



Asia Pacific

Emerging Trends in Real Estate®

2014

Emerging Trends in Real Estate 2014 – Asia Pacific

- 2014 is our 8th annual forecast for the Asia Pacific region
- Most predictive industry forecast
- Based on surveys/interviews with over 400 industry leaders
- Jointly published by PWC and ULI



Emerging Trends in Real Estate 2014 – Asia Pacific

- Agenda
- Presentation of findings of “Emerging Trends in Real Estate 2014 – Asia Pacific
- Response Panel



Emerging Trends in Real Estate 2014 – Asia Pacific

Survey Responses by Geographic Scope of Firm

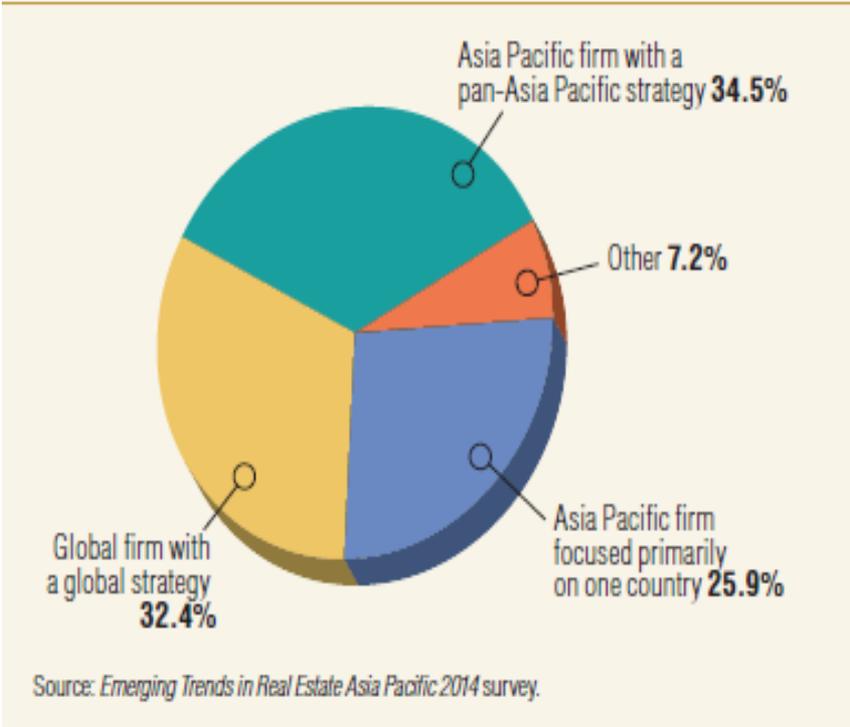


EXHIBIT 1-1
Survey Responses by Country/Territory

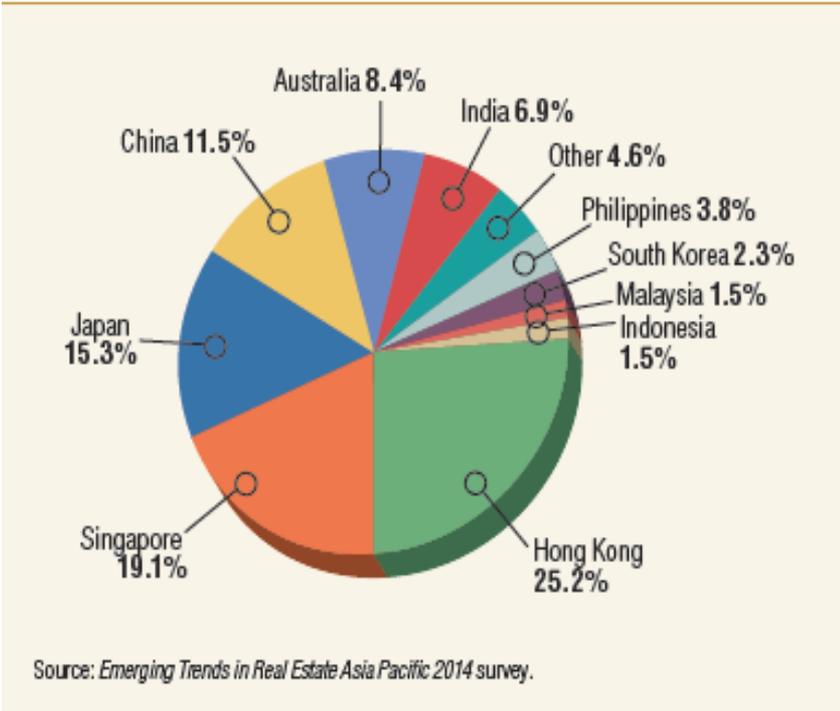


EXHIBIT 1-3

Firm Profitability Forecast for 2013

Prospects for Profitability in 2013 by Percentage of Respondents



2.7%
Poor



3.1%
Modestly
poor



26.4%
Fair



23.0%
Modestly
good



30.7%
Good



11.1%
Very good



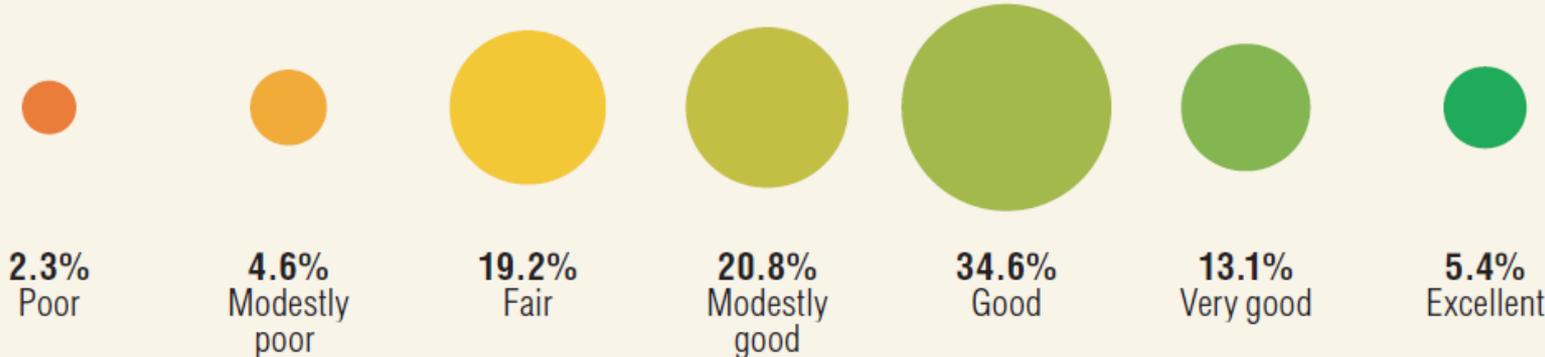
3.1%
Excellent

Source: *Emerging Trends in Real Estate Asia Pacific 2013* survey.

EXHIBIT 1-4

Firm Profitability Forecast for 2014

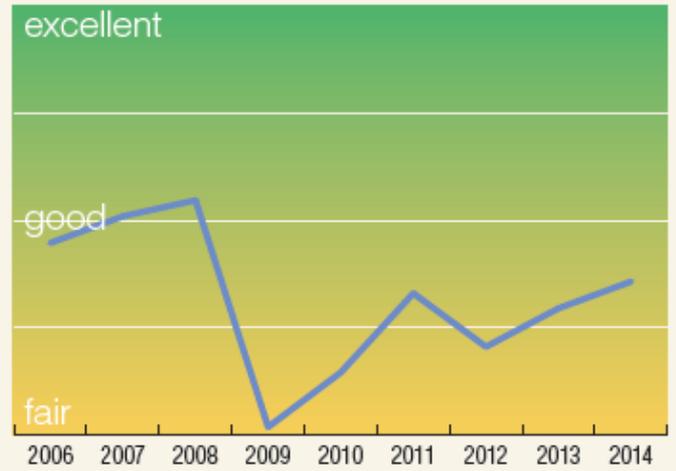
Prospects for profitability in 2014 by percentage of respondents



Source: *Emerging Trends in Real Estate Asia Pacific 2014 survey.*

EXHIBIT 1-2

Real Estate Firm Profitability Trends



Source: *Emerging Trends in Real Estate Asia Pacific 2006–2014 surveys.*

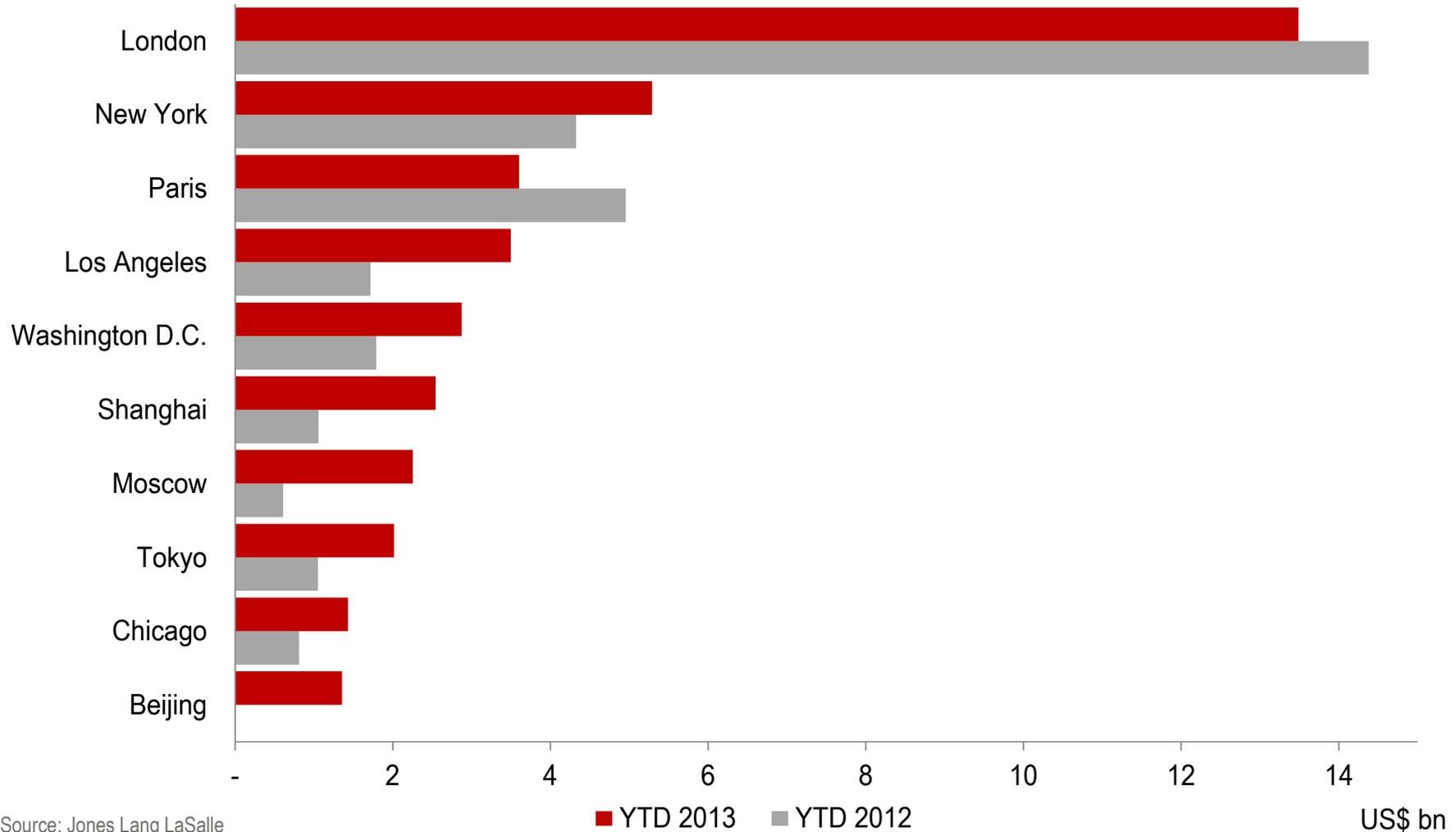


“Navigating the Crowd”

- Weak fundamentals, expectations of tapering produce outflow of funds from Asia’s bond, equity markets in 2013
- But direct investment in real estate remains strong – cap rates still tightly compressed, prices and transactions trending higher
- With core markets more crowded than ever, finding deals is now increasingly hard
- The result: investors trying new ways to make numbers work – moving up the risk curve, buying alternative assets

Foreign buyers still find it hard to buy in AP

10 Largest Recipients of Cross-Border Investment, YTD 2012 & 2013



Source: Jones Lang LaSalle

2014: Moving up the Risk Curve

- What to buy?
 - Opportunistic plays, but hard to source due to poor risk-adjusted returns, low LTVs, compressed yields
 - Secondary assets and secondary markets, “but not secondary assets in secondary markets”
 - Distress – as usual, no blanket themes have emerged but “granular” opportunities are there for those who dig
 - Accept lower returns but underwrite compression

Niche Markets draw crowds

Secondary sectors now increasingly in focus :

Logistics – Ongoing shortage of supply throughout Asia, especially for 3PL facilities, but still a market for specialists

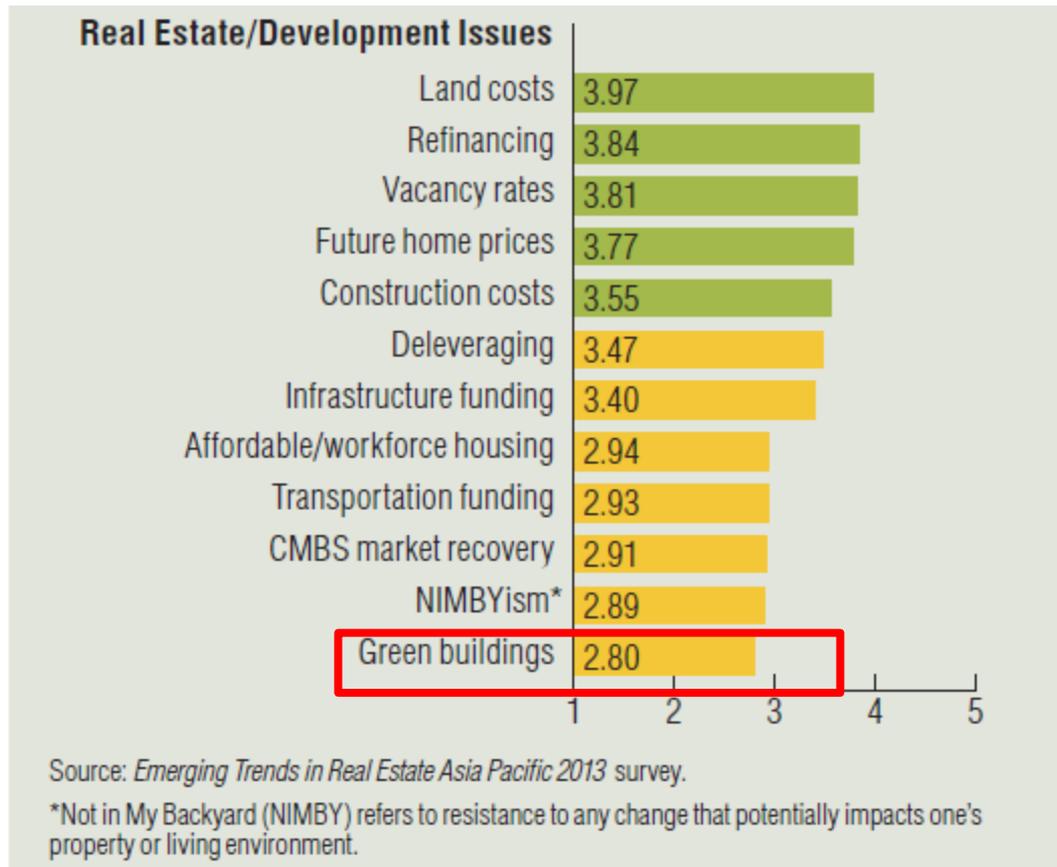
Senior Care – A big demographic play – but tough finding the right model

Self storage – Small living spaces mean Asian consumers need to “rent a closet”

Sustainable Buildings – Investors traditionally put off by cost, but attitudes – and returns – now more positive

EXHIBIT 1-10

Importance of Various Issues for Real Estate in 2013

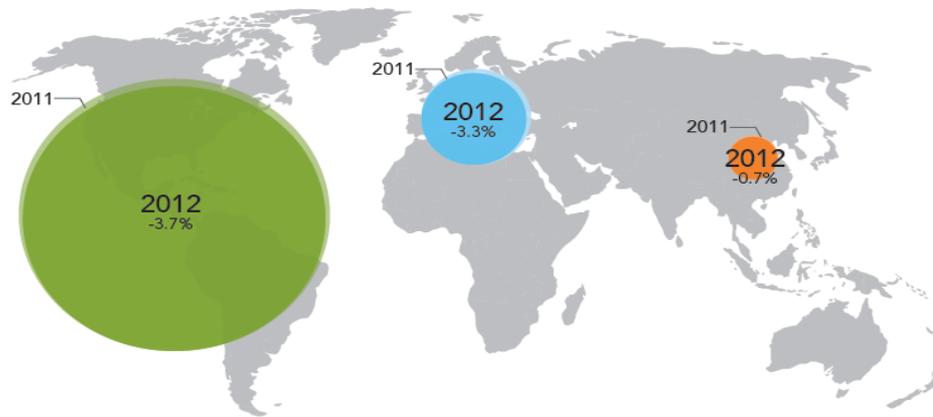


Emissions by Global Region

YEAR OVER YEAR—LIKE FOR LIKE

This map illustrates the change in emissions (Scopes 1, 2, and 3) from 2011 through 2012 for the like-for-like portfolio for each global region.

- Americas
- EMEA
- Asia Pacific



AMERICAS
1,698 assets
44.2 million m²

2011: 2,455 thousand metric tonnes CO₂e
2012: 2,365 thousand metric tonnes CO₂e
3.7% decrease

EMEA
524 assets
8.5 million m²

2011: 676 thousand metric tonnes CO₂e
2012: 653 thousand metric tonnes CO₂e
3.3% decrease

ASIA PACIFIC
123 assets
2.9 million m²

2011: 245 thousand metric tonnes CO₂e
2012: 243 thousand metric tonnes CO₂e
0.7% decrease

The Greenprint portfolio's emissions decreased 3.4% on a like-for-like portfolio basis from 2011 to 2012.

Speculation is back

Mounting pressure to secure yield has resulted in the return to a speculative approach in some markets:

In Japan, intense competition has driven down yields. With 80%-85% LTVs easily available, some are boosting returns via leverage.

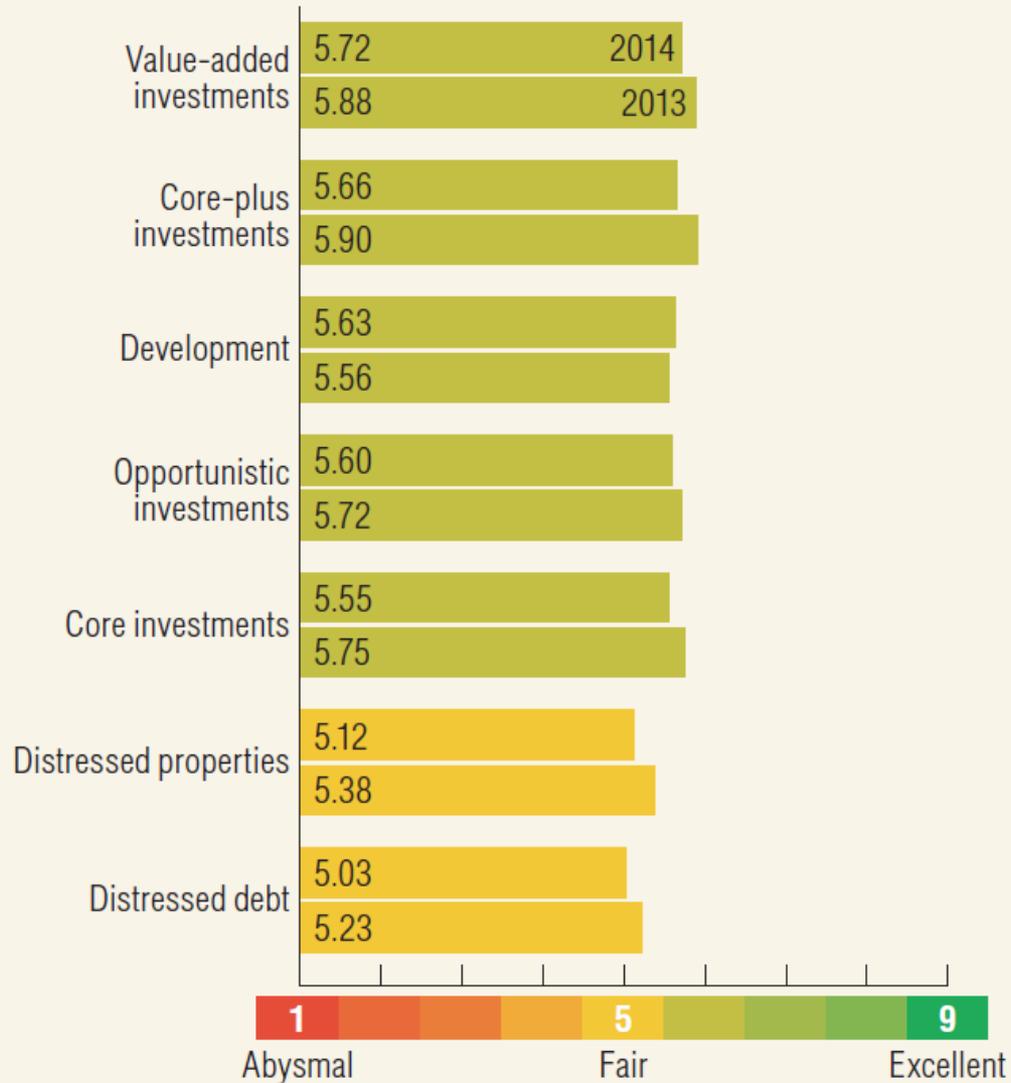
In China, net effective yields as low as 2% quickly turn investments into capital appreciation plays

Regulations Chill Markets

- In some countries, overheated residential markets have again been targeted by governments in 2013:
 - Hong Kong introduced a new round of transaction taxes and raised downpayment requirements
 - Singapore imposed new transaction taxes and a cap on total consumer debt available from banks
 - China's restrictions continue but have not stopped prices rising

EXHIBIT 1-6

Prospects by Investment Category/Strategy for 2014



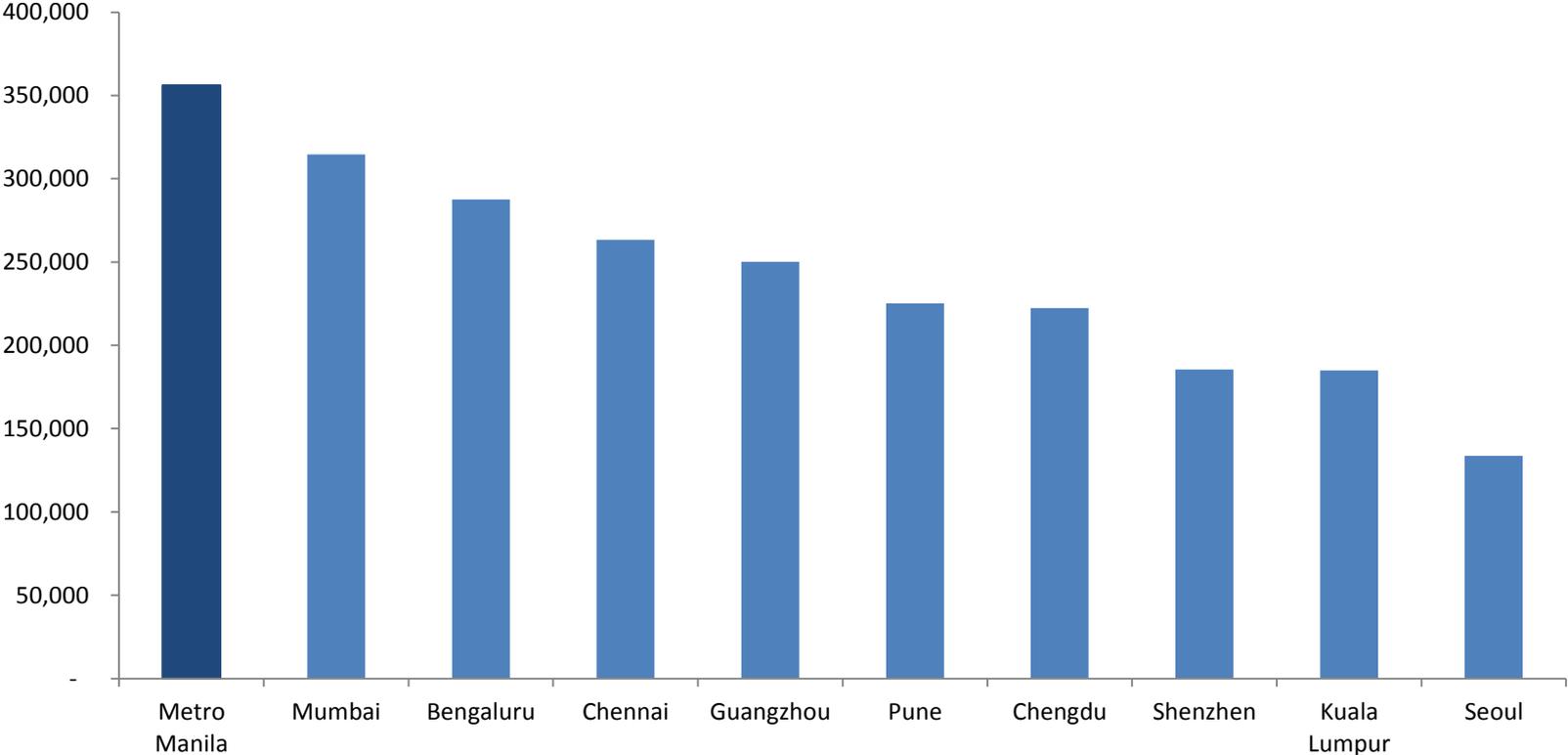
Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

2014: Emerging and Frontier markets

- Asia's emerging economies are again drawing interest, although as usual risks are high, scale is small, exit is tough.
 - The Philippines – traditionally strong in the BPO sector, but now also a magnet for back office, especially finance
 - Indonesia – Lots of potential but hard to get a foot in the door due to strong domestic investor base
 - Vietnam – Could be at a bottom as it emerges from crisis – big opportunities in industrial assets as a China +1 play

PHILIPPINES

IT-BPO Industry



**Metro Manila includes Makati CBD, Bonifacio Global City, McKinley Hill, Ortigas CBD, and Filinvest Corporate City,
Source: Cushman & Wakefield Research*

Risk: Beware the Taper!

Two big risks seen by Asian investors:

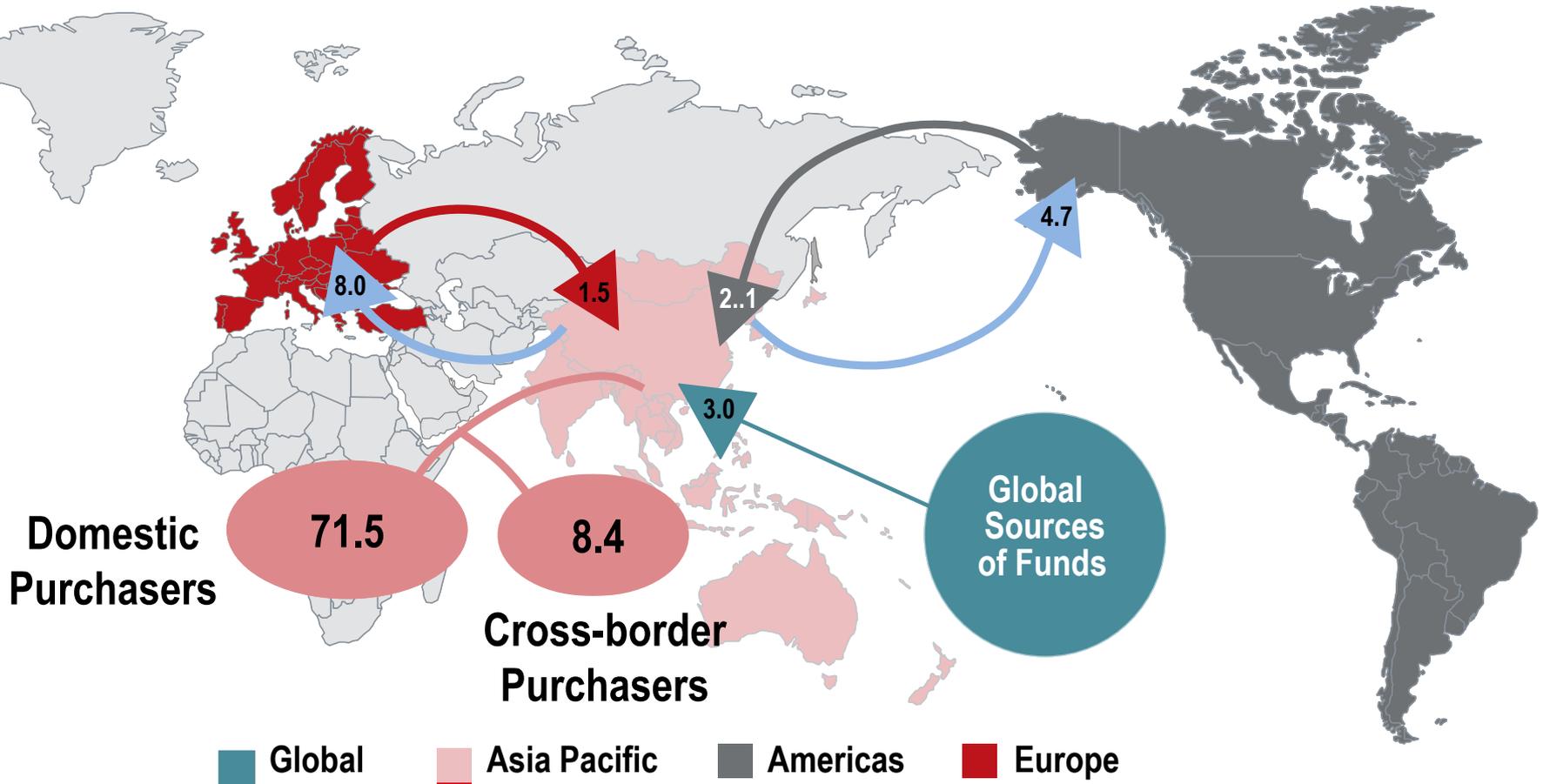
- Chinese economic slowdown – now unlikely due to ongoing government stimulus
- Tapering by the Fed – For Asia, the taper means:
 - more capital outflows
 - higher interest rates (and therefore lower prices) going forward

Asian capital dominates

- 88% of all commercial real estate transactions originated from within the region in the first three quarters of 2013
- Asia has more capital – especially from China – than there are assets to absorb it
- Chinese investors and developers now active in every significant Asian market
- Big outflows to European, US markets

AP remains a big exporter of capital

Purchaser flows into and out of Asia Pacific YTD 2013



Source: Jones Lang LaSalle, October 2013

Bank finance: cheap and cheerful

- As ever, banks rule the roost
- Funding still cheap – little sign of tightening so far
- Generally, leverage still available in the 50%-60% range, in some places significantly higher
- The big question: when the Fed tapers, “Will banks still be real estate-on”?

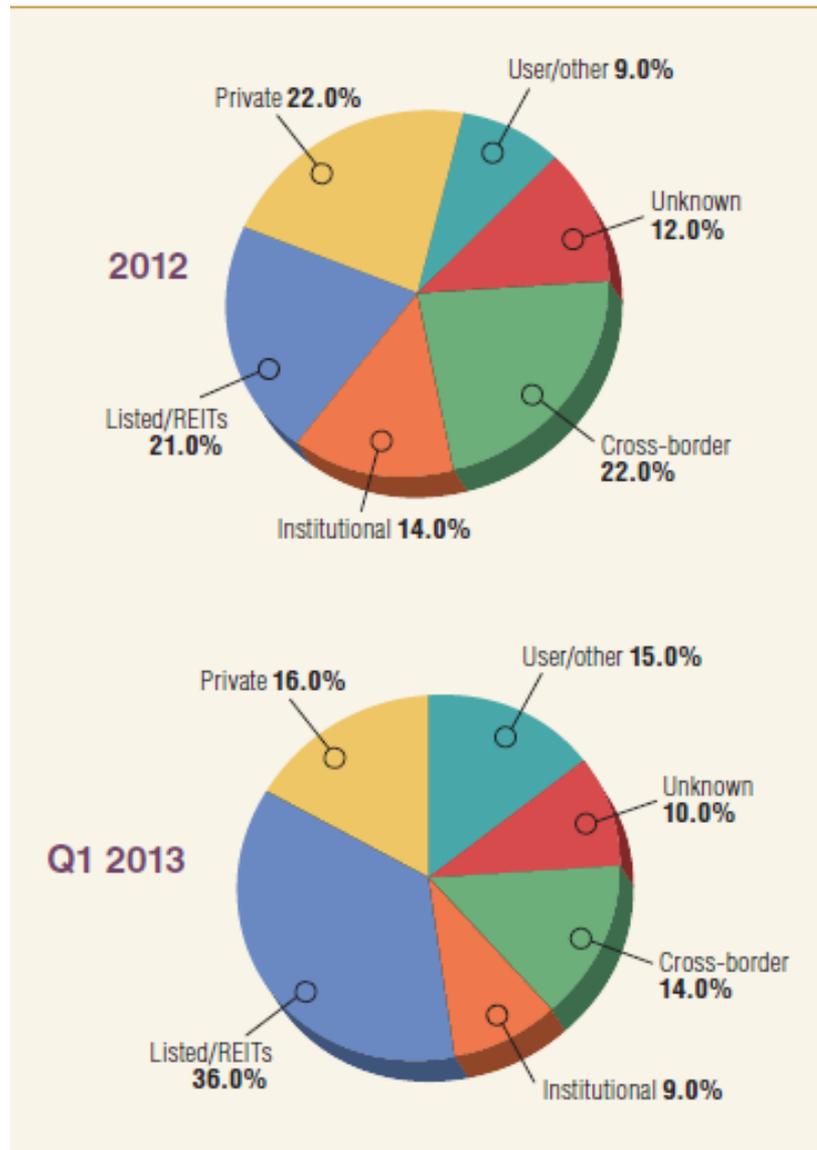
Capital Markets: Jekyll and Hyde

- Still very little Asian real estate investment financed by capital markets
- Equity deals still suppressed by low share prices
- At the same time, capital debt has been on fire: Market has whipsawed as Fed taper comes on and off

2013: The Great REIT Rebound

EXHIBIT 2-17

Asia Pacific Investor Profile, 2012 vs. Q1 2013



REITs still offer good yields

Capitalization and Dividend Yields of Asian REITs

	# REITs	Market Cap (US\$ Bil.)	Average Dividend Yield	Risk Free Rate*	Spread (Basis Points)
Japan	40	\$65.5	3.9%	0.8%	301
Singapore	28	\$43.3	6.0%	2.5%	349
Hong Kong	9	\$22.1	4.5%	2.0%	250
Malaysia	15	\$8.1	4.3%	3.6%	67
Korea	1	n/a	10.8%	3.4%	740
Total	93	\$139.0	5.34%**		

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

** Weighted average based on market capitalization

Markets and Sectors to Watch and Best Bets





Leading Asia Pacific Cities

- Investment prospects**
- Generally good
 - Fair
 - Generally poor

Prospects for Major Commercial Property Types in 2014



Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

City Investment Prospects, 2014

	generally good	fair	generally poor
1	Tokyo		6.30
2	Shanghai		5.87
3	Jakarta		5.76
4	Manila		5.66
5	Sydney		5.61
6	Guangzhou		5.60
7	Singapore		5.57
8	Beijing		5.54
9	Osaka		5.53
10	Shenzhen		5.52
11	Bangkok		5.45
12	China: secondary cities		5.43
13	Melbourne		5.39
14	Kuala Lumpur		5.34
15	Seoul		5.32
16	Taipei		5.31
17	Auckland		5.06
18	Hong Kong		5.03
19	Ho Chi Minh City		4.98
20	Bangalore		4.85
21	New Delhi		4.70
22	Chennai		4.67
23	Mumbai		4.65

Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

City Development Prospects, 2014

	generally good	fair	generally poor
1	Jakarta		5.97
2	Tokyo		5.82
3	Shenzhen		5.76
4	Shanghai		5.75
5	Guangzhou		5.73
6	Beijing		5.68
7	China: secondary cities		5.61
8	Manila		5.60
9	Singapore		5.57
10	Hong Kong		5.57
11	Sydney		5.54
12	Bangkok		5.54
13	Taipei		5.46
14	Kuala Lumpur		5.39
15	Seoul		5.34
16	Melbourne		5.10
17	Bangalore		5.00
18	Osaka		4.89
19	Auckland		4.87
20	Ho Chi Minh City		4.85
21	Chennai		4.75
22	New Delhi		4.42
23	Mumbai		4.24

Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

Historical Investment Prospect Rankings

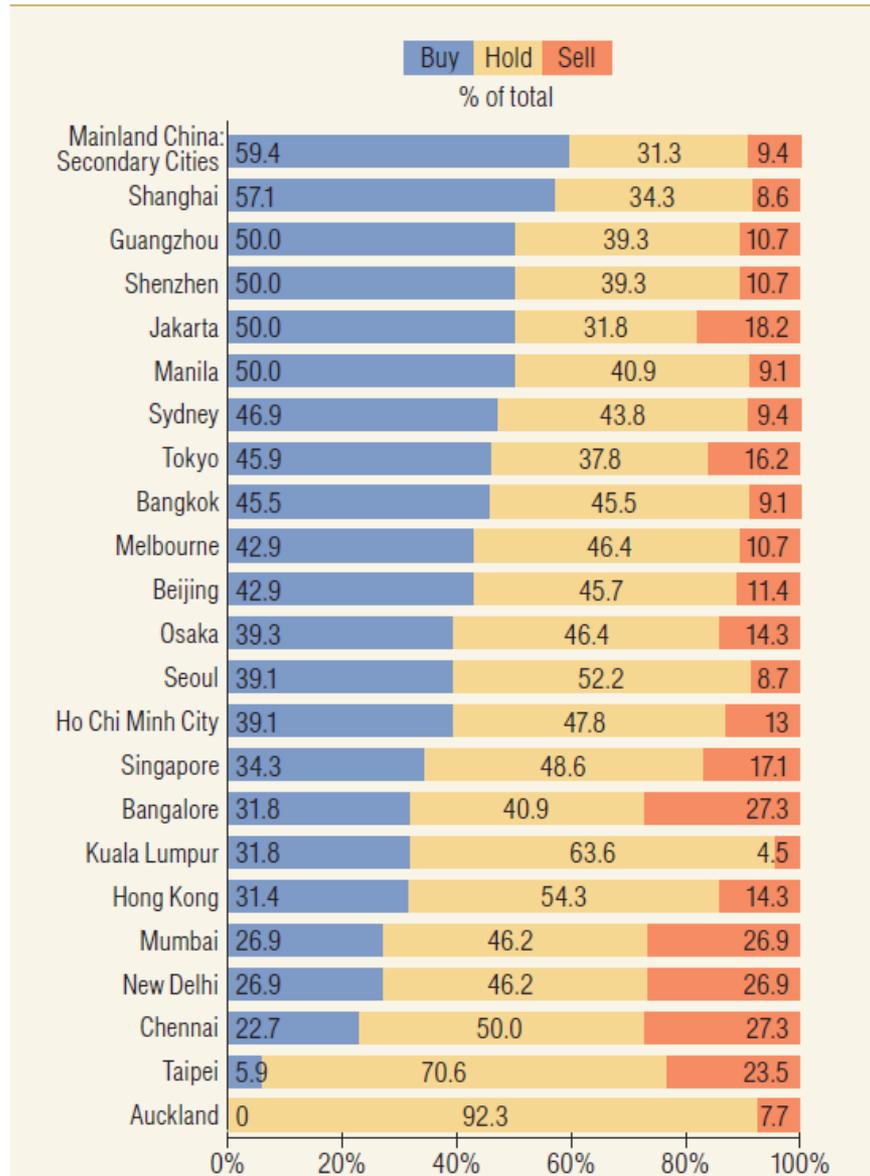
City	2014	2013	2012	2011	2010	2009	2008	2007
Tokyo	1	13	16	12	7	1	3	3
Shanghai	2	2	2	2	1	5	1	2
Jakarta	3	1	11	14	17	20	20	19
Manila	4	12	18	20	20	19	19	18
Sydney	5	4	3	6	6	14	15	16
Guangzhou	6	15	6	8	12	16	9	7
Singapore	7	3	1	1	5	2	2	4
Beijing	8	7	5	7	3	12	6	9
Osaka	9	22	21	19	18	15	4	1
Shenzhen	10	16	—	—	—	—	—	—
Bangkok	11	6	14	17	19	18	18	8
China: secondary cities	12	8	—	—	—	—	—	—
Melbourne	13	10	7	9	9	11	17	6
Kuala Lumpur	14	5	17	15	15	10	11	15
Seoul	15	14	19	16	4	6	7	13
Taipei	16	9	8	13	11	8	16	5
Auckland	17	17	20	18	16	17	14	—
Hong Kong	18	11	13	4	2	3	5	11
Ho Chi Minh City	19	18	10	11	13	13	8	12
Bangalore	20	19	9	10	14	4	12	10
New Delhi	21	21	12	5	10	9	13	14
Chennai	22	—	—	—	—	—	—	—
Mumbai	23	20	15	3	8	7	10	17

Source: *Emerging Trends in Real Estate Asia Pacific 2007–2014 surveys.*

Note: — = no data.

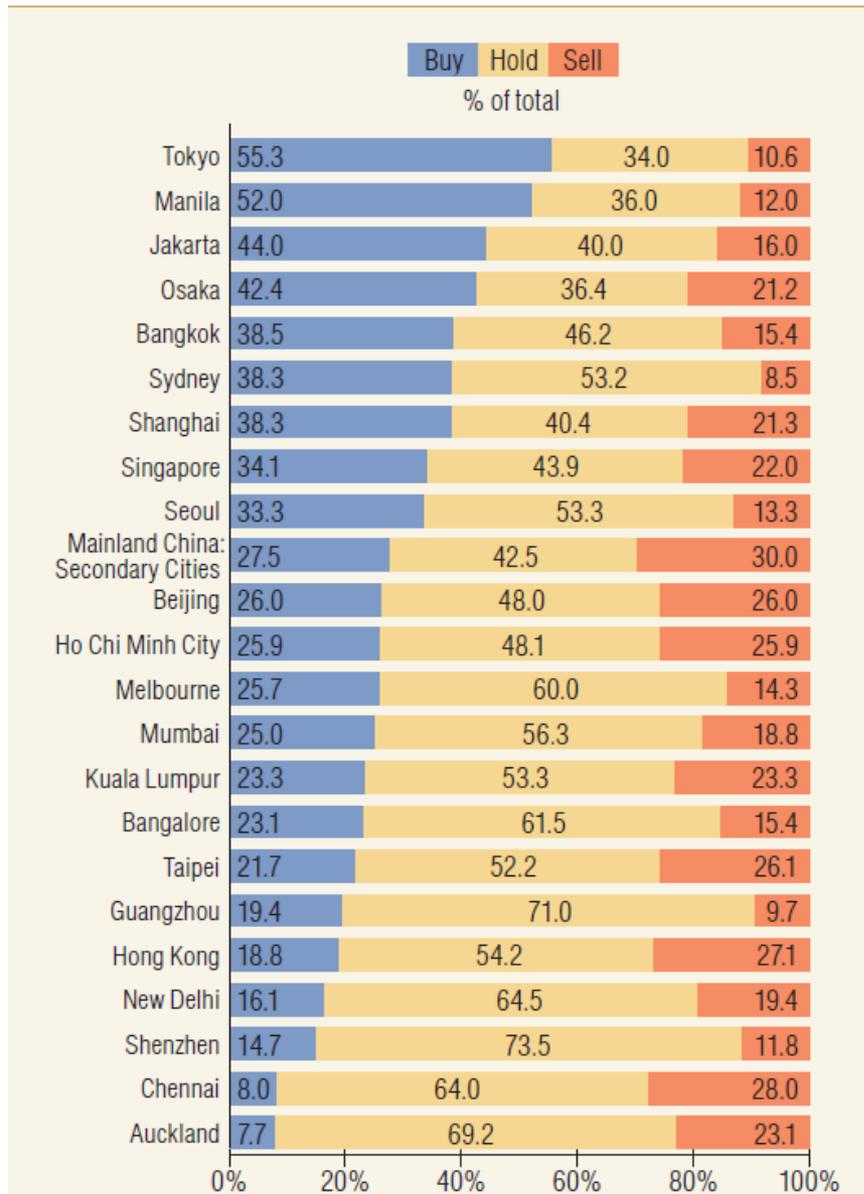
EXHIBIT 3-5

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



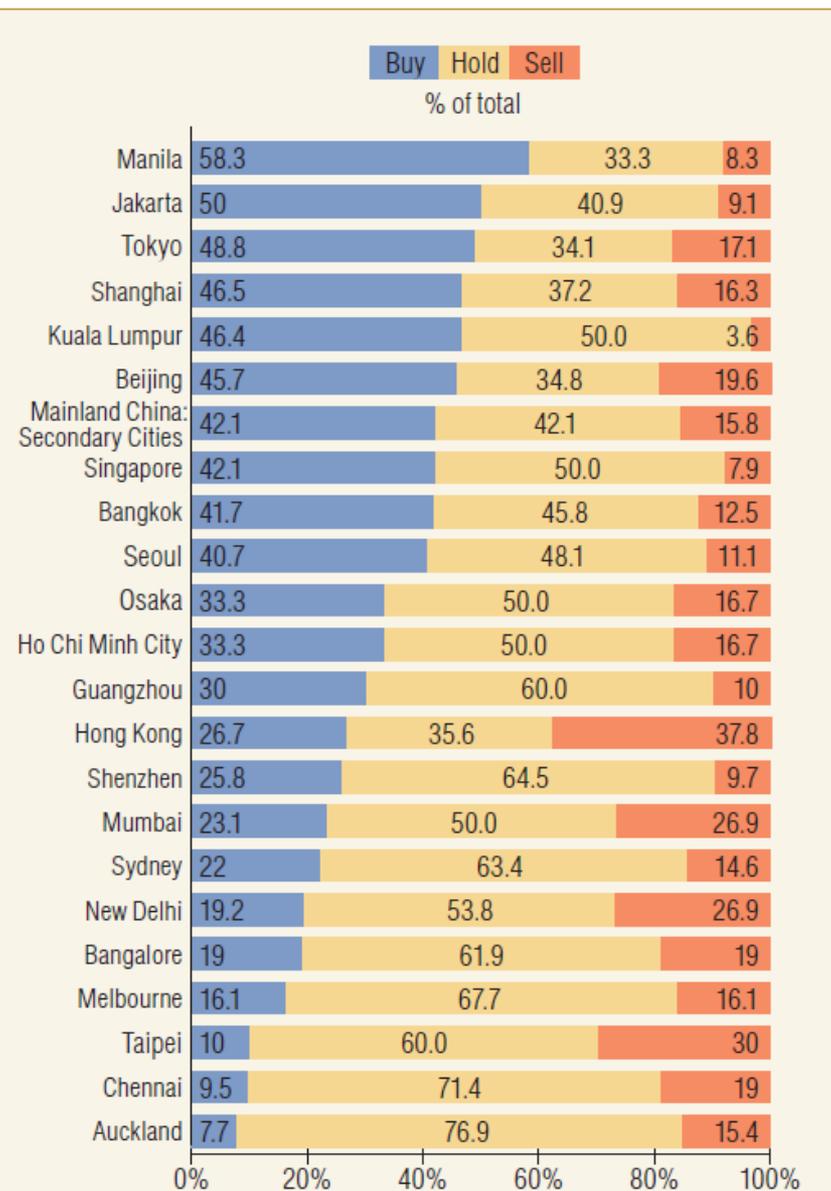
Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

Office Property Buy/Hold/Sell Recommendations, by City



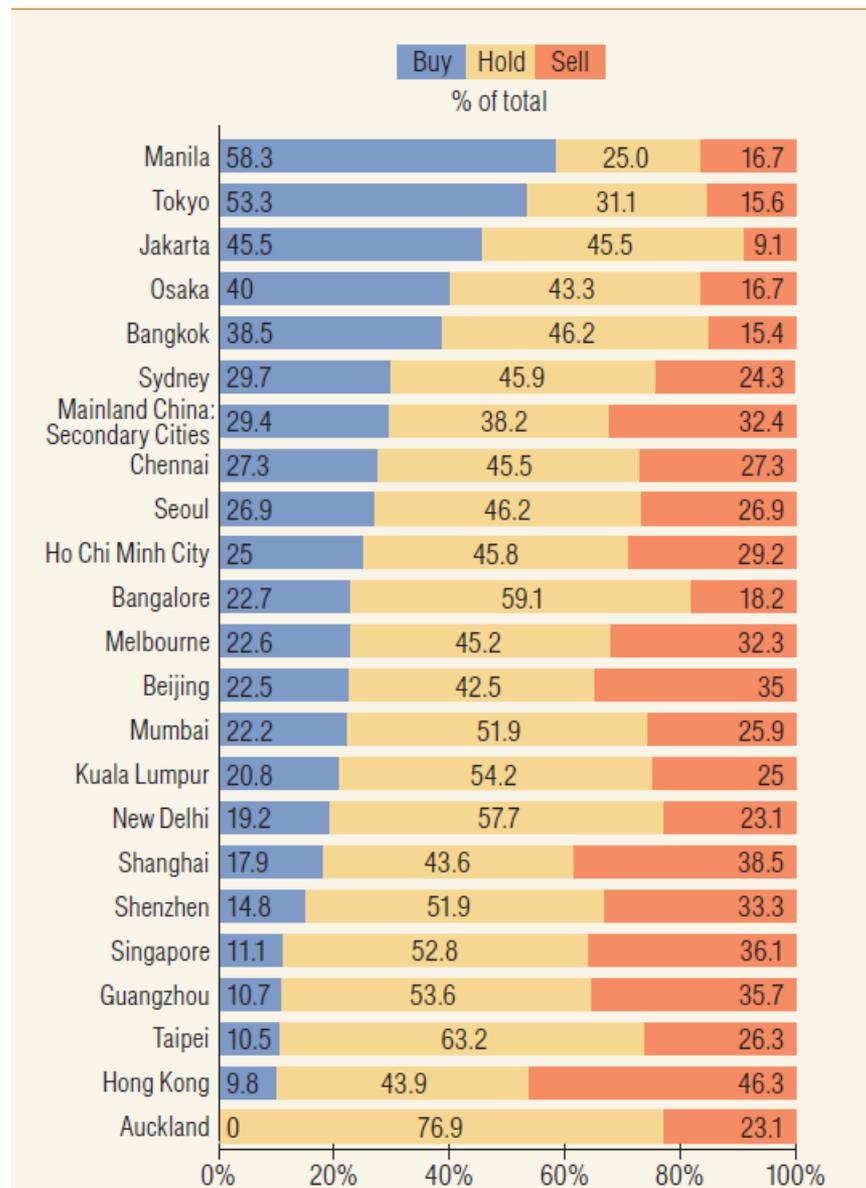
Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

Retail Property Buy/Hold/Sell Recommendations, by City



Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

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



Source: *Emerging Trends in Real Estate Asia Pacific 2014* survey.

Best Bets for 2014

- Japan – opportunistic, niche, residential, office and almost anything else has investors lining up. Abenomics is the fashion.
- Opportunistic plays are in demand but not easy to find at the right price – for many investors, “15 is the new 20”
- Secondary markets or secondary assets. Only if well-positioned though
- Logistics and niche plays such as senior housing and self-use storage
- Everyone is looking at emerging markets – but tough to place money and risks remain high
- Retail still a favorite, though its becoming a “crowded house”

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