

Boom Bubble Bust

Eastern Intrigue

Travel to Far East reveals market differences but leasing practices and concepts aren't far off *by Charles Achilles*

My experience on this Spring's Realcomm Asia Next Gen Commercial Real Estate Tour elicited a great deal of information regarding the state of the market in Asia's different real estate sectors, leasing operations and property manager responsibilities.

Property managers in Asia are mainly responsible for day-to-day operational management, like security, cleaning, insurance and emergency support. On-site staff typically caters to property managers' needs and requests in the Asian market.

In general, amenities in Asian commercial buildings are excluded from rent costs. Wireless services, management fees and government rates or taxes are extra costs to tenants.

Shanghai

Shanghai's designation as the 2010 World Expo site has triggered interest in office, retail and multifamily residential real estate properties, especially from multinational companies. The city's valuable location on the eastern seaboard in the Yangtze River Delta has already made it an eminently important trade center. In 2004, it recorded its 12th year of double digit economic growth.

Currently, more than 1,000 building permits for both commercial and residential high-rise buildings have been issued and are awaiting construction. Demand for office space exceeded supply in several different areas of Shanghai during the first quarter of 2005, causing a rise in rentals in those same areas.

Grade A office rental prices rose from \$.81 per square meter per day to \$.90 per square meter per day during the quarter, according to Colliers International. By 2009, the city is projected to have 14 million square feet of office space.

Luxury residential rental rates increased by 1.7 percent, and high-end rental rates increased by a half percent to \$153 per square meter.

The government owns all the land and exerts more control over enterprises than in the United States. According to Colliers International and Jones Lang LaSalle information, recent government-imposed regulations—a 5.55 percent capital gains tax on properties held for less than one year and a ban on mortgage transfers among Shanghai banks—have restrained spiked luxury residential prices.

Hong Kong

Hong Kong's real estate market has been depressed for the last two years because of dropping real estate prices. However, the residential sales market lulled in the first quarter of 2005: Sellers upped property prices and buyers were more cautious of buying, according to Jones Lang LaSalle information. Landlords benefited: Demand surged for "high-end," "lump sum" properties—properties that have been difficult to occupy for the past couple years.

In the office market, Grade A office vacancy rates in the central office market fell from 6.9 percent in the fourth quarter of 2004 to 5.8 percent in the first quarter of 2005. Leasing activity stemmed mainly from financial and legal sector tenants looking to expand or relocate.



According to information from Jones Lang LaSalle, target occupants for the most premium office spaces, typically located in the central part of the city, include banks, investment and legal firms and global corporations. Average Grade A office space rentals are projected to grow 40 percent throughout the rest of this year and early into 2006, according to information from Colliers International.



Grade B and C spaces are most often intended for manufacturing, trading and shipping entities and are located on the fringe of the city with comparatively low rent prices.

The standard lease for commercial properties is two to three years. For larger space, the lease term can be longer.

Upon execution of the Tenancy Agreement, tenants are required to pay one month rent in advance, plus two to three months deposit of rental, management fee, government rates and other charges. Deposits are returned to tenants at the end of the lease, less any charges. In addition to base rental charges, tenants pay management fees, air conditioning charges and government rates in advance.

Some typical perks available in commercial buildings include lift with access control, unlimited power supply and redundancy, a raised floor with broadband and designated cooling systems for server rooms, according to information from Jones Lang LaSalle. Normally the cost of these perks is excluded from rent. Tenants can lease with owners to enjoy these perks at the agreed cost.

Property managers utilize standard marketing tactics like press advertisement, flyer distribution, direct canvassing, and faxes and e-mails to third party agents to acquire occupants for vacant spaces.

Tokyo

The world's most populous city with 26.4 million residents in 2000, the property densities are among the highest in the world.

The median income in Japan is higher than in the United States, but the cost of living in Japan is much higher. As a result, housing is downsized versus the United States, specifically due to the cost per square foot of housing. The average home in Japan is about 800 sq. ft. and costs about \$400,000 to buy. Average apartment rent is about \$90 per sq. ft. per year. Multi-use complexes and larger floor plates are the current trend, according to Colliers International information.

Land prices fell for a 14th consecutive year in 2004. A slowdown in the pace of declines and widening pockets of strength are appearing. However, oversupply of buildings is projected to prolong the market's overall weakness in 2006, according to Colliers International.

In 2004, commercial property prices fell 5.6 percent compared to 7.4 percent in 2003. A typical Grade A, full service property—not including utilities—runs \$180 per square foot per year. Grade A vacancy rates dropped for the seventh consecutive quarter, while Grade A rental rates rose.



The Central Business District touted three new fully occupied Grade A office buildings during the first quarter of 2005—adding 121,732 square meters to the area's total office space. Office space is often pre-committed because of the lack of supply relative to the increasing number of multinational and local corporations needing space. A typical lease is for two years and automatically renews in two years. A new lease term clause is typically five to six years.

Seoul

A technically savvy country with a population of 48 million people, virtually all homes in South Korea are wired for high speed connections at about \$20 per month, according to information from the Realcomm tour.

Although property vacancy rates continue to increase in Seoul, it still enjoys a relatively low vacancy rate of less than 4 percent. However, a projected high unemployment rate in 2005 will cause the vacancy rate to break the 4 percent range.

The emergence of a reformed real estate market and new investment opportunities are quickly reshaping how real estate business is done in South Korea. The Real Estate Investment Trust Act was passed by the National Assembly in September 2004, introducing the securitization of real estate. The act went into affect in April.

In office buildings, tenants pay maintenance fees covering air conditioning, electricity, gas, water and other services provided by landlords in addition to the rent. Tenants pay the fee in proportion to the space they occupy. Landlords are responsible for walls, ceilings and floors for normal wear and tear. Tenants are responsible for internal repairs.

The lease period is usually one to two years with annual rental review. Either party can terminate the lease with one or



two month's prior notice. Tenants are required to bring the premises to its original state and remove all alterations at the time of termination.

Singapore

Spurred by economic recovery in 2004, expatriates are returning to the country and increasing demand in the leasing market. The government's determination to attract foreign talent and establish the country as an "educational hub" for 150,000 foreign students in 10 to 15 years and retain at least 15 percent of the students is also contributing to increasing rental demand, according to Colliers International information.



Strong interest in purchasing luxury residential property persisted during the first quarter of 2005, according to Jones Lang LaSalle information. However, expatriates helped absorb supply of rentals. Expatriates were cost conscious, though, not giving landlords a lot of leeway to hike prices. The average gross rent for prime apartments remained unchanged for the quarter.

The average office vacancy rate fell from 14 percent at the end of 2004 to 12.6 percent by March 2005. Grade A office rental prices increased 1.2 percent in correlation with limited supply of office space. Office sector rents increased more than any other sector during the quarter, according to Colliers International. According to Colliers International, renewals, relocation and expansion accounted for most of the leasing activity making the market look fairly strong. □

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