# ASIAN REAL
# SnapShot!

Real Estate/Issue 3, October 2014

Current developments in the key real estate markets in Asia Pacific

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KPMG
*cutting through complexity*

**October 2014**

# Introduction

Thank you for your interest in KPMG's *Asian Real SnapShot*. This is our third edition of the publication, and provides an overview of and insight into the developments under way in the real estate markets across Asia.

This document has been prepared by a network of seasoned KPMG professionals aligned to different functional groups within our member firms in Asia, all of whom have a combination of knowledge and expertise in the local real estate clusters and the global financial markets. KPMG's Real Estate practice has professional experience, understands real estate and the related financial factors, and has an extensive database for regional submarkets. Through both our pan-Asian and global networks of interdisciplinary experts, we offer a range of real estate-related services for challenging local and international mandates. Based on our extensive knowledge, we offer our firms' clients advice in many areas related to real estate.

**Andrew Weir**
Global Chair, Real Estate and Construction

Australia

# Strong performance leading to market recovery

The Australian property market experienced a very active year in 2013, with commercial property recovering to pre-global financial crisis levels. All major groups participated in the market – Australian and foreign real estate investment trusts (REITs) were active, along with unlisted funds and high net worth individuals, but with a notable presence of foreign purchasers.

The significant liquidity in search of a safe home has put upward pressure on commercial property prices, and yields have fallen despite some leasing markets remaining soft. Activity levels in 2014 continue to remain buoyant, with increasing levels of interest in properties being marketed.

## Macroeconomic overview

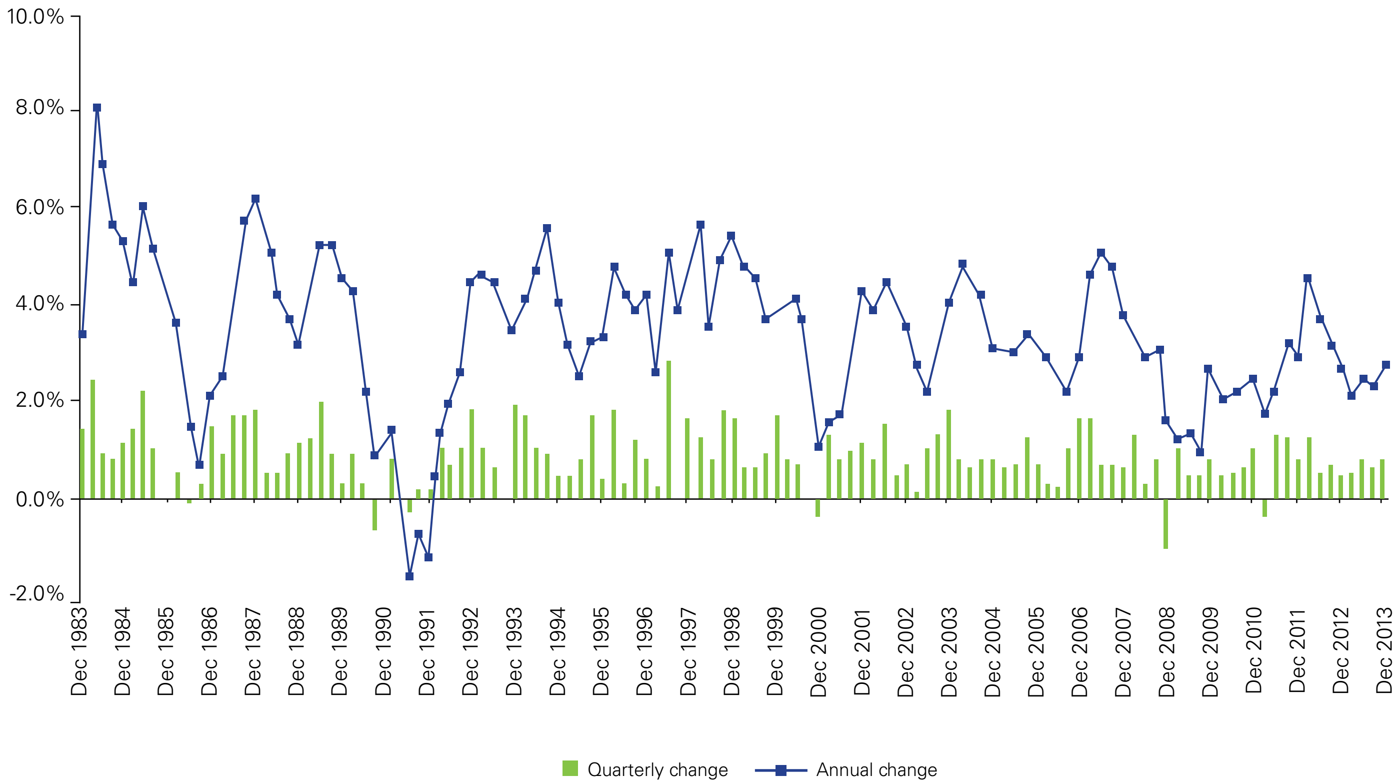
Australia has been a strong performer in comparative global terms and has had an unbroken period of economic expansion since 1991, which is reflected in its positive gross domestic product (GDP) growth. This is unmatched by any other advanced economy.

The Australian commercial property market saw strong investment in 2013 by both local and overseas investors. Major drivers for this were the positive economic conditions, low interest rates and predicted continued improvement of the global economy. Consumer sentiment and business confidence have remained neutral, although consumer confidence has fallen since the federal budget in May 2014 which proposed measures that are likely to reduce government assistance (and hence increase consumer spending) in some areas such as health.

Inflation has remained within the Reserve Bank of Australia's (RBA) target range of 2-3 percent. At the same time, while unemployment has increased for three consecutive years, it still remains slightly below 6 percent. The average household savings ratio has increased enormously over the last 10 years, sitting just above 10 percent as at September 2013.[1]

The above factors and an all-time low cash rate of 2.50 percent (unchanged since it was lowered in August 2013) have had a positive impact on Australia's property market.

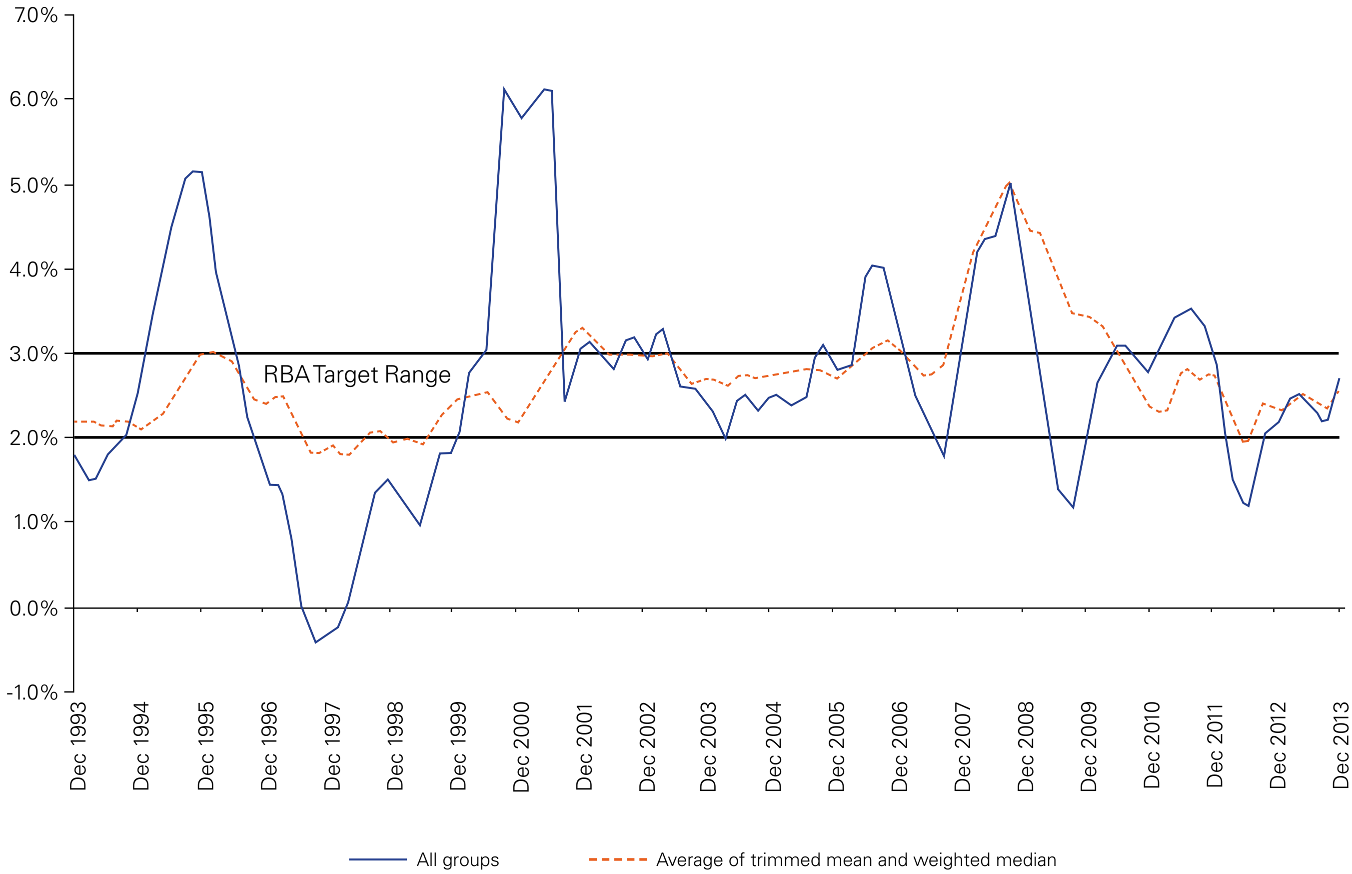
Gross domestic product




Source: Australian Bureau of Statistics

[1] Australian Bureau of Statistics

**Annual change in consumer price inflation**



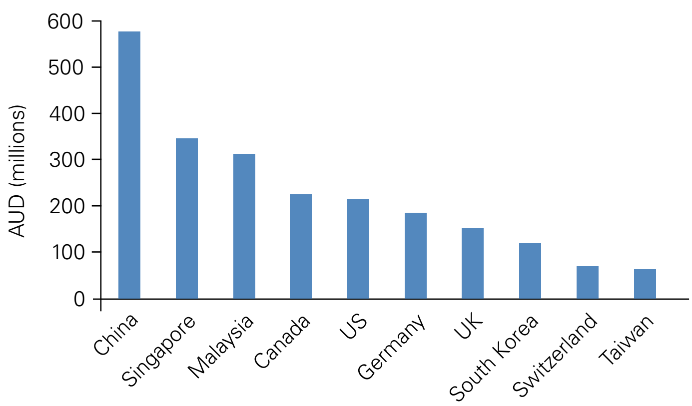

Source: Reserve Bank of Australia

In terms of inbound investment, Australia was ranked the No. 1 country in Asia Pacific for cross-border investment in 2013, attracting more than one-third (35 percent) of all investment into the region.[2] We have observed that this investment has continued throughout 2014, although transactions have been constrained by stock availability.

Interest from overseas was led by Asian listed groups and private investors from China, Hong Kong, Singapore and Malaysia, as well as some European groups. This scenario is different from 10 years ago, when interest from overseas investors was led by Europeans. While many of the investors we have dealt with from Europe, Singapore and Malaysia have existing Australian experience, the majority of Chinese investors are new to investing in property in Australia.

According to the Property Council/IPD Australia All Property Index, the commercial property sector has delivered a 9.3 percent return to investors for the 12 months to March 2014, matching the performance for the 12 months to March 2013.[3]

**Offshore investment by country – 2013**




Source: Colliers International

[2] 'Offshore appetite for Australian real estate falling: CBRE', Schlesinger L, *The Australian Financial Review*, 19 March 2014

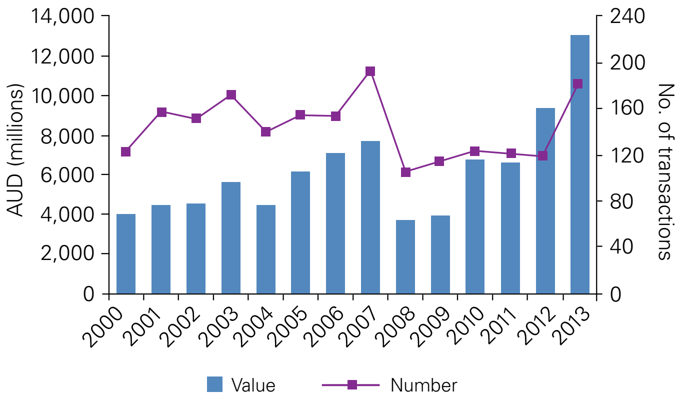
[3] 'Industrial shines as property returns steady', www.propertyoz.com.au, 26 May 2014

Overall, the 2014 property outlook in Australia is positive, with a stable economic environment, continued improvement of global conditions, the country's good positioning within the Asian region and good levels of liquidity in global markets seeking stable yields offered by property.

## Office market

2013 was a record year for the office sector, both in terms of the number and value of transactions. This has continued in 2014. Most buyers are focusing on quality assets characterised by long leases, strong covenants, minimal capital expenditure requirements and the latest in sustainability credentials.

**Total Australian office transactions**




Source: Jones Lang LaSalle

According to property reports, Melbourne had the strongest performance over the 12 months to March 2014, at 9.9 percent return to investors, whereas Sydney had the most improvement, raising its return by 1.2 percentage points to 9.3 percent. Green Star-rated offices outperformed the overall office market, with a return of 9.7 percent.[4] This is particularly interesting and it is likely that the managed investment trusts (MIT) concessional rate of withholding (income) tax for green buildings (which commenced construction after 30 June 2012) may provide further enhancement for foreign investors in the future.

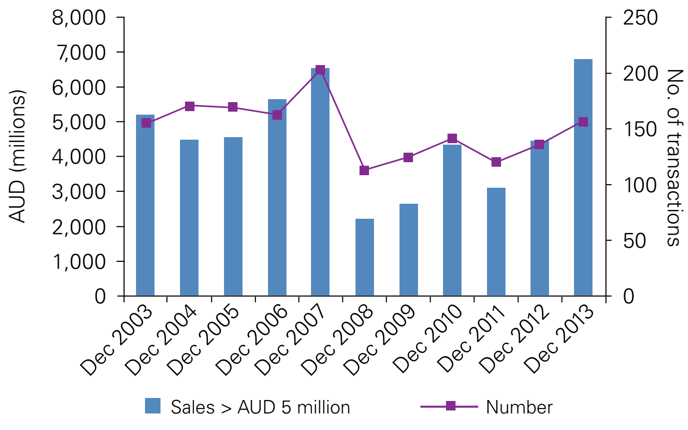
There remains a significant amount of unsatisfied capital in this sector of the market. Weak leasing markets have led to investors taking a conservative approach to pricing leasing risks and upcoming capital expenditure requirements. The national central business district (CBD) office market vacancy rate increased to 11.8 percent, with all CBD markets (in major cities) showing double-digit vacancies. High vacancies have resulted in very attractive lease incentives of up to 30 percent, (i.e. the tenant only pays seven years of rent over the 10-year lease term). The supply additions across CBD markets have been the lowest since 2002.

We have observed a significant number of residential conversions of office buildings which has offset some of the pressure on office markets.

## Retail market

Retail transactions are also gaining momentum, supported by low interest rates. According to property reports, retail trade growth figures show a moving annual total growth of 3.8 percent for the year to March 2014.[5]

**Total Australian retail transactions**




Source: Savills

Retail landlords continue to increase their exposure to more service-based lifestyle tenants (such as personal care, travel agencies, beauty clinics, and food & beverage) as opposed to product-based tenants (such as bookstores, music stores and sporting goods retailers). This strategy is to limit the impact of the increasing penetration of internet purchases.

[4] 'Industrial shines as property returns steady', www.propertyoz.com.au, 26 May 2014
[5] 'Positive signs for retail', www.propertyoz.com.au, 26 May 2014

The surge in online shopping has resulted in traditional shopping malls losing business. Online shopping accounts for substantial retail industry growth in the US and particularly in the UK.

It will be important to monitor the impact of e-commerce on the retail market in the near future. The demise of retail malls has been prophesised in media headlines since the advent of online shopping – yet, to date, many centres remain resilient.

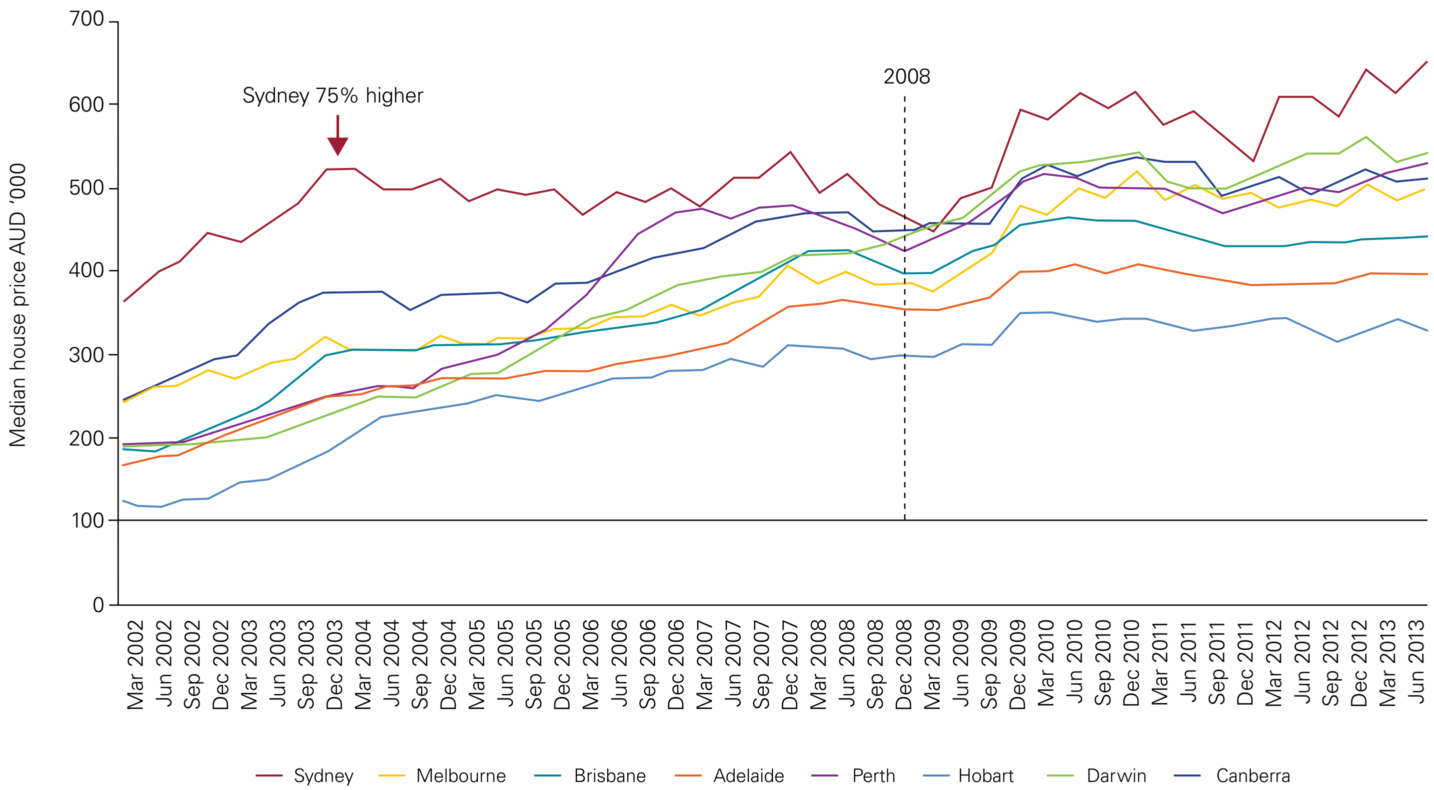
## Residential market

Australia saw positive growth in residential markets in 2013. Sydney showed the strongest performance, with median house prices increasing over 15 percent to AUD 630,000 in the 12 months to March 2014.[6] This is different to the experience in 2008, where house prices in those states with significant mining exposures (especially Perth and Brisbane) experienced significant growth, while other states experienced stagnant markets. The current divergence between Sydney's median house price and the national average house price restores the traditional premium held by Sydney.

Australian housing, particularly in Sydney, is among the most expensive in the world. In fact, Sydney features as No. 4 in the 10th Annual Demographia International Housing Affordability Survey: 2014, after Hong Kong, Vancouver and San Francisco.[7]

The significant rise in residential property prices (particularly in Sydney) has spurred a wave of residential development activity, with many projects experiencing high levels of presales to local and overseas buyers. A notable feature is the significant number of foreign developers active in the market and the high demand for development sites.

**Australian median house prices**

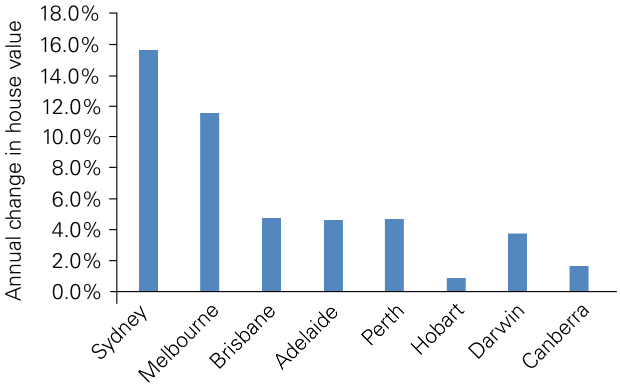



Source: 'Residential Property Price Indexes: Eight Capital Cities', Australian Bureau of Statistics

[6] 'Residential Property Price Indexes: Eight Capital Cities', Australian Bureau of Statistics
[7] 10th Annual Demographia International Housing Affordability Survey: 2014

# Australia

**Annual change in median house prices to March 2014**




Source: RP Data - Rismark

Overall, the demand for residential housing and the construction of new dwellings is rising. This is supported by all-time low interest rates, an increasing population driven by increases in the natural birth rate and high levels of immigration, and the recognition that new stock needs to be delivered into the market to offset the lull in development activity post-global financial crisis. It is interesting to note that in 2013, first home buyer purchases were at a record low (about 7 percent in New South Wales compared to a 10-year average of 18 percent). This reflects a return of investors to the market and the lack of affordability caused by price rises. The share of purchases by foreigners has doubled to approximately 15 percent, dominated by Asian and Chinese buyers.

## Hotel market

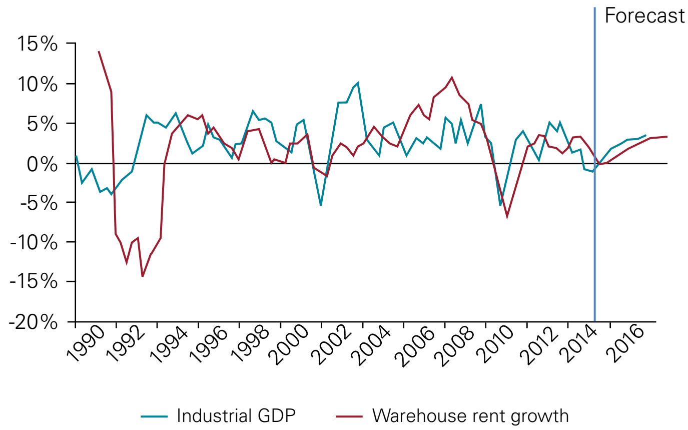
The Australian hotel market also saw a fair share of transactions in 2013. Foreign investors have maintained their strong appetite for Australian hotels, with the majority of interest in hotel development originating from overseas investors. There are several hotel developments in the pipeline in Sydney and Perth, including conversions of office space to hotels, especially in Sydney and Brisbane.

Savills anticipates that 2014 will be another strong year for the hotel sector, with a number of high-profile assets coming to the market.

## Industrial market

Industrial property demand over recent years has been from very large occupiers, including many large retailers and logistics operators looking at improving their operational efficiency. The demand for warehousing aligns with Australia's GDP, and a strong correlation is seen between the rent growth and GDP.

**Industrial GDP vs warehouse rents annual % change**

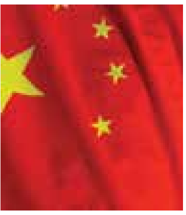



Source: Jones Lang LaSalle, CBRE

According to property reports, the industrial sector delivered a return of 11.3 percent for the 12 months to March 2014. This was led by distribution centres (13.1 percent), warehouses (11.6 percent) and industrial estates (10.4 percent).[8]

The Australian industrial property sector is well supported by economic growth, population growth, the increase in consumer spending and the increase in imports.

[8] 'Industrial shines as property returns steady', www.propertyoz.com.au, 26 May 2014



China

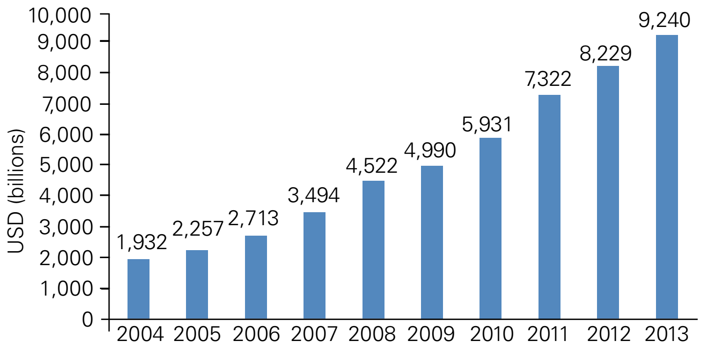
# Accepting slower growth

## Macroeconomic overview

China's GDP growth rate continued to slow to 7.4 percent in 1Q14, mainly due to slower fixed asset investment, tighter monetary policy and weaker growth in industrial production. Real estate rose to about 25 percent of fixed asset investment, and combined with its influence on upstream and downstream industries, the sector made up about 20 percent of China's GDP. Consistent with the tighter monetary policy atmosphere, HSBC's Manufacturing Purchasing Managers Index (PMI) – a key indicator of manufacturing output – remained below 50 throughout 1Q14, which signalled sustained contraction in the manufacturing sector.[9]

In view of the continuing downturn of the economy, the Chinese Government adjusted the economic policy smoothly to support the economy in 2Q14. Recently, a number of cities have unofficially relaxed apartment buying restrictions, while some banks have relaxed mortgage loan applications for real estate buyers.

**China's GDP**




Source: The World Bank Group

In the previous year up until the end of 1Q14, credit was tight in most major cities, and the Chinese Government continued to rein in speculative demand. More potential buyers continued to adopt a wait-and-see approach, a trend which resulted in weaker home price growth and transaction volume in most cities.

Nationwide demand for office space rebounded in 1Q14 and rents flattened out. New office supply completed during 1Q14 amounted to 1,265,000m$^2$, a significant decline from the previous quarter.[10] Domestic companies, particularly atypical financial institutions, accounted for the bulk of the demand. The increasing supply of quality projects triggered a demand for upgrades.

Aggregate prime retail supply fell to 595,000m$^2$ in 1Q14, the lowest quarterly figure since 2Q10.[11] International retailers remained keen to enter and expand in China, and the retail market started to become more segmented. Some critical factors that now determine the success of new retail assets include shopping mall landlords' experience in market positioning, leasing and operation.

Demand in the logistics market remained upbeat as local e-tailer activity increased. Developers were seeking to cooperate with anchor tenants to establish a national network of logistics facilities in China. The nationwide Logistics Rental Index continued to post growth in 1Q14. Demand for built-to-suit (BTS) facilities is expected to increase in the near term.

## Residential market

Affected by the holiday season and the tightened lending market, the nationwide transaction volume of newly built commodity apartments continued to decrease in 1Q14. However, the relaxation of existing real estate policies in 2Q14 has attracted a lot of attention. After the two meetings

[9] 'HSBC China Manufacturing PMI – January to April 2014', HSBC
[10] 'China MarketView – Q1 2014', CBRE
[11] Ibid

held in Beijing (the National People's Congress and National Committee of the Chinese People's Political Consultative Conference), the government started implementing differentiated policies between cities and groups of people. Local governments have increased autonomy to introduce different short-term administrative measures. Property measures mentioned in the two sessions were mild, and focused more on long-term solutions.

In Beijing's high-end residential market, the average price dropped by 5.4 percent to RMB 49,288 per $m^2$ in 1Q14. The transaction volume decreased by 23.8 percent to 181,904$m^2$, a decrease of 17.8 percent in 1Q14.[12]

In Shanghai, first-hand transaction prices remained firm in 1Q14, up 2.5 percent and reaching over RMB 25,700 per $m^2$. Second-hand transaction prices still saw an upward trend, reaching over RMB 20,100 per $m^2$ from RMB 19,400 per $m^2$ in 4Q13.[13]

### Office market

Despite economic concerns regarding the slow economic growth, nationwide demand for office space rebounded in 1Q14, given the positive direction the central government is taking on economic reforms and liberalisation. This confidence is being seen in expansion plans and strong net take-up figures.

In Beijing, no new projects came to market in 1Q14. Net absorption stayed at 38,000$m^2$, the same level as the previous quarter. The average vacancy rate continued to hover at a low level, down by 0.5 percent to 3.4 percent citywide.[14] Grade A office rent increased slightly to RMB 301.0 per $m^2$ per month.[15]

[12] 'Property Times – North China Q1 2014: Residential transaction volume decreases', DTZ, 15 April 2014

[13] 'Briefing: Residential Sales – Shanghai', Savills, April 2014

[14] 'China MarketView – Q1 2014', CBRE

[15] 'Property Times – North China Q1 2014: Residential transaction volume decreases', DTZ, 15 April 2014

# China

In Shanghai, leasing activity remained stable in 1Q14. The market received two new projects, adding 89,300m$^2$. Net absorption in 1Q14 was relatively high, resulting in citywide vacancy rates falling 1.4 percent to 6.8 percent. Grade A office rents remained unchanged in 1Q14 at an average of RMB 8.44 per m$^2$ per day, a pause from the decline in the previous two quarters. In the investment market, capital values remained stable as rents and yields (at just above 5 percent on a gross reversionary basis) levelled off.[16]

In Guangzhou, the office leasing market started to pick up towards the end of 1Q14, with overall net absorption increasing to 57,118m$^2$, which is growth of 9.2 percent. Overall, rent increased by 0.9 percent to RMB 168.1 per m$^2$ per month.[17]

## Retail market

Aggregate prime retail supply plummeted to 595,000m$^2$ in 1Q14, the lowest reading since 2Q10. With no new supply in Northern and Central China, only six of CBRE's 17 tracked cities (Chengdu, Shenzhen, Ningbo, Chongqing, Suzhou and Hangzhou) reported new openings. Some developers held off on openings due to lower than expected pre-commitment rates. Overall, vacancies fell 0.5 percent to 9.5 percent, while a number of cities such as Shenyang reported rental declines due to oversupply and intensifying competition.[18] Despite limited new supplies, international retailers remained keen on the China market. A growing number of newcomers entered the China market in 1Q14, with Tier 1 cities the preferred destination, while some existing brands expanded further into Tier 1 and Tier 2 cities. During 2Q14, the retail property market remained stable in Greater China. Rentals in major cities also remained steady, with only minor fluctuations up or down within 1 percent.[19]

In 2013, total retail sales of consumer goods in the six cities tracked in North China (Xi'an, Beijing, Tianjin, Shenyang, Dalian and Qingdao) witnessed slower growth overall. In January and February 2014, total retail sales of consumer goods in Beijing amounted to RMB 140.2 billion (USD 22.8 billion), up 3.0 percent.[20]

Total retail sales in Shanghai reached RMB 801.9 billion in 2013, more than twice the amount seen in Nanjing or Hangzhou. However, the growth rate in Shanghai was 8.6 percent, while the figures for Nanjing and Hangzhou were 13.8 percent and 13.0 percent respectively. In 1Q14, the Eastern China retail market witnessed rental growth in all three major markets, though it was still at a lower rate than in the previous quarter.[21]

With the launch of World City Plaza, Wuhan witnessed an increase of 90,000m$^2$ in new retail space in 1Q14, whereas no increase in supply was seen in Changsha or in the centre of urban Guangzhou. In general, prime retail rents in the three major retail hubs of Guangzhou witnessed a narrowing growth rate in 1Q14, with an average increase of 1.3 percent to RMB 1,362 (USD 221.5) per m$^2$ per month.[22]

## Warehouse and logistics facilities

Activity in the logistics market remained upbeat, driven by robust demand from e-tailers. Developers were seeking to cooperate with anchor tenants to establish a national network of logistics facilities in China. The nationwide Logistics Rental Index posted growth of 1.2 percent during the period. Demand for BTS facilities is expected to increase in the near term, while demand in Eastern and Western China proved the most robust. The establishment of the Shanghai Free-Trade Zone also continued to drive the Shanghai logistics market.

16 'Briefing: Office Sector – Shanghai', Savills, April 2014
17 'Property Times – Guangzhou & Central China Q1 2014: Office market shines', DTZ, 14 April 2014
18 'China MarketView – Q1 2014', CBRE
19 'Greater China Property Market Report Q2 2014', Knight Frank
20 'Property Times – North China Q1 2014: Residential transaction volume decreases', DTZ, 15 April 2014
21 'Property Times: East China Q1 2014 – Warehouse rentals rise across the TRD', DTZ, 10 April 2014
22 'Property Times – Guangzhou & Central China Q1 2014: Office market shines', DTZ, 14 April 2014

# Lower rate of unemployment leading to economic growth

## Macroeconomic overview

Overall, Hong Kong's economy grew moderately in 1Q14 due to the absence of buoying external conditions. Solidification of demand in the US and EU is expected to give impetus to Hong Kong's exports, resulting in further improvement in the external account in 2014-18.

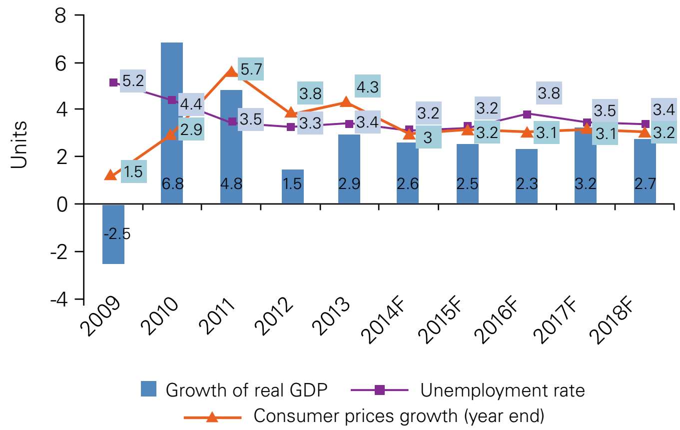
The economy grew 2.5 percent year-on-year (YOY) in 1Q14 with a tight labour market.[23] The unemployment and underemployment rates remained low, along with high rates of private sector vacancies. The seasonally adjusted unemployment rate fell to a 16-year low of 3.1 percent.[24] The lower rate of unemployment and higher level of private sector vacancies, coupled with the upward adjustment of the statutory minimum wage rate (since May 2013), led to a real increase in wage incomes and sustained earnings. The average monthly employment earnings for full-time employees in the lowest decile group grew by 4.6 percent in nominal terms and 0.3 percent in real terms in 1Q14.[25]

On the external front, growth in exports was tepid with slowed exports of both goods and services, dragged down by weak demand from advanced economies, moderation in exports of non-monetary gold, and sluggish exports of trade-related and transportation services. The total exports of goods grew 0.5 percent YOY, while that of services grew 3.1 percent YOY.[26] However, despite the sluggish growth of Hong Kong's exports, there was considerable growth in terms of inbound tourism.

On the internal or domestic front, private consumption expenditure witnessed an increase. Augmented by the rise in building and construction expenditure, investment expenditure also showed growth. Private consumption expenditure grew 2 percent YOY and 1.1 percent quarter-on-quarter (QOQ) in 1Q14.[27] Business sentiment among large-scale firms remained mostly positive.

With tame external prices and a reduction in local rental pressures, consumer price inflation eased slightly in 1Q14. An increase in new letting rentals and moderate growth in private housing rentals contributed to this marginal decline in inflation. The consumer price index fell marginally from 4.3 percent in 4Q13 to 4.2 percent in 1Q14, and the underlying composite consumer price inflation[28] decreased from 4 percent to 3.8 percent in the same time period. The annual consumer price inflation is expected to remain relatively rapid in 2014-18 at an average of 3.3 percent, mainly owing to persistent and rapid increases in prices of imports from mainland China, where food costs are predicted to rise sharply during the period.[29]

**Growth of real GDP, unemployment rate and consumer prices, 2009-18**



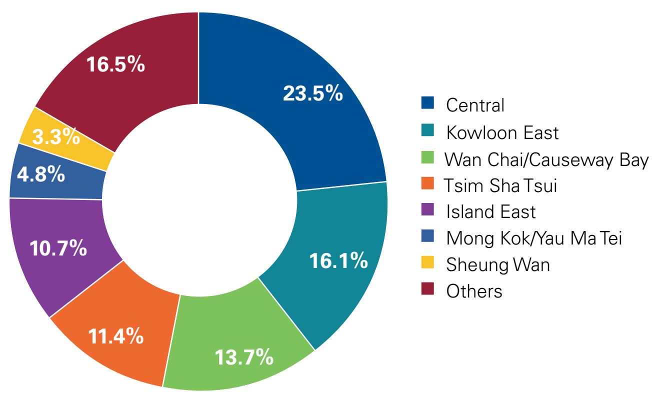

Source: Economist Intelligence Unit (EIU)

There was progress in the performance across most sub-sectors within the service sector in 2013. The improvement in the investment and business environment led to solid growth in the net output of finance and insurance, and professional and business services, with the net output for the latter growing 4.2 percent YOY, which is higher than the 2.3 percent YOY growth in 2012. However, real estate declined by 3.9 percent YOY in its net output in 2013.[30]

## Office market

The total stock of grade A offices stood at 78,994,024ft², while net absorption of grade A offices was at 96,482ft².[31] Around 23.5 percent of this stock is concentrated in the traditional CBD or Central region, followed by Kowloon East at 16.1 percent.[32]

**Stock of grade A office space in Hong Kong, 2013**



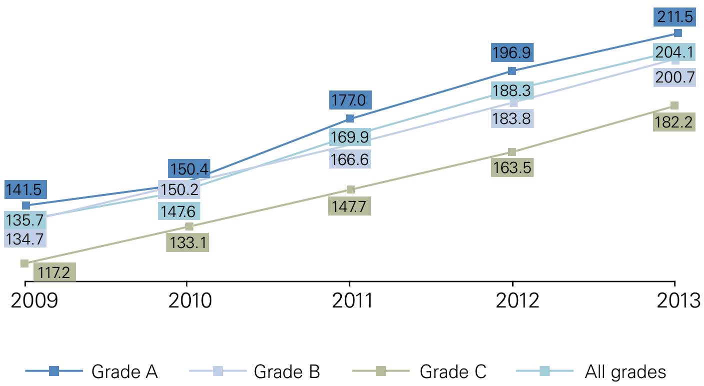

Source: 'Road to Regaining Balance? Hong Kong Office Market in 2020', Knight Frank, May 2013

[23] 'First Quarter Economic Report 2014', Government of the Hong Kong Special Administrative Region, May 2014
[24] Ibid
[25] Ibid
[26] Ibid
[27] Ibid
[28] Underlying composite consumer price inflation is calculated by netting out the effects of the government's one-off relief measures.
[29] 'Hong Kong Country Outlook', EIU, July 2014
[30] 'First Quarter Economic Report 2014', Government of the Hong Kong Special Administrative Region, May 2014
[31] 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014
[32] 'Road to Regaining Balance? Hong Kong Office Market in 2020', Knight Frank, May 2013

# Hong Kong

Hong Kong Island's leasing market showed improvement, with an increase in net absorption of net free area (NFA) from 31,660ft$^2$ in 1Q14 to 107,650ft$^2$ in 2Q14.[33] Leasing activity improved in the Central and Admiralty regions where mainland-based financial sector firms continued to be the key demand drivers for leasing space. However, elsewhere in the city, leasing activity was slow, with more returning space being made available in Wan Chai/Causeway Bay and other decentralised sub-markets.

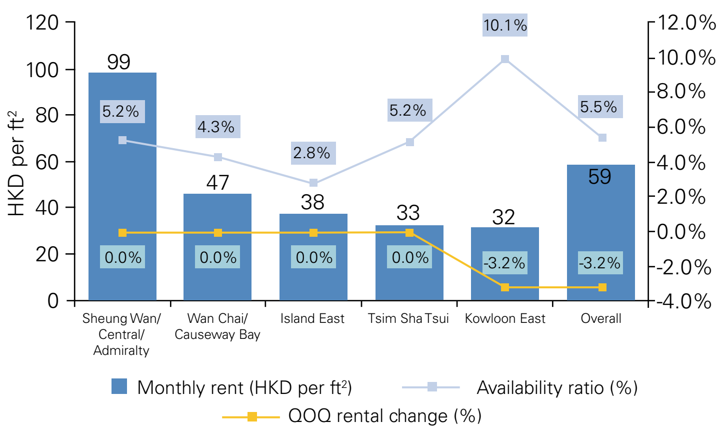
**Private offices – rental indices by grade (1999=100), 2009-2013**




Source: 'Private offices rental indices by grade (from 1978)', Property Market Statistics, Ratings and Valuation department, Government of the Hong Kong Special Administrative Region

In terms of supply, there were no new completions in 2Q14. However, Citi confirmed a payment of HKD 5.4 billion for a new office block in Kowloon East – East Tower, One Bay East – with a total gross floor area of about 512,000ft$^2$, which is scheduled for completion in 2015. Similarly, Manulife acquired the West Tower in 2013. These ventures hint at the growing popularity of Kowloon East as the preferred office location for some of the world's largest occupiers.[34]

**Grade A office market statistics, 2Q14**




Source: 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014

[33] 'Hong Kong Office MarketView – Q2 2014', CBRE
[34] 'Hong Kong Office MarketView – Q2 2014', CBRE

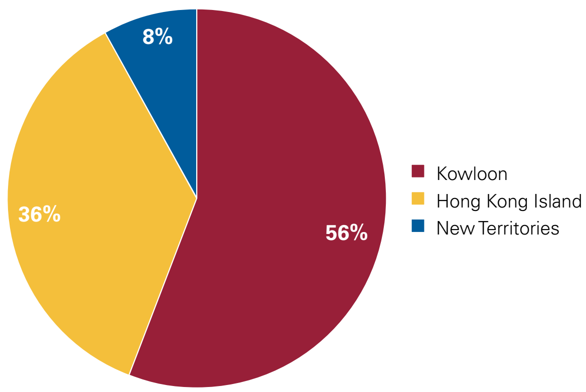
The average vacancy rate fell to 4.1 percent by the end of 2Q14, which is 0.3 percent less than its value at the end of 2013. Admiralty witnessed the largest drop of 2 percent to 5.8 percent, while the vacancy rate in Central fell by only 0.8 percent to 4.4 percent.[35] Owing to the low availability of adjoining space as well as the absence of adequate support from the banking and finance sector, the Wan Chai/Causeway Bay and decentralised sub-markets saw increased vacancy rates of 3.8 percent and 2.9 percent respectively, along with limited leasing activity. The overall vacancy rate in Kowloon increased by 0.3 percent in 2Q14. While vacancy rates in Tsim Sha Tsui and Kowloon East rose by 0.6 percent and 0.7 percent respectively, the vacancy rate in decentralised Kowloon declined by 0.9 percent, mainly because of the positive influence of take-ups in Cheung Sha Wan and Tsuen Wan.[36]

Although rents in Central remained firm and showcased a year to date (YTD) growth of 0.1 percent, Wan Chai/Causeway Bay witnessed a further drop in rentals for the fourth consecutive quarter, with a YTD decline of 1.5 percent.[37] In Hong Kong East, the rates continue to increase since a large number of tenants are looking for replacement space after being displaced from Cityplaza 3.[38] Rents in Kowloon recorded a 1.6 percent QOQ decline, pulled down by the 4.2 percent QOQ fall in Tsim Sha Tsui rentals due to the increase in vacated space.[39]

## Retail market

Hong Kong saw a subdued real estate market for retail in the first quarter of 2014. Activity was strained in the retail leasing market, particularly in the prime street shop segment, with a drop in the take-up rate in the segment. As a result, landlords are keen to extend leases to existing tenants in order to buy more time to find new tenants. The slow take-ups, increasing vacancies and early surrenders are creating a heavy burden for the landlords and their financial positions.

**New leases repartition by area, 2014**

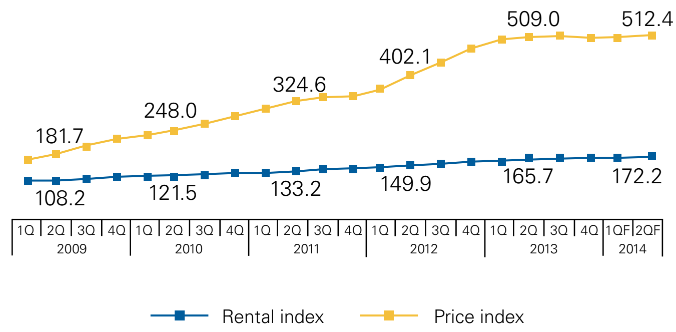



Source: Hong Kong Tourism Board

Following a 2.2 percent YOY decrease in February,[40] retail sales in Hong Kong fell 1.3 percent YOY in March 2014 and a further 4.1 percent YOY in May,[41] mainly due to a decrease in spending on luxury products by mainland Chinese visitors, who represent 75 percent of the total tourist arrivals in Hong Kong. There has been a shift in demand from high-end, expensive luxury goods to more basic and affordable goods such as pharmaceuticals, cosmetics and apparel. This has impacted retailers' overall rental affordability. Sales of high-end products such as watches and jewellery have declined 24.5 percent YOY, whereas cheaper items such as footwear and accessories have recorded a 14 percent growth in sales. Luxury goods retailers are starting to adopt a more conservative approach towards expansion plans, while those of necessity goods have already expanded by a total of 5,300ft$^2$ on Hong Kong's high streets, particularly in Causeway Bay's Tier 1 streets.[42]

There was slow activity in the leasing market in 1Q14, with a lower demand for new leases compared to the previous quarter. Of the new leases, 56 percent were based in Kowloon, with watch and jewellery retailers taking up 15,265ft$^2$ and cosmetic retailers accounting for 9,434ft$^2$. Mass-market retailers such as Esprit displayed no change in demand, leasing a total of 19,000ft$^2$ in Central and Causeway Bay. While leasing demand by luxury retailers recorded a decrease during the first quarter, the converse was true for demand by both local and international mid-range footwear retailers. Crocs leased a total of 1,900ft$^2$ in Causeway Bay and Yuen Long, and Le Saunda took a new lease of 1,500ft$^2$ in Causeway Bay, with a rental increase of 15 percent.[43] There has also been an increase in leasing enquiries made by mid-tier international retailers which have small or medium space requirements.

**Private retail – rental and price indices (1999=100), 1Q2009-2Q2014**



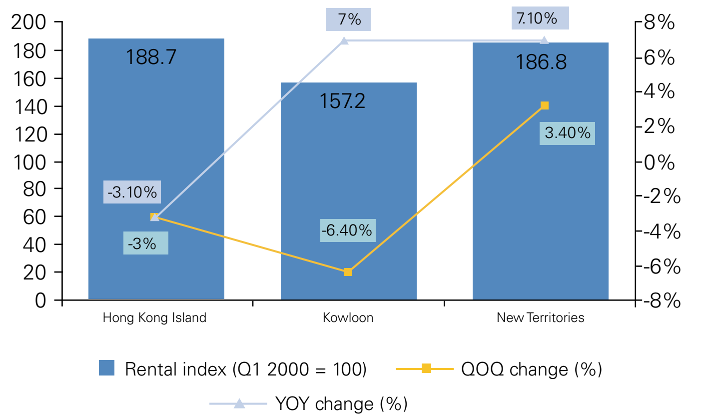

Source: 'Private retail rental and price indices (from 1978)', Property Market Statistics, Ratings and Valuation department, Government of the Hong Kong Special Administrative Region

[35] 'Hong Kong Office MarketView – Q2 2014', CBRE
[36] Ibid
[37] Ibid
[38] This was a result of the swap arrangement between Swire Properties and the Hong Kong Government in order to facilitate the Somerset House redevelopment.
[39] 'Hong Kong Office MarketView – Q2 2014', CBRE
[40] 'Briefing: Retail Sector, Hong Kong', Savills, May 2014
[41] 'Hong Kong Prime Retail MarketView – Q2 2014', CBRE
[42] Ibid
[43] Ibid

In terms of competition, secondary streets are now competing with shopping centres and malls which offer appealing rents and a better tenant mix, and attract a larger number of shoppers, thus encouraging retailers to compete with one another in order to occupy prime shops in top centres. Retailers are reluctant to expand into Tier 2 streets as is evident in the 30 percent QOQ decline (2Q14) in their demand.[44]

The slow growth in sales, coupled with rising costs, has had a limiting impact on profitability margins along with retailers' rent affordability. The prime street shop rents in the four traditional shopping districts fell by 0.6 percent in 4Q13, with greater declines of 3.1 percent and 2.2 percent recorded for Central and Causeway Bay respectively, which was predominantly due to increased vacancies in the two sub-markets. Mong Kok, on the other hand, registered a rental growth of 1.8 percent over the same period. An increase in the preference for outlets in shopping malls and centres by both local and international retailers has contributed to the upward movement of rentals in these places. Base rents at major shopping centres increased by 1.7 percent QOQ in 1Q14 after a 9.1 percent growth in 2013.[45] In 2Q14, there was a drop in rents of Tier 1 streets (by 1.4 percent QOQ),[46] reflecting landlords' willingness to adjust their rents.

**Retail market rental index statistics, 2Q14**




Source: 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014

[44] 'Hong Kong Prime Retail MarketView – Q2 2014', CBRE
[45] 'Briefing: Retail Sector, Hong Kong', Savills, May 2014
[46] 'Hong Kong Prime Retail MarketView – Q2 2014', CBRE

However, no change was observed in Tier 2 rentals despite growing vacancies.

Both domestic demand and demand by visitors play an important role in determining total retail demand. Mainland tourists constitute an essential component of this demand. Clearly, their preferences and choices continue to have a major influence on the development and trends in Hong Kong's local retail market. However, at the same time, a more diverse range of demand sources is required in order to ensure long-term progress in the retail market. It is expected that by 2017, the total number of inbound visitors in Hong Kong will increase by 30 percent to 70 million, and continue to grow to 100 million by 2023.[47]

An important recent trend is that vendors in non-core areas are strata-selling their properties to non-traditional players in order to realise higher profits. This trend has emerged out of a shift in focus from the residential sector to non-residential sectors, due to certain measures that have succeeded in curbing demand for residential properties. One such example is the sale of the commercial building at 8 Russell Street in Causeway Bay where the vendor initially received the premises for around HKD 22,000 per ft$^2$ and later resold it at strata-title prices ranging between HKD 31,000 and HKD 44,000 per ft$^2$ in less than six months.[48]

## Residential market

The proposed relaxation of the Double Stamp Duty (DSD)[49] provided impetus to Hong Kong's residential market in 2Q14, with transaction volume for sales and purchase agreements increasing from 6,178 in April to 6,978 in May.[50] Policy measures such as DSD, Buyer's Stamp Duty (BSD)[51] and Special Stamp Duty (SSD)[52] negatively impacted the transaction volume in 1Q14, especially in the luxury residential market, as they drastically pushed up the transaction costs for both buyers and sellers. The proposed relaxation of the six-month exemption period for payment of DSD is expected to benefit those upgrading, as well as those buying flats that are currently incomplete.

[47] 'Assessment Report on Hong Kong's Capacity to Receive Tourists', Commerce and Economic Development Bureau, The Government of the Hong Kong Special Administrative Region, December 2013

[48] 'Research & Forecast Report: Hong Kong Retail 1Q 2014', Colliers

[49] The DSD or New Stamp Duty is an amendment of the Stamp Duty Ordinance to adjust the Ad Valorem Stamp Duty rates. All second home buyers must now pay a Double Stamp Duty if they fail to sell their old units within six months of buying the new one.

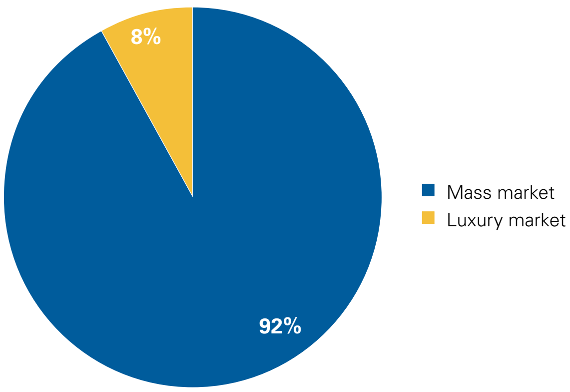
[50] 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014

[51] Any agreement for sale or conveyance on sale for the acquisition of any residential property executed on or after 27 October 2012 will be subject to BSD. BSD is charged on residential property transactions, on top of the existing Ad Valorem Stamp Duty and the Special Stamp Duty, if applicable.

[52] Any residential property acquired on or after 20 November 2010, either by an individual or a company (regardless of where it is incorporated), and resold within 24 months (the property was acquired on or after 20 November 2010 and before 27 October 2012) or 36 months (the property was acquired on or after 27 October 2012), will be subject to SSD.

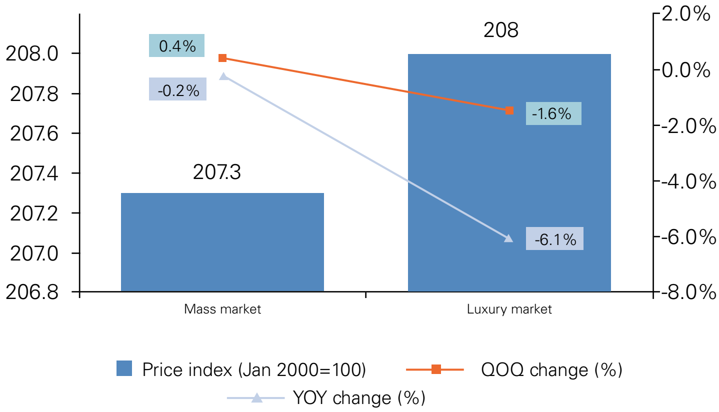
## Hong Kong

**Total stock of residential spaces, 2Q14**




Source: 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014

**Primary residential market price index statistics, 2Q14**




Source: 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014

The secondary market also saw increased activity that resulted from the relaxation of these policies and healthy sales of new projects. The transaction volume in the secondary market increased by 48.9 percent between March and April, and by a further 21.5 percent in May.[53]

A huge potential supply in the New Territories has resulted in developers behaving conservatively while making bids, which is confirmed by the figures of recent land sales in Pak Shek Kok and Tai Po. On the other hand, limited supply in the urban areas has pushed up the prices for locations such as Kai Tak and Wan Chai.

The luxury residential market remained sluggish in 1Q14. Buyers showed a preference for good-quality stock in the prime areas and only a few transactions took place in the traditional areas. There were only 95 luxury transactions in 1Q14, compared to the 161 transactions in 1Q13 – a 41 percent decline. This can be attributed to falling interest in luxury investments as well as the cooling measures that have been put in place.[54]

The luxury leasing market has witnessed declining rents averaging at 5 percent per year since 2011. Luxury apartment rents fell by 4.1 percent in 2Q14, while townhouse rents declined by 4.9 percent,[55] as a result of fewer expatriate arrivals along with lower housing budgets, less relocation support, lower bonuses and a lack of perks. Landlords have been quick to adapt to the situation by considerably lowering the rents and offering rental discounts on renewal. However, despite the current situation, Hong Kong still remains an expensive place to live. Therefore, more remote areas such as Yuen Long and Fanling, which have more reasonable rents and are accessible by MTR and KCR, are becoming more attractive. Other areas such as Tai Hang, Tin Hau and Quarry Bay on the eastern end of Hong Kong Island have also witnessed a steady flow of buyers and tenants who are looking to relocate from Mid-Levels.

Residents of Sai Kung observed an increase of 5.3 percent in their rentals.[56] The limited supply and demand for residential property in the Kowloon East and the Hong Kong Academy and Kellett School areas might result in the persistence of stubbornly high rents, at least until there is more vacancy on the island.

In the serviced apartment sector, more stock has been taken off the leasing market including the stratification of Shama Causeway Bay and the sale of The Pinnacle in Tsim Sha Tsui. As a result, fewer rooms were available, leading to a 1.1 percent growth in rent for 1Q14.[57]

In terms of price, the mass market and the luxury market have performed quite differently. While there was a QOQ increase of 0.4 percent and a monthly increase of 1.4 percent in the mass market price index in May 2014, prices in the luxury sector continued to fall, with the price index at 208.0.[58] Prices in the five traditional districts recorded a decline, ranging between 1-2 percent in 2013, with prices falling by approximately 2 percent in the Happy Valley/Jardine's Lookout area and 1 percent on the Peak and Southside.[59] Prices in the luxury market in Kowloon and the New Territories declined by nearly 2 percent in 1Q14.[60]

It is expected that between 2014 and 2017, the total new supply will average 20,070 units per annum, mainly due to project completions in Tseung Kwan O, Ma On Shan, Sha Tin and Yuen Long.[61] With an increase in supply and a gradual rise in interest rates, it is likely that mass-market prices will show signs of a correction. However, the overall view on the luxury residential market is bearish; a 5-10 percent adjustment in luxury prices is anticipated in 2014.[62]

53 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014
54 'Briefing: Residential Sales', Savills, May 2014
55 'Briefing: Residential Leasing', Savills, May 2014
56 Ibid
57 Ibid
58 'Property Times: Hong Kong Q2 2013 – Strong interests in en-bloc offices', DTZ, 15 July 2014
59 'Briefing: Residential Sales', Savills, May 2014
60 Ibid
61 Ibid
62 Ibid

## The rise of economic zone developments

After decades of investment in Tiers 1 (e.g. Beijing and Shanghai), 2 (e.g. Shenyang and Chongqing) and 3 (e.g. Yantai and Guilin) cities, the question that everyone is asking is "What is next?" There are two economic zones being developed in the southern China region that could lead to interesting investment opportunities.

The first of these zones is the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, which is currently under development, with a planned 30 million $m^2$ of offices, residential, industrial and leisure real estate. It is going to be important to follow the macroeconomic impact that this zone development will have on the pricing of land and valuations of properties in nearby cities.

Based on recent research performed by CBRE, the Qianhai city government is focusing on attracting the headquarters of multinational corporations, as well as industries, logistics companies and residential economic growth, as it is on the doorstep of Hong Kong. In order to facilitate this, the city government decided to implement similar legal and income tax systems as in Hong Kong. As a result, Qianhai may be one of the solutions to the increasing rents in Hong Kong for corporations, and once land auctions have been finalised, may also provide an opportunity for setting up new investment funds.

Another economic zone that is under development is the Zhuhai/Hengqin-Macau Economic Zone. This opportunity is focused on leisure, recreational, tourism and research & development (R&D) facilities. Hengqin is part of Zhuhai and is connected to the Macau Special Economic Zone. As a result of its proximity to Macau, Hengqin seems to be ideally located for recreational and leisure development. The focus for this 106km² piece of land is golf courses, water parks and resort hotels, providing an additional holiday experience connected to Macau. This could be developed into the next destination for leisure in Asia in conjunction with the opening of the Hong Kong-Zhuhai-Macau Bridge.

## India

# Decoding government's vision of 'Housing for all by 2022'

Demographic trends suggest that India is on the verge of large-scale urbanisation over the next few decades. With more than 10 million people moving to urban areas, India's urban population is expected to reach about 810 million by 2050.[63]

Housing – a basic human need – plays an important role in accommodating the strong urban growth in India. However, several structural issues such as long development periods for housing projects, limited and expensive capital, spiralling land and construction costs, high fees and taxes, unfavourable development norms especially for economically weaker section (EWS) housing, and the affordability of EWS and low-income-group (LIG) households are a few of the important bottlenecks restricting the desired growth in housing stock in India, especially in terms of affordable houses. According to studies conducted in 2012 by the Ministry of Rural Development and the Ministry of Housing & Urban Poverty Alleviation, it is estimated that almost a quarter of Indian households lack adequate housing facilities.

| Current state housing in India | Requirements to achieve the vision by 2022 |
|---|---|
| • Housing shortage of about 60 million units | • By 2022, India needs to develop about 110 million housing units |
| • Level of annual investments in the housing sector is about USD 110 to 120 billion | • Investments will need to grow at a CAGR of 12-13 percent (unadjusted for inflation) in 2022 |
| • Average growth of 5 to 6 percent in the annual real estate sector investments between FY08 and FY14 | • 70 percent of housing needs until 2022 should be concentrated in nine states |
| • Rural growth prioritised resulting in uneven distribution of housing development | • Urban housing should account for around 85-90 percent of total investments; the focus should be on affordable houses, which comprise 70 percent of the total housing requirement |
| • Only 70-75 percent of the targeted investment could be realised | • About 170,000 to 200,000 hectares of land is expected to be required to fulfil the urban housing need by 2022 |
| • Central and state governments spending USD 5-6 billion annually, which is around 3 percent of current investments in the real estate sector, or 1 percent of its annual expenditure | |

Source: 'Report of the Technical Group on Urban Housing Shortage (2012-17)', Ministry of Housing and Urban Poverty Alleviation; 'Rural Housing for XII Five Year Plan', Ministry of Rural Development 2011; 'Funding the Vision – Housing for all by 2022', KPMG in India, 2014; KPMG in India analysis

According to our estimates the 'Housing for all by 2022' vision would require the development of about 110 million houses that would require investments of over USD 2 trillion.[64] Most of this housing development needs to be done for EWS and LIG households (in both rural and urban areas), which have income of less than USD 3,200 per annum. Central and state governments need to renew their focus on affordable urban housing, which is expected to require almost half of the total estimated investments.[65]

### Key considerations for central government to provide an enabling framework for housing development[66]

- The absence of an effective policy framework for EWS and LIG housing, which is compounded by rising land costs, spiralling construction costs, and inadequate availability and reach of microfinance measures
- Long development periods of six to eight years for housing projects, accentuated by the need to obtain multiple approvals from several authorities in a two- to three-year time period
- Inadequate long-term funding across the project life cycle, necessitating numerous rounds of funding for the same project and increasing the cost of capital and time; further, funding from banking sources is not available for the acquisition of land
- Multiple fees and taxes across the project stages, inflating construction costs by 30-35 percent
- Development norms such as the floor area ratio (FAR) or floor space index (FSI), density norms, parking norms and ground coverage need to be reviewed, especially for EWS housing development

[63] 'World Urbanization Prospects: The 2014 Revision', United Nations, Department of Economic and Social Affairs, Population Division (2014), July 2014; KPMG in India analysis
[64] 'Decoding Housing for all by 2022', KPMG in India, 2014
[65] Ibid
[66] Ibid

- The high urbanisation rate coupled with the high rate of migration from rural areas stressing the limited urban infrastructure; sub-optimal use of urban land (low FAR/FSI) has resulted in increased costs per unit of built area
- Renewed focus on urban housing, especially on affordable housing which constitutes about 70 percent of projected total urban housing needs
- The 5-6 percent compounded annual growth rate in housing investment witnessed between FY08 and FY14, which may result in total investment of about USD 1.4-1.5 trillion up until 2022, falling short of the estimated investments of around USD 500-600 billion
- Pressing requirement for integrated city planning on two fronts – comprehensive spatial planning that has caused the housing shortage and associated urban infrastructure (roads, highways, energy, sewerage, water, waste and transport), as well as a focus on the development of new satellite towns/cities to meet rising urban and rural housing needs
- Need for greater coordination between the central and state ministries by introducing regulatory reforms with a view to substantially increasing the housing development capacity in terms of construction capability, labour availability and availability of affordable construction material.

### Need to introduce action agenda based on six themes

Encouraging private sector participation in developing affordable urban housing requires a coordinated effort by the central and state governments. The central government's key role in the 'Housing for all by 2022' vision would be to act as a facilitator by creating an enabling environment through:

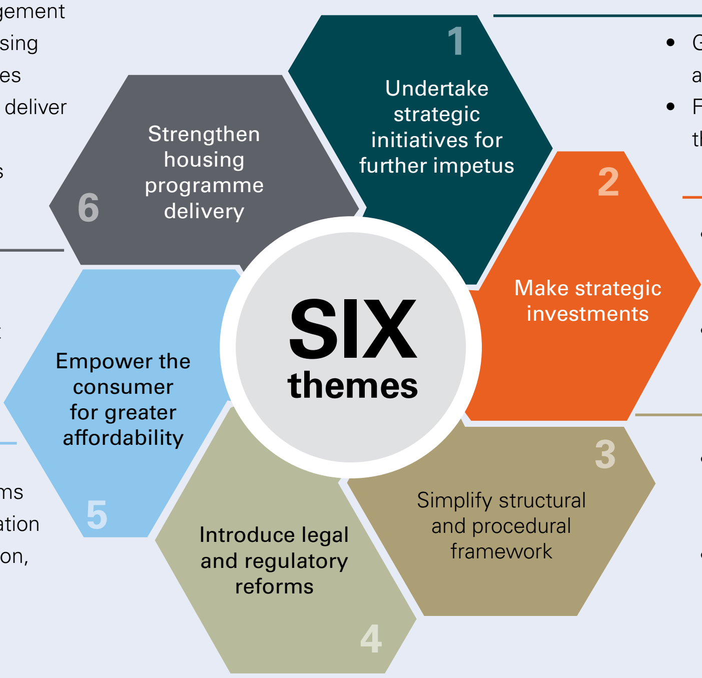
1. Introducing statutory and regulatory reforms in land acquisition, introducing real estate regulators, and reviewing archaic regulations governing the real estate sector
2. Streamlining clearance procedures and approval procedures required from central government agencies such as the Ministry of Environment & Forests and the Ministry of Civil Aviation
3. Channelling higher and longer-term investments in the sector by providing the necessary tax and non-tax incentives

Responsibility for executing these actions lies with the states, as according to the Indian constitution, housing and urban development are state responsibilities. The states should consider the following suggestions to speed up the development of affordable urban housing:

1. Decentralise decision-making by empowering urban rural bodies
2. Streamline the approval process by introducing a single-window clearance mechanism
3. Develop a public private partnership (PPP) framework to encourage private participation
4. Rationalise various indirect taxes levied on housing

## India

Some possible measures around the following key themes may be expanded by the governments (central and state) to further encourage private sector participation and expedite affordable housing development.




- Grant infrastructure status to the affordable housing sector
- Form a nodal agency to coordinate the efforts of various stakeholders

- Promote the PPP framework effectively to address the major issues
- Channel higher funding to urban housing

- Decentralise decision-making and empower urban local bodies
- Streamline the approval process by introducing a single-window clearance mechanism backed by technology

- Review building development norms
- Revise the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (LARR Act) to remove complexities
- Promote rental housing

- Empower EWS/LIG households with subsidies, lower loan interest rates and microfinancing
- Rationalise various fees and taxes to reduce housing cost

- Create multilayered project management offices to drive the agenda for housing
- Enhance project delivery capabilities
- Bridge the human resource gap to deliver the 'Housing for all by 2022' vision
- Support policy for promoting mass housing construction technology

The Indian housing sector has tremendous potential as it is a major enabler of and contributor to the economy – it is among the largest contributors to the exchequer and the second largest employer. The sector also supports 250 ancillary industries and has a huge multiplier effect on the economy. Properly nurturing this sector could help increase its share from 6 percent in 2013 to 10-12 percent by 2022.[67]

[67] 'Decoding Housing for all by 2022', KPMG in India, 2014

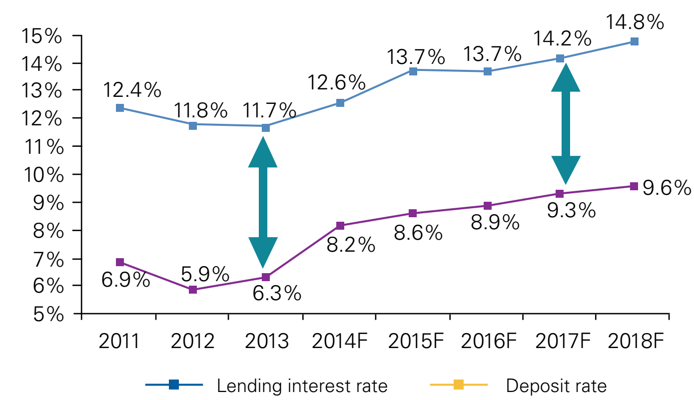
## Indonesia

# Increasing domestic consumption and urbanisation stimulates growth

### Macroeconomic overview

Indonesia has the largest economy in Southeast Asia and is one of the world's emerging market economies. The country is experiencing rapid growth in the property market, supported by a sturdy economic growth rate, increasing urbanisation and soaring domestic consumption. However, Indonesia's economy has gradually slowed down over the past two years. By 3Q13, annual GDP growth had declined to 5.6 percent, down from 6.5 percent in 2011, owing to slowing investment and sluggish external demand. The slowdown was initially due to lower global prices for key Indonesian export commodities such as thermal coal, natural rubber, gold and crude palm oil.[68]

**Indonesia interest rates, 2011-18F**




Source: 'Indonesia: 5-year forecast table', EIU, 16 July 2014

**Indonesia macroeconomic indicators, 2011-18F (annual % change)**


Source: 'Indonesia: 5-year forecast table', EIU, 16 July 2014

Like most developing economies, Indonesia also faces challenges such as inadequate infrastructure, institutional corruption, lower global prices for key Indonesian export commodities, and slowing investment and consumption. Indonesia's central bank, Bank Indonesia, projects the national economic growth at between 5.5 percent and 5.9 percent for 2014, while the Economist Intelligence Unit (EIU) expects economic growth to slow from 5.8 percent in 2013 to 5.4 percent in 2014. During 1H14, the stock market increased 14.14 percent, with the composite index closing at 4,878 on 30 June 2014.[69]

Inflation has increased significantly from 2012 to 2013, with the main contributor being rising food prices. Inflation for the first two months of 2014 reached 1.33 percent, lower than the 1.79 percent in the same period in 2013 (+7.75 percent YOY). On the currency side, the US dollar depreciated by 6.1 percent to IDR 11,410 per USD 1.00.[70] A lower rupiah, tighter credit conditions and slower GDP growth will make Indonesia's economy less dependent on domestic consumption, foreign investment and commodity exports.[71]

Bank Indonesia raised interest rates to restrain domestic demand at a time of rising inflation and a widening current account deficit.

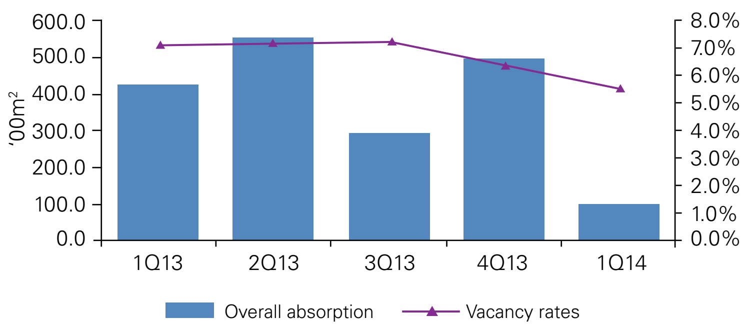
Growth is forecast to dip slightly in 2014 before recovering in 2015. On the bright side, public spending is set to buoy GDP in 2014, as the state budget plan foresees an increase of 6.7 percent over 2013, largely to boost infrastructure development. GDP growth is forecast to pick up to 6.0 percent in 2015.[72]

### Office market

Net take-up in 1Q13 was confirmed to be substantially lower than in 4Q12. The most active sectors seeking space over the quarter were trading, IT, oil & gas and insurance companies.

A lower overall absorption of 43,100m² was recorded in 1Q13, which was 58.6 percent lower than in 4Q12. This lower absorption was mainly due to slow physical occupation progress by strata-title office buyers in buildings including The City Tower (TCT), Office 8, Eighty8 Kasablanka and The City Center (TCC) Tower 1, along with continuing limited vacancy within existing rental office buildings. Grade A offices experienced the largest positive take-up (76 percent) during 3Q13, followed by grades B and C offices, with 15 percent and 9 percent respectively.[73]

**Jakarta office market supply and demand, 1Q13-1Q14**



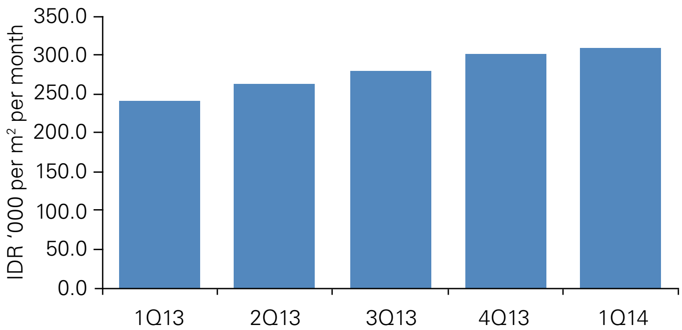

Source: 'Marketbeat CBD Office Snapshot – Jakarta Indonesia', Q1 2013 to Q1 2014, Cushman and Wakefield

[68] 'Outlook: Indonesia's economy in 2014', Global Business Guide Indonesia
[69] Indonesia Stock Exchange
[70] 'Marketbeat CBD Office Snapshot – Jakarta, Indonesia', Q1 2014, Cushman & Wakefield
[71] 'Outlook: Indonesia's economy in 2014', Global Business Guide Indonesia
[72] Asian Development Bank, 2014
[73] 'Marketbeat CBD Office Snapshot – Jakarta, Indonesia', Q1 2013 to Q1 2014, Cushman & Wakefield

In 2013, the office market in Jakarta experienced drastic fluctuations in absorption rates, primarily due to rising and falling occupancy levels. Much lower net take-up of only 10,400m² was recorded in 1Q14. This was 79 percent lower than in 4Q13, owing to the large negative take-up in several grade B buildings, such as Menara Dea 2, Sequis Plaza, Menara Jamsostek and CIMB Niaga Plaza.[74]

By the end of March 2014, cumulative demand stood at 4.4 million m² (an increase of 3.4 percent YOY), while the overall occupancy level rose by 0.8 percent to 94.4 percent. This was partly due to no new supply entering the Jakarta CBD office market during 1Q14. However, 182,000m² of office supply is projected to enter the market over 2014 (with 82 percent of this total supply scheduled to enter in the second half of 2014).[75]

**Jakarta office market rental rates, 1Q13-1Q14**




Source: 'Marketbeat CBD Office Snapshot – Jakarta Indonesia', Q1 2013 to Q1 2014, Cushman & Wakefield

Over 1Q13, the average gross rentals (base rental plus service charge) reached IDR 241,400 per m² per month. This was in line with the scarcity of vacant office space, as well as increasing operational costs (from electricity and minimum wage hikes).[76]

Grade A offices continued to experience the highest increments in average gross rentals in 1Q13 and remained relatively stable until 1Q14. The significant rental increment in grade A offices has given confidence to grade B and grade C office landlords that they should also raise their base rents.

In line with the continuing increments of electricity tariffs which will affect the building operational costs and service charges, it is possible that further increases may be seen during 2H14. Going forward, gross rentals are expected to remain relatively stable. Demand for both lease and strata-title offices is expected to remain positive, despite the lower projection of the country's economic performance for 2014 (5.5-5.9 percent YOY).[77]

## Retail market

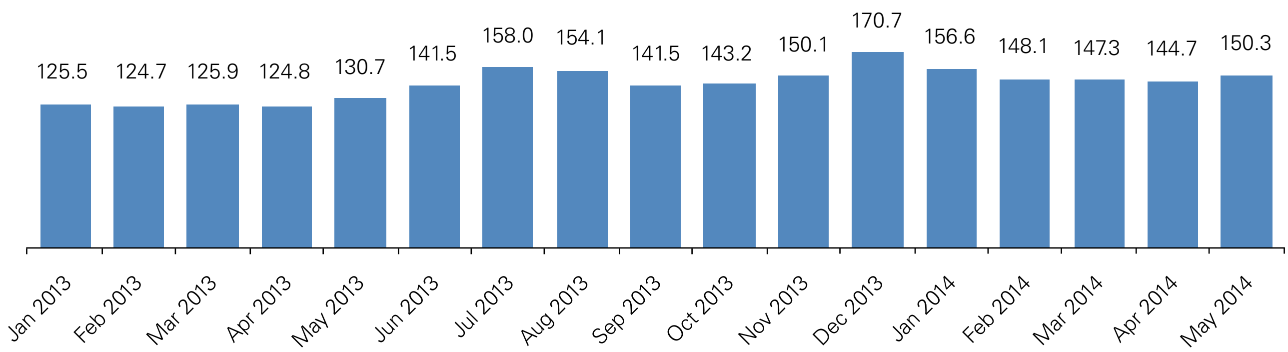
Indonesia emerged as the sixth largest retail economy in Asia in 2013, owing to its maturing economy. The country has now been experiencing steady sales of 5-6 percent for over a decade.[78] This has prompted international retailers to expand their footprint in the country.

Jakarta has been the focus of retail investments for a long time. However, the focus on development is shifting to include other major cities such as Surabaya, Medan, Bandung, Balikpapan, Makassar and others, due to new regulations ceasing all new permits for shopping centres in Jakarta.

The Retail Sales Index Survey conducted by Bank Indonesia in May 2014 which compiles the views of 650 retailers across 10 major Indonesian cities found that the retail sales index stood at 15.0 percent YOY in May 2014, slipping from 15.9 percent YOY in the preceding month. The downturn was reportedly due to lower real sales performance in the cultural and recreation goods category. Going forward, retail sales are expected to remain upbeat.[79]

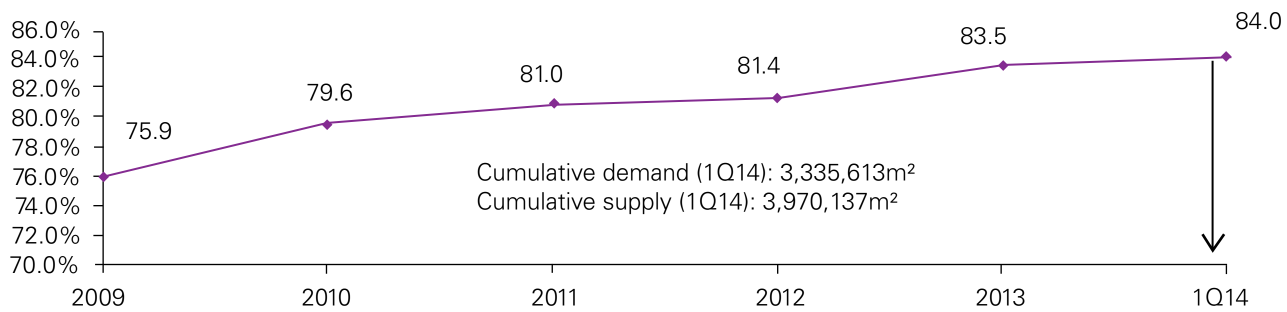
[74] 'Marketbeat CBD Office Snapshot – Jakarta, Indonesia', Q1 2014, Cushman & Wakefield
[75] Ibid
[76] 'Marketbeat CBD Office Snapshot – Jakarta, Indonesia', Q1 2013, Cushman & Wakefield
[77] 'Marketbeat CBD Office Snapshot – Jakarta, Indonesia', Q1 2014, Cushman & Wakefield
[78] 'Retail Sales Survey', Bank Indonesia, May 2014
[79] Ibid

**Indonesia's real retail sales index, Jan 2013-May 2014**



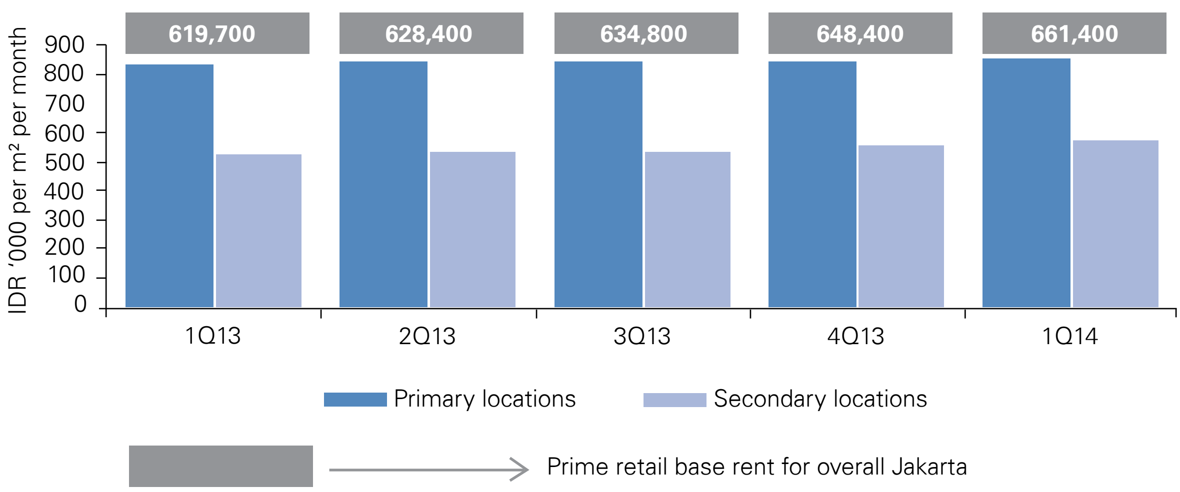

Source: 'Retail Sales Survey', Bank Indonesia, May 2014

**Jakarta retail market occupancy rates, 2009-1Q14**




Source: Cushman & Wakefield

**Jakarta prime retail base rent, 1Q13-1Q14**




Source: Cushman & Wakefield

# Indonesia

By the end of 1Q14, the average occupancy rate of the Jakarta retail market had increased by 0.5 percent QOQ or 2.5 percent YOY to reach 84.0 percent, leaving approximately 634,500m$^2$ of vacant retail space.[80] This was due to the closure of two underperforming centres and the opening of stores by new tenants in existing malls. Jakarta also witnessed a slight decline in the total cumulative retail supply.

Moving forward, Indonesia (especially Jakarta) is expected to remain the expansion target of international retailers, since the market is promising and growing rapidly. However, Jakarta's retail market is likely to experience slower supply growth due to the continuing mall moratorium by the governor of DKI Jakarta. Hence, retail centre developments will spread towards the suburbs in the Greater Jakarta area. The overall performance and occupancy rate of Jakarta's retail market is likely to improve, with some underperforming centres with low occupancy rates planning to undergo major renovations.[81]

## Residential market

Property demand is rising strongly in Indonesia, owing to sturdy economic growth in the country. The economy experienced significant growth from 2009 to 2012, and is anticipated to grow further in the coming years.

Indonesia's residential property price index (across 14 major cities) rose by 7.4 percent during the year ending 1Q13. Makassar was estimated to have observed the highest annual increase in property prices in 1Q13, at about 15.6 percent, followed by the Palembang area (10.57 percent) and Denpasar (9.97 percent).[82]

Despite strong economic growth and high levels of investment, factors such as high mortgage interest rates, high costs of building materials and high tax rates have hampered the growth of Indonesia's housing market. The Indonesian property market has therefore witnessed poor housing market performance in recent years compared to its neighbouring Asian countries.

| City | 1Q13 | 2Q13 | 3Q13 | 4Q13 | 1Q14 | 2Q14 |
|---|---|---|---|---|---|---|
| Bandung | 193.23 | 196.45 | 197.99 | 200.44 | 205.45 | 210.69 |
| Bandar Lampung | 179.35 | 182.20 | 185.03 | 185.64 | 186.29 | 199.28 |
| Banjarmasin | 172.95 | 173.44 | 175.88 | 180.28 | 183.60 | 186.98 |
| Denpasar | 160.62 | 161.79 | 172.20 | 174.02 | 175.60 | 178.22 |
| Palembang | 196.66 | 203.90 | 207.28 | 211.90 | 214.13 | 218.86 |
| Semarang | 160.55 | 162.96 | 165.03 | 166.38 | 166.38 | 167.03 |
| Yogyakarta | 185.62 | 185.83 | 186.93 | 189.19 | 190.25 | 193.40 |
| Padang | 169.37 | 172.06 | 175.52 | 176.82 | 177.26 | 179.51 |
| Medan | 195.00 | 199.87 | 204.07 | 205.24 | 205.91 | 207.85 |
| Makassar | 211.34 | 216.18 | 224.01 | 227.86 | 241.05 | 257.86 |
| Manado | 191.26 | 209.81 | 220.55 | 221.61 | 223.21 | 237.85 |
| Surabaya | 219.96 | 229.18 | 234.31 | 247.55 | 252.25 | 258.46 |
| Pontianak | 158.69 | 158.96 | 160.24 | 161.06 | 161.35 | 161.64 |
| Jabodetabek, Banten | 179.27 | 182.73 | 187.32 | 190.28 | 192.62 | 195.29 |
| **Total** | **160.65** | **164.16** | **167.92** | **170.90** | **173.38** | **177.10** |

80 'Marketbeat Retail Snapshot – Jakarta, Indonesia Q1 2014', Cushman & Wakefield
81 'Marketbeat Retail Snapshot – Jakarta, Indonesia', Q1 2013 to Q1 2014, Cushman & Wakefield
82 'Indonesia's property market – a real estate boom in the making?', Global Property Guide, 29 May 2013

In 1Q14, residential property prices continued to climb for all types of houses, though at a slower pace. The residential property price index gained 1.45 percent QOQ or 7.92 percent YOY in 1Q14, lower than the 1.77 percent QOQ or 11.51 percent YOY in the previous quarter.[83] Due to higher construction material prices and wages, upward pressure on prices is expected to carry forward into 2Q14.

Higher-end apartments in Jakarta are enjoying a boom with growing demand, rising prices and falling rental yields. However, buying property in the city has its own challenges such as complex legalities and high transaction costs. Additionally, rental income tax and buying costs are very high in Indonesia. Non-residents' rental income is subject to withholding tax at 20 percent, which is applied to the gross income. Also, the total round-trip cost of buying and selling a property is between 11.7 percent and 17.7 percent.[84]

### Hotel market

Jakarta has experienced steady growth in the number of visitors to the city over the past five years. This has led to increased business activity, which is adding to increasing demand for the city's hotel market. Occupancy increased from 71.7 percent in 2011 to 72.7 percent in 2012.[85]

In mid-2013, one of the major local hotel companies, Santika Hotels & Resorts, came up with an aggressive expansion plan to increase its portfolio from its current 57 hotels to 100 hotels by 2016.[86]

Going forward, there are concerns pertaining to the nation's economy, as it has experienced a slowdown and uncertainty, along with higher inflation and a weakening currency. However, the hotel market in Jakarta is likely to remain resilient in the short term driven by the steadily growing demand, which is boosted by upcoming major international events including the Asia-Pacific Economic Cooperation Summit.

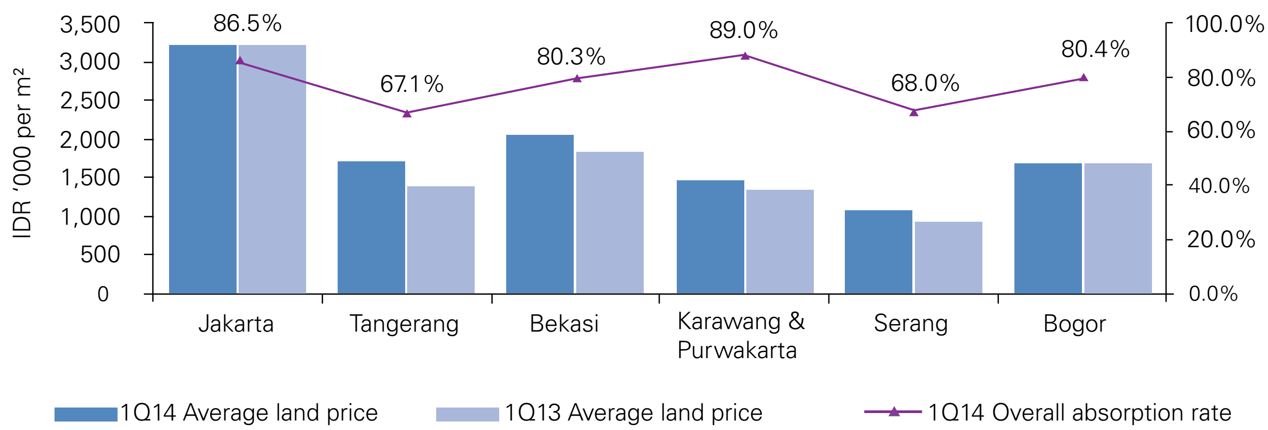
Furthermore, the government endeavours to improve the infrastructure to accommodate more MICE (Meetings, Incentives, Conferences and Events) demand by developing new convention centres in the capital city. This will be done with the aim of attracting multinational companies, and would benefit the city's overall hotel market in the medium and long term.

### Industrial estate

The overall industrial market in Indonesia remained positive during 2013 and it is likely to remain soft until at least mid-2014, whilst price growth is expected to remain under pressure. Service charges and maintenance fees will increase as estates' operational costs adjust according to the inflationary increment. However, price growth is expected to remain under pressure.[87]

Demand may still come from the supporting industries in the upcoming quarters, with the main demand generator being driven by foreign industrialists.

**Indonesian industrial land market, 1Q13-1Q14**




Source: 'Marketbeat Industrial Estate Snapshot – Greater Jakarta, Indonesia', Q1 2013 to Q1 2014, Cushman & Wakefield

[83] 'Survey on Residential Property Prices – Quarter 1 2014', Bank Indonesia
[84] 'Survey on Residential Property Prices – Quarter 4 2013', Bank Indonesia; 'Survey on Residential Property Prices – Quarter 1 2014', Bank Indonesia
[85] 'Hotel Views 2014 – Asia Pacific', Cushman & Wakefield
[86] Ibid
[87] 'Marketbeat Industrial Estate Snapshot – Greater Jakarta, Indonesia', Q1 2014, Cushman & Wakefield

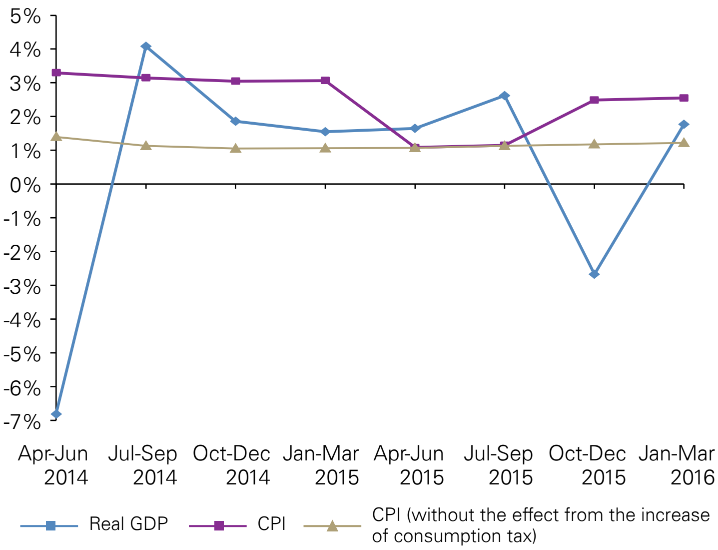
Japan

# The continuous expectation of market recovery and the favourable financing environment

## Macroeconomic overview

The Japanese economy is expected to continue growing as a result of the lax monetary policy and the fiscal stimulus of 'Abenomics', the economic policy put forward by Prime Minister Abe's administration to revitalise the Japanese economy. The annualised GDP growth rate was 5.9 percent in 1Q14 due to the strong domestic consumption in anticipation of the increase in the consumption tax rate from 5 percent to 8 percent in April. However, real GDP in 2Q14 contracted owing to weak domestic consumption following the rise in the consumption tax rate. Although the growth is expected to return to an annualised rate of around 2 percent, economists anticipate another dip in 4Q15 as the consumption tax rate is expected to rise an additional 2 percent in October 2015. The Japanese Government will make a final determination of whether to enforce the new 10 percent consumption tax rate after further considering the state of the Japanese economy in 2014.[88]

**Forecast of real GDP and CPI**




Source: 'ESP Forecast', Japan Center for Economic Research

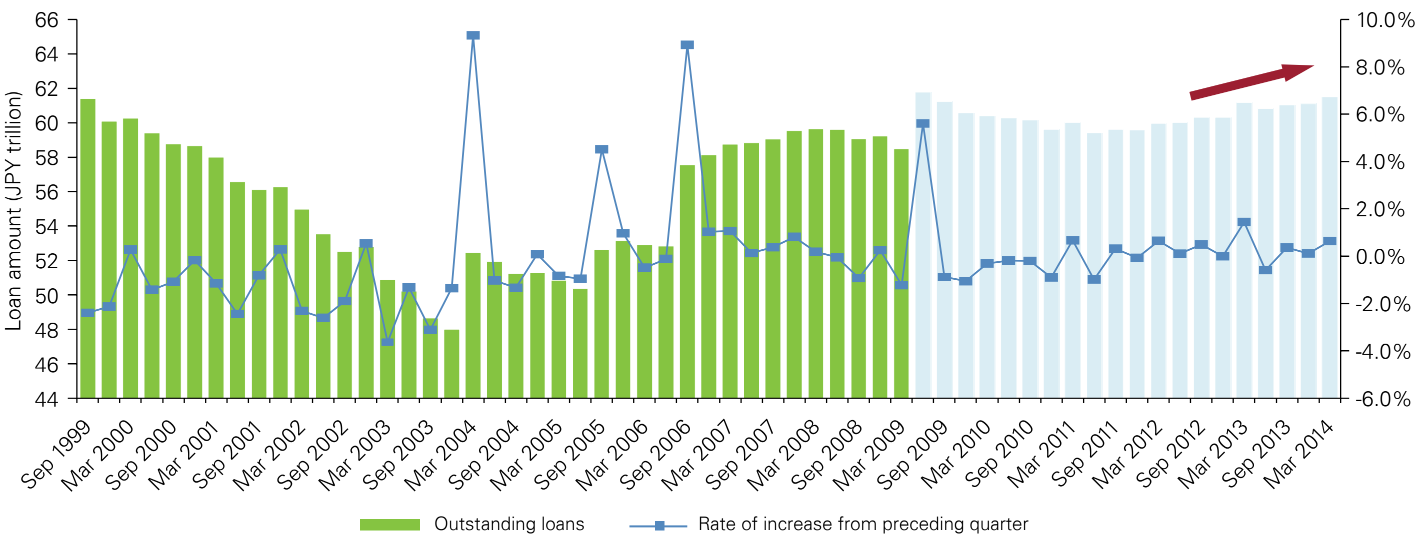
The Abe administration is considering the implementation of structural reforms to the Japanese economy as part of the 'third arrow' of Abenomics to further sustain the robustness of the economy. These reforms include lowering the corporate income tax rate, and deregulating the agricultural industry, labour practices and the healthcare system. The detailed plans are to be announced by the end of 2014.

## Real estate market overview

The Abenomics monetary policy aims to increase the monetary base by JPY 60-70 trillion per year. In the fiscal year ended March 2014, the monetary base increased by JPY 73.8 trillion. The outstanding balance of loans to the real estate industry has shown an upward trend due to the lax financing environment. As lenders are keen to offer financing to those with stable cash flows leasing properties in prime locations, favourable financing conditions are being granted on loans secured for office buildings located in central Tokyo. The loan-to-value ratio and the margin of those loans are generally between 60 percent and 70 percent, and below 50 basis points (BPS) respectively.[89]

Japan Real Estate Investment Trusts (J-REITs) and Japanese real estate companies are currently the most competitive purchasers in the real estate market. They are aggressively acquiring property through equity and debt financing, taking advantage of the robust stock market. As J-REITs and real estate companies are so dominant in the market, opportunistic investors are having difficulties acquiring property in Tokyo, and have resorted to investing in property located in other major cities such as Osaka and Nagoya. Some opportunistic investors are also expanding their investment scope to hotels, the value of which are expected to increase in coming years as a combined result of the 2020 Tokyo Olympic Games and a weak Japanese yen promoting the influx of foreign tourists to Japan, which should improve hotel occupancy rates and revenue margins.

**Outstanding balance of loans to real estate industry**

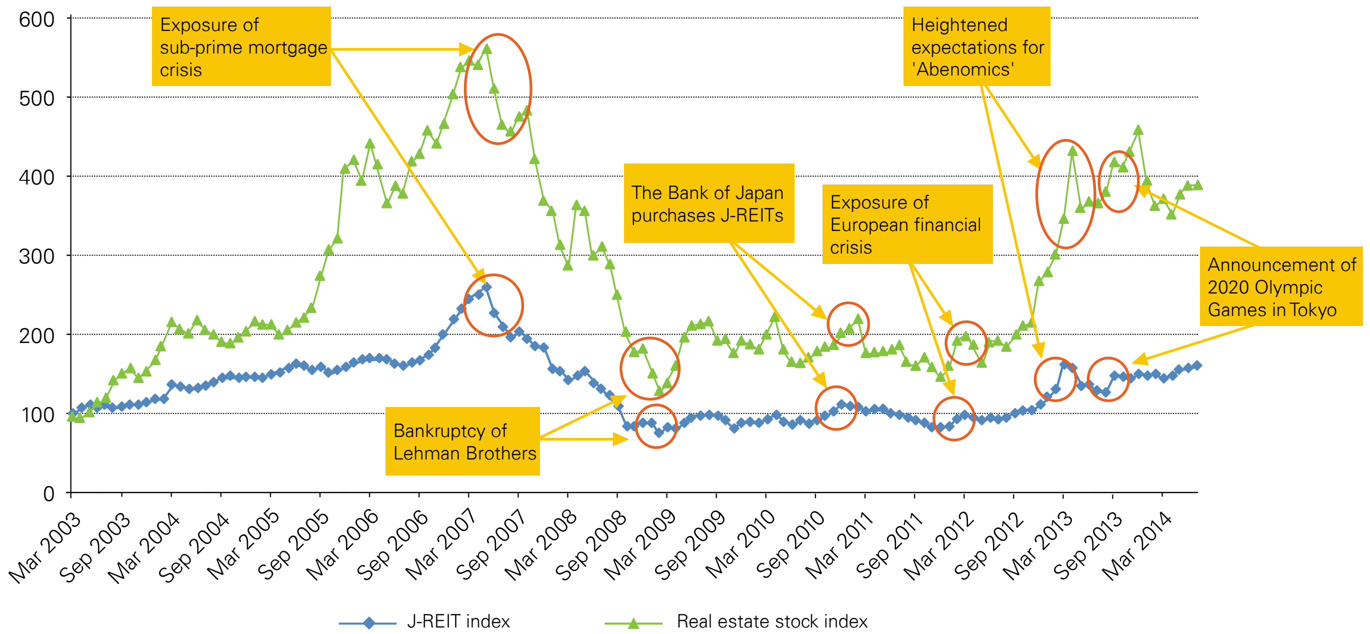



Note: Increase in June 2009 was due to a change in the definition of loan categories.
Source: The Bank of Japan

[88] 'Japan Abe aide Hamada: Could do next sales tax hike in stages', Reuters, 27 August 2014
[89] From discussions with loan officers from major Japanese commercial banks

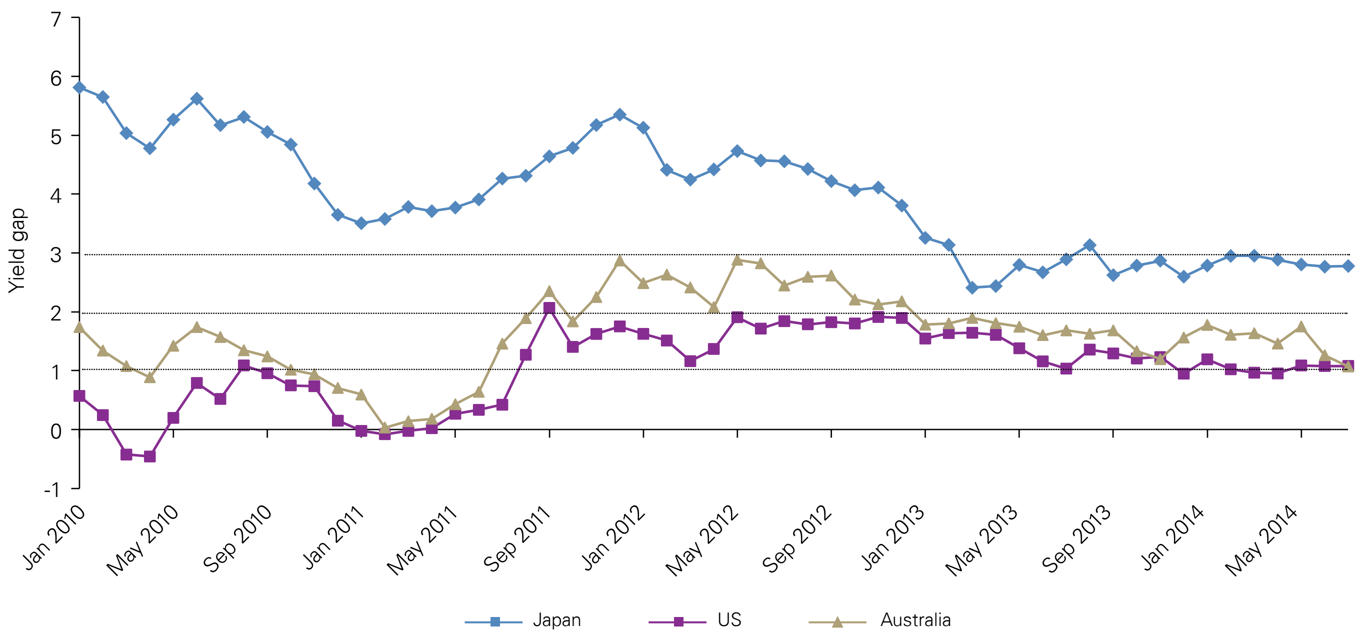
# Japan

Tokyo Stock Exchange indexes of J-REITs and real estate stock




Source: Bloomberg

Yield gap of REITs and 10-year government bonds



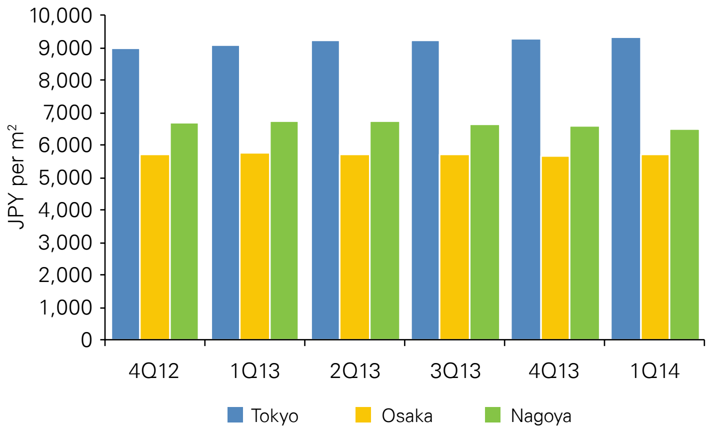

Source: Bloomberg

## Office market

The prime office market in major cities has improved in step with the improved outlook for the Japanese economy. This has been most evident in Tokyo, where rent on prime office properties increased by 2.3 percent between 1Q13 and 1Q14. According to Mitsubishi Estate, their asking rent for prime office buildings in central Tokyo has increased by 10-20 percent on average, while the actual rent for new tenants has increased by more than 5 percent. The rent for grade B office buildings in Tokyo increased by 3.6 percent between 2012 and 2013 according to JLL, which expects the rent for both grade A and B offices in Tokyo to further increase by 5-10 percent in 2014.

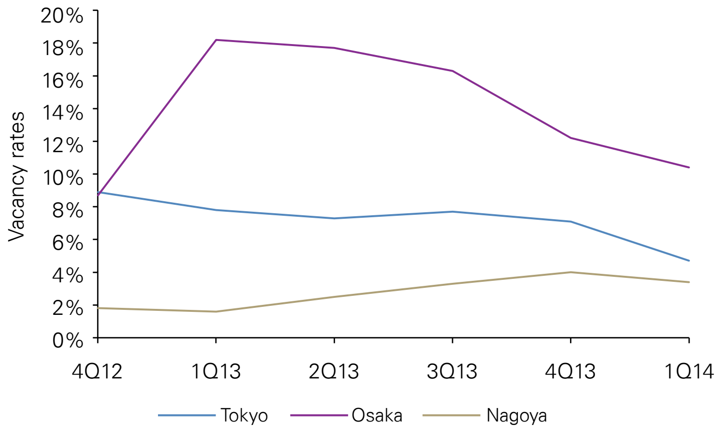
The office market in Osaka lags behind that of Tokyo, with rent for prime office properties declining by 0.5 percent between 1Q13 and 1Q14. The factor driving this decline is excess supply, with the vacancy rate for these properties still above 10 percent. Rent for office property in Osaka is believed to have bottomed out; nevertheless, it may still be another few years before real improvement can be seen, with vacancy rates below 10 percent. Japanese banks still appear to be hesitant about lending to office buildings in Osaka, preferring to finance retail and residential properties in Osaka.

**Prime office rent**



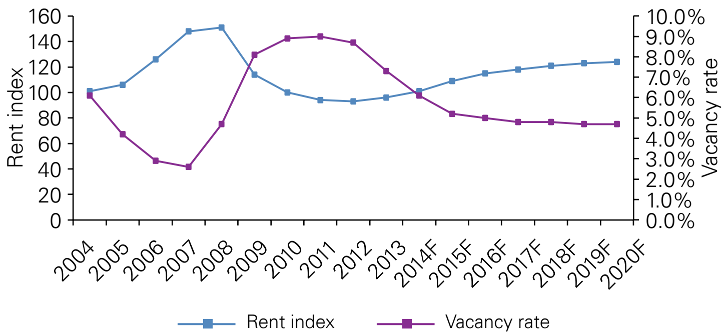

Source: CBRE

**Prime office vacancy rate**



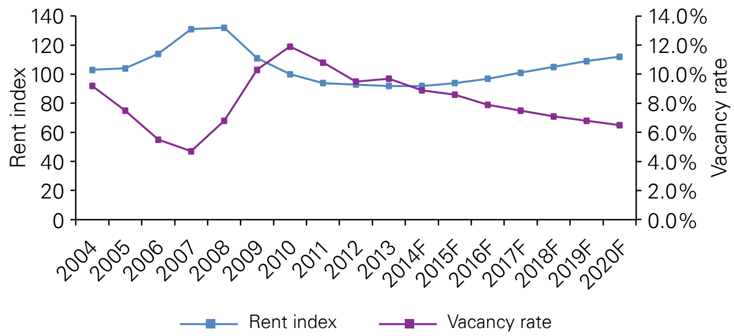

Source: CBRE

**Rent and vacancy rate forecast (Tokyo CBD)**




Source: Japan Real Estate Institute, Miki Shoji Co., Ltd.

**Rent and vacancy rate forecast (Osaka CBD)**



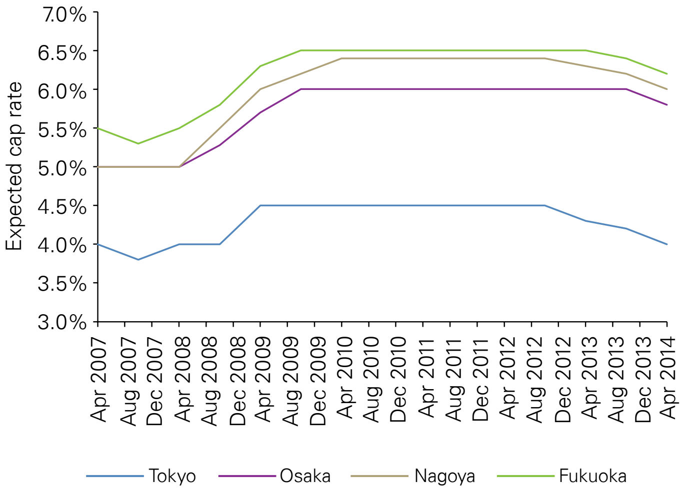

Source: Japan Real Estate Institute, Miki Shoji Co., Ltd.

The expected yield on prime office buildings in Tokyo, Osaka, Nagoya and Fukuoka were 4.0 percent, 5.8 percent, 6.0 percent and 6.2 percent respectively in April 2014. However, we believe that the most competitive prime office properties in Tokyo and Osaka command yields in the mid-3 percent and high-4 percent range respectively. It may be considered a good opportunity to sell property in prime locations or loans secured by such property. It is widely believed that an international bank could sell a loan portfolio secured by prime office buildings in Tokyo and achieve a relatively good recovery rate – something that was not possible in 2013. We expect that this robust market will continue as the vacancy rate decreases and rent levels increase. Empirical evidence suggests that rent levels will begin to rise when the vacancy rate is approximately 5 percent.[90]

In contrast, office buildings located outside central Tokyo and Osaka are generally less attractive to Japanese banks. Positive financing opportunities are not made available to these properties, and as a result, they are lagging behind in terms of market recovery.

[90] Jutaku Shimpo, 19 August 2014

Office prime expected yields

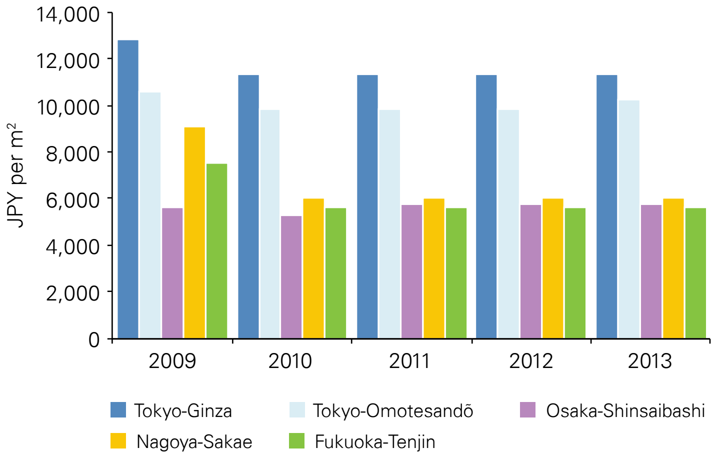



Source: Japan Real Estate Institute

## Retail market

High-end retail rents dropped in 2010, but have been relatively stable thereafter. In 2013, the rent levels in Tokyo's Omotesandō area increased by 4.6 percent, although those in other areas remained the same. The rent levels in 2013, however, were still generally lower than the rent levels in 2009. Despite the marginal increase in 2013, rent levels in Tokyo's Omotesandō area were still 3 percent lower than in 2009. In Nagoya's Sakae area, 2013 rent levels were 33 percent lower than 2009 rent levels. The exception was Shinsaibashi in Osaka, where rent levels in 2013 were 2.7 percent higher than in 2009.[91] As the Japanese economy improves and recovers from deflation, we expect to see further growth in rent levels for prime retail properties.

High-end retail rents – median rents

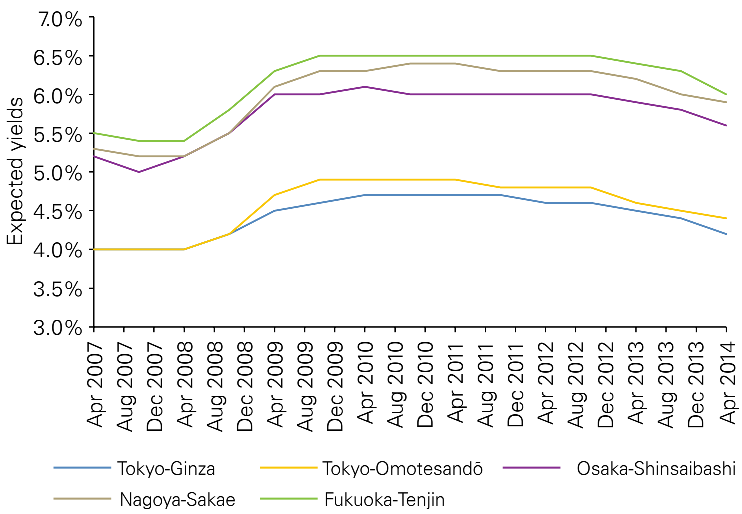



Source: CBRE

The expected yield on high-end retail property decreased by 20BPS to 40BPS between 3Q13 and 3Q14. As high-end retail properties rarely get offered up for sale, when one does get offered, competition tends to be intense, and as a result, the actual yield is often lower than the expected yield. To illustrate, in 2013, a trophy retail property in Ginza was sold. In April 2014, its actual yield was in the low 3 percent range, whereas the expected yield was 4.2 percent.[92]

As stated previously, although Japanese banks are still hesitant to offer financing on office buildings located in Osaka in light of their high vacancy rate, they are more willing to finance retail property in Osaka. Therefore, the expected yields on Osaka retail properties might be further compressed as more investors migrate towards such properties as an attractive investment opportunity.

High-end retail expected yields




Source: Japan Real Estate Institute

The expected yield on shopping centre premium retail stores was still hovering above 6 percent. Due to the higher expected yield for these stores, some opportunistic investors prefer to invest in this market category. Nevertheless, the expected yield on this property category decreased by 10-40BPS between 3Q13 and 3Q14. The yield compression in the Tokyo area was the highest at 40BPS, primarily because its population is still forecast to grow. Investors and the banks remain wary of investment targets in rural areas as the population in these areas is expected to decline.

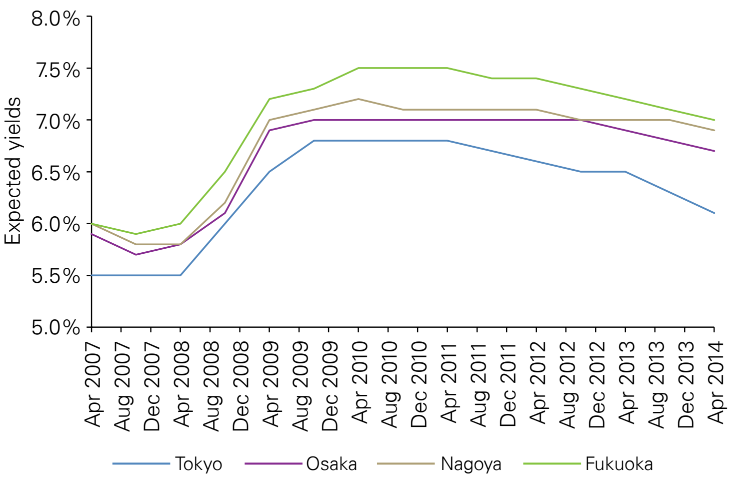
[91] CBRE
[92] Japan Real Estate Institute

## Housing market

The total number of housing projects which started being built in the fiscal year ended March 2014 was 987,254, a YOY increase of 10.6 percent. This rise is largely attributable to the increase in the number of homes purchased before the consumption tax rate increase in April 2014 (the acquisition of physical buildings is subject to consumption tax, while the acquisition of land is not). It is forecast that the number of housing projects that will commence in the fiscal year ended March 2015 will decrease by 8 percent to approximately 907,000.

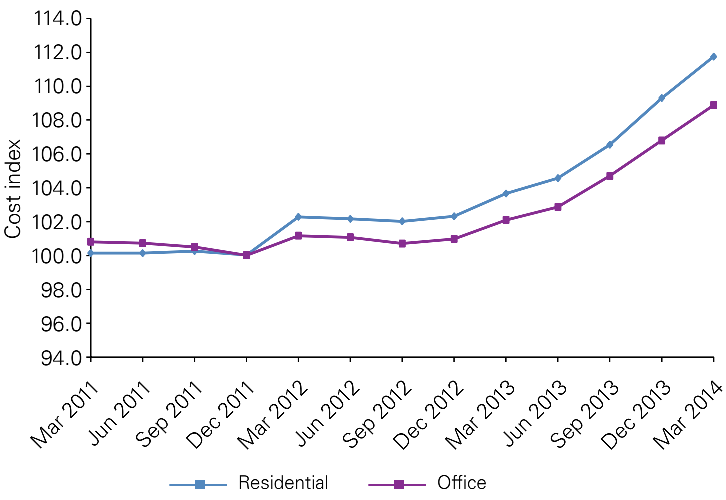
In addition to the consumption tax factor mentioned above, greater competition for development land acquisitions and escalating construction costs are also contributing to the expected decline in the number of housing projects that will commence in the fiscal year ended March 2015. Construction costs have been rising steadily over the past several years due to the higher cost of raw materials and the shortage of construction labourers. As Japanese household income has not increased on a par with such cost increases, developers are meeting consumer demand by supplying smaller houses while maintaining the same price per m$^2$.

**Shopping centre premium retail expected yields**




Source: Japan Real Estate Institute

**Historical construction costs**

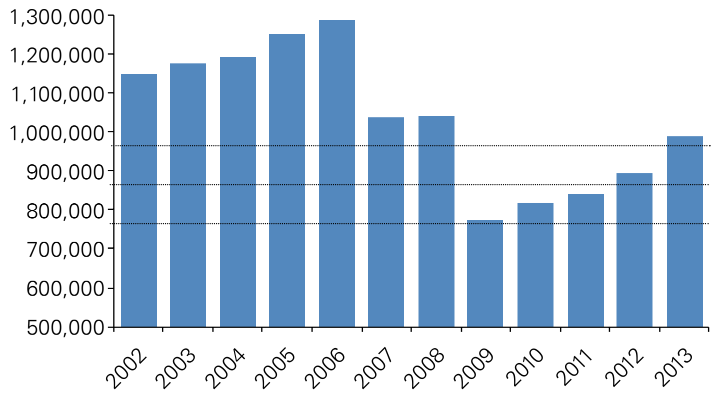



Source: Construction Research Institute

Residential property rent is relatively inelastic, and is therefore resilient to economic cycles. In addition, the size of each investment is smaller than that of an office building. These factors facilitate the creation of a risk diversified residential portfolio with stable cash flows. On the other hand, residential property rent levels do not fluctuate drastically even when the economy is thriving, making it less attractive to opportunistic investors who tend to prefer investments in office and retail properties.

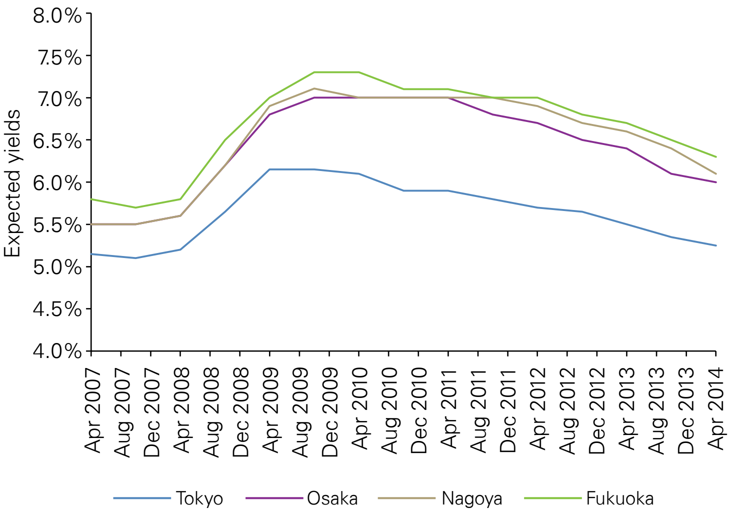
Following the bankruptcy of Lehman Brothers, risk-averse investors and Japanese banks showed an investment preference for residential property, bringing about the gradual yield compression of residential property. Although investors have recently begun to aggressively invest in office buildings as a result of the turnaround of the office market and the revitalisation of the Japanese economy, some investors and Japanese banks remain partial to residential properties.

**Housing projects being built**




Source: Ministry of Land, Infrastructure, Transport and Tourism

**Expected yields of housing market (studio type)**




Source: Japan Real Estate Institute

# Korea

# A cautious year for recovery

## Macroeconomic overview

The South Korean economy recovered steadily in the first quarter of 2014. The YOY GDP growth for 1Q14 reached 3.9 percent, a slight increase from 3.7 percent in 4Q13. The increase surpassed the GDP growth of 3.8 percent estimated by the Bank of Korea and the Organisation for Economic Co-operation and Development (OECD).[93]

Despite the improvements to domestic demand in South Korea, the recovery has been minor. Amid strong gross domestic income (GDI) growth, private consumption performed poorly, with YOY growth of 2.6 percent for 1Q14.[94]

The South Korean export market is showing strong growth, supported by the stable recovery of advanced economies. Although the import market is improving, the growth rate is relatively weak.

While the growth of consumer prices in South Korea returned to positive figures, it remains shallow at around 1.5 percent, falling short of the central bank's official target band of 2.5-3.5 percent.[95]

The value of the Korean won is increasing as interest rates and stock prices stabilise and uncertainties in the global financial market are alleviated.

**Economic indicators**

| | 1Q14 | 2Q14 (F) | 3Q14 (F) |
|---|---|---|---|
| Rate of increase in economically active population | 3.00% | 4.10% | - |
| Treasury bond yield (3 yrs) | 2.89% | 2.85% | 2.87% |
| Corporate bond yield (3 yrs, AA-) | 3.32% | 3.28% | 3.30% |
| Consumer price index (CPI) | 0.50% | 0.30% | 0.20% |

Source: Korean Statistical Information System

## Office market

In the first quarter of 2014, rent of grade A offices in Seoul increased approximately 1 percent from the previous quarter, reaching KRW 26,610 per m².[96] Accordingly, rent prices in several office buildings increased.

The average grade A office vacancy rate in Seoul declined from 8.1 percent to 8.0 percent, partly due to the decreased vacancy rate in two business districts. The vacancy rate in the CBD declined 1.54 percentage points from 10.14 percent to 8.60 percent, while that in Yeouido business district (YBD) declined 0.49 percentage points from 11.46 percent to 10.97 percent. However, the vacancy rate in the Gangnam business district (GBD) increased from 3.60 percent to 5.38 percent.[97]

The demand in the office market in 1Q14 was satisfactory, absorbing 168,559m² of 175,537m² of the additional supply of grade A office space.[98] The proportion of the absorbed area was highest in the CBD, while the GBD absorbed less.

**Office rental index**

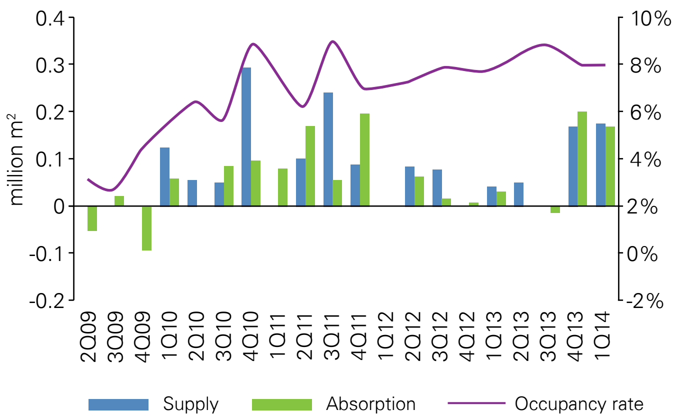

Source: CBRE

**Economic indicators**

| | Rental (KRW per m²/month) | Occupancy |
|---|---|---|
| Seoul | 26,610 | 8.01% |
| CBD | 30,936 | 8.60% |
| GBD | 26,344 | 5.38% |
| YBD | 22,550 | 10.97% |

Source: CBRE

**Office supply – demand dynamics**




Source: CBRE

[93] '2014 Korean Economic Outlook', Bank of Korea, June 2013
[94] Ibid
[95] Ibid
[96] 'Seoul MarketView – Q1 2014', CBRE
[97] Ibid
[98] Ibid

The grade A office market in Seoul is projected to be significantly impacted by the government relocation policy. As the government offices are relocated from Seoul's metropolitan area to other parts of South Korea, the leasing and real estate investment market will have a considerable supply of office buildings and land, which will likely have medium to short-term effects for the real estate office market.

## Retail market

The market growth of convenience stores and specialty store retailers of private label apparel ("SPA") is most noticeable in the retail market.

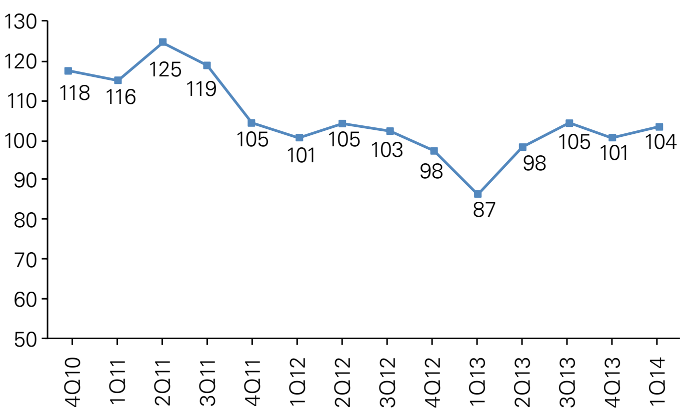
Since entering the Korean retail market, ZARA Korea (2008) experienced annual growth of 56 percent, while H&M (2010) and UNIQLO Korea (2006) saw 55 percent and 81 percent growth respectively.[99]

SPA brands were the most active participants in the 1Q14 Korean leasing market.

Additionally, as remodelling of COEX Mall was partially completed, sections of the mall were opened, including many SPA brands such as H&M, UNIQLO and 8 Seconds.

In the first quarter of 2014, the competitiveness of department stores declined in the retail market. Outlet stores, however, experienced growth in transaction volume and maintained lower commission rates, achieving a competitive advantage. The commission rates for outlet stores were 15~20 percent, approximately 10 percent lower than those of department stores. Additionally, outlet stores maintained a double-digit growth rate.[100]

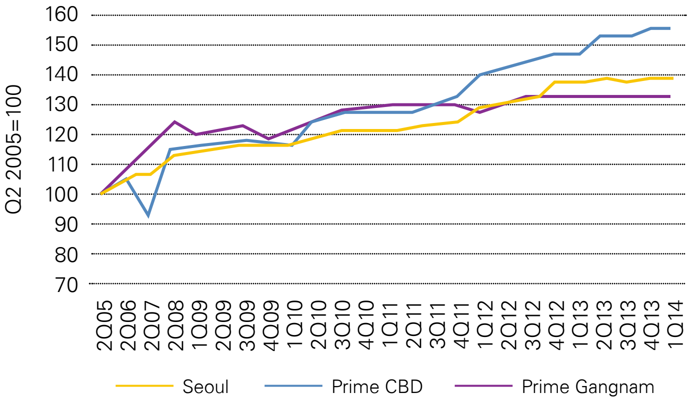
**Retail business index**




Source: The Korea Chamber of Commerce and Industry

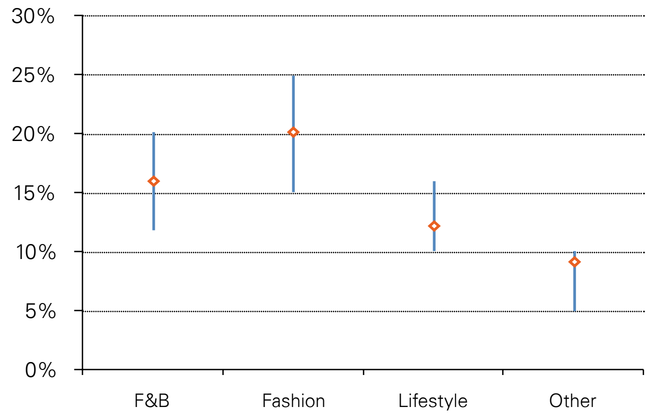
[99] 'Spotlight – Seoul Retail Market, 1Q 2014', Savills
[100] Ibid
[101] Ibid
[102] Ibid

**Retail rental index**




Source: CBRE

**Proportion of turnover-based rental range in shopping malls (1Q14)**




Source: Savills

Large retail companies remain interested in diversifying their business portfolios, and are considering entering the fast-growing outlet store market and suburban all-in-one shopping malls. Lotte Shopping announced development plans for the Lotte Incheon Terminal Complex, with an investment of approximately KRW 2 trillion, while the Shinsegae Group announced an investment of approximately KRW 400 billion for the construction of Shinsegae Shopping Mall in Anseong.

In addition, large retail companies are expanding their business into the convenience store market. In 4Q13, the Shinsegae Group acquired With Me, a mid-sized retail franchise chain with approximately 90 stores, and entered the convenience store business. In 1Q14, Shinsegae Group also announced KRW 8 billion worth of support to With Me operations, bolstering diversification of its retail business portfolio.[101]

The trading volume for the 2013 retail investment market more than doubled from the previous year, reaching KRW 2 trillion.[102]

A total of eight transactions were registered, of which one was by a foreign investor and seven by domestic investors.

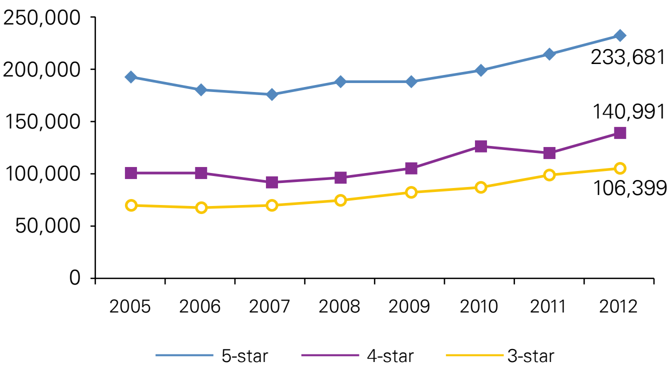
# Korea

## Hospitality market

The number of international visitors continued to grow at an annual growth rate of 11.2 percent since 2007. In 2012, South Korea recorded a record high of 100 million visitors, and reached 120 million in 2013.[103]

According to a 2012 study by the Korea Hotel Association, more than 80 percent of foreign visitors stayed in three- to five-star hotels. Accordingly, the sale of hotel rooms was highly dependent on foreign visitors, who registered 80 percent of total revenue from hotel rooms. On the contrary, domestic consumers made up 77 percent of revenue from hotel facilities.[104]

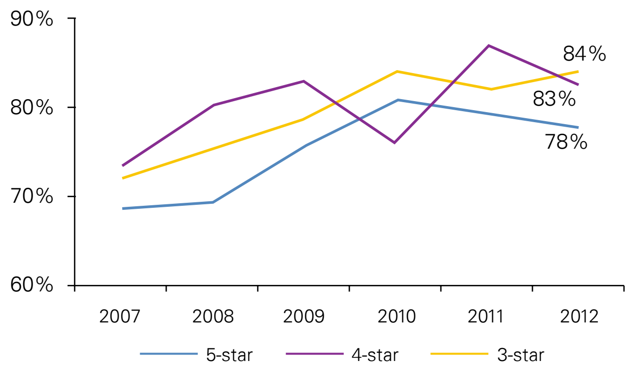
**Average daily rate – KRW per room**




Source: Korea Culture and Tourism Institute

The average daily rate (ADR) for hotels in Seoul increased at an average annual growth rate of 7.8 percent since 2009. In 2012, the ADR for five-star, four-star and three-star hotels grew by 9.7 percent from the previous year, reaching KRW 233,681, KRW 140,991 and KRW 106,399 respectively. The ADR growth rate for the three hotel groups were 7.4 percent, 9.7 percent and 8.5 percent respectively. Despite the fact that four-star hotels experienced the highest annual growth, the gap between five-star and four-star hotels remains evident.[105]

**Occupancy rate**




Source: Korea Culture and Tourism Institute

The occupancy rate in Seoul ranged from 78 percent to 84 percent, and there was an insufficient number of hotel rooms as growth in demand for hotel rooms exceeded the growth of the supply of hotel rooms.[106]

The occupancy rate for five-star, four-star and three-star hotels was 78 percent, 83 percent and 84 percent respectively, implying there was a preference for economy hotel rooms over luxury hotels.[107]

The hotel market is experiencing increased investment as institutional investors seek alternative real estate investment opportunities to diversify their portfolios. Specifically, institutional investors prefer 'limited service hotels' with approximately 300 rooms, compared to 'luxury hotels' that require high investment.[108]

Long-term lease agreements are becoming more prevalent, with new hotel development projects through real estate investment trusts (REITs) and real estate funds.

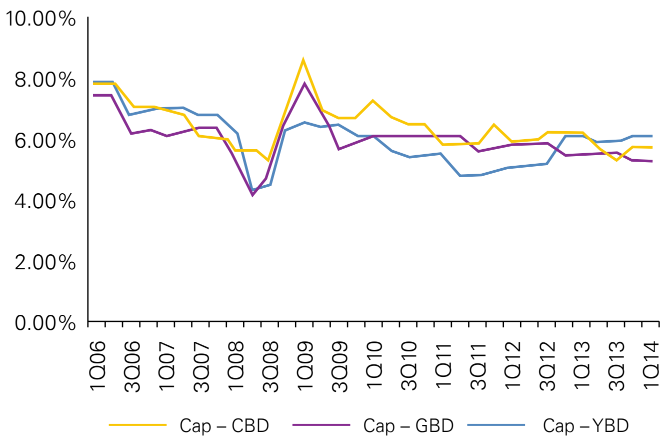
Although the terms of master lease agreements differ, the majority of the agreements are 10 to 20 years, in which fixed rent is minimised by guaranteeing 40~44 percent of the revenue from rooms.[109]

[103] 'Spotlight – Seoul Hotel Market, 1Q 2014', Savills
[104] Korea Culture and Tourism Institute
[105] Ibid
[106] 'Spotlight – Seoul Hotel Market, 1Q 2014', Savills
[107] Ibid
[108] Ibid
[109] Ibid

## Investment market

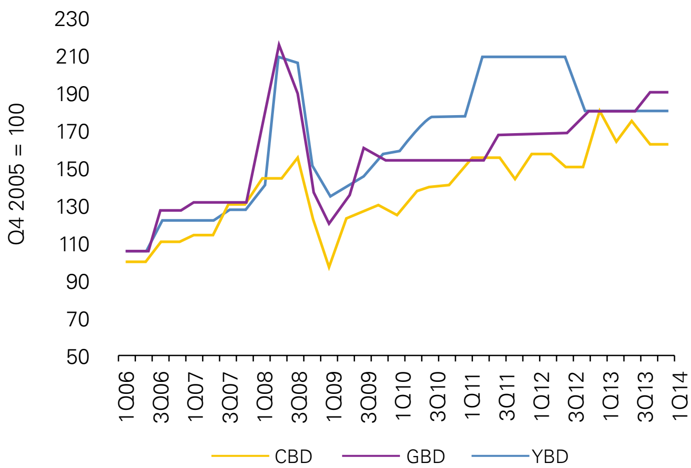
Although the value and return of major real estate investments were static in 1Q14 due to the low transaction volume, investment opportunities were reviewed continuously. In 2Q14, the real estate investment market was expected to become active as various real estate investment opportunities became available in the market.

**Yield trend**




Source: CBRE

**Capital value index**




Source: CBRE

## Malaysia

# Interesting yet challenging times ahead

With increasing income levels, strong foreign direct investment (FDI) and the government's plan to increase the population of Kuala Lumpur to 10 million from the current 6 million by 2020, the commercial real estate sector in Malaysia has an overall positive outlook. Nevertheless, the real estate sector is a challenging one, with increased competition, higher construction costs, tighter fund lending regulations and higher logistics costs. The sector is made even more challenging by the recent imposition of new regulations to curb property speculation such as higher real property gains tax (RPGT), the implementation of goods and services tax (GST) and the banning of interest capitalisation schemes.

There are some foreseeable threats to the rapid development of real estate. Among them are the predicted oversupply of office and retail space as well as residential properties, a mismatch of investor specifications and new developments, and China's slowing economy, which will likely negatively impact the demand for industrial space. Based on the current trends, it is predicted that there will be an oversupply of commercial properties, especially office space, when all the major developments are completed in the next two years.

There are strong downside risks to forecasts made by Business Monitor International (BMI). With an estimated 17 million ft$^2$ coming online between 2015 and 2017, demand would have to double to absorb the supply. The oversupply of commercial real estate could result in depressed rentals and yields. Another risk is the vacancies resulting from the mismatch between specifications and tenants' needs. According to research conducted by Savills Research, there is a trend of tenants leaving buildings that are 10-15 years old, citing poor maintenance standards.

The supply of residential properties in Malaysia for 2014 is expected to be higher than in 2013, as property developers are being driven by the rush to meet demand before the upcoming GST takes effect. Due to this upcoming GST implementation, excess supply will form a buying trend whereby buyers will rush to purchase residential properties before prices escalate beyond their income growth level.

Bank Negara Malaysia's (BNM) Governor, Tan Sri Dr Zeti Akhtar Aziz, has stated that Malaysia's GDP growth for 2014 is likely to exceed the central bank's forecast range of 4.5-5.5 percent in view of the first half-year performance as Malaysia's economy achieved a growth rate of 6.3 percent. BMI forecast a GDP growth of 4.4 percent for 2014, taking into account the overall investment climate, the persistent economic headwinds emanating from China and continual structural difficulties.[110] However, the main risk to BMI's short-term forecasts stems from a slowdown in China, affecting export-oriented sectors and employment. It is expected that there will be a slowdown in exports to China in 2014 which may dampen the demand for industrial and office buildings, and impact the rental rates in both the industrial and retail sectors. On the upside, the Malaysian Government has successfully controlled inflation.

While oversupply is a concern in the office sector, the retail sector has benefited strongly from increased consumption levels flowing from a rising and increasingly urbanised middle class. In the recent BMI report, positive demographic factors and increased tourism are looking to support the retail real estate segment. There are exciting opportunities for consumer goods companies and retailers as consumption will be driven by an increasingly representative middle class which will drive demand. It is expected that between 2012 and 2021, GDP per capita will increase by approximately 60 percent.[111] With additional money to spend on basic essentials and a greater discretionary appetite, opportunities across the food and beverage and retail universe will increase for established international retailers.

Demand for residential properties, especially high-rise facilities, has shown signs of a slowdown due to the recent reforms by the central bank, which has made it difficult for people to get financing in order to purchase property. BNM has directed local banks to calculate borrowers' net income versus the previously practiced gross income, which has been viewed as unfair as it hinders many buyers from qualifying for housing loans. Despite BNM tightening loan regulations, interest in purchasing homes is increasing as people are aware that home prices may rise in line with the cost of living, which will impact city residents more significantly than rural residents.

According to the Real Estate and Housing Developers' Association Malaysia (REHDA), sales of new properties have dropped as much as 60 percent since October 2013 following the government's cooling measures (on tighter credit requirements) and lower demand.[112] In addition, prices are also expected to rise due to other factors such as the shortage of land in Kuala Lumpur City Center, the rising construction costs due to the implementation of GST and the gradual abolishment of the fuel subsidy.

[110] 'Malaysia's Q2 GDP beats estimates', The Star Online, 16 August 2014
[111] 'Malaysia Real Estate Report – Q2 2014', Business Monitor International
[112] 'Big players holding back housing projects', The Malaysian Reserve, 28 April 2014

It will be interesting to see how the real estate sector in Malaysia will evolve and adapt over the next few years. With the many challenges confronting real estate developers and house buyers, property development and financial planning will need to be carefully thought out in order to stabilise the real estate sector.

## New Zealand

# Robust outlook resulting from continuing economic growth and inbound migration

### Macroeconomic overview

Following real GDP growth of 3.3 percent in the year to March 2014, 3.8 percent growth is forecast in the year to March 2015 and 3.0 percent in the year to March 2016, which should ease to around 2 percent in the last two years of the forecast period (the years to March 2017 and 2018). Over the four years to March 2018, forecast real GDP growth averages 2.8 percent.[113]

The ongoing rebuilding following the earthquakes in New Zealand's Canterbury region in 2010/11, near record-high terms of trade, strong net migration and stimulatory monetary policy settings have all contributed to robust household and firm spending, while constrained fiscal policy and the elevated exchange rate are providing some offset.[114] However, global growth risk factors remain.

The unemployment rate is forecast to decline to below 5 percent (from around 6 percent), annual CPI inflation to move back to around the middle of the Reserve Bank of New Zealand's 1-3 percent target band, and the current account deficit to increase to over 6 percent of GDP by the end of the 2017/18 forecast period.[115]

The New Zealand Government's operating balance before gains and losses (OBEGAL) is forecast to move from a deficit of NZD 2.6 billion this fiscal year to a surplus of NZD 0.3 billion in the year ending June 2015, and to NZD 3.0 billion in the year ending June 2018.[116] Net core government debt is forecast to peak at around NZD 67.9 billion in June 2018[117] from NZD 59.9 billion in June 2014.

### Office market

The overall scenario is positive, with rents for both prime and secondary grade office space expected to rise due to the limited number of new developments. There has been a decline in vacancy rates, indicating greater demand for office space.

**Auckland:** Rents for prime grade office space have risen dramatically in the year to March 2014. At the end of 1Q14, the average prime grade office space rent stood at NZD 365 per $m^2$ and NZD 194 per $m^2$ for secondary grade space.[118] Auckland office rents have outperformed the retail and industrial segment by a significant margin over the past year.

The average yield for prime grade office space was steady at about 7.45 percent, a drop from the above 8.0 percent yields experienced in previous years.[119] While the trend remained the same for secondary grade office space, the average yield was higher, at 8.4 percent, at the end of 1Q14.[120]

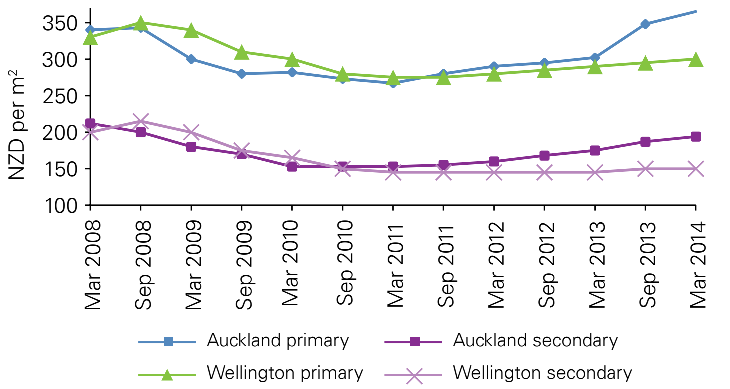
By the end of 2013, the vacancy rate for Auckland prime grade office space dropped to 4.2 percent, the lowest rate since December 2008.[121]

**Wellington:** In Wellington, net rents have experienced steady growth, mainly due to the scarcity of prime grade office space (a vacancy rate of just 1.2 percent at the end of 2013)[122] and reductions in operating costs. These developments are expected to result in net rents retaining their upward trajectory. Secondary grade office space is also being occupied at a faster pace, with the vacancy rate decreasing to 11.8 percent between June and December 2013.[123]

While average net rents for prime and secondary grade office space have increased slightly in the year to March 2014, the yields for prime and secondary grade office space were largely constant in the same period (at 8.1 percent and 10.3 percent).[124]

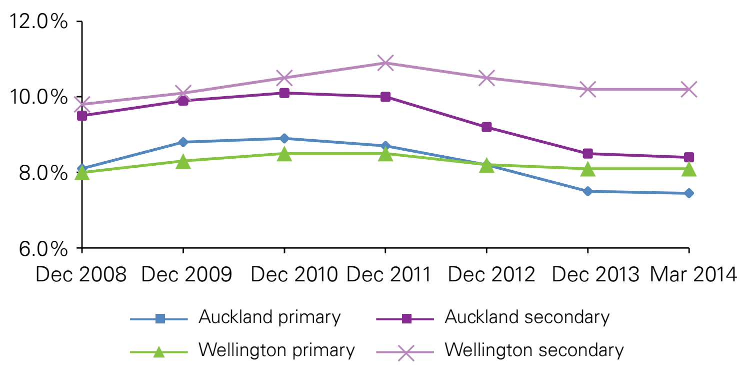
Overall, vacancy rates have been steadily declining – the overall vacancy rate was 9.6 percent towards the end of 2013 (driven by the much higher vacancy rate for secondary grade office buildings).[125] The decline was much stronger in the vacancy rate for prime grade office space.

**Net effective market rent**




Source: 'Auckland MarketView, Q1 2014', CBRE; 'Wellington MarketView, Q1 2014', CBRE

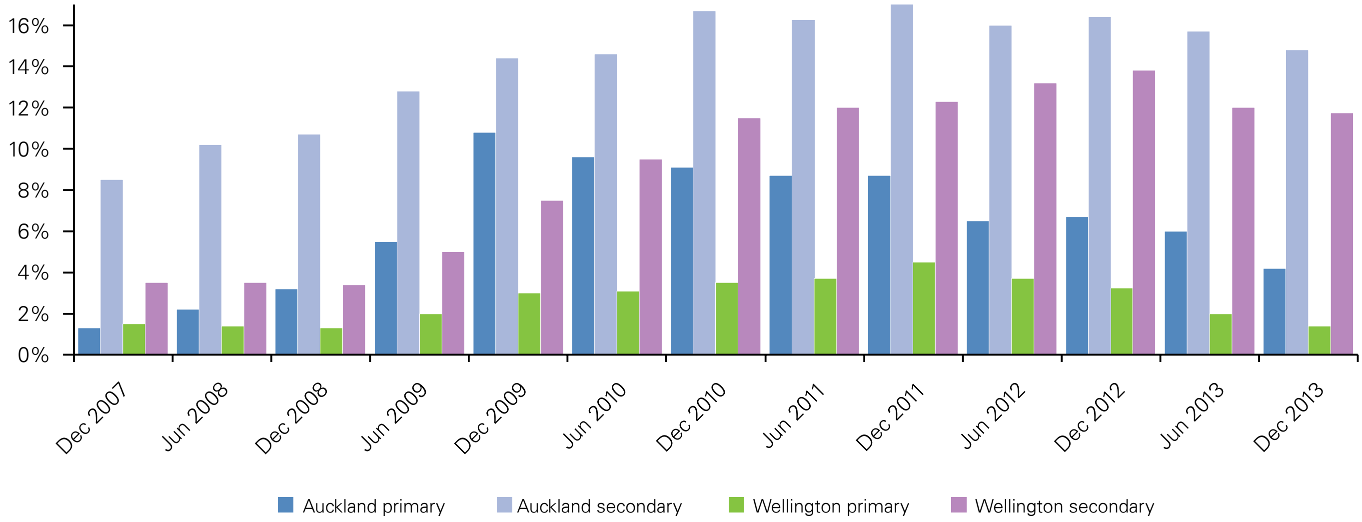
**Market yield**




Source: 'Auckland MarketView, Q1 2014', CBRE; 'Wellington MarketView, Q1 2014', CBRE

[113] 'Pre-election Economic and Fiscal Update 2014', New Zealand Treasury
[114] 'Budget Economic and Fiscal Update May 2014', New Zealand Treasury
[115] Ibid
[116] 'Pre-election Economic and Fiscal Update 2014', New Zealand Treasury
[117] Ibid
[118] 'Auckland MarketView, Q1 2014', CBRE
[119] Ibid
[120] Ibid
[121] Ibid
[122] 'Wellington MarketView, Q1 2014', CBRE
[123] Ibid
[124] Ibid
[125] Ibid

Office vacancy rate




Source: 'Auckland MarketView, Q1 2014', CBRE; 'Wellington MarketView, Q1 2014', CBRE

## Retail market

With strong continuing population growth expected, the outlook is positive for the retail real estate sector. There are a number of newer developments being planned. This is expected to positively impact retail net rents, as well as reduce the vacancy rate for retail property.

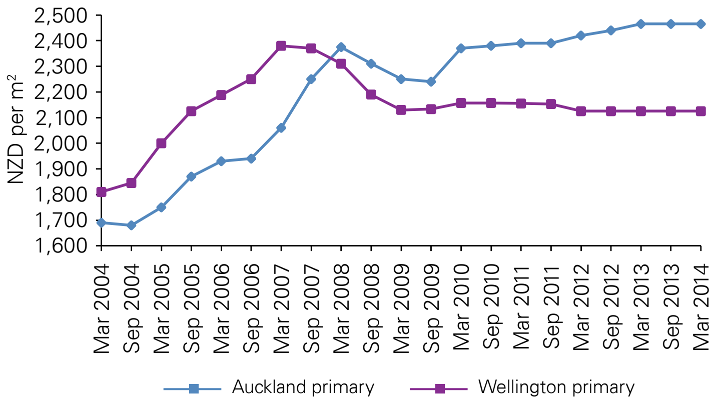
**Auckland:** A more buoyant retail sector (the sale of clothing, footwear, recreational goods and accessories rose to NZD 24.9 billion in 2013) is driving new retail developments, particularly in and around the CBD area.[126]

Prime CBD retail real estate attracted the highest rental rates in New Zealand at almost NZD 2,465 per m$^2$, a moderate increase since March 2011.[127] The yield for prime CBD retail real estate has dropped significantly and was 5.45 percent at the end of March 2014 (the lower yields reflect a significant increase in real estate values in Auckland, relative to rents, since early 2009).[128]

**Wellington:** Capacity of almost 6,400m$^2$ was added to the Wellington retail real estate market in 2013, mainly from the construction of supermarkets and hardware stores.[129] The rent for prime CBD real estate has mostly remained constant, suggesting the additional retail capacity may be having an impact.

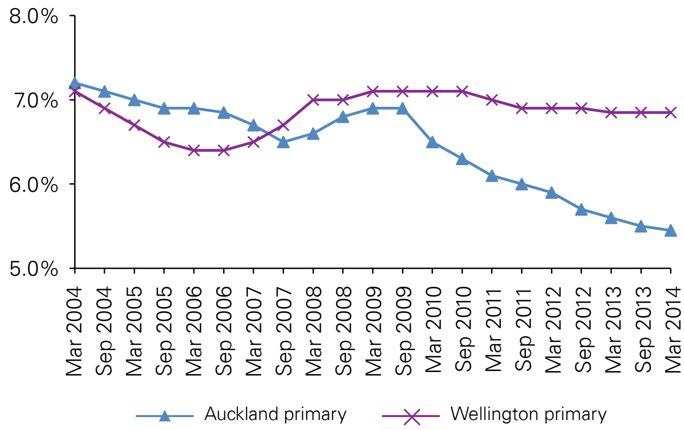
The yields across varying profiles of retail real estate have also remained stable. Average retail yields were around 6.85 percent in the six months to March 2014.[130]

Retail rent




Source: 'Auckland MarketView, Q1 2014', CBRE; 'Wellington MarketView, Q1 2014', CBRE

Market yield




Source: 'Auckland MarketView, Q1 2014', CBRE; 'Wellington MarketView, Q1 2014', CBRE

[126] 'Auckland MarketView – Q1 2014', CBRE
[127] Ibid
[128] Ibid
[129] 'Wellington MarketView – Q1 2014', CBRE
[130] Ibid

# New Zealand

## Residential market

The residential property market in New Zealand has seen significant price growth. The nationwide median housing price hit an all-time high of NZD 440,000 in March 2014, before dropping to around NZD 416,000 in July 2014.[131] At a regional level, the Canterbury region registered one of the biggest median house price increases, with an 11.1 percent YOY rise in July 2014.[132] Auckland house prices recorded a 10.5 percent YOY increase.[133] In contrast, the Wellington region posted a 2.6 percent YOY fall in median prices in the same period.[134]

2014 is expected to be another strong year for New Zealand's residential property market due to continuing economic growth and inbound migration, as well as housing supply constraints in key cities (namely Auckland and Christchurch). House prices are expected to continue rising during 2014, although at a slower pace, as the impact of rules restricting high loan-to-value ratio (LVR) mortgage lending and recent interest rate rises by the Reserve Bank of New Zealand are felt.

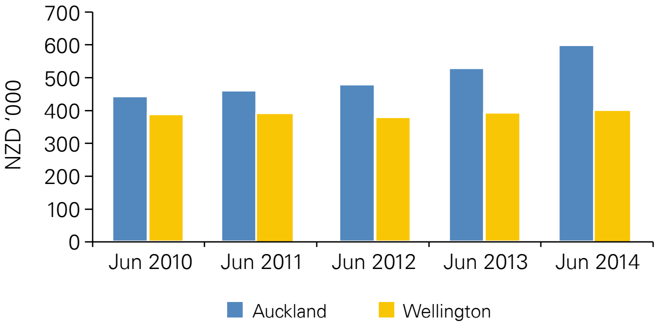
Between July 2013 and July 2014, house prices across New Zealand rose by around 8 percent, and the median price increased NZD 31,000 from NZD 385,000 to NZD 416,000.[135]

**Auckland:** A key constraining factor has been the availability of vacant land. Between 2002 and 2012, Auckland land prices have more than doubled, while land prices have tripled for 350-650m$^2$ sections of land within 20-25 kilometres of the inner city.[136] This has resulted in land costs comprising more than 60 percent of the cost of building a new dwelling in Auckland, compared with around 40 percent in the rest of New Zealand.[137] The current 'demand-supply' gap is estimated at around 20,000 to 30,000 dwellings. It is anticipated that almost 13,000 dwellings will be required per year to eliminate the supply shortage.

As at July 2014, the median Auckland house price was NZD 610,000, which is NZD 58,000 more than in July 2013.[138]

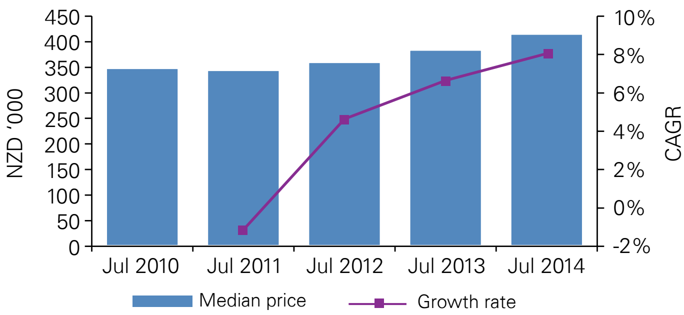
**Wellington:** Wellington recorded a decrease in median house prices between July 2013 and July 2014, from NZD 390,000 to NZD 380,000.[139]

### Median house price



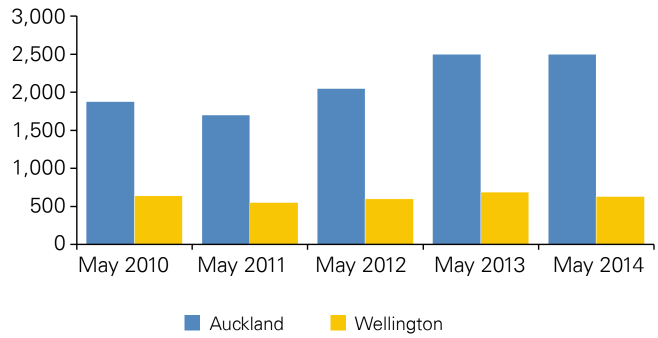

Source: 'REINZ Auckland Regional Analysis for July 2014', Real Estate Institute of New Zealand; 'REINZ Wellington Regional Analysis for July 2014', Real Estate Institute of New Zealand

### New Zealand – Median price and growth rates




Source: 'REINZ Regional Commentary', Real Estate Institute of New Zealand, July 2014

### Number of houses sold




Source: 'REINZ Auckland Regional Analysis for July 2014', Real Estate Institute of New Zealand; 'REINZ Wellington Regional Analysis for July 2014', Real Estate Institute of New Zealand

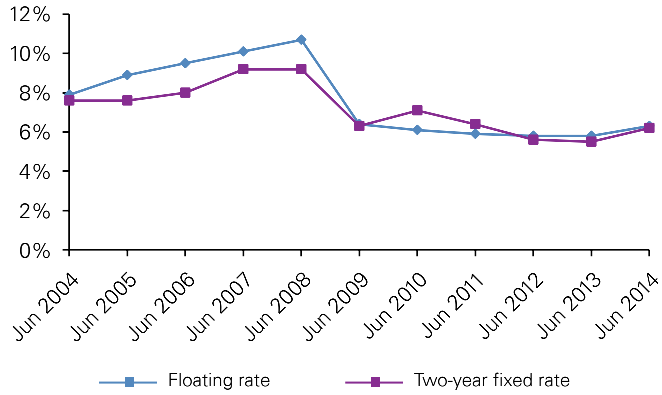
[131] 'Market Facts Graph – National', Real Estate Institute of New Zealand, 14 August 2014
[132] 'REINZ Canterbury/Westland Regional Analysis for July 2014', Real Estate Institute of New Zealand
[133] 'REINZ Auckland Regional Analysis for July 2014', Real Estate Institute of New Zealand
[134] 'REINZ Wellington Regional Analysis for July 2014', Real Estate Institute of New Zealand
[135] 'Market Facts Graph – National', Real Estate Institute of New Zealand, 14 August 2014
[136] 'Housing Affordability: Residential Land Available in Auckland', Ministry of Business, Innovation and Employment
[137] 'Trends in the New Zealand housing market', Reserve Bank of New Zealand. 15 October 2013
[138] 'REINZ Auckland Regional Analysis for July 2014', Real Estate Institute of New Zealand
[139] 'REINZ Wellington Regional Analysis for July 2014', Real Estate Institute of New Zealand

## Real estate debt

Since August 2008, floating mortgage interest rates have fallen from a high of 10.7 percent to a low of around 5.8 percent during much of 2011 and 2012.

However, recently, the Reserve Bank of New Zealand has progressively increased its Official Cash Rate from 2.5 percent to 3.5 percent (between March and June 2014). This is in response to perceived inflationary risks from New Zealand's strong economic growth to date and forecast growth. This has resulted in the floating and two-year fixed mortgage rates rising from the low of 5.8 percent to around 6.2 percent.[140]

**Mortgage interest rates**




Source: Mortgage Rates, Reserve Bank of New Zealand

[140] Mortgage Rates, Reserve Bank of New Zealand

## Singapore

# Population growth driving the real estate market

### Macroeconomic overview

Singapore's macroeconomic sector is expected to witness a period of moderate growth in 2014, mainly driven by activities in the secondary sector. It is ranked one of the most competitive economies in the region. Its real GDP growth rate increased from 2.5 percent in 2012 to 3.9 percent in 2013. The economy is expected to strengthen its recovery from 2014-18.[141]

In 1Q14, a stronger export demand supported economic expansion, with the real GDP growing at 4.9 percent YOY. Construction and manufacturing were the most dynamic sectors and grew 6.8 percent and 9.8 percent YOY respectively. With strong private and government consumption, the economy is forecast to expand by 5 percent each year on average from 2015-18.[142]

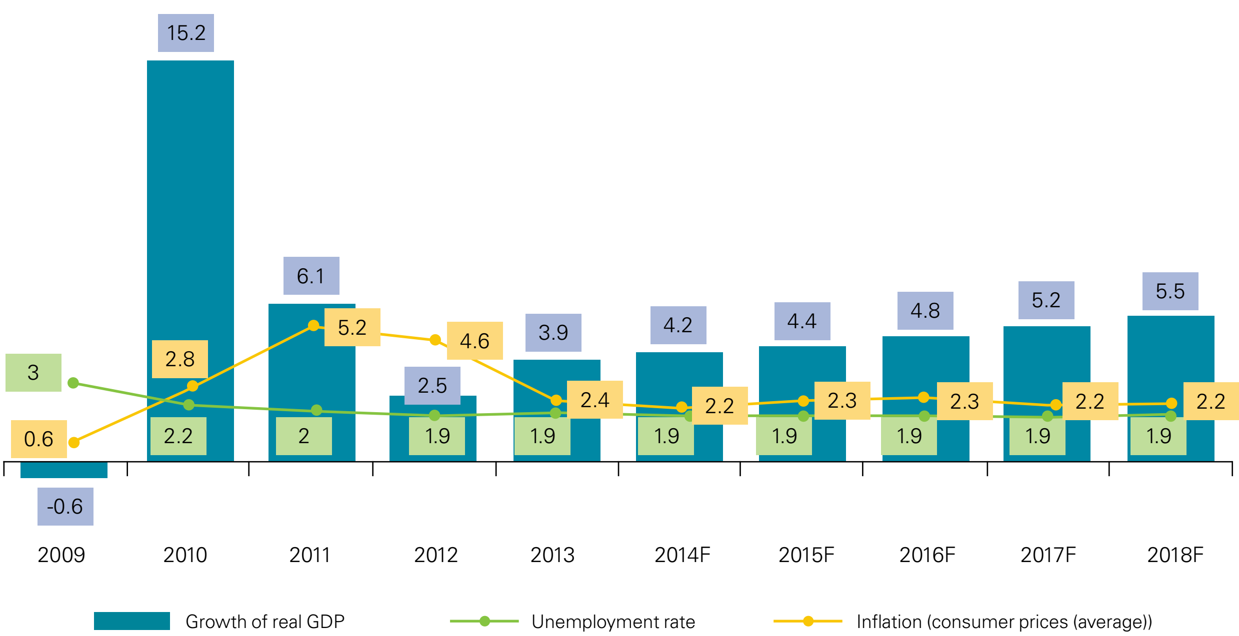
In 2013, the labour market remained close to full employment, with the unemployment rate for citizens declining to 2.9 percent.[143] Job vacancies were in excess of unemployed workers, reflected by an increase in the wage rate. An increase of 5 percent (in real terms) was observed by the median Singaporean worker. Low-income workers at the 20th percentile of the income ladder also witnessed a rise of 7 percent in real wages.[144] As far as inflation is concerned, an upward pressure on prices – due to higher wages – is expected. However, this trend is likely to be countered by lower transport and housing costs for the remainder of 2014.

Singapore is one of the countries in Southeast Asia that is most vulnerable to demand fluctuations in the West. Hence, close monitoring of all developments in the EU and US is necessary. The government and the Monetary Authority of Singapore have consistently proved to be adept at managing expectations and cushioning the impact of weak global demand on Singapore's economy.

In 1Q14, real estate investments rose about 24 percent QOQ to SGD 4.7 billion, with residential investment contributing 41 percent of this activity.[145]

Singapore's population is expected to grow further in the next four years. By 2018, it is forecast to exceed the population in 2013 by about 13 percent.[146] Following this trend, an increase in demand for residential property is anticipated.

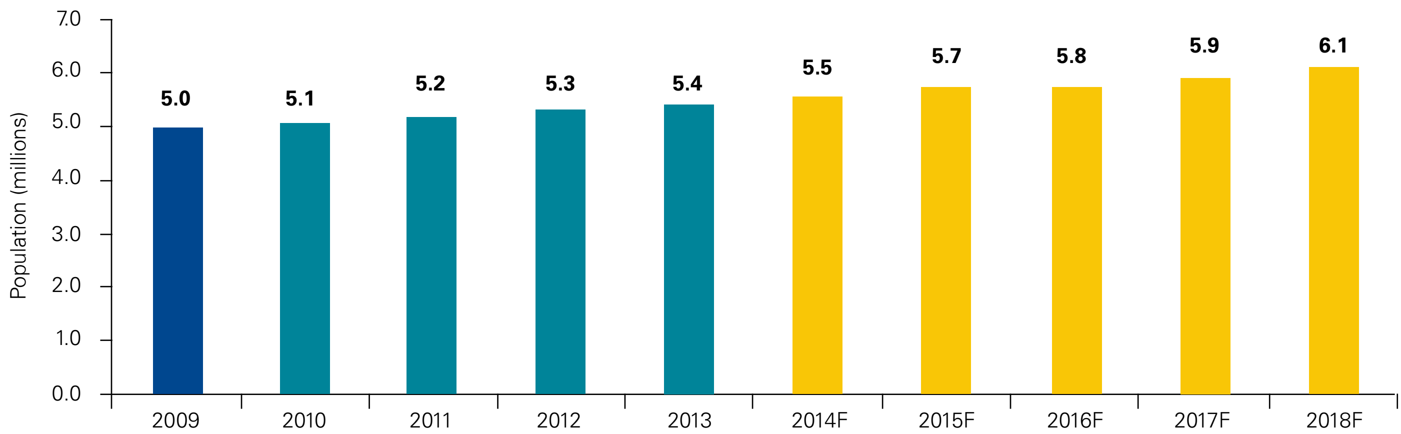
**Growth of real GDP, unemployment rate and consumer prices (%), 2009-18**




Source: EIU

[141] EIU
[142] Ibid
[143] 'Labour Market, 2013', Ministry of Manpower, 14 March 2014
[144] 'Economic performance', Singapore Budget 2014, 21 February 2014
[145] 'Property Times Singapore Q1 2014: Residential transactions fall further', DTZ
[146] EIU

**Population of Singapore, 2009-18**




Source: EIU

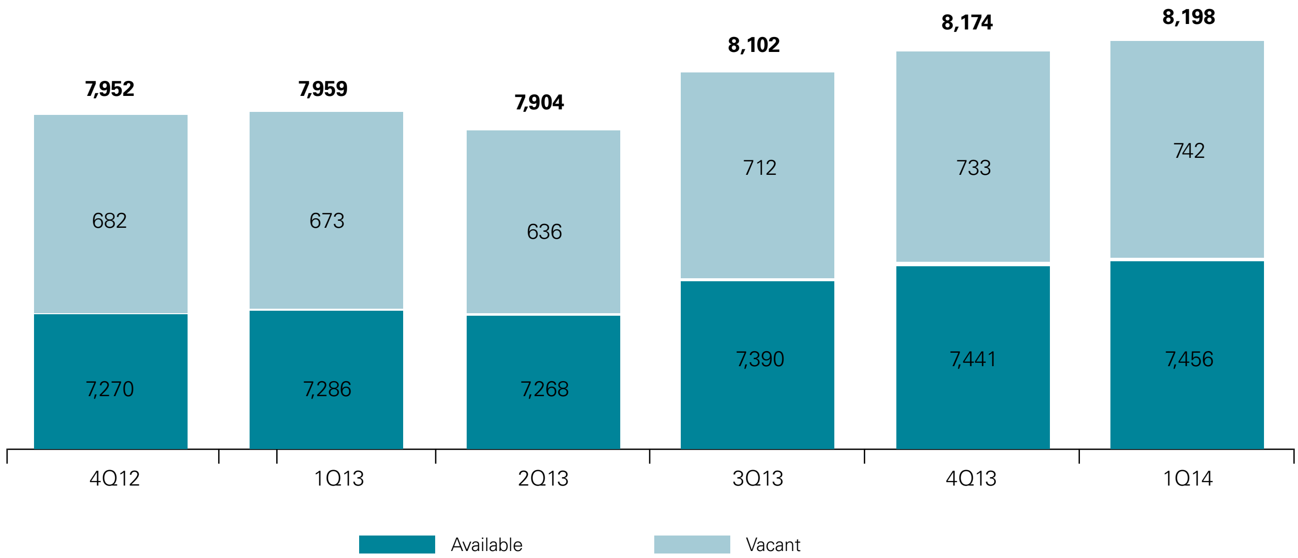
## Office market

As at 1Q13, the total office stock in Singapore was 52.49 million $ft^2$.[147] The occupier market, concentrated in the core CBD, consists of Raffles Place, Shenton Way Corridor, Marina Centre and Marina Bay. It represents around 50 percent of the overall office stock in Singapore and is the preferred location for firms providing high-end financial and business services. The micro-markets of Tanjong Pagar, Beach Road/City Hall and Orchard Road (collectively the "fringe CBD"), representing 30 percent of existing stock, lie in close proximity to the core CBD. Together, 80 percent of total office stock is found in the core and fringe CBD, thus making them the focal point of the leasing and investment sales markets.[148]

Singapore's office market expanded at an exponential pace between 2009 and 2011, when 7.43 million $ft^2$ of new office space was delivered to the market.[149] This resulted in 16 percent growth over these three years. However, since 2011, office development activity has slowed. In terms of net new office supply, the 10-year average was 1.10 million $ft^2$, while the five-year average was 1.67 million $ft^2$.[150]

The potential office supply is expected to be evenly distributed over time and geography. Of the total future supply, 37.5 percent is expected to be grade A offices in the CBD, 34.9 percent is non-grade A offices in the CBD and the remaining 27.6 percent is attributed to the rest of the island markets.[151]

**Supply of office space (1,000 m²), 4Q12-1Q14**




Source: 'Monthly Digest of Statistics Singapore', Urban Redevelopment Authority, June 2014

[147] 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013
[148] Ibid
[149] Ibid
[150] Ibid
[151] Ibid

## Singapore

In 2012 and early 2013, office demand was diverse, with occupiers belonging to a wide variety of industries that were either relocating or expanding. The Singapore office market retained its cost competitive edge over other regions, and companies took advantage of the lower occupancy costs to either merge or increase their operations. Office space has mostly been taken up by commodity and energy companies, legal firms, insurance entities, maritime businesses, and professional services corporations. Firms from different countries have also settled in Singapore.[152]

Asian-based multinationals were among the most active in Singapore's leasing market during 2013. Japanese companies operating in varied segments continue to choose Singapore as their second hub after Tokyo. According to the Singapore Economic Development Board, the registrations of new Japanese companies increased from six in 2008 to 29 in 2012.[153] Asian firms dealing in finance, legal services and electronics continue to expand and account for a sizeable portion of demand in the city.

The leasing market witnessed high activity in 1Q14 owing to the healthy number of enquiries made. For Singapore, the overall office demand is expected to improve across a fairly diverse range of sectors. Insurance, energy and commodities, professional services, and IT firms are expected to continue to positively affect leasing activity. Entities from China, India and the Middle East are also likely to be more involved in Singapore's leasing market.

Singapore's office market supply is expected to remain narrow over the next two years. Once the tenants realise that space options are rapidly shrinking and the supply is limited, the focus of leasing activity is likely to shift towards the CBD because of the new project developments in that area – CapitaGreen and South Beach – comprising a total of 1.2 million $ft^2$ of the net leasable area.[154]

The vacancy rates for grade A offices in the five submarkets within the CBD declined marginally by 0.2 percentage points to 4 percent in 1Q14. The vacancy rate for Raffles Place fell from 4 percent in 4Q13 to 3.1 percent in 1Q14, whereas that for City Hall increased from 0.5 percent in 4Q13 to 1.2 percent in 1Q14. The vacancy rates for Marina Bay, Shenton Way and Orchard Road reflected no change between 4Q13 and 1Q14.[155]

It is projected that tenants will continue to be cost-conscious, paying just enough to be in line with their business requirements.

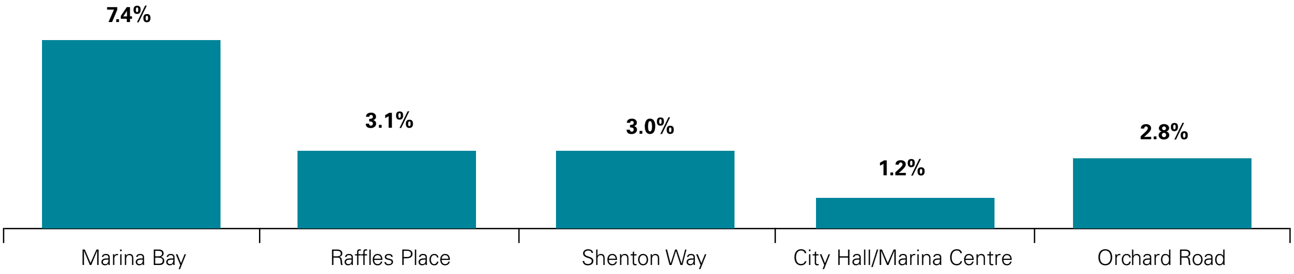
It is anticipated that companies taking up areas between 20,000$ft^2$ and 50,000$ft^2$ will dominate the leasing activities. The larger deals (100,000-150,000$ft^2$), however, are in less demand in the current office market.[156]

**Singapore's supply/demand dynamics in 2014/15**

| | 10-year average net absorption ('000 $ft^2$) | 2x average 10-year net absorption ('000 $ft^2$) | Difference supply/ demand ('000 $ft^2$) | 2014/15 number of years required | Risk of over-supply |
|---|---|---|---|---|---|
| Singapore | 1,510 | 3,021 | -702 | 1.5 | Low |

Source: 'Asia Pacific Office Market Outlook 2014', CBRE

**Vacancy rate, 1Q14**




Source: 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield

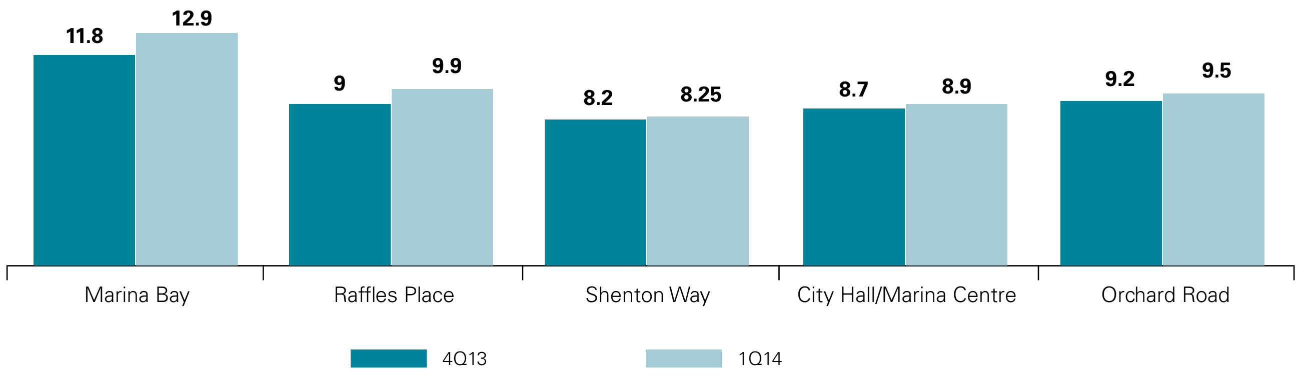
[152] 'Asia Pacific Office Market Outlook 2014', CBRE
[153] 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013
[154] 'Asia Pacific Office Market Outlook 2014', CBRE
[155] 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield
[156] Ibid

With a shortage of prime grade A space in Singapore's office market, the average rent for grade A properties was 5.5 percent higher at SGD 9.9 per ft$^2$ in 1Q14 compared to 4Q13. A positive market sentiment was reflected in the sector by a 10.1 percent increase in the average effective grade A monthly rental.[157]

| | 1Q14 | QOQ change | YOY change | 12-month outlook |
|---|---|---|---|---|
| Grade A vacancy rate | 4.00% | -0.2% | -0.3% | negative |
| Grade A overall rent (ft$^2$/month) | SGD 9,90 | 5.50% | 10.10% | negative |

Source: 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield

**Grade A effective rents (SGD/ft$^2$/month), 4Q13-1Q14**




Source: 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield

**Total return outlook for 2014**

| Market | Rental change | Capital value change | Yield as at 2014 year end | Total return outlook |
|---|---|---|---|---|
| Singapore | 10% | 0-5% | 4% | 4-9% |

Source: 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield

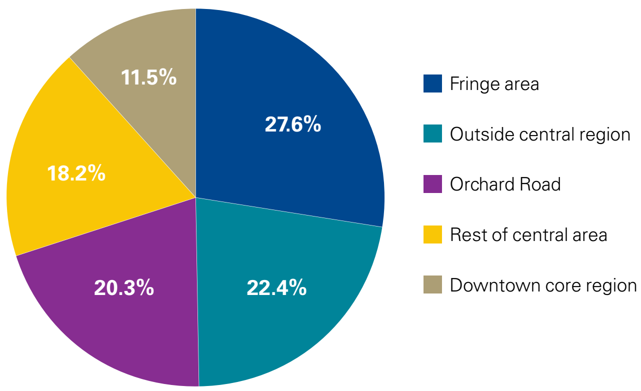
The submarkets within the CBD saw a sharp rise in monthly rentals compared to the previous quarter, with the highest increase being observed in Raffles Place (9.7 percent), followed by Marina Bay (9.3 percent).[158]

For the remainder of the year, rental growth is expected to further pick up and is projected to show a 10 percent YOY change backed by a tighter grade A supply and sustained demand.[159] An increase in the quality of office space required is also likely to be a key demand driver. Singapore is now emerging out of the trough in its business cycle and is anticipated to record one of the strongest rental growths in 2014.

## Retail market

The total stock of retail property in Singapore stood at 36.86 million ft$^2$ as at 1Q13. The fringe CBD accounted for the largest market share (27.6 percent) followed by the outside central region which accounted for 22.4 percent.[160] Other prominent locations included Orchard Road, the rest of the central area and the downtown core region.

**Market share of locations in retail property stock**




Source: 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013

[157] Ibid
[158] 'Marketbeat Office Snapshot – Singapore Q1 2014', Cushman & Wakefield
[159] 'Asia Pacific Office Market Outlook 2014', CBRE
[160] 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013

# Singapore

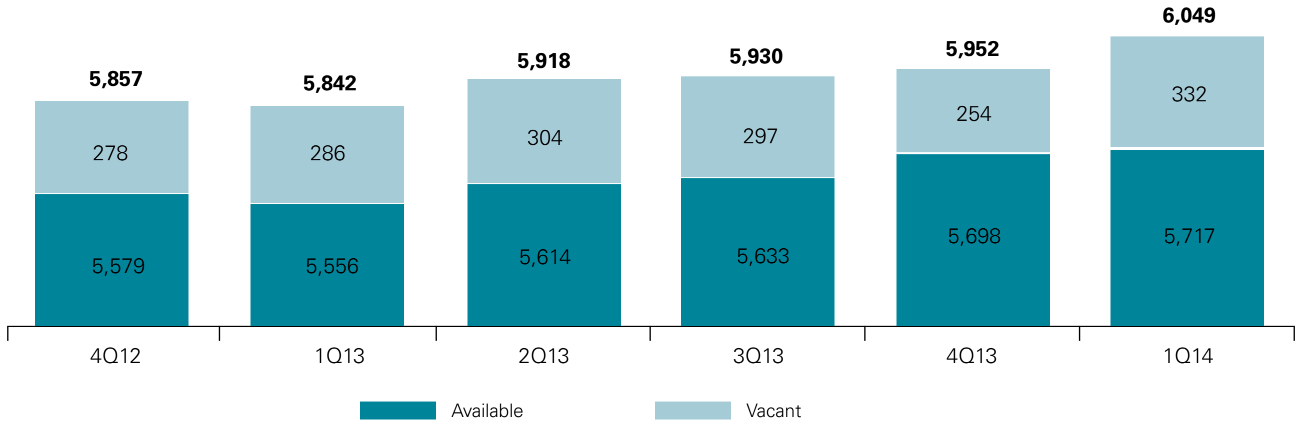
In recent years, there has been a strong and increased demand for new retail space. As a result, the market has grown by leaps and bounds.

From 2009 to 2012, 2.21 million ft$^2$ of new retail space was added to the total private retail supply, with the largest addition of 1.37 million ft$^2$ in the Orchard Road area in 2009.[161] Many malls opened up in this location, which also boasts Marina Bay Shoppes, Resorts World Sentosa as well as Nex, which constitute a major chunk of the total retail supply.

The total supply of retail space in Singapore is likely to increase to 5.65 million ft$^2$ by the end of 4Q17, with most of this potential supply concentrated in suburban locations.[162] With projects being more or less evenly distributed in 2014, it is expected that retail space sold on a strata-title basis will be more dominant in 2015 and that the downtown core region is likely to emerge as a popular location for supply in 2016.

In 2013, two new shopping malls – Jem (818,000 ft$^2$) and Westgate (420,000 ft$^2$) – opened in the Jurong Lake district. In the same year, East Village Hotel (43,700 ft$^2$), later renamed Village Hotel Katong, opened up at Marine Parade. In 2014, two new ventures – Bedok Mall (220,000 ft$^2$) and Orchardgateway (172,000 ft$^2$) – are scheduled for completion. Big Box – a 1.3 million ft$^2$ property in the Jurong East district built under the

**Supply of retail space (1,000m$^2$ net), 4Q12-1Q14**




Source: 'Monthly Digest of Statistics Singapore', Urban Redevelopment Authority, June 2014

[161] 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013
[162] Ibid

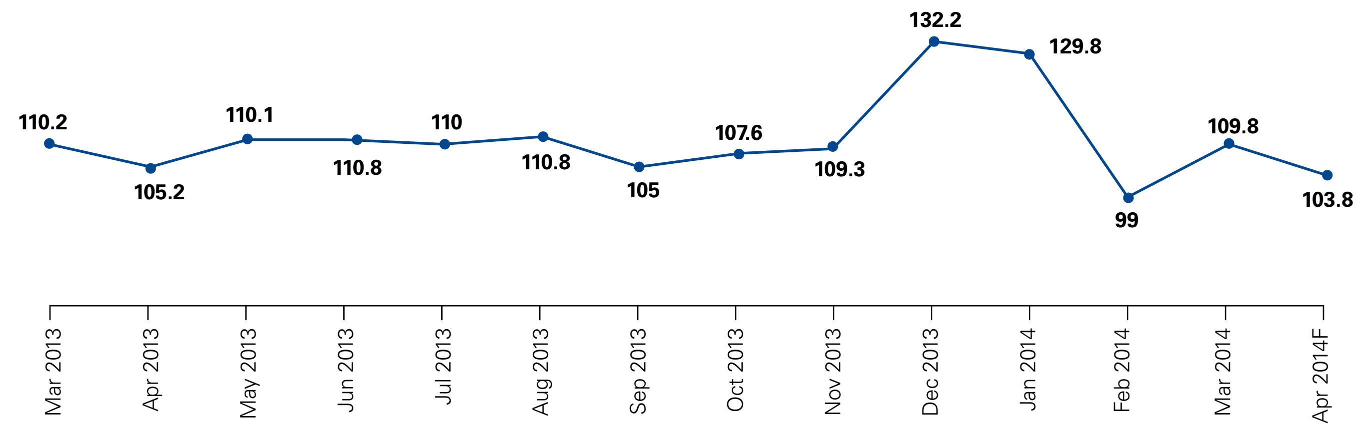
Singapore Economic Development Board's warehouse retail scheme – is also expected to start operating by the last quarter of 2014.[163] Another commercial property, Paya Lebar Square, is due to open in 2014-15.[164]

While the food and beverage (F&B) and fashion industries contributed vastly to the increased demand for retail space in 2013, the tightening labour market might put a strain on these industries, hindering plans for opening new retail outlets.[165]

Retail sales in Singapore inched up marginally by 0.2 percent in January 2014 compared to sales in December 2013, with sales of F&B services increasing by 4.3 percent.[166]

Domestic consumption plays a vital role in driving retail demand. In 4Q13, 54 percent of consumers were satisfied with the state of their personal finances for the next year, hinting at stable consumer confidence. Spending by tourists also plays an important role in determining demand. In 2013, the Singapore Tourism Board reported that the number of tourist arrivals hit a new peak of 15.5 million, with tourism receipts rising to SGD 23.5 billion. In 2014, these values are expected to grow to between 16.3 million and 16.8 million tourist arrivals and SGD 23.8-24.6 billion in tourism receipts.[167]

**Retail sales index (excluding motor vehicles)**



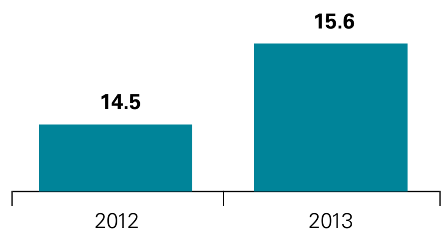

Source: 'Monthly Digest of Statistics Singapore', Urban Redevelopment Authority, June 2014

[163] 'Giant retail warehouse Big Box to open near Jurong East MRT', Today Online, 12 March 2014
[164] 'Singapore Office REITs – A bright spot in 2014', Daiwa Capital Markets, 18 February 2014
[165] 'Singapore Office and Retail Market Overview', CBRE, 8 June 2013
[166] 'Marketbeat Retail Snapshot – Singapore Q1 2014', Cushman & Wakefield
[167] Ibid

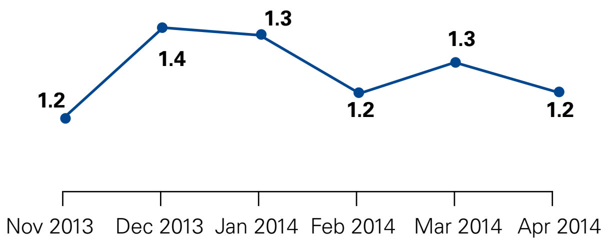


# Singapore

International visitor arrivals (millions), 2012-13




International visitor arrivals (millions), 2012-13




Source: 'Monthly Digest of Statistics Singapore', Urban Redevelopment Authority, June 2014

As the preferred location for retail outlets, Orchard Road commands a monthly rental premium of 15-25 percent.[168] However, the rent gap between malls in the prime Orchard area and the suburban area is consistently declining owing to the growing popularity of suburban malls.

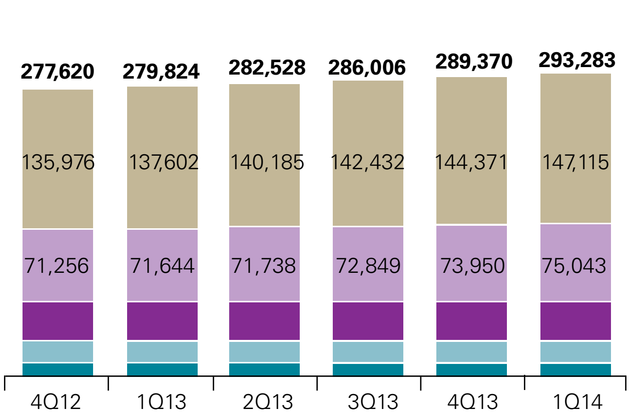
With stable consumer confidence and consistent spending from both locals and visitors, the outlook for the retail sector looks positive. It is anticipated that 2 million $ft^2$ of new retail space (currently under construction) will be completed by the end of 2014 and 500,000 $ft^2$ of new space will be added to the prime Orchard location.[169] Retail rents are expected to remain firm in the near term, despite the projected additions to retail space.

## Residential market

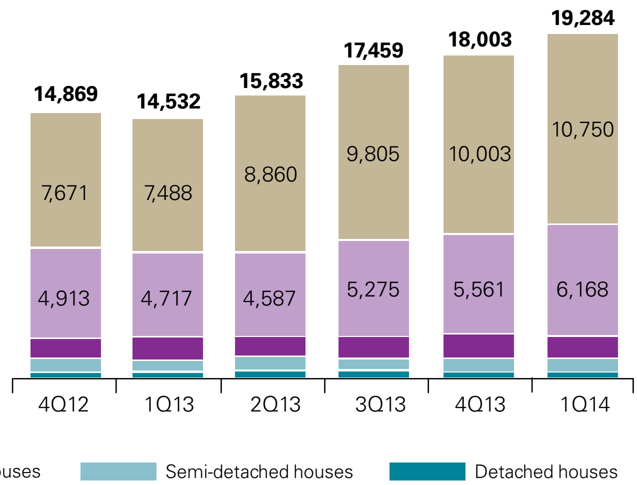
4Q13 witnessed a decline in residential launches, along with fewer new projects supplied by developers. An estimated 2,600 new homes were sold in this quarter, a figure slightly higher than in the previous quarter (2,430 units). Overall, 15,000 new homes were sold in 2013 compared to 22,197 units in 2012, marking a YOY decline of 32 percent.[170]

Duo Residences, a 660 unit apartment project in the Bugis area, as well as Alex Residences, were two major ventures during 4Q13. Based on the findings in 2013, the median price for a new home was estimated to be SGD 1.08 million and a decline in the median size from 883 $ft^2$ to 840 $ft^2$ was observed. The median price rose from SGD 1,160 per $ft^2$ to SGD 1,345 per $ft^2$.[171]

Available residential properties, 4Q12-1Q14




Vacant residential properties, 4Q12-1Q14




Source: 'Monthly Digest of Statistics Singapore', Urban Redevelopment Authority, June 2014

[168] 'Marketbeat Retail Snapshot – Singapore Q1 2014', Cushman & Wakefield
[169] Ibid
[170] 'Singapore MarketView – Q4 2013', CBRE
[171] 'Singapore MarketView – Q4 2013', CBRE

There was a sharp decline in the sale of secondary homes in 2013 to 6,500, from 13,214 in 2012.[172]

The government launched a scheme for the resale of executive condominiums (EC) in December 2013, according to which a resale levy would be introduced on homebuyers who currently own a Housing and Development Board (HDB) flat, and a 30 percent cap would be applicable on housing loans.[173] These measures are likely to lead to a decline in the demand for ECs.

For 1Q14, the buying activity in the housing market remained extremely moderate, with the resale of only 1,010 homes, representing a decline of 58 percent YOY and 27 percent QOQ.[174] The non-landed residential resale prices also fell across all areas. The resale price of luxury condominiums declined by 2 percent in 1Q14 following a 2 percent QOQ decline in 4Q13. In the secondary market, prices of prime freehold condominiums and suburban leasehold condominiums also decreased by 1.5 percent and 1.1 percent QOQ respectively.[175]

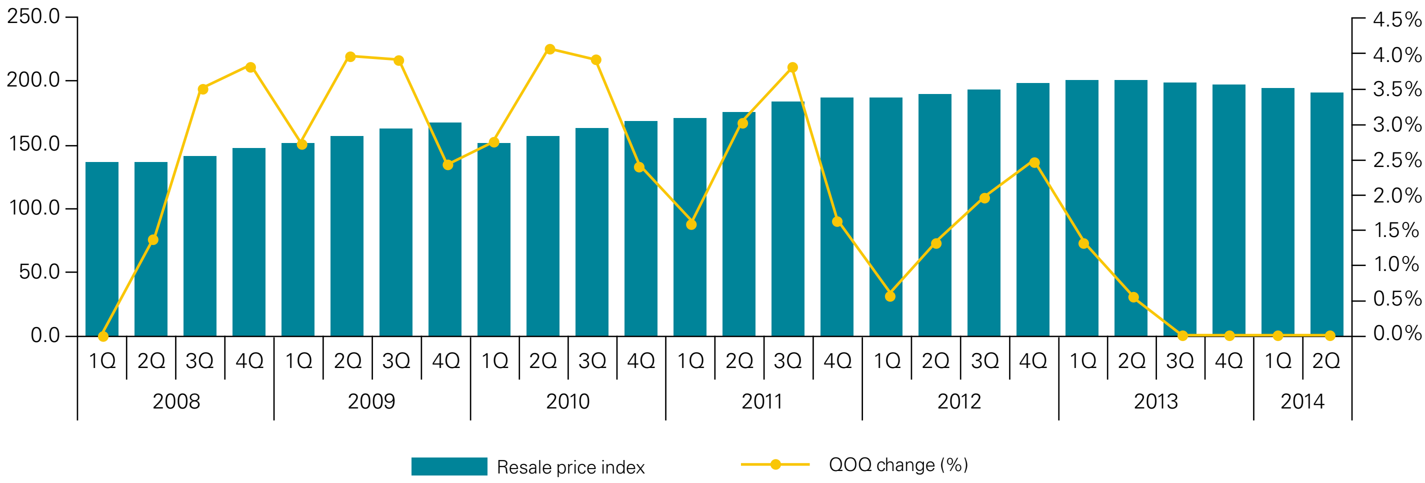
This slow activity in the secondary housing market can be attributed to stricter financing rules as a result of the Total Debt Servicing Ratio (TDSR)[176] framework and higher selectivity by buyers, due to expectations of declining prices. In fact, this buyer behaviour was reaffirmed when the finance minster announced during the Singapore Budget 2014 that it was too early to start relaxing cooling measures.[177] If these measures remain in place, activity in the housing market is expected to stay tepid, with buyers refraining from purchasing until there is a fall in prices.

However, demand for strategically located and competitively priced projects continues to remain high. With an increase in the number of completions of private residential spaces in 2014, along with a decrease in the demand for HBD flats or upgrades, the private residential resale prices are expected to decline by up to 10 percent this year.[178] This is likely to influence the demand for private housing properties.

In the Singapore Budget 2013, certain changes in the property tax system were announced, which took effect from 1 January 2014. These included revised property tax rates on a graduated scale of 0-15 percent of the annual property value for owner occupied residential properties and 10-19 percent of the annual value for non-owner occupied residential properties.

As a separate initiative, the government has also scaled down the supply of residential sites under the 1H14 Government Land Sales (GLS) Programme in view of the larger pipeline supply.

**Resale price index 1Q09-1Q14**

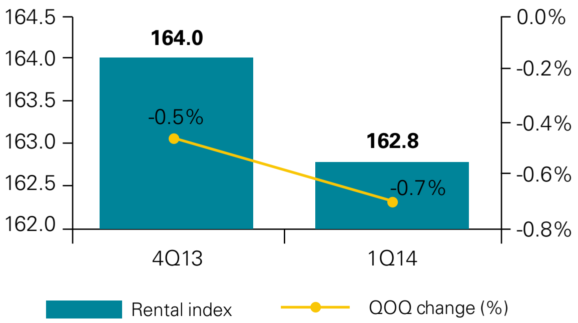



Source: Housing Price Index, Housing & Development Board, July 2014

172 Ibid
173 'Property Times Singapore Q1 2014', DTZ
174 Ibid
175 Ibid
176 TDSR shows the proportion of gross income that is already spent on housing-related and other similar payments.
177 The cooling measures included tighter financing conditions for residential property and some structural measures targeted at investment properties and foreign buyers.
178 'Property Times Singapore Q1 2014', DTZ

# Singapore

**Rental index of all residential properties, 4Q13-1Q14**




Source: '1st Quarter 2014 Real Estate Statistics', Urban Redevelopment Authority, Government of Singapore website, April 2014

This is likely to interfere negatively with the sales in the residential market. Thus, even though residential investments accounted for 41 percent of the activity in the real estate sector in 1Q14, it is anticipated that any further activity in the sector will be driven by non-residential deals rather than housing ones.[179]

Twelve land parcels were awarded under the GLS Programme, while eight residential sites on the confirmed list were granted a total of SGD 1.9 billion. In the private residential market, the housing site at Geylang East Avenue received 16 bids when the tender closed in January 2014.[180]

[179] 'Property Times Singapore Q1 2014', DTZ
[180] Ibid

## Thailand

# Political and economic recovery expected to drive real estate growth

### Macroeconomic overview

In 2013, Thailand's economy grew at 2.9 percent,[181] with exports, household consumption, investment and government spending all witnessing sluggish activity.[182]

Exports of goods and services are expected to grow 5 percent YOY, whereas gross fixed investment is expected to register a 4.1 percent YOY decline in 2014. External balance is likely to show a 3.2 percentage point improvement in terms of real contribution to GDP growth.[183]

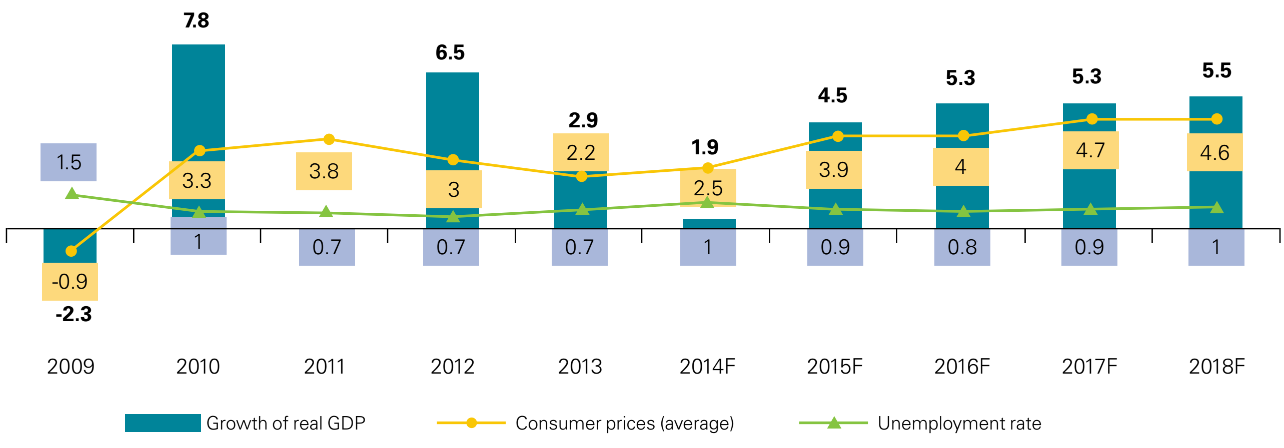
The Thai economy is expected to grow at a significantly slower pace in 2014, mainly because of the prolonged political uncertainty in 1H14 which had a disruptive impact on exports, public spending, and household and business sentiment. However, it is anticipated that the political development and stability in the second half will improve confidence among private enterprises and stimulate public spending. This will therefore improve domestic demand, which, if coupled with the recovery of exports, may enable the economy to gradually return to normal conditions in 2015 (4.5 percent growth rate in GDP).[184]

Forecast values for core and headline inflations for 2014 were revised upwards from 1.5 percent to 1.7 percent and from 2.5 percent to 2.6 percent respectively, mainly due to the pass-through of liquefied petroleum gas costs[185] to food prices and low domestic demand. The Bank of Thailand projects that inflation will remain stable at 2.5 percent in 2015.[186]

According to the World Tourism and Travel Council, Thailand's tourism industry is estimated to have generated revenue of USD 66 billion in 2013. The number of tourists fell 10.9 percent YOY to 1.9 million in July 2014 – a phenomenon that can also be attributed to the persisting political scenario in Thailand. The sector has yet to bounce back from six months of violent street protests that ended in May when the army carried out a coup. Nevertheless, the total number of international tourist arrivals still increased 4.3 percent YOY to 13.6 million in the first seven months of 2014.[187]

The outlook for Thailand's external sector seems challenging. A lack of competitiveness continues to plague the country's traditional labour-intensive export industries, particularly textiles and footwear. The situation seems even more severe when compared with countries such as China and lower-cost locations such as Cambodia, Vietnam and Bangladesh. It is anticipated that new regional rivals such as Laos and Myanmar will also gain ground. The government plans to counter the effects of this situation by promoting niche industries where the country has, or can easily develop, a comparative advantage.[188]

**Growth of real GDP, unemployment rate and rate of inflation (%), 2009-18F**




Source: EIU

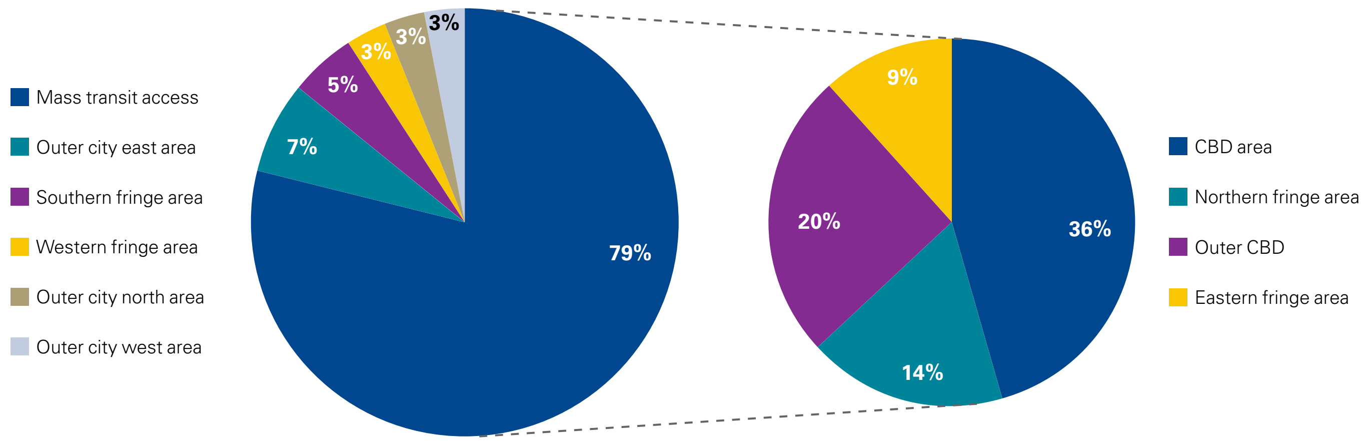
[181] 'Thailand: 5-year Forecast table', EIU, 27 August 2014
[182] 'Thailand Economic Monitor', The World Bank, February 2014
[183] 'Thailand: 5-year Forecast table', EIU, 27 August 2014
[184] Ibid
[185] Note: A pass-through is defined as the act, action or process of offsetting increased costs by raising prices.
[186] 'Monetary Policy Report', Bank of Thailand, June 2014
[187] 'Thailand economy: Quick View – Tourism slump continues', EIU, 19 August 2014
[188] 'Thailand economy: Ten-year growth outlook', EIU, 27 August 2014

## Office market

The completion of The Ninth Tower B, with a net lettable area of 23,530m$^2$, led to a marginal increase (0.3 percent QOQ) in total office supply in Bangkok in 1Q14. The vacancy rate was 9.2 percent – the lowest level registered since the 1990s – while the net take-up registered a 56.3 percent YOY increase to 55,645m$^2$.[189]

The ongoing political conflict in Thailand has had a detrimental impact on business sentiment, thereby negatively affecting the office market as well. The CBD witnessed weakened office market demand, with a 1.4 percentage point QOQ decline in occupancy rates in 1Q14, mainly owing to decreased demand from small and medium enterprises as they downsized or moved to more affordable locations. However, the demand for prime office space by large corporates was still strong, which had a buoyant impact on rentals.[190]

**Office supply by location, 1Q14**




Source: 'Research and Forecast Report – Bangkok Office Market 1Q 2014', Colliers

[189] 'Bangkok Overall MarketView, 1Q 2014', CBRE

[190] 'Property Times – Bangkok Q1 2014: Prolonged political conflicts weigh on property sector', DTZ, 22 April 2014

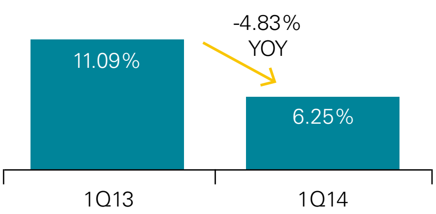
# Thailand

The total supply of office space in Bangkok at the end of 4Q13 was 8,066,400m$^2$ and is expected to grow to 8,175,500m$^2$ by the end of 2014. The CBD accounts for the largest share of the office market supply (36 percent), followed by the northern fringe area (20 percent) and the outer CBD area (14 percent). In the next two years, 302,000m$^2$ of office space is scheduled for completion. The northern fringe area accounts for most of this future supply (108,000m$^2$ in 2014 and approximately 60,000m$^2$ in 2015), mainly due to the cheaper land prices, availability of land plots and strategically constructed subways along Ratchadapisek Road.[191]

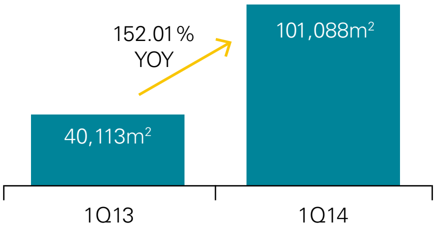
The average occupancy rate in the CBD district was 91 percent, while that in the outer CBD area and northern fringe area was 90 percent in 1Q14, with some new office buildings in the latter area showing an occupancy rate of 100 percent.[192] The average occupancy rate in these three main locations has been on the rise because the demand exceeds the supply. The average occupancy rate in the CBD area was slightly higher in 2Q14 compared to 1Q14.[193]

In 1Q14, the net absorption figures recorded a negative value for the first time in eight consecutive quarters.

**Overall CBD vacancy rate in Bangkok's office market, 1Q13-1Q14**




**Absorption rate in Bangkok's office market, 1Q13-1Q14**




Source: 'MarketBeat Office Snapshot – Bangkok Thailand, Q1 2014', Cushman & Wakefield

[191] 'Research and Forecast Report – Bangkok Office Market 1Q 2014', Colliers
[192] Ibid
[193] 'Property Times – Bangkok Q1 2014: Prolonged political conflicts weigh on property sector', DTZ, 22 April 2014

# Thailand

Despite the overall tepid sentiment in Bangkok's office market, rentals still showed a positive and upward trajectory in the first quarter. Of all the cities in Thailand, Bangkok accounted for the highest rentals, mainly because of its location and the presence of a large number of grade A buildings.[194] Office rents increased 4-8 percent across all grades and areas in the city. The average grade A rents in the CBD rose 1.5 percent QOQ and 5.7 percent YOY to THB 832 per $m^2$ per month in 1Q14. Owing to the limited supply and continued demand by larger corporates for good-quality prime office space, the office market rentals are forecast to continue to grow, though at a slower rate.[195]

Political instability in Thailand in 1H14 resulted in many multinationals postponing their plans to expand into the country. However, it is expected that some form of stability might be achieved in the second half of the year, which may have a positive impact on Bangkok's office market. New office buildings will be constructed, with a focus on environmentally friendly designs and specifications. It therefore seems likely that more LEED-certified buildings will be added to the office market in the future. In addition, the steadily growing rental rates may also play a major role in the increased supply of office space. Rising land prices may force developers to look for space outside the CBD, especially along Ratchadapisek Road (in the northern fringe area) and the outer CBD area.[196]

## Retail market

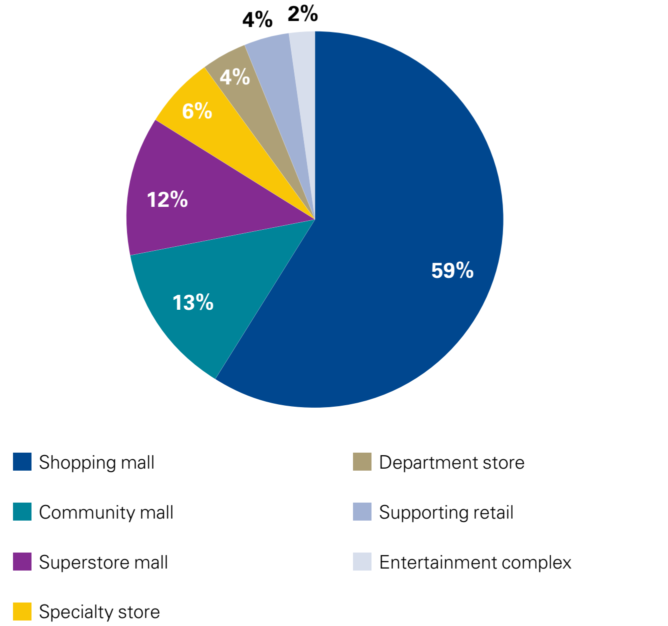
As at 1H14, the total retail space supply in Bangkok stood at 5.26 million $m^2$. With the completion of the new luxury shopping mall, Central Embassy, in June 2014, the retail stock in Bangkok's central retail district (CRD) totalled 573,045$m^2$.[197]

Approximately 136,300$m^2$ of retail space was supplied in 2Q14, of which community mall projects accounted for 60,300$m^2$ or 44.2 percent of the total. About 731,500$m^2$ of retail space is expected to be supplied in the second half of the year.[198]

Of the total retail space currently in the market, shopping malls account for the largest share (59 percent or 3.8 million $m^2$), followed by community malls (13 percent) and superstore malls (12 percent). Most of the shopping malls are concentrated in the main city area (27 percent), while 21 percent are located in the outer city.[199]

The future supply, targeted for completion in 2H14, consists of 636,500$m^2$ of retail space, of which shopping malls account for 359,100$m^2$ and community malls account for 247,300$m^2$. Most of these shopping malls will be located in the outer city and main city areas, whereas 72 percent of the community malls will be located in suburban Bangkok and other residential areas. Upcoming shopping areas include Bang Yai in western Bangkok, where developers such as Central Pattana Plc are scheduled to open Central Westgate in 2015. Siam Future Development Plc. and Ikano (Thailand) Co. Ltd also aim to launch Mega West (in Bang Yai) in 2015 and Mega East (in Rangsit) in 2016.[200]

**Breakdown of retail space in Bangkok and surrounding areas by category, 2Q14**




Source: 'Research and Forecast Report – Bangkok Retail Market 2Q 2014', Colliers

The average occupancy rate in the retail market for all types of retail outlets (shopping malls, department stores, superstore malls, specialty stores, entertainment complexes and community malls) is around 95 percent. The take-up rate for supporting retail, however, stands at 90 percent. In fact, some space in office buildings, otherwise reserved for supporting retail, has been converted into office space due to the limited number of retail clients.[201]

The political conflict in the country resulted in a drop in the Consumer Confidence Index to 68.8 in March 2014, indicating deterioration in the consumer outlook and leading to weaker purchasing power, and thereby slowing sales activity in the sector.[202]

There was essentially no change in the rental values in 2Q14 compared to the previous quarter. The highest rental rate was found in the city area. The rental rate in Bangkok's CRD in 1Q14 was THB 3,300 per $m^2$ per month, representing a slight increase from the THB 3,200 per $m^2$ per month value that prevailed in 1H14. The rent in the fringe and urban areas remained the same, at THB 1,960 per $m^2$ per month.[203]

194 'Research and Forecast Report – Bangkok Office Market 1Q 2014', Colliers
195 'Bangkok Overall MarketView, 1Q 2014', CBRE
196 'Research and Forecast Report, 1Q 2014', Colliers International, Bangkok Office
197 'Marketbeat Retail Snapshot – Bangkok, Thailand, 1H14', Cushman & Wakefield
198 'Research and Forecast Report – Bangkok Retail Market 2Q 2014', Colliers
199 Ibid
200 Ibid
201 Ibid
202 'Property Times – Bangkok Q1 2014: Prolonged political conflicts weigh on property sector', DTZ, 22 April 2014
203 'Marketbeat Retail Snapshot – Bangkok, Thailand, H1 2014', Cushman & Wakefield

## Residential market

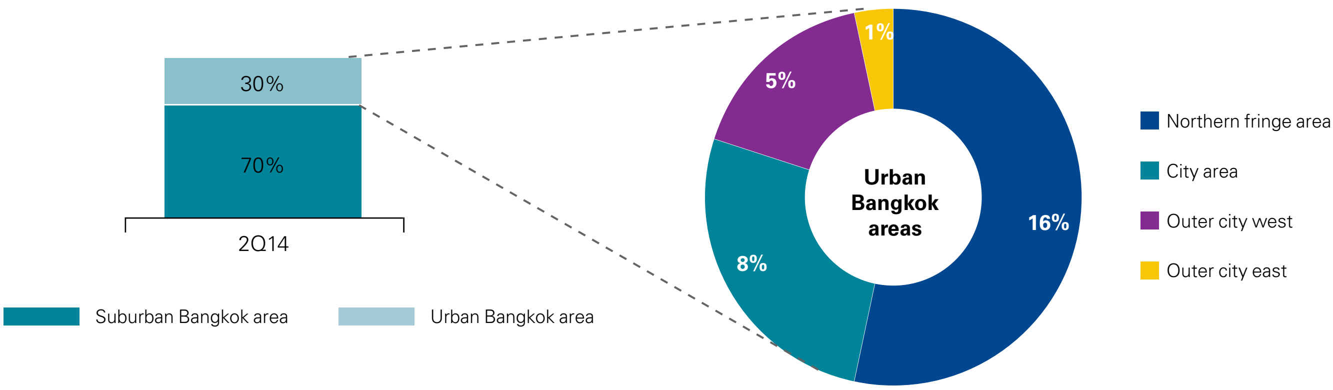
**Bangkok's condominium market**

There was a sharp decline in the number of new condominium launches in 1Q14, mainly because of the rising house debt burden and falling consumer sentiment due to the political situation in Thailand. In the first quarter, there was only one condominium launch in the CBD, with 139 units. The non-CBD fringe and suburban residential neighbourhoods, such as Phaholyothin, Ratchadapisek and Thonburi, accounted for the majority of new launches.[204] Many known developers adopted a wait-and-see approach in 1Q14.

However, analysts perceive a positive outlook for the property market for the second half of the year. The number of new launches in 2Q14 increased 26 percent QOQ, with the completion of 12,710 new units. Many condominium projects, consisting of more than 7,000 units, were launched in June 2014, while 5,000 such units were launched in April and May.[205]

Bangkok's urban area accounted for almost 30 percent of the new launches in 2Q14, of which the northern fringe area accounted for the largest share. Nearly 70 percent of the launches were located in suburban Bangkok. Most of these were priced lower than THB 2.5 million per unit. In urban Bangkok, 65,560 units are scheduled for completion, while 35,780 units are to be launched in suburban Bangkok in 2H14.[206]

**Newly launched condominium units in 2Q14 by location**




Source: 'Research and Forecast Report – Bangkok Condominium Market 2Q 2014', Colliers

[204] 'Property Times – Bangkok Q1 2014: Prolonged political conflicts weigh on property sector', DTZ, 22 April 2014

[205] 'Research and Forecast Report – Bangkok Condominium Market 2Q 2014', Colliers

[206] Ibid

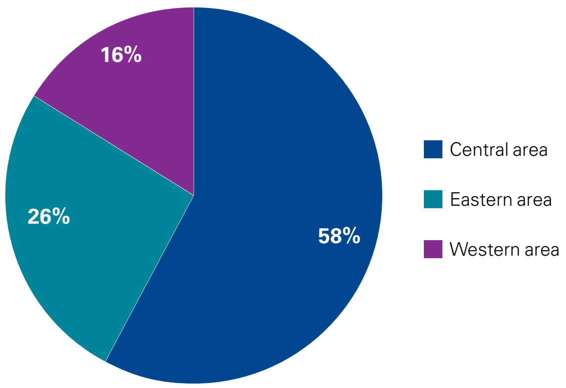
# Thailand

The average take-up rate in 2Q14 was 64 percent – significantly higher than that in 1Q14. If we look at the occupancy rate across the city, we find that it is highest in the main city area, followed by suburban Bangkok and then outer city west areas. Looking at the average selling price, it is highest in the city area at almost THB 150,000 per $m^2$ (100 percent higher than the average price in Bangkok city as a whole), followed by THB 111,700 per $m^2$ in the northern fringe area. The average selling price of all locations in 2Q14 was THB 75,500 per $m^2$ – representing an 18 percent QOQ increase.[207]

Overall, the condominium market in 2014 may fare better than what was expected at the beginning of 1Q14, mainly due to the recovery of buyer and developer confidence in June.[208]

## Khao Yai's residential market[209]

**Residential supply by location in Khao Yai, March 2014**




Source: 'Research and Forecast Report – Khao Yai Residential Market, March 2014', Colliers

Khao Yai accounts for a supply of 6,180 residential units, with most of the projects located along Thanarat Road (in the central area), connecting Mittraparp Road and Khao Yai National Park. More than 58 percent of the total supply, comprising 3,600 units, is concentrated in the central area.

The majority of the residential projects consist of plots of land (in development) for sale. There are also a few condominium projects, but these have a high take-up rate. Since 2012, condominiums have been featuring as attractive residential options in the market, mainly because they are easier to maintain and have lower prices than houses and villas. Nearly 810 condominium units were launched in Khao Yai in 2013.

Rather than being a key property hub, Khao Yai is considered a popular spot for weekend getaways. As a result, approximately 1,400 units are still vacant in the market.

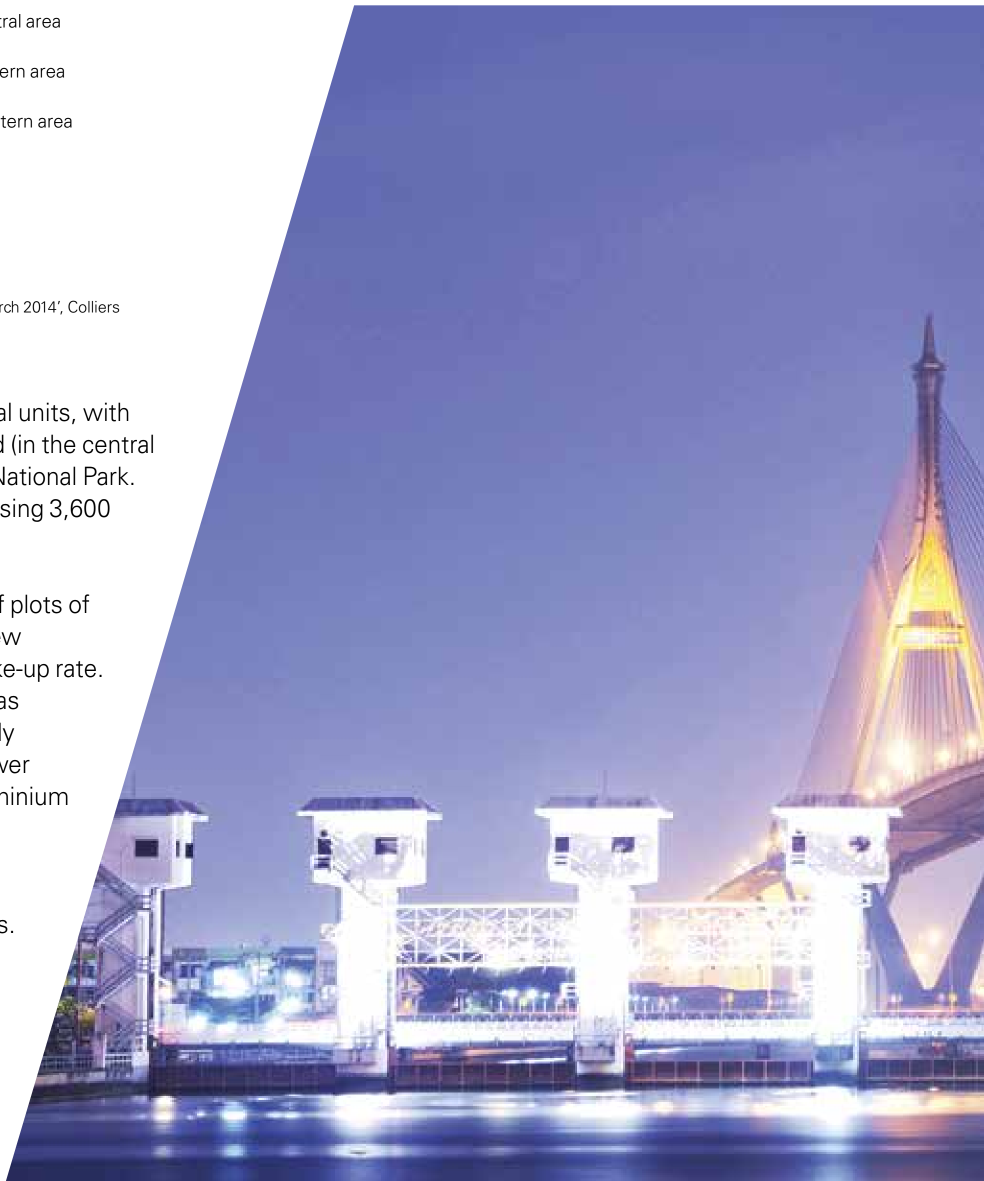
The average selling price for condominiums is highest in eastern Khao Yai at THB 80,000 per $m^2$, mainly because of the picturesque views they offer, as well as their proximity to the golf course. The western area offers the lowest selling price for residential properties at THB 68,900 $m^2$.

## Phuket's residential market[210]

1Q14 saw many condominium launches compared to the previous quarter. While only two new projects were launched in 4Q13, seven such projects were launched in 1Q14.

Attempts at keeping condominium and apartment prices below THB 5 million (in order to capture market demand by building smaller units) have led to an increase in their price per $m^2$. There was a 21 percent YOY growth in total supply in the first quarter, with 3,000 projects scheduled for completion by the end of 2016.

[207] 'Research and Forecast Report – Bangkok Condominium Market 2Q 2014', Colliers
[208] Ibid
[209] 'Research and Forecast Report – Khao Yai Residential Market, March 2014', Colliers
[210] 'Phuket Residential MarketView, Q1 2014', CBRE



The area has witnessed an increase in the number of Thai buyers investing in Phuket off-plan sales, notably at Dinso Residence (Patong). Affordable projects situated in the centre of the tourist area, which have strong rental potential, have also received a positive response from Thai buyers.

There was improved activity in Phuket's villa market in 1Q14, where 89 villas were sold as opposed to the 67 villas sold in the previous quarter. However, the total sales value decreased from THB 1.6 billion in 4Q13 to THB 1.4 billion in 1Q14. In terms of sales volume, the entry-level market sector remained the most active. Demand for affordable resort property increased, with most of the demand being directed at Laguna Park Villa and Laguna Park Townhomes, each of which sold around 28 units. Most of the villa buyers in the first quarter were from the UK, Russia, Germany, Hong Kong and Singapore, and focused on the entry-level and mid-range villa segments.

### Luxury hotel market

The number of tourist arrivals in Bangkok increased 19.8 percent YOY to 26,556,397 in 2013. Chinese arrivals grew 69.1 percent YOY and accounted for the largest share (17.5 percent) of all international arrivals. The increased number of tourists contributed towards a rise in occupancy rates, average daily rates and revenue per available room (RevPAR). This was despite the fact that the number of rooms in Bangkok also grew 10 percent YOY.[211]

On average, all hotels performed better than in 2012, with their occupancy rates increasing from 70 percent in 2012 to 75 percent in 2013. The ADR increased 7 percent YOY to THB 3,200 in 2013, while the RevPAR rose 13 percent YOY to THB 2,400.[212]

It is expected that the total supply of hotel rooms in Bangkok will rise by 16 percent until 2017.[213] However, the short-term outlook is negative, mainly owing to the political conflict in the country. According to the Tourism Authority of Thailand, the number of tourists in Thailand fell 10.9 percent YOY in July 2014, following a 24.4 percent and 10.7 percent YOY decline in June and May respectively.[214]

[211] 'Bangkok Luxury Hotel MarketView, Q4 2013', CBRE
[212] Ibid
[213] Ibid
[214] 'Thailand economy: Quick View – Tourism slump continues', EIU, 19 August 2014

## Vietnam

# Signs of recovery seen through uncertainties

### Macroeconomic overview

Total GDP growth in 2013 was estimated at 5.42 percent, bringing the country's total GDP to over VND 2,500 trillion, marginally lower than the 5.5 percent target set by parliament, but still higher than the 2012 rate of 5.25 percent.[215]

The 2013 inflation rate is around 6.6 percent, the lowest recorded in 10 years, and far less than the 8 percent target set by the National Assembly earlier in 2013.[216]

Surveys and statistics showed that employment prospects in Vietnam were positive. Specifically, the survey of employment in 4Q13, conducted by the General Statistics Office of Vietnam and the International Labour Organization, revealed that the number of jobs rose by 862,000 – i.e. 1.7 percent – in 4Q13 compared to the same period in 2012.[217] The fastest job growth belonged to the foreign-invested sector, with 4.8 percent more than in 2012.[218] Most of the new jobs were created in the service, industry and construction sectors.

According to the Foreign Investment Agency under the Ministry of Planning and Investment, newly registered FDI capital as at December 2013 increased by USD 7.6 billion to USD 21.6 billion, an increase of 54.5 percent over the same period in 2012, bringing the total registered FDI capital in Vietnam to USD 78.5 billion. FDI disbursement in 2013 was estimated at USD 11.5 billion, up 9.9 percent from 2012.[219] These are impressive numbers given the difficult period that the world economy was still facing at the time.

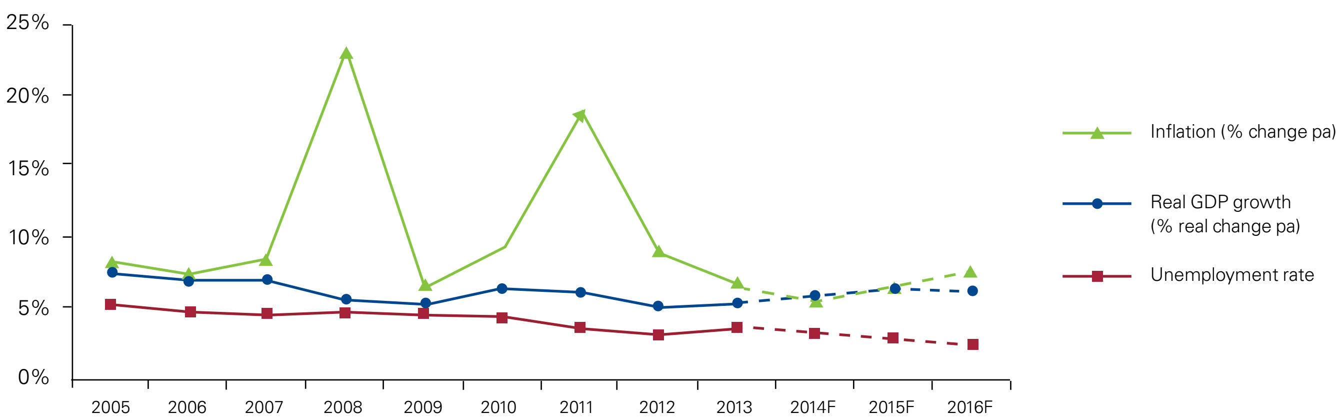
Vietnam's property market was still sluggish in 2013, reflecting a rise in inventory because of slow sales of newly built apartments in Hanoi, Ho Chi Minh City and other big cities.

In an attempt to stimulate the property market and resolve the bad debt situation, the government announced a new loan scheme totalling VND 30 trillion (USD 1.42 billion) for homebuyers and property developers to borrow at an annual interest rate of a maximum 6 percent for a period of at least 10 and 5 years respectively.[220]

Another government attempt is reflected in the newly rectified Land Law which took effect on 1 July 2014,[221] as well as the draft revised Law on Real Estate Business and the draft revised Law on Housing.[222]

The main changes in the new laws are to provide more equal opportunities for Vietnamese and foreign investors in the real estate sector. For instance, the new Land Law for the first time provides that land can be allocated to foreign entities which invest in residential housing projects for sale and lease. This is an important step towards removing procedural differences between the rights of domestic and foreign investors. The new Land Law also expands the circumstances whereby foreign investors will be compensated if the government recovers land from them. The draft Law on Housing reserves one chapter for housing in Vietnam for foreign organisations and individuals, and for Vietnamese people living abroad, which includes nine articles regarding these beneficiaries' rights to own, rent and lease houses.

**Economic indicators**




Source: EIU

[215] 'Vietnam's top 10 economic events of 2013', Tuoi Tre News, 6 January 2014
[216] '2013 inflation rate to be kept at 8 percent', Voice of Vietnam, 2 December 2012
[217] 'Report on labour force survey 2013', General Statistics Office of Vietnam
[218] 'Vietnam among countries with the lowest unemployment rates', VietNamNet Bridge, 2 January 2014
[219] 'FDI jumps by half despite economic gloom', Tuoi Tre News, 29 December 2013
[220] State Bank of Vietnam, 16 May 2013
[221] 'Land Law No.45/2013/QH13', Investment & Trade Promotion Center of Ho Chi Minh City, 29 November 2013
[222] 'Vietnam Business Forum, 22 Oct 2013

Together with a more open regulatory framework for foreign investors in real estate projects, financial burdens such as income taxes have also been reduced. The standard corporate income tax rate decreased from 25 percent in 2013 to 22 percent in 2014, and will decrease to 20 percent in 2016.[223]

With all the new developments in regulatory and tax frameworks as well as market self-adjustments, Vietnam's real estate market at last shows signs of turning. Construction activities are resuming and demand is picking up. Furthermore, there was a noticeable surge in mergers and acquisitions (M&A) activity in the domestic property sector at the end of 2013 and the first half of 2014.[224]

### Office market

Ho Chi Minh City's leased office space market saw stable demand during 2013, while the occupancy rate increased gradually in grade A and fluctuated in grade B buildings. However, there was an overall recovery trend, which may be attributed to high demand and low stock growth during the year. According to Savills, average occupancy in 4Q13 achieved 89 percent, the highest in the previous four years.[225]

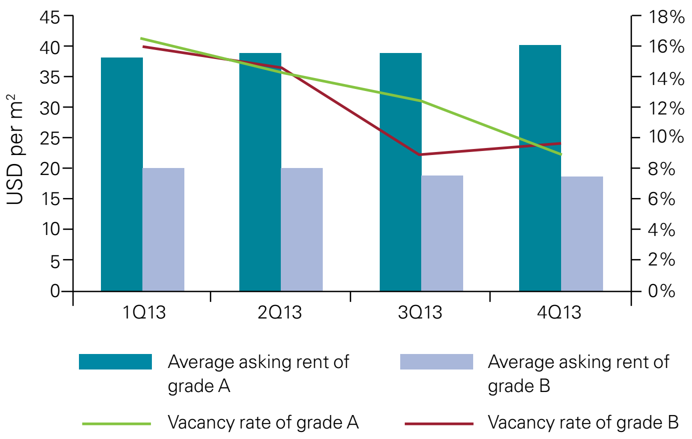
223 'Law No.32/2013 to amend the law on enterprise income tax', Investment & Trade Promotion Center of Ho Chi Minh City, 19 June 2013

224 'Domestic investors aggressive in realty M&A deals', The Saigon Times, 19 August 2013; 'Property sector in H1 defined by M&A flurry', Vietnam Investment Review, 14 July 2014

225 'HCMC Office Briefing Q4 2013', Savills

# Vietnam

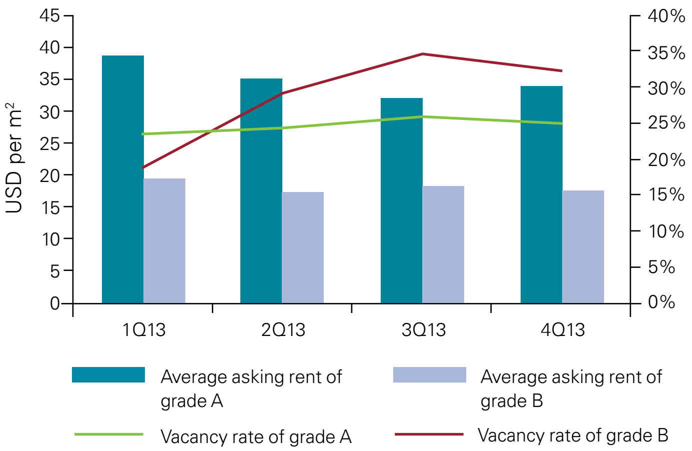
**Vacancy rate and average asking rent in Ho Chi Minh City**




Source: Colliers International

The Hanoi market was going on a different track. The vacancy rates of grade A buildings increased slightly, while those of grade B buildings increased sharply in the first three quarters and slightly decreased in the last quarter of the year. Savills reported that average rent continued to decrease for nine consecutive quarters to approximately USD 18.8 m²/month, down 2.6 percent QOQ and 10 percent YOY.[226]

**Vacancy rate and average asking rent in Hanoi**



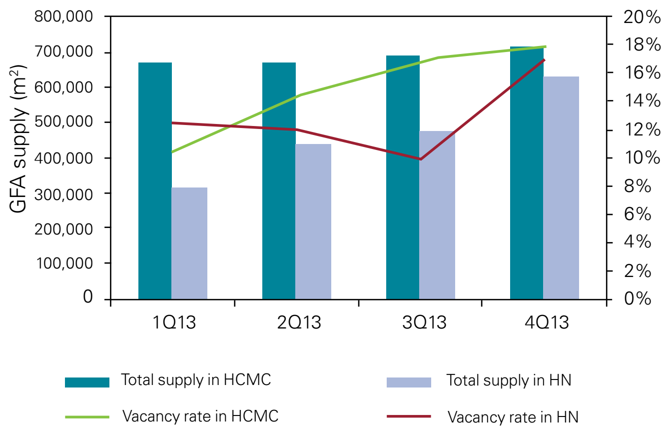

Source: Colliers International

## Retail market

The Vietnamese retail market has a significant retail space inventory.

The total retail stock in Ho Chi Minh City increased slightly from 675,000m² in 1Q13 to 715,000m² in 4Q13.[227] According to Savills, the 2013 YOY stock growth rate in Ho Chi Minh City was the lowest in the previous four years.[228] The occupancy rate continued to decline but the rate of decline slowed down in the last quarter of 2013. The retail market in Ho Chi Minh City is expected to have a better year in 2014, with more new supplies and more entries of foreign retailers following the successful opening of Starbucks and McDonald's.

**Total supply and vacancy rate in Ho Chi Minh City (HCMC) and Hanoi (HN)**




Source: Colliers International

In Hanoi, the total retail stock doubled from 314,000m² in 1Q13 to 632,000m² in 4Q13,[229] mostly due to the opening of Vincom Mega Mall Times City, supplying approximately 100,000m² in gross floor area.[230] As a result of the new supplies, the vacancy rate increased significantly in one quarter from 10 percent in 3Q13 to 17 percent in 4Q13.[231]

Moving forward, Vietnam will have to permit the opening of wholly foreign-owned retail businesses as part of the World Trade Organization's (WTO) commitments from 2015, which may generate demand for retail space from foreign retailers entering the Vietnam market. According to CBRE, strong interest from international retailers in Vietnam will help increase competitiveness among retail players and require domestic players to be well prepared and have better management and operation models.[232]

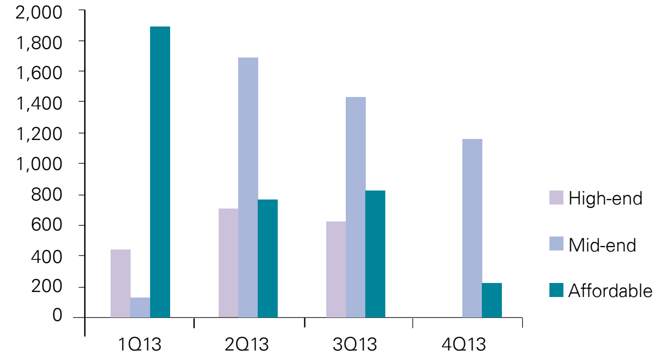
[226] 'HN Office Briefing Q4 2013', Savills
[227] Colliers International
[228] 'HCMC Retail Briefing Q4 2013', Savills
[229] Colliers International
[230] 'Hanoi MarketView – Q4 2013', CBRE
[231] 'Vietnam Knowledge Report 4Q 2013', Colliers International
[232] 'Hanoi MarketView – Q4 2013', CBRE

## Residential housing market

After several years of falling house prices, Vietnam's housing market seems to be gradually improving. According to CBRE, a series of launching and groundbreaking events were celebrated in 4Q13.[233] In contrast to a few years ago, developers now pay more attention to marketing their developments to attract the public. These events were not only for launching new projects but also for groundbreaking events, the completion of projects and even for the opening of model houses. Concurrently, the government actively bolstered demand through several favourable policies to homebuyers, such as the 50 percent reduction of value added tax (VAT) for leasing or selling commercial houses smaller than 70m$^2$ and lower than VND 15 million per m$^2$. This VAT reduction was effective for the period from 1 July 2013 to 30 June 2014.[234]

According to CBRE, the condominium market continued to see cautious new launch activities in 4Q13, while relaunch activities were very active since developers were more concerned about clearing outstanding stock than releasing new products. An interesting development is developers' shifting focus from low-priced products to mid-priced products. CBRE explained that this signifies that market expectations about economic outlook have improved, and that people are now more confident about spending money.[235]

**Ho Chi Minh City and Hanoi – New condominium launches (units)**




Source: Colliers International

According to Colliers International, affordable condominiums remained active at an average asking price of USD 740 per m$^2$.[236] The asking prices in the secondary market dropped slightly as individual investors felt pressure from primary developers' promotion programmes, namely discounts, flexible payment terms, move-in conditions, and free management fees and parking fees.

[233] 'Ho Chi Minh City MarketView – Q4 2013', CBRE

[234] 'Law on amendments to the law on value-added tax', Investment & Trade Promotion Center of Ho Chi Minh City, 19 June 2013

[235] 'Hanoi MarketView – Q4 2013', CBRE

[236] 'Vietnam Knowledge Report 4Q 2013', Colliers International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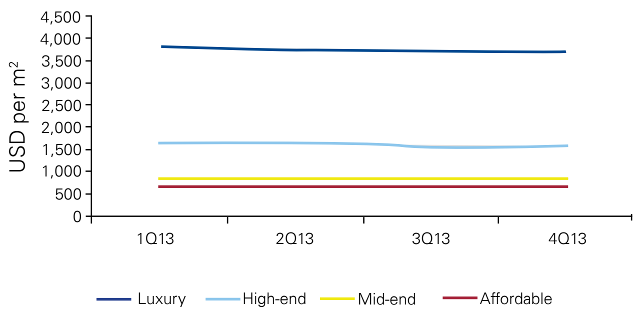
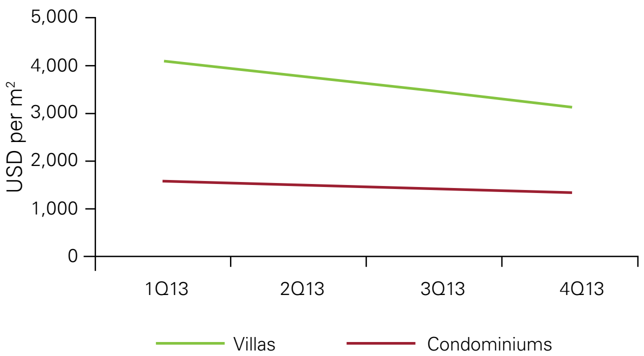
**Secondary asking price (USD/m²) of condominiums in Ho Chi Minh City**




Source: Colliers International

Colliers International reported that the average asking price in the primary residential market dropped from USD 752 to USD 728 per m², a slight decrease of 3 percent from 3Q13.[237] The asking price in the secondary market also dropped 1.1 percent. However, the government's VND 30,000 billion stimulus package seems to be more active in 4Q13 than in the previous quarters since housing demand at the end of the year generally increases.

**Secondary asking price for villas and condominiums (USD/m²) in Hanoi**




Source: Colliers International

## Real estate debt market

The State Bank of Vietnam (SBV) reported that as at July 2013, total non-performing loans (NPLs) of credit organisations were valued at over VND 138 trillion (USD 64.8 billion).[238]

This debt problem has, in part, been caused by the proliferation of loans from the real estate asset bubble in the late 2000s. Many banks relaxed their lending requirements, and property buyers and developers were able to obtain credit easily. When the real estate sector froze in 2010, borrowers were unable to pay back their loans.

According to the Central Institute for Economic Management, the operation of the real estate market still depends heavily on the flow of money from the commercial banking system. The banking system's bad debts in the real estate sector grew very fast and were extended on a large scale – up to 46.4 percent of the total bad debts of the whole system.[239]

To tackle NPLs, the government issued Decree 53/2013/ND-CP dated 18 May 2013 on the establishment, organisation and operation of Vietnam Asset Management Company (VAMC). VAMC's core business activity is purchasing NPLs from Vietnamese credit institutions to alleviate the burden that NPLs have placed on the balance sheets of Vietnamese commercial banks and other credit institutions. VAMC has the power to sell the collateral, including real property assets, as if it were the lender, without the need to amend existing security documentation.

VAMC is an effort by the government to restructure the banking system and resolve the bad debt situation. However, whether VAMC will help resolve the country's banking crisis remains to be seen.

[237] 'Vietnam Knowledge Report 4Q 2013', Colliers International

[238] 'VAMC starts handling non-performing loans', Online Newspaper of the Government of the Socialist Republic of Vietnam, 17 September 2013

[239] 'Vietnam Real Estate Market: Heavily Dependent on Financial Markets', Vietnam Business Forum, 9 July 2014

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