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Cash-rich Investors Opt for Property Assets for Recurring Income

115% Surge in Greater China & 259% Increase in South Asia

Focus Shift from Residential to Office Sector in Asia Pacific

26 March 2010, Bangkok – The real estate market in Asia Pacific continued to benefit from the improving sentiment and the gradual economic recovery in the second half of 2009. Rebounding from the trough seen in 1Q 2009, the region experienced a significant surge in sales transaction volumes during the second half of 2009. Compared to 2Q 2009, the total turnover of real estate investment transactions in 4Q 2009 increased 115% to US\$8,840 million in Greater China, and 259% to US\$3,262 million in South Asia.

“Greater China was the key contributor to the upsurge in market volume during the second half of 2009, despite a number of measures implemented by the Central Government to curb speculative purchases,” said Piers Brunner, chief executive officer, Asia of Colliers International. “Meanwhile, cash-rich investors can opt to keep property assets in their portfolio for recurring income.”

Elsewhere in Asia Pacific, the pace of recovery in terms of volume was generally slower than expected. In Australasia, the overall volume in the second half of 2009 remained 50% below the levels seen before the financial crisis, due to rate hikes and sales withdrawals by individual vendors.

Amongst different property sectors, residential sector took the largest slice in the region. The turnover of residential property investment transactions was US\$5,229 million in 4Q 2009, registering a 116% increase from 2Q 2009. In terms of growth rate in the second half of 2009, industrial property investment transaction recorded the steepest rebound, with a 253% rise in turnover from 2Q 2009 to US\$1,505 million in 4Q 2009.

“Despite the surge in both capital values and transactional volume during the second half of 2009, the leasing market has yet to catch up,” said Simon Lo, director of Research & Advisory, Colliers International (Hong Kong). “This was reflected in the fall of investment yields in the region. Comparing 2Q 2009 to 4Q 2009, the yields of the key property sectors, including office, residential, retail and industrial sectors, in Greater China and South Asia, have registered falls of 3 to 100 basis points.”

The property rentals continued to trend downwards during the second half of 2009 due to fragile occupational demand. “In individual centres, higher-than-average vacancy rates in the secondary markets and plentiful new supply remain the challenges in their leasing markets,” mentioned Simon. “However, with the gradual economic recovery, together with real growth in real estate demand as a result of job growth and business expansion, the leasing market might hit bottom in the second half of 2010.”

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The prevailing positive market sentiment is expected to continue in 2010. “There are some challenges in the market like sustained cap rates compression, further tightening of credit supply by governments, high risk premium put in for real estate financing, etc.,” said Antonio Wu, regional director, Asia Investment Sales. “However, western institutions’ allocations to Asia and Sovereignty Wealth Funds’ activities will serve as positive driving forces in Asia Pacific,”

The real estate market trends of individual locations are as follows:

Hong Kong

In 2010, the market sentiment is buoyed by the anticipation of solid economic fundamentals and rising consumer prices. The investment market focus is expected to fall on strata-title offices in CBD and prime retail units in traditional shopping areas.

Mainland China

Investors’ interests in the real estate market in China will sustain, despite compressed cap rates and the government’s policies to curb speculations. With abundant liquidity, optimistic economic outlook and perceived small risk on monetary policy, local developers/investors compete with foreign funds to acquire core assets. Due to tightening measures by the government, the residential market in China may become more vulnerable. However, the strong appetite of investors is anticipated to result in increasing office and retail sales transactions.

Singapore

In Singapore, there are signs of recovery in the banking and financial sectors. Despite the challenge of a slippage of the recovery cycle and further yield compression, the real estate market remains opportunistic. For example, the residential and industrial prices are relatively attractive compared to other core markets in Asia and the demand in commercial properties is picking up.

Thailand

The overall investment market remained weak during the second half of 2009 due to the prevailing uncertainty regarding perceived political instability in Thailand. “Perceptions count in the foreign media contrary to what is actually happening on the ground”, pointed out Patima Jeerapaet, Managing Director of Colliers International Thailand”. The current concerns of the Map Ta Phut Industrial Estate have cast a shadow over industrial investment in Thailand but recent approvals have eased the doubts of both the foreign and domestic industrial sector. Direct foreign investment in real estate remains weak and foreign equity investors are continuing to retrench. Mr Patima concluded, “Interest in the Thai property market remains strong but only a sustained period, free of dislocations, will unleash foreign capital onto the market. Domestic investment continues to be the engine for property led by listed developers in the mid end condominium segment.”

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