeong Technology	Industrial office

Source: Savills Research & Consultancy

Viet Nam

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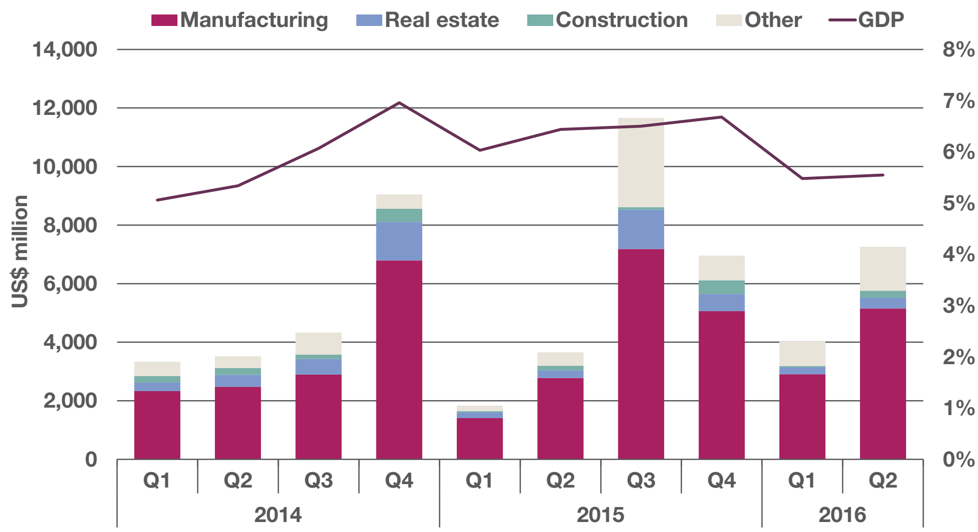
The second quarter of 2016 saw a burst of activity in Vietnams property market, with investors showing renewed optimism that the present strong conditions can continue. There were a number of large transactions in both commercial and residential assets. In June, Mapletree announced the acquisition of Kumho Asiana Plaza, one of the most prominent mixed use properties in the Central Business District of Ho Chi Minh City for US$215 million. In May, the Duxton Hotel Saigon was sold by Savills for US$49 million from the Singapore-based group Low Keng Huat. Earlier in April, Thai retailer Central Group announced the acquisition of Big C Vietnam for US$1.05 billion from the French retailer Casino Group.

On the residential side, Singapore-based property developer Frasers Centrepoint entered into a deal to purchase 70% of G Homes, a mixed-use development project from Vietnamese partner An Duong Thao Dien. The project, estimated to cost US$85 million to develop, is located on a one-hectare site in a popular residential area of the city, near Ho Chi Minh City's first metro line which is expected to be operational by 2020. In the same period, Sanyo Homes Corporation has become the latest Japanese investor to enter Vietnam's real estate market with a US$25-million project in collaboration with local developer Tien Phat Corporation. The 22-storey high-end condominium in Ho Chi Minh City's District 7 is Sanyo Homes' first step into Vietnam. Local developer Dat Xanh Group also spent nearly US$63 million to acquire a 7.8 hectare site from IJC residential project in Binh Duong from Becamex IJC.

Vietnam still has one of the highest GDP growth rates globally, despite a drop to 5.5% in the first half of 2016, compared to 6.3% over the same period last year. It has also benefited from a steady rise in foreign investment thanks to several signed and upcoming free-trade agreements, including the Trans-Pacific Partnership. Disbursement of foreign direct investment in the first half of 2016 increased by 15% YOY to US$7.25 billion, in which FDI into real estate ranked second. The economy remains robust, demonstrated by robust domestic demand at 9.8% increase in retail spending in the first half of 2016, versus 1H/2015, together with almost benign inflation (1.0%) and relatively affordable interest rates (10%).

GRAPH 16

FDI by industry and GDP growth rate, Q1/2014–Q2/2016



Source: Savills Research & Consultancy

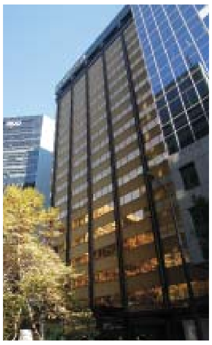
TABLE 18

Major investment transactions, Apr–Jun 2016

Property	Location	Price	Buyer	Usage
Kumho Asiana Plaza	HCMC	VND4.8 tri/US$215.0 mil	Mapletree	Mixed-use
Duxton Hotel Saigon	HCMC	VND1.1 tri/US$49.0 mil	New Life Real Estate	Hotel
G Homes (70% interest)	HCMC	VND350.1 bil/US$15.7 mil	Fraser Centrepoint	Residential
IJC Urban Area	HCMC	VND1.4 tri/US$62.8 mil	Dat Xanh Group	Residential

Source: RCA, Savills Investment

Australia



◄ **55 Clarence Street**
Sydney, NSW
AU$150.0M/US$111.0M
in May

Toombul Shopping Centre ►
Toombul, QLD
AU$228.1M/US$167.7M
in April

◄ **Brimbank Central Shopping Centre**
Melbourne, VIC
AU$162.4M/US$119.4M
in June

◄ **821-843 Pacific Highway**
Chatswood, NSW
AU$279.0M/US$206.5M
in May

Clifford Gardens Shopping Centre ►
Toowoomba, QLD
AU$185.1M/US$136.1M
in April

Forest Hill Chase Shopping Centre ►
Melboune, VIC
AU$265.7M/US$195.3M
in June

◄ **120 Spencer Street**
Melbourne, VIC
AU$165.2M/US$121.4M
in April

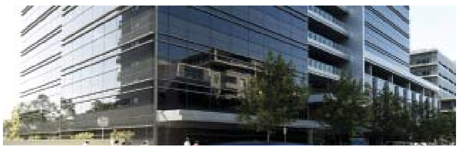
Forrest Centre ▲
Perth
AU$193.6M/US$142.3M
in April

▼ **1 Shelley Street**
Sydney, NSW
AU$325.0M/US$240.0M
in April

191 Pitt Street ►
Sydney, NSW
AU$315.0M/US$233.1M
in May

◄ **Woolworths Cold Storage/Distribution Centre, Portlink Industrial Estate, Dandenong South**
Melbourne, VIC
AU$215.0M/US$158.0M
in June

3-5 Rider Boulevard ►
Rhodes, NSW
AU$235.0M/US$173.9M
in June



▲ **Como Centre**
Melbourne, VIC
AU$236.5M/US$173.8M
in May

◄ **75 Dorcas Street**
Melbourne, VIC
AU$166.0M/US$122.0M
in May

Major transactions Q2 2016

Beijing

The Exchange Building (20F-28F)
Chaoyang
RMB1.0B/US$149.5M
in June

China Oversea Plaza
Shijingshan
RMB1.5B/US$224.2M
in May

BEZIT Park, No. 6 Zone A
Chaoyang
RMB390M/US$58.3M
in April

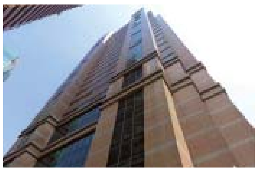
Shimao Gongsan Plaza
Chaoyang
RMB2.97B/US$452M
in May

Tunghsu International Center (Buildings B, C, D)
Fengtai
RMB1.83B/US$278M
in April

Financial Street Changan Center, Building 3
Shijingshan
RMB1.1B/US$158.4M
in May

Shanghai/Shenzhen

Amenity Garden
Pudong, Shanghai
RMB2.54B/US$386M
in April



East Ocean Centre II
Huangpu, Shanghai
RMB2.4B/US$365M
in April

Riverside International Plaza
Yangpu, Shanghai
RMB805M/US$122M
in April

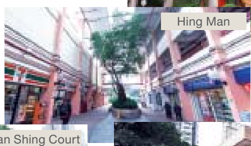
Upperhills
Futian, Shenzhen
RMB671.0M/US$100.4M
in April
RMB1.68B/US$251.2M
in June

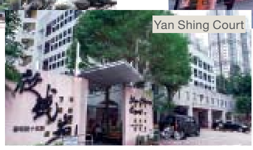
Hong Kong

29 Severn Road
(6 apartments and 12 car parks)
The Peak
HK$1.0B/US$128.9M
in May

11 Headland Road
Southside
HK$818M/US$105.4M
in June

Link REIT portfolio
Various locations
HK$1.52B/US$196.4M
in April





The Mark
Kwun Tong
HK$560M/US$72.2M
in May

Worldwide House
(26/F & 27/F)
Central
HK$726M/US$93.6M
in April

14-18 Mosque Street
Mid-Levels
HK$820M/US$105.7M
in June

Kai Tak Mansion
San Po Kong
HK$2.29B/US$295.6M
in April

NWS Kwai Chung Logistics Centre
Kwai Chung
HK$3.75B/US$483.3M
in June

Japan

◄ **Roppongi Hills Mori Tower (26F, 27F and 29F)**
Minato Ward, Tokyo
JPY34.9B/US$280M
in April

Urawa Royal Pines Hotel ►
Saitama City, Saitama
JPY17.5B/US$140M
in April

◄ **Garden City Shinagawa Gotenyama (20% compartmentalized)**
Shinagawa Ward, Tokyo
JPY15.9B/US$150M
in May

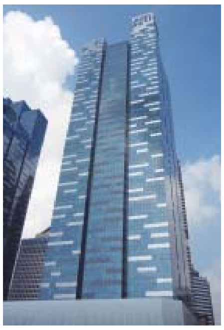
Hamamatsu Act Tower ►
Hamamatsu City, Shizuoka
JPY11.8B/US$100M
in April

Singapore

▼ **Shunfu Ville**
301-319 Shunfu Road
S$638.0M/US$473.1M
in May

Straits Trading Building ►
9 Bettery Road
S$560.0M/US$415.3M
in June

Asia Square Tower 1 ►
8 Marina View
S$3.4B/US$2.5B
in June



◄ **Capita Green (60% stake)**
S$960.3M/US$712.1M
in May

South Korea

◄ **Jongno Tower (18%)**
CBD
KRW103.0B/US$88.5M
in April

Nara Building ►
GBD
KRW208.4B/US$179.1M
in April

Samsung Fire & Marine Insurance Yeoksam (50%) ▼
GBD
KRW98.6B/US$84.8M
in May

◄ **Hanwha Finance Center (45%)**
YBD
KRW155.2B/US$133.4M
in May

◄ **Donghwa Building (incl. annex)**
CBD
KRW117.0B/US$100.6M
in May

Taiwan

◄ **Han-Lai New World Center**
Kaohsiung City
NT$16.5B/US$508M
in May

▼ **AirTAC Tucheng Building**
New Taipei City
NT$800.0M/US$25M
in June

Yuanta Financial Headquarters ▲
Taipei City
NT$2.9B/US$90M
in June

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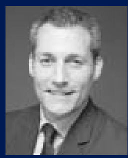

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