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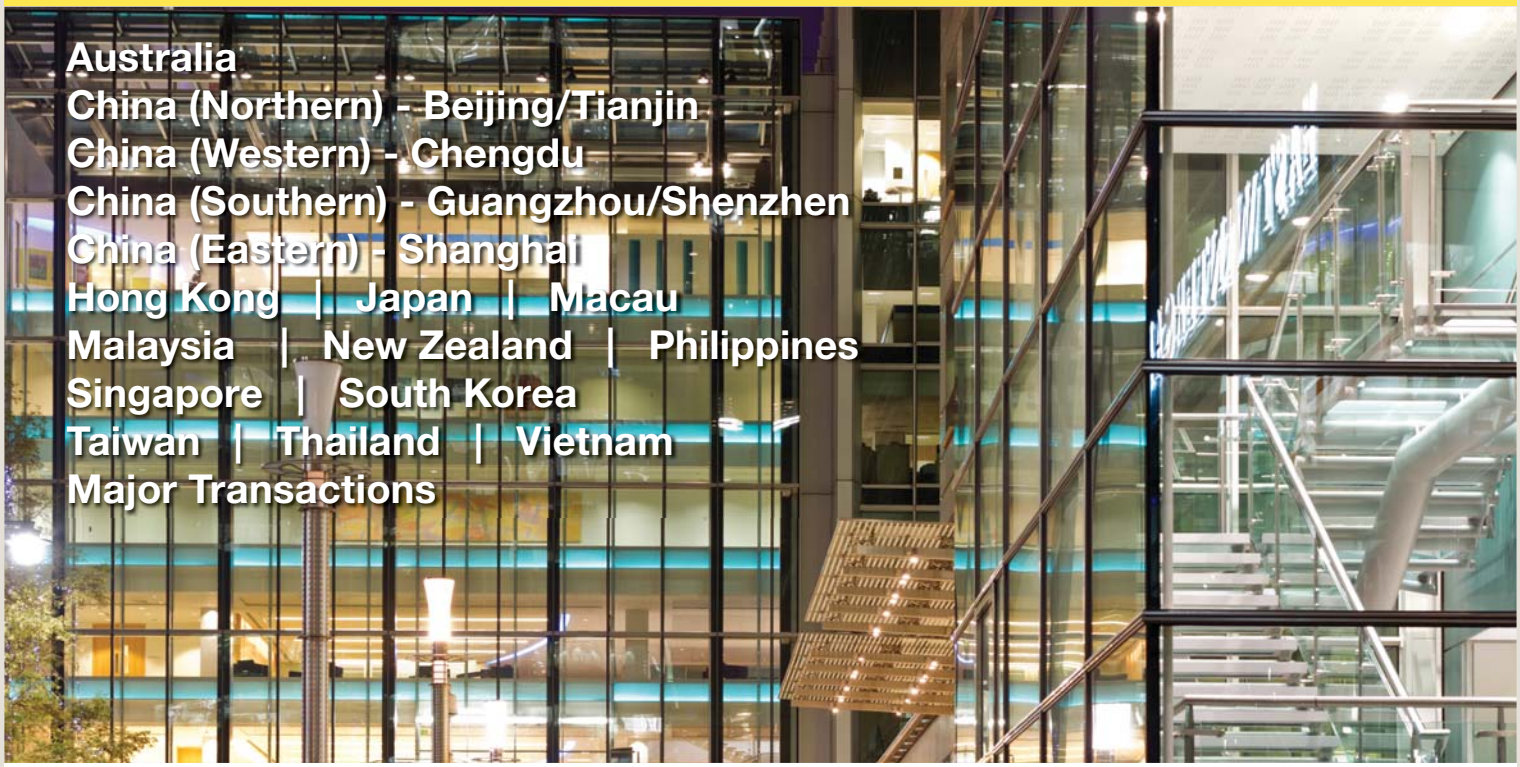
Asia Pacific
Investment Quarterly

Q4 2017

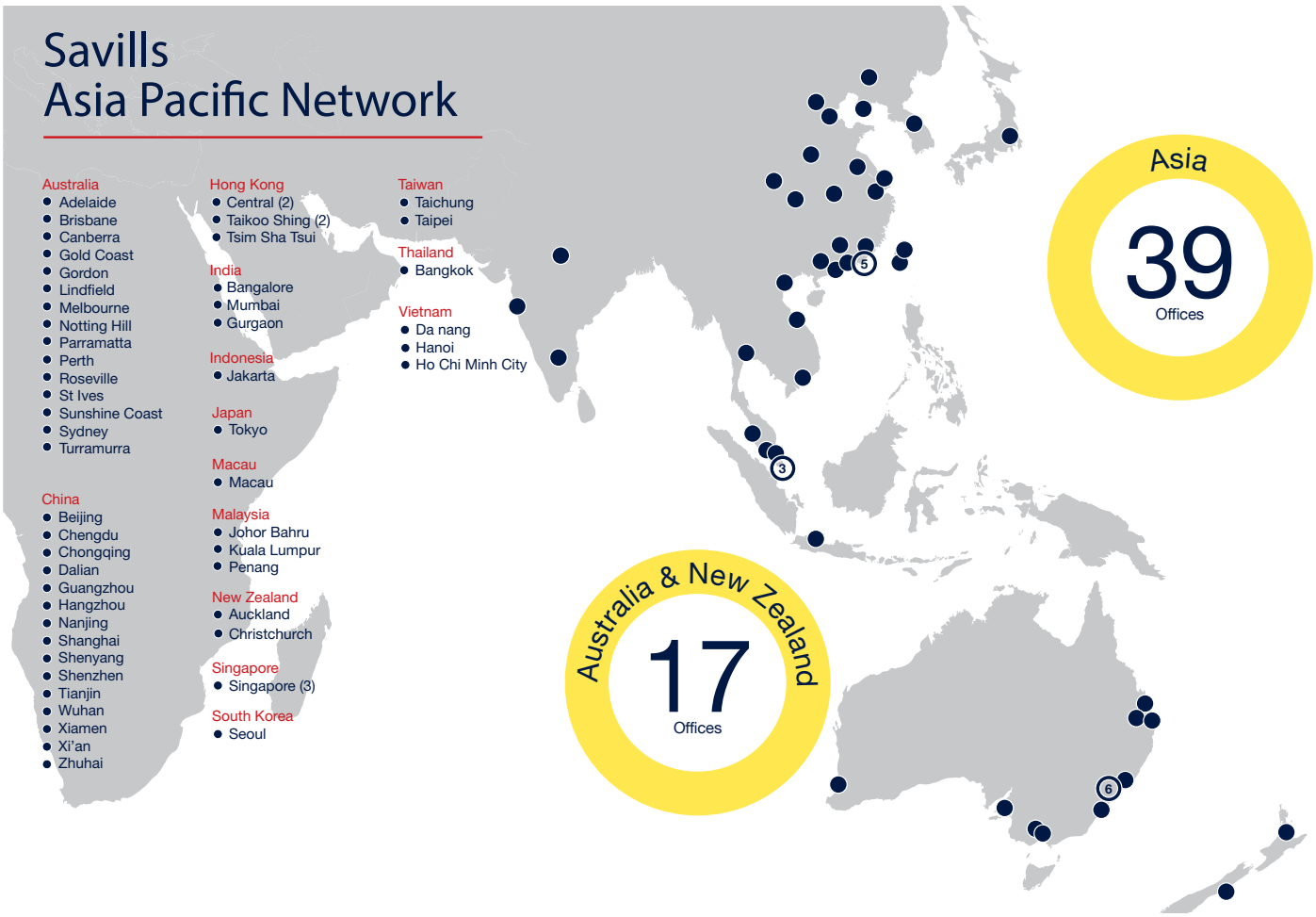


HIGHLIGHTS

Japan's economic fundamentals are sound, and PM Abe's political ground has been reaffirmed. Given the stable macro climate, Japan's real estate market is likely to maintain its current favourable momentum. Despite rising local financing costs the Chinese investment market has remained active. Investors are focused on secondary markets where lower per square metre valuations allow for further upside. Investment momentum in Hong Kong remained strong during the last quarter of 2017 with the industrial market proving particularly popular. On the commercial front in Singapore, the lack of investible grade office stock in the CBD means that investment sales have been scarce, but are very fully priced when they do occur. Increased demand for headquarters from domestic corporations, and increased prime asset availability helped 2017 set a new record for total office investment volumes in Korea. In Australia, meanwhile, an upbeat economic performance helped drive confidence in the commercial property market with almost AU$30 billion of sales across the major asset classes recorded in 2017.

Simon Smith, Savills Research

An introduction to Savills



Source: Savills Research & Consultancy

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

In Asia Pacific, Savills has 56 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.

Contents

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Investor demand for Australian property remained strong in 2017, driven by demand from domestic institutional investors and capital inflows from the foreign investors looking to capitalise on the strong fundamentals of the Australian economy. This was particularly true for the retail and office sectors, where AU$9.13 billion of retail sales set a new record and AU$19.7 billion of office transactions was the second highest on record. Industrial sales volumes at AU$2.86 billion, fell well short of the record AU$6.3 billion transacted in 2016, however this was due to a lack of stock offered to the market as opposed to a reduction in purchaser demand.

Despite the continued compression in yields evident over recent years, spreads between long term bond rates and property yields remain attractive, with ongoing interest from local and offshore investors pointing to possible room for further compression in 2018. Whilst the A-REIT index generated a low net total return of just 4.25% over CY-17, this is a material disconnect to the performance in Australian unlisted property funds which returned 26.4% according to the latest MSCI data.

2017 was also a major year for Australia economically, with the transition towards becoming a more diversified becoming increasingly evident, with a strong recovery across the Mining and Professional & Technical Services sectors. Strengthening labour market conditions followed as the economy normalised, with full time employment rising by over 320,000 persons during the year – the strongest on record.

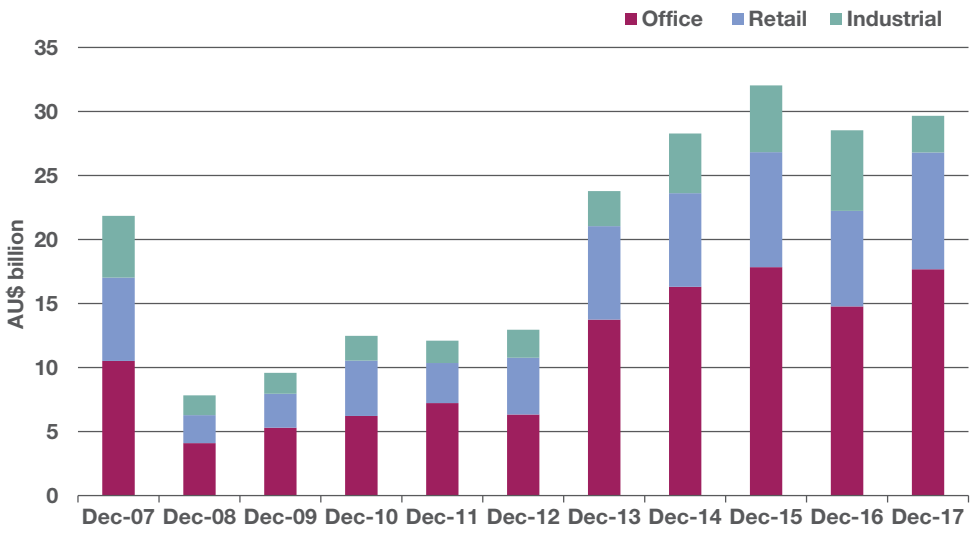
Overall employment growth was recorded at 3.3% over the year, exceeding all long term averages, with full-time employment growth accounting for over 80% of total employment growth. Similarly, growth in job advertisements were up across the industrial and office sectors, showing positive leasing conditions in these sectors is likely to continue over 2018.

In spite of these positive metrics, concerns remain about Australia's growth in productivity, GDP per capita and inflation. Record low growth in wages has led to slowing retail sales across Australia, with a moderation in the residential housing sector further compounding an already weak retail sector. Promisingly, with business investments largely supporting the economy over the past year, it appears likely that there will be a flow on effect to wages and thus drive consumption.

Current yield spreads between short and long term interest rates are indicative of interest rates likely to remain at record low levels over 2018. Whilst yield compression has been a primary driver for total returns, we expect positive leasing conditions and strong rental growth to drive total returns across the Australian property sector.

GRAPH 1

Total sales activity (AU$10 mil+), Dec 2007–Dec 2017



Source: Savills Research & Consultancy

TABLE 1

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Chatswood Chase (49%) swap for QVB (50%), The Strand (50%) and The Galeries (50%)	Chatswood / Sydney CBD, NSW	AU$1.118 bil/US$872 mil	GIC/Vicinity	Retail
Indooroopilly Shopping Centre (50%)	Indooroopilly, QLD	AU$800 mil/US$624 mil	AMP Capital Investors	Retail
Rockingham Shopping Centre (50%)	Rockingham, WA	AU$300 mil/US$234 mil	AMP Capital Investors	Retail
130 Pitt Street	Sydney, NSW	AU$229 mil/US$182.5 mil	PR Realty	Office

Source: Savills Research & Consultancy

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Demand was robust in the en-bloc sales market in Q4/2017, with seven deals transacted for a total consideration of RMB14.06 billion. Total consideration for the investment market reached RMB44.54 billion in 2017, marking an increase of 21% year-on-year (YoY), and the fourth consecutive year of strong performance. The most active purchasing demand stemmed from domestic investors.

A limited availability of tradable office stock in prime locations saw investor interest increase as assets were made available to the market. Deals of the quarter included:

- New Hualian Mansion, located on the East Fourth Ring Road, was acquired by Maiweisi Property Management for RMB1.13 billion, marking an average price of RMB74,592 per sq m.

- Super Alliance Real Estate Partners purchased a number of floors in China Merchants Tower in the CBD. The total transaction area and price remain undisclosed.

Investors continue to pay greater attention to assets in non-prime and emerging areas. More affordable transaction prices coupled with greater room for value appreciation provide opportunities for investors. Major transactions during the quarter included:

- Thaihot Group disposed of Chang An Centre Building B (Level 3-21) in Shijingshan district to Beijing Liangdou Technology. The deal transacted for RMB1.8 billion, an average price of RMB51,437 per sq m.

- Technology Park C2-A in Jiuxianqiao was acquired by a domestic end-user. The deal transacted for a total consideration of RMB368 million, registering an average price of RMB21,793 per sq m.

Investors continued to purchase commercial assets offering favourable investment potential, such as hotels. Q4/2017 deals included:

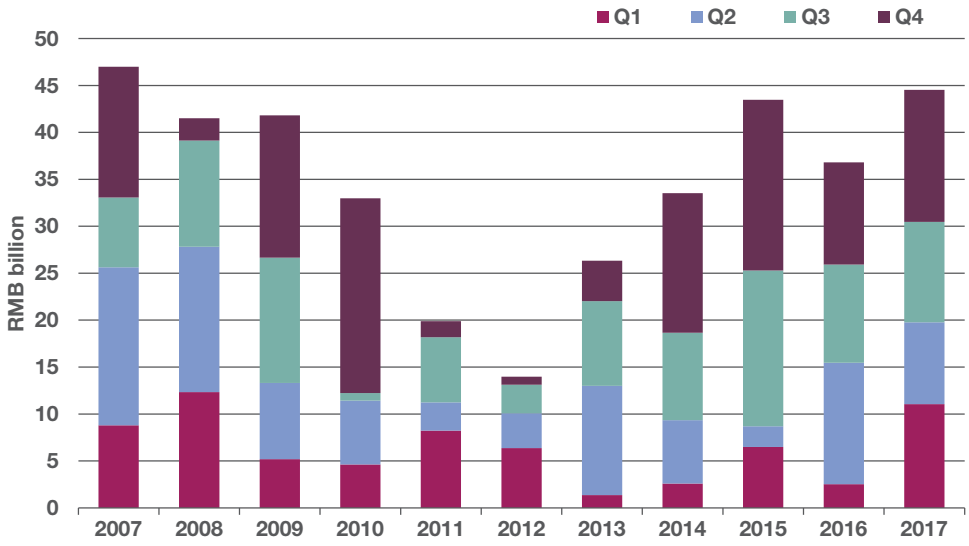
- Tianfu Fund Management acquired W Hotel Beijing in Jianguomen for RMB1.984 billion. The deal transacted at an average price of RMB31,589 per sq m.

Domestic institutional investors will continue to play a dominant role in the investment market moving forward. Traditional assets from the office, retail and hotel sectors will remain on investors' radars, but shrinking yields will see acquisition targets further diversify. Serviced apartment and long-term leasing apartment projects will be increasingly viewed as investment opportunities. Meanwhile, a greater number of companies will search for projects for end-use. As a result, office projects with affordable prices in mature industrial parks are likely to garner interest.

The development of commercial real estate in urban areas has been heavily subdued by the roll out of government restrictions. 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 urban renewal and stock conversion (retail-to-office and hotel-to-office) will continue to grow in popularity.

GRAPH 2

En-bloc investment volumes by property type, 2007–2017



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

TABLE 2

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Technology Park C2-A	Chaoyang	RMB368 mil/US$57.04 mil	Domestic company	Industrial
W Hotel Beijing	Chaoyang	RMB1.98 bil/US$307.52 mil	Tianfu Fund Management	Hotel
Chang An Center Building B	Shijingshan	RMB1.80 bil/US$278.98 mil	Beijing Liangdou Technology	Office
New Hualian Mansion	Chaoyang	RMB1.13 bil/US$175.15 mil	Maiweisi Property Management	Office

Source: Savills Research & Consultancy

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Land market saw a decline in supply but significant growth in transaction volumes in Q4/2017, with most transactions were for residential use. Tight regulations continued to carry considerable weight in the residential land market. As the government seeks to promote the long-term leasing market, developers' winning bids determined by proportions of units for-lease-only showed an upward trend[1].

Land supply decreased by 26% quarter-on-quarter (QoQ) to 1.391 million sq m, down 57% year-on-year (YoY) in Q4/2017. However, total transaction volumes increased 54% QoQ to 2.692 million sq m, up 70% YoY. The city centre remained the smallest contributor, recording only 3% of total supply, due to land scarcity. Suburban and fringe areas of Tianjin and Binhai New Area supplied similar volume of land, each around 450,000 sq m. In terms of transaction volumes, strong demand continued to be seen in the fringe area and Binhai New Area, which accounted for 80% of total transactions. Meanwhile, transactions in suburban areas equated to 17% of total transactions.

Two adjacent land plots located in Binhai New Area's Hangu District were gained by Country Garden and a local developer, Tianfang Group. Country Garden purchased the eastern land plot for a total consideration of RMB283 million, at an accommodation value of RMB5,091 per sq m. The 46,436 sq m land plot is zoned for mixed-use development, including residential and commercial purposes. The western land plot, totalling 74,627 sq m, was acquired by Tianfang Group at a total consideration of RMB525 million and an accommodation value of RMB4,688 per sq m.

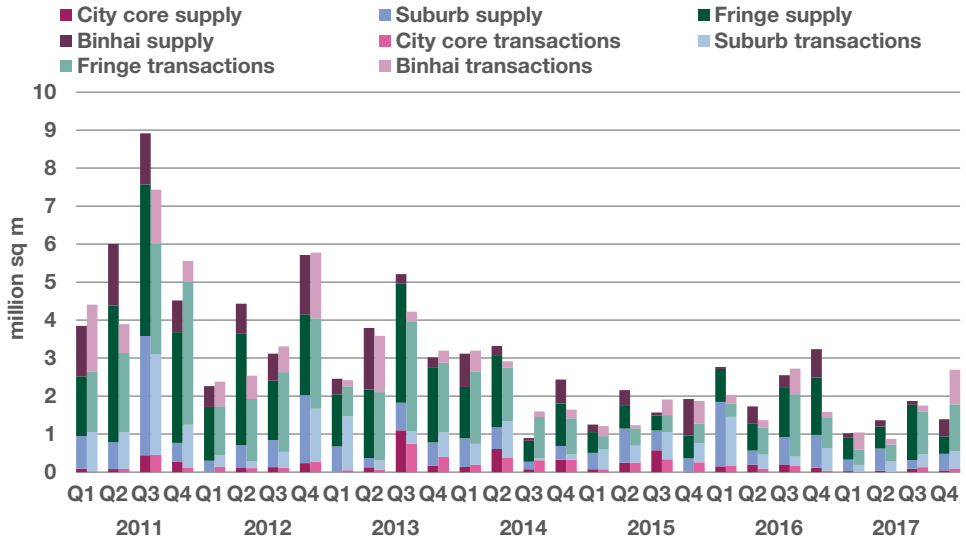
China Railway Construction Corporation (CRCC) acquired a land plot located in Hebei district for a total RMB3.24 billion, with an accommodation value of RMB30,423 per sq m, equivalent to a premium of 40%. The 43,000 sq m land plot is titled for mixed-use, including use for residential, commercial, public facilities and education. In contrast with other land auctions, CRCC won the bid at the ceiling price stage without proceeding to the next stage, where bidders would have to compete on the land plot size allocated to build housing for residents being displaced due to urban redevelopment.

The 2017 Central Economic Working Conference, which ended on 20th December, pledged to advance economic progress while ensuring stability. It is expected that the land market in 2018 will be smooth and stable in terms of supply and transaction.

1 Land auctions happen at two stages: Stage 1 - Bidding for land plot by pricing. If ceiling price is reached, bidders can then decide to move on to the next stage or not. If not, the first bidder who offer ceiling price will win the land plot. Stage 2 - Urban planning criteria to be set by local authorities and will change depending on circumstances.

GRAPH 3

Land supply and transaction volumes by area, Q1/2011–Q4/2017



Source: Savills Research & Consultancy

TABLE 3

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Plot 2017-1 (JBH)	Binhai	RMB280 mil/US$42.9 mil	Tianfang Group	Mixed-use development site
Plot 2017-2 (JBH)	Binhai	RMB520 mil/US$79.8 mil	Country Garden	Mixed-use development site
Plot 2017-145 (JBW)	Hebei	RMB3.24 bil/US$498 mil	CRCC	Mixed-use development site
Plot 2017-128 (JHY)	Heping	RMB100 mil/US$15.3 mil	PBOC	Commercial development site
Plot 2017-129 (JHS)	Hongqiao	RMB3.52 bil/US$540 mil	Ping'an Real Estate	Mixed-use development site

Source: Savills Research & Consultancy

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Average mass residential price growth slowed considerably, following home purchasing policies intended to cool the sector. The average transaction price increased by 11% year-on-year (YoY) to RMB14,590 per sq m in Q4/2017. Supply and transaction volume in 2017 fell by 66% and 45% YoY respectively to 3,118,135 sq m and 5,448,528 million sq m due to the shortage of new supply and strong demand.

The city government issued a notice on "improving the city's housing purchasing policy" which extended the restrictions on second-hand home purchases in March 2017. The policy also limited home buyers' hukou and employment requirements. In April 2017, the city government tightened policy restrictions and increased minimum down payments from 40% to 60% of the total price. Tianfu New Area has the most stringent policy, with a minimum down payment of 70% of the total price, and has also blocked mortgages for third-home buyers. All these policies are based on the government's pledge to end residential property speculation and improve housing affordability for the city's residents.

The Chengdu government issued a circular, detailing plans to boost the residential rental market and improve urban residential housing conditions. Several state-owned housing leasing companies will be set up to strengthen public residential rental security and currency subsidies will be fully utilised. Another document released in October 2017 requires developers to build fitted-out houses up until 2022 and then build fitted-out first-hand commodity housing in both urban and suburban areas from 2022 onwards.

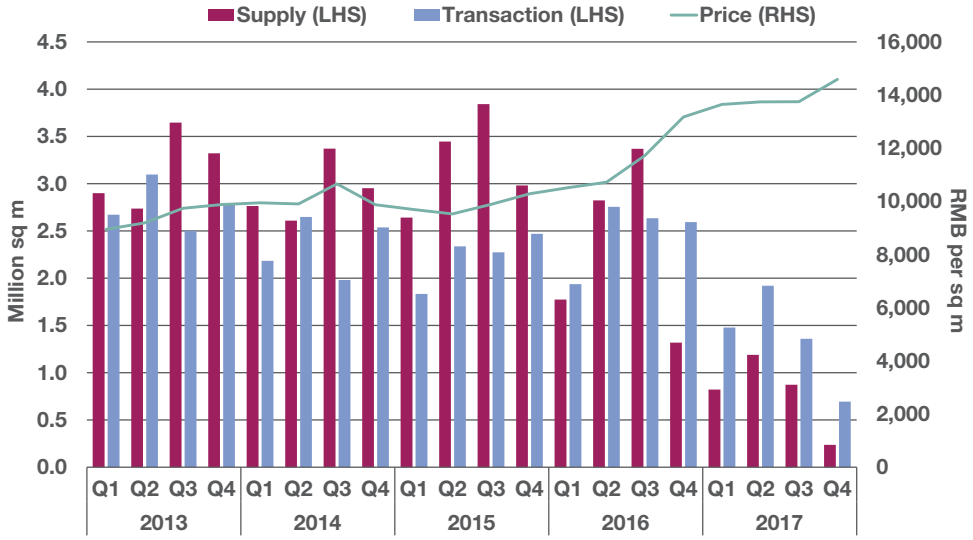
Due to limited supply, the transaction volume of residential land was 360,063 sq m, a 56% decrease YoY during 1H/2017, which caused all residential land plots to be sold at a high premium. The government significantly increased supply of residential land in 2H/2017 and the transaction volume of residential land increased to 1.7 million sq m, up 147%. The highest accommodation value reached RMB17,200 per sq m, 42% higher than 2016. In order to guide the land market, the government announced a series of rules governing land transactions in 2017.

As an example, one rule announced in March was that each auction should set a maximum bidding price, and when a bid exceeds the price ceiling, "lucky draws" would decide the winner. The new method aims to prevent developers from bidding up the price of land plots, which in turn has an impact on the price of housing.

Besides the tightening home purchasing polices, the government issued plans to increase the stock of residential land released. On the other hand, the government also started to boost the residential rental market by providing stable rental housing. It is expected that government controls will cool the market and enhance housing affordability.

GRAPH 3

Residential market supply, transaction volumes and average prices, Q1/2013–Q4/2017



Source: Savills Research & Consultancy

TABLE 4

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Da'an Dong Road land site	Qingyang	N/A	Sino-Ocean	Development site

Source: Savills Research & Consultancy

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The total value of all transactions (excluding the industrial sector) in Guangzhou reached approximately RMB4.49 billion – a 200% increase YoY. Guangzhou's retail market saw two project transactions in 2017; firstly Rock Square, located in Haizhu district, bought by Capital Land for RMB3.306 billion in Q4/2017, Secondly, Rock Centre, previously owned by China Oversea Property and sold to Everbright Pramerica Fund Management Co. Ltd. in 2012, netted Everbright RMB1.3 billion over five years through its sale to Capital Land in Q4/2017.

The two shopping mall transactions in 2017 demonstrate Guangzhou's retail-investment opportunities, as the market continues to be supported by both capital investment and household consumption. Guangzhou's household consumption represents 66% of its GDP, the highest consumption allocation of all tier-one cities.

The Grade A office market also witnessed a few significant transactions in 2017. Gaw Capital bought Damazhan Commercial Centre in October for RMB560 million, after selling the Metropolitan Centre earlier this year. The Damazhan Commercial Centre is located on Beijing Road, in the Yuexiu district. It occupies 1,500 sq m of land area with 16,000 sq m GFA.

The office sales market not only witnessed more corporate buyers, but also some well-funded private investors.[2] The Pazhou Mo project was wholly purchased by a private investor for RMB700 million, while Vanke World Expo Centre (building No.3) was bought for RMB480 million. The Guangzhou Grade A office market prices are lower than other first-tier cities, but rent levels increased by approximately 1% semi-annually in 2017, which consequently increased the city-wide commercial yield. Purchase limitations in the commercial market (per-unit purchases are only allowed for areas greater than 300 sq m, and only corporations are allowed to buy) should continue to promote more large-scale transaction in the office sales market.

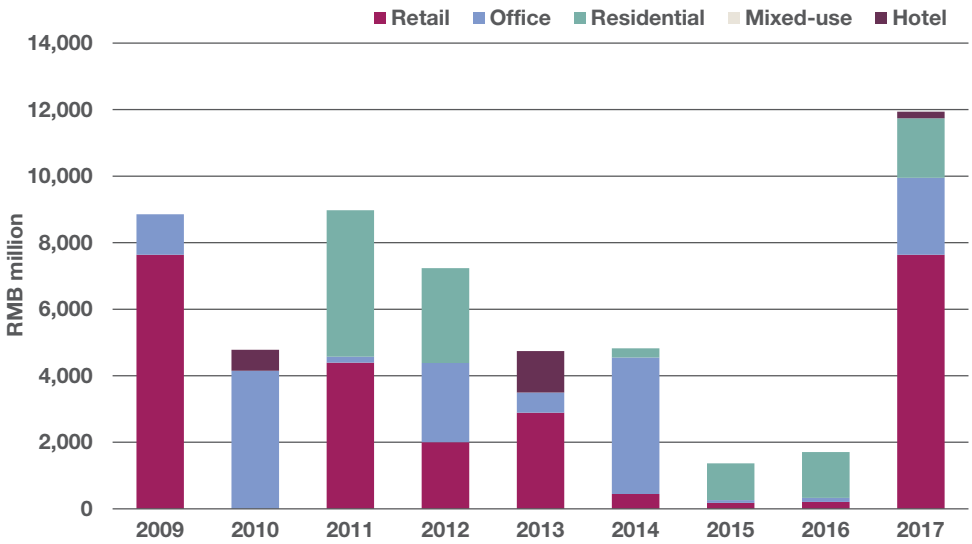
The Guangzhou land market witnessed the first residential plot sold in Huangpu district in October. It was bought by Guangzhou Sciences City Investment Company, Ltd., for RMB219.68 million (RMB10,416 per sq m), and is labelled for 100% residential self-use.

In November, one commercial land plot in Zhujiang New Town was acquired by Zhuguang Group via cooperation with Yuan Cun Company, Ltd. Zhuguang Group received the rights to use 60.17% of the plot for a total of RMB235.98 million (RMB2,578 per sq m).

2 Corporate buyers tend to be large companies that may occupy commercial real estate assets for self-use, whereas private investors will not utilize a building for self-use. They will instead lease it to other parties.

GRAPH 4

Property transactions by sector, 2009–2017



Source: National Bureau of Statistics, Savills Research

TABLE 5

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Rock Centre	Haizhu	RMB3.36 bil/US$507.8 mil	Capital Land	Retail
Damazhan Commercial Centre	Yuexiu	RMB560 mil/US$84.64 mil	Gaw Capital	Office
Guangzhou Guantang land plot	Zengcheng	RMB13.16 bil/US$1.99 bil	Guangzhou Metro Group	Residential
Guangzhou KXC-K1-9	Huangpu	RMB219.68 mil/US$33.20 mil	Guangzhou Services City Investment Co. Ltd	Residential
Guangzhou AT090961	Tianhe	RMB1.35 bil/US$203.45 mil	Poly Group	Commercial

Source: Savills Research

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From 2H/2015 to Q4/2017, Shenzhen's land transaction prices have risen rapidly. The significant price appreciation is an ongoing concern for businesses and developers. With new central government initiatives granting support for the development of the residential leasing sector, questions remain about how much land will be allotted to Shenzhen's commercial and industrial industries for future development. Fortunately, the Shenzhen government is addressing this concern in their new Master Plan – The 13th Five-Year Plan for Shenzhen Urban Construction and Land Use .

In 2017, the Shenzhen government has supplied a greater amount of land to support its major industries—high-tech, modern services[3], and industrial. From the beginning of 2017 until 1 December, 34 land plots have transacted[4], accounting for over 600,000 sq m, with total income of approximately RMB43 billion. Sixteen plots were allocated for commercial/office use, 15 plots for industrial use, and one plot for residential/mixed-use.

According to the Shenzhen Master Plan, Luohu, Futian, Nanshan and Yantian districts will continue to develop the modern services industry, while Bao'an, Longgang, Longhua, Pingshan and Guangming districts will develop advanced manufacturing industry and other modern services, and Dapeng district will develop Shenzhen's tourism and ecological conservation. As seen in Graph 5, these plans are already being carried out; Guangming district, Pingshan and Longgang district accounted for most of the industrial land, while Nanshan district continues to develop its modern services industry, via the commercial land around the Houhai Headquarter Base in 2017.

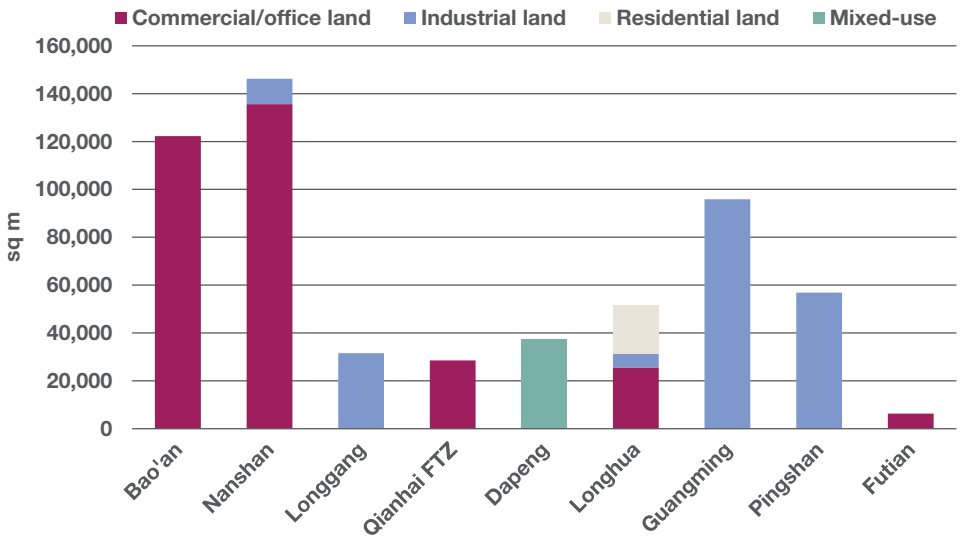
The slower residential sales market and rising long-term leasing market has drawn national attention, but as can be seen from current land allocations, it is ultimately the Shenzhen government's decision on how to distribute and assign land to specific real estate sectors. According to the Master Plan, Shenzhen's government has adopted an optimised management policy, such as supplying more industrial land for emerging industry use (M0); the supply of high-end (M0) industrial land proportion will be at least 30% of total distributed land by 2020. As a result, there will be more land supply allocated to major industries, such as headquarters, to maintain Shenzhen's core competitiveness.

Shenzhen will continue to attract investment from state-owned enterprises, private high-tech leaders, and financial services firms due to its core industrial capacity. Shenzhen's 13th Five-Year Plan for Urban Construction will not only improve the utilisation of industrial space and develop potential synergies between districts, but also set guidelines to boost "Guangdong-Hong Kong-Macao Bay Areas" cooperation, and ensure Shenzhen's primary leadership role in the maritime road portion of China's 'One Belt One Road' central policy.

3 The broader tertiary service industry, including but not limited to retail, finance, and logistics
4 Shenzhen Land and Real Estate Exchange Centre annual data

GRAPH 5

Shenzhen land transactions, Jan 2017–Dec 2017



Source: CRIC database

TABLE 6

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
T107-0085	Bay HQ base Nanshan district	RMB1.932 bil/US$289.8 mil	Tent Chuang Future Ltd.	Commercial
A811-0323	Minzhi Longhua district	RMB1.01 bil/US$151.5 mil	Shenzhen Talents Housing Group Co. Ltd	Commercial
Huaqiaocheng Plot	Nanshan district	RMB7.0 bil/US$1.509 bil	Logan Property	Mixed-use
T201-0099	Qianhai Free Trade Zone	RMB1.456 bil/US$218.4 mil	Kingboard Chemical Holdings Ltd.	Commercial

Source: Real Capital Analytics

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2017 was a very active year in the Shanghai investment market with a total consideration of RMB92.2 billion, up 15% YoY. While the market saw continuing growth in capital values, some market fundamentals showed signs of softening because of oversupply. Under these conditions, some investors are looking at niche asset classes where competition is thinner and returns higher. Several sectors with great demand potential are drawing more attention than others.

The logistics sector was the most transacted niche market so far thanks to the boom in China e-commerce and high levels of institutional-grade logistics property stocks. The market is dominated by a handful of players who are responsible for most investment cases. A consortium led by China Vanke, Hillhouse Capital Management and Hopu Investment won a management buyout to take over Global Logistics Properties Ltd (GLP), the largest operator of warehouses in China, in mid-2017.

As China's leadership pushes for the development of for-leasing market in China's major cities, both foreign and domestic investors, including some of the country's largest developers, are actively working to establish operating platforms. Warburg Pincus redoubled its investment in a rental residence platform Nova Property. Vanke announced plans to issue up to RMB35 billion of direct debt financing instruments to boost liquidity or finance projects such as long-lease apartments in January 2018. Meanwhile, developers are also using new sources of capital to fund rental apartment projects. Poly Real Estate was offered the quota for the sale of securities backed by its rented flats portfolio by Shanghai Stock Exchange. As the for-leasing market expands, the bigger focus is operational—creating a standardized mode to scale management teams and control cost.

Though the data centre sector in China has been heavily restricted and dominated by local SOEs, some investors are still willing to consider it, usually in partnership with a professional operator. In June 2017, China ratified new cybersecurity laws mandating that foreign firms operating within China's borders must store sensitive data on domestic servers. To comply with the new regulations, Apple is building its first China-based data centre in Guizhou, China. In addition, data centre's specialist nature is now seen as an asset because it protects against competition, especially from local developers. In October 2017, the Dallas-based data centre provider CyrusOne agreed to buy a stake in GDS Holdings, one of the largest data centre companies in China focused on serving the country's cloud giants.

Investors are also looking at the healthcare sector. Despite being relatively immature, China's healthcare market is the fastest-growing healthcare market of all large emerging economics. Moreover, in the Chinese government's recent five year plan, public healthcare has been listed as one of the priorities alongside with environmental protection and food security. HK's Shun Tak teamed up with Perennial Real Estate and other firms in Singapore and Thailand to jointly invest in healthcare-related property projects in China.

As investment in niche markets grows, investors are still exploring the right formula to make business work.

TABLE 7

Recent key niche market investments in China, 2016–2017

	Project	Time	Price
Consortium led by China Vanke, Hillhouse Capital Management and Hopu Investment	Equity investment in GLP	July 2017	US$11.6 billion
Temasek	Equity investment in Columbia China for a 50/50 JV partnership	October 2016	US$250 million
Wargburg Pincus	Equity investment in Nova Property	September 2017	US$183 million
CyrusOne	Equity investment in GDS Holdings, 8% stake	October 2017	US$100 million
GAW Capital	Equity investment in Harbour Apartments	September 2017	US$61.2 million

Source: Savills Research

TABLE 8

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
50% Harbor 55	Hongkou	RMB6.0 bil/US$918 mil	SIPG	Mixed-use
Sky SOHO	Changning	RMB5.0 bil/US$765 mil	Gaw Capital	Office
49.5% stake in Rui Hong Xin Cheng Project	Hongkou	RMB3.9 bil/US$597 mil	China Life	Mixed-use
Cross Tower	Huangpu	RMB2.7 bil/US$413 mil	World Union	Office
ZRT Tower	Jing'an	RMB1.5 bil/US$230 mil	Five Bulls Fund	Office

Source: Savills Research

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The industrial sector remains a firm favourite among investors. Boosted by positive investment sentiment, a total of 26 major industrial transactions (over HK$30 million) were recorded in Q4/2017, a 117% increase from the previous quarter. The total consideration reached HK$10.8 billion, the highest quarterly number since Q1/2007, and a 144% increase from Q3/2017.

A few en-bloc industrial buildings were sold over the last quarter of 2017, the largest of which was the sale of Winner Godown Building for HK$2.163 billion, which the new buyer intends to redevelop, leading to a wave of displacement demand in the leasing market. Three other en-bloc industrial buildings changed hands over the quarter (each for over HK$1 billion), most for redevelopment.

Sales of large scale industrial assets for redevelopment, as well as the changing leasing strategies of some traditional warehouse landlords, meant that in a single quarter, around 800,000 to 1 million sq ft of displacement demand was injected into the market, much of it ending up in traditional warehouses. As such, overall warehouse vacancy declined dramatically from 2.6% in Q3/2017 to 1.7% in Q4/2017.

In the modern warehouse segment, new demand was noted from both new industries such as e-commerce and online gaming, while we also saw some more unusual demand from traditional industries such as banking. Modern warehouse vacancy edged down from 0.9% to 0.8% over the quarter as a result.

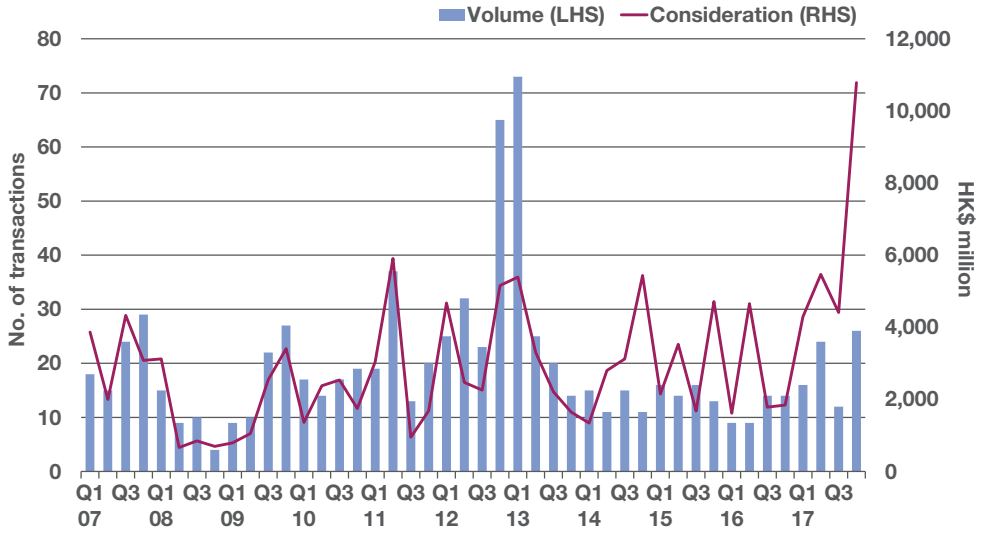
Upbeat industrial investment sentiment may be challenged by recent stock market volatility and signals from the US that further interest rate rises are on their way, but given redevelopment potential and the possibility of further industrial revitalization initiatives from government, industrial investment looks a safer bet than other property asset classes, at least in the short-run. The investment prospects of the logistics sector are also closely tied to its leasing performance with its 4% yield still attractive to long-term investors.

One of the key growth prospects for modern logistics in Hong Kong is high-value, fast-moving logistics requirements at the airport, with Hong Kong International Airport (HKIA) retaining its title of 'busiest airport in the world' in 2017 in terms of air cargo throughput (4.88 million tonnes), a 10% growth over 2016 and beating its closest rival, Memphis International Airport, by 13%.

The growing logistics demand from new industries such as e-commerce and other online platforms, as well as high-value logistics demand from the recovering retail segment should sustain growth in air cargo throughput over the next few years. To support such anticipated growth a new facility located at Kwo Lo Wan in HKIA South Cargo Precinct, with a gross floor area of approximately 4 million sq ft, is expected to boost supply of premium warehouse space in the city by 15% to 20% when it begins operation in 2023.

GRAPH 6

Major industrial transaction volumes and values (>HK$30 million), Q1/2007–Q4/2017



Source: Savills Research & Consultancy

TABLE 9

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
The Center (75% share)	Central	HK$40.2 bil/US$5.14 bil	C.H.M.T Peaceful Development Asia Property Ltd	Office
Link REIT 17 shopping malls	Various locations	HK$23.0 bil/US$2.94 bil	Gaw Capital Partners	Retail
8 Bay East	Kwun Tong	HK$9.0 bil/US$1.15 bil	LVGEM China	Office
Winner Godown Building	Tsuen Wan	HK$2.163 bil/US$277 mil	TBC	Industrial
Provident Square	North Point	HK$2.0 bil/US$256 mil	Fortune REIT	Retail

Source: EPRC, Savills Research & Consultancy

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Japan's real GDP grew at an annualised rate of 2.5% year-on-year (YoY) in Q3/2017, marking the economy's seventh consecutive quarterly expansion. The growth was mainly driven by private investment and positive net exports. In its semi-annual report published in January, the World Bank forecasts GDP growth of 1.3% in 2018 and 0.8% in 2019, upward adjustments of 0.3 percentage points (ppts) and 0.2ppts respectively. Although labour market conditions continue to tighten, increases in labour participation rate are contributing to increases in labour force.

According to Japanese Broadcasting Corp. (NHK), the approval rating of PM Abe's cabinet improved by 10ppts to 49% after the ruling Liberal Democratic Party's victory in snap elections in October. On this reaffirmed ground, Prime Minister Abe is in a better position to focus on his economic reforms. We do not expect any significant political complication in 2018.

The Bank of Japan (BOJ) is somewhat maintaining its target on the monetary policy and 10-year JGB yields have been trending tightly below 0.1%. The yield ended in December at 0.05%. In 2017, the BOJ purchased 89.8 billion yen's worth of J-REIT units, meeting its annual target. Although his five-year term as the Governor of the BOJ will end in April, many expect that he will be reappointed. Even if not, his successor is most likely to continue the bank's current policy.

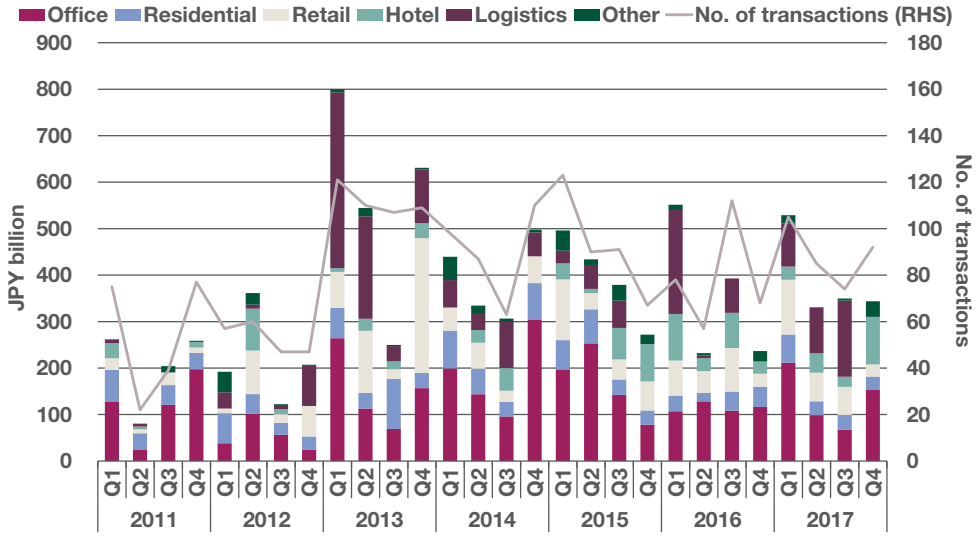
In Q4, the JPY moved in a tight range to the USD. The JPY ended at 113.0 yen to the USD in December due to the USD's appreciation after the Fed announced plans to finally pare its balance sheet and continue with rate hikes. Many believe that the BOJ has started "stealth tapering" by quietly reducing bond purchases and may adjust its current policy. Even if the BOJ changes its yield target, however, the change is likely to be marginal. The TSE J-REIT index stood at 1,663 at the end of December, down 11% from the beginning of 2017. Outflow from mutual funds has not shown a signal of slowdown yet.

J-REIT investment volumes totalled 344 billion yen in Q4/2017, 2% down QoQ but 45% up YoY. The hospitality sector saw a significant increase compared to the same period in 2016. Especially, Invincible Investment and Hoshino Resorts REIT stood out, accounting for about 85% of hotel transaction volumes. It is also noteworthy that Norges Bank made its first real estate investment in Asia. Norges Bank acquired a 70% interest in five retail properties in Tokyo, in a joint venture with Tokyu Land Corporation. The total value of the portfolio is 132.5 billion yen.

Tokyo's office market outperformed the market's initial expectation, and the growth is likely to continue in 2018. Average Grade A office rents rose to JPY32,974 per tsubo in Tokyo, up by 1.1% QoQ and 4.0% YoY. Vacancy sits at an ultra-tight 1.2%, and pre-leasing for new projects is going robust. The continuingly tight labour market is motivating companies to secure attractive office space to draw talent.

GRAPH 7

J-REIT property transactions by sector, 2011–Q4/2017



Source: Japan REIT, Savills Research & Consultancy

TABLE 10

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
NBF Hibiya Building	Chiyoda, Tokyo	JPY64.0 bil/US$560 mil	Mitsui Fudosan	Office
MHI Yokohama Building	Yokohama, Kanagawa	JPY64.0 bil/US$550 mil	Kenedix, Kenedix Private REIT, and Kenedix Office REIT	Office
Roppongi T-Cube	Minato, Tokyo	JPY62.8 bil/US$540 mil	Nippon Building Fund	Office
Shinjuku Maynds	Shibuya, Tokyo	JPY62.5 bil/US$540 mil	GIC	Office
Tokyo Takeda Building	Chuo, Tokyo	JPY48.1 bil/US$430 mil	Takashimaya	Office

Source: Nikkei Real Estate, RCA, Savills Research & Consultancy

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Having experienced a deep adjustment period in the gaming industry in 2015, Macau's GDP resumed positive growth in Q3/2016. In the first three quarters of 2017, Macau's GDP reached 79.2% of the previous year's total, with the third quarter growing by 6.1% on a year-on-year (YoY) basis. Gross gambling revenue for 2017 was MOP265.743 billion, increasing by 19.1%. This revenue was attributed to the increase in the number of tourists and the recovery of the VIP business.

Revenue from the gambling industry increased, and the sale of primary properties caused the residential property market to heat up, prompting a sharp rise in property prices and boosting the housing market in Macau.

The total number of residential transactions in 2017 continued to rise, with 10,452 transactions recorded, at the average selling price of approximately MOP100,569, up by 3.4% and 17% over the previous year. Turnover reached its peak in Q2/2017 with 3,542 units, up by 53.3% quarter-on-quarter (QoQ). In Q4, 2,574 units were sold, up by 27% QoQ, with the average selling price up by 7.7% from the previous year to approximately MOP105,928.

Transactions of uncompleted residential flats fluctuated considerably in 2017, with Q4 sales reaching the year-peak of 802 units, up by 191.6% QoQ.

As a whole, newly approved residential mortgage loans in 2017 showed a phased rise but an overall trend of decline. With residential turnover reaching its full-year high in Q2, newly approved residential mortgage loans also reached their peak in Q2 at MOP13.94 billion, an increase of 36.4% from the previous quarter. Compared with the total amount of newly approved residential mortgage loans, pre-sale mortgage loans aligned with the change in the residential market.

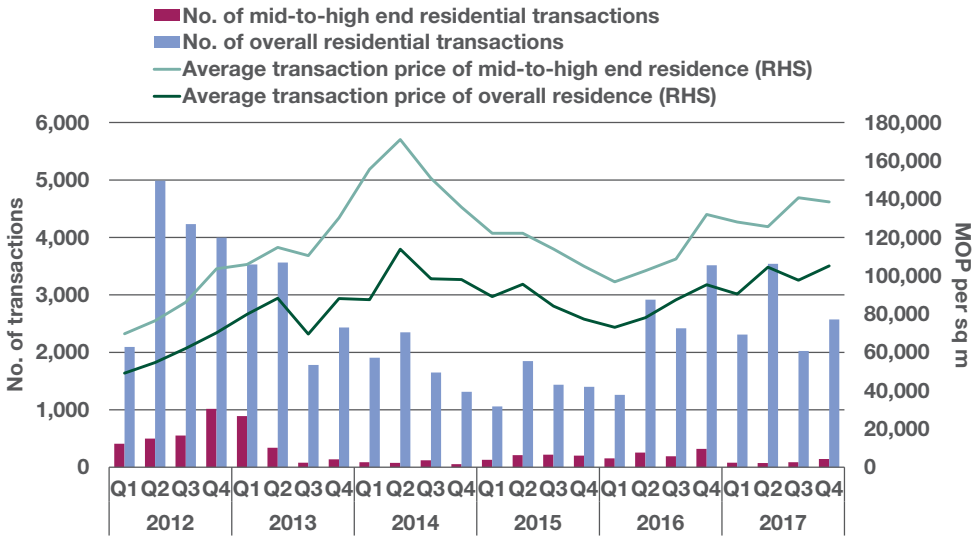
In terms of the leasing market, the expatriate labour force rebounded slightly. The rental value of high-end residential properties increased by 5% over 2016, while the rent of small and medium-sized residential properties remained stable.

In 2018, four new luxury hotel and casino projects are expected to be opened. There will be about four-to-ten high-end or mass residential developments to be completed in 2018 and 2019, which will bring about 4,650 and 3,273 sq m of new supply, with prices estimated to be between HK$90,000 and HK$120,000 per sq m. However, most have been pre-sold one to two years ago.

The Macau government announced a mortgage tightening measure in May 2017, and the loan-to-value ratio for non-first-time home buyers of Macau residents and non-Macau resident home buyers was tightened by 10 to 20%. Nonetheless, residential transaction prices and activity levels in the latter part of 2017 rebounded. With the recovery in gaming revenue, the opening of new hotels and casinos, and market anticipation of a government land auction in 2018, it is estimated that the overall residential market will continue to rise in 2018. However, the market is worried about the prospective introduction of stamp duty for non-first-time buyers in the residential market, which could affect the volume of transactions and price movements.

GRAPH 9

Macau residential property transaction volumes and average transaction prices by sector, Q1/2012–Q4/2017



Source: Financial Services Bureau, Government of the Macao Special Administrative Region; Savills Macau

TABLE 11

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Hotel Lan Kwai Fong	Zape, Macau	HK$2 bil/US$256 mil	Private	Hotel & Casino
18 residential units in Edificio Kin Wa, Macau	NATAP, Macau			Residential

Source: Savills Macau

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The Malaysian economy registered a positive GDP growth for three consecutive quarters in 2017 due to stronger private spending and export activities. The quarterly GDP grew 5.6%, 5.8% and 6.2% consecutively from Q1/2017 to Q3/2017.

The transaction value in this quarter was RM3.1 billion, outperforming Q4/2016 figures by 24%. 2017 performed better than 2016, as the Malaysian economy showed signs of strength with the improving currency rate, robust domestic economy, healthy trade performance and the recovery in global oil prices. As a result, total investment volume in 2017 increased 63% to RM11.7 billion from RM7.1 billion in 2016.

Land banking activities dominated this quarter, making up 76% of the total investment value. Johor registered the highest land transaction value making up 30% of the total value, all of which are land sales.

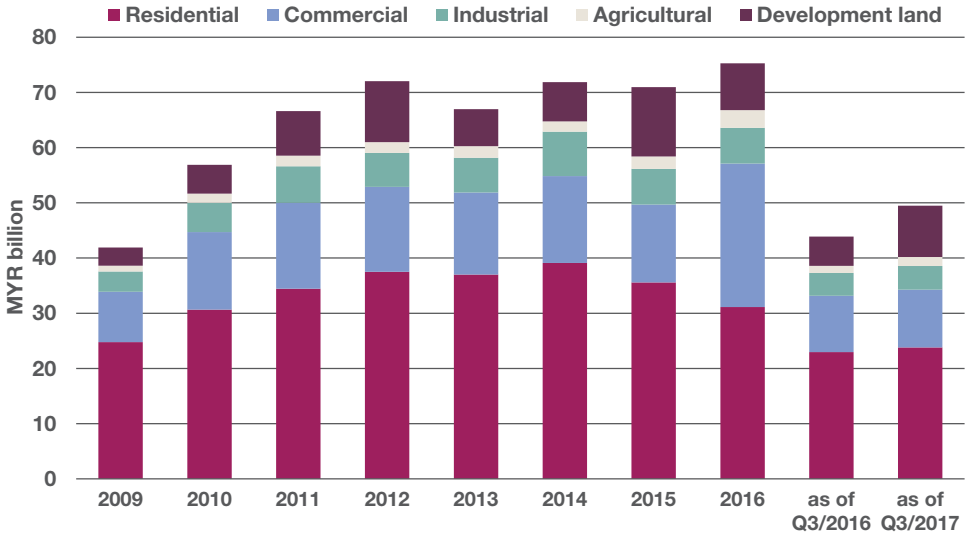
Kimlun Land imprinted a strong presence in Johor with their acquisition of 5.2 acres of commercial land, 17 acres of agriculture land in Pulai as well as 29 acres of commercial land in Iskandar Puteri, at a total transaction value of RM118 million. Development in Johor has been stimulated by the state government's newly launched 10-year development plan named the New Decade of Johor which will focus on improving the state's infrastructure. This plan includes the development of the Kuala Lumpur-Singapore High-Speed Rail (HSR), the Johor Bahru-Singapore Rapid Transit System (RTS) and the Gemas-Johor Bahru electrified double-tracking project. The HSR will increase the states and interstate's connectivity as three out of the seven planned stations are located within Johor, with an additional HSR station rumoured to be located in Forest City. Additionally, the RTS project is now one step closer to realisation as a bilateral agreement has been signed between Malaysia and Singapore for the project.

Daito's acquisition of the Hilton KL was significant this quarter. The 5-star hotel with 503 keys was transacted for RM497 million (Savills were the exclusive agents for the transaction). Overall, investment activities in KL City have been muted due to certain factors, such as the ambiguous freeze on KL high-end property development and the perceived oversupply of office and retail space.

In light of key events, such as the announcement of Malaysia's Budget 2018 along with buoyant economic growth leading up to the much anticipated 14th General Election, the Malaysian investment market remains vibrant as the government plans to invigorate investment, trade and industries, and improve infrastructure efficiency. Additionally, the industrial property sector has high future prospects as Malaysia is geopolitically strategic; a strong bilateral trade agreement has been developed with China, and Malaysia has a pipeline of major projects under the 'One Belt One Road' initiative, amongst which are the Malaysia-China Kuantan Industrial Park in Pahang, Melaka Gateway, East Coast Rail Link and Xiamen University Malaysia; as well as the various property development initiatives by China-led developers in Iskandar, Malaysia.

GRAPH 8

Total value of property transactions per subsector in Greater Kuala Lumpur, 2009–Q3/2017



Source: National Property Information Centre (NAPIC)

TABLE 11

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Hilton KL	KL Sentral, Kuala Lumpur	RM497 mil/US$126.33 mil	Daito Trust Construction Co Ltd.	Hotel
1 acre freehold land	Damansara Intan, Selangor	RM24.59 mil/US$6.25 mil	O&C Resources Berhad	Development site
29 acre commercial land	Iskandar Puteri, Johor	RM82.10 mil/US$20.87 mil	Kimlun Land Sdn Bhd	Development site
5.15 acre commercial land	Pulai, Johor	RM14.25 mil/US$3.62 mil	Kimlun Land Sdn Bhd	Development site
17 acre agriculture land	Pulai, Johor	RM21.83 mil/US$5.55 mil	Kimlun Land Sdn Bhd	Development site

Source: Company announcements, Savills Research & Consultancy

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New Zealand is entering its seventh year of sustained economic growth with growth at its non-inflationary potential.

New Zealand's economy grew in line with market expectations in the September 2017 quarter, increasing by 0.6% (3.0% annual average growth). The quarter's growth benefited from tourist spending, increased construction activity and expansion of professional, administrative and health services.

The economy's current cycle is now well advanced and in its seventh straight year of growth. The current cycle continues to be supported by accommodative monetary policy, strong population growth driven by high net gains from overseas migration and robust expansion in the tourism sector. Uncertainty over the future performance of the economy has increased as a result of the election of the Labour led coalition and their perceived stability.

Auckland has the largest regional economy and is the major commercial centre in the country. The city's robust population growth and growing tourism sector are key drivers in the local economy. Growth in economic activity has supported above national average levels of employment growth. Ongoing investment in the region's infrastructure by local and central Government is also supporting growth in local economic activity.

The medium-term outlook for economic activity is mixed with the rate of growth expected to slow. Factors likely to support economic growth include:

- Inflation is continuing as relatively benign and as a consequence RBNZ's monetary policy settings are likely to remain accommodative short to medium term;

- Lower than long term average interest rates are continuously supporting growth in economic activity. However, cost of fixed interest rate debt has started to increase and lenders have tightened lending criteria;

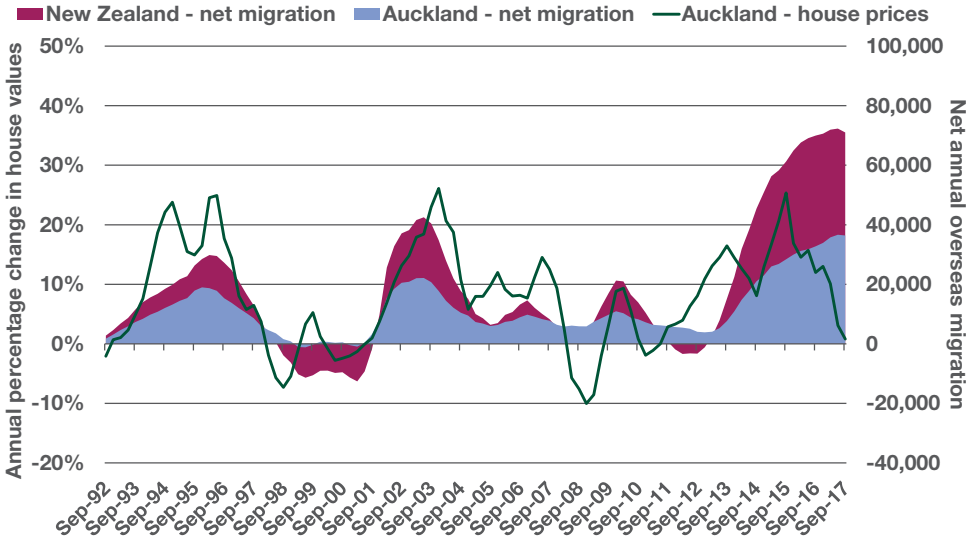
- Stronger population growth, particularly in Auckland resulting in increased positive overseas net migration, is expected to continue to support growth. Net overseas migration is now near the top of its cycle at net gain of 70,300 per annum.

- Strong growth in the number of overseas visitors, up 9% over the last year to 3.7 million visitors is supporting growth across the country. Tourism is one of our largest earners of overseas income;

- Increased levels of construction activity are also supporting growth. The number of new residential consents appears to have peaked between 9,000 and 10,000 in Auckland, well short of what is required to match the growth in demand. Construction activity in other regions remains robust (excluding Canterbury where activity is falling).

GRAPH 9

Net migration gain and residential house price growth, Sep 1992–Sep 2017



Source: Statistics New Zealand, Corelogic

TABLE 12

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
68-80 Stonedon Drive	Auckland	NZD35.5 mil/US$26 mill	Private	Industrial
151 Victoria Street West	Auckland CBD	NZD30 mil/US$22 mil	Institutional	Commercial
3 Albert Street	Auckland CBD	NZD45 mil/US$33 mil	Private	Commercial
99 Albert Street	Auckland CBD	NZD47 mil/US$34 mil	Institutional	Commercial

Source: Savills Research & Consultancy

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The Philippine investment market saw a dramatic turn of events before the year end. The US Fed raised rates for a the third time in 2017 and indicated that it may hike rates further this year. Following this, President Duterte signed the first tax package which reduced personal income taxes while levying excise taxes on fuel, sugar and automobiles.

Despite the potential repercussions of both events, the Bangko Sentral ng Pilipinas (BSP) remains steadfast in maintaining its monetary policy stance. The BSP believes it does not need to follow the moves of the US Fed – provided inflation is still manageable and domestic demand remains firm to support overall economic growth. The central bank reiterated that the basis for raising rates will always be the underlying market conditions in the country. Moreover, the BSP anticipates the effect of the newly implemented tax law on inflation to be minimal.

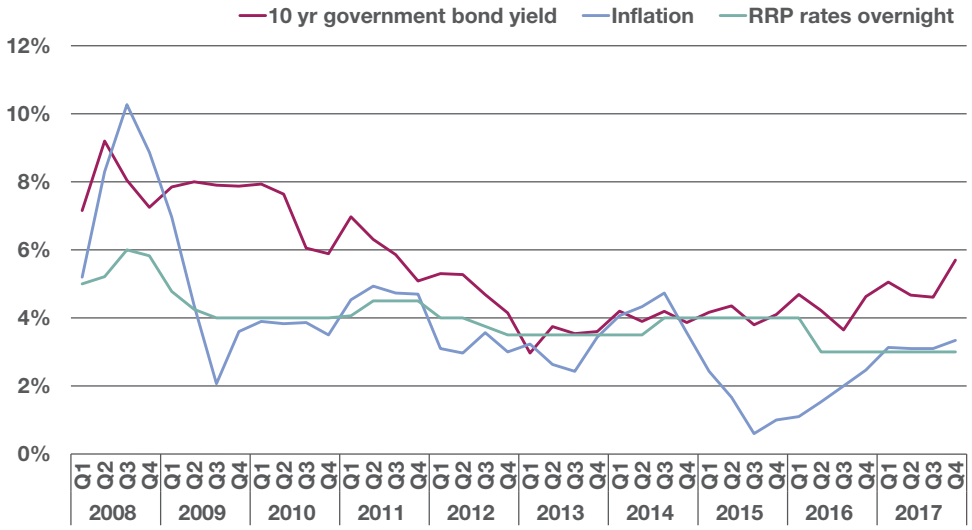
However, recent developments on the BSP's policy stance shows that it plans to decrease the banks' reserve requirement ratio from the current 20%. The move should enable banks to lend more and increase liquidity in the economy, but the BSP finds itself in a tough position to implement such a policy. Given the steady recovery of inflation from its lows in 2015, any more accommodation from the central bank could propel inflation above its target range.

As such, the consensus view has been biased towards a 2018 rate hike, but this has not stopped local developers pursuing big-ticket acquisitions. Notably, Udenna Development Corporation successfully purchased the Global Gateway Logistics City (GGLC) for US$750 million from The Port Fund LP - a private equity fund sponsored by KGL Investment Company. Although valuations were on the high side, we believe this is due to the bullish prospects for the property. The 177-hectare GGLC township is located in Clark Freeport Zone (CFZ) – the epicentre of the government's infrastructure program in Northern Luzon (i.e. Clark Airport expansion, NAIA-Clark Railway, Clark Green City). In addition, CFZ has been a key site of several outsourcing and offshoring firms, and GGLC currently has two newly-completed Grade A office buildings.

Despite the potential shift in policy stance putting pressure on future valuations, economic growth is still expected to be sustained. Fitch Ratings recently upgraded the country's sovereign rating, citing government's infrastructure program, coupled with tax reforms, should maintain momentum.

GRAPH 10

Inflation vs various interest rates, Q1/2008–Q4/2017



Source: KMC Savills Research

TABLE 13

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Global Gateway Logistics City	Clark	PHP37.77 bil/US$750 mil	Udenna Development Corporation	Mixed-use development site
JP Rizal Street Lot	Mandaluyong	N/A	Cleon Philippines Holdings Corporation	Development site

Source: KMC Savills Research, Savills Research & Consultancy

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In Singapore, real estate investment sales powered through Q4/2017 with an 8.3% quarter-on-quarter (QoQ) increase in volume. According to Savills' estimates, several large Government Land Sale (GLS) parcels and private residential en bloc sites pushed Q4's number to S$10.81 billion. With the strong showing in the last quarter, the full year figure for 2017 amounted to S$36.03 billion. This is an increase of 59.0% from the S$22.66 billion recorded a year earlier and is also the highest number since 2008.

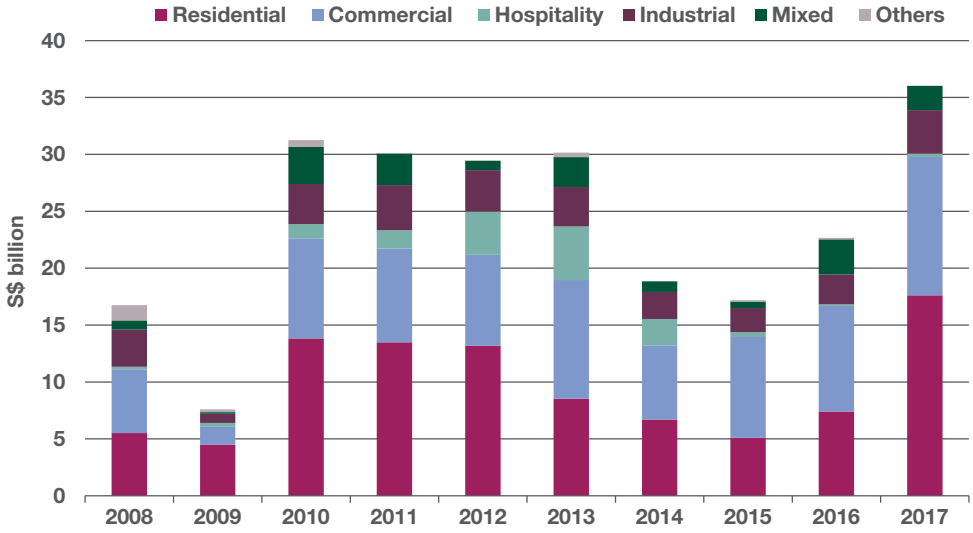
The residential segment was again the best performer in Q4/2017. The investment value of residential sites and end-units rose 68.9% QoQ to S$7.14 billion and contributed about 66.0% of Q4's total volume. Sales of residential development sites were strong, with two GLS reserved sites and 24 private land parcels acquired by developers for a total of S$6.34 billion. In spite of the government's warning of over-exuberance in the residential property market, both domestic and foreign developers continued to bid aggressively for sites. For example, the winning bid of S$1,733 per sq ft per plot ratio (psf ppr) for the Jiak Kim Street plot was the highest ever for residential sites (including sites zoned for residential with first storey commercial use) sold under the GLS Programme. Land rates for en bloc purchases, such as Parkway Mansion in East Park (S$1,536 psf ppr), Royalville in Bukit Timah (S$1,960 psf ppr) and Normanton Park in Clementi (S$969 psf ppr) set the benchmark in their respective micro-markets for developments with comparable land tenures. Meanwhile, developers from North Asia, particularly those from China, are rapidly becoming large players in the residential market. They continued to be active throughout Q4/2017, with the en bloc purchases of Normanton Park by Kingsford Development, Florence Regency by Logan Property and How Sun Park by a unit of the SingHaiyi Group.

The commercial market was another highlight in Q4/2017, mostly driven by the sale of the Beach Road commercial site. Investment sales in the commercial segment grew by 19.2% QoQ to S$3.09 billion in the reviewed quarter and contributed 28.6% of the transaction values in the fourth quarter. The commercial site at Beach Road was drawn from the Reserve List of 2H/2017 GLS Programme and subsequently awarded in early October for S$1.622 billion. A joint-venture of GuocoLand and Guoco Group beat four other competitors in the state tender, with a very bullish bid which works out to S$1,706 psf ppr based on the plot's maximum GFA of 950,592 sq ft. The land rate even surpassed the S$1,689 that IOI Properties paid in November 2016 for the white site along Central Boulevard, a more central location.

To some extent, the recent recovery in the office leasing market, together with the high commitment seen in the nearby Duo Tower, suggests more optimism from bidders towards the viability of this site. An added benefit of this site is that other than the 60% GFA which must be for office use, there an option for the developer to use the remaining GFA for residential use. This ability to sell down the latter during the construction phase could be another contributing factor for the aggressive winning bid.

GRAPH 11

Transaction volumes of investment sales by property type, 2008–2017



Source: Savills Research & Consultancy

TABLE 14

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Government land	Beach Road	S$1.62 bil/US$1.24 bil	GLL Prosper Pte Ltd and GLL Thrive Pte Ltd	Commercial
Government land	Jiat Kim Street	S$955.4 mil/US$731.52 mil	FCL Residences Pte Ltd	Residential
Amber Park	Amber Gardens	S$906.7 mil/US$694.23 mil	City Developments Ltd and Hong Realty (Private) Ltd	Residential
Normanton Park	Normanton Park	S$830.1 mil/US$635.60 mil	Kingsford Development Pte Ltd	Residential
Chevron House	Raffles Place	S$660.0 mil/US$505.36 mil	Oxley Holdings Ltd	Commercial

Source: URA, Savills Research & Consultancy

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2017 saw a new record set in terms of total office investment volumes. The record high of KRW8.8 trillion exceeded the figure posted in 2016. It is not just abundant liquidity that has helped investment activity in the Seoul office market continue to thrive, but also demand for headquarters from domestic corporations, and increased asset availability from fund maturities. The number of major office transactions also reached a record high, with deals over KRW200 billion accounting for over half of 2017 volumes. International investors, remained active but contributed 20% to 2017 volumes, dropping from 40% in 2016.

Despite geopolitical tensions resulting from North Korean missile tests, international investor interest in Seoul office properties continues to grow. PAG purchased Gangnam POBA tower for KRW300 billion and their core plus fund. IGIS AMC purchased this property in 2011 for KRW256 billion, backed by an investment from POBA (Public Officials Benefit Association) and other institutional investors. The sale to PAG was concluded via beneficiary certificate transfer with the tower stabilised at approximately 93% as of December 2017.

The newly completed Icon Yeoksam was purchased by Ascendas for KRW103 billion. Ascendas is believed to have established a 10 year private fund with KRW32.8 billion, and had taken out senior and mezzanine loans. Ascendas plans to open the first branch of "The Bridge", a co-working office brand operated by a subsidiary of Ascendas group; while the rest of office area is being marketed for lease.

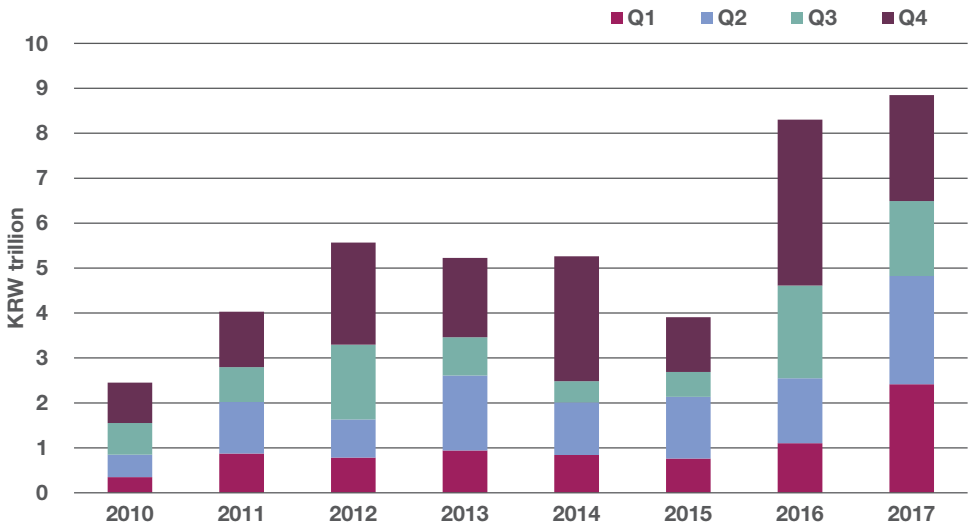
Anda Asset Management acquired Metro Tower near Seoul station for KRW240 billion from Angelo, Gordon & Co. The major investor was Tongyang life Insurance whose largest shareholder is the Chinese insurer Anbang. Anda Asset Management plans to convert the lower floors of the parking tower into retail, in order to take advantage of the increased foot traffic in the Seoul Station area.

More office buildings were purchased by domestic end-users in 2017. Hyundai Elevator acquired their current building for KRW245 billion, exercising a call option. The property was previously sold to Koramco AMC under a sale and leaseback deal in 2012.

In Q4/2017, the average prime office cap rate stood at 4.7%; calculated using market rents and 90% occupancy rates. However, considering leasing concessions and actual occupancy rates, the NOI cap rate could be in the low to mid 4% range. At the end of December, the five year government bond yield increased to 2.3%, meaning a prime office cap rate spread of approximately 240bps. Typical LTV rates in Korea are approximately 55%.

GRAPH 12

Office transaction volumes, 2010–2017



Source: Savills Korea
NB1: Office transaction volumes in Q4/2017 were KRW2.4 trillion.
NB2: In 2017, the transaction of KEB Hana Bank Myeongdong (SPA signed) is excluded.

TABLE 15

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Hyundai Group Yeonji-dong HQ	CBD	KRW245 bil/US$225.6 mil	Hyundai Elevator	Office
Metro Tower	CBD	KRW240 bil/US$221.0 mil	Anda AMC (Tongyang Life Insurance)	
Hana KEB Bank Eulji Annex	CBD	KRW91.5 bil/US$84.3 mil	Kyowon Group	
Gangnam POBA Tower	GBD	Approx. KRW300 bil/US$276.3 mil	IGIS AMC (PAG)	
Icon Yeoksam	GBD	KRW103 bil/US$94.9 mil	Ascendas	
West Finance Center	Non-core	KRW295 bil/US$271.7 mil	Mastern AMC	

Source: Savills Research & Consultancy

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The commercial property market bottomed out and recovered slightly in 2017, with the total transaction volume reaching NT$73.2 billion, up 11.2% year-on-year (YoY). The export volume, recording 13.2% of growth this year, was the main driver of recovery in the property market and resulted in strong demand for industrial property, particularly from the IT and manufacturing industries.

The IT industry became the major buyer for the first time in five years, accounting for 20% of market share in 2017, and acquired a total of NT$14.4 billion of industrial office and factory sectors. Even though prices in the north of Taiwan have witnessed an obvious increase, specifically in well-planned industrial parks, 60% of acquisitions were still focused on Taipei City, New Taipei City and Hsinchu. A scarcity of available industrial property was a heavy burden for corporations who wanted to expand their local investments. The government is discussing possible measures against hoarding industrial property for speculation purposes, such as a penalty or compulsory auction.

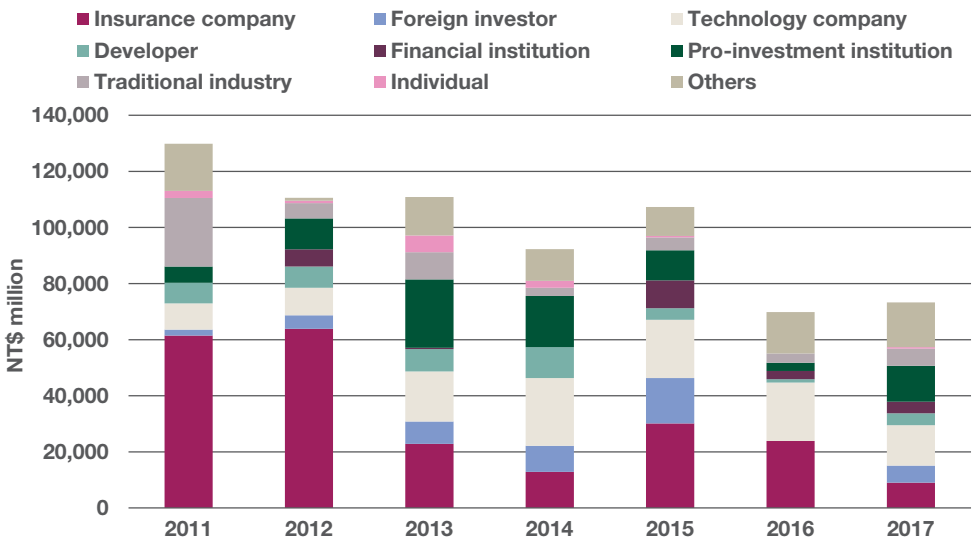
Professional investment institutions were the second biggest investor this year, with investment reaching a total of NT$12.8 billion. Major deals included a NT$1.21 worth of pre-sale industrial offices in New Taipei City, purchased by Taiwan Asset Management Corporation for investing purposes. Several financial holding groups tried to revitalise their assets as well by transferring their properties to asset management companies, such as Fubon AMC and CITIC AMC.

Insurance companies remained cautious and their total investment amount shrank by 62% YoY to NT$9 billion in 2017. Their largest acquisition in 2017 was a newly completed industrial office building in the Neihu Technology Park, purchased by Chunghwa Post Life Insurance Company for NT$6.42 billion, equivalent to NT$740,000 per ping. The occupancy rate of this building reached 90% in the first year of completion and was expected to provide a 2.8% yield to the buyer.

While stricter property investment regulations for insurance companies were released by the FSC at the end of 2012, insurance companies have invested a total of NT$300.5 billion in the property market since 2012, which is NT$50 billion more than during 2008 to 2012. However, the property market didn't benefit from this level of investment, owing to over 50% of the capital going toward overseas property markets and government land auctions. In the coming year, it is expected that insurance companies may return to the market, due to an attractive price correction and their long term absence. Following such moves, it is anticipated that the commercial property market will gradually recover during 2018.

GRAPH 13

Significant transactions by investor type, 2011–2017



Source: Savills Research & Consultancy

TABLE 16

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Chong Hong New Century Office	Taipei City	NT$6.42 bil/US$214 mil	Chunghwa Post Life Insurance Co.	Industrial office
Eaton Neihu Headquarters	Taipei City	NT$2.30 bil/US$76 mil	CMI Property Ltd.	Industrial office
China Electric Headquarters	Taipei City	NT$1.28 bil/US$42 mil	ViVa Investment	Office
Lion Home Products Wugu Factory	New Taipei City	NT$1.38 bil/US$46 mil	Hotai Motor Co. Ltd.	Factory

Source: Savills Research & Consultancy

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Q4 witnessed considerable interest in Thailand's hospitality sector, with record international arrivals and a buoyant economic outlook driving investor activity.

Total arrivals reached 9.24 million over Q4/2017, representing a year-on-year increase of 19% and bringing total yearly arrivals to a record 35.38 million.

Total tourism revenue exceeded THB1.8 trillion (US$56 billion) in 2017, an annual rise of almost 12%, according to the Ministry of Sports and Tourism.

Kyushu Railway (JR Kyushu) completed the acquisition of the 429-key Somerset Lake Point Bangkok hotel, for THB2.8 billion, with Imperial Nakornratchasima Limited acquiring the 186-key Dusit Princess Korat hotel from Dusit Thani for THB543 billion. The latter has been rebranded as The Imperial Hotel & Convention Centre Korat.

Dusit International announced that its flagship Dusit Thani Bangkok hotel will remain open until January 2019, having previously scheduled its closure for April 2018. The site is ultimately due to be redeveloped into a THB36.7 billion mixed-use scheme, undertaken as a joint venture with Central Pattana.

SET-listed developer Sansiri PLC invested US$58 million into US-based Standard International, securing a 35% stake, and announced plans to bring the Standard Hotel brand to Thailand over 2018. This builds on a wave of investments into foreign entities by Sansiri over the fourth quarter, which included Singaporean serviced office provider JustCo and UK lifestyle magazine Molocle.

Thailand's first Real Estate Investment Trust (REIT) comprising international holdings, The Strategic Hospitality Extendable Freehold and Leasehold Real Estate Investment Trust (SHREIT), listed on the Stock Exchange of Thailand (SET). Shares were offered in December at an Initial Public Offering (IPO) of THB10 per share.

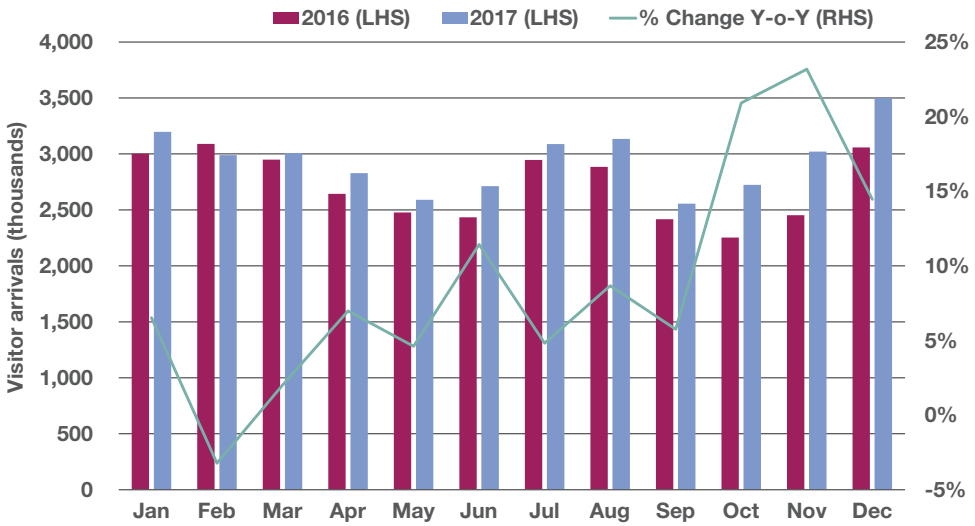
Ticon Industrial Connection PLC (TICON) completed the conversion of three property funds into a REIT on 28 December, subsequently trading under the ticker symbol "TREIT", creating the single-largest industrial REIT in Thailand.

Overall, Thai REITs made further gains over the fourth quarter, with the S&P REIT Country Indices placing annual REIT growth for Thailand at 19.7%.

Prime land continued to draw developer interest, with AP (Thailand) PLC acquiring a 4,900 sq m site from Ramkhamhaeng Hospital Company Limited for THB2.5 billion (US$78.93 million). The site is due to be redeveloped into a mixed-use scheme.

GRAPH 14

Thailand international arrivals, Jan 2016–Dec 2017



Source: Ministry of Tourism and Sports, Savills Research & Consultancy

TABLE 17

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Development site – Petchaburi Road	Bangkok	THB2.5 bil/US$78.93 mil	AP (Thailand) PLC	Mixed-use
Somerset Lake Point (429 keys)	Bangkok	THB2.8 bil/US$88.79 mil	Kyushu Railway (JR Kyushu)	Hotel
Uniloft Salaya (527 units)	Bangkok	THB522 mil/US$16.38 mil	Siriraj Foundation	Student housing
Dusit Princess Korat (186 keys)	Nakhon Ratchasima	THB543 mil/US$17.04 mil	Imperial Nakornratchasima Limited	Hotel

Source: Company announcements, Savills Research & Consultancy

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In the last quarter of 2017, the Vietnam real estate market concluded the year with a significant number of transactions and strong interest from both international and local investors. Earlier in the quarter, an undisclosed investor acquired the entire stake in Phu Hoi City, a township project located in Dong Nai Province, for US$15.8 million from VinaCapital. This 84-hectare project, just 15 kilometres from the proposed Long Thanh International Airport was previously acquired by the Vietnam-based investment fund in 2007. Also in the same month, Singaporean property developer CapitaLand strengthened their foothold through the acquisition of a 1.45-hectare site located in District 4 of Ho Chi Minh City, with a total consideration of approximately US$40 million. This development is the ninth residential project in Vietnam's commercial hub, and is designed for two 24-storey towers with 870 apartments. Meanwhile, Keppel Land has secured agreements to purchase two development sites in Ho Chi Minh City. The first 13-hectare site is located in Saigon South, which is planned for over 200 landed houses and 1,000 units of high-rise condominium, while the second six-hectare site in District 9 will be developed for another 300 landed homes. The total estimated development cost for both projects amounts to approximately US$297 million.

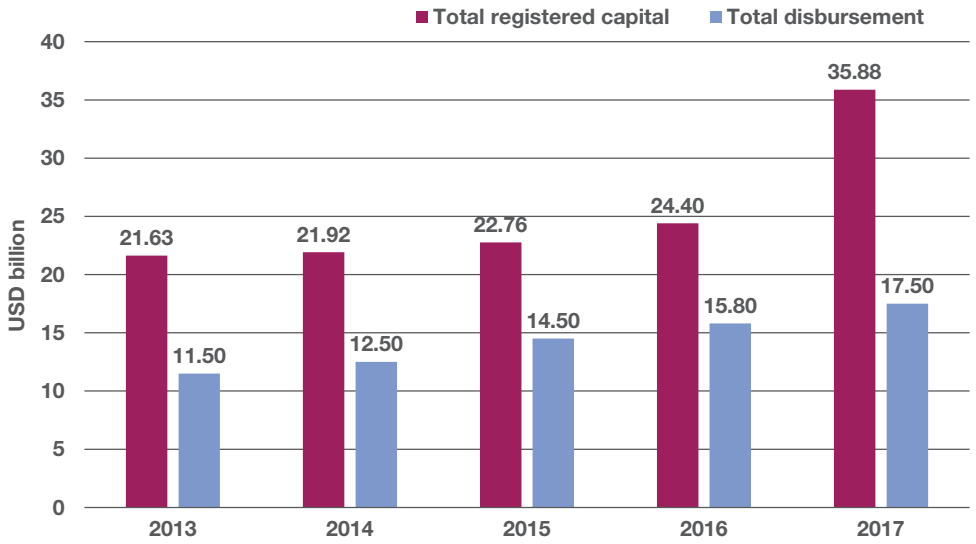
Hong Kong Suncity Group is finalising their acquisition of a 34% stake in HOIANA, a major integrated resort in Quang Nam Province, Central Vietnam. Suncity will acquire their stake from Golden Yield Enterprise's ownership, which is an affiliate of the conglomerate Chow Tai Fook. Hence, the project will now be under a joint venture between Suncity, Golden Yield Enterprise and VinaCapital with the respective stakes of 34%, 34.09% and 31.91%.

This year also witnessed a surge on the Vietnamese stock market with the VN-INDEX growing 40% since the beginning of the year. Listed real estate firms have been a major contribution to this growth, representing the third largest sector on the Index. Several real estate firms have successfully gone public this year, with the most notable initial public offering (IPO) being Vincom Retail. The existing investors have raised approximately US$709 million, after the pricing of the Vietnamese mall operator positioned at the top end of the range. According to Bloomberg's data, this was the largest ever first-time share sale in Vietnam.

Vietnam's economy outperformed in 2017 with Gross Domestic Product (GDP) increasing by 6.81% YoY, surpassing the 6.7% forecast made, which makes Vietnam one of the fastest growing countries worldwide. This year, Vietnam has also attracted, in total, over US$35.88 billion in newly registered and additional Foreign Direct Investment (FDI), up 44.4% YoY, and achieved over US$17.5 billion of FDI disbursement, an 10.8% increase YoY.

GRAPH 15

Registered and disbursed foreign direct investment in Vietnam, 2013–2017



Source: Ministry of Planning and Investment - Foreign Investment Agency

TABLE 18

Major investment transactions, Oct–Dec 2017

Property	Location	Price	Buyer	Usage
Phu Hoi City	Dong Nai Province	VND359 bil/US$15.8 mil	N/A	Township development
Development site in District 4	District 4, Ho Chi Minh City	Approx. VND918 bil/US$40.0 mil	CapitaLand	Residential development
Development site in Saigon South	Saigon South, Ho Chi Minh City	N/A	Keppel Land	Residential development
Development site in District 9	District 9, Ho Chi Minh City	N/A	Keppel Land	Residential development

Source: Savills Research & Consultancy

Australia

◀ **Chatswood Chase (49%) swap for QVB (50%), The Strand (pictured, 50%) and The Galeries (50%)**
Chatswood/Sydney CBD, NSW
AU$1.118B/US$872M
in November

◀ **Indooroopilly Shopping Centre (50%)**
Indooroopilly, QLD
AU$800M/US$624M
in November

Rockingham Shopping Centre (50%) ▼
Rockingham, WA
AU$300M/US$234M
in November

130 Pitt Street ▲
Sydney, NSW
AU$229M/US$182.5M
in December

Beijing

◀ **New Hualian Mansion**
Chaoyang
RMB1.13B/US$175.15M
in October

▼ **W Hotel**
Chaoyang
RMB1.984B/US$307.52M
in November

◀ **China Merchant Tower**
Chaoyang
RMB5.0B/US$778M
in November

Forte Financial Center Tower A ▶
Tongzhou
RMB2.652BM/US$412M
in December

▲ **Forte Center Tower B**
Tongzhou
RMB1.622B/US$252M
in December

Beikong Mansion ▶
Chaoyang
RMB1.724B/US$268M
in November

◀ **Taihot Chang'an Center B Tower 3 (21/F)**
Shijingshan
RMB1.8B/US$280M
in December

Guangzhou/Shenzhen

◀ **Rock Square**
Haizhu, Guangzhou
RMB3.36B/US$507.8M
in November

Damazhan Commerce Center ▶
Yuexiu, Guangzhou
RMB560M/US$84.64M
in October

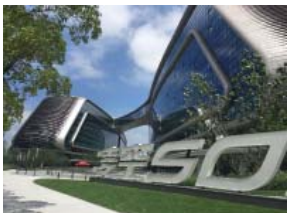
◀ **Qianhai Shimao Center**
(Equity transaction)
Nanshan, Shenzhen
RMB3.2B/US$486.4M
in December

Shanghai

◀ **Cross Tower**
Huangpu
RMB2.66B/US$413.7M
in December

▲ **ZRT Tower**
Jing-an
RMB1.5B/US$233.3M
in November

▲ **Towers E & G, Waterfront Place**
Putuo
RMB1.167B/US$181.5M
in December



▲ **Sky SOHO**
Changning
RMB5.0B/US$778.8M
in October

◀ **Standard Chartered Building (44%)**
Pudong
RMB1.36B/US$211.5M
in December

◀ **Jianfa Junyi Building**
Yangpu
RMB1.144B/US$177.9M
in December

◀ **Harbor 55 (50%)**
Hongkou
RMB5.998B/US$932.7M
in December

Shanghai Minya Hotel ▶
Pudong
RMB1.315B/US$204.5M
in December

Major transactions Q4 2017

Hong Kong/Macau

◀ **Link REIT shopping malls**
Vaious locations, Hong Kong
HK$23B/US$2.94B
in November

◀ **8 Bay East**
Kwun Tong, Hong Kong
HK$9.0B/US$1.15B
in October

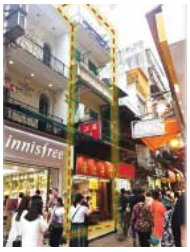
◀ **The Center (75% share)**
Central, Hong Kong
HK$40.2B/US$5.14B
in November

Winner Godown Building ▶
Tsuen Wan, Hong Kong
HK$2.163B/US$277M
in December

Provident Square ▶
North Point, Hong Kong
HK$2.0B/US$256M
in December

Zing! ▶
Causeway Bay, Hong Kong
HK$1.9B/US$243M
in December

Em Macau, Rua de S. Paulo No. 14 ▶
Macau
HK$130M/US$16.6M
in November



Japan

◀ **NBF Hibiya Building**
Chiyoda, Tokyo
JPY64.0B/US$560M
in December

MHI Yokohama Building ▶
Yokohama, Kanagawa
JPY64.0B/US$550M
in October

◀ **Tokyo Takeda Building**
Chuo, Tokyo
JPY48.1B/US$430M
in December

Major transactions Q4 2017

Malaysia

◄ **Hilton KL**
KL Sentral
RM497M/US$126.33M
in December

Singapore

▼ **Amber Park**
14, 16 Amber Gardens
S$906.7M/US$686M
in October

◄ **Normanton Park**
1-9 Normanton Park
S$830.1M/US$628.1M (excl. development premium of about S$514.5M)
in October

Chevron House ►
30 Raffles Place
S$660.0M/US$499.4M
in December

South Korea

▼ **Metro Tower**
CBD
KRW240.0B/US$221.0M
in December

West Finance Center ►
Others
KRW295.0B/US$271.7M
in November

◄ **Icon Yeoksam**
GBD
KRW103.0B/US$94.9M
in November

▲**Hyundai Group Yeonji-dong HQ**
CBD
KRW245.0B/US$225.6M
in December

◄ **Gangnam POBA Tower**
GBD
KRW300.0B/US$276.3M
in October

Taiwan

◄ China Electric Headquarters
Taipei City
NT$1.28B/US$42M
in November

Chong Hong New Century Office ►
Taipei City
NT$6.42B/US$214M
in October

◄ Eaton Neihu Headquarters
Taipei City
NT$2.3B/US$76M
in November

Major transactions Q4 2017

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