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Emerging Trends in Real Estate®

Asia Pacific 2015

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Urban Land Institute

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Real Estate in Asia Remains Resilient in an Environment of Weaker Economic Fundamentals, says Emerging Trends In Real Estate® Asia Pacific 2015

News release

REAL ESTATE in ASIA REMAINS RESILIENT IN AN ENVIRONMENT OF WEAKER ECONOMIC FUNDAMENTALS, SAYS *EMERGING TRENDS IN REAL ESTATE® ASIA PACIFIC 2015*

Survey from ULI, PwC Shows Singapore is Still an Attractive Market

SINGAPORE (December 5, 2014) – Singapore is viewed favorably in terms of investment and development prospects next year, according to *Emerging Trends in Real Estate® Asia Pacific 2015*, a real estate forecast jointly published by the Urban Land Institute (ULI) and PwC. However, its ninth place ranking – down from seventh place in 2014 – indicates that it has lost some of its appeal for investors, according to the report.

Emerging Trends provides an outlook on Asia Pacific real estate investment and development trends, real estate finance and capital markets, and trends by property sector and metropolitan area. Singapore's slip in the 2015 rankings is the result of the introduction in 2013 of government measures to curb price increases in Singapore's residential market, which have weakened investor enthusiasm, the report notes. While prices have held steady in general, both residential and commercial transactions have fallen significantly, "as both foreign and international investors turn to foreign markets to look for deals," the report says.

Released today at a joint press conference by ULI and PwC in Singapore, *Emerging Trends* is based on the opinions of 385 internationally renowned real estate professionals, including investors, developers, property company representatives, lenders, brokers and consultants.

For Asia in general, the report predicts that real estate markets throughout the region will remain resilient despite weakening economic fundamentals throughout 2015, as capital continues to flow into the industry from a variety of investment sources, both domestic and international. Stiff competition for conventional assets in prime markets is continuing to boost the appeal of some niche property sectors -- particularly logistics -- although interest in other specialty sectors, such as student and senior housing, is waning.

"Currently, Asia's real estate markets are beset by an abundance of riches. Whether derived from new sources of institutional capital, or from almost six years of global central bank easing, a seemingly endless stream of money is now pointed at real estate assets across virtually all jurisdictions and asset classes. This is pushing up prices and further compressing yields," said John Fitzgerald, Chief Executive, Asia Pacific, ULI. "As a result, we are seeing fewer transactions, a growing shortage of investment-grade properties, a search for alternatives to core products, and a general pullback from assets in secondary locations. We can expect this to continue over the next several months."

"With more attractive real estate investment options in key Australian and Japanese cities, the decline in the overall real estate investment sentiment in Singapore in 2014 is not unexpected. However, the fundamentals of the sector in Singapore are still strong and attractive, said Yeow Chee Keong, Real Estate & Hospitality Leader, PwC Singapore. "Singapore continues to be an attractive location to do business, live, work and play and this is evidenced by her high rankings in several global reports on ease of doing business, quality of living and competitiveness, among others, including being ranked number three in PwC's Cities of Opportunity. There should be more opportunities for deals in the commercial sector in 2015 given the supply and the expected increase in office rental. In the residential sector, what we hope to see is an increase in sustainable transactions beyond 2015 should there be a re-calibration of the cooling measures or of sellers' expectations of exit values."

Top Five Investment Markets for 2015

- **Tokyo** (ranked first for investment and development) -- Continuing a trend from 2014, Japan remains a favored area for real estate activity, with Tokyo being ranked as the top market in Asia for investment and development over the next year. Tokyo's popularity is attributed to the government's massive economic stimulus plan that has catalyzed property purchases in anticipation of rapidly rising prices. While ongoing credit easing is allowing "plenty of room for markets to run," the report points out that Tokyo's attraction "lies not only in its prospects for asset price inflation but also in its status as a gateway city featuring…low levels of perceived risk."

- **Jakarta** (ranked second for investment and development) --The city's appeal is predicated on Indonesia's booming economy as well as strong asset price growth over several years. In general, real estate prices remain low compared to other large Asian cities. One issue of concern: The market remains opaque, with interviewees expressing concern about the land title process and the court system.

- **Osaka** (ranked third for investment, fourth for development) –

Osaka in benefiting from the fierce competition for assets in Tokyo, with many investors being pushed into Japan's secondary markets. Much of its product oversupply – particularly in the office sector – was absorbed over the past year, and vacancies are continuing to decline.

- **Sydney** (fourth for investment, third for development) – High yields and a mature economy are drawing international investors to Sydney, which, combined with substantial participation from Australia's pension and wholesale funds, is creating tough competition for properties. The city is experiencing strong interest in development, specifically in conversions of older office stock into residential units.

- **Melbourne** (fifth in investment, fifth for development) – Melbourne is perceived as offering a similar environment to Sydney. There is a significant emphasis on development, an abundance on capital seeking investments, and attractive yields (despite some compression).

- Across the Asia-Pacific region, the industrial/logistics sector is by far the most popular property type for investment prospects for the coming year. According to the report, the appeal of this sector reflects "chronic shortages of logistics capacity in most markets and the relatively higher yields still offered by logistics plays." The hotel sector also received high ratings, due to a boom in tourism in many markets. The office sector continues to be regarded as a safe investment; but enthusiasm for the housing and retail sectors has declined.

Overall findings from the report include:

- **Investors are opting not to buy.** Transaction volumes across Asia fell 24 percent year-over-year in the third quarter of 2014, compared with significant gains in the United States and Europe. Although much of the decline is due to fewer land sales in China, transactions have dropped in other Asian markets with the notable exception of Australia.

- **Product scarcity is prevalent.** The structural shortage of investment-grade assets across the region is compounded by growing volumes of capital held by local institutions and the lack of incentive to sell, given that relatively little commercial real estate is held by investment funds that tend to recycle their assets into the market after a few years.

- **Investors seek other asset classes.** With core product both expensive and hard to source, investors are looking for alternative strategies. This includes value-add deals and, in general, more complicated asset management situations, and finding specific types of assets that may have been left behind by the market.

- **Investors are wary of secondary locations and assets.** Given the lack of trust in the current market, most investors prefer to remain in gateway cities, where they have more confidence in the resilience of pricing and liquidity. This applies especially in Australia. In China, many buyers are avoiding secondary locations because of a spate of overbuilding. Japan is the exception, with competition from local real estate investment trusts (REITs) forcing investors to branch out to cities other than Tokyo.

- **Emerging markets are losing some appeal.** Fast-growing markets such as the Philippines and Indonesia remain on investors' radars, but the attraction has dimmed somewhat this year as investors become cautious over the potential for capital outflows in the wake of upcoming U.S. interest rate hikes.

- **Investors are increasingly willing to adopt development risk.** Forward-funded and build-to-core strategies are popular, especially in Australia. In Japan, however, development is less attractive given increased construction costs.

- **Currently, strong asset prices are in marked contrast with weak rentals.** Occupational markets are weak in many markets, especially in Australia and Japan. Many investors project that the contrast between prices and rentals will shift, with returns based more on stronger rental fundamentals than soaring prices.

About the Urban Land Institute

The **Urban Land Institute** (www.uli.org) is a global nonprofit education and research institute supported by its members. Its mission is to provide leadership in the responsible use of land and in creating and sustaining thriving communities worldwide. Established in 1936, the Institute has more than 32,000 members representing all aspects of land use and development disciplines.

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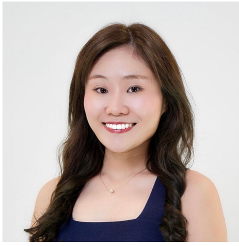

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