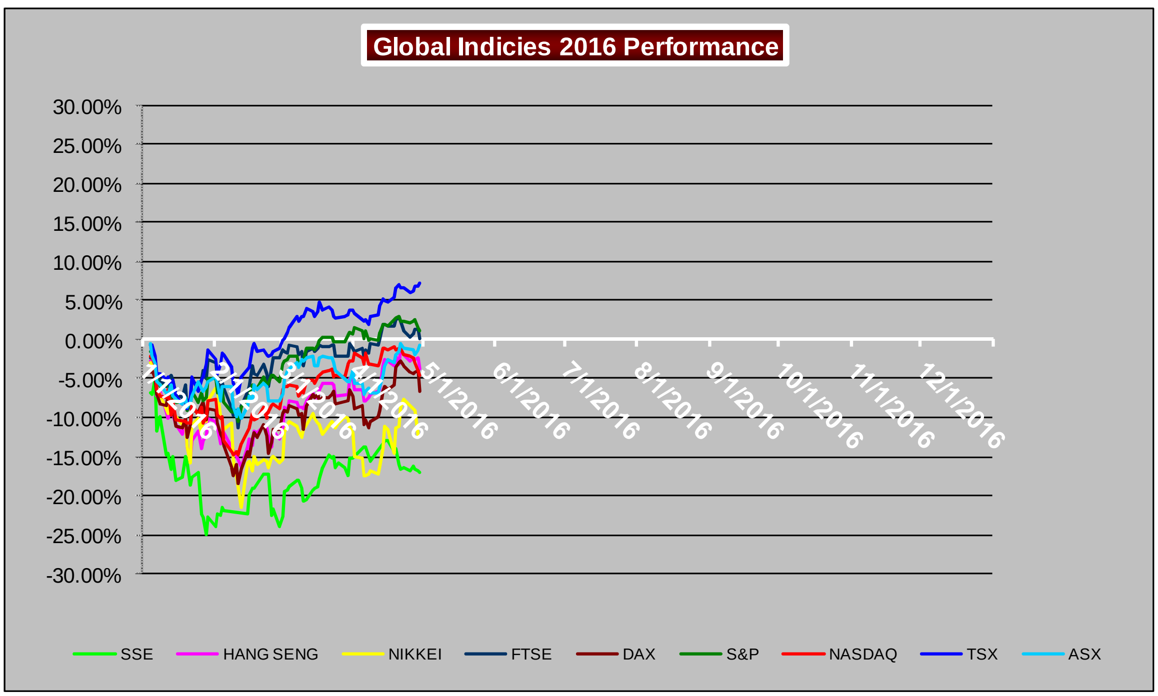
GDB May 2016 Newsletter

Monthly Market Summary:

2016 April Market Activity		
SSE COMPOSITE	***2,938.32***	-65.60 (-2.18%)
HANG SENG	***21,067.05***	+290.35 (1.40 %)
NIKKEI 225	***16,666.05***	-92.62 (-0.55%)
FTSE 100	***6,241.90***	+67.00 (1.09 %)
DAX	***10,038.97***	+73.46 (0.74 %)
DOW	***17,773.64***	+88.55 (0.50 %)
S&P 500	***2,065.30***	+5.56 (0.27 %)
NASDAQ COMPOSITE	***4,775.36***	-94.49 (-1.94%)
ASX 200	***5,252.20***	+169.40 (3.33 %)
TSX COMPOSITE	***13,951.50***	+457.10 (3.39 %)



Investment Themes:

The hot pockets in property markets around the world which have acted as a sponge soaking up the flood of capital from the investors have been showing signs of fatigue as of late. Property prices growth in hubs such as Hong Kong, Singapore, New York, and London have slowed if not fallen. The picture in the high-end luxury market though remains mixed, which we pay keen attention to as we believe it serves as a litmus paper to the sentiments of the high net worth clients and in turn a good predictor of what will drive asset prices in the future.

In Hong Kong, property value buckled 13% from the peak reached last September as sales hit a 25 year low. With prices falling, the Hong Kong Monetary Authority said the number of negative equity cases rose 14 times. This results in an increase in foreclosures. There are about 130 foreclosed properties for auction as of the end of April, more than double the 60 properties in the same period last year. Cooling local economy and slow down in China are blamed for the price decline. Also noted is the aggressive use of leverage in the market which makes the price deflation especially difficult for such investors to absorb. The luxury market prices fared slightly better, declining 6.4% from a year ago as of Q1.

In Singapore, the Singapore Residential Property Index shaved off 3.5% from 145.5 to 140.6 quarter over quarter at the end of Q1 2016. The Index marked its 10th consecutive quarter of decline from high of 154.6 reached in the third quarter of 2013. Property developers remain pessimistic over the future. According to the latest NUS-Redas Real Estate Sentimate Index, 58.4 percent of respondents believe that market conditions will deteriorate further due to the government’s stance that the existing property curbs will stay for now. Around 55.8 percent also think home sales will likely be pressured by the Additional Buyer’s Stamp Duty and Total Debt Servicing Ratio framework. Nonetheless, the luxury market of Singapore shows somewhat of a recovery, bouncing up 5.4% year over year in the first quarter.

In New York, according to Trulia.com, a US real estate listing and sales website, the median sales price for all homes in the city was US$ 1,190,000 based on 631 sales records between Feb 5 and May 4. The median price represents a -1% year over year drop and -9.2% decline from March’s median price of US$ 1,300,000. In the luxury market, New York saw a year over year increase of 2.3%; however, compared to 6 months ago, price dropped -1.0%, and -0.4% from the previous quarter in Q1.

In London, housing price leaped 11.5% year over year in the first quarter according to the Nationwide House Price Index. Much of this surge could be attributed to the rush to purchase before the newly imposed 3% stamp tax came into effect on April 1. Prices in prime central London increased by only 0.8% in the year to March, its lowest figure since October 2009, when a 3.2% decline was recorded as the market readjusted following the collapse of Lehman Brothers. Data from the estate agency Stirling Ackroyd published showed that the price of homes in 47 out of 272 postcode areas fell over the last quarter, the majority in the city's most expensive neighborhoods. Kensington High Street in west London recorded the biggest fall between the first quarter of 2015 and the same period in 2016, dropping to an average of £1.8m. In nearby Notting Hill, average prices were down by 10%, at £1.5m. Other prime postcodes which have seen falls include Hampstead, where prices are down by 9.2% at just over £1m, and South Kensington where they have fallen by 5.8% to £1.9m.

While luxury home sales slows in the traditional money hubs of Hong Kong, Singapore, New York, and London, other cities such as Vancouver, Shanghai, and Sydney are still seeing double digit year over year growth and healthy quarter over quarter rise. Therefore, the data could point to a shift of capital from the traditional money hubs to these other cities. Below is a complete picture of the latest quarter Knight Frank Prime Global Cities Index that tracks the activities in the luxury property market in traditional and non-traditional money centers around the globe.

Knight Frank Prime Global Cities Index, Q1 2016

Rank	City	12-month % change (Mar 15-Mar 16)	6-month % change (Sep 15-Mar 16)	3-month % change (Dec 15-Mar 16)	Market direction**
1	Vancouver	26.3%	14.3%	7.7%	↑
2	Shanghai	20.3%	12.6%	9.3%	↑
3	Sydney	12.3%	2.4%	1.1%	↓
4	Melbourne	12.1%	5.2%	0.7%	↑
5	Cape Town*	6.9%	10.0%	2.8%	↓
6	Bangkok	6.3%	0.6%	0.1%	→
7	Beijing	5.9%	3.2%	2.2%	↑
8	Singapore	5.4%	5.4%	1.4%	↑
9	Jakarta*	5.1%	3.7%	1.8%	↓
10	Los Angeles[1,3]	5.1%	0.5%	0.7%	↑
11	Monaco	4.9%	-1.0%	0.0%	↓
12	Seoul	4.4%	1.1%	-0.4%	↓
13	Guangzhou	4.1%	2.4%	1.6%	↑
14	Miami[1,3]	3.8%	1.1%	-0.1%	↓
15	Nairobi	3.3%	2.2%	1.5%	↑
16	Mumbai	2.8%	1.8%	1.8%	↑
17	New York[1,3]	2.3%	-1.0%	-0.4%	↓
18	Madrid	2.1%	-0.8%	-0.9%	↓
19	Bengaluru	1.8%	1.8%	0.0%	↓
20	Geneva	1.7%	3.8%	2.0%	↑
21	Dublin	1.5%	4.6%	1.4%	↑
22	Edinburgh	1.0%	0.2%	0.7%	↓
23	London	0.8%	-0.6%	0.0%	↓
24	Tel Aviv*	0.8%	-2.2%	1.9%	↓
25	Vienna	0.7%	0.0%	0.0%	↑
26	Rome*	0.3%	0.1%	0.0%	→
27	Zurich	0.1%	2.6%	0.0%	↓
28	Delhi	-0.6%	-0.6%	-0.6%	↓
29	Tokyo[2]	-0.9%	4.0%	7.2%	↓
30	Milan	-1.2%	-1.2%	-1.2%	N/A
31	Kuala Lumpur	-1.8%	-1.3%	-1.3%	↓
32	Paris	-2.7%	-4.5%	0.0%	↓
33	Moscow	-5.9%	-6.7%	-9.1%	↓
34	Hong Kong	-6.4%	-4.7%	-2.1%	↓
35	Taipei	-7.6%	-6.0%	-3.1%	↓

Source: Knight Frank Research, S&P Case Shiller, Ken Corporation

Notes: Price change calculated in local currency

*Data for Cape Town, Jakarta, Tel Aviv and Rome corresponds to 12 months to Dec 2015

**Direction of annual price growth compared to previous quarter

[1] Based on top-tier of mainstream market in metro area [2] Based on all contracts above Yen100m [3] Provisional

We would keep a close eye in the coming quarters on the luxury real estate market to gauge whether the current softness in the traditional money hubs is just a transition of capital to other cities or more indicative of a gradual shift to conservatism from the high net worth class, which could lead to risk-off sentiments in other asset classes.