PROPERTY MARKET OUTLOOK FOR KEY ASIAN CITIES

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Knight Frank 萊坊

Content

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Summary

- **Office**

  The office leasing demand in key Asian cities such as Hong Kong and Seoul are expected to be dampened by the uncertain global economic outlook. However, prime office buildings in Shanghai continued to receive strong take-up, while the limited supply and low vacancy rate in Beijing's prime offices will continue to support office rentals.

- **Residential**

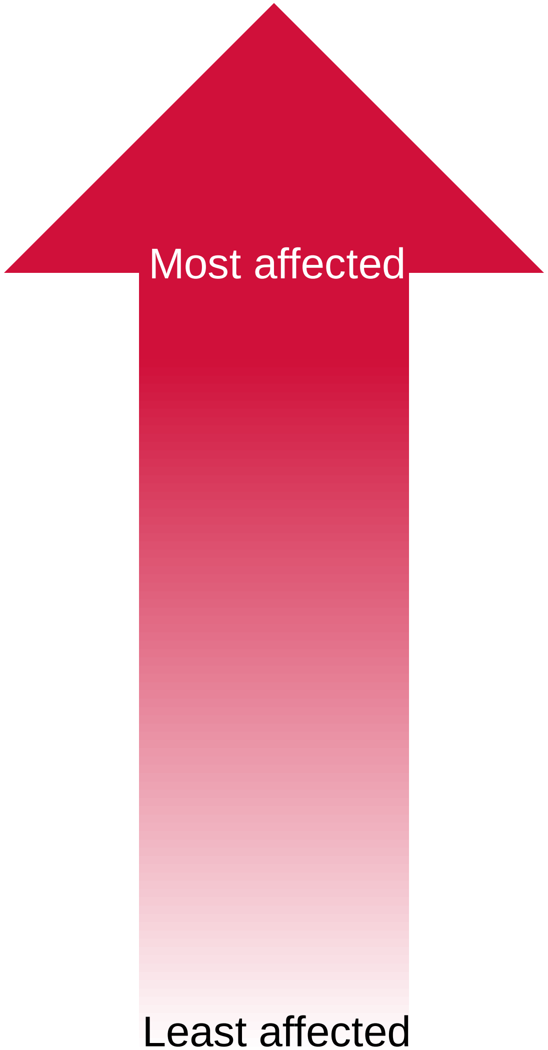
  Luxury residential leasing markets in most key cities, such as Beijing, Hong Kong and Tokyo are expected to be hit by shrinking demand from expatriates due to corporate cost-cutting and downsize, while the growth are likely to sustain in Jakarta at slower pace. The weakening demand and purchasing power from domestic and foreign investors are likely to post downward pressure on luxury residential sales in most key cities.

- **Retail**

  Supported by strong domestic and tourist spending, as well as expansions of international retailers in the region, the outlook for retail leasing sector is positive in most key cities such as Beijing, Hong Kong, Seoul and Singapore.

Beijing

Possible impact of global recession on Beijing property market



	Possible Impact
Luxury residential leasing	Leasing demand will drop as MNCs cut their accommodation budget, but the impact is forecasted to be limited given the tight supply situation
Office leasing	MNCs and financing institutions may slow their corporate expansion but due to limited supply and low vacancy rate, the office rental will continue to rise
Mass residential sales	Impact of global recession on the residential market is limited. But the mass residential sector is likely to remain weak mainly due to Beijing's home purchasing restriction and continuous effort to bring housing prices to reasonable levels.
Luxury residential sales	In the secondary market, landlords of luxury apartment in downtown area have started lowering their asking price. But in the primary market, the prices continue to remain firm and is forecast to see limited price contraction in 2012.
Decentralised office leasing	Decentralised leasing demand will remain stable thanks to demand from SMEs and as tenants relocate from expensive commercial center area
Retail leasing	Impact on retail sales and retail leasing would be moderate as government may launch incentives to promote domestic retail consumption

Beijing property market outlook

Office

- Although in face of global crisis and China’s uncertain downtrend, China's economy in 2012 will continue to be the world's fastest growing major economy. Leasing demand for office space in Beijing is forecast to remain relatively stable this year.
- Given the low vacancy and limited upcoming supply in the Beijing prime office market, rental level is set to remain uptrend in 2012, and estimated rental growth may amount to approx. 10% - 25%.

Residential

- Beijing will continue its home purchasing restriction in 2012 to bring housing prices to reasonable levels. Mass home prices are likely to drop 10–15% this year, while luxury residential prices are expected to see relatively smaller price decreases.
- Buoyant luxury residential leasing demand had dragged the vacancy rate to 10 year historical low in Beijing. As the coming luxury residential supply in downtown area is limited, rental level is forecast to steadily rise in 2012.

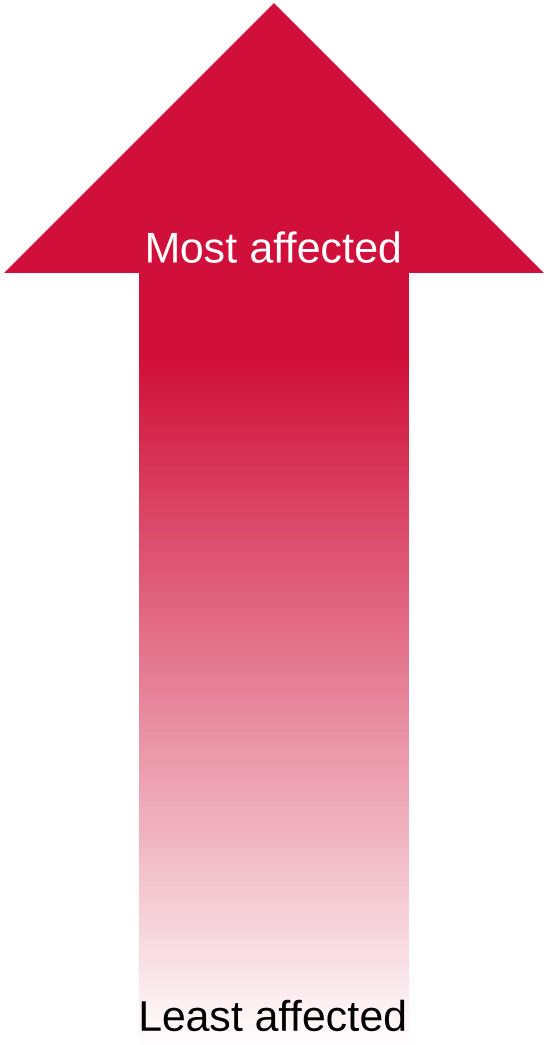
Beijing property market outlook

Retail

- Beijing's vibrant retail sales attract more international and domestic retailers to expand their business in China's capital. Several retail developments delayed their launch in 2011, over 10 prime retail developments are expected to open in 2012, most of which are situated in non-traditional trading areas.
- The strong leasing demand and high occupancy level in Beijing is likely to underpin the market despite the supply pressure in 2012. Rental levels will continue to rise this year, especially in the downtown area.

Shanghai

Possible impact of global recession on the property market



	Possible Impact
Luxury residential sales	Prices have flattened and even begun to fall in some areas due to the restrictions on home purchases and the impact of existing loans.
Mass residential sales	Sluggish sales and high inventory levels further increases funding pressure on developers and forces them to cut prices in order to stimulate sales.
Luxury residential leasing	Demand from banking sector and home furnishing sector is shrinking amid the threat of global recession and gloomy local residential sales market.
Decentralized office leasing	Accessible by an extensive and growing metro system, non-core areas will see more high-profile tenants and increasing transactions.
Retail leasing	Prime retail rents will soar as global retailers continue to expand in Shanghai.
Office leasing	Newly completed buildings and pre-leasing buildings have shown strong occupancy and commitment rates.

Shanghai property market outlook

Office

- Grade-A office sales prices to increase by 8% and rents by 15% in the coming 12 months. With several Grade-A office buildings scheduled for completion by the end of 2012, the average vacancy rate will increase slightly to approximately 7% in the next 12 months.
- The Great Hongqiao Business Area, the Post-EXPO area and the Disney Theme Park area will be the key areas for development in the next five years, bringing more than 1.2 million sq m of new office space to the market.

Residential

- Rents are set to remain stable and even increase in the coming years as more foreign companies enter Shanghai.
- Continued credit tightening policies will induce a shortage of liquidity in the market, forcing developers to offer discounts in order to ease the tight financial situation. The average sale price in the Shanghai new home market is predicted to experience mild corrections in the next six months.

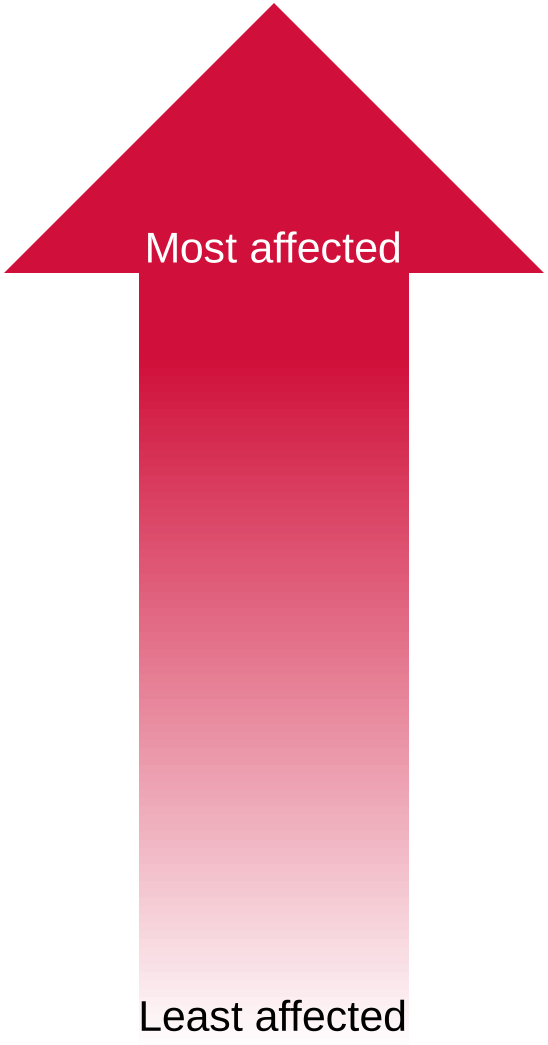
Shanghai property market outlook

Retail

- Prime retail rents will continue their upward trend with a year on year growth rate of 12%-15% in 2012.
- Supported by investors' strong interest in commercial real estate, retail prices are set to stay firm. Retail property will be the focus of large institutional buyers, as such, the retail market will see an increase in large-scale transactions.

Hong Kong

Possible impact of global recession on the property market



	Possible Impact
Office leasing	Leasing demand hit by halted corporate expansion, downsizing and fewer new business entries
Luxury residential leasing	Leasing demand hit by shrinking demand from expatriates due to corporate cost-cutting and downsize
Mass residential sales	Buyers' and investors' confidence hit by unstable employment market and gloomy market sentiment
Luxury residential sales	Demand and buying power from cash-rich Mainland investors, as well as tight supply condition are likely to be sustained
Decentralized office leasing	Kowloon East office demand to remain strong as some occupiers flee expensive HK Island offices
Retail leasing	Mainland visitor arrivals as well as their spending is likely to remain strong

Hong Kong property market outlook

Office

- With the economy in Hong Kong likely to slow in 2012, office demand is expected to remain weak amid slow business expansion and limited new office set-ups.
- The current downtrend in Grade-A office rents will continue. Rental levels in Central may drop around 10–15%, although those in non-core areas are more likely to remain firm in 2012.

Residential

- Mass home prices are likely to drop 10–15% in 2012 with the Special Stamp Duty expected to continue in the near term.
- However, as future supply is limited, luxury residential properties are likely to be more resilient, with prices expected to decline up to 10% in 2012.

Hong Kong property market outlook

Retail

- Retail will outperform other property sectors in 2012. With private consumption remaining strong demonstrated by robust Christmas and New Year sales, global retailers are set to continue expanding into major shopping centres in core and non-core areas.
- Retail rents in Hong Kong are expected to continue with their uptrend in 2012, albeit at a slower pace amid a worsening global economy.

Kuala Lumpur

Possible impact of global recession on the property market

	Possible Impact
Office leasing	Leasing demand may be impacted by limited corporate expansion and the high level of incoming supply – KL City: 2.83 million sq ft.
Luxury residential sales	Tighter monetary policies e.g. mortgage loans may impact on demand levels and ultimately place downward pressure on prices and rentals.
Luxury residential leasing	Will continue to face downward pressure on prices and rentals. A weak leasing market emanates from low occupational demand from both locals and expatriates.
Decentralized office leasing	Whilst decentralised locations are increasing in popularity due to lower costs and easier accessibility, demand may be impacted by reduced corporate expansion and a potential oversupply situation in 2012 – KL City Fringe incoming office space: 4.20 million sq ft.
Retail leasing	Optimistic outlook for sales performance and tourist spending levels. Neighbourhood malls are popular concepts currently but caution should remain for potential oversupply in the future.

Kuala Lumpur property market outlook

Office

- The office sector is expected to remain relatively stable in the short term and continue to be tenant-favoured. Competition for tenants will intensify as landlords look to offer larger incentives and seek Green Building Index (GBI) certification.
- Rental levels are expected to remain flat or trend marginally downwards due to the total level of incoming supply for KL City and KL City Fringe in 2012 (over 7 million sq ft). Government initiated projects such as InvestKL's ambitious target to attract 100 MNC's coupled with the Kuala Lumpur High Speed Rail (HSR) project may cushion the impact of incoming supply to some degree and translate to improved absorption rates.

High End Condominium

- Developers will continue to offer innovative residential products synonymous with lifestyle living that appeal to today's purchasers. The current trend also points towards small to medium-sized units.
- Guidelines issued by Bank Negara (effective 1/1/12) will further tighten financial lending and inevitably have a negative impact on this sector. Prices and rentals will continue to face downward pressures emanating from low occupational demand from both locals and expatriates.

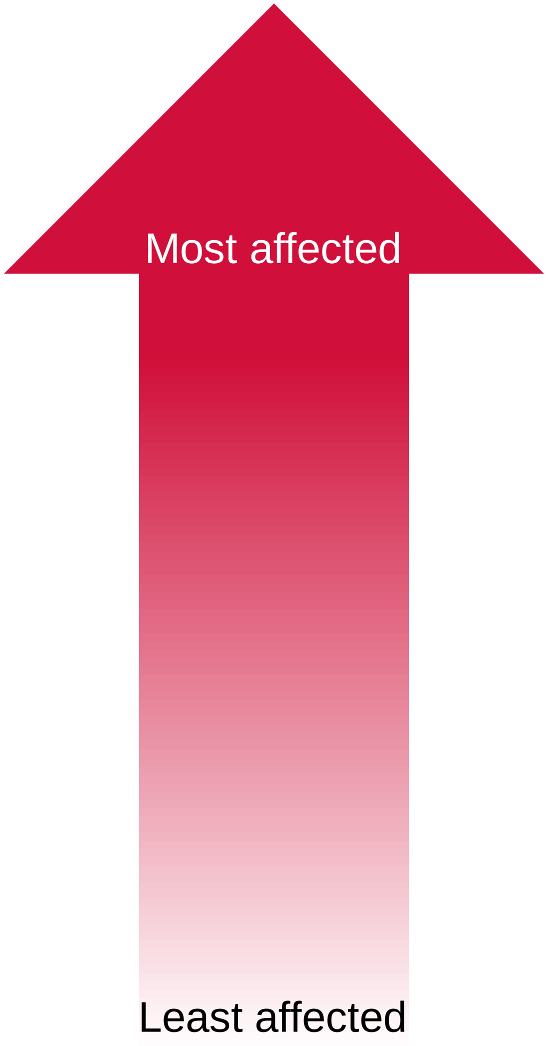
Kuala Lumpur property market outlook

Retail

- The Klang Valley retail market looks set to continue its steady performance as members of MRA (Malaysia Retailers Association) remain optimistic about sales performance growth rates for the end of 2011 and into 2012.
- To remain competitive and increase visitor numbers, mall owners will look to apply proactive management and asset-enhancement initiatives to provide a varied retail mix and quality amenities.
- In general, retail rents are expected to remain stable while selected prime centres may see marginal growth with new international retailers entering the market or taking flagship units. However, the level of incoming supply may impact on overall occupancy levels as 3 new malls expect to be operational during the 1H2012 - totalling some 1.7 million sq ft.

Seoul

Possible impact of global recession on the property market



	Possible Impact
Office leasing	Leasing demand hit by halted corporate expansion, downsizing and fewer new business entries.
Luxury residential sales	Demand and buying power from cash-rich will be shrinking rapidly because many rich prefer small and medium sized commercial building than luxury residential and thus supply shall shrink this year.
Decentralized office leasing	New office complex, Pangyo Venture valley shows high vacancy rate failing to secure new tenants. However, there will be some exodus tenants flee from expensive Seoul CBD and GBD area
Luxury residential leasing	Leasing demand hit by shrinking demand from expatriates due to corporate cost-cutting and downsize
Mass residential sales	Buyers' and investors' confidence hit by unstable employment market and gloomy market sentiment. They also seem to think that residential values have not hit the bottom.
Retail leasing	Big MNC retailer like Zara, Uniqlo and Hallyu-related retailors (cosmetic, clothes) will expand continuously. Japan and China visitor arrivals as well as their spending is likely to remain strong. Overall, retail rent will continuously go up.

Seoul property market outlook

Office

- With the economy in Seoul likely to slow in 2012, office demand is expected to remain weak amid slow business expansion and limited new office set-ups.
- The current downtrend in Grade-A office rents will continue. Rental levels in CBD may drop around 5–10%, and non-core areas also will show landlord weakened-market with 3–5% rate discount.

Residential

- Mass home prices are likely to drop 3–7% in 2012. Seller will continue to try and sell their stocks at discounted price.
- Due to unpredictable economic situation and recession of residential property market, Residents seem to prefer leasehold than purchase.
- Citizens seem to think that there is no more capital gain from residential investment.

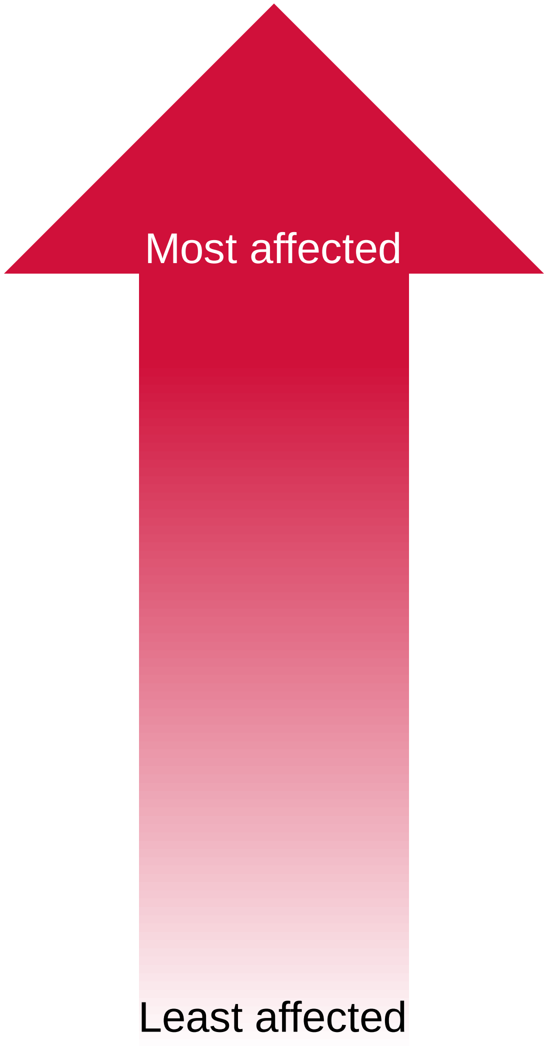
Seoul property market outlook

Retail

- Seoul Retail will outperform other property sectors in 2012. With private consumption remaining strong, demonstrated by robust Christmas and New Year sales, global retailers are set to continue expanding into major shopping centres in core and non-core areas.
- Hallyu (Korean Way) related retail market (cosmetic, clothes, movie, performance, character industry) will be new take-up demands in Korea.
- Retail rents in Seoul are expected to continue with their uptrend during 2012, albeit at a slower pace amid a worsening global economy.


Tokyo

Possible impact of global recession on the property market



	Possible Impact
Luxury residential leasing	Leasing demand hit by shrinking demand from expatriates due to corporate cost-cutting and downsizing
Retail leasing	Leasing demand for retail space may weaken but comparatively less than other sectors as demand for quality space should continue
Luxury residential sales	Demand and purchasing power from domestic and foreign investors are likely to continue to weaken further
Office leasing	Leasing demand hit by halted office consolidations/trade-ups, downsizing and fewer new business entries
Mass residential sales	Buyers' and investors' confidence hit by weaker employment market and continued stagnant market sentiment
Decentralized office leasing	Leasing demand to weaken but relatively stable as some occupiers seek lower cost areas

Tokyo property market outlook

Office

- High supply levels in 2012 being added to an already high vacancy market shall likely prevent a significant absorption of space.
- The current soft but stable trend in Grade-A office rents is likely to continue as competitive rents at new high quality supply in core and non-core areas attract tenants in particular at older buildings continue to trade up.

Residential

- Mass home prices in Tokyo are likely to remain stable in 2012 in light of continued net increases in number of households and supply additions and housing starts continues to remain below the 10 year moving average.
- Luxury residential properties are likely to be flat to stable in 2012 after being hit hard from the 3/11 disasters. Older stock continues to be taken offline and/or converted to condominiums which should bring down the high vacancy rate.

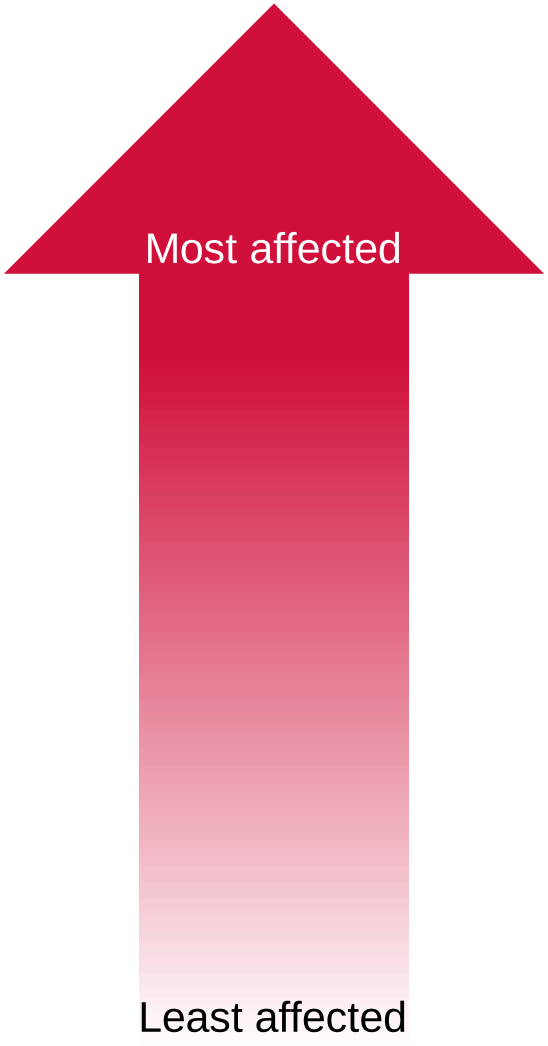
Tokyo property market outlook

Retail

- Retail should remain weak in 2012 due to forecasted consumer demand remaining soft, stagnant household income, an increasing senior population and decreasing worker population.
- High traffic/desirable core areas in Tokyo shall continue a stable recovery as the shift from luxury only retailers to reasonably priced casual fashion retailers continues. Non-core areas shall fare less well reflecting the shift in retailer strategies and overall weak consumption.

Sydney

Possible impact of global recession on the property market - Sydney



	Possible Impact
Office leasing	Tenants to focus on lease renewals with a delay in anticipated effective rental growth stemming from lack of new supply.
Luxury residential leasing	Impacted by lower number of overseas professional workers
Mass residential sales	Lower confidence from buyers likely to impact sales volumes, however values to remain relatively resilient given market under supply
Luxury residential sales	Lower wealth levels, particularly for high net worth retirees, would constrain demand. Tighter lending LVRs by banks.
Decentralized office leasing	Less impacted given large proportion of government tenants
Retail leasing	Demand non-discretionary, food based centres to remain relatively firm, although discretionary retail likely to underperform

Sydney property market outlook

Office

- Prime incentives have started to reduce, however face rental growth has been limited to predominantly high grade assets thus far. Low levels of new supply over the next two years will support a declining vacancy rate and effective rental growth.
- Prime core market yields average between 6.25% and 7.50%, with larger, passive assets likely to trade towards the lower end of this range. Recent benchmark sales have occurred, implying a degree of yield tightening. There remains some potential for investment market yields to run ahead of fundamentals and continue to firm on the back of strong off-shore demand, however further transactions at these levels will be needed before a re-rating is substantiated.

Residential

- 2011 values drifted slightly lower by between 3% and 5%. 2012 has the potential to see some further moderation with auction clearance rates remaining soft and a generally cautious attitude amongst households.
- Nevertheless, the market is expected to hold up relatively well given improving affordability via lower mortgage rates, an increasing supply deficit of new housing, well capitalised banks continuing to lend and a robust economic outlook.

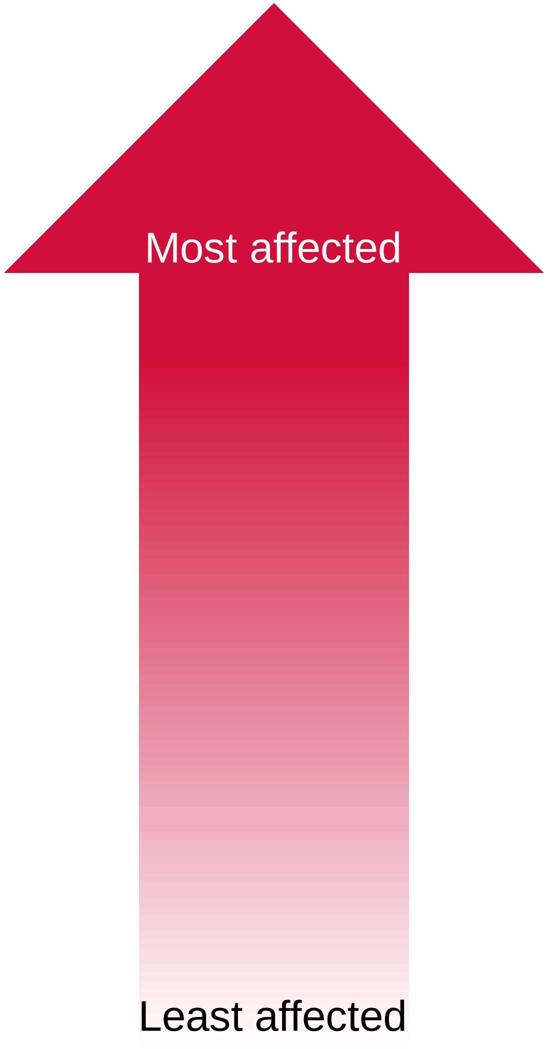
Sydney property market outlook

Retail

- Despite the challenging conditions for retail sales, the underlying retail property market has been holding up relatively well. While rental growth has moderated, it has remained positive. However over the next year soft turnover growth coupled with occupancy costs at cyclical highs may limit the ability of some tenants to meet further rises.
- Demand for retail space within non-discretionary, food based centres has remained relatively firm. Investment activity has generally been concentrated in the Neighbourhood category with private investors acquiring a number of sub $25m assets. Prime yields have stabilised across the categories however there is limited capacity for any firming over the coming 12 months.

Singapore

Possible impact of global recession on the property market



	Possible Impact
Office leasing	A significant economic slow down is likely to curb any business expansions and may even lead to reduction of business space. With a back drop of about 10 million sq ft of office space in the next four years, there may be correction of office rents by about 15% year-on-year.
Luxury residential sales	Buyers' profile for prime properties comprises more foreigners. Recent government cooling measures (additional buyer's stamp duties – ABSD) that targets at foreign investment is likely to curb buying demand . The bleak outlook of a global recession has already dampened investment sentiments and affect the capital inflows from these buyers. Quiet luxury market with decreasing sales volume is expected due to uncertain investment climate
Mass residential sales	Despite support from genuine buyers, global recession is likely to set a more cautious mood for these buyers. With more supply rolled out by the government in 2012, prices and volume in this market is likely to be muted. Developers may also respond by spacing out new launches, providing more rebates and moderating the prices of the new launches.
Luxury residential leasing	Possible increase in leasing demand as the additional 10% buyer's stamp duty makes home purchase less attractive to foreigners and inadvertently drive them towards leasing market. However, the increase in luxury segment is offset by the shrinking home allowances for expatriates.
Retail leasing	Retail sector may be the least affected as retail sales are generally bolstered by resident catchment in the suburban regions and Asian tourists who may trade the costly long-haul Americas and Europe for shorter ones in Singapore

Singapore property market outlook

Office

- The Singapore economy is expected to slowdown to 1-3% growth in 2012 arising from concern over the on-going European debt crisis and still fragile US economy, headline office rents could contract up to 15% by end 2012.

Residential

- We expect overall property prices to fall by 5 to 10% on yearly basis with muted activities in the high-end segment. Mass market homes will remain the key support in terms of sale volume in 2012.
- If the economic performance next year softens significantly, we can expect rentals to follow in tandem although the percentage drop may not be as high as prices. Rentals under a pessimistic scenario will fall by some 3 to 5 % for the next year. If the economic performance next year is within expectations (1% to 3%), we can expect rents to improve up to 3% for year 2012.

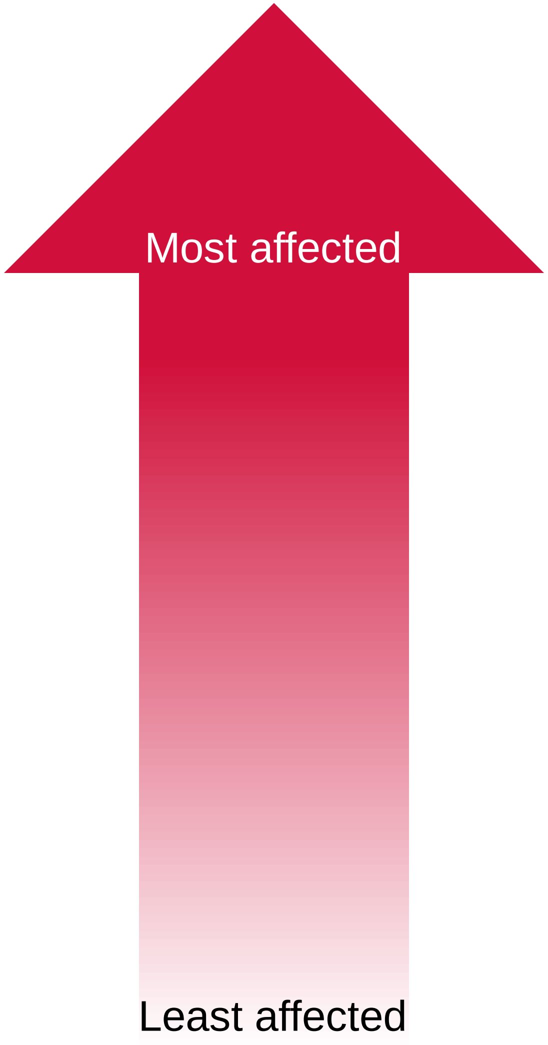
Singapore property market outlook

Retail

- Though retailers are generally more cautious in any business expansion, retail rents is likely to remain stable despite a worsening global economy.
- In general, retail sector is expected to be supported by bolstering retail sales from the continued booming tourism industry and local residential catchment.


Jakarta

Possible impact of global recession on the property market



	Possible Impact
Office leasing	New office demand may not be as strong as the 2011 demand level, due to the anticipated global economic crisis. However, since in-the-pipeline- supply that is projected to complete in 2012 has already reached over 50% pre-commitment rate, the impact of a more modest demand level is expected not to be substantial. Rental growth rate is expected within 5-10% this year.
Luxury residential sales	In line with rising office demand from multinational firms, leasing activity will remain healthy with a modest increase in rental rates due to increase in demand and potential increase of electricity. Further, local demand due to companies and government meetings in the City will also complement the rising trend. Short-term leases (Daily/Weekly) remain favorable.
Mass residential sales	Amplified by lower mortgage rates and stable employment market as well as rising middle income segment, the market sentiment remains positive, particularly for the middle segment of landed houses and condominiums.
Luxury residential leasing	Demand and buying power from cash-rich local investors, as well as tight supply condition (limited available land and willing sellers) are likely to sustain the strong growth at slower paces.
Decentralized office leasing	The decentralization of office leasing demand will continue to occur along the southern part of Jakarta Outer Ring-road (Jalan TB. Simatupang). As office buildings along Jalan TB Simatupang continue to receive favorable inquiries from multi-national companies, landlords continue to develop new projects around the area.
Retail leasing	Supported by strong domestic spending and rising middle income, retail activity will likely to remain relatively strong throughout 2012.

Jakarta property market outlook

<u>Office</u>

- The occupancy level reached 93.19% by end of 2011 for existing office buildings
- New office demand may be adversely affected by the global economic crisis. However, since in-the-pipeline supply that is scheduled to complete by 2012 has already reached over 50% pre-commitment rate, this adverse impact of modest level of new demand is not going to decrease overall occupancy by end of 2012. We expect a rental growth rate of 5-10% in 2012.
- Strata-title office supply is limited, leading to price increase of at least 10%.
- Service charge is likely to increase due to increase in utility costs as a result of the implementation of government's plan to restrict fuel subsidy by April 2012.

Jakarta property market outlook

Residential

- Mass home prices are likely to increase by 10–15% in 2012 spurred by lower mortgage rates.
- Despite the land and secondary market supply are limited, luxury residential properties are likely to be more stable, with average prices expected to grow 5-10% in 2012, compared to already more than 20% increase last year.
- Luxury condominium prices will be at stable performances. Existing supply will be limited with only a few of available luxury projects coming online in the pipeline for the next two years.
- Demand for luxury will stay strong subject to global economic conditions.

Jakarta property market outlook

Retail

- Retail will perform quite steadily in 2012. With strong domestic consumption and middle income segment, foreign and domestic retailers continue actively to expand and open new outlets to further strengthen market shares.
- Pre-commitment rates in new shopping malls remain high filled mainly by hypermarket, entertainment and F&B retailers.
- F&B remains the driving force for retail shopping malls.
- Due to moratorium of permits for new malls, future retail spaces will likely be limited.
- Occupancy is expected to decline slightly and rental rates to remain stable due to a handful of new leased malls entering the market in 2012.
- Service charges will be expected to rise due to the increase in electricity tariffs in April 2012.

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