ASIAN REAL
SnapShot!

Real Estate / Spring 2013

Current developments in the key real estate markets in Asia Pacific

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Special Focus – Real Estate Debt

KPMG
cutting through complexity

Spring 2013

Introduction

Welcome to the latest edition of KPMG's Asian Real Estate snapshot. This document is prepared by a network of seasoned KPMG professionals aligned to different functional groups within Asia, who diligently record all relevant market developments throughout the year. The document is essentially a compendium that catches the pulse of the largely fragmented property markets and market makers in this region and encapsulates the domestic levers of the respective markets.

In a world as correlated as today's, the trouble faced by the developed Western economies —which are the major consumers of the Asian output — is bound to have an impact on the health of the Asian economies. Despite this, Asian economies have done reasonably well to weather the storm and have grown at a decent pace; however, below-trend performance and weak prospects of a few countries remain points of concern. In 2012, a combination of internal factors (weak consumer sentiments and spending, and self-inflicted growth resistors) and weak external cues from Western markets retarded the growth momentum of regional powerhouses such as China and India. Others, such as Australia, Japan, South Korea, Singapore and Hong Kong, showcased a not-so-optimistic picture in 2012, and their future growth also looks uncertain. In a sharp contrast, economies of Indonesia, Thailand, Malaysia and the Philippines have emerged as regional bright spots underpinned by robust domestic consumption and investment activity.

In the office segment, one of the common themes observed in almost all markets has been the softening business confidence discouraging the corporate expansion activity and providing incentive for cost-effective investments and cost-cutting initiatives. While the net absorption rate remained weak in markets such as China, India, Hong Kong and Singapore, demand uplift is expected in the cities of South East Asian countries such as Indonesia, Thailand, the Philippines and Malaysia.

In tandem with the sluggishness in the office leasing market, rental markets across the region also remained under pressure. Landlords in markets such as Hong Kong, Singapore and Vietnam remained busy settling the demand-supply equation and were forced to reduce the rental rates. However, office rental markets in major cities of Australia, Japan, India and China remained either flat or increased marginally. Indonesia and Thailand remained exceptions to the rent-contraction trend and recorded growth in the rental value, especially in the Grade-A office space.

Increasing domestic consumption and steady expansion of the organized retail activity in the region kept the retail segment of the Asian property market buoyant throughout 2012. The fastest-growing retail categories in the region were food & beverage, and fast fashion, encouraging retailers to flex their physical presence.

The ongoing and anticipated expansion of international and local retailers in countries such as China, India and Indonesia is expected to fuel the growth of the retail property sector. Going forward, demand for prime retail space in shopping centers and other Grade-A locations is expected to remain strong, fuelling steady increase in rental rates.

The economic slowdown and a weak job market, coupled with tightening of credit by banks, resulted in an overall cautious residential market in 2012 in several Asian countries such as Australia, India and Vietnam. However, in the long term, the housing market is expected to be driven by a rising middle-class population, growing urbanization and demand from expatriates.

In 2012, the governments in China and Singapore made an effort to cool the property market to prevent overheating of the housing market.

The luxury segment of the housing market remained subdued in Hong Kong and Singapore due to weak demand from expatriates. However, limited supply of high-end residential properties in select cities of China, Indonesia, Thailand and the Philippines is expected to impel the price appreciation.

The real estate debt market across countries in the region remained tight and loans for property purchase were difficult to obtain as central banks took a stringent stance to reduce the real estate NPAs and market liquidity. Simultaneously, new regulations governing the property sale-purchase and rental markets have been enforced in several markets, pushing buyers in a wait-and-watch attitude.

The liquidity crunch in major markets, coupled with weak investment activity, has created significant operational bottlenecks for the developers.

Although the Asian real estate market showed mixed results through 2012, it is expected to improve in future. With already-visible signs of rising corporate optimism and increasing domestic consumption, several markets are poised to observe strong demand in the office and retail space. However, residential markets would continue to face policy-related hurdles.

A broad and deep understanding of the complexity and interaction of the regional real estate markets requires a combination of knowledge and expertise in the local real estate clusters and the global financial markets. KPMG's Real Estate team has professional experience and an understanding of real estate and the related financial factors as well as an extensive database on all regional submarkets. Through both our pan-Asian and global networks of interdisciplinary experts we offer – as a "One Stop Shop" – the full spectrum of real-estate-related services for challenging local and international mandates. We offer our firms' clients added value in all areas related to real estate based on our extensive and comprehensive advice.

Andrew Weir
Global Chair, Real Estate and Construction

Our Value

Through our global network of member firms, KPMG is involved in every stage of the asset and investment lifecycle, and offers experience in working with all levels of stakeholders throughout the real estate industry. Whether your focus is local, national, regional or global, we can provide you with the right mix of experience to support and enhance your needs and ambitions. Our knowledgeable real estate professionals focus on providing informed perspectives and clear solutions, drawing experience from a variety of backgrounds including audit, tax, advisory, banking, regulation, and corporate finance.

Our client focus, our committent to excellence, our global mindset and consistent delivery build trusted relationships that are at the core of our business and reputation.

Australia

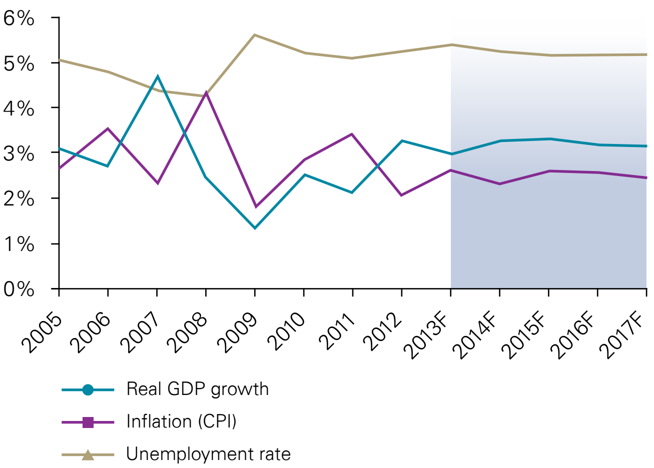
Foreign buyers driving market activity

Macroeconomic overview

The Australian economy softened over the course of 2012, reflecting continued weak international economic conditions, consumer caution and public sector contraction. In addition, the resources sector, which has underpinned the strength in the Australian economy, faced significant headwinds resulting from weaker commodity prices and a high Australian dollar.

In response, the Reserve Bank of Australia (RBA) cut official interest rates from 4.25 percent to 3 percent over the course of 2012 and most market commentators expect further cuts through 2013.

Economic indicators



Source: Australian Bureau of Statistics, International Monetary Fund, KPMG analysis

Real estate transaction volumes

Overall real estate transaction volumes decreased 4 percent in 2012 to USD 14.9 billion from USD 15.6 billion in 2011. However, despite a high Australian dollar, foreign investment activity has remained strong, increasing 29 percent (by value) over the same period, driven by the strength of the Australian economy and attractive investment yields relative to other major financial centres.

Across all market segments, premium institutional grade assets remain tightly held with limited buying opportunities available. This, combined with the increased foreign and renewed institutional buying activity, is resulting in strong competition and relatively full prices for Premium/A-Grade assets. To secure quality stock, some Australian and foreign institutions are forward-funding developments. In addition, there has been increased corporate activity, including privatisation of A-REITs and merger and acquisition activity.

Secondary assets have attracted less buyer interest and there remains a disconnect between vendor and purchaser price expectations.

Office market

During the year to September 2012, PCA/IPD Australia Property Index reported that the office market total return exceeded all other real estate sectors providing investors a total return of 9.9 percent, comprising an income return of 7.5 percent and a capital return of 2.4 percent.

Australian central business district (CBD) office yields

	Sydney		Brisbane		Melbourne		Perth	
	Low	High	Low	High	Low	High	Low	High
PREMIUM	6.25	6.55	6.75	7.50	6.50	7.00	7.50	8.50
A GRADE	6.75	7.00	7.00	8.25	7.00	7.75	8.00	8.50
B GRADE	7.55	7.95	8.75	10.00	8.00	9.00	8.50	9.50

Source: Colliers Research

Premium/A-Grade face rents have been stable; however, there is upward pressure on incentives, driven by weaker corporate demand, reflecting lower business confidence levels and a focus on corporate cost cutting, as well as increases in backfill space in some markets. Secondary face rents are under downward pressure.

Investment demand has been strong in 2012, with domestic institutions and foreign investors competing for limited Premium/A-Grade assets resulting in decreasing yields. Transaction volumes for the office market slowed in the second half, driven by a lack of institutional-grade stock offered to the market. Demand for secondary assets remains weak, particularly for those with large capital expenditure requirements, resulting in higher relative yields for these properties.

Foreign investors have continued to be active in the Australian market with Jones Lang LaSalle reporting that foreign investors accounted for half of the total activity in commercial property markets, with a reported USD 4 billion invested. There have been examples of both direct investment and co-investment with local managers. The Australian government increasing Managed Investment Trust (MIT) withholding tax has created some investment uncertainty for offshore investors. MIT has risen from 7.5 percent to 15 percent (10 percent for new office, hotel and shopping centre buildings constructed after 1 July 2012, if environmental sustainability thresholds are met).

Australian CBD average net face rents 2H 2012

Source: Colliers, KPMG analysis

Australian retail indicators by state

Source: Australian Bureau of Statistics, KPMG Analysis

Retail market

The institutional retail real estate market in Australia is primarily focused on regional, sub-regional and neighbourhood shopping centres. The PCA/IPD Australia Property Index reported the sector generated a total return of 8.7 percent in the year to September 2012, comprising an income return of 7 percent and a capital return of 1.7 percent.

The rise in online retail, price deflation (electronics and white goods) and weak consumer sentiment has led to a number of retailer insolvencies and subdued rental growth for non-prime retail and certain retail segments impacted by these trends.

Retail investment volumes since 2011 have trended downwards. To June 2012, retail transaction volumes were down 28 percent (by value) on the previous year. Institutional investors have been dominating transactional activity, accounting for an estimated 50 percent of all transactions. Assets with redevelopment or expansion potential in quality locations are continuing to be favoured by investors.

Australian closed centre retail yields 3Q12 (%)

	Sydney		Brisbane		Melbourne		Perth	
	Low	High	Low	High	Low	High	Low	High
Regional	5.50	7.00	5.75	6.00	5.50	7.00	6.50	7.25
Sub - Regional	7.50	9.00	7.50	9.25	7.25	8.75	8.00	9.00
Neighbourhood	7.00	10.50	7.50	10.00	7.50	9.50	8.25	9.50

Source: Savills Research

The level of retail construction has declined substantially since 2007. Major supermarket brands including Woolworths and Coles have managed the development of their own assets to maintain store rollouts as lack of construction finance constrains traditional developers. In 2012, Woolworths de-merged and listed its internal property group, SCA Property, on the Australian Stock Exchange with assets valued at USD 1.4 billion.

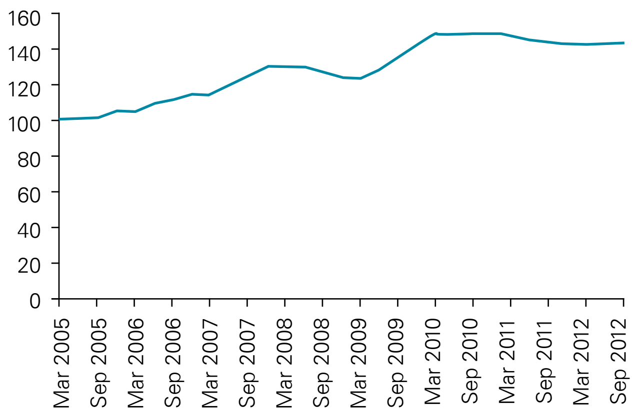
Australia

Housing market

The Australian housing market is showing signs of stabilisation following weaker conditions in 2012. Unlike other developing economies, the Australian residential market did not undergo significant re-pricing throughout the global financial crisis, other than for luxury properties and some regional centres, such as the Gold Coast, where asset bubbles and oversupply have driven more-significant price falls.

Overall, residential property fundamentals remain solid with population growth driven by net migration supporting underlying demand and low unemployment. However, weak consumer confidence, high household debt levels and the low affordability level of residential property, have resulted in weak housing sales. While interest rates have softened over the course of 2012, resulting in improved housing affordability, increased buyer activity in residential markets is not yet evident with residential sales volumes remaining at 15 year lows.

Australian price index of established houses



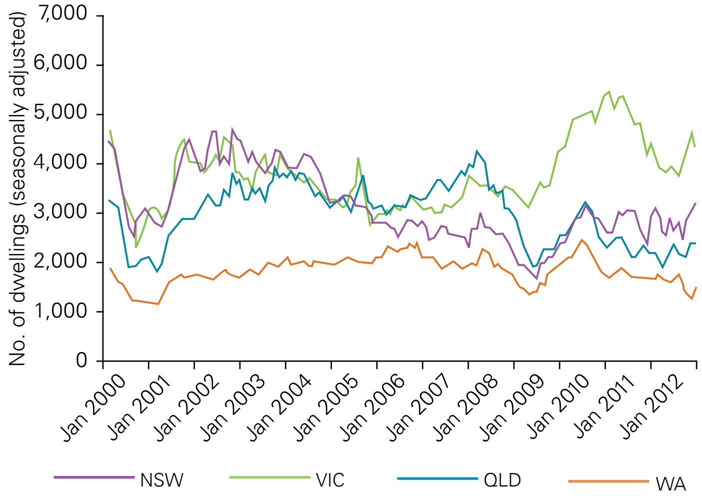
Source: Australian Bureau of Statistics

On a more positive note, 2H12 provided some tentative signs of an upswing with building approvals spiking following a downward trend since 2010. However, current construction continues at the lowest levels since the early 1990s, reflecting weak sales volumes and lack of bank financing for residential development.

Real estate debt market

Despite the fallout of the global financial crisis and the continuing eurozone credit crisis, the Australian real estate debt market has remained somewhat resilient. Loan volumes have steadily increased since 2009, with both domestic and foreign parties looking to Australia as a relative 'safe haven'. Lending to the property sector remains challenging, especially in development finance, as bank appetite for risk has been tempered and banks continue to work through their bad loans. However, similar to the wider corporate lending market, there is strong appetite for quality credit, with major banks strongly competing for senior debt in passive income-generating properties.

Australian building approvals (three-month moving average)



Source: Australian Bureau of Statistics, KPMG analysis.

Most senior lenders indicate maximum Loan to Value (LTV) ratios on senior debt of approximately 60 percent, subject to the quality of the asset. Other conditions include durations of 3–5 years and interest coverage ratios (ICRs) above 2.0x. Lenders typically prefer exposure to portfolios (as opposed to single asset), and favour multi-tenant properties.

Non-bank lenders have demonstrated strong appetite to fill the gap left by banks. Non-bank lenders are not subject to banking liquidity regulation and differentiate themselves based on low undrawn commitment fees or with appetite to provide longer tenor.

Since 2008, A-REITs have reduced their reliance on the domestic banking sector and utilised their balance sheets to raise capital via corporate bonds. A reduction in bond yields has made this an attractive option. A recent example included the issuance of 5 year, BBB+ rated MTN on a coupon of 5.4 percent

Construction finance continues to remain difficult in all asset classes. Some developers are utilising forward funding models to by-pass traditional construction finance requirements and to lock in returns.

Real estate investment by foreign investors that is partially funded by way of shareholder debt is subject to increasing scrutiny from the Australian taxation authorities — in particular, the rate as well as the commerciality of the terms.

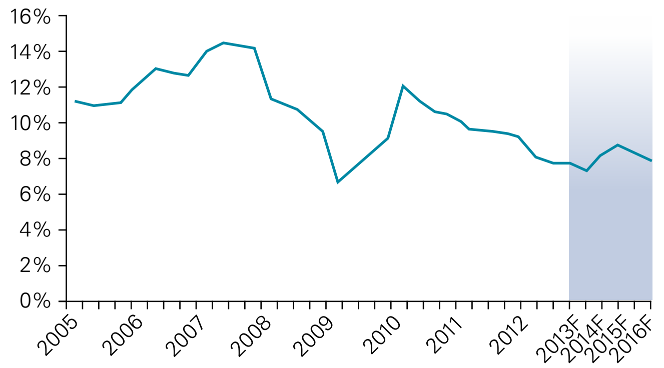
China

A stable housing market remains a key objective of the government

Macroeconomic overview

Although China's domestic GDP reduced further to 7.9 percent year-on-year (y-o-y) in 4Q, several key macro indicators improved during the last quarter of 2012. The HSBC China PMI for December 2012 stood at 51.5, the year high. Both the new order index and the new export index showed improvement, reflecting increased optimism among manufacturers. Former premier Wen Jiabao recently commented that economic growth in China had stabilised and that there was no need for excessive stimulus measures. This was seen by many as an indication that additional stimulus measures are unlikely in the near future.

Historical and forecast real GDP growth



Source: National Bureau of Statistics of China

HSBC China Purchasing Managers' Index (PMI)

Source: HSBC China PMI report

The housing market stabilised further in 3Q but started to rebound in November 2012, with most cities included in the 70 Large-and-Medium-Size Cities New Commodity Housing Price Index showing higher prices in December 2012. Sold GFA of residential properties totaled 985 million square metres (sqm) in China throughout 2012, up by approximately 2 percent from 2011. Developers, nevertheless, remained cautious, with new construction and land purchase data still registering a fairly significant year-on-year decrease.

New office completions slowed in most cities in 3Q but rebounded slightly in 4Q12, and supply in key cities in the north and south remained limited. Demand in key markets generally weakened amid the unfavourable economic environment.

However, demand for retail space remained robust, with international luxury brands and fast-fashion retailers actively seeking quality space in prime locations. Retailers remain positive about long-term growth in domestic consumption and are focusing their expansion efforts on the central and western regions of the country.

In the residential sector, most cities saw prices stabilise and transaction volume register y-o-y growth. Developers grew more optimistic following the rebound in transaction activity in 2Q12 onwards and opted to speed up the launch of new projects and reduce discounts.

Strong demand for quality logistics facilities and rents increased in most cities in China in 2012. Space in Tianjin, Shenyang, Guangzhou, Chengdu and Chongqing remained particularly tight and rents in these markets recorded stronger growth. A circular issued by the government during the period to promote foreign trade is anticipated to create additional demand for quality logistics facilities.

Office market

Despite sluggish economic activity, the Chinese government took monetary measures in the first half of 2012 to support GDP growth. This should provide an impetus for new development in the office market. On the demand side, multinational entities and export-related firms have generally been more cautious, as they are susceptible to external shocks. Office stock was mainly absorbed by domestic companies and state-owned enterprises in 2012.

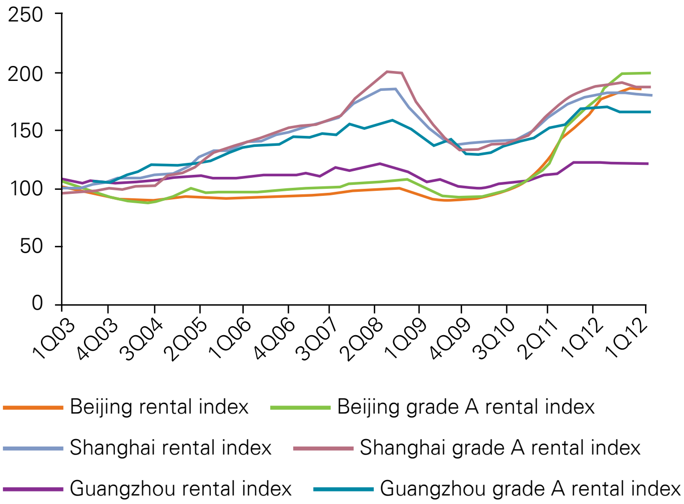
The Beijing office market remained basically stable in 4Q12, with average rents increasing only 0.4 percent quarter on quarter (q-o-q) to RMB 407.4 per sqm per month, the smallest increase in the last six quarters. Overall, market sentiment has calmed to a certain degree. However, supply shortage is still prevalent in the Beijing office market. Furthermore, the vacancy rate edged down further to 3.8 percent, leaving even less rentable office space in the market.

In Shanghai, leasing activities remained slow in 4Q12, particularly in the core submarkets, as a number of multinational companies chose to postpone expansion plans until a clearer outlook emerged for both the global and domestic economies. Impacted by sluggish demand and increasing supply, average office rent declined by 1.6 percent

q-o-q, reaching RMB 251.8 per sqm per month by the end of 4Q12. Several new office buildings were handed over in 3Q and 4Q, leading to an increase of the overall vacancy rate to 8 percent.

In Guangzhou, a total of 130,000 sqm of quality office space became available in 4Q12 which further increased the overall vacancy rate by 0.6 to 12.5 percent. At the end of the fourth quarter, monthly rental of Guangzhou quality office stood at RMB 128.8 per sqm. As a number of projects have postponed their completion to 2013, a further increase in vacancy is expected.

Office market index



Source: CBRE report; KPMG analysis

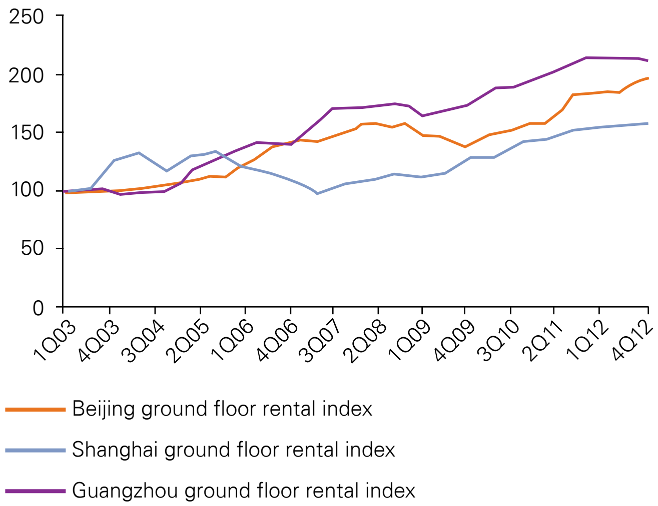
Retail market

In 2011, household consumption expenditure accounted for approximately 40 percent of total Chinese GDP. This proportion is expected to rise in 2012, given the expansion in domestic demand. Furthermore, international brands are continuing to expand in China. Looking ahead, details of real estate investment trusts currently being planned are expected to be released, which will further boost investment in commercial properties in the medium to long term. In addition, with the expansion of the local insurance industry, insurance premiums for commercial real estate investment will become increasingly common, which will help promote the development of the retail property market in the long run. In 4Q12, the total stock of high-end shopping centres in Beijing reached 7.8 million sqm, the highest among the seven major cities. The average stock in first-tier cities (Beijing, Shanghai, Guangzhou and Shenzhen) reached 5.7 million sqm, while for second-tier cities (Hangzhou, Tianjin and Chengdu) the figure was 2.6 million sqm.

In 4Q12, the vacancy rate of high-end shopping centres in Hangzhou was the lowest among the seven major cities, while the rate in Beijing was the highest. The average vacancy rate for first-tier cities was 8.9 percent, 0.8 percentage points higher than the average rate for second-tier cities.

Rental rates of prime shopping centres in Shanghai were the highest among China's seven major cities. The average monthly rent of first-tier cities reached RMB 1,344 per sqm, 59.6 percent higher than the average rate for second-tier cities.

Retail market index



Source: CBRE report; KPMG analysis

Housing market

China's real estate prices have cooled off lately, but they remain hotter than anywhere else. Three Chinese cities, Shanghai, Beijing and Guangzhou, had among the highest rate of increase in housing prices in the world. From the fourth quarter of 2006 to the fourth quarter of 2011, Beijing and Shanghai saw prices increase by 110.9 percent.

However, in Beijing and Shanghai, at least, prices have begun to stabilise over the past year. Between the end of 2010 and the end of 2011, housing prices in the two cities fell by 2 percent.

China's government has launched a concerted effort to cool the property market amid concerns that the housing market is overheating and is becoming too expensive for average middle-income citizens.

China's National Bureau of Statistics reported that average annual income in Beijing in 2012 was about RMB 41,103, or roughly USD 6,539. The average price per sqm of new homes in Beijing was RMB 20,700, or about USD 3,293; in other words, more than USD 300 per square foot (sq ft). The survey reflected pricing in Beijing's urban and suburban zones but excluded prices for second-hand housing.

Shanghai prices were similar, at RMB 21,412 per sqm. In inland cities, however, such as Chongqing and Chengdu, prices remained much lower comparatively, at RMB 6,775 per sqm and RMB 8,511 per sqm respectively — however, incomes in central China are also far lower.

Warehouse and logistics facilities

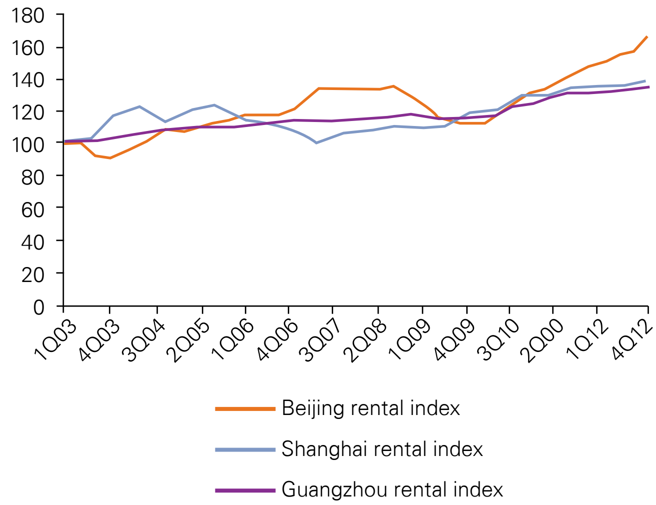
In north China, demand for warehousing and logistics remains strong. There was an average increase of 1.7 percent and 1.2 percent for the five largest northern cities, namely Beijing, Tianjin, Dalian, Shenyang and Qingdao during the last two quarters of 2012. It is worth noting that rents for business parks in Beijing experienced a significant q-on-q gain of 7.9 percent, driven by office tenants relocating part of their operations to decentralised locations to save costs.

The logistics facility market has grown steadily in east China, with average rents increasing during 2012. During the last quarter of 2012, the average warehouse rent increased by 1 percent, 1.3 percent, 0.5 percent and 0.6 percent respectively in Shanghai, Nanjing, Hangzhou and Ningbo.

No new supply of logistics facilities was noted in south China during the fourth quarter of 2012. Average rental of logistics facilities in Guangzhou and Shenzhen recorded a growth of 0.6 percent and 0.8 percent q-on-q, respectively. The growth is attributed to high demand from e-commerce and resilient domestic consumption.

Rents of logistics facilities in Chengdu, Chongqing and Wuhan continually rose during the last quarter of 2012, by 0.5 percent, 1.5 percent and 0.8 percent respectively. As high-end manufacturers expanded into central and western China, demand for warehousing and logistics facilities continued to rise.

Logistics market index



Source: CBRE report; KPMG analysis

Change of leadership

In November 2012, the closing of the 18th National Congress of the Communist Party of China marks a significant milestone for the change of leadership in China. However, the new leadership is not expected to make any dramatic changes to current property policies. Cooling measures, such as restrictions on home purchases, will remain in force in the short term as authorities continue to focus on ensuring stability in the housing market. Large fluctuations in either price or transaction volume are unlikely.

Real estate debt market

Due to the implementation of prudent new fiscal policies and the impact of policies to restrict residential property purchases, many developers are now facing significant liquidity issues and increasing cost of funds as they scramble to assess financing, as well as a significant drop in real estate transaction volume and a decline in prices in certain first tier and second tier cities. Traditional financing channels, such as bank loans and IPOs, are also facing serious challenges in China. In response to the side effects of an RMB 4 trillion stimulus package introduced in 2008, the Chinese government has tightened up monetary policy. Therefore, banks are being more prudent in granting loans to real estate developers. Furthermore, the A-share stock market is facing a collapse in investor confidence, which has a direct influence on the public offering market. Under such circumstances, alternative financing channels such as real estate trust products and offshore bond issuances have emerged.

The market for real estate trust products, which typically yields average returns of 12–15 percent, grew rapidly in 2010 and 2011. However, the sharp development in such products drew the attention of the China Banking Regulatory Commission (CBRC). Starting in the second half of 2011, the CBRC issued guidelines to control and monitor the operations of trust companies. The impact was significant, with newly issued trust products decreasing sharply December 2011 onwards. As of 1Q12, the balance of real estate trust products amounted to RMB 686 million, accounting for 13.46 percent of total trust assets.

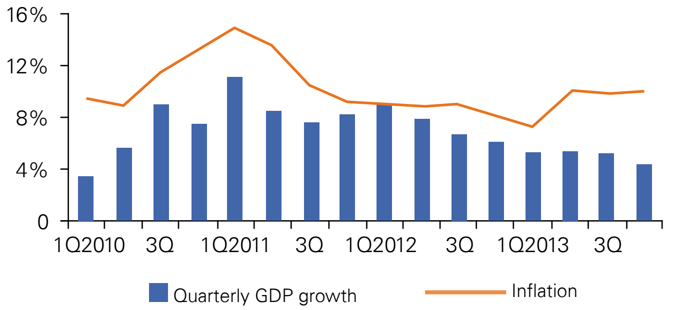
Issuing bonds overseas offers another source of financing for developers, with Hong Kong being the major overseas market. Despite early reservations, Hong Kong investors have responded well to mainland developers' offers of dim sum bonds — bonds denominated in renminbi and issued in Hong Kong. In July 2012, the Shanghai-listed realty developer Gemdale (Group) Co., Ltd. raised RMB 1.2 billion by offering dim sum bonds with 9.15 percent yields through an overseas subsidiary. The trend is likely to continue as financing costs in Hong Kong are much lower than those of the mainland.

Recent reforms to aid growth

Macroeconomic overview

The Indian economy has been affected by several domestic and global factors plunging GDP growth to 4.5 percent in 4Q12, which was a decade low. Low growth, supported by persistent high inflation, global economic slowdown and high fiscal deficit, has significantly impacted domestic industrial production, foreign inflow and overall market sentiment.

Economic indicators



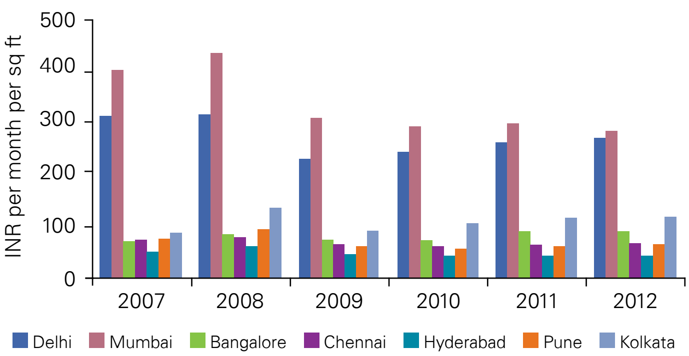
Source: Reserve Bank of India

To counter the slowdown, the government recently introduced several key reforms, such as permitting FDI in retail, aviation, insurance and broadcasting. The central bank is also trying to improve liquidity in the economy by cautiously reviewing the key rates.

Office market

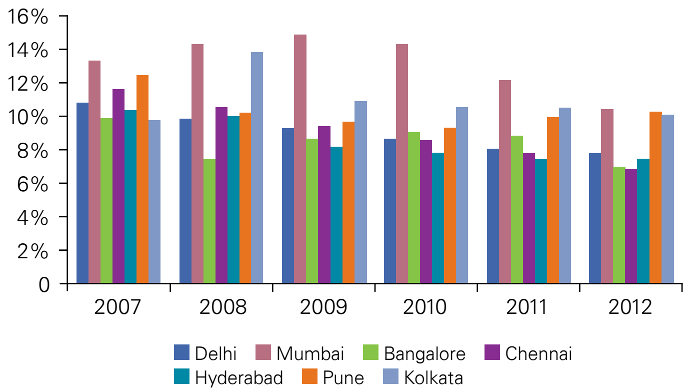
With slowdown in economic activity, quarterly demand for office space had an overall decline of more than 1 million sq ft q-o-q to about 6-7 million sq ft in 2012. While the demand was subdued in major commercial hubs such as Delhi-NCR, Mumbai and Bangalore, other prominent cities such as Chennai and Hyderabad witnessed an upsurge.

Office prime rents (CBD)



Source: CBRE

Office prime yields (CBD)



Source: CBRE; KPMG analysis

The fresh supply in the country was curtailed due to the existing vacancy level and overall slowdown, resulting in stable rents across major office hubs with a few micro-markets witnessing a growth in rental rates. In 3Q12, only 5 million sq ft of new office space was completed, which is considerably less than the 9 million sq ft completed in 2Q12.

Currently, the occupier top priority is to reduce cost amid the economic slowdown. Corporates have put their expansion plans on hold or are re-evaluating, in addition to improving existing space utilisation, to control costs until the domestic economy shows signs of improvement. Recently, several small-sized deals were completed bringing down the average floor size with occupiers expanding cautiously.

Another major trend being witnessed is the consolidation of office space requirement by occupiers. Instead of having several small office at multiple locations, occupiers are focussing on relocating and consolidating. This helps the corporate reduce overall rental expense as they get better deals on large space.

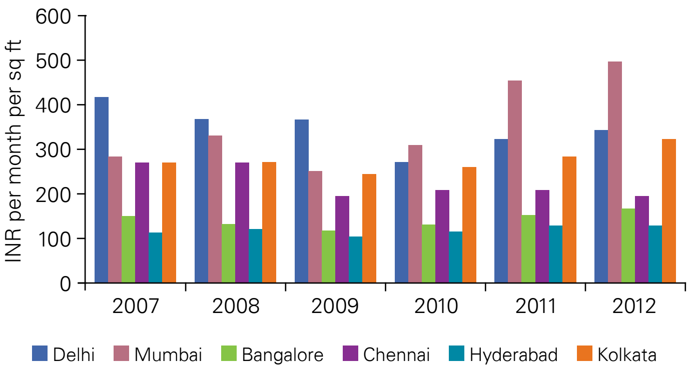
Additonally, occupiers are also looking to shift to cost-effective locations in the suburbs, while leading IT/ITeS occupiers continue to expand. In 2012, a large multinational bank consolidated its several offices in Mumbai to a central location at Bandra Kurla Complex to reduce its real estate cost — a major business district in Mumbai.

Overall, key markets such as Mumbai and New Delhi continue to observe transactions for relocation as well as consolidation.

Retail market

Over the past decade, several low-grade retail malls mushroomed particularly in the Delhi-NCR and Mumbai region without proper planning and adequate retail infrastructure, resulting in very high vacancy rates. In addition, the retail landscape has fundamentally changed and Indian cities are now positioned firmly on the radar of international retailers. These retailers require quality high-grade retail space, which is very limited, as the average vacancy rate of high-grade retail space is just 7 percent. Owing to this significant shortage of quality retail space, the rentals and capital value have appreciated steadily over the years.

Retail prime rents



Source: CBRE; KPMG in India analysis

The influx of international retailers in India is expected to be further boosted as India's government has recently opened up the FDI in multi-brand retail in India. Some big global retailers, such as Wal-Mart and IKEA, have announced plans to set up stores in India in the next few years. This development is expected to boost the demand for quality high-grade retail space across the country and is not limited to just metro and a few tier 1 cities.

At present, the developers are focused on reducing the existing vacancy levels, rather than focusing on launching new projects. Thus, only about 2.5 million sq ft of retail space was added in 2012, significantly less than the 15 million sq ft of space added during 2011. Most of the supply pipeline is scheduled for completion in 2013 by when the existing vacancy level may decline.

Housing market

Slow GDP growth, high interest rates, a weak job market and high property prices have forced buyers to postpone their decision to buy residential property. The most affected were the investor-driven markets of Delhi-NCR and Mumbai region, which witnessed a significant decline in absorption. The end-user-driven market also witnessed a decline, but to a limited extent, while few cities witnessed a surge in demand and new launches.

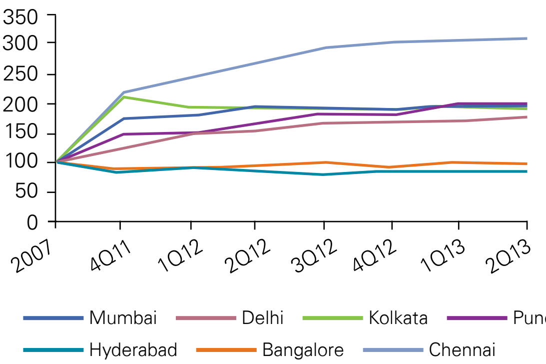
Region/City absorption and launches

City/Region	Absorption (Q1 2013)	Change YoY	New launches (Q1 2013)	Change YoY
MMRDA	5,673	-24%	2,673	-47%
Pune	5,182	57%	5,618	81%
NCR	4,978	-34%	4,653	-26%
Bangalore	4,749	-5%	4,393	-26%
Chennai	2,721	-8%	1,290	-27%
Hyderabad	2,162	20%	160	-90%
Kolkata	1,613	-8%	1,692	-33%

Source: "Realty Check," JP Morgan, 17 October 2012, via Thomson Research

However, despite a difficult situation, housing prices have continued to rise and have breached the previous highs witnessed before the global financial crisis in 2008. The primary reason for rising prices is the curtailment of fresh supply by developers due to funding constraints. The decline in supply of new housing units maintained the demand–supply gap allowing developers to raise prices.

City housing price index



Source: NHB Residex, National Housing Bank, accessed 17 December 2012

With weakness in the housing market and the low interest shown by customers in new property launches, developers are now focusing on developing affordable housing. The demand for affordable housing in the country is largely insulated against the slowdown, since there is a significant shortage of housing. In 2012, there was a shortage of 18.74 million housing units, the demand for which was 99 percent from the Economically Weaker Section (EWS) and Low-Income Group (LIG) households. The income of these groups is less than INR 16,000 per month.

The government is also looking to introduce reforms in the affordable housing industry, which is a populist measure and is expected to counter the slowdown in economic growth. Recently, it revised the income limit of the EWS and LIG groups, and allowed external commercial borrowings in affordable housing. The government is looking to introduce additional reforms, including to reduce stamp duty, grant infrastructure status, streamline the approval process and promote in-situ development.

Enticing demographics stimulate demand

Macroeconomic overview

Indonesia is emerging as one of the hottest property markets in the Asia Pacific region supported by a strong economic growth rate, high domestic consumption, growing urbanisation and an emerging middle class. However, like most developing economies, it also faces challenges such as corruption, inadequate infrastructure, low productivity and lack of transparency.

The Indonesian economy's growth trajectory has defied the recessionary inclination of the developed Western economies and slowing down of its neighbouring giants China and India. Indonesia clocked an average GDP growth rate of 5.4 percent during 2000–12 and is now Asia's fifth-largest economy. Furthermore, the country is expected to achieve an economic growth rate of 6.4 percent in 2013, and an average growth rate of 6.6 percent during 2014–17. This growth is expected to be underpinned by rising fixed investment and robust private consumption, driven by improved consumer confidence and a burgeoning middle class.

Indonesia is due for parliamentary elections in early 2014, and hence, the policy decisions in 2013 are expected to favour a populist stance, especially on pending reforms such as the fuel subsidy programme and eradication of corruption.

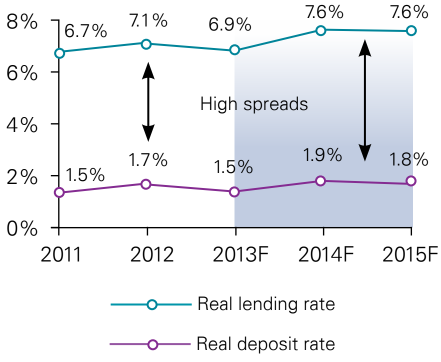
On the inflationary front, the country's central bank (Bank Indonesia) has maintained an easy monetary policy since February 2012 buoyed by a moderate inflation rate of 4.3 percent in 2012. Going forward, the continued increase in minimum wages and tighter restrictions on the import of cheap foreign goods are expected to put upward pressure on prices, although Bank Indonesia is expected to maintain its main policy rate at the current 5.75 percent until mid-to-late 2013 to sustain growth momentum.

Despite positives, Indonesia has its own share of challenges that need to be addressed to lay the foundation for sustainable growth. Prominent issues include the following:

- Access to finances: Businesses, particularly local small and medium enterprises, in Indonesia have faced challenges in securing financing from banks. In addition, the country has a relatively high spread of lending rates minus deposit rates, with an average of 5.4 percent during 2005–10.
- Poor infrastructure: The country has a huge scope for investment in infrastructure projects, new roads, bridges, power stations and ports, etc.; however, land acquisition remains a major hurdle.

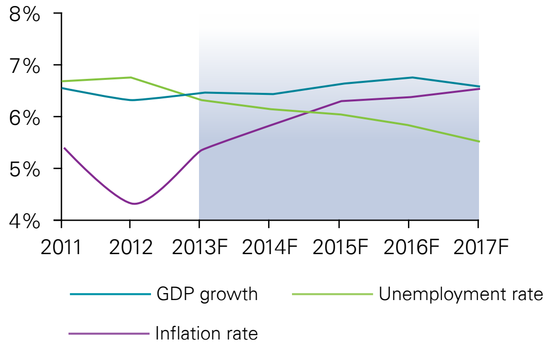
For the real estate sector, the country's most enticing features are its demographics (young and working population), increasing urbanisation and durable macroeconomic condition.

Indonesia interest rates 2011–15F



Source: Economist Intelligence Unit; KPMG analysis

Indonesia macroeconomic indicators 2011–17F



Source: Economist Intelligence Unit; KPMG analysis

Office market

A robust economic growth has been driving both local and multinational companies to pursue business expansion and has been encouraging relocation to bigger and high-end office spaces. The take-up rate for the office market is expected to rise as the country has become one of the top destinations for Foreign Direct Investment after securing investment-grade status from Fitch Ratings and Moody's Investors Service.

In the 2012–13 ASEAN business outlook survey commissioned by the American Chamber of Commerce in Singapore, senior executives from 365 US corporations identified Indonesia's low labour, housing, and office lease costs as its major strengths and potential reasons for business expansion. Corruption, local protectionism, and inadequate infrastructure were cited as headwinds.

Jakarta's office market is touted as one of the tightest in Asia-Pacific as indicated by a constant upsurge in occupancy rates. As of 4Q12, the vacancy rates stood at 7.1 percent, the city's lowest since 1990. Overall absorption also remained healthy, with total net take up in 2012 reaching 350,000 sqm, 5.4 percent higher than in 2011.

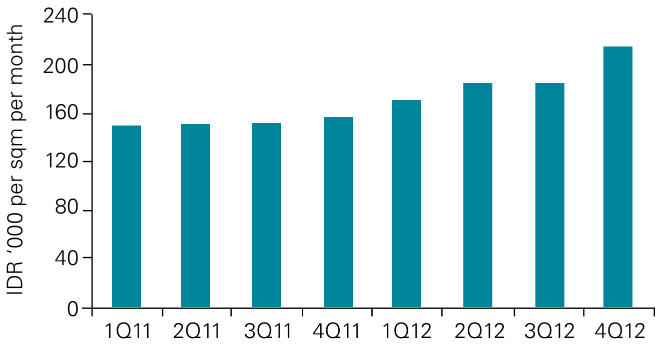
In sync with the increased demand, the rental market in Jakarta CBD has also witnessed positive growth since 2011, making it one of the fastest-growing rental markets in Asia-Pacific. The biggest gainer has been the Grade A office space, registering double-digit growth in both 2011 and 2012.

Going forward, demand for leasing transactions and sales in Jakarta's CBD office market is expected to hold its momentum. Consequently, vacancy and rental rates are further anticipated to decrease.

Jakarta office market supply and demand 1Q11 – 4Q12

Source: Cushman & Wakefield; KPMG analysis

Jakarta office market rental rates 1Q11 – 4Q12



Source: Cushman & Wakefield; KPMG analysis

Retail market

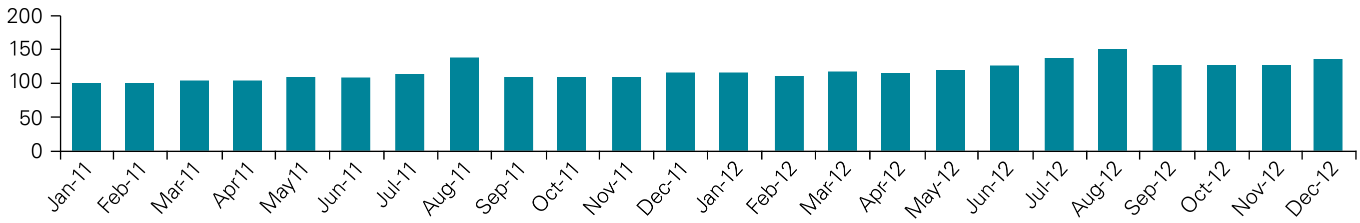
Indonesia's retailing sector is sprawling due to a fast-growing middle class (over 55 percent of the total population) — with rising disposable incomes and increasing household expenditure — and rising tourist arrivals. The retail growth story is not limited to bigger cities such as Jakarta and Bali, but has expanded to tier II cities such as Bandung and Medan. Moreover, domestic consumption, which accounts for over 50 percent of the economy, has shielded the country from the global economic slowdown.

The Retail Sales Index survey (compiling views of 600 retailers across 10 Indonesian cities) conducted by Bank Indonesia in December 2012, found that the Retail Sales Index rose 15.7 percent y-o-y, bolstered by sales of household goods, food and beverages during the year-end holiday season. Going forward, retail sales are expected to remain upbeat.

As of December 2012, total supply was recorded at 3,823,600 sqm, an increase of 7.4 percent y-o-y. Of this, 70 percent of capacity was for lease, while the remainder was for strata-title ownership. Consequently, retail market occupancy rates in Jakarta have risen consistently since 2009 and touched 81.4 percent by December 2012. However, driven by strong competition in the retail space, rental growth has remained subdued, a trend expected to continue in 2013.

Despite positives, organised retailing market in Indonesia is still at a nascent stage and lags behind emerging Asian cities such as Kuala Lumpur, Manila, Bangkok, Shanghai and Beijing, in terms of shopping space per capita. This hints at massive potential for growth in the market.

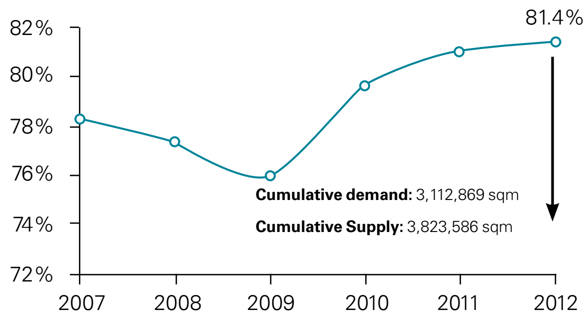
Indonesia's Real Retail Sales Index



Base year 2010 = 100

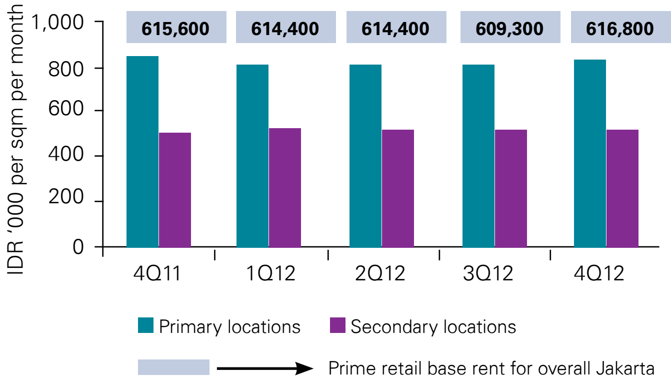
Source: Bank Indonesia, Retail Sales Survey November 2012; KPMG analysis

Jakarta retail market occupancy rates 2007–12



Source: Cushman & Wakefield; KPMG analysis

Jakarta prime retail base rent 4Q11–4Q12



Source: Cushman & Wakefield; KPMG analysis

Indonesia

Residential market

The residential property market in the country is buoyed by a growing middle class and expatriate population. This has resulted in a sharp increase in the building of luxury apartment complexes in Jakarta. These luxury apartments are sought after in the rental market by expatriates and wealthy Indonesians. Meanwhile, the middle-grade apartment market remains a preferred choice for the Indonesian middle class.

In March 2012, Bank Indonesia introduced a new regulation for properties measuring over 70 sqm, limiting bank loan contributions in purchase of such properties to 70 percent of their value. This means that home buyers were required to make a down payment of 30 percent. Aimed at curbing excessive loan growth, the regulation is expected to shrink the purchasing power of property buyers.

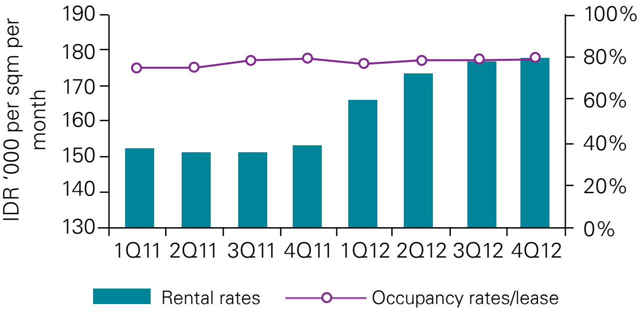
The residential property price index for 4Q12 for the primary market increased 6.98 percent y-o-y, with further uplift anticipated in 1Q13. Some of the impediments for the growth of the residential property market in the country are higher price of building material, high interest rates of house ownership loans and higher tax rates.

JABODEBEK apartment sales market 1Q11 – 4Q12

Note: JABODEBEK comprises Jakarta, Bogor, Depok and Bekasi

Source: Bank Indonesia; KPMG analysis

JABODEBEK apartment rental market 1Q11 – 4Q12



Indonesia residential property price index 3Q11 – 4Q12

City	2011			2012			2013
	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13*
Bandung	177.04	178.52	181.67	183.56	186.53	190.74	193.53
Bandar Lampung	163.04	164.71	164.89	165.80	166.35	170.20	171.74
Banjarmasin	165.15	165.52	166.05	167.18	169.18	171.33	172.45
Denpasar	141.21	141.35	141.89	143.07	149.23	155.45	156.43
Palembang	177.86	177.53	181.28	184.72	189.68	193.80	200.43
Semarang	154.05	154.13	154.47	155.07	155.89	158.61	160.23
Yogyakarta	177.53	178.11	178.45	180.75	182.58	183.92	184.71
Padang	152.71	153.06	156.38	157.81	157.81	166.06	168.18
Medan	164.40	169.64	172.19	171.83	175.94	184.60	186.19
Makassar	184.22	184.22	186.73	188.00	195.75	206.09	215.86
Manado	172.01	173.58	176.32	179.49	179.37	179.84	180.85
Surabaya	186.43	188.03	189.84	192.82	194.87	203.43	206.33
Pontianak	147.24	147.45	148.09	150.71	150.81	156.56	156.56
Jabodebek-banten	156.92	159.21	160.04	162.25	163.07	170.04	171.62
Total	**141.91**	**143.55**	**144.73**	**146.43**	**147.94**	**153.58**	**155.44**

Base year 2002 = 100

Source: Bank Indonesia, Residential Property Price Survey 4Q12; KPMG analysis

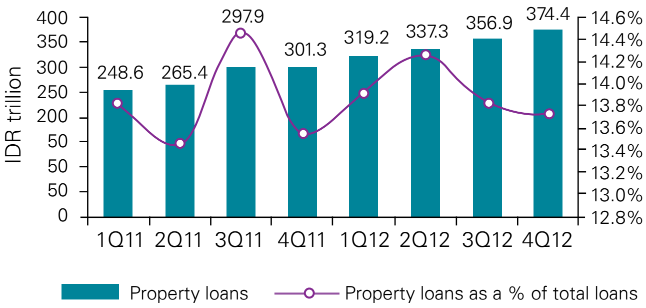
* Projections

Real estate debt market

Property loan disbursement by commercial banks in Indonesia reached space between IDR 374.4 trillion by 4Q12, a 24.3 percent y-o-y increase. Also, property loans contributed 13.68 percent of the total outstanding loans of commercial banks (IDR 2,737 trillion). Housing and apartment loans (KPR/KPA) have the largest share in all property loans; however, their share dipped from 60.6 percent in 4Q11 to 59.4 percent in 4Q12.

In the past, construction loans have been growing their share in the total loan portfolio, while KPR/KPA's share has slumped. Besides bank loans, property developers rely on their own funds as a financing option.

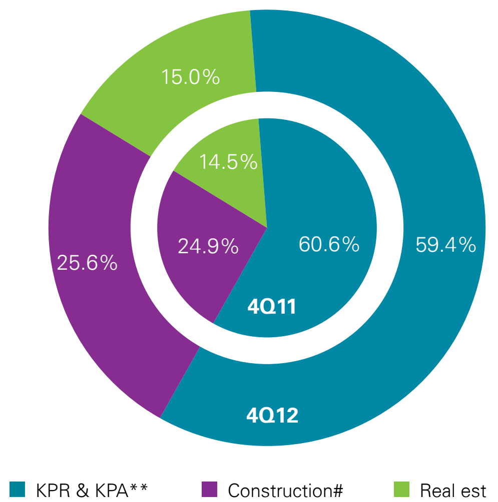
Property loans* of commercial banks 1Q11 – 4Q12



Property loans* of commercial banks, by type, 4Q11–4Q12

4Q12: 100 percent = IDR 374.4 trillion

4Q11: 100 percent = IDR 301.3 trillion



*Property loans: Credit disbursements for contractors to build office buildings, hotels, houses and retails and also personal loans which are used for either house ownership or renovation.
**KPR & KPA: Mortgage for landed house or apartment.
Construction: All types of contractor activities to build or renovate buildings, roads, markets and any other construction activity to build public facilities.
^Real estate: All types of activities to build a building, apartment, house, market, etc., either for sale or for rent.

Source: Bank Indonesia; KPMG analysis

Hotel market

According to Bank Indonesia reports, as of 4Q12 total number of hotel rooms in the Jabodebek area reached 26,440 of which 24.1 percent were in three star hotels, 39.8 percent were in four star hotels and the rest were in five star categories. Furthermore, property development in this category has now expanded to suburbs.

Across the country, more arrivals for business and leisure purposes have been fuelling demand for hotel accomodation. Indonesia's outbound and domestic travel has grown significantly, aided by improved domestic and regional connectivity. According to Bank Indonesia, outbound tourists from Indonesia climbed to 7.7 million in 2012 from 7.2 million in 2011. Meanwhile, domestic tourists grew from 236 million in 2011 to 245 million in 2012.

Hotel occupancies are also driven by increasing propensity of government and private organisations to organise business meetings and events in hotels.

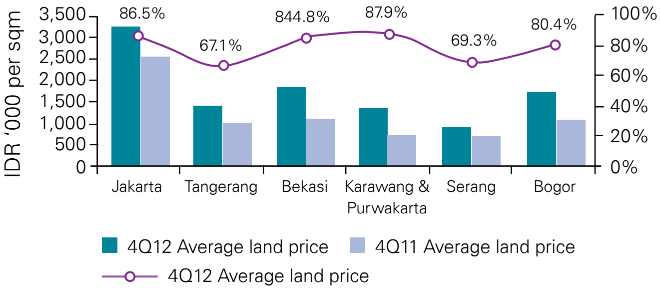
Currently, the trend among property developers is to build budget hotels to generate sustained and recurring revenue flows.

Indonesia

Industrial estate

Demand for industrial land in the country remains buoyant; this in turn has been pushing the prices higher. Highest interest in the industrial land is recorded from foreign industrialists — predominantly from Asia Pacific — in sectors such as food and beverage, automotive, steel, chemical, consumer goods, warehousing and logistics, etc. Bekasi, Bogor and Karawang & Purwakarta have emerged as the development hotspots, as observed in continuous improvement in their absorption rates. The market has been facing supply-side constraints; although the situation is expected to improve in 2013.

Indonesian industrial land market 4Q11–4Q12



Source: Cushman & Wakefield; KPMG analysis

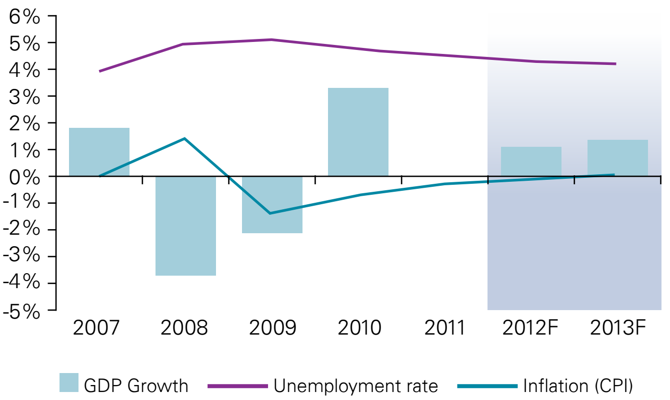
Japan

Tokyo leads Japan in terms of potential domestic rebounds

Japan saw zero GDP growth rate in FY2011, mainly due to supply chain disruptions and shortage of electricity resulting from the earthquake in March. The forecasted GDP growth rate in FY2012 which ends in March 2013 is 0.9 percent. However, GDP is expected to grow by 2.2 percent in FY2013 due to the lax monetary policy and fiscal stimulus package of Abenomix which is the economic policy of Mr. Abe, Japan's prime minister.

The Japanese economy is not expected to maintain its robust outlook unless the government implements further deregulation, including the promotion of free trade agreements to bolster the economy from the supply side.

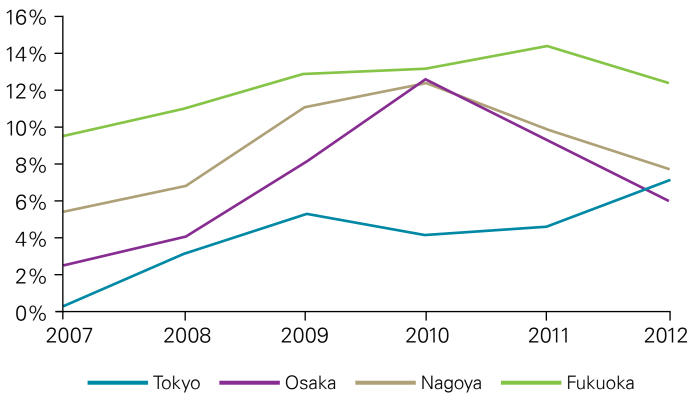
Economic indicators



Source: Economic and Social Research Institute, Cabinet Office, Government of Japan

Vacancy rates for prime office space in Tokyo peaked in 2009 at 5.2 percent, but subsequently dropped to 4.1 percent in 2010 due to lower average rents attracting more tenants. However, the vacancy rate increased to 4.6 percent and 7.1 percent in 2011 and 2012 respectively due to the supply of new buildings. Rents for prime office space in Tokyo are still approximately 70 percent of 2007 and the current vacancy rate is expected to decline. Empirical evidence suggests that if the vacancy rate is below 5 percent, rents are likely to increase. Therefore, it is widely recognised that rents for Tokyo's prime office space have hit bottom and are expected to increase, although growth is not likely to be V-shaped.

Prime office vacancy rate

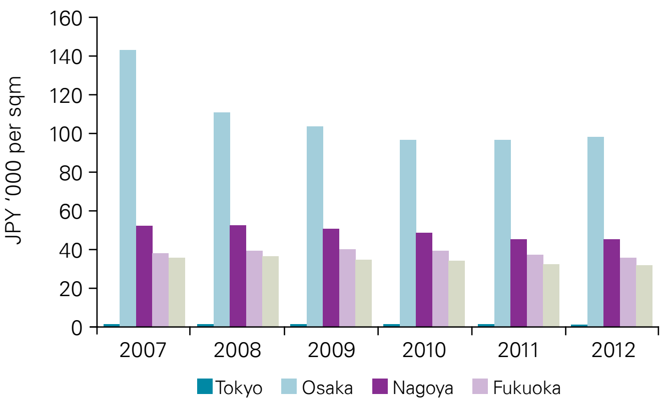


Source: CBRE

Office market

Rents for prime office space in Tokyo are more than double that in Osaka, Nagoya and Fukuoka. However, prime office rents in Tokyo dropped by approximately 30 percent between 2007 and 2011 — a significant drop compared to that witnessed in other major cities. This change in rents can be attributed to the decrease in GDP and deflation following the Lehman shock.

Prime office rents



Source: CBRE

Note: For each city certain submarkets of each city was selected as the location of prime office and used the average rent of submarket as proxy of Prime Office Rent. They are as follows:

Tokyo: Marunouchi, Otemachi & Yurakucho Zone

Osaka: Umeda Zone

Nagoya: Nagoya Station Zone

Fukuoka: Hakata Station Zone

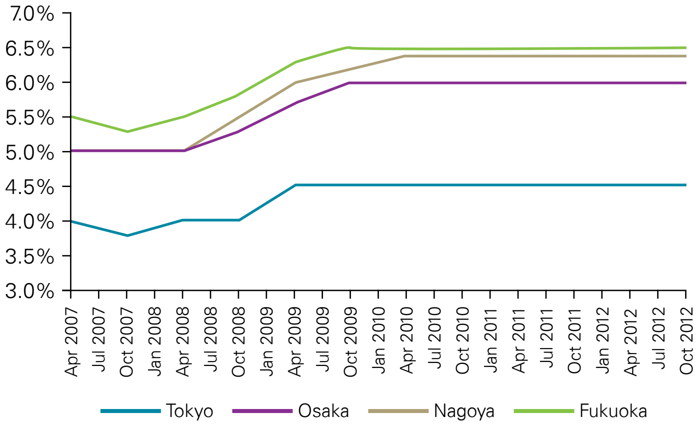
On the other hand, rents for other major cities are not expected to increase before a few years, considering their higher prime office vacancy rates.

Expected prime office yields have been stable since the second half of 2009. Despite the fact that the prime office buildings located around Tokyo Station are mostly owned by major Japanese real estate and life insurance companies, resulting in a scarcity of transactions involving these properties, yield on prime office buildings is currently 4.5 percent and is likely to be compressed considering the expected increase in rent levels.

The Osaka market is likely to continue to see an oversupply of office buildings, resulting in limited investor appetite for office space in the city. Since Toyota Motors has major factories located in Nagoya, the health of the city's office market tends to depend on the performance of the company. Fukuoka is one of the more attractive local cities for real estate investment since it has a robust economy due to its proximity to other Asian countries. However, the size of the Fukuoka office market is smaller than that of Tokyo and Osaka, and the current office vacancy rates are also higher. The expected prime office yields in Osaka, Nagoya and Fukuoka are likely to stay constant at the current levels.

Japan

Office prime expected yields

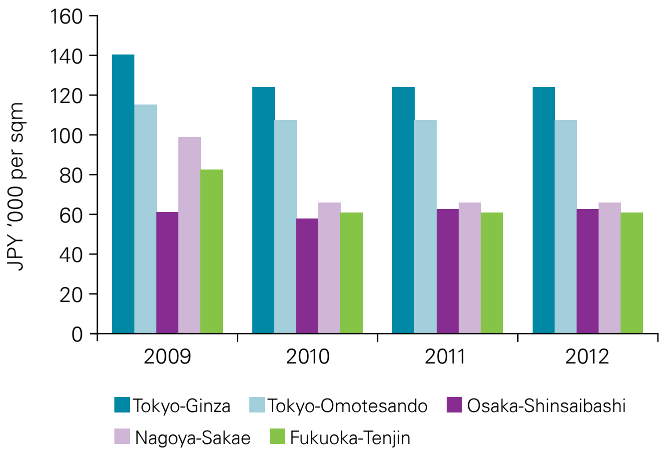


Source: Japan Real Estate Institute "The Japanese Real Estate Investor Survey (as of October, 2012)"

Retail market

Rent for high-end retail space in Tokyo is almost double of that in Osaka, Nagoya and Fukuoka. Rent for high-end retail space is generally less volatile than at of prime office space and has been stable for the past three years.

High street retail prime rents – median rents



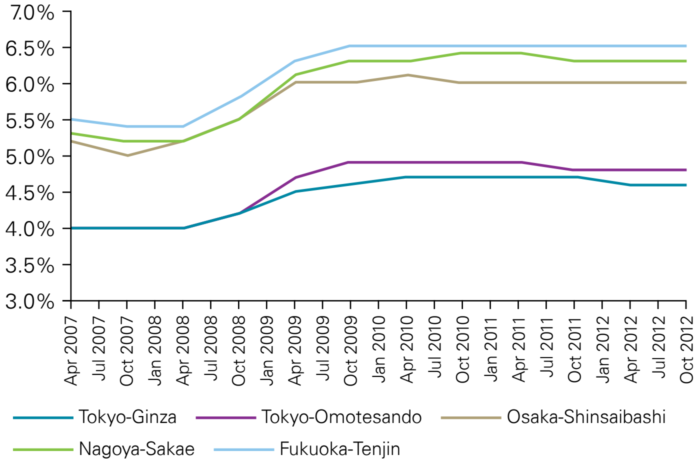
Source: CBRE

The expected yield for prime retail space in Ginza and Omotesando has hovered around 4.5 percent in recent years, although the yield of property at desirable locations in the city can be below 4 percent. Prime retail yields in other major local cities are between 6.0 percent and 6.5 percent.

Prime retail space is a good target for investment because its rent levels may be bottoming and are likely to remain stable as the number of transactions for prime retail space is generally limited.

The expected yield for premium shopping centres is above 6.5 percent, which is equivalent to the yield levels witnessed about 10 years ago. These are likely to stay at their current

High street prime retail expected yields



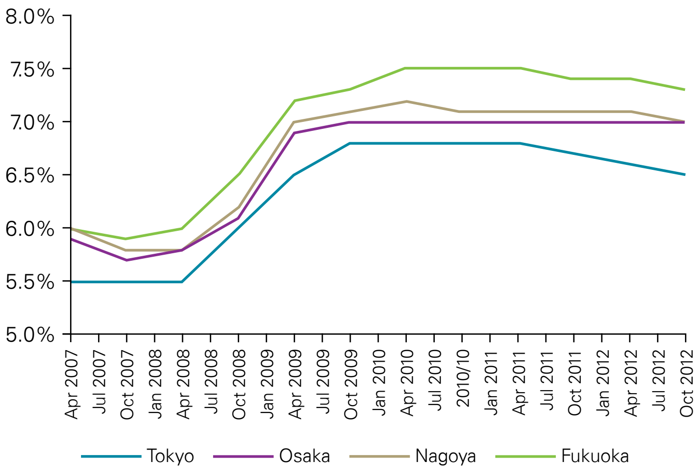
Source: Japan Real Estate Institute "The Japanese Real Estate Investor Survey (as of October, 2012)"

levels considering the low population growth and continuous downward pressure on rent levels by anchor tenants. For these reasons, financial institutions are normally cautious in extending financing to shopping centres, especially those located in local areas.

Housing market

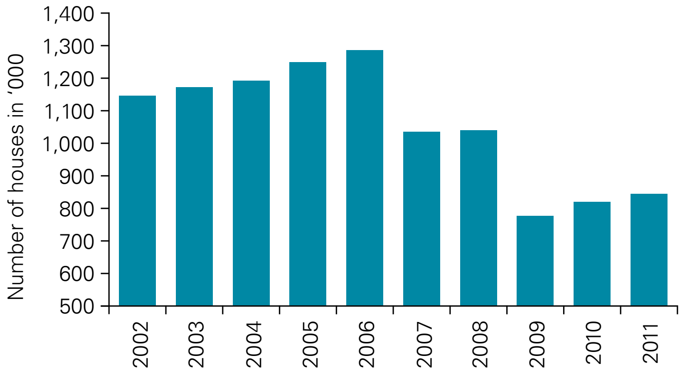
The commencement of housing projects has dropped significantly after the Lehman shock, due to the widespread

Shopping centre premium retail expected yields



Source: Japan Real Estate Institute "The Japanese Real Estate Investor Survey (as of October, 2012)" bankruptcy of many mid- to small-size developers. However, these commencements have picked up since FY2010 and are expected to exceed the 900,000 mark in FY2012. As for Tokyo, the supply of suburban properties for first-time buyers has declined after many of the suppliers of such properties (i.e., mid- to small-size developers) went bankrupt or experienced difficulties in obtaining financing.

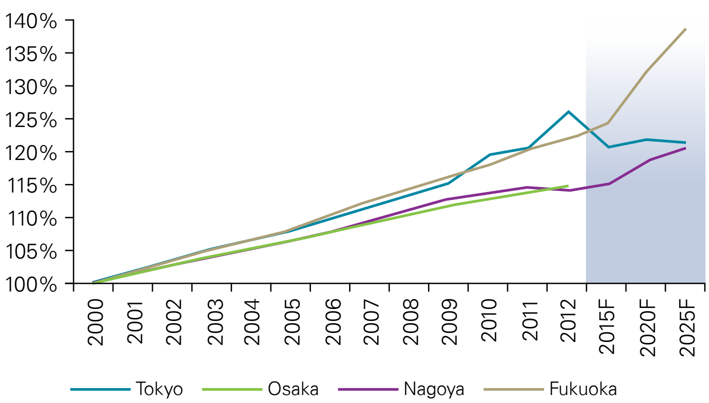
New housing construction starts



Source: Ministry of Land, Infrastructure, Transport and Tourism

Although the Japanese population is declining, the number of households in the major cities is forecasted to increase due to the concentration of population in these cities and the increase of single-person households. The overall increase in the number of households in Fukuoka is expected to outpace that of the other major cities as it continues to attract people from other parts of Kyushu (the prefecture in which Fukuoka is located) following the completion of the Kyushu bullet train network. Furthermore, because of its relative proximity to Asian countries, many Japanese manufacturing companies have relocated their factories in and around Fukuoka. This has also contributed to higher household growth in the region.

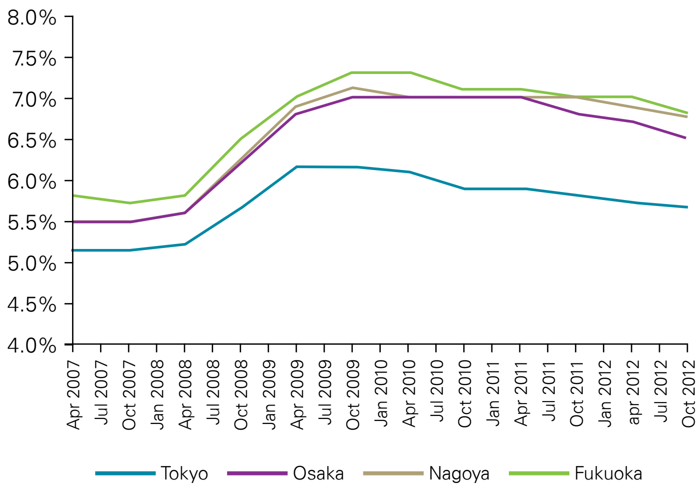
Household growth rate



Source: Bureau of statistics of each city

Prior to the Lehman shock, office buildings were typically targeted by real estate investors due to expected rent increases. At that time, investors had less appetite for apartments because they did not anticipate comparable growth in rent levels. However, due to the volatility in office rents following the Lehman shock, investors have demonstrated an increasing preference for investing in residential properties, which generally have more stable rents. Furthermore, financial institutions are more willing to finance residential properties for the same reason, with particular interest in financing apartments that were built less than 10 years ago.

Expected yield of housing markets (studio type)



Source: Japan Real Estate Institute "The Japanese Real Estate Investor Survey (as of October 2012)"

Japan

Real estate debt market

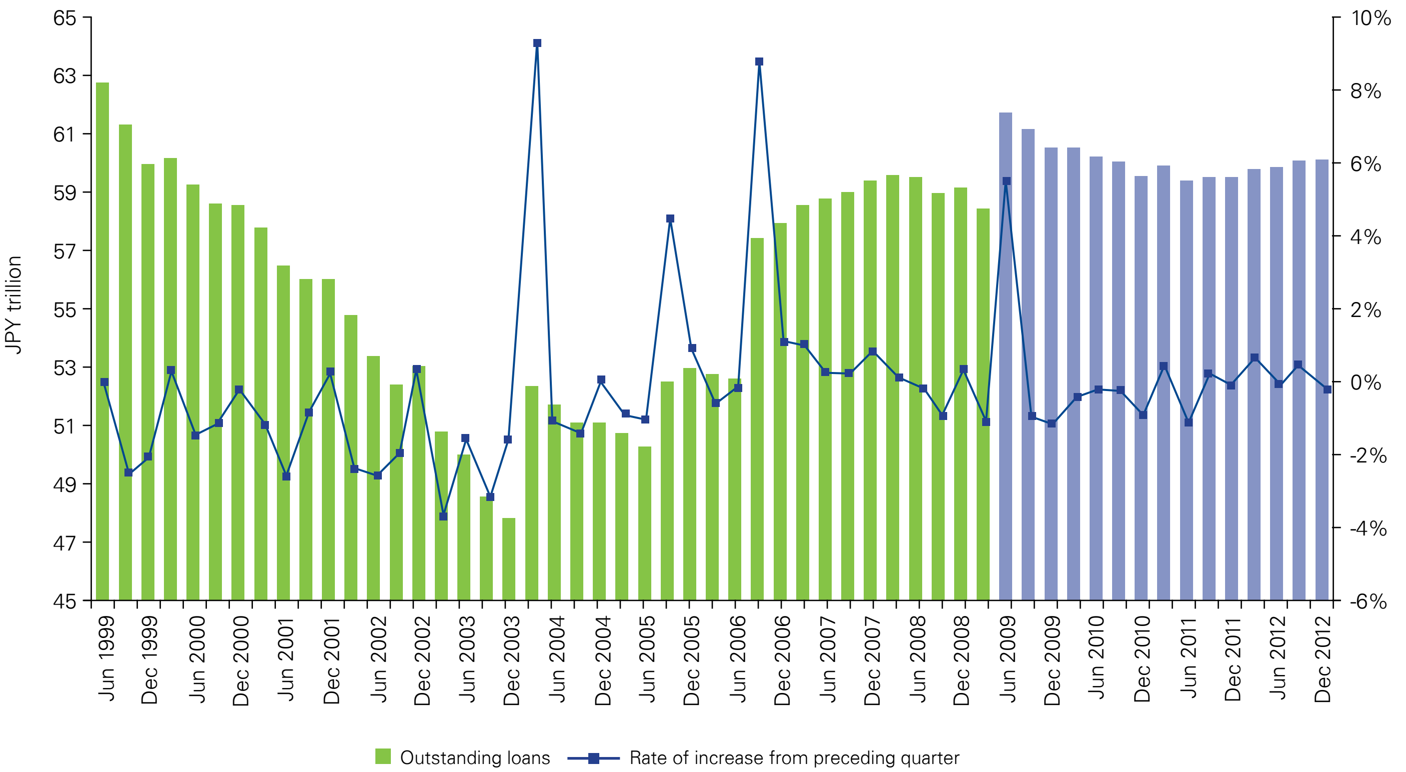
Because of the low rate of economic growth in Japan, Japanese companies have a tendency to accumulate cash instead of borrowing to invest. The average equity ratio of major Japanese companies is approximately 38 percent, which is the highest in decades. Therefore, instead of lending money to Japanese companies, Japanese banks have traditionally invested in Japanese government bonds. However, to diversify their investment portfolios, Japanese banks are now keen on real estate financing as these can result in higher interest rates with reasonable security.

Japanese banks are especially interested in financing residential property, as this market has demonstrated more resilience to changes in the external environment. In addition, these properties generally provide relatively stable cash flows. Japanese banks are also interested in financing office properties located in central Tokyo as a result of expectations of growth from the greater Tokyo economy. Furthermore, the Tokyo real estate market may have bottomed out and is widely expected to witness increases in rent levels and compression of cap rates in the near future.

Japanese banks are also willing to finance warehouses as they are generally seen as promising investments — most warehouses in Japan are out of date in terms of design and structure, and hence, the segment has growth potential given the expansion of e-commerce and increased need of warehouses that can accommodate just-in-time delivery. On the other hand, properties located in tier II cities do not appeal to Japanese banks due to weaker local economies and population decline. They are also conservative in lending to operational assets such as hotels and local retail properties.

The spread for prime property located in the central Tokyo area is generally between 60 bps and 120 bps, though the most aggressive spreads for prime property can be below 60 bps due to strong appetite for lending by Japanese banks. Loan to value for prime property is between 60 percent and 75 percent. We expect to see more mezzanine lenders in the next six months.

Outstanding loans (real estate industry)



Note: Increase in June 2009 was due to changing the definition of loan categories

Source: Bank of Japan

Malaysia

A cautious year for the overall real estate market

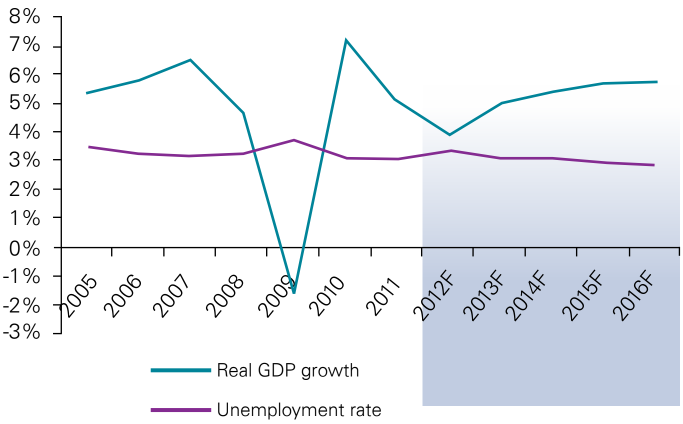
Macroeconomic overview

The Malaysian economy grew at 6.4 percent y-o-y in 4Q12, up from 5.2 percent in 3Q12, driven by private sector investments and output growth from all crucial sectors of the economy. For the full year of 2012, the GDP expanded by 5.6 percent, compared to 5.1 percent in 2011. During 4Q12, the construction sector grew 18.1 percent, while the services sector registered 6.3 percent growth. The manufacturing sector grew 5.8 percent, driven by the construction and transport equipment subsectors. The agriculture sector grew 5.6 percent, while the mining sector contracted 4.3 percent.[1]

During the quarter, exports declined 1.5 percent 4Q12 due to decline in the export of palm oil and palm oil products, liquefied natural gas (LNG), electric and electronic products and timber and timber-based products. The total imports fell .9 percent in 4Q12. However, on a y-o-y basis, the nation's exports rose 0.1 percent during the year and imports expanded 4.5 percent.

According to the government of Malaysia, the country's economy is expected to grow 4.5–5.5 percent in 2013, driven by improving exports and strong domestic demand on the assumption that global growth will pick up, especially in the second half of 2013. Domestic demand is expected to maintain its strong momentum, driven by robust private investment and strong private sector consumption.[2]

Economic indicators



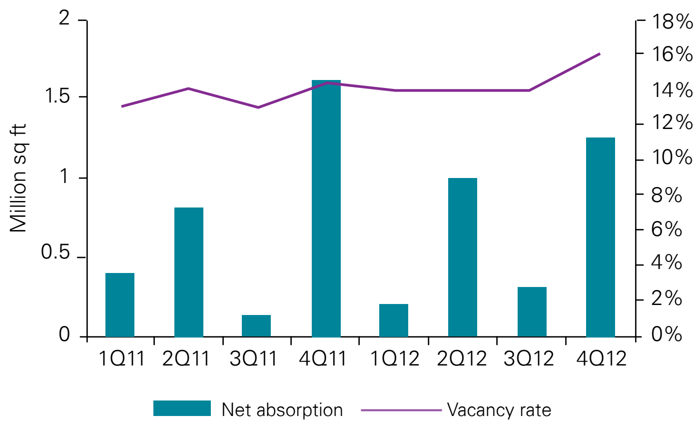
Source: Economist Intelligence Unit, EIU Country Data, accessed on 11 February 2012

Despite the challenging global economic environment, the Malaysian labour market remained stable with unemployment rate in the range of 2.7–3.2 percent in 2012, with the lowest in August and the highest in September 2012.

Office market

Office space supply increased by about 1.5 million sq ft in 4Q12, taking the total for the year to 2.8 million sq ft. This addition of 2.8 million sq ft of office space is 34 percent lower than that in 2011. In 2013, the additional supply is expected to amount to 4.5 million sq ft. The addition of 1.5 million sq ft of office supply in 4Q12, coupled with lower absorption rate, has resulted in an increase in the vacancy rate from 14 percent in 3Q12 to 16 percent in 4Q12.

Office net absorption and vacancy rate



Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

Prime office rents declined by 1.9 percent in 4Q12 to RM 6.13 per sq ft per month, after being stable at RM 6.25 per sq ft per month for the first three quarters of the year. A similar trend was observed in top-tier office rents as well, which fell by 1.8 percent to RM 7.7 per sq ft per month from RM 7.90 per sq ft per month during 1Q12 to 3Q12.

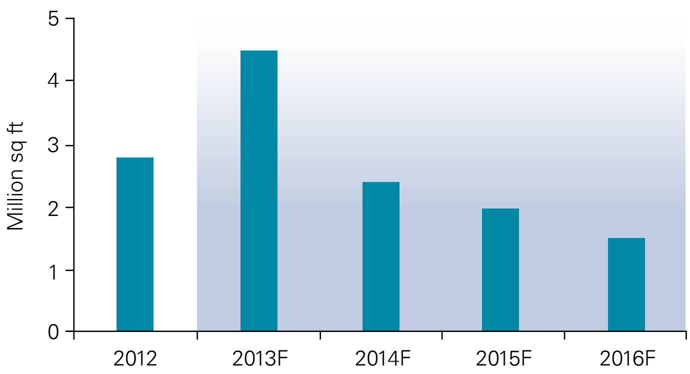
The average capital values in Kuala Lumpur remained stable during 4Q12 q-o-q at RM 838 per sq ft. Recent transactions comprised Horizon (Phase 2) at a price of RM 750 per sq ft and the Bangsar South Tower 1 sale to UEM Group at RM 850 per sq ft.[3]

The next few years are likely to be challenging for the office space market due to significant supply in 2013 (4.5 million sq ft) and another 6 million sq ft over the years 2014, 2015 and 2016. This addition of about 10.5 million sq ft over the next four years will increase the oversupply situation. Major projects include:

- Tun Razak Exchange
- Warisan Merdeka

1 "Malaysia 4Q GDP grows 6.4% y-o-y, driven by all sectors", The Edge Malaysia, 20 February 2013
2 "Malaysia to see faster growth rate in 2013", Malaysian Reserve, accessed on 11 February 2013
3 "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

Office space supply



Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

Retail market

In Kuala Lumpur, Malaysia's biggest retail market, the occupancy rate recorded a marginal increase of 0.6 percent in 4Q12 q-o-q. The retail supply has remained at 23.5 million sq ft since 4Q11, as no new project was completed during the period.

Retail new supply (NLA) in Kuala Lumpur

Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

According to Retail Group Malaysia (RGM), after registering a growth of 5.9 percent in 2Q12, retail space sales marginally dropped to 5.5 percent in both 3Q12 and 4Q12, due to economic uncertainties and cautious spending by consumers.[4]

Despite the moderate decline in the retail market, international brands strengthened their presence by opening new stores. For example, Swedish retailer H&M opened its third store at Paradigm Mall Kelana Jaya in December 2012, after its second outlet at Lot 10 Kuala Lumpur in September 2012. In addition, Uniqlo, a Japanese retailer, opened new outlets at Paradigm Mall and Sunway Pyramid, totalling four stores in 2012. This trend is expected to continue in 2013.

Selected upcoming retail centres in Klang Valley

Name of development	NLA (sq ft)	Expected Completion
Nu Sentral, Kuala Lumpur	680,000	2013
KLIA2, Sepang	350,000	2013
IOI City Mall, Putrajaya	1,300,000	2013
Sunway Velocity, Kuala Lumpur	800,000	2013
Atria Shopping Mall, Petaling Jaya	450,000	2014
Damen, Subang Jaya	400,000	2014
Mitsui Outlet Park	505,700	2014

Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

4 "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

More international investments expected in 2013

Malaysia Airports Holdings Bhd (MAHB) and Mitsui Fudosan Co., Ltd. have agreed to develop their largest factory outlet in Southeast Asia on a 50-acre site at the Kuala Lumpur International Airport in Sepang, with a total commercial area of about 505,700 sq ft. The Central Group of Thailand is also entering the Malaysian market at i-city Mall in 2013.

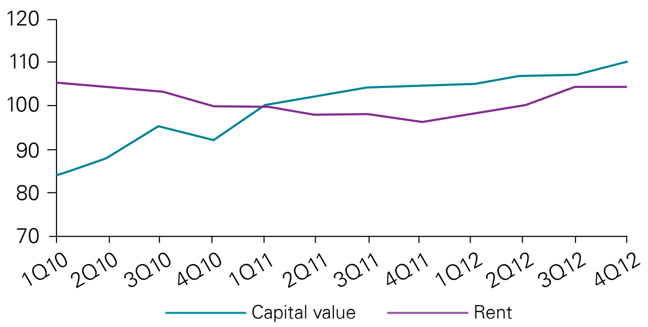
Residential market

Demand remains strong in sought-after locations. The slowdown of the economy and tightening of credit by banks resulted in an overall cautious residential market in 2012. The government also made efforts to boost the affordable and mid-end segments.

During 1Q12 – 3Q12, there were very limited new launches, such as Kiara@Mon't Kiara and the Horizon Residences at Jalan Tun Razak. However, Q412 saw more launches such as the Serai condominium project at Bukit Bandaraya (comprising 121 units of large-sized units, ranging between 4,025 sq ft and 6,913 sq ft per unit with selling price of RM 1,300 per sq ft and RM 1,500 per sq ft). They were able to sell 54 percent of the units in three months of the launch. This shows that given the right product and location, demand for high-end properties remains strong.[5]

The average prices of high-end residential apartments in Kuala Lumpur remained stable q-o-q at RM 670 per sq ft in 4Q12. However, the average rental value has decreased marginally by 0.5 percent q-o-q to RM 3.65 per sq ft per month.

Rental and capital value of high-end apartments in Kuala Lumpur



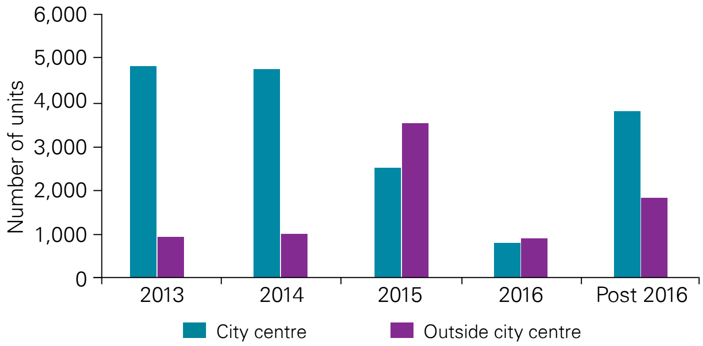
Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

In 2012, 784 new residential units were completed compared to the 4,072 completed in 2011. The units completed in 2012 included those for projects such as Amarin Wickham in the city centre and Block A of Kiaramas Danai in Mont Kiara (152 units in total).

In 2013, about 5,700 (the highest since 2005) units of new supply are expected to be completed and 80–85 percent of these will be located in the city centre. These include projects such as:

- The Elements (1,040 units in Jalan Ampang)
- M Suites (442 units in Jalan Ampang)
- Verticas Residensi (423 units in Bukit Ceylon) and
- Sky Residence Phase 1 (423 units in Kampung Baru).

Future supply of high-end apartments in Kuala Lumpur



Source: "Property Insights, Malaysia", Citibank & DNZ Research; January 2013

The huge new supply of an average of 5,700 units in the next three years is expected to result in decline in rental and capital values, especially in the city centre.

Real estate debt market

The Real Estate Investment Trust (REIT) is becoming popular in Malaysia due to the high dividend yield paid by the companies. Currently, there are 14 REITs approved by the Security Commission (SC) and listed on Bursa Malaysia. The main advantage a REIT compared with actual property investment is that through it investors have better liquidity and cash flow.

Sunway REIT Management Sdn Bhd Chief Executive Officer Datuk Jeffrey Ng, on a two-day REITs conference in June 2012 said, Malaysian REITs were considered to be at the "infancy stage." He said that "the market capitalisation of Malaysian REITs is expected to rise by 30 percent to about RM 20 billion in 2012, from RM 15 billion in 2011, because of the expected listing of the IGB REIT in 2012, which may have a market capitalisation of between RM 3.5 billion and RM 4.5 billion."[6]

5 "Property Insights, Malaysia", Citibank & DNZ Research; January 2013
6 "Positive outlook for Malaysia's real estate investment trusts", The Star online, accessed on 11 February 2012

New Zealand

Resilient conditions suggest pockets of growth

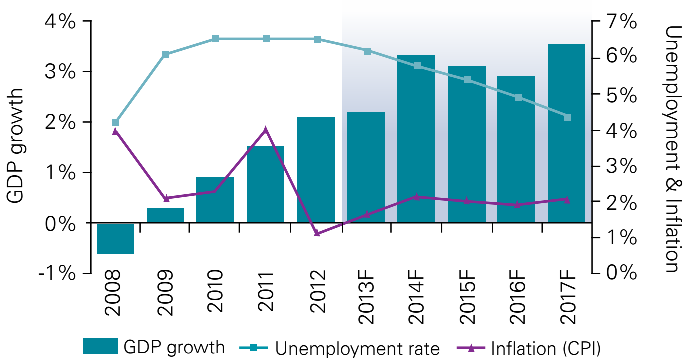
Macroeconomic overview

New Zealand is expected to continue to benefit from a stable political environment in 2013–17, underpinned by a well-established and transparent political process. In the forecast period, the economy is likely to expand by an average of 3 percent a year, owing to steady growth in demand for New Zealand's major exports and strong domestic economic conditions. Its real GDP is forecasted to grow by 2.2 percent in 2013, following an estimated gain of 2.1 percent in 2012. Growth this year is expected to be driven primarily by fixed investment and private consumption.

While consumer prices are likely to rise in 2013–17, the rate of increase is expected to remain within the 1–3 percent medium-term range targeted by the Reserve Bank of New Zealand. Inflation is forecasted to average 1.6 percent in 2013.

The New Zealand dollar has remained relatively strong against the US dollar despite global economic uncertainty, averaging NZD 1.23:USD 1 in 2012. The Economist Intelligence Unit expects the currency to depreciate in the forecast period, to stand at an average of NZD 1.5:USD 1 in 2017, despite a substantial current-account deficit that is forecasted to touch 8 percent of GDP on average in 2013–17, from an estimated 5.3 percent in 2012. The currency outlook is based on the positive prospects for the domestic economy, and on the expected interest rate rises in the forecasted period.

Economic indicators



Source: Economist Intelligence Unit

Office market

Momentum is moving in the landlords' favour at the prime end of the central business district (CBD) office market and in an opposite direction at the lower end. Landlords of prime buildings can take advantage of a gradually improving economic environment and re-emerging tenant demand, in the context of the availability of very few whole floors. On the other hand, owners of older secondary-quality properties worry about earthquake-strengthening costs, weak tenant demand and static or falling rental and capital values. Private investor appetite for office property acquisitions remains strong. Institutions are slowly returning to the market.

Auckland: The office market in Auckland is performing the best on an annual basis, well ahead of retail and industrial. The office rents in the city have been steadily increasing due to reduction in incentive packages. It recorded the highest increase in net effective office rents over the past 12 months at 5.3 percent, versus Wellington (5.0 percent).

Yields continued to decline further, from 10.4 percent in 2Q12 to 8.40 percent in 3Q12.

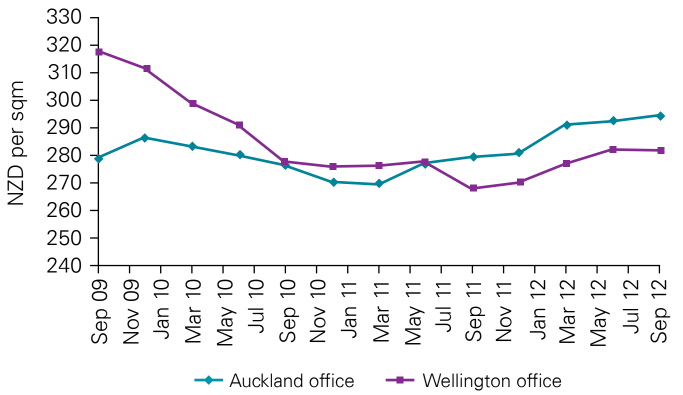
The overall prime office vacancy rate in June 2012 was 10.9 percent, almost the same as that in 2010 and 2011. It is forecasted to reach about 14 percent by the end of 2013.

Wellington: Despite the recent positive performance of the Wellington prime office sector, its rent remained the most heavily discounted relative to three years ago, as earthquake-prone building policies have had a profound effect on the Wellington CBD office market in the past 12 months.

Yields decreased from 9.4 percent in 2Q12 to 8.4 percent in 3Q12.

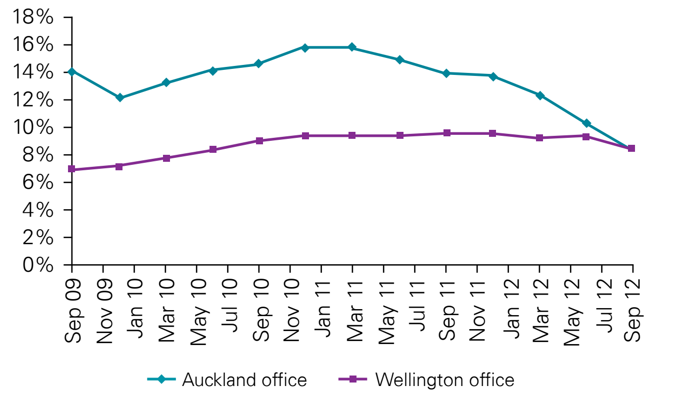
The overall CBD office vacancy in Wellington increased to 14.9 percent in June 2012, up from 10.8 percent in December 2011.

Net effective market rent



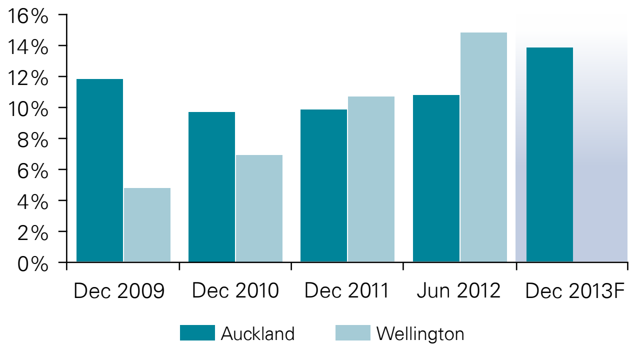
Source: CBRE

Market Yield



Source: CBRE

Office vacancy rate



Source: Colliers International, Jones Lang LaSalle

Retail market

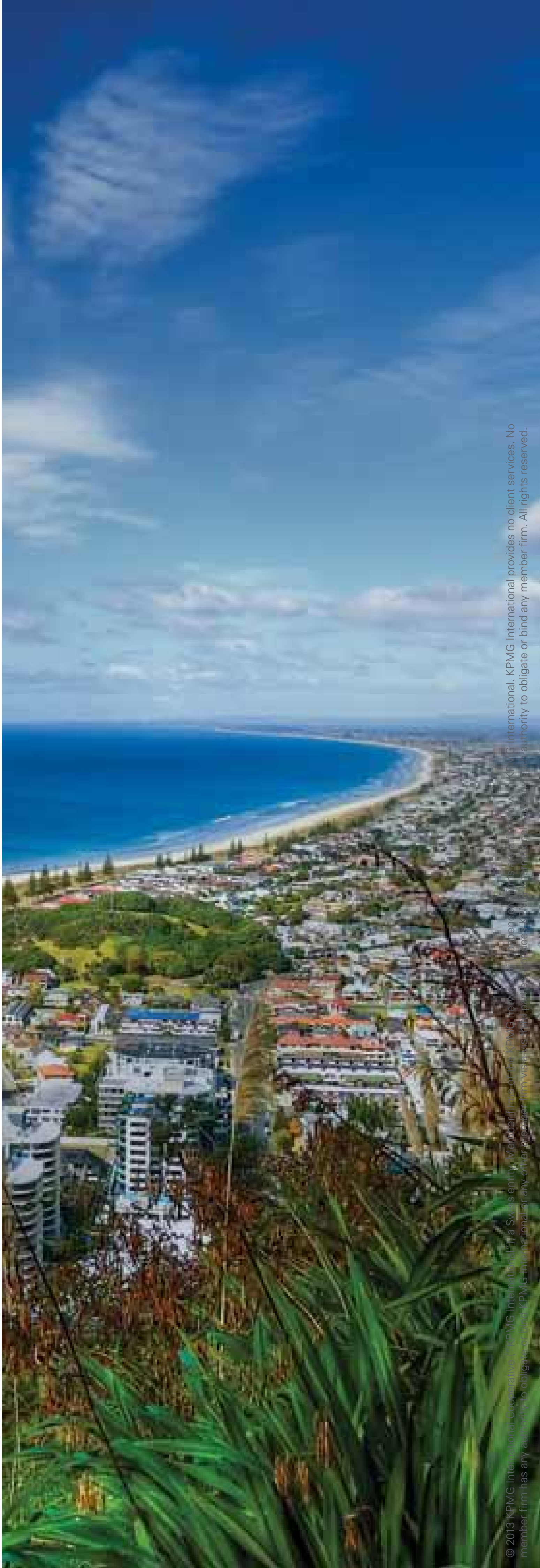
While the economic outlook is slowly brightening, some clouds remain over the retail sector. Online shopping is increasing, while secondary precincts continue to struggle. On the contrary, prime precinct vacancy remains low. In areas with growing population, the increased demand for retail goods is expected to lead to rental increase over time.

Auckland: Prime retail rents across New Zealand remained steady over 2012 with the exception of Christchurch, which experienced strong rental growth across all earthquake-unaffected suburban areas. In 3Q12, the net effective market rent in Auckland CBD was NZD 2,440 per sqm. The yields have remained relatively flat since 2011 (about 6.5 percent in 3Q12).

The vacancy rate in Auckland was 2.4 percent in 2012; the retail sector is recovering slowly after two years of retail space uptake. Looking at the vacancy data by precinct, it is the shopping-mall-heavy areas that have recorded the lowest vacancy rate.

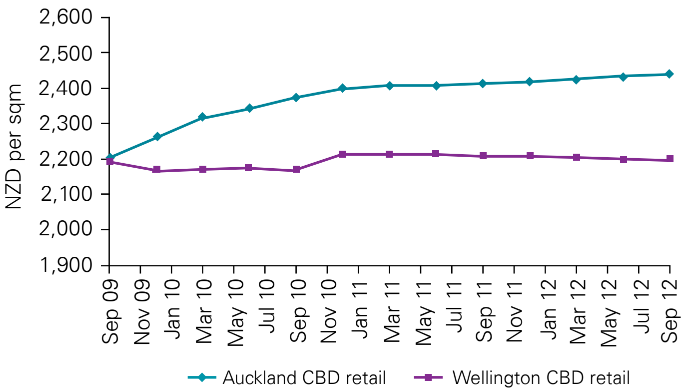
Wellington: Rental levels in Wellington retail property were either flat or declining in 2012; however, they are unlikely to drop any further. The limited prime supply will add upward pressure on rentals over the next 12 months. If the economy picks up more quickly than expected, landlords in these areas are likely to experience modest rental growth. In 3Q12, the net effective market rent in Wellington CBD was NZD 2,196 per sqm.

The yields in 3Q12, of about 7 percent, were almost the same as those in 2Q12. The overall retail vacancy in Wellington was 8.6 percent in June 2012, reflecting an increase of 2.9 percent from June 2011.



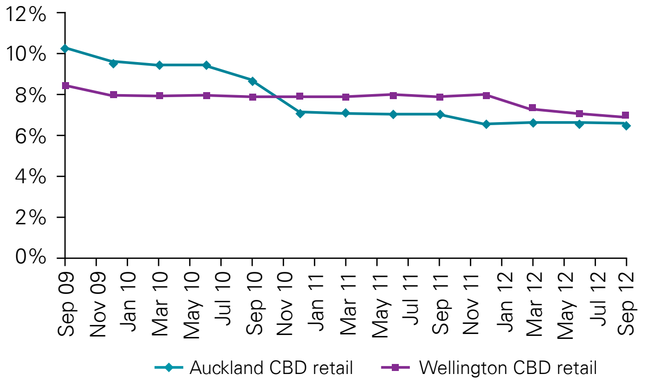
New Zealand

Net effective market rent



Source: CBRE

Market yield



Source: CBRE

Retail vacancy rate

Source: Bayleys

Residential market

The residential real estate market has begun positively in January 2013, with more than 20 percent increase in sales volume, compared to January 2012, and a fall of 14.3 percent, compared to December 2012.

The national median house price fell NZD 19,000, from NZD 389,000 in December 2012, to NZD 370,000 in January 2013 (a drop of 4.9 percent). Currently, the national median house price is up 4.2 percent compared to January 2012, while the Auckland median price is up 8.1 percent compared to January 2012. Given the highly seasonal nature of the housing market, prices and volumes are expected to ease from their year-end levels in January 2013.

Auckland: In January 2013, Auckland recorded an increase of 26.7 percent in sales volume compared to January 2012, the major increase being in Rodney and Waitakere City with almost 80 percent and 40 percent, respectively. Compared to December 2012, sales volume decreased by almost 17 percent, with Auckland city falling almost 30 percent.

The median price increased by NZD 38,250 (+8.1 percent) compared to January 2012, with the strongest price increase in Waitakere City and North Shore City; however, prices fell by NZD 25,750 to NZD 509,250 (-4.8 percent) compared to December 2012, with prices in Auckland city falling almost 18 percent.

The trends in the median price and sales volume continue to improve, reflecting the underlying supply and demand characteristics of the region's property market. Overall, the Auckland region remains the strongest housing market in the country.

Wellington: In January 2013, Wellington recorded increase in sales volume of 24 percent compared to January 2012, with noticeable increases in Central, Northern and Western Wellington. However, in comparison to December 2012, sales volume decreased by almost 12 percent, with noticeable fall in Central, Western and Northern Wellington.

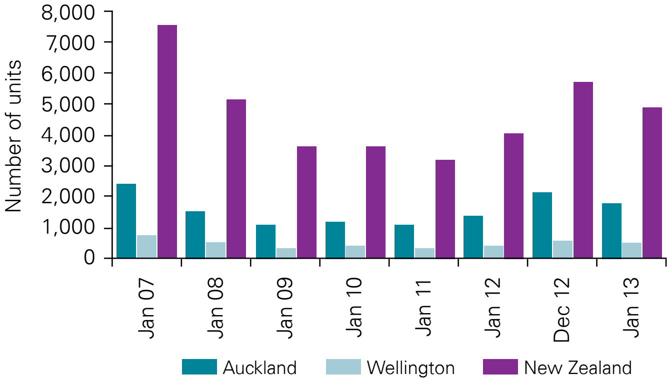
The median price decreased by NZD 2,500 (-0.6 percent), compared to January 2012, with no clear direction across the region, and in comparison to December, the region's median price fell by NZD 25,000 (-6.1 percent) with Hutt Valley and Northern Wellington recording the largest fall in median price.

The trend in the median price is continuing to improve, with the sales volume trend moving sideways. The overall trend for the Wellington region remains positive.

Median house price

Source: Real Estate Institute of New Zealand

Number of houses sold



Source: Real Estate Institute of New Zealand

Real estate debt market

The New Zealand economy has grown modestly over the past three years, but remains vulnerable to the downturn in the global economic and financial market. The domestic economy remains highly indebted, although the private sector has made progress in reducing debt levels. A rise in private savings has been offset by increased borrowing from the government sector. Nevertheless, there has been some reduction in New Zealand's external indebtedness.

The household vulnerability in the country has been declining, with the household saving rate increasing and debt as a share of income falling. A gradual correction in the housing market has also led to reduced vulnerability, although, recently there have been cases of strengthening house prices – particularly in Auckland. The revival of the housing market has so far occurred without a rapid increase in credit outstanding; a sustained momentum in house prices seems unlikely.

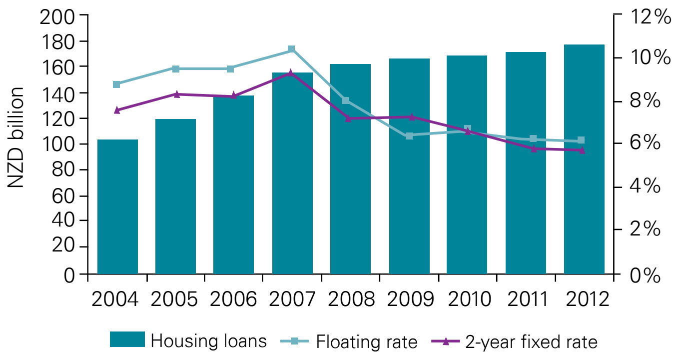
Credit growth has slowed dramatically over the past three years as households, businesses and lenders have taken a more cautious approach to debt.

New Zealand's mortgage market has expanded rapidly over the past decade. Outstanding housing loans have continuously increased over years, though at a very slow rate since 2007. The outstanding loans increased only by 3.6 percent in December 2012 as compared to December 2011. They reached NZD 175.9 billion in September 2012.

Floating mortgage rates rose to over 10 percent in 2007; however, they have been continuously decreasing since then. The floating mortgage rate by the end of 2012 was 5.8 percent. A similar case was with the 2-year fixed mortgage rate, which rose over 9 percent in 2007. It has, however, been decreasing since then. The 2-year fixed mortgage rate by the end of 2012 was 5.5 percent.

Falling interest rates have been the main driver of falling interest servicing as a percentage of disposable income since 2008.

Housing loans and mortgage interest rate



Source: Reserve bank of New Zealand

Singapore

Further measures to cool the residential property market

Macroeconomic overview

Singapore, whose trade is around three times GDP, has been badly hit by weakness in Western economies, crimping demand for many of its exports. According to data released by the Singapore government in February 2013, the economy in 2012 grew 1.3 percent. This is a sharp slowdown from 2011, when the economy grew 5.2 percent. The outlook for the economy for 2013 is "cautiously positive", with growth forecast at about 1-3 percent for the year. This outlook is based on modest fiscal cutbacks in the US and no outright crisis in the eurozone. Total trade is expected to grow at 3-5 percent and non-oil domestic exports at 2-4 percent.

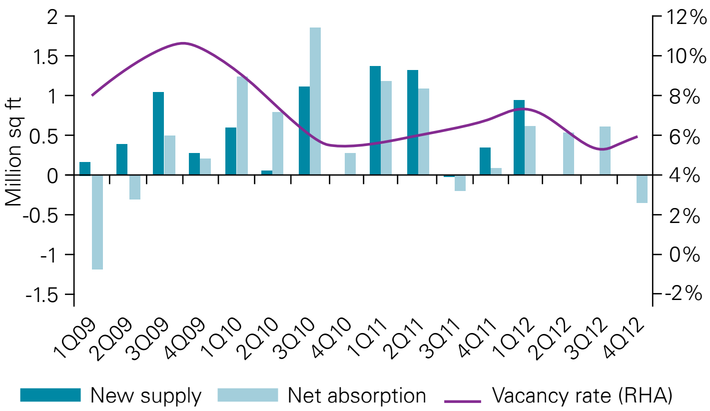
The 1.5 percent expansion in the fourth quarter from a year prior was led by the services sector, with financial services and business services each growing at 3.3 percent year-on-year. Most economists expect the central bank to keep policy tight by continuing to allow a modest and gradual appreciation of the Singapore dollar when it issues its half-yearly monetary policy statement in April 2013, as the job market remains tight due to restrictions on foreign labour.

Office market

Once Marina Bay Financial Tower 3 is complete, office supply in the market will be very limited for the rest of 2013. However, a large volume of secondary stock is being released, further softening office rentals which were already declining.

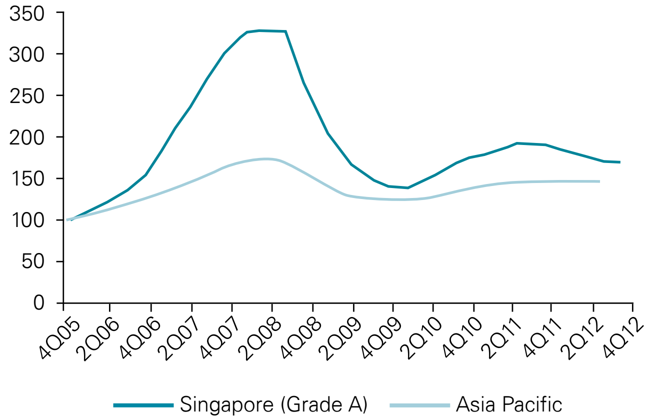
In the first three quarters of 2012, there was strong off-take of office space across the island, with average vacancy rates falling by a percentage point to about 6 percent. However, space was being leased out at lower rentals, lowering the market average across all grades. However, this sustained slide in rentals was not enough to sustain the rate of off-take in the fourth quarter. Net absorption in this quarter turned negative while rental rates continued to decline, though at a slower rate than in the previous three quarters. This trend was less pronounced for Grade A space and space in Marina Bay, where vacancy rates marginally declined.

Office supply-demand dynamics



Source: CBRE Research

Office rental index



Source: CBRE Research

Between January and December 2012, about 1 million sq ft of Grade A space was absorbed in the CBD area of Raffles Place, Marina Bay and the immediate vicinity. Almost half this off-take was contributed by three buildings – eight floors with over 160,000 sq ft was leased out in Asia Square Tower I, 19 floors comprising around 200,000 sq ft was leased out in Raffles Place Tower 2, and five floors with over 80,000 sq ft was leased out in the Ocean Financial Centre. Financial services firms, energy majors and fitness centres were the primary occupiers. The leasing of this quantum of space in the CBD has been a significant morale booster for the industry, especially since business sentiment in Singapore remained depressed during the whole of 2012.

Average Grade A rent declined almost 13 percent over 2012 to a low of SGD 9.5 per sq ft per month. The market expects rents to rise hereafter given that very limited Grade A supply would be coming into the market over the next few quarters. It is felt, however, that Grade B rents are yet to bottom out, as they declined only 3 percent in 2012 and stand at an average of SGD 7 per sq ft. There will be downward pressure on Grade B rents from the incoming supply in non-CBD areas as well as secondary stock being released in both CBD and other locations. A combination of these two is also likely to drive up vacancy rates in Grade B space over the next two quarters.

Against the supply of over 5 million sq ft of Grade A space released into the market over the past four years, the pipeline for the next four is limited to around 3 million sq ft, comprising 782,280 sq ft in Asia Square Tower 2 this year, 720,000 sq ft in CapitaGreen in 2014 and 1,850,000 sq ft in Marina One, expected to come into the market in late 2016. Absorption of even this reduced supply will depend on the rate of economic recovery and particularly on how quickly the financial services sector starts expanding again.

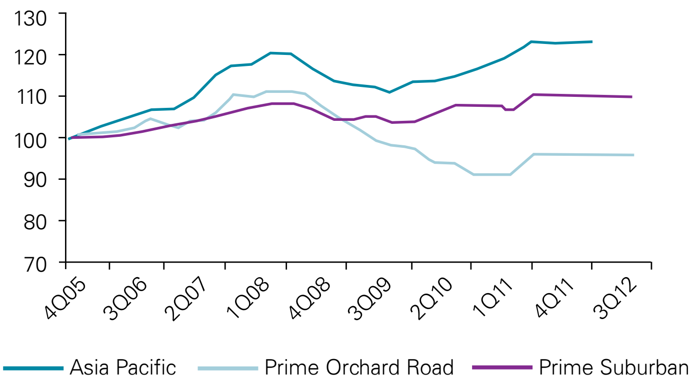
Retail market

Rentals for retail assets in Singapore stayed flat coming into 2012, and have held up during the year despite investor worries around resilience of the Singapore economy. Rents have remained stable in prime Orchard Road and prime Suburban sub-markets, in the range of about SGD 30 per sq ft.

Retail sales index vs. tourist arrivals

Source: Oxford Economics, Singapore Tourism Board, CBRE Research

Retail rental index



Source: CBRE Research

CapitaMall Trust's Plaza Singapura extension and Amara Holdings' 100AM opened in 4Q12. Both these malls had high levels of pre-committed leases, demonstrating that there is still some latent demand in the market for retail space. Other malls set to open in 2013 with some level of pre-leases include Westgate, Orchardgateway and Jem.

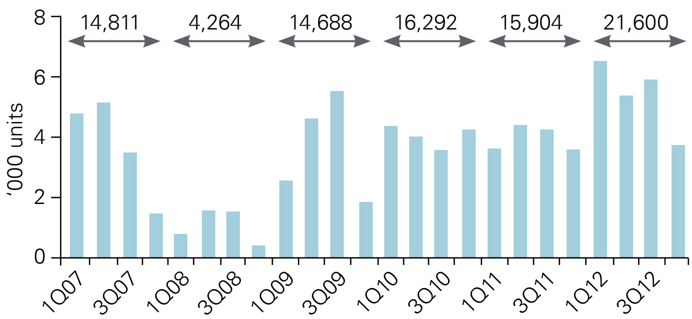
While domestic consumption is a primary driver for this sector, in Singapore, spending by tourists also contributes significantly to this sector, with rental sales somewhat correlated with visitor arrivals. Predictably, fashion and food & beverage industries continue to be the main drivers of retail demand.

Inflation and the strength of Singapore's currency continue to threaten consumer spending and tourism inflows. The retail leasing market will be under pressure if the global economy remains subdued. Restrictions being brought in force in the labour market are also expected to impact the retailing industry negatively.

Housing market

In the first half of 2012, about 12,000 units of new homes were sold in Singapore. Low interest rates and innovative products were key demand drivers. There were fewer units launched in the fourth quarter as developers were left with unsold units from a slow third quarter. About 3,800 new homes were sold in the fourth quarter, with demand being partly satisfied by existing units. The quarter-on-quarter increase in URA's private residential index was 1.8 percent, and the corresponding figure for the whole year was 2.8 percent.

New residential units take up



Source: URA, CBRE Research

Note: Figures exlude executive apartments

Private residential price and rental index

Source: URA, CBRE Research

The median size of new homes sold has shrunk by about 15 percent from 2010. The smaller units sold in 2012 resulted in an estimated total value of SGD 24.8 billion. However, units with a strata area of less than 500 sq ft have seen their market share drop progressively. These "shoebox units" comprised less than 10 percent of apartment sales in the fourth quarter. This is a steep drop from the peak reached in the third quarter of 2011, when one in every five units sold was a shoebox unit. Sales also fell for units in the range of 500 sq ft to 750 sq ft, demonstrating an increase in demand for larger units with growth in wealth in the country.

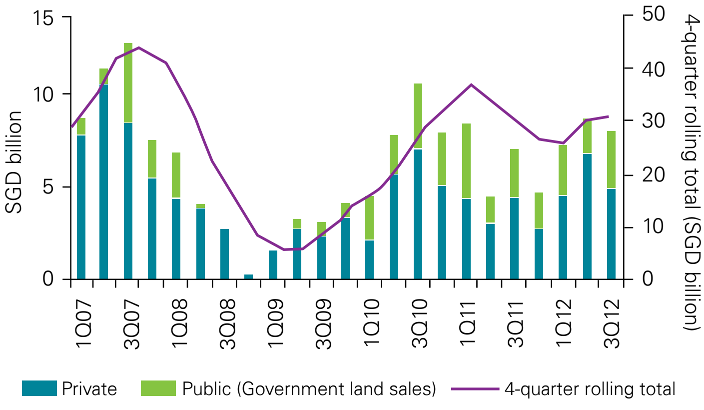
Luxury condos have witnessed an increase in price in two consecutive quarters, but are yet to reach their peak of SGD 2,500 per sq ft achieved in the fourth quarter of 2007.

According to data from the URA, the median price of resale condos rose by 5 percent in the fourth quarter to SGD 1,115 sq ft. This is a 15 percent increase across the four quarters of 2012. The median price for new apartments saw a quarter-on-quarter increase of 13 percent in the fourth quarter to SGD 1,221 per sq ft. In suburban areas, new homes saw a 23 percent increase from SGD 925 per sq ft in the third quarter to SGD 1,137 per sq ft in the fourth quarter. This increase is also a reflection of the quality of supply available during the quarter.

Cooling measures for the residential property market

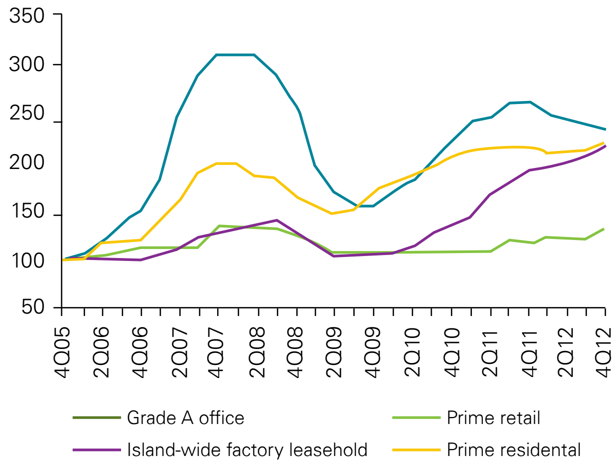
The government has announced a further set of cooling measures for both private and public housing markets. They include tighter financing conditions for housing, and structural measures to strengthen the policy intent of public housing and executive apartments. These measures are targeted primarily at investment properties and foreign buyers.

Total real estate investment



Source: URA, CBRE Research

Capital values index



Source: CBRE Research

Market statistics

Rental rates (SGD per sq ft per month)

	1Q12	2Q12	3Q12	4Q12	4Q11 vs 4Q12
Office (Grade A: Raffles Place, Shenton Corridor, Marina Bay and Marina Centre)	10.60	10.10	9.80	9.58	-12.95%
Office (Grade B)	7.25	7.21	7.17	7.11	-3.1%
Retail (Prime Orchard Rd)	31.60	31.60	31.60	31.60	0%
Retail (Prime Suburban)	29.75	29.75	29.75	29.75	0%
Business & Science Park	3.75	3.70	3.70	3.71	-3.9%
Industrial	1.55	1.58	1.58	1.58	+1.9%
Residential (Prime Districts 9, 10, 11)	4.50	4.70	4.80	4.80	+6.7%

Source: CBRE

South Korea

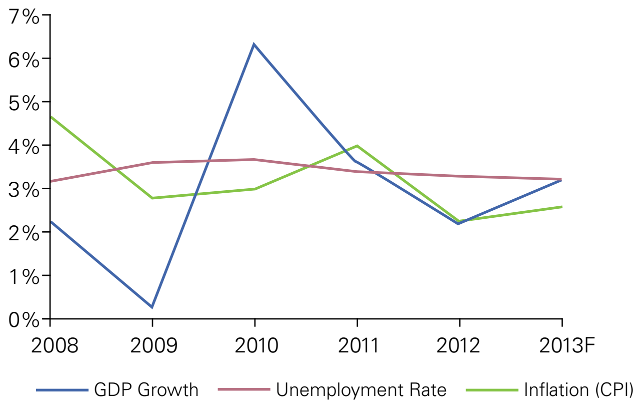
Business hotel market shows strong signs of growth

Macroeconomic overview

With the pump-priming efforts by the US and Chinese economies, the world economy is forecasted to show positive signs after the fourth quarter of this year. Considering the fact that the Korean economy follows a patterm similar to that of the world economy, in addition to local financial policies taking effect, it is predicted that it will stop growing at a decreasing rate. The economic growth rate for the second half of this year is expected to be similar to that of the first half, recording about 2.5 percent.

Although South Korea's economy is forecasted to improve next year, it is difficult to say this is the real state of recovery. Advanced countries' efforts to reduce national debts is likely to be one of the factors that causes a limitation in global demand. Uncertainties in the economic climate will remain, thereby weakening the demand forecast made by the economic units, until the eurozone crisis finally abates. As a result, exports are expected to grow at a slow pace. In addition, economic recovery rate is expected to be slower than that from the financial crisis that surfaced at Lehman. Instead of steadily recovering, the Korean economy will most likely fluctuate in reaction to the global economy. The Korean economy is expected to grow at 3.3 percent, which is below the potential growth rate of 3.5 percent.

Economic indicators



Source: Statistics Korea

The capital value of office buildings could decline due to oversupply in the Seoul Metropolitan Area and Yeouido District. However, stabilised demand in the leasing market and increase in core funding would hold the sales price of office buildings in Seoul at market rate.

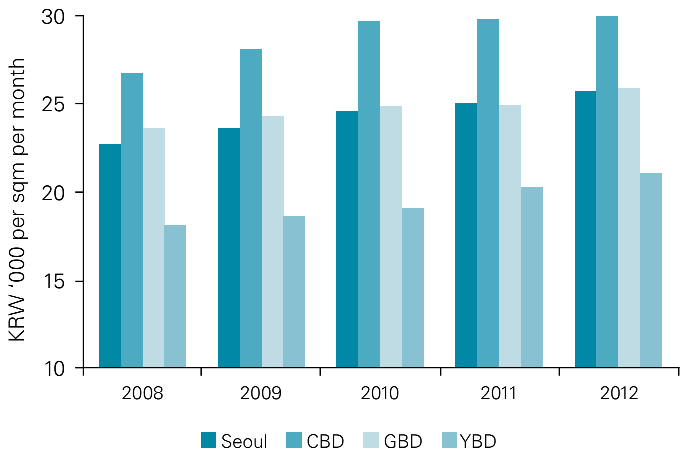
Foreign investors from Europe and the US are turning away from the Korean real estate market to other East Asian markets due to the low rate of return, which could be attributed to the local expansionary monetary policy.

However, investment opportunities are still alive and attention is gearing toward the hospitality business, especially business hotels. The popularity of business hotels is likely to increase in upcoming years as investors as well as Korean engineering and construction companies are looking to target this niche market.

Office market

The office market in Seoul, which is centred around CBD (Central), GBD (Gangnam) and YBD (Yeouido), has grown steadily and remains one of the key factors that has led to the national economic growth for the past 10 years, creating for various industries the drive to move and expand. Since then, additional sub-business districts within the larger Seoul area have begun to gain increasing popularity.

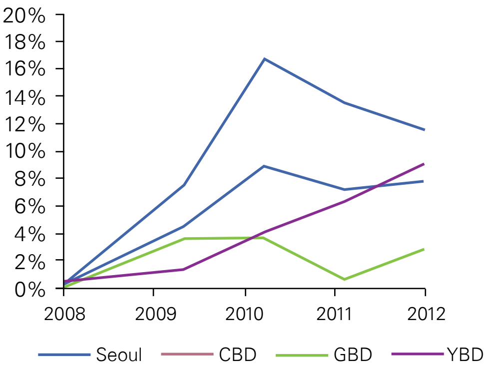
Major office area rents



Source: CBRE

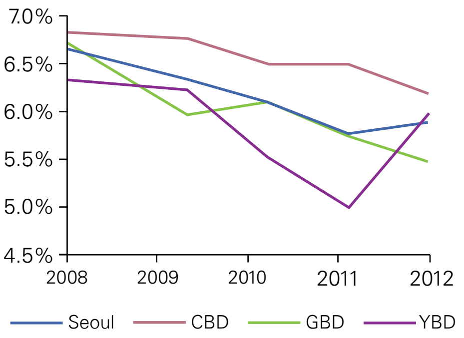
Supply of office space is expected to increase from the second half of 2012 through 2014. As a result, excessive supply and low occupancy rate is anticipated. This is quite similar to what happened in the last quarter of 2012 when there was an increase in office space of 168,000 sqm; however, leaseholders with previous oversupply experiences offer alternative promotions by providing free rent and reimbursement of fit-out and moving costs.

Major business districts vacancy rate



Source: CBRE

Major office area yield rate



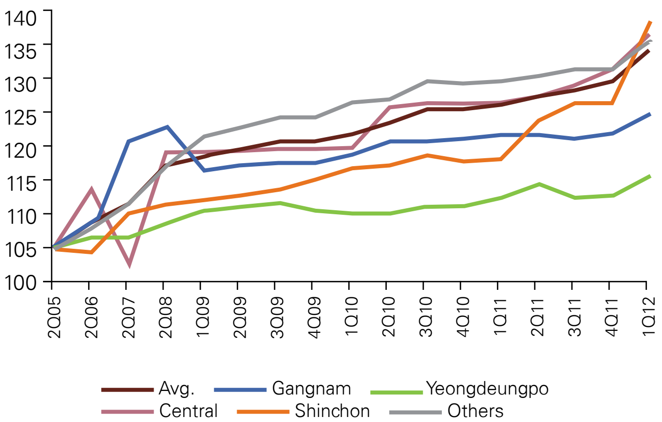
Source: CBRE

In the first half of 2012, the market price of Seoul's premium office buildings fell slightly to KW 5.47 million per sqm, while the rate of return increased to 5.8 percent, an increase in 0.1 percent over 2Q12. This unusual incline in the rate of return is assumed to be due to the sales of maturing fund assets, and therefore, the overall rate of return in the premium office market is forecasted to moderately remain in the range of 5.5–6.0 percent for a while.

Retail market

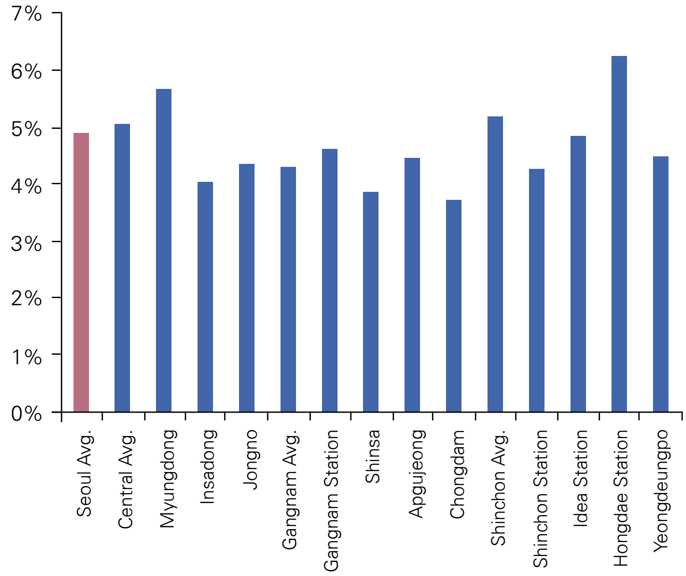
Lately, global specialty store retailers of private label apparel (SPA) brands have been actively involved in the domestic retail market. Since a variety of global brands were newly launched at the Yeouido IFC mall this August, an increased demand and more active transactions in the retail market are expected.

Rental index



Source: Ministry of Land, Transport, and Maritime Affairs

Average income rate for 2012



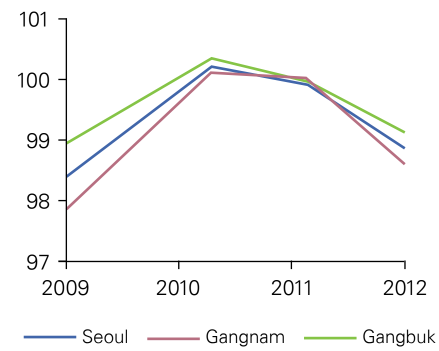
Source: Ministry of Land, Transport, and Maritime Affairs

Consumer sentiment is expected to improve in 2013, in reaction to the positive economic forecast in contrast to this year. In addition, change in the Korean family structure and conservative spending behaviour is likely to lead to significant growth of convenience stores. In light of slow economic recovery, department stores are expected to maintain economic health due to the increasing number of tourists from Japan, China and elsewhere. However, growth of hypermarkets is likely to be somewhat limited due to severe competition and strict government regulations.

Housing market

Due to the eurozone crisis that has helped hinder global economic growth, the apartment market has witnessed a reduction in both the transaction volumes and expectation of recovery.

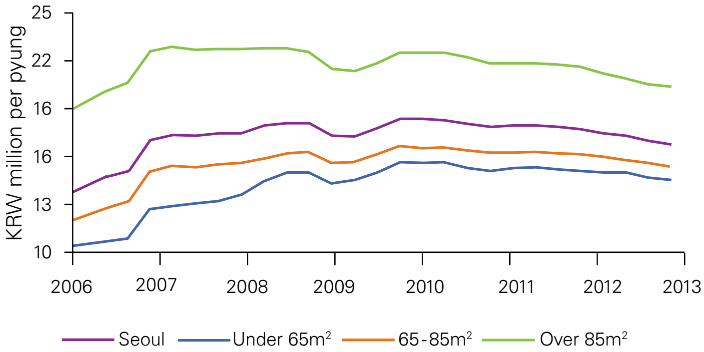
Housing purchase price composite indices



Source: Ministry of Land, Transport, and Maritime Affairs

Korea

Apartment sales price



Source: Ministry of Land, Transport, and Maritime Affairs

Note: 1 pyung = 3.3 sqm

Occupancy rate

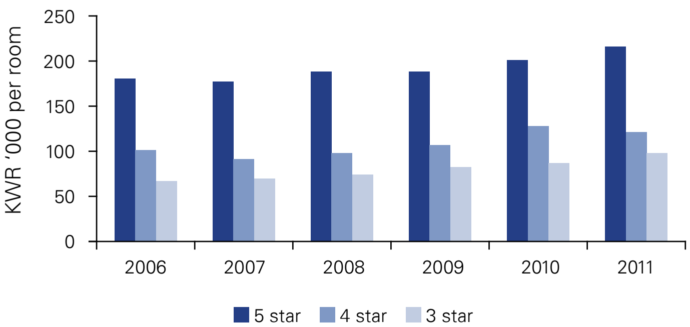
Source: CBRE

The housing market prices in Seoul have bounced back to 2007 levels. Increase in both capital flow to the market with low interest rate and money supply is expected to have a positive influence on its recovery. Consequently, the future housing market is more likely to stabilise rather than decline. To date, the main causes of apartment market recession have been foreign economic uncertainty and household debt. It is critical to solve these problems to stabilise the transactions at a reasonable price.

Hospitality market

In 2011, the number of foreign visitors to the country reached 9.79 million. As the number of leisure travellers using hotels has increased at an annual average rate of 10 percent since 2008, demand for prime hotels (5 star) and business hotels (3 and 4 star) has also risen.

Average daily rate



Source: CBRE

Currently, the hotel industry in Seoul is witnessing excess demand. The demand for business hotels with fairly upscale services at reasonable prices is much greater than 5 star hotels, which could be financially burdensome. To meet demand, construction of most business hotels is expected to be completed before 2017 and provide an additional supply of 21,200 rooms.

The top-three local hotel giants, such as Lotte, Shilla and Chosun, entered the business hotel market in 2012, and offer minimum lease guarantee of 4–5 percent to investors, thereby providing a more lucrative rate of return than that in the office market.

Taiwan

Reforming transparency and growth opportunities

Macroeconomic overview

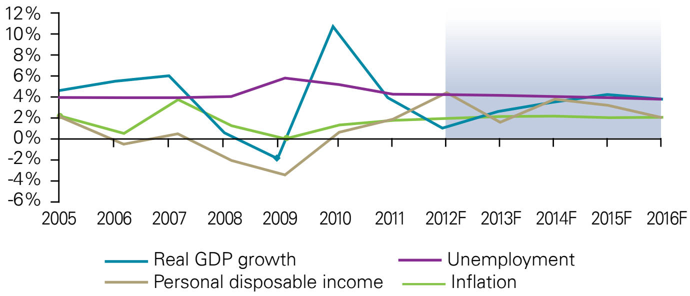
The Taiwanese economy remains in an uncertain position. It has fallen to stagnation, having contracted over the past three quarters. Growth forecasts have recently been revised downwards: GDP is anticipated to have grown by 1.1 percent for 2012. In addition, in 2013–16, average annual growth of only 3.1 percent is expected.

In 2012, the country is expected to have witnessed an inflation rate of 2.0 percent. Historically, from 2005 to 2012, it averaged 1.6 percent, reaching an all-time high of 3.8 percent in 2007 and a record low of 0.04 percent in 2009. Since 2009 the central bank of Taiwan has been striving to keep a low and stable inflation rate, and the policy was announced to be continued in the next coming years.

The unemployment rate was expected to have been 4.2 percent in 2012. From 2005 to 2012, it averaged 4.5 percent, reaching an all time high of 5.9 percent in 2009 and a record low of 3.9 percent in 2007.

With some respite from the global financial crisis, personal disposable income has been increasing in the past three years and was expected to have increased 4.3 percent in 2012. From 2005 to 2012, personal disposable income reached an all-time high of 4.3 percent in 2012 and a record low of -3.5 percent in 2009.

Economic indicators



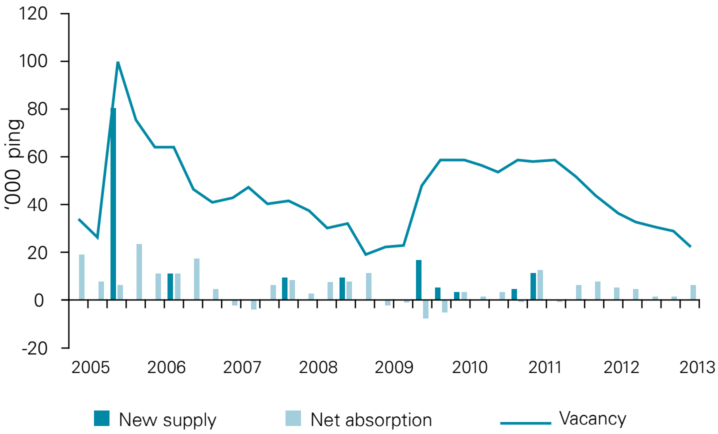
Source: Economist Intelligence Unit, KPMG analysis

Office market

Taiwan's economic growth stagnated in 2012 and domestic demand faltered. However, policy rates of the central bank were kept unchanged for the fifth consecutive quarter to contain inflationary pressures combined with short-term capital inflows driven by a third round of quantitative easing. As a result, the leasing market in Taipei remained largely intact. Achievable office rents increased mildly over the quarter.

Grade A asking rents in the country's office market are expected to remain at current levels, with landlords taking a more flexible attitude with prospective renters. Owners of Grade B offices will continue to offer competitive rents to secure tenants.

Taipei office supply and demand



Source: CBRE, KPMG analysis

Note: 1 ping = 3.305 sqm

Over 24,000 ping (1 ping = 3.305 sqm) of new office space was anticipated to have been released to the Taipei market in 4Q12. Additionally, the overall vacancy is likely to rise by 1 percent in the next few months, with the Grade A sector being affected most.

Taipei office market

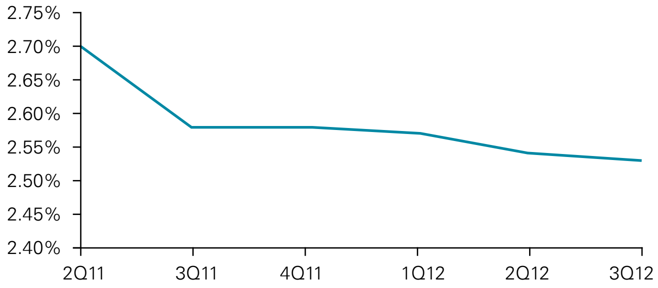
Submarket / District	Total stock (ping)	Grade A office rent (NTD per ping per month)	Grade B office rent (NTD per ping per month)	Grade A vacancy rate (%)	Grade B vacancy rate (%)
Taipei Main Station	62,139	2,200	1,716	0.85	4.92
Zhongshan North Road	32,932	--	1,765	--	6.18
Nanjing-Songjiang Area	236,545	1,931	1,676	0.77	6.37
Minsheng-Dunhua Area	265,576	2,291	1,727	10.34	8.71
Dunhua-Renai Area	165,868	2,454	1,780	5.57	5.26
Xinyi-Jilong Area	265,349	2,840	1,650	13.80	3.69

Source: CBRE, KPMG analysis

Note: 1 ping = 3.305 sqm

Taiwan

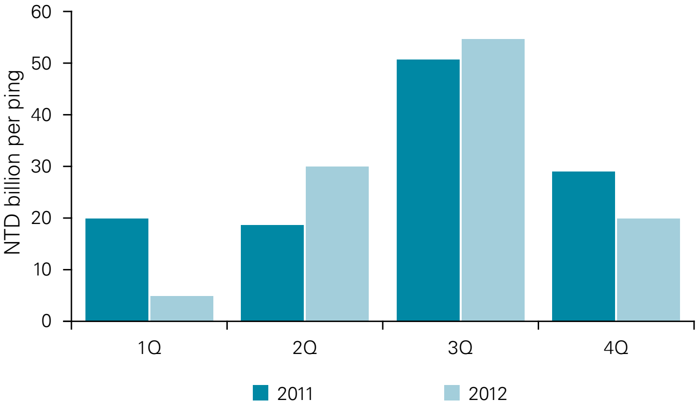
Taipei office gross rental yields



Source: Sinyiglobal, KPMG analysis

In 3Q12, the overall average sale price of office buildings in Taipei climbed to NTD 0.77 million per ping. In addition, the average sale price for Grade A+, Grade A and Grade B was about NTD 1.32 million per ping, NTD 0.81 million per ping and NTD 0.67 million per ping, respectively. As a result, the gross rental yields dropped near 0.2 percent to 2.53 percent compared to 1Q11.

Taipei office market activity



Note: Trading volume of 4Q12 is estimated by KPMG

Source: Jones Lang LaSalle, KPMG analysis

Compared to 2011, the trading volume of investment properties is expected to be stable in 2013. The slow economy continually drove money into the fixed income market and pulled up the price of fixed income properties such as office or market buildings. As a result, the higher price of investment properties lowered the gross yield over the past several quarters.

Housing market

For a population of 23.3 million, housing stock is about 8.2 million, indicating a low possibility of supply shortage. Even new housing supply has been lower than demand in the past years. The surplus is primarily concentrated around Taiwan, excluding the Taipei area.

According to the research conducted by the Institute for Physical Planning & Information, after luxury tax became effective on 1 July 2011, home buyers expected the trading volume of housing to be impacted, but to stabilise in the first year. In fact, the quarterly price and volume dropped 10 percent and 16 percent, respectively, after luxury tax became effective. However, compared to the same period last year, the impact of the luxury tax is still uncertain and not foreseeable in the short term.

The registration of selling prices and rents of property deals became effective on 1 August 2012. The first-ever policy requiring disclosure of transaction prices has prompted homebuyers to adopt a wait-and-see attitude. September saw total property transaction volume in Taiwan decline 7 percent y-o-y with Taipei City posting a 20 percent drop.

Taiwan housing market

Source: MOEA TW, KPMG analysis

To tackle the country's increasing housing loans balance the central bank introduced the policy of deflating housing loans in 2010. Housing loan interest rates have been rising due to the central bank eyeing tighter loans for the housing market while central bank policy rates have been kept unchanged.

Thailand

Downtown office rents increasing as vacancy rates improve

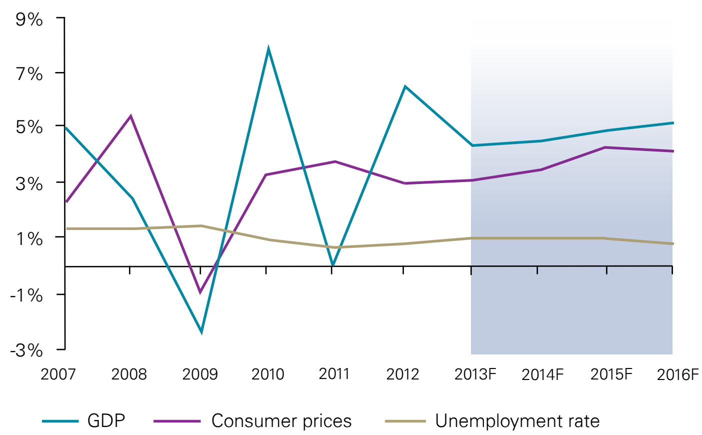
Macroeconomic overview

Thailand's economy exhibited a V-shape recovery in 2012 (6.4 percent y-o-y), compared to 2011 (0.1 percent y-o-y) when GDP growth was impacted by floods. The National Economic and Social Development Board (NESDB) expects the economy to resume its normal path and to expand in the range of 4.5–5.5 percent in 2013, aided by the following: 1) The first-car tax rebate scheme, reduction in personal income tax and increased minimum wage are expected to keep consumption momentum higher than normal; 2) Fiscal stimulus measures, accommodative monetary conditions (central bank lowered policy interest rates by 50bps in 2012) and growing domestic demand is expected to strengthen investment outlook; and 3) Gradual recovery in exports is expected in 2013.

Headline inflation moderated from 3.8 percent y-o-y in 2011 to 3 percent y-o-y in 2012. Bank of Thailand expects inflation to remain stable. However, inflationary challenges posed by higher minimum wages, faster-than-expected appreciation in baht and rise in oil prices (due to quantitative-easing measures in many countries) are a cause of concern.

As of 3Q12, Thailand's unemployment rate was 0.58 percent, which is the third lowest in the world. The Economist Intelligence Unit estimates that the unemployment rate will rise to 1 percent in 2013, which is still very low compared to other countries. Fears that an increase in minimum wage might lead to layoffs are allayed as the affected employers would receive the needed assistance from the government.

Economic indicators



* 2012 figures for consumer prices and GDP is actual, whereas that for unemployment rate is estimated.
Source: Economist Intelligence Unit; KPMG analysis

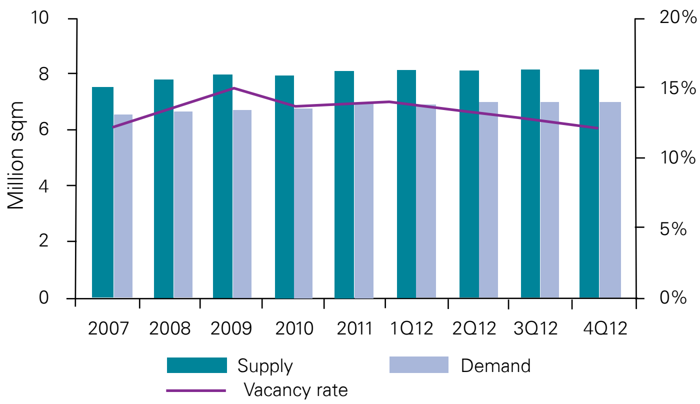
Office market

The overall office market in Bangkok improved in 2012, with a decrease in vacancy rate and an increase in demand and rental rates.

The vacancy rate has improved in the past four years (2009–12), from the peak of 15 percent in 2009 to 12.1 percent in 4Q12, driven by lack of new supply and strong take-up. At the end of 4Q12, the total office supply decreased 0.3 percent y-o-y and increased 0.2 percent q-o-q, whereas the demand increased 2.0 percent y-o-y and 0.9 percent q-o-q.

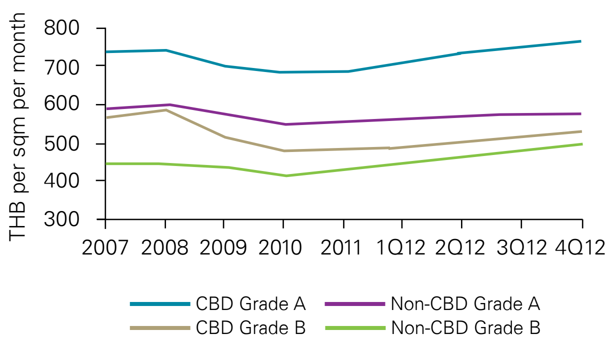
Rental rates appear to have bottomed out after declining for three consecutive years (2008–10). They reversed their declining trend in 2011, and in 4Q12 continued to trend upward, increasing for both grade A and grade B offices in the CBD and non-CBD areas. Rent for the CBD grade A area was the highest, increasing by 9.1 percent y-o-y and 2.1 percent q-o-q in 4Q12 to THB 766 per sqm per month.

Vacancy rate, supply and demand in Bangkok



Source: CBRE; KPMG analysis

Rental rates in Bangkok



Source: CBRE; KPMG analysis

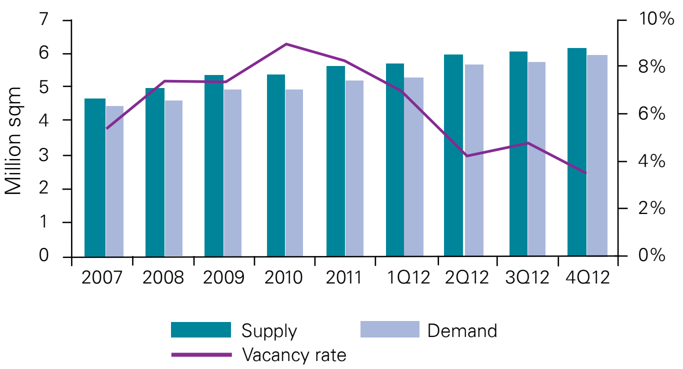
Retail market

The total retail supply increased to 6.2 million sqm in 4Q12, up 1.4 percent q-o-q and 8.9 percent y-o-y. Approximately 42 percent of the supply is located in the suburban area, as it is considerably residential and, according to Colliers International, there is an abundant availability of land for large-scale projects there.

The vacancy rate, after reaching a peak of 9 percent in 2010, decreased consistently until 2Q12. In 3Q12, it increased slightly by 0.5 percentage points to 4.88 percent; however it continued its decline in 4Q12 (down 1.36 percentage points q-o-q). At the end of 4Q12, the lowest vacancy rate of 2 percent was observed in the suburban retail market, compared to 4.3 percent in downtown and 4.7 percent in midtown.

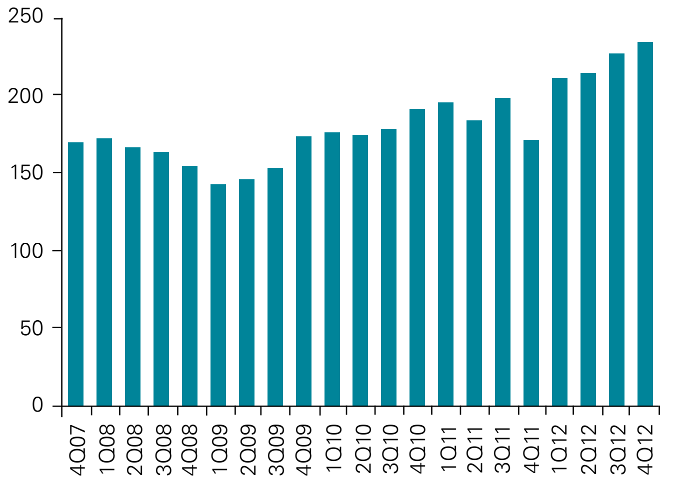
According to a Cushman & Wakefield report, rental rates in the central retail district (CRD)\CRD fringe and urban retail market as of December 2012 increased by 1.7 percent and 5.5 percent y-o-y respectively. According to some operators, the increase in rental rates in the CRD fringe and urban retail market reflects rise in their expenses post hike in minimum wage.

Bangkok vacancy rate, supply and demand in retail market



Source: CBRE; KPMG analysis

Retail sales index

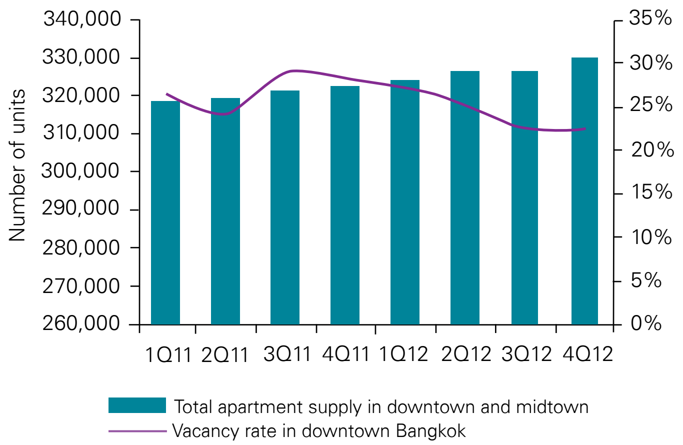


Source: Bank of Thailand; KPMG analysis

Residential market

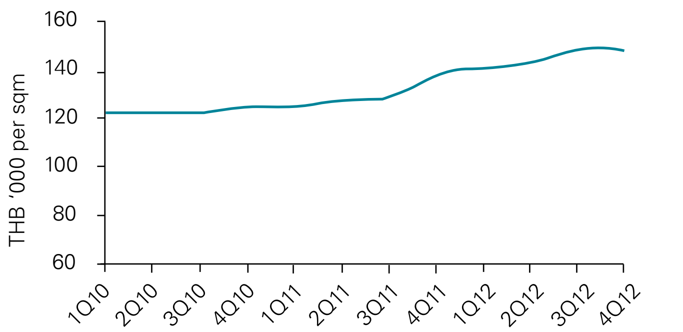
The supply of apartment units in Bangkok's downtown and midtown areas increased by 5.6 percent q-o-q to 346,590 units in 4Q12, driven by 12 new launches in the downtown area and new launches by small private and public developers in the midtown area.

Bangkok residential market vacancy rate and supply



Source: CBRE; KPMG analysis

Average re-sale prices of completed freehold upscale units and above

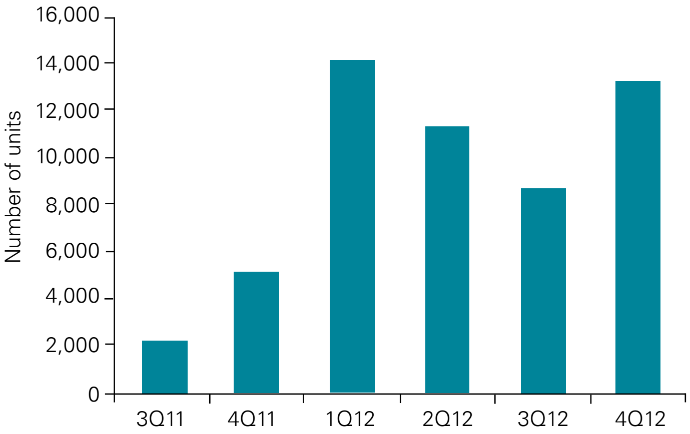


Source: CBRE; KPMG analysis

The house price index highlights that land prices led the rise in 4Q12, their prices rising 5.2 percent y-o-y, while detached houses, townhouses and apartments saw small price increases of 1.2 percent y-o-y, 2.7 percent y-o-y and 0.8 percent y-o-y respectively. The average re-sale price of completed upscale units and above increased 7.1 percent y-o-y to THB 148,219 per sqm in 4Q12.

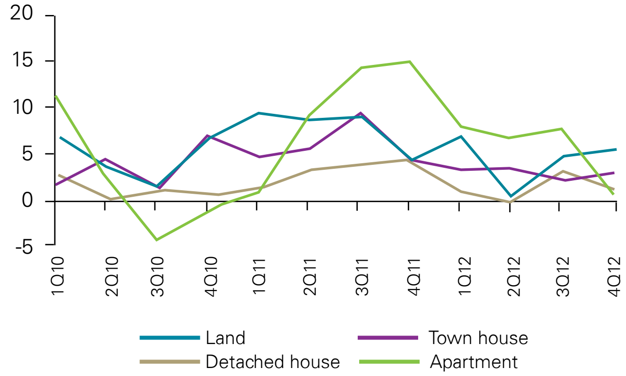
Thailand

Newly launched apartment units



Source: Colliers International; KPMG analysis

House price index (commercial bank mortgage loan)



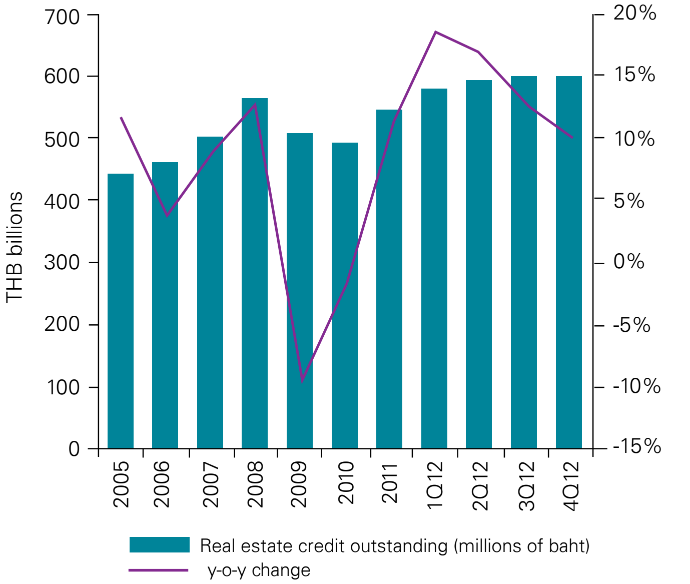
Source: Bank of Thailand; KPMG analysis

The number of new launches increased significantly in 1Q12, compared to 4Q11, as developers, whose projects were affected by floods, postponed their new launches to 1Q12. Since 1Q12, new launches have decreased consistently in 2Q12 (down 20 percent q-o-q) and 3Q12 (down 24 percent q-o-q), as increase in land prices mean that new developments are expensive for a large percentage of purchasers. However, the trend reversed in 4Q12, as new launches increased 53.5 percent q-o-q, as developers focused on projects on the side streets, due to cheaper land prices. In 4Q12, the vacancy rate in downtown decreased 0.4 percentage points q-o-q and 5.8 percentage points y-o-y.

Real estate debt market

The following chart showcases outstanding loans for real estate activities, renting and business activities by Thai Commercial Bank. It grew 9.7 percent y-o-y in 4Q12, which is less than the total credit growth.

Real estate credit outstanding (by Thai Commercial Bank)



Source: Bank of Thailand; KPMG analysis

According to Thai Rating and Information Services (TRIS), bank credit and capital markets are expected to remain supportive of developers with high credit ratings and low exposure to flood-prone areas. On the other hand, developers with low credit rating and unsold inventory in flood-prone areas are facing challenges to raise finance, preserve liquidity and regain market confidence.

The Stock Exchange Commission recently passed the Real Estate Investment Trust (REIT) structure, which replaces the Property Fund (PF) structure from 1 January 2013. A REIT has more flexibility than a PF in the amount of leverage it can take and the type of property it can invest in, though it is less favourable with regard to tax and commission exemption for investors. Overall, despite less-favourable tax benefits, it can prove beneficial to investors due to much-higher leverage and to property sellers due to expected increase in demand driven by higher liquidity.

Vietnam

Opportunities found in a challenging time

Macroeconomic overview

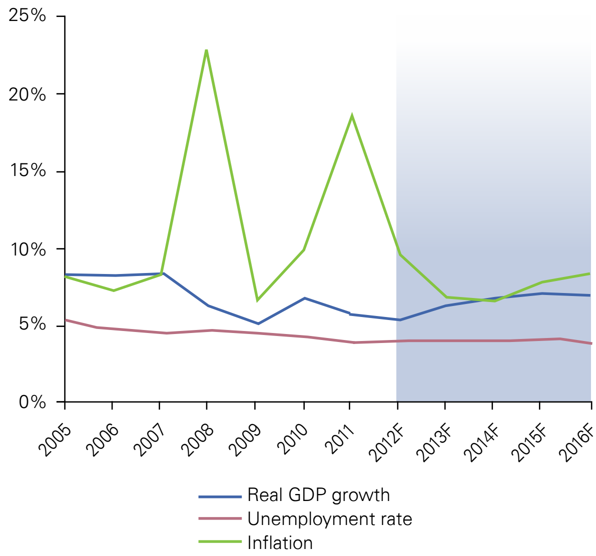
Despite policy makers' attempts to reinvigorate the market, the Vietnamese economy remains in an uncertain position. According to sources in the Vietnamese government, the GDP growth for 2012 was forecasted at 5.4 percent, which is low compared to the average growth over the past ten years. It appears that there are no quick fixes for re-establishing the strong growth of the past as the projections for 2013–2016 anticipate an average GDP growth rate of about 7 percent.

The 2012 inflation rate is expected to have been about 10 percent. This is a significant decrease from the alarming inflation rate of well over 18 percent in 2011. This decline can be attributed to a number of factors including the Vietnam Central Bank's tightened monetary policies. However, according to some analysts, the inflation decrease, although welcome, is unlikely to yield significant benefits in the near term due to devaluation pressures on the Vietnamese currency (the Vietnamese Dong). While in the past the lending policies of many banks in the country were quite liberal toward financing real estate projects, these days the funding for such projects has been significantly reduced. In addition, over the past few years, Vietnam has seen very high interest rates ranging from 12 percent to 18 percent, which has naturally had a strong negative effect on the real estate market.

The economic downturn has continued to force enterprises to reduce their work force in Vietnam. Unemployment has remained high since the beginning of the year and the government's tightening credit policy has led to high redundancy rates in the property sector.

Given that 2012 has been a relatively tough year for Vietnam in the real estate sector specifically and the economy generally, the strong export sector seems to be one of the few optimistic economic signals, as shown by the trade surplus of USD 34 million for the first three quarters of the year. Export turnover reached nearly USD 84 billion over the same quarters, an almost 20 percent increase over the same period in 2011.

Economic indicators



Source: The Economist Intelligence Unit

Foreign Direct Investment (FDI) for the first half of 2012 stood at USD 6 billion. This was a decrease of 25 percent from the second half of 2011. However, despite the dip in FDI, the property sector still ranked second among the sectors attracting FDI with eight newly registered projects licenced worth a total of USD 1.7 billion. For 2012, Japan remained a leading source of foreign investment with little change to this position forecasted for 2013.

The property market in Vietnam remains lackluster as it has been for the past few years, which is causing increasing distress to both developers and investors. However, according to market analysts, this also offers an opportunity for investors to restructure business operations and review strategies to approach the market in a more flexible manner.

Office in Ho Chi Minh City (HCMC) and Ha Noi (HN) 3Q12

	Grade A		Grade B		Grade C		Total	
	HN	HCMC	HN	HCMC	HN	HCMC	HN	HCMC
Number of buildings	16	9	49	49	59	245	124	303
GFA (sm)	268,676	304,380	529,128	802,673	251,907	839,269	1,049,711	1,946,322

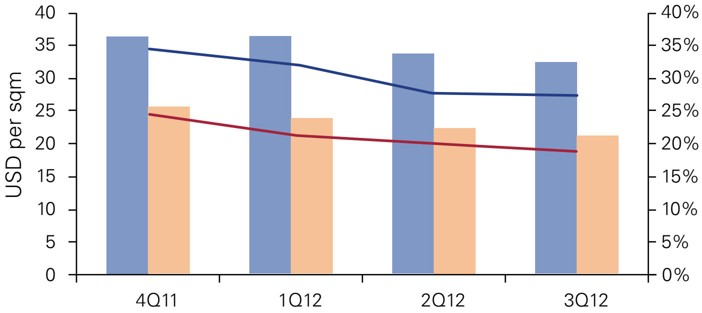
Source: Savills Research & Consultancy

Office market

The uncertain economic situation and overall decline in business confidence have negatively impacted the office market's growth. However, despite the global downward trend, office rents in Ho Chi Minh City and Hanoi remain high with both centres ranking within the top 5 cities in Southeast Asia and top 50 cities globally for office rental rates.

After a number of consecutive quarters of decline, Ho Chi Minh City's leased office space market has shown signs of recovery, with stable demand for Grade A space as shown by solid occupancy rates. Savills reports that the overall occupancy rate in 3Q12 was 87 percent, up slightly, while the average rent continued its downward trend to USD 26–27 per sqm per month in 3Q12 for new Grade A buildings.

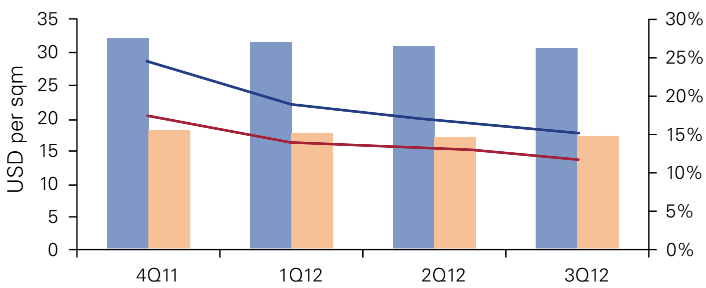
Vacancy rate and average asking rent in Ho Chi Minh City



Source: Cushman & Wakefield

According to Savills, the overall performance in Hanoi showed decreases in both occupancy rate and rental amounts. The average occupancy rate was 79 percent, down slightly q-o-q, while the average rent was USD 22 per sqm per month.

Vacancy rate and average asking rent in Hanoi



Source: Cushman & Wakefield

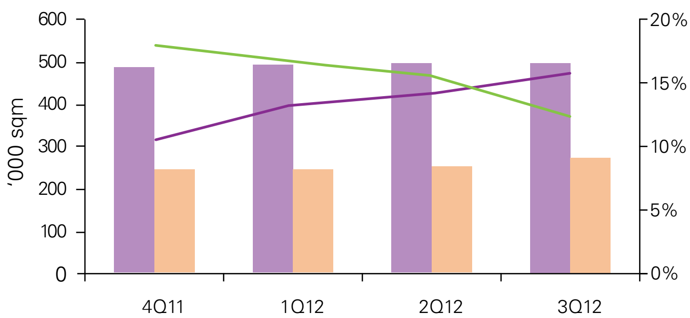
However, the *Vietnam Investment Review* noted that the current stability in the property market is not expected to last, with a number of factors such as the next wave of Grade A rental units to be supplied, growth from occupier expansion and upgrading and global economic uncertainty placing downward pressure on the market.[1]

Retail market

The Vietnamese retail market has a significant retail space inventory.

According to CBRE, as of 3Q12 total retail stock in HCMC was nearly 500,000 sqm, (which remained stable during the quarter) and the total retail stock in Hanoi was approximately 250,000 sqm, increasing sharply from 2011.

Total supply and vacancy rate in Ho Chi Minh City (HCMC) and Hanoi (HN)



Source: CBRE

In Ho Chi Minh City, the total vacancy rate for department stores and shopping centres slightly decreased to about 12 percent in 3Q12. This decrease was attributed to tenants taking advantage of available space in the CBD shopping centres. However, there is still a significant amount of vacant retail space, which should allow for this trend to continue. However, in Hanoi, the recent opening of the Indochina Plaza Hanoi, provided 17,000 sqm of additional modern retail space, which increased vacancy rates for both CBD and non-CBD projects.

Retailers are increasingly concentrating on prime CBD locations as non-CBD retail locations in outlying districts have not demonstrated the level of consumer demand necessary to support retailers.

[1] The Vietnam Business Review, www.vir.com/vn/news/business

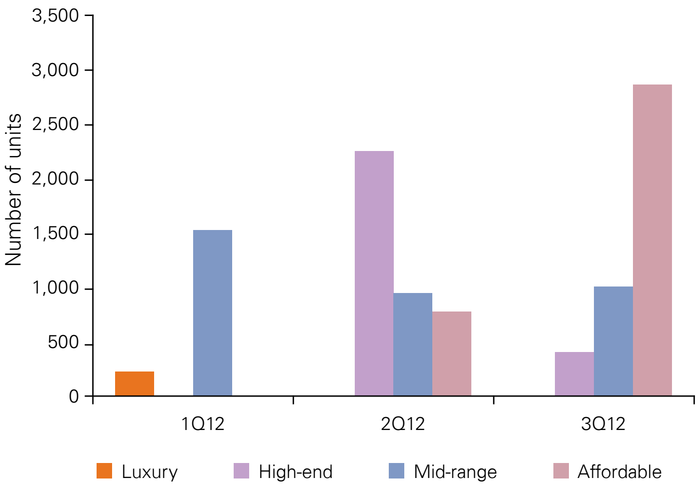
Vietnam

While retail rents in Hanoi showed an increase of approximately 10 percent q-o-q, those in Ho Chi Minh City remained relatively static. This rental stability in Ho Chi Minh City can be partially attributed to the range of options available to tenants remaining relatively limited, meaning that there is little downward pressure from the supply side of the retail rental market.

Housing market

Potential buyers are becoming increasingly apprehensive about the poor performance of the economy, high inflation levels and lower real incomes. This has led to potential buyers keeping savings highly liquid rather than making investments in real estate. This lack of potential buyer confidence has led to an overall decrease in housing market demand both in apartments and suburban houses. As a result, high inventory levels present a significant challenge in the housing market. According to the report of the Ministry of Construction, as of August 2012, the vacant inventory in the country was over 16,000 apartments, mainly in Hanoi and Ho Chi Minh City. The Vietnam Real Estate Association reports that the inventory available in Ho Chi Minh City is the largest in the country and includes over 10,000 apartments and 1,000 low-rise houses.

Ho Chi Minh City and Hanoi – New apartment launch

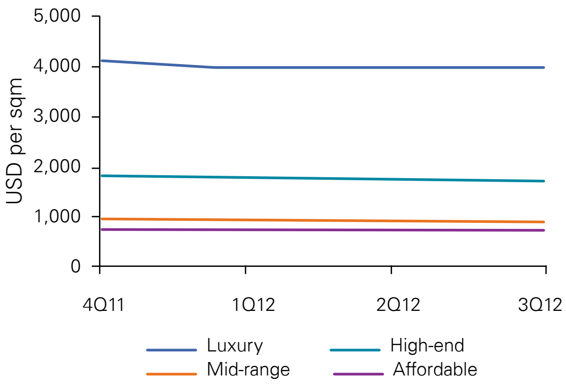


Source: Savills Research & Consultancy

In the last months of 2012, residential purchasers were yet to return to the market in significant numbers. However, developers have decided to launch their real estate products nevertheless. CBRE reported that new launches increased by a significant amount y-o-y with in excess of 5,000 apartments completed.

This increase in completed apartment supply is representative of developers aiming to attract purchasers who view completed developments as carrying significantly less risk than those that are still under construction. Revenue from the residential market mainly comes from what are generally viewed as affordable units at lower price ranges (typically USD 1,000 per sqm and below), of a small unit size (50–70 sqm) and on lower floors (below 20th).

Secondary asking price of apartments in Ho Chi Minh City



Source: Global Property Guide

The Ho Chi Minh City residential market is still experiencing low levels of activity, as many projects have been postponed in anticipation of poor sales performance or pending price adjustments. However, despite these low levels of activity, villa unit prices remain significantly higher for properties in desirable districts of Ho Chi Minh City compared to the overall residential market in the City.

Secondary asking price of villas, apartments and houses of Hanoi

Source: Global Property Guide

CBRE reported in December 2012 that in Hanoi, secondary asking prices of villas/townhouses were 18 percent lower compared to the previous year. As a result, developers have been forced to offer significant discounts on apartments.

There is currently a proverbial 'standoff' between developers and buyers. After over a year of continuous discounting, buyers have begun to expect prices to be a little lower in the future, leading to hesitation in making purchases at current prices. In general, developers have kept their asking prices flat. Overall, 'affordable' apartments have retained their capital value, with this trend attributed to the underlying high demand for this category of apartment. While owners of these apartments are presently owner-occupiers, this property category could be an attractive area for investors, with strong demand for occupancy of 'affordable' apartments increasing the expected investment returns.

For the market to show any significant signs of recovery, developers will need to restructure their businesses to meet the challenges of outstanding loans and stagnant demand with business strategies that target customers with the right mix of products offered.

Real estate debt market

Given the liquidity crunch, the high interest rates and the associated fact that loans for the real estate sector were difficult to obtain, 2012 was another tough year for the sector in terms of financing. Many developers suspended new projects and local banks ended up with mounting bad debts on their books. According to the State Bank of Vietnam, as of September 2012, non-performing loans (NPLs) were a persistent problem, standing at approximately 9 percent of total lending in the banking system. The Vietnam Real Estate Association reported that loans related to real estate accounted for over 50 percent of the total lending, and that the NPLs of Vietnam were assumed to be the highest in Southeast Asia.

Bad debts remained a key issue under discussion at the country's recent Parliamentary Forum. Since the capital for real estate projects depends largely on funding from the banking sector, with such significant inventories unsold, the higher bad debt numbers are likely to remain for some time.

Besides developers' attempts to boost sales, the government has also provided financial support packages to encourage ongoing development. In addition, interest rates have decreased to 9 percent per annum which should help reduce the pressure on developers.

One additional action on the government's part was passing new legislation allowing the establishment of a Real Estate Investment Fund (REIF). Transferring capital into a REIF may prove to be the best way to mobilise capital. The recently issued Government Decree 58 provides a legal framework for establishing domestic property investment funds, alongside foreign alternatives. It offers hope that the funds would create opportunities for investors to inject more capital into the real estate market, thus improving the market's liquidity. However, it is too soon to tell whether local investment funds will be of help. Other factors such as available incentives for the REIF, interest rates, land rents and compensation costs should also be taken into account.

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