

## HD Investors Jump Into Asian Office Space

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**HONG KONG** -- Global investors pumping funds into Asia in search of higher returns have added office space to their shopping lists, new data from Cushman & Wakefield indicate.

Encouraged by low global interest rates and rising evidence of world-wide economic recovery, foreign investors bought office space for a record \$6.16 billion in the region in the second quarter, according to the U.S.-based **commercial-real-estate** agency, more than double what they bought in the same three months of 2013.

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"There's a lot of capital just floating around," said Sigrid Zialcita, Cushman & Wakefield's managing director for Asian research in Singapore. "It's a vote of confidence for the region. They look at Asia-Pacific as a future growth market."

South Korea and Australia are at the forefront of demand, Ms. Zialcita said. She said office rentals yield between 5% and 7% a year in those markets. Foreign **purchases** in South Korea more than doubled in the second quarter to \$1.3 billion, led by the \$497.7 million **purchase** in June of the 22-story K Twin Towers in Seoul's central business district by KKR & Co. and **Hong Kong**-based private-equity **firm** LIM Advisers from Korean **property** fund manager Vestas Investment Management.

Blackstone's \$403 million **purchase** of a 50% stake in Sydney's 33-storey Westpac Place from local **property** developer Mirvac **Group** topped the \$3 billion in foreign buying in Australia.

Foreign investors also more than doubled their **purchases** in **China**, to \$931 million, defying a 35% decline in overall buying of office space, according to Cushman & Wakefield.

**Hong Kong**-based private-equity **firm** Gaw Capital paid \$928 million in April to **buy** Pacific Century Place, an office and **residential** building in Beijing's Sanlitun shopping district.

The surge in foreign demand for Asia's **commercial** real **estate** is part of booming demand for assets around the region -- and in emerging economies world-wide -- as record-low interest rates in the U.S., Europe and Japan drive investors into higher-risk assets abroad to offset low returns at home.

Emerging markets saw \$44 billion in portfolio inflows in July, according to the Institute of International Finance in Washington, the highest monthly amount in two years, bringing total investment in emerging markets to \$195 billion this year, nearly equaling the \$208.9 billion for all of 2013.

The pouring of money into riskier assets earned warnings last month from the U.S. Federal Reserve and the International Monetary Fund that investors may be excessively optimistic. Central bankers in emerging markets worry not only that rapid inflows of speculative money will create inflation and create asset-price bubbles, but that a rapid reversal could send their currencies plunging, potentially causing financial crises.

Concerns about such risks are rising as improving U.S. economic growth gives rise to predictions that the Fed will eventually start raising rates. Not only might that attract global funds back to the relative safety of the U.S., but higher rates could force heavily indebted investors to sell riskier assets, sparking a correction in prices.

Steeling themselves for such risks, Asian central banks have amassed almost \$7.5 trillion in foreign-currency reserves. Authorities in **Hong Kong** and Singapore have gone further, reining in **property** speculation by imposing restrictions on investment and real-**estate**-related lending.

**China** and South Korea recently lifted restrictions on housing investment in a bid to arrest falling prices and slowing growth. "The slowdown is mostly on the **residential** side," said Christie Ju, an analyst at Jefferies in **Hong Kong**, "so the stimulus is unlikely to come to **commercial property**."

Nevertheless, hopes for improved economic growth and higher yields drew foreign investors into **commercial** office space in both countries.

Foreign investors now dominate buying in South Korea, according to Cushman & Wakefield, accounting for almost 70% of all **purchases** in the second quarter. Ms. Zialcita said foreigners were enticed not only by relatively high yields, but also by hopes that an improving global economy would buoy demand for Korean exports, leading to more need for office space as companies expand.

A similar logic is driving foreign demand for other Korean assets. Foreigners have bought at least \$4.4 billion in Korean stocks this year, according to Jefferies. And as of June, U.S. investors had bought half of the Korean bonds **sold** globally in 2014, according to Bank of America Merrill Lynch. Based on Dealogic data, that would represent \$10.7 billion in investments.

The \$3 billion of Australian office space foreigners bought was also more than double their **purchases** last year. Ms. Zialcita said that despite the fading out of Australia's mining boom, rental yields of roughly 6% in Sydney and Melbourne and 7% in Perth kept foreign demand strong.

"Even if interest rates go up," she said, "the spread is still very attractive."

Canada is the largest source of buying into markets around Asia, according to Cushman & Wakefield, accounting for \$1.9 billion in **purchases** in the second quarter. Much of that was attributable to the conclusion of a deal for the assets in Australia's Commonwealth Office **Property** Fund, in which the Canada Pension Plan Investment **Board** was one of two buyers. Canada was followed by the \$1.8 billion in **purchases** by investors from the U.S.

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