

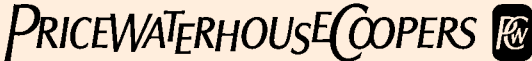
Emerging Trends in Real Estate® Asia Pacific

2010



Emerging Trends in Real Estate® Asia Pacific 2010

A publication from:



Emerging Trends in Real Estate® Asia Pacific

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Executive Summary

A little over a year after the failure of Lehman Brothers precipitated a global financial and economic collapse, asset markets in the Asia Pacific region are holding up surprisingly well compared to their peers in Europe and the United States. While both pricing and rentals in the region fell steeply in 2008 and early 2009 in step with those in the West, markets across the Asia Pacific region have been lifted in the second half of the year by the remarkable resilience of the Chinese economy, which has been buoyed by a series of fiscal and monetary stimulus measures.

As a result, many Asian markets were beginning to flash positive signals toward the end of 2009. Transaction volumes have rebounded, albeit from a very low base and led overwhelmingly by China. Pricing also has improved across the region. While the uptick has been modest in most cases, moves have been substantial in some asset classes and geographies (especially, again, in China).

In addition, there have so far been few distressed sales in any Asian real estate sector. Extra liquidity has played a major role in this. But there are other factors, too:

- Loan-to-value ratios in Asia never reached the nosebleed heights seen in the West. As a result, property price declines have not been sufficient to give many borrowers problems with servicing loans.

- Asian banks have not suffered big losses from derivatives investments and in general remain well capitalized. They therefore have little incentive to foreclose on borrowers who may be in breach of covenant. Local business culture generally frowns on foreclosure anyway.

- Many large investment institutions in the region have been able to recapitalize via the capital markets (especially in Australia and Singapore), allowing them to pay down debt.

- Business sentiment remains generally sanguine.

Nonetheless, conditions remain extremely tight. Historically, real estate investment in Asia has been financed overwhelmingly by bank lending, and in the aftermath of the crash, banks are reluctant to provide funding to all but their best (and usually largest) clients. Leverage is lower. In addition, loans are expensive even though base rates remain extremely low. This means that the

days of 20 percent-plus opportunistic returns in Asian real estate deals may be over.

Refinancing is a similarly challenging exercise. Again, however, banks are usually willing to work out a deal, even if it means borrowers must reduce gearing and cough up a significantly higher spread than before. The exception is in Japan, where generally high leverage, together with large quantities of CMBS issuance, has left many borrowers high and dry now that foreign banks have fled the market. Japan, therefore, remains the market most exposed to the prospect of significant levels of real estate distress in 2010 and beyond.

In the meantime, regional investment flows have changed significantly. Allocations to Asia from Western institutions continue, but at a much-reduced level. In addition, significant amounts of money have been withdrawn from the region by investment banks that want or need the capital for other purposes. In their absence, regional investors have stepped up to the plate. Often, these are large institutional investors, including sovereign wealth funds. Similarly, Asian investors are now looking to place funds in the West as more distressed opportunities begin to appear.

However, despite the newly bullish atmosphere, the rebounds in most Asia Pacific markets (China excepted) seem tentative and fragile. Although Asia Pacific governments will probably be able to sustain high rates of liquidity for the foreseeable future, in the end, their near-term prospects are probably tied to developments in the West and in particular the United States, where deleveraging is far from over. With the prospects for Western economies precarious, confidence in the Asia Pacific region may at times border on complacency.

Based on investment prospect ratings, the top five markets in 2010 are Shanghai, Hong Kong, Beijing, Seoul, and Singapore. Chinese cities dominate the rankings this year—a reflection of a remarkable resurgence in Chinese commercial real estate as the government-mandated liquidity boom lifts markets across the country. Another city that has moved significantly is Sydney, which has become a popular destination for foreign funds seeking shelter in Australia's mature property markets and commodity-based economy. The top cities for development prospects are Shanghai, Mumbai, and Ho Chi Minh City.

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 fourth 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 2010 represents a consensus outlook for the future and reflects the views of more than 270 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 105 individuals, and survey responses were received from more than 165 people whose company affiliations are broken down as follows:

Private Property Company or Developer	22.4%
Real Estate Service Firm	21.1%
Institutional/Equity Investor or Investment Manager	21.1%
Other Entity	14.9%
Publicly Listed Property Company or REIT	9.9%
Bank, Lender, or Securitized Lender	6.8%
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.



Easy to Be Brave— at a Distance

“Generally speaking, **fire sales** are frowned upon by government, they are frowned upon by business, and they are frowned upon, basically, by society.”

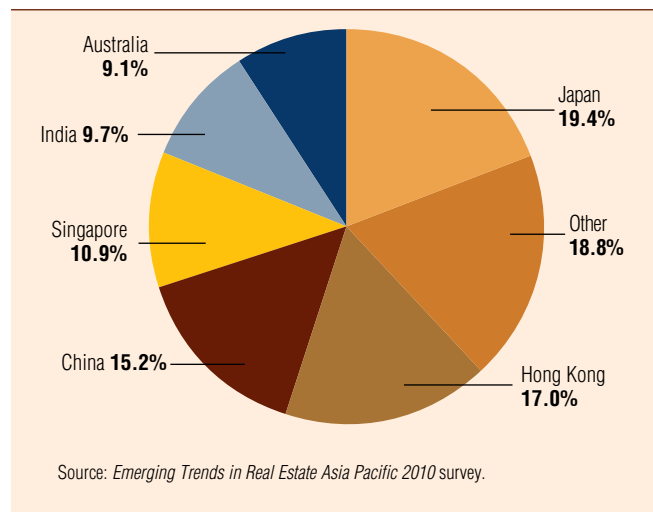
The last time disaster engulfed Asia’s financial markets, back in 1997, the causes of the implosion were both proximate and clear. The Asian financial crisis was born and bred in Asia, it was contained regionally, and for the most part the process of cause and effect was easy to track and quantify. In a sense, the crisis was a known quantity.

This time around, however, things are not so straightforward. While Asia has largely escaped the firestorm of foreclosure and bad debt that swept Western housing markets and banking systems in the aftermath of the Lehman Brothers collapse, the long-term implications for regional economies and asset values remain unclear.

One thing that is certain, however, is that a little more than a year after the crash, market sentiment is today turning increasingly positive. Government-sponsored liquidity has helped keep interest rates low, liquidity is returning via the capital markets, and although bank credit remains scarce (China excepted), reluctance to lend is gradually easing. The rebound in regional and global stock prices has played an important psychological and practical part in this, allowing large players to force through rights issues and opening a window of opportunity for new initial public offerings (IPOs). Going into the final quarter of 2009, many believe that property prices are looking for a bottom.

There is danger here of complacency, however. In reality, Asia is not decoupled from the rest of the world. Local feel-good factors notwithstanding, the fate of regional markets is likely still held hostage to events on the other side of the Pacific, where Wall Street’s black hole of property-related bad debt is still very much the swing factor in the

EXHIBIT 1-1
Survey Responses by Country

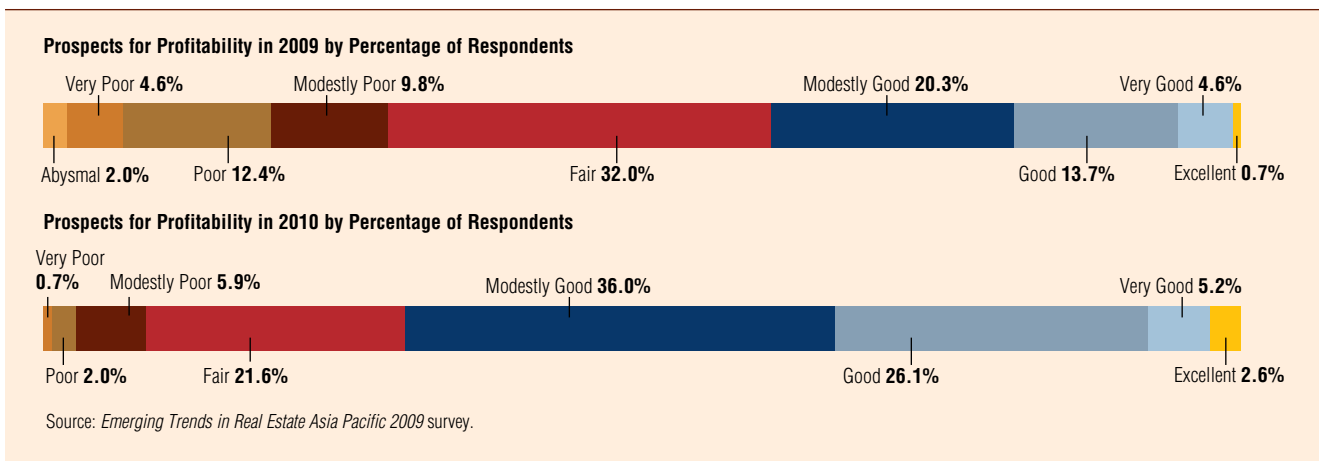


global economy. U.S. property foreclosures are yet to peak, and in the commercial sector have in truth barely begun. Unemployment continues to rise, consumers are not consuming, and government balance sheets are swamped with newly assumed liabilities.

Asia’s current sense of detachment from the ongoing calamity in America and Europe is perhaps a function of its remote origins, both conceptually and geographically, which have instilled a sense that distance confers immunity. “The mountains are high and the emperor is far away,”

EXHIBIT 1-2

Real Estate Firm Profitability Forecast



as the Chinese saying goes. But the suggestion that we may be now seeing the crisis through the rearview mirror is at best premature.

One Year Later

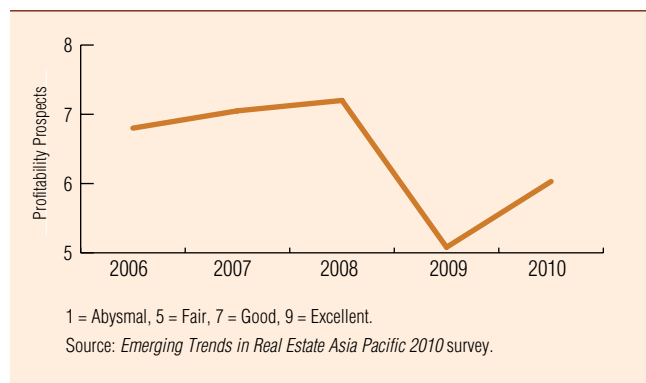
For now, however, regional asset prices seem to have weathered the storm in relatively good shape. Although pricing and transactions fell precipitously as panic ensued and values that had been bid up during the boom years deflated, a more bullish mood has recently set in, with sales volumes seeing a small rebound, albeit from a very low base. This positive tone is reflected in survey responses to profitability forecasts in which more than 70 percent of respondents project fair to excellent profits for 2010.

According to real estate research firm Real Capital Analytics (RCA), transactions bottomed regionally in the first quarter of 2009, and thereafter rose 66 percent in the second quarter and a further 57 percent in the third quarter to some US\$59.2 billion, bringing them back to 2007 levels and making Asia by far the most active global theater in terms of sales volume. Anecdotally, transactions should rise further in the third quarter, making Asia now the most active global theater in terms of sales volume. At the same time, cap rates in many Asian markets retreated 100 basis points or so in the third quarter as sentiment began to turn more upbeat.

In general, pricing and rents have declined (very broadly) 20 to 50 percent from their peaks. Of course, there are big regional variations to these figures, with rents and pricing in Singapore and some Indian commercial proper-

EXHIBIT 1-3

Historical Real Estate Firm Profitability Trends

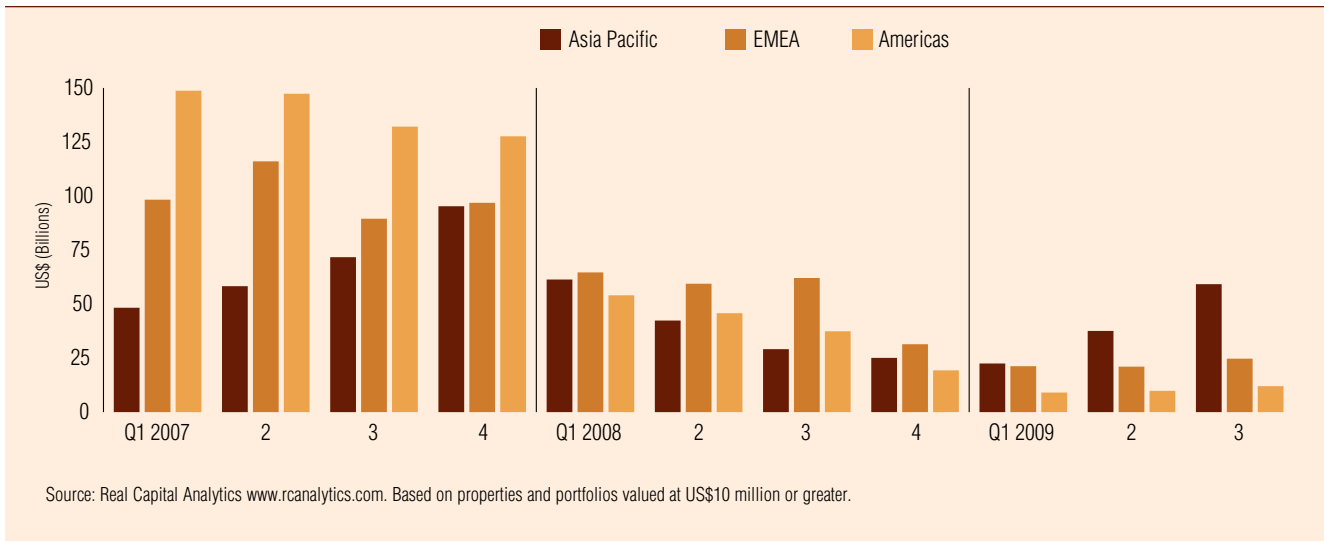


ties, for example, suffering huge reversals, while China and Hong Kong have largely bucked the trend (for pricing, anyway). The contraction has been especially severe in the office sector (Seoul being the lone exception), as export- and finance-related businesses have come under pressure.

In addition, improving sentiment cannot hide the fact that, in absolute terms, transaction levels remain depressed by historical standards. Most interviewees expect deal flow to remain weak well into next year, meaning that many fund managers and other potential buyers are either sitting in their offices marking time or they have turned themselves into asset managers. As a director at one large fund said: "We've seen very few big transactions in 2009. If this trend continues, it would be about one deal per quarter—nothing like what it was before." The current consensus is that no significant pickup can be expected before the second half 2010 at the earliest.

EXHIBIT 1-4

Quarterly Sales Volume Comparison



Stalemate Persists

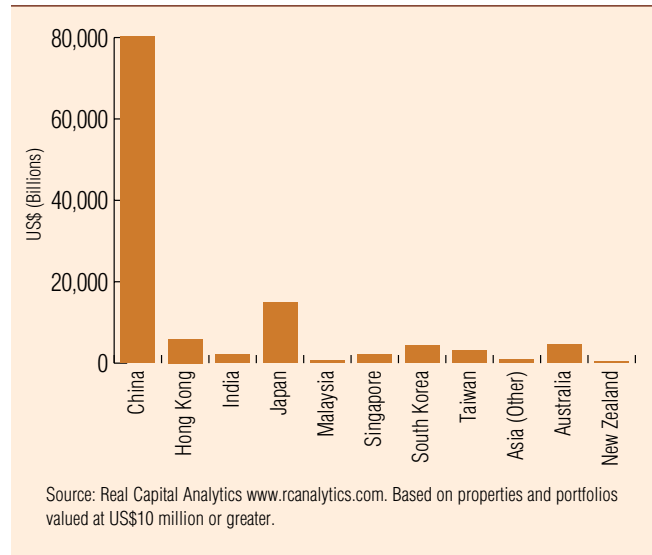
One reason for this is that buyers and sellers don't see eye to eye on pricing. As another fund manager commented, "You would have expected that someone would come through and try to clear the market, but banks haven't been pushing people as hard as buyers would like, and the expectation is just that the flood of liquidity means that you might not be facing those issues." Sellers remain hopeful that prices, as in the equity markets, will reinflate to a level where they can make themselves whole. Today's buyers, however, are smaller in number and no longer willing to step up, not least because they anticipate distressed selling will emerge in some markets at least during 2010. This reflects how "the entire industry has changed—the supply/demand dynamics have now flipped the other way." Meanwhile, pricing continues to trend down, albeit at a slowing rate. Again, many interviewees suggested mid-2010 as a possible bottom.

Rentals also continue to fall. According to one fund manager, "There has been some talk about the bottoming of rentals, but I don't see it yet. Either there is sufficient vacancy in the existing stock that tenants can find good alternatives or there is a lot of supply coming onstream. I think people will start to think about next year next year and it might not actually be until 2011 that we start to see sufficient hiring to take up some of the slack in the markets and to see rentals going back up."

Despite this, there is no lack of appetite to sell. In fact, selling demand is substantial at the right price. As one interviewee said, "There may not be many people advertising they want to sell, but you can be sure that if you walk through the door with a truckload of equity they'd be biting your arm off."

EXHIBIT 1-5

Asian Commercial Property Sales Q1–Q3 2009



China's Liquidity Hosepipe

The big caveat to the rebound trend in transaction volumes is the fact that the vast majority of transactions—fully 67 percent of a total of US\$119.3 billion in the first three quarters of 2009, according to RCA—took place in just one country: China. Beijing's massive monetary stimulus plan announced at the end of 2008 consisted mostly of a splurge of new state-directed lending by the big banks, a significant part of which—as much as 30 percent of a total

of some US\$1.2 trillion by the end of August, according to some estimates—has now leaked into local asset markets, including real estate.

This has sparked an explosion of speculative activity in the sector following years of austerity measures aimed at cooling down an overheated market. “Last year, you were lucky if you could borrow for construction. Today, you can borrow long term for developing construction finance, you can borrow to buy land, you can borrow to buy a company, there is virtually no end or no limit to the amount of credit available in China—we’ve gone from famine to feast in a matter of a few months.” As a result, and perhaps amazingly, given that property bubbles throughout the world have only just undergone an unprecedented collapse, a new bubble may now be appearing in mainland markets.

Office sales prices in Beijing and Shanghai have continued to rise, despite an upcoming supply overhang expected to push vacancies even above the already high current rate of 30 to 40 percent. Site purchases, meanwhile, have mushroomed, with developers bidding up land prices to levels not seen since their peak in the go-go days of 2006–2007. Residential prices in major cities have also seen steep increases of 20 to 30 percent since early this year.

The problem is that even as prices rocket upward, rents are stagnant or falling, compressing cap rates as low as 3 percent in both the office and residential spaces. Is it a bubble? The prospect has been mooted (wrongly) many times in the past, and many China-based executives were reluctant to be drawn on this question. Others, however, were more forthright. “It is a bubble,” said one fund manager, adding “It’s now getting harder to buy Chinese real estate on a yield basis than anywhere in the world.” One Shanghai-based consultant observed: “For the first time in my 15 years in the city, I can no longer connect all the dots and work out why this has happened.”

In similar fashion, Hong Kong’s market has also been boosted by funds leaking from China’s liquidity boom, with investor psychology feeding off the bullish mood. Hong Kong cap rates have also been squeezed to the 3 to 4 percent range in both the office (although volume here remains thin) and luxury residential spaces, where as many as 40 percent of buyers in primary market transactions are currently from mainland China, according to a recent industry estimate.

Opinion is consistent, however, that market momentum in China is unlikely to run out of steam anytime soon. Maintaining economic growth at a fast clip is a political imperative for Beijing, and the only way to do so currently is via the type of accommodative monetary policies now in place. As a result, “this time next year I think we’ll be scratching our heads and wondering how on Earth values in Shanghai residential have managed to put on another 20 percent.”

The upshot is that the revival of land and property purchases in China is a local phenomenon created primarily by excess liquidity, rather than any fundamental change in economics, either domestically or regionally. This makes it hard to extrapolate the Chinese experience throughout the rest of Asia. In fact, without the Chinese deals, transaction volumes across Asia have been more or less stagnant throughout 2009. While the overall picture is improving, therefore, it is not as substantial as the figures suggest.

A Flight to Quality

In difficult times, investors tend to gravitate toward quality assets in more stable markets that are easily understood. This is one reason why the two most popular Asian investment destinations cited this year are Australia and Japan. Both countries have relatively mature economies and deep real estate markets, so buying there provides a level of comfort and familiarity.

In Australia, investors get an economy that has emerged relatively unscathed from the downturn and is highly focused on natural resources, which are always likely to be in demand. Until recently, they also benefited from a very cheap currency play. Another factor is that a large part of Australia’s institutional investment sector is currently not buying local real estate assets, thereby starving the market of funding that might serve to shore it up. Australian superannuation funds, despite being “really cashed up,” are overweight in their allocations to real estate. This is a result, firstly, of a substantial fall in the market value of their equity holdings and secondly, of the fact that values of properties in valuation reports have not fallen as quickly as listed REIT stock values. As a result, local asset allocation practices are preventing them from buying more property assets until allocations realign.

That may not take long, however. According to one local consultant, “Equities are recovering even as we speak, money from the superannuation funds is coming in every week, and the Australian markets are verging on getting pretty healthy.” In the meantime, pent-up demand continues to build, prices of commercial property remain relatively low (by some measures exceptionally so), and the lack of supply overhang to ruin the party raises the possibility of “very aggressive double-digit growth in rents in the short term.” Currently, major buyers are said to be foreign investment funds and sovereign wealth funds from the Middle East, eager “to grab things before local institutions can get going.”

The Japan story is double edged. There is the usual flight-to-quality issue. According to one investor, market downturns will always throw up high-quality properties that would otherwise be hard to get, and “there’s always going to be an inherent demand for prime location properties.” As a deep recession set in, cap rates in Japan have come

out significantly. Foreign investors are therefore looking for normally hard-to-get trophy assets at yields that are not normally available for prime Tokyo assets. In addition, the demise of Japan's commercial mortgage-backed securities (CMBS) market has removed a critical pool of liquidity from the market. With significant amounts of CMBS rollovers due for both 2009 and 2010, buyers are expecting that bargains will be thrown up from foreclosures stemming from defaulted loans held in CMBS bonds.

From Feast to Famine

Foreign investment activity varies greatly from country to country. For the small or immature markets like Vietnam and India that were so popular in the previous cycle, “the risk/reward versus the value and opportunistic returns you can get in core markets is not realistic.” This means that, “with the exception of Singapore, foreign investors will shy away from southeast Asia because emerging markets are probably off their radar screens.” Besides, investors have learned the hard way that these countries are hard places to do business. As one Vietnam-based executive put it, “People liked the numbers, but didn't see the realities.” Of course, this still leaves room for countercyclical players: “Foreign interest is down by at least 95 percent, but the clever guys are here looking now. The crowd will probably all come back together in a year and a half, by which time they'll probably have missed the boat.”

China, too, until recently the darling of international investors, “has seen a big shift in the nature of the buyers and sellers this year compared with last year.” Today, most foreigners (including a number of U.S. investment banks) are looking to sell rather than buy. For some, this is because prices remain high, providing a rare opportunity to step away at a profit. Others, such as opportunity funds that began picking up Chinese real estate in 2005 and 2006, are looking for an exit anyway.

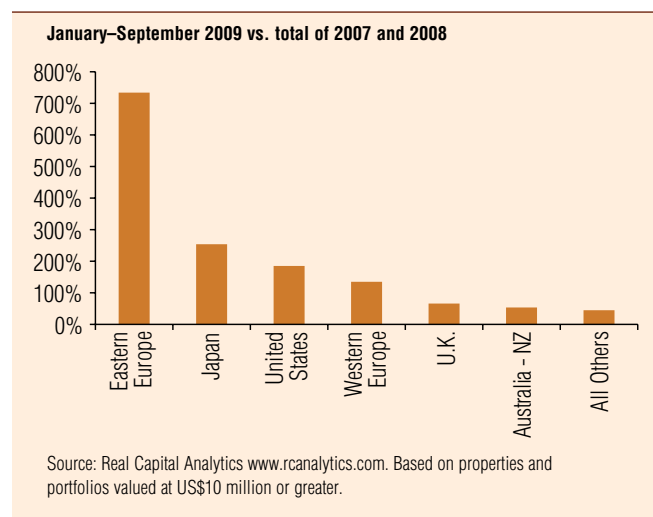
Another reason for the lack of foreigners buying in China, though, is the difficulty of working around regulations targeted at international property investors. “In '06 and '07, the government made it very difficult for any foreign investor to buy, and since then very few have gone back in. Even if you have [local currency] in China, it's very difficult to move it around and do anything significant because getting approvals seems to be a major challenge.” As a result, foreigners have become thin on the ground. In Beijing, according to one locally based consultant, “if you count Hong Kong buyers as Chinese, which I think you can, we are seeing very few international investors, but none are spending significant resources—I'm certainly not counting on foreign buyers for my bonus.”

Distress? What Distress?

In the West, the ongoing collapse of residential and commercial real estate sectors has led to a wave of foreclosures and distressed sales that has yet to peak and will probably continue for years. Given that in recent years Asia saw similarly steep price rises and extreme cap rate compression, there was “a reasonable expectation that the market would now be awash in very cheap nonperforming loan deals.” Besides, with bank loans in Asia typically featuring three-year terms, a significant number of properties bought at peak prices in 2006 or 2007, and which must now be underwater, are coming up for refinancing this year or next.

EXHIBIT 1-6

Increase in Sales Volume of Distressed Property



Oddly, perhaps, the expected distress hasn't happened. RCA reported US\$29 billion in Asia Pacific distressed sales through the first half of 2009 (mostly in the first quarter), compared to US\$136 billion in the Americas. Some of the more leveraged buyers have taken the opportunity to step off investments if they can fetch a decent price, but so far, levels of distress across Asia have been much lower than anticipated at the end of 2008, and most interviewees believe they will stay that way. As a fund manager in Singapore commented, “Generally speaking, fire sales are frowned upon by government, they are frowned upon by business, and they are frowned upon, basically, by society. And some of these big names have a lot of strokes, so just hang on.”

Having said that, “Japan is another story,” with significant numbers of bankruptcies and defaults expected in 2010, driven mainly by the use of CMBS financing and the more aggressive underwriting that went with it. To a lesser extent, opportunities may also occur in Australia, where “things have stabilized at the big end of town, but the smaller end is in trouble.” Australia’s larger players managed to dodge the bullet after listed property trusts (LPTs, or Australian REITs) were able to raise funds through some large rights issues earlier in the year, allowing them to recapitalize and pay down debt.

The small wholesale funds and real estate investment trusts (REITs), meanwhile, are backed into a corner. Analysts calculate that some US\$8.7 billion was wiped off asset values in their portfolios by mid-2009, and more revaluations seem certain. Highly leveraged, and geared to retail investors who are “less sticky to taking up rights issues,” they are left with few options when they trigger loan covenants. They are forced to raise cash. “These guys have very little capacity to drive hard deals with their banks to refinance, and very little capacity to tap equity markets at the moment.” A few have issued bonds and convertibles, but most will have to sell assets. Analysts project some US\$2.6 billion worth of holdings will likely be subject to forced sales in this way unless values rise significantly, which seems unlikely in the near term. In addition, fund redemptions are expected to generate a further US\$2.2 billion in sales.

For the most part, however, those at risk are “yield chasers who were going for secondary or tertiary buildings in order to get assets away and/or to get the income profile.” Because most forced sales will feature fringe players, this is likely to create a widening yield gap between primary and secondary assets. Properties affected are often non-income-producing assets with high vacancies. As one Australian fund manager said, “Banks are reluctant to sell their performing portfolios, but they’re very happy to speak to you about a block of dirt in the outback where someone was going produce the Taj Mahal.”

A few interviewees also singled out Singapore as a possible source of future defaults, for various reasons. Most obviously, asset price falls have been extreme. In addition, many buyers in Singapore during the 2008 market peak were foreign funds that may have problems in their home portfolios and are also less engrained against selling than the local players. On the other hand, determining a peak in Singapore pricing is difficult: “It’s a tough market to get your head around because of the market’s natural volatility.” In addition, according to a local fund manager,

“the market is coming back, so they’ll just hang on—why take the hit, especially when there seems to be a number of European and American players who have allocations toward this area that will basically keep the valuations up?”

Banks Hold Their Fire

There are various reasons for Asia’s apparent immunity to distress:

■ Asian loan-to-values (LTVs) never reached the nosebleed rates seen in the West, with average gearing of perhaps 55 to 65 percent (although in Japan, 70 to 80 percent LTV was possible using CMBS). While prices have fallen, they have not generally sunk far enough to put banks underwater on the loans. Rents are also down, but low interest rates, low levels of tenant bankruptcies, and (apart from China) low vacancy levels compared to Western markets mean owners have generally had little trouble in servicing the debt.

■ While borrowers may technically be in breach of LTV covenants, banks are reluctant to take assets back, partly because they are not expert property managers and partly because “if a bank’s portfolio is being serviced, why push a button that’s going to trigger a systematic collapse of the whole market?” Besides, the lack of transactions has meant that many owners have (until recently, at least) been able to avoid markdowns, which would put them in breach of covenants.

■ Large, highly leveraged institutions in several Asia Pacific markets (in particular Australia and Singapore) have been able to recapitalize in the equity markets. Big Indian developers took the same route and were subsequently able to pull off the market assets they had earmarked for a fire sale at the beginning of 2009.

■ Structured finance is relatively rare in Asia, meaning that borrowers have avoided the high leverage that often goes with it. Even mezzanine lending is not especially common. That said, there are significant amounts of CMBS outstanding in Australia and in particular Japan, many of which seem set to default in 2010.

■ Asian banks have never been as aggressive in pursuing legal rights of foreclosure against nonpayers. To an extent, this reflects a nonlitigious culture. In Singapore, for example, “The banks just won’t foreclose—the last time there was a commercial foreclosure was, like, 25 years ago.” In China, “you’ve basically got to be comatose, on your deathbed, before a bank will come in and repossess.” India, too, has seen little distress “because the Indian banking system is not very open to the idea.” In many jurisdictions, this reluctance also reflects legal frameworks that are not as favorable for lenders as they are in the West (i.e., in terms of repossession rights).

- Many of Asia's large property companies are members of a conglomerate that has assets across numerous unrelated divisions which could supply support if needed. This also encourages lenders to take a more lenient approach.
- There is a belief that economic fundamentals are stronger in Asia and that prices may come back.

The Hidden Hand

Another major component of the distress equation is the role played by regional governments in proactively supporting sectors threatened with defaults. Witness the support provided by Chinese authorities to one local developer in early 2009 when orchestrating a buyback of foreign bonds by a state bank, just as the developer was poised to default. That sort of support became redundant after the government reopened the liquidity hosepipe to the domestic property sector shortly thereafter, but it is indicative of how far authorities are willing to go to prop up the sector if need be. "At the end of the day, the government has ultimate control and they would just tell the banks not to proceed. I sat down with quite a few [Chinese] developers at the end of last year who were absolutely flat out of cash. But they were quite cheerful—they knew the government wouldn't allow anything to happen."

In Japan, the government has a similar mentality. On the one hand, it is set to provide government funding packages for drooping local REITs. On the other, it has provided implicit support to the property markets by "encouraging" Japanese banks to keep foreclosed properties on their books rather than put them up for fire sales (some 27 listed real estate companies went belly-up in Japan in the first half of 2009). In many cases, banks are also playing the same "extend and pretend" game currently underway in the United States. As an analyst at a foreign investment bank points out: "In Japan, there's definitely a whole institutional mind-set around this sort of denial. The government is not going to allow too many bankruptcies—they'll just bail out the businesses and REITs that got into trouble in the last couple of years and continue as usual."

This mind-set is not a lot different from that in place in the United States, but it must be conceded that the stakes there are rather higher given the enormous quantities of bad debts at stake. At any rate, the problem with this approach is that the dam tends to break anyway once the pressure builds to a certain level, just as it last did in Japan in 1991, when land and asset prices collapsed. Some local J-REITs were forced to sell off assets in the first half of this year, and this could be a sign of things to come. With Japanese banks holding some US\$70 billion in nonrecourse (and mostly unhedged) loans, there is a real prospect that by next year—when growing numbers of CMBS rollovers and refinancings are due—the current trickle of distressed sales will become a torrent. As another investment bank analyst observes: "This time,

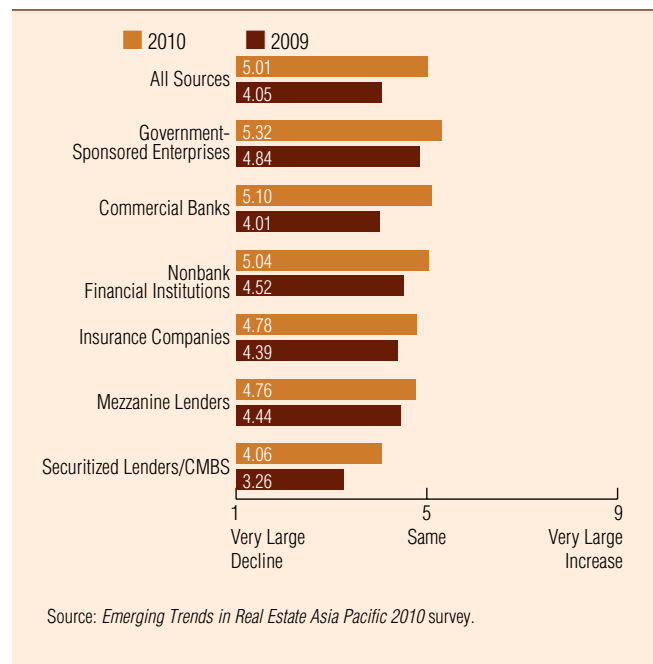
people are expecting the market will recover in two or three years, so they think selling assets now is the worst thing to do. Are they right? I'm not sure, but I think they might need to sell anyway."

Refinancing

While borrowers in Asia seeking funding found "the tap was off completely" for almost any kind of deal in late 2008 and early 2009, banks soon realized that if they refused to refinance deals they would have to foreclose, generating huge losses. While borrowing remains difficult, therefore, the situation has now eased and investors expect that credit conditions will continue to improve in 2010.

EXHIBIT 1-7

Change in Availability of Debt Capital for Real Estate by Source Type



But while banks prefer to work out a deal, they will usually only do so on more restrictive terms. In Australia, for example, "banks are playing hardball. If you've got a relationship, you generally will get on okay. If you don't, and your assets have dropped significantly in value, you could be in strife." Also, banks are "using any opportunity they can get to renegotiate terms—we've even heard of cases where one asset in a portfolio of collateralized assets is coming up for refinance, they'll use that opportunity to renegotiate the entire portfolio."

Banks now frequently require borrowers to top-up loans with new equity to cut gearing. Reductions of 10 to 15 percentage points are common, with gearing dropping, for example, from 60 LTV to 50 LTV. In addition, however, “your margins may double.” One fund manager described how “we went from 75 basis points of spread on the original loan up to about 400 basis points of spread.” Some borrowers are therefore paying up for rollovers now in the expectation that 18 months down the road they may be able to refinance, perhaps with a bond offering.

Banks now also put a lot more focus on due diligence by checking up on tenants, running credit reports, and carrying out physical checks on the property. And although nonrecourse lending is still available, they may also require additional collateral or guarantees. Still, even smaller players are usually getting rollovers if they can meet the new conditions. “At the end of the day banks play a pretty hard line, but no one is going to push you over the edge.”

The toughest place to arrange rollovers is Japan, reflecting higher LTVs, a greater number of potential defaults, and the disappearance of foreign lenders from the market. As one fund manager says: “In Japan, if you’re not big, forget it. Basically, they are not lending to anybody they don’t know very, very well, and only on prime projects with incredibly low risk profiles.” In addition, rollovers may only be available for shorter time frames such as one year.

Developers

In a downturn, developers usually feel the pain first and most. This time, though, while there has been plenty of pain to go around, the impact has varied from place to place.

In China, for example, where a government-mandated funding squeeze had brought the development sector to its knees by the end of 2008, developers benefited directly from the crisis when Beijing’s policy of restrictive credit ended overnight, whereupon “all of a sudden, everybody got cashed up huge, went right back into the markets, and now we’re back up to record prices again.” One consequence of the China liquidity surge is that much of the newly available capital has been channeled into state-sector companies that have decided to put it to use by initiating a speculative sideline business as real estate developers or investors. As a result, “a lot of the land purchases recently have been by either state enterprises or people who are unqualified to deliver large-scale schemes.”

The sheer number of developers now competing in China is making for a very crowded field, especially as vacancy rates soar. The problem is compounded by the fact that so many companies that have gotten into the

development game have little idea what they are doing, especially in the commercial sector. As a result, some developers “are starting to get very anxious that their sales seem to have slowed.”

In markets that are less buoyant than China, developers have benefited from the reluctance of banks to precipitate a systemic failure by foreclosing on loans. This phenomenon tends to benefit larger developers, for obvious reasons. As one fund manager says: “Don’t borrow a million, borrow a billion—if you’re a billion into a bank, believe me, they can’t foreclose because the knock-on effect would be that you don’t have a lender, you have a partner.”

In general, however, most distressed opportunities in Asia are likely to revolve around the entity level rather than the asset level, especially in respect of smaller companies that lack clout with lenders. This may drive more merger and acquisition activity in regions where refinancing is especially difficult, such as Japan and Australia, where banks have become much less forthcoming with site finance as financial pressures mount. In Japan, dozens of developers have been bankrupted since the start of the year, and financing for new development is now extremely hard to find. In Australia, developers are in a “tough spot” as they “haven’t been buying for the last two or three years.” This is partly because projects need to be precommitted before they get finance, because “banks will categorically not lend to you if you don’t have income-producing assets.” In addition, while prices have fallen, construction costs have not, making many prospective projects unviable.

Cap Rates and Yields

Cap rates have expanded in almost all Asian markets, with interviewees reporting a range of outward movement varying between 150 and 300 basis points, as investors reprice risk and asset values. The exceptions are big cities in China and in Hong Kong, where cap rates have actually come in, mainly reflecting inflated liquidity caused by the Chinese government policy response to the global crisis. In these locations, rates have been compressed as low as 3 percent for prime properties as investors continue to bid up asset prices.

Advertised cap rates can be unreliable, however. First, because there is “still some denial,” especially among developers, that asset values have changed. Many assets are still held on balance sheets at inflated precrash prices, and therefore cap rates do not reflect reality. According to one Hong Kong-based consultant, “Some of the required impairments are very, very large indeed, and I believe they should be taken in the interest of transparency. But I don’t think many of the balance sheets yet recognize the total extent of the adjustment.”

EXHIBIT 1-8

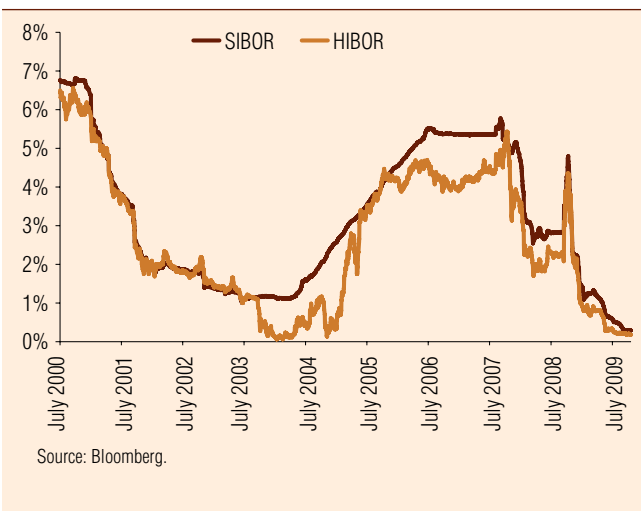
Average Real Estate Yields in Average Markets

	Grade A Office (%)*	Retail (%)*	Residential (%)*	Industrial (%)*
Bangkok	3.5–4.5	6.5–7.5	4.0–4.5	8.0–9.0
Beijing	7.0–8.0	8.0–9.0	4.0–6.0	9.0–10.0
Chengdu	10.6	6.7	7.8	NA
Guangzhou	6.3–7.8	6.0–8.0	2.4–4.6	NA
Ho Chi Minh City	12.5	12.5	11.5	14.0
Hong Kong	3.1	4.2	3.0	6.8
Jakarta	8.1	4.4	10.0	8.0
Kuala Lumpur	6.3–6.8	7.0–7.9	6.0–7.7	NA
Manila	7.0–10.0	NA	7.0–10.0	NA
Mumbai	13.0–15.0	14.0–16.0	3.5–5.0	NA
New Delhi	10.0–12.0	10.0–12.0	2.5–3.0	11.0–13.0
Seoul	7.0–8.5	6.0–7.0	1.0–1.5	8.0–9.0
Singapore	4.8	6.1	2.7	5.3
Shanghai	8.0–10.0	10.0–12.0	8.0–10.0	8.0–10.0
Sydney	7.7	NA	NA	8.5
Taipei	3.8–4.5	4.0–5.0	NA	4.0–5.0
Tokyo	3.5–4.0	3.5–4.0	5.5–6.5	5.3–5.8

Sources: CB Richard Ellis, Colliers International.

* Data as of June 30, 2009.

EXHIBIT 1-9

**Three-Month HIBOR and SIBOR:
2000–October 2009**

Another distorting influence is the extremely low base rates. With widely used benchmarks such as SIBOR and HIBOR offered at 0.7 percent and 0.2 percent respectively in the third quarter, bank interest rate spreads are usually huge. Whether this reflects a rerating of risk by banks is another matter, however. In the West, the wider spreads now charged form part of an artificially created environment that is calculated to allow banks to trade their way out of trouble

(if not insolvency), and does not truly reflect perceived risk. In Asia, banks are not in trouble and the imposition of hefty spreads is more likely a reflection of the fact that they can get away with it because everyone else is doing the same. When base rates ultimately rise (and they must inevitably rise steeply to deal with the coming high-inflation environment), interest rate spreads, cap rates, and internal rates of return (IRR) will have to find their natural level. Only then will the moment of truth on the rerating of risk arrive.

The New Normal

The idea that the recession in the United States (and by extension, everywhere else) is now “over,” as Ben Bernanke has proclaimed, gives rise to the widespread idea that global economies will now revert gradually to the same trajectories as in the past, which is what normally happens when recessions end. This is especially true of Asia, which has avoided the worst of the fallout. This time, however, the aftermath is likely to be different because the imbalances that led to the downturn remain embedded in the system and cannot be quickly eliminated.

For the last decade at least, the primary engine of global economic growth has been the spending power of Western consumers, who have borrowed money from their

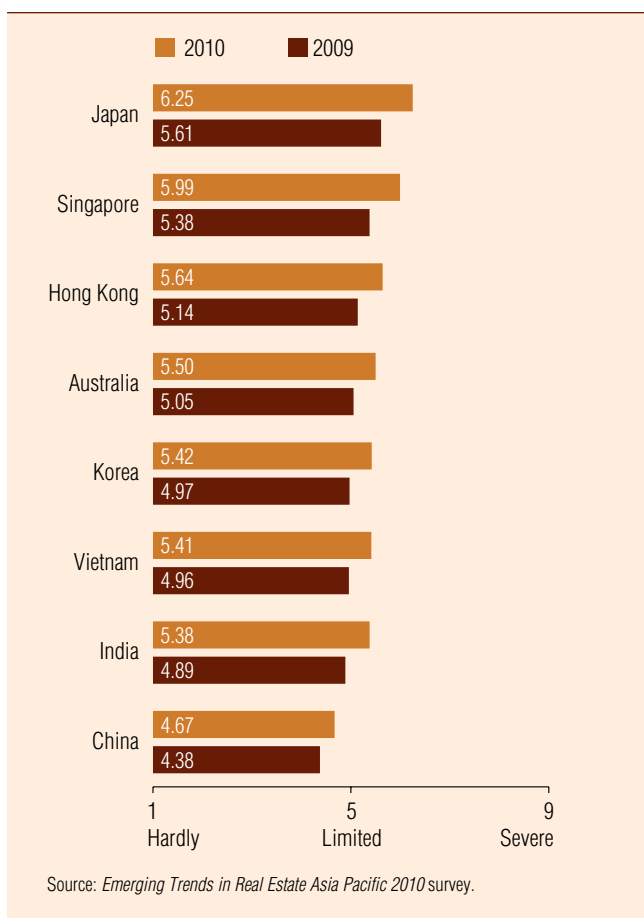
EXHIBIT 1-10

Asia Pacific Economic Growth: Consensus Forecasts

	Real GDP Growth Rate (%)				
	2011*	2010*	2009*	2008	2007
China	10.25	7.51	6.52	9.05	13.01
India	6.89	5.61	4.52	7.29	9.30
Indonesia	4.50	3.50	2.50	6.06	6.28
Australia	1.93	0.65	-1.45	2.06	4.02
New Zealand	2.41	0.46	-1.98	0.27	3.18
Thailand	4.00	1.04	-2.97	2.58	4.93
Malaysia	4.05	1.34	-3.50	4.64	6.35
Korea	5.29	1.53	-4.02	2.22	5.11
Hong Kong	3.79	0.52	-4.47	2.48	6.35
Japan	2.17	0.52	-6.20	-0.64	2.39
Taiwan	3.00	0.01	-7.46	0.12	5.70
Singapore	4.35	-0.11	-9.99	1.15	7.77
Philippines	3.80	0.97	-	4.64	7.19

Sources: International Monetary Fund, Moody's.
* Forecasts.

EXHIBIT 1-11

Levels of Impact of Economic Crisis

local banks collateralized on the apparently ever-increasing value of their homes. Ballooning consumer spending was given an extra kick by the transition to outsourced manufacturing in Asia (and in particular China), which leveraged extra growth from the efficiencies of scale and cost provided by Asian manufacturers.

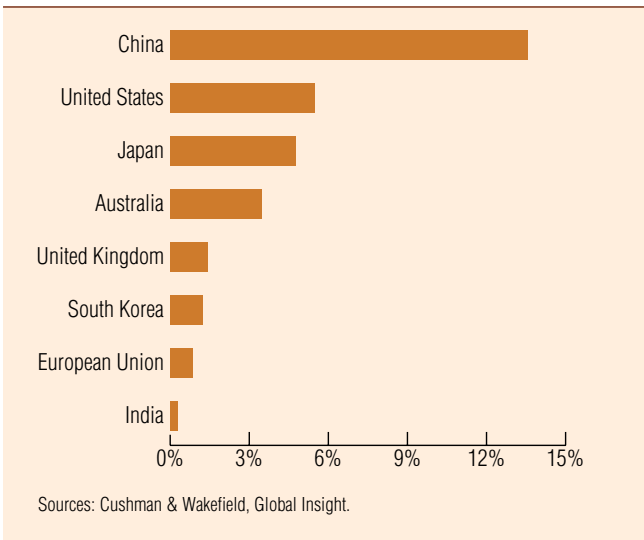
Today, that model is irrevocably broken. The collapse of the U.S. housing bubble has created a newly impoverished consumer who will not be borrowing or consuming as before. Asian exporters, in turn, are unlikely to see a return to export-driven growth, although they are making a valiant effort to redirect export sales to other emerging economies.

The question now is: what can replace these former engines of growth? For the moment, government spending is the only solution. The United States has devoted US\$19 trillion in borrowing, spending, and guarantees to bail out its financial system, and Asian governments have also used various types of fiscal and monetary expansion to stimulate aggregate demand and compensate for export declines and job losses. China, in particular, has rolled out a massive wave of fiscal stimulus in the form of bank loans and direct spending. This liquidity boom has been so effective in generating short-term growth that the International Monetary Fund (IMF) now projects Chinese economic expansion of 8.5 percent for the whole of 2009. This, after mainland growth had more or less ground to a halt in quarter-on-quarter terms at the end of 2008.

Obviously, however, government spending and bailouts are nothing more than a stopgap, as they simply shift debt from the private to the public sector without creating real value. What, therefore, will become the growth catalyst for the future, the "new normal" for tomorrow's global economy?

EXHIBIT 1-12

Stimulus Measures as Percentage of GDP



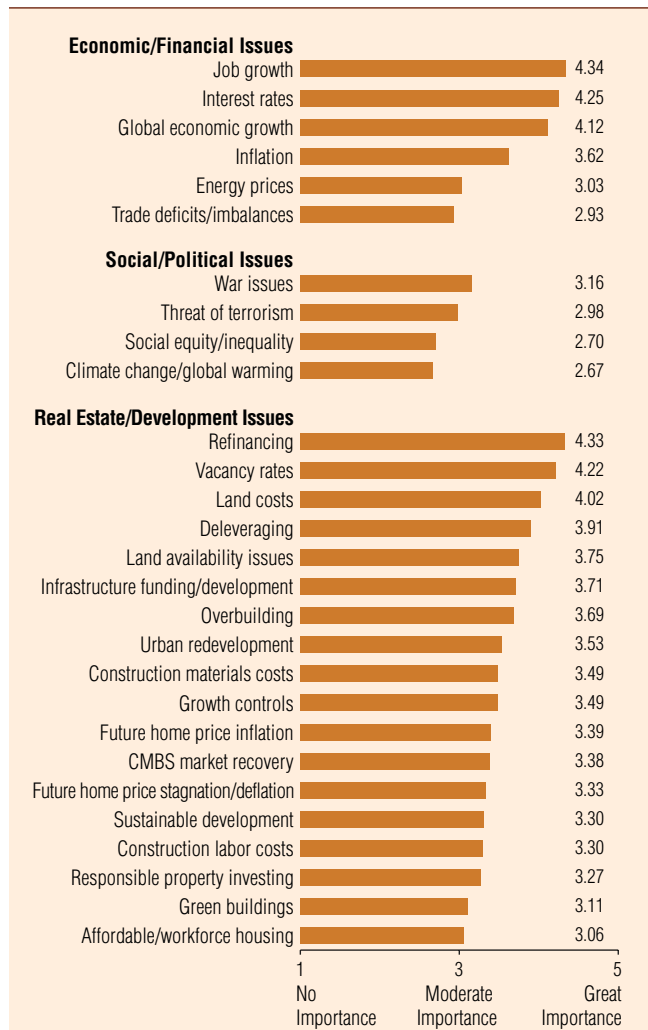
In the West, the answer is not immediately obvious. Manufacturing industries have long been in decline as factory production slowly made its way to emerging markets. The service sector, which once appeared a likely solution, has in retrospect delivered illusory growth stemming from banking and finance sleight of hand. And while the IMF currently projects a return to a fairly robust 3.1 percent global growth rate in 2010, this is predicated mainly on a mixture of government generosity, corporate cost-cutting, stock market rebounds, and inventory replenishment. None of these is a substitute for real output, which raises the prospect of an extended period of depressed gross domestic product (GDP) performance.

The Rise of the Chinese Consumer?

The flip side to this scenario, however, is an enticing one. If the once-profligate U.S. consumer is now broke, could the slack be taken up by his traditionally thrifty counterpart in Asia, and in particular China? After all, even though the mainland is now the third-biggest economy in the world, Chinese consumer spending has failed to keep pace with rapid GDP growth. In recent years, consumption in China has been growing at a rate of 8 to 9 percent annually, even as GDP has hurtled ahead at rate of 10 to 12 percent. As a result, consumption today represents just 36 percent of the mainland economy, down from 50 percent in 1990. That's just over half the equivalent figure in the United States. Chinese households save an extraordinary 25 percent of discretionary income, 15 percent more than the average in Asia.

EXHIBIT 1-13

Importance of Various Trends/Issues/Problems for Real Estate Investment and Development 2010



Source: *Emerging Trends in Real Estate Asia Pacific 2010* survey.

Persuading Chinese consumers to spend significantly more, however, will require overcoming a longstanding cultural legacy of thrift that traditionally has protected families from the absence of a social welfare net. In particular, Chinese save their cash to pay for medical and educational costs. Beijing is introducing new pension and health reforms to address these issues, but they are unlikely to have much impact in the short term. And even when they are implemented, they will be paid for by higher payroll taxes, which in turn will reduce discretionary income (although it will also distribute more of the load to the middle class).

EXHIBIT 1-14

Strategic Investment Preferences for 2010

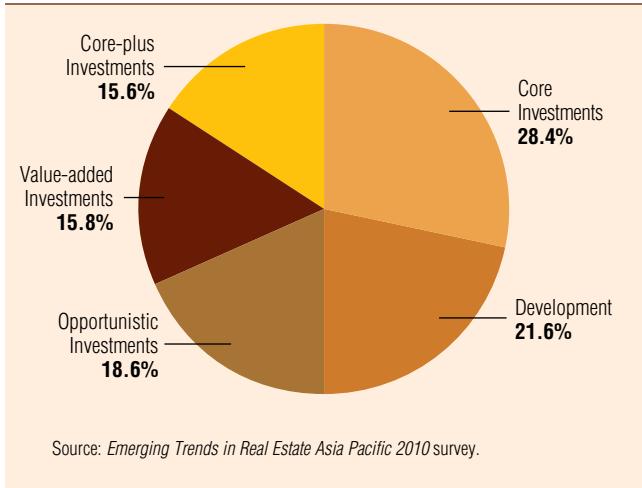
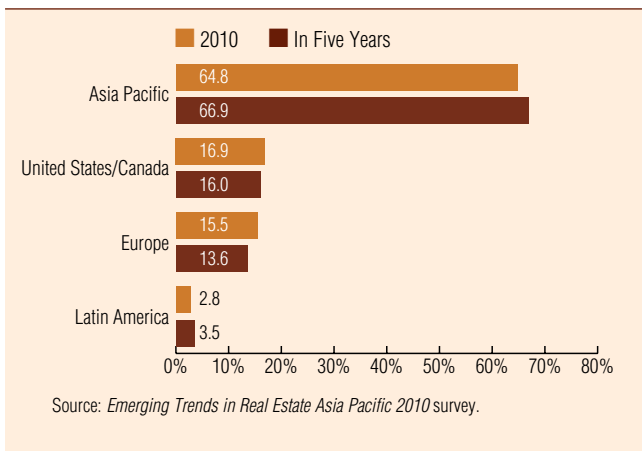


EXHIBIT 1-15

Investors' Regional Allocation Percentage



Another—and even bigger problem—however, is that household spending represents only about half of Chinese consumption. The fact that the other half is represented by mainland corporations reflects a structural distortion in the economy whereby capital is channeled to large, capital-intensive heavy industries rather than smaller, labor-intensive service-sector firms. This tends to limit the number of new jobs and keep workers poor because it encourages the evolution of monopolistic corporations that can more easily resist demands for higher wages. As a result, over the last 20 years the share of national income going to Chinese

On Going Green

Sustainability is not the first issue on developers' minds at the moment, so it comes as little surprise that issues such as sustainability in building design and construction, or good urban planning generally, are not as high profile as they had begun to be in the period leading up to the current economic malaise. For the most part, developers continue to see green building design as more of a marketing ploy than a measure of social responsibility or practical necessity.

Under the surface, however, there is continuing momentum in implementing change in the area that probably matters the most: regulatory reform. In some jurisdictions, sustainable design is already a fairly well-engrained practice. In Japan, both central and local government regulations require developers to build according to tight emission control standards, while green rooftops have now become common. In Australia, too, "you'll find we're right up there," with the trend being driven by "the property council and the developers and the government and investors—they all want it."

But in Asia, it is in developing countries where the biggest efficiencies are likely to be made, and in particular in China, where total floor space is expected to grow by some 30 billion square meters to reach 70 billion square meters by 2020. China's "Medium- and Long-Term Conservation Plan," introduced in 2006, already sets ambitious energy conservation goals that include a 50 percent energy conservation standard for all new buildings and a 65 percent standard for new buildings in some major cities by 2010, with particular emphasis on low-carbon building materials and renewable energy (especially solar energy and heat pumps), as well as green building labels.

However, "the question, as ever in China, is enforcing the rules." In practice, building regulations are ignored more often than not, and there is a tendency for enforcement to be restricted mainly to major projects, especially those in which foreigners are involved. But with the Chinese government increasingly committed to a more environmentally friendly agenda (especially, so far, in the realm of alternative-energy projects), the momentum for change is mounting. Some interviewees reported "definite eagerness" among government officials to "learn and apply over time." One described accompanying senior regional officials on a tour of sustainable projects in a major foreign capital. As a result, "I would definitely expect tighter regulations within the next five years for green buildings," especially in Beijing and Shanghai, although "I wouldn't be surprised if the regulations were slippery enough that you could get around [them] at the lower end."

households has fallen from 72 to 56 percent, while that going to corporations has risen from 14 to 22 percent, according to official figures. Savings growth, therefore, has taken place mainly at the corporate, not the household, level.

While wealth at the margins may be growing significantly, by definition poor consumers don't have much money to spend, so enabling their purchasing power will involve, in this case, not only reforming the social security system, but also restructuring the entire economy. And while Beijing certainly has plans to move in this direction, it is not an exercise that will be completed overnight, which is effectively what China needs.

What this means is that China's options over the near term are limited. In 2009, some 80 percent of expected Chinese GDP growth will be generated by public and private sector construction projects financed by bank and state borrowing, according to the World Bank (which, incidentally, does little to promote consumer spending either).

This is good for China and, to an extent, the rest of Asia, which relies to a greater or lesser extent on Chinese purchases of regional components and commodities. But there are also significant drawbacks, the main ones being, firstly, that China may now be experiencing a new bubble that will have to be dealt with later and secondly, that China is unlikely to be a new driver of organic global economic growth anytime soon. Without a new engine, the Asian and global economies are likely to drift, meaning correspondingly lower growth all around. This, then, may come to be regarded as the "new normal," which will have a general and stultifying effect on regional economies and asset classes.



Real Estate Capital Flows

“The biggest issue is that there is no alternative at the moment to bank finance.”

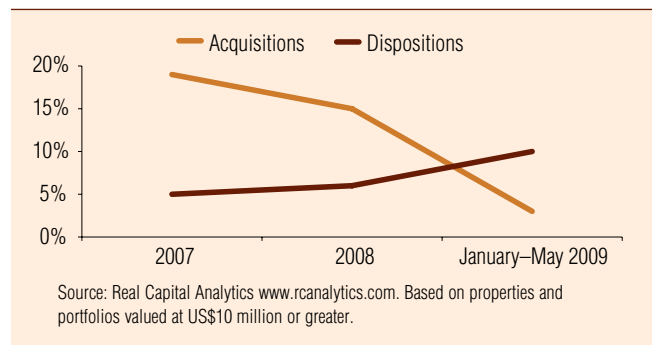
In recent years, regional investment trends have been heavily influenced by increasing flows of capital migrating to Asia from Europe and the United States. In 2009, however, the flow of capital has in effect reversed, with the mass of foreign money returning home. According to one fund manager, “there are still allocations to be made to Asia from Europe in particular and to a lesser extent from the U.S., but I don’t think they are anything near what they were 24 months ago.”

There are two main reasons for this. First, “in risk-averse times, capital tends to retreat to where it knows best, so the big American pension funds are seeing a lot of value in the U.S. in places like New York and Chicago where you can pick up quite substantial spreads at pretty good capital values.” Second, many foreign institutions have needed to repatriate money to patch up balance sheets damaged in the crash.

Since the beginning of 2009, managers across the globe have struggled to persuade investors to participate in funds looking to invest in emerging market real estate. Very little new capital has been raised. However, a few funds with existing cash and a mandate to deploy it in Asia are now “leaking it to the market.” Moreover, the drought may be starting to ease. According to one Hong Kong-based fund manager, “I think investors are now waking up after a period where they’ve really been putting no money out for the last 18 months.” In addition, some investors who have historically been underweight in the sector are now seeking to ramp up exposure at lower prices. They include the “always counter-cyclical” German insurance companies, various sovereign wealth funds, and a number of U.S. plan sponsors.

EXHIBIT 2-1

Share of Total Acquisitions and Dispositions in Asia Pacific Attributable to Global Investors



The net reversal of foreign investment portfolio flows to the region is significant not only because it reflects an absolute decline in a particular source of capital. Western investors also bring with them a different investment style, which is lost or at least diminished in their absence. Their preference for prime assets helps establish pricing benchmarks, and they often apply a more rigorous methodology. They provide diversity. Many are able to deploy large slugs of capital for en bloc sales. And finally, they have a greater appetite for risk. This last quality is perhaps questionable in present circumstances, but of course properly managed risk still has an essential role. In particular, as one Japan-based international banker observes, “the markets need risk takers to jump-start the action.”

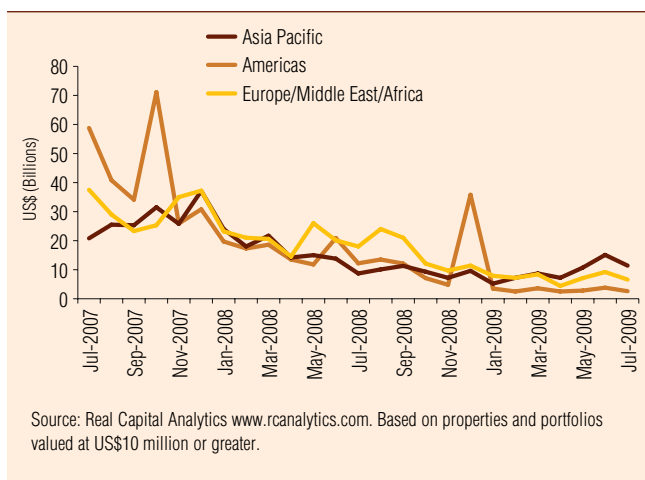
EXHIBIT 2-2

Largest Sovereign Funds by Assets*

Country	Fund Name	Assets (US\$ Billions)	Inception
United Arab Emirates – Abu Dhabi	Abu Dhabi Investment Authority	627	1976
Saudi Arabia	SAMA Foreign Holdings	431	N/A
Norway	Government Pension Fund – Global	397	1990
China	SAFE Investment Company	347	N/A
China	China Investment Corporation	289	2007
Singapore	Government of Singapore Investment Corporation	248	1981
Kuwait	Kuwait Investment Authority	203	1953
Hong Kong	Hong Kong Monetary Authority Investment Portfolio	193	1998
Russia	National Welfare Fund	179	2008
Singapore	Temasek Holdings	85	1974

Source: Sovereign Wealth Fund Institute.
* Data as of August 2009.

EXHIBIT 2-3

Australian International Transactions by Region

Although Foreign Inflows Decline, Outflows Are Rising

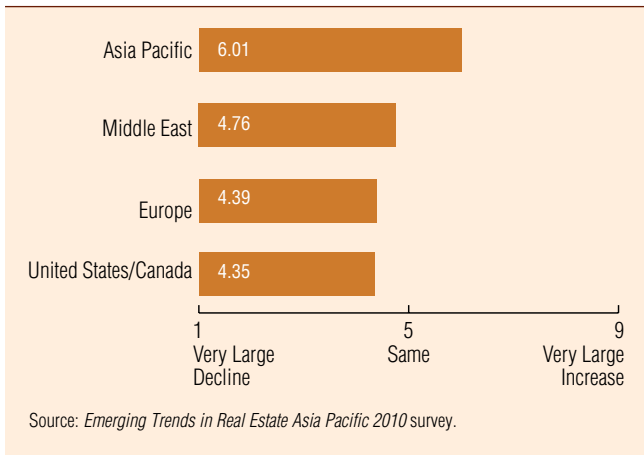
Until recently, the major source of outward investment from Asia into international real estate markets was Australia, mainly due to its large pool of superannuation (i.e., pension) money. Between 2004 and 2007, Australian investors bought some US\$36 billion in offshore commercial property assets, mainly in the United States, but also in Europe. The disastrous collapse of Western real estate markets has hit these investments hard, however, and large chunks of Australia's foreign real estate portfolios are expected to be sold and repatriated as foreign markets deteriorate.

But even as Australians retrench from Western cities, other Asian money is eyeing the opportunity. Just as foreign investors swooped during the 1998 Asian financial crisis to pick up cheap Asian assets, so cash-rich Asians are now looking for deals in the West. Singaporean sovereign funds have long been big investors in international property. And other big regional sovereigns, including Korea's National Pension Service (NPS), are likely to emerge in foreign markets soon.

The biggest players, however, will probably be Chinese institutions. China Investment Corp. (CIC) has already declared an intention to buy distressed assets in international markets over the next several years and will likely be followed by private players at the corporate and financial institution level. "We're not seeing much of that yet, but as other institutions are deregulated, to the extent they can make that move I think it will happen." The trend has been reinforced by the desire to diversify away from plain-vanilla investments such as U.S. Treasuries, which pay low returns and expose holders to significant exchange-rate risk.

CIC is reportedly looking to invest US\$50 billion in new foreign assets in 2009 alone. With some 87 percent of its US\$300 billion portfolio in cash as of last year, it could be a big spender. How much of this will end up in property assets remains to be seen, but if the emphasis is on distress, the weighting could be significant, with prime office assets in the United States, the U.K., and Australia likely to be important targets, according to one analyst. CIC has already voiced an interest in participating in the U.S. government Public Private Investment Program (PPIP), which involves distressed structured mortgage securities. Otherwise, sovereign fund property investments will probably be channeled via large private equity funds. Over the long term, Asian institutional property allocations "will probably be somewhere between 5 and 15 percent—that's probably the general global pattern."

EXHIBIT 2-4

Change in Availability of Equity Capital for Real Estate by Source Location

Locals Take Up the Slack

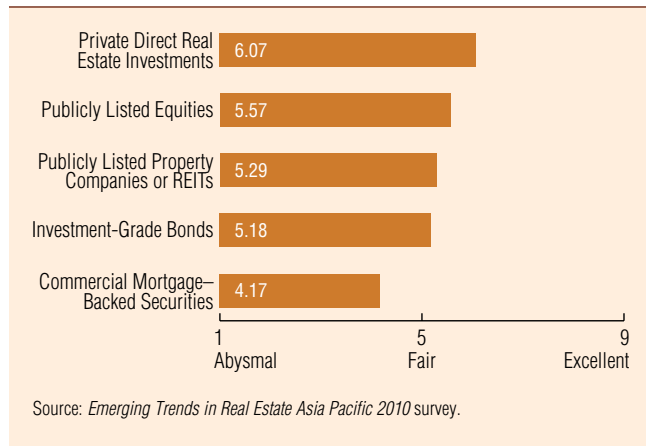
Even in countries where international investors remain active, the number of local buyers as a proportion of the total has now increased significantly. This is in line with the worldwide trend and is typical of recession scenarios. However, in Asia, the situation is more nuanced because most of the retrenchment involves Western-based capital. There is still a large body of regionally sourced capital (i.e., from within Asia) that remains in circulation around the region, although volumes are not what they used to be.

Much of this local money is “new.” Some of it has come from rich Asian families “who are acquiring assets after they were excluded over the last few years because the institutional markets were all gobbling up the good stuff.” Another source of new regional capital is likely to be Australia, according to one fund manager, who predicts that Australian funds will seek diversity in Asian markets. This is especially so given that so much Australian capital formerly invested in the United States or Europe is now being repatriated into a domestic market where buying local real estate is problematic, in part because a very high proportion of commercial real estate is already institutionally held.

Other active local players are large institutions, either corporate or government-backed. There are a number of reasons for this. For one, institutions generally have greater access to state-sponsored liquidity (remember that states are currently busy inflating money supply). This is certainly the case in China, where state-owned enterprises have received the lion’s share of the state-bank lending binge, even if their knowledge of the property market is minimal and their main motive is speculation.

In addition, big institutional investors tend to be cash rich and have less need of hard-to-find leverage than private equity buyers—a huge advantage in the current

EXHIBIT 2-5

Investment Prospects by Asset Class for 2010

environment. Institutions are also generally happier to settle for lower returns, and are less obsessed with bottom fishing than more speculative players. According to one Japanese investment bank analyst, for example, “we’ve been approached recently by many pension funds that want to increase their exposure to real estate because they realize prices are going down. They are happy to buy early because their return target is very low, maybe 5 percent.”

Another reason for the changing trend is that recent regulatory changes are driving institutional buyers to pick up real estate assets. Once again, this is most evident in China, where local firms have now usurped foreigners as the dominant buyers of prime commercial real estate. Domestic insurance companies in October received the green light to invest in real estate for the first time, triggering what is expected to be a rush for prime assets in major cities and helping to feed the fire already burning under the mainland office sector. Chinese insurers are thought to bring to the table at least US\$34 billion in prospective investment firepower, according to brokers Jones Lang LaSalle, or more than twice the current value of the Shanghai Grade A office market. The expected establishment of a domestic REIT market before the end of 2009 will have a similarly galvanizing impact, while upcoming rule changes in Taiwan that will allow domestic insurers to invest in China will introduce a further (though somewhat smaller) source of new funding, and possibly lead to more diversity in the Taiwanese market, where “there’s been a glut of insurance money willing to settle for a 3 percent yield.”

In addition, Asian and Middle Eastern sovereign wealth funds are also becoming increasingly active regionally. Singapore’s GIC, for example, recently spent US\$1.3 billion picking up distressed ProLogis assets in China and Japan. As one investment bank analyst observed, “That

EXHIBIT 2-6

Change in Availability of Equity Capital for Real Estate by Source Type



Source: *Emerging Trends in Real Estate Asia Pacific 2010 survey*.

was one of the biggest deals of the year, and a good example of where Asian institutional investors are seeing opportunities in their own backyard as the result of the withdrawal of foreign capital.”

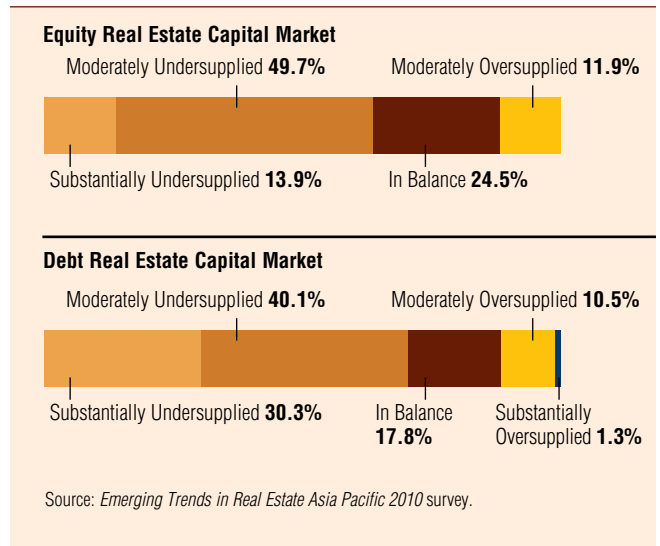
In general, this shift toward greater institutional participation is a positive evolutionary development for regional markets because until now the absence of a long-term institutional investor market has left local developers with few exit models for projects except to chop them up into strata title, which is messy and inefficient. Gradually, however, “we are moving toward a more mature market where ultimately most real estate will be held by institutions and the developer will become a proper deliverer to specification, allowing them to turn some of these long-term-held assets into cash and specialize in development, which is their key role.”

Banks Keep It Tight

In practice, the vast majority of property development in Asia and much, if not most, of property investment has long been financed by bank lending. The exception is Australia, where finance for development has recently become weighted toward equity (i.e., with LPTs participating as developers), largely as a result of the constant supply of pension cash flowing to Australian superannuation funds.

EXHIBIT 2-7

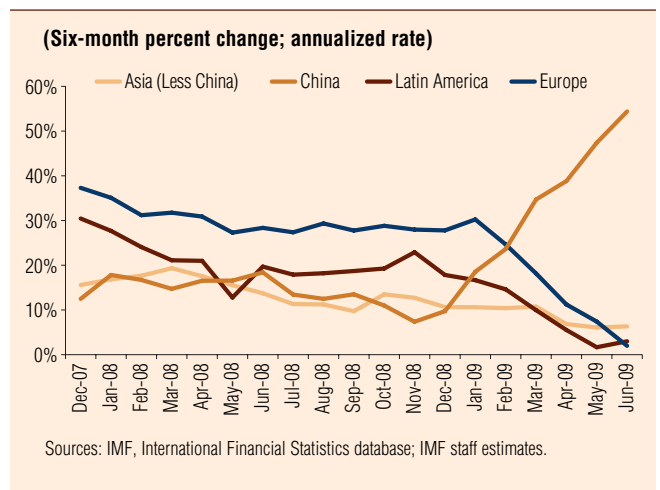
Real Estate Capital Market Balance Prospects for 2010



Source: *Emerging Trends in Real Estate Asia Pacific 2010 survey*.

EXHIBIT 2-8

Emerging Markets: Bank Credit to the Private Sector



Today, however, and with the exception of China, banks are not opening their wallets as they did in the past. In fact, lending data show that the pace of commercial bank lending growth in Asia during the first half of the year was actually lower than in the second half of 2008 when global financial systems seized up. In some countries, lending volumes actually shrank. One reason for this is that, with a few exceptions, international banks are playing a much-reduced role. This has created numerous headaches for Asian investors because they have few other options in getting funding, and given especially that in bigger economies such as Australia

and Japan the CMBS markets have shut down, and debt capital markets are only starting to come back. As one fund manager said, “The biggest issue is that there is no alternative at the moment to bank finance.”

Given that banks are now more discriminating, loans tend to go to bigger, more creditworthy borrowers with whom they have an existing relationship. The market is especially tight in Japan, but conditions have become tighter almost everywhere. Basically, “you have to have done the banks a lot of favors. The other thing is that they will really dig deep into all the aspects of the line of credit and the collateral and covenants, and on top of all that, the spreads are quite substantial. So it’s definitely a lender’s market if you’ve got the funds. But it is available, there have been deals done.” In the words of another fund manager, “They have to like the asset, and they have to see good income flow and/or a convincing refurbishment plan or repositioning story. I think they would be very cautious about us wanting to take a building back to 0 percent occupancy to do the renovations and then to assume full leasing risk.”

Predictably, leverage today is lower. Previously, in Japan, “you could get 80 percent through the securitized market or through the funds pretty easily, and even the local banks were ready to go that high. Now in some cases you’re pushing 40 or 50 percent LTV.” Outside Japan, the typical range now seems to be 50 to 60 percent. That may seem low by Western standards, but “the typical Asian loan book was never the ultra-high-leverage, nosebleed section type stuff anyway.”

That said, the lowering of LTVs “raises big issues for those GPs who have gone out promising 20 to 25 percent opportunistic returns, because in the absence of leverage, you really have to start to swing the bat with your risk to get those sorts of returns.” Asia has traditionally been a market where opportunistic funds have thrived, seeking returns of 20 percent or more. In the current high-interest, low-LTV environment, the days of those kinds kind of returns may be numbered.

While spreads have gone out substantially (from perhaps 100 basis points to 300 basis points or even more), interest rates do not feel especially punitive given that base rates remain extremely low. That will change eventually, however. As one fund manager pointed out: “One of my concerns is that a lot of the funding in Asia is very short term. It’s very rare to get any kind of loan maturity beyond three years and as a result, you’ve got a lot of people who have been able to convince the bank to refinance. But as rates increase three years or so out, you’re going to have a bit of a shock factor as all of these people have to refinance and they realize that LIBOR is 4 percent again.” Investors are asking for longer-term loans, but banks have generally been able to resist this, except in China, where many loans are now being negotiated for longer periods.

Alternative Solutions

Credit conditions improved significantly in the second half of the year, but getting financing will probably remain tough for the foreseeable future. As a result, alternative strategies and financing channels are beginning to emerge. Most obviously, investors are simply using less debt. Some funds that have had problems raising finance have mooted to investors the possibility of taking an all-equity position in an asset with the intention of raising debt within the time of the fund once the markets come back. However, this strategy suffers from the problem that it tends to concentrate risk. Moreover, without leverage, returns are reduced.

Other investors have shifted their focus from equity investments to offering debt. These include, in Australia, cash-rich superannuation funds that “are now coming in and doing traditional lending.” Japan has also seen some foreign funds do the same, although so far they have met with limited success due to the high spreads being asked. Mezzanine lending is also featuring “to fill in the gaps,” although demand for mezzanine debt is not nearly as high as expected last year.

Finally, merger and acquisition (M&A) opportunities are going to arise. A few funds oriented toward M&A deals are now trawling around Asia, looking to swap equity for an exit strategy. The best prospects for this type of deal appear to be in Australia, and relate to foreign banks that were involved in highly geared deals, in particular leveraged buyouts. Japan has similar opportunities, but the lenders in those deals were typically Japanese banks that are apparently not currently selling.

Capital Markets

Asian bond and stock prices plunged in late 2008. Although regional businesses were well insulated from direct involvement in Western toxic investments, and suffered few direct losses, share price declines generally exceeded those in international markets as foreign investors sold their holdings to repatriate investment capital. Bond prices fell, in some cases, even further.

However, markets have come back strongly in the second and third quarters. The MSCI Asia Pacific Index had rebounded more than 60 percent from its March lows by the beginning of the fourth quarter, and large-cap Asian property stocks have performed almost as well. As markets rose in mid-2009, bullish sentiment was reflected by the number of initial public offerings (IPOs) that began coming

EXHIBIT 2-9
MSCI AC ASIA PACIFIC Index

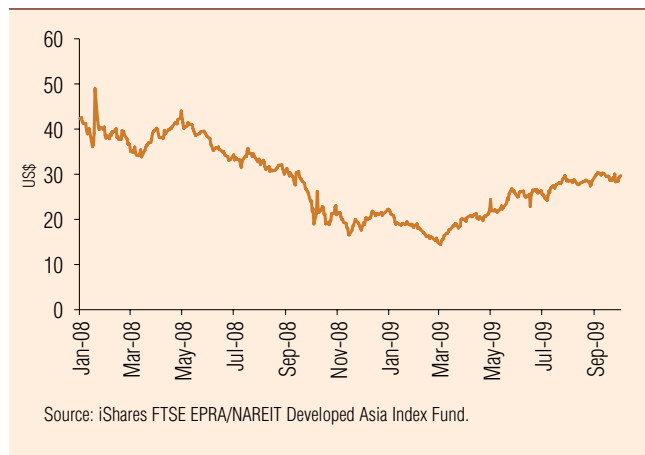


to market, especially after the Chinese government lifted its ten-month ban on domestic listings in June 2009. In the third quarter of 2009, no less than 30 Chinese and more than a dozen Indian developers had plans to list by the end of the first quarter of 2010, breaking a logjam of IPOs that had been backing up since mid-2008. Other already listed developers had similar plans to return for secondaries. Market appetite for all these deals seems questionable, however, especially after the Chinese developers started to come to market in September with richly priced offerings to which Hong Kong investors showed a lukewarm response.

While an overheated Chinese market probably needs no encouragement, one catalyst for these IPOs was created by the fact that Asia Pacific REITs (mainly in Australia) were able to recapitalize by raising some US\$14 billion by way of rights issues in the first eight months of the year. Although in reality the existing shareholders faced the prospect of massive dilution to their holdings if they refused to participate, the impact on market sentiment has been substantial.

Meanwhile, the absence in Asia of large and liquid capital debt markets continues to be a major shortcoming of Asian financial systems. Proportionate to the size of corresponding local equity markets, they remain tiny. Historically, only large listed developers have been active issuers of real estate-related bonds in Asia, and there has been little issuance outside the major commercial centers, as reflected in survey responses. The chaos in bond markets that ensued in the latter part of 2008 has not helped matters. "The bond market is still pretty trashed," as one fund manager put it. But while there has been no repeat in

EXHIBIT 2-10
FTSE EPRA/NAREIT Developed Asia Index Fund



Asia of the remarkable renaissance of the high-yield market in the United States, there is something of a shift in momentum as investors continue to seek out alternatives to short-term bank loans.

Rapid growth in bond issuance is evident especially in China, where "there is a demand for bond issues because developers are wary of the government intervening again and therefore they want to secure as much long-term finance as they can." Yields have come down sharply since the beginning of the year, when bonds of Chinese property names (issued in Hong Kong) were trading in the mid to high teens. Today, spreads are not cheap, but they trade at a similar level to the high-yield market in New York. According to one Hong Kong-based consultant: "Those we are involved with are 7 percent to 8 percent, which does seem expensive. On the other hand, if you are looking at 25 to 30 percent as a base margin, you should be able to carry the cost of a bond."

Meanwhile, issuance of local-currency Chinese corporate bonds (which generally have lower yields) totaled US\$76 billion in the second quarter of 2009, up 235 percent year-on-year. This outstripped even Japanese issuance for the quarter. Although only a few of these were property related, it does reflect the growing appetite for bond financing in mainland markets. Korea is the other Asian market featuring significant amounts of corporate bond sales.

Demand in China has been boosted because the property markets have been so energized by the Chinese liquidity boom, but the desire to diversify is apparent elsewhere in Asia, too. According to one fund manager in Singapore, "We are seeing a lot of activity starting in the structured-products space because people are a bit hesitant to issue straight equity, which is still below anything. They don't

want to be diluted, so they do a convertible bond, service the debt coupon at 5 to 6 percent, and also get a longer term—they are probably looking at five- to seven-year paper.” While “people are quite discerning about what kind of convertible bond they invest in as it’s only just about coming back to the market,” this appears to be a growth candidate in the future, given especially the low pricing. Also, in Australia, “convertibles are now starting to come in, especially at the lower end.”

CMBS

With the exception of Japan and perhaps Australia, Asian capital markets have never developed deep mortgage-backed securities markets. The Japanese CMBS market is by far the most active regionally. Since its inception in 1998, it has been dominated by international investment banks, which have provided much of the liquidity and issued most of the securities. However, the Japanese market remains far smaller than its U.S. equivalent. Japanese CMBS loan maturities total some US\$8 billion in 2009 and US\$13.6 billion in 2010, according to Moody’s. Much of the related debt is short term (i.e., three to five years), and therefore relates to property bought at the peak of the

In Japan, the upcoming rollovers have become problematic for a variety of reasons. Loan underwriting standards had become increasingly aggressive as demand for real estate peaked in 2006 and 2007. With the market for loan capital driven mainly by foreign banks, many purchases were financed at LTVs of 80 percent or more, and CMBS issuance boomed as buyers lined up.

Today, property values have declined sharply. In addition, almost all the international banks that were once the major players in this market have departed, leaving something of a vacuum. Japanese banks generally lack the appetite or capacity to step in, so there are few or no obvious candidates to take on the upcoming rollovers. In the first half of 2009, some 63 percent of Japan’s maturing CMBS bonds (valued at US\$665 million) have defaulted, driven mainly by developer bankruptcies.

While some investors are expecting a bonanza of distressed selling from defaults of the even larger body of 2010 vintage CMBS rollovers, the outcome is uncertain. For one, analysts speculate the government will step in to intervene, either directly, by setting up what amounts to a bailout fund as in the United States, or by “encouraging” local banks to play a new role. However, even if borrowers default, there is no certainty of a prime properties fire sale.

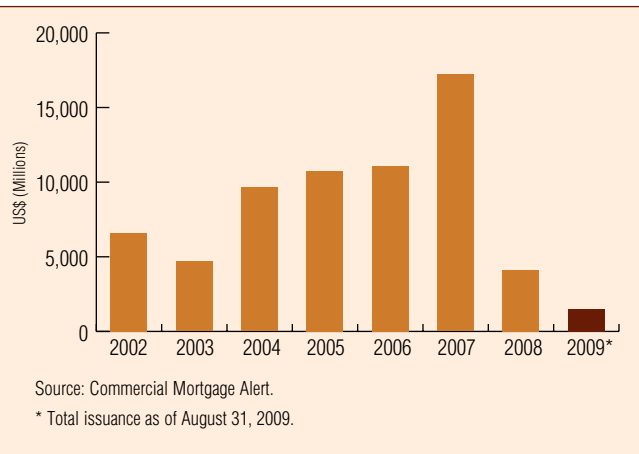
For one, Japanese banks still hold almost all properties that have foreclosed in the last couple of years, and will probably be in no hurry to sell future foreclosed properties either. As one local analyst said, “There have been more than 20 bankruptcies of Japanese listed real estate companies already this year, but still banks don’t want to push these developers for fire sales.” According to another, “People are saying how large the CMBS problem is, but Japanese CMBS have two-year tails. The market will take advantage of these tails and the pain will be far less than prophesized.”

Today, contrary to popular opinion, Japan’s CMBS market is not dead. Some US\$1.12 billion worth of commercial mortgage-backed bonds were issued in Japan during the first ten months of 2009. But that figure compares to some US\$14.8 billion for all of 2007, and there seems little prospect of a return to those levels anytime soon, if ever. This raises a question: how will the CMBS vacuum affect Japanese real estate markets?

It was only after significant quantities of CMBS began to be issued in Japan in 2004 that a sufficiently deep and liquid lending environment was created to satisfy investor demand for leverage, allowing Japan’s land prices to rise following a prolonged slump. It is therefore arguable that in its absence, local property markets will suffer from

EXHIBIT 2-11

Asia and Australia CMBS Issuance



market in 2006 and 2007. The United States, by contrast, which features a much wider range of maturities, has CMBS worth US\$38.4 billion maturing in 2010, followed by a massive US\$658 billion between 2010 and 2017, according to Deutsche Bank. Australia has a lower CMBS maturity profile than Japan, with some 44 percent of its CMBS bonds, or about US\$3 billion, maturing in 2009.

EXHIBIT 2-12

Asia Pacific CMBS by Collateral Location

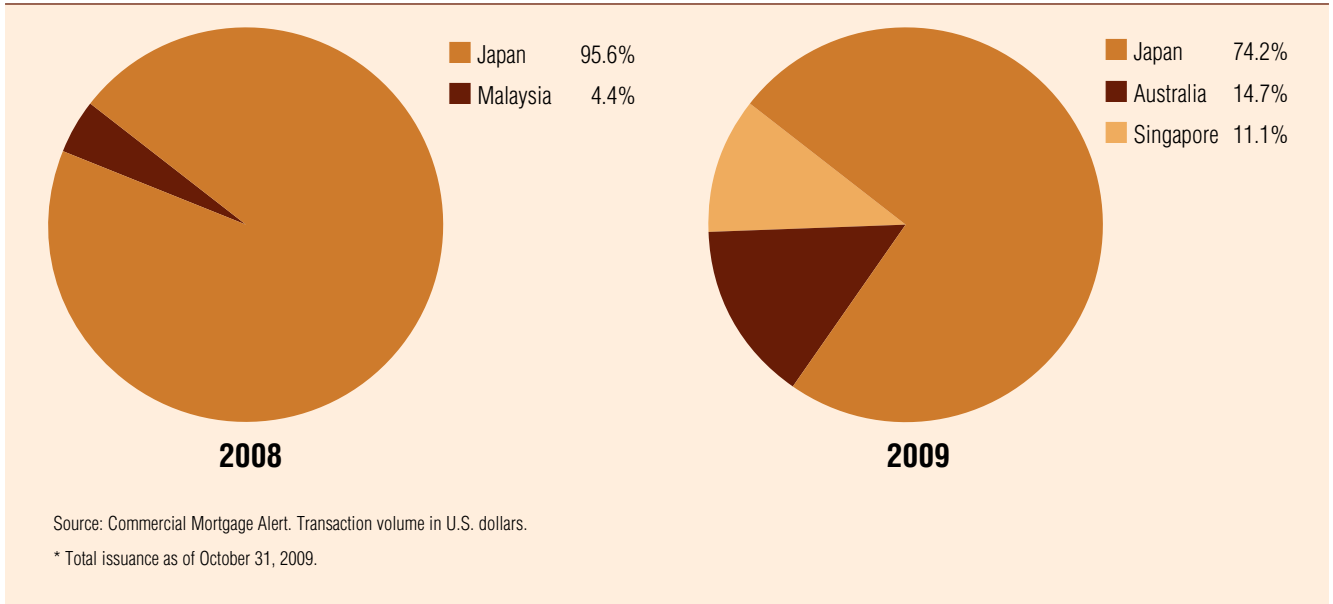
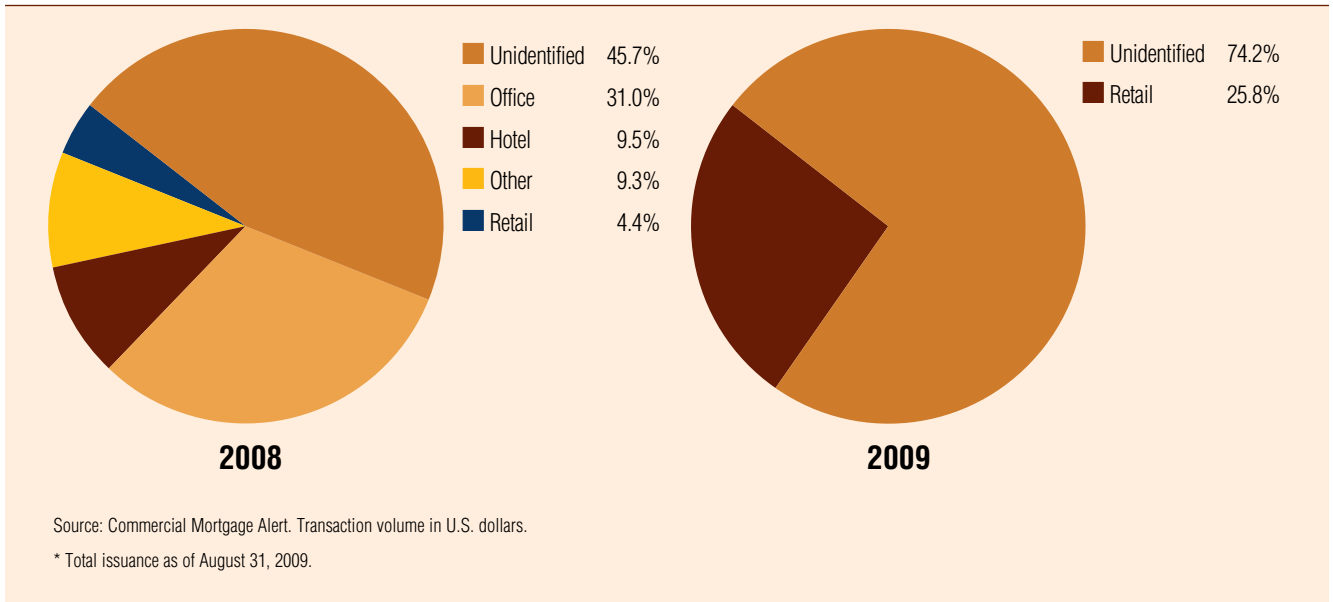


EXHIBIT 2-13

Asia Pacific CMBS Issuance by Property Type



a shortage of credit. Either there are fewer lenders active in the current market, or those banks that are active will have nowhere left to “onsell” their loans. Certainly, activity has been very low, with transactions down 63 percent in the third quarter from the previous quarter, even as volume picked up in other parts of the region.

For now, it is difficult to distinguish between a capital shortage caused by the credit crisis, which affects most global markets, and something related more specifically to the suspension of CMBS issuance. However, in the past the CMBS market provided a critical mass of liquidity for big real estate deals. This is now gone, as are the foreign banks that, by orchestrating the issuing and trading of CMBS bonds, had established a debt-funding pipeline amounting to some US\$14.8 billion in 2007. Local banks are not set up to perform the same function due to the way local banking regulations inhibit the amount of risk they can assume and also—at least to a certain extent—as a result of their corporate cultures.

In the past, there were many high-leverage funds operating in Japan that did so off the back of big debt packages sourced through the international banks, much of which was securitized. With these players now out of the equation, “it’s really reduced the type of people available in the market who are looking at transactions—and those are the people who tend to be cash buyers, or the ones with significant banking relationships, which allowed them to play a bit of a harder, a bidder role, in the markets.” What will fill this void, therefore, remains to be seen.

This question is not limited to Japan, of course. It applies equally to markets in the West. It is also true that the rest of Asia has had few problems in finding finance required to complete large volumes of commercial real estate transactions, even without significant CMBS markets. It appears a valid question, however, given that the current bank lending environment remains extremely tight.

REITs

Coming into the start of the year, Asian REITs were in dire straits, with pressure coming from a variety of sources:

- Debt ratios had ballooned as capital values sank, threatening to trigger LTV covenants as banks revalued properties.
- REIT profits were pressured by declining rentals and a thinning of tenants as the recession evolved.
- With most REITs subject to short-term (i.e., three-year) loans, refinancing risk was commensurately high.

At first, REITs tried to avoid the repricing issue by citing a lack of comparables. But as transaction volumes picked up in the second quarter, the reality became impossible to deny, and the prospect of looming revaluations precipitated a rush to recapitalize via the capital markets, repeating a trend seen in markets across the world. In the end, this was probably the best thing that could have happened

to the REITs. The rights issues were priced at such steep discounts that they effectively “pushed their institutional investors into a corner, forcing them to take their rights up or get diluted.”

In the end, recapitalization marked a bottom for Asia’s REIT market, with indices rebounding strongly afterward. Helped by steadily improving credit conditions, at least five Singapore and Hong Kong REITs also managed to extend or refinance.

Still, the REITs’ problems are far from over. Buoyant stock prices may not last, and more rights issues will probably be needed as banks continue to revalue asset prices (and potentially, prices continue to fall). Also, declining rentals are likely to lead to negative rental reversions for some REITs in 2010 and have put pressure on dividends. In Japan, over 75 percent of REITs expect to see distributions decline in the final quarter of 2009, some of them significantly. Even if REITs had cash to spend, finding accretive investments in the current environment is tough, while more bankruptcies can be expected among smaller REITs in Australia and also, depending on the level of government support, in Japan. Finally, share price volatility is probably set to continue, providing the kind of beta normally quite alien to supposedly staid REIT investments.

Notwithstanding this, despite recent rallies, many REITs trade at significant discounts to net asset value (NAV) and some offer extraordinary yields. In Australia, REITs are offering underlying distribution yields of around 10 percent. Singapore yields are comparable. In Japan, yields averaged a lower 5.6 percent in September, but these still compare favorably to government bonds, which returned just 1.2 percent. Overall, this makes Asian REITs a tantalizing investment opportunity. As one Australian consultant observed: “Recapitalization took care of the debt problem,” and with so many REITs still trading at deep discounts to NAV, “why not buy a REIT rather than the underlying asset?”

Of the individual markets, the Australian REITs have been hit especially hard. Funded by a continuing stream of capital from superannuation inflows, Australia has the biggest REIT industry in Asia, valued in October at about US\$61.5 billion. Performance over the past couple of years has been disastrous, however, with share values in October 2009 down more than 60 percent since their peak in September 2007. The fact that the now-diminished domestic REIT sector still represents almost 6 percent of Australian stock-market capitalization (compared to an equivalent 1.9 percent in the United States and 0.9 percent in Japan) highlights the extent of wealth destruction the collapse has inflicted on shareholders. Still, these steep declines are a sign of shareholder insecurity over REIT debt problems and the extent of losses on offshore property portfolios rather than an indictment on the prospects of the broader Australian market.

EXHIBIT 2-14

Asian Listed REITs/Property Funds*

Market	Number of Listed REITs	Average Dividend Yield	Ten-Year Government Bond Yield	REIT Market Cap (US\$ Millions)
Japan	41	6.88%	1.35%	29,883
Singapore	21	10.82%	2.57%	13,115
Hong Kong	7	8.21%	2.62%	7,595
Taiwan	8	4.47%	1.63%	1,634
Thailand	22	9.61%	3.71%	1,537
Malaysia	13	9.26%	4.34%	1,313
South Korea	4	8.33%	5.15%	238

Sources: CBRE, Bloomberg.
* As of end of June 2009.

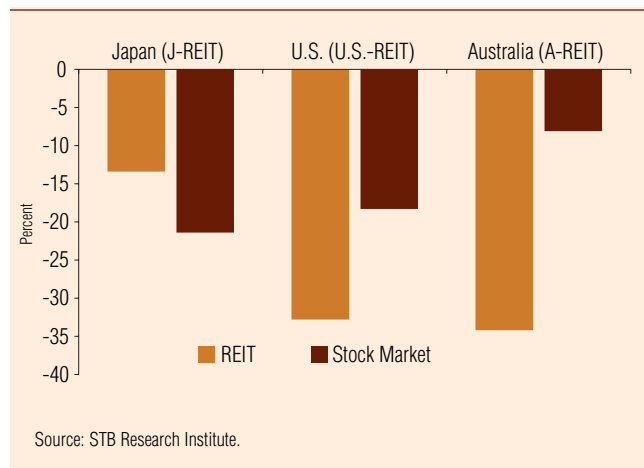
EXHIBIT 2-15

Listed Property and REIT Market Capitalization

	S&P/Citigroup	
	Global BMI Property Index (US\$ Millions)	Global BMI REIT Index (US\$ Millions)
Global	663,410	387,015
Asia Pacific	282,285	107,091
North America	210,856	202,172
Europe	109,713	79,082
Japan	95,784	28,116
Hong Kong	91,390	6,912
Australia	63,707	58,543
China	35,103	0
Singapore	29,704	10,489
India	6,066	0
Taiwan	5,395	1,223
Philippines	2,838	0
Indonesia	2,185	0
Malaysia	2,135	107
New Zealand	1,701	1,701
Thailand	1,536	0

Source: S&P/Citigroup Global Equity Indices. All data as of September 9, 2009.

EXHIBIT 2-16

Comparison of REIT and Stock Market Total Returns

In Japan, REIT losses so far are not as bad as in Australia, but this possibly reflects a failure to address the issues rather than a less unhealthy market. New City became the first Japanese REIT to fold in October 2008, and many investors are expecting conditions to deteriorate in 2010 as CMBS rollovers arrive, by which time a large number of J-REITs are likely to be in breach of loan covenants and, in the absence of a new supply of capital, will have to sell assets. Some have already begun disposing of minor properties.

This process threatens to become problematic, however. According to one Tokyo-based asset manager, "I think it would be difficult for them to take big losses on the portfolio because it will potentially impinge [upon] their ability to pay dividends, and if they don't pay dividends for two consecutive quarters they can be delisted." Local accounting rules soften the impact of this regulation in the event of REIT mergers, which further encourages pressure

toward an M&A solution. This favors the bigger players who can pick and choose their partners. “The problem we could face is that you’ll get a couple of the weaker REITs merge and it’s not really going to add anything to them. Plus, a lot really depends on making sure you’ve got a good sponsor behind you—that’s been the big challenge factor in the REIT industry in Japan.”

Significantly, there have so far been no moves in Japan to recapitalize via the equity markets as has happened elsewhere, because “their share prices are so damaged that they’re getting pressure from their existing shareholders not to dilute.” A lot may depend on how far the Japanese government is prepared to go to protect the industry, either by arranging new loans or by encouraging existing lenders to forebear. Authorities have rolled out—or are about to roll out—various programs to support J-REITs, primarily in the form of additional lending facilities, together with tax breaks that will encourage REIT M&A. The extent to which the government is willing to intervene is hard to forecast, although on past performance some kind of intervention seems more than possible. As one analyst says: “The debate is that the FSA won’t allow another REIT to fail. But whatever happens, I don’t think we’re going to see a great flood of high-quality assets coming to the market.”

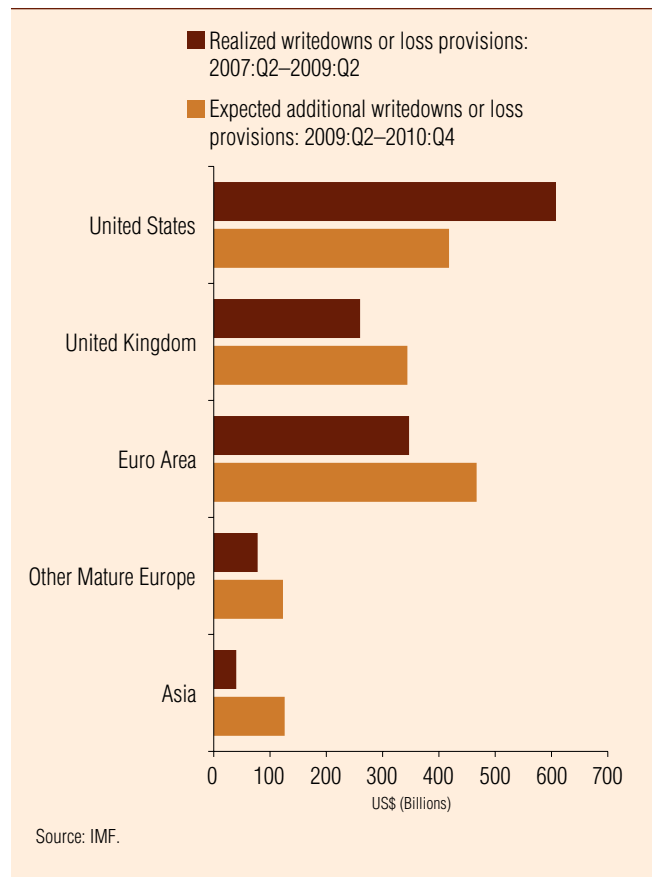
Liquidity: How Long Can It Last?

The remarkable resilience of Asia’s economies to the impact of the credit crisis does raise the question of just why the region should have gotten off so lightly. There are a number of factors at work. First, Asian businesses and governments that were traumatized by the effects of the last regional financial crisis of 1997 imposed disciplined monetary and lending regimes in its aftermath that are still in place ten years later. Lower levels of leverage have meant that banks, businesses, and consumers are well capitalized and have steered clear of the type of risky and speculative investments that have fared so calamitously in the West. Dealing with a credit crisis is much easier when you have money in your pocket and relatively few debts. As a result, capital in Asia has flowed to more productive purposes than the paying down of mountains of liabilities.

This has also contributed to the unquantifiable but constructive role played by positive sentiment, which has proved important in keeping the wolf from the door. One U.S.-based interviewee marveled at how the atmosphere in Hong Kong “seems to be booming” despite a deep recession. “You read all this really gloomy trade and GDP data, but the confidence level in many cases is still unbelievably high, and you don’t know if there’s a problem with the survey or people are

EXHIBIT 2-17

Realized and Expected Writedowns of Loss Provisions for Banks by Region



just more optimistic.” There is a fine line, of course, between denial and optimism, but lenders are more prone to push the button when they are panicked, and the lack of fear has played its part in buoying the markets.

The biggest single factor at work here, however, has been the ability to sustain sufficient levels of liquidity within the system to prevent it from being pulled back into the abyss. In Asia, as elsewhere, loose monetary policy has played an important part, and more recently, exuberant capital markets have provided large amounts of new capital for rights issues and IPOs. Above all, however, the role played by China has been the foundation for Asia’s liquidity phenomenon, indirectly helping to lift many regional economies out of recession. As one fund manager put it, it has provided “a tsunami of money that is sloshing around the system and floating a lot of boats.”



The problem, however, is that China may not be spending its money efficiently. In particular, so much capital is being lent out by domestic banks that leakage of cash into the wider mainland economy is threatening to exacerbate overcapacity in the industrial sector and create asset bubbles in the domestic stock and property markets. In addition, and as the Chinese banking regulator has repeatedly warned, the massive surge in lending may lead to a wave of bad debt down the road, with consequences that are still hard to predict. For the time being, however, China's liquidity drive should keep the domestic economy ticking over, together with those of its neighbors in Asia, from iron ore mines in Australia to semiconductor fabs in Taiwan. But now it begs a crucial question: how long can Beijing keep the ball in the air?

The answer to which is: probably quite a while. According to official figures, Chinese bank sector bad debt currently stands at less than 2 percent (although that's partly because there are so many new loans). Sovereign debt-to-GDP ratios, meanwhile, probably stand at around 60 percent, well within

international norms. Given that Chinese banks not so many years ago functioned relatively normally carrying bad-debt ratios estimated at somewhere between 20 and 30 percent, they can probably continue to operate on this basis for years, if necessary. As one Shanghai-based consultant said, "They're between a rock and a hard place, but the Chinese government has the deepest pockets in the world, so they should be able to keep this up for some time."

The Rerating of Risk

Given real estate's role as ground zero in generating the global economic meltdown, many investors assumed in the immediate aftermath of last year's crash that Asia had entered a new dynamic. Regional property assets, whose values had risen so steeply in the years before the crash, would be rerated for risk, and bank spreads and investors' expectations for returns would move to a higher orbit in order to compensate for this shift in perception. There were also fears that fund allocations, which in previous years had increased, would be reweighted downwardly, back toward the historic norm.

Barely a year later, however, there is little indication this has happened. True, cap rates and interest rates have gone out by, say, 200 to 300 basis points. However, on the one hand, that doesn't reflect the true risk-adjusted cost of capital because of ultra-low base rates. And on the other, sellers are not motivated to sell even at the relatively benign pricing implied by the new cap rates (a reluctance reflected in the lack of transactions). Meanwhile, as stock markets rise and economies float on a wave of government-induced liquidity, cap rates and interest rates now seem to be succumbing to gravity, which many investors seem to consider a natural course of events.

At the same time, flows of international capital into Asia seem to be picking up, and local capital is both plentiful and oriented to buy. If anything, overall interest in Asian real estate as an asset class appears to have increased from a year or two ago. GIC, for example, one of the Singaporean government's sovereign wealth funds, recently reported that it had increased its allocation to real estate from 10 to 12 percent in an effort to "mitigate against further potential losses" incurred to the fund's portfolio in 2008. And this does not appear an isolated event, given the feedback from many interviewees who report likely increases in allocations, especially from institutional investors.

Why such a positive view? First and most obviously, "where prices have fallen, they see opportunity"—even if price declines have not been as steep as predicted. Beyond that, property assets are seen as a hedge against future inflationary pressure, which seems unavoidable given the vast amount of government debt issued recently in Western countries. But most important, perhaps, is the realization that Asia has been less damaged by the great deleveraging and therefore offers the best long-term prospects for future economic growth, a scenario investors are willing to chase.

It is possible, of course, that changing circumstances may derail the growing expectations of a soft landing in Asia (let alone a V-shaped recovery), and persuade banks to flush out overleveraged buyers. Further, it remains to be seen what will happen to the cost of capital once base rates rise to higher—possibly much higher—levels, as they are already threatening to do. At least for now, however, Asian real estate seems to be weathering the storm much better than its counterparts in the West.



Markets and Sectors to Watch

“The markets are still clouded, but every cloud has a silver lining.”

Last year’s *Emerging Trends* survey and interview participants warned investors to be “picky about markets and partners.” This year’s tone is a mix of concern and optimism, as buyers and sellers continue to tighten buy/ask spreads in hopes that the recession has ended throughout the Asia Pacific region. “Declining markets create imperfections leading to opportunities, especially when companies have liquidity needs,” states one investor. This seems to be the case in 2009 as total deal volume in the Asia Pacific region increased from US\$22.5 billion in the first quarter to US\$59.2 billion in the third quarter, according to Real Capital Analytics. Investors agree, stating, “There will be more deals in the coming year,” and, “Our main goal is to buy properties.”

A feeling of hopefulness is found in *Emerging Trends* results, as participants continue to feel that economic activity throughout the Asia Pacific region is improving. These expectations are strongly influenced by government stimulus packages, offering various interest subsidies, tax cuts, and easier access to mortgages in attempts to fuel financial systems. Economists anticipate that they will, as the latest forecasts of 2010 GDP values display positive projections for much of the Asia Pacific region, excluding possible contractions in Japan and Singapore. These predictions of growth throughout Asia, though, are heavily weighted by the expectations of success for China and India for the coming year. Many professionals agree, stating, “Many regional economies benefit from China,” “regional economies can outperform given growth in India and China,” “China is having a big impact on Japan,” “there’s a big correlation between Australia GDP and China,” “Asia’s economy is less certain without India and China as the drivers.”

The focus on China’s and India’s opportunities for growth is reflected in the choices made by survey participants for real estate investment and development:

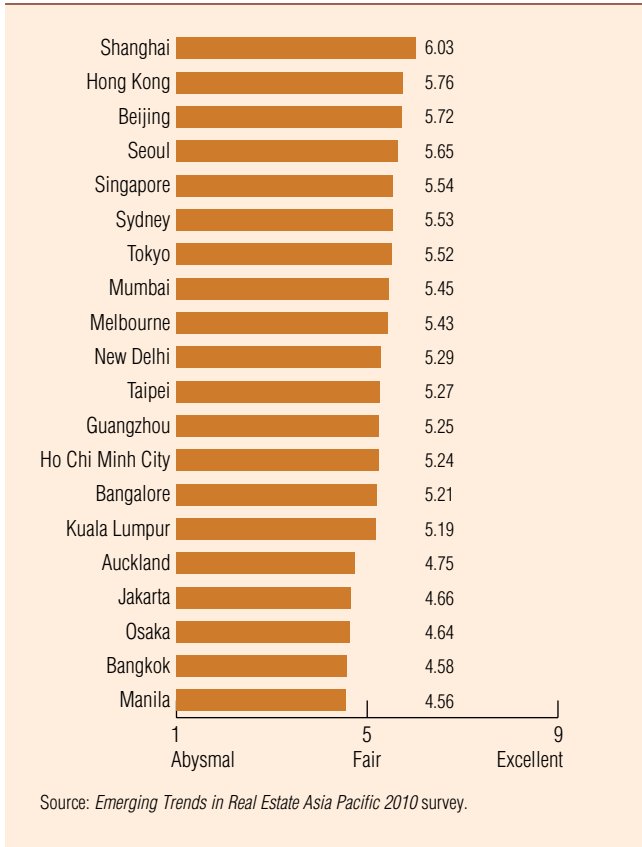
- Shanghai, Hong Kong, and Beijing are the top three real estate investment prospects;
- Shanghai, Mumbai, and New Delhi are first, second, and fourth, respectively, for real estate development opportunities;
- In 2010, Shanghai has had the largest rating increase for both investment and development in comparison to the 2009 survey; and
- Mumbai posted the highest buy rating in three of the five property sectors and is fifth and sixth in the remaining two.

Markets to Watch

“I think there are buying opportunities for some time,” states one investor. *Emerging Trends in Real Estate Asia Pacific* survey participants seem to agree, as the averages of both investment and development ratings have increased compared to 2009. In addition, 16 of the 20 markets covered have increased their investment ratings, and in the development category 14 of 20 have done the same. Supporting these values are investors who believe that “potential buyers are starting to see more investment opportunities,” “the large amount of lending continues to move into real estate investing,” and “2010—a very big year with development in the pipeline.”

EXHIBIT 3-1

City Investment Prospects



Even with increased city ratings and positive buzz from interviewees, many investors and developers enter 2010 cautiously. “My glass is half empty,” “generally, development will be slow,” “acquisitions will only focus on completed projects with tenants,” “the markets will hit bottom at the end of 2010,” stated many pessimistic interviewees.

Regardless of what direction the markets turn in 2010, we are aware that there seems to be some rebound on various regional levels and an overall feeling of greater security compared to the 1997 Asian financial crisis. This experience and lack of complex financial deals should assist investors in dealing with the current global concerns.

EXHIBIT 3-2

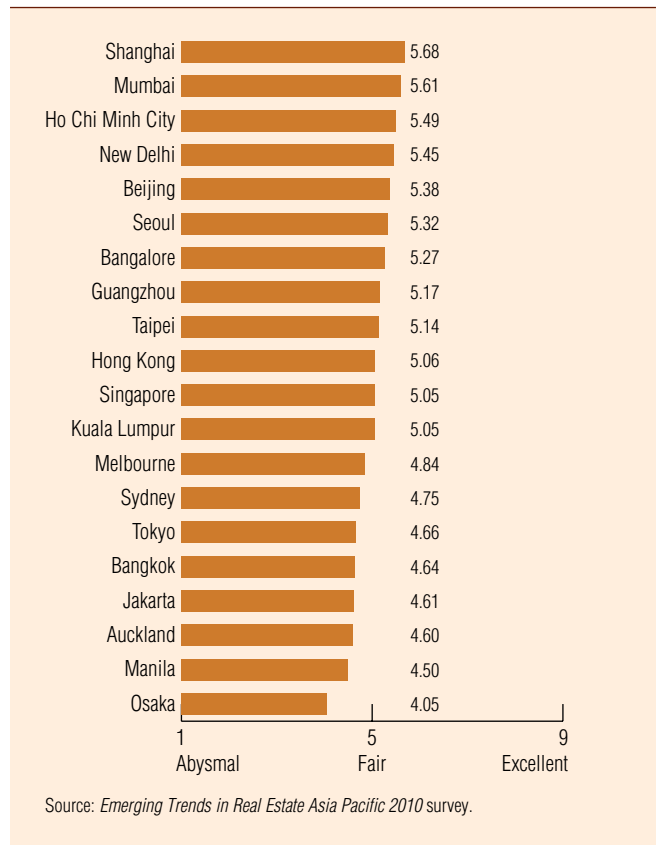
2010 vs. 2009 Investment Prospect Ranking

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

Sources: *Emerging Trends in Real Estate Asia Pacific 2007–2010 surveys.*

EXHIBIT 3-3

City Development Prospects



Top Investment Cities

Shanghai

In 2010, *Emerging Trends* participants believe Shanghai is the top investable Asian Pacific city as it gains four spots over its 2009 rank and climbs back into the first-place position it held in 2008. However, it is important to recognize that the key driver for outperformance in Shanghai, and indeed in China generally, is the government's decision to inject liquidity into the economy, leading to a surge in bank lending to the property sector and a sharp rebound in commercial property prices. Many agree that the new flow of domestic equity and debt back into the Chinese real estate markets will be difficult to sustain in the long run, especially in view of increasing vacancy rates in both the commercial and residential sectors, combined with declining rental rates. In addition, international participation in the Chinese property market (with the notable exception of Hong Kong developers) has been limited by government restrictions to foreign investment in the sector. As a result, most foreign activity is today manifested by selling rather than buying, as investors take the chance to cash out at unexpectedly high levels.

In particular, there is heightened interest in Chinese land purchases, with transactions topping US\$1 billion as developers take the opportunity to stock up their land banks. *Emerging Trends* survey results reflect this trend, as Shanghai moves up seven spots, topping the list of development prospects for 2010. One factor driving the development surge has been Shanghai's hosting of the 2010 World Expo, which expects to draw some 70 million visitors. Development focus continues to be on retail and residential, with the majority of survey participants rating these areas as buys for the coming year.

EXHIBIT 3-4

Shanghai

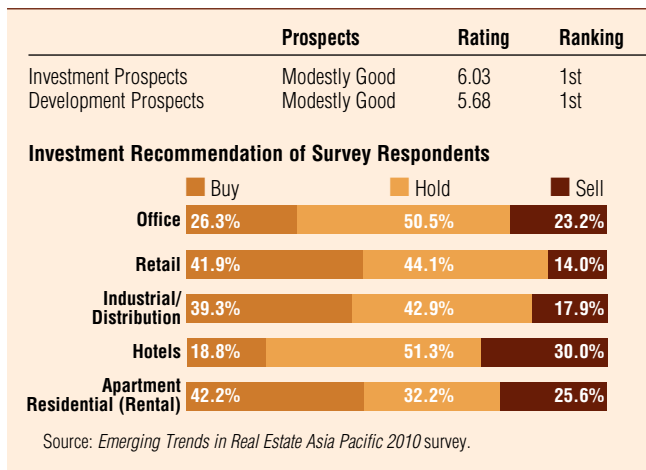
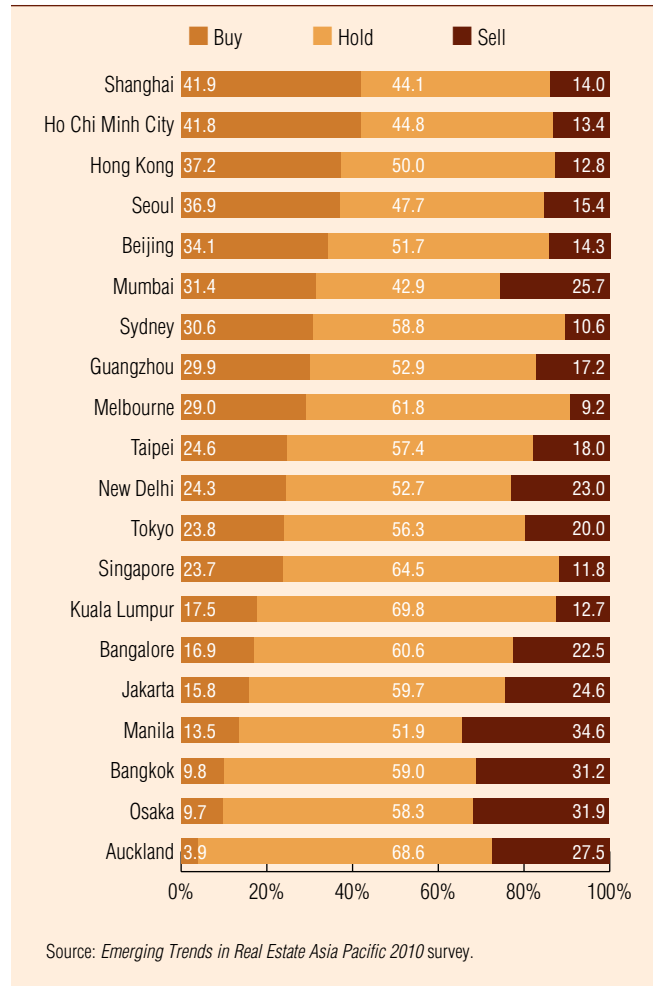


EXHIBIT 3-5

Retail Property Buy/Hold/Sell Recommendations by City



In the first half of 2009, residential growth exceeded 11 percent, and analysts expect this to continue in 2010, spurred strongly by ongoing demand and the relaxation of a government ban on foreign purchases of residential property. Shanghai retail is expected to continue to grow too, with no leasing concerns as the economy stabilizes. Projections currently call for an additional 1.8 million square feet of retail to come online in the coming year.

Although Shanghai has one of the best and largest ports in the world, survey results suggest little new activity in the industrial sector, mostly due to big declines in global demand for Chinese exports. In addition, the office sector has recently seen a strong rebound in capital pricing, caused partly by speculative buying and partly by

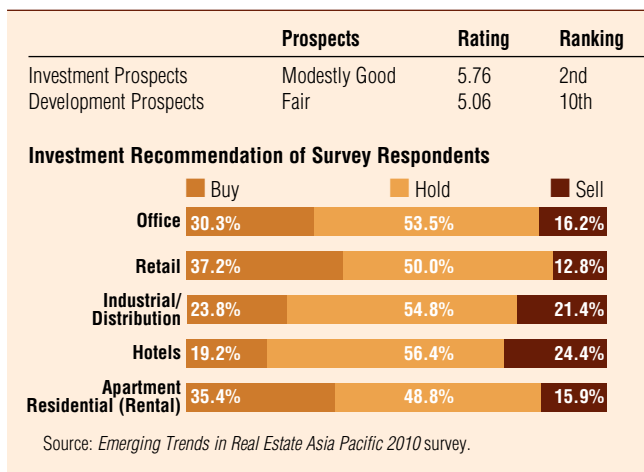
the relaxation of government rules on insurance company investment in property assets. Vacancies in Class A properties continue mushrooming as foreign companies shelve local expansion plans and an avalanche of new supply arrives on the market. The sector offers few bargains in the current environment.

Hong Kong

Hong Kong's investment prospects take one step forward, moving from third to second in the 2010 *Emerging Trends* survey results. Similar to Shanghai, capital flows from China's liquidity boom buoy prices in both the commercial and residential sectors, despite weak real estate fundamentals. Price advances have been narrow, however. A few big transactions in the commercial sector appear to have raised the benchmark, but there has been little follow-through in the rest of the market. The high-end residential sector also is experiencing rapid price increases, with a handful of purchases at astronomical prices. This has had a knock-on effect in the mainstream market, but transactions remain thin generally and because most of the activity at the top end is driven by mainland buyers eager to get capital offshore, there is a lingering impression that price increases are fragile and artificial.

Survey participants concur, as over 35 percent believe it is time to buy and almost 49 percent believe it might be better to hold. Rentals for both residential and (especially) office properties have declined. Prime space in the central business district (CBD) on Hong Kong Island has been hit particularly hard given the retrenchment of the global financial

EXHIBIT 3-6
Hong Kong



sector. Survey responses agree, as over 53 percent suggest a hold period for the city's office real estate in 2010.

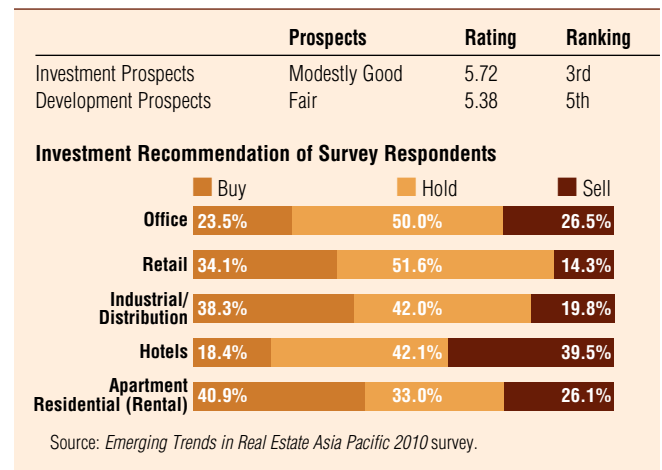
Unlike in the United States, retail in Hong Kong continues to show strength through the current economic crisis. Transactions have increased, and over 37 percent of respondents believe the sector still has buying opportunities.

Hong Kong's development ranking declined four positions to tenth overall, largely as a result of a lack of new development projects as local developers take a wait-and-see attitude. Even so, interviewees believe in development opportunities, claiming, "Hong Kong developers are coming back into the markets," and, "Development confidence is back because of the confidence in the city's infrastructure."

Beijing

Another Chinese city rounds out the top three investment and development rankings, with Beijing emerging as the survey's largest mover, jumping nine spots to third place in investment and 14 spots to fifth place in development. As one interviewee says, however, "It's domestic money that's running Beijing in the coming years," with foreigners continuing to sit on the sidelines as land and property prices rocket upward. Regardless of the source, capital flows to this city continue to rise following the sudden reversal in financial fortunes in the first quarter of the year.

EXHIBIT 3-7
Beijing



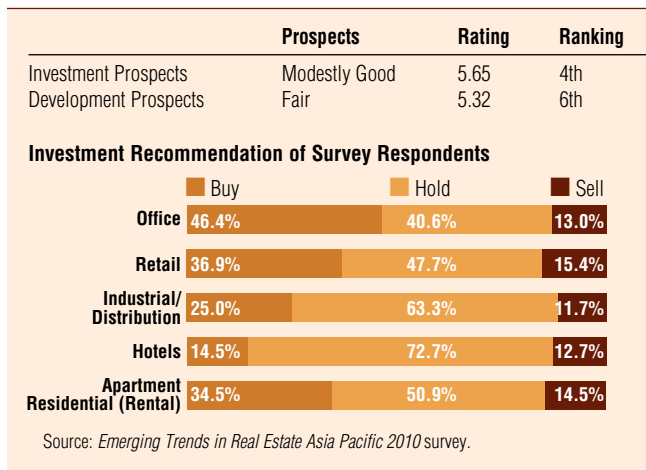
In the office sector, local buyers have again been responsible for pushing up capital prices, despite a vast amount of oversupply (a legacy of overexuberance in the run-up to the Olympic Games). Rentals remain depressed and are expected to fall further. The financial subdistrict appears to be somewhat less oversupplied than the rest of town, however. Almost 40 percent of survey respondents

believe there are still great buying opportunities in the industrial/distribution sector, with the city ranking third overall. Manufacturing throughout China began to recover in the middle of 2009, creating renewed interest in factory buildings even though China continues to suffer from chronic and growing overcapacity. Construction of new industrial complexes has once again picked up, but leasing interest seems again to be domestically based. Beijing residential properties remain attractive prospects for survey participants, with almost 41 percent believing now is the time to buy. As in Shanghai, this may be due to the government's lifting rules banning foreign purchases of residential properties.

Seoul

Seoul makes a positive move in this year's survey, jumping from sixth to fourth in investment prospect rankings. This was a surprise to many. As one investor said, "It looked as if things were going to be very dire, but with the currency moves and some action by the government, the markets remained strong—there have been some very impressive sales." Seoul continues to be a market that is hard for for-

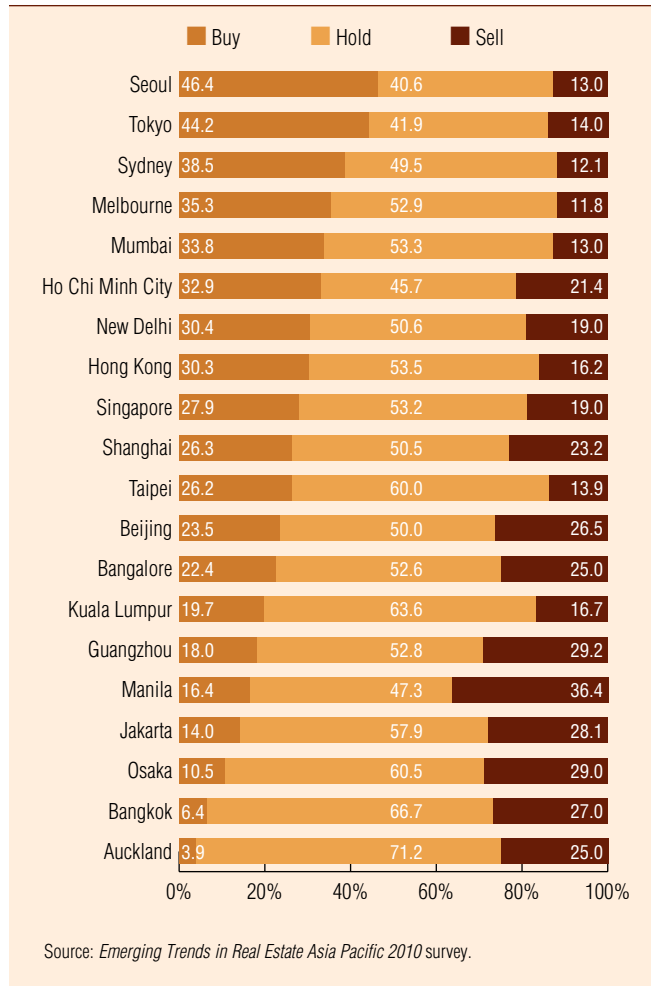
EXHIBIT 3-8
Seoul



eigners to crack, however, and the positive pricing trend comes in spite of apparent oversupply, with many large development projects due for completion in the next few years. As a result, "I think there's still some weakness, at least on rent levels."

Survey respondents believe in further expansion given Seoul's development ranking average increase from 4.98 to 5.32, according to *Emerging Trends* results. Government

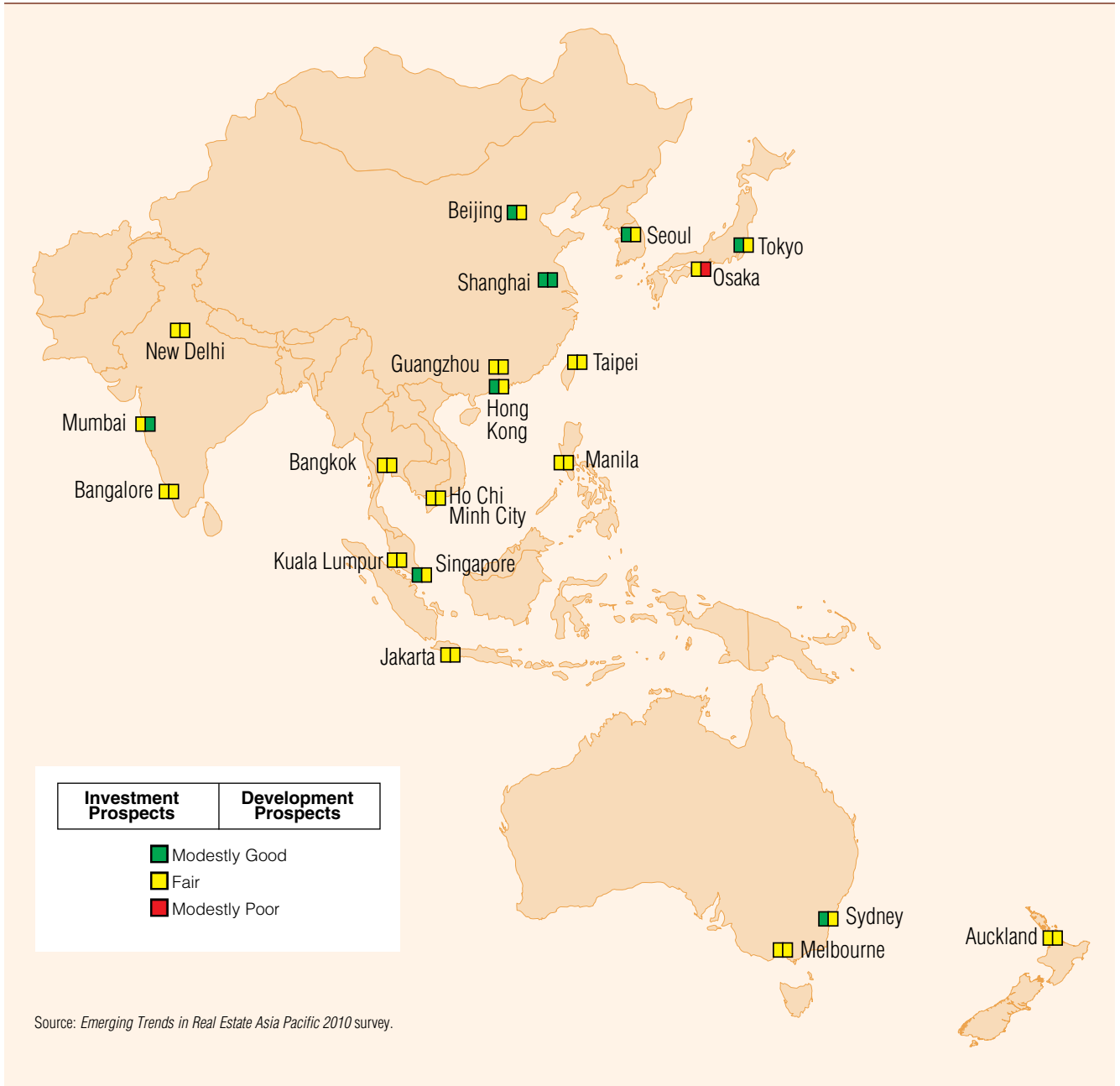
EXHIBIT 3-9
Office Property Buy/Hold/Sell Recommendations by City



stimulus continues to be the key driver, with a series of new laws and relaxed restrictions aimed at opening the market to foreign investors. In particular, respondents view the office sector positively, making it their number-one prospect, with over 46 percent declaring it a buying opportunity. Even so, analysts continue to call for increased office vacancies and fluctuating rents throughout 2009. Even with landlord leasing bonuses and rent guarantees, a 3.8 percent unemployment rate might be too much for current levels to be sustained.

EXHIBIT 3-10

Leading Asia Pacific Cities

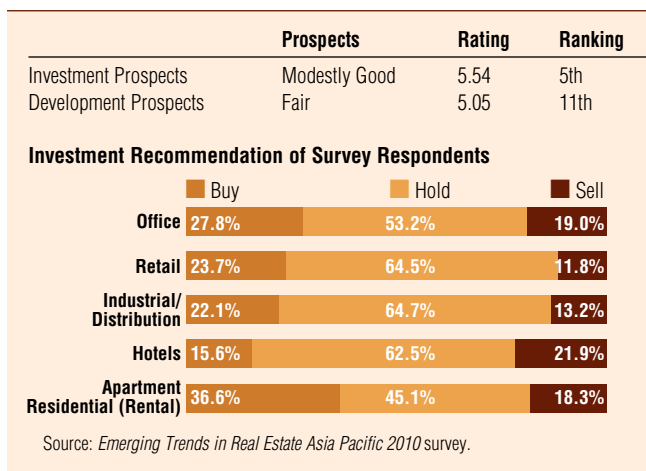


Singapore

Despite the fact that capital prices have fallen precipitously in 2009, “there’s a lot of supply coming [online] in Singapore, a huge amount over the next two years,” as one real estate professional put it. Survey results seem to concur, as the city stays within the top five in 2010, but falls from its number-two investment ranking in 2009. Concerns about overdevelopment were reflected in the city’s development ranking, dropping four positions to 11th overall.

Emerging Trends survey results correctly identified residential sales as an investment opportunity, with almost 37 percent of respondents believing it is time to buy and 45 percent stating a hold position. But with residential prices rising a record 15.9 percent in the third quarter over the previous period, the moment now appears to have passed, and most analysts are now concerned about the prospects in the sector. Respondents believe all other real estate markets are a hold in 2010. The office sector has also been hit

EXHIBIT 3-11
Singapore



by the fact that Singapore has traditionally operated as a financial hub. Many financial firms have now left town (and the region) as a result of the credit crisis.

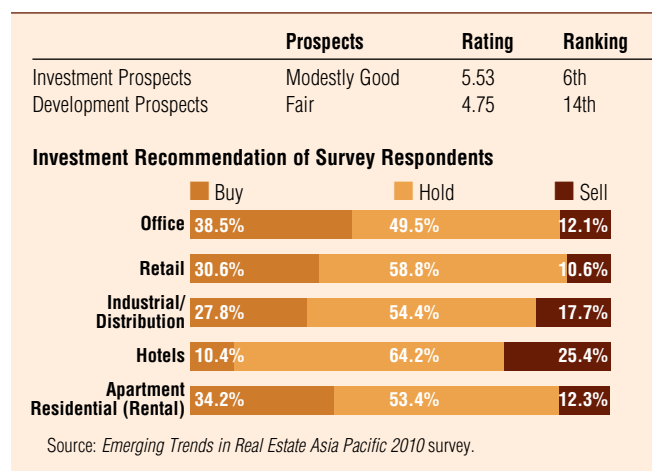
In addition, Singapore’s volatile nature means it remains something of an enigma to foreigners, who find it difficult to follow its choppy moves: “It’s just a tough market to get your head around. The fluctuation between rental and capital values has been huge, so going back to look at historical data, it’s very hard to see where it’s going to finish. But contrary to [Hong Kong], which is the most similar [market], it’s far more open and easy to trade. So when it moves, it’ll move a lot [more quickly] because people can get in and out.”

Sydney

According to survey results, Sydney is the third-largest gainer, up from a 4.89 (14th) to 5.53 (sixth) for 2010. Growth results are supported by a relatively prosperous (commodity-based) Australian economy, with forecasted average growth of 3.2 percent over the next five years. In addition, effective government stimulus packages and a strong banking system have helped the country weather the global crisis, limiting the downside. Investors project growth over the near term for Sydney, maintaining that “cap rates are likely to firm in 2011 and 2012 in anticipation of rents rising and as demand builds up.” Nonetheless, commercial real estate in the city is now experiencing increasing vacancies and lower rental rates.

“In Australia, we learned the lesson in the 1990s not to overdevelop and only build with precommitment,” said an Australia-based developer. At the moment, very little development is underway in the city, largely a result of a shortage of available financing. Sydney’s development ranking average is almost equal to 2009 and maintaining 14th

EXHIBIT 3-12
Sydney



place. Still, interviewees were comfortable with the lack of development projects for 2010. The lack of a pipeline has eliminated any prospect of oversupply, leading one investor to project “aggressive double-digit growth in rents at some point in the short term.” Other investors confirm this sentiment, saying, “Rents will increase as office supply will not satisfy demand,” and “demand for office space will be under control, with limited supply coming onto the market.”

Sydney's office sector seems particularly interesting, with 39 percent of respondents seeing buying opportunities there. In 2010, some 34 percent expect openings to buy residential properties in Sydney, with the market helped by the Australian government continuing to offer incentives for first-time homebuyers. At the same time, however, concerns about a housing bubble remain, with home prices continuing to increase.

Tokyo

Investment prospects for Tokyo have fallen from the number-one spot last year to seventh overall in 2010. The economic crisis continues to be the number-one cause of concern, with the local economy facing falling imports and consumer spending in the West. Market potential

EXHIBIT 3-13
Tokyo

	Prospects	Rating	Ranking
Investment Prospects	Modestly Good	5.52	7th
Development Prospects	Fair	4.66	15th

Investment Recommendation of Survey Respondents			
	Buy	Hold	Sell
Office	44.2%	41.9%	14.0%
Retail	23.8%	56.3%	20.0%
Industrial/ Distribution	21.9%	60.3%	17.8%
Hotels	17.6%	54.4%	27.9%
Apartment Residential (Rental)	40.3%	44.4%	15.3%

Source: *Emerging Trends in Real Estate Asia Pacific 2010* survey.

remains good, however. Foreign investors are now migrating to Japan as part of an overall flight to quality in difficult times. Others are looking to pick up prime assets, which rarely come into the market except in times of crisis. Also, because the typical Japanese real estate deal involved higher leverage than elsewhere in the region, more and more opportunistic investors are anticipating a flood of distressed deals to hit the market in 2010 and beyond in the wake of steep property prices declines.

Most investors are focused on the office and residential sectors, which now feature buy recommendations of 44.2 and 40.3, respectively. This office buy recommendation is second only to Seoul in the 2010 *Emerging Trends* survey. Interest here may be boosted by slowing vacancies and

rental rate declines. The perceived stability offered by such a major market continues to be a big draw, and although Japanese returns have always been fairly modest compared to those achievable in the rest of Asia, widening cap rates are attractive to investors not looking to shoot the lights out. Interviewees cite "attractive yields in Tokyo," which "is a good place to look for income yield." Also, "significant yield movement and the positive gap over the cost of borrowing make investing really quite attractive at the moment."

Mumbai

India's lack of dependence on foreign demand from consumers has been the key advantage for this country as it has managed to avoid the severe recession that has hit most other Asian countries. This is reflected in *Emerging Trends* results as Mumbai's investment prospect average has increased, even though it dropped one position from last year.

EXHIBIT 3-14
Hotel Property Buy/Hold/Sell
Recommendations by City

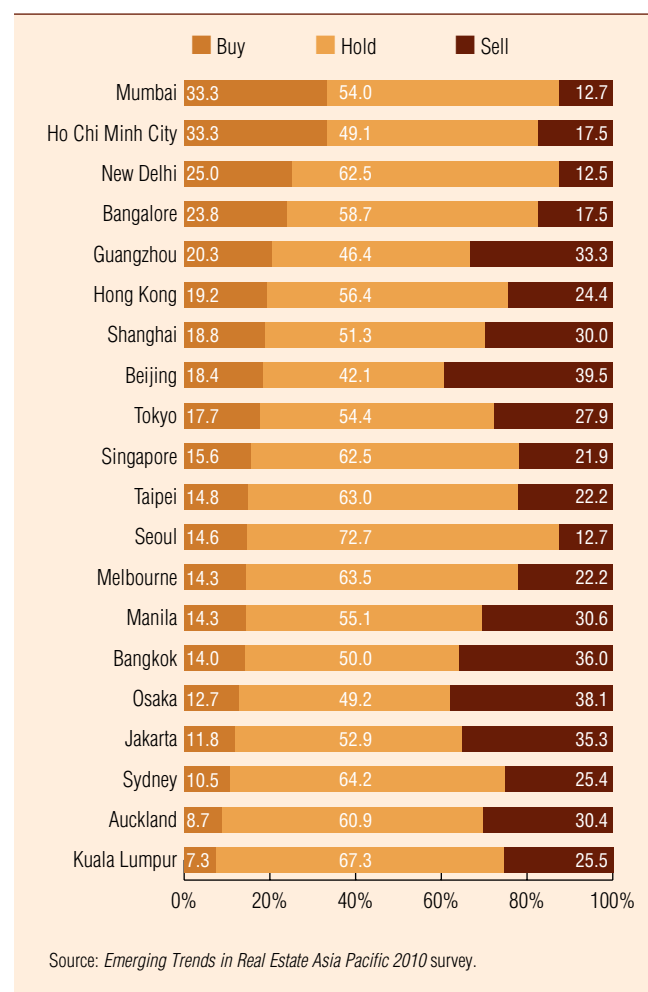


EXHIBIT 3-15
Mumbai

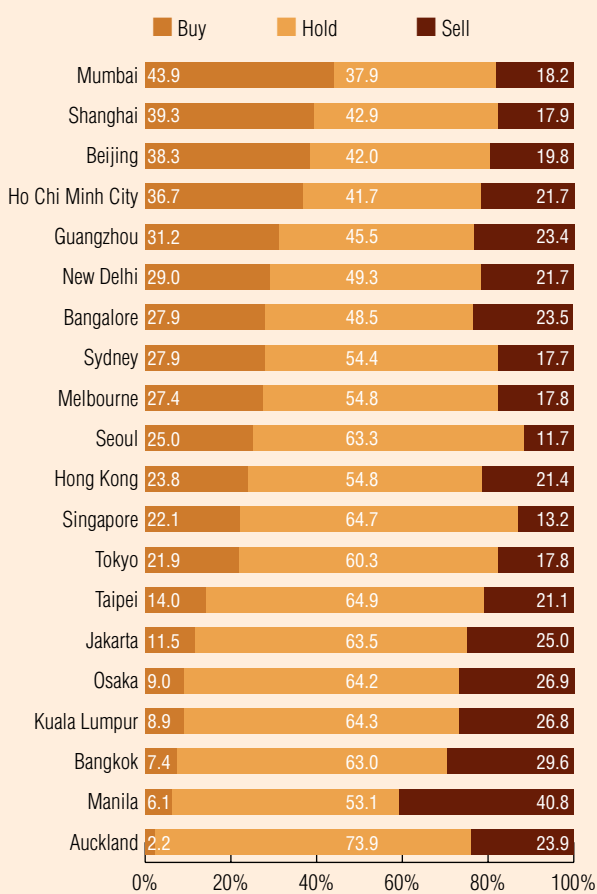
	Prospects	Rating	Ranking
Investment Prospects	Fair	5.45	8th
Development Prospects	Modestly Good	5.61	2nd

Investment Recommendation of Survey Respondents

	Buy	Hold	Sell
Office	33.8%	53.3%	13.0%
Retail	31.4%	42.9%	25.7%
Industrial/Distribution	43.9%	37.9%	18.2%
Hotels	33.3%	54.0%	12.7%
Apartment Residential (Rental)	46.2%	41.5%	12.3%

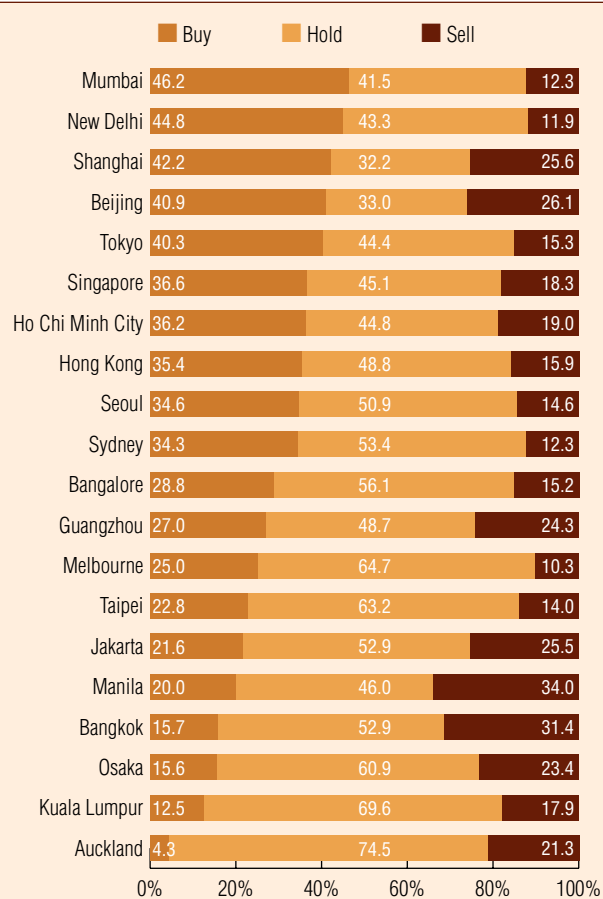
Source: *Emerging Trends in Real Estate Asia Pacific 2010* survey.

EXHIBIT 3-16
Industrial/Distribution Property Buy/Hold/Sell Recommendations by City



Source: *Emerging Trends in Real Estate Asia Pacific 2010* survey.

EXHIBIT 3-17
Apartment Residential (Rental) Property Buy/Hold/Sell Recommendations by City



Source: *Emerging Trends in Real Estate Asia Pacific 2010* survey.

In 2010, development prospects for Mumbai look to increase as the city gains one position in the survey. One developer believes that “80 percent of private equity players wrapped up shop and have closed down already . . . the [other] 20 percent includes the biggies who still have dry powder and are still willing to put money into the market.” Development deals seem to be increasing across all property sectors. “Demand continues, especially from foreign MNCs,” but “development of affordable housing is the segment that is moving.” The government continues to bring down mortgages and the middle class is finally “seeing really good-quality, honest accommodation being offered to them.”

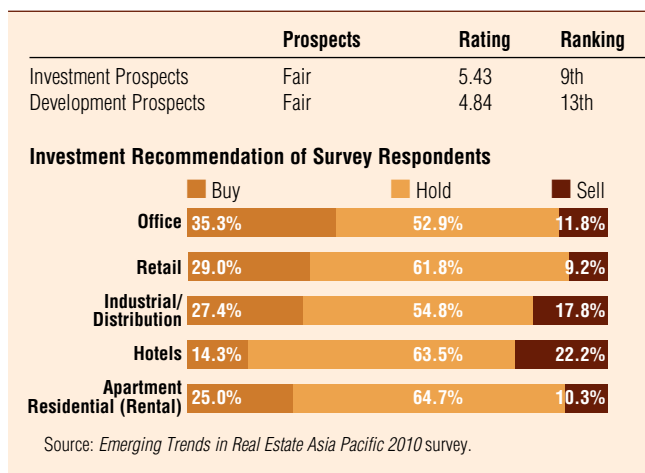
A little over 46 percent of survey respondents agree, rating Mumbai residential as the best buy opportunity within that sector. According to the survey, 2010 capital flows lean strongly to a buy or hold strategy throughout the additional

four property sectors. Almost 42 percent of respondents believe that investments within the hotel sector are a stable prospect, as India is projected to be the second-fastest-growing tourism market in the world. In addition, buyers look to move on industrial/distribution properties, as the country continues to expand production and not be as service-focused as in the past.

Melbourne

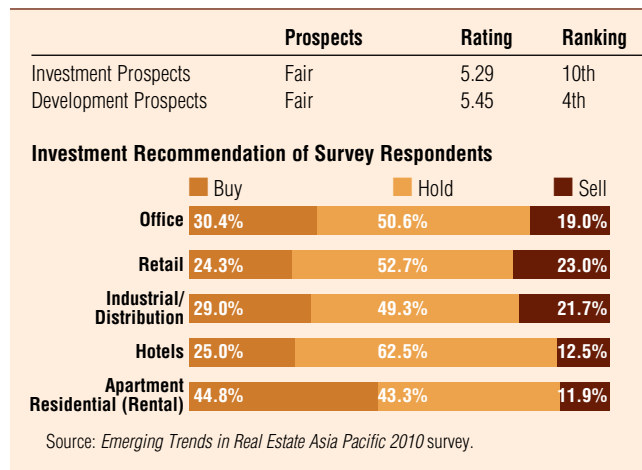
In 2010, investment prospects in Melbourne are up, as the city moves two spots to ninth. Similarly to Sydney, the development average rating increased, but Melbourne remains right where it was last year. Investors are comfortable with controlled development and believe that this will lead to an increase in demand within Melbourne. "It's simple—Sydney and Melbourne are best due to limited supply," states a real estate executive. Another claims, "All the stock that's coming [online] in the next two years—a lot of it in the Docklands—is precommitted, so you're going to [have] a lot of that space coming out of the CBD."

EXHIBIT 3-18
Melbourne



Property sector interest is in office, as over 35 percent of participants believe there are buying opportunities, placing Melbourne fourth overall within that sector. Property yields within this sector seem to be softening and funds are inexpensive. Therefore, there has been a shift in transactions being driven mostly by private and offshore investors. Rental rates will lighten over the short term, but vacancies should remain fairly stable due to the limited development pipeline. "We've only got vacancies of 5 to 6 percent in Melbourne," and "this is a credit crunch in Australia, not an oversupply or an inherently sick property market," believe interviewees as they continue to view Melbourne as a potential investment.

EXHIBIT 3-19
New Delhi



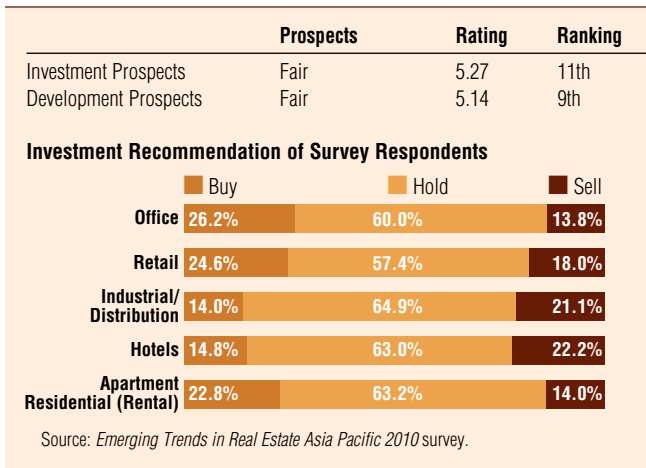
New Delhi

Similar to Mumbai, New Delhi remains fairly stable in its movement from the 2009 *Emerging Trends* publication. Investment prospects dipped just one spot to tenth and development ratings remained in the fourth spot overall. Even so, both ranking averages increased slightly, showing signs that the bottom might be near with recovery in the coming year. The situation has been helped by the fact that "the Indian government has allowed only very limited amounts of debt to be made available to the real estate sector." However, "while affordable and middle-class residential has almost bottomed, luxury residential, commercial office, and retail still have more room for value erosion," believes one real estate professional. This has been aggravated by the fact that "in parts of the country, you're seeing extreme oversupply situations—in some places like Chennai and Delhi, there is oversupply running at 4 million to 5 million square feet."

Supply and demand will be determined over time. However, 44.8 percent of survey respondents feel strongly that residential buying opportunities run throughout the city. In addition, the city will prosper from increased tourism expected in Mumbai, as only 12 percent of hotel investors think now is the time to sell.

Taipei

Investment and development prospects for Taipei declined in 2010 to 11th and ninth, respectively. Even with survey rating declines, though, capital and investment markets seem to be opening up for real estate. Global institutional investors remain on the sidelines, but domestic capital shows interest as increased transactions have begun. "Taiwan has some big institutional investors . . . don't underestimate the power

EXHIBIT 3-20
Taipei

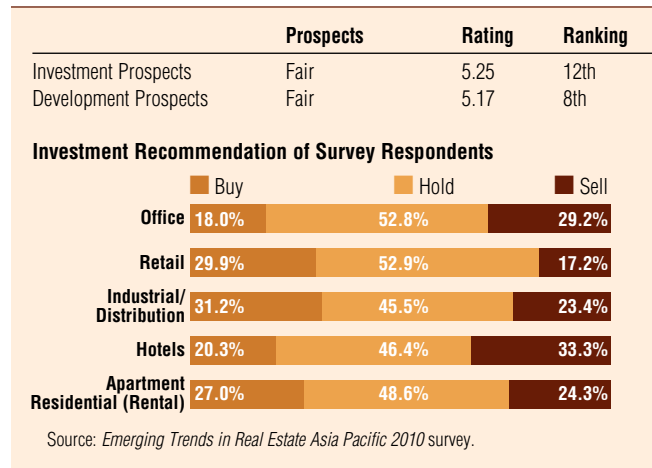
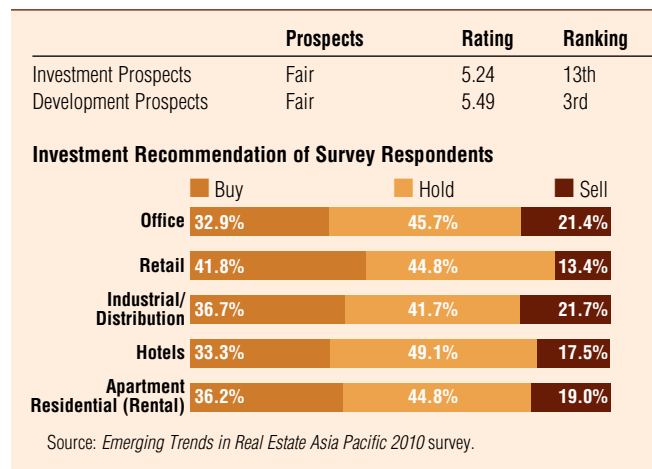
of local capital sources in that region,” “Taiwanese institutions are constrained at the moment to invest in just Taiwan, so capital is available,” state a few investors.

Retail seems to be the property sector of most interest, as almost 25 percent would agree that there are buying opportunities. Residential follows closely as 22.8 percent are looking to buy in the coming year. This number is down, though, from the 2009 report where almost 30 percent recommended buy. A decline in residential buying, though, can be attributed to skyrocketing property prices in the city. Low interest rates and a spike in demand have created home prices that many cannot afford, creating concern over the similar housing bubble experienced in the United States.

Guangzhou

Though the lowest rated—coming in at 14th—of covered cities in China, Guangzhou still managed to improve its investment prospect rating for 2010. Furthermore, this area offers many development prospects as its rating jumps nine positions to eighth in the rankings. This is perhaps partly due to the fact that prices in Guangzhou took more of a loss during the 2007–2008 property market downturn than other cities in China: “Values came off 50 percent, and they’ve only come back, say, about 20 percent.”

As Chinese production shows signs of growth, so do industrial/distribution real estate markets. According to 31 percent of survey respondents, there are buying opportunities within this sector. In addition, almost 30 percent of survey respondents believe that Guangzhou is a retail sector buy, with 53 percent recommending a holding period. According to CBRE Research, retail stock growth is expected to increase over 20 percent in 2010, with primary focus on large-scale shopping centers.

EXHIBIT 3-21
GuangzhouEXHIBIT 3-22
Ho Chi Minh City

Ho Chi Minh City

The largest populated city in Vietnam comes in 13th according to investment rankings, the same position it attained in 2009. “There are land auctions in Vietnam now . . . moving toward greater institutional participation,” claims one investor. Ho Chi Minh City’s economy has been sluggish due to a slowdown of the once-thriving export-driven business. Manufacturing for export, similar to China, has been a true catalyst for real estate. However, it seems to have overheated this year and struggles with the large drop in demand. Similar to other governments, stimulus plans are in effect in Vietnam to revitalize the current economic state. However, many placed restrictions seem to work against

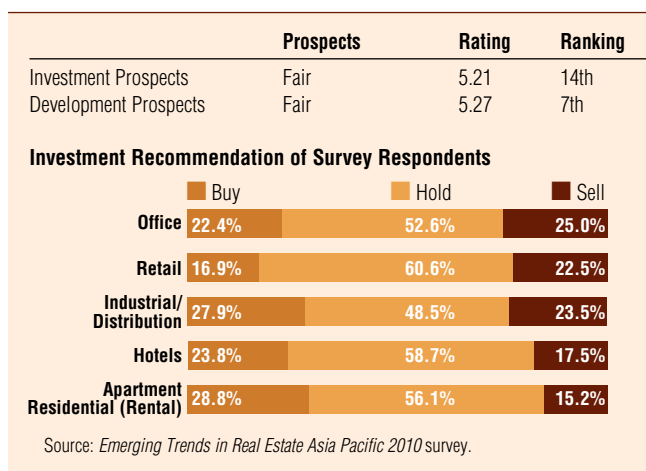
these efforts. One interviewee agrees, saying, “So if you put China and Vietnam in the same basket, then people may well go to China because at least you know that that economy is going to grow at 8 percent.”

Even as construction costs increase combined with growing oil prices, the city’s development opportunities continue to be of interest. In the 2010 survey results, the city’s development rating average is up and the ranking has dropped only one position. According to industry analysts, one driving force within real estate development is the rapidly expanding middle class. Survey results agree: Ho Chi Minh City ranks seventh overall in residential, with over 36 percent wanting to buy this year. In addition to residential, middle-class growth has stimulated interest in retail as almost 42 percent would buy real estate within this sector.

Bangalore

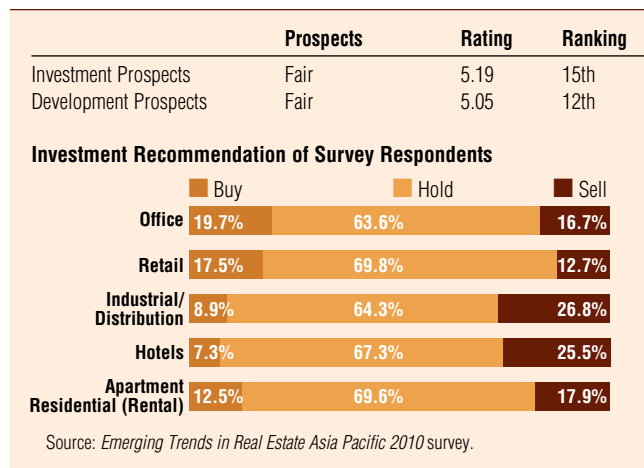
Even as India somewhat dodges the global recession, Bangalore real estate investments and developments aren’t as capital-focused as last year. Respondents’ investment ratings of the city only slightly decreased, but a number of other real estate markets took the spotlight, dropping it to 14th overall. Development ratings dropped six spots, even though the average rating didn’t change. A professional agrees, saying, “The Bangalore region will remain subdued in 2010.”

EXHIBIT 3-23
Bangalore



India’s hotels continue to be of interest, as Bangalore ranks fourth overall, with almost 24 percent of the respondents saying buy. In addition, a spotlight on residential is found in Bangalore, with close to 29 percent buying within this sector. In 2010, office and retail investors should think of holding or even selling according to *Emerging Trends* results.

EXHIBIT 3-24
Kuala Lumpur



Kuala Lumpur

The Malaysian city of Kuala Lumpur has been heavily affected by the current global recession. The current unemployment rate is approaching levels never experienced by the city. This and other economic indicators are key drivers as real estate professionals evaluate and rank the city investment prospect 15th in the 2010 survey. Respondents believe there might be some opportunities for development, but still drop it one spot to 12th. “Malaysia some years ago controlled capital and opened and closed the door . . . they’ve opened the door several times to the extent that most of us now will not have it on the radar screen,” according to one investor.

High-yield property investments attract some, but respondents seem to shy away from any buy suggestions in all five property sectors. An investor agrees, saying, “People might like Malaysia because there were high cap rates and availability of stock, but the risk is the reason we are sticking to the core markets.”

Auckland

New Zealand’s largest city has more or less maintained its investment position, but managed to move up one position to 16th overall. Throughout *Emerging Trends*’ survey history, the city hasn’t placed higher than 14th in investment rankings. Development in New Zealand is limited in 2010 and Auckland seems to take the largest fall to 18th, a six-position drop from last year. Property sector interest is minimal, as Auckland rates the lowest across all five sectors, with the majority of participants recommending a sell or hold for the coming year.

EXHIBIT 3-25

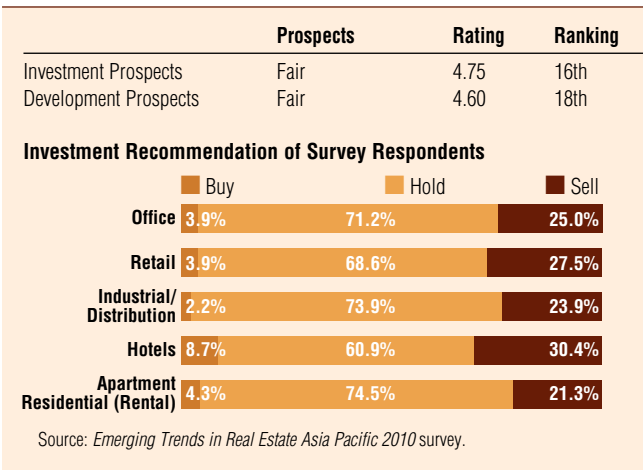
Auckland

EXHIBIT 3-27

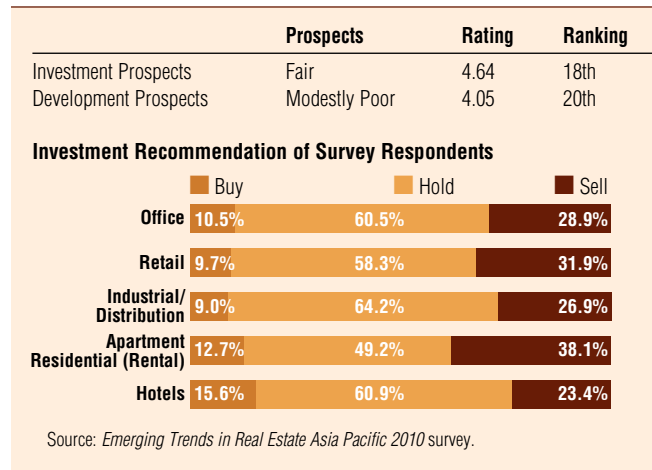
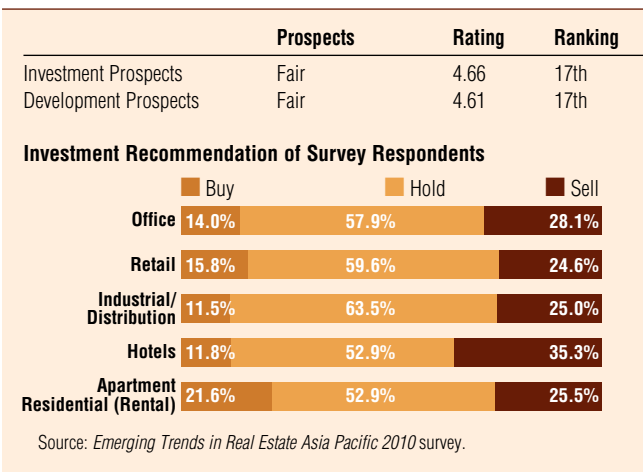
Osaka

EXHIBIT 3-26

Jakarta**Jakarta**

After years at the bottom for both investment and development rankings, Jakarta has moved up to 17th in both categories. Investors and developers seem to have a newfound interest in the city, often drawn by its large population and growing business opportunities. This is strongly due to the global crisis not having the same massive negative effects on Indonesia. Therefore, economic growth is projected for the coming year. Even with those expectations, though, property-focused investors still recommend holds for all types in 2010. One investor agrees, saying, "I don't think you're going to see many guys jumping into Indonesia in a big way."

Osaka

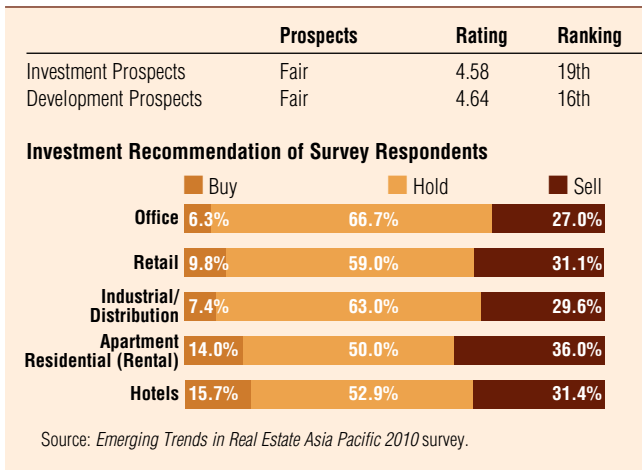
"Areas outside of Tokyo will be particularly hurt because of oversupply and lack of financing," according to one real estate professional. Survey respondents seem to agree, as Osaka investment rankings have fallen to 18th after being in the top spot in 2007. One investor believes that "there is a huge amount of supply in many of cities in Japan, outside Tokyo."

Even though the majority of survey participants believe that all property sectors should be a hold in the coming year, 29 percent would recommend selling office real estate. Corporate demand seems to remain weak and vacancies have exceeded levels not witnessed since late 2005. In addition, rental rates continue to fall as new build-ings make it difficult to secure leases.

Bangkok

Similar to other Asian countries dependent on exporting, Thailand deals with substantial economic contraction now with the possibility of small growth in 2010. Economic growth within the country, though, is strongly dependent on export-oriented production, as well as import demand. With those concerns, real estate markets are "a bit of a basket case," says an investor. Survey respondents seem to question real estate investments in Bangkok as well, dropping the city one

EXHIBIT 3-28
Bangkok

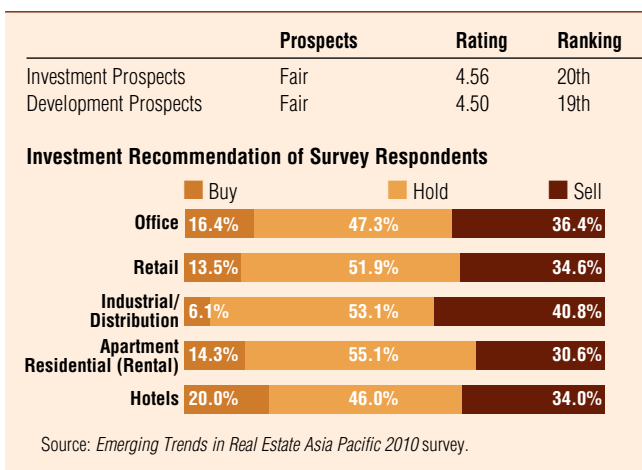


spot to the 19th prospect rank. Risk in development opportunities might not be as much of a concern, as the city's development prospect rank declines to 16th overall. Survey responses show that all property sector recommendations lean toward a hold or sell for the coming year.

Manila

There continues to be a lack of interest in real estate investing in Manila as survey results place it last in investment and 19th in development. Investment interest continues to be minimal, as the city has reached only as high as 18th in 2007, the first year of *Emerging Trends in Real Estate Asia Pacific*. In 2010, respondents rate all property types a hold. However, sell percentages are high in office, retail, and residential for the coming year.

EXHIBIT 3-29
Manila



Property Types in Perspective

Besides investment and development prospect ratings by city, *Emerging Trends* survey respondents rate the same by five property sectors. As seen in Exhibit 3-30, residential tops both the investment and development list, followed by the retail sector. Both residential and retail are the only sectors to have increased ratings compared to the 2009 survey, with office, industrial/distribution, and hotel all declining year-over-year. Even with these declines, though, average property ratings remained stable in both the investment and development categories.

Even though globally the future for many real estate property markets seems questionable, many investors in various Asia Pacific markets believe that now is the time to take advantage of residential property opportunities. This strong comeback of buyer interest within the sector is mainly driven by expectations that the current economic downtrend has reached bottom. According to one real estate professional, "Residential presents good opportunities given a diverse base of income, stronger yields, and efficient use of space."

This seems to be the sentiment of survey participants' as investment rankings for residential went from the last position (4.64) in the 2009 survey to the first overall spot (6.10). Residential development prospect ratings displayed the same trend, jumping from last to first as well. One developer states, "Development levels will depend on the economy." Both retail investment and development ratings had a slight increase compared to last year, but enough to make them

EXHIBIT 3-30
Real Estate Sector Performance
Prospects for 2010

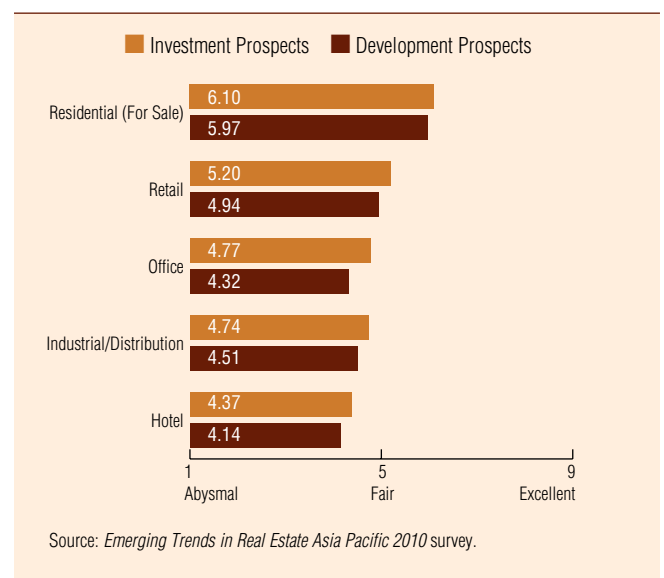
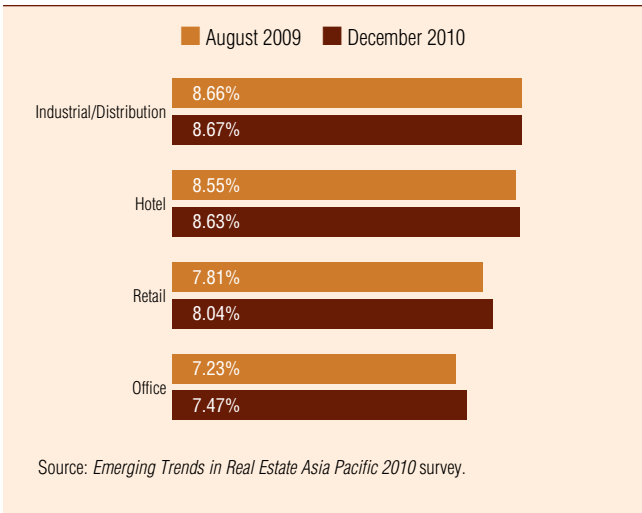


EXHIBIT 3-31

Real Estate Sector Prospects for Capitalization Rates



the second sector of interest. Even as other regions' retail players struggle, investors believe that well-placed retail throughout Asia leads to success due to a lack of oversupply. In addition, many believe that retail real estate will trigger greater domestic spending and possibly reduce the weight of foreign exporting. Investors agree, stating, "I think retail is a superb area to get into," and "retail development works anywhere that is urbanizing."

In 2010, office posted the largest average rating decline and fell from first to third overall. Global economic declines have affected all property sectors, but job loss from one country to another has the largest effect on office space. "I think the office market in a number of significant cities is oversupplied and going to be that way for the next two or three years," "main cities and prime office might be safe," and "commercial office still has more value erosion ahead" are a few quotes supporting the sector decline.

The industrial/distribution and hotel sectors are facing declines in the coming year as the current economic crisis is a key driver to the lack of consumer spending and increased saving. With these factors, exporting and use of industrial facilities across Asia are declining. In addition, both personal and business travel has dropped, affecting hotels' bottom line and real estate values.

Interviewees

Abacus Property Group

Rod de Aboitiz

AMB Property Corporation

Michael Evans

Angelo Gordon

Jon Tanaka

Arcapita Pte. Ltd.

Dinesh Advani
Vivian Chain
Blake Olafson

Ashington

Craig Anderson

Asian Public Real Estate Association

Peter Mitchell

Asset Managers Holdings Co., Ltd.

Kenji Iwasaki

The Association for Real Estate Securitization

Ichiro Makijima

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Bob Johnston

The Blackstone Group Japan K.K.

Alan Miyasaki

CBRE Japan K.K.

Ben Duncan
Andy Hurfurt

CBRE Research – Pacific Region

Kevin Stanley

CB Richard Ellis

Richard Butler

CB Richard Ellis (Vietnam) Co., Ltd.

Marc Townsend

CFS Retail Property Trust

Michael Gorman

Challenger Financial Services

Trent Alston

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Commonwealth Property Office Fund

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Daiwa Real Estate Asset Management Co. Ltd.

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Hitoshi Saito

Mitsui Fudosan Investment Advisors, Inc.

Shuji Tomikawa

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Suguru Noguchi

Mori Building Co., Ltd.

Hiroo Mori

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Pacific Alliance

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Tan Yen Keng

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Koichiro (Ko) Obu

Savills Japan K.K.

Christian Mancini

Savills Property Services (Beijing) Co. Ltd.

Matt Brailsford

Spring Investment Co. Ltd.

Naoto Ichiki

Star Mica Co., Ltd.

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Starr International

Alison Cooke

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Masahiro Horie

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Nobuhito Endo

Touchstone Capital Securities Co., Ltd.

Fred Uruma

UBS Securities Japan Ltd.

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