Asia Pacific
Investment Quarterly

Q4 2016

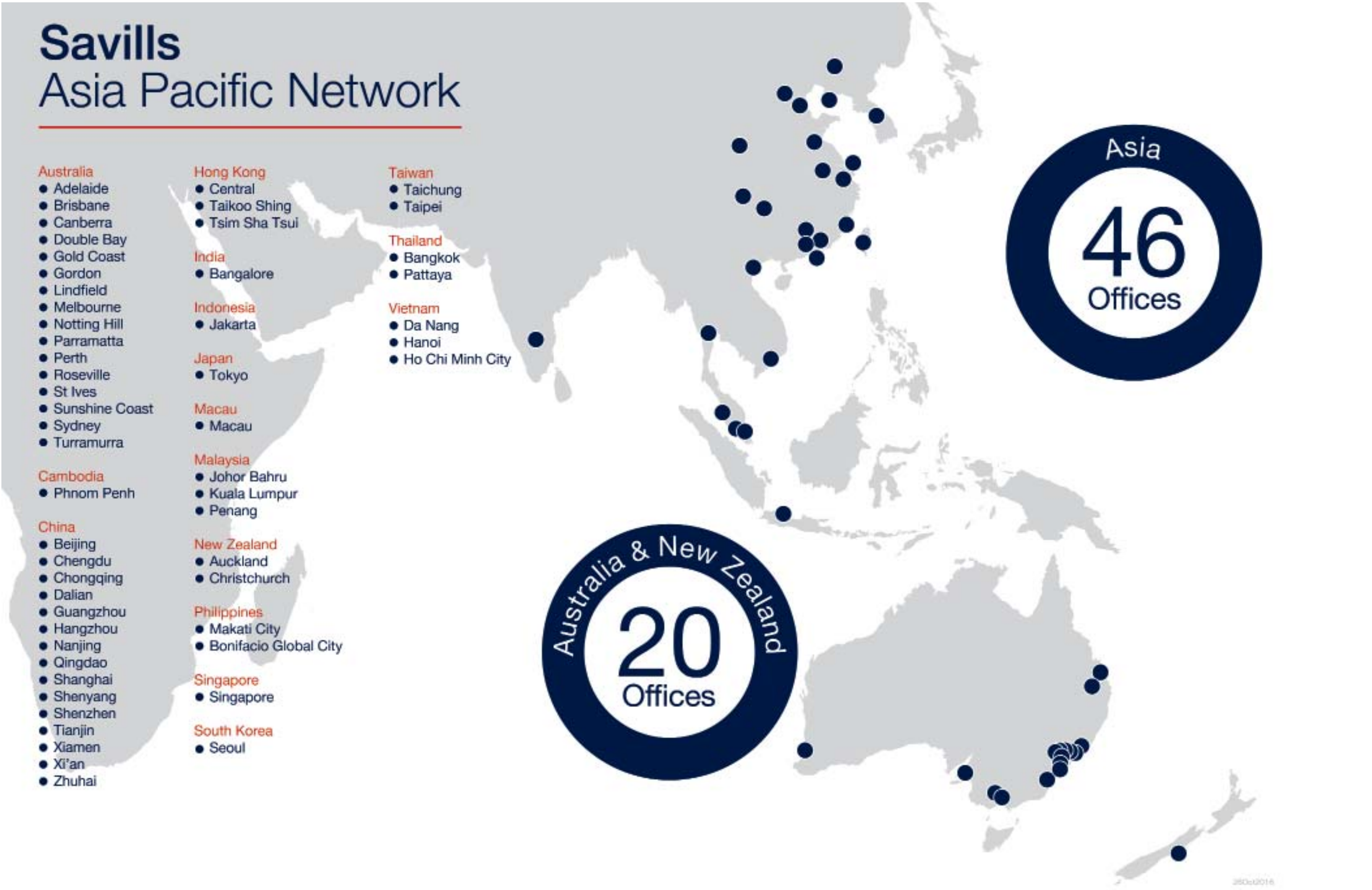
Image: Beijing

HIGHLIGHTS

In Japan, tight cap rates and favourable refinancing conditions continue to put downward pressure on transaction volumes. The US election generated another tailwind for Abenomics, leading to a softer yen and stronger stock performance. This may be a boon for the property sector. China's investment market has had a record year as the final quarter recorded a flurry of big ticket deals, particularly in Shanghai. Stricter capital controls on money leaving China are likely to result in more onshore activity for the foreseeable future. In Australia, investors' focus has shifted from short-term gain to long-term value as rapidly growing cities supported by government spending are expected to provide plenty of opportunities. In Hong Kong, the investment market was surprisingly buoyant in the last quarter of 2016 with a number of significant locally-driven transactions concluded. In Viet Nam, continued strong growth in the broader economy is translating into an impressive performance across all property sectors. In Singapore, the flood of money chasing a limited pool of investible assets has relegated yields to a secondary priority. In Korea, 2016 investment volumes reached a record high due to active inbound investment from global investors.

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 66 regional offices comprising over 25,000 staff. Asia Pacific markets include Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Macau, Malaysia, 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

Paul Craig
CEO
+61 2 8215 8888
pcraig@savills.com.au

Tony Crabb
National Head
Research
+61 3 8686 8012
tcrabb@savills.com.au

Australian cities are set to transform themselves over coming decades as the population grows from a current 24 million people to over 35 million. Australia is already an urbanized nation with over 80% of the population living in urban communities. As the cities in Australia grow, property opportunities are expected to be abundant. The challenges of growth are constant and to be expected. Australia has three tiers of government which presents great challenges to the property industry. As well as some property taxation the Federal government control immigration which is one of the major sources of demand for property use. The Federal government also have control over a great deal of funding including infrastructure, tertiary education and health. The State governments also have a substantial influence as they have greater control of planning, education, and health, roads, and rail and property taxation. The third tier of government – local – has control over planning and the provision of community services including parks, gardens, retail amenity, garbage collection and the collection of local rates charged against property.

The private sector works within the confines set by these three tiers of government and is often frustrated when the three tiers do not work with each other. This is most keenly seen in areas of taxation, infrastructure spending and planning.

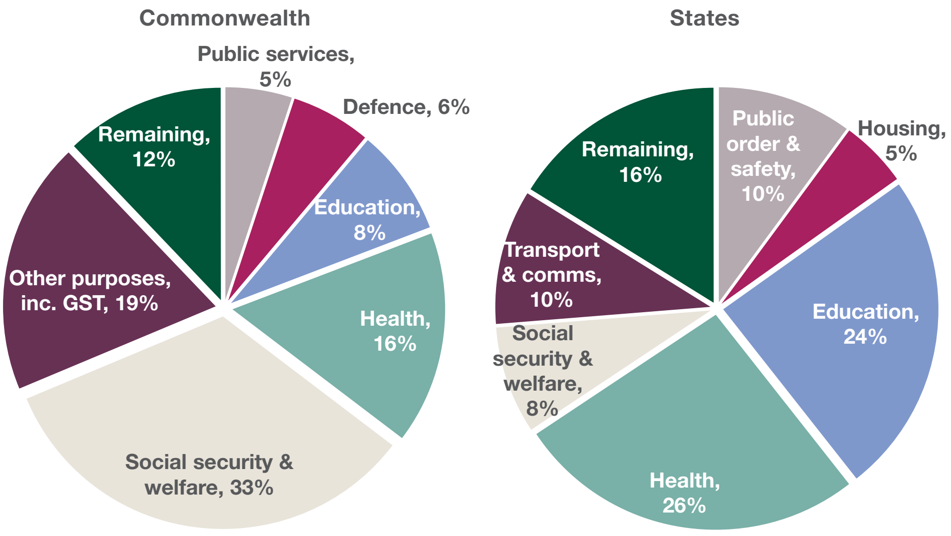
A further challenge exists in the changing nature of work as technology continues its relentless path of disruption, advancement and adaptation. Property of all types will most likely need to be more adaptable and resilient and private and public property interests will need to work more closely together to achieve better outcomes for the people they represent.

Sydney will likely be a city of 10 million people but is unlikely to look like it does today. Our thesis is there will be five CBDs – Sydney CBD, Parramatta, Penrith, Wollongong and Newcastle. Melbourne too will likely be a city of 10 million people with CBDs including the existing one and also CBDs in places like Camberwell, Box Hill, Ringwood, Dandenong, and Footscray and satellite cities in Geelong, Bendigo and Ballarat. Brisbane, at 5 or 6 million people, will likely integrate more closely with the Gold Coast and the Sunshine Coast. On top of all this there is likely to be over 5 million people living on the east coast of Australia outside the locations mentioned above, either on a full or part time basis.

Now, more than ever, the property industry needs to come together to provide the people with viable solutions to their property requirements. Opportunity abounds.

GRAPH 1

Government spending in Australia by sector, 2015



Source: Australian Bureau of Statistics

TABLE 1

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
100 Queen Street	Melbourne, Victoria	AU$275.0 mil/US$206.25 mil	GPT Wholesale Office Fund	Office
St Collins Lane	Melbourne, Victoria	AU$247.0 mil/US$185.25 mil	JP Morgan Asset Management	Retail
324 Queen Street	Brisbane, Queensland	AU$132.0 mil/US$99.0 mil	Abacus Property Group (50%) & Investec Australia Property Fund (50%)	Office
307 Queen Street	Brisbane, Queensland	AU$153.0 mil/US$114.75 mil	LaSalle Investment Management	Office
111 Eagle Street (33%)	Brisbane, Queensland	AU$284.2 mil/US$213.15 mil	GPT Wholesale Office Fund	Office
Carillon City Shopping Centre	Perth, West Australia	AU$140.0 mil/US$105.0 mil	DEXUS Property Group	Retail/office
39 Martin Place	Sydney, New South Wales	AU$332.0 mil/US$249.0 mil	Transport for NSW	Office

Source: Savills Research & Consultancy

China (Northern) - Beijing

Eason Yan
Director
Investment, Savills Northern China
+8610 5925 2099
eason.yan@savills.com.cn

Jack Xiong
Head of PDC, Director
Research
+86 10 5925 2042
jack.xiong@savills.com.cn

Institutional investors remained active in purchasing office developments. Limited supply in the first-hand land market increased demand for secondary land resources.

The en-bloc investment market remained robust during Q4/2016, with eight deals transacted for an aggregate consideration of RMB10.8 billion. The total consideration for the investment market reached RMB36.4 billion in 2016, marking the third consecutive year of strong performance.

Institutional investors from the insurance sector maintained a strong appetite for assets, in particular for office developments due to their relatively higher gross yield expectations. Notable transactions during the period included:

- Huaxia Insurance purchased the World Commerce Center, an office building in Tongzhou, for a total consideration of approximately RMB1.5 billion and an average transaction price of RMB44,000 per sq m.

- Dong Li Gang, an office project consisting of three towers located outside the East Fourth Ring Road, was sold to a domestic investment company. The deal recorded a total consideration of RMB520 million and an average transaction price of RMB40,000 per sq m.

- D&J China, a business park developer backed by US private equity giant Warburg Pincus, acquired the Ronsin Technology Center in Wangjing for a lump sum of RMB5.1 billion. The deal sees the developer take on all equity and debt responsibilities for the large-scale project, which boasts six office buildings and two retail properties. The average transaction price registered at RMB43,300 per sq m.

Limited land supply in 2016 has seen it become increasingly difficult for investors to gain access to first-hand land resources via auctions. As a result, the market has recently seen more investors look to acquire land assets on the second-hand market through a variety of financing structures and M&A agreements. Deals of interest included:

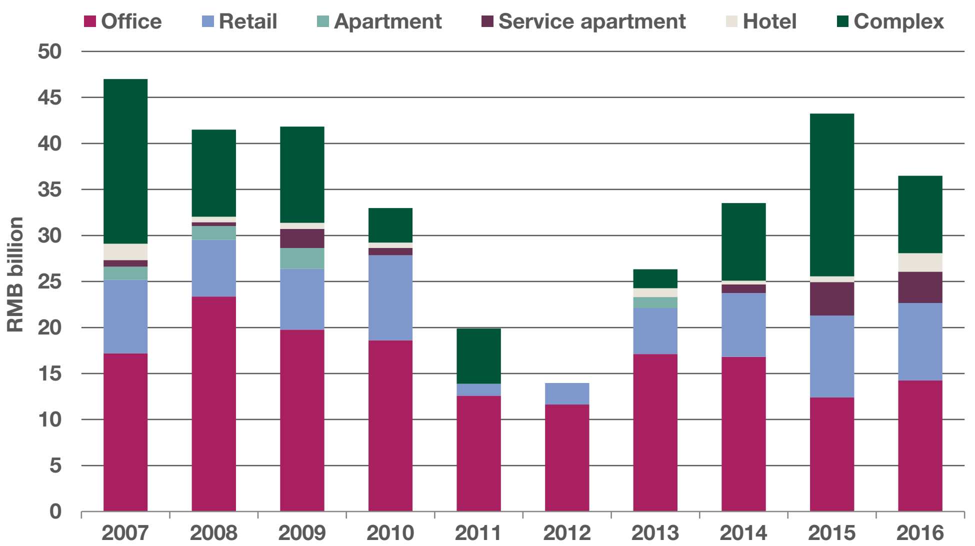
- Minmetals International Trust (五矿国际信托) invested RMB813 million for a 49.9% equity share of a project company co-founded by COFCO Land and Tianheng Real Estate. The project company will work to jointly develop a residential and commercial plot owned by Tianheng RE in the Fangshan district. The project offers a developable floor area over 160,000 sq m.

- Shanghai Exchange-listed Citychamp Dartong (冠城大通) acquired a 20% and 40% equity share in two project companies for a total of RMB1.3 billion. The project companies both own a share in a residential development in the Haidian district which has an unsold area of 258,000 sq m.

- Lu Cheng Yang Guang (绿城阳光) purchased a 94% equity share of China Investment Development Company for a total consideration of RMB2.7 billion. The deal sees the purchaser acquire the majority share of the investment firm's seven projects in Northern China, four of which are located in Beijing.

GRAPH 2

En-bloc investment volumes by property type, 2007–Q4/2016



Source: Savills Research & Consultancy
* Historical data in 2014-2016 has been updated.

TABLE 2

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
World Commerce Center (世界侨商中心)	Tongzhou	RMB1.52 bil/US$223 mil	Huaxia Insurance	Office
Dong Li Center (建工动力港中心)	Chaoyang	RMB520 mil/US$75 mil	A domestic investment company	Industrial
Ronsin Technology Center (融新科技中心)	Chaoyang	RMB5.10 bil/US$735 mil (Equity + debt + other fee)	D&J China (Warburg Pincus)	Industrial
Riverside Palace (京投瑆御府)	Haidian	RMB1.30 bil/US$187 mil	China National Nuclear Corporation	Office

Source: Savills Research & Consultancy

China (Northern) - Tianjin

Andy Chee
Senior Director
Savills Tianjin
+86 22 5830 8886
andy.chee@savills.com.cn

Jack Xiong
Head of PDC, Director
Research
+86 10 5925 2042
jack.xiong@savills.com.cn

New restrictions on land purchases came into effect in Tianjin in Q4/2016, including the setting of a maximum price for land plots with high price expectations before auction, to prevent bidders from pushing premiums to record highs.

The quarter saw an increase in land supply by 27% quarter-on-quarter (QoQ) and 68% year-on-year (YoY) to 3.23 million sq m. However, with a "circuit breaker mechanism" now in place, certain land plots were temporarily taken off the market, leading to a decrease in total land transactions to 1.58 million sq m, down 42% QoQ and 16% YoY, respectively.

Fringe areas witnessed the greatest level of activity, with supply and transaction volume accounting for 46.7% and 50.2% of the city-wide total, respectively. The city centre remained the smallest contributor, due to land scarcity, recording just 2.7% of total transactions.

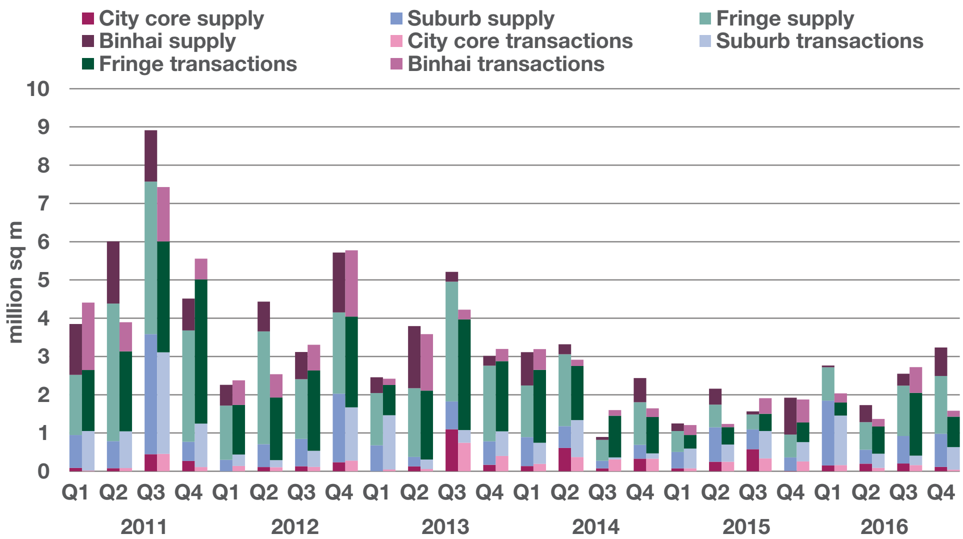
Tianjin Longfor acquired one residential-zoned land plot, totalling 932,000 sq m, located in the Jinnan district, for a total consideration of RMB1.56 billion and an accommodation value of RMB11,100 per sq m. With the development of surrounding infrastructure, more affordable pricing, and the launch of Haihe Education Park, the Jinnan district has become an attractive location for first-time home buyers.

The highly sought-after land plot 2016-134 (JNS) in the Nankai district was purchased by an affiliate of Gemdale Group for RMB4.74 billion, with an accommodation value of approximately RMB49,000 per sq m, and a premium of 89.6%. The 42,000-sq m land plot is zoned for mixed-use development, including residential, retail and education, as well as public facilities. The land plot recorded the highest accommodation value in Q4/2016, surpassing transactions in the central Heping district. The Nankai district land market has stood out in 2016, with land prices rising steadily in the area throughout the year.

Developers have demonstrated a growing appetite for land in Tianjin in response to expectations of good returns following the continued appreciation of prices and the local government's promise to enforce new measures, including stricter due diligence on capital sources of land buyers and restrictions on land auctions, to encourage more stable price growth.

GRAPH 3

Land supply and transaction volumes by area, Q1/2011–Q4/2016



Source: Savills Research & Consultancy

TABLE 3

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Plot 2016-03 (JXQ)	Xiqing	RMB7.45 bil/US1.07 bil	Tianjin Wanhe Real Estate	Mixed-use development site
Plot 2016-134 (JNS)	Nankai	RMB4.74 bil/US$681.7 mil	Gemdale Group	Mixed-use development site
Plot 2016-04 (JN)	Jinnan	RMB1.55 bil/US$222.9 mil	Longfor	Mixed-use development site
Plot 2013-120(JJ)	Jinghai	RMB1.24 bil/US$178.3 mil	Beijing Hongkun Group	Mixed-use development site
Plot 2016-028 (JJ)	Ji County	RMB359 mil/US$51.6 mil	Lianfa Group	Commercial development site

Source: Savills Research & Consultancy

China (Western) - Chengdu

Eric Wo
Managing Director
Savills Western China
+86 28 8658 7828
eric.wo@savills.com.cn

Dave Law
Director
Project & Development Consultancy
+86 28 8665 7375
dave.law@savills.com.cn

During 2016, the residential sales market saw first-hand average sales prices increase dramatically over the year. This led to a strict policy implementation by the government to limit second home purchases, which resulted in the cooling down of the market. Although under increasing pressure, the commercial real estate market also continues to grow, with en-bloc investments and transactions at a record high.

As of December 2016, the city's real estate market saw 23 business or project equity transfer cases, a significant increase from 2015. The majority of cases were large companies from outside the Sichuan province, who are acquiring local companies with weaker financial capabilities but a large land reserve. For example, Evergrande acquired Rising Group's 2,400 acres of new land in the Xindu district, and Poly acquired Fusen's land in western Chengdu. This is also reflective of the increasingly competitive, and therefore concentrated, industry, with fewer opportunities for small- to medium-sized local businesses.

In 2016, commercial en-bloc transactions and investments also increased, with six transactions recorded by the end of the year. Although the commercial real estate market has seen a decline overall, investors are still optimistic about the long-term development of the city. This can be attributed to the establishment of the free trade zone (FTZ), combined with the city being a major component of the government's policy to develop key cities in central China and the local government's efforts to promote asset securitisation, which is expected to add a new dynamic to the city's commercial real estate market.

It must be noted that transacted properties are concentrated in the southern core business areas, showing that good quality properties located in easily accessible areas with strong amenities are still attracting the attention of investors. Emerging markets are also attracting demand from investors looking for more affordable projects offering higher yields and strong future potential.

Currently, the city's real estate industry is going through a transition and adjustment period. Mergers and acquisitions between companies are expected to become increasingly frequent, with large real estate companies buying out cash-strapped small- to medium-sized local developers, picking up development opportunities and assets in the process. This developer consolidation is likely to accelerate and become a trend in 2017.

TABLE 4

Major en-bloc transactions, 2016

Property name	Location	Property type	Construction area (sq m)	Seller	Buyer
Yintai Center T3	Financial City	Office	80,000	Yintai	PingAn Life
Yintai Center T2	Financial City	Office	80,000	Yintai	Huaxia Life
Galleria	South Station Area	Shopping mall	Office: 53,619	MGPA	Capital Land Commercial Trust
TEDA Times Center – Building 3	Financial City	Office	20,000	TEDA	Mianyang Bank
China Railway Trust Building	Financial City	Office building and commercial podium	~50,000	Chengdu Jia Yu Investment Co., Ltd.	TBC
Tairan Global Times Center	Financial City	Office	52,875	Chengdu Tairan Times Industrial Co Ltd	Shenzhen Wongtee Real Estate Group

Source: Savills Research & Consultancyy

TABLE 5

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
LQ11(252/211)	Longquanyi district	RMB690 mil/US$99.34 mil	BRC	Mixed-use
JN09(21/252):2016-037	Jinniu district	RMB293.52 mil/US$42.26 mil	Poly	Mixed-use
JN10(252):2016-038	Jinniu district	RMB945.81 mil/US$136.17 mil	Changhong Development	Mixed-use

Source: Savills Research & Consultancy

China (Southern) - Guangzhou

Woody Lam
Managing Director
Savills Southern China
+86 20 3892 7168
woody.lam@savills.com.cn

James Macdonald
Head of Research
China
+86 21 6391 6688
james.macdonald@savills.com.cn

Despite the government's attempt to cool the property market by placing new restrictions on house buyers, real estate companies and the land auction market, the Guangzhou land market recorded a strong performance in the last quarter of 2016, which saw premium rates increase.

Guangzhou witnessed a huge increase in land transaction volumes in Q4/2016, with 16 more deals completed compared with the previous quarter. Land transaction deals of both commercial and residential land types increased this quarter by eight and 12, respectively. In addition, the transaction value of the land auction market hit a record high, with a total consideration of RMB44.4 billion, 4.35 times greater than Q3/2016. The majority of transactions reached record-high premium rates, even in regional areas.

Buyers were predominantly state-owned enterprises and large developers. For example, Vanke won a residential land plot in the Zengcheng district with an average transaction unit price of RMB12,089 per sq m at a premium rate of 174%, while MCC purchased a residential and commercial land plot in the Haizhu district for an average transaction unit price of RMB42,573 per sq m (including free construction of affordable housing) with a premium rate of 45%. Vanke also acquired six commercial land plots in the Panyu district for a total price of RMB3.8 billion, the largest transaction of Q4/2016, with plans to develop them into the Guangzhou Southern Station transportation area. Vanke already had an initial investment in the area where it plans to construct an integrated community comprising shopping malls, apartments, office buildings and hotels.

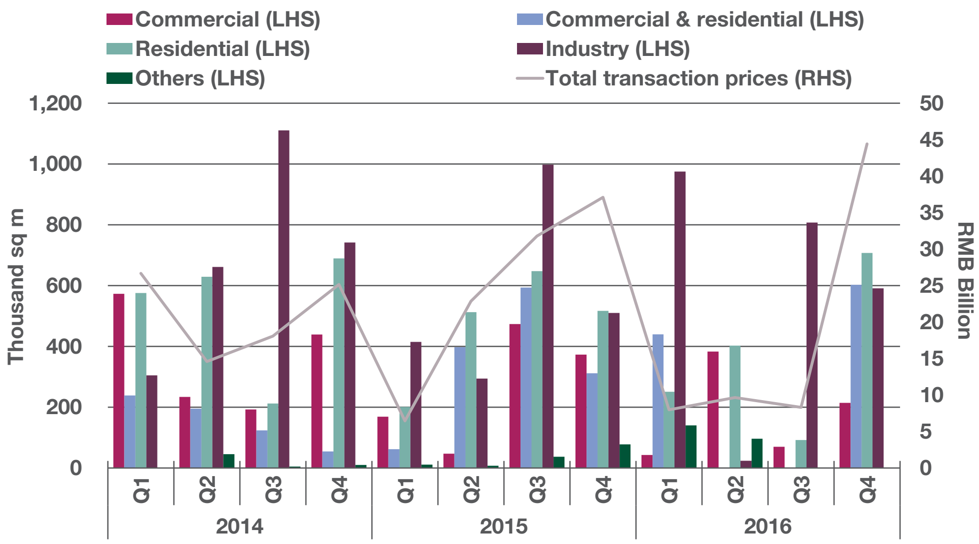
Following the growth of the residential sales market, competition for residential land plots has become increasingly fierce, especially in downtown areas, as nearly every plot to enter the market attracted more than 10 bidders. The Guangzhou land auction market saw 15 residential deals closed in Q4/2016, with a total transaction price of RMB24 billion, all of which achieved high premium rates ranging from 45% to 180%. Poly Real Estate Group conducted one of the largest transactions, with a purchase of two residential plots (GFA 218,999 sq m) and one residential & commercial plot (GFA 134,674 sq m) in the Guanggang New Town area of the Liwan district for a total value of RMB10.4 billion.

Wanda also acquired a residential and commercial plot in the Huadu district with a land area of 504,178 sq m. The conglomerate bought the property, on which it plans to construct Wanda Resort Town, for RMB4.1 billion, or an average of RMB 4607.9 per sq m.

As competition in the land market continues to intensify, developers are adapting their strategies to lower the costs of expanding their stocks, such as acquiring assets through company acquisitions. To spread their risks, many developers are also increasingly looking to acquire land through joint ventures.

GRAPH 4

Total land transaction prices and transaction volumes by land type, Q1/2014–Q4/2016



Source: Savills Research

TABLE 6

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
The World Villa	Baiyun district	RMB1.37 bil/US$198.4 mil	Huayuan Property	Residential
Poly Finance Tal To Wun (West Tower)	Tianhe district	-	CPIC	Commercial
Guangzhou AF040219	Liwan district	RMB2.50 bil/US$359.9 mil	Poly Group	Residential
Guangzhou AF040206	Liwan district	RMB3.90 bil/US$561.9 mil	Poly Group	Residential & commercial
Guangzhou AF040224	Liwan district	RMB3.99 bil/US$574.5 mil	Poly Group	Residential
Guangzhou AH050406, AH050408	Haizhu district	RMB3.06 bil/US$441.7 mil	MCC	Residential & commercial

Source: Savills Research

China (Southern) - Shenzhen

Woody Lam
Managing Director
Savills Southern China
+86 20 3892 7168
woody.lam@savills.com.cn

James Macdonald
Head of Research
China
+86 21 6391 6688
james.macdonald@savills.com.cn

The Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (Qianhai), established on 26 August 2010, is an emerging business centre attracting national interest.

Qianhai is expected to become a trendsetter in terms of innovating new systems and regulations, accumulating modern service industries and leading structural reform. To ensure the success of Qianhai, the government has released a series of policies in an attempt to attract corporations and talent to settle in the area. Some of the policies include tax deductions, special privileges for talent, convenient medical and education systems, and well-appointed public amenities.

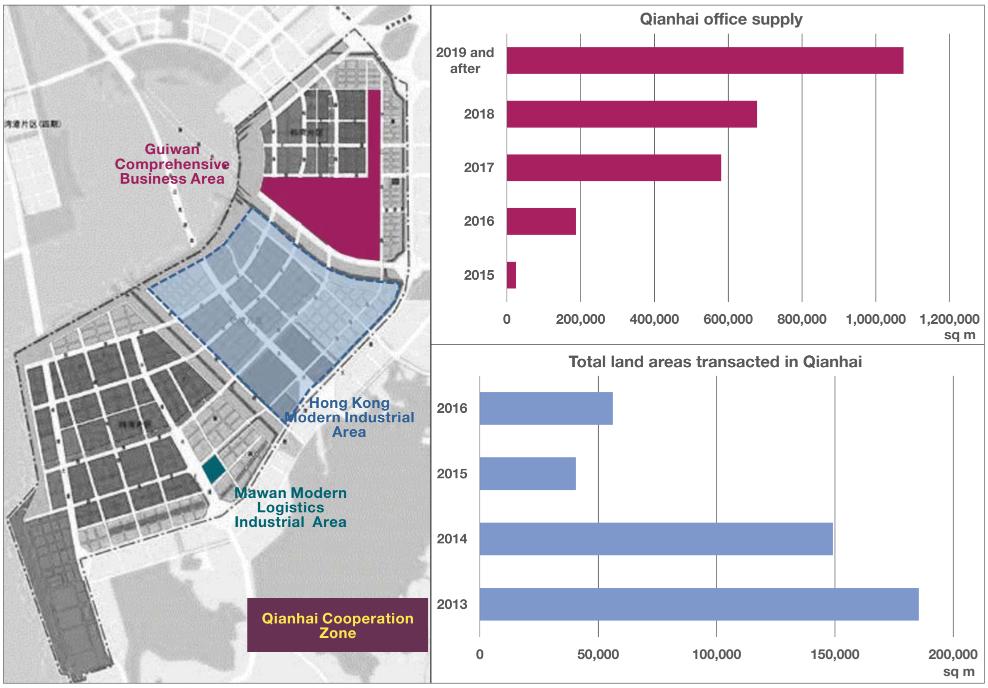
Qianhai will focus on the development of the following industries: finance; modern logistics; headquarter economics; technology & professional services; information & media services; and commercial services. According to the master plan of Qianhai, these key industries will be developed separately in dedicated areas where land supply is already currently focused: the Guiwan Comprehensive Business Area; Hong Kong Modern Industrial Area; and the Mawan Modern Logistics Industrial Area.

When land was first released in Qinhai in 2013, supply quickly peaked. This then dipped sharply in 2015, and has now started to show signs of recovery. The first office supply was launched in 2015, and supply levels have continued to increase since then. According to the master plan, there will ultimately be over 16 million sq m of office space in Qianhai, accounting for 62% of the total GFA.

The influx of office supply will be launched onto the market gradually. This will see Grade A office stock in Nanshan, the greater area Qianhai is part of, surpass popular Futian, the current home of prime office stock. The majority of Grade A office projects in Qianhai will be headquarters of big corporations, predominantly due to the favourable policies afforded to companies registered in the area. These policies are expected to attract numerous companies to register in Qianhai, which in turn will result in strong demand for the area's office market, resulting in Qianhai becoming an important business hub in future.

GRAPH 5

Main development areas in Qianhai, office supply and transacted land areas



Source: Shenzhen Land & Real Estate Exchange Centre

TABLE 7

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
GL Land DY04-01, LW Land DY02-04, ER Land DY04-04, SD Land DY02-02	Nanshan Qianhai	RMB978.0 mil/US$141.9 mil	New World Dev, China Merchant Shekou	Office and retail
Futian SCP Plaza & Bao`an SCP Plaza	Futian & Bao`an district	RMB3.8 bil/US$559.4 mil	China Vanke	Retail
2 Lan Jing Zhong Lu	Pingshan district	RMB658.0 mil/US$97.1 mil	Pingshan City Const Inv	Industrial

Source: Savills Research

China (Eastern) - Shanghai

Steve Chen
Head of Investment, China
Deputy Managing Director,
Shanghai (Investment)
+86 21 6391 6688
steve.chen@savills.com.cn

James Macdonald
Head of Research
China
+86 21 6391 6688
james.macdonald@savills.com.cn

Investors and property owners are increasingly turning to new strategies, such as project conversions or repurposing underutilised space with shared office concepts, to increase the value of their projects.

In November 2016, KaiLong announced it had sold The Konnect, the former three-star Laurel Hotel, for more than RMB500 million. The Warburg Pincus-invested fund bought the building in March 2015 and converted the 11,000 sq m, 12-storey building into a boutique office. After nearly a year of renovation, 10,000 sq m of the project was leased to the world's largest co-working space operator, New York-based WeWork. Buoyed by the recent increase in demand for co-working space, KaiLong was able to sell the property for a marked up price of RMB50,000 per sq m to a Hong Kong-listed fund.

Hong Kong's Pamfleet Investment also acquired an older hotel development in Q4/2016, when it signed a joint venture deal with Deson Development to convert the Shanghai Parkview South Station Hotel into a co-living centre. The venture, of which Pamfleet purchased a 70 percent stake for RMB57.4 million, aims to convert the 7,318 sq m hotel into 80 co-working-inspired units as venture capital begins to find its way into this niche market.

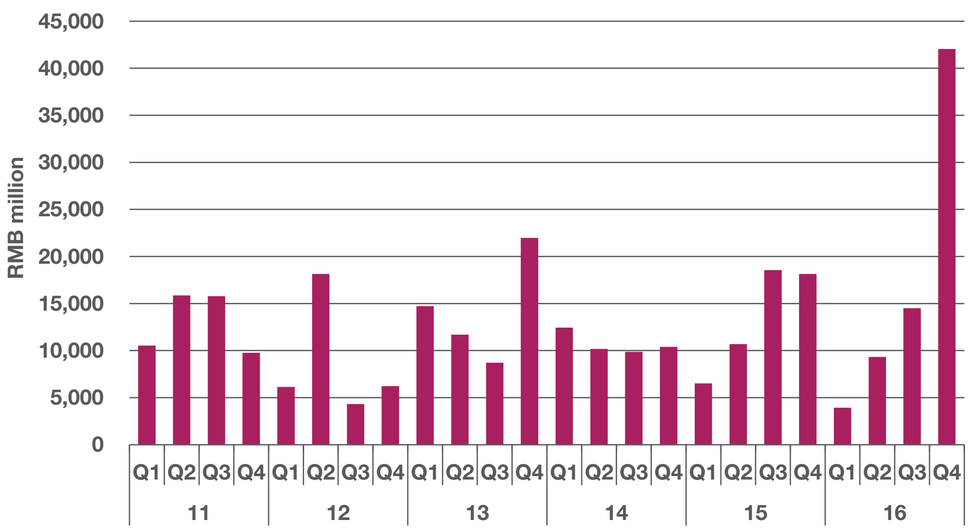
With retailers scaling back expansion plans, and even closing landmark stores, some landlords are looking to fill vacant space by signing on co-working tenants. Supported by the recent announcement by top developers such as Longfor and Singapore's CapitaLand to introduce shared office spaces to their projects in Beijing and Wuhan, Shanghai-based operators and landlords are rushing to sign their own agreements. Co-working company NakedHub and international shared office brand Regus are currently in negotiations with landlords in a race to open new co-working-retail facilities in the near future.

While project conversions have proven to be a successful method for investors to generate large returns on short-term holdings, they do bring new risks. When working within a tight timeframe, unexpected delays may lead to higher costs for investors down the road. For example, recent delays during the fit-out of a recently opened co-working centre is estimated to have cost the operator nearly RMB5 million, as they were forced to compensate signed tenants after pushing their launch date back a week.

As cities develop, the use of the properties will have to evolve to accommodate changes in needs. The government has shown acceptance of this fact, allowing R&D operations to take place on premises previously designated as industrial, and now with the conversion of commercial properties to residential lease properties. More freedom should be provided to owners to change the usage of existing properties as long as top-up charges are paid and housing codes adhered to. Owners will ultimately need to assess the best and highest use of an asset for the leading market conditions.

GRAPH 6

Shanghai investment volumes, Q1/2011–Q4/2016



Source: Shanghai Ststistics Bureau, Savills Research

TABLE 8

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Century Link	Pudong	RMB20.0 bil/US$2.9 bil	ARA	Office/retail
Star Bund T1	Hongkou	RMB5.3 bil/US$764 mil	State Development & Investment Corporation	Office
BFC (50% stake)	Huangpu	RMB5.3 bil/US$764 mil	Jiaxing Shengshi Shenzhou	Office/retail
Central Plaza	Huangpu	RMB2.4 bil/US$346 mil	V Capital	Office/retail
Parkside Plaza	Putuo	RMB2.2 bil/US$317 mil	COFCO	Retail
Rich Gate (Retail podium)	Huangpu	RMB1.4 bil/US$202 mil	CSI Properties Limited	Retail

Source: Savills Research & Consultancy

Hong Kong

Peter Yuen
Managing Director
Head of Sales
+852 2842 4436
pyuen@savills.com.hk

Simon Smith
Senior Director
Head of Research
+852 2842 4573
ssmith@savills.com.hk

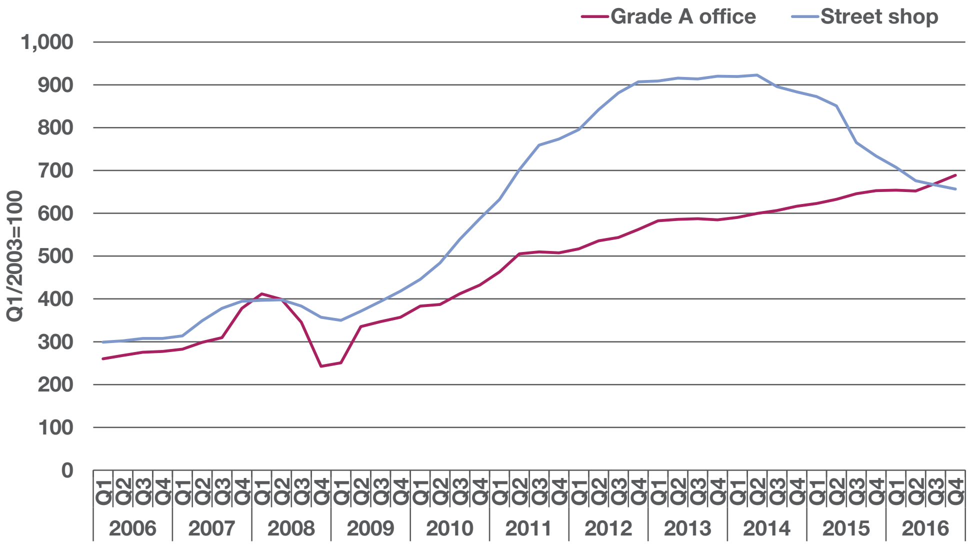
The investment market was surprisingly buoyant in the last quarter of 2016 with a number of significant transactions concluded; while Mainland purchasers dominated headlines in previous months, it was local investors who prevailed in the latest spending spree for en-bloc properties: Swire's Grade A office under construction in Kowloon Bay was sold to a locally listed company for HK$6.5 billion, while all five shopping centres tendered for sale by the Link REIT were disposed of successfully for a combined HK$3.6 billion, four of which were bought by local investors.

Mainland purchasers and developers have been more focused on the land market of late, evident by the HNA Group picking up three residential land plots in Kai Tak for a total consideration of HK$19.8 billion, and a Goldin / Huarong consortium winning the Ho Man Tin Station tender for a total investment amount of HK$13 billion, after their counterparts bought en-bloc offices in Hong Kong earlier last year. While further restrictions on capital outflow from China may dissuade wealthy individuals from investing overseas this year, Mainland developers and corporate investors are expected to continue to invest in the local property market (both completed buildings and land sites), given their more diversified sources of financing, as well as their more legitimate channels of capital for such investments. We are also seeing an increasing tendency for non-banking Mainland institutions, such as insurance companies, asset management firms as well as developers to make their mark on the local market and this looks set to continue in 2017.

Local investors were more focused on prime office and suburban retail assets in 2016 to ride on rising office rents as well as resilient local retail spending, with prime retail falling out of favour due to shrinking tourist spending and receding rents and prices. Early signs of a slowing in the rate of decline in the retail sector have been noted, however, with retail sales declining at a slower pace towards the end of last year. A rebalancing of the trade mix on prime streets is likely to continue in 2017 with more luxury brands retreating, but this trend may be close to completion with rents likely to bottom out in the second half of this year. Veteran retail investors will soon be looking at the prime street shop sector for bargains and we may see an upturn in the fortune of the street shop investment market as early as the second half of 2017 if a few more prominent deals can be concluded.

GRAPH 7

Savills property price indices, Q1/2006–Q4/2016



Source: Savills Research & Consultancy

TABLE 9

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
19 Wang Chiu Road	Kowloon Bay	HK$6.53 bil/US$842 mil	Lucky Melody Ltd	Office
1 Horizon Drive & 44-50 Chung Hom Kok Road	Stanley	HK$1.80 bil/US$232 mil	TBC	Residential
J Plus Boutique Hotel	Causeway Bay	HK$1.70 bil/US$219 mil	TBC	Hotel
16A-16D Shouson Hill Road	Southside	HK$1.30 bil/US$168 mil	Joy More Inv Ltd	Residential
Cheung Hong (retail portion + 709 carparks)	Tsing Yi	HK$1.15 bil/US$148 mil	TBC	Retail

Source: EPRC, Savills Research & Consultancy

Japan

Christian Mancini
CEO, Asia Pacific (Ex Greater China)
Savills Japan
+81 3 6777 5150
cmancini@savills.co.jp

Tetsuya Kaneko
Director
Research & Consultancy
+81 3 6777 5192
tkaneko@savills.co.jp

Japan's real GDP growth for Q3/2016 edged 0.1 percentage points (ppts) higher to 0.3% quarter-on-quarter (QoQ) for an annualised rate of 1.3%. Sound private consumption and net exports contributed to this positive growth. Core inflation was down 0.4% in November, despite a 0.1% increase in core-core CPI (all items less food and energy). As YoY energy price drops have largely stopped in 2016, deflationary pressure on Japan's CPI should relax in 2017. In its latest Economic Prospects report published this January, the World Bank increased its Japanese GDP growth forecasts for 2017 and 2018 from 0.5% to 0.9% and 0.7% to 0.8% respectively, citing slightly higher inflation expectations and modest wage increases.

The surprise US election result led to stock rallies and a strengthening of the US$ in November as expectations for large corporate tax cuts and public spending increased in America. The yen rapidly depreciated to weaker than 118 JPY per US dollar, the weakest the yen had been over the prior three quarters, and a significant tailwind for the Japanese economy.

Encouraged by improved exports and factory output, the Bank of Japan (BOJ) revised its economic outlook upward after its last policy meeting in 2016, noting that the country's economy continued its moderate recovery trend. However, the BOJ suggested it would continue using its powerful monetary policy tools to maintain the policy rate at negative 0.1% and the ten-year Japanese government bond (JGB) yield near zero.

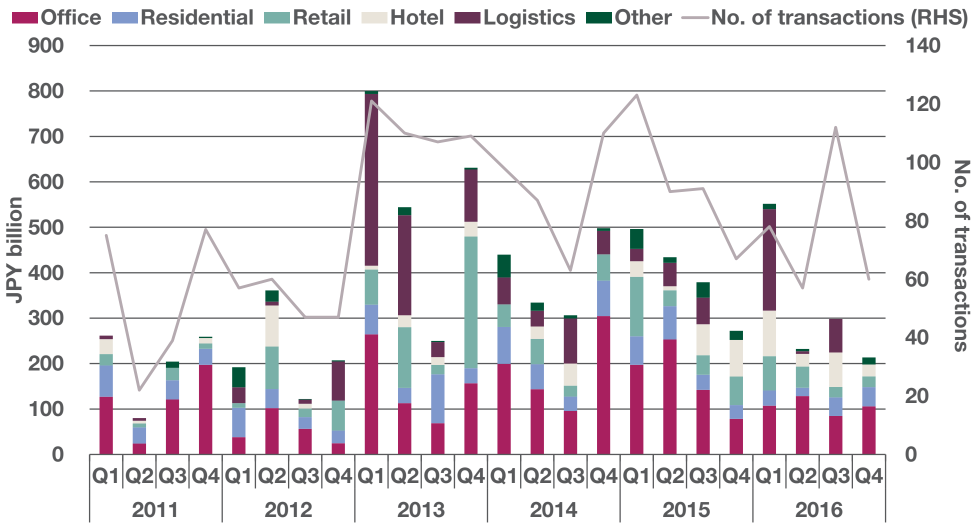
The BOJ's J-REIT purchases totalled JPY88.7 billion in 2016, roughly achieving its annual goal of JPY90 billion. As of the end of December, 359 billion yen worth of J-REIT shares has been purchased by the BOJ since 2010. The TSE J-REIT index rallied after the US presidential election and ended at 1,856 in December or about 1.6% up from its September close of 1,826.

Real estate cap rates are tight and asset prices are high in Japan. Low borrowing costs are still resulting in net yields favourable to most regional peers, but fewer transactions took place in 4Q/2016 as buyers have grown more cautious and unwilling to meet sellers' asking prices. J-REIT property acquisitions declined by 28.5% QoQ to 213 billion yen, with significant declines seen in logistics and hotel sectors. Additionally, attractive refinancing is causing sellers to think twice about unloading assets.

Inbound visitors to Japan exceeded 24 million people in 2016, over 20% growth vs 2015. Although growth has decelerated from the impressive 47.1% annual increase in 2015, Japan will mark its fifth consecutive year of over 20% growth despite a stronger yen. Additionally, the Japanese parliament passed a bill legalising casinos in December, paving the way for development of Integrated Resorts. Although it is likely that casinos will start operating in 2022 at the earliest, the new legislation should be a tremendous tailwind for Japan's already booming inbound tourism.

GRAPH 8

J-REIT property acquisitions by sector, Q1/2011–Q4/2016



Source: Japan REIT, Savills Research & Consultancy

TABLE 10

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Tradepia Odaiba	Minato Ward, Tokyo	JPY30.0 bil/US$290 mil	Ichigo Group Holdings	Office
Kawasaki Tech Center	Kawasaki, Kanagawa	JPY23.1 bil/US$210 mil	MIRAI Corporation	Office
Shiodome Building (additional 10%)	Minato Ward, Tokyo	JPY20.9 bil/US$194 mil	Activia Properties	Office
Hyatt Regency Osaka	Osaka, Osaka	JPY16.0 bil/US$150 mil	Hoshino Resorts REIT	Hotel
Kinshicho Prime Tower	Koto Ward, Tokyo	JPY15.1 bil/US$130 mil	Invesco Office J-REIT	Office/retail

Source: J-REIT disclosures, Real Capital Analytics, Savills Research & Consultancy

Macau

Franco Liu
Managing Director
Savills Macau & Southwest China
+853 2878 0623
fliu@savills.com.mo

Ron Mak
Senior Manager
Research & Consultancy
+852 2842 4287
rclmak@savills.com.hk

Macau's mid-to high-end residential market has rebounded strongly since the start of 2016 on the back of a domestic economic recovery. Mid-to-high end residential prices increased by 26% throughout the year to a level similar to 2014 after a 23% crash in 2015. Meanwhile residential transaction volumes in the first 11 months of 2016 increased by 32.1% from 9,013 to 11,907. As foreign investors and Chinese buyers are discouraged from entering the market by a 10 percent punitive tax, as well as a newly-imposed restriction on the use of UnionPay credit cards for payment, domestic demand has been the major driver. According to official figures, 97.8% of property buyers originated from Macau in the first 3 quarters of 2016.

The YoY change in monthly gross gaming revenue accelerated since turning positive from August 2016 to 14.3% in November 2016 due partly to a low base of comparison. The improvement in the gaming sector drove economic growth from -7.0% YoY in Q2 2016 to +4.0% in Q3/2016. Meanwhile domestic consumption and unemployment have remained stable. Median employment income in Q3/2016 stood at a record level of MOP15,000, and the unemployment rate at a low level of 1.9%. Although a decline in gaming revenue and GDP in 2016 as a whole are expected, the recent pickup in the economy has already boosted enquiries from owner-occupiers. However, there is still an undersupply of flats in the short term as the number of flats completed in the first 11 months of 2016 was only 792, the lowest level since 2008.

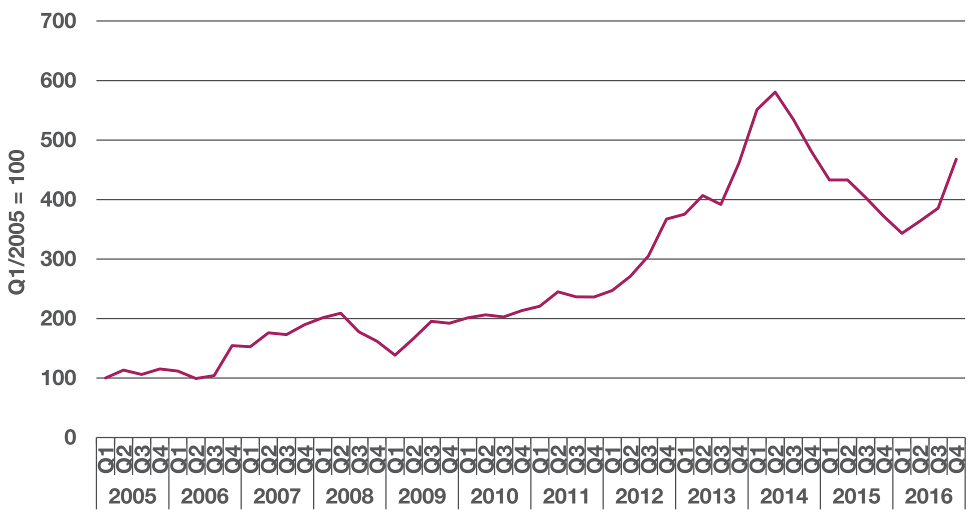
Developers are now more conservative on pricing with new launches now asking for prices closer to the secondary market than in 2014. In light of a positive market response to new projects such as Sky Oasis by yoo in Cotai and Nova Grand in Taipa, the developer is raising asking prices gradually.

Macau's economy is expected to contract by 4.7% in 2016 then grow at a rate of 0.2% to 2.6% per annum from 2017 to 2021, according to the International Monetary Fund.

Although the appreciation of the local currency and the slowdown of China's economy is likely to add uncertainty to the gaming, retail and tourism sector, we expect residential prices to rise alongside a mild growth in gaming revenue and higher sales activity in 2017.

GRAPH 9

Mid-to-high end residential price index, Q1/2005–Q4/2016



Source: DSCE, Savills Research & Consultancy

TABLE 11

Recent mid- to high-end residential transactions over HK$20 million, Oct–Dec 2016

Property	Unit	Size (sq ft gross)	Location	Price
Villa de Mer	High-floor unit A, Block 1	5,431	Macau Peninsula	HK$57.0 mil/US$7.35 mil
Villa de Mer	High-floor unit B, Block 4	5,049	Macau Peninsula	HK$45.0 mil/US$5.81 mil
One Oasis	High-floor unit B, Block 8	2,622	Coloane	HK$25.7 mil/US$3.32 mil
One Grantai	Mid-floor unit S, Block 5	2,996	Taipa	HK$24.5 mil/US$3.16 mil
One Central Residences	High-floor unit A, Block 2	2,299	Macau Peninsula	HK$23.0 mil/US$2.97 mil
One Central Residences	Low-floor unit B, Block 2	2,267	Macau Peninsula	HK$21.1 mil/US$2.72 mil
Lake View Tower	Low-floor unit N, Block 1	2,233	Macau Peninsula	HK$21.0 mil/US$2.71 mil
One Central Residences	High-floor unit F, Block 1	1,841	Macau Peninsula	HK$20.3 mil/US$2.61 mil

Source: Savills Research & Consultancy

Malaysia

Christopher Boyd
Executive Chairman
Savills Malaysia
+603 2092 5955 ext 149
chris.boyd@savills.com.my

Nabeel Hussain
Associate Director
Savills Malaysia
+603 2092 5955 ext 126
nabeel.hussain@savills.com.my

Q4/2016 saw 14 major transactions with a total investment value of RM2.46 billion, up 28.1% from RM1.92 billion in Q3/2016. The deals included three asset investments and 11 land deals, suggesting that property players still have an appetite for expanding their land bank.

Notably, Kumpulan Wang Persaraan (KWAP) acquired Menara AIA CapSquare in Kuala Lumpur for RM416 million, accounting for 17% of the total investment value in Q4/2016. Mass Rapid Transit Corp acquired a one-acre prime land site at Jalan Kia Peng from Malaysian Resources Corporation Berhad (MRCB) for RM180 million (RM4,132 per sq ft), for the construction of MRT Line 2. Meanwhile, Selangor Dredging Berhad disposed of 16 parcels of freehold residential land in Kuala Lumpur to Bukit Selesa Development Sdn Bhd for an aggregate sum of RM71 million. Boustead Berhad purchased a parcel of leasehold commercial land in Bukit Jalil for RM172 million (RM369 per sq ft).

In Selangor, MRCB, through its subsidiary, acquired a 7.8-acre parcel of land with development potential in Petaling Jaya for RM24 million (RM70 per sq ft), which was being occupied by the National Film Development Corporation Malaysia. Petaling Garden Sdn Bhd acquired an 805-acre parcel of agricultural land known as Glengowrie Estates, owned by Sime Darby, in the quickly-developing town of Semenyih, for a total sum of RM428.8 million (RM12 per sq ft), representing 17% of the total investment value in Q4/2016. Another parcel of freehold land with development potential in Semenyih, totalling approximately 250 acres, was acquired by Seacera Group Berhad for RM165.1 million (RM15 per sq ft).

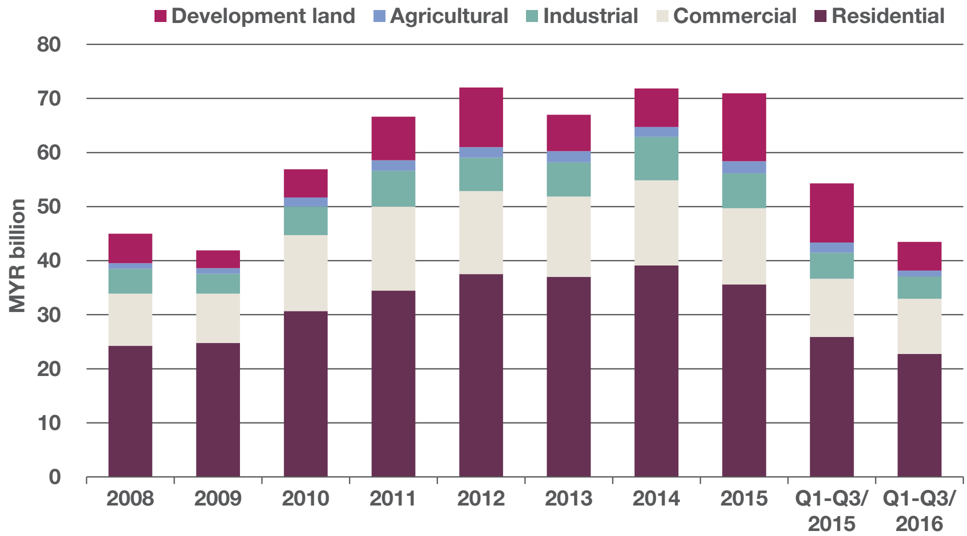
SP Setia expanded its land bank in Penang by acquiring five parcels of adjoining freehold land measuring 1,675 acres in Seberang Perai for RM620 million, which represented 25% of the total investment value during the review quarter. Another major transaction involved Selangor Dredging Berhad acquiring a parcel of freehold residential land in Batu Ferringhi for RM25 million.

In Johor, Sime Darby Berhad acquired two agricultural land parcels, known as Lian Seng Estate in Batu Pahat and Talisman Estate in Kluang, from two subsidiaries of I&P Group Berhad, for RM77.6 million and RM29 million respectively. Other major transactions included the acquisition of two parcels of freehold land by Scientex Berhad in Kulai (for RM123 million) and the acquisition of Boustead Sedili Estate by Johor Corporation in Kota Tinggi (for RM74 million).

This increase in transactional activity was welcome, as sentiment has been otherwise poor in 2016. As we enter 2017, concerns around the economy and domestic politics have not yet abated, and it is likely that land transactions will continue to dominate, as cash rich developers stockpile landbanks as and when attractive deals emerge.

GRAPH 10

Total value of property transactions per subsector in Greater Kuala Lumpur, 2008–Q3/2016



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

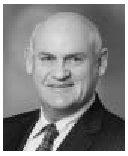
TABLE 12

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
5-pieces of adjoining freehold land	Seberang Perai, Pulau Pinang	RM620.1 mil/US$138.82 mil	SP Setia berhad	Industrial
2-contiguous parcels with development potential	Semenyih, Selangor	RM428.8 mil/US$95.99 mil	Petaling Garden Sdn Bhd	Agriculture
Menara AIA Cap Square	Kuala Lumpur	RM416.1 mil/US$93.20 mil	KWAP	Commercial
1-piece of leasehold land	Jalan Kia Peng, Kuala Lumpur	RM180.0 mil/US$40.32 mil	MRT Corp	Commercial
A parcel of leasehold land	Bukit Jalil, Kuala Lumpur	RM172.8 mil/US$38.70 mil	Boustead Berhad	Commercial

Source: Company announcements, Savills Research & Consultancy

New Zealand




Paddy Callesen
Managing Director
Commercial Sales
+64 (0) 27 271 1558
pcallesen@savills.co.nz

Harold McCracken
Associate Director
Commercial Sales
+64 (0) 27 445 1201
hmccracken@savills.co.nz

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, strong occupier demand and falling yield are the trends characterising the market leading from mid to end 2016 .

Investors chasing yield is being driven by historically low interest rates although the market is now of the belief that we have seen the end to this downward trend. Some uncertainty has crept into investors thinking about accepting current low yields.

New Zealand's economy grew faster than market expectations in the September 2016 quarter, increasing by 1.1%.

Growth in economic activity was boosted by growth in the business services, transport, manufacturing and construction sectors from rapidly growing population.

Factors that are likely to support economic growth includes:

- Inflation is continuing to trend below market expectation but market consensus is that we are at the bottom of monetary policy settings.

- 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.

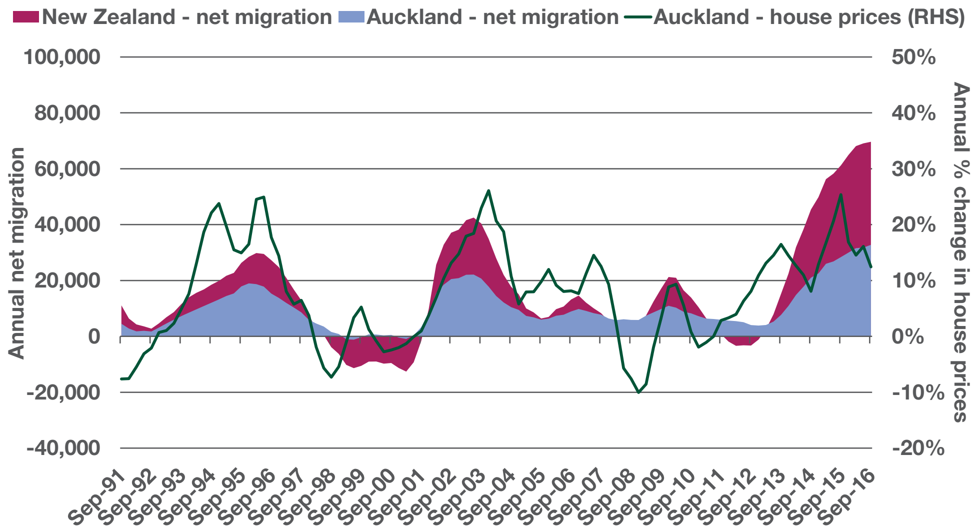
- Strong growth in the number of overseas visitors, up 10% over the last year to 3.2 million visitors is supporting growth across the country. Tourism is one of our largest earners of overseas income;

- 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.

The Auckland region continues to be one of the fastest growing economies in the country. A combination of factors is driving the region's strong growth. Growth in both domestic and overseas tourism is benefiting the retail and hospitality sectors. Strong population growth of 2.8% per annum is driving uplift in both commercial and residential activity which in turn also supports above average retail sales growth. In the short term, barring external shocks [of which there are many on the horizon], it is hard to see a change in local economic conditions which will underpin the local property markets.

GRAPH 11

Net migration gain and residential house price growth, Sep 1991–Sep 2016



Source: Statistics New Zealand, Corelogic

TABLE 13

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
31 Highbrook Drive	Auckland	NZD1.82 mil/US$1.32 mill	Private	Office/ industrial
27 Customs Street	Auckland	NZD3.33 mil/US$2.42 mil	Private	Office
111 Carlton Gore Road	Auckland	NZD22.25 mil/US$16.17 mil	Private	Office
600-662 Great South Road	Auckland	NZD210.0 mil/US$152.67 mil	Private	Office

Source: Savills Research & Consultancy

Philippines


Michael McCullough
Managing Director
KMC Savills, Inc
+632 217 1730
michael@kmcmaggroup.com

Antton Nordberg
Head of Research
KMC Savills, Inc
+632 403 5519
antton.nordberg@kmcmaggroup.com

Uncertainty in the global and local landscape together with the US Fed's rate hike triggered some capital outflows from the Philippines toward the end of 2016. This switched the momentum in the local stock exchange which recorded a decline of 15.6% from its peak in July and made Philippine peso depreciate by 5.3% in 2016 – making it one of the worst performing currencies in Asia.

Same sentiment was also witnessed in the property sector where the volumes continued the year's trend and stayed low also in Q4/2016. The only notable direct transaction in the last quarter of the year was when A. Soriano Corporation sold its 2,336-sq m prime lot in Cebu Business Park to Skyrise Realty and Development Corporation for US$8.0 million.

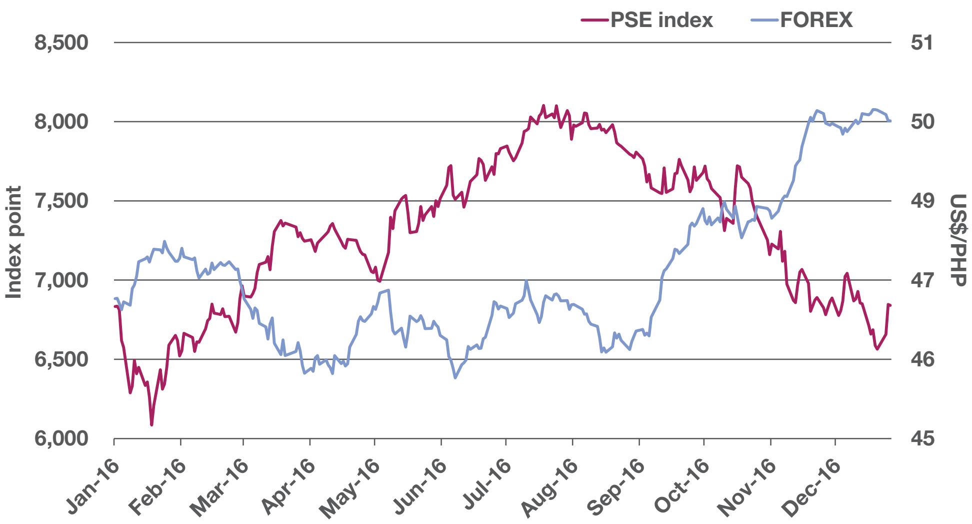
Another noteworthy capital market arrangement was the announcement of joint venture partnership between Century Properties and Mitsubishi Corporation wherein a 26-hectare property in Cavite will be developed into a large-scale residential project in affordable segment. The deal illustrates the high prospects in this segment and how it has started to attract both local and international investor interest. The large local developers have started to include affordable housing into their strategy to address the massive housing backlog in the country. This backlog is caused by the rising middle class who have benefited from an expanding economy fuelled by overseas remittances and employment in the outsourcing sector.

Furthermore, Manila maintained its status as an appealing investment destination, particularly in the office sector. According to the ULI Emerging Trends in Real Estate report, Manila ranks third as an investment prospect in the region. Evidence of this has been witnessed in the asset market where yields in established CBDs have started to compress, adding an attractive capital appreciation component into the total returns equation. In addition, despite the depreciation of the peso, office take-up is expected to be sustained as rental and labour costs have become more affordable for BPOs. Currently, demand remains strong with a number of office space pre-committed to their completions and the vacancy rate still moves in single digits.

Looking ahead, GDP expansion should sustain its momentum in 2017 with a potential boost from government spending. The new administration has laid out plans to spend around PHP860.7 billion in infrastructure which is forecasted to account for 5.4% of GDP. This will support the property markets and potentially open up new investment opportunities beyond the traditional office and residential sectors.

GRAPH 12

PSE index and foreign exchange rate, 2016



Source: PSE and BSP

TABLE 14

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Tanza Century Mitsubishi JV	Cavite	-	Mitsubishi	Residential
Skyrise lot in Cebu Business Park	Cebu	PHP397.1 mil/US$8.0 mil	Skyrise Realty and Development Corporation	Development site

Source: KMC Savills Research, Savills Research & Consultancy

Singapore

Christopher J Marriott
Chief Executive Officer
Southeast Asia
+65 6415 3888
cjmarriott@savills.asia

Alan Cheong
Senior Director
Research
+65 6415 3641
alan.cheong@savills.com.sg

In the last quarter of 2016, the residential segment raked in a total of S$2.38 billion in investment sales, up 7.0% quarter-on-quarter (QoQ). The growth is mainly attributable to City Developments Limited's divestment of the freehold residential project Nouvel 18 to Green 18 Pte Ltd (S$965.4 million), and the collective sales of Raintree Gardens to a joint venture of UOL Group and United Industrial Corporation (S$334.2 million). The latter is the third collective sale in this year.

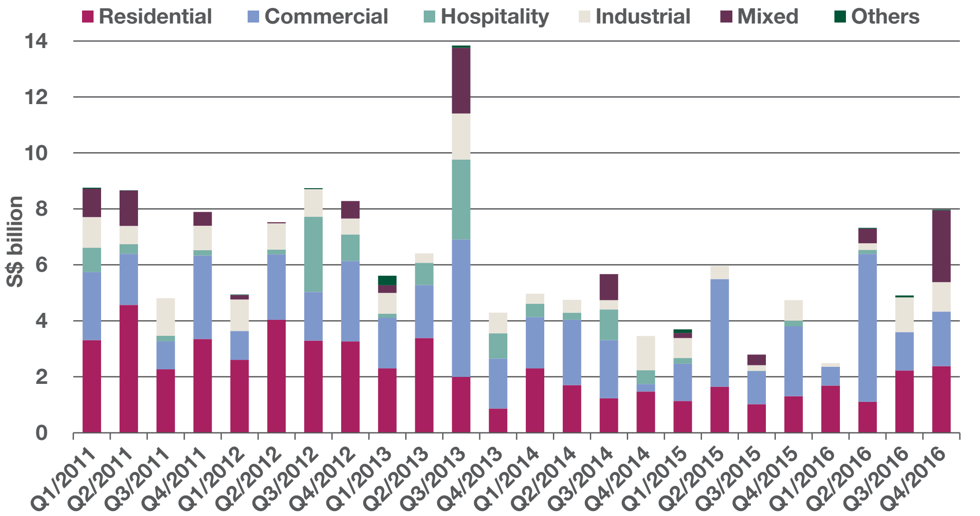
Investment sales of commercial properties totalled S$1.95 billion in Q4/2016, representing 24.5% of the total investment sales. On a quarterly basis, sales rose 42.3% from Q3's S$1.37 billion. For the quarter in review, the transactions were all from the private sector. Some notable deals included CLSA Capital Partners' acquisition of a 99-year leasehold, 35-storey office building at Robinson Road, Robinson 77, (S$530.8 million), the sale of a 50% stake in Capital Square at Church Street to ARA Asset Management (S$475.5 million) and Perennial Real Estate Holdings and Singapore Press Holdings' purchase of a 60% stake in Chinatown Point retail mall along with four strata-titled office units above the mall (S$265.5 million).

The industrial segment closed the final quarter with S$1.05 billion worth of transactions. This made up 13.1% of total investment sales for that quarter. When measured against the third quarter's number of S$1.24 billion, the investment sales value dropped 15.7% QoQ. Industrial REITs were active in the last three months. For example, the biggest deal was done by Ascendas Real Estate Investment Trust (A-REIT), who bought DSO National Laboratories buildings and DNV GL Technology Centre at Science Park for S$420.0 million.

On 11 November 2016, the Central Boulevard white site, with parameters for predominantly office and complementary uses such as retail, residential, hotel and/or serviced apartment, was awarded to Wealthy Link Pte Ltd, a subsidiary of IOI Properties, for almost S$2.57 billion (S$1,689 per sq ft per plot ratio). This was the highest bid achieved for a white site in the GLS programme to date. The site comes nearly 10 years after the last white sites in the Marina Bay area – from which Asia Square came about – were sold in 2007. The bid price was above expectations and this singular deal was the reason why, despite the gloomy economic outlook, the investment sales market also came in above expectations. The economic negativities were overlooked because of scarcity of sites in a prime CBD location. In addition, developers could also be more optimistic about the market in 2021/2022 when the project is completed. With this tender, the mixed property segment therefore accounted for the highest market share of Q4's total investment sales at 32.3%.

GRAPH 13

Transaction volumes of investment sales by property type, Q1/2011–Q4/2016



Source: Savills Research & Consultancy

TABLE 15

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Government land	Central Boulevard	S$2.57 bil/US$1.82 bil	Wealthy Link Pte Ltd	White
Nouvel 18	Anderson Road	S$965.4 mil/US$682.63 mil	Green 18 Pte Ltd	Residential
Robinson 77	Robinson Road	S$530.8 mil/US$375.33 mil	CLSA Capital Partners	Commercial
Capital Square (50% stake)	Church Street	S$475.5 mil/US$336.23 mil	ARA	Commercial
DSO National Laboratories buildings and DNV GL Technology Centre	Science Park Drive	S$420.0 mil/US$296.97 mil	A-REIT	Industrial

Source: URA, Savills Research & Consultancy

South Korea

K.D. Jeon
CEO
Savills Korea
+82 2 2124 4101
kdjeon@savills.co.kr

JoAnn Hong
Director
Research & Consultancy
+82 2 2124 4182
jhong@savills.co.kr

2016 saw three records set: in transaction volumes; unit sale price; and foreign investors' contribution. Total investment volumes for office, retail, logistics and hotels reached over KRW12 trillion in 2016, with office transaction volumes of KRW7.9 trillion also a new high. In the office sector, Center Point Gwanghwamun in the CBD set a new record for a sale price per 3.3sqm. The proportion of foreign investment increased and accounted for about half of the office investment market.

In Q4/2016, office transaction volumes over KRW3.3 trillion included two prime office buildings, IFC and Capital Tower, which represented 76% of the entire transaction amount.

IFC is the first real estate asset that Brookfield Asset Management has acquired in Korea. The transaction was executed through a merger between the SPCs of AIG (seller) and Brookfield Asset Management. The total purchase amount of IFC Building I, II, III and Conrad Hotel & retail mall is estimated to be KRW2.5 trillion.

Blackstone purchased the Capital Tower for KRW473 billion. The deal was concluded in the form of a share transaction.

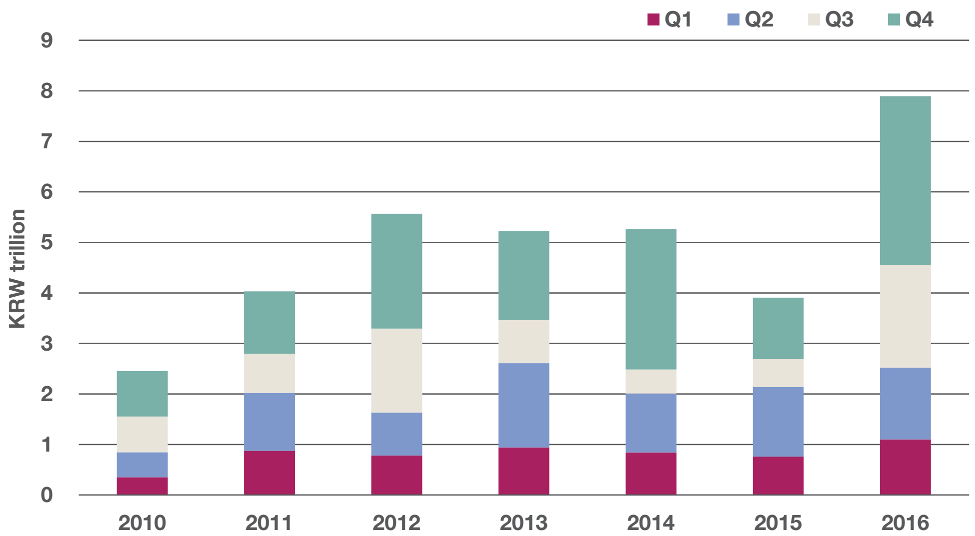
Foreign investors have been continuing to acquire value-add investments. Orion Partners acquired the office building of Daewoo Shipbuilding & Marine Engineering in the CBD for KRW170 billion. They have a value-add strategy for the property through conversion of the lower floors (1/F to 3/F) into a retail section.

The BOK benchmark interest rate remained at 1.25%, the lowest ever level. However, the yield of five-year government bonds and bank loan interest rates surged amid growing uncertainties caused by the policies of the incoming U.S. administration and the interest rate increase by the Federal Reserve. Despite such volatile external circumstances, investment in Korean commercial properties continued to expand.

The demand from international investors for value-add properties aimed at lowering vacancies, along with the new office buildings planned to be put on the market, is expected to lead to continued provision of rent-free periods and tenant incentive The Q4/2016 nominal cap rate is estimated to be in the high-four percent to five percent range. However, the real cap rate with rent-free period and TI is expected to be in the low- to mid-four percent range. As of the end of December, the yield of five-year government bonds rose beyond 1.8%, but the spread is still above 200 basis points (bps) (220 to 270 bps). In general, the LTV rate in the Korean investment market is 55%.

GRAPH 14

Office transaction volumes, 2010–2016



Source: Savills Research & Consultancy

TABLE 16

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
IFC (Complex)	YBD	KRW2.5 tri/US$2.16 bil	Brookfield Asset Management	Complex
Capital Tower	GBD	KRW473.0 bil/US$408.6 mil	Mirae Asset Global Investments (Blackstone Group)	Office
DSME	CBD	KRW170.0 bil/US$146.8 mil	Capstone Asset Management (Orion Partners)	Office

Source: Savills Research & Consultancy

Taiwan

Cynthia Chu
Managing Director
Savills Taiwan
+886 2 8789 5828
cchu@savills.com.tw

Erin Ting
Associate Director
Research
+886 2 8789 5828
eting@savills.com.tw

The implementation of the new capital gains tax at the beginning of 2016, coupled with the president election in January 2016 and the exposure of liquefaction potential maps, has made the real estate market more fragile. The total amount of commercial property transactions over NT$300 million in 2016 decreased by 40% year-on-year (YoY) to NT$64.6 billion, with only 46 deals recorded. If the volume of Taiwanese insurance companies buying overseas properties is taken into consideration (who acquired NT$57.1 billion worth of commercial properties in UK and Europe in 2015 but stopped investing this year), the property investment momentum in Taiwan actually dropped by 61% YoY.

End-users dominated the property market, taking up 50% of total transactions. Technology, biotechnology and logistics industries were the major buyers, preferring factory and industrial offices in the north of Taiwan. In general, technology companies tend to buy vacant land in order to customise their own factory; therefore, they became the second largest buyers in the land market. As a whole, technology companies invested in NT$35.1 billion worth of property this year, increasing 57% YoY compared with 2015. Increasing demand from end-users caused a slow upward trend in industrial property, different from the conditions in the other property sectors.

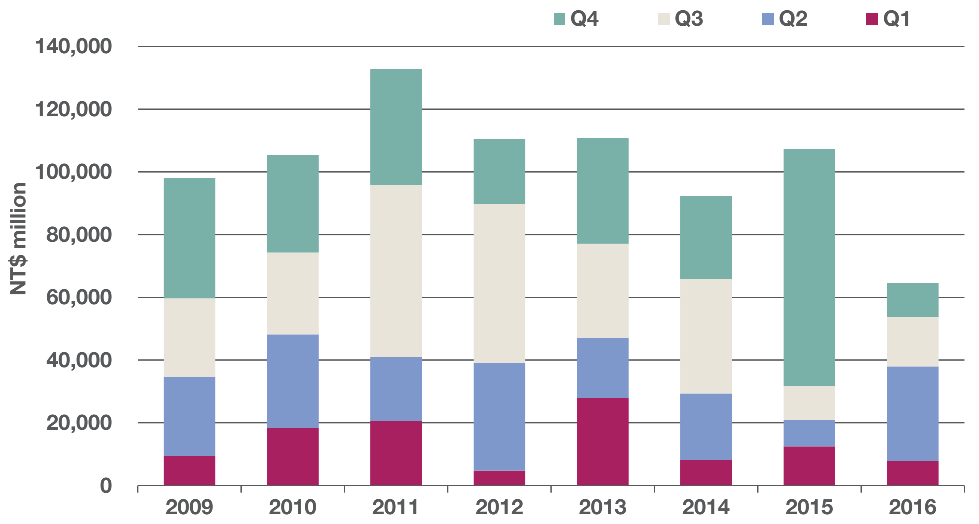
Transaction activities in the office and retail markets stagnated, due to the high unit price, reflecting a higher risk under the correction situation; investors retreated from the property market in the face of the revised capital gains tax. In 2016, transaction volumes in the office sector decreased by 70% YoY to NT$10.3 billion, and the price fell 8% on average.

The shrinkage in office transactions showed a pattern of divergence from the leasing market. According to our survey, the total take-up in the Grade A office market reached 20,000 ping (approximate 66,000 sq m) in 2016, recording a 50% growth compared with last year. The healthy leasing market implies that the demand in the office market from end-users is firm, however, during the correction period, they tend to rent instead of buying premises.

In the coming year, the bargaining power of buyers will be reinforced after a year of correction. We have seen several deals recording a lower-than-average price. In addition, the holding tax, such as the land tax and building tax, could possibly increase and will cause a downward pressure on prices as buyers tend to transfer that to sellers.

GRAPH 15

Significant transactions, Q1/2009–Q4/2016



Source: Savills Research & Consultancy

TABLE 17

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
GlobalView Technologies Headquarters	Taipei City	NT$1.08 bil/US$34 mil	Ming Fang Investment Company	Industrial office
Chunghwa Picture Tubes Taiyuan Factory	Taiyuan City	NT$3.84 bil/US$121 mil	Giantplus Technology	Factory
Yang Ming Neihu Building	Taipei City	NT$1.89 bil/US$60 mil	Nan Shan Insurance	Industrial office

Source: Savills Research & Consultancy

Viet Nam

Neil MacGregor
Managing Director
Savills Viet Nam
+84 8 3823 4754
nmacgregor@savills.com.vn

Troy Griffiths
National Director
Research & Valuation
+84 8 3823 9205
tgriffiths@savills.com.vn

In the last quarter of 2016, we witnessed a burst of activity in the Vietnam real estate market, with strong interest from both foreign and local investors. Earlier in the quarter, one of the contractors for Ho Chi Minh City's first metro line, Maeda, partnered with Thien Duc, a local developer, in a joint venture to develop an approximately US$30 million high-end residential project, Waterina Suites. This is the first property investment by the Japan-based company after almost two decades being present in Vietnam.

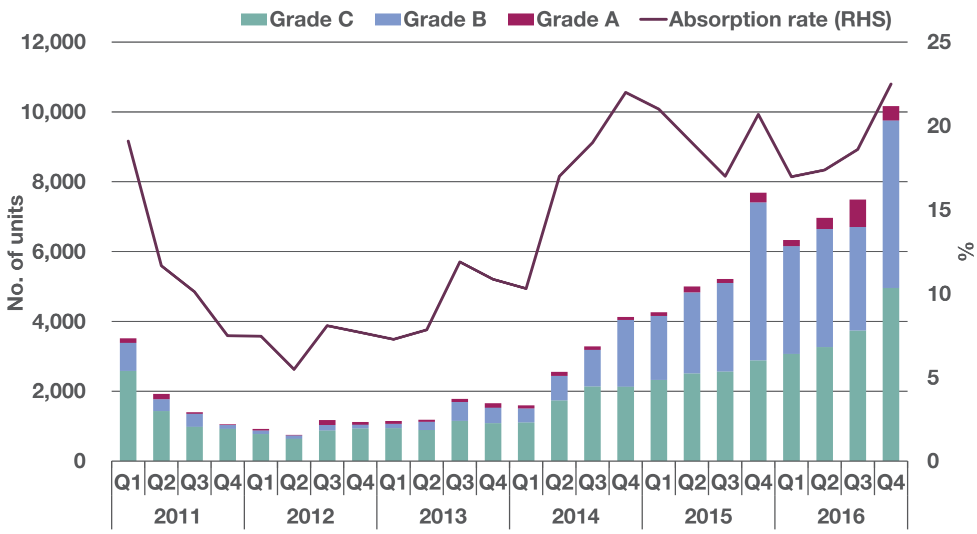
In the hotel sector, the global private equity investment firm, Warburg Pincus, joined hands with VinaCapital to form a US$300 million hospitality joint venture, aiming to become a major hotel platform in Vietnam and South East Asia. Shortly after its foundation, the platform acquired a 50% stake in the Sofitel Legend Metropole Hanoi, a five-star hotel in the heart of the country's capital, from Vietnam Opportunity Fund (VOF) under VinaCapital, with a total consideration of approximately US$100 million. In November, Dubai-based real estate developer Limitless, an affiliate of the Dubai World holding group, has resumed work on the US$550 million project Ha Long Star on Vietnam's North Coast. The project features approximately 2,000 villas, townhouses and apartments along with retail outlets, leisure facilities and hotels in one of the most popular destinations on Vietnam's hospitality map. On the coast line of Hoi An – a renowned tourist location in Central Vietnam – VinaCapital and its joint venture partners, Gold Yield Enterprises and Sun City Group, have started construction of the US$4 billion project HOIANA, aiming to have its first phase completed in early 2019. Once completed, HOIANA will be Vietnam's largest integrated resort, with the first phase of this project featuring a 685-key New World Hotel, 100-key Rosewood Residences and Resort, and signature Championship Golf Course designed by Robert Trent Jones II, along with the largest casino in Vietnam.

In 2016, Vietnam's economy was a highlight in the South East Asian region. Vietnam's Gross Domestic Product (GDP) increased by 6.21% year-on-year (YoY), which makes Vietnam one of the fastest growing countries worldwide. In the same year, Vietnam attracted over US$24 billion in total newly-registered and additional Foreign Direct Investment (FDI), and achieved over US$15 billion of FDI disbursement, a record high 9% increase over the previous year.

Vietnam's property market continues to show its resilience, with consistent growth across different sectors despite the ups and downs of the global economy. Top-tier real estate companies, especially local players, are shifting their focus to low- to mid-end residential developments to attract more buyers, targetting the young workforce which accounts for the majority of Vietnam's population. The trend is towards smaller units in locations with good accessibility, a full range of amenities, competitive pricing and favourable payment terms. This market movement is going to help the real estate sector in Vietnam to continue its sustainable growth trend moving forward.

GRAPH 16

HCMC apartment transaction volumes and absorption rate, Q1/2011–Q4/2016



Source: Savills Research & Consultancy

TABLE 18

Major investment transactions, Oct–Dec 2016

Property	Location	Price	Buyer	Usage
Sofitel Legend Metropole Hanoi (50% interest)	Hanoi	VND2.26 tri/US$100 mil	N/A	Hotel
Casuarina Cove Vietnam (60% interest)	HCMC	VND543.90 bil/US$24.1 mil	Hung Phu	Residential
Riviera Cove (40% interest)	HCMC	VND327.26 bil/US$14.5 mil	Keppel Land	Residential

Source: Savills Research & Consultancy

Major transactions Q4 2016

Australia

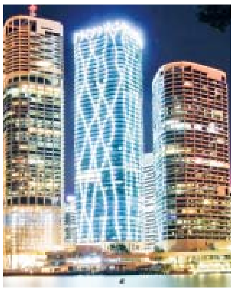
◄ **324 Queen Street**
Brisbane
AU$132.0M/US$99.0M
in November

39 Martin Place ►
Sydney
AU$332.0M/US$249.0M
in November

St Collins Lane ▲
Melbourne
AU$247.0M/US$185.25M
in November

◄ **Carillon City Shopping Centre**
Perth
AU$140.0M/US$105.0M
in October

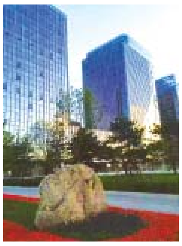
▼ **111 Eagle Street (33%)**
Brisbane
AU$284.2M/US$213.15M
in December



307 Queen Street ►
Brisbane
AU$153.0M/US$114.75M
in October

100 Queen Street ▲
Melbourne
AU$275.0M/US$206.25M
in December

Beijing



◄ **Financial Street Changan Center, Building 2**
Chaoyang
RMB8.85B/US$1.29B
in October

Ronsin Technology Center ►
Chaoyang
RMB5.1B/US$735.0M
in December

The Capital Center ▼
Fengtai
RMB2.8B/US$407.5M
in December

Fraser Residence ▲
Chaoyang
RMB1.18B/US$172.2M
in December

▲ **Riverside Palace**
Haidian
RMB1.30B/US$187.0M
in December

◄ **Dong Li Center**
Chaoyang
RMB520M/US$75M
in October

Shenzhen

◀ **International Tech Building**
Futian
RMB29.3M/US$4.27M
in December

Q-Plex ▶
Nanshan
RMB440.0M/US$64.17M
in October

Luo Hu Commercial City ▶
Luohu
RMB395.0M/US$57.61M
in December

Shanghai

◀ **Century Link**
Pudong
RMB20.0B/US$2.9B
in October

◀ **Parkside Plaza**
Putuo
RMB2.2B/US$317M
in November

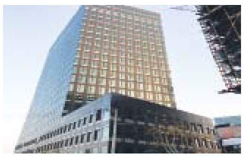
▲ **Central Plaza**
Huangpu
RMB2.4B/US$346M
in October

◀ **Star Bund T1**
Hongkou
RMB5.3B/US$764M
in December

The Konnect ▶
Huangpu
RMB520MB/US$75.87M
in November

▲ **BFC (50% stake)**
Huangpu
RMB5.3B/US$764M
in December

Huiyin Mingzun ▼
Putuo
RMB471.0M/US$68.71M
in December



JT-Plaza ▲
Yangpu
RMB660M/US$96.28M
in December

▼ **Hongqiao R&F Center**
Minghang
RMB2.1B/US$306.28M
in December

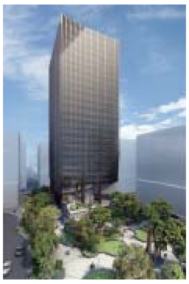
◀ **A-REIT City**
Pudong
RMB1.1B/US$161.99M
in October

◀ **Xuebao Mall**
Luwan
RMB610M/US$89.02M
in November

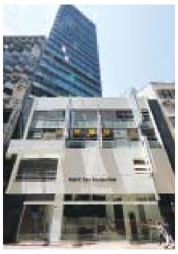
◀ **Rich Gate (Retail podium)**
Luwan
RMB1.4B/US$202M
in November

Hong Kong

◀ **Cheung Hong (Retail portion and 709 car parking spaces)**
Tsing Yi
HK$1.15B/US$148M
in December



◀ **19 Wang Chiu Road (NKIL6312)**
Kowloon Bay
HK$6.53B/US$842M
in October



▲ **Pemberton**
Sheung Wan
HK$1.0B/US$129M
in December

Mount Nicholson (House 1) ▶
The Peak
HK$1.08B/US$139M
in December

16A-16D Shouson Hill Road ▼
Southside
HK$1.3B/US$168M
in October

1 Horizon Drive and 44-50 Chung Hom Kok Road ▲
Stanley
HK$1.8B/US$232M
in October

◀ **J Plus Boutique Hotel**
Causeway Bay
HK$1.7B/US$219M
in December

Japan

Shiodome Building (additional 10%) ▶
Minato Ward, Tokyo
JPY20.9B/US$194M
in December

◀ **Hyatt Regency Osaka**
Osaka City, Osaka
JPY16.0B/US$150M
in November

Tradepia Odaiba ▶
Minato City, Tokyo
JPY30.0B/US$290M
in October

◀ **Kinshicho Prime Tower**
Koto Ward, Tokyo
JPY15.1B/US$130M
in December

Kawasaki Tech Center ▶
Kawasaki, Kanagawa
JPY23.1B/US$210M
in December

Major transactions Q4 2016

Singapore

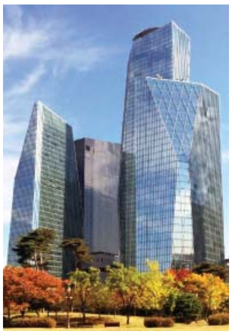
▼ **Nouvel 18 (50% stake)**
Anderson Road
S$965.4M/US$682.63M
in October

◀ **Robinson 77**
Robinson Road
S$530.8M/US$375.33M
in November

Capital Square (50% stake) ▶
Church Street
S$475.5M/US$336.23M
in October

South Korea

▼ **Capital Tower**
GBD
KRW473.0B/US$408.6M
in Q4/2016



DSME ▶
CBD
KRW170.0B/US$146.8M
in Q4/2016

◀ **IFC**
YBD
KRW2.5T/US$2.16B
in Q4/2016

Taiwan

◀ **GlobalView Technologies Headquarters**
Taipei City
NT$1.08B/US$34M
in November

U-TOWN ▶
New Taipei City
NT$703M/US$22.2M
in November

◀ **Nankang Software Park**
Taipei City
NT$585M/US$18.5M
in November

◀ **Yang Ming Neihu Building**
Taipei City
NT$1.89B/US$60.0M
in December

NOTES PAGE

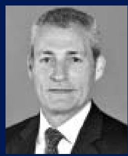
NOTES PAGE

NOTES PAGE

Savills Regional Investment Advisory, Asia Pacific

savills

Regional Investment Advisory
Frank Marriott
Email: fmarriott@savills.com.hk
Tel: +852 2842 4475
23/F, Two Exchange Square, Central, Hong Kong



Regional Research and Consultancy
Simon Smith
Email: ssmith@savills.com.hk
Tel: +852 2842 4573
23/F, Two Exchange Square, Central, Hong Kong

ASIA

China
Raymond Lee
Email: rlee@savills.com.hk
Tel: +852 2842 4518

Albert Lau
Email: albert.lau@savills.com.cn
Tel: +8621 6391 6696
Unit 2501-13, Two ICC,
No. 288 South Shanxi Road,
Shanghai 200031, PRC

Steve Chen
Email: steve.chen@savills.com.cn
Tel: +8621 6391 6688
Unit 2501-13, Two ICC,
No. 288 South Shanxi Road,
Shanghai 200031, PRC

With offices in Chengdu, Chongqing, Dalian, Guangzhou, Hangzhou, Nanjing, Qingdao, Shenyang, Shenzhen, Tianjin, Xiamen, Xi'an and Zhuhai

Hong Kong SAR
Raymond Lee
Email: rlee@savills.com.hk
Tel: +852 2842 4518
23/F, Two Exchange Square, Central, Hong Kong

With offices in Tsim Sha Tsui and Kowloon Tong

Macau SAR
Franco Liu
Email: fliu@savills.com.mo
Tel: +853 2878 0623
Suite 1309-10, 13/F Macau Landmark,
555 Avenida da Amizade, Macau

Indonesia
PT Savills Consultants Indonesia
Jeffrey Hong
Email: jeffrey.hong@savills.co.id
Tel: +62 21 293 293 80
Panin Tower - Senayan City, 16th floor, Unit C, Jl. Asia Afrika Lot. 19, Jakarta 10270, Indonesia

Japan
Christian Mancini
Email: cmancini@savills.co.jp
Tel: +81 3 6777 5150
15/F Yurakucho ITOCiA, 2-7-1 Yurakucho,
Chiyoda-ku, Tokyo 100-0006, Japan

Korea
K. D. Jeon
Email: kdjeon@savills.co.kr
Tel: +822 2124 4101
13/F, Seoul Finance Center, 84 Taepyungro-1-ga, Chung-gu, Seoul 100-768, Korea

Malaysia
Christopher Boyd
Email: chris.boyd@savills.com.my
Tel: +60 3 2092 5955
Level 9, Menara Milenium, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

With 2 branches throughout Malaysia

Phillipines
KMC MAG Group
Michael McCullough
Email: michael@kmcmaggroup.com
Tel: +632 403 5519
8/F Sun Life Centre, 5th Ave,
Bonifacio Global City 1634, Philippines

Singapore
Christopher Marriott
Email: cjmarriott@savills.asia
Tel: +65 6415 7582
30 Cecil Street, #20-03 Prudential Tower,
Singapore 049712

Taiwan
Cynthia Chu
Email: cchu@savills.com.tw
Tel: +886 2 8789 5828
21F, Cathay Landmark,
No. 68, Sec. 5, Zhongxiao E. Road,
Xinyi District, Taipei City 110, Taiwan

With an office in Taichung

Thailand
Robert Collins
Email: rcollins@savills.co.th
Tel: +66 2 636 0300
26/F, Abdulrahim Place, 990 Rama IV Road,
Bangkok 10500, Thailand

Viet Nam
Neil MacGregor
Email: nmacgregor@savills.com.vn
Tel: +84 8 3823 9205
18/F, Fideco Tower, 81-85 Ham Nghi Street,
District 1, Ho Chi Minh City, Viet Nam

With an office in Ha Noi

AUSTRALASIA

Australia
Paul Craig
Email: pcraig@savills.com.au
Tel: +61 2 8215 8888
Level 7, 50 Bridge Street, Sydney, Australia

Offices throughout Sydney, Parramatta, Canberra, Melbourne, Notting Hill, Adelaide, Perth, Brisbane, Gold Coast and Sunshine Coast

New Zealand
Paddy Callesen
Email: pcallesen@savills.co.nz
Tel: +64 9 951 5910/+64 9 951 5911
Level 8, 33 Shortland Street, Auckland,
NZ 1010, New Zealand

NORTH AMERICA
Savills Studley
Woody Heller
Email: wheller@savills-studley.com
Tel: +1 212 326 1000
399 Park Avenue, 11th Floor, New York,
NY 10022

LATIN AMERICA
Borja Sierra
Email: bsierra@savills.com
Tel: +44 20 7409 9937
Finsbury Circus House, 15 Finsbury Circus,
London EC2M 7EB, United Kingdom

UNITED KINGDOM & EUROPE
Phillip Garmon-Jones
Email: pgarmonjones@savills.com
Tel: +852 2842 4252
23/F Two Exchange Square, Central, Hong Kong

Offices throughout the United Kingdom, Belgium, France, Germany, Hungary, Italy, Netherlands, Poland, Spain and Sweden
Associate offices in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa