

Asia Pacific Investment Quarterly

Q1 2018



Australia
China (Northern) - Beijing/Tianjin
China (Western) - Chengdu
China (Southern) - Guangzhou/Shenzhen
China (Eastern) - Shanghai
Hong Kong | Indonesia | Japan
Macau | Malaysia | New Zealand
Philippines | Singapore | South Korea
Taiwan | Thailand | Vietnam
Major Transactions

HIGHLIGHTS

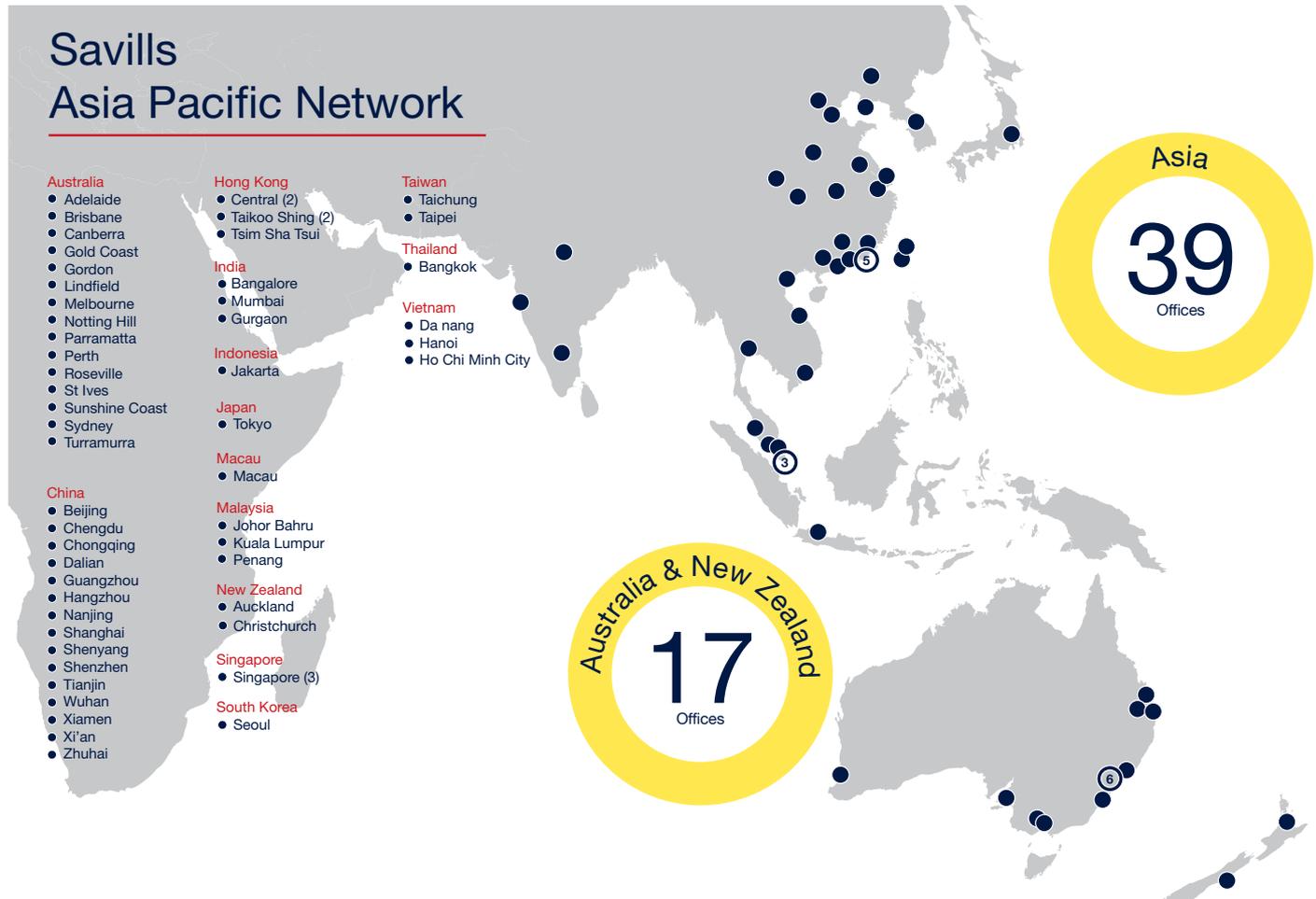
Japan has now seen eight consecutive quarters of growth while inflation has yet to materialize. Despite some political uncertainty, the real estate fundamentals remain strong. China continues its campaign of financial de-risking with wide ranging implications for the economy and the property sector. Meanwhile co-working, new retail and long term rental apartments are disrupting traditional asset classes. In

Singapore, the investment market has been dominated by a series of collective sales of apartment blocks which are expected to propel total sales volumes this year well ahead of 2017. In Vietnam, the rapid advancement of the middle and affluent classes is promoting the next wave of demand. The wall of capital following is accelerating structural change from logistics to retailing to hospitality. Office markets

continue to outperform. Hong Kong saw more notable transactions in early 2018 at heavily compressed cap rates. The industrial market in particular is attracting considerable investor interest.

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.

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Australia



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Continuing from a strong sales year for Australian property in 2017, investment demand remained prolific in the first quarter of 2018. Foreign investor activity continued to drive sales volumes across all sectors, while interest from local institutional investors remained high; particularly for office assets on the Eastern seaboard. The retail sector recorded total sales of AU\$9.09 billion over the 12 months to March 2018, the highest on record, whilst AU\$17.45 billion of office sales was the second highest on record. The industrial sector saw a material decline in transactions however, with AU\$2.79 billion transacted, as a result of fewer prime grade assets offered to market.

The first quarter of 2018 was most notable for significant improvements in labour market indicators, across most states. Significantly, a change in the composition of employment growth, skewed towards the addition of full-time roles, has seen job gains reach its highest point since the Global Financial Crisis. Over the year to February 2018, nearly 400,000 jobs were added to the economy, with nearly three-quarters attributable to full-time employment growth. Employment growth recorded at 3.3% (Feb-18) was at its highest level on record, with forward looking indicators, such as growth in job advertisements rising 7.4% over the year to March 2018, pointing to a continuation of this trend. Splitting roles sought by sector shows a heavy weighting for office and industrial-related roles, with annual growth recorded at 8.7% and 14.8% respectively, indicating a continuation of strong leasing conditions in these sectors over 2018.

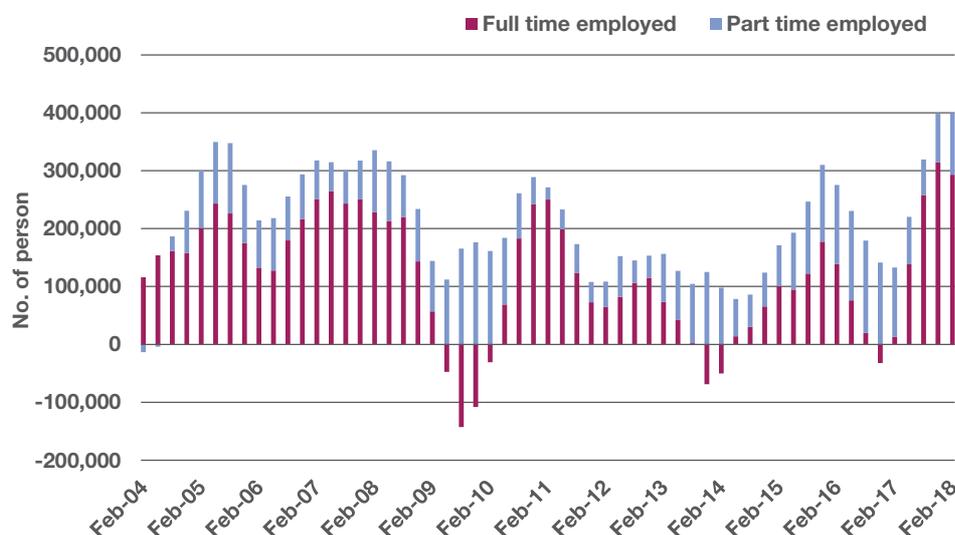
Positively, there are signs that the Australian economy is normalizing across states and sectors. A resurgence in the mining sector is evident, with a recovery in resource reliant states such as Queensland and Western Australia likely to stimulate the national economy to a far greater extent. Corporate Australia led the charge in the long-awaited recovery

in 2017, with corporate profits up 17.5% over the year to January 2018. Company profits in the Professional & Technical Services' sector grew by 44.1%, followed by the Mining sector, where profits grew by 40.3% over the same period. Australia's population growth remains strong, driven by record high levels of overseas migration.

Demand fundamentals are likely to remain strong over the remainder of 2018 as underlying economic indicators appear the strongest they have been since 2007. Yield

compression remained a notable feature of commercial property markets across the Eastern seaboard of Australia in 2017. Whilst it appears that yields are approaching a floor in Sydney and Melbourne, there still remains an attractive spread between the risk-free rate, pointing to further room for compression in 2018 - with pending sales likely to reinforce this expectation. At time of writing, however, with 10yr US bonds flirting with the 3% mark; now higher than Australia, investors' reactions to this over 2018 will likely be a key thematic for the year.

GRAPH 1
Full-time vs part-time employment growth, Feb 2004 – Feb 2018



Source: Savills Research & Consultancy

TABLE 1
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Two Melbourne Quarter	Melbourne, VIC	AU\$550 mil/US\$416.7 mil	First State Super & Lendlease APPF	Office
1 York Street	Sydney, NSW	AU\$205 mil/US\$154.6 mil	Blackstone	Office
52 Goulburn Street (50%)	Sydney, NSW	AU\$176 mil/US\$132.8 mil	Arcadia	Office
637 Flinders Street	Melbourne, VIC	AU\$122 mil/US\$92 mil	Zone Q	Office
Park Sydney	Ersleville, NSW	AU\$100 mil/US\$75.5 mil	Golden Horse	Retail

Source: Savills Research & Consultancy

China (Northern) - Beijing



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The en-bloc investment market remained stable in Q1/2018. A total of 10 deals were concluded, recording a total consideration of RMB5.3 billion. The majority of transactions were concentrated in the serviced apartment, hotel and retail asset classes.

Moves by the government to encourage and cultivate the residential leasing market have prompted institutional investors to acquire quality serviced apartment projects with the objective of entering the long-term rental apartment market. Deals of the quarter included:

- Modern Land acquired two serviced apartments – Ai Lihua Premise and New York Premise, for a total consideration of RMB1.55 billion.

- Jingrui Holdings purchased 221 residential units in Cheng Yuan Building Tower A for a total consideration of RMB269 million.

Investors continued to acquire commercial assets with favourable investment potential such as hotels. Major transactions during the quarter included:

- A joint venture between China Lodging Group and TPG acquired two hotels – Novotel Beijing Sanyuan and Ibis Beijing Sanyuan for a total consideration of RMB1.18 billion.

- Ao Ya Hotel in Chaoyang district was acquired by domestic enterprise King Pattern Industrial Holding Group. The deal was finalised for a total consideration of RMB440 million.

In contrast to the en-bloc market, the strata-title office and retail markets performed rather poorly in Q1/2018, mainly due to restrictive policies and the off-peak sales season falling during the period.

New supply in the strata-title office market reached 29,000 sq m GFA during the quarter, down 86.3% QoQ.

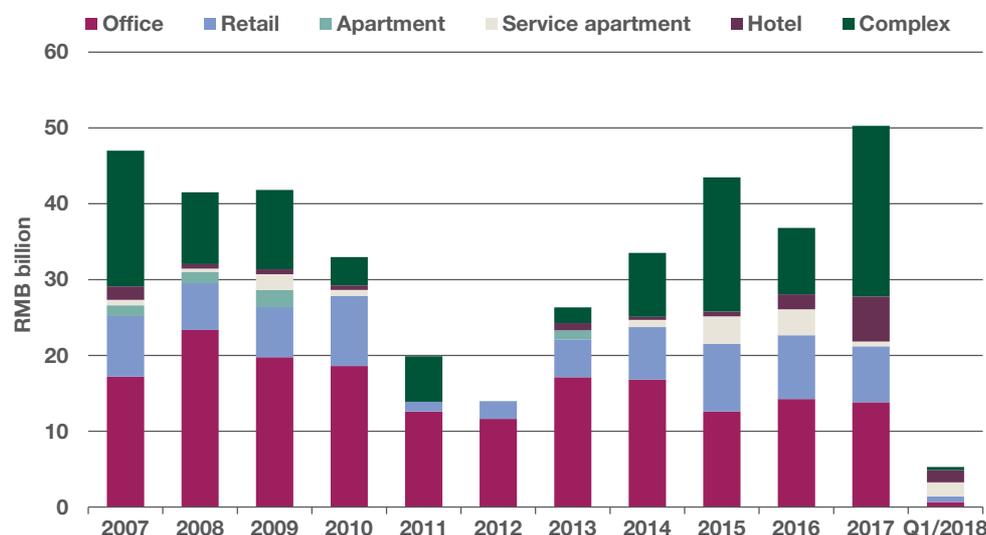
Total transaction area also declined by 10.1% QoQ to 89,000 sq m GFA. By contrast, total consideration rose 40.4% QoQ to RMB2.95 billion.

The first-hand, strata-title retail market received 19,500 sq m of new supply in Q1/2018, down 85.4% QoQ. Total transaction area reached 46,300 sq m, down 77.2% QoQ. Total consideration registered RMB1.87 billion, down 69.2% QoQ.

Going forward, we expect institutional investors to continue to diversify their acquisition targets. Apart from

traditional asset classes such as office, retail and hotel, the market for serviced apartments and detached office towers in industrial parks will continue to gain momentum. In addition to this, the impact from restrictive regulations and high land costs will see some developers target mature assets which offer potential for value-add and, subsequently, greater asset appreciation and return on investment. Meanwhile, current policy controls will see the strata-title office and retail markets face a great challenge to rebound in the remainder of 2018.

GRAPH 2
En-bloc investment volumes by property type, 2007 – Q1/2018



Source: Savills Research & Consultancy

TABLE 2
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Ai Lihua Premise and New York Premise	Haidian	RMB1.55 bil/US\$246.82 mil	Modern Land	Serviced apartment
Cheng Yuan Building Tower A	Haidian	RMB269 mil/US\$42.83 mil	Jingrui Holdings	Serviced apartment
Novotel Beijing Sanyuan and Ibis Beijing Sanyuan	Chaoyang	RMB1.18 bil/US\$187.90 mil	China Lodging Group/TPG	Hotel
Ao Ya Hotel	Chaoyang	RMB440 mil/US\$70.06 mil	King Pattern Industrial Holding Group	Hotel

Source: Savills Research & Consultancy

China (Northern) - Tianjin



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The residential land market saw declines in both supply and transaction volumes in Q1/2018. Regulations on land transactions continued to limit land purchases. Other than pricing, developer-owned space became the key determinant in the winning bids for three land transaction deals – the highest for-lease proportion was as high as 30%.

Land supply decreased by 23% quarter-on-quarter (QoQ) to 1.067 million sq m, albeit up 4% year-on-year (YoY) in Q1/2018. Total transaction volumes declined by 39% QoQ to 1.644 million sq m, up 58% YoY. The city centre saw no new land supply, while suburban areas supplied more than half of the new amount on the market. Fringe areas and Binhai New Area provided a similar volume of land, 23.3% and 21.4% respectively. In terms of transaction volumes, suburban areas performed outstandingly well, accounting for 52.7% of total transactions. Fringe areas and Binhai New Area contributed 47.3% of total transactions.

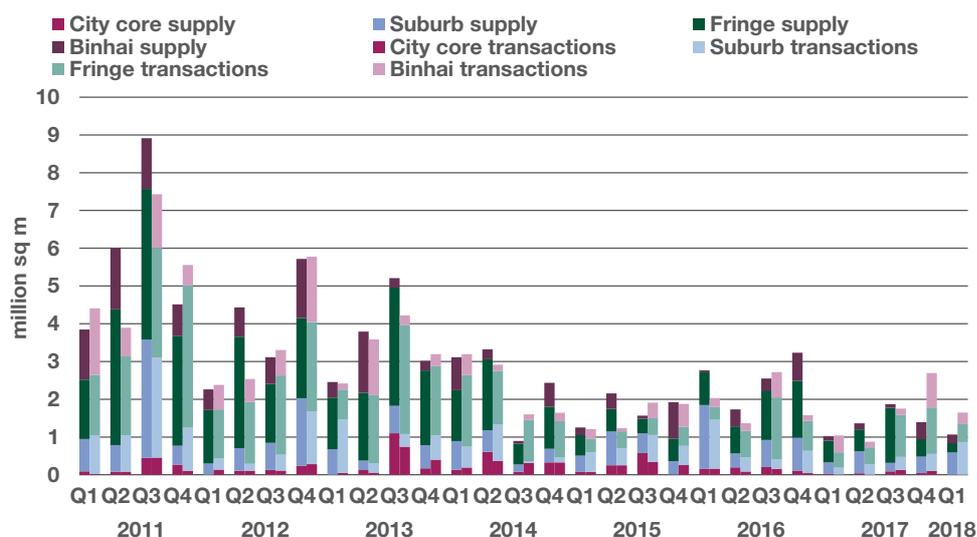
Jingrui Holdings Ltd. acquired a land plot in Binhai New Area for a total consideration of RMB537 million, with a premium that was 50% higher than the reserve price; accommodation value was RMB6,682 per sq m. The 44,712 sq m land plot is zoned for mixed-use development, including residential and commercial purposes. The developer acquired this land plot with a for-lease component accounting for 30%, hitting a new record high in Tianjin.

Two adjacent land plots located in Haihe Education Park in the Jinnan district were purchased by Agile and Jingrui Holdings. Agile purchased one of the land plots for a total consideration of RMB1.6 billion, at an accommodation value of RMB12,487 per sq m. The 85,689 sq

m land plot is zoned for mixed-use development, including residential and commercial purposes. The developer will own 16% of the total buildable residential area. The other land plot, totalling 60,460 sq m, was acquired by Jingrui Holdings at a total consideration of RMB1.14 billion and an accommodation value of RMB12,570 per sq m; owning 10% of total buildable residential area.

As land transaction volumes continue to trend lower, it is expected that land prices will stabilise in the near future. In March, the Tianjin Municipal Bureau of Land and Resources also rolled out new land transaction procedures in order to enhance transaction efficiency.

GRAPH 3
Land supply and transaction volumes by area, Q1/2011 – Q1/2018



Source: Savills Research & Consultancy

TABLE 3
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Plot 2017-1 (JBT)	Binhai	RMB537 mil/US\$85.4 mil	Jingrui Holdings	Mixed-use development site
Plot 2018-013 (JHHY)	Jinnan	RMB1.60 bil/US\$255 mil	Agile	Mixed-use development site
Plot 2018-014 (JHHY)	Jinnan	RMB1.14 bil/US\$181 mil	Jingrui Holdings	Mixed-use development site
Plot 2017-188 (JBB)	Beichen	RMB2.95 bil/US\$468 mil	Tianfang	Mixed-use development site
Plot 2017-17 (JBT)	Binhai	RMB331 mil/US\$52.6 mil	TANDE	Mixed-use development site

Source: Savills Research & Consultancy

China (Western) - Chengdu



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Following home purchasing policies which were intended to cool the market sector, the average price of the new commodity housing market declined in Q1/2018. The average transaction price decreased by 6.9% quarter-over-quarter (QoQ) to RMB13,581 per sq m in Q1/2018. Supply and transaction volume in Q1/2018 increased by 92.2% and 2.6% QoQ respectively to 454,458 sq m and 712,057 million sq m. The housing supply has risen substantially as demand has far outstripped the supply.

In November 2017, Chengdu became to the fourth city in China—after Shanghai, Nanjing and Changsha—to launch a lottery system for purchasing houses. The policy was enhanced on 31 March 2018 and is based on the government's pledge to end residential property speculation and improve housing affordability for the city's resident.

Due to limited supply, the transaction volume of residential land was 217,991 sq m, a 48% decrease QoQ, which increased the price of all residential land plots. Each plot of land was sold at an accommodation value exceeding RMB10,000 per sq m, and the average accommodation value was RMB12,631 per sq m, an increase of 14.9% QoQ. However, the accommodation value is actually higher than the expected selling price due to the government's requirement that developers build houses for rent.

In order to guide the land market, the government announced a series of rules governing land transactions in 2017, and these rules have been upgraded again in Q1/2018. One land transfer policy related to hotel

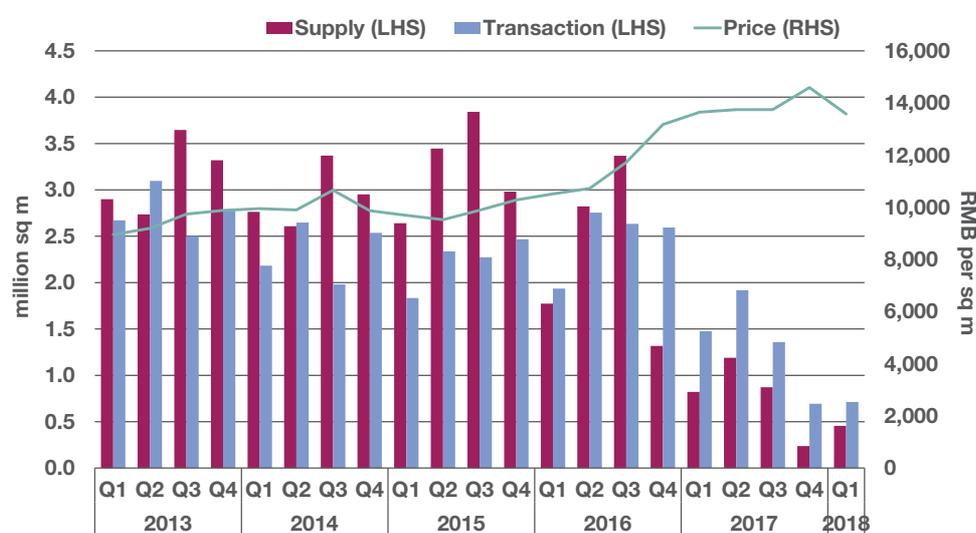
and industry construction, insists on a higher pricing requirement for the developer's comprehensive development capacity. This is causing each plot of land to be sold at an accommodation value exceeding RMB10,000 per sq m

Since the government issued its plans to increase the stock of residential land released in 2017, supply of the residential land

might increase in the short term; in addition, the new lottery policy for purchasing houses will help improve urban residential housing conditions. It is expected that government controls will cool the market and enhance housing affordability.

GRAPH 4

Residential market supply, transaction volumes and average prices, Q1/2013 – Q1/2018



Source: Realtydt, Savills Research

TABLE 4

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
WH14(251):2017-048	Wuhou	RMB944 mil/US\$149.8 mil	Chengdu Jinkejunfeng Real Estate	Residential development site
GX2017-20(071/05)	Gaoxin	RMB657 mil/US\$104.2 mil	CDHT Investment Real Estate	Mixed-use development site
WH08(211):2017-017	Wuhou	RMB203 mil/US\$32.1 mil	Zen-Cen Real Estate	Commercial development site
JN02 (251): 2018-017	Jinniu	RMB1.02 bil/US\$161.3 mil	Luzhou Yijia Real Estate	Residential development site

Source: Savills Research

China (Southern) - Guangzhou



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The Guangzhou government recently published the Guangzhou Urban Master Plan (2017-2035) draft. According to the plan, Guangzhou's permanent resident population will reach 20 million by 2035, an increase of 6 million residents compared to the end of 2016. Guangzhou's land plots and residential property values should continue to appreciate during this 18-year period, due to real estate supply and demand characteristics.

Demand will be driven by an increasing population. Guangzhou's population is expected to increase by 333,000 people per year, which will generate demand for 121,000 homes each year¹. However, in the past 20 years, new housing supply has only increased by 80,000 to 100,000 units per year. Additionally, the Urban Master Plan shows that the volume of new land will be highly controlled, and that new land supply in Guangzhou will gradually decrease after 2020. As a result, first-hand residential land is expected to be in short supply, while greater demand will shift to second-hand or other stock, such as refurbished (or value-added) stock. The residential leasing market initiatives put forth in 2017 should be able to help balance future supply and demand. The Guangzhou government has taken substantial efforts to establish a more transparent and fair residential rental environment and will continue to accelerate its development in the next few years.

In previous years, Panyu was regarded as a suburban area of Guangzhou. However, according to the latest Urban Master Plan, the northern area of Panyu (north of Guangming Highway) will now be classified as a "downtown area" of Guangzhou. While the southern Panyu areas, as well as Huadu, the Airport Economic Zone, the Huangpu 'Knowledge City' (中新知识城) area, and Conghua and Zengcheng districts will continue to be classified as "suburban areas". Suburban

¹ Calculation based on expected number of new people in Guangzhou (333,000) divided by the average size of a family: 2.75 people/home living in a single family home

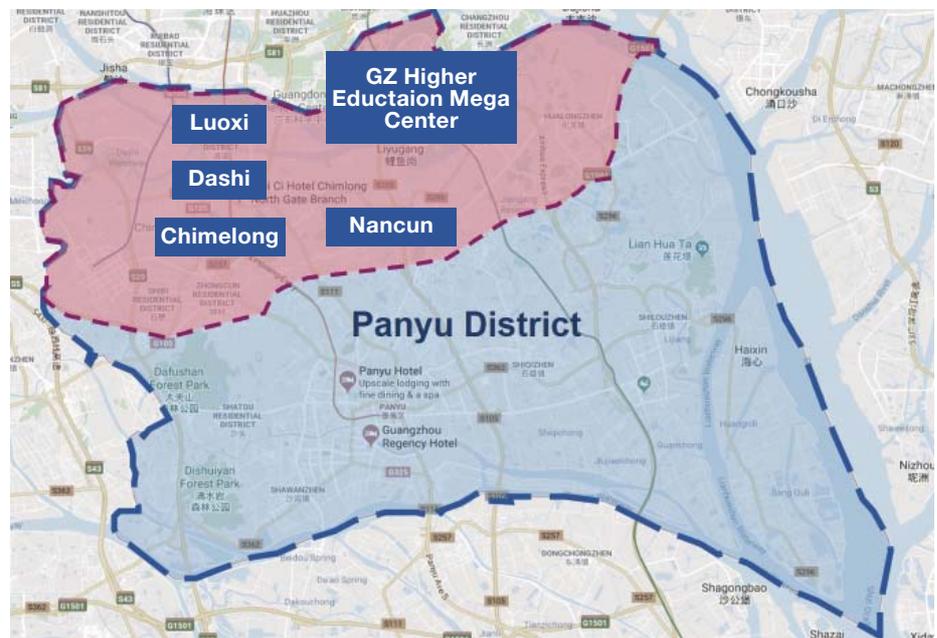
areas will continue to see a greater inflow of residents, so infrastructure, commercial activity and transportation networks in the suburban areas are expected to get a significant upgrade, and properties in these emerging areas are expected to increase.

Guangzhou's southern-most district of Nansha will see significant developments during the plan's period. According to the Guangzhou Urban Master Plan, Nansha has been officially termed 'the sub-

centre' of Guangzhou, representing its developmental importance and independent positioning in Guangzhou. Thus, Nansha will continue to develop its infrastructure and commercial facilities, fostering a more independent living and working environment. The plan states that it will be possible to travel from Nansha to any of the main Greater Bay Area cities in 30 minutes. Hence, Nansha is expected to develop at a much faster pace and generate significant real estate investment opportunities.

MAP 1

Map of Panyu district (North of Guangming Highway)



Source: Savills Research

TABLE 5

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Jiefang Building	Yuexiu	RMB260 mil/US\$39.92 mil	Landsea Green	Office
Nansha Shui An Plaza	Nansha	RMB337 mil/US\$51.75 mil	Nansha Shipping Industry Fund	Office
Clifford Group Building	Panyu	RMB1.49 bil/US\$228 mil	Clifford Group China	Office
Vanke Expo Centre Building 3 (19 floors)	Panyu	RMB378 mil/US\$58.04 mil	Unknown	Office

Source: Savills Research

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The Shenzhen-Shanwei Special Cooperation Zone (SSCZ) is geographical zone, situated 50km east of Shenzhen city. It was formed as a strategic initiative to span over a 30 year period (2011-2040) to relocate manufacturing and industrial firms, and improve the economic development of east Guangdong province. The SSCZ covers the four towns of Erpu, Xiaomo, Houmen and Chishi, over 463 sq km of land; it will be managed by the Shanwei government for social and public affairs, while Shenzhen government will be responsible for the economic plan.

With limited land resources and a rising population and manufacturing/production costs, the Shenzhen government's plan for a strategic economic zone outside of the city may provide an oasis of space and cost for some manufacturing companies caught by the city's inflationary pressures. Economically-speaking, Shenzhen city will claim 70% of the SSCZ's GDP.

The SSCZ master plan emphasises the development of the following industries: IT, biotech, marine, aerospace, new materials, renewable energy, coastal tourism, healthcare services, port logistics, and international trade. To satisfy the development of these industries, land resources must be prevalent. From 2014 to 2017, 66 land plots have transacted², accounting for over 2.4 million sq m (with total income of approximately RMB1.5 billion), 54 plots for industrial use (including industrial land for emerging industry (M0)), six plots for residential use, six plots for commercial/office, and one plot for warehouse use.

There are already several major work-in-process developments in the SSCZ:

- IT: Huawei (SSCZ) Cloud Data Centre, Tencent Cloud Data Centre, China Resources Group Next

² Shenzhen Land and Real Estate Exchange Centre annual data.

Generation Data Centre, Topway Data Centre (recently completed)

- New materials: Wedge, Shenzhen Wondtech Eco-Materials

- Logistic sectors: An international port invested by the Yantian Port Group and Shenzhen SDG

In addition, several real estate sectors have plans to, or have already invested in, the SSCZ. In March 2016, state-owned Shenzhen Zhengye Group invested RMB108 million into a residential project. Evergrande Health Industry Group invested RMB50 billion into a health sciences enterprise incubation platform, a high-end hospital, and healthy lifestyle parks. Evergrande Real Estate Group

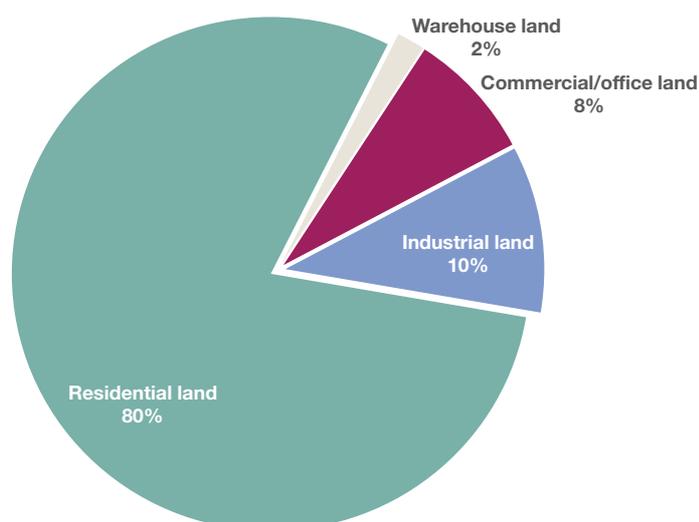
also plans to invest RMB100 billion into theme parks, high-end hotels, and shopping/entertainment promenades.

The first session of the 13th National People's Congress (NPC), and the National Committee of the Chinese People's Political Consultative Conference (CPPCC), known as the "two sessions" (or 'liang hui'), was hosted in March 2018; and the Guangdong-Hong Kong-Macau Greater Bay Area was mentioned again³. Shenzhen will again be a major participant in Greater Bay Area, and the Shenzhen-Shanwei Special Cooperative Zone should also become a major area for both urbanisation and organic jobs creation.

³ First mentioned at the 2017 Liang Hui in Li Keqiang's work report.

GRAPH 5

SSCZ transacted land area proportion 2014 – 2017



Source: Shenzhen Land & Real Estate Exchange Centre

TABLE 6

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
G11336-0068	Pingshan District	RMB1.87 bil/US\$297.3 mil	Chentou Hongyuan Investment Co., Ltd	Commercial
G13302-8024	Pingshan District	RMB1.25 bil/US\$198.4 mil	China Overseas Land & Investment Ltd.	Residential

Source: Real Capital Analytics

China (Eastern) - Shanghai



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China has had a fairly loose credit environment since the Global Financial Crisis (GFC) in 2009 in an attempt to shore up and stabilize economic growth rates. This has led to a steady growth in debt levels as a percentage of GDP in the non-financial sector according to Bank of International Settlements (BIS) figures. Non-financial corporate debt grew from 96.3% of GDP in Q1/2009 to 166.8% in Q3/2017, though the government's campaign to rein in debt has since seen this figure fall to 163.4% by Q3/2017.

While China's outstanding loans from the domestic banking sectors totalled RMB120 trillion by the end of 2017, up by 12% YoY, the Chinese economy is faced with slower growth as its economy matures. The GDP growth rate has fallen from 14.2% since 2007 to 6.9% in 2017. Additionally, the greater oversight and controls in the offshore and onshore corporate bond market and a slowdown in residential sales have created extra issues for developers to roll over debt.

In this context, China's non-performing loan (NPL) market has growing quickly. Outstanding bad loans from commercial banks amounted to RMB1.71 trillion at the end of 2017, up from RMB646 billion in Q1/2014. Additionally, "special mention loans", part of which can be classified as NPL under international standards, are both significant and expanding. Special mention loan volumes totalled RMB3.4 trillion by the end of 2017 compared with RMB1.55 trillion in Q1/2014.

Chinese commercial banks are under a lot of pressure from the government to better manage and process their NPLs and clean their balance sheets. In early 2017, the China Bank Regulatory Commission (CBRC) has issued a set of new rules aimed at controlling a broad range of risks in the financial system including requiring banks to strengthen credit risk management (including NPLs) and to widen channels and accelerate disposal of NPLs.

Meanwhile, the growing China NPL market is becoming increasingly appealing for international investors. Investors active in the market include Blackstone, Bain Capital, Lone Star, PAG, ShoreVest Capital, Oaktree

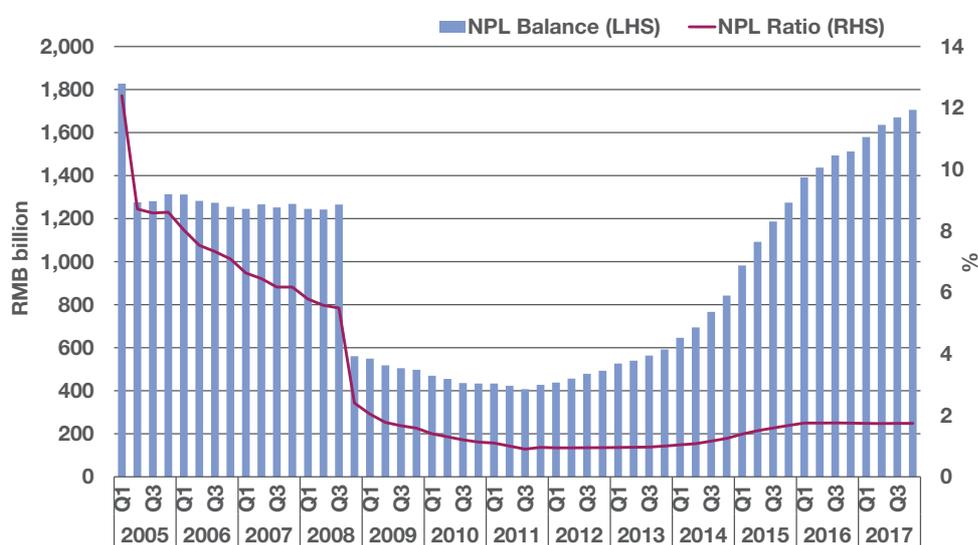
Capital and KKR. Recent deals within the NPL sector include Blackstone's acquisition of a NPL portfolio for US\$200 million in August 2017 from Huarong Asset Management; Bain Capital also bought a NPL portfolio for US\$200 million. Oaktree Capital launched a JV with China Cinda Asset Management in 2013 and KKR tied up with China Orient Asset Management in 2016.

Despite interest in the market from a number of investors, many challenges remain. The biggest challenges include a general lack of sophistication and maturity in the market, unrealistic pricing expectations, and a lack of transparency and liquidity within the markets where assets are becoming

available. Additionally, because of the unique structure of Chinese banks, the procedure of acquiring NPLs could involve prolonged legal battles in local courtrooms. While bankruptcy laws were updated in 2007, there were only 5,665 insolvency cases in 2016 compared to 98,585 in the US. In addition to this, China does not have a personal bankruptcy system. At the same time, investors are also facing competition from new alternative channels of NPL disposal, such as the fourteen separate issuances of NPL ABS in 2016. The market remains large and enticing to many investors as the government looks to address and clean up the loan balance sheets that have expanded over the last decade, but many obstacles remain.

GRAPH 6

Commercial Bank NPL balance, NPL ratio 2005 – 2017



Source: CEIC, China Bank Regulatory Commission

TABLE 7

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Shanghai International Plaza	Hongkou	RMB2.4 bil/US\$379.7 mil	LaSalle Investment	Office
Qiantan Land Plot	Pudong	RMB1.4 bil/US\$221.5 mil	Swire Properties	Development site
Amanda Plaza	Putuo	RMB595 mil/US\$94.1 mil	C&D International Investment	Retail
City of Elite (L6 & L8)	Pudong	RMB512 mil/US\$81.1 mil	World Union	Office park

Source: Savills Research

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The office investment market remained active over the first three months of 2018 with values headed firmly up. Notable deals were concluded in Worldwide House (HK\$41,000 per sq ft), Far East Finance Centre (HK\$61,000 per sq ft) and 9 Queen's Road Central (HK\$61,800 per sq ft). Sellers were mainly profit-taking local investors who sold after holding their premises for many years, although one seller took home a 23% gain after only eight months.

Extremely low yields of around 2% were not the focus for new buyers, who were more concerned with potential capital gains. With investment stock extremely limited in Central, buyers are paying a premium, but with such low vacancy levels and rising rents, some investors have expectations of pricing nearer HK\$80,000 per sq ft in three years' time.

In Kowloon East the market is also moving at a brisk pace, driven more by investors than owner-occupiers. The chronic lack of office space on Hong Kong Island combined with a greater willingness by multinationals to decentralize has bolstered the prospects for a CBD2. Landlords in the district are showing no inclination to cut rents which have remained firmly above HK\$30 per sq ft. The recently launched 38 Wai Yip Street in Kwun Tong received a strong response from the market, with six whole floors pre-sold so far. The top three floors were sold to a foreign family fund for around HK\$14,000 per sq ft while the other three floors all sold to local investors.

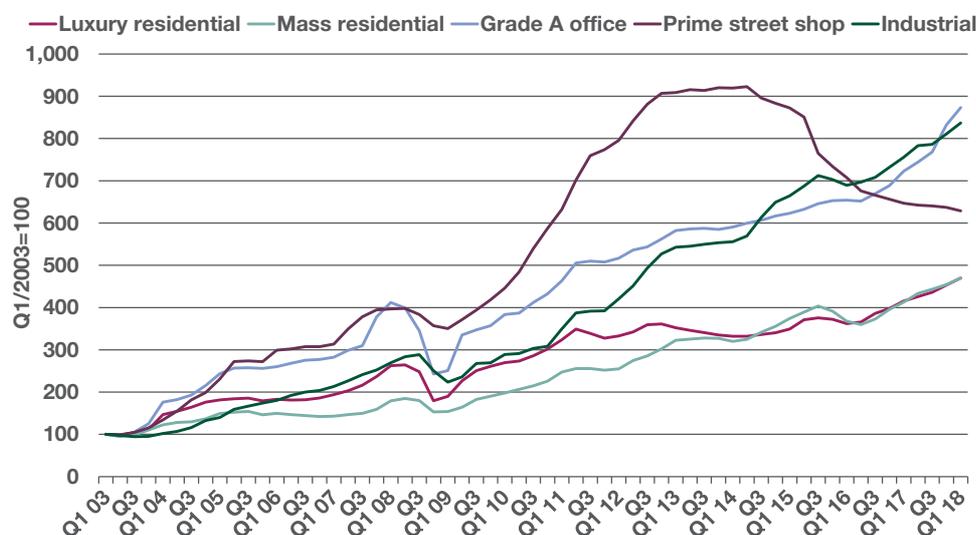
Inspired by the bulk sale of 17 suburban retail premises by Link REIT over the last quarter of 2017, the investment focus of the retail market in the first three months of 2018 shifted to suburban retail, with one investor spending around HK\$1.18 billion to snap up 20 retail properties for long-term investment,

most of them located in non-core areas. In one of the quarter's larger deals, the retail podium of Hsing Kuang Centre in Wong Tai Sin was sold for HK\$906 million to Fulum Group, likely for owner-occupation.

The robust industrial investment sentiment continued into the first quarter of the year, with several en-bloc transactions eligible for redevelopment being recorded. The most eye-catching deals were the sale of the site at 41 King Yip Street,

Kwun Tong to a local investor for HK\$1.6 billion as well as the sale of Grandeur Factory Building in Kwun Tong to Billion Development for HK\$1.3 billion. Both sites are being considered for redevelopment. Coupled with six other en-bloc industrial buildings in other decentralized areas changing hands for the same purpose, we expect another round of forced tenant relocations in the near future, driving down industrial and warehouse vacancy further.

GRAPH 7
Savills Hong Kong price indices by sector, Q1/2003 – Q1/2018



Source: Savills Research & Consultancy

TABLE 8
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
W Square	Wanchai	HK\$2.845 bil/US\$364 mil	Winland	Office
Everest Building	Jordan	HK\$2.450 bil/US\$312 mil	TBC	Office
C-Bons International Center (18/F-21/F & 23/F-28/F)	Kowloon Bay	HK\$2.089 bil/US\$269 mil	Montana I (BVI) Ltd	Office
3-6 Glenealy	Central	HK\$2.002 bil/US\$256 mil	Pacific Century Premium Developments	Development site
Ventris Court (80% share)	Happy Valley	HK\$2.0 bil/US\$255 mil	Wheelock Properties	Residential

Source: EPRC, Savills Research & Consultancy

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The Indonesian economy reached a new milestone in 2017 when it emerged as a trillion dollar economy with an estimated GDP value of US\$1.004 trillion. The economy continued to show signs of recovery as the 2017 GDP growth rate of 5.07% was in fact the country's highest since 2014. Stronger growth is driven particularly by robust net export and investment activity on the back of a continued recovery in the global market.

Meanwhile, monetary conditions remain accommodating, with benchmark interest rates continuing to be kept to a low 4.25%. The rate is unlikely to change anytime soon, and the central bank expects it to be adequate in driving recovery momentum in the domestic economy.

Despite a low interest rate environment, the residential transaction market in Jakarta remained relatively modest. The total number of apartments sold in the capital city throughout last year was only around 6,000 units, falling by almost 50% from the previous year. Aside from weak investor confidence, the decline in transaction activities last year could also be attributed to fewer project launches, especially in the popular middle-up class projects.

Furthermore, Indonesia's Foreign Direct Investment (FDI) consistently made up a greater proportion of total new investment, with Q4/2017 results showing an apparent contribution of 62.4% (approximately US\$8.3 million). The housing, industrial and office sector appeared as one of the top recipients, recording a realisation of about 10% of the total foreign investment figure in the same period.

However, as an emerging market, Indonesia is still hindered by complicated and often constraining regulations on asset transactions and

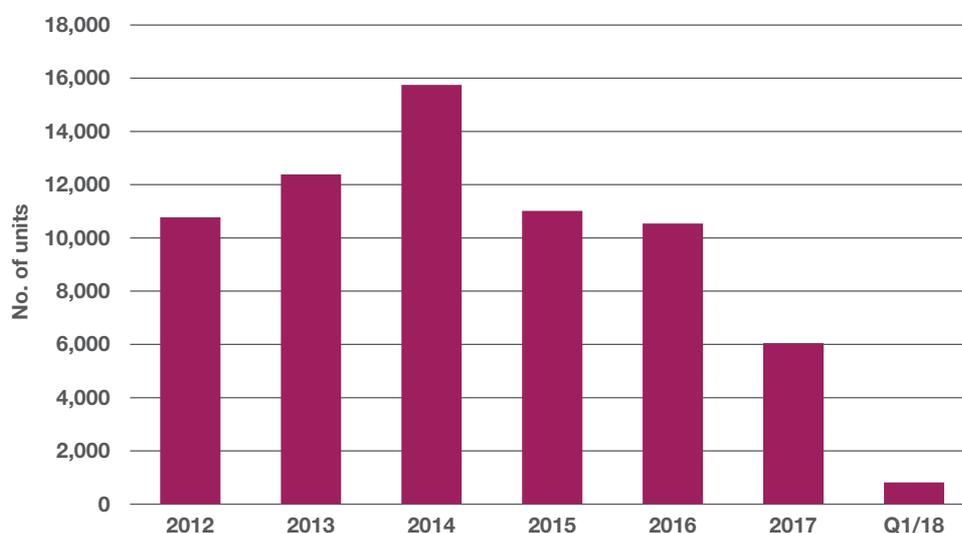
ownership. Thus a majority of the FDI entering Indonesia takes the form of partnerships or joint ventures with local companies.

During the first quarter of 2018, the market witnessed a number of notable agreements, including a joint venture between South Korea's GS E&C and Vasanta Group as well as Japan's Sumitomo Corporation's joint venture with PT Sentul City Tbk. Overall, companies hailing from China, Japan, Singapore and South Korea remain the most active investors in the market.

While the economy continues its momentum, the property market is still struggling to find its way to market equilibrium and more balanced levels of supply and demand, particularly in the office sector.

We expect the property market to regain momentum after the general election in 2019. By then, the market should offer a more optimistic climate for further investment activity.

GRAPH 8
Jakarta condominium sales, 2012 – Q1/2018



Source: Savills Research & Consultancy

TABLE 9
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Bakrie Tower (13 floors)	Rasuna Said	IDR480 bil/US\$35.6 bil	Sinarmas Land	Office
ISK Building	Kebayoran Baru	IDR86 bil/US\$6.4 bil	-	Commercial
Australian Embassy	Rasuna Said	IDR600 bil/US\$44.6 bil	-	Commercial

Source: EPRC, Savills Research & Consultancy

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Japan's real GDP grew at an annualised rate of 1.6% in Q4/2017 marking the economy's eighth consecutive quarterly expansion. The growth was mainly driven by private investment and consumption. In its semi-annual report published in January, the World Bank forecasted GDP growth of 1.3% in 2018 and 0.8% in 2019, upward adjustments of 0.3 percentage points (ppts) and 0.2ppts respectively.

While Shinzo Abe's cabinet enjoyed a 49% approval rating in October 2017, ongoing scandals regarding abuses of power by the Prime Minister are damaging his reputation. Support for the cabinet slipped to 42% in March but a lack of any credible rival limits the threat of lower public support.

With the reappointment of Kuroda as governor of the Bank of Japan (BOJ) and the nomination of Masazumi Wakatabe as deputy governor, loose policy is likely to continue. In January the 10-year JGB yield drifted up to 0.095% prior to Kuroda's reappointment but quickly retraced to 0.016% after it was confirmed he would continue as governor. Wakatabe is a known advocate of easy monetary policy and it is likely his appointment was intended as a signal to the market that the BOJ is not yet seriously considering tightening policy. Throughout Q1/2018 the BOJ purchased 22.8 billion yen's worth of J-REIT units, on track to its annual 90 billion yen target.

JPY strengthened dramatically in Q1/2018 from 113 per USD at December end to 106 at March end, an appreciation of 6.6%. While Taro Aso, Japan's finance minister, declared there was no need for a currency intervention in February, if JPY strengthens significantly beyond 105 per USD this could stifle corporate profits. Evidence of this relationship was reflected in the March Tankan survey as business confidence decreased with the strengthening yen.

The TSE J-REIT index stood at 1,689 at the end of the quarter, growing

1.5% and outperforming the TOPIX by 7.1%, demonstrating its defensive nature and stable fundamentals.

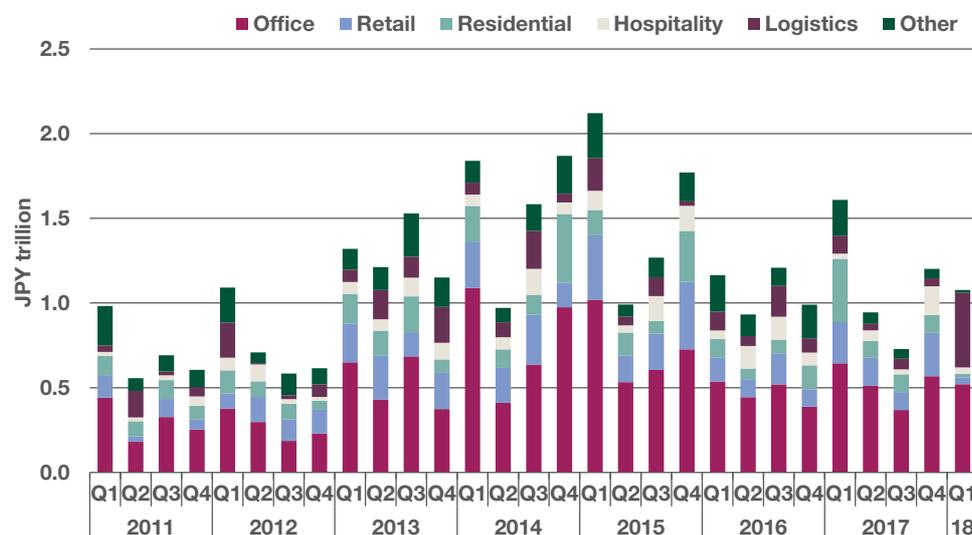
Total investment volumes in Japan totalled 1.08 trillion yen in Q1/2018, down 10.4% QoQ but up 13.9% YoY. Transaction volumes in the logistics sector skyrocketed in Q1/2018 with total volumes of 440 billion yen, almost double the 232 billion yen transacted throughout the whole of 2017. Multiple logistics J-REIT transactions including CRE Logistics REIT, GLP J-REIT, Daiwa House REIT, and Nippon Prologis REIT made up a large portion of Q1/2018 volume. Developers may want to offload

certain properties in consideration of the large development pipeline.

Average grade A office rents grew to JPY33,400 per tsubo in the central five wards (C5W) of Tokyo, up 1.3% QoQ and 3.9% YoY. Shinjuku grade A office rents, still the lowest among C5W, grew to JPY30,500 per tsubo, up 2.4% QoQ and 6.2% YoY. Vacancy rates, already extremely low, tightened a further 0.4 ppts QoQ and 1.8 ppts YoY across the C5W to end the quarter at 0.8%. Despite a glut of upcoming supply, pre-leasing of new developments through Q1/2018 remains strong, underpinning the market.

GRAPH 9

Property transactions by sector, 2011 – Q1/2018



Source: RCA, Savills Research & Consultancy

TABLE 10

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Shiba Park Building	Minato, Tokyo	JPY150 bil/US\$1.4 bil	Kanden Realty & Development	Office
Shinnisseki Building	Chiyoda, Tokyo	JPY50 bil/US\$460 mil	Nippon Life Insurance	Office
Nishi-Shinjuku Kimuraya Building	Shinjuku, Tokyo	JPY35 bil/US\$320 mil	Invesco	Office
Hotel Universal Port	Konohana, Osaka	JPY34 bil/US\$318 mil	Orix J-REIT	Hotel
Front Place Nihonbashi	Chuo, Tokyo	JPY17.6 bil/US\$150 mil	Japan Real Estate Investment Corporation	Office

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

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Gaming sector revenues, one of the main drivers of Macau's gross domestic product (GDP), increased by 9.1 percentage points (ppts) year-on-year (YoY) in real terms for 2017. New casino openings were a key factor in the overall improvement of gaming revenues. In light of the better than expected economic performance, the International Monetary Fund recently revised its forecast of Macau's 2018 GDP growth from 1.7% to 7%.

According to the Gaming Inspection and Coordination Bureau, by March 2018, Macau had achieved 20 consecutive months of YoY gross gaming revenue (GGR) growth. The GGR reached MOP96.5 billion in Q1/2018, an increase of 5.35% quarter-on-quarter (QoQ). That is the biggest quarterly jump since February 2014.

In terms of transactions, Macau Property Opportunities Fund Limited (MPO) sold its Senado Square retail redevelopment project to Ardent Success Limited and City Universe Limited for HK\$800 million (c. US\$102.3 million)⁴ in February. According to MPO, the sale price represents a premium of 14% to the property's valuation of HK\$703 million (c. US\$90.0 million) as of 31 December 2017 and a gain of 541% over the acquisition cost of US\$15.96 million from October 2007.

Macau's residential market continued to heat up, underpinned by strong economic drivers, low borrowing costs and new housing regulations. According to Financial Services Bureau data, in January 2018, the market's transaction volume hit 1,986 units, up by 234.9% QoQ and the highest figure since 2013. First-time home buyers accounted for approximately 30% of transactions, and the average sales price was MOP124,481 per sq m,

⁴ Based on a US\$/HK\$ exchange rate of 7.82 as at 1 February 2018.

up 28.3% QoQ. In addition, a total of 3,193 units changed hands in the first two months of the year, a figure greater than the total transaction volume of 2,574 units sold in Q4/2017, with an average price of MOP10,242 per sq ft, an increase of 24.7% YoY.

In February, the government introduced a series of new housing policies including higher stamp duty for buyers who are non-first-time property owners, mortgage loans for young residents, and the imposition of a tax on vacant housing units. However, demand in the primary

sales market remained strong throughout Q1. The number of off-plan sales increased sevenfold from the previous year to 526, and the average sales price increased 4.8% YoY to MOP11,990 per sq ft.

Although the market is anticipating an interest rate increase and tighter housing policies, Macau's property prices should continue to rise, thanks to strong economic growth and the upcoming completion of two major infrastructure projects: the Hong Kong-Zhuhai-Macau Bridge (HZMB) and the terminal expansion at Macau International Airport.

TABLE 11
New housing policies, Q1/2018

Policy	Measures
Higher stamp duty for non-first-time property buyers	<ul style="list-style-type: none"> ■ Additional 5% stamp duty on second property ■ Additional 10% stamp duty on the third property and above
Mortgage loan for Macau young resident* (first-time buyer)	> MOP8 mil (Max. mortgage loan of 50%)
	> MOP3.3 mil to <= MOP8 mil (Max. mortgage loan of 80%)
	<= MOP3.3 mil (Max. mortgage loan of 90%) (Max. mortgage loan of 80% for pre-sale unit)
Tax on vacant units	6%

Notes: *Young resident: A Macau resident between 21 and 44 years in age who does not own 50% or more of a property in Macau.
Source: Financial Services Bureau, Government of the Macao Special Administrative Region; Savills Macau

TABLE 12
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
A development site at Travessa Do Roquete, N°11, Rua Da Se N°S 9-11 in Se	Macau Peninsula	HK\$800 mil/US\$102.8 mil	Private	Commercial

Source: Savills Macau

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Investment activity in Malaysia started the year on a high note as real estate investment improved over the past year reaching a total transaction volume of RM4.1 billion in Q1/2018. The buoyant mood was facilitated by Malaysia's resilient economic environment and the stronger ringgit. Furthermore, the positive sentiment inspired by Malaysia's 14th General Election are expected to boost investment activity in 2018.

Corporations and real estate funds liquidated their real estate assets in this quarter. One major transaction was Malaysia's Social Security Organisation's (SOCSO) acquisition of a 1.9-acre prime piece of development land in Kuala Lumpur for RM323 million. The land was acquired from Malaysian Resource Corporation (MRCB) who will utilise the proceeds from the sale for their working capital and property development operations.

Active foreign investors in this quarter included GSH Corporation, Al-Rajhi Bank and eForce Holdings Ltd. GSH Corporation acquired a 50% stake in a 3.5-acre prime development plot in Kuala Lumpur for RM165 million which will potentially be developed into a premium high-rise residential building. Al-Rajhi Bank acquired Wisma Mont Kiara for RM122 million from ARA Asset Management. The 16-storey office building is Al-Rajhi's first property acquisition in Malaysia.

We see a growing demand for industrial and logistics warehouses as Malaysia's economy diversifies away from natural resources and moves up the value chain to manufacturing. Another contributing factor is the rapid growth of e-commerce. EM Hub Sdn Bhd acquired a 9.4-acre plot of industrial land in Kota Damansara, Selangor for RM92 million. KSL Holdings acquired a total of 135.2 acres of industrial and development land for RM311 million for property development purposes, a move which will enhance the company's presence in Johor's property market. DRB-Hicom bought 1,234 acres for industrial development in Tebrau,

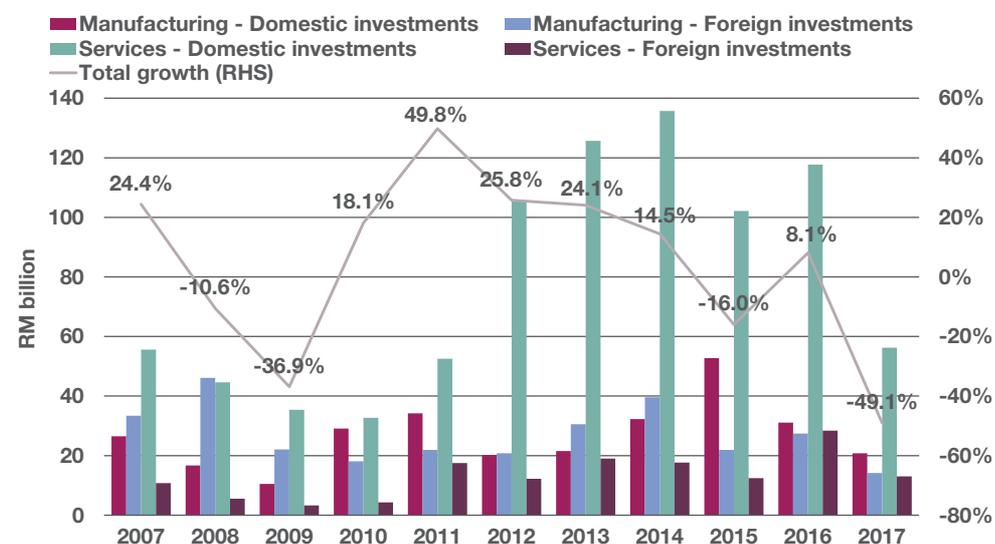
Johor valued at RM1.65 billion via a land swap exercise. Ajinomoto (Malaysia) Bhd acquired a 46.6-acre piece of industrial land in Techpark@ Enstek, Seremban for RM86 million with plans to develop new manufacturing facilities.

Politically, the 'impossible' has happened, and Pakatan Harapan, the opposition coalition led by former Prime Minister Tun Dr Mahathir Mohamad, has received the mandate to form a new government, breaking Barisan Nasional's 61-year rule in Malaysia. Pakatan Harapan's

manifesto includes the promise of clean and fair governance as well as the replacement of the country's Goods and Services Tax (GST). In his first speech as the newly-sworn-in seventh Prime Minister of Malaysia, Tun Dr Mahathir Mohamad promised that the nation's economy and finances will be key priorities of the new federal government. The outlook for Malaysia appears promising, as the new government gets to work to address some of the institutional problems which have held back Malaysia's long-term prospects and deterred foreign investment.

GRAPH 8

Malaysia's approved domestic and foreign investment in the manufacturing and services sector, 2007 – 2017



Source: Malaysian Investment Development Authority (MIDA)

TABLE 11

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
1.9-acre prime land	Kia Peng Street, Kuala Lumpur	RM323.0 mil/US\$81.46 mil	Social Security Organization (SOCSO)	Development land
50% stake in a 3.5-acre prime land	Petaling Street, Kuala Lumpur	RM164.5 mil/US\$41.49 mil	GSH Corporation Ltd	Development land
Wisma Mont Kiara	Mont Kiara, Kuala Lumpur	RM122.0 mil/US\$30.77 mil	Al Rajhi Bank	Office
118-acre industrial land	Tebrau, Johor	RM133.6 mil/US\$33.69 mil	KSL Holdings Bhd	Industrial
17.2-acre development land	Tebrau, Johor	RM176.9 mil/US\$44.62 mil	KSL Holdings Bhd	Development land

Source: Company announcements, Savills Research & Consultancy

New Zealand



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New Zealand is in its seventh year of sustained economic expansion with growth at its non-inflationary potential. Graph 10 presents the annual rise in New Zealand’s GDP between 1996 and 2017 together with the expected growth to September 2025.

New Zealand’s economy has grown slightly slower than market expectations in the last quarter of 2017, increasing by 0.6% (2.9% annual average growth). The quarter’s rise was positively influenced by tourist spending, increased construction activity and expansion of professional, administrative and health services.

The current cycle continues to be supported by accommodative monetary policy, strong population numbers 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.

Factors supporting economic growth include:

- Inflation is relatively benign and is likely to remain accommodative in the short to medium term;
- Lower than long term average interest rates are continuing to support economic activity. However, the cost of fixed interest rate debt has started to increase and lenders have tightened lending criteria;
- Stronger population numbers, particularly in Auckland as a result of increased positive overseas net migration, is expected to continue to support growth. Net overseas migration is now near the top of its cycle at a net gain of 70,300 per annum.
- A strong rise in the number of overseas visitors, up 9% over the last year to 3.7 million 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 rise in demand. Construction activity in other regions remains robust (excluding Canterbury where activity is falling). Non-residential construction activity has also weakened.

Factors contributing to an easing in the rate of economic growth include:

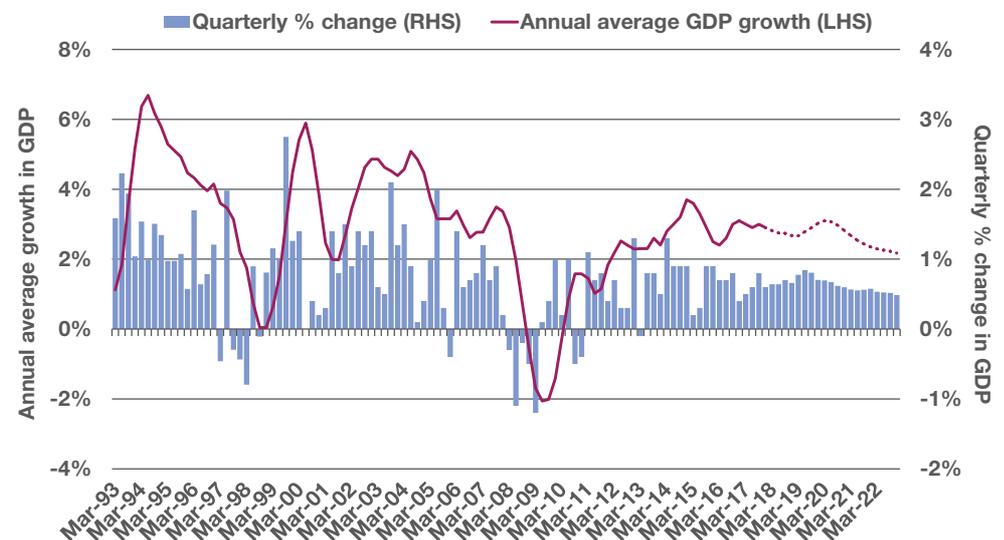
- A slower economic outlook in two of our key export markets (China and Australia) may constrain the rate at

which our economy can grow in the short to medium term.

■ Uncertainty surrounds potential changes to the Overseas Investment Act, likely to be clarified in Q2/2018, and this is one factor affecting a slowdown of median house price growth in Auckland (1.8%). Elsewhere in New Zealand growth is stronger with median rises of 6.6% but that figure is roughly half that of 12 months earlier.

- The high relative value of the New Zealand dollar may also constrain our ability to grow in the short to medium term.

GRAPH 10 GDP growth in New Zealand, 1993 – 2022



Source: Statistics New Zealand, Corelogic

TABLE 13 Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
9 City Road	Auckland CBD	NZD12 mil/US\$8.42 mil	-	Office
107 McLaughlins Road	Greater Auckland	NZD10.2 mil/US\$7.15 mil	-	Industrial
51 Aintree Avenue	Greater Auckland	NZD9.1 mil/US\$6.38 mil	-	Industrial

Source: Savills Research & Consultancy

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The inflation rate rose to a three-year high of 4.8% in March and averaged 4.4% in Q1/2018. Despite the clear upward trend since 2017, the Bangko Sentral ng Pilipinas (BSP) chose to cut the reserve requirement by 1.0% last February. Meanwhile, the US Fed raised interest rates again in March which further hurt the Philippine peso – sliding as much as 4.5% during the quarter. If overall conditions are left unchecked, the BSP may have to be more aggressive at reigning in prices in the future.

Despite these events, overall sentiment was mixed. The PSE index fell by 8.5% in Q1/2018 while concerns grew over rising prices that might curb consumption spending. At the other end of the spectrum, the market saw two immense acquisitions by Ayala Land (ALI) during the quarter.

First, the developer purchased 290 hectares of land in Tarlac City and further expanded its footprint north of the capital. This will be the developer's second mixed-use estate in Central Luzon, together with Alvierra (1,800 hectares) in Pampanga. Developer activity in the region has picked up in recent quarters as seen in Udenna's acquisition in Clark Freeport Zone.

Meanwhile, ALI's joint venture with Royal Asia Land to develop 936 hectares in Laguna only cemented its hold in the growing area south of Metro Manila. ALI already has three estates in the region – Nuvali (2,290 hectares), Vermosa (700 hectares), and Evo City (200 hectares). With a massive landbank of over 10,000 hectares, the developer plans to spend PHP 110.8 billion on capex this year. Almost half of this amount is allocated to residential projects.

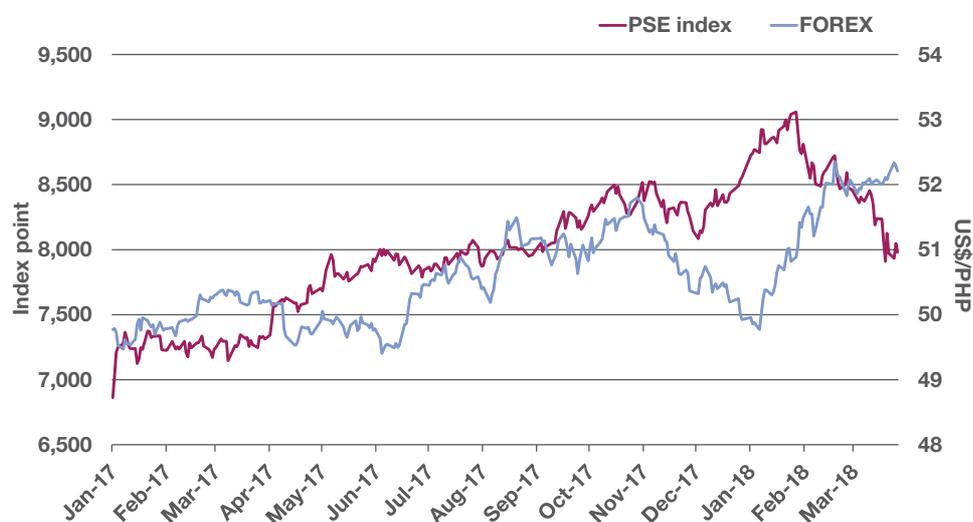
The slew of big-ticket acquisitions in the past few quarters has been largely in line with our forecast last

year. We expected a spike in deals as the investment window narrowed with the much-anticipated BSP rate hike. Although the rising inflation rate has yet to compel the BSP to tighten monetary policy, it may be just a matter of time. The central bank still plans to further cut the reserve requirement which may add to its headaches if improperly executed.

Nonetheless, a rising interest rate environment will likely restrain

residential absorption as mortgages become costlier. Furthermore, developers may have the added problem of maintaining their margins in this eventual scenario. Construction costs are anticipated to rise in the coming quarters due to the recovery in global oil prices. However, in periods of weak demand, rising costs are harder to pass on to buyers. As such, current conditions warrant a more cautious outlook for 2018.

GRAPH 11
PSE index and foreign exchange rate, 2017 – Q1/2018



Source: KMC Savills Research

TABLE 14
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Central Azucarera de Tarlac Lots	Tarlac City	N/A	Ayala Land, Inc.	Mixed-use development site
Cavite mixed-use Estate	Silang, Cavite	N/A	Ayala Land, Inc.	Mixed-use development site
Iloilo Fringe Lot	Iloilo City	N/A	Double Dragon Properties	Industrial
Coca-Cola Bottlers Warehouse	Calamba, Laguna	PHP519.96 mil/US\$10.41 mil	SBS Philippines	Industrial

Source: KMC Savills Research, Savills Research & Consultancy

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Fuelled by developers' active acquisitions of residential sites, about S\$9.96 billion worth of investment sales were recorded in the first quarter of 2018. Although this was down 7.9% from the preceding quarter, it could be the highest first-quarterly number recorded with reference to Savills' database.

With about 50 residential projects sold collectively since mid-2016, the collective sales fever rages on. For the first quarter alone, 17 collective sales of private residential sites raked in total proceeds of S\$5.92 billion, accounting for nearly 60% of Q1/2018's total investment sales. The amount already constitutes 71.7% of the total proceeds of S\$8.24 billion generated from 29 collective sale sites for the whole of last year.

Compared with 2017, developers' buying interests have clearly shifted to the mid-tier and high-end markets, especially the latter. In terms of tenure, for the quarter in review, freehold and 999-year leasehold have been favoured over 99-year leasehold properties. Out of the 17 enbloc sites sold in the first quarter, ten are located in Districts 9 and 10 while 13 sites are either freehold or have a 999-year lease. Although developers continued to put in aggressive bids for some of the sites transacted in the reviewed quarter, overall the bid-ask price gap has narrowed. For example, among the 17 successful sales, three were concluded at only 0.7% to 0.9% premium over the owners' asking prices, while four were sold exactly at asking prices. There were another two projects whose winning bids were 4.0% and 9.5% lower than their respective reserve prices. In short, although a flurry of sites have launched for collective sales, developers - though continuing to replenish their land banks - have become more selective and cautious.

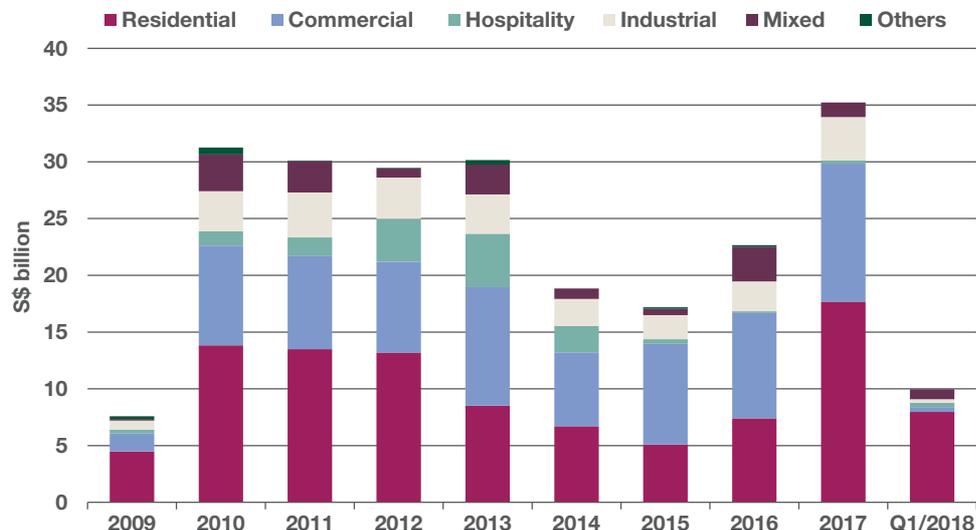
Notwithstanding increased Development Charge Rates and the increased likelihood for traffic studies for large sites, it appears that the collective sales market still has

momentum and could carry on for the rest of the year. Though developers have become more circumspect in their expressions of interest in such sales, offering bids closer to the sellers' reserve prices for example, the deal sizes were surprisingly still high in value, above S\$500 million.

At the same time, developers were also vying for fresh land from the Government Land Sales (GLS) programme with four residential sites, totalling S\$1.24 billion, sold in Q1/2018. Although the Urban Redevelopment Authority (URA) used a batched tender exercise for

three 99-year private housing sites at Chong Kuo Road, Handy Road and West Coast Vale, the top bids for all three sites were still bullish, exceeding or equalling the higher end of market expectations. In March, the high participation rate of 17 bids and record price seen in the tender of the Sumang Walk executive condominium (EC) site again surprised the market. Compared to a collective sale process, the transfer of title of state lands is faster and less complicated. This could be one major reason behind the positive tender results for the state land sales mentioned above.

GRAPH 12
Transaction volumes of investment sales by property type, 2009 – Q1/2018



Source: Savills Research & Consultancy

TABLE 15
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Pacific Mansion	River Valley Close	S\$980.0 mil/US\$748.37 mil	GuocoLand Limited and Hong Leong Investment Holdings Pte Ltd	Residential
Park West	Jalan Lempeng	S\$840.9 mil/US\$641.88 mil	Sing-Haiyi Gold Pte Ltd	Residential
Pearl Bank Apartment	Pearl Bank	S\$728.0 mil/US\$555.70 mil	CapitaLand Limited	Residential
Goodluck Garden	Toh Tuck Road	S\$610.0 mil/US\$465.58 mil	Qingjian Group	Residential
Brookvale Park	Sunset Way	S\$530.0 mil/US\$404.52 mil	Hoi Hup Realty and Sunway Developments	Residential

Source: URA, Savills Research & Consultancy

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Total office investment volume stood at KRW2.1 trillion in Q1/2018, nearly double the ten-year average. Most transactions from the end of 2017 were closed at the beginning of the year, and large transactions over KRW200 billion (The K Twin Towers, KB Myeongdong Office, Pacific Tower and East Central Tower) buoyed Q1 figures. By district, transactions were concentrated in the CBD, and the proportion of foreign investment remained at 17% (or three deals), similar to that of 2017.

Investor strategies ranged from core to opportunistic, and the office sector recorded its highest ever unit price in Q1/2018.

Samsung SRA Asset Management purchased the K-Twin Towers, located in Gwanghwamun, for KRW713.2 billion. The K-Twin Towers is a core asset leased by multiple tenants with a low vacancy rate of 2.5%. This transaction attracted significant investor interest and set the record high of KRW28.1 million per pyeong.

Pebble Stone AMC bought Pacific Tower in Namdaemun (CBD) for about KRW441 billion. The National Housing and Urban Fund contributed about KRW190 billion as a major investor. About 80% of existing tenants have renewed their contracts over the past year and the vacancy rate was less than 5% upon sale.

Other investors are pursuing higher profits through reconstruction and remodeling. US real estate investor Angelo Gordon purchased KB Kookmin Bank's Myeongdong headquarters located in the CBD for about KRW241.2 billion, with Mastern AMC. They plan to demolish the existing office buildings and rebuild them as retail and hotel facilities.

Pebble Stone AMC also bought the Hana Card Dadong office in the CBD for about KRW73.1 billion. The building was vacant as Hana Card moved out at the end of 2017. Pebble Stone AMC

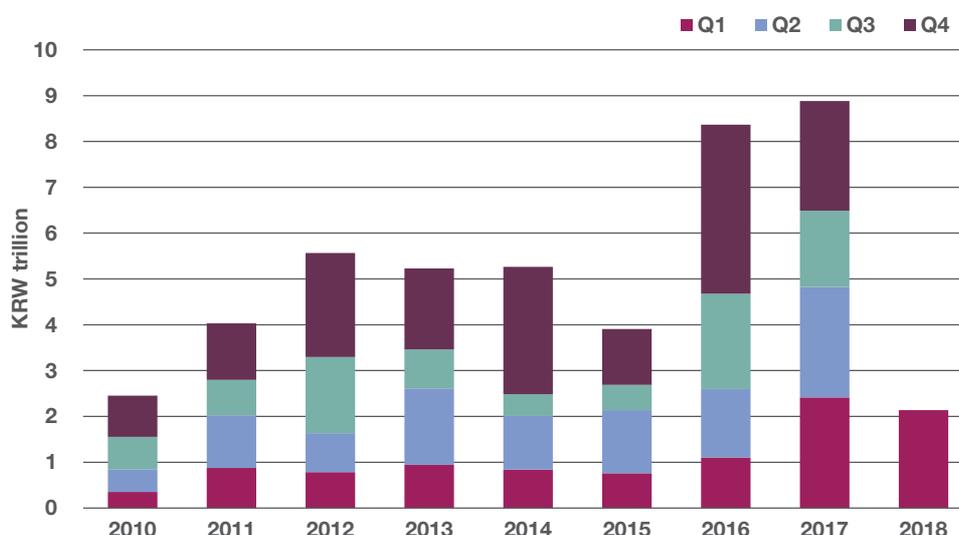
will convert the lower floors (below the fourth floor) into retail. They expect the value-add plans to significantly increase the potential capital gain.

Centropolis, Samsung C&T Seocho Building, Yeouido SK Securities Building, Gangnam N Tower, Summit Tower, Ace Tower and Yeouido Hyundai Capital Building 1 are currently on the market or under negotiations. Total volume in the sector for 2018 is expected to be similar to or higher than that of 2017.

The average prime office cap rate stood at 4.7% in Q1/2018; calculated using marketing rent and 90% occupancy. However, considering leasing concessions (such as rent-free and tenant-improvement incentives) and actual occupancy rates, the effective cap rate is in the low-to-mid 4% range. At the end of March, the five-year Treasury yield increased to 2.4%, meaning a prime office cap rate spread of approximately 230 bps. Typical LTV rates in Korea remain at approximately 55%.

GRAPH 13

Office transaction volumes, 2010 – Q1/2018



Source: Savills Korea

TABLE 16

Major investment transactions, Q1/2018

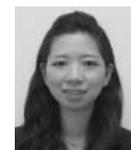
Property	Location	Price	Buyer	Usage
The K-Twin Towers	CBD	KRW713.2 bil/US\$665.1 mil	Samsung SRA AMC	Office
KB Kookmin Bank HQ Myeongdong	CBD	KRW241.2 bil/US\$224.9 mil	Mastern AMC (Angelo Gordon)	
Pacific Tower	CBD	KRW441 bil/US\$411.2 mil	Pebblestone AMC (National Housing and Urban Fund)	
Hana Card	CBD	KRW73.1 bil/US\$68.2 mil	Pebblestone AMC (AEW Capital)	
East Central Tower	Gangdon	KRW340 bil/US\$317.1 mil	Millinium Inmark AMC (Mirae Asset Daewoo)	
Gyojeong Building	Hongdae	KRW43 bil/US\$40.1 mil	Mastern AMC (Mercer Investment)	

Source: Savills Research & Consultancy

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The commercial property market remained subdued, marking a total of NT\$9.05 billion worth of transactions in the first quarter of 2018, down by 23% compared with Q1/2017. However, the demand for industrial property, stimulated by the country's growing export market, was strong. Factory and industrial office space accounted for 82% of transactions in Q1 and will play a dominant role in the next few quarters.

In contrast to the commercial property market, Taiwan's land market was robust. Total transaction volume increased by 39.1% year-on-year (YoY) to NT\$36.7 billion, exceeding NT\$20 billion in Q1 for the first time since 2013. The active land market was a reaction to the recovery of residential transactions, which recorded an 8.4% growth in transaction units in 2017. Residential transactions in the major cities, especially Taipei and Tainan, continued to recover; sales increased by 43.6% YoY and 22.8% YoY respectively in the first two months of 2018.

Due to the recovery in the residential market, the number of construction permits grew by 16% over last year as developers launched new residential projects and overall activity in the sector increased compared to the second half of 2017. Developer confidence returned and were keen to purchase land lots that target end users in the residential mass market. As a result, several land auctions held by local governments received good results.

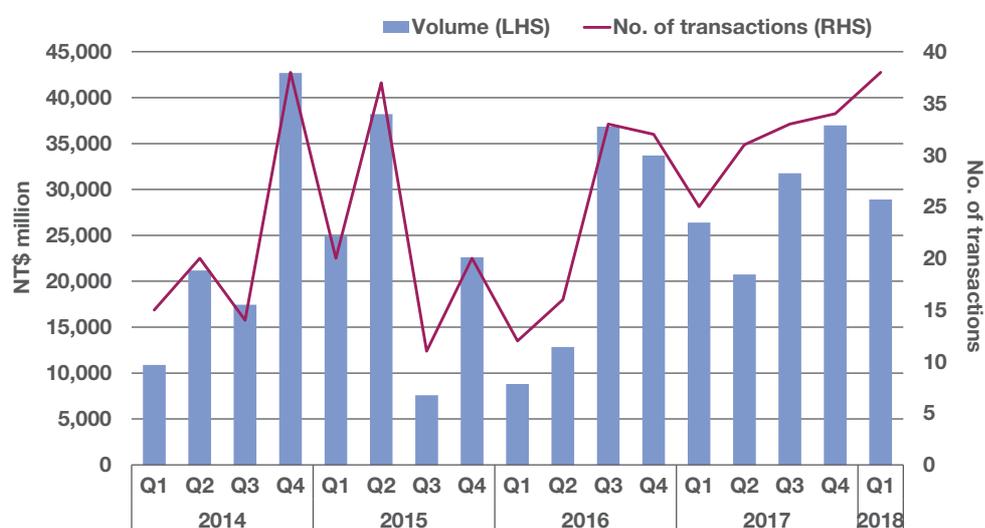
■ The New Taipei City government auctioned off 11 land lots in a land consolidation area in Xindian District for a total of NT\$7.9 billion. Chong Hong Construction acquired a residential land lot for NT\$606 million, equivalent to NT\$1.53 million per ping, the highest unit price of the auction, with a 25%

premium. Developers who proceed with residential projects will be looking at sales prices ranging from NT\$550,000 to NT\$600,000 per ping, depending on what they paid at auction for the land.

■ The Kaohsiung City government sold 11 land lots for NT\$2.85 billion at an auction in March. King's Town Construction acquired two land lots for NT\$2.05 billion, and one of their acquisitions recorded the highest unit price in the area: NT\$13.5 million per ping with a 64% premium.

■ Fubon Life Insurance bid for an 11,000-ping parcel of superficies land in Kaohsiung City for NT\$7.81 billion, recording their second largest acquisition in the superficies land sector. This tender had failed twice before, but eventually sold after the local government lowered the royalty fee by 30%. Located in a high-end residential area, the land will be developed by Fubon Life as a commercial complex.

GRAPH 14
Significant land transactions, Q1/2014 – Q1/2018



Source: Savills Research & Consultancy

TABLE 17
Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Factory in Guanyin Industrial Park	Taoyuan City	NT\$680 mil/US\$22.6 mil	Min Aik Precision Industrial Co., Ltd.	Factory
Arris Xindian Factory	New Taipei City	NT\$2.23 bil/US\$74.4 mil	Pegatron Corporation	Factory
Factory in Taoyuan Technology Park	Taoyuan City	NT\$1.57 bil/US\$52.3 mil	Career Technology Co., Ltd.	Factory

Source: Savills Research & Consultancy

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The first quarter witnessed sustained demand for prime Bangkok land plots, with developers acquiring a number of prominent sites largely earmarked for commercial schemes.

The highest-value land sale in Thai history took place in January, with a joint venture between Central Group and Hongkong Land acquiring the current UK Embassy site on Wireless Road for GBP420m (US\$584 million). This follows a trend of western embassies disposing of their central Bangkok land holdings, with both Australia and France completing sales in 2017 and 2011 respectively.

KRW Holdings purchased a cluster of land plots on Charan Sanit Wong Road from U City for THB505 million (US\$16.18 million), with Karmarts PLC acquiring an 8,500 sq m site off Charoennakorn Road for THB742 million (US\$23.77 million), over Q1. Both sites are due to be redeveloped for commercial purposes. This represents a change from early 2017 acquisition activity, which was largely driven by plans to develop high-rise residential schemes.

Increased land sales have continued against a backdrop of notable price appreciation, with the Real Estate Information Center's (REIC) vacant land price index recording annual gains of 13.2% over 2017, up from 4.6% the previous year, according to recently released figures.

Thailand's parliament approved legislation in January aimed at attracting more investment into the Eastern Economic Corridor (EEC), passing a bill providing a number of incentives for investors targeting high-tech manufacturing industries. The EEC is expected to continue to act as a catalyst for inbound investment over 2018, as a combination of legislation and infrastructure improvements bolster confidence in the project.

Philippine-listed water services provider Manila Water Company agreed terms to acquire an 18.72% stake in SET-listed Eastern Water Resources Development and Management PLC (East Water). East Water services the Thai provinces of Rayong, Chachoengsao and Chonburi, with the company's strategic location within the EEC cited as a key factor behind Manila Water's investment.

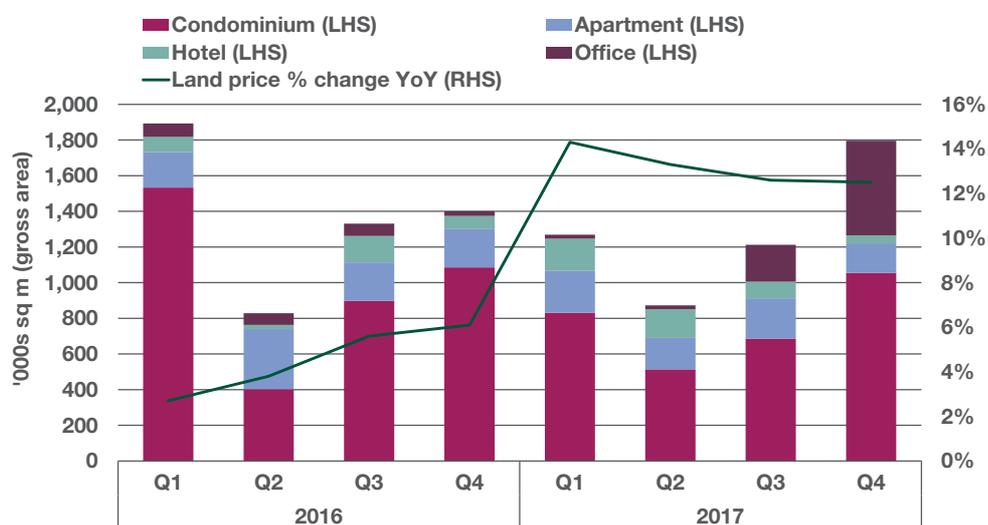
Bhiraj Office Leasehold Real Estate Investment Trust, with a total value of THB6.61 billion, launched in January

under the ticker symbol 'BOFFICE', offering 515.31 million REIT units for sale at THB10 each. Funds raised from the REIT units' sales, in addition to THB1.72 billion in long-term loans, will be invested into the leasehold rights for Grade A office building Bhiraj Tower.

Thailand's REITs, on average, performed strongly over the first quarter, with S&P's REIT Country Indices showing quarterly growth of 8.9%, outperforming the wider emerging REIT basket by 11.3ppts.

GRAPH 15

Bangkok approved construction by sector/land price change YoY, Q1/2016 – Q4/2017



Source: Real Estate Information Center, Savills Research & Consultancy

TABLE 18

Major investment transactions, Q1/2018

Property	Location	Price	Buyer	Usage
Development site – UK Embassy, Wireless Road	Bangkok	THB18.24 bil/US\$584.04 mil	Central Group/Hongkong Land	Mixed-use (commercial)
Development Site – Banglumpoo-Lang	Bangkok	THB742 mil/US\$23.77 mil	Karmarts Public Company Limited	Commercial
Development Site – Charan Sanit Wong Road	Bangkok	THB505 mil/US\$16.18 mil	RW Holdings Company Limited	Mixed-use (commercial)

Source: Company announcements, Savills Research & Consultancy

Vietnam

Vietnam's economy posted its strongest first-quarter growth in ten years, expanding 7.38% year-on-year (YoY) in the first quarter of 2018 and extending the strong momentum shown in the second half of 2017. The country continues to draw investment interest, and Ho Chi Minh City stands out on investors' lists, securing top positions for investment and development prospects in Asia Pacific. Market sentiment remains positive across all sectors of the economy.

The city's office market continued to record healthy demand and high occupancy in the first quarter of 2018. There were, however, very few investment transactions in this sector due to the shortage of available properties for sale. A notable transaction was the January acquisition by Nomura Real Estate of a 24% ownership interest in Sun Wah Tower, a Grade A office building in Ho Chi Minh City.

Investors were also seeking to acquire development sites and properties in the country's hospitality sector, amid increasing consumer demand and surging international arrivals to Vietnam. In January, Japan's Mikazuki Hotel Group announced plans to invest US\$100 million in a project in Da Nang city. Covering an area of nearly 11.5 hectares, the development aims to accommodate a five-star hotel, waterpark, theme park and F&B complex fronting the beach in Da Nang. Also in the first quarter, a Vietnam-based investment company, Bamboo Capital, acquired the Malibu resort project for approximately US\$14.8 million from Indochina Hoi An Beach Villas Co., Ltd.

The property market remained an attractive prospect for developers interested in mixed-use projects

with residential components in major cities. In March, CapitaLand acquired an approximately 0.9 hectare site in a prime location within Hanoi's Tay Ho District. The project will comprise a 380-unit residence, around 21,400 sq m of office space, and over 19,300 sq m of retail space. This latest acquisition will expand CapitaLand's portfolio to 12 residential developments, one integrated development and 21 serviced residences, across six cities in Vietnam. Another

Singaporean developer, Keppel Land, acquired the remaining 10% stake in Jency Limited, which has plans to build a township – Saigon Sports City – for approximately US\$11.4 million. Covering an area of 64 hectares, the township will comprise about 4,300 premium homes and Vietnam's first one-stop lifestyle hub with comprehensive facilities for sports, entertainment, shopping and dining.

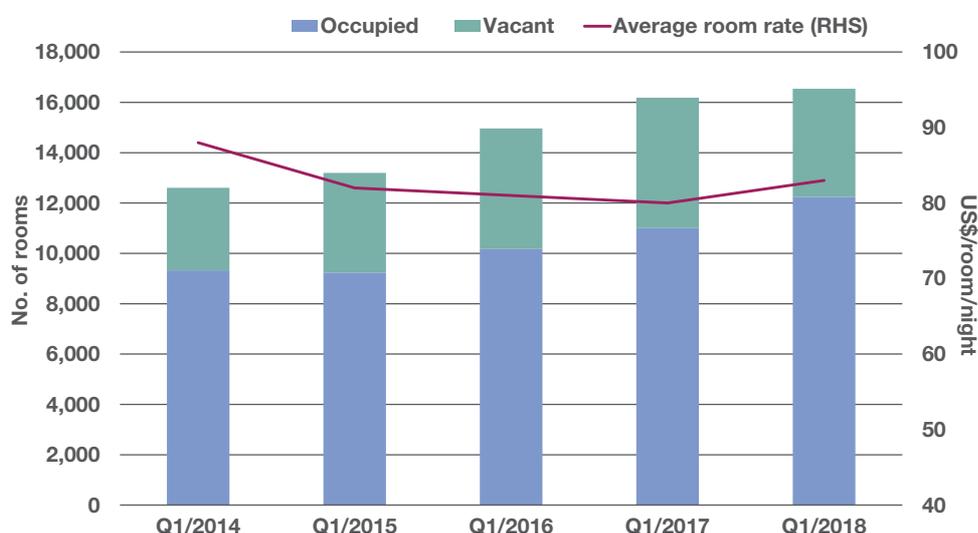


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GRAPH 16 **Ho Chi Minh City hotel market performance, Q1/2014 – Q1/2018**



Source: Savills Research & Consultancy

TABLE 19 **Major investment transactions, Q1/2018**

Property	Location	Price	Buyer	Usage
Sun Wah Tower (24% stake)	District 1, Ho Chi Minh City	N/A	Nomura Real Estate Asia	Office
Tay Ho District Landplot (99.49% stake)	Tay Ho District, Hanoi	VND688 bil/US\$30.2 mil	CapitaLand	Mixed-use development
Saigon Sports City (10% stake)	District 2, Ho Chi Minh City	VND260 bil/US\$11.4 mil	Keppel Land	Township development
Malibu Resort	Dien Ban District, Quang Nam Province	VND337 bil/US\$14.8 mil	Bamboo Capital	Resort development

Source: Savills Research & Consultancy

Australia



◀ **637 Flinder Street**
Docklands, VIC
AU\$122M/US\$92M
in January

187 Thomas Street ▼
Haymarket, NSW
AU\$145.8M/US\$110M
in April



52 Goulburn Street (50%) ▲
Sydney, NSW
AU\$176M/US\$132.8M
in March



◀ **1 York Street**
Sydney, NSW
AU\$205M/US\$154.6M
in January

699 Bourke Street ▶
Docklands, VIC
AU\$102M/US\$77M
in April



◀ **Soul Pattinson Chemist**
Sydney CBD, NSW
AU\$100M/US\$77.31M
in March

Beijing



◀ **Ai Lihua premise & New York premise**
Haidian
RMB1.55B/US\$246.82M
in Q1



◀ **Aoya Hotel**
Chaoyang
RMB440M/US\$70.06M
in Q1

Tower 1, Chenyuan Building ▶
Haidian
RMB269M/US\$42.83M
in Q1



Tower A, Yaolai Center (B1-4F) ▶
Chaoyang
RMB652M/US\$102.3M
in Q1



◀ **Ibis Beijing Sanyuan & Novotel Beijing Sanyuan**
Chaoyang
RMB1.18B/US\$187.9M
in Q1

No. 4 Building, No. 9 Yard Dongzhimennei Avenue ▶
Dongcheng
RMB280M/US\$44.0M
in Q1



Shenzhen/Shanghai



◀ **International Chamber Center**
Futian, Shenzhen
RMB280M/US\$44M
in March

Shanghai International Plaza ▶
Hongkou, Shanghai
RMB2.42B/US\$383M
in Q1



Amanda Plaza ▶
Putuo, Shanghai
RMB595M/US\$94M
in Q1



◀ **City of Elite (L6 & L8)**
Pudong, Shanghai
RMB512M/US\$81M
in Q1

Hong Kong/Macau



◀ **W Square**
Wanchai, Hong Kong
HK\$2.845B/US\$364M
in January



▲ **3-6 Glenealy**
Central, Hong Kong
HK\$2.002B/US\$256M
in January



▲ **Everest Building**
Jordan, Hong Kong
HK\$2.45B/US\$312M
in March



▲ **C-Bons International Center**
(18/F-21/F & 23/F-28/F)
Kowloon Bay, Hong Kong
HK\$2.089B/US\$269M
in January



▲ **Provident Arcade**
North Point, Hong Kong
HK\$2.0B/US\$256M
in January



◀ **Senado Square**
Macau
HK\$8.0B/US\$1.03B
in March

Ventris Court (80% share) ▶
Happy Valley, Hong Kong
HK\$2.0B/US\$255M
in March



Japan



◀ **Front Place Nihonbashi**
Chuo, Tokyo
JPY17.6B/US\$150M
in January

Shinnisseki Building ▶
Chiyoda, Tokyo
JPY50B/US\$460M
in March



**Nishi-Shinjuku
Kimuraya Building** ▶
Shinjuku, Tokyo
JPY35B/US\$320M
in March



◀ **Shiba Park Building**
Minato, Tokyo
JPY150B/US\$1.4B
in March

Malaysia



◀ **Wisma Mont Kiara**
Kuala Lumpur
RM122M/US\$31M
in February

Singapore

▼ **Pacific Mansions**
8, 16, 24 & 32 River Valley Close
S\$980M/US\$738M
in March



◀ **Pearl Bank Apartment**
1 Pearl Bank
S\$728M/US\$548M
in February

Park West ▶
2-20 Jalan Lempeng
S\$840.9M/US\$633M
in January



South Korea

▼ **East Central Tower**
Gangdong
KRW340.0B/US\$317.1M
in February



▶ **The K-Twin Towers**
Seoul CBD
KRW713.2B/US\$665.1M
in February



▲ **KB Kookmin Bank HQ**
Myeongdong
Seoul CBD
KRW241.2B/US\$224.9M
in February



◀ **Pacific Tower**
Seoul CBD
KRW441.0B/US\$411.2M
in March



◀ **Hana Card HQ Dadong**
Seoul CBD
KRW73.1B/US\$68.2M
in March

Taiwan



◀ **Factory in Taoyuan Technology Park**
Taoyuan City
NT\$1.57B/US\$52M
in March

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