DTZ Research

Money into Property

Asia Pacific 2010

China closing in on top spot

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Contents

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- In a tough year for the global real estate market, APAC stands out for its continued growth:
  - While global invested stock declined by 6% in 2009 in US dollar terms, APAC invested stock grew by 8% and topped US$3 trillion for the first time. All four quadrants grew in APAC, in stark contrast with a fall across all quadrants at the global level.
  - Global investment transactions reached a trough in Q1 2009, and has registered quarter-on-quarter growth since. Still, global annual volumes declined by 35% in 2009. In contrast, annual volumes increased by 34% in APAC, and surpassed the 2006 level.
- On a global level, we believe the worst is behind us. Looking forward, our outlook for 2010 is more positive than in 2009, when we recorded in *Money into Property* that we saw "no near-term end to the market's misery":
  - While many clouds still exist in the macro-economic horizon, consensus economic forecasts, on which we base our real estate market projections, are for sustained economic recovery worldwide.
  - International investor and European lender sentiment has improved significantly, based on this year's survey results. This improved market sentiment is supported by our own analysis of available equity capital and debt. The legacy debt issue is not as big of a problem as we originally feared because sufficient new equity capital is available.
- From an APAC perspective, we expect the region to show continued strength next year:
  - We are forecasting a strong 12% increase in APAC invested stock for 2010, on the back of a continued recovery in capital values.
  - Despite a slowdown in bank lending in China, we expect APAC transaction volumes to continue to increase in 2010.
- Underlying the strong trends for APAC is the persistent growth in the China property market, which more than offsets a decade-long weakness in Japan. We expect this trend to continue and reach a milestone in 2011, with China overtaking Japan to become the largest property market in APAC and the second largest market worldwide.
- In line with our more positive global outlook, our fair value analysis indicates that value has now returned to most property markets worldwide:
  - Prime properties in almost 90% of 172 markets covered by our analysis are now traded at or below fair value; this is in sharp contrast with last year's reading in *Money into Property*, which identified London City as the only major office market trading at fair value.
  - In line with the global landscape, we assess more than 80% of APAC markets as trading currently at or below fair value.

Introduction

We are very pleased to present the 36th year of *Money into Property*. The focus of this report is Asia Pacific. We have also published similar reports for the UK, Europe and Global.

The report has three main sections.

The first section provides a detailed review of the year end 2009 investment stock and transaction volumes. Invested stock is defined as investment-grade commercial real estate held by investors.

In the second section, we provide our outlook for 2010 and beyond, combining results from our lenders and investors survey and from our in-depth analysis of the real estate funding environment.

In the final section we build on our forecasts of future market trends and our fair value methodology to provide an assessment of opportunities in real estate markets worldwide.

The appendix provides an overview of definitions and methodologies used.

Historical invested stock trends

Global stock declines in 2009

Global invested stock was down 3.7% in 2009 (Figure 1), when measured at fixed exchange rates, following a 0.7% decline in 2008. In US dollar terms, global stock decreased by 6%. This leaves the global stock just below US$11 trillion (US$10,934 billion) compared with US$11.6 trillion in 2008.

Changes in invested stock globally follow a broad trend. Most advanced economies posted falls, with notable exceptions such as Canada and Australia. The majority of developing markets were meanwhile posting gains in stock levels in 2009. Please see the map in Figure 4 for country-by-country detail. As a precursor to a more in-depth discussion later in the report, the map also illustrates the distribution of the invested stock across the four quadrants.

Europe and US decline, while APAC continues to grow

The largest two regions, Europe and the US, showed significant declines in US dollar terms in 2009 of 13% and 6%, respectively. The global decline would have been more marked if it was not for the APAC region, which grew 8%.

APAC stock tops US$3 trillion for first time

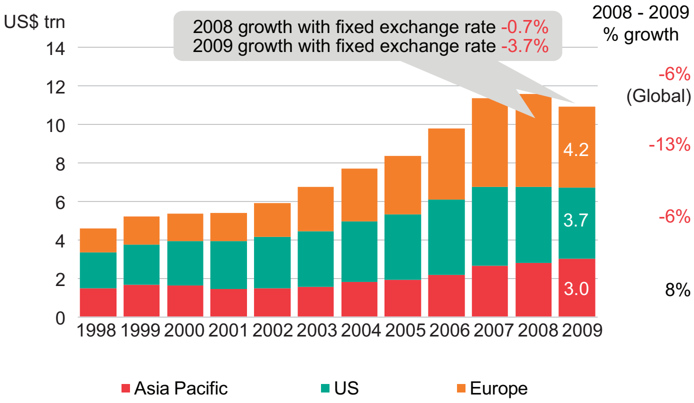
The growth in APAC was supported by governments' fiscal and monetary stimulus measures and a stable financial system, and followed up on seven consecutive years of positive growth (Figure 2). In fact, it took the total invested stock in APAC to more than US$3 trillion for the first time.

Japan, China and Australia are 81% of APAC stock

Taking a closer look at invested stock on a country level, the APAC invested stock is dominated by three markets: Japan, China and Australia (Figure 3); they account for 81% of the APAC total invested stock. Japan, the largest market in the region, is the only APAC market to have an individual invested stock of more than US$1 trillion.

Figure 1

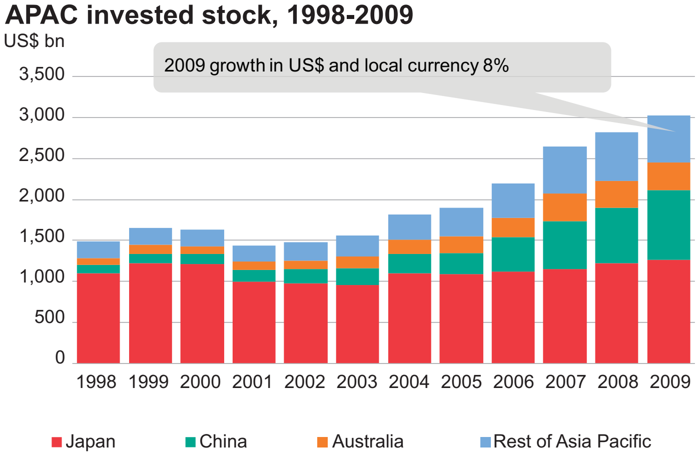
Global real estate invested stock, 1998-2009



Source: DTZ Research

Figure 2

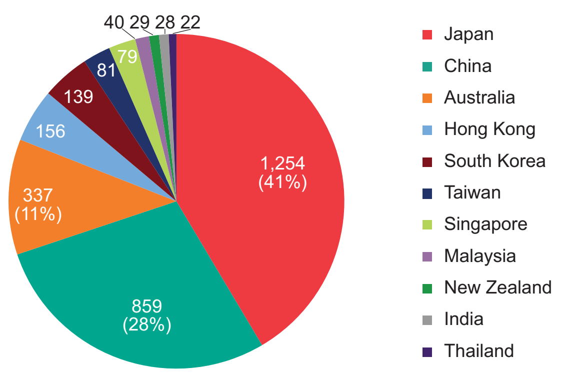
APAC invested stock, 1998-2009



Source: DTZ Research

Figure 3

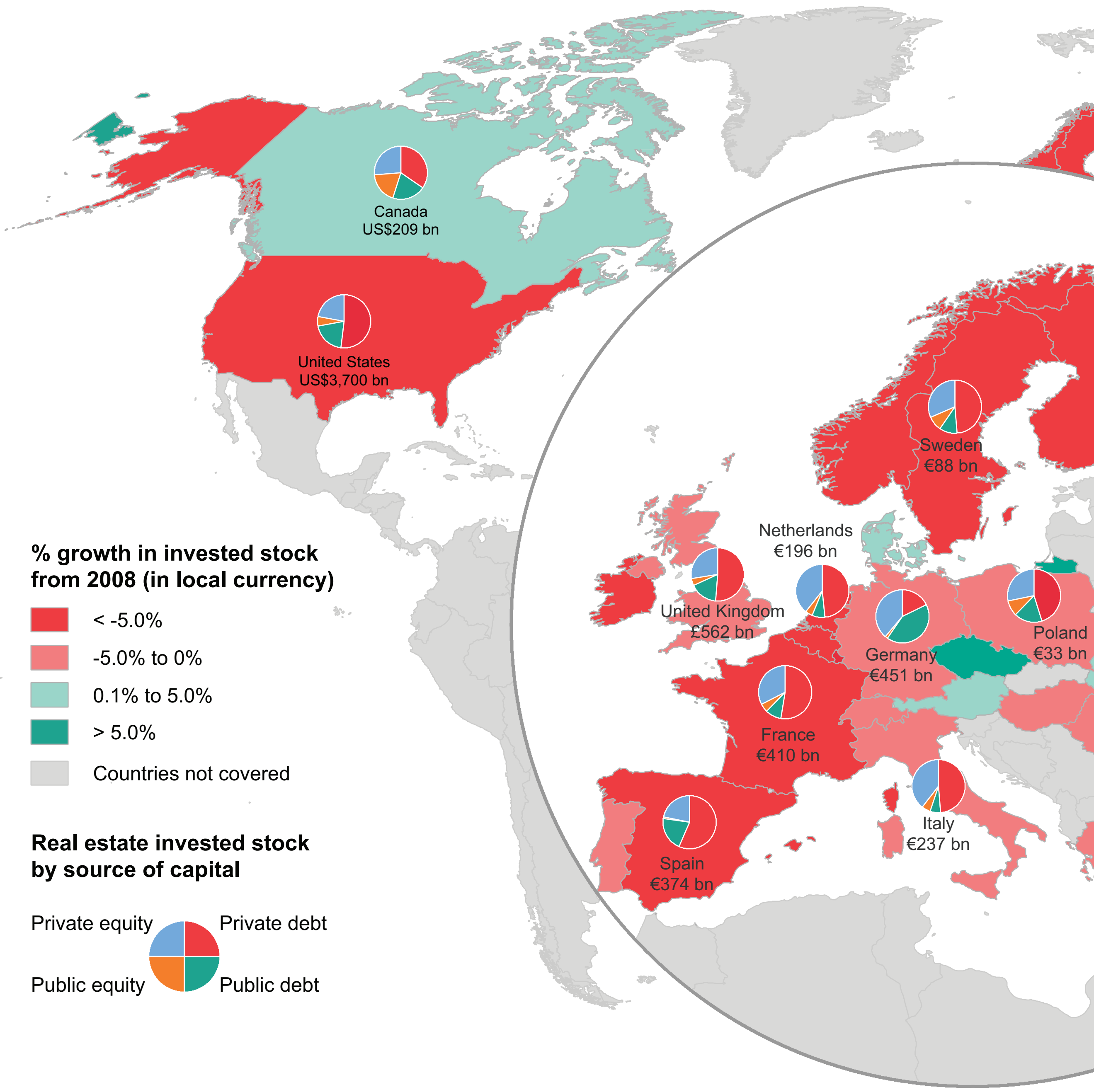
APAC invested stock per country in US$ billion, 2009



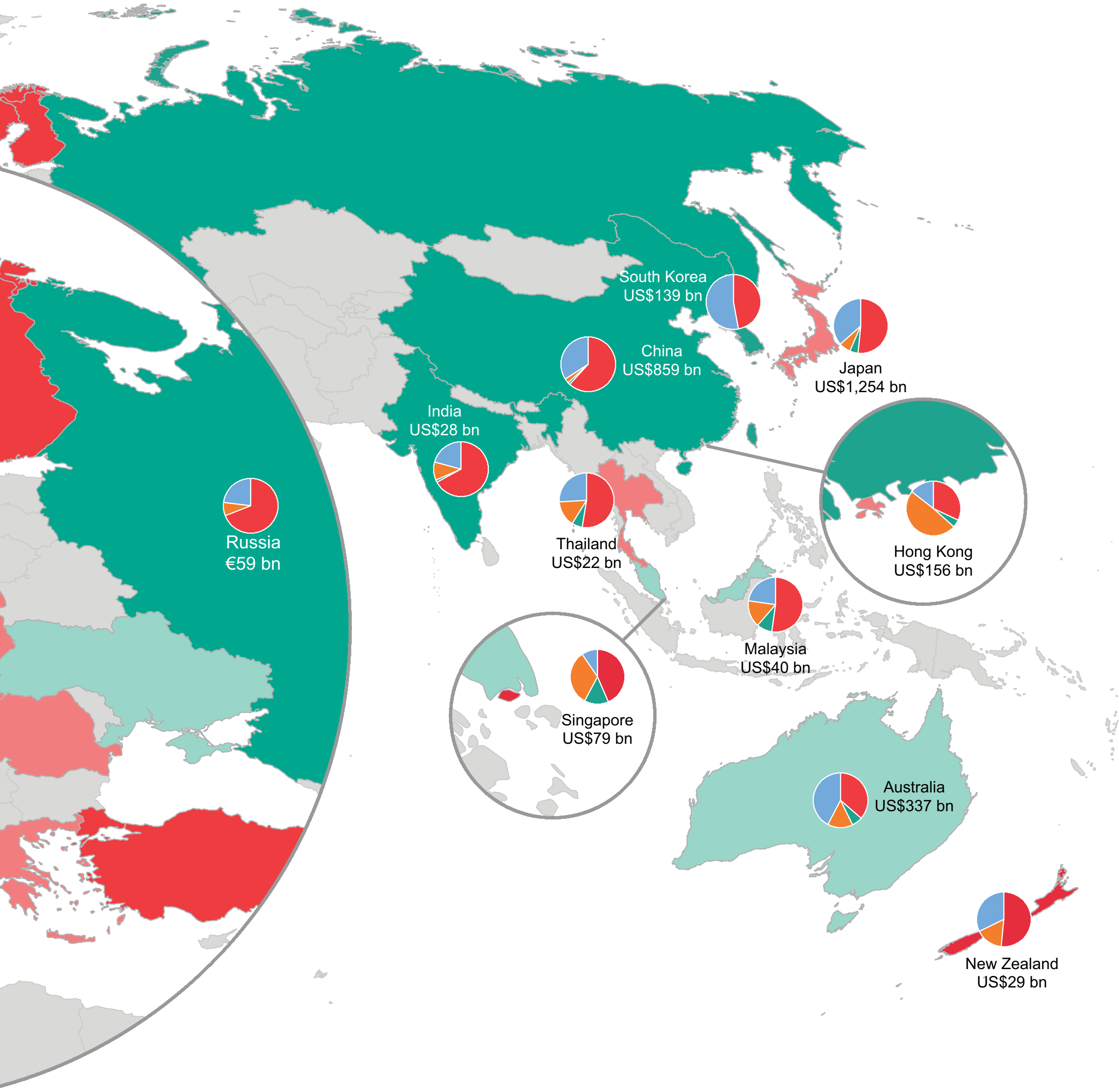
Source: DTZ Research

Figure 4

Global real estate invested stock overview, 2009



Source: DTZ Research


South Korea
US$139 bn
Japan
US$1,254 bn
China
US$859 bn
India
US$28 bn
Russia
€59 bn
Thailand
US$22 bn
Hong Kong
US$156 bn
Malaysia
US$40 bn
Singapore
US$79 bn
Australia
US$337 bn
New Zealand
US$29 bn

Japan continues to decline

Japan continued to struggle in 2009, in line with its slow recovery from economic recession, and has seen a 3% decline in the value of invested stock (Figure 5); notably the rate of decline has slowed from the 14% decline in 2008 published in last year's *Money into Property*.

Other markets showing declines in invested stock in 2009 include New Zealand, Singapore and Thailand, and a marginal decline in Hong Kong.

APAC growth driven primarily by China

On the positive side, India and China stand out with growth in invested stock of 33% and 28% respectively. Australia's growth in invested stock accelerated from the -4% published in *Money into Property* in 2008 to 3% in 2009.

The growth in China, the second largest market in APAC, provided a considerable contribution to overall growth in the region; total APAC growth excluding China was virtually flat (Figure 6).

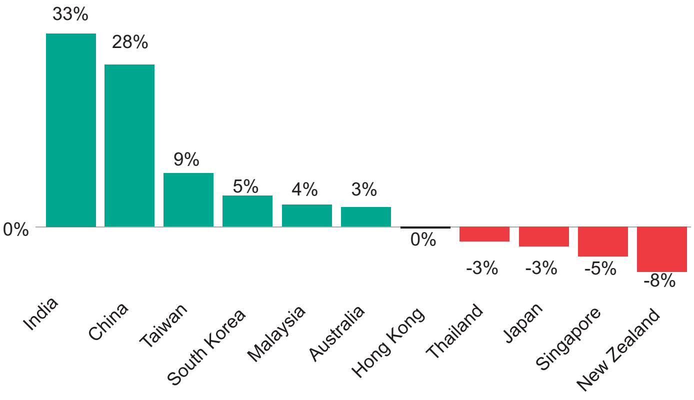
More than fivefold increase in China over last 10 years

The Chinese property market has grown rapidly in recent years reflecting its emergence as a major investment market (Figure 7).This trend has been driven by strong economic growth complemented by the opening up of the Chinese property-investment market to domestic and foreign investors.

Invested stock in India, while still dwarfed by the three largest APAC markets, grew by more than 50 times over the last 10 years, albeit coming from a very low base.

Figure 5

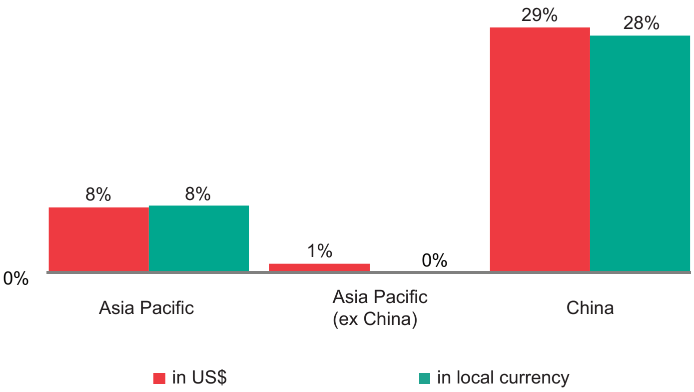
APAC invested stock per country in local currency, 2009



Source: DTZ Research

Figure 6

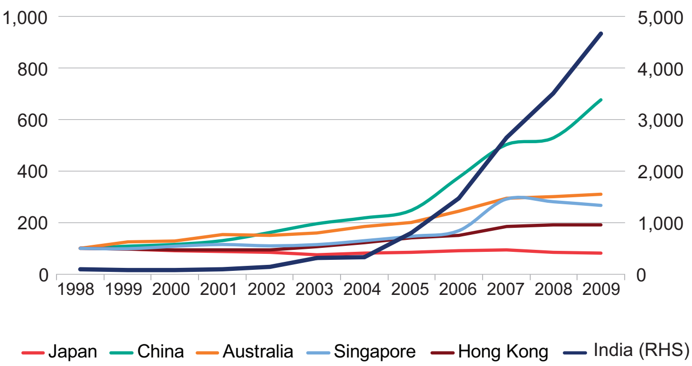
Change in value of invested stock in APAC, 2009



Source: DTZ Research

Figure 7

Growth of invested stock in major APAC markets (Indexed, 1998=100)



Source: DTZ Research

Quadrant breakdown

Global declines in all four quadrants

For the first time, all quadrants of global invested stock – public equity, private equity, public debt and private debt – declined. Private equity remains the hardest hit, falling 14% in 2009 (Figure 8). Over the last couple of years, private equity has lost 20% of its value and public equity, which had a large correction in 2009, is down 13%. Meanwhile, public debt barely changed, though it has declined 5% this year, while private debt has increased 9% since 2007.This confirms previous findings that debt corrections lag equity and usually come after much equity has been removed from the invested stock.

But increases in all four quadrants in APAC

The relative strength of the APAC region is highlighted by growth in all four quadrants last year, in marked contrast with the global picture (Figure 9).

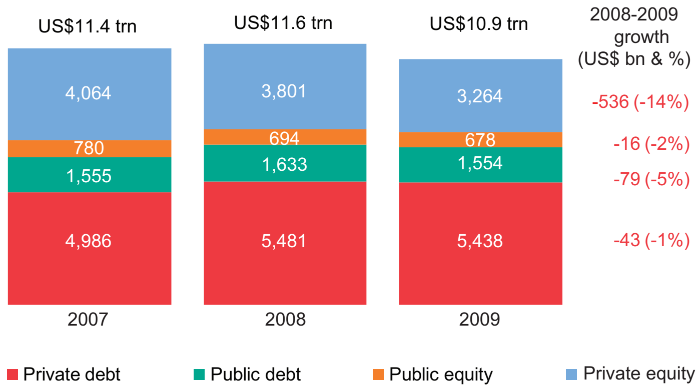
With banks encouraged to continue lending, particularly in China, private debt increased by 11% during 2009. The increase in bank lending in China formed part of its government's US$586 billion stimulus package, which equated to 13% of GDP[1]. However, growth in bank lending to property is expected to moderate in 2010 as stimulus measures are gradually removed.

Despite the CMBS markets remaining constrained public debt increased by 7% primarily due to the increase in issuance of property company bonds in China, Japan and Singapore.

The stabilisation in the REIT markets following a tumultuous 2007 and 2008 and increased transactional activity by private investors meant that public and private equity grew by 6% and 3% respectively.

Figure 8

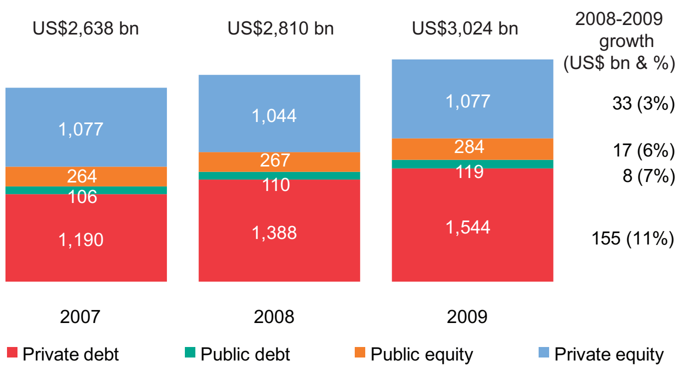
Global invested stock by source of capital, 2007-09



Source: DTZ Research

Figure 9

APAC invested stock by source of capital, 2007-09



Source: DTZ Research

1 Source – United Nations Economic & Social Commission for Asia and the Pacific (UNESCAP)

Global LTV ratios increase to record levels

The most marked development within global invested stock is the rise in outstanding LTV ratios. Although there was an absolute decline in debt levels in 2009, it was at a lower rate than the overall level of stock decline. Consequently, the proportion of debt within invested stock rose in 2009 to record levels (Figure 10).

Debt as a proportion of stock has been rising slowly since the late 1990s. Its share has risen more rapidly in the last couple of years as equity has been eroded since the downturn after 2007. The global average LTV ratio has risen by 6ppt to 64%, since 2007.

APAC LTV ratio lowest of any region

The trend of increasing LTV ratios has not bypassed APAC, and the region has seen a rise of 6ppt in LTV ratios since 2007. We note, however, that at 55% of total invested stock, APAC is significantly less indebted than North America and Europe.

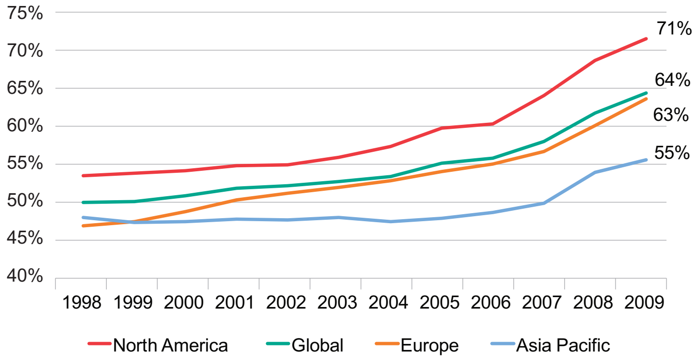
But India and China at European debt levels

Taking a closer look at the country-level picture, India and China have the highest LTV ratios in the region; at 69% and 63% respectively, their LTV ratios are similar to the European norm (Figure 11).

Taiwan, Hong Kong, Australia and South Korea are at the other end of the spectrum, with LTV ratios comfortably below 50%.

Figure 10

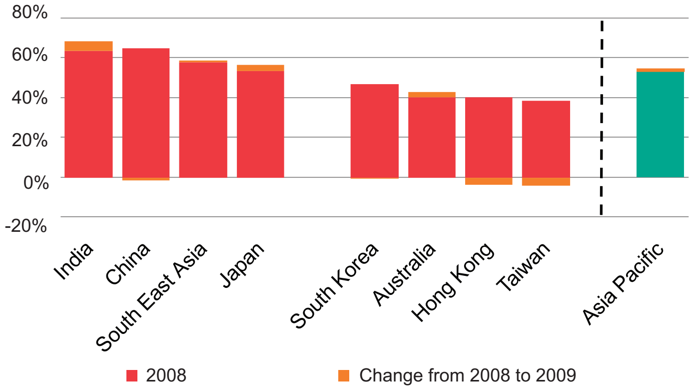
Total debt as a percentage of invested stock by region



Source: DTZ Research

Figure 11

Total debt as a percentage of APAC invested stock, 2008-09



Source: DTZ Research

Transaction volume review

Global recovery in transaction volumes

The investment market stabilised through 2009, despite a 35% year-on-year decline in global investment volumes. There has been a rise in transactions globally from a low in Q1 2009, when they were 82% below their peak in Q3 2007. Quarterly volumes by year-end 2009 were up 132% from the start of the year (Figure 12). However, they are still a quarter below their long-run average. At the same time, investment transactions were only 2% of the global stock in 2009, compared with 5% at the height of the boom. This highlights the degree to which liquidity in stock dried up in 2009.

Sharp rise in APAC's share of global transactions

Investment volumes in APAC recovered strongly during 2009, up 34% from 2008 (Figure 13).

The relative strength of the APAC region is reflected in the sharp rise in its share of global transactions, from 17% in 2007 to 39% in 2009, reaching a peak of 45% in Q3 2009.

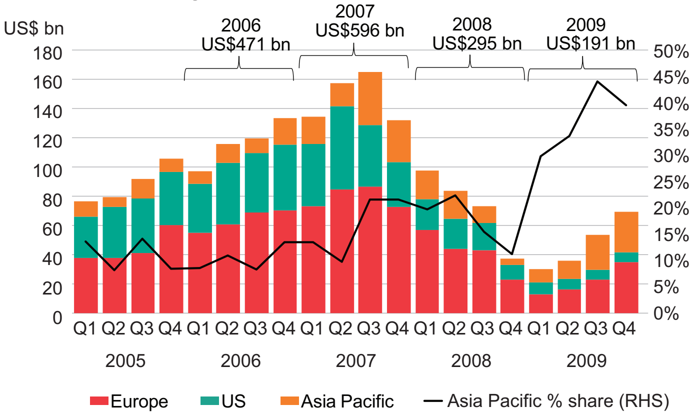
China at well over half 2009 APAC volumes

Figure 13 illustrates that 2009 was exceptional, in the high percentage (56%) of APAC deal volume coming from China.

While transaction levels in China may suffer in the near-term from government measures to limit bank lending, they may benefit from other changes in government policies, such as allowing the entry of domestic insurance companies to the local property investment market[2].

Figure 12

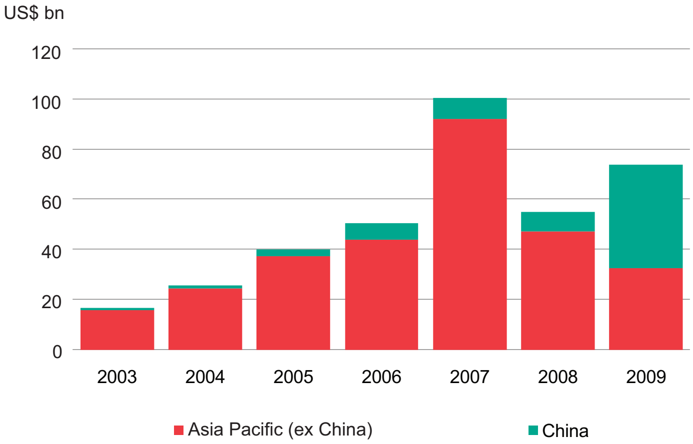
Global quarterly transaction volumes, 2005-09



Source: DTZ Research, REIS, Property Data

Figure 13

APAC annual transaction volumes, 2003-09



Source: DTZ Research

Box 1: invested stock and transaction volumes –

To avoid confusion, we explain the differences between changes in invested stock and transaction volumes

Invested stock is the value of investment holdings in commercial real estate in the relevant country. As a consequence the invested stock should:-

a) Rise as it rises as a proportion of the investible universe as corporates sell property to investors
b) Rise as new developments are unveiled and added to the invested stock
c) Rise with the general rise in capital values
d) Be negatively impacted by depreciation and retirement of stock.

Transaction volumes represent the buying and selling of property and are independent of stock. For example there can be a lot of transactions, but if price does not change and the property is already in the invested stock figures then there will be no change in invested stock. The only change is the owner of the property, which could trigger a change in quadrant (say public to private). Higher transaction volumes do indicate interest in the market, they tend to imply more development activity or capital values are rising.

2 *Insurance Companies to Lead the Way*, DTZ Research, 28 January 2010

Cross-border volumes down 59% in 2009

2009 was another dreadful year for global cross-border investment volumes, which declined 59%. Cross-border flows have plummeted 83% since their peak in 2007 (Table 1).

Domestic investors dominate APAC

As a result, domestic investors dominate across most of the regions. Within the APAC region, they account for more than 90% of all activity, with private individuals the first to move back into the transactional markets, taking advantage of weaknesses in listed and unlisted funds.

Growth in APAC investments into Europe, supported by Asian sovereign wealth funds

The only bright spot in the global cross-border trends in 2009 were APAC flows into Europe, which increased by 31% (Table 1).

This increase was supported by the growing cross-border activity of Asian-based sovereign wealth funds, looking to diversify from predominately domestic activities to a wider global strategy. The South Korean National Pension Service, for example, embraced this approach in 2009 with high-profile acquisitions including the HSBC tower in London and the Sony centre in Berlin.

Table 1

Global real estate cross-border investment, 2007-09

US$ bn			2007	2008	2009	2007-2008	2008-2009
Asia Pacific (APAC)	to	EU	5.7	2.4	3.2	-58%	31%
	to	US	13.7	1.2	0.05	-92%	-96%
	to	APAC	12.5	4.0	3.6	-68%	-8%
Europe (EU)	to	APAC	5.7	5.5	0.9	-3%	-84%
	to	US	11.7	4.9	2.8	-58%	-44%
	to	EU	95.1	48.4	14.9	-49%	-69%
US	to	EU	43.0	8.6	1.8	-80%	-79%
	to	APAC	13.7	4.0	0.6	-71%	-86%
Middle East	to	EU/ APAC/ US	9.6	9.8	2.6	2%	-74%
Interna-tional	to	EU/ APAC	N/A	N/A	5.9		
Total			**210.8**	**88.8**	**36.2**	**-58%**	**-59%**

Source: DTZ Research, RCA, REIS, Property Data

Survey results

Lenders show increase in confidence

Our European lender and global investor surveys reflect respondents' expectations for real estate markets. While the lender survey has been focused on European players, we include its results in this APAC-focused report as an indication of global sentiment.

In this year's survey, European lenders are generally displaying positive sentiment for 2010 and 2011 (Figure 14). Notably, we see a significant improvement in expectations for 2010 compared to our survey from last year: in this year's survey, two-thirds of lenders said they are expecting to increase gross new lending in 2010 and none expect to reduce lending in 2010; in last year's survey, about half the lenders expected that they will be decreasing gross lending volumes in 2010.

Gradual improvement in LTV ratios

While most lenders expect to increase gross lending, LTV ratios are not expected to improve dramatically from current levels. Nevertheless, more lenders expect LTV ratios to increase rather than contract, in contrast with last year's survey where little movement was expected either way. The proportion of respondents expecting LTV ratios to increase in 2010 has more than doubled compared with a year earlier (24% compared with 11%). One-third of lenders said they expect LTV ratios to further increase from 2010 to 2011 (Figure 15).

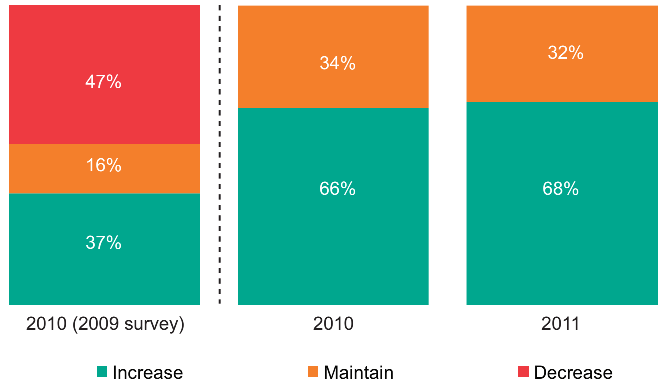
Legacy loan performance expected to improve

We also asked how lenders' loans are expected to perform as reflected by arrears, defaults and losses. Last year, no one expected 2009 to improve on 2008, and lenders were not expecting much respite in 2010.

Looking at this year's replies, the proportion of respondents expecting things to worsen this year has roughly stayed the same. However, about double the number of lenders expect things to improve (a decrease in arrears, etc.). Importantly, the majority of respondents expect default numbers and losses to decrease in 2011 (Figure 16).

Figure 14

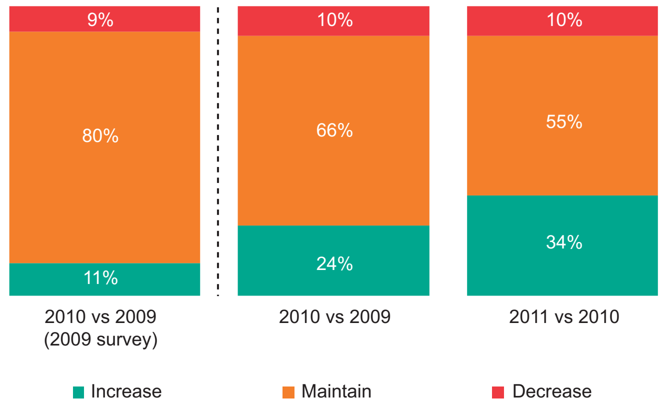
Lenders survey – expectations for gross new lending



Source: DTZ Research

Figure 15

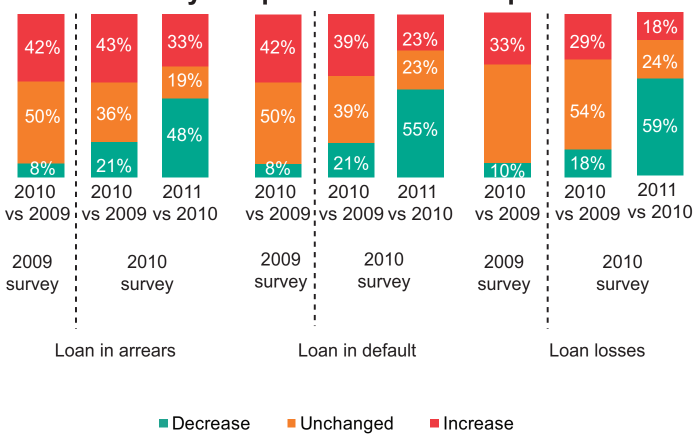
Lenders survey – expectations for LTV ratios



Source: DTZ Research

Figure 16

Lenders survey – expectations for loan performance



Source: DTZ Research

Investors turn positive on activity levels

Investors are also becoming more confident about the market. Asked about their own net investments in real estate in 2010, 76% expect an increase, rising to 94% in 2011 (Figure 17). This compares positively with last year's survey, in which 45% expected to increase allocations in 2009 and 70% hoped to in 2010.

We also asked investors how active they expected the market to be. In a near total reversal of last year's results, we found that an overwhelming number of respondents were positive about investment transaction volumes for 2010 compared with an overwhelmingly negative number in 2009. Around 80% of investors in 2009 were expecting volumes to fall across all regions worldwide. In 2010, however, in some regions more than 90% (APAC) are expecting to see volumes rise, and the positive expectation never falls below 75%, the lowest being in Europe (Figure 18).

But views on near-term relative performance are mixed

When comparing direct real estate to other asset classes, more than 80% of investors expect direct real estate to outperform bonds in the next year, but only 42% expect outperformance vs. equities. In comparison with other types of property investment opportunities there is a near 50:50 split in respondents' views concerning which will perform best (Figure 19).

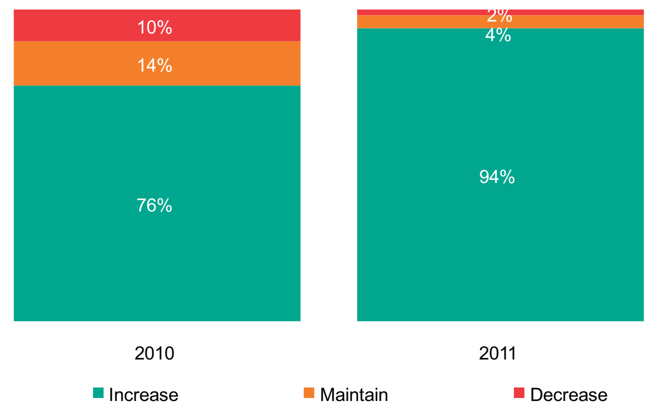
Box 2: 2010 DTZ research survey response

A total of 32 European respondents participated in our lender survey, representing US$418 billion of lending, up 50% from the previous year.

The investors survey comprised 95 European and Asian Pacific respondents representing US$765 billion of commercial real estate investments around the world, up 10% from the previous year.

Figure 17

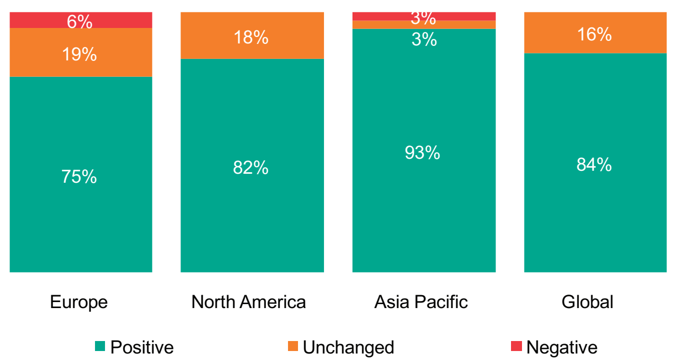
Investors survey – net investment expectations in real estate



Source: DTZ Research

Figure 18

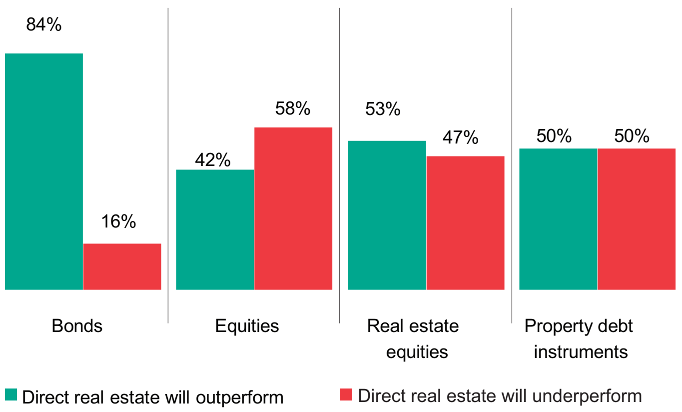
Investors survey – expectations for investment volumes



Source: DTZ Research

Figure 19

Investors survey – direct real estate performance



Source: DTZ Research

The funding environment

Sufficient new equity capital available to cover the global debt funding gap

The more positive outlook from both lenders and investors needs to be examined in the context of our earlier comments on the increase in LTV ratios and the resulting concerns regarding the health of property markets worldwide. We have now extended our original in-depth analysis of these issues in Europe[3] to include the APAC markets as well.

The crux of the issue is that much of the outstanding debt is due to be refinanced in the next two years. For many investors, the amount available for refinancing (taking into account current LTV ratios) is likely to be below the balance of the original loan. We define this as the debt funding gap.

Based on our base-case scenario, the debt funding gap totals US$207 billion in the next two years across Europe and APAC combined.

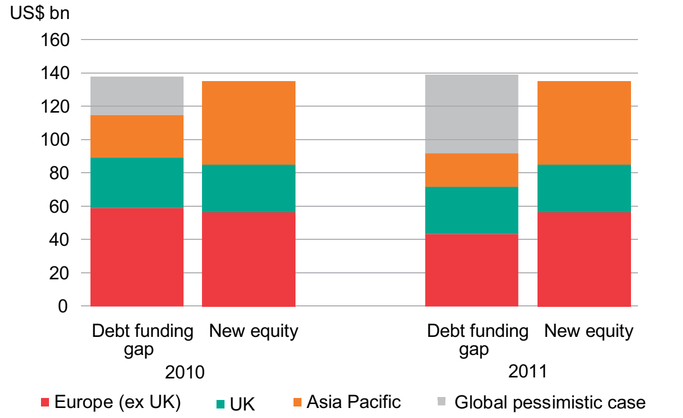
But, we estimate[4] that there is more than sufficient new equity capital available to address the issue - US$270 billion for the next two years. Even in our pessimistic case, where the gap increases to US$ 277 billion, equity capital is a close match (Figure 20).

Available equity in APAC significantly larger than the debt funding gap in the region

In our base-case scenario for APAC, the debt-funding gap across the region totals US$46 billion in the next two years, rising to US$58 billion in our pessimistic case. When stacked against the level of equity targeting the region[5], which we estimate to be close to US$100 billion for the next two years, the level of equity is significantly larger than the funding gap, even when based on a pessimistic scenario (Figure 21).

Figure 20

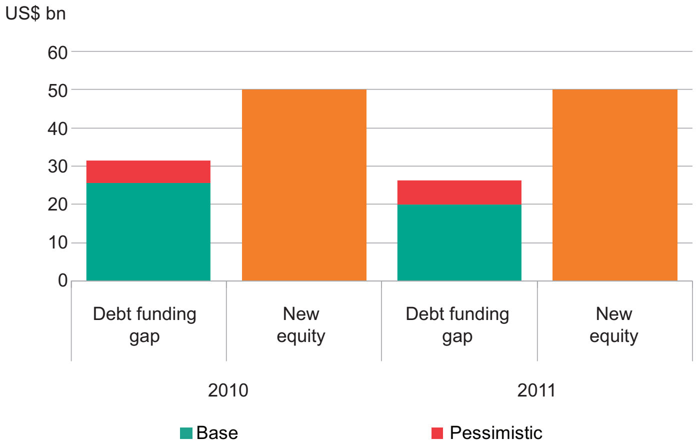
New equity and debt funding gap – global (excl. US)



Source: DTZ Research

Figure 21

New equity and debt funding gap - APAC



Source: DTZ Research

3 *European Debt Funding Gap*, DTZ Research, 29 March 2010
4 *Great Wall of Money*, DTZ Research, 16 December 2009
5 *Great Wall of Money*, DTZ Research, 16 December 2009

APAC debt funding gap is concentrated in Japan

Taking a closer look at APAC, we identified a potential debt funding gap in only three markets: Japan, Australia and New Zealand, reflecting the relatively large corrections in capital values recorded in these markets since their peaks (Figure 22). Importantly, a total of 95% of the overall debt-funding gap we identified in APAC is concentrated in one country – Japan.

Notably, our assessment does not foresee the emergence of a debt funding gap in China. While some market commentators have raised the concern that property prices in China are reflective of a lending-fuelled asset bubble with a risk of bursting in the near term, our base case forecast for China does not incorporate such a scenario.

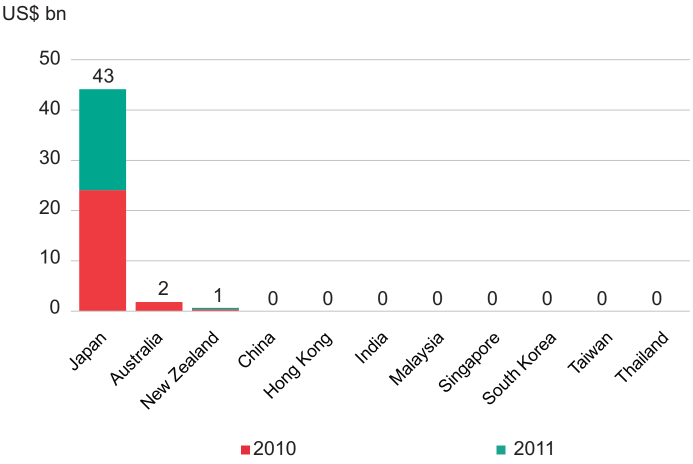
The debt funding gap in Japan is low as percentage of stock

We take comfort from the fact that as a percentage of stock, the debt-funding gap in Japan is just 4% of its invested stock, markedly lower than in markets such as the UK or Spain. It is even lower in Australia and New Zealand (Figure 23).

Overall, the legacy debt issue is not as big a problem as we originally feared because sufficient new equity capital is available. This is true for Europe, as well as for APAC where the challenge is even less pronounced. With that in mind, we share the more positive outlook of our survey participants.

Figure 22

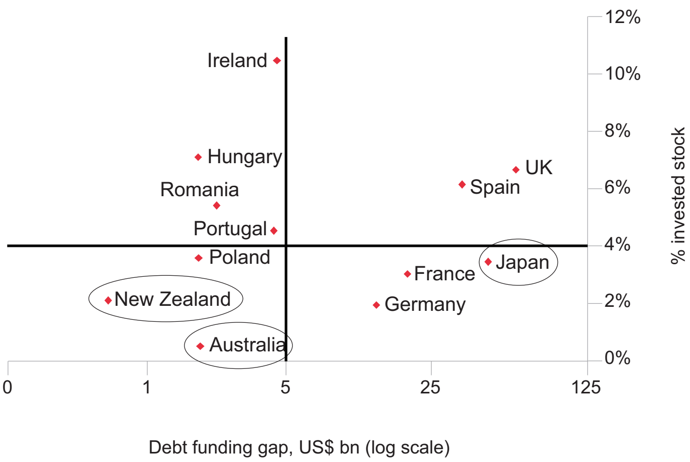
Debt funding gap by country in APAC



Source: DTZ Research

Figure 23

Debt funding gap as a percentage of invested stock



Source: DTZ Research

Forecasts of invested stock

Our forecasts are based on the assumption of continued economic recovery

We base our forecasts for real estate markets on a baseline forecast for the macro-economic environment provided by Oxford Economics. Notably, these macro-economic assumptions project a sustained economic recovery worldwide, and do not assume any further dramatic disruptions to the global economic recovery, as a result of either a major sovereign debt event or other market imbalances. The macro-economic assumptions for APAC are outlined in Table 2.

Global stock forecasted 12% up in two years

We forecast real estate invested stock to rise 4.5% in 2010 and 6.8% in 2011. This amounts to 12% over the next two years. Despite these strong forecasts, stock does not recover above the US$12 trillion level until 2011 (Figure 24). The forecasted growth is made up of an estimated 12.3% rise in Asia Pacific invested stock, a 3.9% rise for Europe, but a further 1.2% decline in the US.

For APAC invested stock, we forecast a 12.3% increase in 2010 and 12.5% in 2011. This amounts to 26% over the next two years.

As outlined in Box 1 on Page 9, there are four variables that move invested stock. We can estimate the expected capital value uplift via our global forecasts and the increase in stock from completion of projects using our development pipeline figures. Due to a lack of comparable data, we conservatively assume increases in invested stock from corporate divestment is neutralised by depreciation impacts.

Table 2

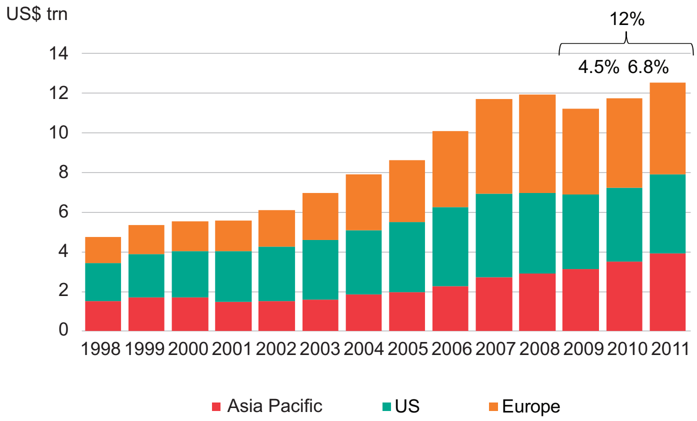
APAC economic assumptions, annual average 2010-14

	Japan	China	Australia	US	Europe top 3 avg
GDP growth	1.8	9.1	3.4	3.1	2.1
Inflation	0.3	3.5	2.5	2.5	1.7
Bond yields					
Current	1.3	3.4	5.7	3.8	3.4
End 2014	2.3	6.6	5.5	5.2	4.7

Source: Oxford Economics

Figure 24

Forecasts for global real estate invested stock, 1998-2011



Source: DTZ Research

China to move to number two in global ranking by 2011 – surpassing both UK and Japan

If we take a closer look at stock forecasts on an individual country basis, we note that China is forecasted to become the second largest real estate market globally, surpassing both the UK and Japan during the next two years (Figure 25). This is a remarkable trend for a market that did not feature yet in the global top five in 2007.

China vs. Japan: what a difference a decade makes

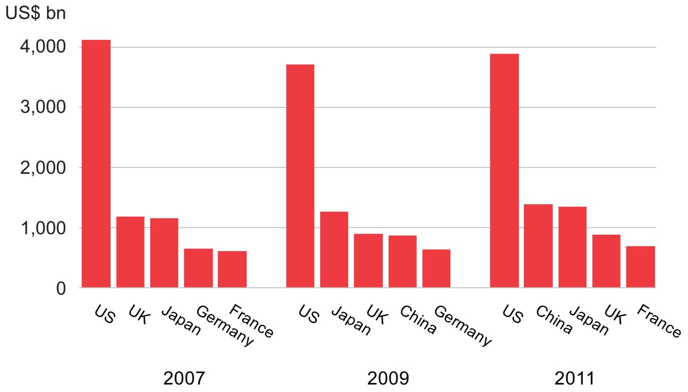
The strong growth in Chinese invested stock is in stark contrast to the picture in Japan (Figure 26).

Growth in Japan has been anaemic at best, and the last 10 years have seen stagnation in the value of invested stock. The Japanese property market is now worth JPY118 trillion, down 17% from JPY142 trillion in 1998.

In contrast, ten years ago China's invested stock was less than 10% of Japan's invested stock. It is now at nearly 70%, and we forecast it to rise to 110% by 2012.

Figure 25

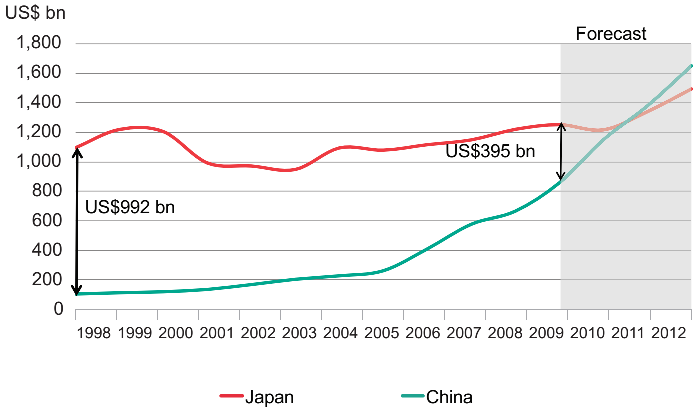
Top five countries by invested stock, 2007 and 2009 historical and 2011 forecast



Source: DTZ Research

Figure 26

Growth in invested stock for China and Japan, 1998-2012



Source: DTZ Research

Fair value forecasts

Fair value analysis identifies opportunities globally

Our fair value analysis, now covering 172 global city sectors, gives a view on property pricing by comparing expected total returns with required risk-adjusted rates of return (for more on our fair value methodology, please refer to the Appendix).

Capital growth led by the UK over the next two years, with APAC close behind

The projected rise in value of invested stock over the next two years, outlined in the previous section, is partly based on our forecasts for growth in capital values worldwide (Table 3). We expect global capital values to rise 4.1% per annum over the next two years. The UK leads in forecasted capital value growth, particularly in offices, with APAC close behind.

US and APAC lead total returns over a five-year horizon

However, if we move to a five-year forecast period and a total-return perspective, the UK lead is taken over by the US and APAC as, medium term, we are expecting lower rental growth and a slight outward yield movement for the UK (Figure 27).

Notably, our forecasts for APAC show total returns much more in line with the global average than it has been in recent years, implying that the period of excess returns for the APAC region is drawing to a close. Compared to other regions, APAC has seen a much less dramatic downward adjustment of capital values in the 2007-09 period. Therefore, yields have remained at a lower level providing less upside going forward from potential yield tightening.

Table 3

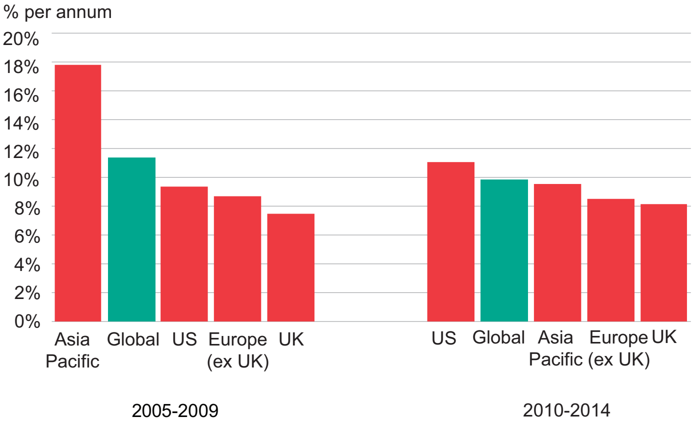
Forecast capital value growth by region, 2010-11

Region	All	Office	Retail	Industrial
APAC	5.6%	6.2%	5.7%	4.0%
Europe	4.1%	4.7%	4.4%	2.2%
US	2.7%	2.4%	3.8%	1.3%
Global	**4.1%**	**4.6%**	**4.4%**	**2.4%**

Source: DTZ Research

Figure 27

Total returns 2005-09 and forecasts for 2010-14



Source: DTZ Research

Nearly 90% of markets at or below fair value now – up from 10% a year ago

Comparing the forecasted total returns with the risk-adjusted expected rates of return, we come up with a view on current property price levels, taking, so to speak, a reading of the market temperatures.

We classify markets into three categories:

HOT: price levels below Fair Value; investors can expect to earn excess risk-adjusted returns in these markets

WARM: price levels at Fair Value; investors can expect to earn adequate risk-adjusted returns in these markets

COLD: price levels above Fair Value; investors should expect to earn below-adequate risk-adjusted returns in these markets

As always, we note that the fair value classifications focus on prime assets and a five-year investment horizon, and hold for the market overall; individual transactions may provide opportunities and risks beyond the average market view.

In last year's *Money into Property* report, we highlighted that "... many markets around the world will only reach fair value in the second half of 2010." Also, we earmarked London City offices as the only major office market traded at fair value at the time.

With the benefit of hindsight, these assessments proved to be correct. In fact, as we expand our analysis retrospectively on a larger number of markets, we confirm that only 10% of markets were at or below fair value (**WARM** or **HOT**) as of Q1 2009 (Figure 28).

The picture this year is, indeed, much changed. With the continuing price corrections during last year on the one-hand, and the forecast for improving returns on the other hand, price levels at close to 90% of 172 covered markets are currently at or below fair value (**WARM** or **HOT**).

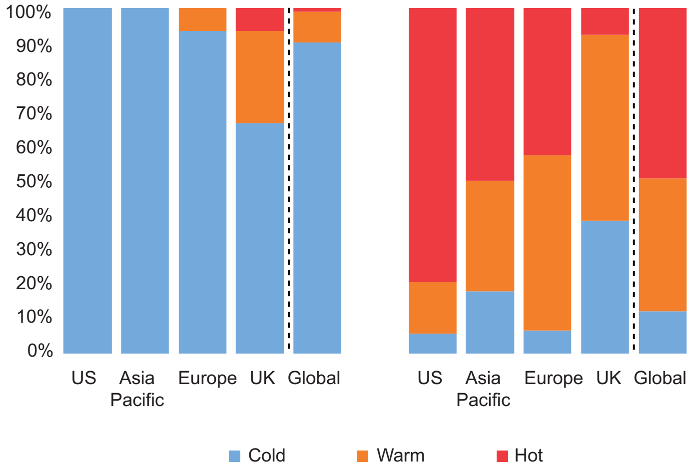
Spoiled for choice

Taking the top 25 office markets worldwide as an example, we find that 13 of these are currently trading below fair value and nine are trading at fair value (Figure 29). With so many markets offering good prospective returns, investors may well feel spoiled for choice in the coming year and the 'class of 2010' may well prove an outstanding vintage for investment managers.

Seven of eight APAC markets in the global top 25 office markets are at or below fair value. The only exception is Singapore, which is indicated at above fair value.

Figure 28

Change in fair value views Q1 2009 (left) versus Q1 2010 (right)



Source: DTZ Research

Figure 29

Top 25 global office markets – fair value classification, Q1 2010

	US	APAC	Europe
HOT	New York Los Angeles Chicago Houston San Francisco	Beijing Shanghai Sydney Melbourne	London City Paris Brussels Moscow
WARM		Tokyo Hong Kong Mumbai	London West End Berlin Rome Madrid Frankfurt Edinburgh
COLD		Singapore	Barcelona Munich

Source: DTZ Research

2010 Money into Property - Value Opportunities

More than 80% of APAC markets at or below fair value now – up from 50% a year ago

The global picture is mirrored in APAC: in Q4 2008, only 35% of 50 sector markets in our coverage universe were trading at or below fair value; in Q1 2010, 84% of markets are traded at or below fair value, including 50% which are classified as **HOT** (Figure 30), with current price levels below fair value.

Opportunities exist across sectors and geographies in APAC

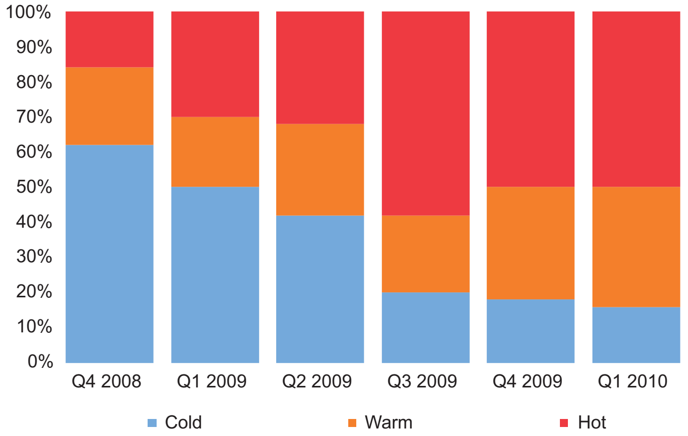
Looking at the markets in Asia Pacific in more detail we can see that there are current opportunities for investors across all three sectors with office and retail looking particularly attractive at this point in time. The Chinese and Indian cities dominate the **HOT** and **WARM** categories although there are also opportunities in the more mature, developed locations such as Sydney offices and Singapore retail (Figure 31).

But a final note of caution

While we'd like to end this year's *Money into Property* report on a high note, a word of caution is called for. Consensus economic forecasts, on which our analysis is based, foresee the world returning to sustainable growth. However, there are still quite a few clouds in the macro-economic horizon; any major disturbance created by these clouds may in turn delay or even reverse the recovery in property markets, and erode future returns.

Figure 30

Change in APAC fair value views Q4 2008 to Q1 2010



Source: DTZ Research

Figure 31

APAC markets – fair value classification, Q1 2010

	Office	Retail	Industrial
HOT	Bangalore Beijing Chengdu Guangzhou Melbourne Perth Shanghai Sydney Tianjin	Auckland Bangalore Bangkok Beijing Chengdu Chennai Delhi Gold Coast Guangzhou Mumbai Perth Shanghai Singapore	Melbourne Shanghai
WARM	Bangkok Brisbane Chennai Delhi Gold Coast Hong Kong Mumbai Tokyo	Hong Kong Melbourne Sydney	Brisbane Gold Coast Hong Kong Perth Sydney Singapore
COLD	Auckland Jakarta Kuala Lumpur Singapore Taipei	Brisbane	Auckland Taipei

Source: DTZ Research

Definitions

Invested stock refers to the value of investment grade commercial real estate held by different investor groups. The total value of the real estate capital market is defined as the total volume of commercial real estate debt outstanding plus the total value of equity in commercial real estate holdings.

Private debt refers to the total outstanding loan value to the real estate sector that is not held in the form of listed financial securities. Loans granted and subsequently securitised prior to maturity are not included in this data. Private debt relates to the activity of all participants involved in the provision of commercial real estate loans including institutional lenders, commercial bank lending and insurance companies.

Public debt refers to the total outstanding loan value to the real estate sector held in the form of listed financial securities, i.e. property company corporate bonds, covered bonds with commercial property as collateral and commercial mortgage backed securities (CMBS).

Private equity refers to the equity proportion of the commercial real estate holdings of insurance companies, pension funds, private property companies, high net worth individuals and unlisted property vehicles. The debt proportion has been stripped out by applying a different gearing ratio for each investor group.

Public equity refers to the equity proportion of the commercial real estate holdings of listed property companies, REITs and other listed property vehicles. The debt proportion has been stripped out by applying a different gearing ratio for each investor group.

Gearing (or LTV) ratio is defined as debt/(debt+equity). The various investor groups have different gearing levels based on their risk profile, investment strategy, as well as their capital sources.

Investment volumes refer to the total value of investment transactions in the commercial direct real estate market. Hotel and residential deals are excluded from the analysis.

Money into Property methodology

Private debt allocation In order to capture the value of commercial real estate loans issued by domestic banks to fund cross-border investment and likewise by foreign banks to fund domestic property investment, private debt is allocated based on the pattern of cross-border investment transactions.

Cross-border allocation in invested stock The value of the commercial real estate held by different investor groups is allocated based on the location of the property rather than the origin of investor.

Currency conversions Invested stock and its components are converted by using the average quarterly exchange rate for each year under review.

Fair value methodology

The DTZ fair value research programme was launched in mid-2009, and has now been rolled out for all markets covered by DTZ forecasts.

Fair value is the value at which an investor is indifferent between a risk free return and the expected return from holding property, taking into account the extra risk of investing in the property asset class.

When the property price is at fair value, an investor is being adequately compensated for the risk taken in choosing to purchase real estate; similarly, when the property price is below the fair value price, an investor is being more than compensated for the risk taken in choosing to purchase real estate.

When buying at or below fair value, an investor does not necessarily buy at the bottom of the market.

Our fair value analysis focuses on prime assets and a five-year investment horizon, and hold for the market overall; individual transactions may provide opportunities and risks beyond the average market view.

For more information see the note DTZ Fair Value Estimates – Methodology and Examples at www.DTZ.com

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