Asia Market Snapshot Q2 2015

ASIA CAPITAL MARKETS AND INVESTMENT SERVICES

Accelerating success.

Introduction

The persistent uncertainty over the timing of the first interest-rate rise by the U.S. Federal Reserve has continued to dampen global investment activity. Many investors maintain their cautious stance and remain on the sidelines. The Fed recently signalled that a rate hike is still on the cards for 2015 though it may now be pushed back to closer to the end of the year.

Although real estate transaction volumes were relatively sluggish in Q1 2015, there are signs that activity is picking up as market sentiment gradually improves. We beginning to see Chinese capital moving out from the Chinese securities market into real estate, particularly the first tier cities.

Shanghai Grade A offices and business parks remain top picks for institutional investors. In Hong Kong, office rents continue to rise, while the industrial sector is seeing a lot of institutional interest, with buyers chasing value-add and revitalisation opportunities.

More sellers are also emerging in Singapore's luxury residential segment as they run out of patience amid the prolonged down cycle. Some owners would rather cash out of poorer performing assets to reinvest in other higher-yielding options.

We note several other key trends across Asia:

- The second half of 2015 could see more investment deals in the office and retail sectors as the discrepancy between the expectations of sellers and buyers in terms of capital values continues to narrow.
- Yields are likely to compress, particularly in Asian core markets such as Tokyo and Sydney, while investors continue to favour core investment products such as the logistics sector.
- Outbound Asian investors continue to show an unwavering preference for Grade A offices in the core business districts of gateway cities such as New York, London, Sydney and Melbourne.

In this issue of our Asia Market Snapshot, we review the latest real-estate trends at play in the region. My colleagues across Asia also provide you with the latest intelligence so you can make informed investment decisions.

Terence Tang
Managing Director
Capital Markets & Investment Services I Asia

Shanghai

Betty Wong

Shanghai's investment market saw plenty of activity in the second quarter of 2015, with investors carrying out a total of six en bloc transactions. The office sector remains the most-popular investment target in Shanghai thanks to the ease of access to deals and the wide range of properties available. Insurance companies and pension funds continue to focus on the core CBD. But business parks are currently attracting the most attention from investors, accounting for four of those six deals. End users and developers are displaying a growing appetite for vacant or under-construction buildings in decentralized areas, looking to capitalize on the improvement in the city's transport infrastructure, as well as its solid economic fundamentals.

As for the retail sector, international investors and developers own most of the investment-grade malls, and at the moment there is no pressure on them to divest of those holdings. So investors have to work hard to find suitable opportunities. However, Colliers expects the lull in activity in this sector to be disrupted in the medium term as deal volume picks up.

Beijing

George Yeung

Domestic end users were actively seeking office space, and there was one en-bloc transaction in Q2 2015. Poly International Plaza T3, located in the neighbourhood of Wangjing, was sold to a domestic company for a total consideration of approximately RMB1.3 billion (US$200 million), with a total GFA of 23,880 square metres.

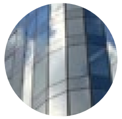
At the moment, Beijing's office and retail property markets benefit from investors proactively sourcing deals. The volume of interest and enquiries from both international and domestic institutional investors is growing because it is easier to get finance and because gradually more and more investment-grade assets are coming up for sale in core areas, such as the CBD and Zhongguancun. The discrepancy between what sellers and buyers are expecting in the way of capital values is gradually narrowing, as some vendors become more realistic. We anticipate more investment deals in the office and retail sectors over the course of 2015.

Shenzhen

Douglas Lin

In the first half of 2015, the Shenzhen real-estate market for office space saw demand surpass supply. The outlook is positive for the rest of the year, underpinned by strong economic fundamentals.

Although Shenzhen maintained its restrictions on residential real estate, the market was strong in the first half of the year. Sustained demand caused an increase in average sales price and transaction volumes. In comparative terms, the sales volume of two-bedroom units dominated the market in the first half of 2015. Colliers expects the average sales price of commodity housing to increase steadily in the remainder of 2015.



Chengdu

Jacky Tsai

Residential sales picked up in the second quarter in terms of volume. The authorities approved lower downpayment rates, and developers released more projects with other incentives, trying to reduce their stockpiles and generate cash flow. So transaction volumes increased while prices stayed stable.

Most office projects in Chengdu are strata-titled, and due to the huge supply of similar product, sales are slow. Institutional investors are still looking for single-owned office projects, but they realise that future supply is low, meaning it's likely there will be limited investment action.

Hong Kong

Antonio Wu

In general, market activity improved a little in Q2, mapping the rally in stocks. But in the end, there weren't too many transactions. That has changed as we move further into the year, with residential prices as well as transaction volumes surging in both primary and secondary markets. The office-rental market in Central and the CBD continues to rise, and strata-title sales have picked up, with more end users and investors buying. There has still been a lot of institutional interest in the industrial sector, with investors chasing value-add or revitalization opportunities.

The retail and hospitality sectors continue to face challenges such as declining retail sales for luxury items. There's another challenge from the decline in visitors from mainland China and Southeast Asia. Retail rents have been falling since Q1, and vacancy rates have been rising.

Thailand

Narin Phumviwattanasirikul

The Thai economy remains sluggish, with official estimates of GDP growth now reduced to around 3% for 2015. But there is some progress on large infrastructure projects, which will be an important growth driver going forward. Although overall demand in the residential sector has slowed, the high-end market continues to do well, and consumer spending has not suffered. Investment opportunities are becoming more evident, with strong demand from local and regional investors for income-generating assets. Tight supply in the office market has seen rents continue to rise at a moderate rate. The sector may get an additional boost from new incentives to open international operating headquarters, while the industrial sector continues to power ahead thanks to new incentives for higher value-added industries from the Board of Investment. Thailand also benefits from the country's increasing integration as a manufacturing hub for the ASEAN region.

Singapore

Stella Hoh

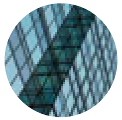
Overall investment in Singapore remains muted, with concerns over rising interest rates and the lack of investment-grade assets. Residential home prices, especially for luxury properties in prime districts, have been falling for six consecutive quarters, since 2013. Some sellers are clearly running out of patience amid the prolonged down cycle in luxury-residential property and would rather cash out of poorly performing assets to reinvest in other higher-yielding options. On the other hand, we have seen record-breaking deals in good class bungalows (GCBs) this quarter, with a record price of S$2,190 per square foot set from the sale of a GCB in Bishopsgate. We expect the price of GCBs to hold firm this year due to their exclusivity and lack of supply. Market watchers also anticipate that the government will ease its current property-cooling measures towards the end of the year.

Japan

Doug Smith

The economy and market continue to strengthen. The expected cap rate for Class A office buildings in the Tokyo CBD is now 3.8%, and it is 4.9% for studio-type rental apartment buildings, equal to or lower than the last market peak in October 2007. However, with a current 10-year government bond yield of about 0.5% (and a mean yield over the past 15 years of approximately 1%), an expected cap rate of 3.8% for the highest-quality office buildings is very reasonable, with room for further tightening given historical real-estate risk premiums. Additionally, a host of factors are supporting the real estate market:

1) The weak yen makes the market cheap for foreign investors, in all asset classes.
2) The increasing numbers of foreign visitors introduces more spending.
3) The upcoming Olympics benefit the hotel and retail sectors.
4) Healthy banks provide prudent debt at favorable rates for all asset classes.
5) Rising office rents are still 30% off the most recent highs.
6) A vibrant REIT market provides liquidity and transparency.
7) Domestic institutional investors are very underweight real estate and plan to boost holdings.



Taiwan

Derek Huang

Mainly due to cooling measures imposed by the government, transaction volumes dropped 60% in the first half of 2015 compared to a year ago. Overall, prices have softened, while buyers are enjoying more room for negotiation. However, we don't expect a significant price correction because financing costs remains low, and supply is still limited in prime locations in Taipei.

Hospitality and development projects are the key drivers of the market. We see strong momentum in the hospitality market thanks to demand fromboth domestic and overseas tourists, which only seems set to increase.

Investors are in search of hotel investment opportunities. The Mandarin Oriental Taipei reportedly sold to a China-based investor for T$48 billion (US$1.6 billion), which indicates that investors are hunting for hotel opportunities. We expect that capital will continue to compete for trophy hotel buildings in major cities, especially in Taipei. Investors are also interested in development opportunities in prime locations. Yuan Lih Construction spent T$1.71 billion (US$55 million) for a development site in Daan District, one of the most prestigious locations in Taipei. On the other hand, insurance companies continue to seek income-generating properties that can offer yields above their 2.875% hurdle. China Life Insurance invested T$460 million (US$15 million) in an industrial office in the Nangang software park.

India

Suresh Castellino

The second quarter of 2015 saw a general slowdown in sales activity, coupled with fewer residential project launches nationwide. Developers are adopting a cautious approach and launching new projects only after careful consideration of current market conditions. However, we saw demand for commercial real estate picking up in few pockets. We anticipate that the net absorption of office space will rise, backed by overall positive economic sentiment and a very strong push from the government to create a more business-conducive environment. The majority of the demand will come from the IT/ITeS and the BFSI sector in the key markets of Bangalore, Pune, Delhi and Mumbai. Private-equity funds continue to participate in residential projects, with a preference for affordable housing. That sector faces the biggest shortage of homes and the highest demand. Moreover, a number of large investors are also looking for fully leased commercial assets to include in REITs for future listing.

Vietnam

Ben Gray

Over the last three years, two-year bond yields have been falling steadily from 13% in May 2011 to 4.1% in October 2014, before rising to 5.2% at the end of May this year. The improvement in yield is a reflection of stronger credit demand and higher inflation, which remains below 3.5%. This indicator shows that, along with a return to a trade deficit, Vietnam is in the final phase of its deleveraging process.

For income-producing assets, the increasingly stable economy, combined with the increased demand for space and limited supply, are now causing increasing rentals and compression on cap rates. Sales prices are beginning to approach what sellers expect. Buyers are looking keenly at good-quality stock, and are able to see real reversionary value over the next three to five years.

The third quarter should see two open-market sales from this office, which will signal to vendors that the interest from the overseas buyers now doing the rounds is real and tangible.

Myanmar

Antony Picon

The upcoming elections slated for November 2015 have cooled overall real-estate activity. Both locals and foreigners alike are aware of the importance of the first "free and fair" elections since the reform process began.

Investors are now actively looking at the market by stepping up their research and lining up advisors. They are preparing the ground work in the event that the election provides a generally satisfactory outcome. If the election is positive, 2016 could be the breakthrough year for real-estate investment in Myanmar.

Investors are looking most seriously at government land, because private landowners continue to seek exorbitant land prices, which is frustrating given the lack of clarity regarding ownership and the often mercurial behaviour of private sellers.

While the commercial capital Yangon remains the main focus, some investors have expanded their search to other markets. That is especially true of the country's second city, Mandalay, the main commercial hub between Myanmar and China. There is also strong interest in resort markets in the north and south of the country.

Indonesia

Steve Atherton

The positive sentiment in Indonesian real estate following the election of President Joko "Jokowi" Widodo has waned due to the slowing economy, and slower-than-expected infrastructure spending. There is also less certainty about the ability of President Jokowi to execute his vision of reform and transparency. It is still early in the new presidency, but people want to see action, decisiveness and implementation. All three have been thus far in short supply.

Meanwhile, the property market has slowed significantly from the pace of 2013 and 2014. The office market in the CBD is expected to add close to 600,000 square metres of new office space in 2015, with similar amounts of new supply projected for 2016 and 2017. These are record amounts of new supply, historically, which is creating some fear and trepidation in the market. Historically, the annual absorption of office space in the CBD in a good year is 300,000 square metres. Consequently, there is clear evidence of pressure on rents and occupancies. We see that trend continuing for the next few years. The shopping-mall moratorium in DKI Jakarta remains, but there are new malls opening outside central Jakarta, like Aeon Mall in Bumi Serpong Damai, which is approximately 120,000 square metres. There are several more malls in the planning stages.

Residential-apartment sales have been slowing, with slower absorption than 2013 and 2014. Part of the reason for the slowdown in sales and price increases is the action of the new government, which has raised minimum downpayments and restricted bank funding of purchases until handover for second-home buyers and investors. The currency has also continued to depreciate. This has put pressure on property developers to offer cash-instalment programs, where the developer must seek greater initial equity, higher levels of borrowing, longer construction periods, or larger cash-instalment payments that match construction spending. The hotel market in Jakarta should add around 6,963 new rooms between 2015 and 2018. This puts pressure on occupancies, which have already dropped from 64.3% last year to 53.7% now. However, with strong domestic travel, we don't expect any major oversupply.

Lastly, there has been no significant change in the industrial market in terms of supply, demand and pricing. Foreign investors continue to look for opportunities to invest or develop in the logistics space for state-of-the-art warehouses. But they are still finding land prices too high for the current levels of achievable rent.

Philippines

Ieyo Deguzman

The economy of the Philippines continues to grow despite the threat of rising interest rates in the United States. According to the Bangko Sentral ng Pilipinas (BSP), there is no need to adjust monetary policy since domestic demand remains robust, which is supported by strong private demand and buoyant business sentiment.

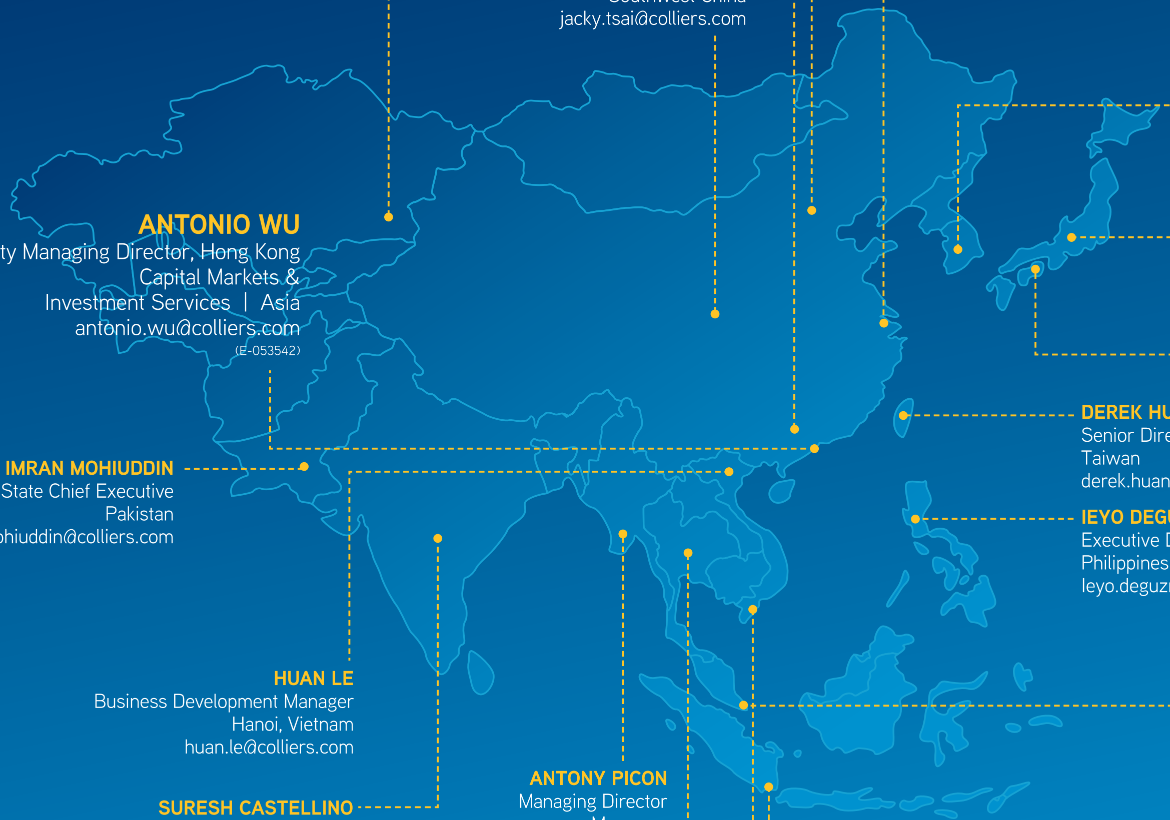
For this quarter, we see little development in completion of buildings in both residential and office space. With the spillover from the investment of the first quarter, yield forecasts remain at 6 to 8% for office space. Residential vacancy will remain low due to construction delays, which will push back supply for the remainder of 2015.

Colliers Philippines forecasts slow but steady growth in real-estate investment as long as the economy remains stable. If inflation rates remain within the 2 to 4% target for the year, and the country's GDP continues its impressive performance, the Philippines will continue to be an investment target for international investors.

Asia Capital Markets & Investment Services

We have Asia covered.

TERENCE TANG
Managing Director
Capital Markets &
Investment Services | Asia
terence.tang@colliers.com



BAYAN KUATOVA
Managing Director
Kazakhstan
bayan.kuatova@colliers.com

ERIC LAM
Managing Director
South China
eric.lam@colliers.com

GEORGE YEUNG
Managing Director
North China
george.yeung@colliers.com

JACKY TSAI
Managing Director
Southwest China
jacky.tsai@colliers.com

LINA WONG
Managing Director
East & Southwest China
Investment Services | China
lina.wong@colliers.com

BETTY WONG
Executive Director
Investment Services
East & Southwest China
betty.wong@colliers.com

JAY YUN
Senior Director & General Manager
Seoul, Korea
jay.yun@colliers.com

ANTONIO WU
Deputy Managing Director, Hong Kong
Capital Markets &
Investment Services | Asia
antonio.wu@colliers.com
(E-053542)

DOUGLAS ALLEN SMITH
Head of Investment Services
Tokyo, Japan
doug.smith@colliers.com

BRETT JENSEN
Account Manager
Osaka, Japan
brett.jensen@colliers.com

DEREK HUANG
Senior Director
Taiwan
derek.huang@colliers.com

IMRAN MOHIUDDIN
State Chief Executive
Pakistan
imran.mohiuddin@colliers.com

IEYO DEGUZMAN
Executive Director
Philippines
Ieyo.deguzman@colliers.com

HUAN LE
Business Development Manager
Hanoi, Vietnam
huan.le@colliers.com

STELLA HOH
Executive Director
Investment Services
Singapore
stella.hoh@colliers.com

ANTONY PICON
Managing Director
Myanmar
antony.picon@colliers.com

SURESH CASTELLINO
National Director
India
suresh.castellino@colliers.com

BEN GRAY
Director
Investment Services
Ho Chi Minh City, Vietnam
ben.gray@colliers.com

NARIN PHUMVIWATTANASIRIKUL
Deputy Managing Director
Thailand
narin.phumviwattanasirikul@colliers.com

STEVE ATHERTON
Director
Indonesia
steve.atherton@colliers.com

www.colliers.com

Company Licence No.: C-006052

Colliers
INTERNATIONAL