The Nation

The Nation
Circulation: 68,200
Ad Rate: 1,500

Section: CHINA DAILY/Cover Story
Date: Friday 4 January 2013
Volume: 4 **No:** 1 **Page:** 1(Top), 4
Col.Inch: 102.93 **Ad Value:** 154,395 **PRValue (x3):** 463,185 **Clip:** Full Color
Headline: STILL A SAFE BET PROPERTY REMAINS A GOOD INVESTMENT BUT ASIAN BUYERS EYE...

A GOOD PLOT
Asian property buyers look to the West, P4

STILL A SAFE BET

PROPERTY REMAINS A GOOD INVESTMENT BUT ASIAN BUYERS EYE DISTRESSED ASSETS IN WEST

By JENNIFER LO in Hong Kong
jennifer@chinadailyhk.com

Investors remain optimistic that real estate in Asia will be a good hedge against inflation while keeping an eye on frontier markets.

In times of uncertainty in the global economy — the eurozone crisis, slowdown in China and a wobbly US recovery — property is a safe bet. Asia seems no exception to this age-old rule.

With real interest rates negative and stock markets volatile, there is a real incentive to put money into property, says Nicholas Holt, Asia-Pacific research director with Knight Frank, a global residential and commercial property consultancy.

"The returns could be unexciting," adds Colin Galloway, consultant with US-based Urban Land Institute. "But the quest for yield means real estate assets are being priced off bonds."

Despite the pull factors in Asia's property market — astronomical economic growth, rising incomes and increasing property values — the green oasis isn't free from risks.

"With high rents, high capital values, low yields, and an abundance of local capital, many international investors are struggling to see attractive investment opportunities in Asia Pacific's prime real estate markets," says Richard Price, chief executive, Asia Pacific for CBRE Global Investors, in a statement.

So where to look in Asia? What are some of the potentials and pitfalls in these markets? A growing number of yield-hungry investors are particularly bullish on the prospects of regional and frontier markets outside core cities.

Emerging markets in Malaysia, Thailand and China's secondary cities all rank near the top. "Even far-flung Cambodia and Myanmar are getting looks," Galloway adds.

For the first time, Indonesia's capital Jakarta is tipped to be Asia's top real estate market in 2013, according to a joint report by Pricewaterhouse Coopers (PwC) and Urban Land Institute that surveyed more than 400 investors and real-estate professionals.

With a burgeoning population

A weekend fashion bazaar in Jakarta. The Indonesian capital is expected to be Asia's top real estate market in 2013. AFP

The Nation
The Nation
Circulation: 68,200
Ad Rate: 1,500
Section: CHINA DAILY/Cover Story
Date: Friday 4 January 2013
Volume: 4 No: 1 Page: 1(Top), 4
Col.Inch: 102.93 Ad Value: 154,395 PRValue (x3): 463,185 Clip: Full Color
Headline: STILL A SAFE BET PROPERTY REMAINS A GOOD INVESTMENT BUT ASIAN BUYERS EYE...

of 10 million, Jakarta has benefited from the country's impressive turnaround over the past couple of years and an emerging middle class. Interest rates and inflation are fairly under control; GDP is growing at 6.5 percent annually.

The archipelago nation's capital attracted $660.5 million in commercial real estate investment in 2011. Last year, office rents shot up 29 percent in the third quarter year on year, driven by buoyant demand and limited supply at home, according to property consultant DTZ.

But though Indonesia may have promise, it will continue to be a risky play. "*Caveat emptor* (buyer beware)," the report highlights, saying Jakarta lacks the investment-grade stocks, enterprise and infrastructure of its developed counterparts, not to mention facing difficulties in securing bank loans and finding reliable partners.

Others are apprehensive that Indonesia might fall into the trap neighbor Vietnam did, when its booming property market collapsed due to overinvestment from 2006 to 2008.

"There is a danger that (the) market gets overhyped," warns Knight Frank's Holt. "There is too much capital flowing in, and the market can't absorb it efficiently. This can lead to a misallocation of capital into poorer or non-feasible projects."

Kuala Lumpur, after languishing for years as one of Asia's marginal markets, has been in the real estate limelight recently. Unlike its Asian counterparts, the Malaysian capital was almost immune to a slowdown in property sales in the third quarter of 2012. Prospects for the commercial sector are strong with the government's successful policy to attract foreign investment.

However, a shock to the market is likely, thanks to a 15 percent tax hike on new properties from January.

Economic powerhouse China continues to be attractive among investors, despite a slowdown in growth projected at 7.5 percent. "Developers are hard up, but easing of (the) government lending embargo is keeping the wolf from the door," Galloway says.

Investors have gradually shifted attention from overheated and highly regulated markets in Beijing and Shanghai to emerging second-tier cities, including Chongqing, Tianjin and Shanyang.

The relatively stable property market in Japan also seems attractive, with interest rates and prices almost bottoming. "Tokyo has hit the boom," says a Japan-based fund manager quoted by PwC. "Japan provides a level of stability that really doesn't exist in other markets."

Properties in Australia also continue to be a magnet for investors, largely due to high yields, shortfall of domestic capital and a weakening Australian dollar against key Asian currencies. The country has absorbed half of all Asia's estate capital placed by funds in 2012, according to consulting firm CBRE.

Safe havens such as Singapore and Hong Kong are seeing an increasing number of residential buyers looking into the commercial real estate sector, including retail, industrial and strata office, largely owing to the authorities' cooling measures to curb residential prices.

India's top three realty markets Bengaluru, Mumbai and Delhi, however, are less preferred investment destinations. "High interest rates and falling prices can create 'unbelievable' returns for investors who can stomach risks," Galloway says.

To investors, Bengaluru is more a "one-trick pony", a stable market whose fortune is too reliant on its sluggish information technology sector and lacks a spark of growth. The financial capital Mumbai suffers from oversupply across all property sectors, resulting in low yields.

But India's capital New Delhi might make a comeback, with its emerging satellite cities Gurgaon and Noida — with huge plots of new land — ready to attract capital from western and southern regions to the north.

Also on investors' radars are niche asset classes which "require an element of expertise that domestic players lack", says K.K. So, a partner with PwC's real estate tax team. Japan's logistics sector is an example as the country reorganizes its distribution infrastructure after the 2011 earthquake. Housing for senior citizens, almost necessity-driven and less cyclical, is in higher demand in countries such as Japan and China, which have an aging population, not to mention hospitals and nursing homes.

Though sources of funds are getting harder to track as global financial markets almost blur into one another, there is this noticeable trend: Less international capital is targeting Asian real estate than it did before the global financial crisis in 2008.

More Asian investors and pension funds are looking abroad. The West is seeing a surge in the number of Asian investors seeking to capitalize on the post-global financial crisis by snapping up distressed property assets.

The depreciation of the US dollar and UK pound against Asian currencies is another attraction for those after distressed assets. "While more Malaysian funds are flowing to Europe, the Chinese are eyeing the US," says PwC's So.

Knight Frank's Holt offers an alternative explanation: "On a broad level, the West is in debt and the East has excess savings... Asian real estate is obviously seen as the growth market, but there is also a lot of volatility in Asia and competition from local capital — asset prices are high across much of Asia, and liquidity is low."

As a result, long-term leases in prime Western cities still attract much interest from around the globe and Asia. For example, average lease terms in London are near 10 years, offering bond-like returns with the potential for capital appreciation, compared to Asia's three-year lease terms, which can be volatile.

According to Simon Lo, director of research and advisory at property broker Colliers International, there is speculation that a third and fourth round of US quantitative easing (QE) might complicate the situation.

Analysts including Lo have expressed concerns that injections of liquidity in the market will bring hot money and push up property prices in Asia, reviving the risk of asset bubbles in the region, including in Singapore and Hong Kong.

"I think this point has been overplayed to a certain extent... With QE3, the situation is different," remarks Holt. He says while previous cases of quantitative easing did lead to seepage, the impact on the Asian market this time is less significant with the US on the road to recovery.

"House prices have hit the bottom, and have started to rise in some places. With hopefully a deal on the tax or spending issues on the horizon, the US recovery could really take hold next year," Holt adds.

While it can be hard to predict precisely where Asia's property market is heading from month to month, one thing is certain about market sentiment. Asian investors will continue to look for expansion opportunities, says Colliers' Lo, though they are becoming critical when selecting their investment locations.

"Good investments do exist in the market but to find good stock for investment is always a challenge," adds Antonio Wu, director of investment services with Colliers.