RESIDENTIAL RESEARCH

Knight Frank

ASIA-PACIFIC RESIDENTIAL REVIEW

July 2013

SPECIAL ANALYSIS

Restrictions for foreign purchasers of residential property around the Asia-Pacific region

INTRODUCTION

INCREASING CROSS BORDER DEALS POSE POLICY DILEMMAS

The first six months of 2013 has seen the Chinese residential market continue to dominate headlines within the region. The market, which is more or less monopolised by domestic purchasers, continues to defy expectations, while Chinese buyers continue to be the source of a significant element of offshore interest throughout Asia Pacific.

It is not just Chinese buyers who are looking overseas. The numerous rounds of cooling measures across Asia have proved a push factor for capital around the region and led to an increase in cross border transactions. In this edition of the Asia-Pacific Residential Review, we have compiled a map of restrictions that foreign (non-resident and resident) buyers face when looking at residential property in each market (see page 4-6). There is a full spectrum of restrictions for foreigners across the region, and while we witness pressure in some countries to liberalise the markets (Vietnam), others are becoming more protectionist (Singapore and Hong Kong).

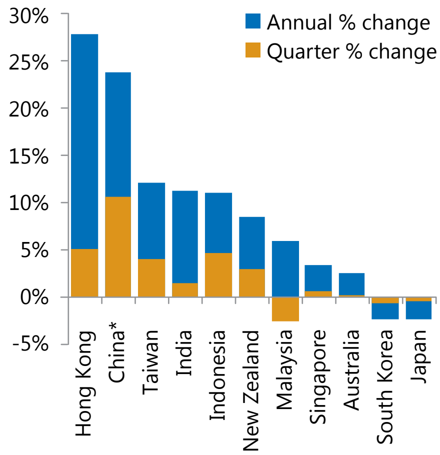
Turning back to China, the central government's "Five New Measures" introduced in early March not only represent the government's latest move but also provide confirmation that Xi Jinping will be following his predecessors policies. Yet witnessing how different local authorities have responded to these policies underlines the issues that China continues to battle with as it tries to cool its housing market down. On the one hand, local authorities do not want to "bite the hand that feeds them", while on the other, they must be seen to support China's State Council policies.

This is all being fuelled by investors who, amid growing wealth continue to invest significant proportions of their money into property. The lack of alternative investment options for many retail investors makes this situation unlikely to change.

The wider macroeconomic picture is one of a Chinese economy that is seeing its currency appreciate and growth slow, whilst orientating itself towards more domestic consumption and away from export dependency. The house price figures, which continue to increase, are unlikely to cause immediate concern as long as the government is "seen" to be trying to cool price inflation.

Elsewhere in the region, all eyes are on the US Federal Reserve, who have made overtures about slowing down their asset buying programme, or QE3. This is already causing jitters in the equity markets as investors second guess what an increase in US interest rates could mean. Certainly for Hong Kong and Singapore whose housing markets have been partly fuelled by low costs of borrowing, the future performance of these housing markets could be linked strongly to Ben Bernanke (or his successors') policy.

Figure 1
Global House Price Index Q1 2013

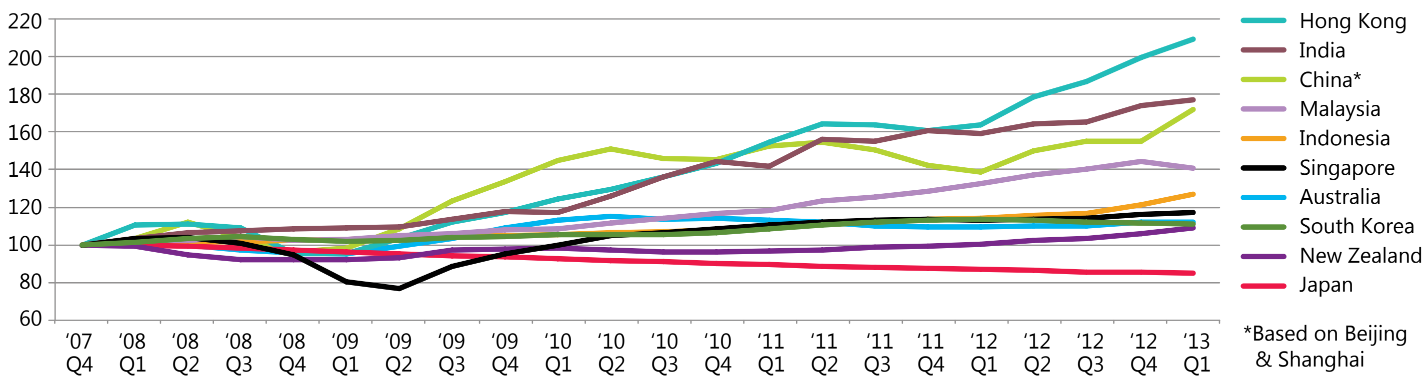


*Based on Beijing and Shanghai

Source: Knight Frank Research

Nicholas Holt
Asia Pacific Head of Research

Figure 2
Global House Price Index (Q4 2007 = 100)



*Based on Beijing & Shanghai

Source: Knight Frank Research

REGIONAL SNAPSHOT...

In **Australasia**, the contrasting fortunes of the two largest housing markets continued, as weak demand and a stuttering economy ensured **Australia** remained stagnant, while **New Zealand** continued to see relatively strong price growth. Prices in Australia and New Zealand increased 0.1% and 3.1% across Q1 2013 respectively.

In **China**, while the "Five New Measures" are being implemented across the country to varying degrees (see below), authorities are considering rolling out the property tax, trialled in Shanghai and Chongqing across more parts of the country. A composite index of Beijing and Shanghai increased a surprising 10.7% over Q1 2013, the largest gains in Knight Frank's Global House Price Index.

Hong Kong meanwhile has seen a slowdown in the primary market, as the secondary market continues to remain active. At the end of Q1 2013, the market had seen annual growth of 28%. With the cooling measures however continuing to have an impact, we believe there will be a drop in activity in both the primary and secondary markets over the next few months.

The booming Jakarta residential market has prompted policy makers to act in **Indonesia**. On the 11th July, the central bank announced it will tighten lending rules, increasing the minimum down payment to 40% for a second home and 50% for a third home (up from 30%).

In **Malaysia**, the rapid rise in prices seen in Iskandar has led to the state government of Johor Bahru announcing it will introduce a higher tax rate for foreigners who own properties in the state. The tax is expected to be introduced at the end of 2013.

With fears of an interest rate rise, the Monetary Authority of **Singapore** ruled that the total debt servicing ratio for any property buyer should not exceed 60% of his income, putting a further squeeze on the market (in what is already locally being termed cooling measure 7.5). Meanwhile, the proportion of foreign (non-PR) purchasers increased to 9.9% of sales in Q1 2013, up from an average of 6.4% in 2012. Chinese purchasers topped the list, constituting 29.5%. The increase in foreign buyers would suggest the additional stamp duty is becoming an accepted price to pay.

In **Vietnam**, further efforts to boost the housing markets have proved ineffective, as Hanoi has attempted to attract more foreign buyers. Policy makers are aware of the significant amount of unsold inventory in the market and the hope that foreign buyers can "save" the market is likely to be unfruitful. Discounts from developers continue to put downward pressure on prices.

The only year-on-year price drops as at the end of Q1 2013 were found in **South Korea** and **Japan**. In Japan, however "Abenomics" and the unprecedented monetary policy (a doubling of the monetary base over the next two years) could see significant amounts of liquidity find itself into the property market, potentially reversing nearly two decades of price falls.

CHINA'S FIVE NEW MEASURES DETAILS

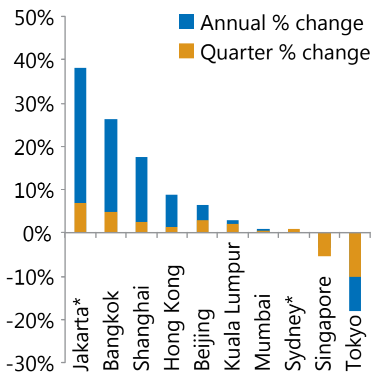
(Effective end March)

BEIJING	A 20% capital gains tax is imposed on pre-owned home sales. This is exempted if a homeowner sells the property after over five years from its purchase and the apartment is the only one owned by the family. Single adults with a permanent Beijing resident registration are allowed to buy only one apartment if they have no other homes registered under their names. The down-payment ratio for a qualified family's second home is raised to 70%.
SHANGHAI	A new-home price control target is set to keep prices stable. Shanghai will also enforce differentiated credit policies. Banks are not allowed to extend loans to buyers of third or more homes and should "adjust" their requirement for down-payment ratio as well as interest rates for second-home buyers at an "appropriate" time. A 20% capital gains tax on property sellers will be strictly levied in the city if the original values of the homes can be verified.
GUANGZHOU	The ceiling of new-home price growth is pegged with the increase in per-capita disposable income. Non-registered residents are eligible to buy only one home in the city if they are able to present income tax or social insurance certificates to prove that they have resided in the city for a cumulative 12 months over the past two years prior to their home purchase. A supplementary payment of income tax and social insurance is not valid in this case.

PRIME MARKET PERFORMANCE IN KEY ASIA PACIFIC CITIES

Asia Pacific is still the growth engine of the world economy and the increase in wealth across the region has ensured demand grows for prime residential property. Cooling measures have ensured that demand has been dampened in certain markets such as Singapore, and the strongest price growth continues to be witnessed in markets that have not seen significant cooling measures; Thailand and Indonesia.

Figure 3
Prime Global Cities Index Q1 2013



*Data from Q4 2012

Source: Knight Frank Research

SPECIAL ANALYSIS

RESTRICTIONS FOR NON-RESIDENT FOREIGN PURCHASERS OF RESIDENTIAL PROPERTY IN ASIA PACIFIC.

Key:

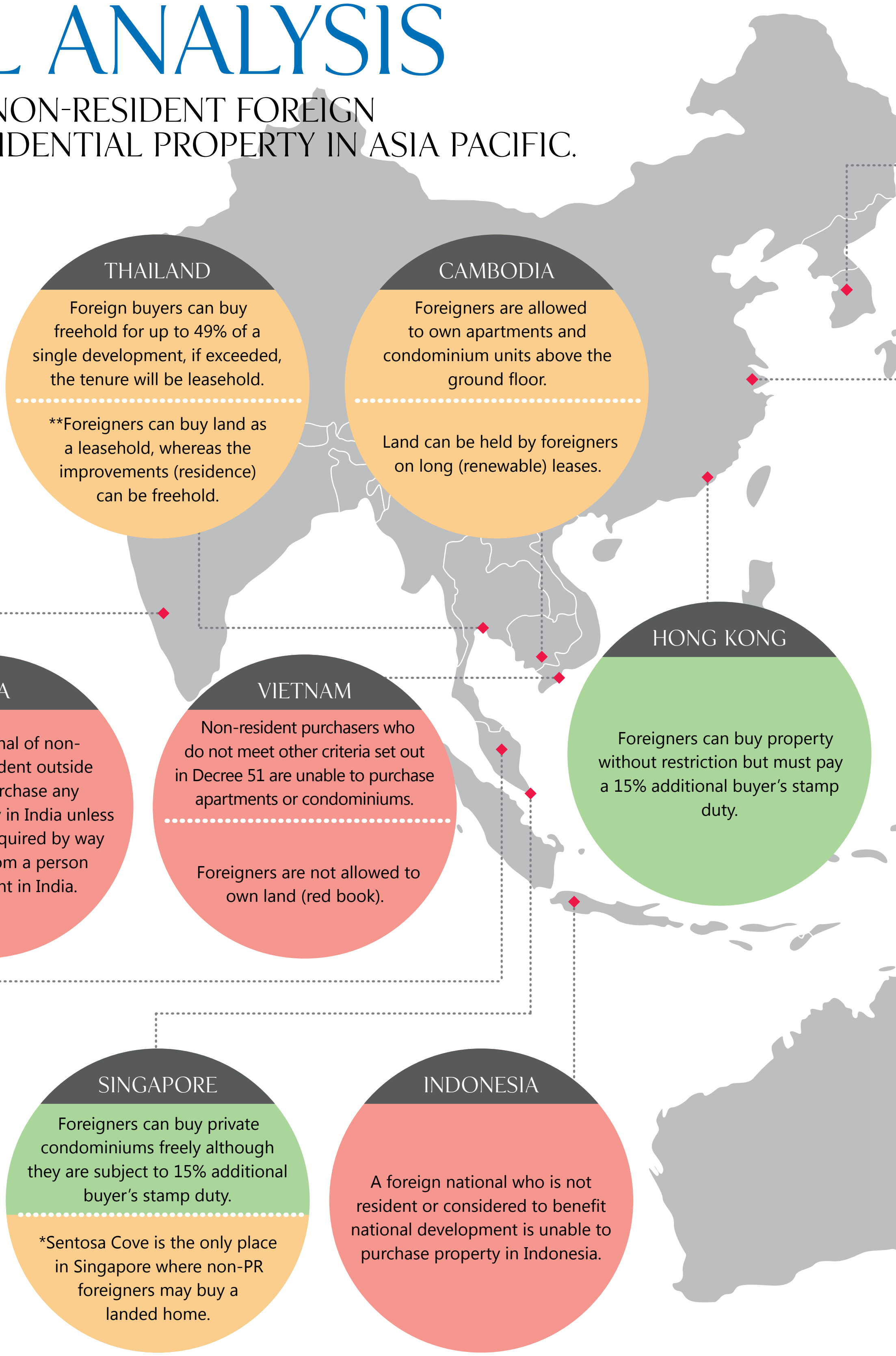
Apartments/ Condominium

Landed Property

Most restrictions

Some restrictions

Minimal or no restrictions



THAILAND

Foreign buyers can buy freehold for up to 49% of a single development, if exceeded, the tenure will be leasehold.

**Foreigners can buy land as a leasehold, whereas the improvements (residence) can be freehold.

CAMBODIA

Foreigners are allowed to own apartments and condominium units above the ground floor.

Land can be held by foreigners on long (renewable) leases.

INDIA

A foreign national of non-Indian origin, resident outside India cannot purchase any immovable property in India unless such property is acquired by way of inheritance from a person who was resident in India.

VIETNAM

Non-resident purchasers who do not meet other criteria set out in Decree 51 are unable to purchase apartments or condominiums.

Foreigners are not allowed to own land (red book).

HONG KONG

Foreigners can buy property without restriction but must pay a 15% additional buyer's stamp duty.

MALAYSIA

No restrictions but subject to a general pricing threshold of RM500,000 and above per unit.

SINGAPORE

Foreigners can buy private condominiums freely although they are subject to 15% additional buyer's stamp duty.

*Sentosa Cove is the only place in Singapore where non-PR foreigners may buy a landed home.

INDONESIA

A foreign national who is not resident or considered to benefit national development is unable to purchase property in Indonesia.

Source: Knight Frank Research

Disclaimer: The information contained in this report with regard to restrictions for foreign ownership is correct to the best of our knowledge and belief at the time of going to press. It is written as a general guide and we recommend that specific professional legal and tax advice is sought.

RESIDENT FOREIGN PURCHASERS

Australia: Temporary residents can acquire one established dwelling which must be used as their principal place of residence. However, there are no restrictions on the number of new properties, established dwellings for redevelopment or vacant land for development that can be purchased, provided approval is obtained.

China: Foreigners who have worked or studied in China for at least a year are allowed to buy a home for self-occupation.

India: A foreign national of non-Indian origin can purchase immovable property other than agricultural land, if he has been a resident in India as defined by FEMA Act,1999.

Indonesia: A permanent or temporary resident may purchase property under the right to use title ("Hak Pakai") for a period of 25 years, renewable twice (for 20 and 25 years respectively).

Singapore: For landed property, foreigners have to fulfil certain criteria before permission is granted from the LDAU, including being a Singapore PR and making a significant economic contribution to the country.

Vietnam: Foreign buyers can purchase apartments or condominiums with an ownership certificate with a 50 year leasehold (pink book), provided they have satisfied certain criteria under Decree 51.

Notes:

Australia: A new dwelling is one that is purchased directly from the developer and has not been previously occupied for more than 12 months in total. Foreign individuals (and temporary residents) need approval from the Foreign Investment Review Board (FIRB).

Indonesia: In reality, some foreign purchasers buy through a Penanaman Modal Asing (PMA) company. A company established with Minister of Justice and Human Rights (MOJ) and the Investment Coordinating Board of the Republic of Indonesia (BKPM) approvals can change tenure changes right to build ("Hak Guna Bangunan").

New Zealand: If the investment involves less than NZ$10 million, no official clearance is needed; otherwise, authorization from the Overseas Investment Office is required if a non-resident wants to acquire sensitive areas such as agricultural land exceeding 5 hectares in area, or exceeding NZ$10 million in value.

Singapore: *Subject to LDAU's approval. A foreigner (including a PR) may own only one landed home in Singapore (including Sentosa Cove) and this must be used for owner occupation. Restrictions on landed residential property that foreigners (including a PR) can acquire are: (1) The land area of the property must not exceed 15,000 sq ft. (2) The property must not be within a good class bungalow (GCB) area.

S. Korea: Foreign purchasers are not allowed to remit rental income or capital gains from property.

Thailand: **The leasehold period is only 30 years which is the major restriction to foreign buyers. Developers often attract buyers by offering 30+30+30 years. This means that a landed property is sold as 30 years leasehold, with option to renew for another two 30 year periods.

Vietnam: The Government is considering new regulations concerning foreign ownership of landed property, however, the proposed congress meeting for new land law has been delayed until November 2013, with implementation likely in mid 2014.

ANALYSIS

FOREIGN BUYER RESTRICTIONS

"...countries try to strike a balance between giving domestic citizens an affordable stake in their country, while offering the possibility of property ownership to attract foreign talent who make an economic contribution to the country."

Foreign ownership of property can be an emotive issue, and while in Japan, South Korea and New Zealand a foreign purchaser should have no significant issues, other countries across Asia-Pacific have a full spectrum of restrictions for both non-resident and resident foreigners.

Mirroring other protectionist issues, certain countries have not been open to foreign ownership of property. Land especially, in a number of countries is seen as sacred and not something that can be given over to foreign hands.

Other countries try to strike a balance between giving domestic citizens an affordable stake in their country, while offering the possibility of property ownership to attract foreign talent who make an economic contribution to the country.

Indeed, many countries allow foreign residents permission to buy property that would not be accorded them if they lived overseas. This is the case in the two giants of the region, China and India whose respective ownership regulations allow resident foreign purchasers the possibility to buy property.

Singapore, given its limited land area, strikes an interesting balance. Foreign purchasers are permitted to access to the private non-landed market freely, although this accounts for only around 17% of the total existing housing stock. Landed property however is more difficult to access for foreign buyers, with a number of hurdles having to be faced before a purchaser could even be considered.

Elsewhere, Australia's policy of allowing foreign purchasers into the new build or land market, so as not to crowd out domestic purchasers in the resale (or secondary) market has limited the numbers of foreign purchasers, although it has provided developers with an incentive to target offshore interest.

If there is a will, there is a way...

In parts of developing Asia, while restrictions may prevent retail investors buying residential property directly, there are a number of ways in which foreign purchasers can still gain access to the market. Whether through spouses, friends or nominees, access to some of the more closed markets has been achieved by foreign purchasers, albeit in relatively small numbers. Buying through company structures is equally used as a way around restrictions in a number of markets.

In some cases, the legality of certain methods of purchasing property is ambiguous, and purchasers should seek the best advice before going into markets where restrictions are in place.

Unlikely to change anytime soon

Although cross border residential property acquisitions have increased over the last few years, the rapid increase of residential prices has actually pushed policy makers into taking more protectionist stances as domestic affordability becomes an issue. The additional buyers stamp duties in Hong Kong and Singapore are good examples, as is the proposed additional taxes for foreign buyers in Johor Bahru state of Malaysia. So while there remain opportunities across Asia Pacific for foreign buyers, the politically sensitive nature of foreign ownership is likely to mitigate the chances of any wholesale changes in the near future.

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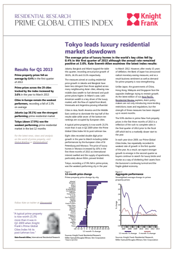
Recent market leading research publications

The Wealth Report 2013 - English

The Wealth Report 2013 - Chinese

Global House Price Index Q1 2013

Global Development Insights Q2 2013



Prime Global Cities Index Q1 2013

International Residential Investment in London

Branded Developments

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