Money into Property
Asia Pacific 2012
Growth expands beyond China

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- Despite a weaker external environment, Asia Pacific property markets continued to surge ahead in 2011, helping set a new record for global invested stock and overtaking North America in the process to become the second largest region globally.
  - Asia Pacific showed 13% growth in invested stock in 2011, compared to an 8% increase in European stock and no growth in North America. A weak US dollar boosted growth across all other markets.
  - Within Asia Pacific, China continued to power regional growth, although at a slower rate than last year. As growth in China moderated, the other markets picked up pace. Taiwan, Malaysia, Hong Kong and Singapore all grew more strongly than China in 2011.
- Asia Pacific saw a decline in overall transaction volumes in 2011 mainly due to a weak year in Japan and no growth in China. Intra-regional investment grew as fund managers increased their exposure to China and generally sought more opportunities within the region.
- Our global investors' and lenders' surveys indicate that market players are generally less optimistic compared to one year ago; but sentiment in Asia Pacific is less negative than in other regions.
  - In marked contrast to EMEA and North America, a large proportion of lenders expect to increase new lending in Asia Pacific, reflecting less tight lending conditions and a stable economic outlook in the region.
  - Investors are willing to cross borders in search of opportunities; China and the US are the main focus for new funds. However, a shortage of prime assets for sale continues to hinder investment activity.
- Looking forward, we expect Asia Pacific to continue to propel global growth in invested stock over the next few years, edging closer to Europe in absolute value.
  - Despite some downside risk from anti-inflation policies, we expect invested stock in Asia Pacific to continue to grow, driven by a strong development pipeline. Our downside scenario, based on a eurozone break-up, would see Asia Pacific overtake Europe to become the most invested region more quickly than expected.
  - Transaction volumes are expected to decline in Asia Pacific in 2012, as caution prevails. Nevertheless, Asia Pacific continues to offer investors plenty of attractive opportunities with 24 HOT markets and 23 WARM markets providing investors with strong capital growth potential.

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Introduction

We are pleased to present the 38th year of *Money into Property*. The focus of this report is Asia Pacific. We have published similar reports for Europe and the UK, together with a Global summary report. This report has three main sections.

The first section provides a detailed review of year end 2011 invested stock and transaction volumes. Invested stock is defined as investment-grade commercial real estate held by investors. Invested stock is differentiated from owner occupied real estate, both investment and non-investment grade (Figure 1 and Box 1). A large share of owner occupied stock is non-investment grade and therefore not of interest to investors. In fact, 36% of the global total stock is considered to be non-investable. The majority of investable stock (which is the focus of this report) is already invested (Figure 2).

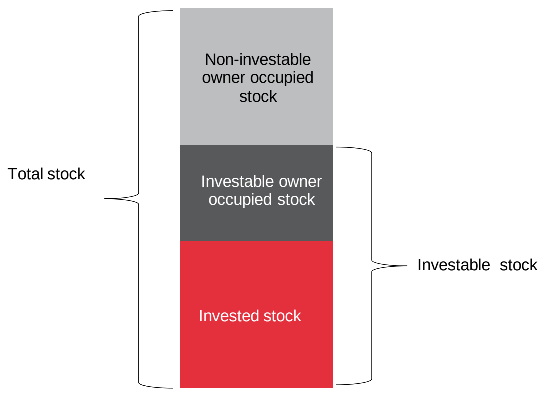
In the second section we share the findings of our investors' and lenders' surveys which were undertaken between February and March 2012. The surveys provide an insight into current sentiment and together with our Fair Value methodology provide an indication of opportunities in real estate throughout the region.

In the final section we provide our outlook for invested stock and capital flows in 2012 and also consider key policy changes and their potential impact on the markets.

The appendix provides an overview of definitions and methodologies used.

Figure 1

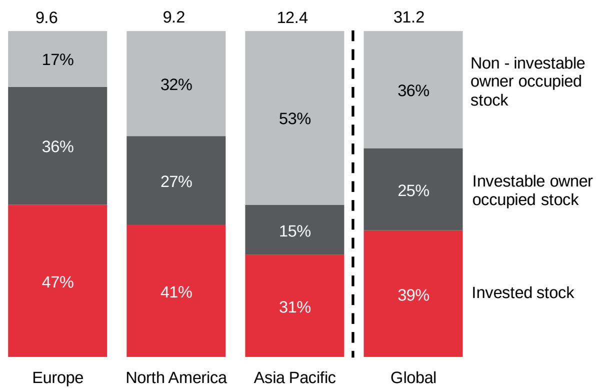
Conceptual breakdown of total stock



Source: DTZ Research

Figure 2

Breakdown of total stock, 2011, USD tn



Source: DTZ Research

Box 1: Stock definition

Total stock is the total value of the commercial real estate universe. Total stock comprises non-investable owner occupied stock, investable owner occupied stock and invested stock.

Non-investable owner occupied stock is the value of commercial real estate that is not available to investors due to use or quality of the property.

Investable owner occupied stock is the value of commercial real estate stock that is currently held by occupiers but is attractive to investors in terms of use and quality of the property. This represents potential for investors as occupiers sell their properties or undertake sale and leasebacks.

Invested stock is the value of commercial real estate held by investors in the relevant country. As a consequence the invested stock should:-
a) Rise as owner occupiers 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.

Section 1 – Sizing of the market

Invested stock trends

Global invested stock sets new record in 2011

Despite moderate growth, global invested stock established a new record, as predicted, of USD12.1tn in 2011. When measured in fixed exchange rates, invested stock grew by 4% compared to 3% in 2010 (Figure 3). In floating US dollar terms, Asia Pacific grew 13% followed by 8% in Europe and 0% in North America.

Asia Pacific surpasses North America to become the second largest region globally

As expected, Asia Pacific has overtaken North America to become the second largest region globally, with invested stock edging towards the USD4tn mark.

Growth in invested stock in North America was weaker than expected, but did not move into negative territory. Meanwhile, a weak US dollar boosted growth across all other markets. Europe saw 8% growth in US dollar terms compared to 5% growth in local currencies. Similarly, nearly half of Asia Pacific's 13% headline growth was due to the weakness of the US dollar (Figure 4).

China continues to drive Asian growth

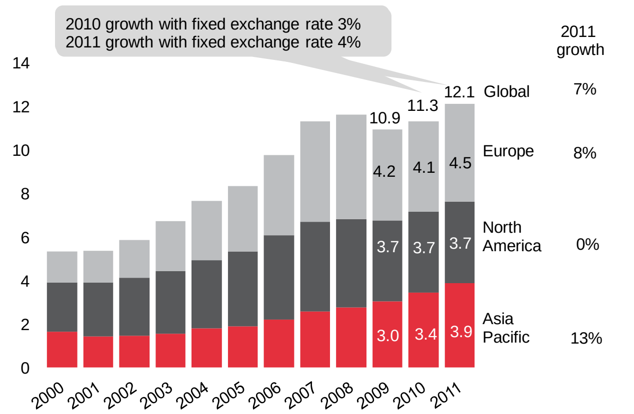
Growth in invested stock in Asia Pacific was supported by strong economic growth and the relative stability of the region's financial markets. As in previous years, regional growth was powered by the larger markets of China and Australia, with invested stock increasing by 20% and 15% in US dollar terms respectively (Figure 5).

For China this represents a moderation from the 25% added to invested stock in 2010. In local currency terms, growth reduced from 23% in 2010 to 15% in 2011. This reflects the impact of ongoing restrictions on bank lending to new development combined with other factors, including a lack of investment-grade investable stock.

Figure 6 (on next page) provides a detailed view on the individual country level performance as well as a breakdown by source of capital which we will discuss later in the report.

Figure 3

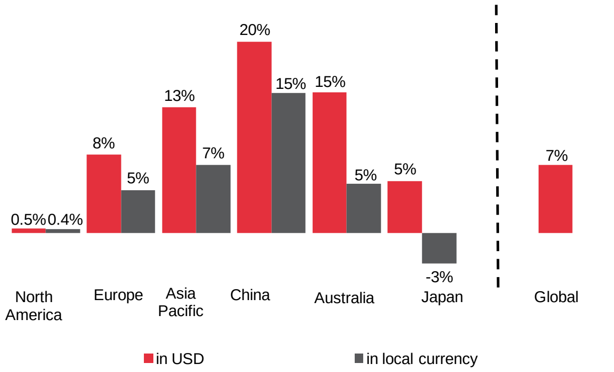
Global real estate invested stock, USD tn



Source: DTZ Research

Figure 4

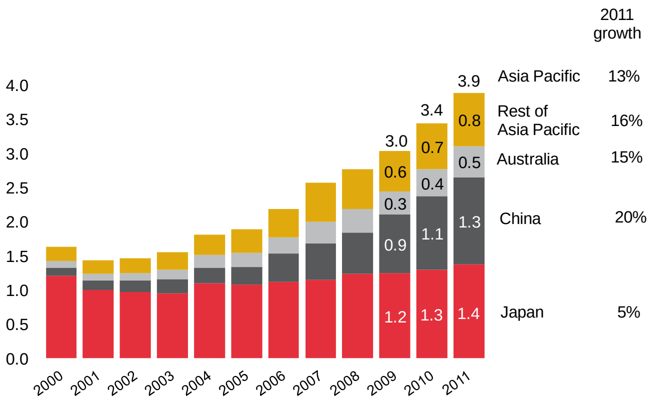
Change in invested stock, 2011



Source: DTZ Research

Figure 5

Asia Pacific invested stock, USD tn



Source: DTZ Research

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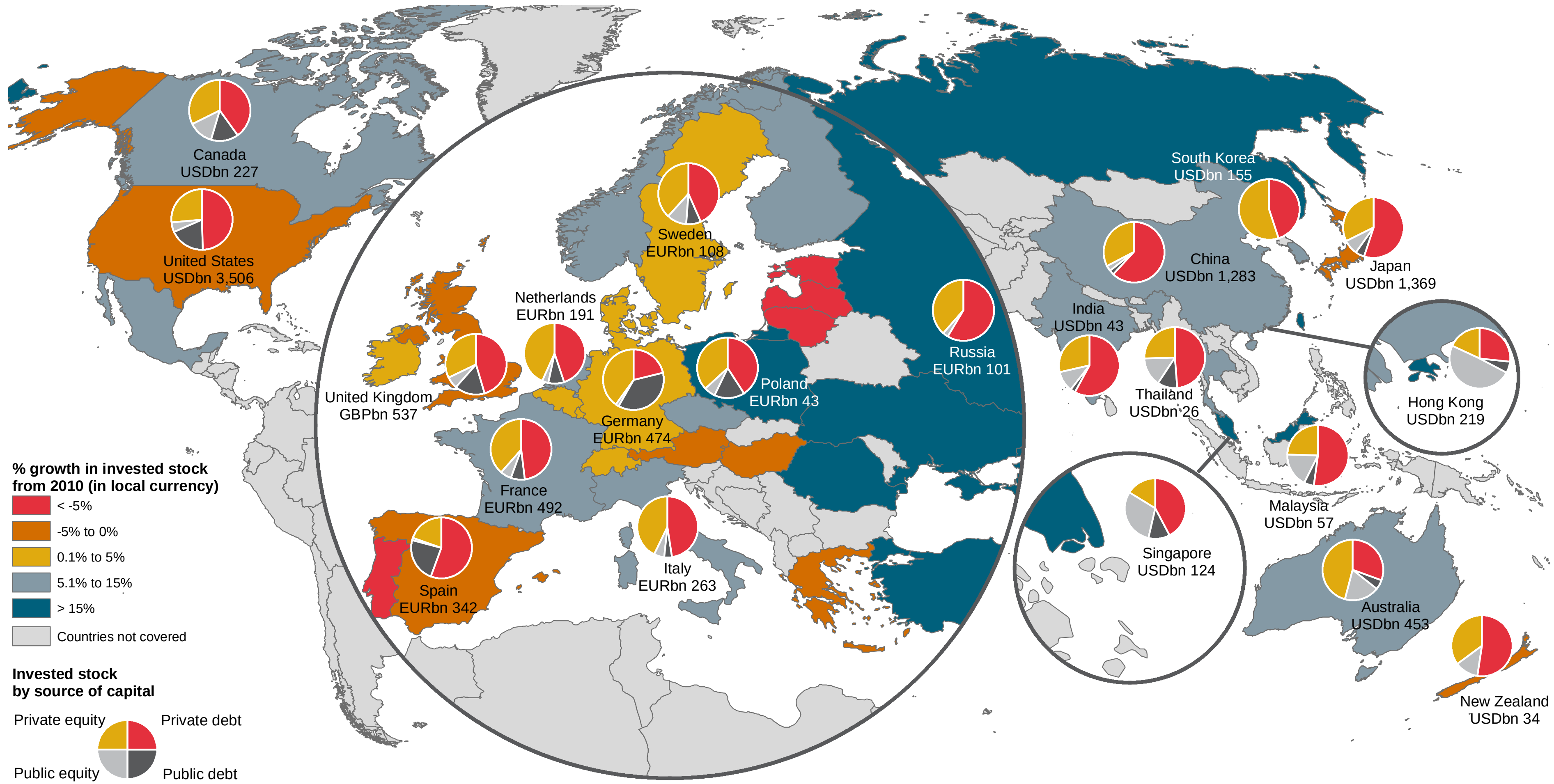
Figure 6

Global real estate invested stock, 2011



Source: DTZ Research, ESRI

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Taiwan and four others post higher growth than China

Growth in China moderated, but the other Asia Pacific markets picked up pace. Growth in invested stock in Asia Pacific excluding China increased to 3% in local currency terms, compared to 0% in 2010.

Taiwan, Malaysia, Singapore and Hong Kong all grew more strongly than China in 2011. Taiwan stands out with growth in invested stock of 21% in local currency terms (Figure 7). This was mainly driven by an increase in private equity as life insurance companies ploughed capital into real estate in search of stable long term income. Insurance companies will continue to seek opportunities in Taiwan in 2012, but activity will be restricted by a lack of available large assets.

Strong growth in South East Asia

South East Asia saw 16% added to the value of invested stock in 2011, up from 8% in 2010 and zero growth in 2009. Growth was concentrated in Malaysia and Singapore (Figure 7). This is largely due to the substantial increase in stock from new buildings completed in both countries.

Inflation together with the rising cost of funding slows growth in India

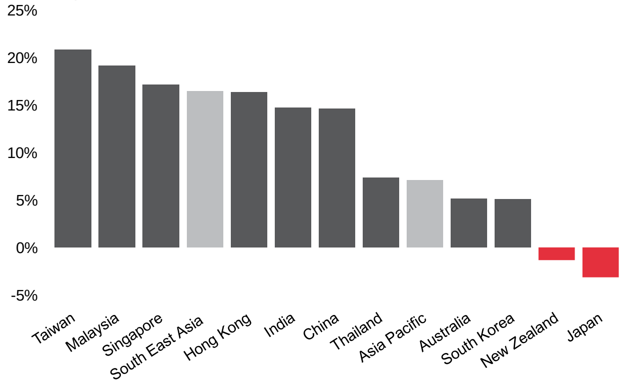
India grappled with high inflation and rising cost of funding in 2011 and this moderated growth in invested stock during the year. Despite exceptional growth in invested stock over the last decade, the value of India’s invested stock remains at the lower end of the stock spectrum, at only USD43bn (Figure 8).

Natural disasters delay Japan and New Zealand recoveries

Japan continued to struggle in 2011 with the value of invested stock in local currency falling for the fourth consecutive year. Despite this, due to a strong yen, Japan remains the region’s largest market. But China has been fast catching up. China’s invested stock has now reached USD1.3tn – only USD100bn below Japan (Figure 8). Natural disaster also impacted the New Zealand market in 2011, with invested stock declining by 1% during the year.

Figure 7

Change in invested stock, local currency, 2011

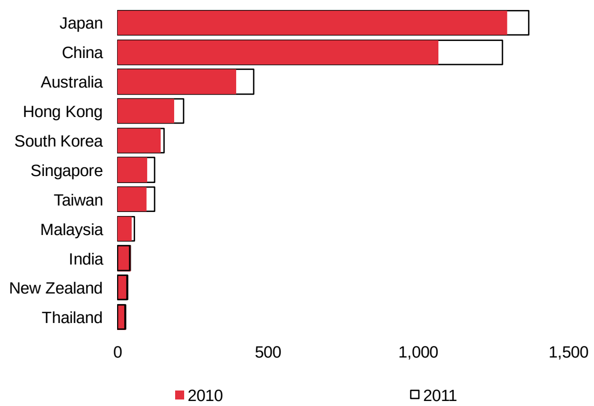


South East Asia includes Singapore, Malaysia and Thailand

Source: DTZ Research

Figure 8

Invested stock, USD bn



Source: DTZ Research

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Sources of capital

Global debt returns to growth, but equity still stronger

Private debt returned to growth in 2011, joining both private and public equity in their continued resurgence (Figure 9). Private debt added USD330bn to total invested stock in 2011, a tenfold increase from the previous year. Even so, this was still significantly below the USD493bn of added equity, predominantly private. In contrast, public debt continued to stagnate, falling by 1% during the year.

Asia Pacific joins global deleveraging as pace slows

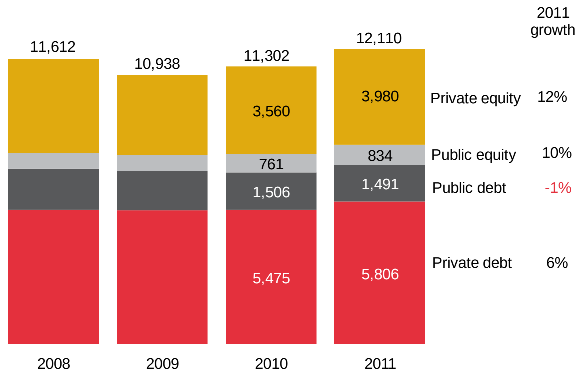
In 2011, Asia Pacific joined the rest of the global deleveraging trend. This was a reversal from the previous year, when Asia Pacific was the only region to show an increase in its leverage ratio (Figure 10). As expected, global deleveraging continued apace in 2011. However, the speed of deleveraging has slowed in North America, with the average loan-to-value (LTV) ratio declining by 2% to 67% in 2011, following a fall of 5% in 2010. The Asia Pacific leverage ratio remains the lowest of the regions covered.

Asian deleveraging driven by higher equity than debt growth

Even though debt growth has turned positive in 2011, faster growth in equity has driven regional leverage ratios down. This is especially the case in Asia Pacific, where debt growth has remained strong, but is still surpassed by equity (Figure 11). North America was the only region that showed a continued decline in debt.

Figure 9

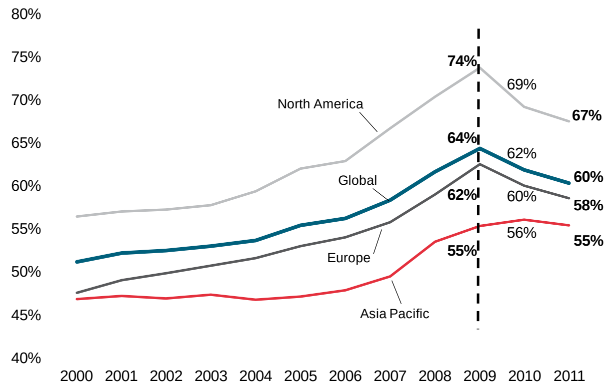
Global invested stock by capital source, USD bn



Source: DTZ Research

Figure 10

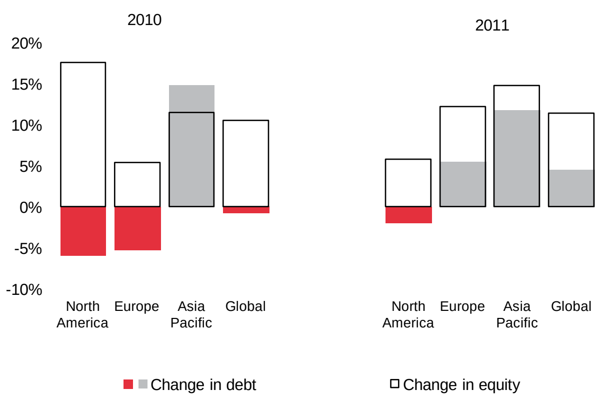
Total debt as percentage of invested stock



Source: DTZ Research

Figure 11

Change in debt and equity, in USD terms



Source: DTZ Research

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Continued growth in all four sources of capital in Asia Pacific

Asia Pacific invested stock continued its growth within all four sources of capital, led by increases in private equity and private debt (Figure 12). Private equity grew by 15% as investor appetite for Asia Pacific real estate remained strong, encouraged by solid growth fundamentals. These have remained largely resilient despite the 2011 slowdown in Europe and the US.

Gearing ratios down in most markets

Many countries in Asia Pacific reduced their overall gearing ratios during the year (Figure 13). Overall gearing ratios in India fell from 62% to 60% as banks became more wary of their exposure to real estate, a sector they perceive as being increasingly risky. Gearing ratios increased in Thailand and New Zealand but remained more or less unchanged in the dominant countries of China and Japan.

Property developers across the region tap into bond markets for debt finance

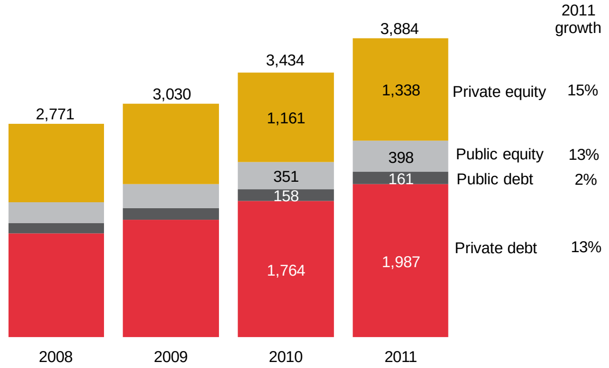
Amid tight restrictions on bank lending, a growing number of property developers across the region turned to bond markets for alternative debt finance. This was reflected in an increase in corporate bonds issuance (Figure 14). Issuance of property company bonds grew by 29% in Asia Pacific, adding almost USD6.8bn across the region in 2011. This offset the decline in CMBS issuance, particularly in Japan and Australia.

A large proportion of Asia Pacific corporate bond issuance emerged from China, although this growth was concentrated in the first six months of the year. Fears of a potential China property market crash warded off foreign investors from buying Chinese property company bonds in the second half of 2011.

Lack of private debt funding, particularly in China and India, has been reflected in supply levels. For example, the overall level of new office supply in India increased marginally in 2011, by only 2.4%. In both India and China, developers are now turning to non-traditional sources of funding such as non-banking financial institutions.

Figure 12

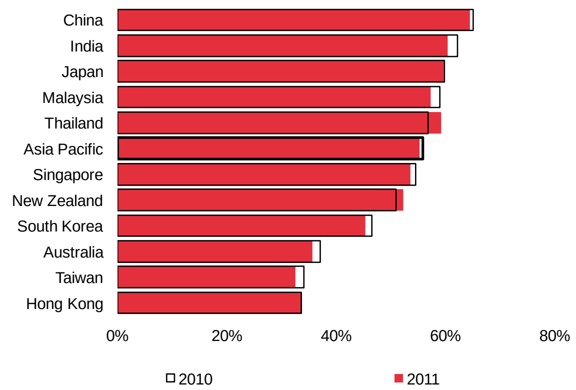
Asia Pacific invested stock by capital source, USD bn



Source: DTZ Research

Figure 13

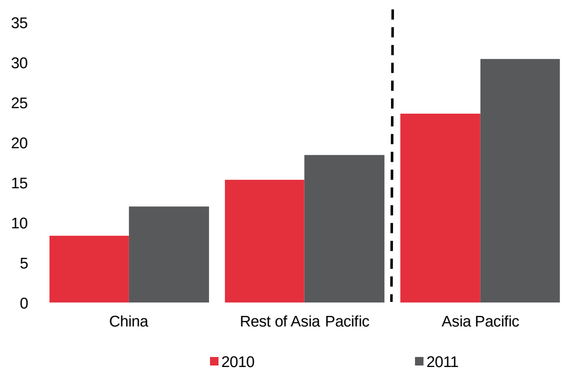
Average gearing ratio by country



Source: DTZ Research

Figure 14

Property company bond issuance, USD bn



Source: Bloomberg

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Transaction volumes

Asia Pacific only region to see a decline in 2011

Despite an increase in invested stock, total transaction volumes in Asia Pacific in 2011 were below 2010 levels (Figure 15). During the year, Europe showed a strong recovery in volumes, replacing Asia Pacific as the most actively traded region.

Driven by weak activity in Japan and no growth in China

The region's biggest market, China, witnessed another strong year for commercial investment activity. However, volumes dipped towards the end of 2011 on the back of a reduction in the amount of land released by local government, keeping total year volumes just below 2010 levels (-1%) (Figure 16).

Although activity showed signs of recovery in Japan during the second half of 2011 - driven by some large deals - total transactions for the year as a whole were 22% down in local currency terms on 2010 volumes, reflecting the negative impact of March's earthquake. In US dollar terms, transactions were down by a smaller 14% due to the appreciation of the yen. Total investment activity in Australia reached USD15bn in 2011, up 1% in US dollar terms but down 9% in local currency terms due to lacklustre investment activity in the second and third quarters, driven by continued global economic uncertainty.

Asia Pacific most liquid regional investment market

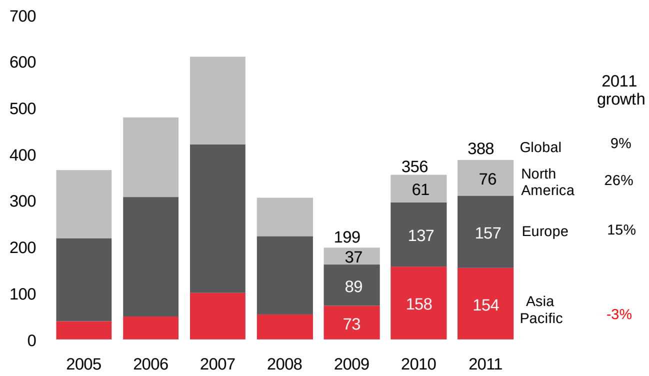
Asia Pacific is the most liquid of the regional investment markets, with an average liquidity ratio of 4%[1] (Figure 17). Indeed, Singapore is the most liquid market globally, with a liquidity ratio of 12% due to prolific REIT activity on the investment market and relatively small invested stock.

As the region's property markets develop, a growing proportion of regional transactional activity, notably in China and India, comes from land sales; excluding these sales, Asia Pacific's liquidity ratio more than halves to under 2%. The impact in China is more dramatic; it becomes the least liquid market as its ratio reduces from 7% to 1%. Singapore remains the most liquid market, although its ratio is reduced from 12% to 9%.

[1] Defined as the turnover of the investment market in relation to total invested stock

Figure 15

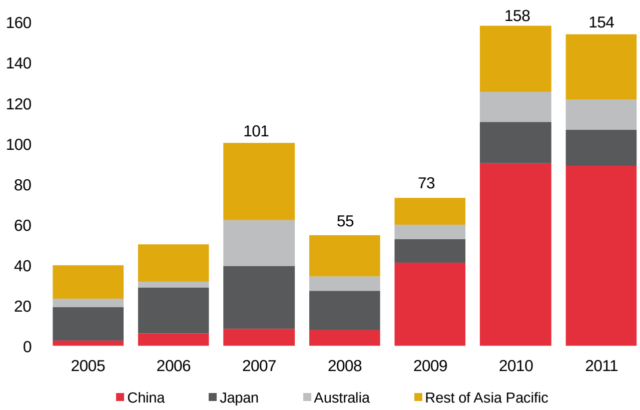
Global investment volumes, USD bn



Source: DTZ Research, Reis Services LLC, RealNet, Property Data

Figure 16

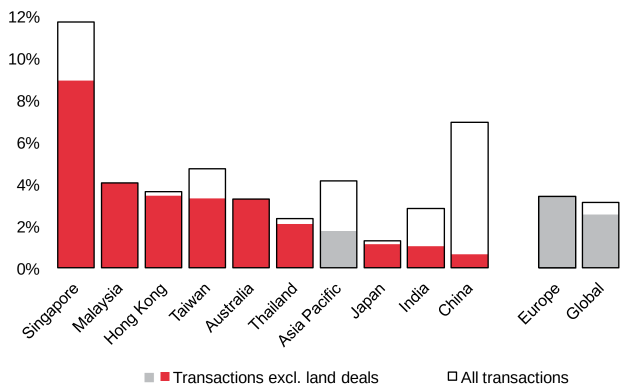
Asia Pacific investment volumes, USD bn



Source: DTZ Research

Figure 17

Liquidity ratios, 2011



Source: DTZ Research

Intra-regional activity increases

Domestic players continue to dominate investment activity in Asia Pacific, accounting for 80% of total investment (excluding land deals) in 2011. Investment into Asia Pacific from other parts of the world declined from 8% to 4%.

As a reflection of continued confidence, domestic investors have become less relevant across Asia Pacific. This is in marked contrast with the trend seen in North American and European markets.

2011 saw an increase in intra-regional activity from 9% to 16%, as regional investment fund managers increased their exposure to China and generally sought more opportunities within the Asia Pacific region (Figure 18).

Singaporean investors most active regionally

Singaporean investors were especially active during the year, signing some large deals in Hong Kong, Australia and Japan (Figure 19). South Korean and Malaysian funds also made some notable intra-regional purchases. Given the plethora of development opportunities in China, both Chinese and Hong Kong investors were fairly reserved in terms of outbound investment within Asia Pacific, although some funds are looking to the core markets of Australia and Japan.

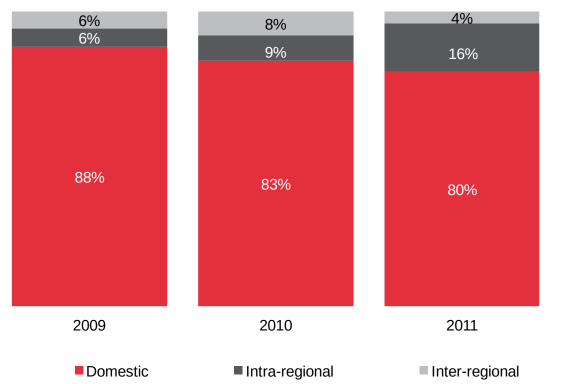
Non-Asia Pacific investors target Australia "safe haven"

Australia was the destination of choice for the majority of inter-regional investors in 2011, attracted by the stability and transparency of its real estate markets, high yields and the low cost of debt (Figure 20).

Inter-regional investment into China is the lowest in the region, reflecting the high barriers to entry for new foreign funds. The majority of foreign investment in China is by investors who already have a presence there rather than by new entrants.

Figure 18

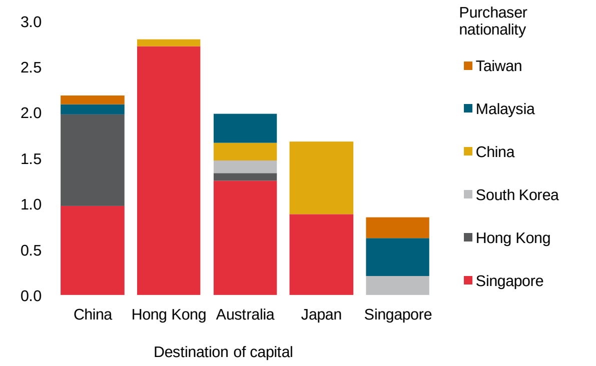
Asia Pacific investment, excluding land deals



Source: DTZ Research

Figure 19

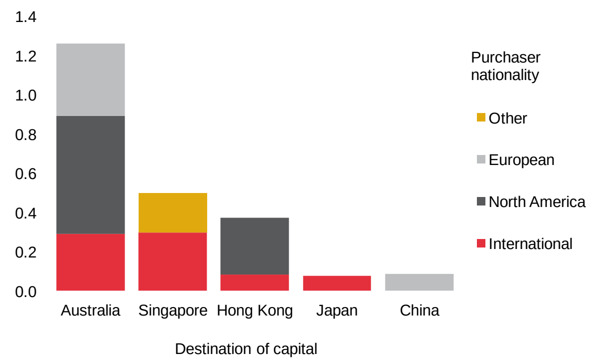
Intra-regional investment excluding land deals, 2011, USD bn



Source: DTZ Research

Figure 20

Inter-regional investment excluding land deals, 2011, USD bn



Source: DTZ Research

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Section 2 – Current sentiment

Our lenders' and investors' surveys illustrate the prevailing market sentiment, which we expect to impact actual future market performance.

Lenders' survey

Lenders expect less new lending and tighter conditions

Our survey of lenders, conducted in February and March of this year, paints a fairly pessimistic outlook for 2012 in comparison to last year; only 22% of respondents expect to increase new lending compared to half last year (Figure 21). A large number of lenders expect terms and conditions to tighten even further in 2012 in anticipation of a slow recovery (64% compared to 10% in last year's survey). These conditions will not last for long though as one third of respondents expect the market to relax in 2013.

Asia Pacific lenders three times more optimistic now

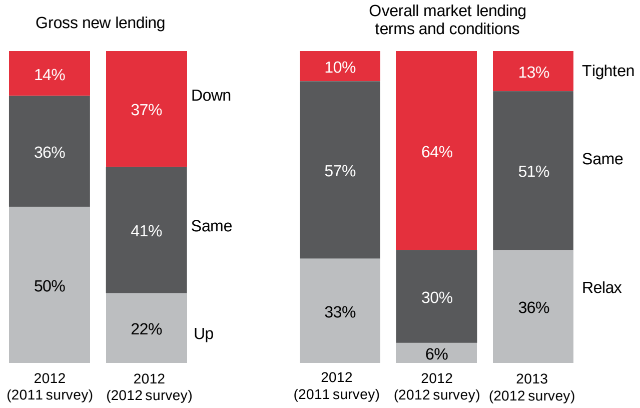
Global lenders' pessimism in 2012 is largely confined to EMEA and North America. There has been a threefold increase in the proportion of lenders (33%) expecting to increase new lending in Asia Pacific compared to last year (Figure 22). This reflects less tight lending conditions in the region that is expected to propel global growth.

Traditional bank-lending to decrease

A large number of lenders as well as investors believe that availability of finance from banks will decrease significantly in 2012 (Figure 23). However, views are mixed as to who will step in to fill the gap in debt capacity. The majority of investors expect institutions to increase debt availability, whilst lenders take more of a mixed view, favouring corporate bonds.

Figure 21

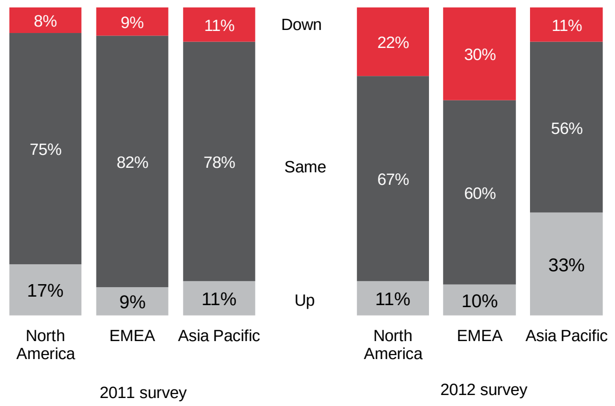
Expectations for new lending and changes in terms and conditions



Source: DTZ Research

Figure 22

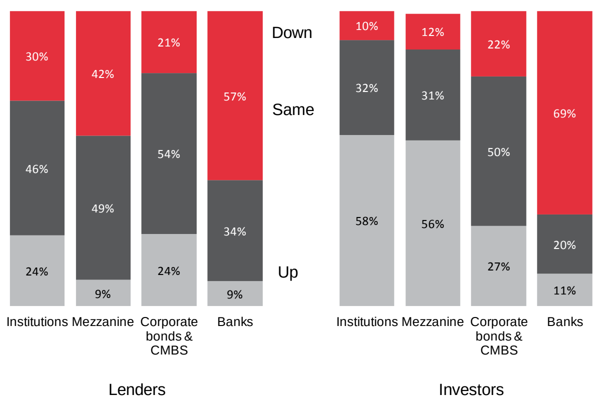
Expectations for new lending by region



Source: DTZ Research

Figure 23

Expectations for availability of finance, 2012



Source: DTZ Research

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Investors' survey

Availability of credit less of an issue in Asia Pacific

The global decrease in commercial bank lending is largely explained by the expected decrease in EMEA, and to a significant extent in North America as well (Figure 24). By contrast, in Asia Pacific, where investors' debt from institutions is viewed as less important than bank lending, 85% of Asia Pacific investors expect commercial bank lending to remain the same or increase in 2012.

No need for bank talks for most Asia Pacific investors

In sharp contrast to investors in other regions, a low proportion of Asia Pacific investors were in talks with existing lenders on loan maturity extensions and/or restructuring (Figure 25). This shows the relative ease in terms of credit and liquidity that Asia Pacific investors have over their counterparts elsewhere.

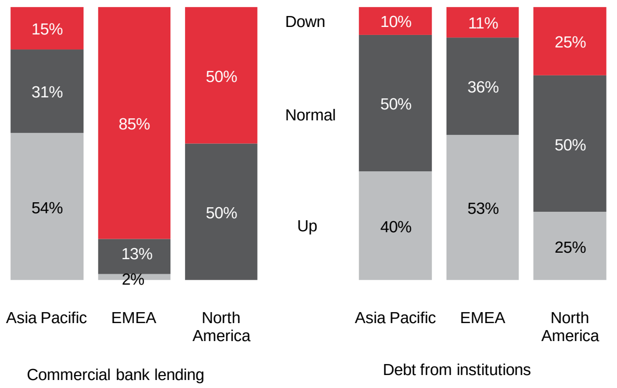
Investors have become more cautious

Like lenders, global investors are also generally less optimistic than in 2011. A growing proportion of investors (31%) expect to decrease their net investments in 2012 compared to only 6% in last year's survey (Figure 26). Nevertheless, 57% of investors still expect to increase net investment and this will support transaction volumes.

These results are consistent with data from our latest "The Great Wall of Money"[2] report. There we found that the amount of new capital for investment in commercial real estate markets globally in 2012 has fallen 9% from one year ago. Available capital for the Asia Pacific region has also fallen by 9%. This is partly due to a year of strong investment activity which led to a draw down on raised capital.

Figure 24

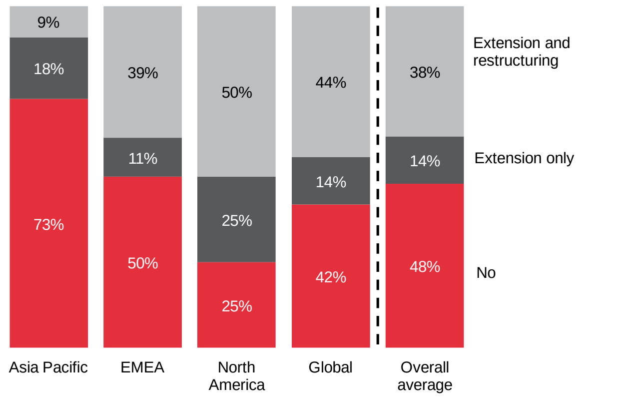
Expectations for availability of finance by region, 2012



Source: DTZ Research

Figure 25

Investors' exposure to loan workout, 2012



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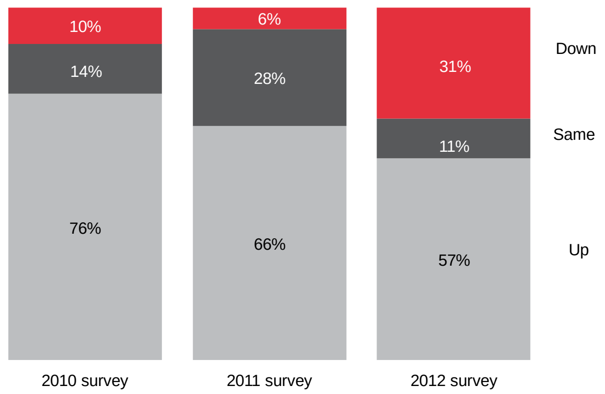
urce: DTZ Research

Figure 26

Net investment expectations in real estate



Source: DTZ Research

[2] DTZ Insight, The Great Wall of Money – Less capital due to lower gearing , 9 March 2012

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Scarcity of prime opportunities across all regions

Investors across all regions find it more difficult to source prime properties compared to 2011 (Figure 27). In a turnaround from last year, when 97% of respondents indicated that they were not having any difficulty in sourcing prime properties in Asia Pacific, 66% of respondents now say that sourcing prime is becoming more difficult. This reflects a severe shortage of quality grade A assets in some Asia Pacific markets - exacerbated by another solid year for investment in 2011 - and an increased level of investor risk aversion being attached to non-prime properties.

More investors look abroad for opportunities

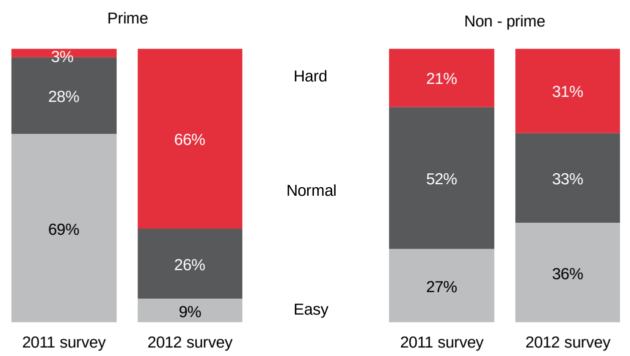
Globally, investors expect to increase their allocation to property outside their own region in 2012 (Figure 28). Our survey results show that North American investors are willing to cross-borders, whilst nearly triple the number of Asia Pacific investors (40%) are looking for opportunities abroad compared to last year when only 15% of respondents expected to increase inter-regional activity.

Asia Pacific investors to hold property for longer

We also asked investors about the length of time they are holding property in each region (Figure 29). Asia Pacific investors are beginning to hold property for longer periods, with only 15% of respondents having a typical holding period of 1-5 years compared to a majority (47%) last year. The majority (54%) expect to hold for 5-10 years. This puts Asia Pacific investors more in line with global investors.

Figure 27

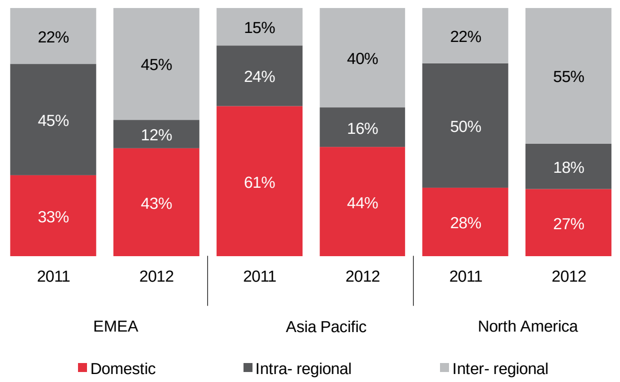
Asia Pacific buying opportunities by grade



Source: DTZ Research

Figure 28

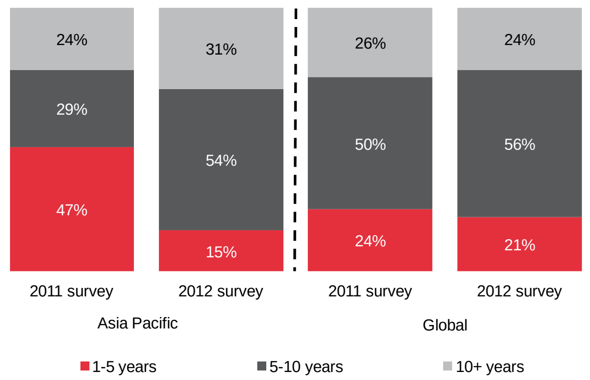
Expected investment allocations



Source: DTZ Research

Figure 29

Typical investment holding period (by respondent's presence)



Source: DTZ Research

Section 3 – Our key views

Continued uncertainty triggers return of risk aversion

Despite a solid recovery in 2011, the outlook for 2012 remains unclear as political, economic and regulatory changes continue. The related uncertainty has triggered a return of risk aversion from both corporate occupiers and investors alike.

In Asia Pacific, sentiment improved somewhat in early 2012 with nascent signs of recovery in the US and the LTRO facility in Europe. However, there remains real concern over the strength of the US recovery and the potential sovereign default of one or more European economies. Concerns have recently shifted to the capacity of Italy and Portugal to reduce their public deficits, as announced. This concern is reflected in a recent widening of their bond yields (Figure 30).

Asia Pacific less affected in downside scenario

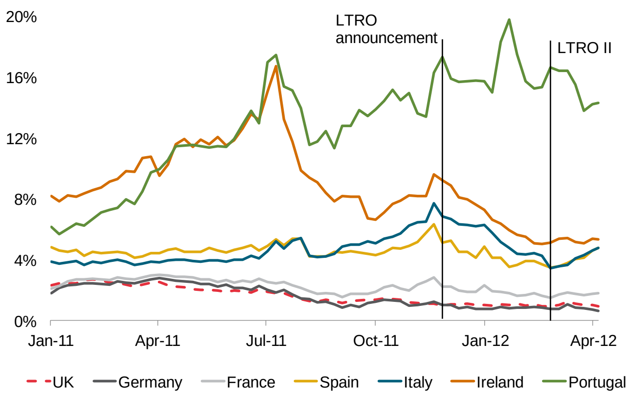
To deal with these uncertainties, we continue to consider alternative economic scenarios. The base case assumes a slow and steady recovery assuming no disorderly default in the eurozone. Despite a recent downgrading, Asia Pacific GDP growth forecasts remain strong relative to the west in this base case scenario. The probability for the base case is however at a low of 45%. The high level of global uncertainty is further confirmed by two downside scenarios (oil price spike and China hard landing) and one upside scenario (corporate reawakening). The probability for each of these scenarios is 10%.

However, the downside is best represented by the eurozone break-up scenario, which assumes up to five countries leaving the eurozone. It has a 5% to 25% probability. The impact of the eurozone break-up scenario is more moderate for Asia Pacific than for Europe. Asian growth is supported by strong domestic consumption and intra-regional trade (Figure 31).

Limited impact on Asia Pacific markets

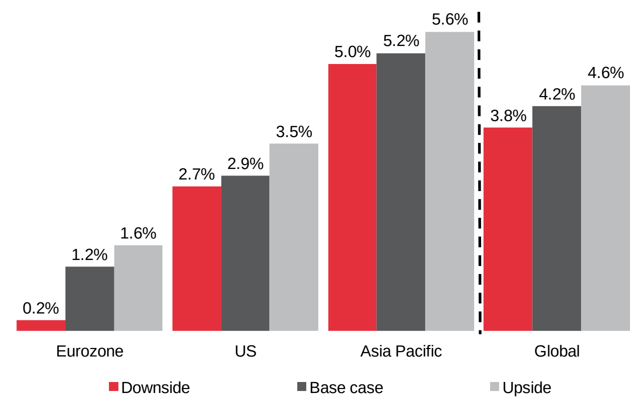
The region's property markets will continue to offer investors strong capital value growth under the downside scenario, with both the office and retail sectors still posting double-digit growth. Capital values in the US hold up particularly well under the scenario, whilst Europe feels the greatest impact (Figure 32).

Figure 30
Five-year government bond yields



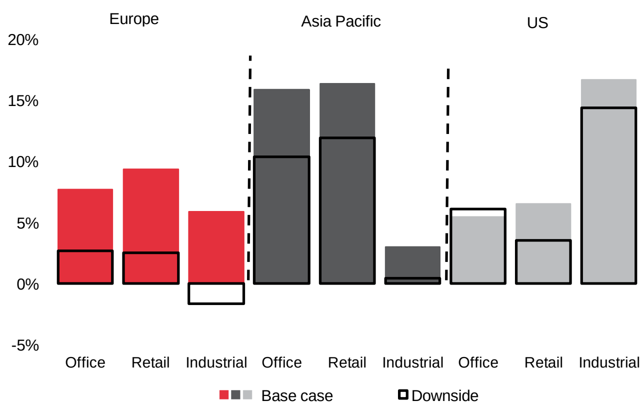
Source: Bloomberg

Figure 31
Annual average GDP growth in %, 2012-16



Source: Oxford Economics

Figure 32
Prime capital values 2012-16, cumulative % change



Source: DTZ Research

Invested stock forecasts

Moderate growth forecast to continue

Based on our analysis of equity and debt flows across the globe, we forecast global invested stock to continue to rise in the next couple of years with moderate growth of 4% in 2012 and 6% in 2013 (Figure 33). This is lower than the 7% growth in 2011.

However, in the downside scenario, global stock is projected to decline by 7% in 2012 with the three regions expected to register declines, from -1% in North America to -14% for Europe (Figure 33).

Asia Pacific is forecast to grow at the fastest rate, and is close to overtaking Europe as most invested region

Looking ahead, the pace of invested stock growth will vary significantly across the regions, with Asia Pacific expected to post the fastest rate in 2012 (7%) and 2013 (10%) to reach USD4.6tn by 2013 in our base scenario.

Asia Pacific is forecast to overtake Europe by 2013, as the latter's invested stock level is expected to grow only marginally to USD4.4tn.

In the downside scenario, stock in Asia Pacific is projected to decline by 4% in 2012, but rebound with 6% growth in 2013 (Figure 34). European invested stock will face two years of decline.

Asia Pacific invested stock growth forecast to accelerate in 2013 as capital growth recovers

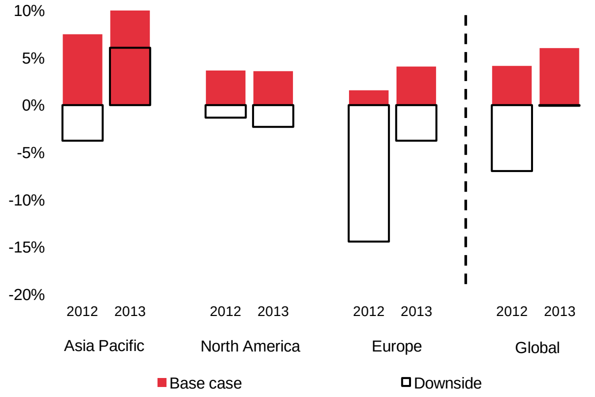
Under our base case, growth in invested stock in Asia Pacific in 2012 will come primarily from increasing stock due to a strong development pipeline as the outlook for capital value growth is relatively weak (Figure 35). In 2013, capital growth is expected to make a more significant contribution as Asia Pacific economies rebound from the slowdown this year.

In North America, the ongoing recovery of capital values will be the main driver of invested stock growth (4% each year) as the development pipeline remains limited.

In Europe, subdued construction together with muted capital growth will limit the growth of invested stock in 2012; the recovery in capital values has already occurred in most European countries.

Figure 33

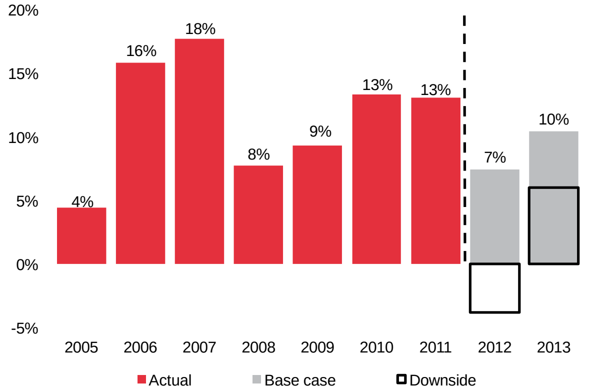
Forecast growth in invested stock



Source: DTZ Research

Figure 34

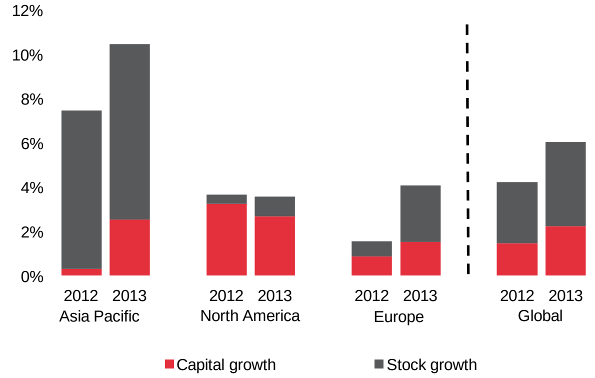
Forecast growth in Asia Pacific invested stock



Source: DTZ Research

Figure 35

Forecast growth in invested stock by region and its constituent parts



Source: DTZ Research

Investment volume projections

Global investment volumes expected to fall in 2012

Our expectation for 2012 is for global investment volumes to decrease due to lower activity in Europe and Asia Pacific, partly offset by moderate growth in the US. Investment volumes in Europe grew strongly in 2011, but activity in 2012 is expected to be impacted by weaker sentiment and the broader economic slowdown. Market activity is forecast to drop to USD365bn in 2012, followed by a rebound in 2013 to USD395bn (Figure 36).

Caution prevails in Asia Pacific

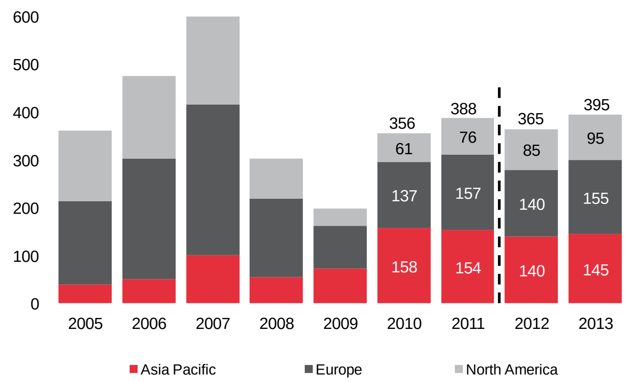
Uncertainties in global financial markets have started to impact investment activity, with the first quarter of 2012 showing signs of a slowdown in many parts of Asia Pacific, such as Singapore and Australia. At the same time, high interest rates in some countries, including India, continue to constrain credit and investment. More subdued activity in some markets will, however, be balanced out by growing interest in Japan as it nears bottom. In this context, we forecast volumes in 2012 to fall by 9% to USD140bn in 2012 and pick up in 2013 (Figure 37).

Asia Pacific opportunities beyond China

The DTZ Fair Value Index TM score for Asia Pacific stood at 60 at Q1 2012. This implies that Asia Pacific continues to offer investors plenty of attractive opportunities. With 24 HOT markets and 23 WARM markets the Asia Pacific region is offering investors strong income growth potential (Figure 38). This growth potential is built on solid underlying occupier demand as the various economies in the region continue to develop at a rapid rate, supporting rental growth in major cities. Besides the Chinese markets, Australia and Japan also offer attractive opportunities in the region. The Japanese market appears to be finally bottoming out after a long recession and is seen as a relatively safe haven for funds allocating capital to Asia Pacific.

Figure 36

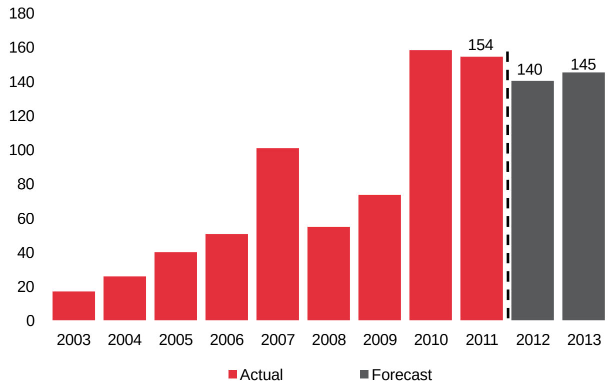
Forecast of global investment volumes, USD bn



Source: DTZ Research

Figure 37

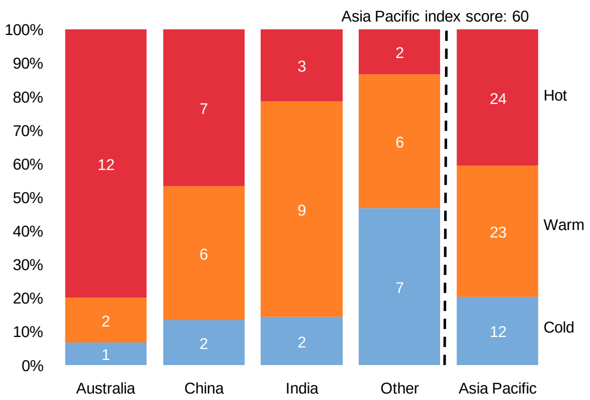
Forecast of Asia Pacific transaction volumes, USD bn



Source: DTZ Research

Figure 38

Fair Value Index ratings, Q1 2012



Source: DTZ Research

Appendix

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.

Transaction volumes

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.

Fair value methodology

The DTZ Fair Value Index TM was launched in August 2010 and has now been rolled out for all 192 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