RESIDENTIAL RESEARCH

Knight Frank

ASIA-PACIFIC RESIDENTIAL REVIEW

JUNE 2015

POLICY AS A DRIVER OF HOUSING MARKETS

10 THINGS THAT WILL INFLUENCE ASIA-PACIFIC RESIDENTIAL MARKETS

REGIONAL RESIDENTIAL MARKET HOTSPOT

POLICY MAKERS BOTH INSIDE AND OUTSIDE THE REGION LIKELY TO HAVE A SIGNIFICANT IMPACT ON ASIA-PACIFIC HOUSING MARKETS

KEY FINDINGS

Knight Frank considers 10 things that will influence residential markets in the region and which countries will be most affected
(see pages 3-4)

Monetary policy, tax, regulations and underlying fundamental drivers such as demographics and urbanisation will have a significant impact on markets

In our regional residential snapshot, China is expected to further liberalise outbound investment, Hong Kong sees the strongest price growth in the region, Australian state capitals see multiple tiers of performance and Indonesia sees more fiscal and regulatory interventions
(see page 5)

6 of the 11 mainstream residential markets in Asia-Pacific saw house prices increase in Q1 2015 as reported in Knight Frank's *Global House Price Index*

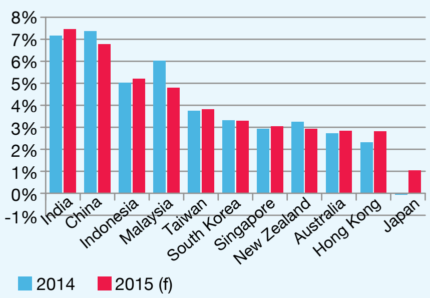
NICHOLAS HOLT
Asia Pacific Head of Research

"Perhaps now more than ever, property market observers are looking to policy makers for clues about how markets will perform."

As we approach the half way point of 2015, a quick survey of markets across Asia-Pacific presents quite a diverse picture. The region's economies are moving at multiple speeds with differing drivers and local dynamics, producing quite a wide range of housing market performance indicators. So what should a market observer be looking out for in terms of future performance?

Economic growth can certainly be a reasonable lead indicator as to which way housing markets will go. Despite facing many headwinds, the IMF is forecasting stronger growth in 2015 for six out of the 11 major countries we track. While this should be a positive sign for home owners or investors, the reality is that in many cases there has been a divergence between short-term economic growth and market performance.

FIGURE 1
Real GDP Growth



Source: IMF, Knight Frank Research

To look a little deeper, in this edition of the *Asia-Pacific Residential Review*, we consider 10 things that will influence markets across the region over the next 12 months and beyond. Although local and micro considerations are essential for any real estate analysis, our list focuses on the macro. Sentiment, fundamentals such as urbanisation and other key macro-economic indicators are all considered.

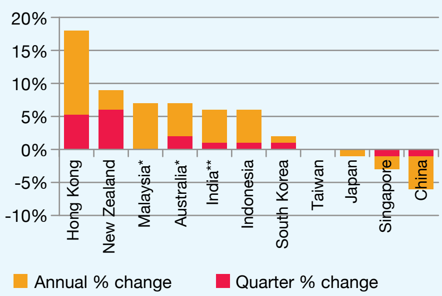
One of the main observations of residential markets around the world over the last five to six years has been the increasing influence of policy interventions in residential markets, whether fiscal, monetary or regulatory. This is especially apparent in policy driven markets such as China, but also in more laissez-faire markets such as New Zealand, where we have seen authorities step in over recent years. Out of our list of 10 things that will influence markets, at least six are either directly or indirectly policy driven.

One of the most interesting is perhaps what is happening to interest rates around the world. While the juxtaposition of US monetary tightening and some Asia-Pacific central bank loosening may persist, this will continue to create opportunities for cross-border buyers who are looking at currency, with the dollar strengthening and other currencies relatively weakening.

Elsewhere, tax regimes, which we are also seeing evolve in many countries, will continue to play an important role in markets where they are creating distortions and changing buyer behaviour.

Perhaps now more than ever, property market observers are looking to policy makers, whether Janet Yellen at the Federal Reserve, the Singapore government, the Reserve Bank of Australia, the People's Bank of China or the Japanese government for clues about how markets will perform. We can expect more of this going forward.

FIGURE 2
Global House Price Index Q1 2015



*Data from Q4 2014
**Data from Q3 2014
Source: Knight Frank Research

10 things that will influence Asia-Pacific residential markets

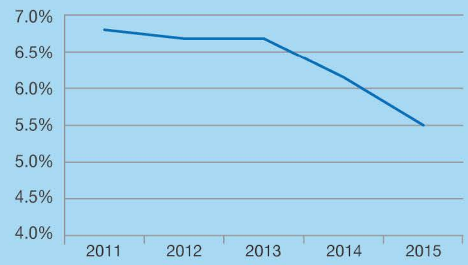
We consider some macro-trends that will influence the region's housing markets over the next 12 months and beyond.

Monetary Easing

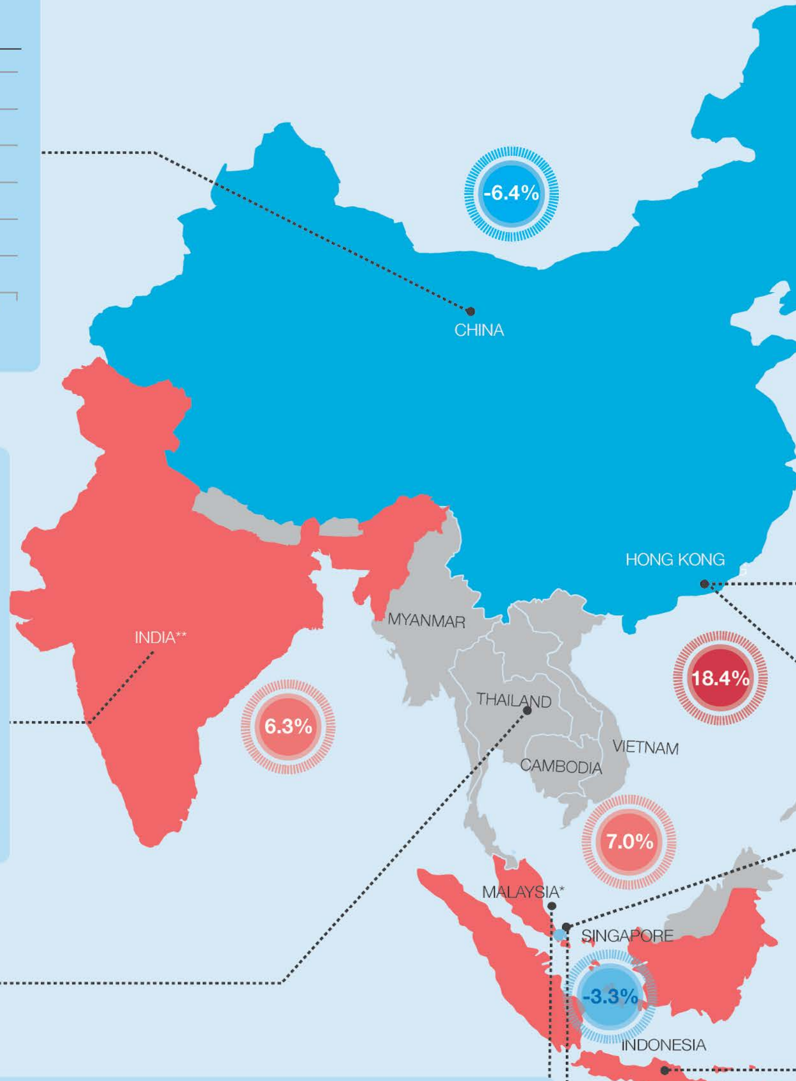
How far will policy makers in China go to support the housing market in a slowing economy? We have already seen two interest rate cuts in 2015 with the potential for more.

Will also impact: Australia, India, Indonesia, Japan, New Zealand, South Korea, Thailand

Bank of China Lending Rates (5-year loan)



Source: Bank of China

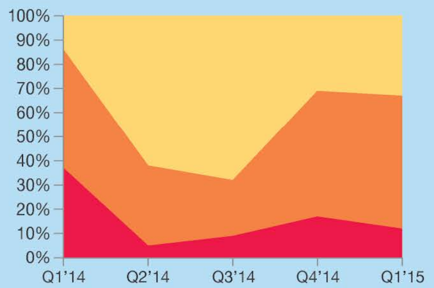


Sentiment

The optimism following Narendra Modi's election victory in India has been eroded somewhat over the last 12 months, impacting the Indian residential market. With improving economic fortunes, could this start to turn again?

Will also impact: All markets

Indian House Price Expectations



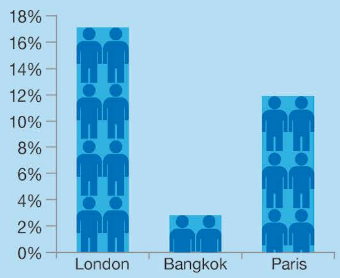
Source: FICCI - Knight Frank Real Estate Sentiment Index

Political Uncertainty

Political instability in Thailand undoubtedly impacted the attractiveness of Bangkok – the most visited city in the world in 2013, which slipped to second place in 2014. Other markets could also see a slow down due to elections or political uncertainty.

Will also impact: Singapore, South Korea, Taiwan

Growth in Visitor Numbers 2013-14



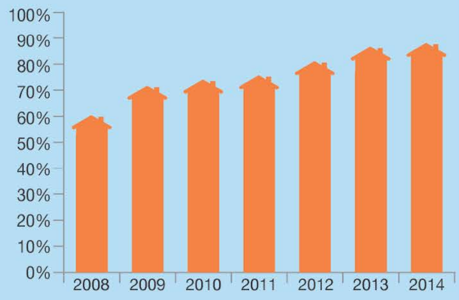
Source: Mastercard, Knight Frank Research

Household Debt

Household debt has become a major concern in many countries, notably in Malaysia, where policy makers have stepped in to try and bring it under control. The upward trend in consumer debt is a common characteristic of most Asia-Pacific markets.

Will also impact: Australia, Singapore, South Korea, Taiwan, Thailand

Malaysia Household Debt/GDP



Source: Bank Negara Malaysia

Easing of Cooling Measures

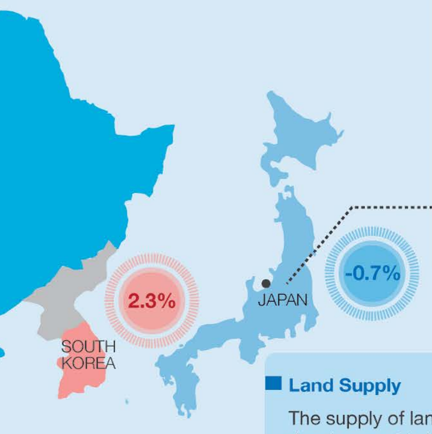
With further interest rate rises inevitable in the slow moving market of Singapore, the Additional Buyer's Stamp Duties (ABSD), introduced in 2011 and 2013 as "cooling measures" could possibly start to be reviewed by the Singapore government.

Will also impact: China, Vietnam, New Zealand, Hong Kong

Additional Buyer's Stamp Duty (ABSD) Rates in Singapore

Profile of Buyer	ABSD Rates from 12 Jan 2013
Singapore Citizens (SC) buying first residential property	Not applicable
SC buying second residential property	7%
SC buying third and subsequent residential property	10%
Singapore Permanent Residents (SPR) buying first residential property	5%
SPR buying second and subsequent residential property	10%
Foreigners and entities buying any residential property	15%

Source: IRAS



Birth Rate

Only Monaco and Saint Pierre & Miquelon have lower birth rates than Japan. With a population that has shrunk since 2008 and with little inward migration - unless this trend is reversed, demographics will continue to have an impact on both the economy and housing markets.

Will also impact: China, Hong Kong, Singapore, South Korea, Taiwan

Japan Birth and Mortality Rate (per 1,000 people)

Population, Thousands (LHS)
Birth rate (RHS)
Mortality rate (RHS)

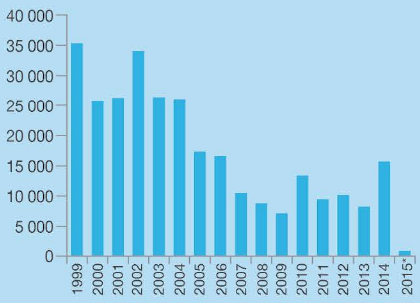
Source: Statistics Bureau Japan, CIA World Factbook

Land Supply

The supply of land for development in Hong Kong has been one of the biggest bottlenecks in one of the world's costliest real estate markets. Until supply can catch up with demand, the pressure on pricing will continue.

Will also impact: Thailand (central Bangkok), India (Mumbai), Sydney, Beijing

Hong Kong Private Domestic Completions



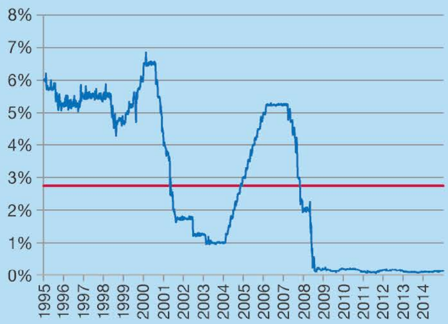
Source: Rating and Valuation Department
**Provisional figures to 31/03/15*

US Interest Rates

The impending normalisation of global interest rates is likely to impact Hong Kong and Singapore the most directly, due to pegged exchange rates. Some emerging Asian economies could also be vulnerable to capital outflows.

Will also impact: India, Indonesia, Malaysia, Thailand

Fed Funds Effective Rate



Fed Funds Rate
20 year average

Source: Federal Reserve

Tax

The recent introduction of a revised super luxury tax and the potential extension of the luxury tax in Indonesia have already started to impact market behaviour. Shifting fiscal environments in many countries will continue to play an important role in housing markets.

Will also impact: Japan, Taiwan

Purchase Costs on a 150 sq m Apartment in Indonesia

Source: Knight Frank Research

Urbanisation

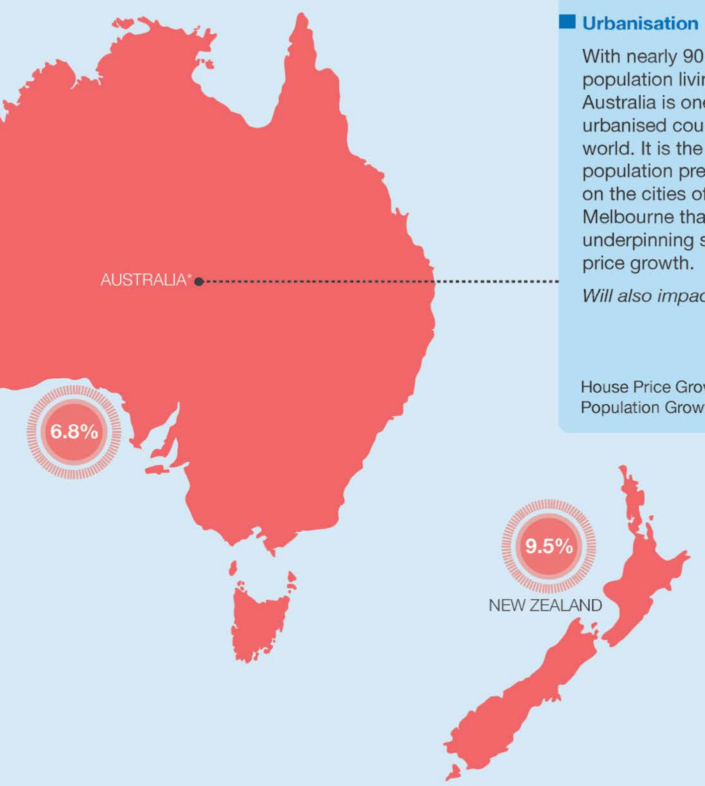
With nearly 90% of its population living in cities, Australia is one of the most urbanised countries in the world. It is the continued population pressure, especially on the cities of Sydney and Melbourne that is underpinning strong house price growth.

Will also impact: All markets

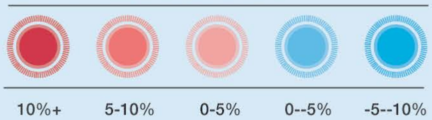
Sydney Population Growth vs House Price Growth

House Price Growth (LHS)
Population Growth (RHS)

Source: Residex, ABS, Knight Frank Research



Knight Frank Global House Price Index Q1 2015
12-month house price performance



Source: Knight Frank Research
**Data from Q4 2014*
***Data from Q3 2014*

Regional Snapshot

The Reserve Bank of **Australia's** recent decision to hold interest rates followed two 25 basis point cuts in the official cash rate in February and May. Market performance continues to vary significantly across the state capitals, with Sydney continuing to see the strongest price growth, followed by Melbourne, while Darwin has seen its prices soften.

In **China**, the reported introduction of the Qualified Domestic Individual Investor Programme 2 (QDII2), which will allow residents in six selected cities to invest directly abroad, is the latest possible step in the continued liberalisation of capital outflows. With residents in Shanghai, Tianjin, Chongqing, Wuhan, Shenzhen and Wenzhou who meet certain criteria reported to be able to apply, this could have a significant impact on destination markets for Chinese investors, most notably Australia, the US and the UK.

House prices in **Hong Kong** defied the ongoing cooling measures by rising a staggering 18.4% in the 12 months to Q1 2015. This is the highest annual price growth in the overall market since the second quarter of 2013.

The Reserve Bank of **India** recently moved to cut its repo rate from 7.50% to 7.25%. This is the third time in 2015 the Bank has acted, despite the economy now growing at a faster rate than China. This move will partially help residential markets to recover in the world's largest democracy which saw 6.3% annual price growth as at Q3 2014.

A revised super luxury tax of 5% on the purchase price for houses above Rp 5 billion or a building area exceeding 400 sq m has been introduced in **Indonesia**. This move, mainly aimed at raising revenue for the government, could also be joined by an increase in the scope of the luxury tax, which is currently levied at 20% on houses above 350 sq m in size and condominiums above 150 sq m. To counter these taxes, policy makers recently reviewed the minimum down payment on properties over 70 sq m, potentially relaxing them from 30% to 20%.

Japan continues to be a story of Tokyo and the rest, as the country posted impressive economic growth in Q1 2015. The country's capital, which continues to see strong population growth and the prospect of the 2020 Olympics, has boosted infrastructure spending, which will help support market performance through 2015.

The market in **Malaysia** is still digesting the impact of the recent introduction of the Goods and Services Tax (GST) although this is not levied directly on residential purchases. With a lower number of loan applications, due to tighter lending guidelines as the government tries to rein in household debt, the market remains subdued.

In **New Zealand**, the Reserve Bank of New Zealand announced that it will now differentiate between the Auckland real estate market and the rest of the country. The decision to relax the loan-to-value ratio restrictions on first home buyers outside of the Auckland region will prove a boost to those regional markets that have been subjected to the restrictions since their introduction on 1st October 2013.

The residential market in **Singapore** remained muted in Q1 2015, with only 1,311 new private residential units being transacted, the lowest volume in a quarter since Q4 2008. Overall private home prices fell for the sixth consecutive quarter, declining by 1.0%. Prices are expected to further decline by 3 – 4% for the whole of 2015.

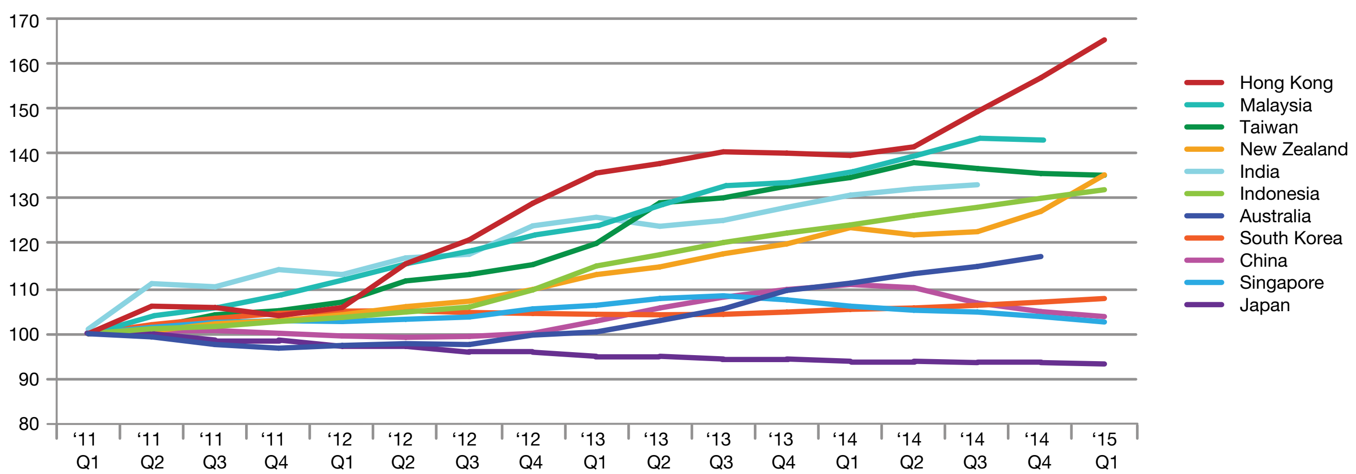
The recent announcement of the new capital gains tax scheme in **Taiwan** could further weaken the confidence of property investors. The plans include a 45% tax on the profit if the vendor sells the property having owned it for less than one year. The previous regime taxed on the assessed value, often significantly lower than the sale price. Many investors are now expected to be more eager to dispose their residential properties before the launch of the new tax regime in 2016.

In **Thailand**, Bangkok's market performance is increasingly becoming polarised between centrally located condominiums, which continue to perform well, and outer suburbs. More secondary locations are seeing a significant amount of new supply with developers having to compete more aggressively for buyers.

FIGURE 3

Global House Price Index

(Q1 2011 = 100)



Source: Knight Frank Research

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