

# Asia Luxury Residential MarketView

Q4 2012

CBRE Global Research and Consulting

 Q4 GDP  
4.3% y-o-y

 PRICES  
1.5% q-o-q

 RENTS  
-0.7% q-o-q

 EMPLOYMENT  
OUTLOOK

## MARKET RECORDS FURTHER PRICE GAINS BUT RENTS FALL DUE TO WEAKER EXPATRIATE DEMAND

### Hot topics

- **Economic growth** in Asia Pacific slightly improves in Q4 2012 to 4.3% y-o-y, up from 4.1% y-o-y in Q3 2012, thanks mainly to a revival in growth in China and reduced concern over the Eurozone debt crisis and fiscal cliff in the United States
- In China, Vietnam and India the high **cost of borrowing** for real estate and difficulty in obtaining bank loans remains a major concern for developers. Many have been forced to seek alternative sources of funding
- Luxury home price growth in **Hong Kong** moderates further from 3.4% q-o-q in Q3 2012 to 0.6% q-o-q in Q4 2012 as government cooling measures take hold. The leasing market remains subdued and continued to be adversely affected by job cuts in the financial sector
- The impact of cooling measures continues to weigh on buyer interest in **Singapore**, with price growth narrowing from 3.8% q-o-q in Q3 2012 to 1.8% q-o-q. Leasing activity also moderates during the period
- Luxury home prices in **Manila** surge by 13% q-o-q during Q4 2012 thanks to sustained economic expansion and income growth. Rents hold steady amid increasing competition from houses located in luxury township developments

Luxury home prices in Asia recorded further gains in Q4 2012 with the CBRE Asia Luxury Residential Price Index rising by 1.5% q-o-q, a slower increase than the 2.4% q-o-q growth recorded in Q3 2012. Prices continued to record steady growth in China due to sustained demand for upgrading, although increases were generally smaller than in Q3 2012. In Southeast Asia Bangkok, Kuala Lumpur and Manila recorded price gains as buyer sentiment remained positive amid continued economic growth.

The CBRE Luxury Residential Rental Index fell by 0.7% q-o-q in Q4 2012, bringing an end to the growth witnessed in previous quarters. Rents weakened in Hong Kong, Ho Chi Minh City, Kuala Lumpur, whilst were flat in Singapore, New Delhi and Mumbai. The more subdued rental market was primarily due to weaker demand from expatriates as multinational corporations continue to cut costs.

Market fundamentals including steady demographic growth, urbanisation and the rising number of high-net-worth individuals in the region will support further price growth in the luxury residential sector over the course of 2013. The limited supply of high quality residential stock in first-tier Chinese cities and selected Southeast Asian markets including Bangkok and Manila, will provide additional momentum to price appreciation in these markets.

However, cooling measures will remain in place during 2013 and will limit price growth to a certain extent. Authorities may be prompted to roll out additional measures to rein in speculative and investment demand in selected markets amid concerns over housing affordability. The leasing market is expected to weaken further as multinational corporations keep a lid on costs, a trend that will exert downward pressure on rents.

**Table 1: Selected Asia Luxury Residential Prices and Rents**

Region/country	City *	Local currency measure (LCM)	Average Prices			Average Rents		
			LCM	US\$/sq.ft.	q-o-q (%)	LCM pm	US\$/sq.ft.p.m	q-o-q (%)
Greater China	Beijing	RMB/sq.m.	57,364	854.9	2.5	124.9	1.9	1.1
	Shanghai	RMB/sq.m.	86,328	1,286.6	1.5	150.1	2.2	0.1
	Guangzhou	RMB/sq.m.	35,667	531.6	1.6	85.2	1.3	1.1
	Hong Kong	HK\$/sq.ft.	22,489	2,901.2	0.6	46.2	6.0	-2.4
Singapore	Singapore	S\$/sq.ft.	2,800	2,292.1	1.8	5.1	4.1	0.0
Thailand	Bangkok	THB/sq.m.	149,006	452.3	3.8	384.0	1.2	1.3
Vietnam	Ho Chi Minh City	US\$/sq.m.	3,925	364.6	-0.7	15.1	1.4	-3.8
Malaysia	Kuala Lumpur	RM/sq.ft.	754	246.5	0.8	3.3	1.1	-0.2
India	Delhi - NCR	INR/sq.ft.	60,042	1,094.1	-0.2	133.7	2.4	0.0
	Mumbai	INR/sq.ft.	67,500	1,230	0.0	170	3.1	0.0

Source: CBRE Research

(\*) Notes: Refers to luxury residential apartment/condominium units. The following markets are quoted on a gross floor area basis: Beijing, Shanghai, Guangzhou, Hong Kong, Kuala Lumpur, Delhi and Mumbai. Others are quoted on a net floor area basis. The minimum price threshold for Shanghai luxury residential basket was adjusted to RMB 60,000 psm in Q4 2012.

# ECONOMIC UPDATE AND LENDING ENVIRONMENT

## GROWTH IN ASIA PACIFIC RECOVERES AMID SLIGHT ECONOMIC REVIVAL IN CHINA

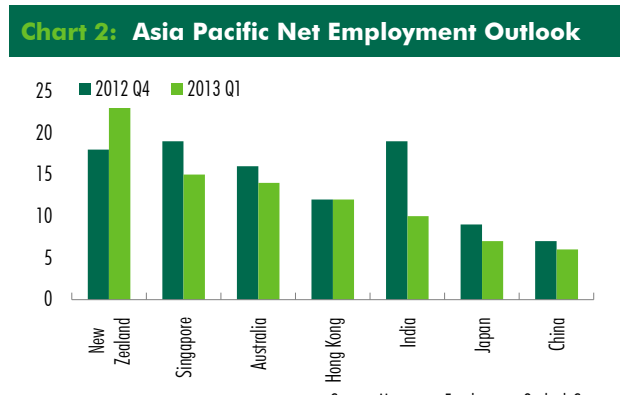
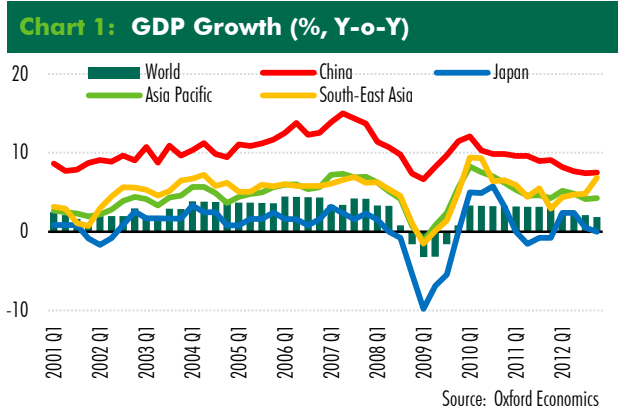
Economic growth in Asia Pacific slightly improved in Q4 2012 to 4.3% y-o-y, up from 4.1% y-o-y in Q3 2012, due mainly to a mild revival in growth in China and reduced concern over the Eurozone debt crisis and fiscal cliff in the United States. Regional purchasing managers indexes (PMI), business sentiment and consumer confidence all posted minor improvements during the period, although it remains unclear as to whether this recovery can be sustained.

Growth performance varied among individual economies. China's GDP growth picked up to 7.9% y-o-y in Q4 2012, boosted by increased infrastructure and fixed asset investment. Singapore, Hong Kong and South Korea likewise exhibited better performance over the fourth quarter, thanks to the economic upturn in China. In contrast, Japan's economy remained beset by deflation and sluggish trade whilst India continued to struggle under the impact of high inflation and its large current account deficit. Meanwhile, growth in Australia eased in the second half, due to the lower contribution to growth from mining investment. Other economies in the region generally displayed a steadier or slightly slower pace of growth over the same period.

The employment outlook for Asia Pacific was largely unchanged on a q-o-q basis as employers remained cautious about new hires. Looking ahead, employment prospects will be stable or weaken slightly in New Zealand, Singapore, Australia, Japan and China. Despite the slight uplift in regional economic growth in Q4 2012 the economic situation in the United States and Eurozone will continue to weigh on sentiment and dampen prospects of a significant upturn.

The overall lending environment remained favourable to lenders in Q4 2012 as most markets held their interest rates firm following several reductions earlier in the year. Mortgage rates in most markets were unchanged in Q4 2012 and were on average lower over the course of the year than those in 2011. In Hong Kong and Singapore mortgage rates remained below 3% throughout 2012. Interest rates are expected to remain low over the course of 2013.

In China, Vietnam and India the increased cost of financing for real estate and difficulty in obtaining bank loans remained a major concern for developers. Many have been forced to seek alternative sources of funding. Chinese developers have shown a greater interest in entering into joint venture agreements with foreign investors for residential projects. In Bangkok the labour shortage is proving a headache for developers and is resulting in higher costs and longer construction periods. Leading developers have attempted to overcome this challenge by producing prefabricated modules.



Note: The net employment outlook is derived by subtracting % of employers anticipating total employment to increase from % expecting to see a decrease in the next quarter

**Table 2: Typical Mortgage Rate (%)**

Market	Dec 2012	Sep 2012	Q-o-Q (bps)
China	6.6	6.6	0
Hong Kong	2.8	2.8	0
Singapore	1.52	1.14	38
Kuala Lumpur	4.2	4.2	0
Bangkok	5.16	5.16	0
HCMC	15	15	0
South Korea	4.19	4.29	-10
India	14.5	14.75	-25

Source: Local lenders  
Note: The mortgage rate quoted above is indicative only and varies from bank to bank

# MARKET FUNDAMENTALS

## PRICES RECORD FURTHER GAINS BUT RENTS ENTER DOWNWARD CYCLE

### PRICES

Luxury home prices in Asia recorded further gains in Q4 2012 with the CBRE Asia Luxury Residential Price Index rising by 1.5% q-o-q, a slower increase than the 2.4% q-o-q growth recorded in Q3 2012. Prices continued to record steady growth in Beijing, Shanghai, Guangzhou and Shenzhen due to sustained demand for upgrading, although increases were generally smaller than in Q3 2012. In Southeast Asia, Bangkok, Kuala Lumpur and Manila recorded price gains as buyer sentiment remained positive amid continued economic growth. Singapore and Hong Kong both witnessed slower price growth as cooling measures continued to dampen buyer interest.

Trading activity continued to increase in China mainly due to the release of pent-up demand for upgrading as the economy continued to improve. Southeast Asian markets also witnessed steady activity whilst Singapore and Hong Kong saw a noticeable slowdown as many buyers moved into wait-and-see mode.

### RENTS

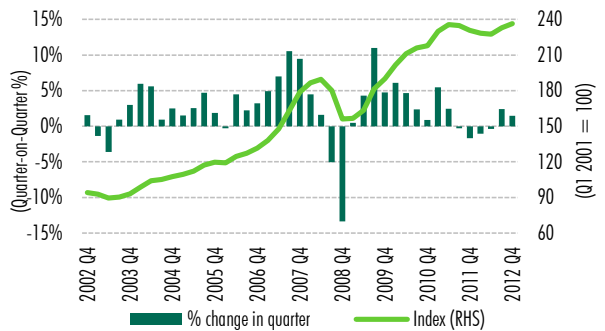
The CBRE Luxury Residential Rental Index fell by 0.7% q-o-q in Q4 2012, bringing an end to the growth witnessed in previous quarters. Rents weakened in Hong Kong, Ho Chi Minh City, Kuala Lumpur, and were flat in Singapore, New Delhi and Mumbai. The more subdued rental market was primarily due to weaker demand from expatriates as multinational corporations continued to focus on cutting costs.

### MARKET OUTLOOK

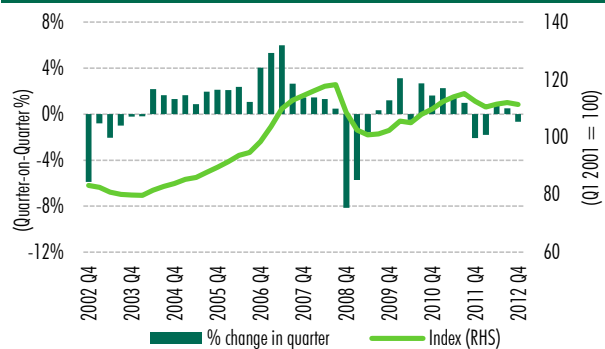
Market fundamentals including steady demographic growth, urbanisation and the rising number of high-net-worth individuals in the region will support further price growth in the luxury residential sector over the course of 2013. The limited supply of high quality residential stock in first-tier Chinese cities and selected Southeast Asian markets including Bangkok and Manila, will provide additional momentum to price appreciation in these markets.

However, the uncertain global economy will likely continue to weigh on buyers' interest in the Asian luxury residential market. Market cooling measures will remain in place in many markets across the region during 2013 and limit growth to a certain extent. Authorities may be prompted to roll out additional measures to rein in speculative and investment demand in selected markets amid growing concern over housing affordability. The leasing market is expected to weaken further as multinational corporations keep a lid on costs. Leasing demand for luxury apartments will remain subdued and will continue to exert a downward pressure on rents.

**Chart 3: Asia Luxury Residential Price Index**



**Chart 4: Asia Luxury Residential Rental Index**



**Table 3: Selected Completions Q4 2012**

City	District	Property	No. of units
Bangkok	Riverside	The River	838
Makati	Makati CBD	Raffles Residences	220
Singapore	District 10	Bishopsgate Residences	31
Hong Kong	Kowloon Tong	Le Chateau	31

**Table 4: Selected Development Pipeline**

City	District	Property	No. of units
Guangzhou	Tianhe	The Canton Mansion, Central Parkview	512
Kuala Lumpur	Kg. Baru	Setia Sky Residence (A & B)	422
Kuala Lumpur	Mont'Kiara	Verve Suites (Block Vax)	250
Singapore	District 9	Goodwood Residence	210
Beijing	Chaoyang	No.8 Royal Park (ph2)	200
Hong Kong	Mid-Levels	18-27 Hing Hon Road	168
New Delhi	Gurgaon	Michael Schumacher World Tower	98
Makati	Makati CBD	Discovery Primea	90
Mumbai	Central Mumbai	Kohinoor Square	72

## GREATER CHINA



Luxury home prices in **Beijing** increased by 2.5% q-o-q, underpinned by improved market sentiment and upgrade demand. Many developers no longer offered price discounts and some even increased prices at a number of larger projects. The leasing market was stable with rents edging up by 1.1% q-o-q. Prices and rents are expected to record further growth during 1H 2013 even though property curbs will remain in place.

In **Shanghai** sales volume of luxury apartments rose by 7% q-o-q in Q4 2012, mainly driven by purchasing activity by end-users. Traditional luxury residential areas remained the main focus for buyers. Luxury home prices went up by 1.5% q-o-q in overall terms. The luxury residential market will remain stable in 2013 amid limited supply and the continued revival of upgrading demand, which will provide support to sales for reasonably priced projects.

The **Guangzhou** luxury residential market remained upbeat as sustained upgrading demand combined with the launch of several high-end projects resulted in an increase in luxury home prices of 1.6% q-o-q. However, rental growth slowed to 1.1% q-o-q due to high vacancy and caution among multinational corporations. Prices are expected to hold firm at current levels, supported by limited supply and high land prices. Rents may edge up further as new apartments raise rents. Future supply will be concentrated in the emerging areas of Luogang and Panyu.

In **Shenzhen** the luxury residential sales market was relatively quiet as home purchase restrictions continued to weigh on sentiment. Price growth normalised to 2% q-o-q following a rapid upsurge in Q3 2012 caused by the launch of a highly priced project in that quarter. Sales volumes were steady. Rents rose by 0.8% q-o-q on the back of stable demand from expatriate employees of multinational corporations. Prices will rise steadily due to limited new supply in the pipeline for 2013.

Luxury home price growth in **Hong Kong** moderated further from 3.4% q-o-q in Q3 2012 to 0.6% q-o-q in Q4 2012 as government cooling measures took hold. The leasing market was subdued as it continued to be adversely affected by job cuts in the financial sector. Transaction volume is likely to remain subdued as much of the speculative demand has shifted from the residential sector to the commercial sector. Nevertheless, future supply in the luxury sector will remain tight and should support future price growth.

## NORTH ASIA



In **Seoul** luxury home prices declined for a seventh consecutive quarter in Q4 2012. In the leasing market the lump-sum deposit required for rental space (Jeonse) continued to rise as potential buyers generally preferred to rent in anticipation of further price depreciation. The subdued investment sentiment and weak economy is expected to ensure prices remain depressed unless additional stimulus measures are implemented by the government.

## SOUTH EAST ASIA



The impact of cooling measures continued to weigh on buyer interest in **Singapore**, with price growth narrowing from 3.8% q-o-q in Q3 2012 to 1.8% q-o-q. Sales volumes of new homes fell by 25% on a q-o-q basis. Leasing activity also moderated during the period. Buyers and developers are expected to adopt a wait-and-see attitude following the latest round of cooling measures. New home sales are anticipated to fall by 10% to 15% in 2013.

**Bangkok** luxury residential prices surged by 3.8% q-o-q in Q4 2012 due to rising prices in downtown areas and strong buyer demand, combined with limited stock. Prices are expected to increase further, particularly in downtown areas where potential purchasers are willing to pay a premium for quality properties. The one bedroom sector – which generally consists of mid-market developments outside the CBD catering mainly to students and first time buyers – continues to drive sales and will do so for the foreseeable future.

The **Kuala Lumpur** luxury residential market remained stable in Q4 2012 with prices edging up by just 0.8% q-o-q. Rental growth was minimal. Around 8,300 high-end condominium units will be completed in Kuala Lumpur by the end of 2013, a relatively large volume of supply compared to previous years, although the completion of some projects may be delayed. The market is likely to remain quiet in the run-up to the general election which is scheduled to take place before the end of 1H 2013.

**Ho Chi Minh City** saw luxury home prices fall by 0.7% q-o-q as buyers remained unwilling to enter the market due to the prevailing high prices. No new projects were launched during the period. The leasing market remained sluggish mainly due to a significant drop in the number of expatriates looking for accommodation. Rents in all submarkets hit new lows during Q4 2012 and are expected to decline further in the months ahead.

Luxury home prices in **Manila** surged by 13% q-o-q during Q4 2012 thanks to sustained economic expansion and income growth. Rents held steady amid increasing competition from houses located in luxury township developments. In the leasing market landlords were reluctant to raise rents as the strong peso has made leasing more expensive for expatriates whose budgets are set in dollars. Looking ahead, the sharp increase in capital values in Q4 2012 will dampen future price growth as prices are already at very high levels. Rents are expected to remain firm but may even rise in forthcoming quarters as leasing demand is likely to increase alongside the expansion of multinational and BPO companies.

## SOUTH ASIA



The **New Delhi** luxury residential market remained stable during Q4 2012 with prices in Golf Links, Shanti Niketan and Chanakyapuri edging up and those in Vasant Vihar registering a mild decline. Investors were generally cautious in the face of sustained high prices. In the leasing market demand and rents remained steady. Given the ample supply and weak buyer interest the market is expected to remain subdued in the first two quarters of 2013.

Both prices and rents in **Mumbai** remained unchanged in Q4 2012. Prices remained high due to the combined influence of strong buying demand for luxury homes in the city and a slowdown in supply amid a delay in approvals from authorities. Prices across various submarkets are expected to remain stable or firm up marginally as a result of high land prices and increasing construction costs. However a reduction in interest rates by the central bank may encourage buyers and investors to quicken their purchase decisions.

**Table 5: Property measures introduced during Q4 2012**

Market	Measures	Impact
China	No new measures were introduced during the review period but the Central government reiterated its firm stance towards implementing property market controls at the Central Economic Work Conference in December 2012.	No impact but the comments indicate the government's commitment to reining in price growth and underscores the fact that more tightening policies will be introduced if necessary.
Hong Kong	A new buyer stamp duty (BSD) of 15% on non-local and company buyers was imposed at the end of October. In addition the Chief Executive announced a series of measures to increase land supply with a target of building 65,000 new residential flats over the next three to four years.	Sales volume in the primary market declined but the BSD has failed to rein-in prices. Longer term measures such as the increase in land supply will have little immediate impact on curbing housing prices
Malaysia	An increase in Real Property Gains Tax (RPGT) by 5% to 15% for properties sold within 2 years and by 5% to 10% for properties sold within 3-5 years officially went into effect on 1st January 2013	No impact thus far as most investors – particularly those in the luxury residential sector - tend to hold their properties for more than five years
Singapore	The loan-to-value (LTV) ratio for second housing loans was lowered to 50% from 60% previously, and to 40% for the third loan onwards. For foreign homebuyers, the additional buyers stamp duty was raised from 10% to 15%.	The impact is likely to be limited as underlying demand from genuine homebuyers is still strong. Buyers and developers will adopt a wait-and-see approach over the next two to three months until the market can digest the new measures

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