REPORT

Savills Research

Asia Pacific – Q3 2019

Investment Quarterly

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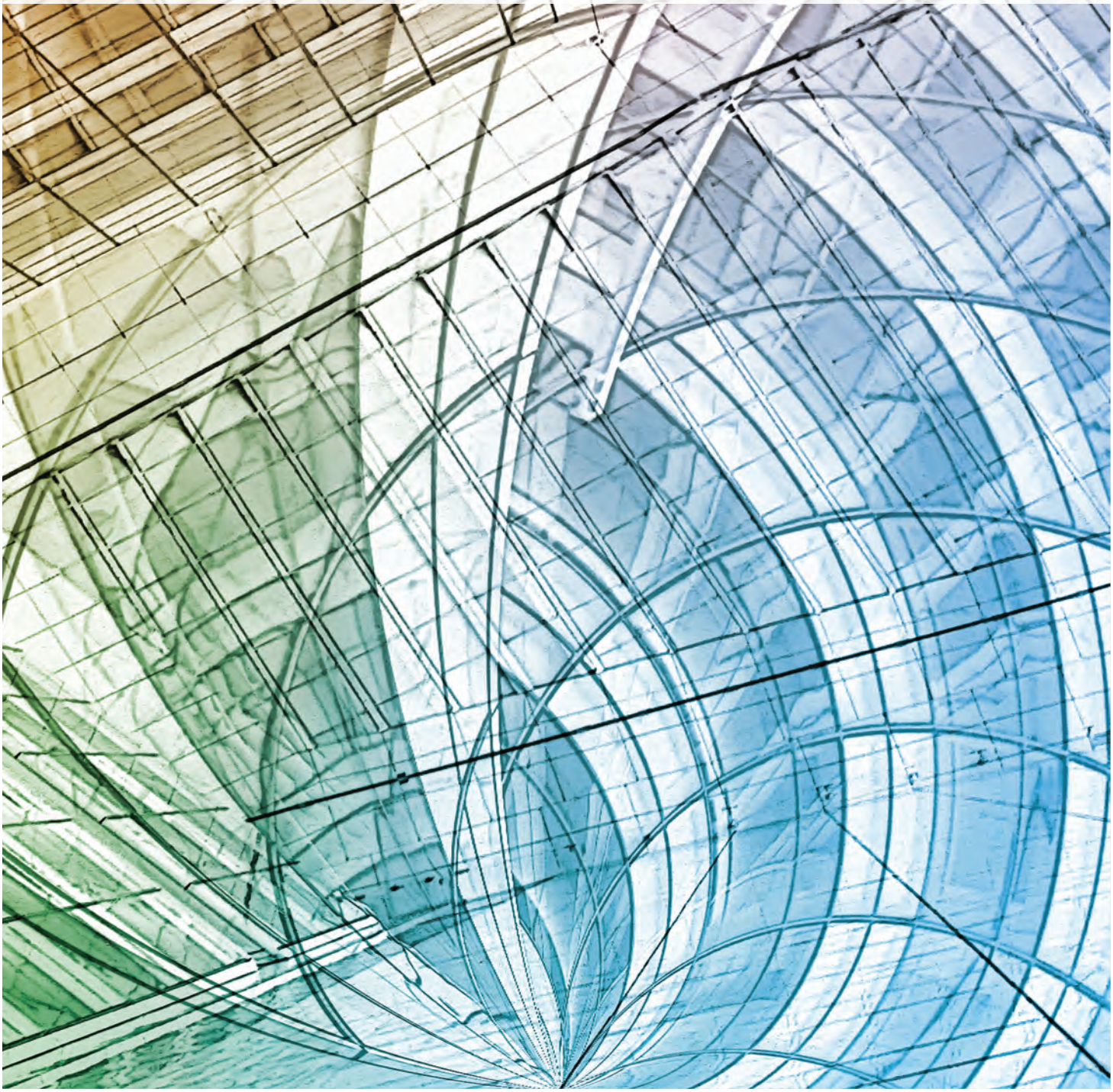
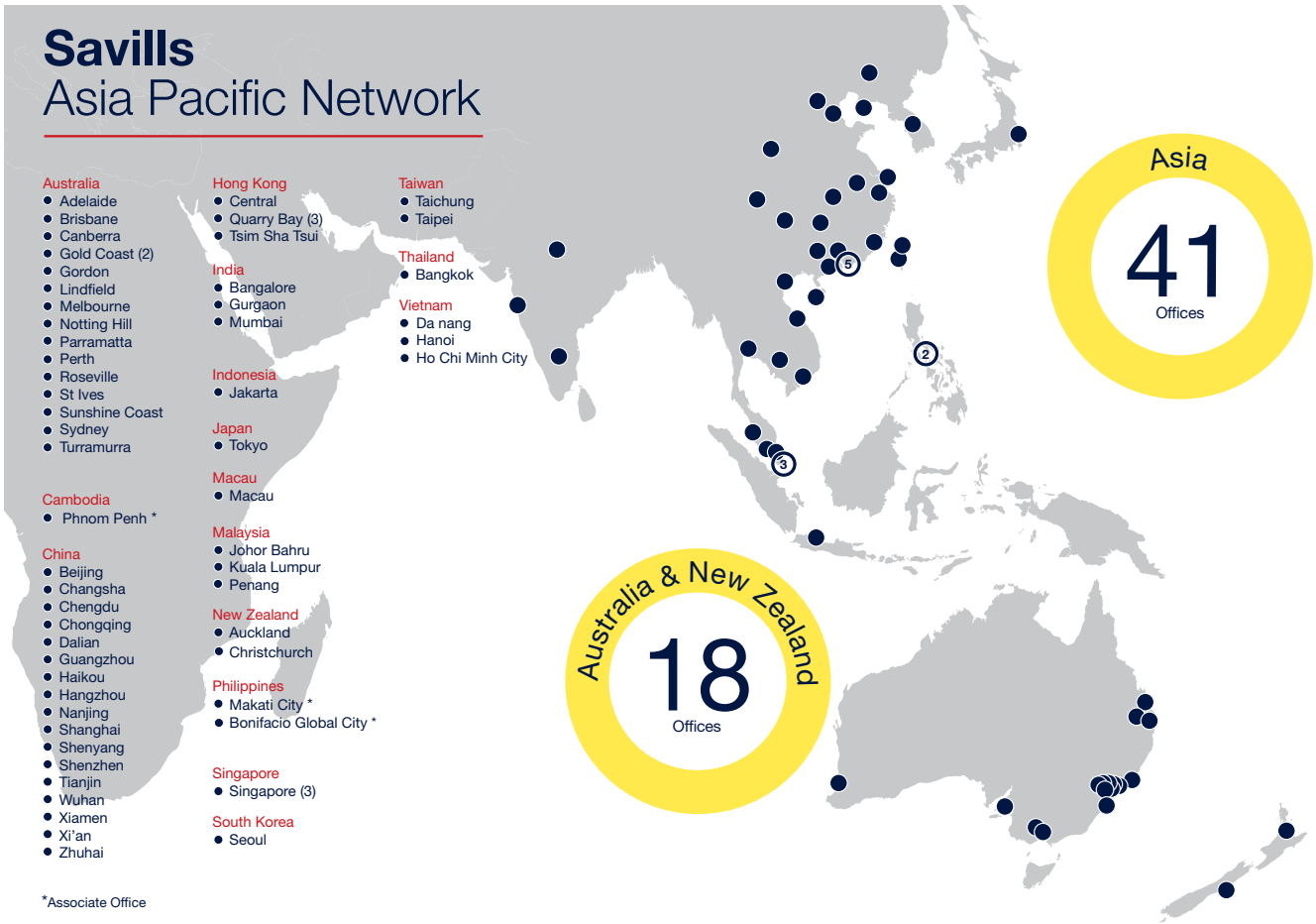


Asia Pacific Network



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

In Asia Pacific, Savills has 59 regional offices comprising over 25,000 staff. Asia Pacific markets include Australia, China, Hong Kong, India, Indonesia, Japan, Macau, Malaysia, New Zealand, Singapore, South Korea, Taiwan, Thailand and Viet Nam. Savills provides a comprehensive range of advisory and professional property services to developers, owners, tenants and investors.

These include consultancy services, facilities management, space planning, corporate real estate services, property management, leasing, valuation and sales in all key segments of commercial, residential, industrial, retail, investment and hotel property.

A unique combination of sector knowledge and entrepreneurial flair gives clients access to real estate expertise of the highest calibre. We are regarded as an innovative-thinking organisation supported by excellent negotiating skills. Savills chooses to focus on a defined set of clients, offering a premium service to organisations and individuals with whom we share a common goal.

Savills is synonymous with a high-quality service offering and a premium brand, taking a long-term view of real estate and investing in strategic relationships.

Content

Australia	04
China (Northern) - Beijing	05
China (Northern) - Tianjin	06
China (Western) - Chengdu	07
China (Southern) - Guangzhou	08
China (Southern) - Shenzhen	09
China (Eastern) - Shanghai	10
Hong Kong	11
India	12
Indonesia	13
Japan	14
Macau	15
Malaysia	16
Philippines	17
Singapore	18
South Korea	19
Taiwan	20
Thailand	21
Viet Nam	22
Major transactions Q3 2019	23

Australia

The Australian economy has been defined by continued sluggish business and consumer sentiment, post the surprise result of the May 2019 General Election that reinstalled the incumbent Liberal/National Government.

The Reserve Bank of Australia has continued to pump prime the economy with lower interest rates, easing again on 1 October 25bp to an all-time low of 0.75%. Recent easing's in Monetary Policy are arguable yet to be felt through the economy, but it's clear the RBA is trying to kick-start economic activity to address too-low inflation and hence minimal income growth and to spark business confidence and investment. Unemployment and Underemployment are also a concern to the RBA and the Government, however the currency is proving beneficial to the economy from competitive exports resulting in positive taxation and economic GDP.

With Interest rates low for longer, Investors have remained confident in Australia's Commercial Property market.

Office remains the preferred asset sector from an income and capital appreciation perspective, supported by high quality assets, tenant demand and scarcity. Sydney and Melbourne CBD markets are the preferred locations for capital, however there is a growing interest in North Sydney and Parramatta markets due to tenants looking to diversify their locations and move back office functions out of the CBD. Returns in the office sector have been buoyant with total returns recorded at +11.6% in the year to June 2019. Melbourne has been the best performing CBD market, returning +13%, as it has played catch-up to Sydney, however the best performing market has been in the Sydney Fringe market of Parramatta at +16% driven by capital growth of +9.8%. Parramatta has benefited from Infrastructure investment and new developments by Institutions as tenants diversify their locations and seek relatively cheaper office space.

Industrial assets are also in demand from a capital appreciation perspective across all capital cities, with Institutional and Syndicate Investors continuing to seek assets for their core portfolios. This is creating an environment where assets effectively leave the market that will in time reduce liquidity, but support capital values. Concerningly, rental growth is not driving asset demand, but rather the thematic of population densification and the resulting logistics/e-commerce business cycle is creating an investor fervour. Industrial returns have been buoyant giving +13.0% to June 2019.

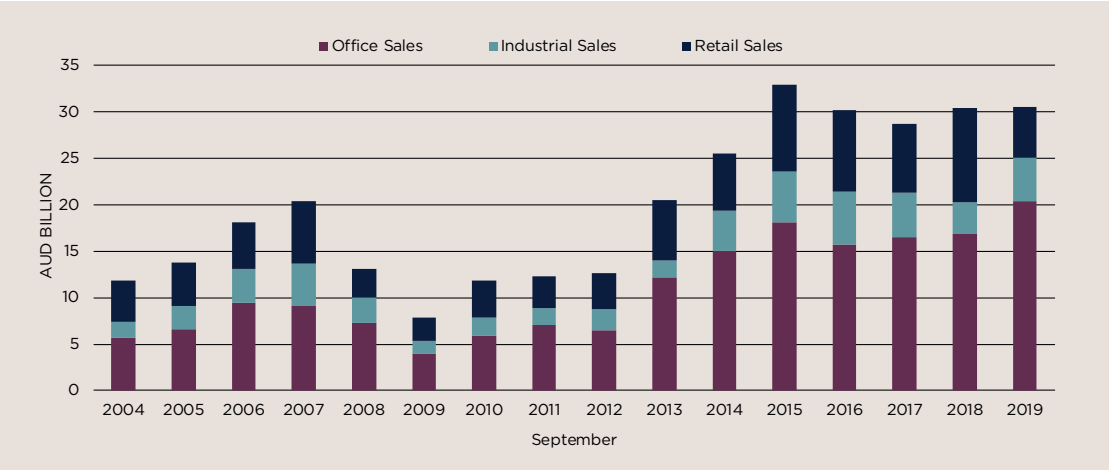
Retail, as is the case globally, is problematic. Australia is seeing a continued and clear bifurcation between Non-discretionary and Discretionary spending and consumer focus, which is influencing the performance of retail assets. Retail returns have been muted giving +3.7% to June 2019, however income return was +5.2%, while capital growth was -1.4%. Victoria and New South Wales have been the drivers for Retail.

Looking forward, we believe low interest rates and developer discipline will continue to support property asset prices, with the low AUD an added investment positive for global investors looking for superior returns.

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

Phil Montgomerie
Head of Research
Research & Consultancy
+61 2 8215 8971
pmontgomerie@savills.com.au

Australia Property Sales, September 2004 to September 2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
2 Chifley Square (50%)	Sydney, NSW	AUD922.0 mil/ US$626.9 mil	Charter Hall	Office
242 Exhibition Street	Melbourne, VIC	AUD830.0 mil/ US$564.4 mil	Charter Hall	Office
201 Elizabeth Street	Sydney, NSW	AUD630.0 mil/ US$428.4 mil	Abacus, Charter Hall	Office
400 George Street	Brisbane, QLD	AUD524.7 mil/ US$356.8 mil	Cromwell Property Group	Office
285 George Street (25%)	Sydney, NSW	AUD450.0 mil/ US$306.0 mil	AMP Capital	Office

Source Savills Research & Consultancy

China (Northern) - Beijing

The en-bloc investment market was active in Q3/2019, with a total of nine deals concluded for a combined consideration of RMB18.4 billion. The majority of transactions were office assets and development site acquisitions. Domestic players dominated deal activity during the quarter with most buyers and sellers coming from local investors and developers. Major transactions included:

- China Vanke acquired a 100% equity share of HNA Plaza from HNA Group for a total consideration of RMB1.736 billion.
- Ping An Life Insurance acquired a 100% equity share of land plot D-03/04 in Lize Financial Business District for a total consideration of RMB5.828 billion. This plot was previously owned by China Fortune Land Development and will be developed into Grade A office towers.
- Pangu Plaza Building 5, an international Grade A office tower located in Asia-Olympic area, was acquired by BBMG through a government-assisted sale for a total consideration of RMB5.187 billion.
- China Resources Group purchased the retail components in Xibeiwang New Village Project from local developer Citychamp Dartong Co., Ltd. for a total consideration of RMB2.459 billion.

In the sales market, the first-hand strata-title office sector received 150,739 sq m of new supply in Q3/2019, down by 13.9% quarter-on-quarter (QoQ) and 62.3% year-on-year (YoY). Total transacted area reached 224,050 sq m during the quarter, a slight increase of 9.6% QoQ though this was down 20.4% YoY. Total consideration reached RMB6.21 billion, down by 7.1% QoQ and 33.7% YoY. Average transaction prices dropped by 15.2% QoQ and 16.6% YoY to RMB27,716 per sq m.

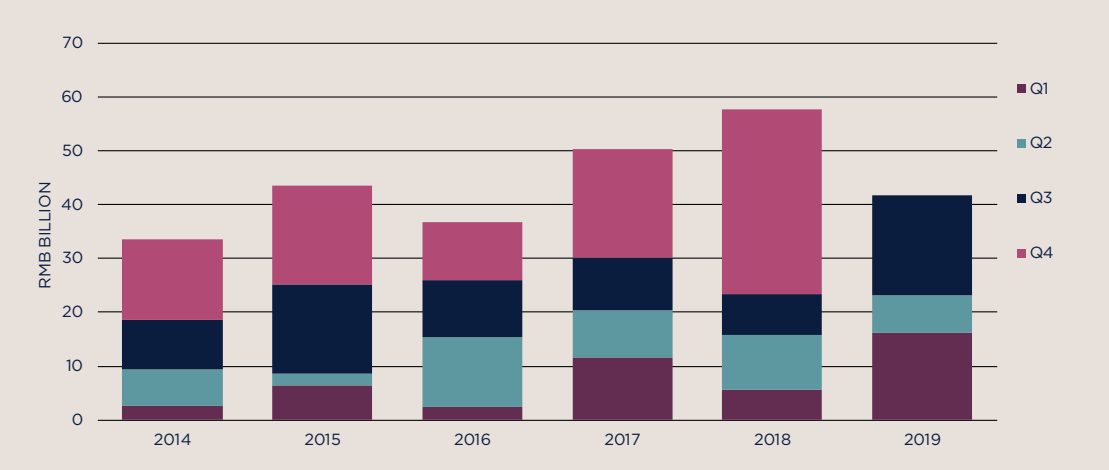
New supply in the first-hand strata-title retail market reached 72,715 sq m in Q3/2019, up 39.6% QoQ though this was down 9.5% YoY. Total transacted area reached 100,119 sq m, down 45.7% QoQ and 56.9% YoY. Total consideration registered RMB4.14 billion in Q3/2019, down 15.3% QoQ and 44.1% YoY. Average transaction prices were up by 56% QoQ and 29.9% YoY to RMB41,352 per sq m.

Current urban planning policies have heavily subdued the development of commercial real estate in Beijing's urban areas. Consequently, the future supply of high-end projects in prime locations will be limited. In response, investors have started to pursue value-added assets which offer greater potential for returns. Investment opportunities, such as office and retail assets in prime locations and stable tenants or development sites with clear construction plans, will continue to grow in popularity.

Spring Cao
Senior Director, Investment
Savills Northern China
+8610 5925 2048
spring.cao@savills.com.cn

Vincent Li
Associate Director
Research
+86 10 5925 2044
vincentx.li@savills.com.cn

En-Bloc Investment Volumes, 2014 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
HNA Plaza	Lufthansa	RMB1.736 bil/ US$253.9 mil	China Vanke	Office
D-03/04 Land Plot	Lize	RMB5.828 bil/ US$817.9 mil	Ping An Life Insurance	Development site
Pangu Plaza	Asia-Olympic	RMB5.187 bil/ US$752.6 mil	BBMG	Office
Xibeiwang New Village Project Retail Component	Haidian	RMB2.459 bil/ US$343.7 mil	China Resources Group	Development site

Source Savills Research & Consultancy

China (Northern) - Tianjin

Tianjin's land market received a steady increase of new supply but saw a slight decline in transactions. Developers are expected to acquire land at a slower pace in 2H/2019.

Tianjin's supply of new land rose by 11% quarter-on-quarter (QoQ) and by 166% year-on-year (YoY) to 7.717 million sq m in Q3/2019. Meanwhile, transaction volume reached 5.1466 million sq m, down by 3% QoQ though up significantly by 126% YoY. Four land parcels with an area of 519,137 sq m located in the city core accounted for 6.7% of the total supply; the four fringe districts and Binhai New Area saw comparable figures of 28.4% and 23.4%, respectively, while suburban areas accounted for 41.5%. In terms of transaction volume, the four fringe districts made up 46.2%—nearly half the total volume, while suburban areas and Binhai New Area made up 27% and 24.7%, respectively. A Meijiang plot of 107,400 sq m in Hexi District, part of the city core, was acquired this quarter.

The No.2019-098 land plot in Haihe Educational Park went to auction in July 2019. It is in Jinnan District and positioned for residential and commercial usage. The plot covers a total area of 115,998.8 sq m with a plot ratio ranging from 1.0 to 1.35. The hard floor price was set at RMB1.5 billion with a ceiling of RMB1.9 billion, and the accommodation value (AV) was set at RMB9,579 per sq m with a ceiling of RMB12,133 per sq m. China Overseas won the bid, paying the ceiling price and the ceiling AV.

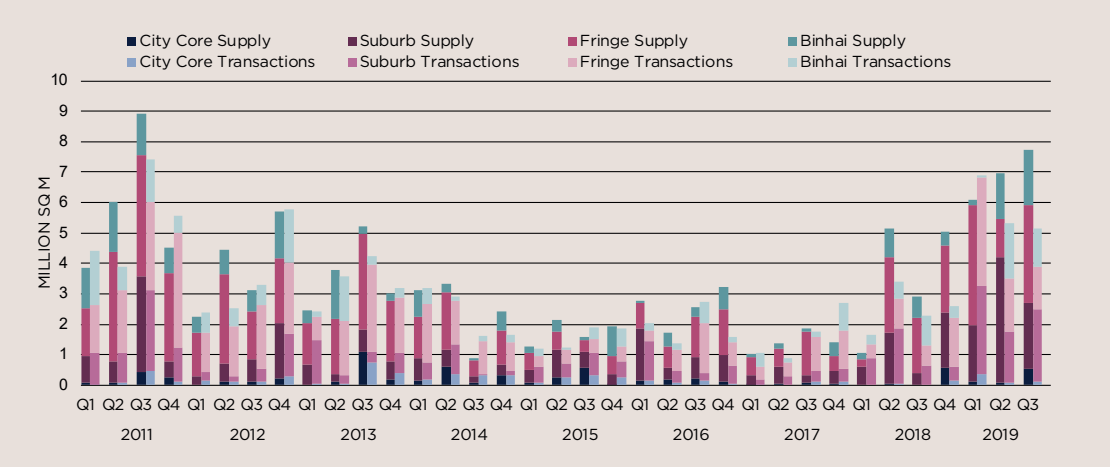
Another land plot of No. 2019-111 located in Hexi District was acquired in September 2019. The plot was also positioned for residential and commercial usage, covering a total area of 40,085.4 sq m with a plot ratio ranging from 1.0 to 2.7. The planned GFA reached 107,400 sq m with a greening rate higher than 40% and building density lower than 30%. The hard floor price is set at RMB2.1 billion with a ceiling of RMB2.36 billion, and the accommodation value is set at RMB19,553 per sq m with a ceiling of RMB21,974 per sq m. The winning bid also went to China Overseas for a total consideration of RMB2.22 billion, reflecting an accommodation value of RMB20,670 per sq m.

Barring any suspension or delay of auctions in Q4/2019, Tianjin's land market should remain robust, while supply, transaction volumes and prices are expected to fluctuate slightly.

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

Vincent Li
Associate Director
Research & Consultancy
+86 10 5925 2042
vincentx.li@savills.com.cn

Land Supply And Transactions By Area, Q1/2011 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Plot 2019-111 (JXM)	Hexi	RMB2.22 bil/ US$313 mil	China Overseas Property (Tianjin) Co., Ltd.	Residential and commercial
Plot 2019-09 (JDL)	Dongli	RMB1.63 bil/ US$230 mil	Beijing CSC Land Co., Ltd.	Residential and commercial
Plot 2019-047 (JWQ)	Wuqing	RMB62 mil/ US$8.75 mil	Tianjin Country Garden Shunsheng Property Co., Ltd.	Residential and commercial
Plot 2019-098 (JBH)	Jinnan	RMB1.9 bil/ US$268 mil	China Overseas Property (Tianjin) Co., Ltd.	Residential and commercial
Plot 2019-09 (JBH)	Jinnan	RMB2.01 bil/ US$284 mil	Tianjin Xingtai Jiming Property Co., Ltd.	Residential

Source Savills Research & Consultancy

China (Western) - Chengdu

The Chengdu Grade A office market in 2019 has not been able to replicate the success the city saw in 2018. In Q3/2019, no new supply entered the office market, leaving Grade A office stock of Chengdu at approximately 3.2 million sq m. However, increased net absorption of 53,000 sq m helped to pull the vacancy rate down to 20.8%. Though the increased net absorption is a positive trend, average rent still fell to RMB102.7 per sq m per month.

The top three sources of leasing demand came from finance, information technology and real estate, which accounted for 53% of total new leasing space during Q3/2019. Finance is still the most active industry in Chengdu's office market, with the proportion of this sector's new transactions fluctuating between 20% and 30% during 2019. Broken down by submarket, demand from financial enterprises was the strongest in both Dongda Street and Financial City.

Significant leasing demand also came from the insurance industry. Due to beneficial insurance policies and strategies enacted by both the provincial and municipal governments, insurance companies' composition of total financial leasing has more than doubled from 7% in Q1 to 17% in Q3. Insurance enterprises have become a new force supporting Grade A office demand this year.

The slow pace of economic development has led to a sluggish office market, which has had a negative impact on average rents. Some office operators have implemented promotional strategies leading to lower rents. So, average rents in all main areas have dropped except in Financial City.

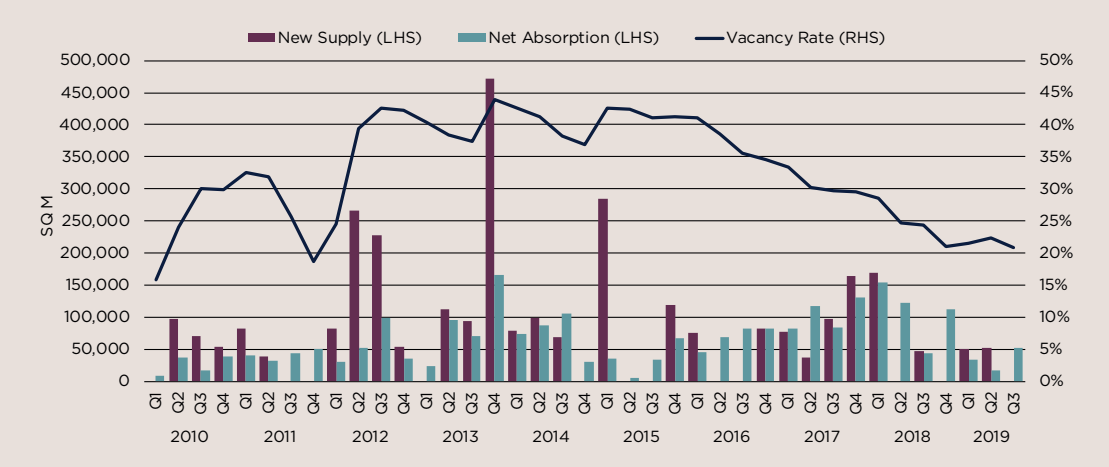
Demand from local enterprises was significant during Q3/2019, accounting for 53% of total new office leasing, compared to 40% in 1H/2019. More than half of newly leased areas came from information technology, commercial and professional services companies. Conversely, international companies have seen a 10% decline quarter-on-quarter (QoQ) in demand.

With the decrease in supply and the unclear investment environment, office demand is expected to fall during Q4/2019.

Suzie Qing
Director
Savills Western China
+86 28 8658 7418
suzie.qing@savills.com.cn

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

Chengdu Grade A Office Market Supply and Demand, 2010 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
CH04 (211/251): 2019-022	Chenghua	RMB2.719 bil/ US$381.3 mil	Cedar Holdings	Mixed-use
WH07 (211/251): 2019-021	Longquanyi	RMB2.364 bil/ US$331.5 mil	Chengdu Railway City Development Group Co., Ltd.	Mixed-use
CH05 (251): 2019-023	Chenghua	RMB1.328 bil/ US$186.7 mil	Zhongliang Holding Group	Residential
CH09 (251): 2019-027	Chenghua	RMB1.184 bil/ US$116.5 mil	Landsea Group	Residential

Source Savills Research & Consultancy

China (Southern) - Guangzhou

Overall leasing demand for the Guangzhou office property market remained relatively stable during Q3/2019. As a result of the increasing uncertainties regarding foreign trade and the domestic economy, market sentiment among most enterprises continued to be conservative. Many office occupiers remained prudent in their office relocation and expansion strategies and were apt to stay at existing premises. Nevertheless, the promulgation of the Three-Year Development Plan by the People's Bank of China for the Fintech Industry, released in August 2019, promoted strong market confidence in Fintech companies during the quarter, as evidenced by the increasing volume of leasing activities. Additionally, demand from the insurance and healthcare sectors remained unabated, compared to last quarter. In Zhujiang New Town, a handful of notable leasing transactions were concluded during Q3/2019. For example, FWD Life Insurance Company leased 2,400 sq m to expand its local representative office in Guangzhou, and China Export & Credit Insurance Corporation expanded its office by adding another 500 sq m.

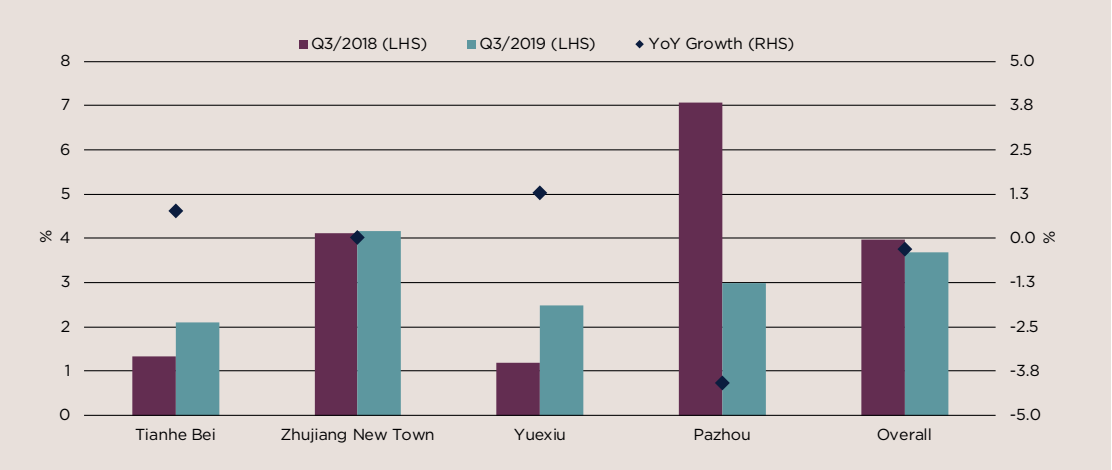
In order to close leasing deals and accelerate property stock digestion, many landlords were more flexible in contract negotiations, including providing rental concessions, extending rent-free periods or offering higher commission fees to agencies. Consequently, the average vacancy rate decreased by 0.6 of a percentage point (ppt) quarter-on-quarter (QoQ) to 3.7% by the end of Q3/2019. This phenomenon was most prevalent in Zhujiang New Town, as its net absorption increased to 21,297 sq m. The increasing net absorption led to a decrease in the average vacancy rate in the region, down 0.8 of a ppt QoQ to 4.2%.

However, the office leasing market is expected to be more competitive in Q4/2019, as three projects with a combined GFA of 210,210 sq m are scheduled for completion by the end of the year. The collective impact of the new supply and subdued demand is expected to put more pressure on landlords' shoulders, making it difficult to improve or maintain asset performances. Taking all the above into consideration, it is anticipated that the citywide vacancy rate will increase during Q4/2019 while landlords will continue to offer noticeable financial concessions in exchange for higher occupancy rates.

Alvin Lau
Managing Director
Guangzhou
Deputy Managing Director
Southern China
+86 20 3665 4888
alvin.lau@savills.com.cn

Carlby Xie
Head of Research
Southern China
+86 20 3665 4874
carlby.xie@savills.com.cn

Net Absorption By Submarket, Q3/2018 VS Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Westmin Plaza (30%)	Liwan	RMB136.5 mil/ US$19.3 mil	Keppel Corporation Limited	Office
Modern Avenue Building	Huangpu	RMB975.0 mil/ US$137.9 mil	Guangzhou Hi-tech Industrial Development Zone	Office

Source Savills Research & Consultancy

China (Southern) - Shenzhen

The August launch of a new policy by the central government, which aims at developing Shenzhen into a 'Demonstration Pilot Area with Chinese Characteristics', has injected strong market confidence into the residential sales sector. This was most prevalent among developers as the policy has been widely used as a call to stimulate market digestion and accelerate new project launches. During Q3/2019, new completions in superior locations with complete auxiliary facilities outperformed the market. These projects were sold at relatively higher prices but also at higher sales rates compared to their peers in the region; the resulting sales structurally raised housing prices in the city.

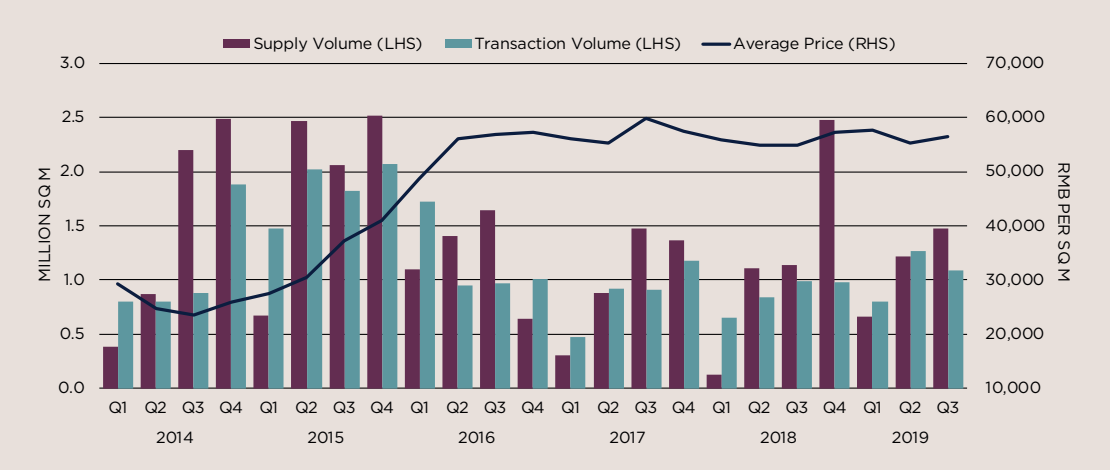
Along with Shenzhen's talent schemes, the demand profile for the residential sales market has become more diverse. On the one hand, Shenzhen locals continue to dominate demand for residential house purchases; on the other hand, the market witnessed a growing proportion of buyers from outside the city who recently became Shenzhen residents and acquired house-purchasing qualifications through the talent-scheme system. The collective impact of the strong prospects for the Shenzhen residential market and talent schemes continue to bring population inflows to the city, underpinning the growing demand for both investment and owner-occupancy. Therefore, demand in Shenzhen's residential market is anticipated to remain active in Q4/2019, as both inquiry volume and market digestion are expected to increase, while capital value will likely maintain its stable growth during the period.

The Shenzhen residential sales market should remain positive in Q4/2019. Developers are expected to maintain or even accelerate the pace of new project launches during the next quarter. Limited by land scarcity and the number of urban regeneration projects in central areas, the majority of new supply will focus on emerging areas such as Longgang, Longhua and Bao'an (excluding CBD). Two- or three-bedroom units under 90 sq m designed for rigid demand with relatively lower average prices should be best sellers. Meanwhile, supported by sophisticated facilities for living, education, transportation and other auxiliaries, some premium areas such as Nanshan, Futian and Bao'an CBD will remain the most attractive to property purchasers with either rigid or upgrading demand.

Woody Lam
Managing Director
Southern China
+86 20 3665 4777
woody.lam@savills.com.cn

Carlby Xie
Head of Research
Southern China
+86 20 3665 4874
carlby.xie@savills.com.cn

First-hand Residential Sales Supply Volumes, Transaction Volumes And Average Price, Q1/2014 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
T107-0086	Nanshan	RMB4.7 bil/ USD700 mil	China Resource Land	Mixed-use
A118-0028	Bao'an	RMB139 mil/ USD19.6 mil	Hainan Airlines	Transportation
A726-0156	Bao'an	RMB107.0 mil/ USD15.1 mil	Sunwoda	Industrial

Source Savills Research & Consultancy

China (Eastern) - Shanghai

Siu Wing Chu
Managing Director
Central China
+86 21 6391 6688
siuwing.chu@savills.com.cn

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

The Chinese government, concerned about rising debt levels, embarked upon a deleveraging campaign at the end of 2016, hoping to lower its overall debt level and stabilise its economy. Part of the campaign involved a crackdown on shadow banking (informal lending channels). Shadow banking has been an important financing avenue for corporations in China over the last decade, especially SMEs and real estate companies. However, the shadow banking sector decreased 8% to RMB60 trillion by March 2019 from RMB66 trillion at the end of 2017, taking a significant amount of liquidity out of the market. At the same time, the government has given window guidance to banks to avoid overexposure in the real estate market. Their exposure is expected to be close to 11% by Q2/2019 according to the PBOC, while the trust markets are more than 15% and bond investors are hovering around 8%. Developers, in response to the constraints on domestic financing, have turned to the offshore bond markets, though the cost is becoming increasingly expensive as investors turn cautious on the domestic Chinese real estate market. Over US$15 billion worth of US$ denominated bonds were issued over the last twelve months with coupon rates more than 10%.

The demand for credit has also drawn the attention of many international investors. Tapping into China's private credit market gives them the chance to diversify their geographical exposure as well as generate higher returns compared to the late-stage credit cycle in other markets. According to PwC, over US$9 billion of capital was raised in private credit funds targeting Chinese credit opportunities in 2018, the highest on record. A further US$6 billion was raised in the first half of 2019, and this is in addition to the capital available in existing hedge funds, investment banks, sovereign wealth, pension funds, and family offices.

The Chinese real estate market seems to be close to the top of its current property cycle, while also experiencing a structural shift due to changing demographic, social and economic drivers. Consequently, debt investment could offer extra security and decent returns compared with equity investments in traditional asset classes. The most popular China debt strategy with private credit investors in recent years has been short-term mezzanine lending to China developers. Some investors such as Infrared NF have extended loans to smaller developers whose properties are normally located in second-and third-tier cities as part of their opportunistic strategy. Other investors, such as CapitaLand's new China real estate debt fund, target higher-quality borrowers and assets. However, as investors are typically looking for at least mid-teen IRRs, there is a limited window of time for these investors as companies eventually work out their debt obligations and restructure businesses to align to the new norms and larger developers consolidate their positions.

Summary Of Private Credit Strategies In China

STRATEGY	OPPORTUNITIES	JURISDICTIONAL REQUIREMENT	INDICATIVE NET IRR AVAILABLE
DIRECT OR MEZZANINE LENDING	Providing offshore financing to Chinese real estate groups	Offshore	Mid-teens, depending on security packing. Can be higher if borrower is stressed
	Onshore RMB financing to Chinese corporates	Onshore	Mid-to-high teens (onshore, gross yield). Can be higher if borrower is stressed
SPECIAL SITUATION/ DISTRESSED	Partnerships or JVs with Chinese investment groups; investing in onshore special situation/distressed Chinese bonds	Depends on structure of partner	Typically, a strategic investment to access other credit opportunities
	Investing in onshore special situation/distressed Chinese bonds	Onshore	Funds are underwriting to returns of 25%+
DISTRESSED	Single credit investments (real estate backed)	Onshore	Funds are underwiring to returns of 20%+
	NPL portfolios	Offshore	15%+

Source PwC, Savills Research

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Jasper Tower (F15-20)	Pudong	RMB1.25 bil/ US$177.3 mil	Bank of Ningbo	Office
Pacific Electronic Plaza	Pudong	RMB1.17 bil/ US$165.7 mil	Individual buyer	Retail
Fudu Plaza	Huangpu	RMB750 mil/ US$106.2 mil	KKR	Retail
Nine City Plaza	Pudong	RMB464 mil/ US$65.6 mil	Kailong	Business Park

Source Savills Research & Consultancy

Hong Kong

A troubled social and economic environment saw transaction volumes collapsing by 57% in July and August following a 48% y-o-y decline in the first six months of the year. The total non-residential transaction volume of 3,368 in the first eight months of 2019 represented a 50% decline over the same period in 2018 and is poised to take over from 2016 (5,367 transactions) as the worst year in terms of commercial transactions volumes since 1997. Investors continue to sit on their hands or look overseas for fresh opportunities, targeting Singapore, Sydney, New York and Los Angeles.

For Hong Kong investors, Singapore has become the top alternative destination with outbound commercial investment skyrocketing by 4,915% YoY to reach HK$10.3 billion in Q3/2019, a record high for any quarter over the past three years (the purchase of Duo Tower by Gaw Capital and Allianz from Temasek and Khazanah Nasional for HK$8.3 billion accounted for much of the volume). In Sydney, investment volumes leapt by 490% YoY to HK$3.8 billion. The city's office market is appealing to investors due to its low vacancy rate of 3.2%, while there is increased uncertainty surrounding the retail sector, and a lack of suitable investment opportunities in the industrial market. In the United States, New York and Los Angeles are the two hottest markets for Hong Kong investors with investment volumes increasing from nothing in Q3/2018 to HK$3.0 billion and HK$2.5 billion in Q3/2019 respectively. Nonetheless, investments in London saw only limited gains of 1% YoY to HK$2.4 billion despite the cheap currency, due to uncertainties surrounding Brexit.

The scarce office transactions recorded in Hong Kong over the quarter were driven by either family sales, or long-term holdings offered at modest discounts, or both. Under such circumstances, some landlords have softened their stance on asking prices, but discrepancies with buyers' pricing levels are still significant, so volumes may remain low for some time.

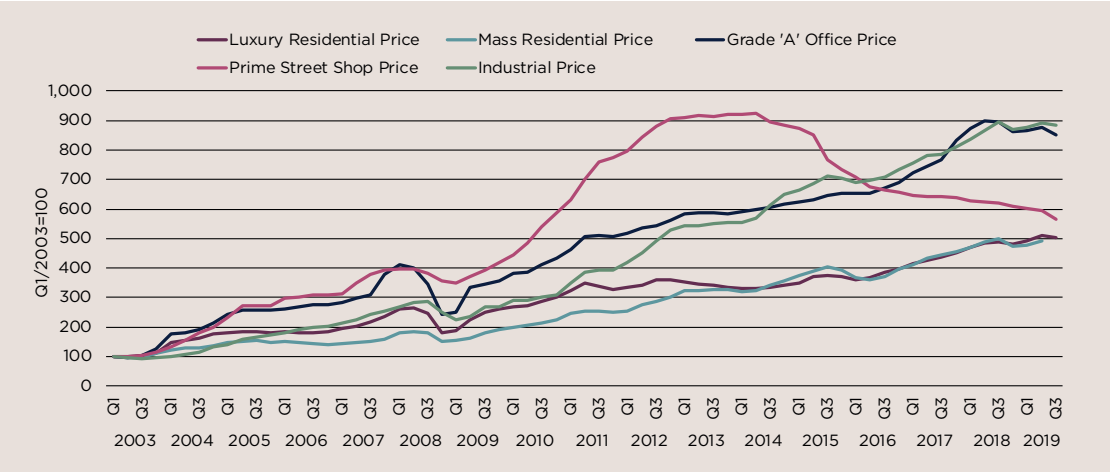
The retail sector was the hardest hit by recent social unrest with first street shops and then shopping centres in most areas affected. While rental concessions (including temporary rental reductions and additional rent-free periods) were offered by various mall landlords, street shops saw an increasing number of vacant shops even with rental reductions, in particular in core retail areas where protests have been most common.

As the business environment is becoming more challenging any sustained period of vacancy might test commercial landlords' willingness to maintain asking prices, and on current evidence office landlords seem more receptive to price reductions than their retail counterparts. If global and local economic conditions continue to worsen, we may see more price adjustment over the next few months, and possibly a heavier fall in the office sector than in the retail sector. With so many variables subject to political decisions, the market is very difficult to call.

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

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

Savills Hong Kong Price Indices By Sector, Q1/2003 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Winway Building (58.83%)	Central	HK$780 mil/ US$100.0 mil	SEA Holdings	Office
Central Industrial Building	Kwai Tsing	HK$1.08 bil/ US$138.5 mil	Tang Shing Bor	Industrial
Johnson Place	Chaiwan	HK$948.0 mil/ US$121.5 mil	TBC	Office
Citadines Mercer Hong Kong	Sheung Wan	HK$800.0 mil/ US$102.6 mil	Hansion	Hotel

Source Savills Research & Consultancy

India

The markets continue to face an uphill climb, mainly owing to an under-pressure economy whose projected growth rates are being progressively revised downwards. As mentioned in the previous quarter's update, supply side continues to experience liquidity pressures which originated from the crisis in Non-Banking Financial Companies (NBFCs). The recent development of Punjab and Maharashtra Cooperative Bank (PMC Bank) facing investigations for irregularities in lending practises once again highlights heightened troubles in the banking sector. The collective impact continues to be felt on the flow of capital in the economy.

Nevertheless, the government has demonstrated strong resolve on multiple fronts to address the difficulties. At the outset, the full budget presented in the first week of the third quarter 2019 made several promises on improving capital flows. This has been followed-up with various announcements, the most important of which was a drastic reduction in corporate tax rates from an average of approximately 40% to an effective rate of 25.17%. This announcement during the third week of September 2019 brings Indian tax at par with most other competing south Asian economies. Moreover, the Reserve Bank of India (RBI) has scaled-back key lending rates in four successive bi-monthly policy meets, bringing the rates down to 5.4%. It is noteworthy that a fifth rate-cut is also expected during the October policy meet.

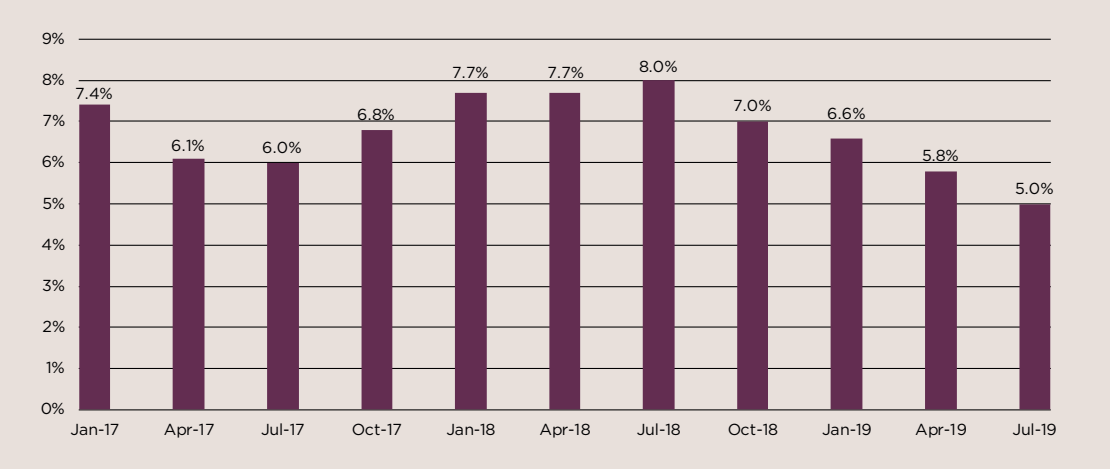
As per our estimates, approximately US$ 1,300 million of investments were announced (including approximately US$330 million concluded) during the third quarter of 2019. The largest deal is expected to the Singapore based GIC's investment of INR4,400 crores (approximately US$620 million) in IRB Infrastructure Developers through a private infrastructure Investment Trust (InvIt). It is worth noting that investments in India's road and infrastructure sector are poised to grow considering the massive under-developed status. Along with warehousing and logistics, infrastructure will be the biggest investment avenue in India for the several years.

The second quarter was reported to have witnessed over US$300 worth of investments, highlighting the rising investment trend in Indian markets.

Anurag Mathur
Chief Executive Officer
Savills India
+91 96 500 37779
anurag.mathur@savills.in

Arvind Nandan
Managing Director
Research & Consulting
+91 22 4090 7300
arvind.nandan@savills.in

India GDP Growth, January 2017 to July 2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
IT Park	Gacchibowli, Hyderabad	INR2,550 cr/ US$349 mil	Xander Investment Management	Office
A development site	Bengaluru	INR65 cr/ US$9 mil	Axis MF is the Investor	Residential
A development site	Santa Cruz, Mumbai	INR750 cr/ US$105 mil	Brookefield India	Mixed Use
IT Park	Bangalore	INR2,800 cr/ US$391 mil	Blackstone & Sattva	IT Business Park
IT Park	Viman Nagar, Pune	INR900 cr/ US$126 mil	Xander Investment Management	Office

Source Savills Research & Consultancy

Indonesia

President Jokowi recently announced a national plan to relocate the capital city from Jakarta to Kalimantan. The proposed area is Penajam Paser Utara Regency, about 78 km from Balikpapan, the capital city of East Kalimantan province. The idea to relocate the capital city from Jakarta to Kalimantan was first brought up by President Soekarno in the late 1950s and now Jokowi is ready to actualize the plan during his second term in office.

Aside from strategic and geographic considerations, the relocation can hopefully succeed in alleviating many of Jakarta's problems, principally traffic congestion, pollution, urban sprawl and land subsidence. Nonetheless, the country needs a whopping IDR466 trillion or about USD33 billion to execute the plan. The government means to fund the relocation using 19% of the state budget with the rest from private sector investment and state-owned enterprises (SOEs). The country's House of Representatives has formed a special committee for further investigation regarding relocation and has included some part of its cost in the 2020 state budget which was recently approved.

The capital relocation is highly likely to create new opportunities for investors and property developers. Soon after the announcement, developers such as Agung Podomoro Land (APLN), Bumi Serpong Damai (BSDE) and state-owned PP Properti (PPRO) announced expansion plans in Kalimantan. PPRO has a JV for a 500-hectare development in East Kalimantan while APLN, through its Borneo Bay City Balikpapan (launched in 2013) has caught investors' attention as it is situated not far from the proposed new capital. Meanwhile, BSDE with over 500 ha of landbank in Balikpapan and Samarinda is well placed in the region over the long term.

Despite the ambitious relocation, we believe that Jakarta will remain the country's business and financial hub. Currently, the city's business activity is starting to gear up after the April election and the market dynamics of the retail and office markets, albeit subdued currently, are expected to pick up in the long run.

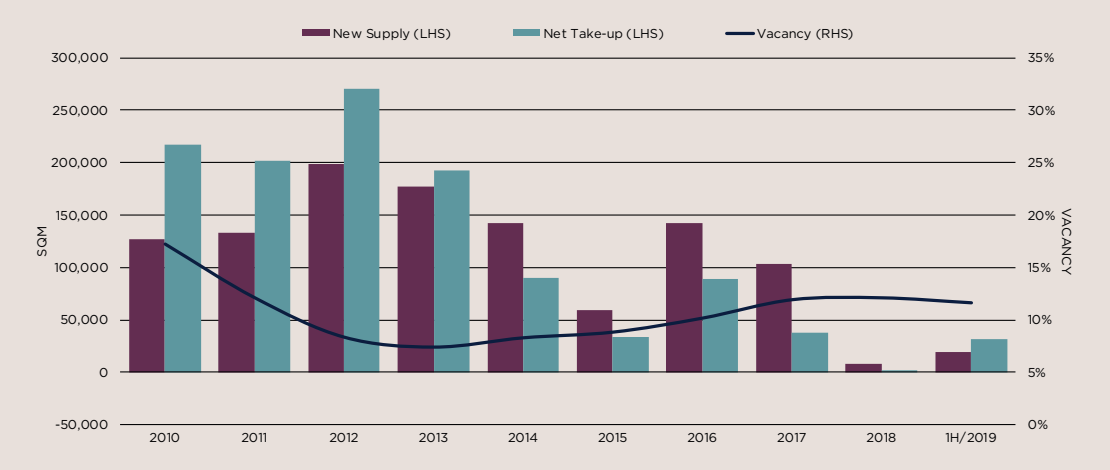
Over the past two years, co-working space, tech companies, e-commerce and online payment gateways have contributed significant demand to the office market. Meanwhile inquiries for space in Jakarta's shopping centers continue to be driven by growing F&B, fashion, beauty and health retailers, both domestic and international. Recently, the market witnessed the birth of a new investment retail portfolio with the launch of a REIT called DIRE Sinarmas Plaza Indonesia (XSPI) on 4th July 2019.

Additionally, joint ventures and partnerships between Indonesian developers/institutions and foreign investors continued throughout the third quarter of 2019. In September, the governments of Indonesia and the UAE agreed to execute a plan for an Indonesian Sovereign Wealth Fund worth around USD 1 billion to invest in a number of tourist destinations and infrastructure developments.

Jeffrey Hong
President Director
Savills Indonesia
+62 21 293 293 80
jeffrey.hong@savills.co.id

Anton Sitorus
Director
Research & Consultancy
+62 21 293 293 80
anton.sitorus@savills.co.id

Jakarta Retail Annual Supply, Take-up And Vacancy, 2010 to 1H/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
JV – 2 Residential Clusters at Summarecon Emerald Karawang	Karawang, West Java	Undisclosed	PT Toyota Housing Indonesia (a subsidiary of Toyota Housing Corporation Ltd)	Residential
JV – Mustika Sukamulya	Bekasi, West Java	IDR110 bil/ US$7.77 mil	Creed Group (Japan)	Residential
Land deal at MM2100	Bekasi, West Java	IDR187 bil/ US$13.33 mil	Daiwa House	Industrial

Source Savills Research & Consultancy

Japan

Although annual GDP growth in Q2/2019 was revised down to 1.3%, growth has, nonetheless, continued for three consecutive quarters. One of the key drivers of growth, namely consumption, backed by strong employment, has been a tailwind. Not only is the seasonally adjusted unemployment rate at 2.2% as of July – the lowest rate in recent history – but the jobs-to-application ratio has also been at, or above, 1.5x since June 2017. Separately, core CPI remains positive for the 35th consecutive month, albeit coming in at a meagre 0.3%.

The Tankan survey of large enterprises for this quarter tells a contrasting story. On the one hand, the manufacturing sector continues to bear the brunt of the trade disputes, indicated by the reading falling to +5 – the lowest level since Q2/2013 – from +7 in Q2. On the other hand, the non-manufacturing sector reading paints a different picture. Despite falling to +21, this figure remains high, implying some optimism amongst business owners.

Against a backdrop of loosening global monetary policy, policymakers at the Bank of Japan (BOJ) remain unmoved. However, their stance is softening. Despite leaving interest rates unchanged in their September meeting, the BOJ has indicated at rate cuts as early as the next meeting, given the uncertain environment. Most government bonds continue to trade at negative yields. Separately, J-REIT purchases by the BOJ have maintained their downward trajectory, due, in part, to strong market momentum, falling to JPY2.4 billion this quarter.

JPY remains stubbornly strong in Q3/2019, ending the quarter at 108.08 per USD. Investors, however, seem unperturbed. The TOPIX index rose 6.3% to 1,587.80 year to date, while the J-REIT index fared significantly better, jumping 22.7% to 2,177.18, over the same period, underpinned by the prospect of a stable leasing market, as well as the prolonged low interest environment.

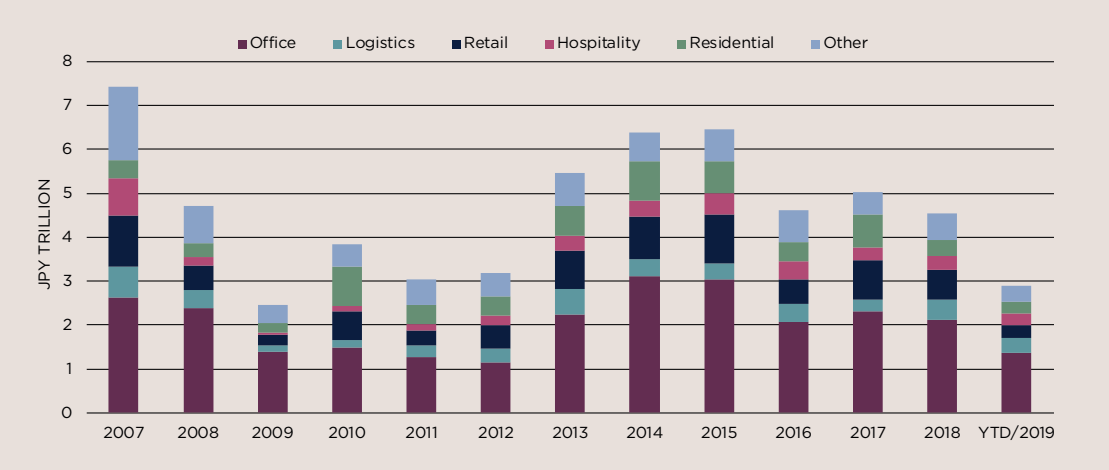
According to preliminary data from Real Capital Analytics (RCA), investment volumes year to date in Japan were JPY2.9 trillion, a decrease of 14% YoY. Given the ongoing risks to the global market, investors, unsurprisingly, appear cautious. Regardless, the low interest rate environment, combined with the stability of the Japanese real estate market, as well as political stability, continues to attract investors, despite the lofty valuations.

Average vacancy rates in the central five wards (C5W) continued to tighten this quarter, falling by 0.1ppts to 0.2%. Concurrently, office rents in the C5W have maintained their upward trend, albeit the pace of growth has slowed. Rents came in at JPY36,386 per tsubo, a change of 0.8% QoQ and 6.7% YoY. Despite the risks manifested in the global economy, the office sector appears resilient, as evidenced by pre-leasing demand, which continues to be sound.

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

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

Property Transactions By Sector, 2007 to Q3/2019*



Source RCA, Savills Research & Consultancy
*YTD/2019 volume is preliminary and tends to be lower than the finalised amount.

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Logiport Amagasaki (51%)	Amagasaki, Hyogo	JPY24.6 bil/ US$230 mil	LaSalle Logiport REIT	Logistics
Aeon Mall Fukutsu	Fukutsu, Fukuoka	JPY18.3 bil/ US$160 mil	Aeon REIT	Retail
Meguro Knowledge Plaza	Meguro, Tokyo	JPY15.8 bil/ US$150 mil	Undisclosed (Domestic Company)	Office
Fululu Garden Yachiyo	Yachiyo, Chiba	JPY15.2 bil/ US$140 mil	Undisclosed (Domestic Company)	Retail
Hilton Odawara	Odawara, Kanagawa	JPY13.0 bil/ US$116 mil	Mori Trust (50%), Mori Trust Hotel REIT (50%)	Hotel

Source Nikkei RE, RCA, Savills Research & Consultancy

Macau

The number of residential transactions in Macau witnessed a rebound to over 2,000 deals in Q2/2019 after seeing a steady decline from Q4/2018 to Q1/2019, which only recorded 1,621 and 1,297 transactions per quarter respectively.

Residential transactions volumes are an important indicator of the state of the overall property market in Macau, and the uptick to 2,000 suggests that the market remains reasonably healthy. Looking back to 2014, Macau's GDP turned negative in Q4 for the first time since 2009, when the effects of the global financial crisis were being felt, partly in response to the anti-corruption measures introduced in China. In Q3/2014, transactions of residential properties dipped below 2,000 per quarter and remained there for six quarters thereafter, making this one of the worst performing periods ever for the residential market in Macau. In Q2/2014, the average transacted unit price of residential properties reached an historical peak of $10,363 per sq ft saleable, but then fell by over 34% to Q1/2016, finding a floor at $6,780 per sq ft. This offered an unprecedented opportunity for visionary investors as the average transaction price subsequently rebounded to another peak after two years, posting robust growth of over 53%.

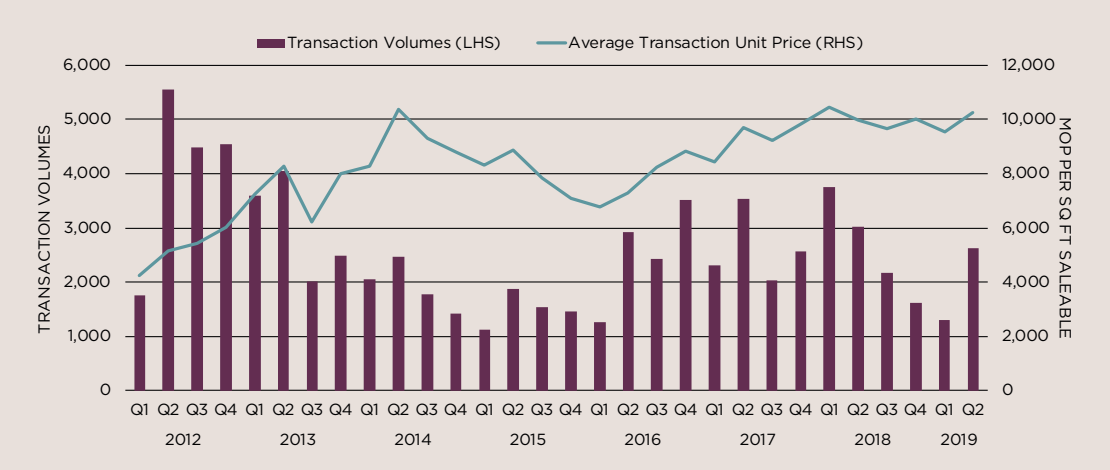
The overall average transaction price of residential properties has fallen by over 8% since Q1/2018, and hasn't recovered, while residential properties of different sizes have recorded very different trends. Apartments with a smaller GFA below 50 sq m of saleable area, recorded contrarian growth of over 8% from Q1/2018, due to the recently implemented policy in 2018 which provided a higher LTV ratio for residential properties with a lump sum price lower than MOP800 million. This trend reversed was reversed for apartments larger in GFA with saleable area greater than 150 sq m, as unit transaction prices fell by over 21% from Q1/2018. Several broader economic uncertainties are affecting the performance of the local real estate market, not least the trade tensions, but with transactions volumes above 2,000 it is possible to foresee a market rebound over the coming quarters.

According to the latest statistics from DSSOPT (Land, Public Works and Transport Bureau of the Macao), over 700,000 sq ft of residential projects are at the construction stage, where "Praia Park" and "Residence Imperial" are two of the largest among all, with a total GFA of over 300,000 sq m, providing over 2,900 residential units in total. Both of the two projects have already started to promote and sell publicly, making them easily two of the largest on-selling residential projects in the market.

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

Cindy Liu
Senior Director and
Head of Valuation (Macau)
+853 2878 0623
cliu@savills.com.mo

Macau Residential Transaction Volumes and Average Unit Price, Q1/2012 to Q2/2019



Source DSEC, Savills Macau

Malaysia

Although Malaysia announced strong FDI inflows in 1H/2019 (+48% YoY), recovery in the property investment market is taking a bit longer. The total value of major property transactions in Q3/2019 declined by half YoY, largely due to a rush to conclude deals this time last year, in the wake of GE14 and the subsequent change in government. Overall, our interactions with investors indicate a slow return to activity, with a few significant deals expected to be concluded between now and early 2020, partly driven by completion of restructuring plans for various GLCs, and partly by the realisation among investors that they cannot rely entirely on the government to solve what ails the country.

Among the notable transactions during the review quarter included Sime Darby Plantation's disposal of some non-core sites in Malaysia to a joint venture between Kapar Holdings and Eonmetall Group, for a 420-acre land in Klang. The land will subsequently be subdivided amongst the shareholders of the JV entity, both of which are iron and steel conglomerates. As a result, Eonmetall Group will gain 100 acres of land in Klang and relocate its plant to the site.

Commercial property transactions have included the continued disposal of PGIM Asia Retail Fund's retail portfolio in Malaysia. On the heels of the disposal of three of their malls last year, PGIM reportedly agreed terms for the proposed sale of 1st Avenue Mall to Ideal Group, a Penang-based developer, for RM153mil, at a discount to market valuation. The mall enjoys 90% occupancy, stable gross rents and a strategic location in Georgetown with pedestrian links to Prangin Mall and Komtar Tower. The sale is in line with PGIM's divestment plans, especially after Singapore-listed Frasers Group increased their shareholding stake in PGIM AsiaRetail Fund Ltd to 67% in April this year.

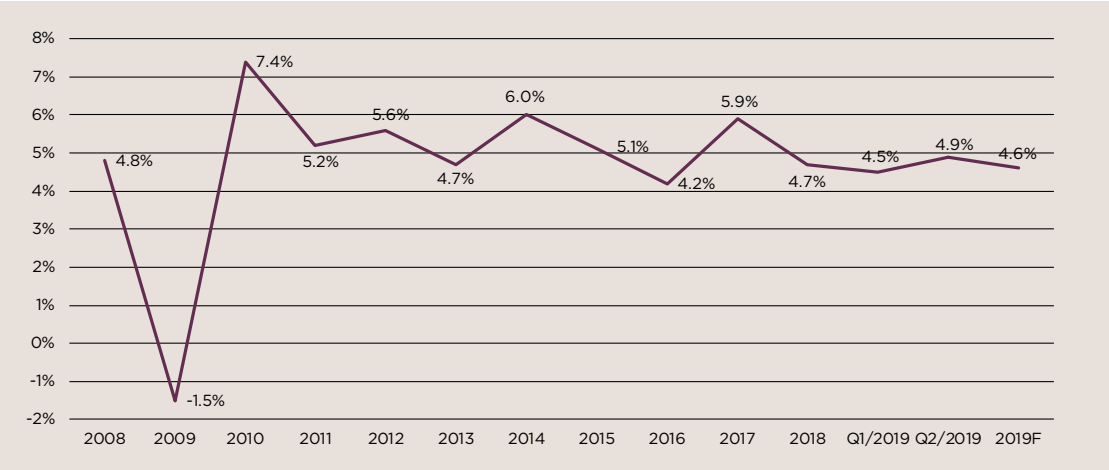
The development market continues to see some consolidation, with a handful of land banking transactions, which included Mah Sing continuing its acquisition of sites, in this case two development sites from JL99 in Kepong and Setapak in KL. These are Mah Sing's second and third land acquisitions this year. Elsewhere, Malaysia Pacific Corporation sold their development land in Plentong, Johor as a debt settlement to Amanah Raya. Meanwhile, Hong-Kong listed Multifield International Holdings Limited made their entry into the Malaysia market via its 22-acre land acquisition in Sepang, Selangor.

The government's recent Budget 2020 proposals are supportive of domestic consumption and investment, with due consideration to the resources expended over the past 18 months in cleaning up the economy and major government-linked companies. Two positive pieces of news from the Budget 2020 include: the lowering of the Real Property Gains Tax (RPGT) for property acquired before 2013 via the rebasing of the tax year from 2000 to 2013; and, the reduction of foreigners' minimum acquisition value threshold for primary high-rise residential property ownership from RM1mil to RM600,000 in urban areas, which may help to alleviate the residential overhang situation. All in all, despite the Ministry of Finance's optimistic economic growth forecast for 2020, global uncertainties remain a key factor for investors.

Datuk Paul Khong
Managing Director
Savills Malaysia
+ 603 2092 5955 ext 137
paul.khong@savills.com.my

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

Malaysia GDP Growth, 2008 to 2019F



Source Bank Negara

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
A 420-acre agriculture land	Selangor	RM155.7 mil/ US$37.15 mil	Kapar Holding, Kapar Land and Eonmetall Group	Agriculture
A 7-storey shopping mall	Penang	RM153.0 mil/ US$36.5 mil	Ideal United Bintang International Berhad	Commercial
A 132-acre agriculture land	Johor	RM115.0 mil/ US$27.4 mil	Amanah Raya	Agriculture
A 5.5-acre development land	Kuala Lumpur	RM94.8 mil/ US$22.6 mil	Mah Sing Group Berhad	Commercial
A 22-acre development land	Selangor	RM66.5 mil/ US$15.9 mil	Multifield International Holdings Ltd	Commercial

Source Company announcements, Savills Research & Consultancy

Philippines

The pace of economic growth in the first half of the year was nothing to write home about as it stumbled to a low of 5.5% in Q2/2019 – its lowest in 17 quarters. Albeit household consumption continued to recover, it failed to offset downbeat capital formation and government spending due to the budget impasse late last year together with the ban on construction activity during the election period in the first half. However, that did not cloud the business outlook as the business confidence index was upbeat, rising to 40.5% in Q2/2019.

Furthermore, we saw a rise in real estate transactions this quarter with a couple of development site acquisitions located in Pampanga from listed Philippine developers. In Q3/2019, 8990 Holdings, Inc purchased a 200-hectare lot in Pampanga to expand its socialized and low-cost housing portfolio. This could help address the housing backlog in Central Luzon, which based on our estimates reached around 118,600 in 2018. Meanwhile, Ayala Land is riding the influx of Chinese firms coming to the Philippines with its acquisition of 192 hectares of land for the development of the first Sino-Philippine industrial park in the country. Chinese manufacturing firms have already taken up 1.7 hectares in its Alviera Industrial Park located in Pampanga.

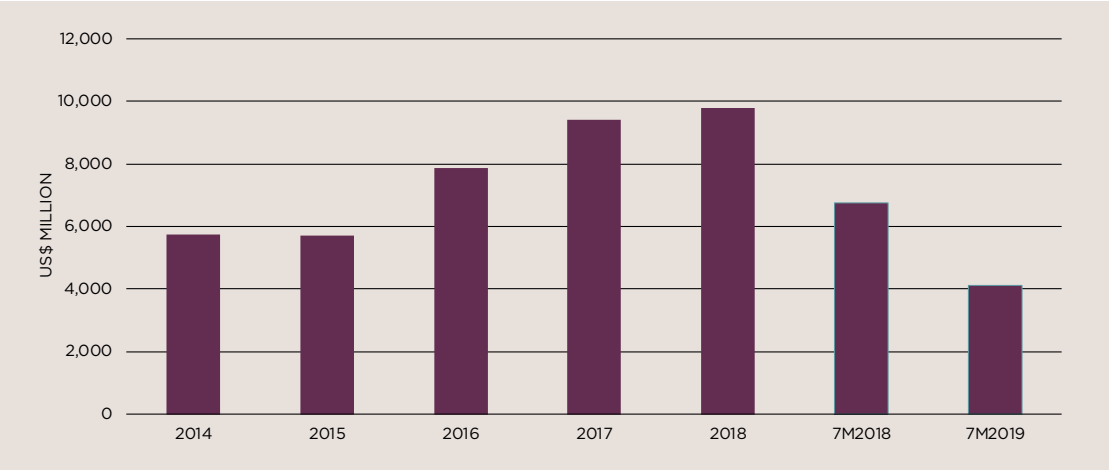
With the region's accessibility to above-average infrastructure, this could attract demand from local and foreign investors. We believe companies are maximizing the thriving opportunities in the province as it is one of the areas included in the government's massive and ambitious infrastructure program. From the construction of additional property estates, to the various tourism and recreational venues, and local businesses who have moved in anticipation of the Clark International Airport's expansion, investment in Pampanga continue to flow from both the public and private sectors. Moreover, with the government kicking off the 'Pampanga Megalopolis Plan', big ticket projects are expected to drive further growth in the region, such as New Clark City, the Manila Clark Railway and Subic Clark Railway.

There has been a lack of foreign investor appetite in 1H/2019 after the decline in foreign direct investment (FDI) by 38.8% YoY. On the other hand, the Philippine growth story remains intact as seen by the continued expansion from large local players. Meanwhile, the government is optimistic that economic growth will be able to sustain its momentum amid the global economic slowdown resulting from the continued trade tensions between the US and China.

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

Fredrick Rara
Research Manager
KMC Savills, Inc
+632 403 5519
fredrick.rara@
kmcmaggroup.com

Net Foreign Direct Investment, 2014 to July 2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Land at Padre Faura St	Ermita, Manila City	PHP235.91 mil/ US$4.5 mil	Kwan On Holdings Ltd International Entertainment Corporation	Development site
Cocolight Building	BGC, Taguig City	PHP8.73 mil/ US$0.2 mil	Citillion Properties	Office
Savya Financial Center North Tower	Arca South, Taguig City	-	Mitsubishi Estate	Office
Land at Pampanga	Pampanga	-	8990 Holdings	Development site

Source Savills Research & Consultancy

Singapore

Christopher J Marriott
CEO
Southeast Asia
+65 6415 3888
cjmarriott@savills.asia

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

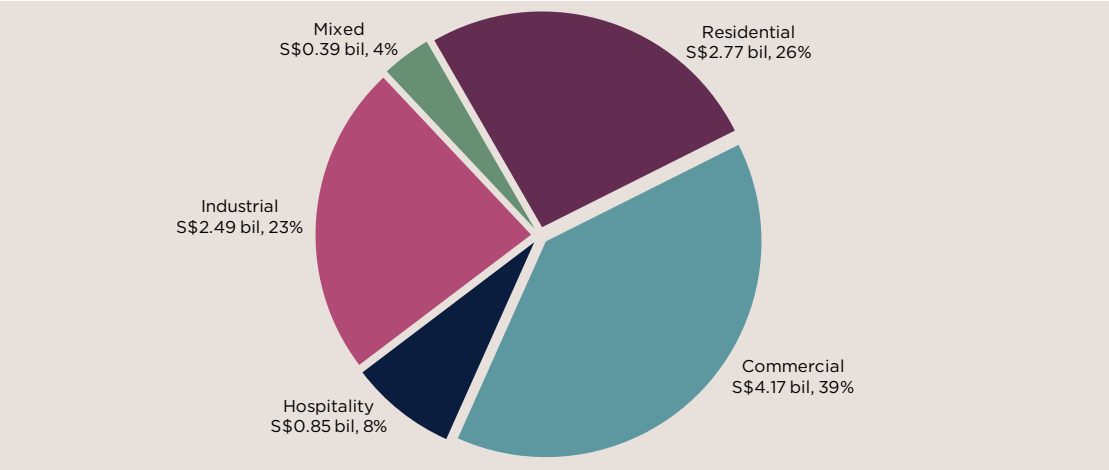
In Singapore, the real estate investment market recorded S$10.67 billion worth of deals in Q3/2019, rising sharply by 45.6% from the S$7.33 billion achieved in the previous quarter. This is also the highest recorded value for a single quarter since Q4/2017.

S$4.17 billion or 39.1% of Q3's total investment sales came from the commercial property sector. Driven by strong liquidity, buying interest from institutional investors, private equity funds and investment managers were all concentrated on office properties in the CBD. In addition, recent political turmoil in Hong Kong has possibly diverted capital flows to other gateway cities in Asia like Singapore. As a result, a few big-ticket deals were concluded in the reviewed quarter. These included: Allianz Real Estate and Gaw Capital Partners' S$1.575 billion acquisition of Duo Tower and Duo Galleria, which are the office and retail components of the mixed-use complex in the Ophir-Rochor precinct; the S$655.0 million sale of 71 Robinson Road to SV Robinson, a real estate investment company owned by Sun Venture; and Keppel REIT's S$547.5 million sale of its strata ownership of Bugis Junction Towers to Village Prop, an entity that is majority-owned by US-based global alternative investment manager Angelo Gordon, with Singapore-based property investment manager TCRE Partners holding a minor stake. The net yield for these deals is estimated to be in the range of 3.0% to 3.5%.

The residential property sector recorded S$2.77 billion of investment sales in Q3, making up 25.9% of the investment sales market. Four residential plots worth a total of about S$1.89 billion were awarded under the Government Land Sales (GLS) Programme. However, despite a revival of buying activity in the private residential sales market, the lower number of bidders and less aggressive tender prices reaffirmed that developers' enthusiasm in land acquisitions has turned cautious, until perhaps they can clear their existing inventory.

On a quarterly basis, investment sales in the industrial property sector surged by 536.1% to S$2.49 billion, accounting for 23.3% of Q3's total investment sales. Many of these deals came about through active acquisitions by REITs. The largest deal was the sale of Mapletree Business City (Phase 2) and the common premises on Pasir Panjong Road. Mapletree Commercial Trust bought this business park development from its sponsor, Mapletree Investments, for S$1.55 billion. Other deals included: Keppel DC REIT's purchase of two data centres, Keppel DC Singapore 4 (99% interest) and 1-Net North Data Centre at S$585.1 million; and ESR REIT's S$225.0 million acquisition of a newly redeveloped six-storey ramp-up warehouse located at 48 Pandan Road.

Investment Sales Transaction Volumes By Property Type, Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Duo Tower and Duo Galleria	Fraser Street	S$1.575 bil/ US$1.141 bil	Allianz Real Estate and Gaw Capital Partners	Commercial
Mapletree Business City (Phase 2) and the Common Premises	Pasir Panjang Road	S$1.550 bil/ US$1.123 bil	Mapletree Commercial Trust	Industrial
313 @ Somerset	Orchard Road	S$1.003 bil/ US$726.8 mil	Lendlease Global Commercial REIT	Commercial
Government land	Tan Quee Lan Street	S$800.2 mil/ US$579.9 mil	GLL D Pte. Ltd., Intrepid Investments Pte. Ltd. and Hong Realty (Private) Limited	Residential
71 Robinson Road	Robinson Road	S$655.0 mil/ US$474.7 mil	Sun Venture	Commercial

Source Savills Research & Consultancy

South Korea

The transaction volume for Q3/2019 came in at KRW2.8 trillion. Total transaction volume through the end of Q3/2019 stood at KRW9.5 trillion, but will likely be similar to that of 2018 (KRW11.6 trillion), considering the deals which are currently on the market.

In September, the Ministry of Land, Infrastructure and Transport announced 'measures for revitalising public real estate indirect investment', meaning tax revisions on public REITs and REFs. If the legislation is successful, it is expected that the public market for real estate investment will expand.

As several large transactions over KRW200 billion each were concentrated in the CBD, the CBD accounted for 81% of total activity for the quarter.

Hangang Asset closed the City Square Building deal for KRW292.7 billion (KRW25.3 mil/3.3sqm). DB AMC flipped the City Square Building in 2017 after SK D&D bought the site, owned by Ryukyung PSG AMC at the time, and an adjacent site and developed it into a prime office building. Seoul Metropolitan Government is known to be the main tenant for the property.

Demand for sites to be used as headquarters continued in Q3. Douzone ICT Group acquired Douzone Euilji Bldg. for KRW456.2 billion (KRW27.6 mil/3.3sqm). With its current HQ located in Chuncheon, Gangwon-do, it will reportedly utilise the building's upper floors as its Seoul headquarter and lease the lower floors to other tenants.

IGIS AMC acquired the mixed-use SK E&C Myeongdong Bldg. for KRW408.5 billion (KRW36.2 mil/3.3sqm). IGIS AMC is planning to develop the lower floors as a retail complex and expecting an increase in asset value and rental income after remodeling the office floors where SK E&C used to master-lease.

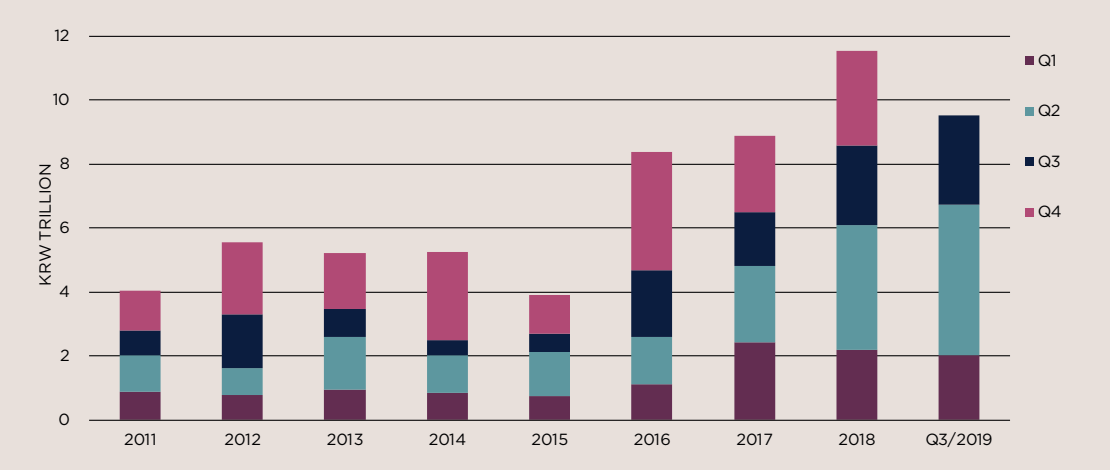
Heading into Q4, a majority of transactions are likely to close in YBD. Furthermore, high-end buildings due for completion in the next year are up for sale. Both Parc. 1 Tower 2 (YBD) and Daelim Seoul Forest (Seongsu-dong) have designated seller agents and are now on the market.

In Q3/2019, the average prime office cap rate stood at mid-4%, calculated using face rent and 90% occupancy. However, considering leasing concessions (such as rent-free periods and tenant-improvement incentives) and actual occupancy rates, the effective cap rate is at a low of 4%. The average five-year treasury yield in Q3/2019 was 1.3%, a fall of 40bps compared to the last quarter, meaning a prime office cap-rate spread of approximately 330bps. The average LTV rates in Korea remain at 55%.

Crystal Lee
CEO
Savills Korea
+82 2 2124 4163
csjlee@savills.co.kr

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

Office Transaction Volumes, 2011 to Q3/2019



Source Savills Korea

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
KEB Hana Financial Group Myeongdong Office	CBD	KRW901.0 bil/ US$755.1 mil	Booyoung Group	Office
Douzone Eulji Building (formerly Booyoung Eulji Building)	CBD	KRW456.2 bil/ US$382.3 mil	Douzone ICT Group	Office
SK E&C Myeongdong Building	CBD	KRW408.5 bil/ US$342.3 mil	IGIS AMC	Office, hotel and retail
City Square Building (formerly Seosomun 5 Redevelopment Project)	CBD	KRW292.7 bil/ US$245.3 mil	Hangang AMC	Office
Woori Financial Namsan Tower (formerly Namsan Central Tower)	CBD	KRW219.8 bil/ US$184.2 mil	Woori Bank	Office
DMCC Building	DMC	KRW169.0 bil/ US$141.6 mil	Joongang Property	Office

Source Savills Korea

Taiwan

Both land and commercial property markets posted exceptional performances in Q3/2019. Land transaction volume for the quarter increased by 74% year-on-year (YoY) to NT$4.6 billion, totaling NT$186 billion for the first three quarters of 2019. Additionally, two large deals concluded in Q3 pushed the commercial property transaction volume to NT$64 billion, marking a 557% growth compared with the same period last year. At the current pace, market activity both in the land and commercial property sectors could break records by the end of the year.

Developers continued to dominate the land market, accounting for 90% of total sales and acquiring NT$161 billion worth of land so far this year. They have been aggressive in both expanding their land stock and launching new projects, as residential market sentiment continues to improve, with total transacted residential units rising by 6.2% YoY in the first eight months of 2019. Sales in the mass residential market have been much stronger than in the high-end residential sector, which has in turn increased competition amongst developers to secure land lots in fringe areas. However, the affordability of residential end-users is limited and price-sensitive, forcing developers to control construction costs or sacrifice profit.

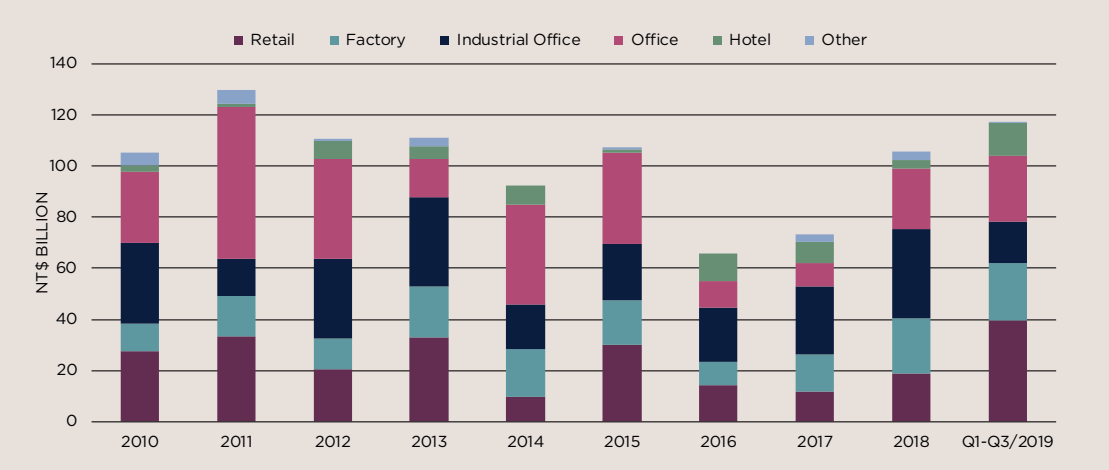
Buyers' confidence in commercial property is also growing. The market's largest recent deal involved Living Mall, which sold to the landlord's subsidiary, China Petrochemical Development Group, by public tender for NT$37.2 billion, after failing to sell through tender three previous times. This shopping mall is located in Taipei CBD and includes a land lot of around 4,986 ping (16,454 sq m), equivalent to a land unit price of around NT$7.46 million per ping. The buyer plans to tear down the shopping mall, due to its disappointing retail sales and outdated building design, and redevelop the site into an office complex.

Another notable deal was Synnex Technology's acquisition of a 4,847-ping office space in a pre-sale office project on the fringes of Taipei, for a total of NT$5.09 billion. After looking for new headquarters for several years, Synnex set a new price benchmark for office space in the fringe area with the deal, as the unit price hit NT$1 million per ping. The transaction also showed that end-users are willing to increase their budgets to secure good quality office space. In this environment, large-sized deals—worth over NT$5 billion each—have surged. Eight large-sized deals, worth a total of NT$99.3 billion, have closed over the past seven quarters, with five of those deals involving end-users, most notably from the financial sector. In the short term, we expect that office end-users will keep playing a key role in the market, as more new office projects are launched and stimulate buyers to act.

Ricky Huang
General Manager
Savills Taiwan
+886 2 8789 5828
rhuang@savills.com.tw

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

Significant Transactions By Sector, 2010 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Wonstar Hotel	Taipei City	NT$850 mil/ US$28 mil	Local investment institute	Hotel
K24 building in Nantze Export Process Zone	Kaohsiung City	NT$3.32 bil/ US$77 mil	Advanced Semiconductor Engineering	Industrial office
H building, The Global One	Taipei City	NT$5.09 bil/ US$169 mil	Synnex Technology	Office
Living Mall	Taipei City	NT$37.2 bil/ US$1.24 bil	China Petrochemical Development	Retail

Source Savills Research & Consultancy

Thailand

Robert Collins
CEO
Savills Thailand
+66 2636 0300
robertc@savills.co.th

Jeremy O'Sullivan
Associate Director
Research & Consultancy
+66 2636 0300
jeremyo@savills.co.th

The Thai economy is feeling the effect of poor international trade sentiment and pressure from the appreciation of the Thai Baht, which is having an impact on export performance. 2019 GDP and export forecasts have been downgraded each quarter, as trade issues intensify; current forecasts put them at 2.7% to 3% and -2% to 0%, respectively.

The strength of the Thai Baht, which has seen an increase of more than 6% against the US Dollar YTD, has been drawing a lot of interest from FOREX investors, though this has been having a negative impact on the country's exports and tourism; both of which the country is heavily dependent. Going forward it is unknown exactly what measures the government and the Bank of Thailand (BOT) will take in order to reduce the currency pressure.

Tourism continues to be a major driver for the Thai investment market; arrivals until August were up 2.6% year-on-year and remain on target to beat last year's 38.27 million. The most high-profile hotel acquisition this quarter was the 268-key Four Point by Sheraton Bangkok, which was bought at a price of US$71.6 million by TA Global BHD, the Malaysian property developer.

The third quarter investment market was dominated by the planned IPO of Asset World Corporation, part of the TCC Group, which was established as the major property development and management arm of the conglomerate. In total the asset portfolio will contain 14 hotels, 13 development projects, 9 retail and wholesale outlets and 4 offices all of which are located within Thailand. The assets within the company have been valued at US$3 billion and have been quoted as having a yield of 6.13%, which is very low for the market; this has been met with some criticism by investment firms who claim the portfolio has been overvalued and that there may be some issue selling the shares once they start trading later this quarter.

AIM Group has listed a new REIT, AIM Commercial Growth Leasehold Real Estate Investment Trust (AIMCG), on the SET. AIMCG comprises the leasehold right to three community mall properties, which are UD Town, Porto Chino and 72 Courtyard, located in Udon Thani, Samut Sakhon and Bangkok, respectively. The properties have a combined total lettable area of 38,542 sq m and have high occupancy rates of between 100% and 79%. AIMCG has issued trust units to the value of US$94.2 million in total.

Looking ahead, we anticipate investment in hotels to remain bullish, on the back of positive arrivals numbers; whilst domestic demand for other property sectors looks to remain subdued due to the tempered economy.

Exchange Rate, THB:USD, Q4/2018 to Q3/2019

Source Bank of Thailand

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Four Points by Sheraton Bangkok	Bangkok	THB2.2 bil/ US$71.6 mil	TA Global BHD	Hotel
AIMCG REIT: UD Town; Porto Chino; 72 Courtyard	Bangkok	THB2.87 bil/ US$94.2 mil total trust units value	AIM Comm Growth FH & LH REIT	Retail

Source Company announcements, Savills Research & Consultancy

Vietnam

In Q3/2019, Vietnam's economy continued its strong momentum with GDP growth at 7.3% Year-on-Year (YoY) and stable CPI at round 2.5%. Benefiting from new-generation trade agreements (CPTPP/EVFTA), total goods export turnover in 9M/2019 was US$194.3 billion, up 8.2% YoY, while the export surplus was US$5.9 billion. A strong macroeconomic performance has seen real estate investors ramp up business activities.

The Japanese company, Sumitomo Corporation, plans to spend about US$130 million to develop 180.5 hectares for the third phase of Thang Long Industrial Park II in Northern Vietnam. With further entry of additional foreign manufacturers and the expanded location, Sumitomo group anticipates that the park will eventually be one of the largest Japanese-invested industrial developments in Vietnam.

In the office sector, Nomura Real Estate Development acquired its second commercial building in Ho Chi Minh City - Zen Plaza. The building offers 11,700 sq m of NLA on Nguyen Trai Street, District 1 and is a 10-minute drive away from the future Ben Thanh Metro Station. The building was originally developed in 1995 and only has less than 20 years left on the leasehold title. This demonstrates the Japanese investors confidence to renew the leasehold title in the future.

In July, Keppel Land Limited (Keppel Land) announced the acquisition of a 60% interest in three land parcels in Nha Be District, Saigon South for VND1,304 billion (approx. US$56 million). The project spans 6.2 hectares and will develop about 2,400 premium apartments, with ancillary shophouses, in addition to 14,650 sq m of commercial space.

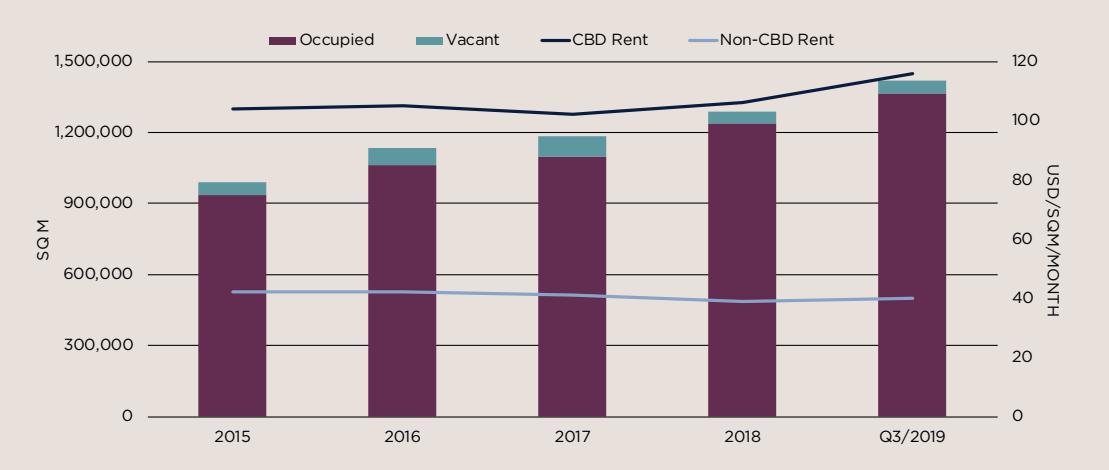
Another foreign property developer, Phu My Hung Development Corporation is expanding to secondary provinces in Vietnam. The company successfully sold US$75 million of corporate bonds to International Finance Corporation. Proceeds will be primarily used to develop an integrated township in the northern rural province of Hoa Binh in the next 15-20 years. Upon completion, Phu Hung Khang will provide over 1,000 residences, two schools and a hospital. A 75-room hotel will also be developed in order to tap into the area's tourism potential.

Singapore's GIC led a consortium investing $500 million in Vingroup's retail businesses. Vingroup's retail chains have rapidly expanded with numerous M&A deals: Oceanmart (2014), Vinatexmart and Maximark (2015), FiviMart (2018) and Shop&Go (2019). With the latest acquisition - Queenland Mart, the number of VinMart supermarkets will increase to 120 upon deal closure. When combined with VinMart+ convenience stores, Vingroup now has a total of 2,122 retail outlets. As a long-term investor, it is apparent that GIC is confident in the expected rise of Vietnam's disposable income and household consumption.

Neil MacGregor
Managing Director
Savills Vietnam
+84 8 3823 7454
nmacgregor@savills.com.vn

Troy Griffiths
Deputy Managing Director
Advisory Services
+84 8 3823 9205
tgriffiths@savills.com.vn

Ho Chi Minh City Retail Market Performance, 2015 to Q3/2019



Source Savills Research & Consultancy

Major Investment Transactions, Q3/2019

PROPERTY	LOCATION	PRICE	BUYER	USAGE
Three land parcels (60% interest)	Nha Be District, Ho Chi Minh City	approx. VND1.3 tri/ approx. US$56 mil	Keppel Land Limited	Residential
Zen Plaza	District 1, Ho Chi Minh City	N/A	Nomura Real Estate Development	Office

Source Savills Research & Consultancy

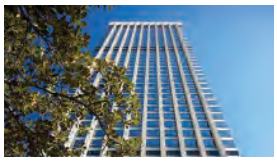
Australia

◀ **2 Chifley Square** (50%)
Sydney, NSW
AU$922.0M/US$626.9M
in August

242 Exhibition Street ▶
Melbourne, VIC
AU$830.0M/US$564.0M
in July

400 George Street ▶
Brisbane, QLD
AU$524.7M/US$356.8M
in August

◀ **285 George Street**
Sydney, NSW
AU$450.0M/US$306.0M
in August



▲ **201 Elizabeth Street**
Sydney, NSW
AU$630.0M/US$428.4M
in August

Beijing/Guangzhou/Shenzhen

Westmin Plaza ▲
Liwan, Guangzhou
RMB910M/US$128.7M
in Q3

▼ **Beijing HNA Plaza**
Chaoyang, Beijing
RMB1.736B/US$253.9M
in July

Pangu Plaza, Building No. 5 ▶
Chaoyang, Beijing
RMB5.187B/US$752.6M
in August

▲ **Neo**
Haidian, Beijing
RMB178.6M/US$25.2M
in September

Central Times ▶
Luohu, Shenzhen
in August

Shanghai

◀ **Dong Ying Tower**
Huangpu
RMB2.351B/US$332.9M
in Q3

Jasper Tower (F15-20) ▶
Pudong
RMB1.252B/US$177.3M
in Q3

Pacific Electronic Plaza ▶
Pudong
RMB1.170B/US$165.7M
in Q3

◀ **Fudu Plaza**
Huangpu
RMB750M/US$106.2M
in Q3

Hong Kong

▲ **Winway Building** (58.83%)
Central
HK$780M/US$100.0M
in September

Central Industrial Building ►
Kwai Tsing
HK$1.08B/US$138.5M
in August

◄ **Citadines Mercer Hong Kong**
Sheung Wan
HK$800M/US$102.6M
in August

Johnson Place ▲
Chaiwan
HK$948M/US$121.5M
in Jul

Japan

▲ **Hilton Odawara**
Odawara, Kanagawa
JP13.0B/US$116M
in September

▼ **Meguro Knowledge Plaza**
Meguro, Tokyo
JP15.8B/US$150M
in September

Logiport Amagasaki (51%) ▲
Amagasaki, Hyogo
JPY24.6B/US$230M
in September

Malaysia

◄ **1st Avenue Mall**
Georgetown, Penang
RM153M/US$36.5M
in September

A 5.5-acre development site ►
Kepong, Kuala Lumpur
RM95M/US$22.6M
in July

A 132-acre development site ►
Plentong, Johor Bahru
RM115M/US$27.4M
in August

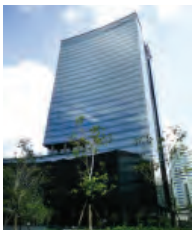
◄ **A 420-acre agriculture land**
Klang, Selangor
RM156M/US$37.15M
in July

Singapore

◀ **Duo Tower and Duo Galleria**
Fraser Street
S$1.575B/US$1.141B
in July

313 @ Somerset ▶
Orchard Road
S$1.003B/US$726.8M
in August

71 Robinson Road ▶
Robinson Road
S$655.0M/US$474.7M
in July



◀ **Mapletree Business City (Phase 2) and the Common Premises**
Pasir Panjang Road
S$1.55B/US$1.123B
in September

South Korea

▲ **City Square Building**
CBD
KRW292.7B/US$245.3M
in August

◀ **SK E&C Myeongdong Building**
CBD
KRW408.5B/US$342.3M
in August

Hana Financial Group Myeongdong Office ▶
CBD
KRW901B/US$755.1M
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KRW456.2B/US$382.3M
in September

DMCC Building ▶
DMC
KRW169B/US$141.6M
in August

Woori Financial Namsan Tower ▶
(formerly Namsan Central Tower)
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KRW219.8B/US$184.2M
in August

Taiwan

◀ **Wonstar Hotel**
Taipei City
TWD850M/US$28M
in September

K24 building in Nantze Export Process Zone ▶
Kaohsiung City
TWD2.32B/US$77M
in August

NOTES PAGE

Savills Regional Investment Advisory, Asia Pacific

savills

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

Regional Research and Consultancy
Simon Smith
Email: ssmith@savills.com.hk
Tel: +852 2842 4573
1202-04, Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong

ASIA

Greater China

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

With offices in Tsim Sha Tsui and Taikoo

Central China
Wing Chu
Email: siuwing.Chu@savills.com.cn
Tel: +8621 6391 6689
Unit 2501-13, Two ICC, No. 288 South Shanxi Road, Shanghai 200031, PRC

Northern China
Anthony Mcquade
Email: anthony.mcquade@savills.com.cn
Tel: +8610 5925 2002
Unit 01, 21/F East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang, Beijing 100022, PRC

Southern China
Woody Lam
Email: woody.lam@savills.com.cn
Tel: +8620 3665 4777
Suite 1301, R&F Center, No. 10 Hua Xia Road, Zhujiang New Town, Guangzhou 510623, PRC

Western China
Eric Wo
Email: eric.wo@savills.com.cn
Tel: +8628 8658 7828
Room 2106, Yanlord Landmark Square, No. 1 Section 2, Renmin South Road, Jinjiang District, Chengdu, PRC

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

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

India

Anurag Mathur
Email: anurag.mathur@savills.id
Tel: +91 22 4090 7300
WeWork Forum, DLF Cyber City, Phase 3, Sector 24, Gurgaon, Haryana 122002

With offices in Bangalore, Mumbai, Pune and Chennai

Indonesia

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

Japan

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

Korea

Crystal Lee
Email: csjlee@savills.co.kr
Tel: +822 2124 4114
13/F, Seoul Finance Center, 84 Taepyungro-1-ga, Chung-gu, Seoul 100-768, Korea

Malaysia

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

With 2 branches throughout Malaysia

Phillipines

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

Singapore

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

Taiwan

Ricky Huang
Email: rhuang@savills.com.tw
Tel: +886 2 8789 5828
21F, Cathay Landmark, No. 68, Sec. 5, Zho ngxiao E. Road, Xinyi District, Taipei City 110, Taiwan

With an office in Taichung

Thailand

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

Viet Nam

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

With an office in Ha Noi

AUSTRALASIA

Australia

Paul Craig
Email: pcraig@savills.com.au
Tel: +61 2 8215 8888
Level 25, 1 Farrer Place, Sydney, Australia

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

New Zealand

Paddy Callesen
Email: pcallesen@savills.co.nz
Tel: +64 0 9 951 5911
Level 6, 41 Shortland Street, Auckland, NZ 1010, New Zealand

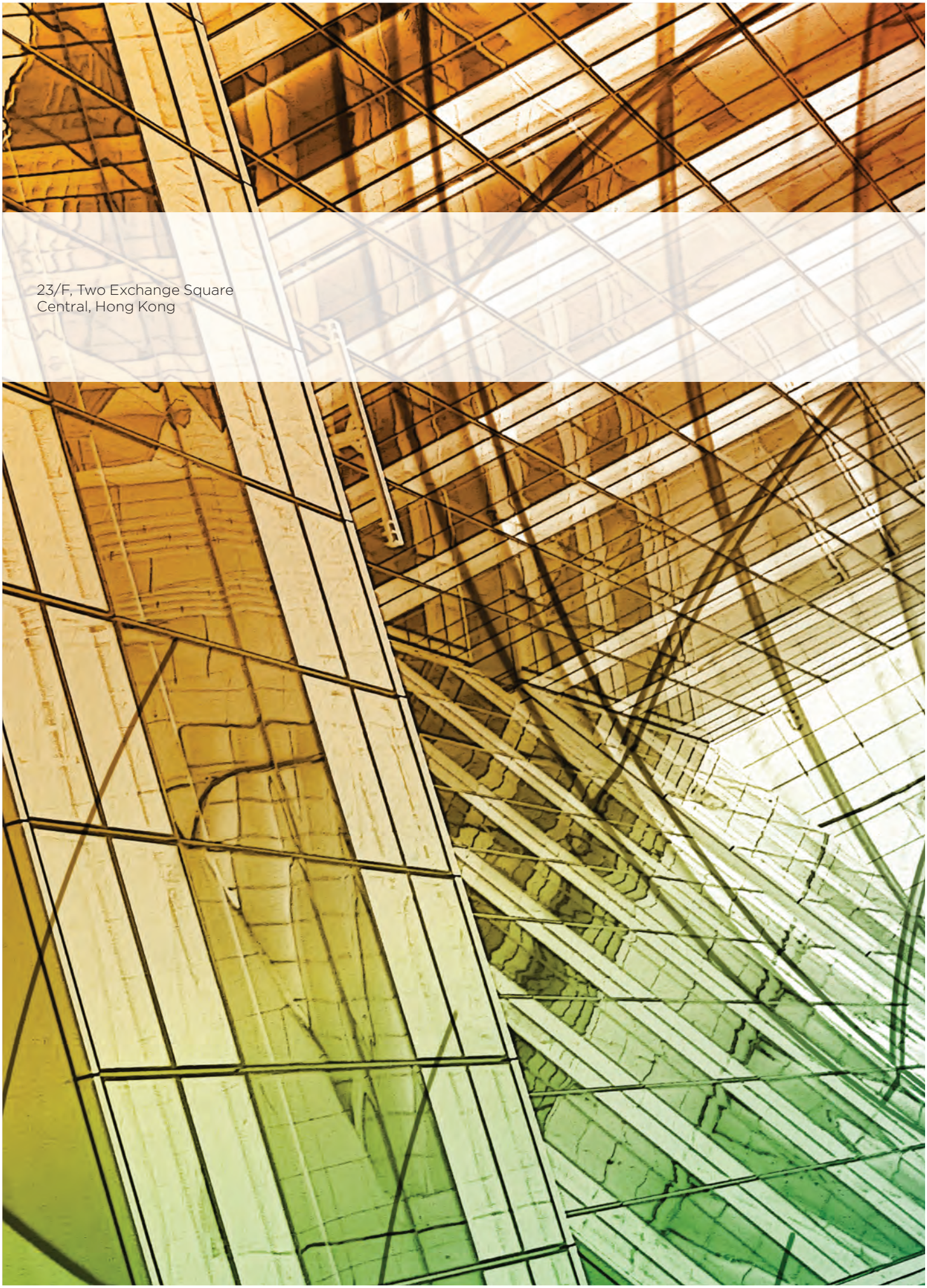
NORTH AMERICA

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

UNITED KINGDOM & EUROPE

Harry Philpott
Email: hphilpott@savills.com
Tel: +852 2842 4277
23/F Two Exchange Square, Central, Hong Kong

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



23/F, Two Exchange Square
Central, Hong Kong