Contents

Hong Kong

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While general sales volumes remain at their lowest levels for years, there is evidence that prices have begun to crack but adjustments taking place are quite selective, often restricted to certain property types in certain areas and a market-wide correction still seems to be 3 to 6 months away. Rental markets are presenting a more uniform picture as residential rents continue a slide which began all the way back in 2011 and offices and street shop rents are now following suit. It seems only shopping mall and industrial rents will see any further limited upside this year, mostly in the first half.

With residential rents now 15% below peak levels and with very few new comers arriving in Hong Kong (many are heading to Singapore where in housing terms you get a lot more for a lot less), the larger more professional landlords are beginning to heavily incentivize agents to lease vacant units. Stubbornly high vacancy in the Central office market is a further reflection of the malaise which is also effecting the luxury residential leasing market. The situation is not being helped by newly completed luxury stock which is being put on the market for lease by PRC buyers, depressing rental values further.

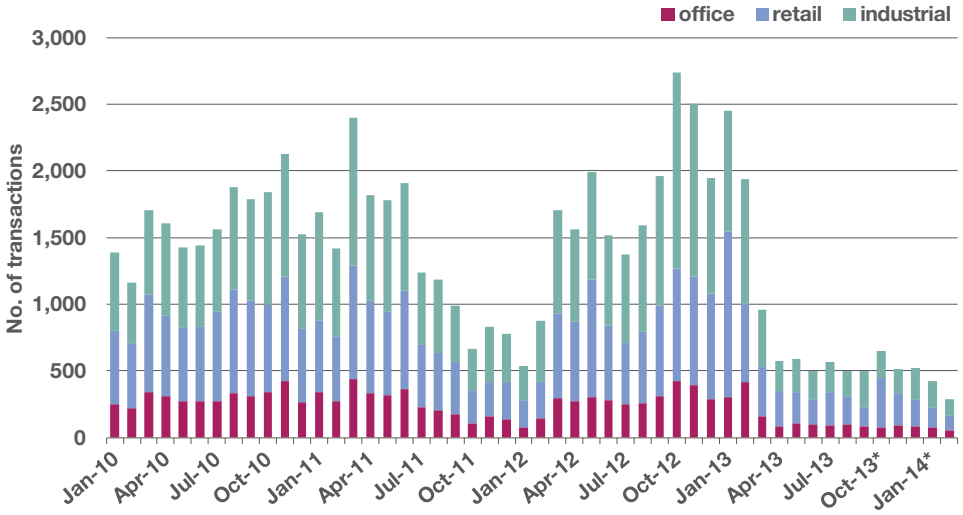
There is also some evidence that mainlanders who bought units two to three years ago off-plan may be selling as their units complete and the mainland credit squeeze bites. This angle has been seized on by the press but many of the stories of frenzied selling look overdone as instances of forced sellers have been relatively thin on the ground to date. It is worth remembering that punitive stamp duties are still effective if a unit is sold up to 36 months after purchase, rendering any premature sale so painful that it would require particularly straightened circumstances. We aren't there yet.

While the office sector was still affected by the dimming prospects of the leasing market, with Central office rents registering another 0.9% decline in Q1/2014, this was in fact the slowest decline for the CBD since the market turned sour in mid-2011. We saw small amounts of space in prime offices being snapped up by mainland financial institutions, with Central vacancy rates declining to 4.9% in Q1/2014. Office sale prices also showed remarkable resilience in the face of weak market sentiment, with prices remaining flat across most sub-districts and some record-high deals still being inked in core areas. The weakest link was Kowloon East, where the increasing number of near-completion Grade A office premises led to some discounting of stock by short-term investors over the last quarter.

With the Individual Visit Scheme currently under review retail sales performance was hanging in the balance and prime street shop rents recorded further declines in both Central and Causeway Bay. These two areas are seeing more vacant shops on secondary streets such as Lyndhurst Terrace and Percival Street, and we have noted that some of these landlords are preparing to accept rental negotiation. The same can be said of the sales market, with a few landlords beginning to reduce asking prices, some by 20% to 30% (but still only close to market levels), and deals were eventually struck, with prime street shop prices remaining broadly the same in Q1/2014.

GRAPH 8

Transaction volumes of office, retail and industrial sectors, Jan 2010–Feb 2014



Source: Rating and Valuation Department, Savills Research & Consultancy
*Provisional figures

TABLE 8

Major investment transactions, Jan–Mar 2014

Property	Location	Price	Buyer	Usage
En-bloc, 11–24 Lun Fat Street	Wanchai	HK$860 mil/US$111 mil	China Vanke Ltd	Residential
G/F shops 10 and 11, and 1/F–3/F Pakpolee Commercial Centre	Mong Kok	HK$700 mil/US$90 mil	Blackstone	Retail
House 7, 28 Baker Road	The Peak	HK$690 mil/US$89 mil	Mainland buyer	Residential
B/F–3/F, Thai Kong Building	Causeway Bay	HK$600 mil/US$77 mil	Private investor	Retail
En-bloc, 29 Jervois Street	Sheung Wan	HK$580 mil/US$75 mil	TBC	Hotel

Source: Savills Research & Consultancy

Taiwan

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Owning to the Chinese New Year holiday, activity in the investment market slowed at the beginning of 2014 and total transaction volumes posted a significant decrease of 74% year-on-year to NT$7.4 billion, the second lowest figure for the first quarter of the year since 2007. Aside from the lack of demand, this decline is partly attributed to tight supply. Landlords are reluctant to put properties on the market or lower listing prices as they strongly believe that this negative sentiment is temporary.

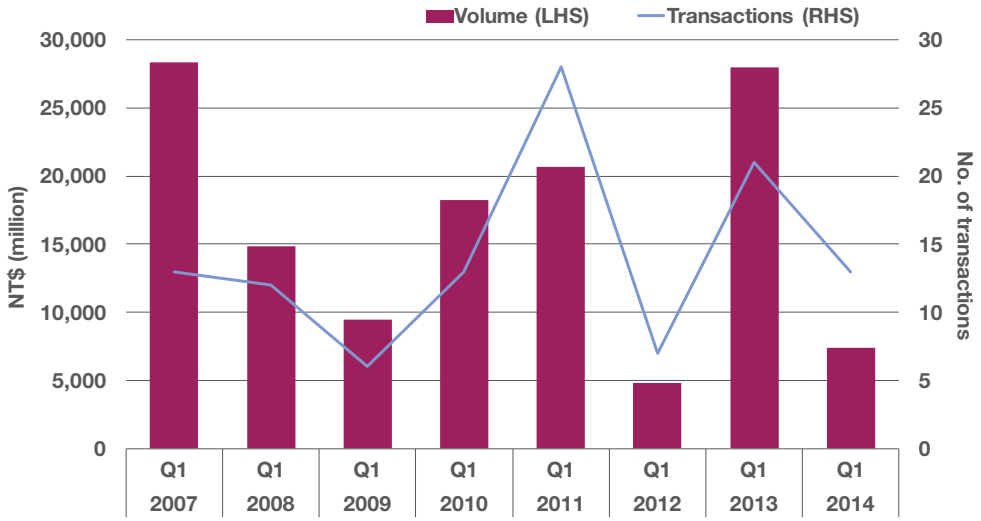
Offices and industrial offices were favoured by investors this quarter, accounting for 56% and 39% of total transactions respectively. In addition to technology companies, which are the main demand driver in the industrial office market, biotechnology companies have also shown their interest in acquiring their own places of businesses. Following an industrial office acquisition by Grape King Inc last year, GlycoNex Inc bought a newly completed industrial office in New Taipei City for NT$870 million in order to expand their offices.

Due to the relatively high price levels in the office market, properties outside Taipei and New Taipei City attracted investors, particularly insurance companies which previously accepted commercial properties in prime city areas with yields of below 2.5%. Mercuries Life Insurance and Nanshan Life Insurance each acquired an office in Kaohsiung City and Taoyuan County for NT$821 million and NT$1.31 billion respectively. The former plans for self occupation and the latter is expected to achieve rental yields of above 6%, which is mainly achieved by inexpensive unit prices. However, low office leasing demand outside major metropolitan areas and high vacancy rates could increase the potential risk for investors. In addition to acquisitions, some insurance companies begin to dispose of properties in second- or third-tier locations to improve the efficiency of their portfolios, including TransGlobe Life Insurance, Cathay Life Insurance and Shin Kong Life.

There was subdued sentiment in the public tender market, with eight out of nine public tender cases held by the private sector failing in the first quarter, totalling approximately NT$10.5 billion. Among these public tender cases, only a development land site, located in prime Taipei City, was successfully sold at a 10% premium to a local developer. This poor performance, due to a passive attitude from insurance companies, is likely to continue in 2014 as minimal investment yield regulations remain in place. In this less competitive market, private treaties will gain popularity once again, while public tenders will only be successful for properties with reasonable prices and in prime locations.

GRAPH 14

Commercial real estate transaction volumes, Q1/2007–Q1/2014



Source: Savills Research & Consultancy

TABLE 14

Major investment transactions, Jan–Mar 2014

Property	Location	Price	Buyer	Usage
Mercuries Kaohsiung Building	Lingya district, Kaohsiung City	NT$821 mil/US$27.4 mil	Mercuries Life Insurance	Office
Panhsin Zhongzheng Building	Banqiao district, New Taipei City	NT$950 mil/US$31.7 mil	Teamcham Construction Co, Ltd and New Northeast Electric Group	Office
Farglory U-TOWN	Xinzhi district, New Taipei City	NT$870 mil/US$29 mil	GlycoNex Inc	Industrial office
Zhongli Ginza Building	Zhongli City, Taoyuan County	NT$1.31 bil/US$43.7 mil	Nanshan Life Insurahce	Office

Source: Savills Research & Consultancy

Australia

Australian Consolidated Press ►
Sydney
A$126.8M/US$114.1M
in February

◄ National Australia Bank House (25%)
Sydney
A$115.0M/US$103.5M
in February

▲ 135 on King (50%)
Sydney
A$140.0M/US$126.0M
in February

Kimberly-Clark House ▼
Milsons Point
A$80.0M/US$72.0M
in February

▼ Piccadilly Complex (50%)
Sydney
A$194.3M/US$174.8M
in February

▼ 60 Albert Street (AM-60)
Brisbane
A$161.3M/US$145.2M
in January

▲ 130 Stirling Street
Perth
A$90.0M/US$81.0M
in February

Energy Australia Building ▲
Sydney
A$151.8M/US$136.0M
in March

Major transactions Q1 2014