

Emerging Trends in Real Estate® Asia Pacific 2012

A publication from:



Emerging Trends in Real Estate[®] Asia Pacific

20
12

Contents

- 1 Executive Summary**

- 2 Chapter 1 Crisis and Opportunity**
 - 4 Pricing Softens
 - 7 Japan Shrugs Off Calamity
 - 7 Regulators Step In
 - 8 The Rebirth of Core
 - 10 Opportunity Wanes
 - 10 Finally, Some Distress
 - 14 *Emerging* Emerging Markets
 - 15 Capital Flight?
 - 17 Debt: What Lies Beneath?

- 18 Chapter 2 Real Estate Capital Flows**
 - 22 Sovereign Wealth Looks Offshore
 - 23 Fundraising Falls
 - 24 Foreign Funds Target Australia
 - 25 Currency Risk
 - 25 Banks
 - 26 Alternative Financing Channels
 - 28 Capital Markets
 - 30 CMBS
 - 30 REITs

- 32 Chapter 3 Markets and Sectors to Watch**
 - 34 Top Investment Cities
 - 47 Property Types in Perspective

- 50 Interviewees**

Editorial Leadership Team

Emerging Trends in Real Estate® Asia Pacific 2012 Chairs

K.K. So, PwC

Patrick L. Phillips, Urban Land Institute

Principal Authors and Senior Advisers

Colin Galloway, Urban Land Institute Consultant

Charles J. DiRocco, Jr., PwC

Senior Advisers and Contributing Researchers

Stephen Blank, Urban Land Institute

Anita Kramer, Urban Land Institute

Senior Advisers

John Fitzgerald, Urban Land Institute

Dean Schwanke, Urban Land Institute

Contributing Researcher

Michael Owen, Urban Land Institute

Emerging Trends in Real Estate® is a trademark of PwC and is registered in the United States and other countries. All rights reserved.

“PwC” is the brand under which member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide services. Together, these firms form the PwC network. Each firm in the network is a separate legal entity and does not act as agent of PwCIL or any other member firm. PwCIL does not provide any services to clients. PwCIL is not responsible or liable for the acts or omissions of any of its member firms nor can it control the exercise of their professional judgment or bind them in anyway. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisers.

© November 2011 by PwC and the Urban Land Institute.

Printed in Hong Kong. All rights reserved. No part of this book may be reproduced in any form or by any means, electronic or mechanical, including photocopying and recording, or by any information storage and retrieval system, without written permission of the publisher.

Recommended bibliographic listing:

PwC and the Urban Land Institute. *Emerging Trends in Real Estate® Asia Pacific 2012*. Washington, D.C.: PwC and the Urban Land Institute, 2011.

ISBN: 978-0-87420-175-8

ULI Catalog Number: E46

PwC Advisers and Researchers

Australia Andrew Cloke
Brian Lawrence
James Dunning
Manuel Makas
Mark Haberlin
Tim Peel

China/Hong Kong Alan Ho
Andrew Li
Jonathan Chang
Kathleen Chen
K.K. So
Paul Walters
Sally Sun
Sam Crispin

India Jai Mavani
Gautam Mehra

Japan Hiroshi Takagi
Raymond A. Kahn
Takeshi Shimizu
Julien Ghata
Hideo Ohta
Mikito Yoshida

Korea Hyung-Ju Choi
Jin-Young Lee
Taejin Park
YongJoon Yoon

Luxembourg Kees Hage
Justin Ong
Kenneth Kai Siong Iek

Malaysia Jennifer Chang

Philippines Malou P. Lim

Singapore David Sandison
Eng Beng Choo
Jovi Seet
Wee Hwee Teo
Chen Fah Yee
Benjamin Kan
Moi Lre Kok
Chris Woo

Taiwan Richard Watanabe
Shuo-Yen Lin

Thailand Paul Stitt

Vietnam David Fitzgerald

ULI Editorial and Production Staff

James A. Mulligan, Managing Editor/Manuscript Editor

Betsy VanBuskirk, Creative Director

Anne Morgan, Cover Design

Deanna Pineda, Muse Advertising Design, Designer

Executive Summary

Going into the final quarter, sentiment in Asian real estate markets declined significantly as investors came to grips with the extent of the problems in the U.S. and European economies. Transaction volumes across most of the region fell steadily during the year, with prices beginning to fall in some markets. This happened despite the fact that economies across most of Asia have been buoyant, if not overheated. Once again, therefore, Asia's real estate markets are hostage to events elsewhere in the world.

Nonetheless, the impact of local conditions should not be underestimated. In some of Asia's biggest economies, real estate reversals have occurred in part because of the actions of local regulators who have choked off bank lending to developers after four years of loose economic policy, causing prices to balloon. In Hong Kong, Singapore, and Taiwan, authorities have also introduced macro-prudential policies to combat rising home values, while base rates in India have shot up to an unprecedented 9 percent in response to rising inflation.

More generally, Asia's stubbornly high prices have also had an impact on fund activity. The big returns of 20 to 30 percent, which have historically drawn many opportunistic investors to Asia, have dried up in many countries, and for a variety of reasons markets generally are more mature and less risky. Sellers are not interested in cutting their prices, and local investors are prepared to pay higher prices because they are less concerned with cap rates and more willing to make a bet on capital appreciation.

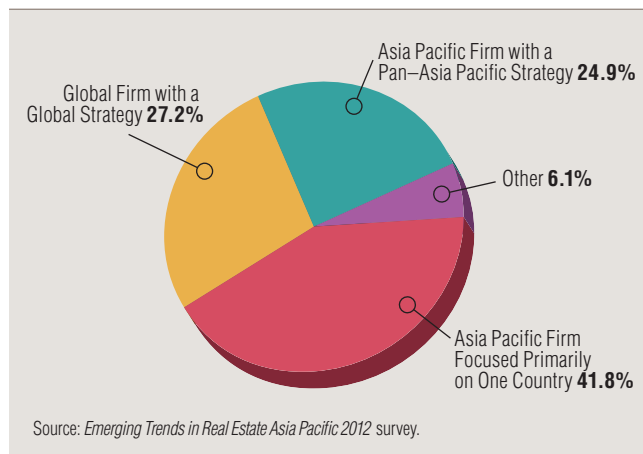
With the emergence of many large institutional investors, opportunity investing has been eclipsed in many parts of the region. Be they sovereign funds, large pension funds, or insurers, many deep-pocketed investors (largely from within the region) are now on the prowl for core assets in developed markets such as Japan and Australia.

Despite the problems facing opportunistic investors, distress is not dead. In fact, after four years of frustrated expectations, investors are now finally seeing opportunity for distressed investing—first, in China as cash-starved developers become increasingly desperate to pay upcoming bills, and also in India as the cost of bank funding drives developers to private equity as a last resort.

On the financing side, fund flows within the region have seen increasing volatility over the second half of 2011, especially on the capital markets side, as foreign investors who are fearful of renewed economic crisis in the West withdraw capital back to their home markets. That said, local banks remain the biggest source of funding for real estate investment in Asia, and while investors have seen spreads widen in some markets (most obviously China and India, but also Hong Kong and Taiwan), banks remain very open to providing funds to the right investors and projects in other markets (Japan and Singapore).

Probably the most popular regional market for real estate investors in 2011 has been Australia, where commercial assets have been readily available and cap rates remain a healthy 8 percent—far higher

Survey Responses by Geographic Scope of Firm



than elsewhere in Asia. With local investment constrained by reluctant banks and high Australian base rates, local buyers have had problems competing with deep-pocketed foreign funds, which continue to look to Australian assets despite the risks implicit in buying such a strong local currency.

In the *Emerging Trends Asia Pacific* investment prospect ratings, respondents nominated Singapore, Shanghai, and Sydney as the most attractive destinations. Singapore continues to be a magnet for foreign funds and regional investors alike, but some interviewees question whether this will continue. Not only is the export-oriented city especially subject to global economic problems, but cap rates have become extremely compressed and an oncoming flood of new commercial office space is likely to have a depressive impact on the market in 2012. Shanghai is another destination that has long been on the must-buy list for international fund managers. Again, however, very strong demand from local buyers has pushed prices to levels at which foreign investors more conscious of risk-adjusted returns may balk. Prospects in China's second-tier destinations such as Chongqing (which placed fourth in the survey) may therefore prove more attractive. Finally, Sydney's popularity is no surprise given the extremely attractive cap rates and fairly liquid market, as well as generally lukewarm buying interest from local investors. Industrial/distribution is the top-rated sector across the Asia Pacific region, followed closely by residential, both for-sale and rental. The hotel sector is least favored, and office and retail fall in the middle range.

Notice to Readers

Emerging Trends in Real Estate® Asia Pacific is a trends and forecast publication now in its sixth edition, and is one of the most highly regarded and widely read forecast reports in the real estate industry. *Emerging Trends in Real Estate® Asia Pacific 2012*, undertaken jointly by PwC and the Urban Land Institute, provides an outlook on real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas, and other real estate issues throughout the Asia Pacific region.

Emerging Trends in Real Estate® Asia Pacific 2012 reflects the views of over 360 individuals who completed surveys or were interviewed as a part of the research process for this report. The views expressed herein, including all comments appearing in quotes, are obtained exclusively from these surveys and interviews, and do not express the opinions of either PwC or ULI. Interviewees and survey participants represent a wide range of industry experts, including investors, fund managers, developers, property companies, lenders, brokers, advisers, and consultants. ULI and PwC researchers personally interviewed more than 150 individuals, and survey responses were received from more than 210 individuals, whose company affiliations are broken down here:

Real Estate Service Firm	24.9%
Private Property Company, Investor, or Developer	22.5%
Institutional/Equity Investor or Investment Manager	20.7%
Other Entity	13.1%
Bank, Lender, or Securitized Lender	8.9%
Equity REIT or Publicly Listed Property Company	6.1%
Homebuilder or Residential Land Developer	3.8%

Throughout the publication, the views of interviewees and/or survey respondents have been presented as direct quotations from the participant without attribution to any particular participant. A list of the interview participants in this year's study appears at the end of this report. To all who helped, the Urban Land Institute and PwC extend sincere thanks for sharing valuable time and expertise. Without the involvement of these many individuals, this report would not have been possible.



Crisis and Opportunity

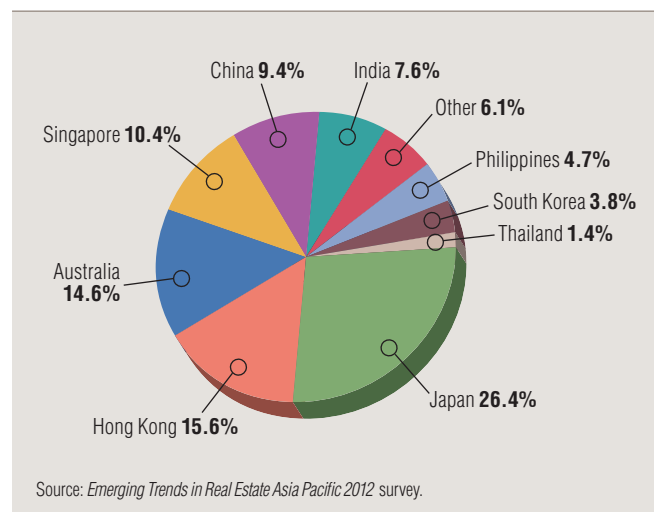
“There’s an opportunity for the first time to buy into assets at below replacement cost. That’s new or that’s different. So my knee-jerk reaction today would be to **go out and buy something.**”

As the theater of Greek financial distress inches steadily toward its climax in the final quarter of 2011, Asian investors have been struck by a dawning sense of *déjà vu*. Local real estate markets, riding the slipstream of Asia’s growth in gross domestic product (GDP) since 2009, have motored along at a steady clip since the region’s V-shaped recovery at the beginning of that year. With the good times rolling, it was easy to discount the economic malaise gnawing remorselessly at consumer confidence in the West. But the reality is that Asian economies remain closely linked to developed markets via trade and financial channels, and the idea that they can outrun external exigencies is as unrealistic today as it was in 2007. What’s more, if previous experience is any guide, the storm clouds now gathering on Western horizons may be barreling up behind them faster than they think. Local investors now casting a wary eye behind them should remember, therefore, that apparently sunny skies can be illusory. After all, objects in the rear-view mirror may be closer than they appear.

Until recently, Asian real estate markets had been enjoying at least fair returns and a generally positive outlook. Asia has no shortage of investment capital, and until the middle of 2011 there was more concern over inflationary pressures than lack of demand. Suddenly, however, the prospect of a global relapse into recession is creating mounting unease. As one interviewee puts it, “Things have now changed from a glass half full to a glass half empty. I think we’re in a twilight zone where something’s got to give.”

This sense of unease has been shared by several regional governments, although for different reasons. Japan, anxious to provide support in the wake of its natural disaster, has

EXHIBIT 1-1
Survey Responses by Country/Territory

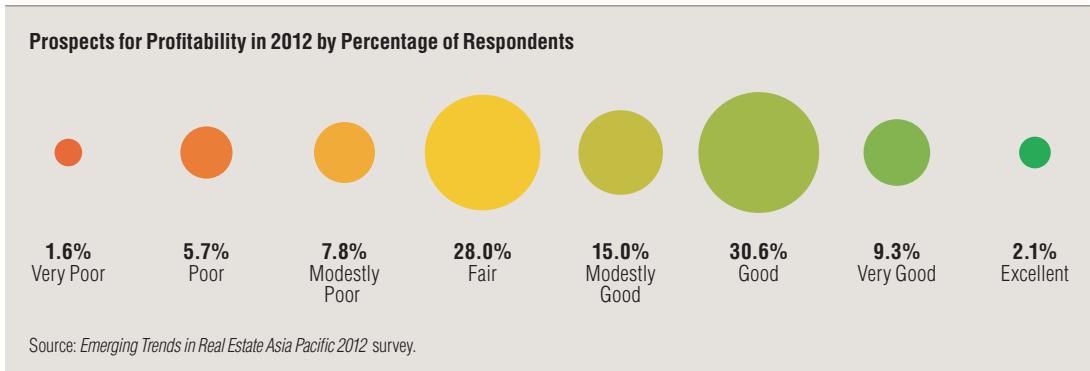


provided direct backing by, for example, buying real estate investment trust (REIT) shares in the open market. Hong Kong and Singapore have introduced macro-prudential measures aimed at heading off potential housing bubbles created by their economic links to American interest rates or the U.S. dollar. And in India and China, authorities have effectively cut off access to bank funding for their domestic real estate sectors as a means either to address inflation or to save banks from sinking into a morass of bad debt.

Quite unexpectedly, even as transactions begin to slow across the region and pricing seems set to retrench, it is in

EXHIBIT 1-2

Firm Profitability Forecast for 2012



China and India that opportunity has arisen. As one fund manager observes, “What you have in India and China is companies with multiple projects that now can’t get the liquidity they need, or it’s overpriced. These are all opportunities that were largely nonexistent when the banking system was flush with cash, interest rates were lower, or you could go into the high-yield market. Now that’s shut down, and there’s an opportunity for the first time to buy into assets at below replacement cost. That’s new or that’s different. So my knee-jerk reaction today would be to go out and buy something.”

Pricing Softens

Prices and rents in Asia bottomed out around the beginning of 2010 and saw generally strong gains in the first nine months of 2011. Yields, as usual, vary widely from a low of around 3 percent in Hong Kong to about 8.3 percent in Australia. However, transaction volumes across the region began to dip at the

start of the year and have dropped off again going into the final quarter. As one pan-regional analyst comments, “We are seeing selective signs of slowing in either volumes or prices, or both, in a number of property markets around the region.” Values and yields have so far remained reasonably buoyant, but with borrowing costs rising in many jurisdictions, this may not last. According to one interviewee, “Interest rates aren’t going up in terms of base rates, but spreads are. Whereas banks would be asking for, say, 200 bps [basis points] in Hong Kong and about the same in Singapore, now they are pushing it out to 350–400 bps. That makes a big difference. So, at the moment we’ve got a hiatus in the market where sellers are still hoping for ridiculous prices, but buyers are saying, ‘Hang on, something’s changed,’ and that’s not been factored in.” Interviewees overall offer a cautious or pessimistic take on the coming year, with most expecting a prolonged period of inertia and seeing little prospect of a quick turnaround.

In China, a government-imposed credit squeeze is bringing real pain for developers. Unlike the last such episode in 2007, interviewees do not expect an early or significant easing in policy. Meanwhile, residential transaction volumes have plunged, and prices are beginning to turn negative. In Beijing, developers began offering steep discounts in late October as they came under pressure to repay various types of loans by the end of the year. In Shanghai, transactions dropped a remarkable 72 percent year-on-year in the first three weeks of October, reaching their lowest level since 2004, according to Soufun, a private property research firm. Price cuts of between 20 and 40 percent were reported at the beginning of November.

However, the commercial sector remains strong. Cap rates for prime offices in tier-one cities have been squeezed as low as 2 to 3 percent, according to one Shanghai-based interviewee, well below China’s one-year base lending rate of 6.56 percent. At these levels, prices are unlikely to be attractive to foreign investors, but buying interest from domestic players remains strong anyway, even in the face of a “quite alarming” pipeline of new supply. Apart from the fact that China has never been a yield-driven market anyway, there is a variety of reasons for this:

EXHIBIT 1-3

Real Estate Firm Profitability Trends

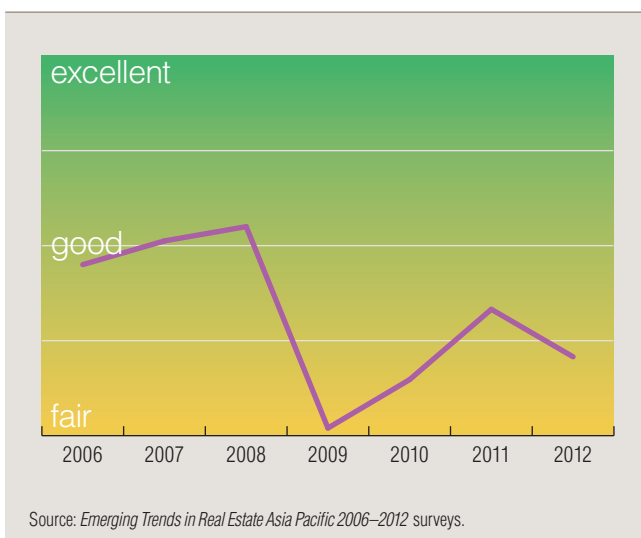
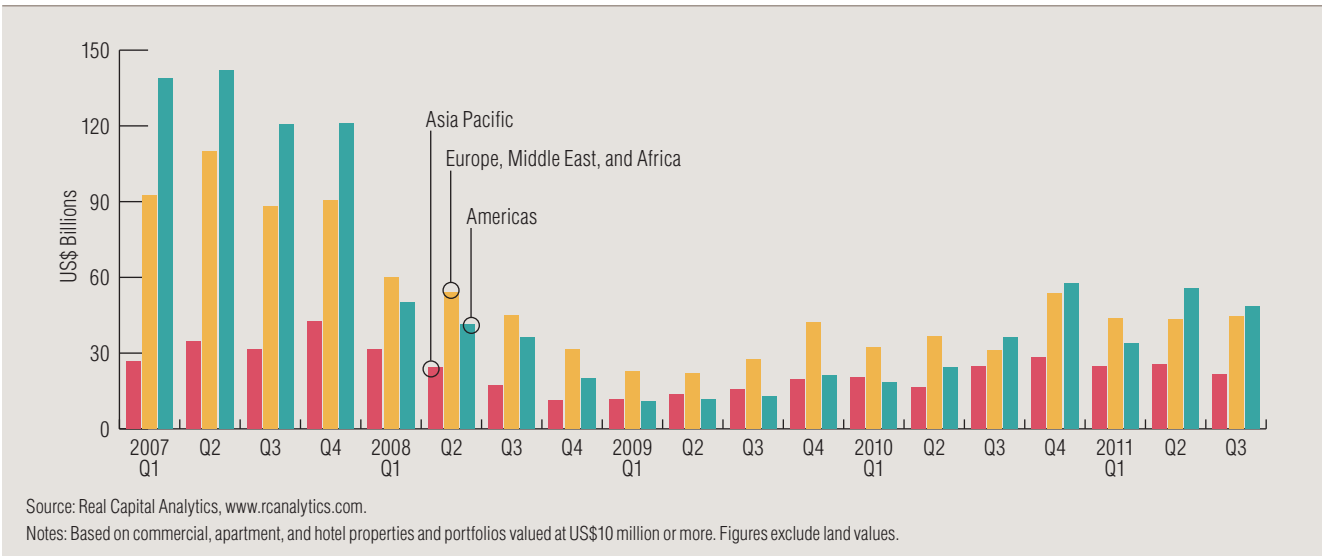


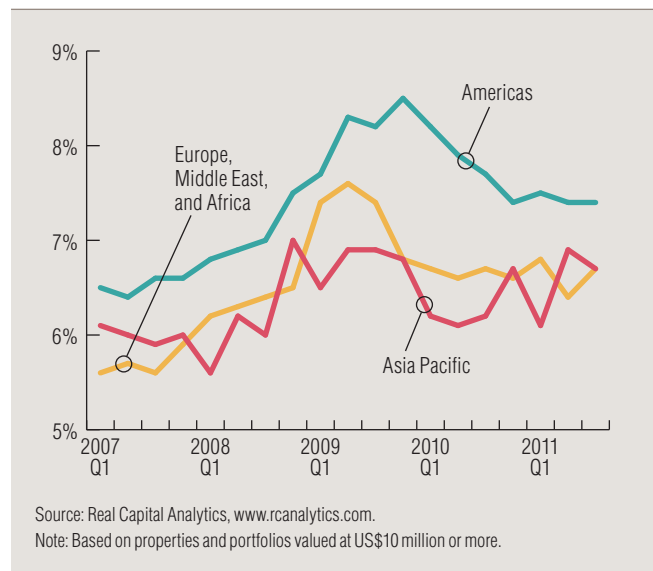
EXHIBIT 1-4
Global Sales Volume



- Government restrictions are driving increased investment into the commercial space by developers normally focused on residential projects.
- Domestic insurance companies have recently begun to invest assets in real estate and are about to ramp up buying. Sentiment, therefore, is supported by about US\$80 billion in new funding available for commercial real estate purchases that will create a “perfect storm” of investment in coming years.
- China’s emerging corporate giants want trophy assets. As one analyst commented, “One of the things we’re seeing is a number of large [domestic] companies that look down the road and see [foreign firms] with their own buildings and a light on the top, and say, ‘We want one of those as well.’”
- There is still a shortage of top-drawer buildings. “It’s frothy, but there’s a shortage of good-quality stock, so people who want to buy have to pay a premium. I think rents will catch up: Shanghai is going to run out of centrally located office space fairly quickly.”
- Fundamentally, investors believe that ongoing economic growth will allow the market to grow into higher prices as it has in the past.

Elsewhere in Asia, transactions of commercial properties have dropped and cap rates are either moving out or are expected to do so. Hong Kong, for example, which has had a strong run since 2010 and features the region’s highest rents and capital values, is always sensitive to macro trends. One local fund manager, referring to a recent purchase at a yield of 4.5 percent, says that until recently sellers might have sought a rate as low as 3 percent for the same deal. As a result, “The boot’s on the buyer’s foot at the moment. We’ve seen cap rates increase on the back of fewer transactions, and anybody who has wanted to sell has had to be a little more realistic.”

EXHIBIT 1-5
Quarterly Cap Rates for Commercial Property Transactions by Zone



Excluding one major deal, the number and value of commercial transactions in Hong Kong dropped by more than half in the third quarter of 2011 from the previous three months, according to consultants DTZ. Transactions in the residential sector have seen a similar slump following strong price increases in the previous two years.

Singapore has experienced a similar “aggressive” pricing dynamic in both commercial and residential markets. “It’s hot and slowing, which is a very bad combination going in.” Despite its recent popularity, however, and unlike Hong Kong,

EXHIBIT 1-6

Average Grade A Office Rent and Capital Value, Third Quarter 2011

	Grade A Rent		Grade A Capital Value	
	US\$ per Square Meter per Year	Quarterly Change (Local Currency)	US\$ per Square Meter	Quarterly Change (Local Currency)
Hong Kong (Central)	1,739	-0.9%	50,239	0.8%
Tokyo (CBD 3-kus)	1,096	0.1%	30,451	0.1%
Singapore (Raffles Place)	819	0.6%	19,990	2.1%
Beijing (CBD)	775	12.2%	12,618	11.8%
Shanghai (CBD Overall)	722	3.2%	12,304	3.6%
Mumbai (SBD BKC)	688	1.5%	6,747	2.2%
Perth (CBD)	596	10.5%	9,297	6.5%
Ho Chi Minh City (CBD)	498	-1.5%	N/A	N/A
Seoul (CBD)	481	-0.4%	7,583	-1.2%
Taipei (Xinyi)	468	0.1%	12,996	2.8%
Delhi (SBD)	460	0.0%	4,928	0.0%
Sydney (CBD)	430	6.6%	9,534	4.8%
Melbourne (CBD)	303	0.1%	6,964	1.8%
Manila (Makati CBD)	208	7.4%	1,868	4.4%
Jakarta (CBD)	181	13.6%	2,214	14.2%
Kuala Lumpur (City Centre)	177	0.6%	2,422	0.6%
Bangkok (CBD)	170	0.8%	2,191	1.8%
Bangalore (SBD)	141	2.4%	1,335	2.2%

Source: Jones Lang LaSalle.
 Notes: All rents are net effective. Rents and capital value are on a net lettable basis. Quarterly change is third quarter 2011 versus second quarter 2011.
 CBD = central business district; SBD = secondary business district.

Singapore has a substantial amount of both grade A office and mass-market housing supply in the pipeline. As a result, the residential market is “losing steam,” one fund manager says. In addition, “We’re quite bearish on the Singapore office

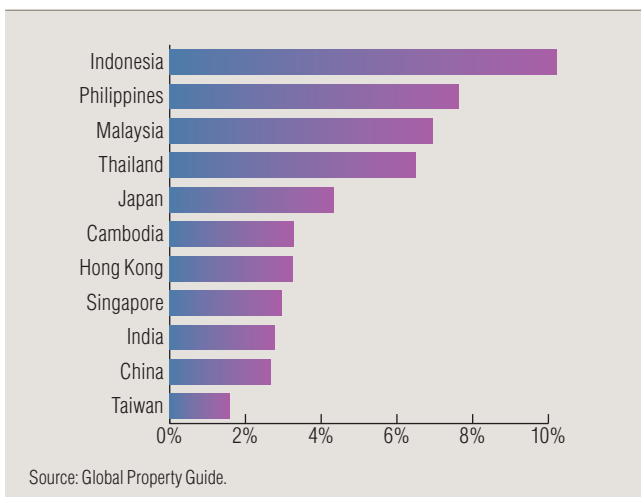
market just with the oversupply, which makes it very difficult for an owner to get leverage on rental growth because there’s so much choice about.”

Australia, meanwhile, appears to have bucked the cap-rate compression trend. Since late 2008, yields have maintained a range between 7 and 9 percent—significantly higher than the average Asia-wide. Housing remains richly priced and highly leveraged. Delinquency rates are rising. Home values have been in slow decline in 2011, but remain the least affordable in the English-speaking world. Although opinions are polarized, most locally based interviewees expect property markets there to remain flat in 2012.

However, Australia is something of a one-trick pony because of its reliance on raw materials exports, and some worry this leaves it exposed to a decline in international demand for commodities. As one Hong Kong-based fund manager points out, “Australia is feeling impervious right now. It cruised through the financial crisis with style, thanks to demand from China and India. It didn’t have the cathartic repricing that everybody else got, and for that reason I think Australians could be caught off guard.” Another analyst working at a large residential-oriented developer comments, “Australia is strange. It is a mining/commodities-led economy, but it seems to have a dual track. It seems those who are in

EXHIBIT 1-7

Gross Residential Rental Yields in Asia, First Half 2011



those industries are very well off, but for those who are not, there doesn't seem to be much of a multiplier effect. That is a concern."

Japan Shrugs Off Calamity

Following the massive earthquake that struck northern Japan in March 2011, many investors had expected major downside pressure on local real estate prices. In reality, the market has proved surprisingly resilient. According to consultants Jones Lang LaSalle, commercial property transactions saw a precipitous 42 percent drop in the second quarter (to US\$1.5 billion) but quickly rebounded, with third-quarter figures showing sales of US\$4.7 billion. Sellers have also shrugged off concerns on pricing, disappointing some foreign investors who had hoped to pick up bargain assets. Tokyo prices and rents have dropped in 2011, but this remains consistent with a long-term downtrend in Japanese prices.

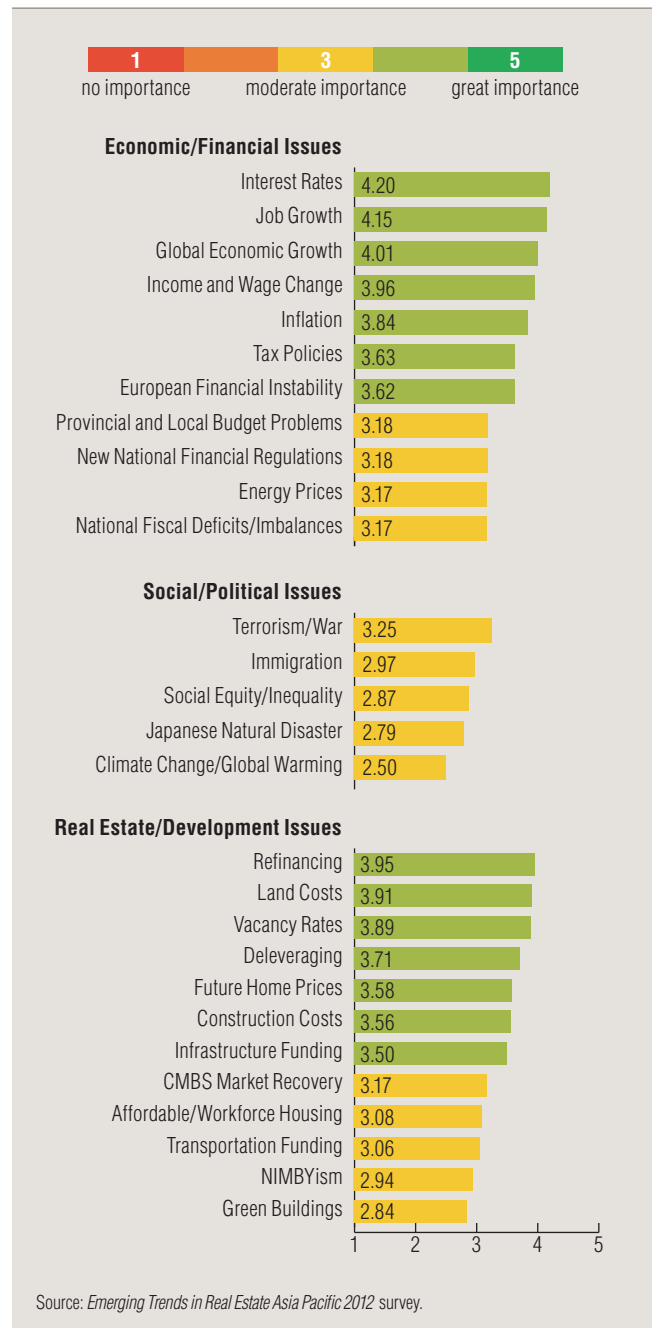
In part, the resilience of the Japanese market is due to the government's provision of additional funding to support the local REIT market. More fundamentally, however, it reflects lack of physical damage to properties held by institutional investors and, just as important, to local investor sentiment. According to one Tokyo-based fund manager, "Over the last month [September], things have started turning around. There's more deal flow, but there's still a big gap between bid and ask spread. I think one of the biggest problems with Japan is that the buyers, especially foreign buyers, seem to think there should be a big discount relative to the March disaster. Sellers don't share that, and, to be honest, the properties don't indicate that either. So what you're seeing is a lot more domestic buyers being more aggressive because foreign buyers are demanding discounts that aren't there."

Regulators Step In

Although Western governments seldom use macro-prudential regulation as a tool to control property prices, Asian real estate markets have long been subject to government micro-management. Local regulators have been especially active in 2011 as they move to address rising inflation. These policies have played a major role in the dynamics of various Asian markets this year, but nowhere more so than in China.

Rising Chinese home prices led to the introduction in early 2010 of various demand-side measures, including higher transaction taxes and increased loan-to-value (LTV) borrowing ratios. Predictably, these met with limited success. Property price increases in 14 mainland cities averaged 22 percent for the year, according to Soufun. It is an axiom of mainland property markets, however, that the government's tool of last resort in this area lies on the supply side through its ability to choke off developer credit supplied by the commercial banking system, which is historically the main supplier of capital for land purchase and construction. It is equally

EXHIBIT 1-8
Importance of Various Issues for Real Estate in 2012



axiomatic that when authorities decide to go nuclear in this way, they leave nowhere for developers to hide. This time was no exception.

Beijing began imposing strict bank credit restrictions in early 2011 and has since continued to tighten the screws, moving to cut off funding from offshore bond and equity markets in Hong Kong and to restrict capital secured from previously unregulated sources such as China's nascent

entrusted lending markets. As a result, according to one Hong Kong–based consultant, “It’s become virtually impossible [for developers] to borrow, even for construction.” One outcome is that “the whole pace of development is likely to slow.” The squeeze has hit smaller developers hardest, driving them to seek funding from unregulated private lenders at often usurious rates—3 to 5 percent per month. In September, rating agency Standard & Poor’s warned of an “increasingly severe” credit outlook that would force developers to cut prices in order to pay off their existing loans, resulting in a “severe liquidity strain” whereby developers will “struggle to meet their short-term obligations” if sales decline by 30 percent in 2012.

How long the campaign will last is unclear, but so far there is little sign of a change of policy. One interviewee suggests the regime could continue for another two years: “I don’t think the government is going to step back: house pricing policy is about keeping social stability and not having people too upset. Then you have the new administration coming in next year, and typically they don’t change very much [at first].” There are associated risks to the government clampdown, however. As another Shanghai-based interviewee, who predicts an easing by spring 2012, points out, “It’s going to be a very dangerous game for the government to extend much longer. At the moment they think they can control it and keep prices static, but if they induce a property market collapse, it will create shockwaves around China and the global economy.”

Other Chinese regulations apply directly to foreign investors. Rules introduced in 2007 allow foreign investment in domestic real estate only with government approval, which can be (and often is) arbitrarily denied. Although the rules were eased somewhat in 2010, authorities have again begun to interpret them restrictively. This has created problems getting capital into the country, as one consultant comments,

“The reality is that unless you have Rmb [renminbi] in the country, it’s very difficult to become a major player. All the institutions are finding it very difficult to get money in, and then having got it in, to convert it to Rmb.” This situation therefore favors investors who have ready access to renminbi funding—that is, either existing players or companies such as insurers that have operations in China generating renminbi.

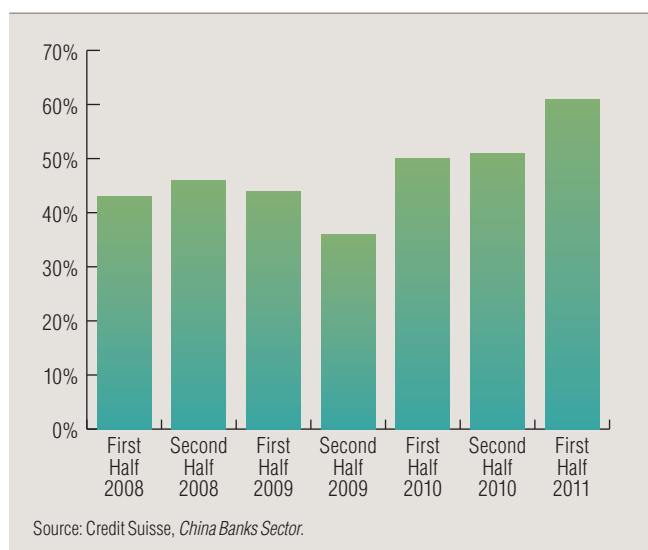
Elsewhere in Asia, governments have also moved to address overheated markets in 2011, though not quite as energetically as in China. In Hong Kong, a flood of money from mainland investors, coupled with ultra-low interest rates (negative in real terms) resulting from the special administrative region’s currency peg to the U.S. dollar, have pushed home prices to record highs, especially at the top end of the market. Singapore has also experienced asset price inflation as a result of a similar exchange rate policy. In Taiwan, residential price increases saw the ratio of home prices to disposable income soar to its highest level in 20 years in mid-2011.

In each case, authorities have responded by imposing new stamp duties on a sliding scale for residential properties flipped within two years of purchase. Maximum LTVs have been limited for some types of buyers. As a result, as one interviewee puts it, “Governments have essentially tamed the market.” However, although land prices have now fallen and home price increases have stalled in these markets, the International Monetary Fund (IMF), in its September 2011 “Global Financial Stability Report,” suggests that to be successful, “policies must focus on the fundamental determinants of property prices,” including increases in housing supply and steps to tighten bank liquidity. Interestingly, governments in both Hong Kong and Singapore have begun moves in the second half of 2011 to take steps of this type.

South Korea, meanwhile, has also been a regular and successful advocate of using LTV as well as debt-to-income (DTI) ratios to control housing sales. Most recently, it reintroduced a DTI policy in April 2011 to restrain price increases. In addition, South Korea’s reluctance to allow significant foreign investment deals—especially if they are profitable—amounts to a regulatory barrier of its own. A recent high-profile ruling against a bank-sector investment made by a U.S. private equity firm in 2003 has only served to confirm investors’ concerns about the openness of the South Korean market.

EXHIBIT 1-9

Median Net Gearing for Hong Kong–Listed Chinese Developers

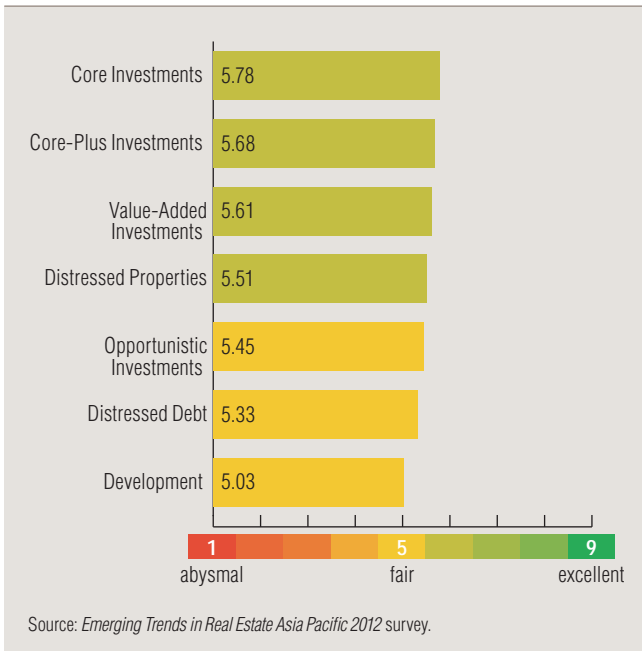


The Rebirth of Core

For foreign fund managers, Asia has traditionally been associated with opportunistic investment—an approach resulting from the perception of elevated risk and a historical lack of competition from local capital. Today, however, Asia’s opportunistic investors are being squeezed. As a Hong Kong–based investment banker observes, “When you talk about the hot money or the private equity money that used to be the big driver of that 20 to 30 percent–IRR [internal rate of return], higher-risk investing, that field has thinned out dramati-

EXHIBIT 1-10

Prospects by Investment Category/Strategy for 2012



cally.” Among the reasons for this are the following:

- Some markets, or certain types of assets, are no longer perceived to be as risky and, therefore, trade at lower cap rates. In part, this is because there are now more foreign fund managers with enough experience of Asia to understand the nature of the beast. But it is also because markets in general have matured and transparency has improved.
- There is a significant recent increase in funds available for deployment to core assets. In part this represents a secular shift in the allocation of money by institutions to Asian core investments (see chapter 2). However, it also reflects a greater aversion to risk. Basically, investors have taken stock in the wake of the 2007 collapse. In the past, says one interviewee, “A lot of institutions had become involved in project delivery and development without understanding development risk. The crisis gave people a chance to have a close look at what they were doing, and many of the players who were in development have now stepped back. So there’s now greater pressure to buy and find finished product, or to buy on a predetermined basis—[for example,] on the basis of a known product with potentially a guaranteed rental stream and exit price agreed up front.” One analyst comments that although the pendulum had begun to swing back toward more opportunistic investments in early 2011, the recent economic relapse again had investors running for cover. “People were starting to move more into value-add type opportunities, development, refurbishment, buying half-let buildings and leasing them up because there was a feeling that the world was coming back into recovery. If anything, what’s happened over the last

couple of months is likely to pull people back toward bigger liquid markets, core product.”

■ Big returns are not as easy to find as they once were. In the past, foreign fund managers could target low-hanging fruit because the competition was either thin on the ground or it did not really know the rules of the game. That has changed. What’s more, clued-in local investors now come to the table with vast amounts of capital and relatively low expectations over yield. This has pushed down returns generally and often eliminated opportunistic returns altogether. As one Tokyo-based fund manager notes, “Ten years ago, the Japanese were pricing things looking at land value, while the foreigners were looking at cash flow. Now, everyone is looking at cash flow and cap rates. And they have a much lower cost of capital. So any foreigners looking to invest here really have to add value or be willing to tolerate a lower return.” Adds a fund manager in Singapore, “The people going into Singapore now tend to be core buyers or local investors that have no time value of money. So they’ll just buy and wait and wait. But for a value-add or opportunistic buyer, there’s not enough time to get substantial rental growth.”

Some interviewees voiced concern as to whether enough core assets exist in the region to satisfy demand. As one said, “Real estate tends to be quite tightly held in Asia. We talk about the trading environment, but most of the trading just takes place around the fringes.” Comments another interviewee, “The Japanese market is enormously big, but is it liquid? Yes, but not in the sense of being able to trade into the market. The proportion of cross-border and international investment going into Japan, and even the absolute amount compared to a lot of other markets, is really quite low. It’s a very difficult market to go into and buy, bearing in mind that a lot of the product that people are focused on tends to be the same and it’s not what’s often traded.”

Others believe the problem is more about pricing. “I think in reality there is enough product. It’s more a challenge of pricing. For very good assets, yields are probably as low as they’ve ever been, and where you’re looking at something less than prime, vendors are pricing very aggressively because they know there is a strong demand.” As a result, “The market is a bit stuck because their head office in New York is looking at less than 3 percent return if it wants to buy an office building in Hong Kong, and it just can’t get its head around that. And then you’ve got vendors who are setting prices that are out of kilter with the real world, so things get stuck there as well.”

The shift away from opportunistic investing, combined with the extra competition for core assets, has increased demand for investment in markets that have depth and stability. This includes, in particular, Japan, notwithstanding a host of apparent negatives—the recent earthquake, high vacancy levels, a full pipeline, the fact that “we’re now into the 12th year of decline in land values,” the perception that it is a “difficult market” in which to do business, and the sense that “the nation seems unable to get to grips with its future.”

One reason for Japan's popularity is that, despite fears that available capital would be channeled into reconstruction projects, Japanese banks today are more open to financing real estate deals than they have been for years. According to a locally based fund manager, "If it's a known borrower and a property they like, they are actually very aggressive in terms of rates." In part, this is because the Japanese government has indicated it would support real estate prices by buying shares in local REITs. In addition, large Japanese banks are finding "there's not much corporate lending right now, and what [lending] there is, they're doing sometimes for nothing over TIBOR [Tokyo interbank offered rate]—basically for free—so real estate is where they can make money in terms of bigger spreads." LTVs are commonly available at 50 to 70 percent of appraised values. At the same time, capital is also coming into the market from Japanese pension funds that are now increasing allocations to real estate, very often via private equity funds.

This excess of capital has driven down cap rates and all but driven out opportunistic funds, many of which are now scaling down allocations to Japan. "If you can find the product—and that's been the big question across the market—you're well into the low 5s for better quality [in both office and multifamily]. I think [cap rates] will probably be heading down as well." Notes another interviewee, "Generally speaking, Tokyo has become a core market. There just aren't the deals out there to generate a lot of higher return. There are still some value-add, repositioning plays, but only at about 10 to 12 percent yields. And that seems to be the market right now: it's driven by domestic capital that will accept lower returns." Although cap rates are nothing to write home about, funding costs are particularly cheap, "especially on the multifamily side." At 1 to 2 percent, they provide a yield spread of least 400 basis points—probably the widest of any major market in the world.

Opportunity Wanes

Whether this drift toward core represents a long-term trend remains to be seen. Possibly, it is simply a sign of the times and at least partly indicative of the currently low cost of capital in most Asian markets. As the Partners Group observed in its August 2011 "Private Markets Navigator" report, once interest rates rise, "investors may start to deem yields and yield spreads of trophy properties less attractive and move up the risk/return spectrum searching for additional yields."

In the meantime, however, with plenty of opportunistic funds still focused on Asia, what options do they have? Some investors had hoped to pick up discounted assets in Japan in the wake of the earthquake and possibly to participate in reconstruction efforts, which will benefit from about ¥19 trillion (US\$247 billion) in funding from the government alone. So far, however, few have found significant profit in this area. As one interviewee says, "I don't think it's changed a ton,

and I don't think the rebuilding effort is driving huge investment opportunities."

Over the longer term, however, interviewees pointed to two areas in Japan that might have promise. First are warehouses, an opportunity arising partly as a result of earthquake damage in coastal areas to infrastructure that will be replaced or relocated. More fundamentally, however, investors referred to longer-term shifts in the supply chain, which "historically has been very horizontal. But big companies are now going to 3PL [third-party logistics] outsourcing and need modern space, which is limited in Japan."

Other interviewees mention that investments in low-rise, large-floor-plate office buildings are now in demand because of concerns about safety. In practice, however, this type of building will prove hard to find and even harder to secure at a reasonable price. Says one investor, "I've heard some people talk about [repositioning] the B-class stuff as people move out or upgrade, but you have to figure that rents are going to continue to go down. Where's the bottom on those rents, and how can you buy where it's going to make sense? If you're going to play with the older stock, I think that's pretty tough unless you can buy it very cheaply."

What these ideas illustrate generally, however—and this applies across the whole of Asia rather than just Japan—is that foreign opportunistic capital today "really has to add value, and value that the domestic capital can't add." Interviewees suggest this implies a shift toward niche fields—such as 3PL logistics, housing for seniors, self-storage, data centers, resorts, and health care facilities—that are relatively mature in the West but remain underdeveloped in Asia.

In addition, opportunistic investors can benefit from markets where there is a wide spread between the value of the original and the upgraded assets. Hong Kong, for example, is known to offer the world's most expensive commercial space. But while the central business district's International Finance Centre can achieve rents of HK\$200 (US\$26) per square foot per month, at the other end of the scale are districts with achievable rentals of just HK\$10 to \$12 per square foot per month. Says one locally based value-add fund manager, "There are actually cheap offices in Hong Kong that are at the same level as any of these other Asian markets. It's just at the high level that it's off the chart." In other cities such as Tokyo, "the rental differential from the bottom of the market to the top is nowhere near the same, so there's much more potential in Hong Kong than anywhere else."

Finally, Some Distress

While Asian opportunity investors are generally having a hard time of it, those seeking distress—who have had little to show for their efforts since the 2007 crash—may finally be seeing prospects improve. Until recently, the favored destination for local culture investors was Japan, where a property bubble has been slowly deflating since 1991, where banks still hold

EXHIBIT 1-11

Real Estate Transparency Scores: Asia Pacific

Transparency Level	Country/Territory	2010 Global Rank	2010 Score	2008 Score	2006 Score
High Transparency	Australia	1	1.22	1.15	1.19
	New Zealand	4	1.25	1.25	1.19
	Singapore	16	1.73	1.46	1.55
	Hong Kong	18	1.76	1.46	1.50
Transparent	Malaysia	25	2.30	2.21	2.30
	Japan	26	2.30	2.40	3.08
Semi-Transparency	Taiwan	33	2.71	3.12	3.10
	Thailand	39	3.02	3.21	3.40
	India (First-Tier Cities)	41	3.11	3.44	3.90
	South Korea	42	3.11	3.16	3.36
	China (First-Tier Cities)	45	3.14	3.34	3.71
	Philippines	48	3.15	3.32	3.43
Low Transparency	Indonesia	57	3.46	3.59	4.11
	Vietnam	76	4.25	4.36	4.60

Source: Jones Lang LaSalle.

Note: The Global Real Estate Transparency Index (GRET) is updated every two years.

vast amounts of impaired recourse or nonrecourse bad debt on their balance sheets, and where Asia's biggest market for commercial mortgage-backed securities (CMBS) was hosted before its collapse during the global financial crisis. According to Japan's Financial Services Agency (FSA), Japan's large domestic banks had about ¥11.6 trillion (US\$150 billion) in bad debt on their books at the end of 2010, amounting to about 2 percent of loan exposure, double the level allowed by FSA guidelines. The cumulative total of maturing CMBS, meanwhile, is expected to reach ¥2.7 trillion (US\$40 billion) by the end of 2012, of which 30 to 40 percent is expected to default.

Nonetheless, the promised bonanza in Japan has failed to materialize, and many opportunity investors have now left. However, one fund manager suggests that in the wake of the earthquake, Japanese authorities might take the opportunity to clear out deadwood loans, especially in the CMBS market. "The CMBS issues are just in limbo between the bond holders and the servicers, and that's one of the real drags on the market. I think within the next 12 months a lot of these are going to be worked out. Banks will be under pressure to get rid of those assets because it doesn't really benefit them to have nonperforming loans on their books when they need to free up capital to start rebuilding."

Others, however, see little reason for the status quo to shift. One investor questions whether Japanese banks could afford to take the hit to their balance sheets "if, simultaneously to marking to market the real estate, they've got to put out new loans to rebuild. They can't do both." Others just see continuing government-mandated inertia. Says one interviewee, "Pre-crisis, if you refinanced somebody and extended their term, that was a default that you were pushing under the rug.

They didn't allow that. But now it happens pretty regularly." Says another, "It's been sitting there for 20 years, so I don't think it's going to change much. They'll just muddle through." In addition, "The banks in Japan got sick of these international vulture investors making money off them, and now they're saying, 'We'll keep it ourselves.'" This has created an "implied moratorium" on foreclosures that will last until 2012, and possibly beyond.

However, if distressed opportunity in Japan is still in the deep freeze, a thaw seems more plausible in two other Asian markets—China and India. In each, opportunity again arises by way of the banking sector. This time, however, distress is the result of banks withholding funding to developers rather than their coming under pressure to sell off loan portfolios.

China

In China, regulators have directed banks to withhold lending for development in order to cool an overheated market and with the specific intention of driving consolidation among China's estimated 50,000 developers. With spreads now 200 to 300 basis points above the base rate, developers able to secure capital are paying 9 to 10 percent for their debt. And with access to capital markets similarly constrained and other types of private debt financing either banned or prohibitively expensive, foreign investors have begun to smell blood. "I think some developers are getting a bit more reasonable in the terms they're willing to accept. We're starting to have a lot more interesting discussions," says one foreign investor. And according to one Hong Kong-based fund manager, "Right now, Hong Kong-listed Chinese developers are trading at five

or six times earnings [and] five times next-year earnings. Pre-GFC [global financial crisis], these guys were trying to raise pre-IPO financings on a ten-, 12-times P/E [price-to-earnings ratio] multiple. If you'd invested on those terms, you'd have lost half your money. So there's been a massive kind of reset of expectations."

Local capital is also making the most of the opportunity. Locals generally have an advantage in that they are able to source deals off market as a result of direct relationships and are prepared to bargain with an eye to future capital gains rather than the more disciplined cash flow-, cap rate-driven approach used by foreigners. While smaller developers have been the first to come under pressure, the bigger players are also now being starved of cash. Says one fund manager, "Their hope is that in three months' time the government will relax the austerity measures. So there's an inflection point, and it's the same for us. We're a little hesitant to write the check today because if that inflection point doesn't come for another year, it could get dramatically worse and we might be leaving money on the table."

Most interviewees, therefore, expect deals to flow in earnest sometime in 2012, with projected returns of 20 to 30 percent. Residential projects seem to be the preferred target (although retail was also mentioned) given "there is ample demand for the product" and it is self-liquidating. Many foreign investors are targeting projects valued at less than US\$100 million in second- and third-tier cities, "where the regulatory framework is not as tight, where land values have not risen to the extent they have in the major cities, where you can get a handle on supply and demand, and where, because most of the developers there are of a lesser size, they are more vulnerable to this tightening and the difficulties the market is facing."

As ever, the biggest problem lies in getting investment capital into the country. In addition, however, investors are wary both of potential problems in enforcing their rights should an arrangement go sour and of the fact that Chinese law currently limits the ways in which foreign capital-related distress deals can be structured. Because offshore debt is not allowed, investors are often forced into mergers-and-acquisitions marriages at either the entity or the project level. Where onshore debt is available, "a lot of it's going in as mezzanine debt, convertible. You offer to help, you charge them 30 percent for the privilege per annum: worst case, you get the asset if they can't survive." Another interviewee says he prefers to work with developers listed in Hong Kong "because if we sue them in Hong Kong, we may not be able to get to the underlying assets in China, but it will do major damage to their share price. Private equity guys offshore looking at China are more keen to work with the listed companies because of the embedded blackmail value for their stock price. Frankly, we don't have any other lever to push on."

India

Another market mentioned frequently in the context of distress is India. Stubbornly high inflation has prompted the Indian central bank to hike interest rates 12 times in 18 months as of October 2011. Fearful of rising defaults, local banks have reduced lending to developers, and even if it is available, "the cost of debt is going sky high": base rates are currently 9 percent, and spreads come in anywhere from 13 to 20 percent on top.

With sales volumes stagnant and rising labor and commodity prices also squeezing finances, developers are now expected to turn to private equity funds as a last resort. As one investor says, "Over the last few years, they've been trying to build up resilient rental portfolios, but they're having to sell those now to survive and to fund the next pipeline. So there are very interesting deals." According to consultants Knight Frank, Indian developers will receive about US\$1 billion from private equity funds in the year to March 2012. In a market as large as India, that is still far from impressive, but incoming capital is expected to rise in the following year. If it does, it will represent a significant turnaround for a market that foreign private equity investors have largely shunned since the onset of the global financial crisis.

Risks associated with Indian real estate investment are considerable, however. As one interviewee puts it, "It's like China, but more complex in every possible way, without the infrastructure." Bureaucracy, ubiquitous delays, land acquisi-

EXHIBIT 1-12
Estimated Size of Institutional-Grade Real Estate
by Country/Territory

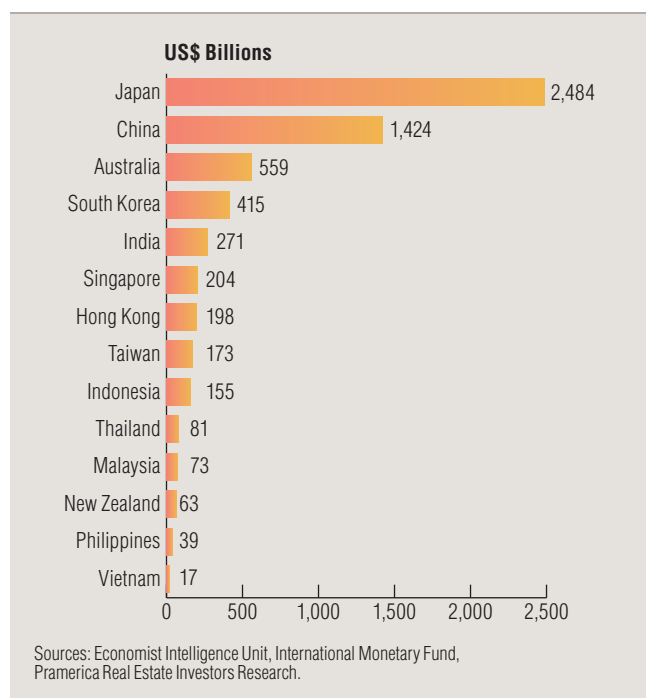


EXHIBIT 1-13

Forecasts for Real GDP Growth Rate, in Percent

Country/Territory	2010	2011*	2012*	2013*	2014*	2015*
China	10.33	9.47	9.04	9.49	9.46	9.49
India	10.09	7.84	7.53	8.10	8.15	8.13
Indonesia	6.10	6.40	6.30	6.70	7.00	7.00
Vietnam	6.78	5.75	6.27	6.84	7.17	7.47
Malaysia	7.19	5.20	5.10	5.10	5.10	5.00
Taiwan	10.88	5.24	5.00	4.88	4.91	4.93
Philippines	7.63	4.66	4.88	5.00	5.00	5.00
Thailand	7.78	3.54	4.79	4.80	4.90	5.00
South Korea	6.16	3.91	4.35	4.19	4.00	4.02
Hong Kong	6.97	5.99	4.32	4.59	4.37	4.29
Singapore	14.47	5.30	4.30	4.20	4.20	4.10
New Zealand	1.66	2.02	3.75	3.18	2.68	2.31
Australia	2.68	1.80	3.32	3.42	3.32	3.34
Japan	3.96	-0.47	2.30	2.04	2.00	1.47

Source: International Monetary Fund, World Economic Outlook Database, September 2011.

* Forecasts.

tion scandals, and an ongoing national protest movement targeting corruption have all contributed to waning foreign interest in Indian markets, with foreign direct investment and portfolio investment dropping markedly despite economic growth of about 8 percent in 2011.

Local laws restrict the types of projects in which foreigners can participate. For the most part, investments in completed buildings are outlawed, meaning foreigners must assume development risk. Exit strategies are difficult. In addition, it is “much more difficult than China to find the right local partner,” and “you must go in at these large-scale [i.e., 500,000-plus square feet] project levels. You can’t cherry-pick and say, ‘I’d just like to build an office building here or an apartment block there.’ The rules of the game are you have to do multi-tier-type projects.” Beyond this, “India is a very tough market to take a three- to five-year short-term view. There are not going to be any quick flips because it’s largely development based and inevitably it’s delayed. So when you bake all of that in, you’ve got to be ready to be there for ten years at the end of the day.”

Structuring deals is also problematic. Indian onshore interest rates are now prohibitively high, and the government has recently tightened rules restricting the importation of offshore debt, making pure-play debt impractical. With equity seen as risky, investors are looking more at “structured investments with a certain preferred coupon and then an equity kicker on top. That’s the flavor of the season.” That said, “I think most foreign players would want in 12 months’ time to take a more direct equity exposure to India—direct as through a fund.”

While foreign opportunity funds now see real prospects for deals in India, this does not mean they will walk in and clean up. As investors in both Japan and China have seen on

previous occasions, markets in Asia react to stress differently than those in the West, and the mere fact that the environment suggests a short sale is logical does not mean it will happen. As one locally based investor observes, “Indian developers are still not used to biting the bullet and will adopt any trick in the book to make sure they avoid a distressed-sale scenario.” Even where pressure is intense, developers will often quietly strike a deal with another local or associated player to keep the wolf from the door.

Nor are cultural factors the only impediment. Strong underlying demand also provides a measure of pricing support, especially in the residential sector, where foreign money prefers to play. Developers, therefore, “are still able to go out and cut prices by 5 percent to 10 percent, and product still moves. So you aren’t seeing situations where developers are at a loss as to what to do or for banks to resort to foreclosure. We’re not seeing that sort of distress yet.”

Still, India ticks a lot of boxes. Unlike China, Japan, and Australia, it is not export oriented and is therefore something of a safe haven should the world again sink into crisis. At the same time, recession would also serve to cut inflationary pressure on commodities. According to one consultant, “A lot of funds have shied away from it, or from even looking at it to date. But with China being difficult in terms of inward flows and quite large allocations to Asia which investors must [place], I think we’ll see India appearing on more agendas.” Comments another interviewee working at a large consultancy, “If you can structure everything properly, India is clearly a growth story. But it’s difficult, and for some a bridge too far. That said, having not done any foreign investment deals in India for some time, we have started to do some again this year.”

Australia

The final piece of the distress puzzle is in Australia. The local REIT sector successfully recapitalized in 2009 with about US\$18 billion in fresh equity. It has around US\$10 billion, or 17.5 percent of debt, expiring in 2010–2011, but is now financially sound (if undervalued). The same cannot be said of the 300 or so smaller, unlisted local funds that owe about US\$6 billion in bank debt and are now being squeezed by a lack of liquidity in the market.

With bankers finally losing patience, a series of funds have either collapsed or been placed into administration since mid-2010, while portfolios of at least two major lenders, amounting to an additional several billion dollars in assets, had been put to market in late 2011. According to one fund manager, “You’re seeing a number of assets that have been put into receivership, and there’s a big push to clean it up before year end.” How long such opportunities last, however, is open to question given that many assets have already been liquidated. Some interviewees have also questioned the quality of many of the assets being sold.

Emerging Emerging Markets

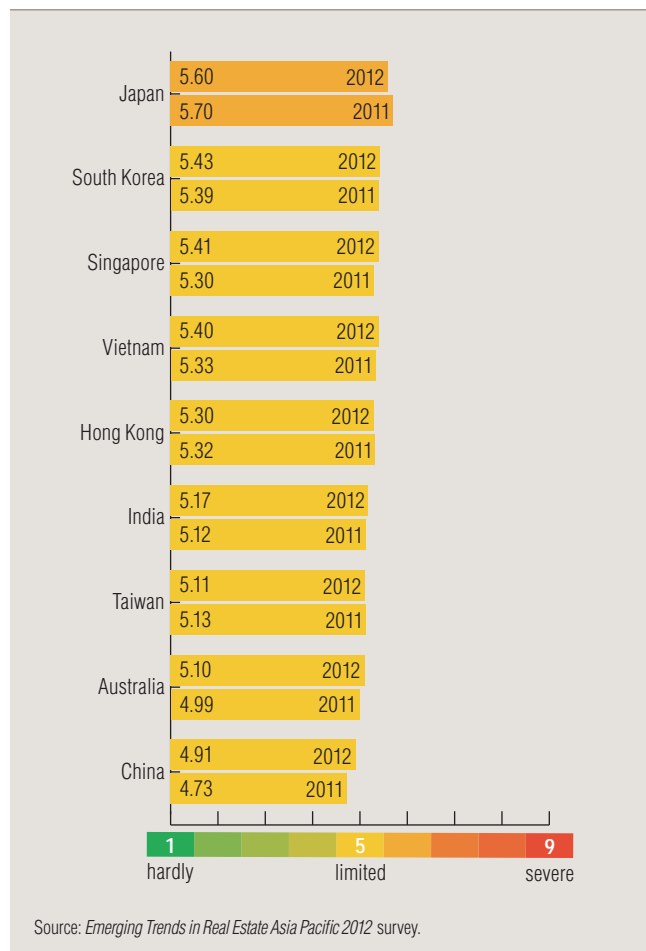
A growing sense of risk aversion has convinced some funds to migrate away from Asia’s riskier destinations—markets like Vietnam, Indonesia, and the Philippines. As one investment banker says, “There will continue to be a flight to quality in terms of markets rather than necessarily sectors.” Adds another interviewee, “Normally, when the bigger markets are difficult, people go to higher risk in the other markets. This time round, I think people are going the other way.” This view is not universally held, however. Many yield-starved investors with a mandate for opportunity—especially those holding funds that need a home—today are looking increasingly toward these newer markets as conditions on the ground improve and fund managers become more comfortable operating in the region.

Vietnam

Vietnam has always been seen as a difficult place to operate. The market is opaque and conditions have worsened in 2011 with inflation soaring to 19 percent and interest rates to 24 percent. As one consultant says, “It’s worrying in the sense that you have a socialist government who finds it difficult to get their heads round a growing capitalist economy.” Nonetheless, economic growth continues to ramp up, and Vietnam is seen as a primary beneficiary of the labor price inflation that is driving many manufacturers to leave China. Comments one interviewee, “We think Vietnam is like China a few years ago, and we see long-term potential.” Notes another, “The tough thing is the market’s not very big nor very deep. But the good thing is your buying power goes a lot further.” Adds another, “Overseas Vietnamese have capital and are trying to reinvest in the country.”

EXHIBIT 1-14

Levels of Impact of Global Financial Distress



With the office sector in Ho Chi Minh City arguably oversupplied—“It’s not a financial center, so we find demand questionable”—residential projects are again the main magnet for foreign capital, driven as usual by the converging trends of urbanization, growing affluence, and the lack of good housing stock. Targeted returns are in the 25 to 30 percent range. One investor described a process of buying land, obtaining relevant permissions (the hard part), creating infrastructure, and then selling US\$25,000 to \$30,000 foundation slabs for which buyers pay cash—often gold bullion—before building their own house on site. Retail space has also begun to thrive. “Foreign retailers have been sensible enough to partner with the potential opposition, so there’s a whole range of them now coming in quite large numbers.”

Indonesia

Indonesia is in a similar situation to Vietnam economically, with a huge population and a fast-growing manufacturing sector now enjoying the scraps from China’s table. It seems like early days for foreign real estate investment, however. Comments

an analyst at a large regional developer, “The problem with doing real estate in Indonesia is what I’d describe as risk pertaining to land titles and risk pertaining to partnership: you never know whether your land title is clean. It’s so difficult. I would only recommend two places—Jakarta and Bali.”

The Philippines

Another fast-emerging market is the Philippines. In the past, perceived problems with bureaucracy and corruption have deterred foreign investment—“The Philippines is on our do-not-touch list,” one fund manager comments—but a recent change in government has now improved political stability and created a more pro-business environment. Rapid growth in the business process outsourcing (BPO) sector—currently responsible for 90 percent of office take-up in the country, according to investment bank CLSA—has led to mushrooming demand for office space. According to one locally based investor, “The Philippines is doing 300,000 square meters [3.2 million square feet] per year, and we’re thinking maybe 360,000 may not be unachievable.”

As with most developing markets, foreign investment in real estate is regulated. Foreigners are barred from taking a majority interest in land, although (unlike in India) they may own buildings or leaseholds relating to it. Banks are willing to provide 60 to 65 percent LTVs, and interest rates are described as “very livable: fixed-term five-year money is available at something like 6.5 percent to 7 percent.”

Bureaucracy continues to be an issue, but interviewees compare the Philippines favorably to other emerging markets in terms of transparency and, perhaps most significant, the availability of options for exiting investments in the rapidly

evolving BPO sector, which in the voice segment is now larger than that in India. The fact that so many multinationals are now setting up their own in-house facilities increases opportunistic possibilities because “if you have a multinational-profile tenant roster, then you can attract [core] funds.” Investors are looking for returns of 20 percent plus, according to one fund manager, whereas “if you buy the building from me and it’s 100 percent or 95 percent occupied, you might be looking at a 10 percent to 12 percent return.”

Capital Flight?

With Western economies once more in crisis mode, Asian governments again find themselves at the mercy of a potential calamity from outside. Whereas most of the region, with the exception of an aging and quake-struck Japan, seems a paragon of economic health compared with the United States or Europe, the shadow of systemic failure in Asia’s main export markets has created a sudden turn of pessimism among investors that is perhaps more keenly felt because it is so hard to quantify. Few *Emerging Trends* interviewees offer a definitive opinion on how Asian real estate markets might be affected by a renewed debt crisis in the West. But as they watch economic countermeasures unveiled in the West in 2007 and 2008 begin to unravel, there is a parallel fear that their faith in the revival of local markets—predicated to a great extent on similar liquidity-driven fiscal policies—may have been premature.

If the Asian experience of a renewed financial crisis in the West turns out to be a rerun of the past, what can Asian investors expect? Most obvious will be the direct impact via the

EXHIBIT 1-15

Real Credit Growth—Year-on-Year Percentage Change

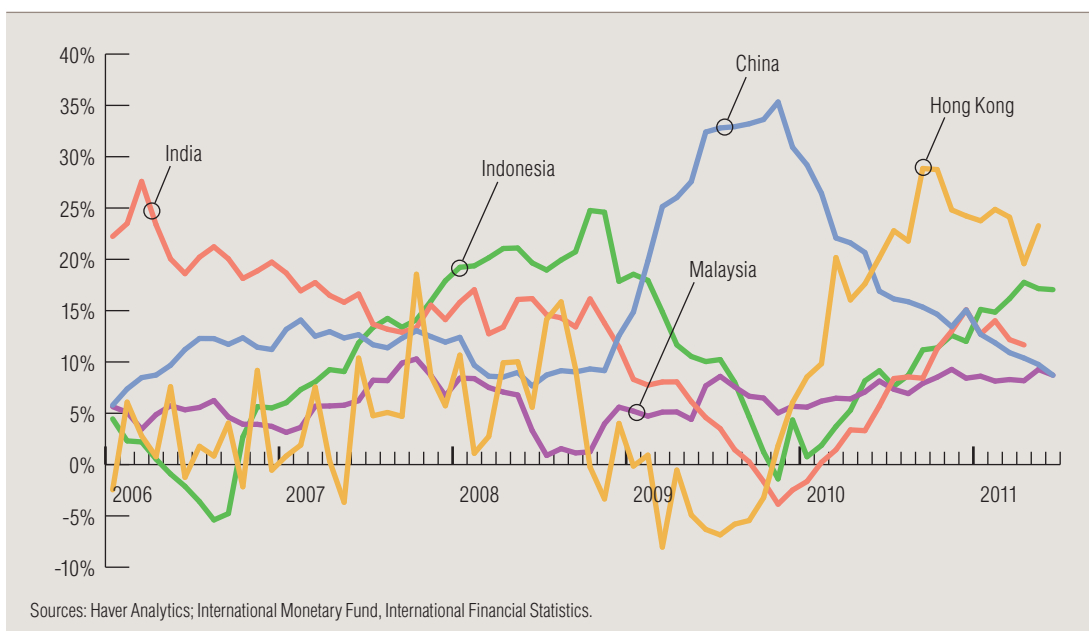
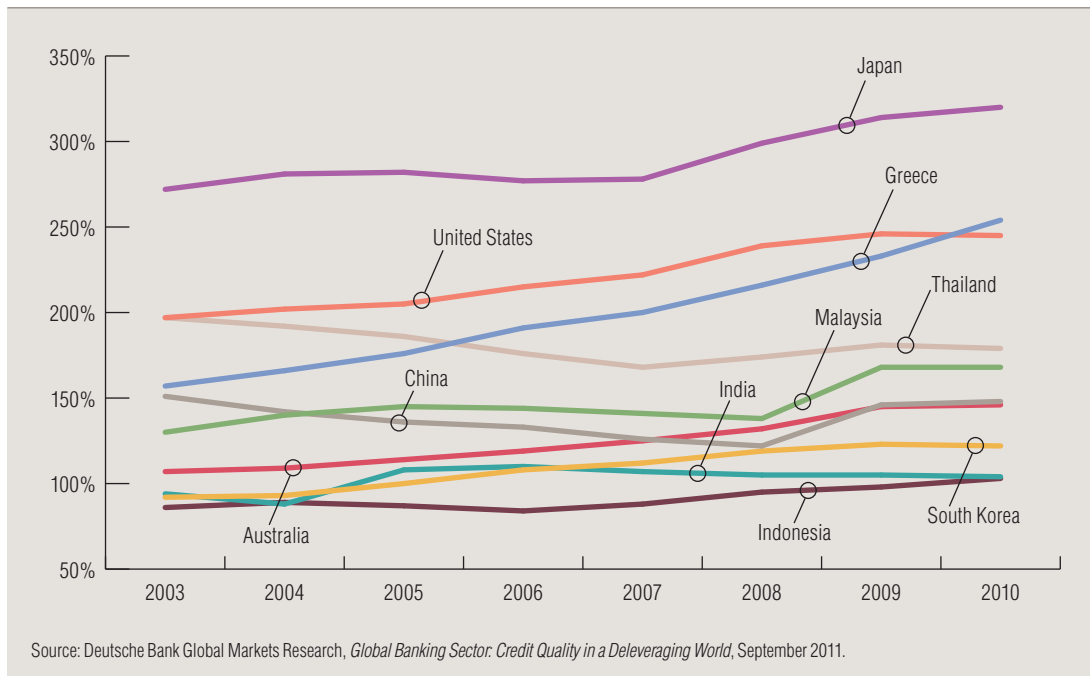


EXHIBIT 1-16

Ratio of Private and Public Sector Debt to GDP

trade channel of Asian exports to the West, the loss of which would then flow through to GDP growth. Global trade fell by about 25 percent between 2008 and 2009, with declines for Asia of 20 percent and for China (the region's biggest exporter) of 12 percent. Projections by Standard Chartered Bank are that this time around, a global recession would result in worldwide trade falling about 15 percent, with Asia affected slightly less than last time. The immediate fallout is expected to be less severe because banks are now better prepared and therefore unlikely to freeze trade financing channels as they did in 2008.

However, Asia is also perceived to be more exposed in the longer term to a euro-centric crisis because Germany and France, whose banks would be most vulnerable in a Eurozone sovereign default, are major trading partners with nations in the region. In mid-October, the IMF reduced its estimate for Asian GDP growth for 2012 from 6.8 percent to 6.3 percent,

warning there is "no place to hide" from the domino effect of European default and U.S. stagnation.

The second risk flowing from likely defaults in Europe is the potential for capital flight as foreign investors move money out of Asia to what they consider safer havens. In terms of private equity funds, according to one consultant, "several conversations I've had over the last few weeks have indicated that people did have major programs and have been told [by investment committees], 'Sorry, we're going to have save our powder.'" However, the fact that most Asian private equity is today sourced within the region means this may ultimately have little tangible impact on market liquidity.

The second source of capital flight, however, relates to regional capital markets, which together host a much larger percentage of international money than flows through the region's private equity channels. Mainland China's relatively closed markets (with the exception of Hong Kong) would

not be directly affected by this phenomenon because they feature only a small amount of international capital. Otherwise, however, Asian capital markets will be exposed to a repeat of 2008, which saw a combined outflow of about US\$71 billion and percentage index declines much larger than those seen in the West.

Indeed, this process appears already to have begun, with US\$17 billion in capital outflow registered as of the end of September 2011, and further declines were seen during October. These outflows inevitably will have a knock-on impact on regional currencies as investors sell them to repatriate their funds.

Debt: What Lies Beneath?

Although for now Asian economies are still considered immune from the type of debt-driven collapse seen in the West, there is a longer-term concern that Asian governments are following the same policies and eventually will find themselves in the same boat. In Japan, for example, private and public debt as a proportion of GDP reached 320 percent at the end of 2010, according to the IMF. Although this enormous figure is containable because (unlike Greece) almost all debt is provided by Japanese investors, it is hard to imagine how the government could repay it. In addition, recent credit-fueled property and infrastructure booms have created vast new reservoirs of debt in Asia. As the IMF stated in its April 2011 “World Economic Outlook”: “The issue is whether they [leading emerging markets] are experiencing the kind of credit boom that inevitably ends with a bust. Evidence is not reassuring in this regard.”

According to Fitch Ratings, the increase in debt levels in China now exceeds credit expansions that occurred in the United States in the run-up to 2007; in South Korea, those before the Asian financial crisis in 1997; and in Japan, those before the collapse of its real estate and stock market bubbles in the early 1990s. Relative to the size of the economy, Chinese debt—whether owed by local governments, state-owned enterprises, or property developers—has never been as high, a fact the IMF, in its September 2011 “Global Financial Stability Report,” highlights as a particular risk. “China has an unusually high level of gross debt,” the IMF

reports. “Based on the authorities’ ‘total social financing’ data, the stock of domestic loans reached 173 percent of GDP at the end of June. This places China well above the levels of credit typically observed among countries at the same income level, although private sector leverage has remained moderate.”

Just as worrying is the fact that the true level of debt extant in China, as well as the purposes for which it is used, remains opaque as unregulated private borrowing takes off and state-owned enterprises (SOEs) funnel cheap loans from banks into the stock markets or other speculative investments.

Finally, some economists question whether China will be able to prevent further debt growth whether it wants to or not. According to Peking University finance professor Michael Pettis, “The attempts to rein in debt growth will fail because they address specific areas of debt and not the overall tendency of the system to generate debt. So, although there may be more pressure to rein in local government borrowing, for example, this will probably fail, and if it succeeds it will only be because other entities, most probably locally controlled SOEs, are enlisted to fill in the gap.” Certainly, ongoing high rates of growth have so far helped China in particular and Asian economies in general to outrun their fiscal problems. However, high growth will not last forever. The staggering debt loads now seen in Japan are a stark warning of what can happen when GDP growth eventually fails to deliver.



Real Estate Capital Flows

“If you’d asked me two months ago, I’d have said you’re going to see more outbound capital into distressed Europe and America. Now I think you can make the argument **any way you want.**”

As Asian markets continue to defy the downward drag of economic gravity from the West, the overall flow of cross-border capital in Asia—both real estate and non-real estate—has remained solid. Flows have been subject to strong and contradictory forces, however, and therefore have become extremely precarious. On one hand, the West’s policy response of quantitative easing and ultra-low interest rates has driven cheap capital into more productive investments in emerging markets. On the other, the prospect of further economic crises in Europe or the United States tends to cause a reflexive withdrawal of capital from Asian markets, as seen in 2008 and to a lesser extent in the third quarter of 2011. Because markets

in Asia lack the depth to digest such flows easily, the sudden movements in or out can be extremely destabilizing, leading to rapid swings in regional bond and equity prices. This is why many Asian countries—and in particular China—now resist the importation of some types of foreign capital.

Capital flows dedicated to purchases of Asian real estate have seen similar volatility in 2011. However, the impact of these tidal movements of capital on transactions and pricing is less pronounced than with portfolio investments, partly because real estate assets are much less liquid and partly because a proportionately greater amount of capital invested in Asian real estate comes from sources from within the region.

EXHIBIT 2-1

Cross-Border Net Real Estate Acquisitions in Asia Pacific

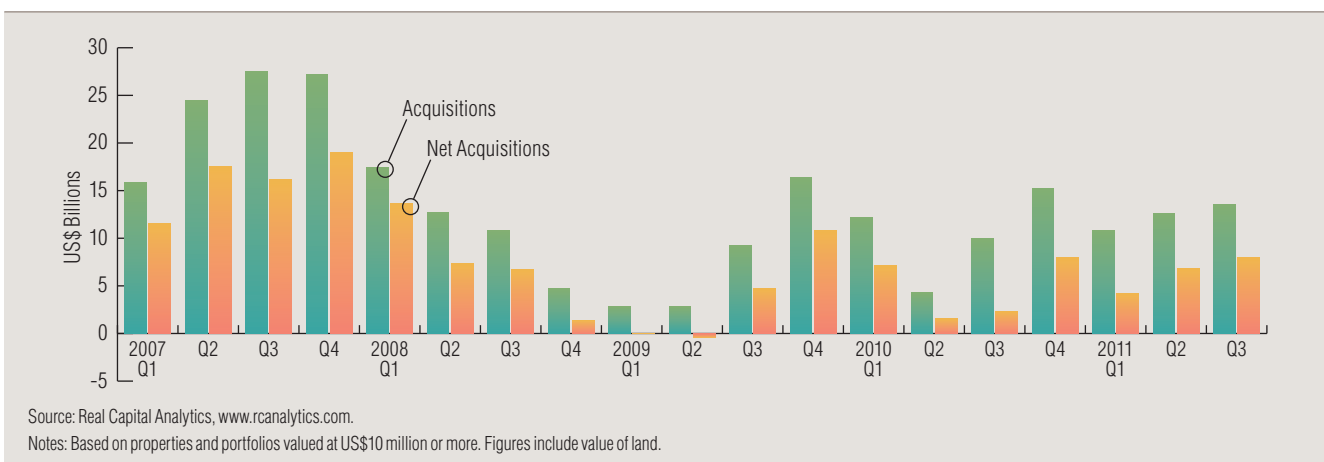
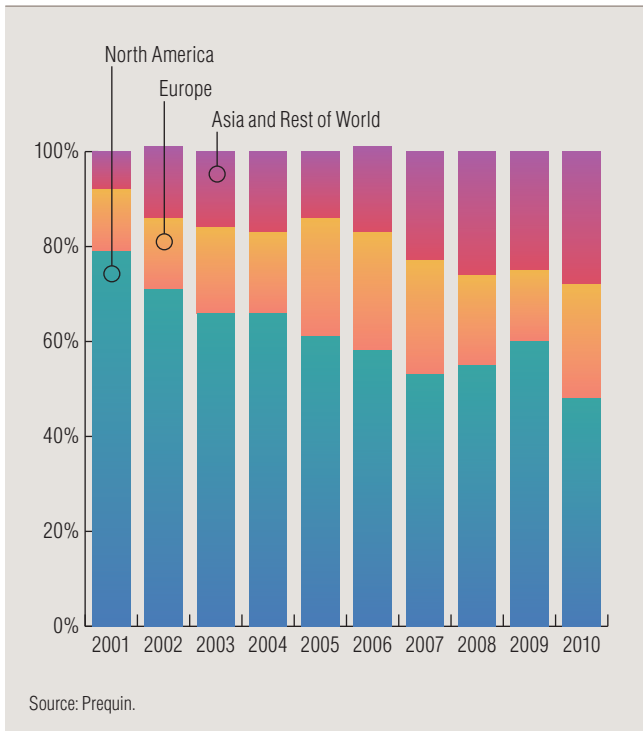


EXHIBIT 2-2

Destination of Fund Investment by Geographic Location



Overall investment in Asian property (including land sales) amounted to US\$354 billion in 2010, according to Real Capital Analytics (RCA), up from US\$269 billion in 2007. Although the value of Asian property transactions (including land) overtook those in the Americas and Europe, Middle East, and Africa regions in 2009, this does not necessarily reflect investment fund activity in Asia, which accounted for just 28 percent of annual private equity capital invested globally in 2010.

The proportion of Asian real estate capital coming from cross-border sources is lower than in 2007, with Asia's domestic investors now coming to the fore. In the past, "We always seemed to look to the United States and Europe as the source of capital. I find more and more today that the big liquid pools of capital increasingly feel like they come from within the region." In cases in which investment is coming cross-border, therefore, it mostly hails from elsewhere in Asia. According to one analyst, "Since 2009, we've seen an increase in cross-border investment, but it's predominantly being driven by Asia Pacific investors going elsewhere in Asia. International money coming into the region has actually tended to show net disinvestment." In 2011, according to RCA, Asian transaction volumes have remained strong, but declined during the course of the year, partly as a result of the Japanese earthquake and tsunami, and partly because of uncertainty caused by concern over economic conditions in the West.

The current merry-go-round of real estate capital into, out of, and around Asia can make it hard, if not impossible, to read sentiment. As one investor says, "If you'd asked me two

EXHIBIT 2-3

Quarterly Commercial Property Transactions in Asia Pacific

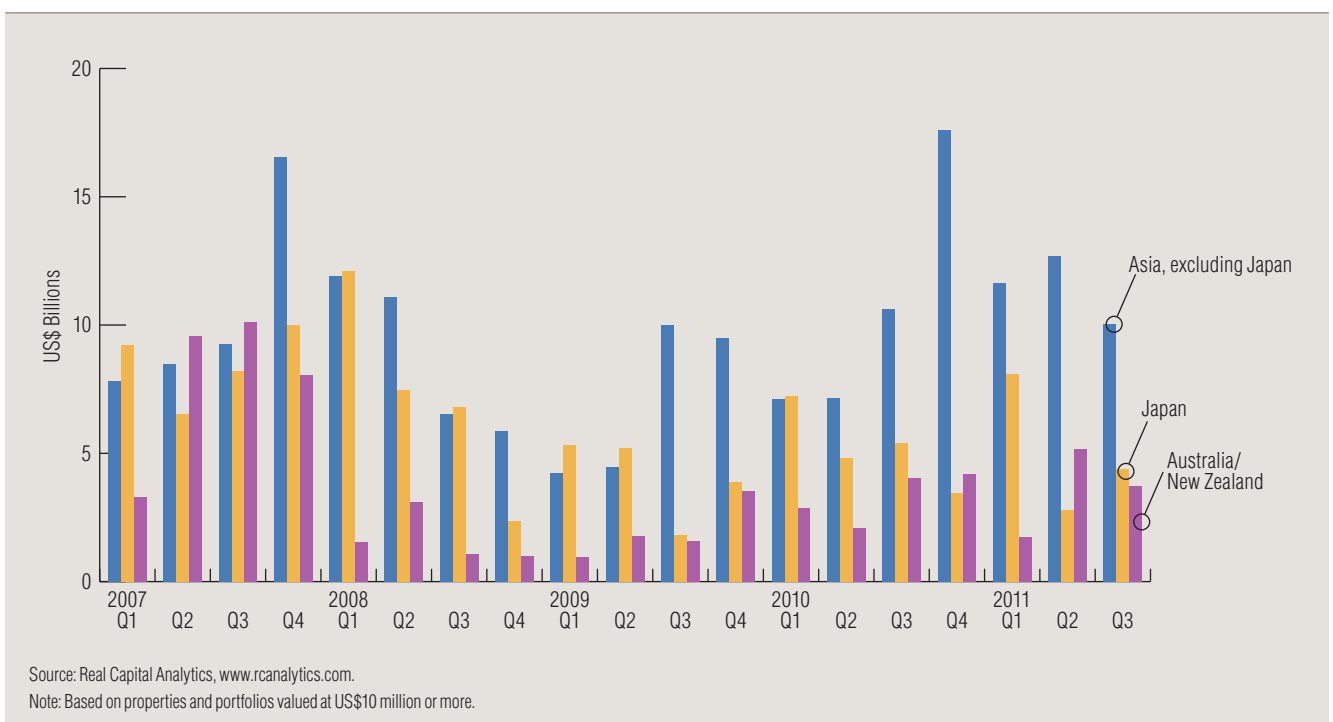


EXHIBIT 2-4
Asia Pacific Transactions by Country/Territory, First Three Quarters of 2011

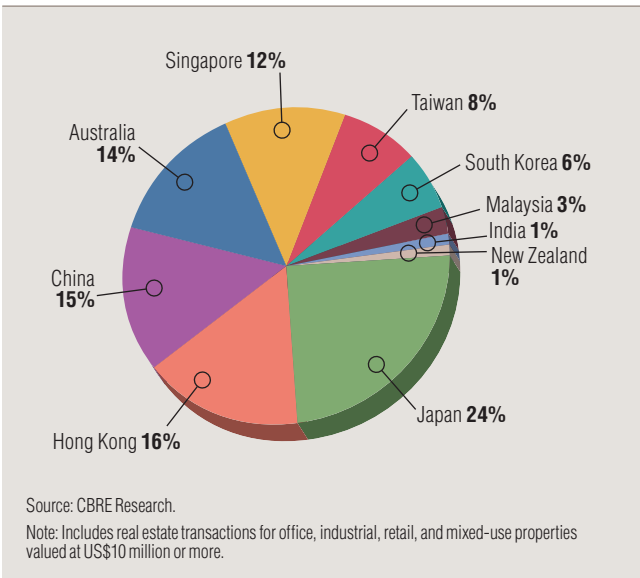
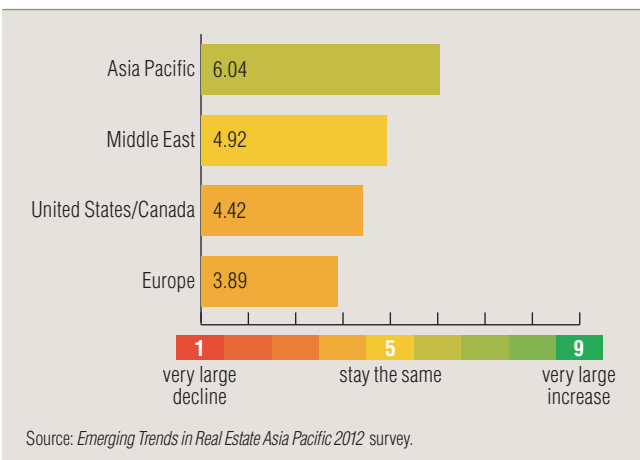
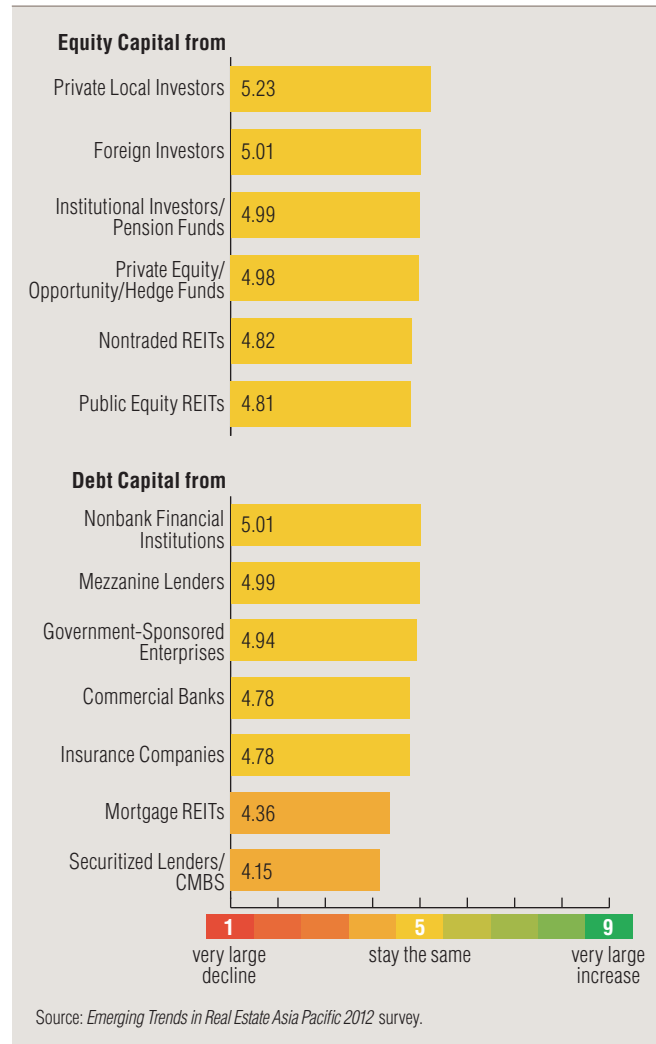


EXHIBIT 2-5
Change in Availability of Equity Capital for Real Estate in 2012, by Source Location



months ago, I'd have said you're going to see more outbound capital into distressed Europe and America. Now I think you can make the argument any way you want—that Europe is too messed up to want to go there, or that the Americans, almost despite themselves, will be forced to come to Asia to look for growth now that their market has recovered. I think we're going to find a lot more people looking at the market in all sorts of strategies and directions." One factor that has exaggerated this effect in 2011 is the fact that market psychology changed so quickly. "Earlier in the year, everyone was projecting growth. In fact, the fear in March was that interest rates were going up, with the U.S. printing money and export-

EXHIBIT 2-6
Change in Availability of Capital for Real Estate in 2012



ing inflation everywhere, so everyone in Asia raised interest rates. Now everyone's afraid of slow growth. It's completely gone 180 degrees."

Other factors also contribute to volatility. To begin with, some Western institutional funds have increased allocations to Asia in order to tap economic growth now hard to find in the West. Also, a general trend toward diversification is driving funds to increase allocations to Asia, which has historically been underweighted. One executive at a large consultancy states that institutional fund allocation to Asian real estate had grown from 1 percent in 2009 to 7 percent today—an enormous increase. By contrast, other foreign funds have retrenched back home. Either they have withdrawn from Asian markets altogether, as is the case with many Western investment banks, or they have become generally risk averse in their asset allocation strategies in response to the global financial crisis.

Other capital—both Western and Asian—is now focused on distressed assets in the West. “Those who have flexibility seem to be shrinking into their home markets where they have a level of comfort,” says one investor. “People are saying, ‘I can make 15 percent at home. Why would I go try and make 15 percent in an emerging market with all those extra layers of risk?’” Whether this will actually prove productive is another matter. As one analyst comments, “The question of whether more money will be diverted back into distressed opportunities in Europe and North America is interesting because we’ve been expecting it since 2008. But what has surprised everybody is that there’s been far less distress coming through. And you can’t envisage circumstances that would force that distressed property onto the market without it being a pretty ugly macro scenario.” That is especially the case for Asian sovereign wealth funds (SWFs) that are probably interested only in trophy assets that rarely come to market in the West.

Sovereign Wealth Looks Offshore

The general theme of the changing base of Asian cross-border investment is summed up by one fund manager: “I think a lot of the endowments and traditional guys who led the charge back in the day aren’t as active now, but some of these larger, deeper-pocketed funds and sovereign wealth funds, who haven’t had as much exposure to Asia in the past, are.” The appearance on the scene of more large institutional investors partly explains the emergence of the parallel trend toward core investments outlined in chapter 1. These funds are oriented toward “sourcing coinvestment opportunities or even direct deals themselves as opposed to giving money to general-partner fund managers.” As another interviewee observes, “What I think you see in Asia—and I could point to five or six transactions—is guys with deep pockets who are now partnering and choosing their opportunities in these club transactions. That’s the hot word now.”

Many of these new investors are large Asian SWFs or national pension funds that have turned to real estate as an asset class, either at home or offshore, as they seek higher yields. According to one interviewee, “In a way, this will help make good the falloff [in capital] from outside Asia. We are going to see less money coming in, but we are going to see more money circulating within Asia from different players in Asia, so it will in a sense compensate.”

Some of these institutions—either insurance companies that must pay a contracted minimum return on products they have sold or pension funds that are underfunded—have been forced to change their investment strategies because they have historically placed funds in low-yielding investments such as government bonds that today cannot generate sufficient cash flow. One fund manager described this trend as “a potential game changer going forward.” Japanese pension funds, for example, which currently hold assets of some ¥60 trillion (US\$780 billion), may increase allocations to alternative

investments, including real estate assets, from 2 to 5 percent today to 10 to 15 percent within two years in order to meet future redemption obligations, according to a recent Credit Suisse report. They also may begin to invest outside Japan.

Others, such as the Chinese SWFs that are now investing in real estate assets in Asia and beyond, are simply more assertive than before or have a mandate to seek more diversification, given their current narrow asset base and the

EXHIBIT 2-7

Investment Prospects by Asset Class for 2012

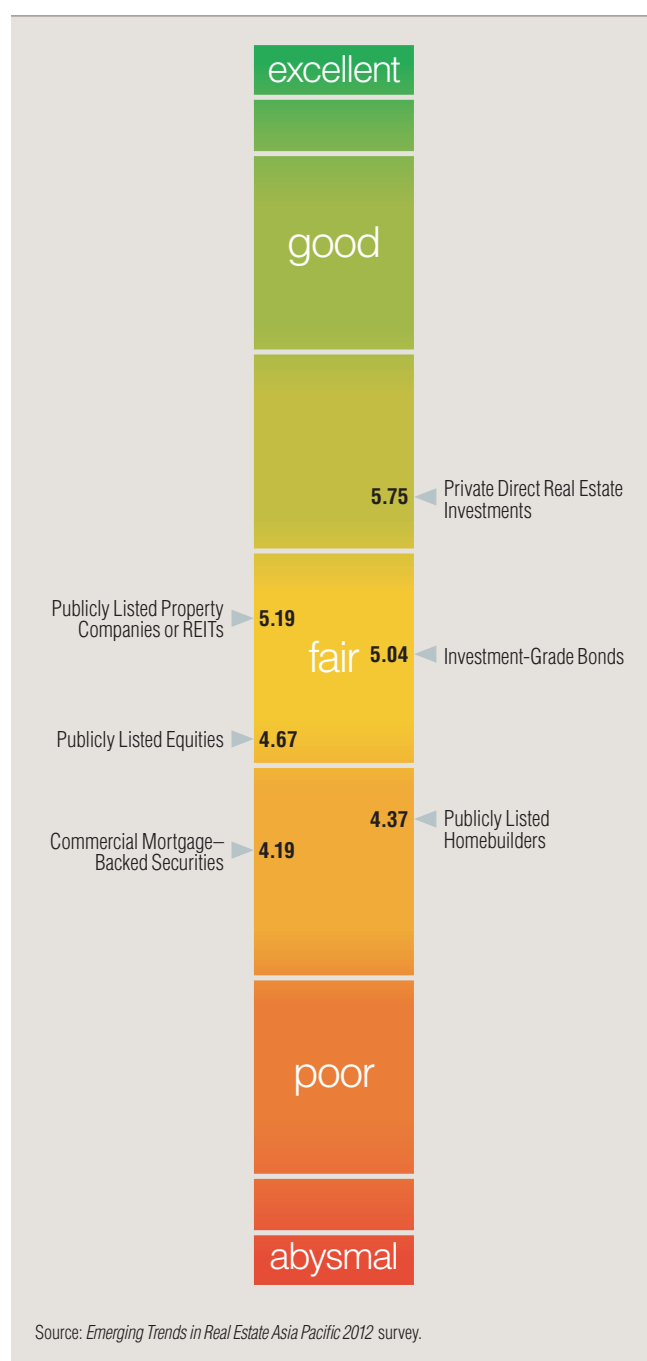


EXHIBIT 2-8
Largest Sovereign Funds by Assets

Country/Territory	Fund Name	Assets (US\$ Billions)*	Inception
United Arab Emirates—Abu Dhabi	Abu Dhabi Investment Authority	627.0	1976
Norway	Government Pension Fund—Global	571.5	1990
China	SAFE Investment Company	567.9**	1997
Saudi Arabia	SAMA Foreign Holdings	472.5	N.A.
China	China Investment Corporation	409.6	2007
Kuwait	Kuwait Investment Authority	296.0	1953
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	292.3	1993
Singapore	Government of Singapore Investment Corporation	247.5	1981
Singapore	Temasek Holdings	157.2	1974
China	National Social Security Fund	146.5	2000

Source: Sovereign Wealth Fund Institute.
Notes: *Data as of September 2011. **This number is a best-guess estimate. N.A.=not available.

disappointing relative performance of stocks over the past decade. Large Chinese developers and corporations are also currently eyeing real estate assets outside China, which promises to become another source of new institutional capital. “We’re going to see this outward march begin in seriousness over the next three to five years,” says one consultant.

In Australia, the nation’s superannuation funds, which have some US\$367 billion in assets, are planning to increase allocations to offshore nonlisted property assets from 2.3 percent now to 3.2 percent within two years, mainly in response to a shortage of prime investments at home. Before 2007, Australia was Asia’s biggest source of cross-border capital, but the flow slowed to a trickle following huge losses on its real estate portfolios in the United States and Europe during the crash. Given the structure of Australian pension plans, however,

which generate far more capital than can be absorbed in the domestic space, the return to international investing is only a matter of time.

Fundraising Falls

The trend toward direct investment by big institutional players—either solo or via club deals—has helped ring the changes for many of the large global opportunity funds that dominated the sector in Asia before 2007. In general, therefore, there is less capital for blind-pool discretionary funds,

EXHIBIT 2-9
Asia Pacific Investors’ Regional Allocation Percentage

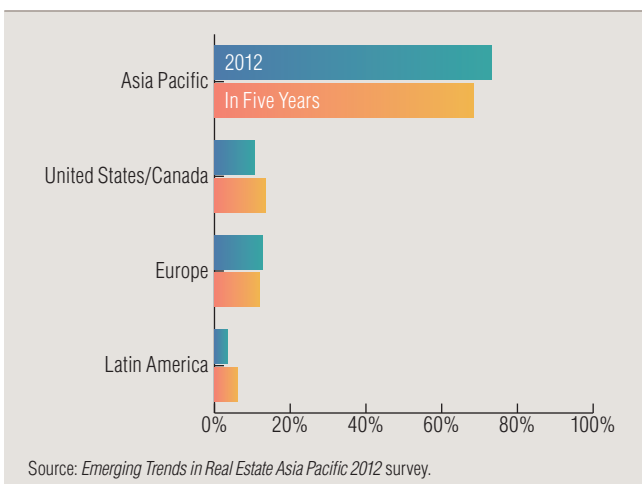
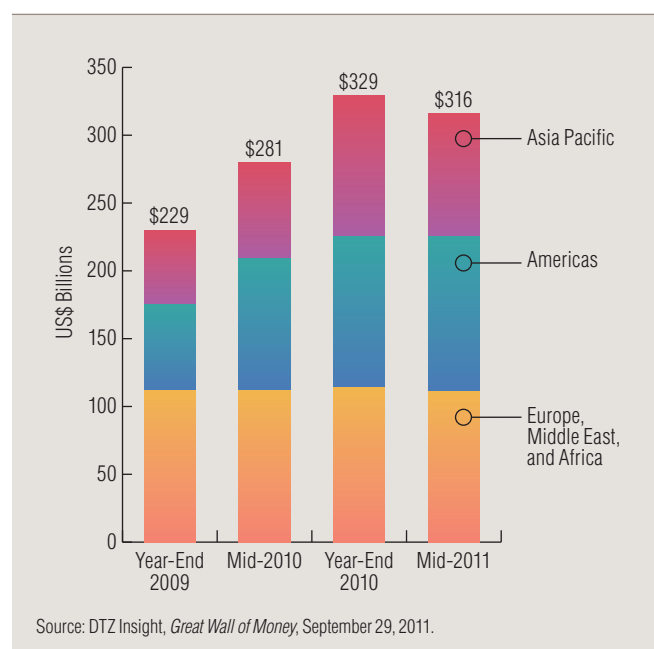


EXHIBIT 2-10
Available Capital by Region



and an overall shift in investor preference toward smaller, more specialist players who can provide a more personalized service. “The whole idea of just allocating capital into these big global allocator funds has gone the way of the dodo,” says one manager. Another comments, “The overwhelming trend is for LPs [limited partners] to put their money into country managers rather than on a regional basis. And if you look at [the megafunds], they all have rapidly oncoming expirations of their investment periods and need to convince investors to give them an extension. But that’s very difficult when you’ve had a lot of churn of senior managers or when these players are becoming more risk averse after making poor decisions pre-crisis.”

In addition, “When you talk about the hot money, the private equity money that used to be the big driver of that 20 to 30 percent-IRR higher-risk investing—that field has thinned out dramatically.”

Although many funds still have plenty of dry powder—largely because until now they have been unwilling to strike deals with sellers offering lower IRRs—the amount of new capital being raised has dropped. According to one fund manager, “In traditional fundraising terms, there hasn’t been a ton of capital raised. I think that’s partly driven by the capital markets and also by the lack of fund managers in the market raising capital. There’s been a lot of transition, with the investment-bank house funds being sold and a reshuffling of the sponsor side of things.”

The amount of new capital available for investment in commercial real estate in Asia declined to US\$91 billion as of mid-2011 from US\$104 billion at the end of 2010, according to the September 2011 DTZ report “The Great Wall of Money.” Although this is still higher than for either the end of 2009

or midyear 2010, it is indicative of a less-favorable capital-raising environment. Interviewees report that although they are still raising capital, global macro issues in the second half of 2011 have led to restraint by investors and a wait-and-see environment. “It was tough and it was long,” is how one fund manager describes a recent (though successful) fundraising campaign. With many funds already sitting on significant reserves of capital that need to be deployed, DTZ expects available capital to dwindle further as fund managers concentrate on placing funds as commitment periods draw to a close. Pressure to find homes for legacy funds may lead some to opt for investments in value-add or opportunistic products, the DTZ report says.

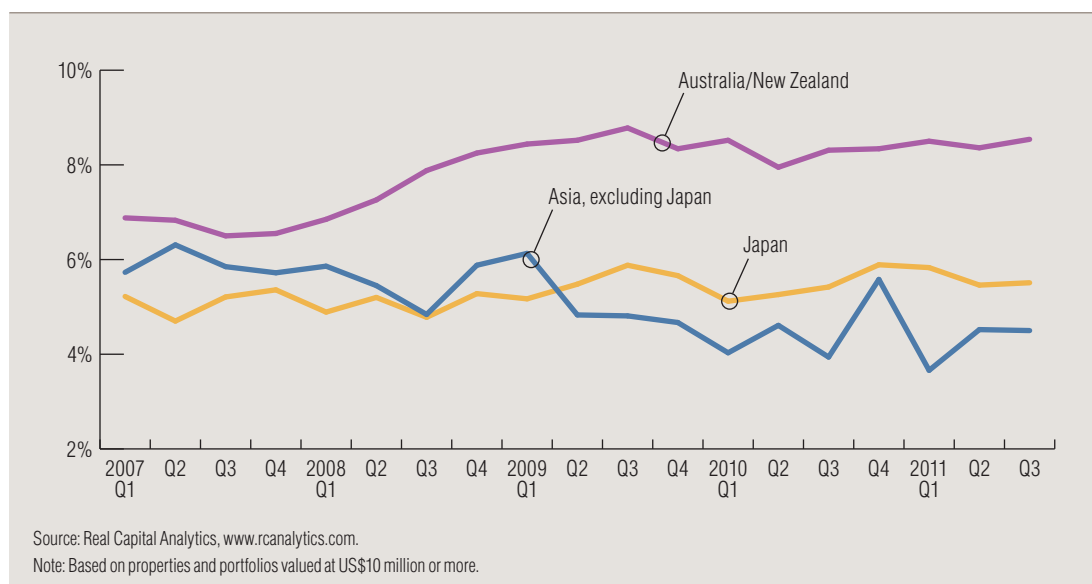
Foreign Funds Target Australia

Events in Asia have also had an impact on regional capital flows. In particular, the earthquake and tsunami led to a falloff in Japanese investment, particularly in the second quarter. This has been partly responsible for a large increase in international interest in Australia. Commercial property transactions there soared 127 percent in the second quarter of 2011 from a year earlier, according to RCA.

Australia is appealing for various reasons. First, its commodity-oriented export economy makes it “an indirect China and India play, but without all the headaches.” Also, “from a transparency point of view, it’s one of the best markets in the region,” with a culture that is user friendly to Westerners. Unlike the situation in many Asian destinations, lease structures tend to be longer term, and from an occupier-demand point of view, the market is currently at the bottom of the cycle, pointing to likely upward movement in rents. Finally, with cap

EXHIBIT 2-11

Quarterly Cap Rates for Commercial Property in Asia Pacific



rates at 8.3 percent in the second quarter, Australia offers some of the highest rates globally. It is no surprise then that Australia is proving to be a magnet for foreign institutional investors, with demand fairly evenly spread among American, European, and Asian funds. Most buyers are looking for prime office assets rather than retail properties, which have performed poorly in an environment of slowing consumer demand.

One factor attracting foreign buyers is that unlike other countries in Asia, Australia has a market that is liquid. More than US\$10 billion worth of commercial property assets was on the market at the beginning of September 2011, according to the *Australian Financial Review*. In part, this is because local REITs (also called listed property trusts, or LPTs) are relatively mature, which implies a certain amount of churn. In addition, most LPTs currently trade at well below net asset value. This has not only made it hard for them to make accretive purchases, but also has proved to be a catalyst for asset sales as shareholder pressure—in particular from foreign hedge funds—grows for them to liquidate properties and distribute proceeds. This applies especially to LPTs holding foreign assets.

So while plenty of assets are for sale, domestic buyers have been thin on the ground, meaning that Australian listed companies have been net sellers in 2011. According to one analyst, “We’ve been surprised that confidence in Australia seems lower domestically than it is from people outside looking in.” Also, local funds “have quite a high cost of capital and are clearly hamstrung by not being able to borrow.” Not only are banks not anxious to lend them money, but when they do, the high base rate (4.5 percent as of November 2011) has pushed up borrowing costs to as much as 7 percent. That compares with foreign institutional buyers who generally enjoy low levels of debt and to the extent that they need to borrow, can do so outside the country at much lower rates. International buyers accounted for over 30 percent of commercial real estate investments in Australia over US\$20 million in the first half of 2011, according to CBRE, double the normal rate.

Currency Risk

One problem for foreign buyers, both in Australia and elsewhere, has been the recent strength of local currencies. The Australian dollar, for example, appreciated more against the greenback than any major currency in the first three quarters of 2011. Other regional currencies also appreciated at the beginning of the year, despite the impact on export competitiveness, as a policy response to the impact of rising inflation. This made asset purchases in those countries more susceptible to later currency declines. Later in the year, however, as the potential for economic crisis in the West reemerged, local currencies lurched in the opposite direction as foreign investors began to sell local assets. The existence of these two competing and contradictory influences—inflation and capital

flight—on local currency values in 2011 means that currency risk in Asia has now become a real issue.

Hedging this risk, however, is expensive. According to one fund manager, there are two reasons. First, “Whenever something looks expensive, it’s going to be hard to hedge against a fall in that price”; and second, “The Asian market is so illiquid.” In practice, therefore, “If you have a U.S. dollar–denominated fund and you want to hedge 100 percent of your [Australian] currency risk, it would cost you about 4 percent. That’s huge. I don’t know how they make the numbers stack up.” Similar concerns affect foreign buyers of Japanese property following the recent run-up in the value of the yen as capital migrated to Japan in a flight-to-safety response to global macro problems.

Banks

Banks continue to provide the lion’s share of funding for real estate investment in Asia. Beginning in 2008, ultra-low base rates have meant cheap capital and LTVs of around 60 percent. That environment will not last forever, though. As one interviewee says, “I think we need to remind ourselves how exceptionally loose interest rate policy has been. It’s not been like this in history, and how you navigate your way out of this is very unclear. The way I conceptualize it is that we have tension playing out between interest rates appropriate to the real economy and interest rates appropriate to financial markets,

EXHIBIT 2-12

Equity Underwriting Standards Forecast

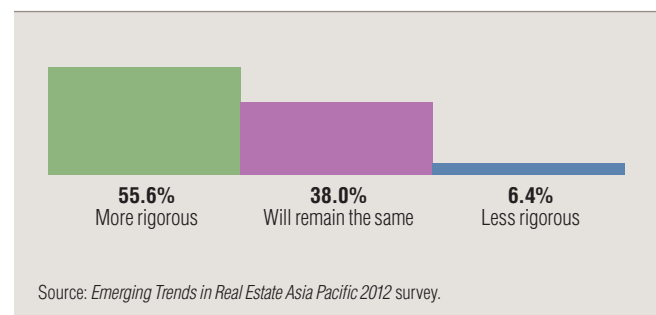
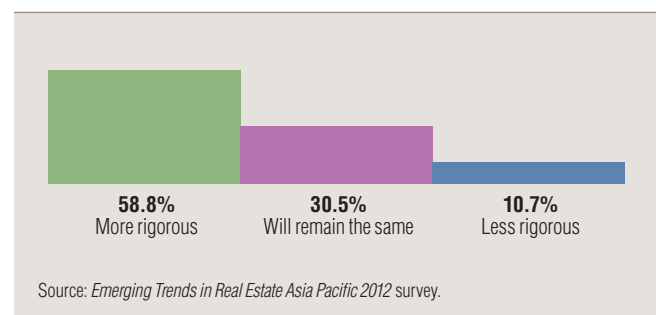


EXHIBIT 2-13

Debt Underwriting Standards Forecast



and we're about to transition to a situation where interest rates reflect the value of money as opposed to exceptional stimulus."

Although base rates remain relatively low in most markets—with some notable exceptions, such as Australia and especially India—interviewees speak of spreads generally creeping higher by 100 to 200 basis points in 2011. In some cases, this reflects increased risk aversion. In others, it results from conditions peculiar to that market. In Hong Kong, for example, higher spreads are a result of a shortage of local currency as depositors convert deposits into higher-yielding renminbi. In addition, "Some mainland developers are working out ways of borrowing money offshore and taking it onshore. It's been quite lucrative for banks based in Hong Kong." A typical borrowing rate for a medium-sized developer in China stood at 600 basis points in early October, compared with 400 basis points early in the year. According to one local fund manager, "The net effect is that we've seen less availability of bank finance for [Hong Kong] real estate and an increase in the cost of funds, which has gone from HIBOR [Hong Kong interbank offered rate] plus, say, 200 basis points six months ago to HIBOR plus 300 to 400. HIBOR presently is only 25 to 30 basis points, so your all-in cost of borrowing is 330 to 430, which is still fair, but it's a big jump on what it was before."

At the same time, however, there is little immediate concern of a significant increase over existing rates. "I wouldn't be surprised if for the next couple of years, while the chaos continues, [regional] interest rates will continue to be benign. And then it's really whether the banks want to do the business, or whether there's some sort of political imperative to artificially increase the cost of borrowing for real estate and particularly developers. But [U.S. Federal Reserve Board Chairman Ben] Bernanke has signaled interest rates as close to zero as makes no odds. In our hemisphere, that has huge ramifications."

The situation on the ground varies considerably from country to country. In some markets, banks are as open as ever to extending loans. In Singapore, therefore, "The cost of finance hasn't gone up, and banks are very willing to have exposure to commercial real estate." In the Philippines, "If you're a good name and in a good location, banks are falling over themselves to offer you a loan. Fixed-term five-year money is available at something like 6.5 percent to 7 percent." In Japan, one investor speaks of pricing deals with Japanese banks at "incredibly aggressive margins." In addition, "[Japanese] banks are prepared to lend on a name basis rather than a real estate basis," with all-in costs between 1.3 and 2 percent and LTVs of 65 to 70 percent for a five- to ten-year term.

On the other hand, banks in some countries have gone to the opposite extreme, although usually for reasons specific to their own market. The most obvious examples of this are India and China, as discussed in chapter 1. Indian banks have anyway traditionally been cautious about lending for real estate. Mushrooming inflation there has seen base rates soar to 9 percent as of October 2011, with spreads of anywhere between 13 and 20 percent, making bank borrowing an impracticable financing channel for much if not most development. In China, bank financing for land purchases has become unavailable "under any circumstances" and for construction only "on a selective basis and at no more than 50 percent LTVs." Sometimes, funding is provided only on provision of collateral and subject to LTVs as low as 40 percent of that collateral.

Alternative Financing Channels

Financial markets in Asia excluding Japan continue to mature, but in general remain relatively unsophisticated compared with those in developed economies. While this has served to insulate the region against the emergence of debt bubbles, it also means that alternative funding channels are evolving almost by accident as a response to banks' inability to meet the funding needs of their constituents. China, for example, has seen rapid growth in several types of alternative funding mechanisms in order to bypass government measures to restrain bank lending for land and property purchases.

In particular, *trust lending* involves the structuring of loans into a crude type of securitized package sold by the banks to retail depositors or investors. *Entrusted lending* is similar except that the bank acts only as an intermediary, bringing together borrowers and lenders for a fee. Recently, borrowing costs for developers typically ranged between 17 and 20 percent annually, according to estimates by Standard Chartered Bank, or three times China's benchmark lending rate. Total trust and entrusted lending in 2010 amounted to about 14 percent of all loans made by Chinese banks, although some unofficial estimates have put this figure much higher. According to industry statistics, more than half of all entrusted

EXHIBIT 2-14
Maturing Loans: Preferred Strategy for Lenders by Mid-2012

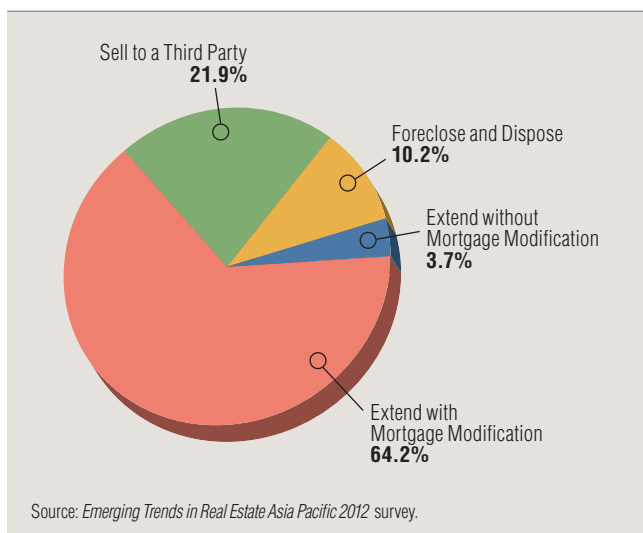
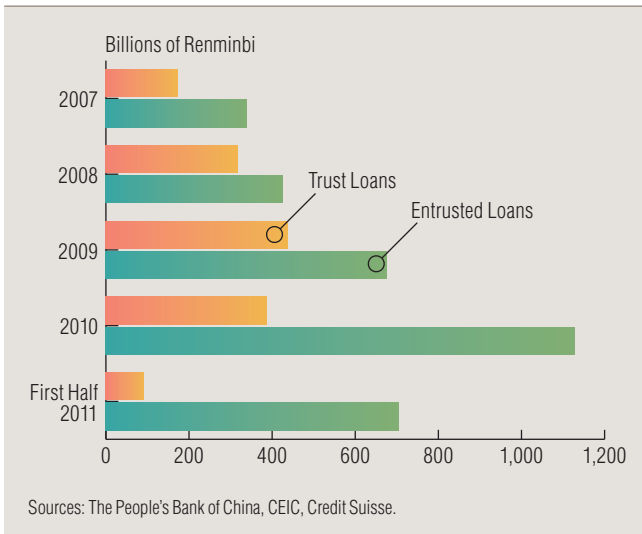


EXHIBIT 2-15

Annual Increase in Chinese Trust and Entrusted Loans, 2007 to 2011



lending has been channeled into real estate investments, and trust companies have rapidly become a key source of funding for Chinese developers. In the second quarter of 2011, entrusted lending to the property sector doubled over the previous quarter to US\$21.5 billion.

Trust loans are seen as the safer of the two platforms because they involve an implicit guarantee from the bank as to the integrity of the bundled assets. However, the practice is eerily reminiscent of the securitized mortgage products sold by U.S. banks that led to the global financial crisis in 2007. Afraid of potential repercussions for banks (and for retail buyers) should trust loans go bad, the Chinese government began to restrict bank-trust products early in 2011. Bank-trust lending dropped sharply as a result.

However, authorities allowed entrusted lending to continue, mainly because buyers of these products are usually institutions and wealthy individuals who need less protection. Entrusted lending originally developed as a means to allow state-owned enterprises to allocate funds among associated entities, a practice forbidden under Chinese law if the party is a nonfinancial institution. It later evolved to allow state-owned enterprises to lend money to unrelated third parties, and then evolved further to cut out the middleman bank by creating a legal fiction: the trust would take an equity stake in a project, which the developer is required to buy back on maturation, at which point it pays a contractual return similar to the trust-lending rate (that is, as if it were debt). Local developers took a leading role in setting up entrusted funds. According to one consultant, "We've seen all the major [Chinese] developers set up trust companies to raise private equity. They manage to accumulate funds of 1 billion to 3 billion renminbi [US\$160 million to \$470 million] without too much difficulty, and the standard arrangement is that 50 percent of that goes

into their projects, and then they invest 50 percent in other people's projects."

Some of these entrusted products have become quite sophisticated. The "income-rights" trust, for example, is similar to a REIT in that it invests in the beneficial rights to an income stream produced by an asset (e.g., rentals). Other trusts have introduced tranche-structured products that allow investors to take a primary tranche, with the borrower assuming the risk of subprime tranches. It is clear, therefore, that the market, in China at least, is quite capable of delivering innovative financing products for real estate investment. The key issue is the extent to which authorities will allow such products to be developed, which in turn is a question of the authorities' perception of risk. Risk increased considerably in 2011, as the value and cost of entrusted lending ballooned.

In September, the government stepped in. Banks and private equity funds were banned from engaging in entrusted lending. The legal fiction dispensing with bank participation was also banned. China's bank regulator has now begun closely scrutinizing this previously lightly regulated sector, and for the foreseeable future entrusted lending to real estate seems subject to much tighter control, although over the longer term the structure may well emerge as a primary platform to diversify real estate funding risk away from the banking sector.

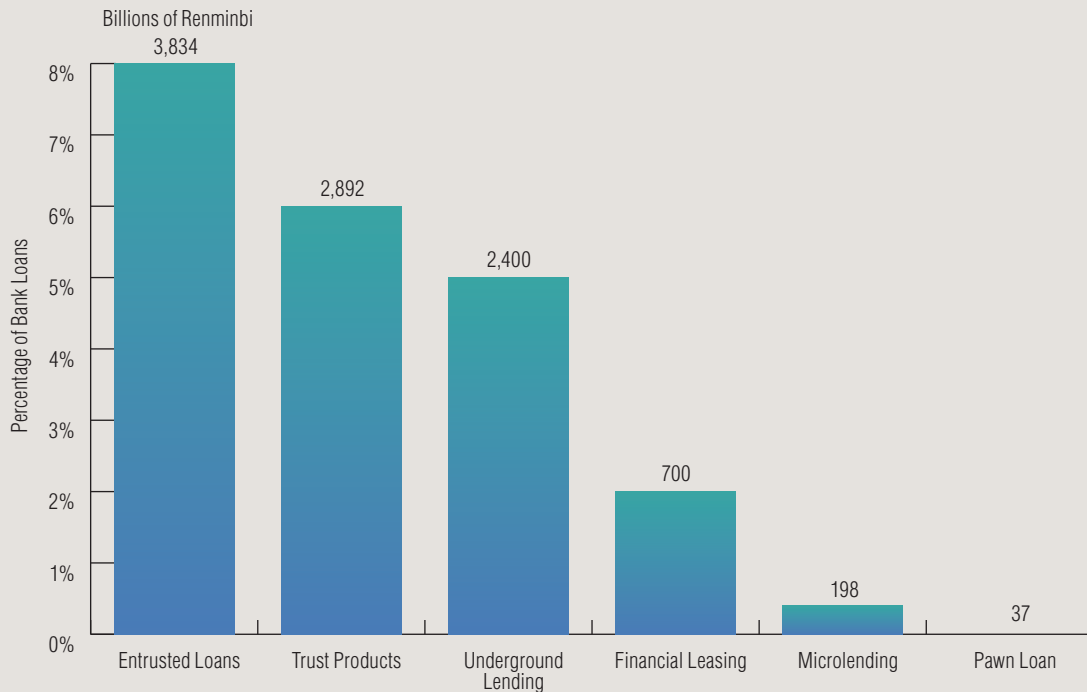
The new restrictions on trust and entrusted lending platforms do not affect equity investments made by their peers in China's growing private-equity fund industry. These involve both foreign and (increasingly) domestic renminbi-denominated funds raised in country. The most popular role for these funds is to facilitate investments by high-net-worth individuals in real estate. Activity from the renminbi funds has picked up significantly in 2011, with a number of successful closings. In addition, regulatory changes in July have allowed domestic securities companies to launch their own private equity platforms, greatly expanding the pool of qualified participants. As a result, private equity fundraising in August rose to almost US\$8 billion, double the figure of the previous month.

With capital becoming increasingly scarce in 2011, Chinese developers have devised another way to circumvent government borrowing restrictions—effectively bartering for land with local governments. As one interviewee describes it, "Developers are now securing access to land—which is the real challenge if you can't borrow to fund it—by offering to help a city to master plan an area and put in infrastructure. They hand the bulk back to the government in the form of land, which they can then sell, but by way of reward they're given some land in return. That's becoming quite a favored model."

More generally, another potential source of nonbank lending for Asian real estate is the insurance industry. In the United States, insurers have recently reemerged as a lending powerhouse for commercial real estate purchases, and although insurers have never been a lending force in Asia, it is possible that regulatory changes in Europe may encourage greater participation in the future. As DTZ stated in its May

EXHIBIT 2-16

Size of China's Nonbank Lending Market as a Percentage of Bank Loans



Source: Bank of America Merrill Lynch.
Note: Data are as of year-end 2010.

2011 "Global Debt Funding Gap" report, "We have observed a growing appetite from insurance companies and other funds to invest in loan positions or to provide senior or mezzanine finance for new lending or refinance opportunities." This trend has been driven in part by the provisions of the

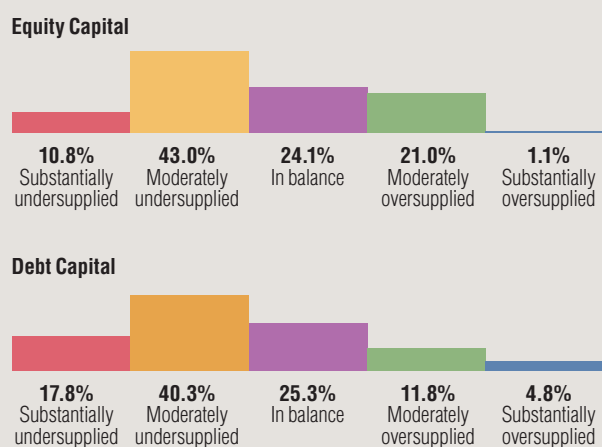
EU's upcoming Solvency II regulations. The first instances of insurer-originated lending are now appearing in Europe.

In Asia, however, the trend has yet to gain traction. One investor comments, "I would be very surprised if it happens in the short term. [There are] too many regulations and differing law and practices for land title and collateral." However, another interviewee states, "Some of the global insurance companies have come to Japan recently, and I've heard their names come up in terms of potential financing alternatives." He adds, however, that for now, "I think it's difficult for them to compete with the Japanese megabanks from a debt perspective."

Australia was also mentioned as a potential market for nonbank borrowing, particularly for commercial property loan refinancing—a US\$30 billion market over the next two years—after foreign banks withdrew from the market and local banks lost enthusiasm to lend to the property sector. A few domestic fund groups, including life insurers and superannuation funds, are already providing senior secured debt facilities to borrowers.

EXHIBIT 2-17

Real Estate Capital Market Balance Forecast for 2012



Source: *Emerging Trends in Real Estate Asia Pacific 2012* survey.

Capital Markets

Public debt funding for real estate in Asia remains tiny compared with that in the West. According to DTZ, the value of Asian real estate transactions funded by private (that is, bank) debt increased by US\$257 billion in 2010, while the value of

newly issued public debt stood at just US\$16 billion, mainly high-yield bonds issued by Chinese developers.

Equity markets historically have been a bigger source of capital for regional real estate. In 2009–2010, markets benefited from strong incoming flows, much of it portfolio money hailing from the West. But property sector sentiment in the capital markets turned negative in 2011, and depressed share prices have left little scope for developers to raise new capital. In the second half of 2011, shares of many Asian developers became extremely depressed as foreign investors sold equities across the board. In Hong Kong, for example, “You’ve got very-high-quality [Chinese] developers trading at 50 to 70 percent discount to NAV [net asset value],” a locally based investment banker said in early October. “It’s a screaming buy.” The same applies across the region. In Japan, developers were trading at about 50 percent discount to NAV. With share prices so low, selling equity became unattractive. Large developers or REITs in Singapore and Australia, meanwhile, began share buybacks.

In the bond markets, meanwhile, borrowers enjoyed “incredible liquidity” until mid-2011, particularly in Hong Kong, where “the big [Chinese] developers, who were all in very-high-growth mode, all of a sudden weren’t able to borrow from banks. That pushed them for the first time to go to the capital markets to raise debt.” As a result, in 2010 and the first half of 2011, China became by far the biggest issuer of Asian foreign-currency high-yield debt, with developers raising some US\$9

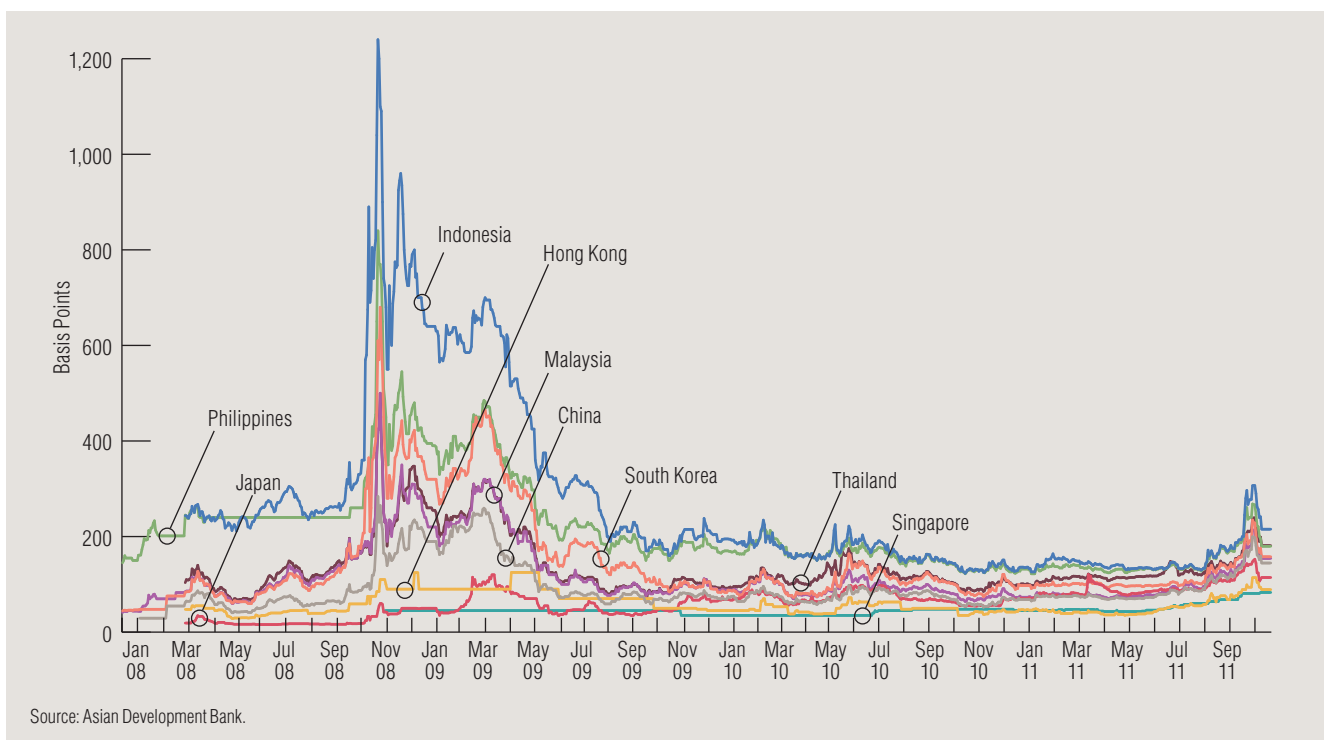
billion in 2010 (more than five times 2009 issuance), and an additional US\$10.9 billion in the first five months of 2011.

In the middle of the year, however, the new-issue high-yield market in Asia ground to a halt virtually overnight as buyers retrenched in a worsening economy and the Chinese government banned the importation of developer bond proceeds. Since then, Asian credit spreads have inched gradually wider. For the developers in particular, investor fear has been amplified by the extent of the government-inspired financing squeeze, as well as a string of (unrelated) accounting scandals concerning U.S.-listed Chinese companies. In the third quarter, Standard & Poor’s downgraded the outlook for Chinese property companies to negative. Yields have ballooned to the 20 percent range as developers’ bonds sank.

A potentially new source of capital-market funding has opened up in 2011 as China has moved to liberalize rules relating to local currency–denominated initial public offerings (IPOs) and debt—so-called dim sum bonds—in Hong Kong. Total dim sum issuance is projected to hit about US\$30 billion in 2011, up from US\$6.25 billion in 2010. However, given that developers remained banned from importing bond-sale proceeds into China (whether renminbi or dollar based), there has been little change for the domestic real estate sector. One interviewee suggests the rules might be bypassed by selling “back-to-back” issues, “so the renminbi don’t actually leave Hong Kong, and then you raise an equivalent renminbi loan in the mainland on the security of the renminbi funds.”

EXHIBIT 2-18

Emerging East Asia Credit Default Swaps: Senior Five-Year (Mid-Spread in Basis Points)



Whether this will prove an effective strategy remains to be seen.

Moreover, it is questionable whether dim sum bonds will actually prove appealing to investors once China reopens its doors. Although they have a superficial attraction as a currency play (most analysts expect continued renminbi appreciation), dim sum issues are priced to compensate for projected appreciation, thereby eliminating the arbitrage. As one investment banker explains, "You should be pretty indifferent between going with an renminbi bond or a U.S.-dollar bond because it's all built into the price. The renminbi bond interest rate is 3 percent less, so all of this excitement about renminbi bonds has been overblown."

CMBS

For the most part, CMBS markets in Asia remain inactive, with the possible exception of Japan and Australia, where there remains "a heartbeat, a little tiny light at the end of the tunnel."

In Japan, the main reason for the ongoing absence of CMBS is the low price of capital from Japanese banks. According to one interviewee, "The CMBS market would very much be there, but Japanese banks underpriced the cost of senior loans at [just] 1.3 percent. CMBS investors won't buy at that kind of level. It has to have a reasonable commercial return." The real issue with CMBS in Japan is the ongoing question of how banks are going to deal with the huge volume of bad CMBS positions accumulated on their balance sheets. Maturing CMBSs that are likely to end in default represent a large proportion of Japan's distressed real estate assets. In 2010, about ¥1.16 trillion (US\$15.2 billion) worth of securities reached maturity. By the end of 2012, that figure is expected to rise to ¥2.7 trillion (US\$35.5 billion), of which 30 to 40 percent is expected to default.

According to one locally based fund manager, the main obstacle to clearing this deadwood is that the remaining CMBS investors have little incentive to act. The decline in the value of the assets means that holders of equity and mezzanine interests have lost their investments, leaving only various tranches of bondholders. "You have two problems with that. One is that you have bondholders who currently are able to get a default interest rate, which is typically 14 percent per year. They can't replicate that anywhere else and there are no new CMBS issues coming out for them, so they're happy sitting there collecting default interest. And then you have the servicers, who are sitting there wanting to collect their fees because they go up dramatically when [CMBSs] get put into default, and they don't want to do anything either. I've heard cases where the servicers, in fact, are making up excuses to not sell off assets purely to keep the fees."

REITs

Following widespread recapitalizations in 2009, Asia's REITs entered 2011 in much better health than in previous years, with lower levels of debt and much improved market caps. With REITs again able to make accretive purchases, total investment spending in the first half of the year reached US\$6.6 billion across the region, according to CBRE, a record high. In Japan, despite gloomy expectations after the March earthquake and tsunami, the REIT market rebounded almost immediately after the government doubled the size of its asset purchase program. Despite the relatively modest size of the stimulus—US\$1.3 billion—government buying of Japanese REITs (J-REITs) have provided a floor to the equity market and therefore to property prices in general. Since then, J-REITs have been among the most active REIT buyers in Asia.

Since the middle of the year, however, REITs have suffered the same malaise as other equity markets. Although they have held up far better than developers' shares, REIT capitalizations in Australia, Japan, and Singapore—the three biggest regional markets—each fell between 7 and 10 percent in the third quarter. Many REITs—especially in Japan—still have plans to continue with asset purchases, but falling regional share prices will make this problematic. What's more, and notwithstanding that share price declines are the result of external events, it is hard to avoid the conclusion that REITs in general fail to capture investors' attention in Asia. This is perhaps exactly because they are regarded as relatively stable, unimaginative assets in an environment where investors tend to look for greater beta in equity markets. For many professional investors it remains puzzling that, despite often high-quality assets, Asian REITs so often trade well below net asset value. Average returns in mid-2011 ranged from 5 percent in Japan to 6 percent in Australia and Singapore, down slightly from 2010, but still attractive in a yield-starved world.

Singapore, in particular, offers a compelling REIT product. Described by one investment banker as "the best REIT market outside of the United States in the world," it benefits from an array of tax breaks and a very liquid trading platform. In addition, "The sponsors of the vehicles have for the most part been more of the real estate investment manager ilk that are in the business in order to maximize assets under management, to earn fees, to create vehicles that make money for their investors because they want to create other vehicles down the road." This means sponsors have more incentive to buy additional assets, so the market has seen considerable growth and diversity.

Most other markets, however, are not as advanced. South Korea, for example "is really stagnating because the rules are not up to global standards. In Thailand, not much has happened; it's sort of a very small, illiquid market. And Hong Kong has its own issues: the cap rates are so low for commercial properties, it's hard to put in a dividend yield to investors that's

EXHIBIT 2-19

Listed REITs in Asia, First Half 2011

	Number of Listed REITs	Average Dividend Yield*	Ten-Year Government Bond Yield
Japan	35	4.99%	1.14%
Singapore	26	6.00%	2.31%
Hong Kong	9	4.85%	2.27%
Malaysia	14	6.76%	3.93%
Thailand	33	7.56%	3.91%
Taiwan	8	3.42%	1.51%
South Korea	5	9.28%	4.52%
Total/Weighted Average	130	5.40%	

Sources: CBRE, Bloomberg.

* Weighted by market capitalization.

EXHIBIT 2-20

Listed Property and REIT Market Capitalization

	S&P/Citigroup Global BMI Property Index (US\$ Millions)	S&P/Citigroup Global BMI REIT Index (US\$ Millions)
Global	833,503	543,175
Asia Pacific	288,353	126,123
North America	344,235	334,874
Europe	114,125	75,633
Japan	103,396	36,804
Hong Kong	80,875	9,612
Australia	63,870	59,669
Singapore	37,481	17,832
China	26,693	N.A.
Taiwan	5,992	630
Indonesia	5,264	N.A.
Philippines	5,172	N.A.
Malaysia	5,136	852
India	3,917	N.A.
Thailand	2,929	N.A.
New Zealand	2,732	2,207

Source: S&P/Citigroup Global Equity Indices.

Notes: All data as of September 30, 2011. N.A.=not available.

particularly attractive.” Another advantage for the Singapore market is that so many REITs hold industrial assets. “They’re a little bit less loved by investors, but for a REIT, that’s good because it actually produces a [better] dividend yield.”

In Australia, local REITs have been selling assets in 2011—in part, a reflection of the fact that they are unloved by investors, probably as a result of the spectacular meltdown of the local market in 2008. Therefore, they trade at often huge discounts to net asset value. There have been two consequences to this. First, it has frustrated an expected wave of IPOs in 2011 from local private wholesale funds, which were owners of core properties that needed to be refinanced or disposed of. Second, some REIT investors, several hedge funds included, have targeted Australian REITs in an effort to force them to sell their properties—in particular those located in the United States—which are clearly worth more in the market as individual assets than as part of a REIT portfolio.

Japan, meanwhile, continues to muddle through. The market has held up well after the earthquake, and the fact that J-REITs have recently been raising funds and buying assets is an encouraging sign. However, “There haven’t been any newly generated IPOs in years. That tells me the pricing in general isn’t attractive enough to be tempting new sponsors to come in with assets and list them in IPOs.” In addition, recent declines in J-REIT shares still allow them to make accretive purchases, “but it’s getting pretty fine. I don’t know how much longer that’s going to take place.”

In any event, the market in Japan tends to be a case of the “haves and have-nots,” where activity is dominated by a few large-cap players sponsored by the big property developers and with good connections with banks. That leaves a lot of smaller players that are in a vicious circle “where you’re too small and illiquid, so you don’t appeal to the big global investors, so your cost of equity is too expensive and it doesn’t allow you to go buy assets, so you can’t grow and you can’t

get out of that box.” Seven J-REIT mergers took place in 2010, allowing some small players the opportunity to sell off lesser-performing assets. However, this part of the market still needs consolidation in order to improve liquidity, leverage greater efficiencies, and improve overall market structure.



Markets and Sectors to Watch

“Market sentiment in Asia continues to be cautious.”

In 2011, the *Emerging Trends Asia Pacific Markets and Sectors to Watch* section opened with the quote, “Asia is just the part of the world that is showing more growth.” That looks to remain true in 2012, but with much more investor apprehension than in the past year. “The economy will be very volatile in the next few years—with several potential event risks,” one interviewee said. Asia Pacific markets will be forced to continue to operate under a lingering cloud of U.S. and European financial concerns. Sovereign debt issues, a volatile economic climate, as well as risk of double-dip recessions would create sluggish consumer spending and dampen the important Asian manufacturing and trade industries.

These uncertainties are heard and seen in the *Emerging Trends* interviews and survey outcomes. The overall tone is slightly less positive than in 2011, and almost all survey results posted lower values. According to commercial real estate rankings, only three of the 21 markets covered produced a higher investment rating than last year and only two had a higher development rating. “People are more selective in their investments” and “investors will evaluate based on quality and fundamentals of each location” are good snapshots of investor thoughts entering the new year. Foreign capital real estate investments should slow, but strengthening domestic assets should be good for supply and demand. “Intra-Asia trade will continue to grow, and this makes Asia less reliant on the U.S. and Europe.”

With those investment thoughts in mind, top trends for markets and property sectors include the following:

- Singapore locks up the top spot for investment prospects for the second year in a row, never having fallen out of the top five since publication of *Emerging Trends in Real Estate Asia Pacific* began in 2007.
- Rounding out the top five are Shanghai, Sydney, Chong-

qing, and Beijing. Chongqing is the newest market added to the publication. All four mainland China cities covered in the report rank in the top six this year.

- Cities with the largest gain in investment rank are Taipei, Bangkok, Sydney, and Jakarta. Those with the largest gain in development prospect ranks are Sydney and Jakarta.
- Most of this year’s investment ratings are lower than last year’s: only three of the 21 cities covered have higher investment

EXHIBIT 3-1

City Investment Prospects

generally good fair generally poor

1	Singapore	5.77
2	Shanghai	5.65
3	Sydney	5.49
4	Chongqing	5.49
5	Beijing	5.46
6	Guangzhou	5.43
7	Melbourne	5.43
8	Taipei	5.41
9	Ho Chi Minh City	5.38
10	Bangalore	5.38
11	Jakarta	5.35
12	New Delhi	5.32
13	Bangkok	5.30
14	Hong Kong	5.30
15	Mumbai	5.29
16	Kuala Lumpur	5.27
17	Tokyo	5.24
18	Manila	5.03
19	Seoul	4.86
20	Auckland	4.77
21	Osaka	4.70

Source: *Emerging Trends in Real Estate Asia Pacific 2012* survey.

EXHIBIT 3-2

Historical Investment Prospect Rankings

City	2012	2011	2010	2009	2008	2007
Singapore	1	1	5	2	2	4
Shanghai	2	2	1	5	1	2
Sydney	3	6	6	14	15	16
Chongqing	4	N.A.	N.A.	N.A.	N.A.	N.A.
Beijing	5	7	3	12	6	9
Guangzhou	6	8	12	16	9	7
Melbourne	7	9	9	11	17	6
Taipei	8	13	11	8	16	5
Ho Chi Minh City	9	11	13	13	8	12
Bangalore	10	10	14	4	12	10
Jakarta	11	14	17	20	20	19
New Delhi	12	5	10	9	13	14
Bangkok	13	17	19	18	18	8
Hong Kong	14	4	2	3	5	11
Mumbai	15	3	8	7	10	17
Kuala Lumpur	16	15	15	10	11	15
Tokyo	17	12	7	1	3	3
Manila	18	20	20	19	19	18
Seoul	19	16	4	6	7	13
Auckland	20	18	16	17	14	N.A.
Osaka	21	19	18	15	4	1

Source: *Emerging Trends in Real Estate Asia Pacific 2007–2012 surveys*.
N.A.=not applicable.

EXHIBIT 3-3

City Development Prospects

	generally good	fair	generally poor
1 Singapore	5.63		
2 Shanghai	5.51		
3 Chongqing	5.43		
4 Beijing	5.42		
5 Jakarta	5.40		
6 Ho Chi Minh City	5.38		
7 Bangalore	5.36		
8 Guangzhou	5.36		
9 Sydney	5.32		
10 Mumbai	5.32		
11 Melbourne	5.30		
12 Taipei	5.29		
13 New Delhi	5.27		
14 Bangkok	5.24		
15 Hong Kong	5.24		
16 Kuala Lumpur	5.21		
17 Manila	4.97		
18 Tokyo	4.77		
19 Seoul	4.66		
20 Auckland	4.56		
21 Osaka	4.29		

Source: *Emerging Trends in Real Estate Asia Pacific 2012 survey*.

ratings this year—Bangkok, Manila, and Osaka. The industrial/distribution sector ranks the highest on the investment charts, but residential (for sale) ranks as the best for development.

- The highest buy and sell values for all property types are not as varied as in the past. They are
 - Retail: buy, Shanghai; sell, Hong Kong.
 - Office: buy, Jakarta; sell, Osaka.
 - Hotel: buy, Ho Chi Minh City; sell, Osaka.
 - Apartment: buy, Ho Chi Minh City; sell, Hong Kong.
 - Industrial: buy, Ho Chi Minh City; sell, Hong Kong.

Top Investment Cities

Singapore

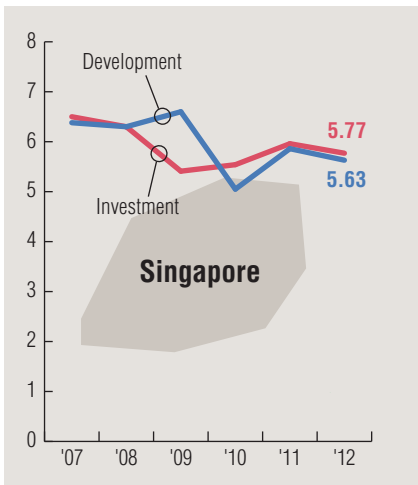
Singapore (ranked first in investment and development prospects). As was the case in 2011, Singapore finds itself sitting atop the *Emerging Trends* lists in 2012. But while Singapore has certainly been a popular destination for investors in recent years, the environment is now less positive. With yields in the first half of 2011 compressing to a “very aggressive” 3.5 percent, the market may have peaked. According to one local fund manager, “What’s happened is that [foreign funds] who bought at the top of the market are now looking to sell.” At the same time, the dynamics of the office market have now changed dramatically, with a “huge pipeline of stuff for sale” in the form of new international Grade A stock. In addition, a deluge of secondary stock in older Grade A buildings is appearing as tenants upgrade to new facilities.

As a result, “sentiment has dropped, there’s a lot of vacancy, and all the banks have stopped acquiring, so anyone looking to buy a building has to assume 20 percent vacancy and very low rental growth, with the assumption things are going to get better after 2013.” What’s more, “the government has made it clear that affordable office space is a key agenda for their economic development, so they’re just going to keep on flooding the market with land availability, reclamation, approving redevelopment. They’ll do their best to keep rents below Hong Kong.”

Overall, caution dominated comments from the interviewees. “Singapore is an open economy, and hence will be vulnerable to global shocks, such as the euro debt crisis, versus countries like China and Australia, which have much larger domestic markets.” But a number of comments stressed the positives for Singapore: “Things look good for Singapore due to immigration and strong tourism growth”; “Singapore is still a growing population”; and “We will continue to invest in logistics.”

Capital for investment and development is abundant, coming more from domestic or Asia Pacific sources than international ones. “Most of the Singapore domestic capital will come from either commercial bank lending, equity markets, or corporate debt issuance,” and “Capital investments will come mainly from China, Indonesia, Malaysia, and Australia.”

Over half the survey responses recommend holding current real estate in each of the five property sectors covered.



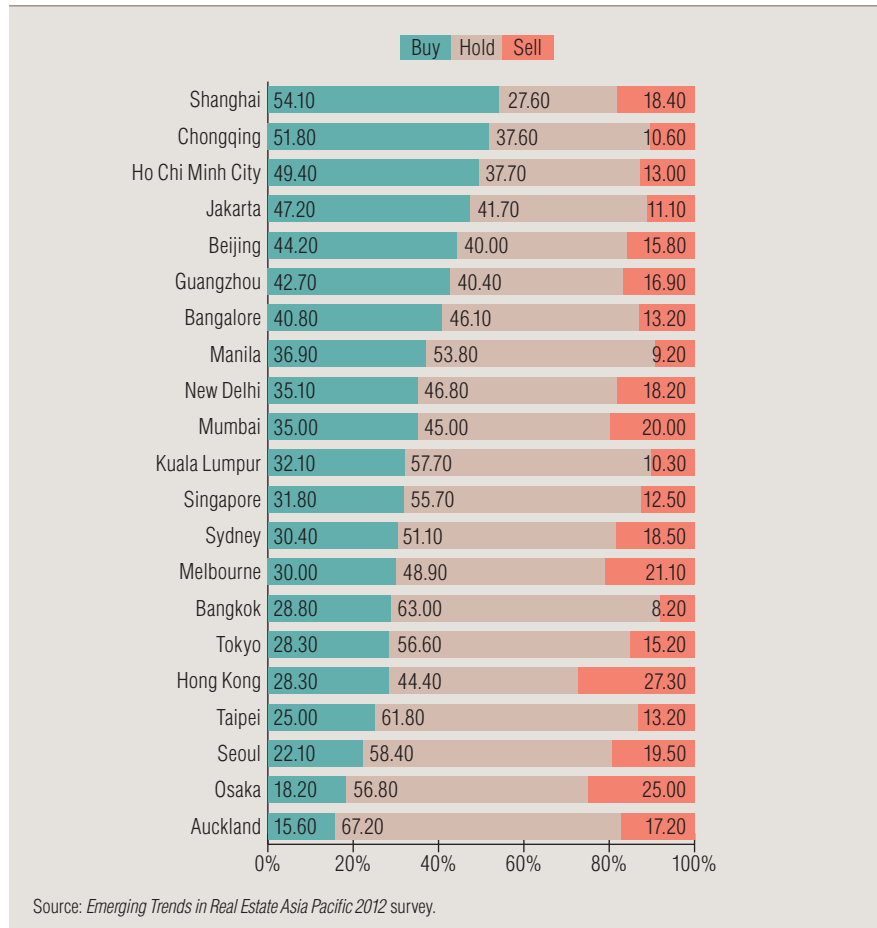
Buy recommendations for all properties are down from last year's report, now ranging from 30 to 35 percent for all sectors. Relatively few recommendations were made for selling in any sector, with the hotel sector receiving the lowest marks of all sectors.

Mainland China

China, with the second-largest economy in the world, continues to show signs of its importance in the global outlook. The IMF's GDP growth forecasts for 2012, at 9.04 percent, are down just 43 basis points from 2011, largely because of lingering global economic concerns, and show a slight uptick and stability in 2013 to 2015. Many interviewees agree, saying, "China will show a strong economic performance in 2012 and for the next five years"; "China will be the largest emerging economy"; and "China is still the brightest spot in Asia." The biggest problem for foreigners lies in getting investment capital into the country.

Exports have been and will continue to be one of the main drivers of the economy, though domestic consumption continues to grow and be a key stimulant, as well. Retail sales are increasing at rates in the high teens month over month and should continue to do so into next year as consumer wealth increases. Luxury goods spending is on the rise, and the development of a middle-class society progresses. Interviewees support the change, noting, "China's position is better as more

EXHIBIT 3-4 Retail Property Buy/Hold/Sell Recommendations by City



balance is found in the economy"; "It will shift in balance towards greater levels of consumption"; and "No busting of the Chinese bubble on the horizon."

Shanghai (second in investment and development).

The Chinese city with the largest GDP, Shanghai continues to grow and attract institutional capital to the region. "The city has the best governance in China and is the most attractive destination for talent in China. Therefore, it will retain its competitive edge, and this will result in a virtuous cycle of greater confidence and a more resilient economy." Increases in rents and declines in vacancy rates can be found across all types of properties. This trend is forecast to continue through the close of 2011 and into 2012, though at a more moderate pace because of global

economic uncertainty. Interviewees comment, "Tier-one city: high rental demand and low vacancy rates"; and "Demand will continue in 2012 in all tier-one cities, especially Shanghai."



Since publication of *Emerging Trend Asia* began in 2007, Shanghai ranked as a top-five city in terms of investment. That fact shows up in investment activity: in the first six months of 2011, US\$10.2 billion on 121 property deals had been completed, according to Real Capital Analytics. Office space continues to be the key focus because of high demand and short supply. Therefore, net absorption has and will continue to be positive into 2012, and rent changes will remain on the owner's side. "There is good demand for office spaces in Shanghai and Beijing due to expansion of state-owned enterprises and MNCs [multinational corporations]." Shanghai received the second-highest percentage of buy recommendations for office space among the 21 cities in the survey.

"Retail growth in Shanghai is robust due to large domestic consumption, some of which is tourism driven." Fifty-four percent would recommend buying commercial retail in the year to come, the highest percentage of all cities in the survey. Sentiment toward rental residential space is almost equally divided among buy, hold, and sell, and more investors suggest holding rather than buying industrial space and hotels under the current market conditions.

Chongqing (fourth in investment, third in development). One of the largest and fastest-growing cities in China, Chongqing is a new addition to *Emerging Trends* markets to watch. The manufacturing area remains the key arena: some of China's largest automobile and steel corporations are based in Chongqing. This focus on manufacturing is expected to continue. Says one interviewee, "With rising labor costs in China's tier-one cities, we observe many Chinese manufacturers shifting their operations into tier-two and -three cities such as Chengdu, Chongqing, and Tianjin." "Cities like Chongqing, second tier, will eventually catch up with Beijing and Shanghai in real estate space."

Buying opportunities in retail ranked the highest among property sectors in the city and second highest in the survey, with 52 percent of the participants

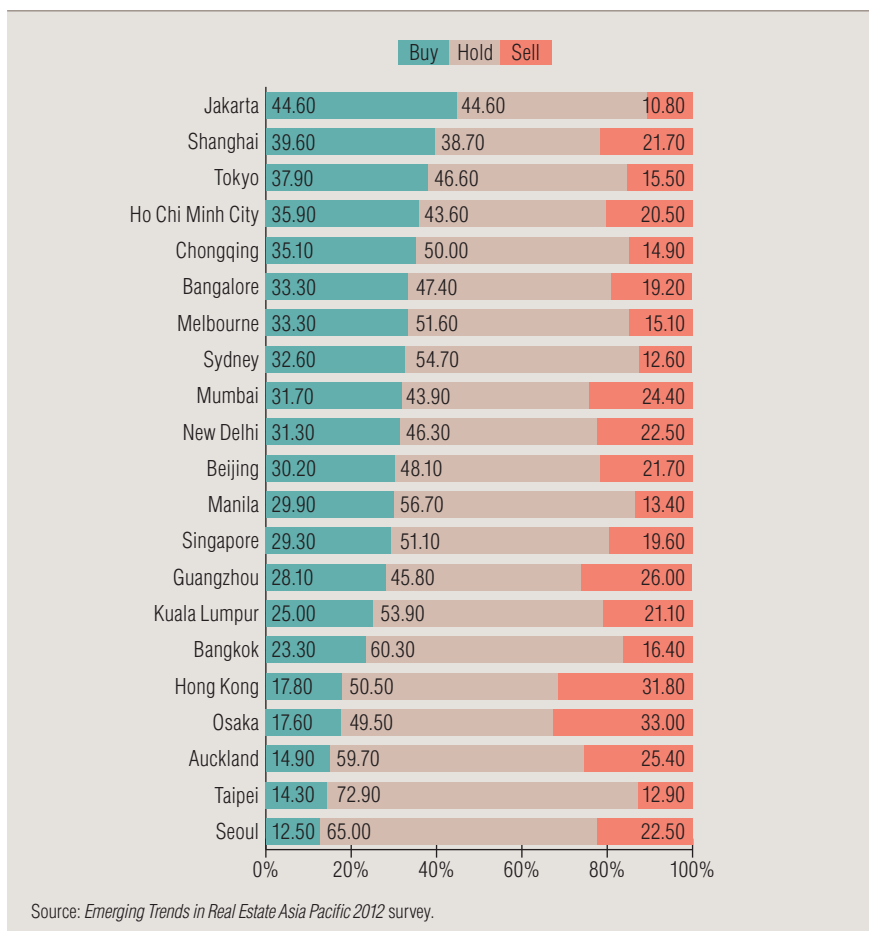


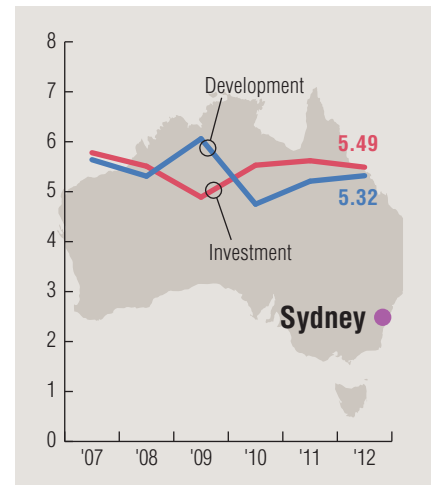
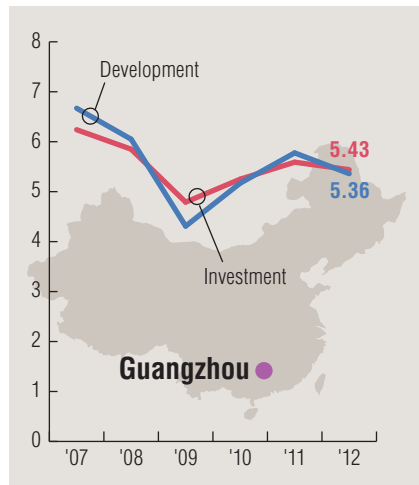
backing investment in this sector in 2012. A modest 35 percent recommend buying office property while 50 percent will hold on to their current office investments. One interviewee cautions,

"Office properties in Chongqing will see office stock increase by 200 percent to 450 percent in the next five years, far beyond the market's absorption capability with regard to a relatively undeveloped modern service sector in those economies." Industrial and hotel space both show similar mixed buy and hold signals, and apartment investors seem to be the most mixed, with 43 percent suggesting holding, and the balance split between buying and selling.

Beijing (fifth in investment, fourth in development). A "bullish on Beijing" attitude can be heard in interviews and seen in survey results. Investment prospects for the city step up from seventh to fifth and development prospects jump three notches to fourth. In this area cultivating new, large start-ups, con-

EXHIBIT 3-5
Office Property Buy/Hold/Sell Recommendations by City





struction will remain active through the combination of a limited supply of built properties, an abundance of capital inflow, and plenty of available land.

Investors throughout the Asia Pacific region remain very optimistic about the Chinese capital. “The commercial leasing market is doing very well: there is a constant new supply and constant demand for it,” says one buyer. Others add, “rental rates are stable and growing,” “bullish on office rents, especially in Beijing,” and “Beijing office vacancy down to 6 percent and rents up 23 to 24 percent: now is the time.” Almost half the survey participants propose holding those properties next year and just 30 percent say it is time to buy. Acquisition volume in Beijing is down from a year earlier, coming in just shy of US\$9 billion by June 2011.

Hold recommendations for hotels are similarly high, with the same lower mix of buy and sell as the office sector. Retail and industrial recommendations are focused on both buy and hold; apartment recommendations are about equally split among buy, hold, and sell.

Guangzhou (sixth in investment, eighth in development). “Commercial real estate in Guangzhou continues to attract capital, both foreign and domestic,” notes an institutional investor. This upbeat opinion can be seen in investment rankings as the city jumps two positions to sixth. Say interviewees, “Foreign capital continues to focus on tier-one cities to avoid risk,” and “We

continue to invest in Guangzhou and will in the future.” Development opportunities remain in the top ten at number eight.

Demand for retail goods is strong, leading a solid 43 percent of respondents to advise buying retail space, with an almost equal percentage recommending holding. The supply of retail space continues to grow and is expected to reach new highs by the end of 2011, with strong interest leading to declining vacancies and stable growth in rents. “Foreign retailers are starting to believe in China’s economy and have started to take up space in cities outside of Beijing and Shanghai.” Expansion of Guangzhou-based information technology and manufacturing firms has driven the demand for office space. With limited completions scheduled toward the end of 2011, vacancy rates are down to the mid–5 percent levels. Survey respondents believe this trend will continue, with 28 percent recommending buying office space in the coming year and 46 percent recommending holding on to current investments. Over half the respondents recommend holding industrial and hotel properties, and 42 percent recommend holding rental apartments.

Australia

The Australian economy has remained resilient on the back of ongoing demand for raw materials from China and India. Inventory throughout the region has continued to grow and overseas ship-

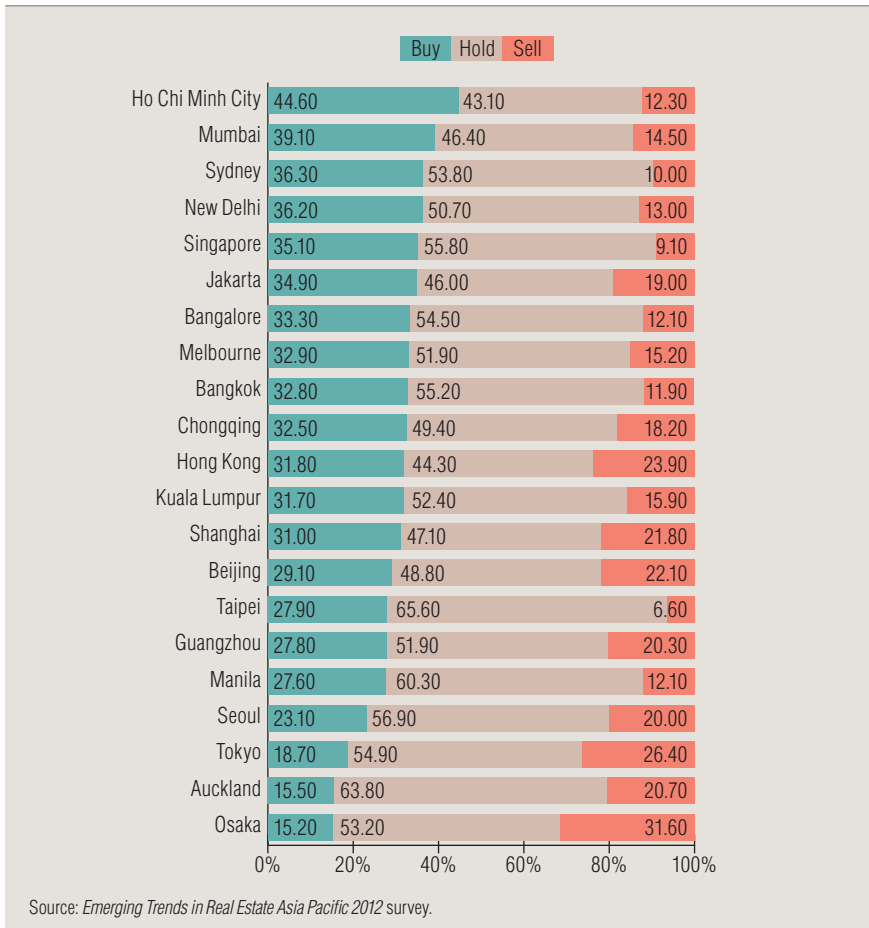
ping has continued to expand. These positive signs are reflected in a national GDP that is projected to grow over 3.3 percent in 2012—a notable 1.5 percentage point increase over 2011—and remain in the 3 percent range until 2015. Though this is the second-lowest GDP growth rate projected for Asia Pacific, one interviewee believes “Australia continues to be viewed favorably worldwide due to its transparency and steady economy.” Concerns linger, however, due to Australia’s reliance on exports to Asian markets. Should these slow, there will be an inevitable knock-on effect.

Even though Australia is less dependent on Europe or the United States, businesses in the region may be taking a more cautious approach on corporate expansion and hiring as 2012 arrives. Recent unemployment numbers take a step in the wrong direction, moving up to 5.3 percent, though forecasts call for a dip back to 5.0 percent by the end of 2012. Some pessimism has surfaced, yet interviewees are still economically hopeful, saying, “We have a positive view on the overall Australian economy, but cautious,” and “definitely no double-dip recession.” Overall, the Australia economy in 2012 and over the next five years looks to continue on a positive track, at a moderate pace.

Sydney (third in investment, ninth in development). “The office sector is looking strong at the moment, particularly in Sydney; however, it is important to get pre-commitments.” In 2011 there

EXHIBIT 3-6

Hotel Property Buy/Hold/Sell Recommendations by City



has been a surge in office development, with office demand showing signs of recovery. Too much supply in the near future is a risk, but proper development management will control the pace and limit projects to devoted lease agreements. Attempts at a supply/demand balance will keep owners' interests in mind and assist in getting them to accept a push in rental rates. However, one interviewee believes it might be too late. "There are some office buildings in Sydney which have been completed [but that] are not fully let, and tenants are not willing to pay the high rents which are being asked."

Capital flows to the market have been positive and have come from many sources. "Foreign purchasers are seeing Australian property assets as a good, stable income return, which is favorable

because they are not paying the high cost of debt." Recent borrowing has been steady, and "local Australian banks are open to lending based on quality and good fundamentals—typically three- to five-year loan terms." With strong capital lines, acquisitions in Sydney across all property types have remained active and are projected to continue into 2012.

The stability of Sydney, with some of the lowest risks found in the Asia Pacific, is reflected in both 2012 investment and development rankings. Both show substantial increases, as investment moves from sixth to third and development climbs seven spots to ninth. Even with these encouraging position changes, *Emerging Trends* results suggest little movement next year: "hold" was chosen by over half the respondents as the preferred option for each property type.

Still, the remainder of recommendations for each category focused on buying rather than selling.

Melbourne (seventh in investment, 11th in development). Acquisition volume has soared in the first half of 2011, increasing over 140 percent from a year earlier. Some larger deals were completed, totaling US\$2.7 billion on only 40 properties, according to Real Capital Analytics. Sparked by available financing, both domestic and foreign interest in the city has increased and is likely to run into next year, projections indicate. Among the comments of investors interested in the area: "Melbourne will see 10 percent rental growth over the next two years," and "vacancy rates in all markets are coming down" and are expected to continue declining into 2013 and 2014.

Interest and opportunities exist, but as is the case for Sydney, a large portion (ranging from 49 to 63 percent) of those surveyed suggest holding on to properties in all five categories. Office and hotels gained some buyer interest, both posting a 33 percent buy recommendation, and industrial/distribution garnered a buy recommendation from 30 percent of those surveyed. Interviewee opinions ranged from positive to somewhat less so—from "Melbourne is an important core market in Australia" and "the growth over the next three years will post the lowest vacancy rates," to "Melbourne is the best, although a drop is expected"

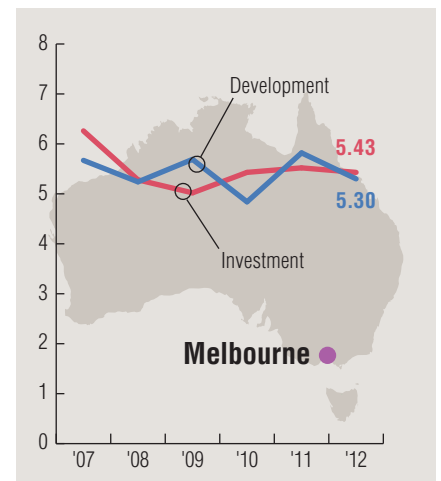
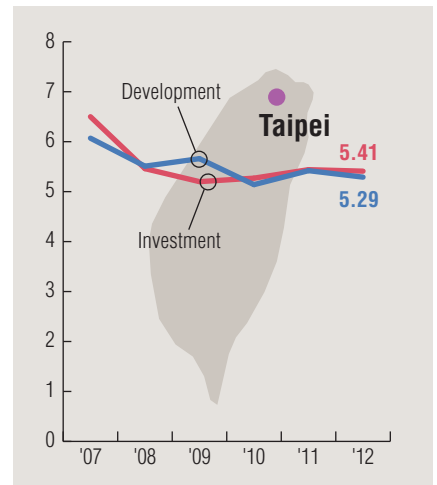
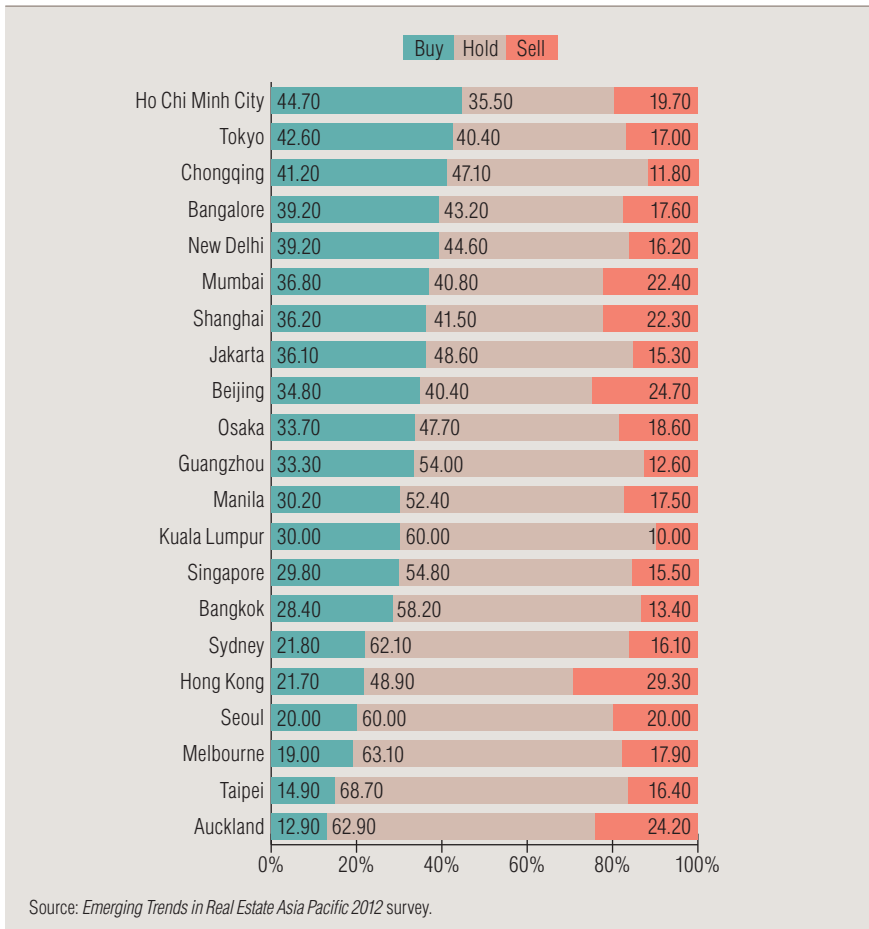




EXHIBIT 3-8

Industrial/Distribution Property Buy/Hold/Sell Recommendations by City



Taipei (eighth in investment, 12th in development). “The commercial property market in Taipei will rise moderately in 2012 in light of an organic growth in business,” says an interviewee. Investment rankings support that statement, as the city moved up five positions to eighth this year. Controlled amounts of new supply entering the market, combined with the continuously growing demand, should push rents higher throughout the CBD. Development opportunities do not look as strong as those for investment, but still moved up two spots to 12th overall. Land sales declined sharply in the second quarter of 2011, registering the lowest dollar transaction volume of the past seven quarters.

Recommendations for all property sectors are strongly focused on holding—ranging from 62 to 73 percent—and neither buying nor selling in the near future. The highest percentage of buy recommendations is in the hotel arena with 28 percent. Investors comment, “steady flow of new supply; growing demand amid expansion in the tourism market,” and “smaller-sized hotels in Taipei City.” Though some buyers might be looking to hold or invest, one believes the market “may see an increasing number of dispositions as landlords want to capitalize on the promising hotel market.” The retail sector has a similar share of buy recommendations at 25 percent. Figures for office leasing have continued to be

and “the city has been mediocre for commercial real estate returns.”

Either way, the city has managed to gain two positions and move to seventh for investment prospects in 2012. “A very good supply/demand balance” may be the significant reason for such a move. However, development took a big dive, falling to 11th from fifth last year. While now might not be the time for real estate construction in Melbourne, “fundamentals for existing properties look quite good.”

Taiwan

The Taiwanese economy came roaring back in 2010 after some decline through 2009. GDP forecasts for the close of 2011 and through 2012 show the economy easing back to a much

more sustainable growth level of 5 percent. “The Taiwanese economy is expected to grow stably in 2012, albeit at a slower pace, on the back of brisk domestic demand and increasing export demand from emerging markets.” Taiwan’s increasing ties to mainland China and production of many tech-focused products have been the crutch for the economy. This looks to continue into the coming year. However, exports to the U.S. and European markets remain questionable moving forward. “Sluggish economic performance in developed countries will result in weaker export demand, thus having adverse impacts on Taiwan’s export-driven economy,” an institutional investor says.

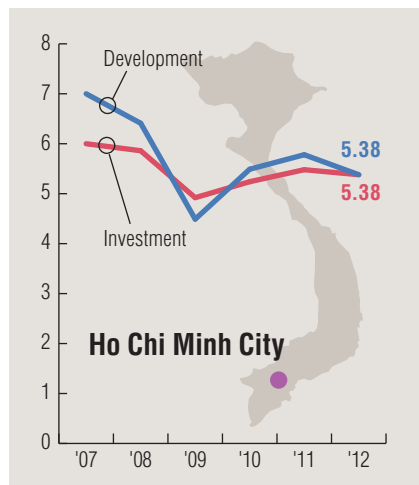
encouraging, with the vacancy rate dipping below 10 percent, where it has not been in a few years. Still, “buy” was recommended for offices by only 14 percent of those surveyed.

Vietnam

Inflation is the largest and growing concern for the economy and the government moving into next year. The 2011 consumer price index increased by double digits from a year earlier, and there is no end in immediate sight. The government continues to introduce credit-tightening measures to control inflationary pressures, but individuals and real estate continue to experience extreme price shifts. Says one investor, “We hold a medium- to long-term view towards Vietnam—many issues with the government.” GDP growth for the country is expected to be just under 6 percent at the close of 2011 and increase to around 6.27 percent for 2012. “It’s hard to do business in Vietnam. It needs to be more transparent.”

Ho Chi Minh City (ninth in investment, sixth in development). Even with all the inflationary and economic concerns, Ho Chi Minh City continues to score well in the *Emerging Trends* survey. Real estate investment interest in the city is still growing as the city takes two steps up to rank ninth while development keeps its spot at number six. Construction is expected to blossom in 2012, especially in the industrial sector. Foreign capital continues to flow into Ho Chi Minh City, building industrial parks and export processing facilities. According to the city’s Export Processing and Industrial Zones Authority, by 2015 more than 100,000 new employees will be hired to work at these new facilities. In response, almost 45 percent of those surveyed believe now is the time to buy industrial properties.

Scoring an even higher buy signal is retail at 49 percent. As of the second quarter of this year, occupancy rates were around 96 percent in just 6.7 million square feet of retail space. As one of the 20 most densely developed cities in the world, Ho Chi Minh City just does not

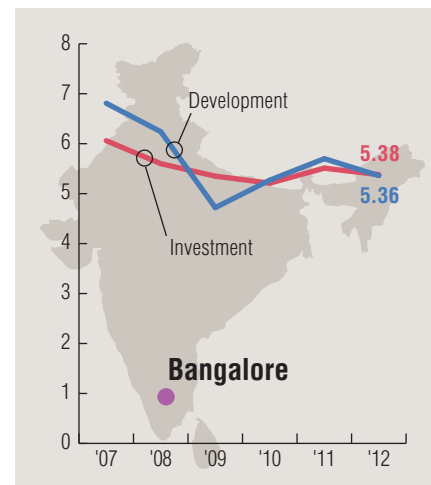


have enough retail space for domestic sales, let alone for the growing number of tourists. With tourism increasing, hotel space is needed, and 44 percent of respondents suggest buying in 2012. Apartments also get strong buy signals. Office space is the only market in the city where more respondents recommend holding over buying, but not by much.

India

India’s economy continues to produce the second-fastest growing GDP in the Asia Pacific region, just a notch behind that of China. The country’s GDP is projected to grow 7.5 percent in 2012, a slight decline from 2011 estimates. However, growth in 2013 to 2015 is expected to be above 8 percent. Although a global economic crisis will affect all countries one way or another, the impact on India should be much milder because of the country’s robust domestic demand.

The fast-paced economic growth for the region has been good, but inflationary concerns have followed. The Reserve Bank of India continues to make adjustments to the repo rate—the rate at which it lends money to commercial banks—but the 350-basis-point increase for this opaque economy has not slowed the quick tempo of rising prices. The annual inflation rate has exceeded 9 percent in 2011 and change seems unlikely anytime soon. Consumer and business price benchmarks are expected to jump 6 to 8

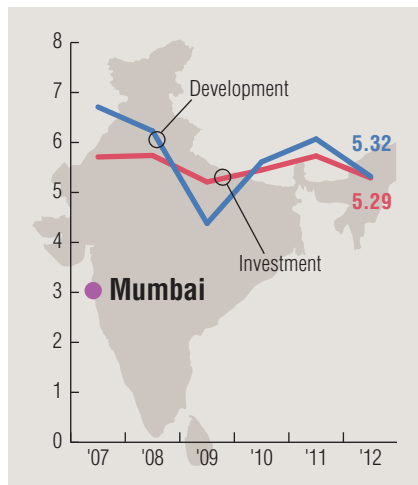
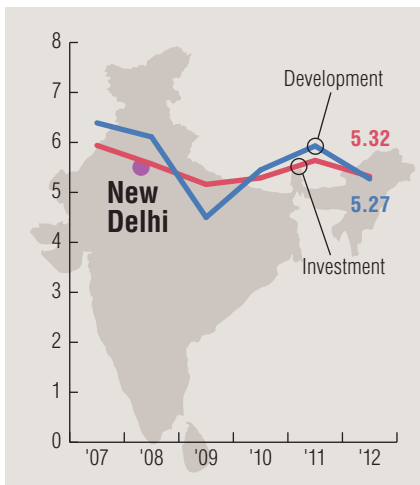


percent by the end of 2012, a difficult situation for both groups. That said, the fact that developers have such difficulty raising capital via the banking system means that many foreign investors are now actively looking at Indian projects as a source of deals.

Bangalore (tenth in investment, seventh in development).

The third-largest city in India, Bangalore has an economy dependent on large-scale manufacturing and is the hub of many information technology companies. The percentage of *Emerging Trends* survey respondents giving a buy rating for Bangalore industrial space jumped more than 12 points to 39 percent, while buy ratings for retail space moved up slightly to 41 percent, the largest buy recommendation for any sector in the city. In the residential sector, “Bangalore continues to be a stable play. It never crashed when the subprime crisis hit, and it didn’t rocket up even when the markets were doing well in 2006–07. It’s a very organic, growth-driven market.” Even so, holding was the largest recommendation category in all property types in the year to come, ranging from 44 to 55 percent. Continued growth also affects the need for residential space, although (unlike Delhi) the local residential market is driven more by end-users than investors.

On the commercial side, growth has cooled considerably. In 2006–2007, Bangalore absorbed a massive 13.5 million square feet of leasehold commercial Grade A real estate, making it



“perhaps the number-one city in terms of commercial IT-grade real estate absorption anywhere in the world.” Today, however, “None of us has reason that Bangalore will reclaim its number-one position. Bangalore clearly feels infrastructure constraints now, and people in the IT sector clearly see that India has lost some of the edge on the labor arbitrage side.”

Bangalore opportunities outshone the other two India cities in this year’s report, gaining two positions in development rankings and maintaining its ranking at tenth in investment, whereas the rankings plummeted for both New Delhi and Mumbai. Still, the ratings registered in the “fair” range, though respondents indicate a general concern about the economy.

New Delhi (12th in investment, 13th in development). Development prospects in New Delhi fell dramatically, from second in *Emerging Trends 2011* to 13th this year. Inflation has continued to spike costs, and it may not be economically feasible to build there. Rankings for investment opportunities slid hard as well, down from fifth to 12th overall. Ongoing funding problems do provide investment opportunities for private equity investors, however.

Forty-five percent to 51 percent of survey respondents gave a hold recommendation on the various property types through 2012, while the rest of the recommendations fairly uniformly were to buy, with only a small group recommending sell.

Mumbai (15th in investment, tenth in development). Investment prospects for the city fell farther for this market than for any other covered—12 places to 15th—and development prospects dropped dramatically from first to tenth. Survey responses contrast with interviewee comments, such as “Demand will remain strong, especially in prime locations in leading cities like Mumbai,” and “Mumbai’s supply pipeline is likely to remain strong, especially in suburban locations.” Supply and demand are expected to remain in balance, and underlying fundamentals still look positive.

On a macro level across all properties, vacancy rates are likely to remain stable through the close of 2011 and into 2012. Absorption will again be positive next year, but rental values remain questionable as economic and inflationary issues continue to linger. As is the case for the other two Indian cities in this report, the recommendation is to hold properties in Mumbai during the coming year, though slightly fewer respondents recommended buying in the city. Residential supply is limited and rental values should rise during the coming year. Says one investor, “Rental values will increase in prime locations, such as Mumbai, while remaining stable in suburbs.”

Indonesia

The Indonesian economy appears to be one of the most balanced in Asia

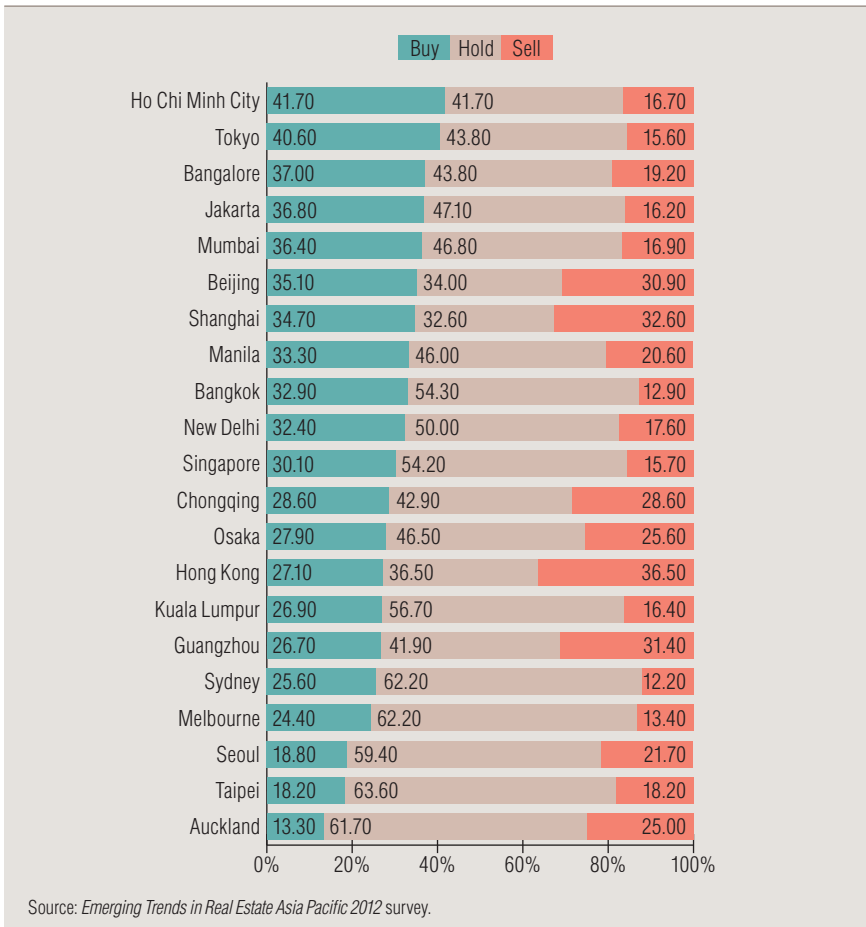
Pacific. Because dependence on exports does not make up the bulk of the economy, the global market does not weigh as heavily on the country as it does on others. Instead, the chief driver of the Indonesian economy is private consumption, and forecasts show prospects in that arena to be bright well into next year. Though exports still account for a substantial portion of GDP, the country’s focus is on natural resources, which have been in high demand from other Asian countries. GDP growth projections call for an increase of 6.4 percent in 2011 and 6.3 percent in 2012. One interviewee likes the outlook, saying, “Political and macroeconomic climate has become a lot more stable in recent years. Things are looking good.”

Growth from all angles is often followed by increases in prices and wages, and general inflation. There are signs that stress in this area is beginning to surge as increases in core inflation start to mount. In the near future, the central bank of Indonesia will have to adjust interest rates to calm the escalation or establish additional regulations to limit inflation.

Jakarta (11th in investment, fifth in development). “Where countries are lacking infrastructure, there will be opportunities for growth. Emerging markets such as Indonesia have great potential for real estate growth looking forward.” The Indonesian government’s 2012 budget allocates almost US\$20 billion to infrastructure development and

EXHIBIT 3-9

Apartment Residential (Rental) Property Buy/Hold/Sell Recommendations by City



improvement, a move that should keep the country and real estate prospects growing. This progress can be seen in the capital city’s investment and development rankings, which rose three and five positions, respectively. “Infrastructure growth is always followed by real estate development. That will be seen here,” says an investor.

Less than 20 percent of *Emerging Trends* survey respondents would recommend selling any type of property moving into the new year. The strongest buy signals are in the office and retail sectors, with 45 percent and 47 percent of the recommendations, respectively, while the strongest hold recommendations are in the hotel, apartment, and industrial sectors, at 46 percent, 47 percent, and 49 percent, respectively.

The office sector has achieved steady supply and positive absorption, vacancy rates continue to decline slightly, and landlords are getting comfortable introducing higher rents. A lack of top-class office space continues to be a problem, but development of higher-quality assets is on its way. Retail growth has been strong and possibly too rapid, leading the government to discuss stopping the granting of retail development permits, especially on construction that exceeds a certain size. Still, domestic demand continues to push for more space, and a spark in international retailers coming to Jakarta is right around the corner.

Thailand

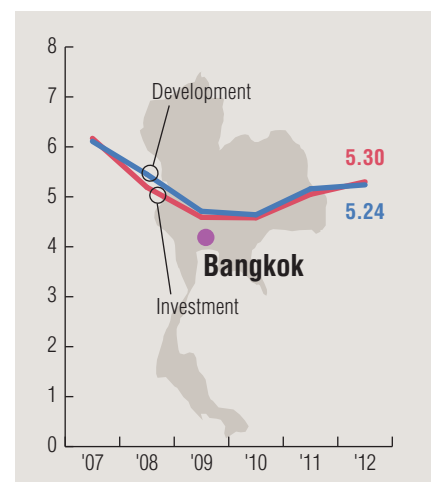
The emerging economy of Thailand is projected to record GDP growth of

over 3.5 percent at the close of 2011 and 4.8 percent in 2012. Like other emerging markets in Asia, the country’s industrialization and manufacturing are key components of the economy. Projections for net exports, which account for over 17 percent of GDP, call for increases year-over-year of 11.4 percent in 2011 and 7 percent in 2012. Also contributing to the economy is tourism, which has continued to grow and represents almost 8 percent of GDP.

Even though prospects for growth look robust, Thailand has longstanding and ongoing political problems that will probably continue to cast a shadow over the investment environment. Inflation is another issue. Finally, GDP projections might be harder to reach as the country deals with the worst flooding in decades. Many large auto manufacturers have had to shut down operations, and concerns are now focused on Bangkok as floods move to the city.

Bangkok (13th in investment, 14th in development).

Bangkok continues to dominate the local real estate investment market, leaving many other urban areas claiming to be ignored, especially in regards to commercial real estate development. True or not, Bangkok development is still on the radar for 2012, ranking 14th in the survey, a three-position rise. Interest is also seen in investment, with Bangkok climbing four spots to 13th. Worth noting is that the city is one of only three that saw



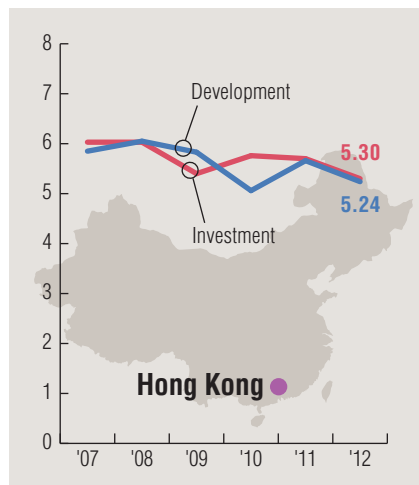
its investment prospects rise this year. Bangkok is the home of all Thailand's financial institutions, as well as a large number of global banks. In addition, tourism continues to be a big draw for the city and makes a fairly significant contribution to GDP.

Hold recommendations are strong across all sectors, ranging from 54 percent to 63 percent, with the balance of recommendations being primarily to buy. But the big story is in the changes from last year's *Emerging Trends* survey. While hold recommendations have increased in the office, retail, and industrial sectors, buy recommendations have increased in the hotel and apartment sectors—by 9 percentage points and 14 percentage points, respectively. Still, more respondents recommended holding in these sectors. How these changes play out over the next year will be affected in no small measure by the floods.

Hong Kong

Hong Kong (14th in investment, 15th in development). Commercial real estate investors have a much different opinion of Hong Kong properties in 2012 than they did in 2011. Both investment and development prospects are viewed only as fair, registering a 5.30 and 5.24, respectively, on the survey's nine-point scale. While the development ranking fell just a few spots, the city's investment ranking plummeted ten positions. Interested investors might be shying away because of highly inflated prices. "Hong Kong could work, but just too expensive"; "difficult market to invest—pricey, overvalued"; and simply "Hong Kong may be a bubble," interviewees say.

Prices, though, have not stopped capital yet. According to Real Capital Analytics, in the first half of 2011 over 200 properties were acquired for just shy of US\$10 billion. The larger of the deals mainly focused on office and retail space, as well as land transactions for future development. Capital flows are originating mainly within Hong Kong. "The volume of domestic capital may



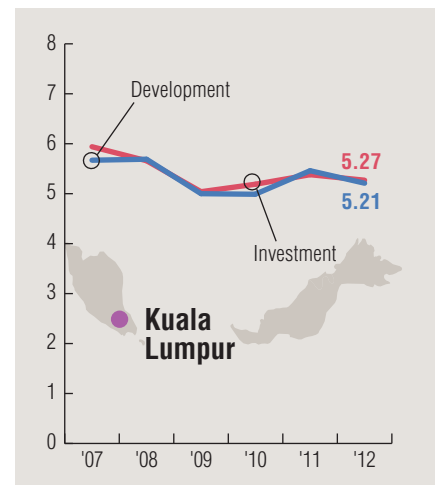
remain the same or increase mildly in view of a healthy 2012 economic recovery."

The hold recommendations by property sector for Hong Kong are similar to those of the mainland Chinese cities discussed in this report: 44 to 50 percent of the respondents recommend holding hotel, office, retail, and industrial/distribution properties. The buy/sell recommendations for hotels are also similar to those for these cities, but buy recommendations were much lower for office, retail, and industrial properties, and much higher for selling in these sectors. Recommendations for rental apartments are about evenly split among buy, hold, and sell.

Malaysia

Malaysia's GDP growth is expected to be 5.2 percent in 2011 and remain at 5 percent or above through 2015. Global disruptions to the manufacturing chain have slightly dampened the outlook for the country. Even so, unemployment remains stable, with forecasts calling for a 3.2 percent jobless rate in 2011 and 3.1 percent in 2012. The rate should remain low because, as an interviewee notes, "many manufacturers move their operations into Malaysia to tap into low-cost labor."

Also, the government has handled monetary policy in this emerging-market country well compared with many other Asian countries. Interest rates have already been increased, restrained credit



growth is in place, and an increase in cash requirements is in order, all in an effort to control inflation or avoid debt-driven growth. It seems to be working, as projections for consumer prices for 2012 show only a 2.5 percent increase, compared with a forecast of 9.6 percent for the ASEAN-5—Singapore, Malaysia, Indonesia, Thailand, and the Philippines. Even though economic growth might be sluggish for Malaysia next year, the country's stability might set it apart from its peers.

Also, interesting to note is that Malaysia has taken bold steps to move forward through its Economic Transformation Programme (ETP). The ETP is a road map for Malaysia, cocreated by the private sector and the government, to drive Malaysia toward developed-nation status by 2020 through 12 National Key Economic Areas (NKEAs). One of the NKEAs is transformation of Greater Kuala Lumpur into a vibrant city through the implementation of nine major entry point projects generating an estimated gross national income of between US\$83 billion to US\$205 billion per year into 2020.

Kuala Lumpur (16th in investment and development)

Development prospects dropped three spots from a year earlier, while investment prospects dropped one place. Construction financing might remain more limited as global economic concerns continue to linger. However, government plans are in place to improve infrastructure over

the coming years—always a boost for commercial real estate. Even with the declines, investors see “bullish growth in Malaysia,” and call it “an emerging city of interest.” Greater Kuala Lumpur aspires to be a global top-20 most livable city by 2020. Currently, Greater Kuala Lumpur properties are valued at one-fifth those of comparable properties in Singapore, Malaysia’s southern neighbor.

Looking at investment by property type, the largest group of respondents recommends holding all sectors in Kuala Lumpur throughout 2012. Still, a sizable minority supports acquisitions in all areas.

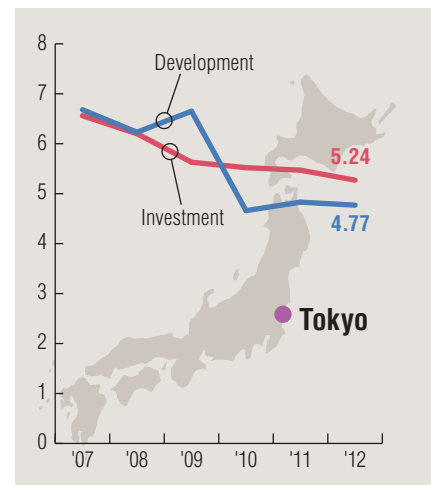
Japan

The consensus among interviewees is that “2012 will be better than 2011, but that the economic crisis must still be dealt with.” Many investors would agree as the country’s economy continues to underperform, as it has for the past 20 years. IMF economists project GDP growth of just over 2 percent for 2012 to 2014 and less than 1.5 percent growth in 2015, keeping Japan as the Asian economy showing the slowest growth. Of course, a comparison to smaller emerging Asian markets is bound to make Japanese growth look substandard, whereas the figure looks more robust in comparison with countries with mature economies and in consideration that the growth is being advanced in a state of population decline and out-of-control yen appreciation.

Reconstruction following the March 2011 Tohoku earthquake and tsunami is starting to kick in and should help stimulate some optimism because a boost in income and employment should follow. However, the extended time required for repairs, improving but still unreliable and unproven political leadership, consumption tax increases, and excess government debt may have already cast doubt on the strength of the nation and whether a recovery is really near. Even so, “Japan should be better [in the future] due to the inevitability that market lethargy will disappear and reconstruction will take off.”

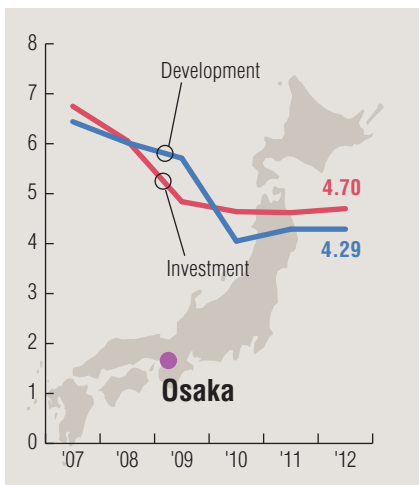
Consumer confidence continues to be below past values and household spending remains stagnant, painting an even more unwelcoming picture of the future. Combine this heightened lack of financial trust with a large retiree demographic and a low birthrate, and prospects for internal growth remain a concern. Setting aside internal worries, the export-based country must now deal with a constant climb in the value of the yen and a global recovery that is throwing very mixed signals—mostly pointing down. Japan will have to keep its eye on the continued European sovereign debt crisis and a lethargic U.S. economy because both weigh heavily on exports. Some believe many of the global economic variables are already represented in the numbers, saying, “The European crisis is already priced in”; “A lot of impact is already priced in and there are weakened appetites”; and “The fact is the European crisis has already been accounted for by the markets.” Some emphasize that both the real and imagined weight of Europe on the Japanese economy is far less than that of robustly growing Asia, and thus believe that Europe’s impact is in truth smaller than commonly perceived. Even if that is so, Japan still faces a long, difficult economic climb that will continue to have a negative impact on real estate markets.

Tokyo (17th in investment, 18th in development). “The economic factors are important, but Tokyo remains a safe haven,” “flight to safety in Tokyo,” and “Tokyo—a low-interest-rate, cash-available, secure investment” are a few of the positive responses investors shared in their *Emerging Trends* interviews. Real estate fundamentals in this market remain a question. Office vacancy rates in the central business district declined in the second and third quarters. That trend, however, was slightly reversed in October as migration from old to new and small to large further enhanced the occupancy of class A and B+ office buildings but negatively affected the overall office vacancy figures. Rental rates are expected to push downward



in 2012 as a large amount of supply hits the market at the start of the year. Says one investor, “Relaxing supply and demand will be a factor as a considerable Grade A supply is scheduled in 2012—the most since 2003.” With reconstruction growth igniting a spark in the economy, job creation and growth in revenue might be able to offset this real estate expansion.

All these concerns are seen in the survey results, as Tokyo drops five positions for investment to 17th. This is the second-straight year the city has registered significant declines: it ranked seventh in the 2010 *Emerging Trends* report. Worth noting is that Japan-based respondents account for a quarter of the online surveys from which the survey numbers are derived, signifying real estate concerns throughout the country. “Short-term impacts are shown, as a wait-and-see attitude by investors is happening.” Transaction volume supports this statement as real estate investment has declined, according to RCA. Tokyo purchases by midyear totaled about US\$12 billion, down more than 7 percent from last year. Much of the opinion indicated for Tokyo, however, pointed to more-than-adequate capital but less-than-adequate avenues for investment—a lack of available properties and less-than-liquid J-REIT stocks. Perhaps because of the many projects scheduled for completion in 2012, the development ranking for the city is fairly stable at 18th.



Recommendations for property sectors are not uniform. While just over half the respondents suggest holding on to retail and hotel properties, a solid minority recommend buying in those sectors. Recommendations for the industrial/distribution, apartment, and office sectors are more equally focused on buying and holding. “Industrial and production will be back in Japan, but global concerns are our focus.” In addition, over 40 percent of respondents recommend buying rental apartments next year, but 43 percent suggest holding on to properties. Throughout Japan, a lack of high-quality assets appears to indicate “investors are reluctant at this time.” But the question seems to be not whether the investor is reluctant, but whether the economy and the market are going to provide more investment opportunities.

Osaka (21st in investment and development). “Osaka remains most scary,” says one institutional investor. Most survey respondents agree, as investment and development prospect ratings can both be found at the bottom of the rankings for 2012. Still, Osaka is one of only three markets that showed an increase in investment ratings in this year’s *Emerging Trends*, bumping up to 4.70 from 4.62. Even so, the city’s minimal gain was not enough to make up ground compared with other markets. This lack of interest can be seen in 2011 transaction volume: only about US\$1 billion in deals have been completed, down 11 percent from a year earlier.

Nonetheless, some interviewees might take the risk. Comments include “possibly Osaka investments,” “Headquarters are relocating from Tokyo to Osaka,” and “If I had 100 million, 10 million would go to Osaka.” More respondents say they are considering markets outside of Tokyo rather than solely focusing on the capital city.

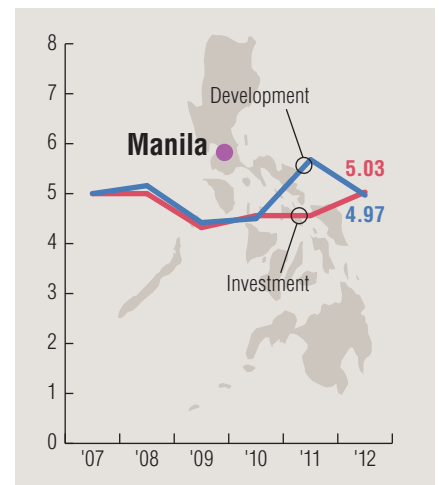
According to survey respondents, not many investments are likely to be completed next year: roughly half the recommendations for all five property sectors are for a holding strategy. Still, a solid minority does recommend buying industrial/distribution space and is split between buying and selling apartments. Says one apartment buyer, “I would buy residential—50 percent in Tokyo and 50 percent in Osaka.” Minority recommendations lean more toward selling in the office and hotel areas.

The Philippines

GDP growth for the country looks resilient despite global concerns, with over 4.6 percent growth estimated for 2011, followed by a slight increase in 2012 and stabilization at 5 percent from 2013 to 2015. Recently overtaking India as the largest supplier of call center services, the Philippines must continue to strive for domestic-based employment to sustain growth.

Manufacturing volume has recently started an uptick, but has been consistently down since the close of 2010. The country will keep an eye on the U.S. economy because it accounts for over 13 percent of direct exports. Inflation seems to be under control presently; however, concerns rose when the inflation rate reached 4.5 percent in June, the highest level in two years.

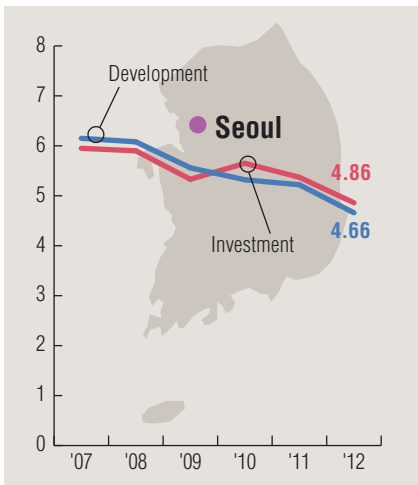
Manila (18th in investment, 17th in development). A new government and a surge in foreign investment in the BPO market—back office and call centers, for the most part—have helped the commercial real estate market, boosting the city’s 2012 investment prospects to 18th from 20th. Development took an opposite turn this year, falling six spots to 17th.



All buy/hold/sell property recommendations point to a holding or buying period throughout 2012, with over half those surveyed saying to hold industrial/distribution, hotel, retail, and office properties, while close to a third recommend buying in these sectors. Apartments come in close to these sectors, with just a slightly smaller group making hold recommendations. Office vacancy rates sway according to property class, but the average is slightly up at around 4 percent at the second quarter of 2011. Take-up continues to be strong, however, especially in technology parks where BPO facilities are found. *Emerging Trends* results show some interest in apartments, as 33 percent think now might be a time to buy. Mixed-use facilities are popular and supplies have continued to grow in Manila. New supply of this type of structure is expected to see continued growth to 2013, but developers should be cautious because vacancies should crack 10 percent at the end of 2011, and reach 12 percent by the close of 2012.

South Korea

The South Korean government seems to be keeping the economic landscape for the country in good balance during these times of global economic volatility. Say interviewees, “South Korea—really good performance,” and “Overall economy of Korea will be stable.” GDP is expected to increase about 44 basis points to 4.35 percent in 2012 and



remain above 4 percent growth until 2015, according to the IMF's *World Economic Outlook*. Drivers for 2015 are difficult to predict, but next year the South Korean economy is expected to be supported by an increase in construction employment as development in Seoul increases in response to intense flooding and mudslides. Unemployment has continued to drop, falling almost 40 basis points in 2011 and possibly reaching 3.3 percent in 2012. Possibly due to expectations of employment growth and stabilized prices, consumer sentiment seems to remain upbeat, stabilizing after the August 2011 global shakeup. Says one investor, remember that South Korea is "the gateway to northeast Asia."

Seoul (19th in investment and development). Data from the first half of 2011 indicate that acquisitions of commercial real estate throughout Seoul have increased over 88 percent from a year earlier. Deals totaling over US\$2.5 billion focused mainly on offices, retail space, and land. Even with those numbers, opinions are mixed. "Seoul has some opportunistic investments," one interviewee says, but comments another, "Seoul's commercial investment market is anticipated to remain flat or fall slightly due to the future oversupply." In addition, South Korea is often seen as unreceptive to foreign real estate investors. *Emerging Trends* survey results agree, as investment prospects fell three positions to number

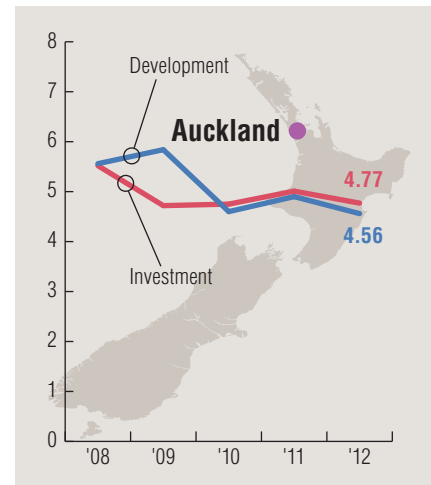
16, and development declined four spots to 19th.

Recommendations for all sectors were among the most heavily weighted to a hold strategy among the 21 cities in the survey. Although relatively low interest exists for buying in any sector, hotels seem to attract the most interest from capital, with over 23 percent of survey respondents seeing some buying opportunities. "All around Seoul, a huge supply of business hotels are already planned for 2012," one interviewee notes with concern. Buyers show some interest in retail acquisitions, possibly because of the decline in vacancy rates by over 130 basis points in one year. Also, "Recent foot traffic and sales growth are showing the future of retail development." Retail rents continue to be pushed higher in 2011; an interviewee sees "steady or slight increases in retail rents for Seoul in 2012." Next year, signs indicate an increase in sales of office properties as leasing has remained sluggish. "Oversupply in the office sector in the main three districts and its downward potential in yield rate in 2012 present problems."

New Zealand

Host of the Rugby World Cup in 2011, New Zealand is starting to show signs of economic recovery. The country has begun to rebound from a devastating earthquake in its second-largest city, Christchurch. Manufacturing in the region is gaining ground, as is business and consumer confidence. Exports throughout Asia will stimulate the country's economy, as will post-earthquake rebuilding. In addition, government policy and managed interest rates have served as a stimulus and aid to citizens.

These events and adjustments have been a driver for economic growth. New Zealand expects GDP growth to climb 40 basis points in 2011, closing slightly above 2 percent. In 2012 and 2013, bigger gains should be seen, with forecasts calling for a jump of almost 175 basis points to the mid-3 percent range. The country's highly transparent economy continues to attract investors, though



opportunities are not as numerous as those in other Asia Pacific countries.

Auckland (20th in investment and development). The most-populous city in New Zealand, Auckland is home to the country's largest corporations. Confidence is building throughout the country, though commercial real estate interest seems somewhat limited. New Zealand's real estate acquisitions halfway through 2011 barely cracked US\$500 million—a 33 percent drop from a year earlier.

This decline is expected to carry into 2012, with *Emerging Trends* survey results dropping the city two spots to 20th for investment prospects. Development opportunities seem to be on the same path, declining at the same pace and to the same position. Recommendations for all property sectors signal a hold for the coming year, among the highest percentages of hold recommendations in the survey, with the balance of respondents leaning more toward the sell side than buying.

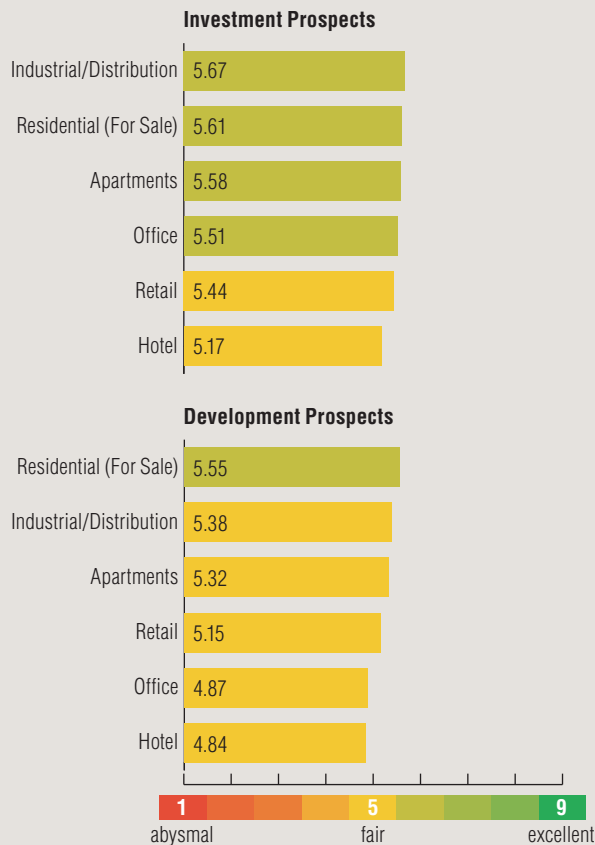
Property Types in Perspective

Industrial/Distribution

Even though questionable global outcomes determine the growth of manufacturing and distribution output, commercial real estate investors still believe in acquiring this important space. Therefore, the industrial/

EXHIBIT 3-10

Prospects for Major Commercial Property Types in 2012



Source: *Emerging Trends in Real Estate Asia Pacific 2012* survey.

distribution sector takes over as the top investment property prospect, moving up from fourth last year. The ratings for all property sectors in *Emerging Trends 2012* declined except for this one. Global exports are important to the economic growth of many of the Asia Pacific countries, but the importance of domestic demand is starting to rise as consumption increases. "I believe the economy will perform strongly next year due to industrial improvements as a result of strong demand from Asia," says an interviewee. Industrial/distribution development ranked second among all sectors for next year.

Though the sector was ranked highly by many, some are pessimistic. "Industrial sector will be affected by slowing multinational investment," says

one interviewee; adds another, "decisions on industrial space taking longer than most."

Best Bets: Ho Chi Minh City is the top-rated city for industrial/distribution next year, with 45 percent of those surveyed recommending acquisitions there. Tokyo, Chongqing, Bangalore, and New Delhi round out the top five, though close to the same number or slightly more respondents recommend holding in these cities. Though the percentage of buy recommendations for Ho Chi Minh City declined almost 10 percentage points for 2012 from a year earlier, the city retains the top spot for the second year in a row. Following on the natural disasters in Japan this year, buy recommendations for Tokyo jumped to 43 percent from 27 percent last year.

"Tokyo has had a lot to deal with, but manufacturing will be their first interest." Buy recommendations in Bangalore also jumped, to 39 percent from 23 percent. Among the market comments: "China is still a bright industrial spot."

Residential (For Sale)

For-sale residential properties took a step back from the number-one spot in 2011 to land in second place. Home prices in many parts of the Asia Pacific region have been pushed to record highs. However, the intense price increases have been slowed by various country regulations enacted in an attempt to avoid a housing bubble similar to that experienced in the United States. According to the Global Housing Price Index provided by Knight Frank LLP, 23 of the 50 countries covered saw home prices decline through the second quarter of 2011. In some countries, and in particular China, price declines had begun to accelerate in the final quarter of 2011. Still, Asia continues to be the top-performing continent for house price increases and Hong Kong the top-performing city, registering a price increase of 26 percent. "There continues to be concern over accelerated home prices, but regulations should control the pace," says one hopeful interviewee.

Housing development placed first among all property sectors and should remain strong in 2012, with home construction increasing to accommodate a new "middle class" found several places in Asia now. For example, in China, "the urbanization trend of the country will continue to underpin the demand for residential home properties."

Best Bets: Focus on markets that have passed regulations to control lending and the overall housing market.

Apartments

"The residential rental market has a massive undersupply, so a bullish demand keeps increasing." Apartments rank third for investment, according to the *Emerging Trends* survey.

Interviewees who like this sector say “residential would be the focus of investment, largely into mid-income/affordable housing projects,” and “Strong demand fundamentals and shortage of such projects in leading as well as smaller cities are the guiding indicators.” Some disagreed, though, saying, “I’m not sure if the residential sector is stagnant or just slumping,” and “Apartments will be negative due to a slowing economy.” Apartments claim the number-three rank for development as well, but concerns over an increase in construction costs might hamper building in the near future. Regulations attempting to control growth have lengthened sale permit lines and have upset many builders’ interest. However, “There is still a strong interest in the residential market and a shortage of needed projects.”

Best Bets: Ho Chi Minh City is the top-rated city for apartments for the second year in a row, with 42 percent of those surveyed saying it is the time to buy. Just the same, this is down 5 percentage points from last year, and this year another 42 percent believe apartment investments in this city should be held. Rounding out the top five cities with the highest buy recommendations are Tokyo, Bangalore, Jakarta, and Mumbai, although more respondents recommended holding in each of these cities than buying. “Apartment growth will be stronger in emerging countries throughout Asia.”

Office

Office investment interest drops from third to fourth in 2012, despite such comments as “The office segment will be a good investment in 2012”; “Office remains positive due to the supply constraints in most major markets”; and “The office sector will be the bright spot.” The increase in intra-Asia trade should increase demand for office space, especially in gateway cities. In addition, a spurt in new service-oriented business in large development areas such as China should produce a whole new segment needing office properties.

According to the survey, office development ranks fifth.

Best Bets: Jakarta is the top-rated city for office acquisitions, rising from second place last year, although its buy recommendations, at 45 percent, are down about 4 percentage points. Shanghai is second, with 40 percent recommending purchases, up 5 percentage points from last year. “Office rentals in Shanghai should go below 5 percent, which is sustainable for the long run.” Tokyo, rated number one last year with 50 percent of respondents recommending purchases, slips to third place with 38 percent. “We like Tokyo office. They should be good, as the worst is over.” Rounding out the top five are Ho Chi Minh City and Chongqing. In all five cities, the same percentage or higher recommended holding rather than buying.

Retail

Interest in retail commercial real estate has declined slightly, according to survey results. “The retail sector is more difficult; it is definitely a challenge.” Ratings for investment and development are both down. Investment prospects fell to the fifth position out of six, and development dropped two places to fourth. “Global concerns have affected consumer confidence and therefore discretionary spending.” “There has been an increase in household savings, and ground is being gained on more use of online retailing.”

Best Bets: Shanghai takes the top spot, with 54 percent of respondents saying 2012 is the time to invest, the same percentage as in 2011. Ho Chi Minh City’s buy recommendation slipped to 49 percent for 2012 from 60 percent, dropping it into third place. Chongqing is in second place with 52 percent recommending retail purchases. Other cities in the top five are Jakarta and Beijing. “We believe that China’s retail is a great opportunity,” says one investor.

Hotel

Domestic travel in the Asia Pacific is expected to continue to improve, though international travel remains sluggish, often because of weaker currencies back home. Most hotel investment and development opportunities look minimal compared with other property types, putting the industry at the rear in both categories. “There just is a lack of foreign tourists, and domestic tourism isn’t enough to sustain any growth,” says an interviewee. The steady flow of new supply to many countries might limit increases in occupancy levels as well.

Best Bets: Ho Chi Minh City is the number-one market for hotel investment and the only city to receive more recommendations for buy than hold for the coming year, although at 45 percent, it is just slightly higher. “We sense increases in smaller-sized hotels in smaller markets and scenic-type areas.” Following Ho Chi Minh City are Mumbai, Sydney, New Delhi, and Singapore. Sydney’s acquisition recommendations jumped to 36 percent in 2012 from 21 percent a year earlier. “Look for room rate expansion in bigger markets that can justify it and continue to have demand.”

Interviewees

Abacus Property Group

Rod de Aboitiz

AD Investment Management

Kenji Kousaka

AIP-Japan Co., Ltd.

Barry Hirschfeld

Ajia Partners Real Estate Group

Steve Bass

Angelo, Gordon

Jon Tanaka

Aoyama Realty Advisors

Haruyuki Shinya

Apollo Global Real Estate Management Asia Pacific

Peter J. Succoso

Ascendas Pte. Ltd.

Jonathan Yap

AXA Real Estate Investment Managers

Hidetoshi Ono

AXA Real Estate Investment Managers Japan

Tetsuya Karasawa
Masaki Onodera
Takahiro Tokunaga

Bank of America Merrill Lynch

Darren Rehn

Becton Property Group

Matthew Chun

The Blackstone Group Japan

Akira Kosugi

Brookfield Multiplex

Kurt Wilkinson

Caohejing

John Coughlan

CapitaLand

Boaz Boon
Sharon Sng

Capital Realty, Inc.

Jeffrey Stone

Capital Servicing Co., Ltd.

Andrew Hughes

CarVal Investors

Avery Colcord

CBRE Australia

Kevin Stanley

CBRE China

Ada Choi
Colin Clark
Danny Ma
Andrew Slevin

CBRE Global Investors

Tetsuya Fujita

CBRE Hong Kong

Nick Axford
Benedict Ma

CBRE India

Abhinav Joshi

CBRE Japan

Hironori Kato

CBRE Korea

Justin Kim

CBRE Philippines

Rick Santos

CBRE Singapore

Petra Blazkova
Gerald Lim

CBRE Taiwan

Ping Lee

Challenger Financial Services Group

Trent Alston

Charter Hall

David Harrison

Chuo Mitsui Trust Realty Company

Takeshi Fujita
Hidehiko Natori

Citigroup

Clayton Daley
Simon Ranson

CLSA

Wayne Spice

Colliers International

Jeremy Chapman
David Faulkner
James Shepherd

Colonial First State Global Asset Management

Michael Gorman
Charles Moore

Daiwa Securities Capital Markets Co., Ltd.

Tsuyoshi Nakai

Deutsche Bank

Hugh Macdonald

Deutsche Bank AG, Tokyo Branch

Tokio Ueyama

DEXUS

Paul Say

Diviton Fund

Esther Zhang

DTZ

David Watt

DTZ Investment Management

David H. Schaefer

Echo Management LLC

Ken Fridley

Far East Organization

Philip Ng Chee Tat

Fortress Real Estate (Asia) GK

Douglas A. Smith

Franklin Templeton

Glenn Uren

GE Capital Real Estate

Simon McDonald
Francois Trausch

Genkai Capital Management Co., Ltd.

Masatoshi Matsuo

GenReal Property Advisors

Anckur Srivastava

GIC Real Estate Pte. Ltd.

David Dickinson

Goldman Sachs & Partners Australia Pty. Ltd.

Alexi Antolovich

Goodman Group

Anthony Rozic

The GPT Group

Mark Fookes

Grosvenor Limited Japan Branch

Koshiro Hiroi

Halifax Asset Management

Alec Menikoff
Francisco Jose Pimentel

Hines

Michael Purefoy

HSBC

Jason Kern

Ichigo Group Holdings Co., Ltd.

Kenji Iwasaki

Ichigo REIT Management

Wataru Orii

ING Real Estate Investment Management

Peter Kim

ING Real Estate Investment Management (Asia) Ltd.

Richard T.G. Price

Invesco GRE Asia-Pacific

Takuya Yamada
Ryukichi Nakata

Investa Property Group

Scott MacDonald

Ivanhoe Cambridge

Richard Vogel

Japan Real Estate Institute

Nobuo Kobayashi
Toru Otaya
Masayuki Yamashita

Jones Lang LaSalle

Christopher Fossick
Chua Yang Liang
Megan Walters

J.P. Morgan

Craig Smith
Tim Ryan

J.P. Morgan Investment Management

Tyler E. Goodwin

J.P. Morgan Securities (Asia Pacific)

Bryan Southergill

K&L Gates LLP

Amy Sommers

Kenedix Realty Inc.

Taisuke Miyajima

K-REIT Asia Management Ltd.

Ng Hsueh Ling

LaSalle Investment Management

Yasuo Nakashima
Mark N. Gabbay
David Edwards

Lend Lease

Carmel Hourigan
Mark Menhinnitt

M3 Capital Partners

Daniel Krefman

Mapletree Logistics Trust Management Ltd.

Richard Lai

Merrill Lynch Japan Securities, Ltd.

James J. Haines

MGPA

Christopher Andrews
Simon Treacy

MGPA Japan

Shigeaki Shigemasa

Mirvac Group

Stephen Gould

Mitsubishi Estate Co., Ltd.

Naoto Aiba

Mitsubishi Jisho Investment Advisors

Tetsuji Arimori

Mitsui Fudosan Co., Ltd.

Hitoshi Saito

Mitsui Fudosan Investment Advisors

Akira Ikeda

Moelis & Co.

Julian Biggins
Simon Scott
Ben Wong

Morgan Stanley

Paul Snushall

Mori Building Co., Ltd.

Hiroo Mori

The Net Group

Charlie Rufino

Nomura Real Estate Development Co., Ltd.

Eiji Enomoto

Nomura Real Estate Urban Net Co., Ltd.

Masayuki Takehara

ORIX Real Estate Corporation

Tetsuo Matsumoto

Pamfleet

Dougie Crichton
Andrew Moore

Pembroke Real Estate Japan LLC

Mark Takeuchi

Pontiac Land Private Limited

Kwee Weilin

Pramerica Real Estate Investors

Henry Chin

Premier REIT Advisors Co., Ltd.

Fumihiko Yasutake

Professional Property Services Group

Nicholas Brooke

Property Council of Australia

Peter Verwer

RHK Legal

Richard Kimber

RREEF

Kurt W. Roeloffs, Jr.
Niel Thassim

Savills

Chase Chen
Ryan T. Dvorak
Gemma Liu
James MacDonald
Rand Sobczak

Savills Japan

Christian Mancini

Secured Capital Investment Management

Naoya Nakata

Sofia Group

Bjarne Bauer

Standard Chartered Bank

Marc Bosnyak
Brian Chinappi
Mark Ebbinghaus
William Ng

Star Mica Co. Ltd.

Masashi Mizunaga

Starr International

Alison Cooke

Swire Properties

Carlos Zhang

Teloepa Capital Partners

Stephen Gaitanos

Tishman Speyer

Ryan Botjer

Tokyo Tatemono Co., Ltd.

Fumio Inada
Katsuhisa Usuki

Tokyu Land Capital Management

Hitoshi Maehara

Touchstone Capital Securities Co. Ltd.

Fred Uruma

Toyo Property Co., Ltd.

Kensuke Ochiai

Treasury China Trust

Johnny Shao

Vista Real Estate

Andrew Swain

Westmont Japan Investments KK

Naritoshi Minami

Sponsoring Organizations



PwC real estate practice assists real estate investment advisers, real estate investment trusts, public and private real estate investors, corporations, and real estate management funds in developing real estate strategies; evaluating acquisitions and dispositions; and appraising and valuing real estate. Its global network of dedicated real estate professionals enables it to assemble for its clients the most qualified and appropriate team of specialists in the areas of capital markets, systems analysis and implementation, research, accounting, and tax.

Global Real Estate Leadership Team

Kees Hage

Global Real Estate Leader
Luxembourg, Luxembourg

Uwe Stoschek

Global Real Estate Tax Leader
European, Middle East & Africa Real Estate Leader
Berlin, Germany

Timothy Conlon

United States Real Estate Leader
New York, New York, U.S.A.

Paul Ryan

United States Real Estate Tax Leader
New York, New York, U.S.A.

Mitchell M. Roschelle

United States Real Estate Advisory Leader
New York, New York, U.S.A.

K.K. So

Asia Pacific Real Estate Tax Leader
Hong Kong, China

www.pwc.com



The mission of the Urban Land Institute is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. ULI is committed to

- Bringing together leaders from across the fields of real estate and land use policy to exchange best practices and serve community needs;
- Fostering collaboration within and beyond ULI's membership through mentoring, dialogue, and problem solving;
- Exploring issues of urbanization, conservation, regeneration, land use, capital formation, and sustainable development;
- Advancing land use policies and design practices that respect the uniqueness of both built and natural environments;
- Sharing knowledge through education, applied research, publishing, and electronic media; and
- Sustaining a diverse global network of local practice and advisory efforts that address current and future challenges.

Established in 1936, the Institute today has nearly 30,000 members worldwide, representing the entire spectrum of the land use and development disciplines. ULI relies heavily on the experience of its members. It is through member involvement and information resources that ULI has been able to set standards of excellence in development practice. The Institute has long been recognized as one of the world's most respected and widely quoted sources of objective information on urban planning, growth, and development.

Patrick L. Phillips

Chief Executive Officer, Urban Land Institute

ULI Center for Capital Markets and Real Estate

Dean Schwanke

Senior Vice President and Executive Director
www.uli.org/capitalmarketscenter

ULI Asia Pacific

John Fitzgerald

Vice President and Executive Director
www.uli.org/asia

Urban Land Institute
1025 Thomas Jefferson Street, NW
Suite 500 West
Washington, DC 20007
202-624-7000
www.uli.org

Emerging Trends in Real Estate® Asia Pacific 2012

What are the best bets for investment and development in 2012? Based on personal interviews with and surveys from more than 360 of the most influential leaders in the real estate industry, this forecast will give you the heads-up on where to invest, which sectors and markets offer the best prospects, and trends in the capital markets that will affect real estate. A joint undertaking of PwC and the Urban Land Institute, this sixth edition of *Emerging Trends Asia Pacific* is the forecast you can count on for no-nonsense, expert insight.

Highlights

- Tells you what to expect and where the best opportunities are.
- Elaborates on trends in the capital markets, including sources and flows of equity and debt capital.
- Indicates which property sectors offer opportunities and which ones to avoid.
- Reports on how the economy and concerns about credit issues are affecting real estate.
- Discusses which metropolitan areas offer the most and least potential.
- Describes the impact of social and political trends on real estate.
- Explains how locational preferences are changing.

ULI Order Number: E46

ISBN: 978-0-87420-175-8



ULI Urban Land
Institute

www.uli.org

pwc
www.pwc.com