RESIDENTIAL
RESEARCH

Knight Frank

ASIA-PACIFIC RESIDENTIAL REVIEW

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INTRODUCTION

THE ASIA-PACIFIC REGION'S RESIDENTIAL MARKETS CONTINUE TO GROW AMID THE GLOBAL ECONOMIC SLOWDOWN

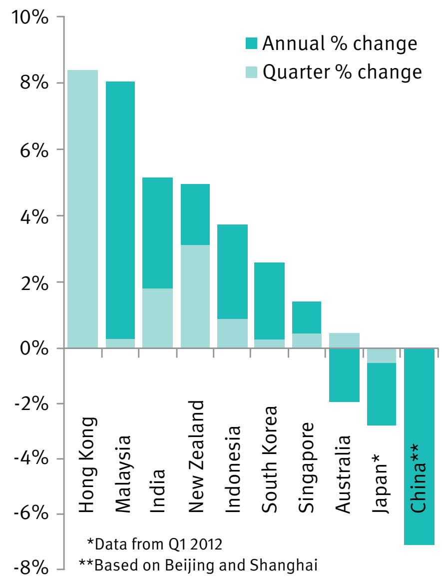
More countries in Asia Pacific saw positive price growth in their respective residential markets in Q2 2012 than the previous quarter. Sentiment however continues to be influenced by the uncertain global economic backdrop. Nicholas Holt looks into the Asia-Pacific numbers and trends more closely.

In Q2 2012, most of the major mainstream markets in Asia Pacific experienced some price growth, with Hong Kong notably seeing its strongest quarterly growth since Q3 2009. Elsewhere, most markets were fairly stable; as price growth returned to a number of Chinese cities, India's market continued to expand and the performance of the Indonesian residential real estate remained solid.

The ongoing uncertainty in the world's economy however continues to have an impact on markets, in more ways than one. On the one hand, weaker economic growth has impacted sentiment and in some cases the wealth of buyers, on the other, property as a hard asset continues to be regarded as a safe investment choice, reinforced by inflation and often negative real interest rates. This situation continues to be further complicated by government intervention into various property markets, which has continued through 2012, with Hong Kong, Singapore, Indonesia and Malaysia notably recently introducing further cooling measures.

Fear that activity from central banks in the Eurozone, Japan and especially the US could lead to excess liquidity finding itself into property markets this side of the world, means that it is unlikely that any of the cooling measures will be lifted in the short term. While a number of countries are loosening monetary policy as the global economic slowdown continues, the conflicting policy objectives of boosting economic growth while avoiding excessive asset price appreciation means that government intervention in various forms is likely to continue.

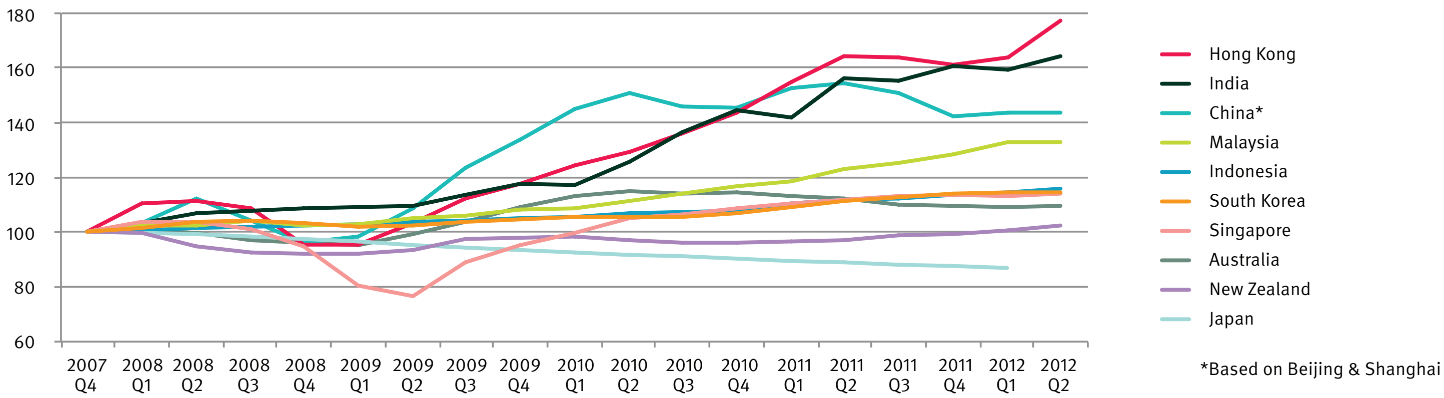
Figure 1
Global House Price Index Q2 2012



Source: Knight Frank Research

Nicholas Holt
Research Director,
Asia Pacific

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



Source: Knight Frank Research

INCREASE IN PRICES MET WITH ADDITIONAL GOVERNMENT MEASURES IN HONG KONG

Quarter on quarter price growth jumped from 1.8% to 8.4% in Q2 in the Hong Kong residential market as sentiment improved and pent up demand drove up transaction volumes. However this increase in prices has been met by further government policies to cool the market, with the recent announcement of further lending restrictions and ten measures to increase housing supply. The supply measures include the sale of 830 Home Ownership Scheme (HOS) units in Tin Shui Wai early next year, putting 1,000 flats in Tsing Yi up for sale at a discount under the My Home Purchase Plan and speeding up the approval process for pre-sale flats. Thomas Lam, Head of Research for Greater China, feels the increase in supply "will contribute to the healthy growth of the market in the long term, the immediate impact however is limited, as only about 1,000 units will be added to the market in the short term."

While prices in luxury developments remained stable last month, we have seen a number of record transactions in the market, notably the Opus which recently sold a unit for US$55 million, equating to US$8,161/sq. ft. (US$87,844/sq. m), which puts it in the zone of the most expensive in the world.

The Chinese market shows uneven performance and no signs of lifting the cooling measures

It has become apparent over the last few months that the Chinese economy is slowing down, with growth now projected to come in under 8% in 2012, the lowest growth rate since 1999. Despite this relative slowdown, the strong drivers of demand for residential property remain, and have ensured liquidity remains relatively high. The central government has shown no signs of lifting the cooling measures in the market, which has seen an uneven performance over the last six months with certain cities still showing strong price growth. Shanghai and Beijing however, have notably shown a 7.1% year on year drop in price at the end of Q2 2012, although prices in the affordable segment of the market have continued to increase, indicating real end user demand.

Singapore sees record volumes transacted and further price increases in 2012

New home sales volumes hit all an all-time record year to date in 2012, with prices continuing to edge up on a quarterly basis. Given the huge price growth that the city state has seen over the last few years, and ongoing fear of asset bubbles, the government has introduced a sixth round of cooling measures, which have tightening lending restrictions.

With inflation significant and therefore real interest rates negative however, there is still a real incentive to put money in property. The low mortgage rates have helped facilitate this. Looking further than domestic (and PR) demand, there is also the status of Singapore as a "safe haven" which has attracted huge amounts of capital into the market from around Asia. This is part of a bigger phenomenon we are witnessing; the huge increase in wealth all around the world which seems to be concentrating itself in certain global cities.

Given these developments, the market for first time buyers is tough, with real issues of affordability for those wishing to get on the first rungs of the property ladder.

THE HUNGRY GHOST MONTH: A TIME FOR QUIET

Real estate sales move seasonally, with buying seasons different in each country. One of the most significant non-buying seasons in some Asian countries is the hungry ghost month which falls on the seventh month in the lunar calendar year (mid-August to mid-September in 2012). This traditional Chinese festival is celebrated in China, Vietnam, Taiwan, Malaysia and Japan, and is the quietest selling period of the year for many of these markets, as developers avoid launches and buyers stay out of the market.

The hungry ghost month is not the only quiet real estate season of the year. The traditional Chinese New Year festival in late January or February is also a period where sales rates drop significantly as developers and buyers go on holiday.

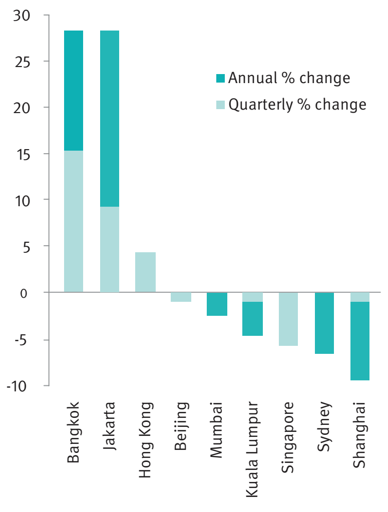
Further tightening in Malaysia

In a bid to reduce speculation, the Malaysia government has announced in its recent budget that Real Property Gains Tax (RPGT) will be raised from 10% to 15% for properties disposed of within two years and from 5% to 10% for disposal in the third to fifth year effective from 1st January 2013. This is on the back of ongoing price growth over the 12 months to June 2012 of 7.9%, one of the strongest in Asia Pacific. With affordability a key concern, developers are moving towards providing smaller units, especially in Kuala Lumpur, to meet first time buyer demand.

PRIME MARKET PERFORMANCE IN KEY ASIA PACIFIC CITIES

Jakarta and Bangkok were the outstanding prime residential market performers, with year on year price growth pushing 30%. While in Jakarta, this positive price appreciation is in parallel to the rest of the housing market, in Bangkok, this is in contrast to mass market price drops, as luxury condominiums in tight supply, situated off Sukhumvit have seen their prices pushed upwards.

Figure 3
Prime Global Cities Index Q2 2012



Source: Knight Frank Research

Indonesia's strong performance continues

The introduction of a Loan to Value (LTV) cap of 70% in July has not held back demand in Indonesia, as positive buyer sentiment continued to fuel price growth in the Jakarta market. In Q2 2012, house prices increased 1.2% across Indonesia, with the CBD Jakarta condominium market subjected to the strongest demand, increasing 16.7% year on year. With strong fundamentals, confidence in the development market remains strong, with development activity remaining unabated.

Thailand slows as demand plays catch-up

2012 has seen less supply come onto the Bangkok condominium market, as existing stock is slowly absorbed. Consequently, listed developers have tended to diversify towards the resort destinations of Phuket, Pattaya and Hua Hin where the demand and supply dynamics are more favourable. In Bangkok, with surprisingly little difference in selling prices of condominiums in the city and city fringe areas, buyers tend to favour condominiums in the city area, while demand for luxury condominiums in the heart of Bangkok remains high, with supply tight and few projects launching this year.

Significant polarisation in the price performance of the Indian residential market

In India, although average prices grew by 3.3% in Q2 2012 across the whole country, this average masks difference between cities, with Bangalore, Pune and Patna notably booming, while Hyderabad, Jaipur and Indore seeing price falls during this period. The difference between Pune (+10%) and Jaipur (-3%) was a staggering 13%.

Macroeconomic instability over 2012 in India has meant residential markets that rely more on speculators have shown more volatility in terms of pricing, whereas markets that rely on predominantly owner occupier demand have been more stable.

Further interest rate cuts and home buyer incentives hope to boost the Australian market

Although price movements moved into positive territory in Q2 2012 The Reserve Bank of Australia's interest rate cuts totalling 150 basis points since November 2011 have not significantly stimulated the Australian housing market. The connectivity between the Australian economy and the Chinese slowdown continues to impact market sentiment, although a number of home buyer incentives introduced in various states have increased opportunities for first time buyers.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Andaman Sea, Thailand
SurangaWeeratunga / Shutterstock

ASIA PACIFIC OUTLOOK

The ongoing difficulties in the world economy, including a slowdown across Asia-Pacific markets, will continue to have an impact on residential markets in the region. With much uncertainty in the world; the ongoing Eurozone crisis, the sluggish recovery in the US and a slowdown in China, sentiment has been impacted. That said, underlying drivers will continue to support demand for residential property in developing Asia and the volatile performance of other asset classes will continue to attract investors who trust hard assets in the form of property.

In China, with all eyes now on the handover in power in November, it will be interesting to witness whether the new leadership continues with the property cooling measures given the slowdown.

In Hong Kong, the impacts of the new lending restrictions could reduce credit to the sector and slowdown price growth through the remainder of 2012.

In Malaysia, with the implementation of further cooling measures, we expect the market that has recently plateaued to remain steady through 2012 although the exit of some speculators from the market could put some downward pressure on prices and sales rates moving forward.

In Singapore, we expect private residential prices to sustain their current pricing levels through the last quarter of 2012, with buying demand continuing to be supported by low borrowing costs and strong fundamentals. Buyers can look forward to more housing options with ample supply in new launches. Total sales volume is expected to hit a new record by end 2012 with about 20,000-22,000 private homes sold.

In Indonesia, with huge amounts of new supply scheduled to come to the market between now and 2014, developers will have to ensure that the concept, design and pricing is right to profit from the forecast increase in demand.

In Thailand, we expect price performance of the Bangkok condominium market to polarise between city centre and periphery locations. On the periphery, with large amounts of new supply in the market we expect more price competition leading to softening prices, whereas with more limited supply available in the city area, we expect more upward price pressure.

In Vietnam, the huge credit growth of preceding years is coming back to haunt banks, who have record amounts of bad debt related to the real estate sector. We expect the market to continue to be troubled, with the relative slowdown in the economy continuing to put downward pressure on residential prices. This does however provide opportunities for buyers who can secure funding.

India is likely to see more polarisation across city's performances going forward as the economy absorbs some of the significant reforms that have been implemented over the last few weeks.

In Australia, the central bank's further 25 basis point interest rate cut could provide a fresh stimulus to demand, although with economic growth slowing we expect prices to move sideways over the near term. In Sydney, with recent government incentives coming into force on 1st October 2012, we expect to see a spike in interest from first time buyers, specifically in the AU$400k to AU$900k brackets. Since the grant came into play, there has been a notable uptick in market sentiment in this price bracket.

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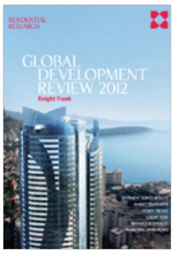
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