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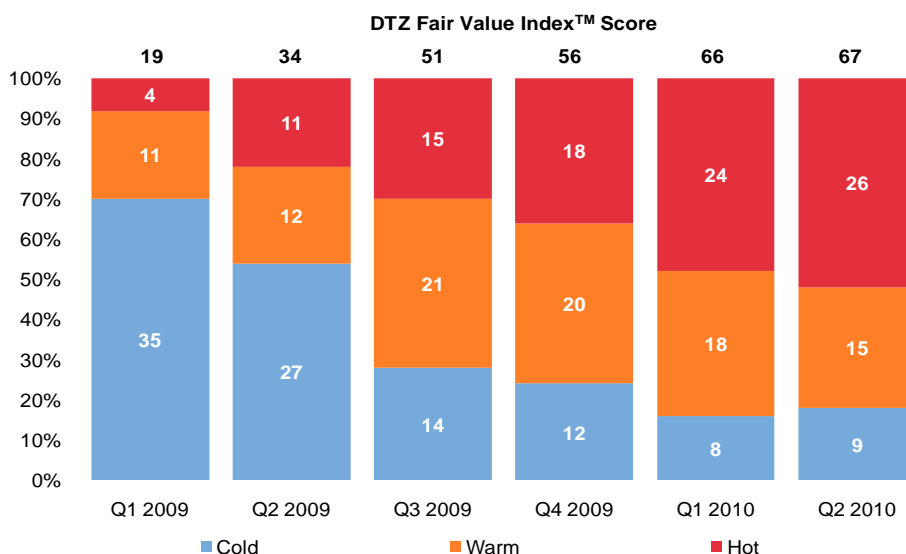
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- Asia Pacific commercial property markets are offering attractive returns to investors, as illustrated by a DTZ Fair Value Index™ score of 67 in Q2 2010. This implies that more than half of the markets in the region are categorised as HOT. Asia Pacific compares favourably to Europe (with a score of 49) but remains behind the USA (89).
- Office markets are the most attractive with an index score of 70, while retail (67) and industrial (61) also offer opportunities to investors.
- The investment landscape in Asia Pacific has improved markedly in the last 18 months. In Q1 2009, 35 out of 49 markets were considered to be priced above fair value. In Q2 2010, only nine markets are regarded as overpriced, compared to 26 that are underpriced (Figure 1).
- The improved outlook for investors is based on a recovery in regional economic growth, improved liquidity and greater occupier demand. Strong rental growth is forecast in many markets, coupled with attractive entry yields. This has prompted an increasing number of domestic and foreign buyers to actively seek investments in the region.
- Hong Kong and Singapore currently provide attractive opportunities to investors in all three sectors. These two markets are expected to record strong rental growth over the next five years as they rebound from sharp declines during the recession, thus offering the prospect of substantial capital appreciation.
- Other major markets that are considered to be in the HOT category include Tokyo, Bengaluru, Sydney and Shanghai (offices); Beijing (retail); and Melbourne (industrial).

Figure 1

Asia Pacific All Property Classification and Fair Value Index Progression



Source: DTZ Research

# Fair Value Index

## Asia Pacific property offers more attractive opportunities compared to the rest of the world

- The DTZ Fair Value Index™ demonstrates that Asia Pacific commercial property offers attractive opportunities for investors, based on an all property index score of 67 in Q2 2010 (Table 1). This score indicates that more markets in the region are considered to be excellent value propositions, i.e. there are more 'hot' markets compared to those categorised as 'warm' or 'cold' markets.

Table 1

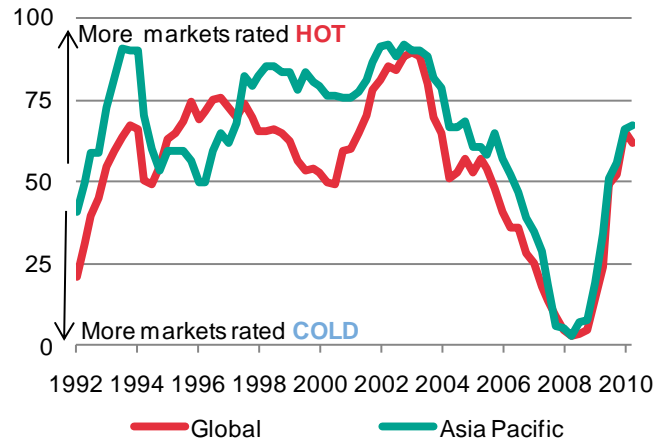
<b>Global Fair Value Index Q2 2009</b>			
<b>Fair Value = 50</b>			
	<b>Q2 2010</b>	<b>Q1 2010</b>	<b>Q2 2009</b>
Asia Pacific All Property	67	66	34
Asia Pacific Office	70	72	33
Asia Pacific Retail	67	64	42
Asia Pacific Industrial	61	56	22
<b>Global All Property</b>	<b>62</b>	<b>65</b>	<b>24</b>
<b>Global Office</b>	<b>56</b>	<b>60</b>	<b>20</b>
<b>Global Retail</b>	<b>73</b>	<b>72</b>	<b>36</b>
<b>Global Industrial</b>	<b>58</b>	<b>67</b>	<b>14</b>

Source: DTZ Research

- The DTZ Fair Value Index™ offers investors insight into the relative attractiveness of current pricing in global commercial property markets. A hot market is defined as one that is attractive to investors, where expected returns exceed risk-adjusted required returns. Likewise, a cold market is unattractive as expected returns fall below risk-adjusted required returns. An index score above 50 (closer to 100) indicates that there are more markets categorised as 'hot' than 'cold'. At 67, the current index score implies that commercial property markets in Asia Pacific are generally offering attractive returns to investors who are buying into the market now.

Figure 2

## Global and Asia Pacific All Property Fair Value Indices



Source: DTZ Research

- An historical comparison of the global and Asia Pacific index scores shows that since the 1997 Asian financial crisis, the region's property markets have surpassed global performance in providing attractive investment opportunities (Figure 2). During the recent recession, Asia Pacific and global opportunities tracked each other more closely (Q4 2009 score of 56 vs 52). Now that the global financial crisis is receding and Asia Pacific is back on a strong growth path, the region is once again pulling away from the rest of the world.
- Asia Pacific markets are buoyed by an improving economic outlook, a recovery in occupational markets and improved investor appetite. Investors can expect to be rewarded with broad-based capital value increases and robust rental growth.

### Box 1: Guide to DTZ Fair Value Index™

The DTZ Fair Value Index™ is intended to provide investors with insight into the relative attractiveness of current pricing in global commercial property markets. Fair Value Index™ scores reflect the proportion of HOT and COLD markets, with higher scores implying more HOT markets.

Markets are categorised by comparing expected and required returns. Markets estimated to be more than 5% underpriced are classified HOT; markets more than 5% overpriced are classified as COLD; and markets between this range are classified as WARM.

The DTZ Fair Value Index™ is a forward-looking index based on econometric forecasts incorporating local econometric drivers and local market knowledge.

For further information on the methodology used for classifying different markets and calculating Fair Value Index scores, see the DTZ Research report: DTZ Fair Value Index™ Methodology.

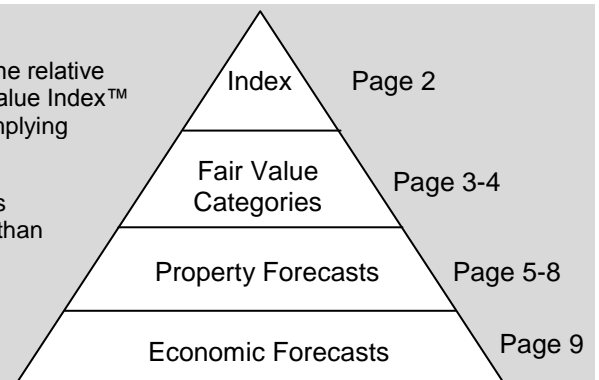
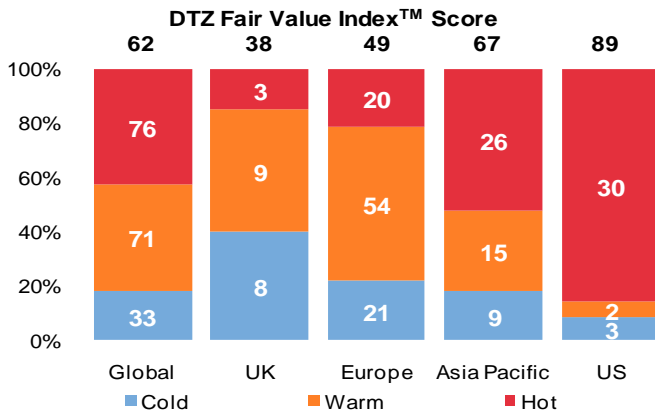


Figure 3

## Regional Fair Value Comparison in Q2 2010



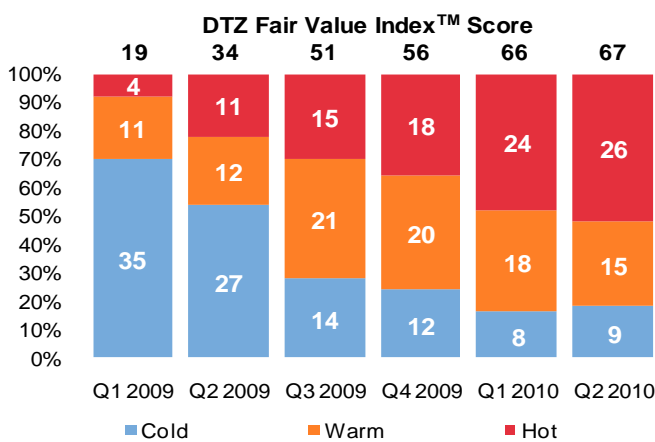
Source: DTZ Research

### More than half of Asia Pacific's markets are 'hot'

- Asia Pacific is an attractive region for investors, with over half of its markets categorised as 'hot'. The all property Fair Value Index score of 67 lies ahead of the global index score of 62 in Q2 2010. The region therefore compares favourably internationally. Of the major regions, it offers more attractive investment opportunities than Europe but remains behind the US.
- Figure 3 presents a breakdown of the number of hot and cold markets in each of the world's major regions. In Asia Pacific, 26 markets are considered to be underpriced against nine markets that are overpriced. As a whole, Asia Pacific is expected to deliver strong income growth in the medium term and it offers attractive yields at current pricing. Investors should make use of this buying opportunity; as capital values start to rise, the degree of underpricing will shrink, and with it, the buying window.

Figure 4

## Quarterly Progress of Asia Pacific Fair Value Scores



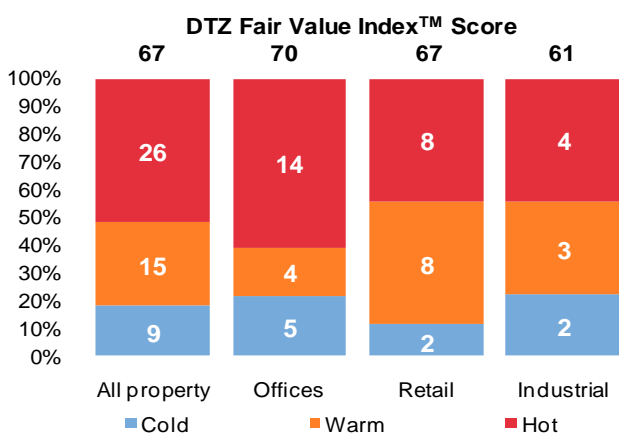
Source: DTZ Research

### Buying opportunities have improved greatly

- The situation as of Q2 2010 is in complete contrast to that of a year ago when the Asia Pacific all property index score was half the current score. This implies that the investment landscape has improved considerably in the last 12 months (Figure 4). The improved outlook for investors has been built on a recovery in economic growth across the region, improved liquidity and occupational demand. Despite a pause in investment activity in China and Japan recently, the attractive pricing in many markets is seeing an increased number of buyers who are encouraged by occupational resilience and the resumption of rental growth.

Figure 5

## Asia Pacific Fair Value Scores Per Sector in Q2 2010



Source: DTZ Research

### Office sector is the most attractive category

- The office sector is at present more attractive than retail and industrial, but all three sectors offer worthwhile opportunities. While offices lead the way with an index score of 70, all three sectors currently boast scores above 50 (Figure 5). The retail sector is performing in line with the regional average at 67, while industrial stands at 61.
- These conditions are widely spread across the region and investors are able to find multiple attractive opportunities in the major Asia Pacific countries. In China and India, as many as 60% of locations are presently trading below fair value, while in the rest of Asia Pacific about half of all markets are underpriced at current valuations. Australia, Singapore and Hong Kong all offer excellent value to the discerning buyer.

# Fair Value Top Markets

## Hong Kong, Singapore among best buys in all sectors

- Hong Kong and Singapore are currently offering some of the most attractive opportunities to investors in all three sectors (Table 3). These two notoriously volatile markets are set to record strong rental growth, particularly in the office sector, over the next five years as they rebound from sharp falls in rents in 2008-09. (Singapore rents for example fell 52% from peak to trough, and there is significant income growth potential at present). This will lead in turn to strong capital growth, boosting returns for investors and placing both Singapore and Hong Kong in the hot category across the board.
- The rapidly growing IT and consulting hub of Bengaluru is India's largest office market, and is expected to see strong rental growth and steady capital appreciation over the next five years. Known as the Silicon Valley of India, Bengaluru provides the base for numerous Indian and Western firms in the technology and outsourcing industries. Investors are able to obtain property at attractive yields, and coupled with strong rental growth, the next five years look set to provide excellent returns.

## Retail and industrial sectors closer to fair pricing than office

- In general, fewer markets in the retail and industrial sectors are classified as hot compared to the office sector. Retail in particular has a preponderance of warm/cold markets (Table 2). Rental growth is less volatile in retail, while capital growth opportunities are more limited.
- Beijing is one of the cities where we expect total returns to outperform, with investors currently able to purchase retail assets at higher yields than in other major markets within the region. In contrast, yields are much lower in Shanghai, and the outlook for returns is more subdued in the medium term.
- As the economic recovery gathers momentum, the industrial sector in Asia Pacific will benefit from rising intra- and inter-regional trade. One notable exception is Taipei where investment opportunities are limited due to weaker expected capital growth. High-yielding Australian industrial markets look attractive at current pricing. The key distribution hub of Melbourne is expected to be a strong performer as trade flows continue to expand.

Table 2

### Asia Pacific market classifications Q2 2010

	HOT	WARM	COLD
Asia Pacific all property	26	15	9
Asia Pacific office	14	4	5
Australia all property	7	7	1
China all property	6	1	3
India all property	5	3	0
Other Asia all property	8	4	5

Source: DTZ Research

Table 3

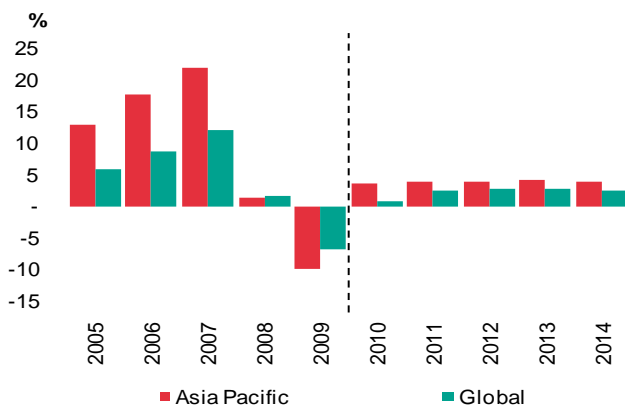
### Global Fair Value Index – Major Asia Pacific markets

Sector	Market	Under/ Overvaluation	HOT/COLD
Office	Hong Kong	-18%	HOT
	Tokyo	-14%	HOT
	Bengaluru	-10%	HOT
	Sydney	-10%	HOT
	Singapore	-9%	HOT
	Shanghai	-9%	HOT
	Beijing	-8%	HOT
	Mumbai	-7%	HOT
	Taipei	+16%	COLD
Retail	Singapore	-9%	HOT
	Hong Kong	-8%	HOT
	Beijing	-5%	HOT
	Sydney	+1%	WARM
	Shanghai	+17%	COLD
Industrial	Singapore	-11%	HOT
	Melbourne	-11%	HOT
	Hong Kong	-7%	HOT
	Sydney	-2%	WARM
	Taipei	+39%	COLD

Source: DTZ Research

Figure 6

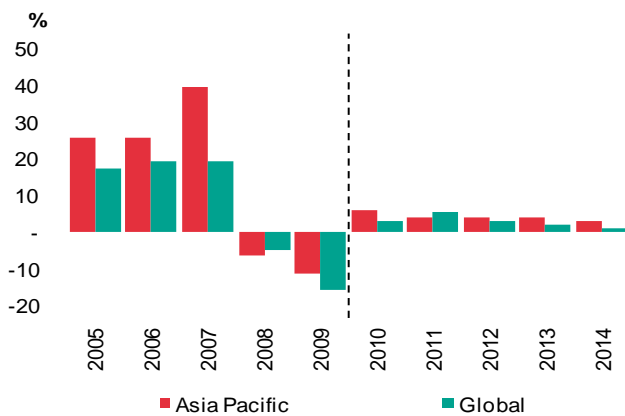
## Asia Pacific vs Global All Property Rental Growth



Source: DTZ Research

Figure 7

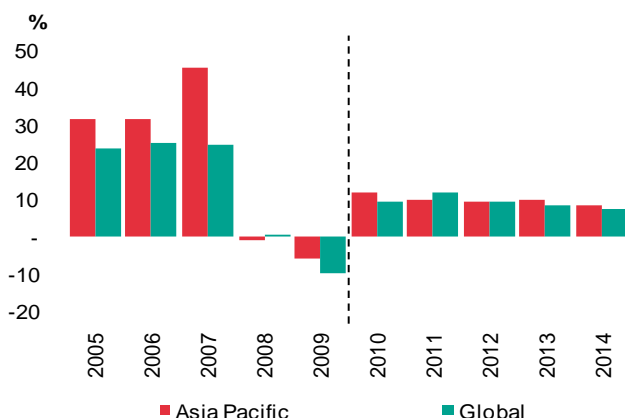
## Asia Pacific vs Global All Property Capital Growth



Source: DTZ Research

Figure 8

## Asia Pacific vs Global All Property Total Returns



Source: DTZ Research

### Asia Pacific rental growth will exceed global performance

- Asia Pacific all property rents grew at an exceptional pace prior to the recession, outperforming global rental growth by a handsome margin, even when global rents were posting double-digit growth (Figure 6). The downturn reversed this picture, and rents fell more steeply in Asia Pacific than they did elsewhere. The best example of boom-and-bust is Singapore, where office rents almost quadrupled between 2003 and 2007 and then halved in 2009. Other sector-regions also suffered exorbitant rent swings during this period, e.g. prime retail in India.
- Going forward, Asia Pacific occupier markets are still expected to outperform the world but expectations for rental growth are diminished in both. The gap between the two profiles has also narrowed greatly. In the short to medium term, markets are likely to consolidate gains, precluding the expectation of runaway rental growth.

### Subdued capital growth in coming years

- As with rents, so with capital values. The 'wall of money' that flooded into commercial property pumped up values in Asia Pacific much more quickly than it did elsewhere. Since the beginning of the recession, capital values have fallen in many markets, including Australia, Japan, India and Singapore.
- However, values in other locations, notably in greater China, have barely been affected. Prime property is trading at or above pre-recession prices, whether it is offices in Taipei and Beijing or retail in Shanghai and Hong Kong. Domestic investors have mainly driven these high prices. However, valuations are now out of sync with underlying income projections and we forecast that future capital appreciation will take place at a much more moderate pace (Figure 7).

### Total return profiles similar in Asia Pacific and the world

- Global total returns will broadly match Asia Pacific all property returns in the coming years, running at an average of 9-10% annually. The overall picture is one of stable returns, driven more by fundamentals than by debt-fuelled speculation. This is shown in Figure 8. While long-term rental growth in Asia Pacific should continue at around 4%, the scope for outsized capital growth diminishes further down the road. A similar narrative applies globally. Thus our forecasts for total returns are moderate, levelling off gradually towards the end of the period.

# Asia Pacific Office Market Forecasts

## Office Markets

### Asia Pacific's office markets come out of the slump

- Prospects for the office sector are improving steadily in Asia Pacific. Average prime rents are expected to increase by 4.8% in 2010 after falling by 22% last year (Figure 9). As the recovery speeds up, the rental market will return to a trend growth of 6-8% per year.
- Demand for space picked up in Q2 2010 as companies revived long-delayed expansion and relocation plans. Aggregate net absorption was circa 1.5 million sq m, almost five times the quantity recorded a year ago. Upbeat sentiment is feeding through into more hiring and consequently increased space requirements.

### India, China lead recovery but pipeline remains a risk

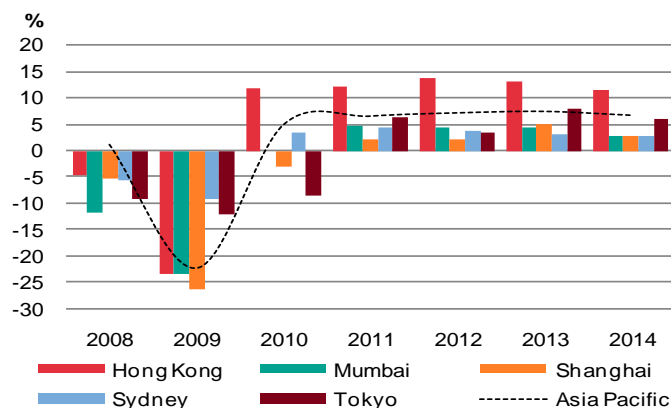
- Office markets in India and China are leading the recovery, with strong demand in both primary and secondary markets. For example, net absorption in Beijing in H1 2010 alone was almost equal to the total net absorption recorded in 2009. Similarly, Delhi's first-half net absorption has already overtaken the full-year figure for 2009. Firms are looking to secure space before rents are driven higher.
- A key risk factor for rents, especially in India and China, is the strength of new supply (Figure 10). A great deal of speculative building is taking place in these relatively immature markets. In terms of future completions, they now claim the top dozen spots in the region. Projected supply between 2010 and 2011 is estimated to be 67% of current stock in Delhi, 35% in Mumbai and 29% in Shanghai. The pace of addition is more moderate in the mature economies.

### Returns to be driven more by income growth

- The strongest office occupier market over the forecast period is Hong Kong. FBS demand is rising, yet a land shortage means that vacancy will tighten and rents will rise. Between 2010-2014, prime rents are expected to grow at an annual rate of 12.5%.
- Returns during the 2005-07 boom were driven by income growth as well as massive capital appreciation (Figure 11). However, total returns in the future will depend much more on fundamentals, not least because of cooling measures adopted in China and elsewhere. Yields will compress from current high levels in India and Australia, but in markets like Hong Kong, Taipei and Singapore, we expect long-term yields to be higher than what is presently observed.

Figure 9

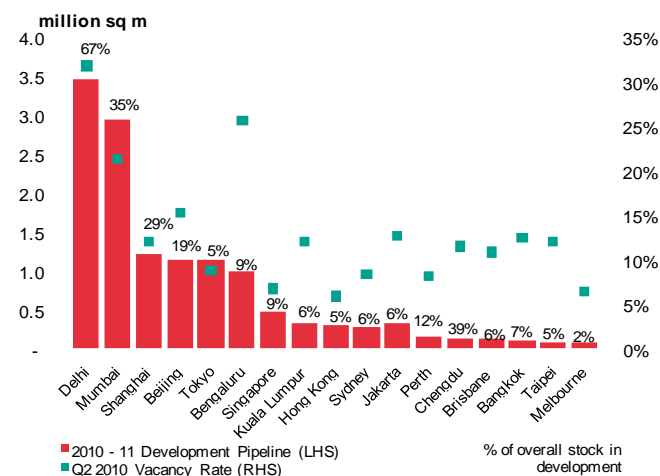
### Office Rental Growth Forecasts – Selected Cities



Source: DTZ Research

Figure 10

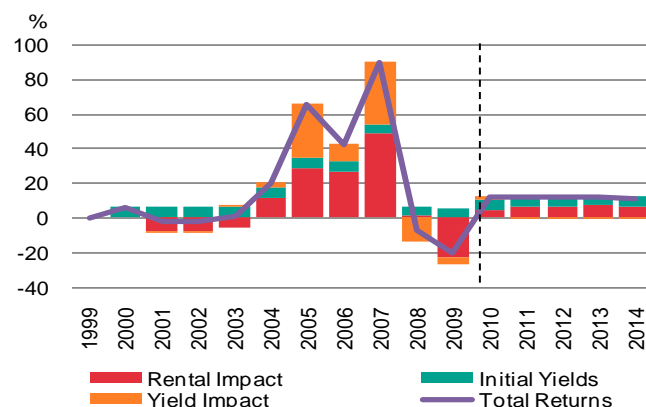
### 2010-11 Development Pipeline, as % of Total Stock & Q2 2010 Prime Vacancy Rate in Selected Markets



Source: DTZ Research

Figure 11

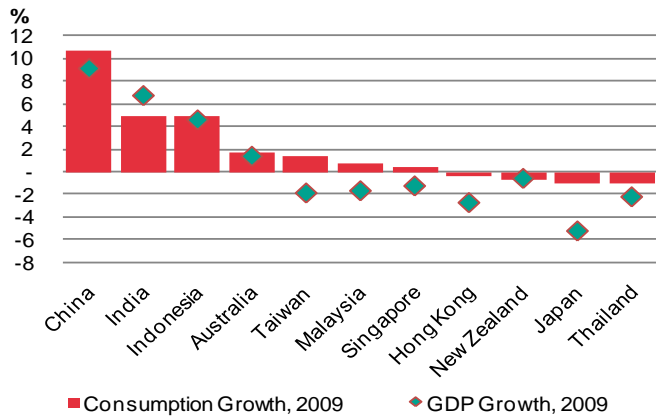
### Asia Pacific Offices – Components of Total Returns



Source: DTZ Research

Figure 12

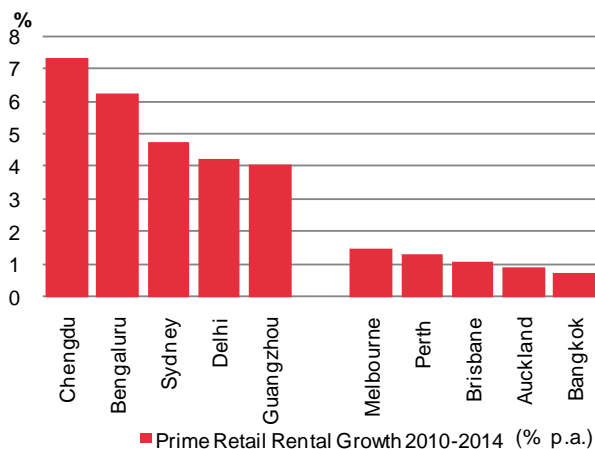
## Resilience of Households in the Recession



Source: DTZ Research

Figure 13

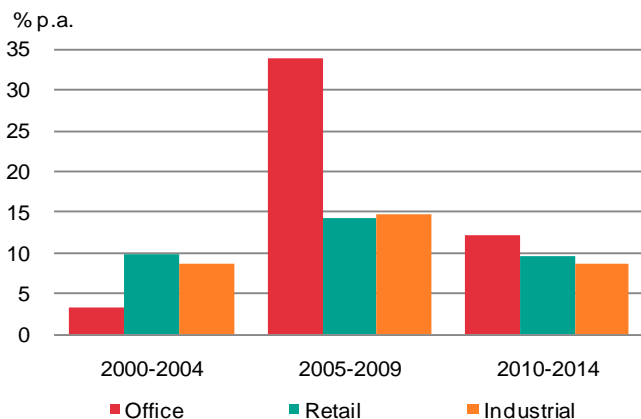
## Prime Retail - Best and Worst Rental Performance



Source: DTZ Research

Figure 14

## Retail Total Returns Compared to Other Sectors



Source: DTZ Research

## Retail Markets

### Stimulus and household savings support retail

- The prime occupier market in retail has been much more stable historically than in the office or industrial sectors. During the 2009 downturn, retail rents on a regional basis fell by only 1.8%. In contrast, office rents fell 22% and industrial rents 7.5%.
- Timely government stimulus and household savings helped to support consumption during the downturn. In countries like Taiwan, Malaysia and Singapore, consumption growth remained positive throughout 2009 even as the broader economy dipped into recession (Figure 12). In Japan, consumer spending fell by just 1% compared to a 5% fall in GDP. Evidence of a V-shaped rebound in Asia Pacific has now become clearer, and labour markets and consumer confidence have largely recovered.

### Chinese and Indian occupier markets to outperform

- Retail markets have been booming in mainland China, where a combination of strong spending and brand-new stock is driving rents upwards. As Figure 13 shows, rental growth is strongest in regional cities like Chengdu (more than 20% y-o-y in Q2 2010) and Guangzhou. It is more tempered in the primary markets of Beijing and Shanghai.
- Other markets that are expected to perform well in the short term are Sydney and Bengaluru. Indian markets are still relatively immature and prone to excess development, and prime rents in Delhi and smaller regional markets have fallen lately. Strong GDP growth should continue to support retail spending and space demand in the long run, but there are risk factors such as high inflation. Hong Kong and Singapore retail are expected to rebound quickly with steady growth kicking in from 2011.

### Retail sector offers stable returns

- Prime retail tends to generate steady returns in good times and bad. The top Asia Pacific markets in terms of expected returns are all located in India (Figure 14). High initial yields allied with robust rental growth mean that strong returns (15% or more annually) are forecast throughout the period.
- Yields in Australia have started to harden as investors are attracted by a consumer sector that has defied all the odds. In Greater China, cash-rich investors have driven up retail capital values although the government's decision to tighten credit is likely to put the brakes on this trend. In the expensive Hong Kong market, yields have already started to move out according to our latest data.

# Asia Pacific Industrial Market Forecasts

## Industrial Markets

### Sharp recovery in exports after heavy falls in 2009

- Exporters throughout Asia Pacific suffered a torrid time in 2009. China, Hong Kong, Malaysia and Thailand all saw their exports drop by double digits, but the worst-hit was Japan with a 24% decline (Figure 15). The numbers for India, Taiwan and Singapore were also grim. However, the outlook has improved greatly since then. For the countries mentioned above, the average estimate for export growth in 2010 is 19%.
- Regional leaders China and Japan are particularly impressive with projected growth of 30% and 27% respectively. These numbers are all the more remarkable given the ongoing weakness in the Western consumer sector. Not only are Asia Pacific nations trading more with each other, they are also actively expanding their export markets to Latin America, the Middle East and Africa.

### Industrial rents rising in key locations

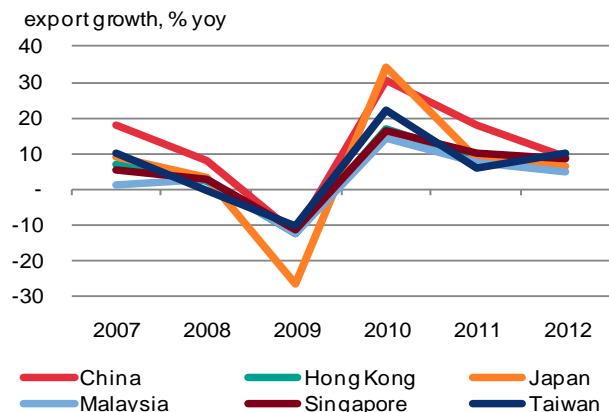
- These developments are reflected in the industrial occupier sector. Rents are expected to return to growth this year in Hong Kong and Singapore (Figure 16), after an extended period of weakness that started in the second half of 2008. The pace of growth will remain fairly modest in the short term, as the markets still have to contend with an excess of space. Still, the downward drift has been halted and we expect rental growth to return to a long-term trend of 2-4% by the end of the period.
- The outlook for manufacturing-intensive locations such as Shanghai and Taipei has also improved in line with improving trade conditions. Order books are bulging in Taiwan, leading to rising demand for space and steadily growing industrial rents. One risk factor for Chinese coastal markets like Shanghai comes in the shape of rising labour costs which has the potential to drive manufacturing inland or offshore.

### Australian industrial delivers the highest returns

- In terms of total returns, the most active occupier markets do not necessarily deliver the highest returns. Initial yields in Taipei and Hong Kong are relatively low, especially in the former. Australian markets on the other hand combine steady rental growth prospects with high initial yields (between 8-10%). As a result, Australian markets dominate the total returns tables, led by Melbourne and commodity-driven Brisbane and Perth (Figure 17).

Figure 15

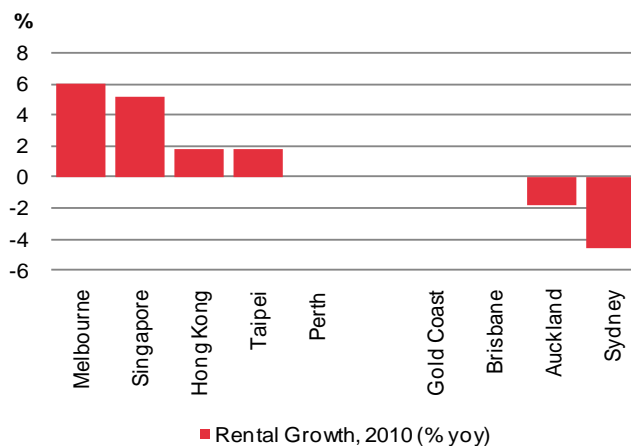
### V-shaped Recovery for Exports in Asia Pacific



Source: DTZ Research

Figure 16

### Rental Growth Resumes in Main Industrial Locations



Source: DTZ Research

Figure 17

### Prime Industrial – Best and Worst Total Returns



Source: DTZ Research

## Economic Outlook

### Strong growth performance in the first half of 2010

- Asia Pacific has recovered strongly from the global recession, with the first half of 2010 seeing a continuation of robust growth. Activity has been supported by rebounding exports and sustained growth in private demand. Exports are benefitting from restocking and the gradual recovery of demand in advanced economies, while private demand in Asia Pacific is resilient given robust labour markets and low levels of household debt.
- Drivers of growth differ from country to country, with China continuing to rely on a recovery in exports and sustained domestic demand. India benefits from strong growth momentum underpinning its domestic sector while Australia is supported by a rapid recovery in business investment associated with the extraction industries (Figure 18).

### Rising risk of a slowdown

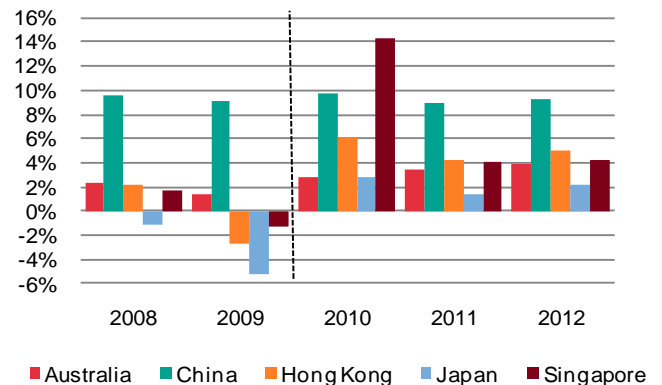
- Although growth has been rapid in recent quarters, it is expected to moderate as the restocking cycle comes to an end and monetary policy is tightened in China and India. There are already signs of moderation, with growth in industrial production slowing in recent months (Figure 19). The most recent Chinese data points to a slowdown in domestic demand as evidenced by stalling imports, as well as weaker growth of Chinese exports.
- In India, the strong recovery has led to acute inflationary pressures. Inflation is currently running at around 14% as the economy faces major capacity constraints (Figure 20). Tighter monetary policy in similarly affected countries is expected to contribute further to slowing growth momentum later this year.
- While Asia Pacific has minimal direct exposure to the fiscal problems of Europe, a break in the recovery of advanced economies would dampen export growth to Europe and the US. However, intra-regional trade has proved to be much more durable and is a major supporter of economic growth at present.

### Implications for property

- The V-shaped economic recovery of the last 18 months lifted property markets throughout Asia Pacific, making it the best-performing region globally. A Chinese-led slowdown could affect demand adversely given China's dominant role in the Asia Pacific economy. Suppliers such as Australia, regional trade hubs Singapore and Hong Kong, and close trading partners like Taiwan would all suffer significantly from such a downturn.

Figure 18

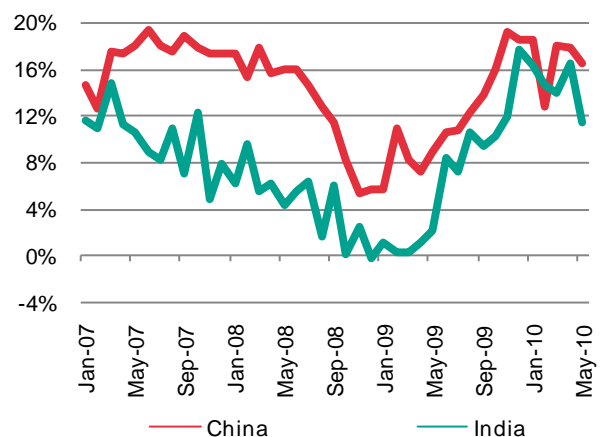
### Strong GDP Recovery in Asia Pacific



Source: Oxford Economics

Figure 19

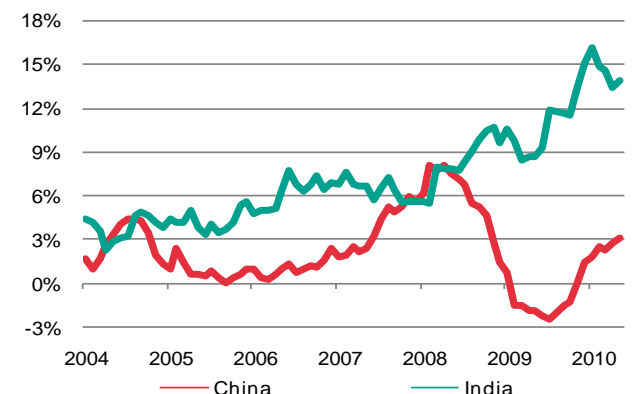
### Growth of Industrial Production Moderates in China



Source: Oxford Economics

Figure 20

### Inflation Worries in India



Source: EcoWin

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