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Emerging Trends in Real Estate® Asia Pacific

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Urban Land Institute

Emerging Trends in Real Estate® Asia Pacific 2011

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Executive Summary

Improving economic conditions across the region brought an end to declining rents and prices in most Asia Pacific countries in 2010, with some markets (such as Japan) still groping for a bottom and others (such as China) moving so fast they are sparking talk of a bubble. With regional growth expected to remain strong over the near term, investors voiced varying degrees of optimism over market prospects, with one caveat: a sovereign debt crisis in Europe or an economic reversal in the United States could yet knock the wheels off the Asia Pacific recovery.

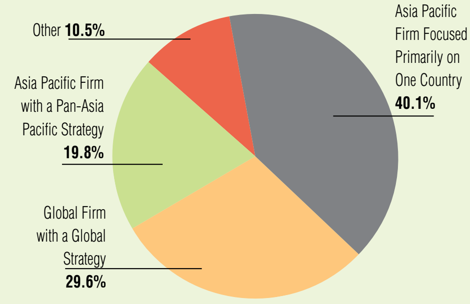
While price action in the real estate market has been generally positive, deal flow remains meager. A standoff has developed over valuations, and investment funds in particular have found the bid/ask spread hard to bridge. In part, this is because sellers are holding out, hoping prices will rise more; in part, it is because many funds currently see richer pickings in the West; and, in part, it reflects a level of investor expectation that has been outstripped by the growing maturity of Asian markets, which today warrant a lower risk premium than they did in the "golden age" of Asian real estate investment ten years or so ago.

Increasing activity by local players is another reason the funds have had problems placing money. Be they high-net-worth individuals or groups, or large institutional funds that are just beginning to make significant allocations to real estate assets, locals have the means and the inclination to buy at current asking prices and are crowding others out of the market.

Whatever the reasons, the dearth of prospects is driving a trend toward different types of deals. For some, this means a shift in focus away from core and opportunity investments and more toward the middle ground of the value add, where they can better use their expertise to source and reposition properties for resale. For others, it means assuming more development risk, usually in partnership with a local developer.

Finally, it is also driving capital to countries with strong economic growth. In a world increasingly starved of yield, investors are now looking to hitch their wagons to fast-moving economies such as China and to new (and high-risk) markets such as Vietnam and India. As hot money pours into Asia in pursuit of this growth, it in turn raises concerns about asset price inflation, especially in residential property markets, where values in some markets have soared since the beginning of 2009.

Survey Responses by Geographic Scope of Firm



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

On the financing side, Asia's banks continue to rule the roost. Indeed, as alternative financing avenues such as international bank lending or Asia's nascent securitization markets have dwindled, regional banks have gotten an even tighter grip on an area they have long dominated. Their strong balance sheets have served to help prop up real estate markets because they have neither the need nor the inclination to undermine pricing by foreclosing on defaulting borrowers and unleashing a wave of distressed assets onto the market. Nonetheless, while lending conditions are improving, conservative bank lending policies have restricted investment in Asian property markets.

According to investment prospect ratings, the top Asian markets in 2011 are Singapore, Shanghai, and Mumbai. Interest in Singapore has risen because of its strong economy, resurgent financial sector business, and office prices that have been seriously depressed by an impending wave of new supply. China is again a dominant theme as investors try to position themselves in one of the world's few growth engines. Shanghai has long been a traditional entry point to the mainland market, although this year interviewees have also identified the growing appeal of China's second- and third-tier cities. Finally, Mumbai's emergence on investors' horizons reflects an interest in the newest emerging markets, which also include Vietnam; they present plenty of risk, but also a chance to get in on the ground floor.

Preface

A joint undertaking of the Urban Land Institute (ULI) and PricewaterhouseCoopers, *Emerging Trends in Real Estate® Asia Pacific* is a trends and forecast publication now in its fifth year. The report provides an outlook on Asia Pacific real estate investment and development trends, real estate finance and capital markets, property sectors, metropolitan areas, and other real estate issues.

Emerging Trends in Real Estate® Asia Pacific 2011 represents a consensus outlook for the future and reflects the views of more than 280 individuals who completed surveys and/or were interviewed as a part of the research process for this report. Interviewees and survey participants represent a wide range of industry experts—investors, developers, property companies, lenders, brokers, and consultants. ULI and PricewaterhouseCoopers researchers personally interviewed over 130 individuals, and survey responses were received from more than 150 people whose company affiliations are broken down as follows:

Institutional/Equity Investor or Investment Manager	26.2%
Private Property Company or Developer	24.4%
Real Estate Service Firm	19.5%
Other Entity	12.2%
Publicly Listed Property Company or REIT	8.5%
Bank, Lender, or Securitized Lender	5.5%
Homebuilder or Residential Land Developer	3.7%

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 PricewaterhouseCoopers extend sincere thanks for sharing valuable time and expertise. Without the involvement of these many individuals, this report would not have been possible.

More Upside than Down

"It's typical Asian fever: all the bad news is out there, and now people are buying and just sitting and waiting."

Back in 2008, in the days just after the global financial crisis emerged out of nowhere and the Great Deleveraging began, it seemed that Asian markets, through no fault of their own, were looking down the barrel of the gun. Regional equity markets plunged as foreign capital fled for the safe harbor of U.S. treasuries. Asia's export-driven economies teetered in the face of a consumer-spending deep freeze in the developed world, and local property markets seized up as banks pulled down their shutters and investor confidence evaporated almost overnight. Asia, it appeared, was on the brink.

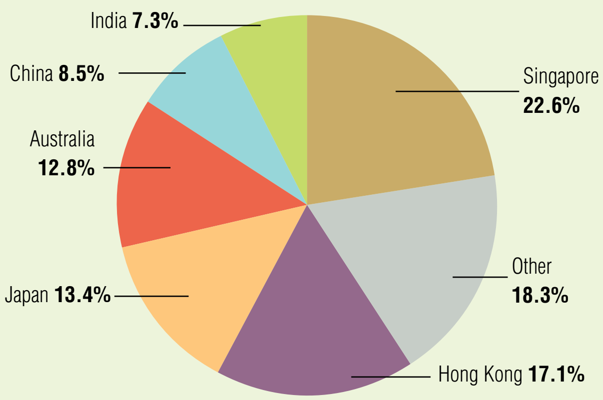
How times have changed. Today, many if not most Asian economies have rebounded to pre-crisis levels, and real estate markets, although mostly slower and often lower than they once were, are groping their way toward some semblance of normalcy. Distress, so widely predicted just a year ago in all the region's biggest markets, has by and large failed to materialize. In many ways, as one interviewee put it, "The markets are acting as if the subprime crisis had never happened."

Still, while Asia's swagger is now back, the question remains—what happens next? In some ways, the outlook is more opaque than before. With prospects for the global economy remaining at best subdued, some have suggested that Asia's rebound has been excessively front-loaded, relying too much on government stimulus and not enough on organic growth. By that score, continuing cap rate compression across the region points to a level of optimism that may be trending toward the unrealistic.

The buyers have answered, however, that Asian markets—and in particular real estate—are strong enough to grow into the high expectations current pricing trends imply. Over the long term, they are probably right, if only because the region still features a chronic shortage of housing and commercial stock. At the end of 2009, the value of Asia's invested commercial real estate market accounted for just 16 percent of the global total, according to one investment manager, compared with 48 percent for the U.S. market and 36 percent for Europe. Over the next few years, however, Asia's share is expected to balloon. Invested assets should increase to more than $3 trillion by 2014, bringing values in the region to about 26 percent of global assets, with most of this increase coming from Asia's emerging economies, in particular China and India.

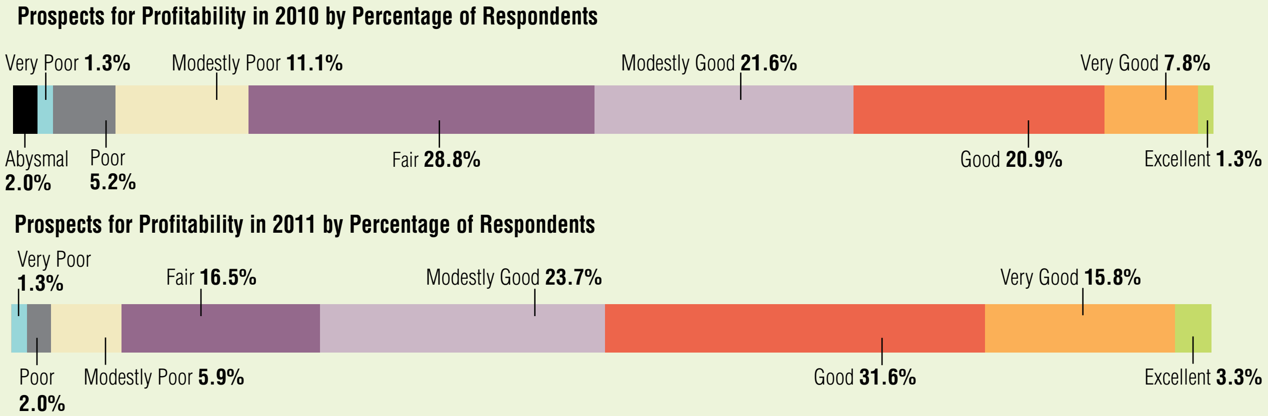
This level of growth over such a short time suggests enormous end-user demand and a level of economic

EXHIBIT 1-1
Survey Responses by Country



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

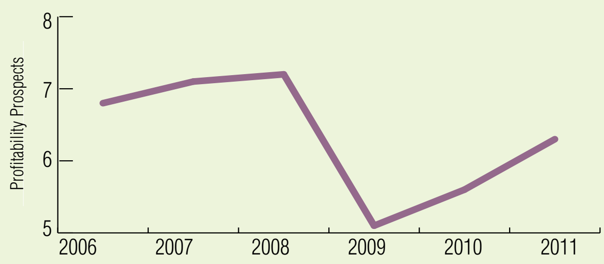
EXHIBIT 1-2
Real Estate Firm Profitability Forecast



Source: *Emerging Trends in Real Estate Asia Pacific 2009* survey.

activity that more than likely will justify the hype. But the bigger issue for now is whether Asian markets will move from A to B in a straight line or via a long detour, courtesy of a double-dip recession in the United States or sovereign default in Europe. At the moment, Asia can only watch from the gallery as the answer to that question is resolved.

EXHIBIT 1-3
Real Estate Firm Profitability Trends



5 = Fair, 7 = Good, 9 = Excellent.

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Pricing and Deal Flow: Is the Bottom In?

By early 2010, improving economic conditions across Asia had brought a halt to sometimes steep declines in rental prices in almost all markets. As the year progressed, some markets rebounded, while others appear at least to have bottomed. This positive development is reflected in survey responses, with a significantly higher number of respondents forecasting better profitability for 2011 (see exhibit 1-2).

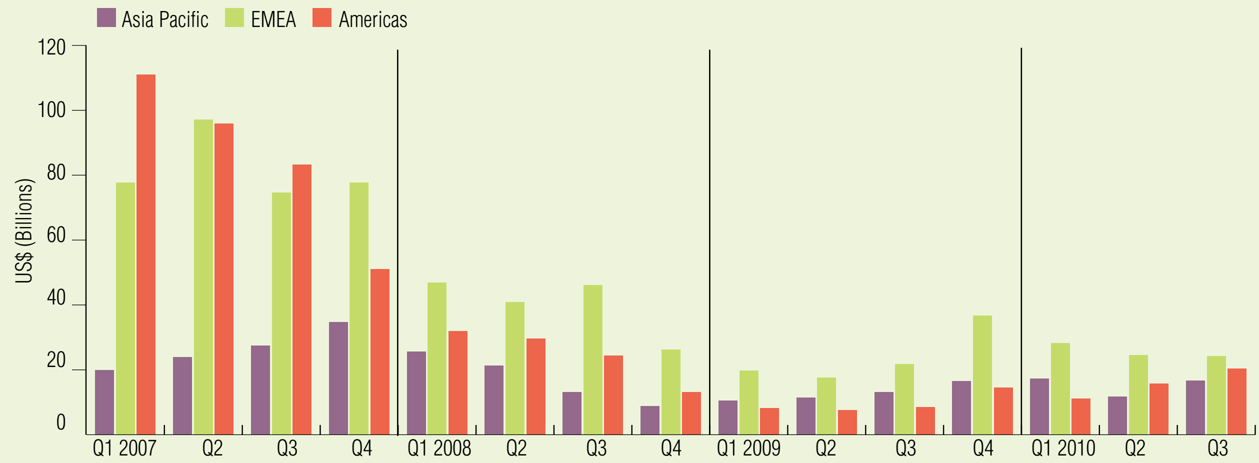
In Hong Kong, renewed initial public offering (IPO) activity by Chinese companies boosted demand in the financial and service sectors, leading to a surprising 34 percent rise in office rents in the year to November, according to CB Richard Ellis (CBRE). In Singapore, after declines of as much as 50 percent in 2009, rentals appear to have bottomed and are now creeping up. Rents in Japan, meanwhile, were still trending down in the third quarter of 2010, and although vacancies remain high (around 9 percent, according to an investment manager), there is a sense among investors that the market may be bottoming. As one Tokyo-based investor observed, "There are groups out raising capital because they see the opportunity. Their views are that rents have troughed out, capital values have troughed out, and the economy is probably starting to look like it might improve a bit."

However, although deal flow has risen slightly in 2010, transaction volumes for commercial property remain severely depressed across Asia compared with their 2007 peaks. The glaring exception to this has been China, where both transactions and prices (especially of land, which has outstripped property sales in all Asian markets combined) have soared since the beginning of 2009, despite an oversupplied market. Chinese markets slowed considerably markedly after the government introduced bank lending curbs to cool the market in April 2010. Land sales were hit especially hard, but activity began to rebound in the third quarter, emphasizing strength of demand.

Meanwhile, transaction numbers have remained steady elsewhere in Asia, with many interviewees noting an uptick in deals going into the final quarter of 2010, even though "pricing in general is pretty full." Japan remains the biggest

EXHIBIT 1-4

Quarterly Sales Volume Comparison



Source: Real Capital Analytics (www.rcanalytics.com). Based on properties and portfolios valued at US$10 million or greater.

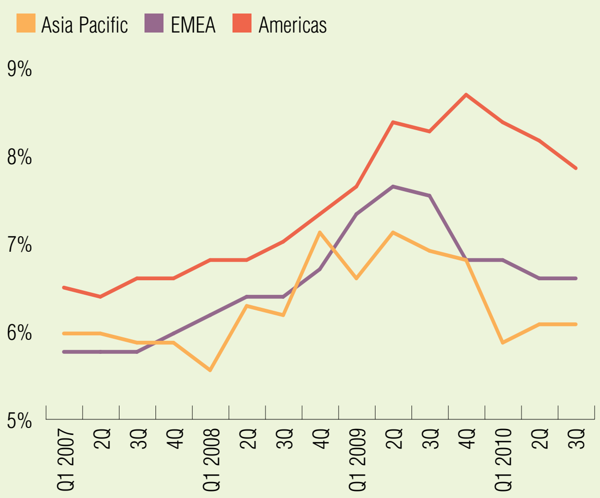
single market for commercial property, although action is anemic by historical standards. Hong Kong, again, has seen several notable transactions during the year, led for the most part by local buyers who have stepped in to buy several assets at prices that have raised eyebrows. Singapore has also seen "a noticeable increase" in activity despite a large supply overhang, again led by local or Southeast Asian investors. According to one fund manager, "It's typical Asian fever: all the bad news is out there, and now people are buying and just sitting and waiting."

Rising prices are leading inevitably to yield compression. Average cap rates for commercial properties across the region stood at 6.1 percent in the third quarter of 2010, according to Real Capital Analytics (RCA), the same as the previous quarter. But this averaged number conceals wide variations from country to country. In Australia and New Zealand, cap rates remain a lofty 8.1 percent, though interest rates of 7 to 8 percent leave little in the way of a spread. Japan, meanwhile, sports lower cap rates at about 5.6 percent, but ultra-low interest rates provide a good spread of between 250 to 350 basis points, according to one investor. Hong Kong currently features the most compressed cap rates in the region, with a couple of prime assets selling in 2010 at remarkably low levels of just over 2 percent.

While the headline figures project a relatively stable (albeit much-reduced) level of activity across the region, buying patterns have recently undergone some fundamental changes. In general, professional investors across Asia (apart from China) offered downbeat assessments on deal flow for most markets in 2010. One fund manager gave a "gut feeling" estimate that "capital transactions are down 80 percent, maybe as high as 90 percent" from pre-crisis

EXHIBIT 1-5

Quarterly Cap Rates for Commercial Property Transactions by Zone



Source: Real Capital Analytics (www.rcanalytics.com).
Based on properties and portfolios valued at US$10 million or greater.

levels. In Japan, "there have been some transactions, but volumes have been materially off." In Australia, "transactions are probably the lowest in ten years, [although] there is consistently a fair amount of churn for a certain type of asset—very, very core."

Great Expectations

One reason that business at many investment funds has been so slow is that they are often being outbid by local players. In fact, according to consultants CBRE, fully 78 percent of Asian deals by value in the first half of 2010 involved domestic purchasers, many of them high-net-worth families or groups. As one Hong Kong–based fund manager said, "There's no doubt that domestically based investors have squeezed out a lot of foreign investors since the financial crisis. Perhaps they have a different view on their cost of capital, but it's been challenging to get money into the market."

It is no surprise that local buyers appear more comfortable than the funds in calibrating low-risk investments and accepting compressed yields. As one interviewee noted, "If you are sitting in India, the political risk of doing a deal in Pakistan is a bit easier to contemplate than if you are sitting in London looking at India or Pakistan." At the same time, foreign players, and especially the larger funds, "are being very conservative about the way they underwrite properties because of the global unknowns."

Still, this is only part of the story. In reality, the main cause of the slump is that a standoff has developed over pricing. On the one hand, as Asian economies recover, property owners who have watched real estate markets bottom and begin to rebound see little reason to sell at a steep discount. The same applies to banks that have lent to them, even if borrowers are underwater. At the same time, investors are too often targeting unrealistic returns that are out of step with that reality. Many, for example, are looking to buy "core properties with long-term leases, but they'd still like to achieve the 15 percent IRRs [internal rates of return]" they enjoyed after the Asian financial crisis in 1997. In the current environment, "their expectations are just too high. I suspect there are still some investors who look at Asia the same way the first movers were looking at it ten years ago, [but] Asia is not the way it was." The big difference is that "just showing up and buying is not enough anymore" because regional markets are more mature. "Ten years ago, [Japan] was not as much of an established market, and a lot of times it was unclear what you were buying. Fast forward ten years and there are not the screaming deals, but there is also a lot less risk."

Beyond that, investors are often looking to strike deals for types of assets that are often not readily available. According to one fund manager, "What's happened over the last 18 months is that capital has become quite polarized in terms of the types of return it's looking for." Most money, therefore, is held either by large opportunity funds that continue to chase distressed assets that offer opportunistic returns for uncommitted capital, or by investors seeking core properties. In reality, though, both asset classes are currently hard to find. The opportunity funds "are chasing distressed assets because that's where the opportunities are. But distress lasted for about a week in most markets, so people had allocated for it, and suddenly it wasn't there." Core funds, meanwhile, are in much the same boat, even when they have not been outbid. Among those core assets targeted by the funds, "there's Japan, of course, but that's going through lots of problems. Hong Kong moved too quickly, so people were raising money, but they missed the boat. Singapore is still a very transparent call in many respects, but there's huge oversupply there."

Another cause of angst within the industry is that investors are finding it hard to swallow lower returns on Asian

EXHIBIT 1-6

Average Real Estate Yields in Average Markets

	Grade A Office (%)*	Residential (%)*	Retail (%)*	Industrial (%)*
Bangkok	4.5–5.5	4.0–4.5	6.5–7.5	9.0–10.0
Beijing	7.0–8.0	4.0–6.0	8.0–9.5	8.5–10.0
Guangzhou	5.7–7.3	2.4–3.8	6.0–8.0	N/A
Hong Kong	3.1	2.8	3.7	5.7
Jakarta	10.0–12.0	11.0–12.5	10.5–13.5	8.5–10.3
Kuala Lumpur	6.5–7.0	6.0–7.5	7.0–7.5	N/A
Manila	6.5–9.5	7.0–10.0	N/A	N/A
Mumbai	10.0–12.0	3.5–5.0	12.0–14.0	N/A
New Delhi	6.5–7.5	2.0–3.0	8.5–9.5	11.0–12.0
Seoul	6.0–7.0	2.1–2.3	7.0–8.0	9.0–10.0
Shanghai	4.5–5.5	4.5–5.0	4.5–5.5	6.0–7.0
Singapore	3.5	2.1	5.9	5.3
Taipei	3.6–4.0	N/A	3.5–4.0	3.8–4.2
Tokyo	3.5–4.0	5.5–6.5	3.8–4.3	5.5–6.0

Source: CB Richard Ellis.
* Data as of June 30, 2010.

investments when they see potentially far richer pickings coming available in the United States and Europe. As one Hong Kong–based fund manager commented, "You're now seeing core-market pricing in China, which is an emerging market. People can bank in a lot of growth, but they're buying buildings at five-caps [5 percent cap rates] and at prices per square foot that are equivalent to stuff in the U.S. or U.K." Another said, "The message we get about putting capital into China at the moment is that, to get a 20 [percent rate of return] there, the amount of risk you're taking is like the risk you take to get a 30 or 40 in Sydney. So why settle for 20 on a development in a third-tier provincial city when you could go to Sydney, put a mezzanine piece into a development, and get 15 percent, 16 percent, 17 percent?"

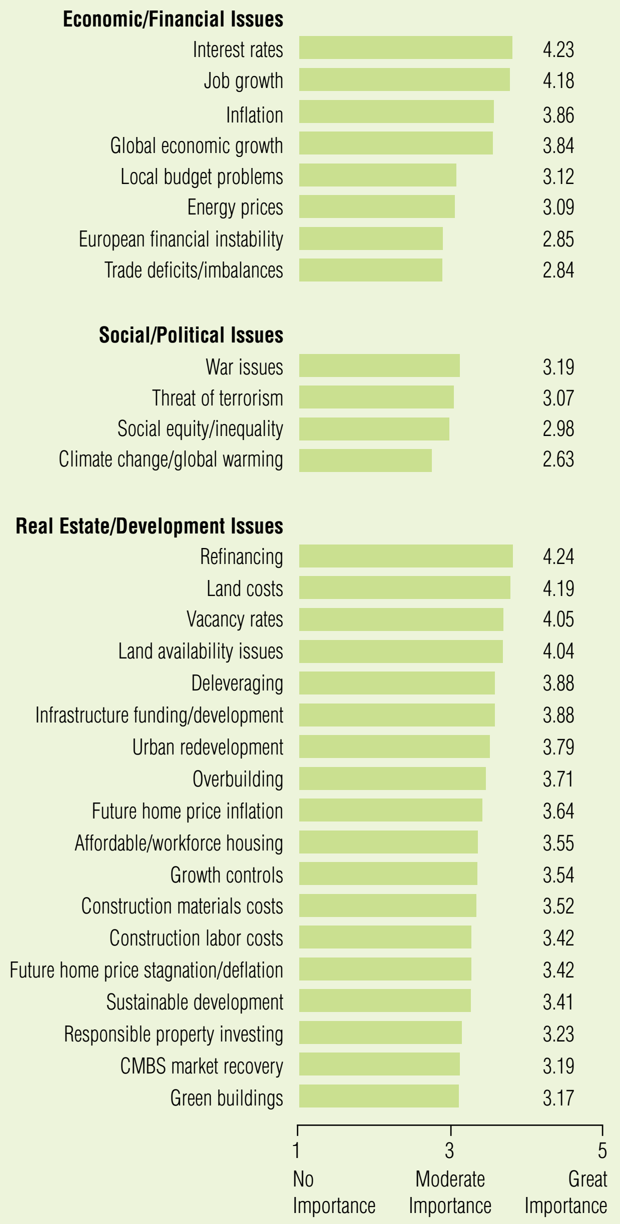
Whether assets in developed markets really offer investors better risk-adjusted returns is an ongoing debate. What seems clear, however, is that the pricing standoff reflects fundamental uncertainties within the industry as it grapples with emerging realities, both globally and regionally. "It's difficult," said one investor. "We're in uncharted waters."

For now, though, with little indication that sellers are about to blink on pricing, investors seeking to bridge the bid/ask divide seem to have two options—either they lower their expectations, or they seek out different types of deals. As for the first option, the writing is already on the wall. In the words of one investor, "Those looking for IRRs in excess of 20 percent are looking for a pot of gold at the end of the rainbow." And as a fund manager in Japan observed, "Especially in real estate, if you're getting above 20 percent, you've got to be doing something really different. So, looking back, either you were using way too much debt—and I don't think that's possible anymore—or you were doing private equity, not real estate."

This emerging point of view is underscored by the generally barren landscape across the entire spectrum of asset classes, where low returns have become the norm. As one investor noted, "In a world as yield starved as we are now, where interest rates are pretty much zero everywhere except for Australia, I think it's much more reasonable to expect returns in the teens."

EXHIBIT 1-7

Importance of Various Trends/Issues/Problems for Real Estate Investment and Development, 2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Development Risk and the Value Add

Whether real estate professionals will come to accept this as the new normal in Asia remains to be seen. But there seems little doubt that funds are now actively pursuing new types of deals in an effort to leverage their expertise against the many inefficiencies that exist in Asian markets. Their view is that playing to their strengths will be more productive than trying to muscle out cash-rich local investors.

One way of doing this is simply to assume more development risk. In China, cap rates for core assets have now been driven so low that "it's hard to make a case for investment in income-producing property, due to cash traps and exchange controls," said one investor. Instead, buyers are looking increasingly to partner with local developers of commercial properties in order to sell the finished assets at the same high prices they seek to avoid in the open market. As one fund manager observed, "Partnering with a good developer and then having that as an exit is attractive. I think China for us is very much a development game. I don't think you'll see us buying any stabilized properties in China for a long time."

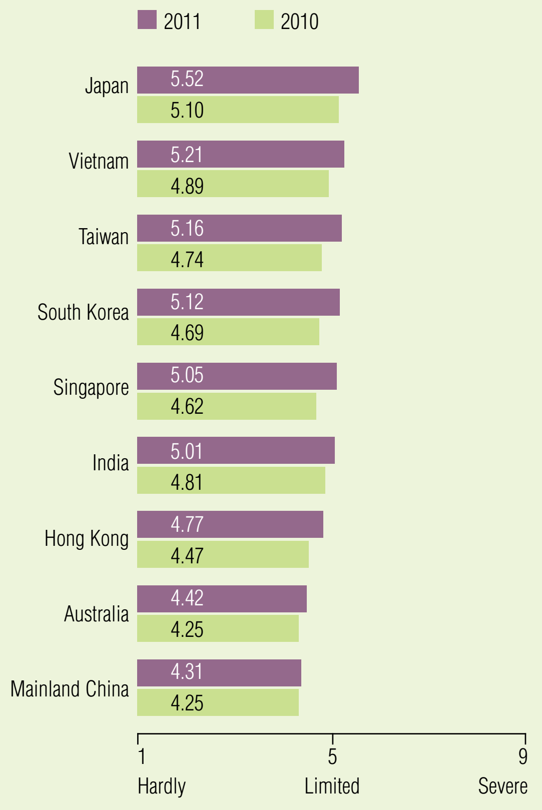
The appeal of the development side in China has increased recently due to regulatory changes that now allow Chinese insurance companies to diversify their investments into real estate assets. They have yet to arrive in the market in force, but with insurance company investment returns currently at multiyear lows, analysts are anticipating the imminent appearance of not only some US$68 billion in new capital, but also (and more important) the evolution of a new type of institutional investor base—buyers with long-term, low-cost capital that seek out core, en bloc assets. Ultimately, this will end the need for strata-title sales and provide the ready exit for development plays that China has traditionally lacked. The expectation, according to one investor, is that "when insurance companies get invested, there will be a super big bang opportunity."

Another way investors are now diversifying their strategies is via value-added plays. According to one fund manager, "We're not looking to invest in wholesale large investments on a macro strategy, but at situations on a case-by-case basis for some complexity in the deal—an area we can add value and get an attractive risk-adjusted return." Or, as another investor put it, "We're buying junk and selling antiques." The emergence of the value add as a front-line investment strategy in Asia has been fueled by the fact that local skill sets tend to lie more in production than in operations. As one interviewee said, "In China, there are very good developers who develop the hard assets, but there aren't a lot that understand the software, the operations of property types, and the income-producing side." This means that industries that require operational expertise can often provide opportunities to reposition assets.

Retail properties are a prime example. According to one investor, "The received wisdom is that China lacks good suburban retail facilities, and the big issue is the operating partner. A poorly run mall can lose 50 percent of its tenants because it doesn't know how to achieve the right tenant mix, so positioning is a real problem there." Other types of value-add plays mentioned by interviewees included logistics assets, housing for seniors and students, and resort complexes.

That said, value-add strategies are not easy to exploit. Retail facilities, for example, are sometimes built almost as an afterthought by developers compelled to provide them as part of a residential project, and are at times so flawed from a traffic-flow or a layout standpoint that they are beyond repair. In addition, according to one investor, "The drawback in the specialty asset classes is that they require a lot of know-how." In a market like China, especially, they are not for the uninitiated, so "if you're a new guy to the market, you're probably trying to do something starting in the regular food groups."

EXHIBIT 1-8
Levels of Impact of Economic Crisis



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

The New Emerging Markets—Vietnam and India

The current shortfall of appetizing real estate deals in Asia has led many investors to look for greener pastures—not only across different sectors, but also in new markets. In particular, foreign money has been looking at Vietnam and India.

The focus on Vietnam sharpened in 2010 as rising land and labor prices in China begin to drive increasing momentum to diversify to new locations. However, Vietnamese markets remain tough to navigate and are regarded as especially opaque. The stock of investment-grade commercial buildings is "nonexistent," according to a consultant active in the country. That said, a relatively large volume of new commercial stock is now in the pipeline, and Vietnam has just consummated its first large commercial real estate investment deal with a foreign fund buyer, set to close at the end of 2010 (reputedly at a yield of 11.6 percent).

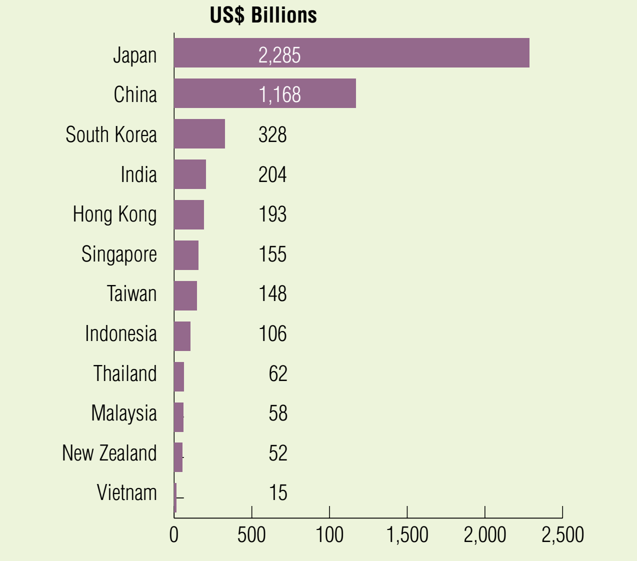
For now, however, Vietnam is regarded mainly as a joint-venture development play, mainly for residential projects. This carries the usual attendant risks, which in Vietnam's case are magnified by the market's immaturity. "Some of the developments are just totally unrealistic and unworkable," one interviewee commented. The biggest risk for outsiders, however, is that "you can buy the building, but you can't own the land." With foreigners restricted to holding leasehold interests (generally 50 years), investors face a choice: either buy and worry about it in 50 years, banking on the government to update its regulations, or plan on selling the lease to a local partner. Said one investor active in residential development in Vietnam, "Our model is offshore vehicle, invest in land, long lease, work with the city to clear the land, convert paddy field into building land, and building land to finished product." The exit is then to sell to a local party, who has the right to convert the property to freehold for a nominal fee. That system appears to have worked for many investors, but the uncertainty it generates is a deterrent. As a result, "We're going to have to see major movement in the land tenure system if we are going to see major migration and investment move into Vietnam."

India is another new destination drawing increasing attention. Like Vietnam, its property sector remains immature, with the value of real estate construction totaling US$65 billion—or 5 percent of GDP—in 2009, according to Morgan Stanley. That compares with comparable spending of some US$630 billion—or 12.6 percent of GDP—in China. The very size of that gap, however, serves to underline the potential for growth as the Indian economy begins finally to develop critical mass. According to one investor currently active in the market, most interest is currently coming from domestic private equity rather than foreign capital, which has not featured significantly in the Indian market since the boom years of 2006 and 2007. However, "a lot of new inquiries have been floating" from foreign sources, primarily from "fund of funds and family office fund managers." Large foreign pension funds, many of which took a beating on their local investments during the crash, have yet to reappear. Interest centers largely on the residential sectors of New Delhi and Mumbai, which have seen significant upward price movement in 2010.

India's investment environment is substantially more open to foreigners than is Vietnam's. Foreign funds can be invested directly into local development projects (but are barred from most types of income-producing assets), and offshore ownership structures are allowed, a fact that may draw increasing volumes of institutional money once the first offshore-structured assets hit the market over the next two or three years. In the past, most funds were raised with expectation of IRRs in the mid-20s, and though "those kind of returns have not been achieved so far," it remains the investor benchmark. According to one interviewee, "Residential is the clear number one. You can easily target IRRs of 25 percent, post-tax. Income-producing assets, you can get something like 18 to 20 percent IRRs, and 22 to 25 percent is possible for warehousing and logistics." The commercial sector continues to suffer from significant amounts of oversupply and is not currently attracting much investor interest. Credit is not cheap—"Depending on developer quality, banks will talk in the range of 13 percent to 15 percent"—but it is available.

EXHIBIT 1-9

Estimated Size of Institutional-Grade Real Estate by Country



Source: *A Bird's Eye View of Global Real Estate Markets: 2010 Update*, Pramerica Real Estate Investors Research.

EXHIBIT 1-10

Real Estate Transparency Scores: Asia Pacific

Transparency Level	Country	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.

The higher returns demanded by investors in India reflect predictably higher risk. Regulatory risk is not especially high, but the development side can pose problems. "Projects in India do not get completed in time," as one investor observed, and "local developers don't necessarily have the same degree of sophistication when it comes to corporate governance, transparency, and accounting."

Distress—Waiting, Waiting, and Waiting

One of the major trends identified by investors in last year's *Emerging Trends* was the prospect of distressed assets appearing in several of Asia's major markets, especially Japan. One year on, however, most of the expected distress has failed to materialize. In Australia, real estate investment trusts (REITs) were recapitalized. In China, a predicted bubble failed to burst. And in Japan, distress emerged, but prices have yet to fall to anticipated levels.

The biggest single group of forced sellers across the region has been one of its more aggressive participants—foreign financial institutions, especially big investment banks, which are now selling assets in markets from Tokyo to Singapore to China. Sales have been forced sometimes by refinancing problems, sometimes by the need or desire to repatriate capital, and sometimes simply by the need to exit at the end of an investment cycle.

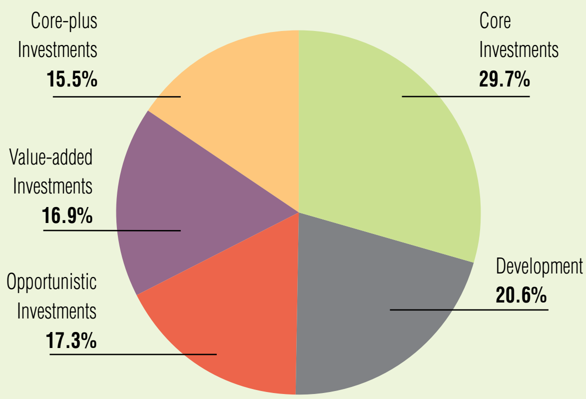
Today, most interviewees believe major distress in Asia is unlikely in the absence of global economic relapse. Some, however, remain convinced that pockets of opportunity will appear in specific markets. A number of new funds were set up in 2010 targeting distressed real estate (among other things), while other funds have been in the market for several years. They remain in "vulture mode, waiting for the bodies to appear."

Once again, attention is focused primarily on Japan. Interviewees agree that forced sales are inevitable—a result of some ¥1.2 trillion (US$14.9 billion) of commercial mortgage–backed securities (CMBS) maturing in 2010, of which up to 30 to 40 percent may default, by some estimates. Although signs exist that capital prices may finally have bottomed, office rents continue to fall and vacancy rates to climb, hitting 9 percent by mid-2010, and 40 percent for newly developed buildings. Investor expectations of distress have been heightened by regulatory changes due to take effect in 2011 that will require local banks to maintain a larger capital buffer. In addition, most Japanese banks have already written down their real estate losses, thereby eliminating the incentive to use them to shore up balance sheets, as is happening now in the West.

The landscape is particularly bleak for midtier developers, many of which emerged in the wake of Japan's last crash. According to one Tokyo-based fund manager, the sector began to thrive in the years 2001–2002, fed by substantial volumes of leveraged balance-sheet finance provided as foreign banks began arriving in the marketplace. "When the financial crisis hit, the rules of the game changed and that entire sector got wiped out." Many of the defaults now in the pipeline relate to these players. Office and regional retail assets have been hardest hit, while defensive asset classes such as residential and logistics have held up

EXHIBIT 1-11

Strategic Investment Preferences for 2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

better. Whether these impending foreclosures will produce the anticipated fire sale, though, is another matter. "I'm very skeptical," said one investor. "We keep waiting, waiting, and waiting, and we haven't seen anything much."

There is a variety of reasons for this pessimism. First, "The overall market is completely different from the last real estate cycle because the banks today are all in pretty good shape financially." In part, this is because so much of the financing for currently underwater deals was underwritten (and spun off as CMBS) by foreign investment banks rather than domestic institutions. Apart from that, the ¥3 trillion (US$37 billion) worth of CMBS outstanding in Japan is still only a small proportion of overall bank-sector assets and compares with losses of ¥100 trillion (US$1.2 trillion) incurred in the market between 1992 and 2005. With the corporate sector also now flush with cash, the market should be more capable of absorbing losses. This is especially true because, according to one Tokyo-based fund manager, the defaulting loans "tend to be driven by maturity default, even though cash flow is strong enough to service the debt, or anyway service the interest. So the original sponsor in equity is gone, but to the banks, it's just paying off the default interest. There isn't really any urgency for them to take a big mark on the asset."

Just as important, Japanese banks are by now twice shy about dumping large portfolios of loans onto the market. They did exactly that in the last cycle, only to see opportunistic investors profit handsomely after picking up the assets. This makes them unwilling to rush to foreclose today. As one fund manager said, "If I were the bank and I felt the market were at bottom, why wouldn't I just roll? For them, it's not extend and pretend; it's actually smart." Nor does current action suggest an impending wave of bargains. "So far, we've seen pricing on the debt that's trading is in some cases higher than the actual underlying collateral is worth. That makes no sense, but the reason is that certain players have a mandate to only buy loans."

Another market in which distressed sales had been anticipated but have mostly failed to materialize is Australia. In 2009, larger players were able to dodge a bullet by recapitalizing balance sheets via heavily discounted rights issues. Smaller funds, though, were left high and dry, and interviewees now suggest a shakeout will occur involving second-tier funds holding mainly secondary and tertiary assets due to be refinanced over the next 12 months. According to one investor, "Those assets are likely either to be sold quite aggressively over the next 12 months, or the banks are going to lock up those funds." Australian banks are currently reluctant to refinance secondary assets as they reposition their books as more secure portfolios. "So they're giving the managers the opportunity to do it themselves, and if they don't, then the banks will. It's starting to happen now." Opportunities are therefore available either to provide innovative finance options or to pick up these secondary assets as they appear on the market.

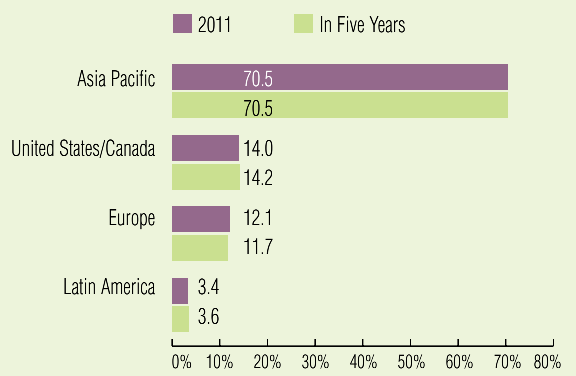
Finally, China may yet throw up some forced sales or deals. Last year, many considered China a likely source of property market distress. In an October 2009 poll by law firm Clifford Chance, 58 percent of investors surveyed anticipated "significant distressed debt opportunities" there. In the event, distress never happened. Prices, especially for residential property, remain elevated, and while banks have tightened lending policies and cracked down on backdoor financing practices, many larger developers have managed to build substantial land banks and strong balance sheets.

Again, however, conditions for second-tier players are less certain, providing possibilities for partnerships with outsiders, and particularly for foreign developers. As one consultant said, "Certainly you can't borrow at the moment to buy land, so if you wish to build up your land bank or acquire sites going forward, you probably do need a partner. Also, some of these schemes are huge, and some of the smaller developers just don't have experience on delivering large-scale schemes."

Another investor foresees a potential liquidity crisis in 2011, commenting, "If transactions do start to trough again, there will be opportunities for private equity players to come into the market to fund smaller or regional developers." However, even if distress sales do occur, they will probably remain out of reach for outsiders because in China such assets are commonly absorbed by some related party. "It's always extremely difficult. In fact, I'm struggling to think of a single instance—unless you were involved already or had some kind of relationship with the situation—that you could have taken advantage of a distress sale."

EXHIBIT 1-12

Investors' Regional Allocation Percentage



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Residential Prices Take Off

Asia may have watched the collapse of housing markets in the West from a ringside seat, but the spectacle has done little to prevent residential pricing in many Asian countries from heading rapidly in the opposite direction, with large double-digit price increases registered over the past two years in many Asian markets, including Hong Kong, Singapore, Taiwan, Australia, and China. As a result, yields in these markets have become extremely compressed.

For the most part, these increases result from a combination of Asia's high-liquidity/low-interest-rate environment and a generally robust regional economic climate—a mismatch that has translated directly to asset price inflation. In some ways, the resulting scenario appears eerily reminiscent of the genesis of the U.S. housing bubble, which began after authorities cut the federal funds rate to 1 percent in the early years of the past decade. And it raises an obvious question: are Asian residential markets heading down the same path?

In Hong Kong, ultra-cheap mortgages (less than 1 percent if HIBOR-linked), combined with a housing supply shortage and an overflow of capital leaking into the city from mainland China, have boosted secondary market prices almost 50 percent since the beginning of 2009. Singapore and Taiwan have seen similar interest rate–fueled price increases. While opinions are consistent that prices are unlikely to see significant downside while interest rates remain low, the risk of a bubble in these markets has become very real and is well recognized by local authorities.

In Australia, the picture is rather different. There, home prices have accelerated "to everyone's disbelief" despite steadily rising interest rates. Although these rises have been fueled by rising rents and a chronic shortage of housing stock, "household affordability levels are probably the most they have ever been stretched," according to a local fund manager. Because "GDP is far ahead of expectations, I expect a couple of [further] movements up, which will put pressure on people financed at the margin." However, there is little consensus about how conditions in Australia will ultimately evolve.

It is in China, however, where the issue is most controversial. While mainland borrowing costs are nominally higher than those in many Asian countries (the one-year rate stood at 5.56 percent in October 2010), they register 1 percent or less when discounted for inflation—super low for an economy that grew 9.6 percent in the third quarter of 2010. When cheap, easy credit became available in early 2009, it attracted a wave of speculative buying that soon drew in state-backed and private business interests. Land and property prices ballooned during the course of the year until the government imposed cooling measures (targeting mainly the demand side) in early 2010. These now appear to have restored an uneasy equilibrium to the market.

The exact extent of property price inflation in China is hard to calculate because of data limitations, regional disparities, and widely differing conditions across various market segments. However, according to a study released in June 2010 by broker Knight Frank LLP, home values in China's main cities rose 68 percent year on year. Other studies put the figure even higher, including a July 2010 report by investment bank Standard Chartered, which cited a more than 80 percent rise in tier 1 city prices in 2009, with average selling prices reaching RMB19,316 per square meter (US$270.63 per square foot).

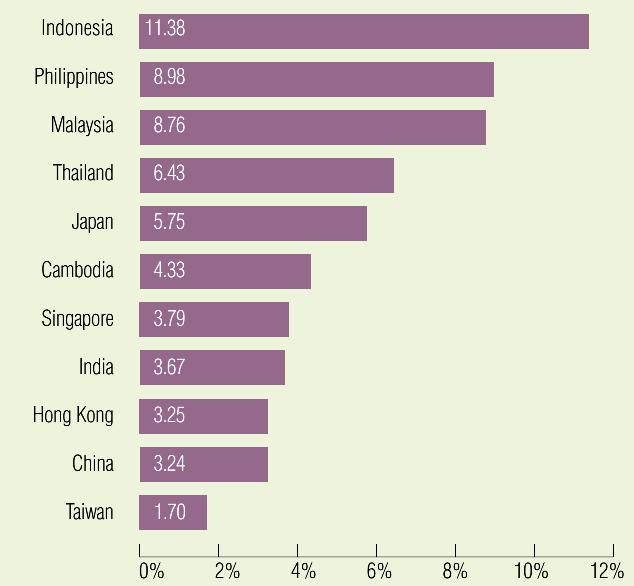
Are such steep rises sustainable? Valuation models commonly applied in developed markets might suggest they are not. Price-to-rent ratios in China have been rising inexorably since 2004. In Beijing, the ratio has grown from 26.4 in early 2007 to 45.9 at the beginning of 2010. Today, all tier 1 and many tier 2 cities have ratios of more than 30, according to figures published by the Institute of Real Estate Studies at Tsinghua University. This implies a divergence between rental and ownership costs that is out of sync with the standard equilibrium-based model. In addition, price-to-household-income ratios in China—22 in Beijing and 19 in Shanghai, for instance—are higher than in most Western cities, such as Los Angeles at 10 and Vancouver at 8.

However, applying standard valuation models to emerging market economies is fraught with difficulty. Property executives in China interviewed for *Emerging Trends* were nearly unanimous in dismissing the idea of an imminent crash of Chinese housing prices, for a number of reasons:

- First, rental returns are not as important for Chinese buyers as they are for westerners, especially for high-end properties. This makes price-to-rent comparisons misleading. Short-term speculators are certainly active, but in an economy with an overall dearth of investment alternatives,

EXHIBIT 1-13

Asian Gross Residential Rental Yields 2010



Source: Global Property Guide.

many also view real estate as a longer-term store of capital value. Buyers may not be interested in living in their properties, but they are not inclined to flip them either. As one interviewee said, "Most buyers are not pressured for immediate returns. They buy basically to place their money. And their outlook is not to rent it out and get yield; it's to keep it a couple of years, see what the market does, and then sell it or [continue to] hold it for a period of ten or 15 years. They see it as family wealth, especially when deposits in the bank don't produce any returns."

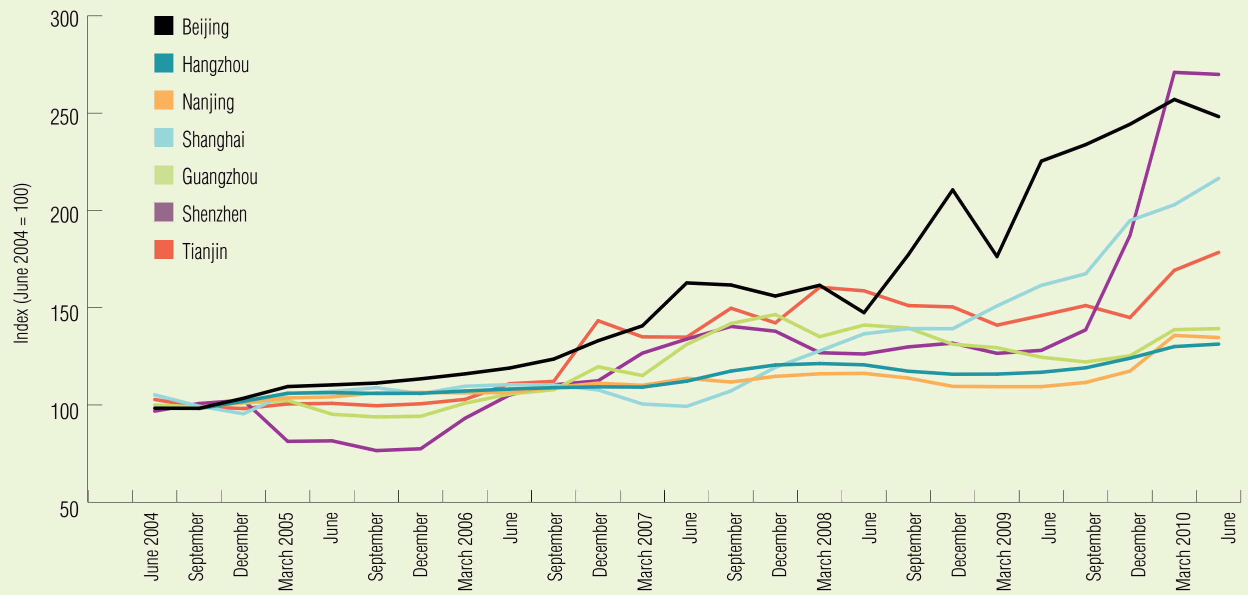
■ In the same way, standard affordability ratios are not directly applicable to China either. To begin with, according to one analyst, "We know anecdotally from the people that buy units that we develop that they'll often pay 100 percent cash. So wages matter, but so, too, does access to unreported income." Such "gray" income is prolific in China and probably represents a large component of overall earnings, especially for the most affluent. In fact, real household incomes may be almost double the official estimate, according to a recent study by investment bank Credit Suisse. Second, many Chinese buyers already own apartments bought at low prices when Beijing began privatizing the nation's property market in the late 1990s. According to one interviewee, "About 70 percent [of purchasers] are upgraders who have enough equity at least to pay the deposit. So the deposit has now gone up in quantum, but it's still within the range of affordability." Finally, incomes in China are rising so fast that buyers can rapidly grow into apparently unaffordable mortgages. As one Beijing-based consultant observed, "It's interesting that over the last five years the growth in sales prices for residential property in Beijing is actually less than the increase in disposable income over the same period. So, we had one year of a major spike, but the market was able to handle it." Historically, in fact, China's high rates of housing price inflation have never managed to outstrip earnings for long.

■ The biggest price movements have been restricted to the top end of the market and to tier 1 cities. In second-tier cities, average selling prices rose just 12.5 percent in 2009, according to Standard Chartered figures, and home values are one-third the level of those in major metropolises. In addition, according to one investor, the recent regulations have "essentially trimmed out entirely the speculative trader, and we've moved from a situation nine months ago where up to 30 percent, maybe 40 percent of any scheme was being sold to the non–end user to, without exception, less than 5 percent."

■ Beijing is probably unwilling to allow home values to pull back significantly because of the industry's importance to the economy. In addition, Beijing is now better versed at fine-tuning the market. So, while past episodes of property-sector turbulence produced broad policy responses described as "very blunt instruments," today, "authorities are getting better at playing with the tap around the warm part of the shower than going straight from hot to cold or cold to hot." Barring serious economic crisis, therefore, authorities will probably be able to craft a policy balancing the need for restraint against buoyant sentiment that reflects an undeniable strength of underlying demand. As one fund manager observed, "Everything built more than 20 years ago is state-owned built, state-owned managed, and very bad quality. Basically, people want to move out and it needs to be replaced."

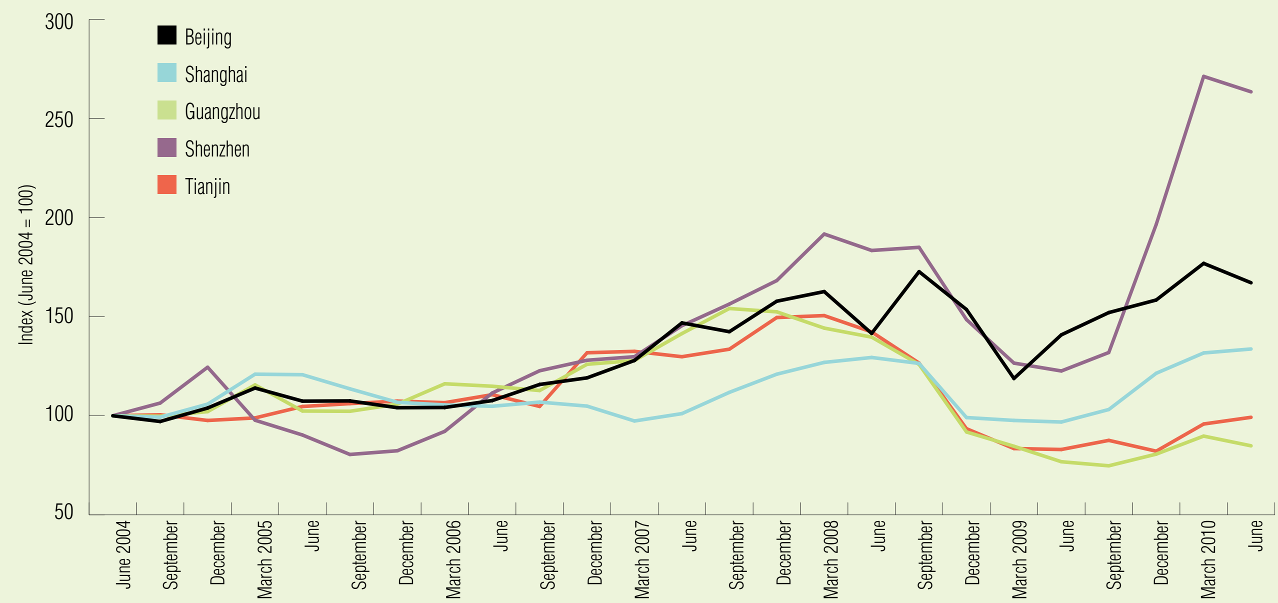
The consensus among interviewees, therefore, is that the Chinese market remains fundamentally sound, apart from pockets of excess in some segments of some large cities. One fund manager commented, "We think there are certain cities where certain segments are overheated. But that's part of a normal cycle, and the underlying drivers of the real estate industry are very strong." Another said, "Potentially, cities like Shanghai, Beijing, Hangzhou, Shenzhen may see some price correction. But in my view, that is not the bursting of the bubble; it is a price correction coming out of almost a normal cycle of the market." Finally, "The biggest problem now in buying is that it is just so hard to get the loan, and that has certainly slowed things down. But I don't see a price drop in the long term." The reason? "The amount of wealth being generated in these [major] cities is beyond anybody's imagination. We did a very interesting study, and we are seeing more people with a net worth of [US$]10 million or above being created each quarter than high-end residential units."

EXHIBIT 1-14
China: Price-to-Rent Index



Source: International Monetary Fund staff calculations.

EXHIBIT 1-15
China: Index of House Price to Average Disposable Household Income



Source: International Monetary Fund staff calculations.

All Eyes on China

Oddly, given the widely published concerns about asset price inflation, more interviewees were interested in getting a piece of the action in China than in any other market. In some ways, though, this is not surprising: China remains one of few large economies offering significant growth, and it enjoys the added attraction of a currency expected to appreciate against the U.S. dollar. As one fund manager said, "Everyone wants some exposure to China because it's easier to underwrite those [economic] fundamentals than it is in markets where you're underwriting negative rent growth, negative absorption, and all the rest."

China is not an easy buy, however, and has long posed challenges for the uninitiated. Foreign real estate investors must navigate a sometimes tortuous regulatory approval process before they are allowed to purchase assets. According to one China-based fund manager, "It is possible to get approvals, but it needs to make sense. If it's a high-end residential [project] clearly aimed at speculators driving up prices in a part of town which at that moment is relatively cheap, the government will be reluctant to give approval." Most interviewees report approval is generally easier to secure in second- and third-tier locations than for the high-end or core-type investments in primary cities most often targeted by foreign capital. Another problem foreigners now must contend with is that yields have recently become extremely compressed, sinking to as low as 4.5 to 5 percent for core assets. Given widening yields in foreign capitals, "it makes it a lot more difficult for these investors to go into China now, [even though] you have the prospect that on higher growth over a ten-year period the capital gain would compensate for lower yields."

For those determined and able to make the leap into China, however, a range of opportunities have been suggested, although all could be considered either value added or opportunistic. The most commonly discussed is probably midrange residential, with many foreigners opting to move in early and partner at the development level, sometimes after taking a controlling stake in their partner. As one said, "If you want to get your returns, you need to build." Residential development has several attractions. There is enormous underlying demand, a ready exit strategy via sales to end users, and potentially very good returns, with one fund manager active in the sector citing target IRRs of over 20 percent, and another citing the 30 percent range.

This type of play can be fraught with risk, however, and is further complicated by cash repatriation challenges and recent changes to local property tax rules. According to one consultant, "Experience has shown it's very difficult to get money in, and it's very difficult to get money out. If you get into residential, it's all about cash flow, about churn. There's a finite life to the scheme, and you have to think what you'll do with the money in three or four years. Institutions shy away because they don't necessarily understand development; they are more comfortable buying the completed buildings."

Retail development also presents an opportunity, especially in second-tier locations. Investors need to be careful, however, to assess local spending power, because very often, "It's not there yet. It could well be by the time you've finished your center, but again that takes an act of faith and again it's opportunistic." Value-add possibilities also exist for repositioning malls, many of which are poorly conceived and managed. Indeed, various types of value-add plays are now opening up in many second- and third-tier locations. In the words of one fund manager, "The more Chinese cities grow and the commuting distance becomes bigger, the value of land in the old city increases, and it will make financial sense to redevelop or to renovate buildings which are badly run or dilapidated."

Bad Debt and Inflation

As usual, China has been the main engine of Asia's economic outperformance during 2010. Fueled by a state bank lending spree that has flooded the country with liquidity since the middle of 2008, Chinese GDP growth rose as much as 11.9 percent in the first quarter of 2010 before the introduction of a range of cooling measures cut growth to a 9.6 percent year-on-year rate in the third quarter—a level most economists consider more sustainable over the near to medium term. China will continue to pull other regional economies behind it.

Concerns remain, however, in two areas—bank debt and inflation.

Bank bad debt. The massive volume of recent lending in China, much of which has been directed to the property market, has raised fears of an impending wave of bad debt in the banking sector. Nonperforming loans are expected to mushroom in the future. Chinese state media reported in October 2010 that only 24 percent of a total of RMB7.66 billion (US$1.14 trillion) lent by banks to local-government finance vehicles was being serviced as required. About half the loans were not being fully repaid, and 26 percent faced "serious risk of default" or had been embezzled. That said, Chinese authorities appear to be aware of the risks and have acted to increase bank capital adequacy ratios and otherwise restrict credit to real estate assets. In the absence of any imminent reversal of local property markets, therefore, this is a can that has been kicked firmly down the road.

In the rest of Asia, bank-sector solvency is a perennial concern because so much of Asian real estate, from development to consumer mortgages, is financed by banks rather than via the capital markets. After decelerating in the aftermath of the crisis, credit growth has rebounded in

EXHIBIT 1-16

Asia Pacific Economic Growth: Forecasts

	Real GDP Growth Rate (%)				
	2012*	2011*	2010*	2009	2008
Singapore	4.37	4.55	**15.00**	-1.28	1.78
China	9.54	9.59	**10.46**	9.10	9.60
India	7.98	8.37	**9.67**	5.68	6.40
Taiwan	4.69	4.41	**9.32**	-1.91	0.73
Thailand	4.25	4.00	**7.52**	-2.25	2.46
Philippines	4.50	4.46	**7.04**	1.06	3.69
Malaysia	5.20	5.30	**6.72**	-1.71	4.71
Vietnam	7.04	6.82	**6.47**	5.32	6.31
South Korea	4.21	4.48	**6.06**	0.20	2.30
Hong Kong	4.32	4.69	**6.04**	-2.76	2.16
Indonesia	6.50	6.20	**6.00**	4.55	6.01
Australia	3.48	3.47	**3.00**	1.25	2.24
New Zealand	3.05	3.16	**3.00**	-1.59	-0.15
Japan	2.04	1.50	**2.82**	-5.23	-1.20

Sources: International Monetary Fund.
Data as of October 6, 2010.
* Forecasts.

some parts of Asia in 2010, according to the World Bank. But systemic risk to regional banking sectors is in reality probably quite low. Most Asian central banks have now partially withdrawn policy stimulus introduced in 2008 by raising minimum reserve requirements, and in some cases have increased policy rates. In addition, regional banks continue to maintain conservative loan-to-deposit ratios first adopted in the wake of the Asian financial crisis a decade or more ago.

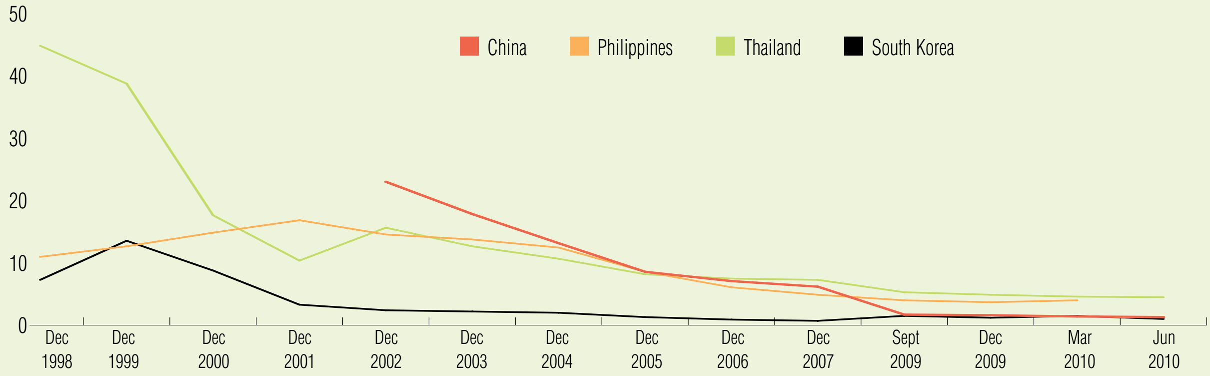
Inflation. Rising inflationary pressures are also becoming a real concern across Asia, not simply because of strong regional growth, but also because so much international capital has migrated to the region in search of higher returns in 2009 and 2010. Recently, the prospect of further quantitative easing in the United States has led to concerns of further capital flight to Asia, a phenomenon the International Monetary Fund (IMF) believes "could take years to implement, implying persistent flows to the region." The arrival of these hot money inflows will only add to existing upward pressure on asset prices. As the World Bank noted in its October 2010 *East Asia and Pacific Economic Update*, "Larger inflows, combined with ample domestic liquidity and rising confidence, have boosted stock markets, real estate prices, and other asset valuations in some countries, precipitating fears of a new bubble."

The potential for an Asian asset price bubble also raises a knock-on hazard—higher interest rates introduced as a government policy response. In China, consumer price inflation rose to 3.6 percent year on year in the third quarter of 2010, after which Beijing raised interest rates for the first time in almost three years. Admittedly, the hike was just a quarter of a percent, but many analysts suggest further Chinese rate hikes are in store many analysts suggest further Chinese rate hikes are in store—especially after the country's October inflation figure came in at 4.4 percent year on year—and that other and that other regional governments may follow suit if prices across Asia continue to rise. Such a scenario would create "real worry on the residential side, where people are taking on huge responsibilities. If interest rates rise 200 or 300 basis points, you're going to find a lot of people struggling," one consultant said. Ironically, early rate rises in Hong Kong and Singapore, arguably Asia's most overheated real estate markets, are unlikely due to their currency ties to the U.S. dollar.

But while both these risk scenarios leave little room for complacency, there is no doubt that Asia's homegrown problems pale in comparison to threats issuing from elsewhere in the world. Large developed economies (including, of course, Japan) continue to suffer from slow growth, high unemployment, low consumer spending, and a vast overhang of debt, much of which is unlikely to be repaid. The possibility of sovereign default in Europe or of a double-dip recession in the United States remains very real. As the IMF report understatedly notes, either eventuality "would have important repercussions for the region." In truth, therefore, the biggest problems are ones that Asia's governments are powerless to address.

EXHIBIT 1-17

Nonperforming Loans (as Percentage of Total Loans)



Source: World Bank.

Notes: Data as of December of each year, unless noted. Official figures may understate actual bad debts.

Greener than Ever

Perhaps surprisingly in markets where change tends to be driven more by government mandate than by the grass roots, an end user–driven shift in favor of sustainable practices appears to be evolving in real estate markets regionally. As one consultant put it, "The market is saying, particularly in residential but also office, we need to think about using the appropriate materials, and more particularly how we manage buildings, how we manage energy, how we manage the whole quality of life within a building."

As a result, many multinationals in Asia are now refusing to occupy buildings lacking a Platinum or equivalent rating under the Leadership in Energy and Environmental Design (LEED) program. In Australia, for example, "If you want to have a government or large corporate tenant, they need to see that you are ticking all the boxes from a green perspective. If you're not, you won't get them." Equally, some funds will not invest in buildings that are not LEED certified. This is driving more and more developers to ensure that new projects comply with international sustainability standards.

Until now, this movement has been mainly led by consumers. But the emphasis may now be shifting more toward a part carrot, part stick environment as authorities across the region begin to take note of public expectations. In Hong Kong, for example, "I think we are now moving quite significantly, and it's going to be the government leading the way in laying down the rules." Changes to Hong Kong's building code currently in the offing for 2011, for example, will make mandatory certain sustainable design standards that in the past developers had been persuaded to include in projects by means of government incentives.

This does not mean that Asian sustainability practices, even accounting for impending changes, could yet be described as progressive. But the changes now underway point at least to a status quo in which Asia will be "more on a par" with standards already in place in other countries, which implies significant progress. Apart from Hong Kong, interviewees also noted shifts toward government-driven sustainability policies in Singapore, South Korea, and China, where a framework "way ahead of any country in Asia" already exists but is often unenforced outside the major cities. The Chinese government has shown itself to be extremely proactive in promoting buildout of green energy infrastructure. An extension of this mandate to the realm of new-building design practices would hardly be a stretch. As one China-based investor noted, there are already "certain cities where the government is enlightened and willing to experiment with it. They may make land available for developers at a subsidized price, or have certain stimulus with regard to taxes to allow developers to take higher risks, or spend more money in creating a greener product."

The greater challenge, of course, remains the retrofitting of existing building stock. As one interviewee observed, "obviously, every government around the region is really struggling with that aspect. And I suppose the answer is probably a question of patience because in reality most buildings will go through a major refurb once every ten to 15 years. Some will [upgrade] because it's financially advantageous, but most, I think, you have to wait until they do their refurb." For now, at least, changing mentalities both socially and within the industry constitute encouraging signs for the future.

Real Estate Capital Flows

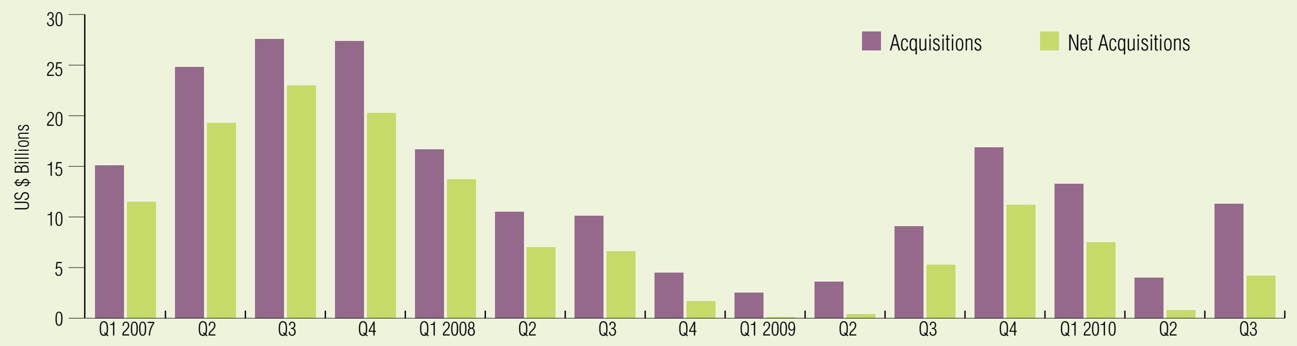
"In the last two or three quarters, there's been very little cross-border activity in purchasing. Most of the acquisitions—and we're talking 95 percent-plus for major investments in Asia—have been made by domestic funds."

If the immediate aftermath of the global financial crisis was characterized in Asia by a giant sucking sound as foreign capital invested in regional markets was repatriated, the momentum of capital flows today is pulling firmly in the opposite direction as capital flees economic stagnation in the West in search of growth and opportunity in Asia. In particular, China saw net inflows soar to a historic peak of US$150 billion in the second half of 2009, according to investment bank Standard Chartered. And while the flood receded to US$100 billion in the first half of 2010, full-year figures will almost certainly be higher than for the previous year (see exhibit 2-1).

However, real estate capital flows have not enjoyed the same renaissance as the broader market. With many investors now retrenched in their home countries, global cross-border investment volumes in the property sector have declined steeply, according to DTZ Research, dropping from US$211 billion in 2007 to just US$36 billion in 2009. Although volumes rebounded in 2010, they are still well below historical norms. In Asia, cross-border flows represented some 18 percent of all real estate transactions in the third quarter, well down from more than 30 percent recorded in 2007, according to RCA. Regional activity of large global investment funds has dropped even further, with one interviewee estimating that their share of the Asian market has fallen from 17 to 20 percent in 2007 to just 3 percent in 2010. In fact, on an overall basis, dispositions by these players currently make them net sellers of assets in the region. According to RCA, cross-border flows in Asia excluding Japan have now dropped from almost 45 percent of

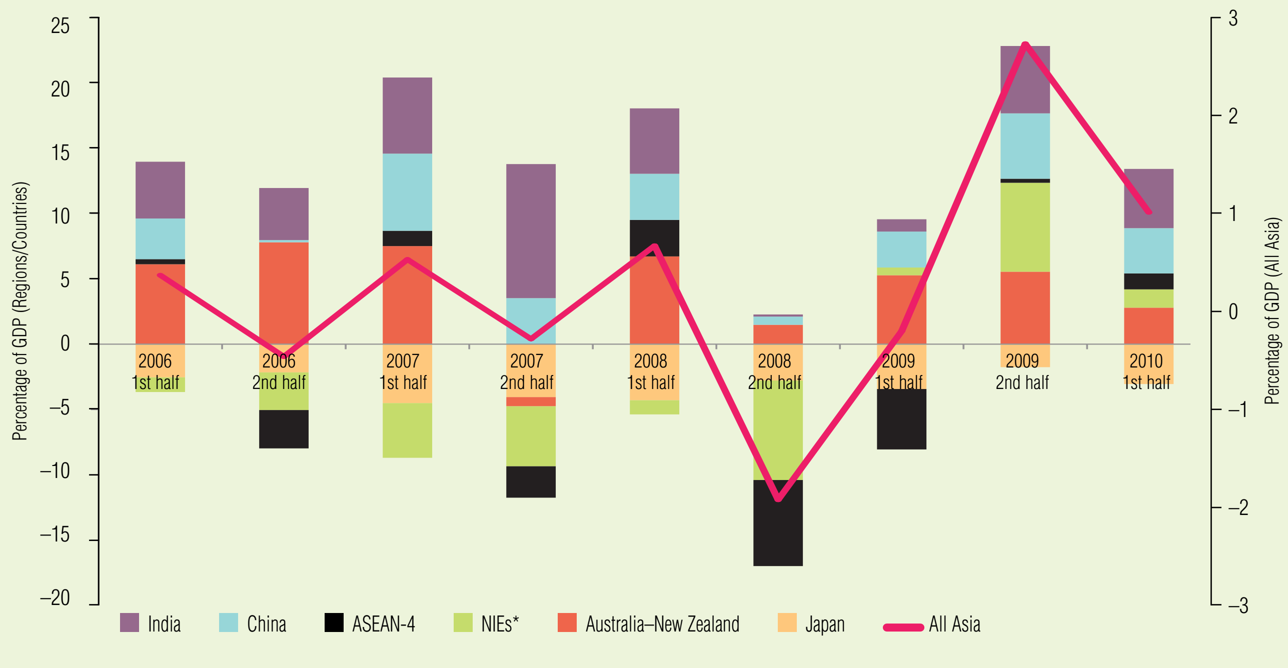
EXHIBIT 2-1

Cross-Border Net Real Estate Acquisitions: Asia Pacific



Source: Real Capital Analytics (www.rcanalytics.com). Based on properties and portfolios valued at US$10 million or greater.

EXHIBIT 2-2
Asia: Net Capital Inflows (as a Percentage of GDP)



Sources: CEIC Data Company Ltd.; International Monetary Fund, Balance of Payments Statistics.

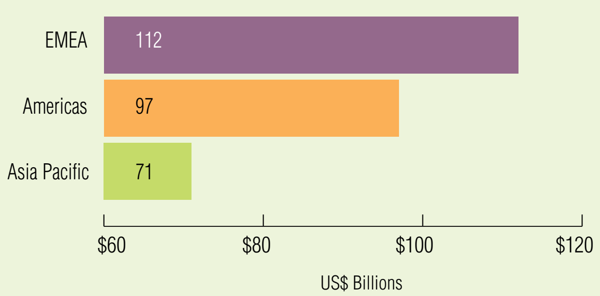
*Newly industrialized economies (Hong Kong, Singapore, Taiwan, South Korea).

the total to about 23 percent, while in Japan itself they have fallen to just 6 percent from 23 percent.

One reason why international capital has been so slow to return to Asian real estate is that many foreign investors currently see better buying opportunities in their own backyards. This has caused capital to gravitate to markets like London and New York City in pursuit of normally hard-to-get assets at what are considered one-off yields. "Why waste a good recession?" as one investor put it. U.S. markets, as a result, saw a 54 percent increase in new funds during the first three quarters of 2010, according to DTZ figures. "The U.S. is seen as the greatest opportunistic area to enter the market at, if not bargain-basement levels, certainly lower price levels," commented a consultant in Hong Kong. "I think particularly American funds who know their market and who feel more comfortable there see the States as an opportunity."

Another factor that has deterred foreign funds from straying offshore is exchange rate volatility, with all major currencies seeing wild and unpredictable swings in 2010. In particular, Asian denominations have grown rapidly in value, with the Australian dollar reaching parity with the U.S. dollar by late 2010, and the Japanese yen now trading at all-time highs. This is problematic for investors because so many funds—at least 80 percent by one interviewee's estimate—are dollar denominated. The issue, one investor noted, is "not only that the cost of the transaction has gone up, but also that a lot of these groups have to have their equity hedged unless they can push the debt to a high level, and the equity is pretty expensive to hedge." According to another, "Where our fund has a big issue right now is the currency. Because we're a dollar-based investor, even if we get the full investment case right and make great real estate deals, our returns could be wiped out, given where the yen is. If it swings back, it could be a killer."

EXHIBIT 2-3
Available Capital by Region, 2011*



Source: DTZ Research.

*Estimates as of October 10, 2010.

Down Under Draws Foreign Funds

Some interviewees doubted whether markets in the West would continue to interest foreign funds, given that investors are beginning to question the value proposition of even distressed assets in such sluggish economies. As one fund manager commented, "It's all very well to pay a soft yield for an asset, but looking at it on a total return basis, when there's very little prospect for some of these markets to experience rental growth, it basically means your IRR is limited. So, if you're buying in at a 7 percent yield, you're basically going to get less than 7 percent return."

This realization may be instrumental in bringing more global funds back to Asian markets and is perhaps already responsible for reenergizing international interest in Australia, whose market "ticks a number of boxes—transparency, good yields, still a positive spread between rent and debt, rental growth opportunities, great macro story, and the possibility for the story to continue." Commercial real estate investment in Australia rose 21 percent to some US$2 billion in the first half of 2010, according to Jones Lang LaSalle, the third-highest level in Asia after Japan and Hong Kong. Foreign funds represented a significant percentage of this total.

Opportunities for foreign investors to tap Australian deals have been boosted by the fact that local buyers sometimes have problems securing financing. According to one fund manager, "Credit markets in Australia have not recovered. It's very much relationship banking now, so unless you have a very good relationship with one of the banks, it's hard to get more than 30 percent leverage." In addition, "There's no lending on opportunistic-type assets or on development risky–style assets, so the only ones getting debt at the moment are new builds with good covenant and good tenure."

This environment strongly favors large, cash-rich, offshore investors. Asian pension funds and REITs targeting core stable assets were the first to step into the breach, spending more than US$3 billion on Australian real estate deals in 2010. In fact, as one interviewee stated, "Just about every major institutional transaction done in Australia over the last 12 months has been offshore capital."

Local and Institutional Buyers Step Up

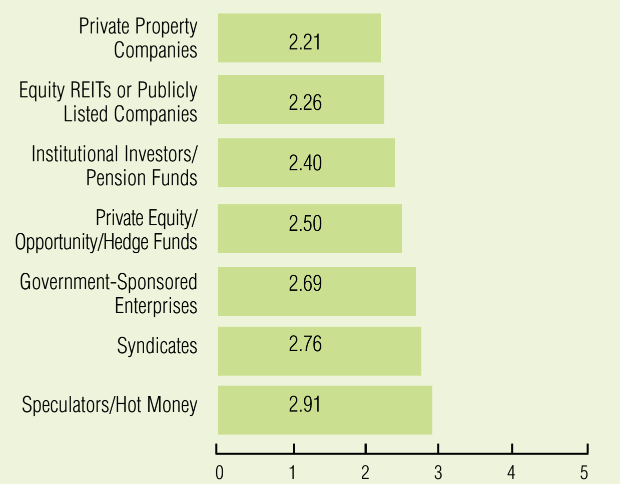
Big U.S. and European funds may currently be less inclined to commit money to Asia, but that has not translated into an overall shortage of investment capital in the region. While deal flow has been constrained by an often unbridgeable bid/ask spread, investors speak of a "wall of money" looking for a home, and transaction numbers have increased significantly in 2010 over the previous year.

Overwhelmingly these deals have involved domestic purchasers, although they also include cross-border capital from investors throughout Asia. As one investor said, "In the last two or three quarters, there's been very little cross-border activity in purchasing. Most of the acquisitions—and we're talking 95 percent-plus for major investments in Asia—have been made by domestic funds." In particular, Hong Kong has become a major regional provider of outbound capital in 2010 with some US$24.3 billion in deals, followed by Singapore with US$8.2 billion. China, which is probably the source of much of Hong Kong's outbound cash flow, and South Korea have also been responsible for significant cross-border real estate activity around Asia.

At the other end of the spectrum, outward investment from Australia, formerly the region's big exporter of real estate investment capital, has fallen to a trickle. Most interviewees consider Australian REITs too badly burned by their foreign investment portfolios to broach an early return to offshore markets, even if exchange-rate dynamics currently appear to militate in favor of reengagement. Cross-border activity by Australian superannuation funds, however, is expected to pick up over the next few years as they outgrow their home market and are forced to diversify out of Australia. According to one interviewee, "One of the issues in the last cycle was a big overconcentration in Australian real estate. I doubt you'll see the super funds make direct purchases this cycle, but I think the following cycle will push them into

EXHIBIT 2-4

Active Buyers/Acquirers of Real Estate in 2011

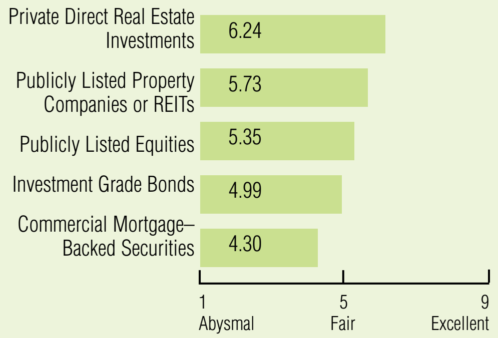


1 = strongly agree, 2 = agree, 3 = undecided, 4 = disagree, 5 = strongly disagree

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 2-5

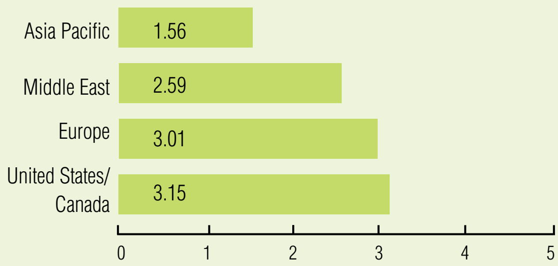
Investment Prospects by Asset Class for 2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 2-6

Active Providers of Equity Capital for Real Estate by World Region



1 = strongly agree, 2 = agree, 3 = undecided, 4 = disagree, 5 = strongly disagree

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

investing directly in offshore real estate assets." For now, these players are investing abroad via indirect means such as funds of funds, mainly in Europe and the United States.

Ultimately, capital from Asian institutional sources is expected to play a much bigger role in both domestic and international real estate deals than it has in the past. To some extent, this trend is due simply to the existence of so much liquid capital in the region looking for an investment home. In China, for example, which has historically suffered a shortage of options for investors to deploy capital, the first local-currency private equity funds are now appearing. Only a handful of these RMB funds are currently real estate oriented, run either by listed developers or offshore funds. Many more are expected, however. This will allow both domestic and international funds to tap China's vast store of personal savings. It also will benefit companies with hefty cash flows. According to one fund manager, "We are now seeing the emergence of RMB funds in a major way. If you have recurrent earnings in country, of insurance and the like, you are going to be in a very strong position going forward."

In addition, and for a number of reasons, pressure for Asian capital to be invested in cross-border deals is also growing. First, external payments surpluses in many countries continue to rise sharply, provoking diplomatic friction with Western governments and inflationary pressures at home. Exporting capital is a convenient way to address these issues. Second, allocations to real estate made by Asia's pension and sovereign wealth funds have historically been much lower than those in the West, but they are now being forced to increase rapidly.

In Japan, for example, only 35 percent of pension funds currently invest in real estate. Those that do have allocated

EXHIBIT 2-7

Largest Sovereign Funds by Assets

Country/Territory	Fund Name	Assets (US$ Billions)*	Inception
Japan	Government Pension Invested Fund	1,440.0	2001
United Arab Emirates–Abu Dhabi	Abu Dhabi Investment Authority	627.0	1976
Norway	Government Pension Fund–Global	443.0	1990
Saudi Arabia	SAMA Foreign Holdings	415.0	n/a
China	SAFE Investment Company	347.1	n/a
China	China Investment Corporation	288.8	2007
South Korea	Korea National Pension Fund	273.9	1988
Singapore	Government of Singapore Investment Corporation	247.5	1981
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	227.6	1998
Kuwait	Kuwait Investment Authority	202.8	1953
China	National Social Security Fund	146.5	2000
Russia	National Welfare Fund	142.5	2008

Sources: Sovereign Wealth Fund Institute; websites of individual sovereign funds.

*Data as of October 2010.

EXHIIBIT 2-8

Contributors to Global Growth of Commercial Real Estate

	Real Estate in 2009 (US$ Billion)	Growth 2009–2019 (US$ Billion)	Contributions to Global Real Estate Growth
China	1,168	5,696	25.0%
United States	6,414	4,179	18.3%
Russia	389	1,201	5.3%
Germany	1,483	866	3.8%
India	204	817	3.6%
Japan	2,285	787	3.5%
United Kingdom	1,239	718	3.1%
France	1,211	701	3.1%
Brazil	474	592	2.6%
South Korea	328	576	2.5%
Canada	605	546	2.4%
Italy	963	416	1.8%
Australia	448	363	1.6%
Turkey	195	350	1.5%
Indonesia	106	340	1.5%
Spain	650	322	1.4%
Mexico	265	308	1.3%
Poland	154	293	1.3%

Source: *A Bird's Eye View of Global Real Estate Markets: 2010 Update*, Pramerica Real Estate Investors Research.

just 1.2 percent to property assets (compared with an average of 7 to 10 percent in the West), according to the Asia Pacific Real Estate Association. Meanwhile, Japan's massive Government Pension Investment Fund holds no property assets at all. But pension funds both in Japan and elsewhere in Asia now face a need to boost their assets to pay for an impending increase in outgoing payments. One fund manager described it as a "demographic time bomb in terms of the aging population across Asia, and for them to have their assets 80 percent in fixed income [makes] it highly unlikely they will be able to match their future liabilities." As a result, pension fund allocations into real estate are set to increase sharply, with many of the largest Asian funds actively seeking to deploy capital offshore.

According to one interviewee, major Chinese insurance companies, as well as its sovereign wealth fund, CIC, are currently in the market for investments in commercial real estate, and "notwithstanding there are opportunities at home, a lot of the focus seems to be offshore." Similarly, South Korean pension funds, labeled by one interviewee as Asia's "champions of real estate investing," have reportedly increased real estate allocations, from around 1 percent at the beginning of 2010 to as much as 10 percent by the end. The Korean National Pension Fund, meanwhile, has been involved in some major property investments during the course of 2010, including in Australia and the U.K. This trend is almost certainly a secular change that will drive billions of dollars in Asian capital into real estate assets in coming years, especially at the top end of the market.

Funds Ring the Changes

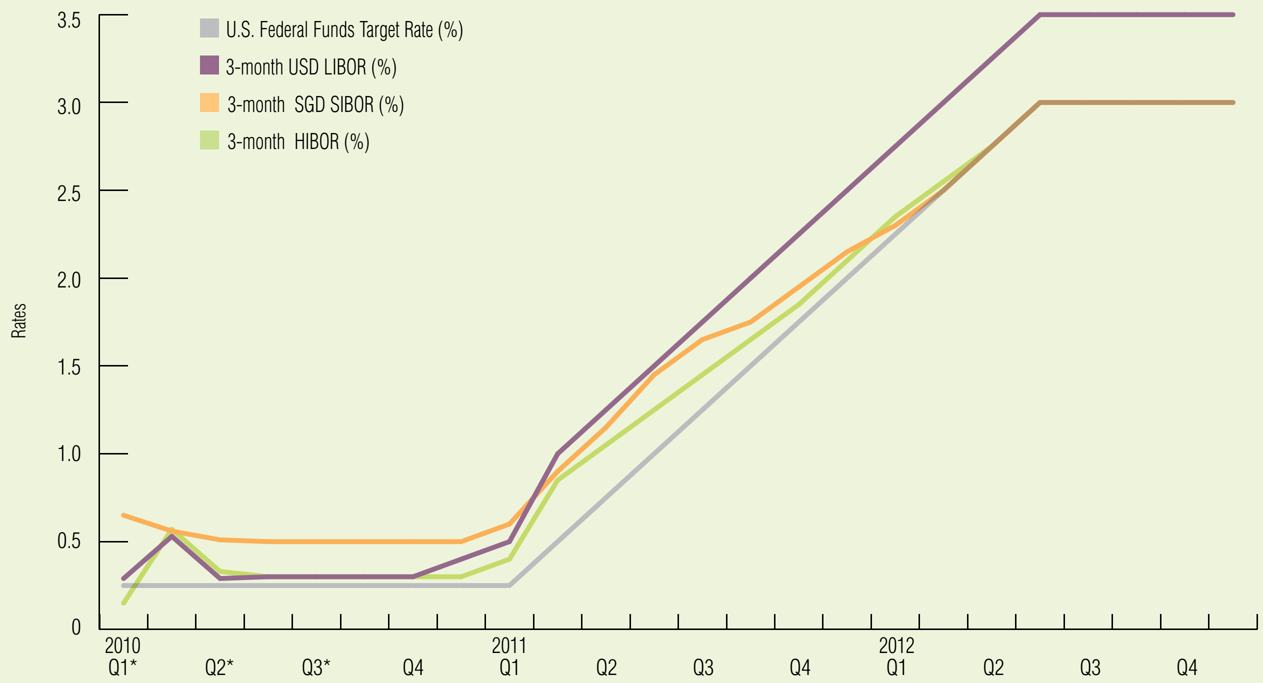
If the shifts now underway among Asia's biggest institutional funds reflect something of a changing of the guard in terms of investment philosophy, similarly seismic changes are also occurring at their private equity counterparts. To begin with, funds continue to have as many problems raising capital as they have deploying it. According to one fund manager, "I think that LPs [limited partners] have been burned so badly that things are really, really tough. What they're all asking is: How local is your team? What kind of value add do you have? What is your track record?" Added another, "It's difficult. There is money out there, but I think the guys who control the purse strings feel they're not going to lose their jobs if they wait yet another year. On the other hand, particularly for the pension funds, the money builds up and they do have to put it out there. So the purse strings are looser now than they were six months ago, and I think that will continue."

More important, though, are structural changes now taking place within the region's broader real estate investment industry. In part, these arise because the large global funds that previously dominated proceedings have now either disengaged from Asia or are far less active. Certainly these big players have been net sellers of property assets throughout the region during 2010. Beyond that, though, investors are becoming more demanding about how their money is being run. As one consultant commented, "There are a lot of investors out there who are less keen on putting their money into discretionary funds and having no real say in how to invest it, and there are a lot more happy to go with funds but are looking for coinvestment rather than just leaving their money with fund managers. So there's concern among investors this time around to avoid the lack of control that existed with a lot of the funds through 2007 and 2008. Closed-ended funds are probably more the name of the game, and investors are more frequently looking for a place on the investment committee."

Another interviewee had similar views: "I've firsthand knowledge of investors that will only come into a fund if the strategy is far more shaped or aligned with what they want. They want negative control. They want to vet managers. Some of them even want positive control, which sort of defeats the whole point of a fund. And I think you're going

EXHIBIT 2-9

Quarterly U.S., Hong Kong, and Singapore Interbank Rates Forecast (End Period)



Sources: CEIC Data Company Ltd.; Singapore Ministry of Trade and Industry; Standard Chartered Research.

*Actual.

to see a greater move towards syndicate-type rather than discretionary-fund business."

This trend toward smaller, more boutique operations may also be propelled by regulatory changes in progress in the United States, where the impact of the Volcker rule—which, among other things, would limit U.S. bank investments in hedge funds or private equity funds—could result in significant divestment by investment banks. As a result, according to a private equity manager in Japan, "I think that all these businesses have been marked as noncore assets, and they are going to have to spin them off out of their umbrella and into the real world."

Finally, in the eyes of a Hong Kong–based fund manager, "I think the days of the megafunds are certainly over. It's questionable whether the days of the pan-whatever are over as well. It's going to be interesting next year because I think the world will be very different, not only from a real estate perspective, but from an industry perspective, too. A lot of platforms have been sold and fragmented. It's a bigger pond now. There are MBOs [management buyouts] going on with platforms, there are detachments of platforms from big investment banks, and then you have the banks, where the whole proprietary trading model is under threat."

Banks Still Rule the Roost

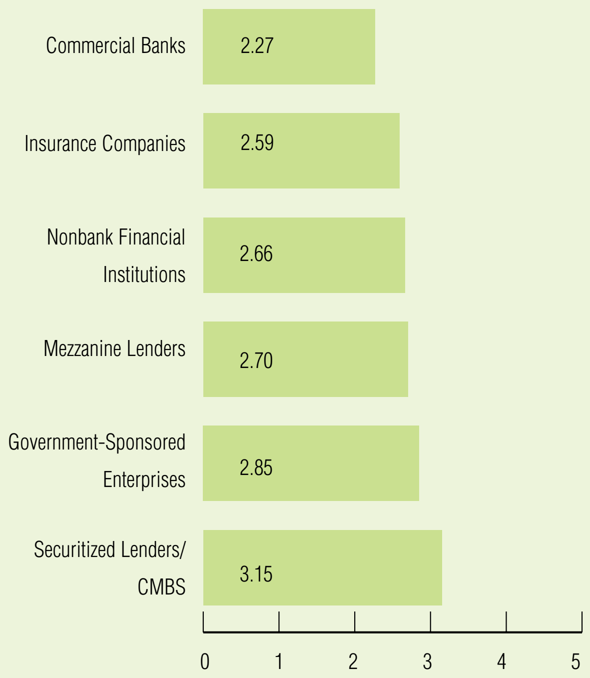
Banks have long held a virtual monopoly over real estate financing in Asia, whether for property development, commercial property investment, or homeownership. In many ways, though, the relative lack of financial sophistication this implies is exactly why Asia managed to escape the morass that has now engulfed economies in the developed world. It also perhaps explains why there is little enthusiasm for changing the status quo.

However, with international banks now playing a much-reduced role in providing regional investment capital and regional CMBS markets still dead in the water, buyers seeking leverage are left with few options other than to approach local banks for capital. This creates various problems. In particular—and although bank lending has picked up in many Asian countries in 2010 (apart from China)—credit availability remains at best anemic by historical standards. For good or bad, therefore, conservative bank lending policies have served to restrict investment in Asian property assets.

Still, credit is available, and investors are now "seeing across the board better lending conditions than we've seen in the last couple of years," according to one fund

EXHIBIT 2-10

Active Providers of Debt Capital in 2011



1 = strongly agree, 2 = agree, 3 = undecided, 4 = disagree, 5 = strongly disagree.

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

manager. Conditions have improved significantly even over the past six months. As one banker in Japan commented, "We've been out there looking at a large number of transactions, and our debt team hasn't been able to win these because the other bank has been willing to offer very favorable rates and lending terms which we are not able to compete on." Clearly, conditions vary market by market, but the underlying impression is that markets are opening up and banks now have to compete harder for deals than they have over the past couple of years.

Borrowing remains difficult, however, for opportunistic investments—which, almost by definition, rely on significant leverage. This helps explain the general lack of such deals around Asia. Predictably, banks prefer to lend to those with whom they have relationships, or at least to borrowers with a good track record and strong financial backing. Just as predictably, borrowing costs remain high, at least in terms of spreads. Macro data suggest spreads have narrowed recently, but only slightly. According to one interviewee, "Currently, for commercial property that's well leased, you would be looking at a cost of funds plus something like 250 basis points. So at the moment, your all-in cost of borrowing would be less than 3 percent."

Loan-to-value (LTV) ratios are also beginning to rise. According to one Japanese-based investor, "A couple of years ago, we were only seeing LTVs at around 50 to 55 percent. Now they're moving upwards of 70 percent." That compares, however, with LTVs of up to 90 percent in the days before the crash. In other markets, leverage is lower. In Australia, for example, investors report mid-40 LTVs for those with good banking relationships. In general, however, Asian banks are becoming more approachable. As one investor said, "If you go in with, in your mind's eye, a number of 50 to 60, you are unlikely to be disappointed or surprised."

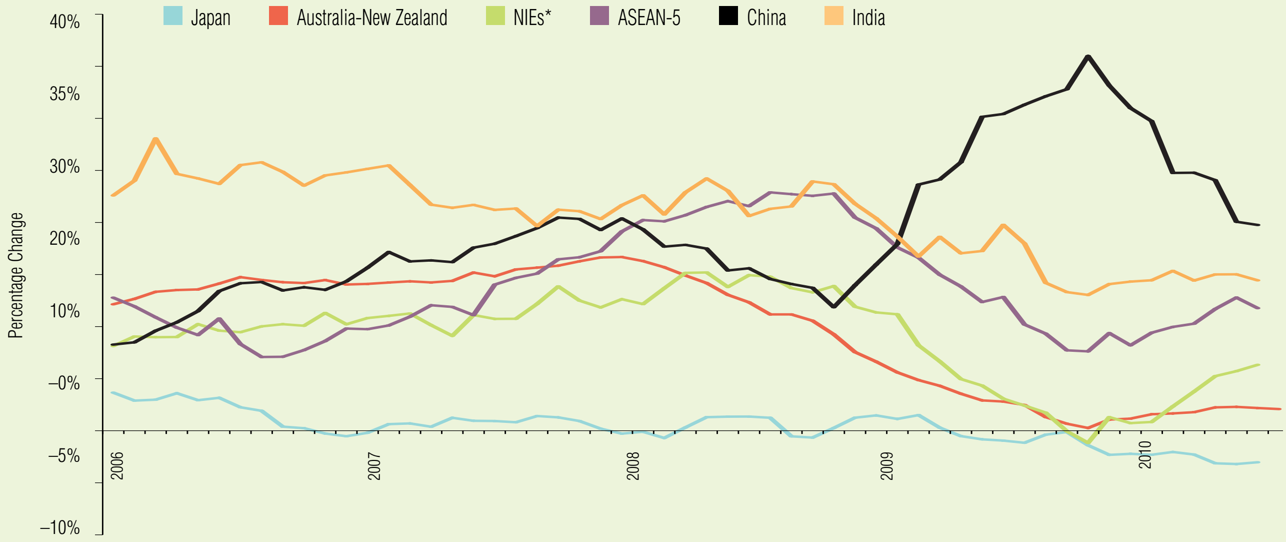
Another difference today is that loans are often being structured differently. Before 2008, borrowers were happy to arrange mostly short-term loans. As one consultant observed, "Traditionally, you borrowed for the first phase, and then you went back to the bank on a progressive basis as you needed the money," the idea being to find cheaper financing down the road. Today, there's "no discussion about that at all. Almost without exception, developers are borrowing for the whole program and, as best they can, try[ing] to cap the interest exposure for the whole project."

The skeleton in the closet for banks in Asia, as elsewhere, is the volume of underwater loans they carry on their books. Clearly, this affects banks in some countries more than others. Last year, many opportunistic investors had anticipated that in the worst affected markets—Japan and Australia—they would benefit as banks cleared nonperforming loans from their books. In the event, the great fire sale never happened and, barring a relapse in the global economy, now seems unlikely in Asia. There are various factors behind this. For one, values across most of Asia have risen to levels that provide the banks with a margin of comfort, even if they seek to refinance many deals at lower LTVs. As a result, according to one Hong Kong–based investor, "I haven't come across a single situation where someone hasn't been able to refinance, unless there have been other costs involved."

The Japanese market is an exception to this in that property prices there have yet to recover. But Japanese banks, like their peers across Asia, have generally solid balance sheets and therefore see little reason to call in loans, especially when there is a consensus among owners that values will rise and interest rates remain low. As one fund manager put it, "Last year we thought there could be a material amount of distress, but the banks have been a bit more mature about it this cycle. They've learned from what happened last time when they started calling loans and flogging assets at 20 cents on the buck." Added another, "There's no incentive for these banks, while their loans are being serviced, to out the screws on the owners, because it's just a deck of cards."

EXHIBIT 2-11

Asia: Bank Credit to Private Sector (Year-on-Year Percentage Change)

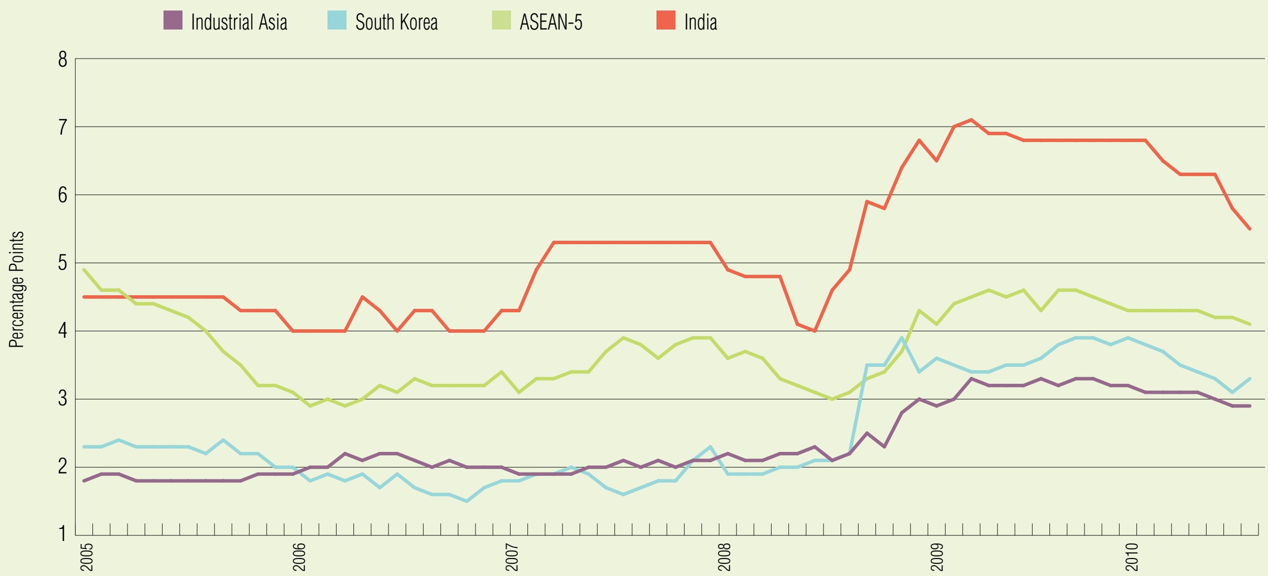


Sources: CEIC Data Company Ltd.; International Monetary Fund staff calculations.

*Newly industrialized economies (Hong Kong, Singapore, Taiwan, South Korea).

EXHIBIT 2-12

Selected Asia Bank Spreads*



Sources: CEIC Data Company Ltd.; Haver Analytics; International Monetary Fund staff calculations.

*Difference between lending rates and official policy rates.

Alternative Solutions

As in recent years, the shortfall of bank credit in Asia has driven various efforts to engineer alternative solutions. And while in the greater scheme of things banks are unlikely to be dethroned anytime soon, these alternative channels bear considering.

In China, local developers have been as resourceful as ever in finding ways to raise cash in the face of a government crackdown on bank financing. Alternatives include the usual collection of bridge financing and private equity investment options. These will probably continue to offer possibilities for adventurous investors as long as the credit-constrained environment continues. More interesting, however, has been the emergence of local-currency private equity funds. Although authorities have moved to limit it as a backdoor funding channel for developers, this type of structure offers considerable promise as an investment platform because it serves the dual purpose of diversifying domestic investing opportunities while simultaneously taking banks off the hook for property market volatility. As a result, according to one interviewee, "We are going to see a lot of funding in the future going through the RMB funds. There's a whole market out there that hasn't been extensively tapped."

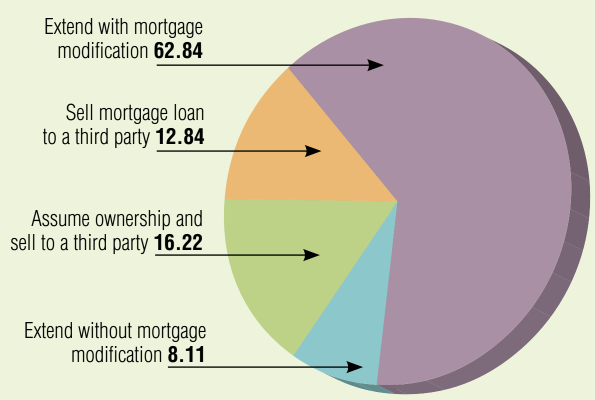
Local-government trust companies have played a similar role in funneling money to Chinese developers in the past year or so. However, the practice occupies a gray area legally, and with authorities appearing unwilling to allow it to continue, it seems unlikely to remain a major source of developer funding in the future.

Australia is the one Asian market where real estate financing has followed a more Western model, with correspondingly greater reliance on securitization and public equity. But the market has long been dominated by the big four banks, which lack the capacity to serve Australia's huge borrowing appetite. With the established lenders currently unwilling to offer significant leverage (and often declining to finance altogether), many investors are looking for other options. A few large foreign institutional investors, in particular the REITs, have begun to place debt with Australian groups, and Australia's own superannuation funds are also expected to join the fray soon. According to one interviewee, "I think what they will do is provide senior-debt equivalent for core investments." Offshore bond markets are another solution. Opportunity funds, meanwhile, are increasingly turning to mezzanine lending rather than going into opportunistic development situations. Although "the crazy days of 2008 have gone, where people were piling in on this mezzanine game," subordinated debt can still be found at a price throughout the region. It is reportedly harder to obtain in some markets, such as Japan, than it is in others, like Australia and China.

Another trend noted by interviewees is increased use of property-specific mandates and club deals. According to one fund manager, "It's not for everybody. You have to have a certain scale, you have to have internal capability to underwrite the transaction, and you have to underwrite multiple transactions. But there are some big investors who have come to Asia in the last year or two, set up shop, and said, with some success, "We've got these dollars to

EXHIBIT 2-13

Maturing Loans: Preferred Strategy for Lenders by Mid-2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 2-14

Equity Underwriting Standards Forecast

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

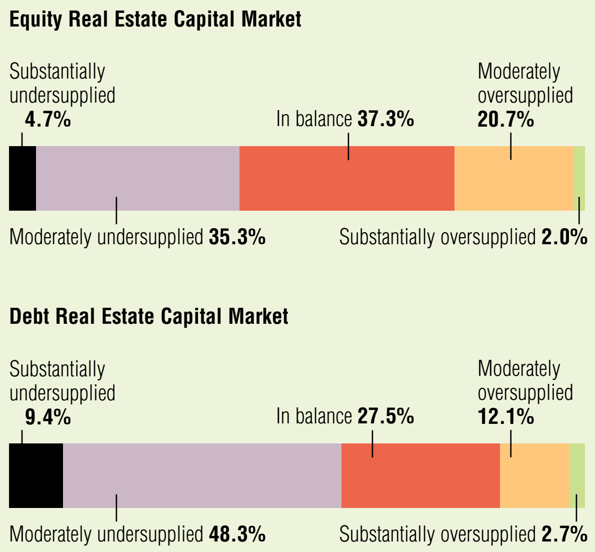
EXHIBIT 2-15

Debt Underwriting Standards Forecast

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 2-16

Real Estate Capital Market Balance Forecast for 2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 2-17

Most Active Buyers Globally in 12 months through Q3 2010

Name	Volume (US$ Billion)
Poly Real Estate	$8.0
R&F Properties	$6.6
Agile Property	$6.0
Wheelock & Co.	$5.6
Blackstone	$5.5
Shanghai Greenland	$4.1
CapitaLand	$4.0
China Vanke	$4.0
Centerbridge Partners	$3.9
Paulson & Co.	$3.9

Source: Real Capital Analytics (www.rcanalytics.com).

spend, and we want to either go direct or join in club deals with like-minded people."

Capital Markets

The traditional volatility of Asian equity and bond markets (that is, excluding Japan) stems at least in part from the disproportionately high ratio of foreign capital they attract, leaving them especially vulnerable to both "hot" inflow and panicked exodus. This accounts for the extreme price swings seen in Asian equities over the past two years—from the meltdown in the second half of 2008, when regional stocks lost some 60 percent of their value in a mere six months, to more recent action, with stocks plowing a steady furrow upward as the prospect of further economic stimulus in the United States draws more U.S. capital back across the Pacific. In many cases, therefore, stock prices in Asia—especially in Association of Southeast Asian Nations (ASEAN) countries—are now higher than they were before the crash.

While Asia's equity markets have performed well in 2010, very little capital has been raised by property-related companies outside of the REIT sector. This is perhaps surprising given the glut of property IPOs in 2009, but is mostly explained by the lack of deals coming from China, where activity has effectively been suppressed by authorities' anxiety over asset bubbles.

Asia's corporate bond markets remain relatively immature, and, anyway, most issues are made by state-owned enterprises rather than the private sector. As a result, bonds are not a very popular way of financing real estate investments—the exception being South Korea, which had about US$50 billion in outstanding bonds tied to the real estate sector in mid-2010.

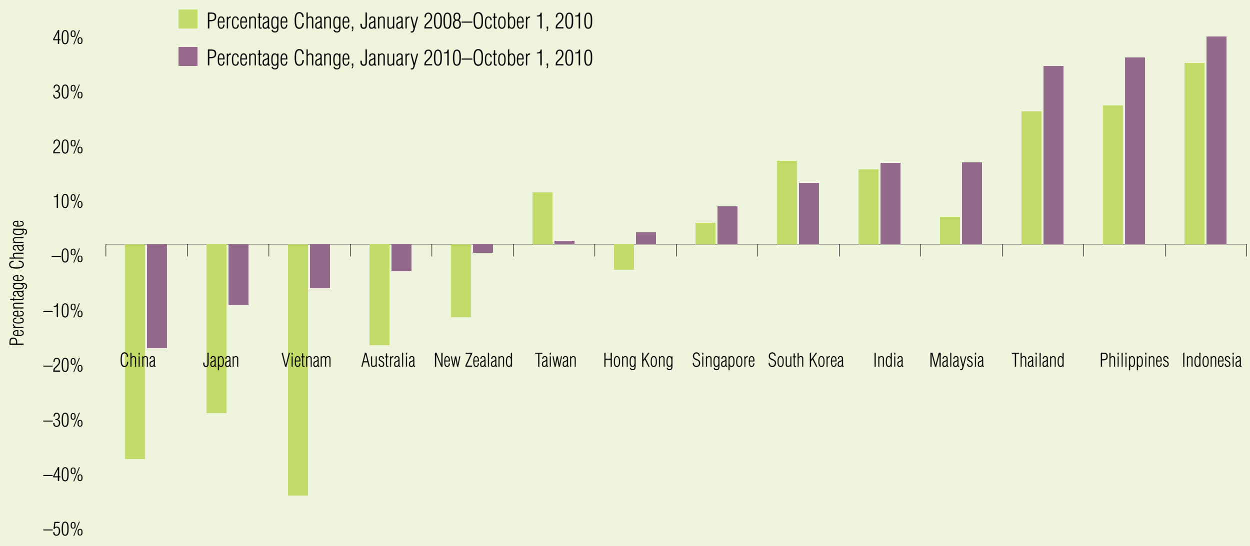
In the United States, more than 20 percent of real estate deals in 2009 were funded by debt capital markets. In Asia, corresponding figures are about 1 percent in China and 8 percent in Japan. Even Australia finances only about 6 percent of real estate transactions with bonds. One interviewee said that long-term debt in Australia had to be sourced in the U.S. bond market because the Australian economy was too small to offer anything other than three-year paper provided by banks. Others suggested the possible creation of an Australian market for medium-term (that is, seven-year) debt.

However, Asia's bond markets continue to develop. While they remain tiny compared with the equity markets in every Asian country except South Korea and perhaps Malaysia, they are gradually becoming more liquid. In particular, corporate bond issuance in emerging Asia is beginning to thrive, growing to some 4.9 percent of the global corporate bond market as of the end of March 2010, up from 4.4 percent at the end of December 2009, according to the Asian Development Bank. In general, foreign investor demand for Asian debt has been high for much the same reason as it has for U.S. debt—investors have few other places to find a decent yield.

About half of all high-yield debt in Asia is issued by Hong Kong–listed property developers based in China. This group has been increasingly active since September 2009, mainly as a result of Chinese government cuts in bank lending to the sector. In fact, the US$7.8 billion of high-yield foreign

EXHIBIT 2-18

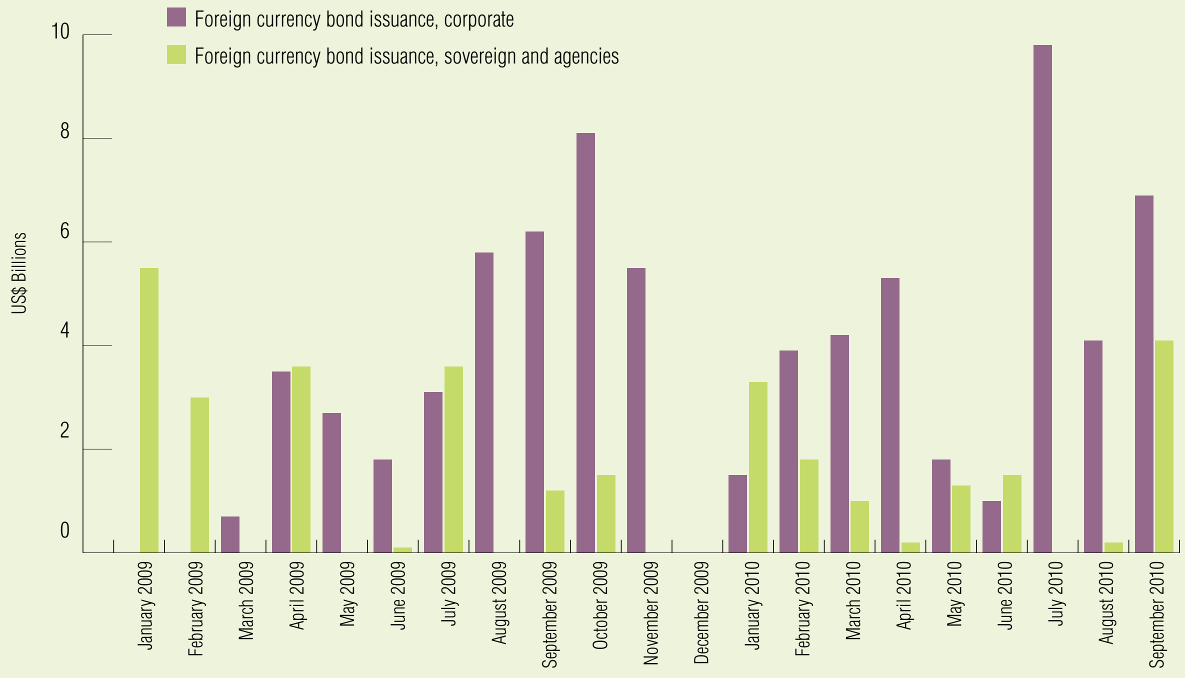
Asian Stock Markets



Source: Bloomberg.

EXHIBIT 2-19

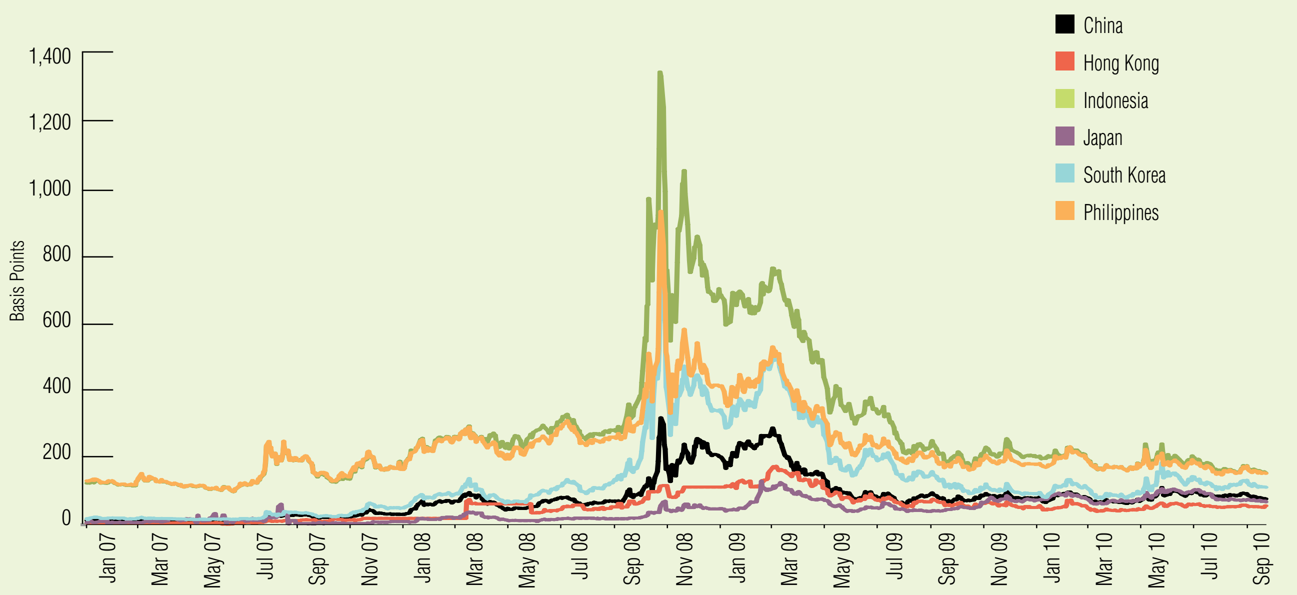
Emerging Asia: Foreign Currency Bond Issuance



Sources: Bond Radar; CEIC Data Company Ltd.; International Monetary Fund.

EXHIBIT 2-20

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



Source: Asian Development Bank

currency bonds issued by developers in the first ten months of 2010 was more than quadruple the US$1.62 billion issued in all 2007, the previous biggest year on record. Yields for these issues averaged 10.8 percent—not cheap compared with an equivalent 4.4 percent on U.S. real estate company bonds, but with gross profit margins averaging 30 to 35 percent, they have proved both affordable for developers and appealing to buyers. As a result, Chinese developer bonds swung from being the worst performers among Asian nonfinancial corporate U.S. bonds in the first six months of 2010 to being the best performers by October. Analysts expect developers to continue to issue high levels of offshore debt in 2011 so long as authorities maintain their tightening policies, which seems likely.

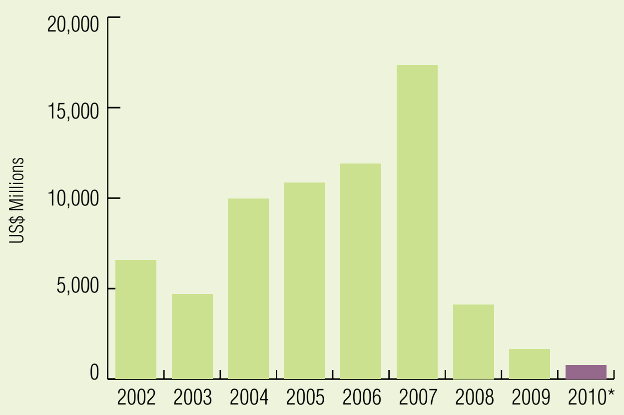
CMBS Still in the Gutter

For now, Asian CMBS markets remain inactive. In Japan, just a handful of new borrowings have been recorded in central Tokyo, and in Australia, the market is also dormant, with just three public issuances since 2007, all of which related to refinancing of earlier notes. These two countries are by far the biggest CMBS markets in Asia, with some US$37 billion worth of notes coming due shortly in Japan and about US$4.4 billion in Australia. That may sound like a lot, but the numbers pale in comparison with those in the United States, where around US$800 billion in CMBS remains outstanding.

In both places, interviewees said they expect to see the return of some semblance of functionality, possibly by 2012. According to one fund manager, the Japanese market is "really, really early, but there have been a couple of private

EXHIBIT 2-21

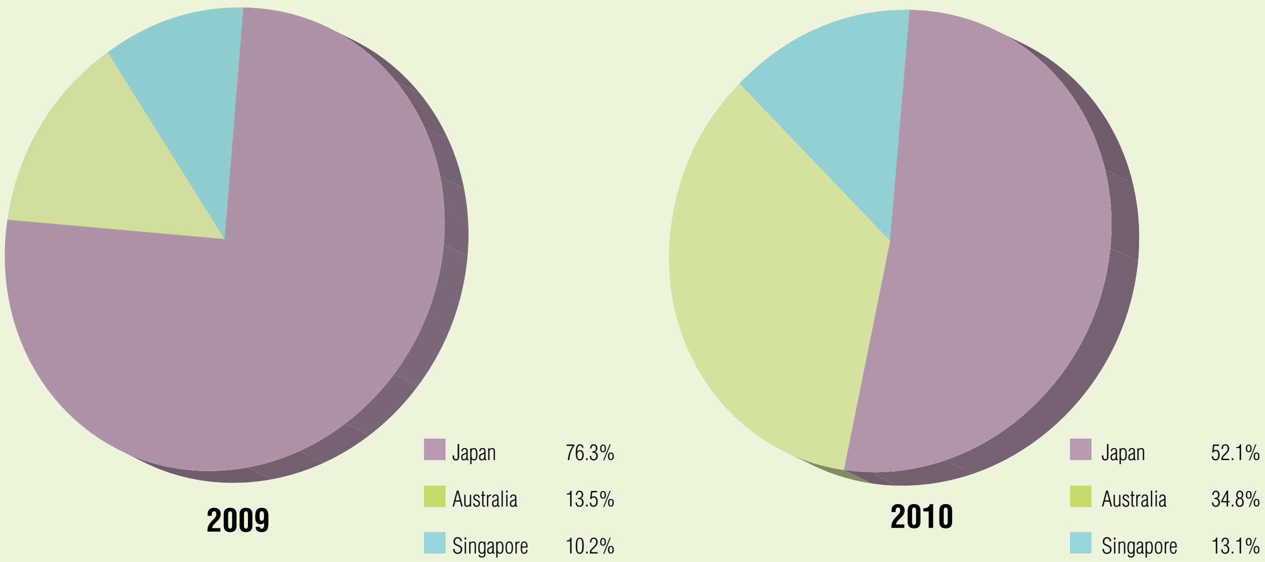
Asia and Australia CMBS Issuance



Source: Commercial Mortgage Alert.

*Total issuance as of September 30, 2010.

EXHIBIT 2-22
Asia Pacific CMBS by Collateral Location



Sources: Commercial Mortgage Alert; Structured Credit Investor; ULI.

Notes: Transaction volume in U.S. dollars. Total issuance as of September 30, 2010.

syndication deals. I think the lenders are starting to speak with their investors, and some demand is creeping back from the investors looking for some yield." Another said, "I think there will be new CMBS, and a lot of people are starting to look at the business. I do think there will be demand, but the resolution process, how the senior interacts with the mezz tranches, or anything below the triple-A is going to have to be a lot more clearly defined than it was in the past, so that investors feel they understand their positions better." Similarly, in Australia, "we're starting to see a little bit of CMBS come back into the market, to a material amount."

The bigger issue, in the meantime, relates to CMBS defaults in Japan, where some ¥1.2 trillion worth of notes matured in 2010 and are now in the tail period. Many of these are expected to default, but although more than a few investors are anticipating a chance to pick through the remains, most interviewees believe banks would balk at the prospect of fire sales, preferring to keep borrowers on life support rather than destabilizing the market by throwing them to the wolves. As elsewhere, this applies especially to the larger developers. As a result, very little foreclosed property has so far appeared on the market. As one investor said, "There's been a lot of soft refinancing there. It's like, 'We'll roll you another year, or we'll give you another year on your tail. Just see if you can get through it,' rather than pushing the button and saying, 'You're in default.' I think they've learned from the last cycle that when they did that, they brought the whole market down."

REITs

After a traumatizing few years, Asian REITs appear to be on an uptrend in late 2010. Following recapitalization exercises in Australia and Singapore and generally improved sentiment, market caps of REITs throughout the region (excluding Australia) rose from a low of US$40.5 billion in March 2009 to US$81.4 billion by October 2010, although a significant part of this surge was due to currency rate movements.

Six new REITs were launched in the first half of 2010, followed in October by two massive new logistics REITs that listed in Singapore. Both were heavily oversubscribed, raising a total of US$3.6 billion. The confidence reflected in those deals has also been apparent in various REIT acquisitions made during the year, with US$5.75 billion in assets picked up in the first half of 2010. That compares with US$4.2 billion for all of 2009, though it is still short of the US$10.5 billion recorded for the first half of 2008. Today, the real issue is the pricing of the asset rather than

EXHIBIT 2-23

Market Capitalization and Dividend Yields of Asian REITs

	Number of REITs	Market Cap (US$ Billions)	Average Dividend Yield	Risk-Free Rate*	Risk Premium (Basis Points)
Japan	36	37.16	5.36%	0.94	442
Singapore	22	26.34	5.99%	2.02	397
Hong Kong	7	11.45	5.20%	1.99	321
Malaysia	13	3.23	7.00%	3.63	338
South Korea	2	0.10	10.40%	3.71	669
Total	80	$78.28	5.62%	(Weighted Average Based on Market Cap)	

Sources: Various stock exchanges; CEIC Data Company Ltd.; Prudential Real Estate Investors.

Note: Data as of Q3 2010.

*Risk-free rate refers to long-term government bond yields.

availability of funding. According to one Singaporean fund manager, "I think definitely the REIT market is getting active again, but I'm not sure they are able to purchase assets, in particular in the office market, at a yield-accretive level. What I'm hearing is that in the investment market, there's still a mismatch between buyers' and sellers' expectations." With prices now rising, however, the window of opportunity may not remain open long. According to another investor, "You've got to strike while the iron is hot. Timing is absolutely everything because once it does start to compress with any kind of seriousness, it's going to be hard for the REITs to compete, just like the last turn."

Australian REITs, which had been heavy buyers of assets in the West during the years leading up to the crash, had been hammered in the fallout. However, the larger players have now revived, thanks to their ability to raise new capital in 2009 and reduce gearing. Smaller A-REITs, however, have been unable to tap the markets in this way, and their gearing levels have actually increased in 2010. Many are expected to be absorbed by larger trusts. Nonetheless, there is a sense that the industry in Australia has turned a corner, with some REITs now making strategic transactions.

In Japan, the J-REIT sector was also decimated in the downturn, losing more than two-thirds of its value since 2008. Consolidation among J-REITs continued, with several more weakened trusts absorbed by their larger counterparts. Japan now has 35 REITs, down from 42 at the market peak. Japanese government support has propped up the J-REIT sector since late 2009, when authorities introduced a program of tax breaks, new lending facilities, and "guidance" to banks (dubbed by one investor the "Debt Forgiveness Act") to go easy on the sector.

Nonetheless, unlike their counterparts in Australia and Singapore, Japanese REITs were never able to recapitalize, leaving them extremely weak. J-REIT indices, therefore, have barely improved over the past two years, and interviewees were generally unconvinced the sector was in recovery mode. In addition, "The J-REITs still have a number of inefficiencies in terms of the overall structure and how they work, and some of those need to be resolved for it be a better market," said one investor. Are they heading up? "It's hard to say. I think that the underlying collateral values are getting stronger than they were, and that's why we've seen some of the larger REITs start to price a bit better. But the smaller REITs are unlikely to perform very well until they can be merged or consolidated, because there's just not enough liquidity in them." In November 2010, the Bank of Japan rolled out a new stimulus plan involving the purchase of J-REIT shares and announced it may relax industry regulations to allow J-REITs to retain more than 10 percent of earnings to finance operations. The move was seen as an attempt to bolster share prices, stimulate transactions, and shore up land prices generally.

REIT yields in Asia remain remarkably strong—a testament to how far share prices have fallen. Many REITs, especially the older ones, still trade at a discount to net asset value. Weighted average yields across Asia were 6.86 percent in mid-2010, according to CBRE. In today's yieldchallenged markets, REITs were therefore widely viewed by interviewees as attractive. As a REIT manager in Singapore noted, "There is a bit of an anomaly in that you have a very mature market, low sovereign risk, and high yields, whereas anywhere outside this country is getting just the opposite. So the spread over government bond rates is 500-plus basis points. Nobody's going to balk at that."

Finally, new REITs are sprouting up in various developing economies in Asia. The Philippines, for one, recently issued rules that will allow the establishment of a local REIT industry. China has also been eyeing the establishment of a REIT market for several years, and rumors continue to circulate that it will introduce REIT-like structures in the near future. Press reports from early 2010 suggested Beijing would soon launch an investment vehicle limited to domestic investors traded on the interbank market. Whatever happens, Chinese REITs, if they arrive, are unlikely to follow the traditional model. One investor said that officials in Beijing had told him "they see REITs as a depository for things that don't necessarily work and need to be shaken out. The banks have a lot of exposure to bad loans, and what may happen is it will be moved into a series of REIT-type structures, worked through, packaged, and then either kept, cleaned up, or sold on, depending on the quality of the asset in the portfolio."

Markets and Sectors to Watch

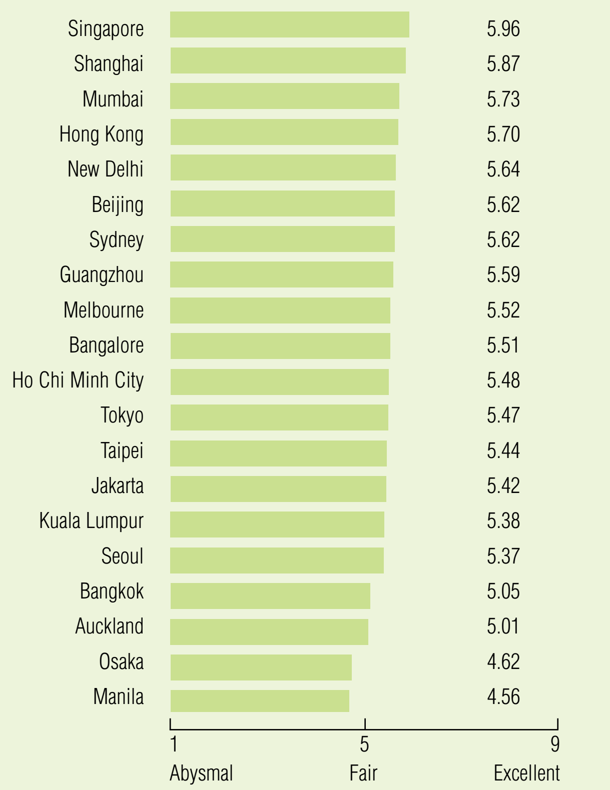
"Asia is just the part of the world that is showing more growth."

Last year's *Emerging Trends* Markets to Watch section started with the quote, "The markets are still clouded, but every cloud has a silver lining." This year interviewees believe that the cloud has been lifted from the real estate markets and that "Asia is just the part of the world that is showing more growth." Most 2011 economic forecasts project an outlook for the majority of Asian countries that is superior to that of many other recession-heavy global locations. "The Asian economy should be good, especially relative to the rest of the world," one investor chimed in. The area's economic expansion should be the key driver to help propel commercial real estate investment and development across the region.

"The real estate market is back, fundraising is strong in Asia, . . . local banks are providing financing, . . . capital is everywhere," one interviewee said. A steady stream of capital continues to flow into Asian real estate markets from both domestic and international investors. "Expect more acquisitions from overseas investors in Asia," said a real estate professional. Investment strategies appear somewhat different as the days of opportunity investing have shifted to a core-plus approach. "Investors are looking to buy core real estate with good leases and tenants. . . . Some will continue playing and look for opportunistic deals and returns." Both of these investment strategies show in the 2011 *Emerging Trends* city investment ranking results—giving high rankings to developed markets and emerging markets. Top trends for markets and property sectors include the following:

- Singapore, Shanghai, and Mumbai are the top three real estate investment prospects in 2011. Shanghai is the only one that remains in the top three from last year's report, but slides to second.

EXHIBIT 3-1
City Investment Prospects



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-2

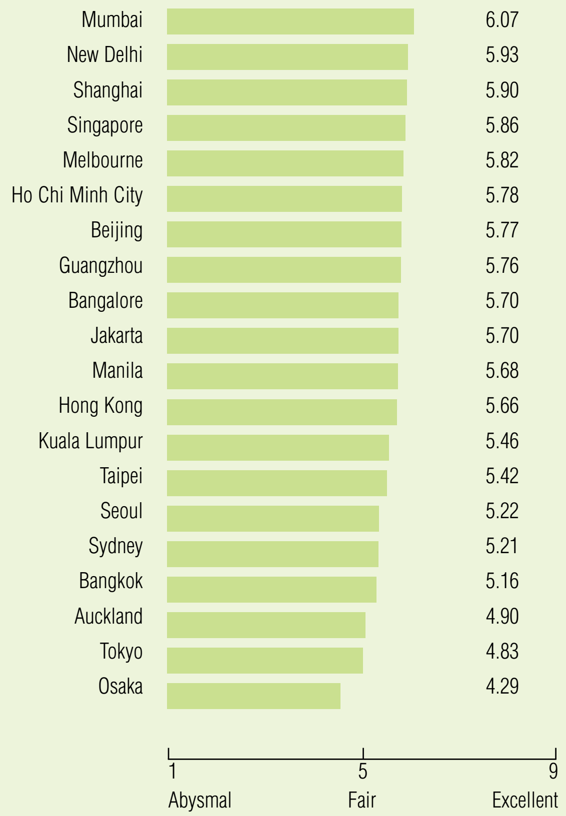
2011 vs. 2010 Investment Prospect Ranking

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

Sources: *Emerging Trends in Real Estate Asia Pacific 2007–2011* surveys.

EXHIBIT 3-3

City Development Prospects



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

- Mumbai, New Delhi, and Shanghai are the highest-ranked cities for development prospects this year. Since 2007, India has continued to post cities with the best development opportunities. After a long-running high rank, Ho Chi Minh City drops out of the top three development spots.
- Two cities that are still ranked low, but which had the biggest increase in investment and development values, were Bangkok and Manila. The city registering the largest decline in both categories is Seoul.
- The highest buy and sell values for all property sectors by city varied:
  - Retail: buy, Shanghai; sell, Osaka.
  - Office: buy, Tokyo; sell, Bangkok.
  - Hotel: buy, New Delhi; sell, Bangkok.
  - Apartment: buy, Ho Chi Minh City; sell, Beijing.
  - Industrial: buy, Ho Chi Minh City; sell, Manila.

Top Investment Cities

Singapore

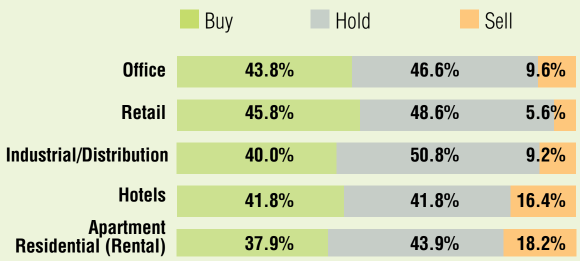
Singapore (ranked number 1). "Singapore is a market that has survived the economic fall and currently offers investors many opportunities," said one investor. Current economic conditions support this statement, as GDP growth for the country is projected to reach double digits in 2010 and remain in the 4 percent range for the following three years. According to survey responses and interviews, the area continues to attract major investors as the financial and high-tech hub continues to flourish. This growth is mainly attributed to foreign awareness of the prospects that Singapore has to offer. However, domestic capital involvement seems to have increased. "Singaporeans tend to be quite wealthy, and you know they have a lot of disposable income." Even with this available capital, government leaders are also attempting to provide a more sustained long-term economy for the country by working out the vulnerability of global demand cycles. "Good-government measures prolong or even out real estate cycles," states a real estate professional.

EXHIBIT 3-4

Singapore

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.96	1st
Development Prospects	Modestly good	5.86	4th

Investment Recommendation of Survey Respondents



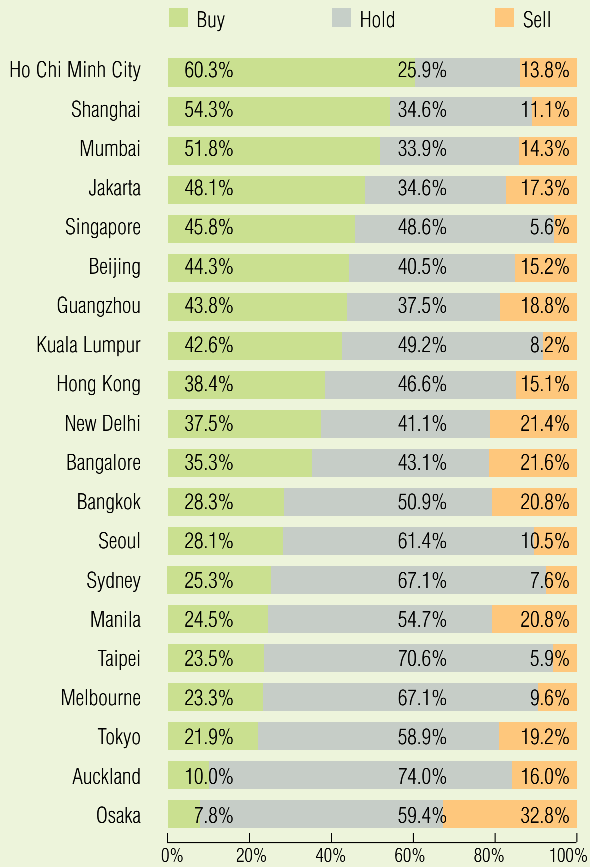
Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Real estate investors seem to agree: investment prospects for Singapore jump to number one in the 2011 survey, a rise of four spots from 2010. "Singapore is a typical target clutch of markets to go for," one investor says. "It's a mature market and carries less political risk than others." The spike in investment sales of both commercial and residential properties confirms that there continues to be strong interest in real estate around this area. In addition, "Singapore is the Asian center for REITs with good tax incentives. . . . REITs are good for the real estate market to spread risk and provide price stability." With this support, investment sales continue to pick up the pace in 2010, with forecasts calling for continuing upward movement into 2011. Real estate development of both residential and nonresidential properties, with a focus on mixed commercial and office products, continues to be a hot area of interest. Singapore's development rating jumps to fourth in 2011, up seven spots from the 2010 rating.

"Singapore is a market that is returning very quickly. . . . We are now seeing institutions going there and buying high-quality office space." Survey respondents agree that the office sector in Singapore is hot: close to 44 percent believe that 2011 is the time to buy. Interviewees seemed to remain focused on office space, but survey results also showed interest in the retail sector, with 46 percent saying there are buying opportunities in the coming year. Hotel was the next sector of interest, followed by industrial properties and the apartment sector.

EXHIBIT 3-5

Retail Property Buy/Hold/Sell Recommendations by City



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Mainland China and Hong Kong

China now ranks as the second-largest economy in the world, recently surpassing Japan. "For me, China is the linchpin for sort of the rest of the Asian economy." "Regionally gross domestic product will increase on the back of China," said one interviewee. More survey respondents believe forecasts that project GDP growth exceeding 9 or 10 percent over the next few years.

China's progress, expansion of its middle class, and monetary policy have led some to fear that the next big bubble, stirred primarily by residential sector price increases, is in the near future. Opinions vary from "China currency controls will end up steering capital to real estate, driving up prices—a bubble effect," and "Many are a bit dubious or nervous about the current China situation," to "A bubble is a market condition where you feel the fundamentals aren't there to support it. We don't believe this is the case."

In 2011, an increase in capital flow interest in Chinese real estate investments and development is expected, according to interviewees. However, investors will need to establish joint ventures with locals because the government continues to "discourage developers or investors in the real estate industry to avert rampant price speculation," an interviewee says. "You can't do it anymore straight from abroad, and to set up a local company, you need government approval." Interviewees say this might only slow real estate transactions, but would not stop forward progress within the industry. In 2011, there will be two investment strategies for real estate deals—opportunistic and value added. "Opportunistic immediately moves into development, since distressed is virtually not there," an interviewee says. "Value added focuses more on office and retail in both first- and second-tier cities."

Shanghai (2). Survey results show that Shanghai, China's largest city, registers the largest decline in investment rating value in 2011, though it only falls back one spot to the second position. Respondents state that interest in Shanghai investments might show some declines as prices climb. However, "Shanghai sales have picked up again, and if this continues, I don't see prices dropping." In addition, this city is easier to invest in than second-tier cities due to "less supervision, even though the formality can be discouraging to many." Overall, investors still view the high-priced city as being on the steps of a recovery and expect it to remain a target on many investors' radar.

Shanghai development looks to slow a bit as government regulations attempt to limit overbuilding and, in many Chinese cities, speculator purchases. "The government aims at cooling down those markets—not by asking developers to lower prices, but by addressing mortgages, deposits, and taxes." The city drops to third, back two spots from the number-one development ranking it held in 2010. Development deals, especially in the office sector, grab the attention of capital players in 2011 due to the increase in tenant interest, higher rents, and better ten-year contracts. "If I had ten-year money, I'd be looking at Shanghai and Beijing."

The spike in residential and luxury property prices continues to be a concern within Shanghai, however. "I think the latent demand is huge for both." According to the 2011 survey results, 54 percent of the respondents believe that retail investments in Shanghai are a buy, followed by 34 percent of respondents interested in office deals. "If you look at a city like Shanghai, you got two types of deals—retail and office."

Hong Kong (4). Hong Kong drops two investment ranking positions in 2011 to fourth overall. Because of its role as the financial heart of Asia, "there is no shortage of listing candidates for Hong Kong to keep the investment banks busy." Interviewees also believe that this is a good time to invest, stating, "The attractiveness of Hong Kong remains, and it will remain our investment destination"; "Consensus stated that 2010 rents would remain quite flat, but as it happens, there has been a robust demand"; and "More globally exposed economies—like Hong Kong—have rebounded dramatically recently."

The development rating for Hong Kong improves in 2011, but the city still manages to take two steps back to 12th overall. This area continues to be limited in development opportunities, but local developers seem to be more focused on the residential space demand. "Hong Kong is

EXHIBIT 3-6

Shanghai

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.87	2nd
Development Prospects	Modestly good	5.90	3rd

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	34.9%	39.8%	25.3%
Retail	54.3%	34.6%	11.1%
Industrial/Distribution	47.1%	41.2%	11.8%
Hotels	21.3%	55.7%	23.0%
Apartment Residential (Rental)	33.3%	29.3%	37.3%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-7

Hong Kong

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.70	4th
Development Prospects	Modestly good	5.66	12th

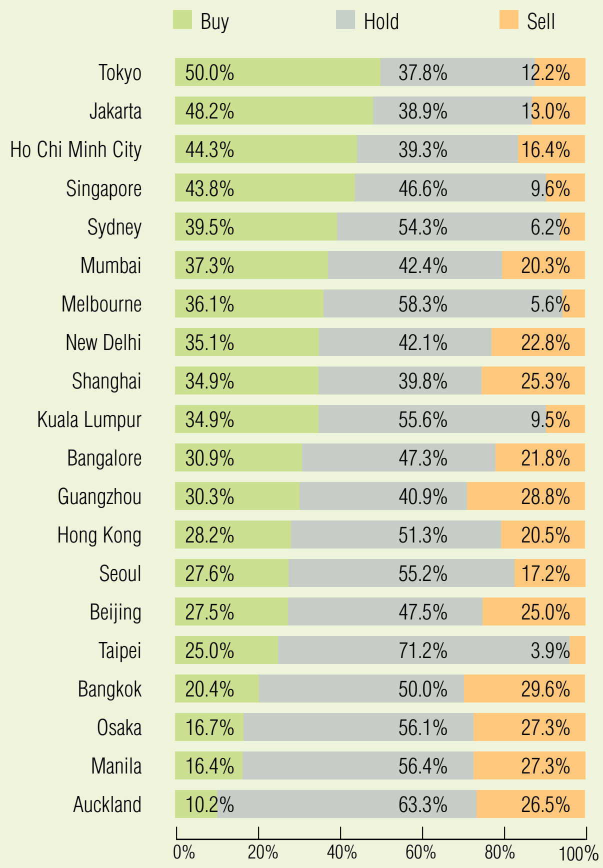
Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	28.2%	51.3%	20.5%
Retail	38.4%	46.6%	15.1%
Industrial/Distribution	32.8%	54.7%	12.5%
Hotels	34.6%	52.7%	12.7%
Apartment Residential (Rental)	20.0%	44.3%	35.7%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-8

Office Property Buy/Hold/Sell Recommendations by City



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

an area where people continue to look to move into bigger apartments," one interviewee said.

For 2011, buy/hold/sell ratings for the city seem to all focus on a hold strategy across each property sector. Dominant buying interest is shown in retail (34 percent) and hotels (34 percent). "We like retail in Hong Kong, but we plan on stepping out of the prime markets and into suburban locations." A total of 51 percent of respondents believe that a hold strategy for office space is the correct one for 2011. One interviewee disagrees though, stating, "The leasing activity looks to continue upward in the coming year, and rents should get better as well."

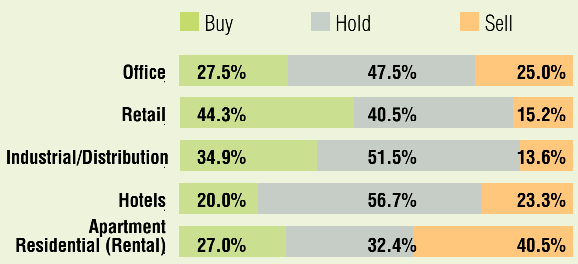
Beijing (6). After a large volume of real estate investment deals in 2009, 2010 has been slowed by a government ruling forcing noncore real estate enterprises out of the market once projects are completed. In addition, land sales will be closely monitored to limit non–real estate buyers from entering the market. Government intervention should help control prices as "real estate prices, in Beijing, went up some utterly insane amount."

EXHIBIT 3-9

Beijing

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.62	7th
Development Prospects	Modestly good	5.77	7th

Investment Recommendation of Survey Respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

The real estate tap might have been a little too hot in 2010, as forecasts for Beijing investment rankings decline for 2011—down three spots to the sixth position overall. The city's development ranking follows this trend, dropping two positions to seventh, according to survey results. Even with these declines, interviewees continue to have a bullish outlook on asset prices for 2011, saying, "We are now entering our fourth-consecutive quarter of rental growth"; "There is a lot of vacant commercial property right now, but new supply over the next five years won't keep up with demand"; and "Demand is definitely coming from domestic companies."

In Beijing, the property sector focus during the coming year will be retail, with over 44 percent believing this presents a buying opportunity next year. There is a slight amount of buying interest in industrial space, but the majority of survey respondents believe that the other property sectors should all be held in 2011. Apartments might be in oversupply for Beijing, as 40 percent think it might be time to sell some of those properties.

Guangzhou (8). Domestic developers look to continue to dominate both the buy and sell sides of Guangzhou, according to 2011 survey results. China's progress in creating a middle class has aided in the growth of second-tier markets. Guangzhou's real GDP growth exceeds 13 percent in 2010, and projected growth in 2011 does not look likely to slow. As one interviewee states, "Guangzhou isn't a market to look for distressed properties, but one of future opportunities."

Development prospects rank higher this year than last, but the metropolitan area stays positioned at eighth overall. Retail buy recommendations increased more than 13

EXHIBIT 3-10
Guangzhou

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.59	8th
Development Prospects	Modestly good	5.76	8th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	30.3%	40.9%	28.8%
Retail	43.8%	37.5%	18.8%
Industrial/Distribution	37.9%	46.6%	15.5%
Hotels	19.2%	57.7%	23.1%
Apartment Residential (Rental)	31.2%	29.5%	39.3%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

percentage points, with almost 44 percent believing that this sector needs to accommodate this new population class. Office space, industrial space, and hotels are recommended as a hold in 2011. The apartment sector displays mixed signals, with 31 percent believing it is time to buy and 39 percent suggesting sale of those properties.

India

India's GDP continues to grow and shows no real signs of declining anytime soon. Over the past 30 years, the country has managed to sustain a GDP growth rate average of 10 percent. Projections for 2011 are 8.5 percent, and forecasts are for growth of between 9 and 10 percent by 2015. This is a significant move from the mid–6 percent range found in the early 2000s. All this growth is usually a good thing, but inflationary concerns continue to linger.

To support this economic expansion, there has been a large amount of growth in the working population of India. Also, the government continues to make progress in introducing reforms that have helped the country introduce new private equity to capital markets, create a new platform of employment, and inject capital into infrastructure programs. Exports of both goods and services from this region continue to increase, marking more business interest abroad.

Mumbai (3). Projections for Mumbai in 2011 look good, as the city's investment ranking rises five spots to third. "Mumbai is clearly the best-performing and most active real estate" is just one statement supporting this jump. Development in Mumbai continues to be an area of interest, with the city ranking first in the 2011 results, up from second in 2010. Oversupply continues to be a serious risk for the area, but respondents "don't think many people are worried about real estate turning into a bubble again."

EXHIBIT 3-11
Mumbai

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.73	3rd
Development Prospects	Modestly good	6.07	1st

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	37.3%	42.4%	20.3%
Retail	51.8%	33.9%	14.3%
Industrial/Distribution	45.1%	39.2%	15.7%
Hotels	40.0%	46.7%	13.3%
Apartment Residential (Rental)	46.9%	40.8%	12.2%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-12
Hotels Property Buy/Hold/Sell Recommendations by City

	Buy	Hold	Sell
New Delhi	43.5%	45.7%	10.9%
Ho Chi Minh City	42.0%	46.0%	12.0%
Singapore	41.8%	41.8%	16.4%
Bangalore	40.9%	47.7%	11.4%
Mumbai	40.0%	46.7%	13.3%
Hong Kong	34.6%	52.7%	12.7%
Seoul	28.9%	64.4%	6.7%
Kuala Lumpur	25.5%	59.6%	14.9%
Taipei	25.0%	65.0%	10.0%
Tokyo	23.1%	57.7%	19.2%
Jakarta	22.5%	62.5%	15.0%
Manila	22.5%	55.0%	22.5%
Shanghai	21.3%	55.7%	23.0%
Sydney	20.7%	62.1%	17.2%
Beijing	20.0%	56.7%	23.3%
Guangzhou	19.2%	57.7%	23.1%
Bangkok	18.6%	58.1%	23.3%
Melbourne	14.6%	65.5%	20.0%
Osaka	12.0%	64.0%	24.0%
Auckland	4.9%	78.1%	17.1%

0% 20% 40% 60% 80% 100%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-13

Leading Asia Pacific Cities

Buying opportunities ring out in the retail, apartment, and industrial sectors in 2011. Leading the charge is retail, with over half of the respondents—a 20 percentage point increase over 2010—believing it is time to purchase properties in that sector. "Residential real estate continues to find foreign investor favor," states one investor. Hotel investors believe buy or hold is the appropriate position in the market, based on hotel quality and location. The majority of survey participants believe investors in the office sector should have a hold position. "Office space has seen cap rate values go up by 5 to 10 percent, but those cap rates have improved quite significantly."

New Delhi (5). Reaction to New Delhi commercial real estate investments in 2011 is upbeat, with the city climbing five spots to fifth place among the 20 investment markets. "Foreign institutional capital is starting to show additional signs of interest as the city's master plan expands out to Gurgaon and Noida." Government-sponsored infrastructure makes up over 45 percent of the 2011 budget as plans to construct roads, railways, and airports will soon be under way. Also, "We have seen the government sign off on development plans for tens of thousands of acres of land for urban development." Both government and institutional development seems to be in the plans as New Delhi rises two positions and sits at number two behind Mumbai.

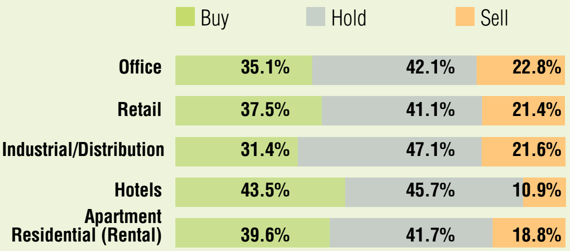
The hotel sector is the favorite, as investors are split on buying or holding in the coming year. "Hospitality is very interesting to many investor groups," an investor says. Almost 40 percent of participants believe that apartment investments are a buying opportunity in 2011. The rest of the property sectors all register as high-percentage holds, according to survey results.

EXHIBIT 3-14

New Delhi

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.64	5th
Development Prospects	Modestly good	5.93	2nd

Investment Recommendation of Survey Respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Bangalore (10). Bangalore rounds out the top ten in investment property rankings, jumping ahead four positions. "Commercial real estate, primarily users from the IT domain, has revisited Bangalore, with large transactions on the horizon." Even with these scheduled transactions, the city's commercial real estate market still needs to show additional signs of recovery. Rents in the market continue to be 20 percent below mid-2007 peaks, but there seems to be a road to recovery in 2011. However, supply must stay in check with incoming demand to make it work. A sign that this scenario might be emerging is the fact that Bangalore's development rankings slip to ninth from seventh, keeping supply in balance.

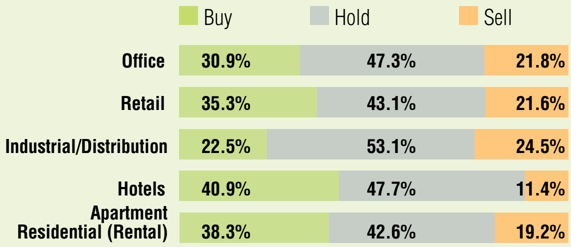
Significant changes from last year's buy/hold/sell recommendations include significantly higher buy percentages for retail (35 percent in 2011, up from 16 percent in 2010), and hotel (41 percent, up from 22 percent). Slight increases in buy ratings were seen in the office and apartment sectors in 2011. Industrial assets were the only sector showing a decline in buy ratings; however, the majority still believes the sector is a hold for the upcoming year.

EXHIBIT 3-15

Bangalore

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.51	10th
Development Prospects	Modestly good	5.70	9th

Investment Recommendation of Survey Respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Australia

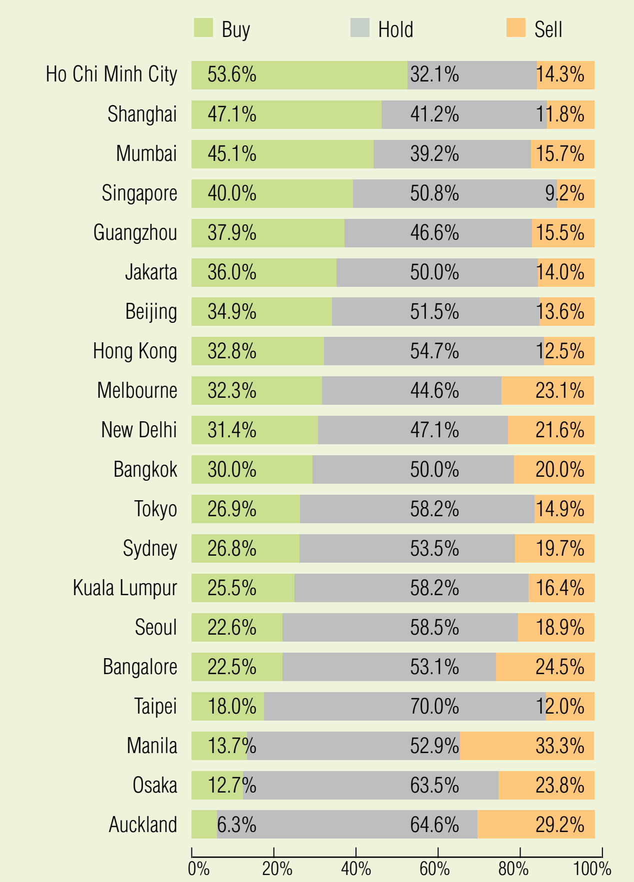
A rebound of the Australian economy continues and is expected to persist at its current pace into 2011 and beyond. A tight labor market, combined with increases in external demand for commodities, has raised consumer confidence throughout the region. "Australia is expected to perform well on the back of the commodity supercycle," one interviewee said. GDP growth for Australia is expected to be around 3.5 percent for 2011 to 2013. "Australia is in a good position. . . . Unemployment is low, and there is room to move interest rates down, if required." Infrastructure continues to be a concern in the region as more public spending is budgeted in that area. Overall, "Sydney and Melbourne are expected to be the best-performing markets."

Sydney (7). "There are good opportunities in Sydney, as supply is limited," according to an investor. Sydney remains among the top ten investment prospects in 2011, falling from sixth to seventh. The change of pace for the Australian economy has sparked a revival in commercial property sales and leasing from both domestic and international interests. "Growth in value in Sydney will come from rental growth." Based on survey results, investment prospects manage much better than the development prospects in the city, as Sydney's development prospects drop to 16th among the 20 markets. Even with this decline, interviewees believe that there is not enough building in the pipeline, stating, "Lack of building in Sydney particularly means shortage of supply in coming years," and "shortage of buildings in Sydney . . . need more development."

"Office assets in Sydney are through the trough and on the upswing." Survey respondents agree, with 40 percent considering it a buying opportunity in 2011, while 54 percent suggest a hold. One investor forecasts, "The office sector is expected to be the best-performing sector, with valuations picking up, based on cap rate compression and increasing rental, reducing incentives." The majority thinks

EXHIBIT 3-16

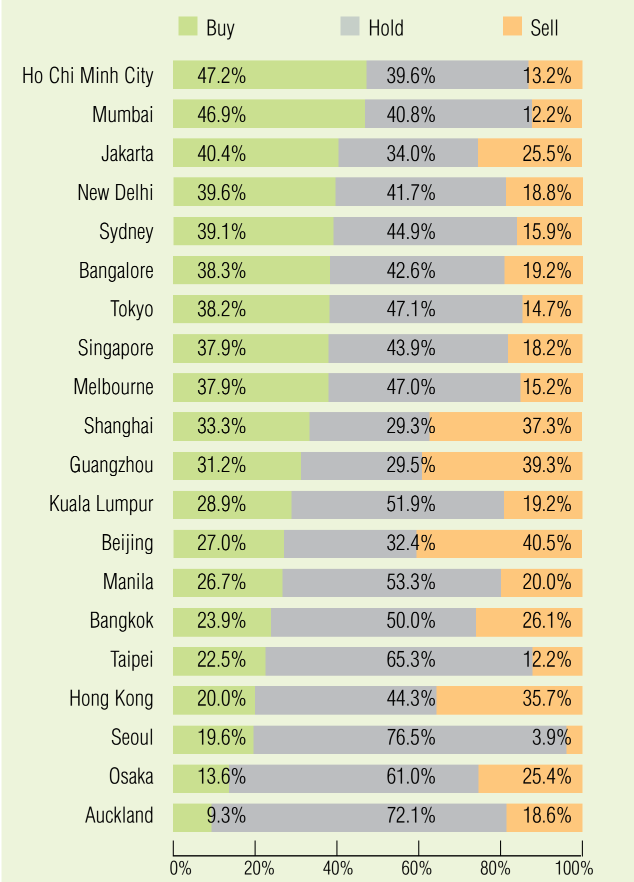
Industrial/Distribution Property Buy/Hold/Sell Recommendations by City



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-17

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



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-18
Sydney

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.62	6th
Development Prospects	Fair	5.21	16th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	39.5%	54.3%	6.2%
Retail	25.3%	67.1%	7.6%
Industrial/Distribution	26.8%	53.5%	19.7%
Hotels	20.7%	62.1%	17.2%
Apartment Residential (Rental)	39.1%	44.9%	15.9%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

the apartment sector should be a hold in 2011; however, close to 40 percent would still suggest a buy. The hotel, retail, and industrial sectors produced hold recommendations for the upcoming year.

Melbourne (9). Melbourne remains the ninth-ranked investment prospect city in 2011. "Employment growth over the last 12 months in Melbourne has been very strong," and "cautious improvement on pricing, driven by [an] increase in rental income, particularly in Melbourne," are two strong signs as to why the city remains in the top ten. Development prospects are projected to take a large leap next year, with the development prospect ranking rising eight positions to round out the top five. "Melbourne looks good, with many opportunities to build and grow." Apartments had a 13 percentage point increase in the buy rating, but 47 percent still suggest holding that asset through next year. Industrial properties forecasts look promising, with 32 percent saying buy and 44 percent advising a hold. Buyers believe "you have to purchase industrial in Melbourne," and "there is good-quality industrial space in Melbourne." The other three property sectors all register hold recommendations in 2011.

Vietnam

"The next wave of growth is likely to come from commodity-producing economies like Vietnam," states an institutional investor. Some believe that "Vietnam is the emerging vision with potential downstream activities from China, so there is that attractiveness in the market."

Ho Chi Minh City (11). "The city is very young, an emerging market, . . . so returns are definitely much better." As investors look for returns, survey respondents agree, raising the city's investment ranking to 11th in this year's survey. Ho Chi Minh City development interest drops to sixth in 2011 from third in 2010 as difficulties continue for foreign capital trying to enter the market. "The biggest risk is the current ownership laws, which don't allow freehold ownership to foreign investors. . . . The majority of sales are leasehold transactions." "With 6 to 9 million residents and 99 percent motorbikes," the government infrastructure development continues to show signs of improvement. "The government is pushing ahead with infrastructure developments as quickly as they can, all over the place."

Buying opportunities seem to exist everywhere in this densely populated city. A lack of retail properties is a large

EXHIBIT 3-19
Melbourne

	Prospects	Rating	Ranking
Investment Prospects	Modestly good	5.52	9th
Development Prospects	Modestly good	5.82	5th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	36.1%	58.3%	5.6%
Retail	23.3%	67.1%	9.6%
Industrial/Distribution	32.3%	44.6%	23.1%
Hotels	14.6%	65.5%	20.0%
Apartment Residential (Rental)	37.9%	47.0%	15.2%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-20
Ho Chi Minh City

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.48	11th
Development Prospects	Modestly good	5.78	6th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	44.3%	39.3%	16.4%
Retail	60.3%	25.9%	13.8%
Industrial/Distribution	53.6%	32.1%	14.3%
Hotels	42.0%	46.0%	12.0%
Apartment Residential (Rental)	47.2%	39.6%	13.2%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

concern, leading over 60 percent of survey participants to rate this sector as a buy for 2011. Both the industrial and office sectors earn buy recommendations, sitting at 53 and 44 percent, respectively. "There are not many grade A office buildings around, so they are limited to invest in." The fast growth in population and population density lead to an interest in apartments: 47 percent of interviewees agree that now is the time to buy in that sector.

Japan

The continuing struggles of the Japanese economy appear poised to persist into 2011. "There will be no rapid growth. However, Japan's appraisal and appeal are not lost in Asia, . . . so there will be sustainable growth." After a large decline in GDP in 2009, the economy is expected to rebound in 2010 and maintain annual growth of less than 2 percent through 2013. "In spite of the overall economic picture, the Japanese real estate market can be described as OK to good for the short term."

Tokyo (12). Interviewees give mixed signals on the 2011 outlook for Tokyo's commercial real estate market. As one investor states, "A country's capital grows in the good times and the bad, while the rest of the country tries to pull along." This holds true as Tokyo continues to lead the globe in the amount of real estate deals in 2010, according to RCA. There is an abundance of capital for deals because of extremely low interest rates, increased interest from foreign investors, and a series of J-REIT public offerings. Investors continue to search for opportunities in Tokyo because "the bottom has been reached here, whereas the regional assets could still decline a bit."

Even with those positive signs, the city drops five positions to 12th among investment prospects for 2011. "Tokyo's economy can continue expanding relative to the country simply by virtue of its ever-increasing dynamic population. In the good times, it lifts up the whole country, which, as everyone knows, is actually shrinking and aging." Development forecasts are limited as well, as the city sits one shy from the bottom of the development list at 19th.

The recommendation for most property sectors for 2011 is to hold on to investments. However, office space in Tokyo should present a buying opportunity, according to 50 percent of survey respondents. Vacancy rates in offices are starting to show signs of recovery, but analysts predict it will be a slow and steady one. Even so, interviewees believe, "Tokyo's office central three wards are the best option"; "Tokyo office . . . little chance of failure"; and "We would invest in Tokyo office . . . and nothing else."

Osaka (19). Investment prospects for Osaka fall near the bottom, positioned 19th among the 20 markets covered. Demand for space in this city remains weak, and vacancies continue to show slight increases, lingering in double digits. "Osaka, a formerly promising market, can now be declared dead." Development seems to be in a similar position, with Osaka placing last, as it did in 2010. One developer states, "The Osaka area has too many development projects and too many developments scheduled. . . . This is too much and exceeds demand." All five property sectors should be held in 2011, according to survey results. Over 27 percent recommend selling Osaka office properties next year, and an investor agrees, stating, "Office properties in Osaka continue to run the risk of additional closings in the future."

EXHIBIT 3-21

Tokyo

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.47	12th
Development Prospects	Fair	4.83	19th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	50.0%	37.8%	12.2%
Retail	21.9%	58.9%	19.2%
Industrial/Distribution	26.9%	58.2%	14.9%
Hotels	23.1%	57.7%	19.2%
Apartment Residential (Rental)	38.2%	47.1%	14.7%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

EXHIBIT 3-22

Osaka

	Prospects	Rating	Ranking
Investment Prospects	Fair	4.62	19th
Development Prospects	Modestly poor	4.29	20th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	16.7%	56.1%	27.3%
Retail	7.8%	59.4%	32.8%
Industrial/Distribution	12.7%	63.5%	23.8%
Hotels	12.0%	64.0%	24.0%
Apartment Residential (Rental)	13.6%	61.0%	25.4%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Taiwan

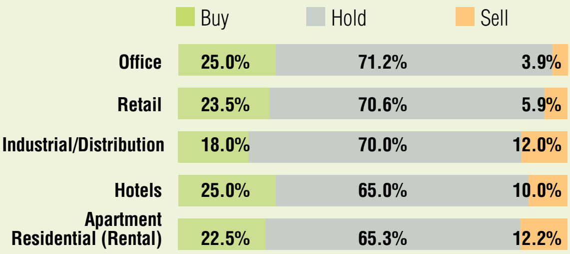
Taiwan's economy experienced tough times throughout 2009, but shows signs of rebounding in 2010 and stabilizing in 2011. It appears that the decline in government control of direct foreign trade will be a benefit in the future, but the credit crisis–driven decline in exports continues to weigh heavily on the country. GDP growth is forecast to spike to over 9 percent in 2010, and calm to the mid–4 percent range from 2011 to 2013. Population growth is a concern because the birth rate is only one child per woman, the lowest in the world. This sets off alarms regarding the future labor market and dependence on tax revenue.

EXHIBIT 3-23

Taipei

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.44	13th
Development Prospects	Fair	5.42	14th

Investment Recommendation of Survey Respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Taipei (13). Taipei's commercial real estate market link to China shows in its investment ranking, with the city stepping back two positions to 13th in 2011. "The supply of properties to acquire here is limited. . . . This might open up more next year." Development for this area registers an even larger decline, falling five spots to 14th overall. Developers have moved to the outskirts of Taipei looking for higher returns than those available in the center city areas. Institutional investors have increased interest in establishing relationships with foreign operators in both the office and industrial property sectors. Survey results lean a little in this direction, with industrial buy recommendations increasing 4 percentage points to 18 percent. However, 70 percent of the respondents believe that this sector is still a hold. About 25 percent would buy hotels in 2011, but the majority would recommend holding on to those properties throughout the year.

Indonesia

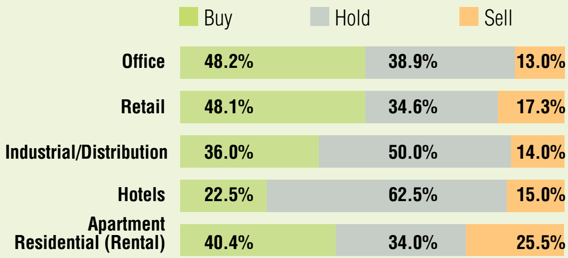
"Interest in Indonesian properties is there, given its very strong domestic economy and strong performance over the crisis." Business conditions seem more than ideal for commercial real estate investing in Indonesia in 2011. An increase in domestic demand has driven the country's GDP growth to nearly 6 percent in 2010 and forecasts exceeding that in 2011. This growth seems to be significant enough to result in an increase in rental rates and a decline in vacancies for this nation. Interviewees agree, commenting, "Investors are definitely looking at Indonesia," and "Real estate will benefit from production. . . . Indonesia is a commodity-production country."

EXHIBIT 3-24

Jakarta

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.42	14th
Development Prospects	Modestly good	5.70	10th

Investment Recommendation of Survey Respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Jakarta (14). Jakarta continues to show signs of improvement as it moves from its ranking of 17th in investment in 2010 to 14th in 2011. Even with indications that the market might be showing signs of growth, city transactions remain somewhat sluggish for both local and foreign investors. In an effort to increase transactions, the Indonesian government continues to work on plans to deregulate foreign real estate investments. "Country risk for foreign business seems to have dropped. There should be a story where there is increased foreign investment in the future." Development takes a leap as well, moving the city into the top ten from 17th last year. Development deals will continue to require local assistance, but the days of people "turning up one day and saying they own your land" appear to be in the past.

Interest exists for Indonesian properties, with the office, retail, and apartment sectors all registering a buy sign in 2011. Office shows the largest gain, increasing over 34 percentage points to 48 percent. Retail's buy recommendation is a close second, increasing over 32 percentage points. Both hotel and industrial properties should be held in 2011, according to survey participants.

Malaysia

Malaysia is still attempting to shift away from its heavy dependence on raw material exports to a more multisector economy. After a slight economic slowdown years ago, Malaysia finds that its GDP growth seems to have returned to its average level, with 2011 forecasts climbing to 5-plus percent. "Over the last ten to 20 years, Malaysia has established a strong relationship with developed and developing economies that has been growing immensely." Private consumption was the driver of growth in 2010, combined with job creation and additional income in rural areas. In 2011, the economic push is expected to be generated by private investment because weaker external demand is expected.

Kuala Lumpur (15). The commercial real estate markets have remained active in 2010 and appear ready to follow that trend throughout 2011. Investment prospect ratings for Kuala Lumpur have increased slightly, but not enough to move the city from 15th overall. "Overshore capital interest in Kuala Lumpur makes up less than 5 percent of the overall amount of capital levels invested in the property market." Even with the lack of global institutional capital inflow, the real estate market is expected to remain bullish during 2011. Development in the area is expected to continue in 2011, but at a lower level than previously seen. The majority of development deals will come from domestic players and M-REITs. The majority of respondents have interest in the office sector, with almost 35 percent believing it is time in 2011 to complete some deals. Similar to the other cities covered, the lack of retail space is a concern in Kuala Lumpur. Therefore, almost 43 percent plan to buy in that sector in 2011, while just shy of 50 percent will ride out the year and hold on to their current retail portfolio.

EXHIBIT 3-25
Kuala Lumpur

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.38	15th
Development Prospects	Fair	5.46	13th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	34.9%	55.6%	9.5%
Retail	42.6%	49.2%	8.2%
Industrial/Distribution	25.5%	58.2%	16.4%
Hotels	25.5%	59.6%	14.9%
Apartment Residential (Rental)	28.9%	51.9%	19.2%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

South Korea

The global crisis affected all countries in Asia in one way or another. However, one of the hardest hit was the South Korean economy. After a number of economic reforms and more global integration, the economy looks to continue to rebound in 2010. GDP growth forecasts should hover around 4.5 percent for 2011 to 2013, and the high-tech industrialized country should show signs of recovery. "Things are looking good in Korea. . . . Korean institutions are sitting on pots of cash that they don't know what to do with."

Seoul (16). However, the real estate market showed signs of sluggishness in 2010 that are projected to carry into 2011, according to survey results. Seoul posts the largest decline in investment ranking in 2011, falling from fourth in 2010 to 16th. "Demand for space is very limited, and interest doesn't come from large institutions, but smaller Korean companies," states a developer. This lack of demand affects the development pipeline, with Seoul's ranking falling hard to 15th in 2011 from sixth in 2010. Buy/hold/sell recommendations for all property sectors fit the tone, with survey results suggesting that investments in each sector be held until the end of 2011. As seen in other Asian markets, the retail sector is the only one that attracts some interest, with over 42 percent believing there are buying opportunities in the coming year.

EXHIBIT 3-26
Seoul

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.37	16th
Development Prospects	Fair	5.22	15th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	27.6%	55.2%	17.2%
Retail	28.1%	61.4%	10.5%
Industrial/Distribution	22.6%	58.5%	18.9%
Hotels	28.9%	64.4%	6.7%
Apartment Residential (Rental)	19.6%	76.5%	3.9%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Thailand

The growth of Thailand in the early 2000s has led to a free-trade economy, pro-investment policies, and above-average export business. However, there have been setbacks in many of these areas due to an increase in violence and political unrest. The expansion of the economy is still in question, but GDP growth looks to spring over 7 percent in 2010 and stabilize in the 4 percent range from 2011 through 2013. An interviewee believes that this growth can be sustained because "Thailand's strong relationship with developed economies and emerging economies has grown immensely."

Bangkok (17). The commercial real estate market in Bangkok seems to remain fairly stable under the current circumstances, and this appears likely to continue into 2011 as the city's investment ranking edges up to 17th from 19th. Concerns linger, according to interviewees—"You might find in Thailand there might be some real needs to liquidate again"—and development seems to have slowed a bit. The 2011 development ranking for the city falls back one position to 17th. Deals for condominium and land developments in infill locations near transit are the only ones that appear headed for completion in the near future.

The industrial property sector leads interest among investors in 2011. The largest portion of interviewees, 50 percent, believes investments in that sector should be held through 2011. However, 30 percent recommends buying during the coming year. Respondents advise all hotel, retail, apartment, and office property investors to hold on to their property in 2011, though 29 percent think this might be a good time to sell office space.

EXHIBIT 3-27

Bangkok

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.05	17th
Development Prospects	Fair	5.16	17th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	20.4%	50.0%	29.6%
Retail	28.3%	50.9%	20.8%
Industrial/Distribution	30.0%	50.0%	20.0%
Hotels	18.6%	58.1%	23.3%
Apartment Residential (Rental)	23.9%	50.0%	26.1%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

New Zealand

GDP is expected to grow in New Zealand in 2010 and 2011 at rates of 3.0 and 3.5, respectively. The biggest driver for this growth continues to be the country's strong commodity export business. In addition, a spike in construction investments added a needed boost. Even with these increases, New Zealand still has to deal with weak credit in the markets and the strength of its currency in international exchange. "Results of the credit crisis have had more impact in New Zealand and Australia than the Asian markets," one real estate professional says.

EXHIBIT 3-28

Auckland

	Prospects	Rating	Ranking
Investment Prospects	Fair	5.01	18th
Development Prospects	Fair	4.90	18th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	10.2%	63.3%	26.5%
Retail	10.0%	74.0%	16.0%
Industrial/Distribution	6.3%	64.6%	29.2%
Hotels	4.9%	78.1%	17.1%
Apartment Residential (Rental)	9.3%	72.1%	18.6%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Auckland (18). As in the United States, Auckland commercial and residential real estate transactions have declined. Commercial real estate deals are at only about half their level in September 2007. "Investors are adjusting their risk and return models to adapt to the change in the markets." Rent increases will not take place in 2011 because many businesses continue to resist any additional expenses in order to stay afloat. In response, Auckland drops two spots in the 2011 investment rankings to 18th. Development continues to be limited, and respondents again rank the city 18th for 2011. The majority of survey respondents suggest a hold strategy for all property sectors. However, higher percentages are telling investors to sell real estate rather than buy.

Philippines

The economic indicators for the Philippines seem all to point in a positive direction as the country enters 2011. Economic growth has averaged about 5 percent over the past ten years and appears likely to be just shy of that mark over the next three years. The government, under new leadership, has continued to tighten spending, increased the focus on infrastructure, and generated a new optimism among Filipinos. Even with all that positive change, interest rate adjustments to control inflation continue to be a top priority.

Manila (20). The lack of commercial real estate supply, combined with an increase in consumer spending, has created a drop in vacancy rates that appears likely to carry into 2011. Even with these positive signs, survey results still rank Manila 20th in investment interest. Because of the controlled supply during the global recession, a spike in building is projected in 2011, giving Manila the largest gain in rank for development, moving eight spots to 11th overall. Respondents believe 2011 is a holding period for all property sectors.

EXHIBIT 3-29

Manila

	Prospects	Rating	Ranking
Investment Prospects	Fair	4.56	20th
Development Prospects	Modestly good	5.68	11th

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	16.4%	56.4%	27.3%
Retail	24.5%	54.7%	20.8%
Industrial/Distribution	13.7%	52.9%	33.3%
Hotels	22.5%	55.0%	22.5%
Apartment Residential (Rental)	26.7%	53.3%	20.0%

Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Property Types in Perspective

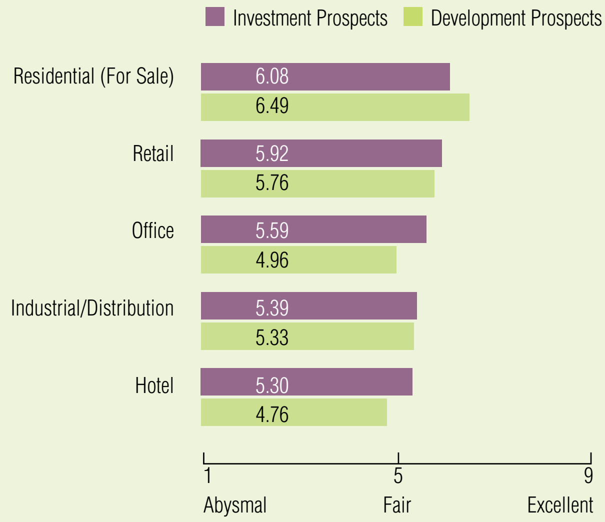
Residential

Residential property takes the lead in both the investment and development categories. The investment prospects for this sector are similar to those of last year, and the increase in its development prospects is the smallest among all the property sectors. Nonetheless, in 2011 the sector keeps both top spots and continues to remain one of the highest-profile areas in real estate markets. This interest is found across the region. Among interview comments: "In China, strong residential investments can be found in second- and third-tier cities"; "We will see a strong rebound in residential . . . in all Indian cities"; and "Singapore real estate prices have just gone through the roof on the residential side."

Best Bets: Indian cities display some of the best opportunities for residential investment in 2011, with a buy or hold strategy suggested for all four covered in the survey and the focus being more acquisitions. Mumbai outpaces the other three Indian cities, followed by Jakarta. "Indian residential real estate markets have seen some clearly defying price movement over the last six to 12 months, especially in markets like Mumbai and New Delhi." Even with this residential buying interest in India, respondents give Ho Chi Minh City the highest buy ranking among all markets. "Foreign investors must team up with locals to do deals here. . . . Once that's done, residential is the area to invest."

EXHIBIT 3-30

Real Estate Sector Performance Prospects for 2011



Source: *Emerging Trends in Real Estate Asia Pacific 2011* survey.

Retail

Retail property maintains its number-two spot in both the investment and development ranks, but has seen a substantial increase in prospects for both. Retail recovery throughout the Asia Pacific will not involve nearly the struggle other countries have continued to face since the start of the recession in 2007. Therefore, projections suggest a jump in spending from both domestic and global consumers. Also, the continued population growth of many countries has created additional classes that are in need of more retail space. "Most retail properties in Asia are well balanced in terms of supply coming on board and demand." Said another interviewee, "There's been a consistent growth in domestic demand for retail."

Best Bets: As the economy across the Asia Pacific region grows and many emerging countries develop a new middle class, the need for and interest in additional retail space follows. This retail demand growth can be found in Ho Chi Minh City, Shanghai, and Mumbai, all of which received very high buy ratings for 2011. Interviewees agree, stating, "Retail is the obvious choice everyone is talking about." Said another interviewee, "The Chinese consumer feels as though they have higher discretionary income. . . . The retail markets will benefit."

Office

The office sector stays in the third position for investment prospects in 2011, but takes a step back in the development category. Office opportunities seem to bounce between very established Asian cities and new rising markets where additional space may soon be required. "I think we're in a bottoming period, and of the traditional asset classes, office is a good opportunity." Rents may have declined slightly, based on the investment market, but economic growth in the majority of countries covered in the survey should lead to additional office-based employment. "Foreign capital will be drawn to office plays in very, very prime locations."

Best Bets: Half the survey respondents believe that Tokyo is the number-one prospect for office investment next year. Jakarta, Ho Chi Minh City, and Singapore follow. Future office rents in Tokyo continue to be a concern, but many believe that office space in the city will maintain its value. Comments on these top-ranked office cities varied, but included, "Avoid the swings in secondary markets. . . . Invest in Tokyo office"; and "We see strong growth prospects for the office market in Singapore and, once supply has been absorbed, project strong growth."

Industrial/Distribution

"Overall across Asia, industrial's not that exciting. You know you're never going to get much capital growth, but it's still okay." "Okay" seems to be the tone for the fourth-ranked property investment sector, as industrial/distribution space holds its same spot from 2010. Sector development climbs one place to third in this year's survey. The industrial market continues to be a key driver of the overall economy for many parts of the Asian region. However, the business of manufacturing and exports remains under a cloud as global economies struggle and personal spending sits in limbo. "Asian markets are so dependent on manufacturing that new areas of production may be found to deal with the current slowdown."

Best Bets: Ho Chi Minh City, Shanghai, and Mumbai rank first through third, respectively, as the top buying opportunities for industrial/distribution properties. The majority of those surveyed recommend a buy or hold strategy for industrial real estate in 2011. However, some see additional declines in those markets as spending decreases and manufacturing costs rise throughout Asia. "Labor is now cheaper in Cambodia, Pakistan, and parts of Africa, which is why a lot of Chinese companies are now offshoring their manufacturing."

Hotels

Even after some significant jumps in investment and development value ratings, hotels hold the fifth and final spot among property sectors. The economic shift over the past three years has put a damper on hotel growth in Asia, a situation projected to continue into 2011. However, one respondent thinks there might be a niche: "The emerging resort and holiday market is interesting—mountains, lakes, etc. What's happening is that it has to be more than just a hotel."

Best Bets: Emerging markets like Mumbai, Bangalore, and New Delhi with a lack of hotel space present buying opportunities in 2011. Large business and travel areas are of interest, with the Singapore and Hong Kong hotel markets placing well.

Interviewees

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