

Quick Stats

	Change from	
	Q4 10	Q1 11
Capital Value	↑	↑
Rent	↑	↑

Hot Topics

- Buyer sentiment weakens as cost of borrowing rises
- Transaction volume in Shanghai and Hong Kong declines but Singapore remains steady
- Hong Kong continues to record the fastest rate of capital value growth but price appreciation begins to ease across the region
- Rental growth remains steady in most markets thanks to sustained demand from expatriates

OVERVIEW

- **Buyer sentiment weakens amid further tightening measures**

Tightened mortgage lending and rising interest rates continued to impact on buyer demand in most Asian markets in the second quarter of 2011. Concern over the regional economic outlook rose as the economic situation in the United States and Eurozone worsened in July, and further deterioration could have a knock on effect on the Asian economy.

- **Transaction volume remains generally stable**

Trading volume in Shanghai and Hong Kong declined on a q-o-q basis in the second quarter whilst activity in Singapore remained steady. Southeast Asian markets displayed mixed results, with Ho Chi Minh City recording a significant fall in completed deals.

- **Price appreciation begins to ease**

The CBRE Asian Luxury Residential Capital Value Index rose by 2.5% q-o-q in the second quarter compared to a rise of 5.5% q-o-q recorded in the first quarter. In Hong Kong, price appreciation moderated to 8.9% q-o-q from 14.0% in the first quarter, although the rate of growth nevertheless remained the fastest in the region. Capital value growth eased in most first-tier cities in China following the implementation of further restrictions on home purchases. Prices in Bangkok and Ho Chi Minh City were static as demand from end users was dampened by more stringent mortgage policies.

- **Most markets record steady rental growth**

The CBRE Asian Luxury Residential Rental Index rose by 1.8% q-o-q in the second quarter. Hong Kong registered the strongest rental growth in the region at 7.3% q-o-q thanks to strong leasing demand from expatriates. Rents in Singapore declined due the large quantum of rental units currently available in non-prime areas. Elsewhere in Southeast Asia leasing demand was sluggish due to an oversupply of rental units in core locations.

Key Indicators

Region/country	City *	Local currency/measure (LCM)	Average Prime Capital Values			Average Prime Rents		
			LCM	US\$ p.sq.ft.	q-o-q (%)	LCM pm	US\$ p.sq.ft.pm	q-o-q (%)
Greater China	Beijing	RMB p.sq.m.	54,805	787.1	1.9	109.9	1.58	1.7
	Shanghai	RMB p.sq.m.	57,604	827.3	0.9	148.3	2.13	0.2
	Guangzhou	RMB p.sq.m.	29,596	425.1	5.2	61.0	0.88	5.1
	Hong Kong	HK\$ p.sq.ft.	23,318	2,997.1	8.9	52.8	6.79	7.3
Singapore	Singapore	S\$ p.sq.ft.	2,850	2,321.6	-1.7	5.2	4.24	-1.9
Thailand	Bangkok	THB p.sq.m.	114,076	345.2	-0.1	391.0	1.18	0.6
Vietnam	Ho Chi Minh City	US\$ p.sq.m.	4,329	402.2	-0.9	18.1	1.69	-8.4
Malaysia	Kuala Lumpur	RM p.sq.ft.	745	246.7	0.8	3.4	1.14	0.1

Note: Refers to good quality residential apartment/condominium units.

(*): The following markets are quoted on a gross floor area basis: Beijing, Shanghai, Guangzhou, Hong Kong, and Kuala Lumpur. Others are quoted on a net floor area basis.

ECONOMIC UPDATE AND POLICY WATCH

Economic growth in Asia Pacific slowed in the second quarter as the region adjusted to the impact of a number of natural disasters including those which struck Japan and the Pacific early in the year. Manufacturing activity slowed considerably, partly due to disruption in the regional supply chain caused by the March 11 Japan earthquake and tsunami. Growth in the manufacturing sector should recover, however, as production capacity in Japan is gradually restored.

Employers' hiring intentions continued to be positive across most markets in the region. An increasing number of employers indicated that they were encountering difficulty in recruiting quality senior talent. Personal earnings continued to trend upwards, providing support to home buying demand, whilst the continued influx of expatriates underpinned leasing momentum in the luxury residential sector.

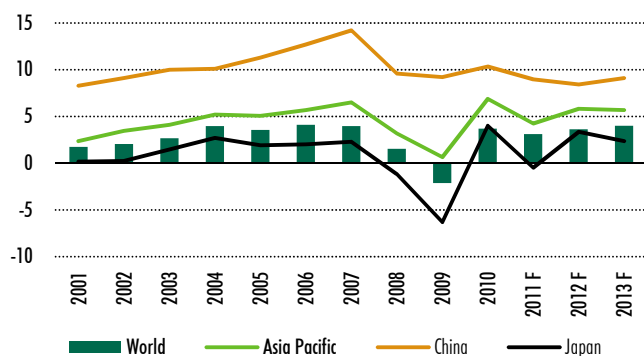
Economic fundamentals in Asia Pacific remain positive overall but doubts remain over the broader global picture. Despite the United States narrowly avoiding default in early August, there are signs that the world's biggest economy may slip back into recession. In Europe, meanwhile, the debt crisis appears to be deepening, particularly in Spain and Italy. Further deterioration in the United States and Eurozone would have a knock on effect on the Asian economy. This factor, coupled with persistent high inflation, will likely weaken domestic demand, which has been the major growth driver in the region over the past 18 months.

Central banks in China, India and Malaysia all raised interest rates during the quarter as they looked to tackle inflation, thereby pushing up the cost of borrowing. In Hong Kong, the government attempted to cool the overheating property market by further lowering its LTV ratio, whilst in Shanghai, Shenzhen and Zhejiang new residential projects must now be sold at prices agreed by local authorities. Although the full impact of these tightening measures has yet to be seen, it is expected that they will dampen buyer appetite for luxury residential property in the short term.

Property cooling measures released during the quarter

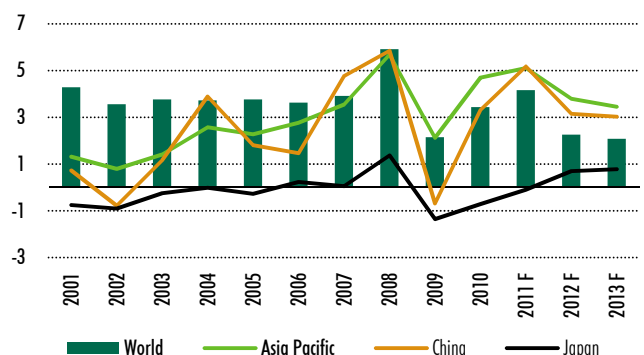
Market	Cooling measures	Impacts
China	<ul style="list-style-type: none"> Raised reserve ratio to 21.5%, a new high Prohibited foreign investment in villa construction Introduced price controls on newly built pre-sold residential projects in Shanghai, Shenzhen and Zhejiang. Pre-sale projects must be sold at prices agreed by the local government. Prices cannot be revised after they are launched without government approval. Set up a framework to issue enterprises with bonds to finance the construction of affordable housing 	<ul style="list-style-type: none"> Constrained loans for developers and buyers and reduced investment Slowed the inflow of foreign capital heading to the real estate market Resulted in the postponement of new launches. Home prices are expected to stabilise in the near term Helped accelerate the construction of public housing
Hong Kong	<ul style="list-style-type: none"> Lowered the LTV ratio to 50% for property valued HK\$10-12 million and 40% for foreign buyers Raised the mortgage rate from 1.4% to 2.3% 	<ul style="list-style-type: none"> Price growth has decelerated from 14.0% q-o-q in Q1 to 8.9% q-o-q in Q2 Sales demand has cooled and trading volume declined by 8.6% q-o-q in Q2
Vietnam	<ul style="list-style-type: none"> Raised the refinancing rate from 12% at end-March to 14% at end-June 	<ul style="list-style-type: none"> Increased the cost of lending and reduced sales demand
Taiwan	<ul style="list-style-type: none"> Introduced a luxury tax in June 	<ul style="list-style-type: none"> Appears to have had no significant impact on luxury housing in downtown Taipei but there has been some price correction in decentralised areas
Malaysia	<ul style="list-style-type: none"> Increased the Statutory Reserve Requirement ratio from 2% to 3% Raised the Overnight Policy Rate from 2.75% to 3.0% 	<ul style="list-style-type: none"> No significant impact so far

Real GDP Growth (% y-o-y)



Source: Oxford Economics

Inflation rate (% y-o-y)



Source: Oxford Economics

Typical Mortgage Rate (%)

Market	Mar 2011	Jun 2011	Q-o-Q (bps)
Beijing	6.67	6.94	27
Shanghai	6.67	6.94	27
Guangzhou	6.67	6.94	27
Hong Kong	1.44	2.25	81
Singapore	1.94	1.44	-50
Kuala Lumpur	4.07	4.40	33
Bangkok	5.87	6.00	13
HCMC	19.50	22.00	250
South Korea	4.86	4.90	4

Source: CBRE
The mortgage rate quoted above is indicative only and varies from bank to bank

CAPITAL VALUES

Capital values of luxury residential property in Asia continued to rise in the second quarter although the rate of growth in many markets was slower than that which was recorded in the first quarter. The CBRE luxury residential capital value index rose by 2.5% q-o-q compared to a 5.5% increase recorded in the first three months of the year. Capital value growth in China eased as buying demand was impacted by new restrictions on home purchases, with Guangzhou the only exception as several new high-end launches stimulated more rapid price growth. In Hong Kong capital value growth decelerated from 14.0% in the first quarter to 8.9% q-o-q in the second quarter as owners turned more willing to cut asking prices in order to sell their property. Home prices in Singapore fell as construction work in selected areas impacted average sales prices. Capital values in Southeast Asian markets including Bangkok and Ho Chi Minh City remained static as interest rate hikes and tightening bank credit dented buyer appetite for residential property.

RENTS

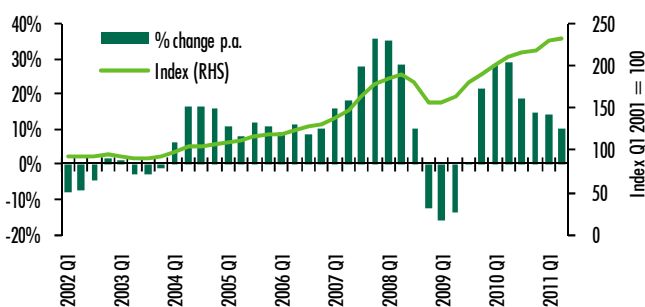
The Asian luxury residential leasing market remained firm during the quarter with the CBRE luxury residential rental index rising by 1.8% q-o-q. Hong Kong registered the strongest rental growth regionally, posting growth of 7.3% q-o-q thanks to strong demand from expatriates. Rents in Singapore declined by 1.8% y-o-y due the large quantum of rental units in non-prime areas. Elsewhere in Southeast Asia leasing demand was sluggish and rents were largely stagnant due to an oversupply of rental units in core areas.

MARKET OUTLOOK

Luxury home prices in Asia are expected to remain stable over the remainder of 2011 although some markets could witness a slight decline. Buyer sentiment is expected to continue to weaken in the face of further interest rate hikes and the tightening of credit, which will put greater downward pressure on home prices. Concern over the potential introduction of new tightening measures in China, Singapore and Hong Kong may also restrain capital value growth. In Southeast Asia, capital value growth is likely to be limited as concern grows over the global economic picture and central banks in the region continue to tighten monetary policy.

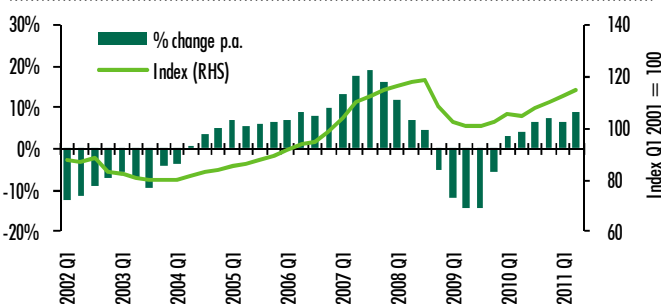
Rents are expected to remain firm in the next quarter amid sustained demand from expatriate executives. In those cities where supply is tight, rents may be boosted further by users opting to rent instead of buy in the face of tight mortgage lending and high cost of property financing.

Asia Luxury Residential Capital Value Index



Source: CBRE

Asia Luxury Residential Rental Index



Source: CBRE

Selected Residential Sales Volume

Market	Q1 2011	Q2 2011
Beijing	21,061	21,396
Shanghai	33,997	31,650
Guangzhou	17,174	19,418
Hong Kong	28,848	26,359
Singapore	7,336	9,059
Bangkok	15,893	17,557
HCMC	2,297	1,074

Source: CBRE and government data

The sale volume here refers to primary sales, except Hong Kong and Singapore in which both primary and secondary sales volume are used.

Selected Luxury Residential Completions Q2 2011

City	District	Property	No. of units
Beijing	Chaoyang	Jinmaofu	982
Beijing	Chaoyang	Park 1872 Ph2	350
Shanghai	Hongkou	Rui Hong Xin Cheng	326
Shanghai	Zhabei	Da Ning Rui Shi Hua Yuan	277
Guangzhou	Tianhe	The Onelink	381
Guangzhou	Tianhe	Danton Sunshine	528
Bangkok	Sukhumvit	The seed memories Siam	303
Bangkok	Paholyothin	The Address Phayathai	154
Singapore	Cairnhill	Hilltops	241
Singapore	Grange	Cliveden At Grange	110
Kuala Lumpur	Sri Hartamas	Plaza Damas 3	595
Kuala Lumpur	Mont' Kiara	Seni Mont Kiara Ph 1	400

Source: CBRE

MARKET SUMMARIES



The implementation of a new round of property control measures impacted demand for luxury residential property in **Beijing** in the second quarter. Capital value appreciation narrowed to 1.9% q-o-q from the first quarter figure of 2.9% q-o-q although performance varied among different districts. Although

some projects outside the CBD were observed to be offering significant discounts in a bid to promote sales, selected luxury projects in central areas raised prices as supply in core locations remains limited. Overall prices are expected to moderate in the near term under the impact of restrictions on home purchases and the rising cost of lending. The leasing market remained active during the review period with rents rising by 1.7% q-o-q, driven mainly by strong demand from expatriates and short-term business travelers.

The overall primary transaction volume in **Shanghai** shrank by 7.0% q-o-q in the second quarter largely due to the impact of restrictions on home purchases. May brought signs of a revival but new supply was not fully absorbed during the quarter. Capital value appreciation for luxury home eased further from 1.2% in the first quarter to 0.9% q-o-q in the second quarter along with the reduced transaction volume. Price growth is expected to level off going forward as the pipeline of new supply over the next six months will more than offset the weakening buyer interest under the tightened credit policies. Rental growth narrowed to 0.2% q-o-q largely due to the completion of new supply in Pudong.

Luxury home prices in **Guangzhou** continued to rise during the second quarter as a number of new high-end launches in prime locations resulted in price growth of 5.2% q-o-q. The leasing market was also active, particularly in the Tianhe Business Area, with overall rents rising by 5.1% q-o-q. Prime rents look set to continue to appreciate thanks to rising demand from expatriates.

In **Hong Kong** capital value growth decelerated from 14.0% q-o-q in the first quarter to 8.9% q-o-q in the second quarter as a result of rising mortgage rates and lower LTV ratios. Rents recorded another upward adjustment of 7.3% q-o-q backed by sustained expatriate demand. Prices in the luxury sector are likely to remain stable while rents will continue to trend upwards.

No new luxury residential projects were launched in **Singapore** in the second quarter as existing projects continued to struggle to attract buyers.



Luxury home prices declined by 1.7% q-o-q while rents fell by 1.9% q-o-q. The decline was attributable to competition from new buildings in non-core locations. Prices for luxury homes may continue to fall slowly although other segments are likely to remain stable.

Demand from buy-to-let investors in **Bangkok** fell in the second quarter as rental yields become less attractive relative to the rising deposit rate. The average asking price for off-plan condominiums fell by 3.2% q-o-q as developers offered discounts to clear their inventory. Investors' weakening appetite is expected to exert further downward pressure on prices in the third quarter. Average rents edged up by 0.6% q-o-q as tenants were more willing to pay a premium for higher quality space.

In **Seoul** the more restrictive deposit-to-income (DTI) ratio adopted by banks in April resulted in a sluggish period for the large-sized luxury residential sales market. Prices in this segment are anticipated to ease as long as the DTI controls remain in force. The leasing market turned more active, however, as many households opted to rent instead of buy, a trend which may result in a rise in rents in the near term.

The continued expansion of the offshoring and outsourcing industry in **Manila** continued to boost expatriate leasing demand in the city in the second quarter, resulting in rental increases of 2.1% q-o-q. Capital values for luxury homes remained stable given the lack of new supply until the Raffles Residences is completed in 2012.

Luxury home prices in **Kuala Lumpur** increased by 0.8% q-o-q in the second quarter. The period saw a number of new launches mainly comprising smaller-sized condos located on the city fringes and suburban areas. Capital values are expected to remain stable as the large quantum of new supply offsets a portion of demand. Rents remained static during the second quarter but are likely to soften as a large volume of rental accommodation will come on stream over the next three months.

The reduction in mortgage availability in **Ho Chi Minh City** discouraged buyer interest in the second quarter, resulting in a price fall of 0.9% q-o-q. Prices are expected to suffer a further decline in the short term as interest hikes reduce home affordability and negatively impact buyer sentiment. The release of a number of unsold projects onto the leasing market during the period saw prime rents slip by 8.4% q-o-q.

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