

# ASIA-PACIFIC CAPITAL MARKETS UPDATE OCTOBER 2018

## Highlights

H1 2018 12 month rolling investment volumes rose 7.5% y-o-y to US\$170.3 billion

Asia-Pacific Investors spent US\$34.4 billion within the region, up 20.8% y-o-y

Focus on core Asia-Pacific markets remain but more interest seen in second-tier markets



**NICHOLAS HOLT**  
Asia-Pacific Head of Research

"As more investors turn their attention towards Asia-Pacific, core markets that provide most liquidity will remain in focus. However, we are starting to see more interest taken in a number of second-tier markets throughout the region"

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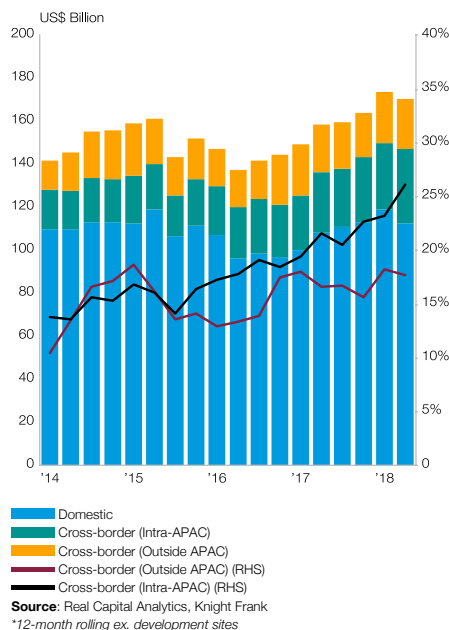
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## APPETITE REMAINS STRONG FOR ASIA-PACIFIC REAL ESTATE

Investor appetite for Asia-Pacific real estate continues to remain robust with US\$170.3 billion, 7.5% year-on-year growth, worth of transactions recorded in the 12 months leading up to June 2018. Interest from non-domestic cross-border buyers has also been active with US\$57.6 billion, up 14.6% year-on-year, worth of transactions or a 34% share recorded in the same period (Figure 1).

FIGURE 1

### Asia-Pacific Real Estate Investments\*



Investment appetite from cross-border Asia-Pacific investors have been on the uptrend and vice versa for investors outside the region. Asia-Pacific cross-border investments amounted to US\$34.4 billion, up 20.8% year-on-year. They accounted for a 26% share of all transactions, a two-fold increase from the 12% share ten years ago. Investors outside the region spent US\$23.3 billion, up 6.6% year-on-year. They accounted for 18% of all transaction, down from the 28% share they held ten years ago.

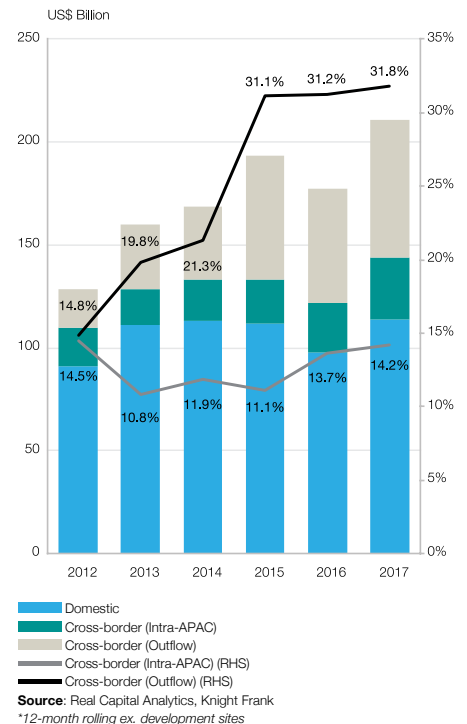
## MORE NEIGHBORHOOD SHOPPING FOR ASIA-PACIFIC CAPITAL

The Asia-Pacific investor spent US\$210.5 billion on real estate globally in 2017, an 18.9% year-on-year increase, of which US\$66.9 billion or 31.8% went to markets outside the region (Figure 2).

This proportion has stayed relatively stable in recent years, hovering around the 31-32% share. Within the region, Asia-Pacific investors spent US\$29.9 million on real estate outside their domestic markets, a 23.3% year-on-year increase and 14.2% share of their total investments. This allocation has seen steady increases over the past several years, 11.1% in 2015, as investors take more interest in regional opportunities as more major western markets (e.g. London) enact barriers of entry for foreign investors – a trend that will continue going forward.

FIGURE 2

### Intra-Asia cross-border volumes growing\*



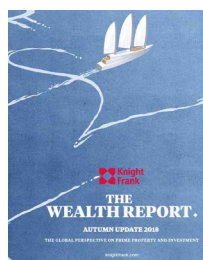
## RECENT MARKET-LEADING RESEARCH PUBLICATIONS



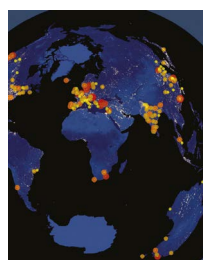
Active Capital Report 2018



Chinese Outbound Real Estate Investment – October 2018



The Wealth Report 2018



Global Residential Cities Index – Q2 2018

## MORE ATTENTION GIVEN TO SECOND-TIER MARKETS

Looking at the top 25 metros in the Asia-Pacific region by sales volumes, traditional core markets such as Hong Kong, Shanghai, Sydney and Tokyo continue to absorb the bulk of capital seeking real estate in the region (Figure 3). However, investors have also started to take interest in other markets around the region shown by their appearance on the top 25 list.

### TIER 2 CHINESE CITIES

Xi'an, a Chinese inner city located in the Shaanxi Province, came in at fifteenth place with sales volumes of US\$718 million, a four-fold increase year-on-year, as a large logistics portfolio was bought by a domestic consortium as part of Global Logistics Properties' buyout. Going forward, the city is expected to experience strong demographic growth following the provincial government's move to lower entry barriers for obtaining residential rights – which will support real estate prices in the city.

### SOUTHEAST-ASIAN METROS

Bangkok appeared on the ranking for the first time placing eighteenth with US\$429 million in sales volumes, driven a slew of hotel purchases by local residential focused developers looking to diversify their businesses and benefit from the country's ballooning tourism industry. Thailand has seen a surge in tourism in recent years with latest arrival figures showing 19.5 million visitors spending THB1.02 trillion in H1 2018, a 12.5% and 16% respective year-on-year growth.

## INDIA

Mumbai placed twelfth, the highest position it has reached over the last five years, with US\$1.28 billion in sales volumes, a seven-fold increase year-on-year, on strong increased demand from overseas investors for its commercial assets. A major transaction during the period was Blackstone's US\$730 million purchase for a 50% stake in two core CBD buildings from Indiabulls Real Estate. India is expected to remain the world's fastest growing economy with the International Monetary Fund projecting GDP growth of 7.3% in 2018, stroking more interest from foreign investors; "early movers" Blackstone and Singapore's GIC both have spent US\$5.1 billion and US\$3.5 billion on core commercial assets in recent years as the office sector has seen strong rental growth trends on the back of limited quality supply in the market.

## FOCUS ON CORE MARKETS REMAIN; MORE INTEREST SEEN IN SECOND-TIERS

More capital is expected to seek out Asia-Pacific real estate and investors will continue to focus on the core markets such as Hong Kong, Shanghai, Sydney and Tokyo. However, as valuations in these markets start to look fully valued, we are seeing investors start to take more interest in previously sidelined second-tier markets as their risk adjusted prospects turn more favorable; second-tiers defined as emerging market metros and Tier 2 and below metros in China (Figure 3). Going forward, we believe the capitals of major emerging markets such as Bangkok and Mumbai could be beneficiaries of increased capital flows in the coming years.

## ASIA-PACIFIC RESEARCH

### Nicholas Holt

Asia-Pacific Head of Research  
+86 10 6113 8030  
nicholas.holt@asia.knightfrank.com

### Justin Eng

Senior Manager Research, Asia-Pacific  
+65 6429 3583  
justin.eng@asia.knightfrank.com

## ASIA-PACIFIC CAPITAL MARKETS

### Neil Brookes

Head of Capital Markets, Asia-Pacific  
+65 6429 3585  
neil.brookes@asia.knightfrank.com



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FIGURE 3

### Top 25 Asia-Pacific metros by transaction volume\*

2013	2014	2015	2016	2017	H1'18	Metro	Sales Volume (US\$m)
2	3	3	3	1	1	Hong Kong	19,681
1	1	1	1	2	2	Tokyo	9,276
6	8	10	5	5	3	Seoul	7,785
4	2	4	4	4	4	Sydney	4,346
5	4	2	2	3	5	Shanghai	3,687
7	5	5	8	7	6	Melbourne	2,852
3	6	6	7	6	7	Singapore	2,715
8	7	7	6	8	8	Beijing	1,496
NR	NR	NR	18	22	9	Chongqing	1,367
NR	NR	NR	NR	14	10	Guangzhou	1,326
9	9	9	10	10	11	Brisbane	1,285
NR	21	NR	13	NR	12	Mumbai	1,281
NR	NR	NR	19	9	13	Yokohama	969
14	15	15	17	19	14	Taipei	885
NR	NR	NR	NR	NR	15	Xian	758
12	18	25	14	NR	16	Fukuoka	602
NR	NR	NR	NR	NR	17	Dalian	483
NR	NR	NR	NR	NR	18	Bangkok	429
10	11	8	9	11	19	Osaka	417
NR	NR	NR	NR	21	20	Saitama	396
11	19	NR	15	18	21	Perth	387
20	16	12	20	16	22	Auckland	334
NR	NR	NR	24	NR	23	Tianjin	314
17	14	19	21	25	24	Nagoya	294
NR	NR	NR	NR	NR	25	Adelaide	287

China Tier 2 Markets Emerging markets NR = Not Ranked Top 25  
Source: Real Capital Analytics, Knight Frank

\*12-month rolling ex. development sites