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Australia

MARKET OVERVIEW

Over the first quarter of 2008, Australia's economy grew at a y-o-y rate of 3.7%. In March 2008, the Reserve Bank of Australia raised the national cash rate to 7.25% to try to curb inflation down from 4.2% recorded for the first quarter of 2008. As a result of tightening economic conditions, consumer confidence and retail spending figures have decreased over 2008 compared with late 2007. Market commentators have suggested that after 16 years of constant growth, the Australian economy may be running out of room to expand further.

AUSTRALIA ECONOMIC SNAPSHOT

- Australian GDP grew 3.7% for the year to March 2008.
- Growth for the 2008 calendar year is expected to grow by 3.3%.
- The national cash rate has risen to 7.25%, the highest level in 13 years.
- Annual headline inflation in the March Quarter stood at 4.2%.

AUSTRALIA BUSINESS GROWTH DRIVERS

- Highly trained labour force of approx. 10.7 million
- A robust political environment, headed by a highly supported labour party

One of Australia's current concerns is the escalating price of commodities like oil and gas in relation to imports, which will severely affect business and export profits in Australia if the trend continues. According to some market commentators, there are fears that the U.S. and U.K. economies are beginning to suffer from stagflation, with the possibility of the adverse effects flowing into the Australian market.

As the economy tightened dramatically in the first half of 2008, sales volumes across all markets were lower than recorded in the first half of 2007, which witnessed high levels of foreign and local investment activity. Yields have risen by approximately 0.25% across all markets since the beginning of the year, with an expectation that these will continue to grow over the coming quarters. Large commercial sales transactions within Australia's CBD markets have been limited since the beginning of the year, even though there is plenty of stock on the market readily available to purchase. Our research indicates that over the first half of 2008, there were only four commercial properties sold in NSW for over $30 million, compared with twelve sold in the second half of 2007.

MARKET OUTLOOK

Over the coming 12 months, we predict that commercial rents in CBD locations should continue to steadily increase as demand remains strong, particularly in markets with low levels of vacancies such as Perth, Brisbane and Sydney. Outer suburban markets that were previously seen as unattractive are benefiting from an expansion in transport infrastructure, with overflows from tightly held CBD markets being directed into these areas. Yields across all property markets are predicted to rise over coming quarters, with an expectation that investment activity will pick up towards the end of the year. However, the residential market is expected to remain stagnant over the next 6 months as the economy continues to slow, with the possibility of a further rate rise later in the year.

FOREIGN INVESTMENT OPPORTUNITIES

- Foreign purchasers intending to acquire real estate in Australia must obtain prior approval from the Australian Government through the Foreign Investment Review Board, unless specifically exempted by the Foreign Acquisitions and Takeovers Regulations.
- All contracts by foreign persons to acquire interests in Australian real estate are subject to foreign investment approval, unless approval was obtained prior to entering into the contract.

Australia

RETURNS

Residential Property

- Seasonally adjusted data released by the Australian Bureau of Statistics (ABS) indicates that Australian building approvals for April 2008 were up 7.8% from the previous month, rebounding after consistent falls since December 2007. Largely responsible for persistent falls in early 2008 is the increased cost of construction, partially attributed to numerous interest rate rises since August 2007.
- According to Westpac Economics, the gap between the housing markets in resource-rich states such as Western Australia and the southeast states including New South Wales is beginning to narrow, as housing affordability is being stretched to its limits.
- The residential rental market continues to flourish in areas close to CBD locations across Australia, as demand is being far outweighed by supply in combination with tight vacancies. Rents in areas such as Sydney's eastern suburbs have risen considerably over the year to June 2008, as these markets continue to be attractive coastal locations to live.

Commercial Property

- Vacancy rates have remained low in most major CBD locations, with Perth and Brisbane recording vacancy rates at 0.5% and 0.7% respectively. The total vacancy rate for the combined Australian commercial markets is at 3.9%, the lowest recorded rate in history.
- Although yields are beginning to soften in the marketplace, rental rates remain strong, especially for prime office buildings in CBD locations. Rents for such properties have increased steadily over the year to June 2008, particularly in markets such as Sydney, Perth, Melbourne and Brisbane.
- As of January 2008, the Property Council of Australia (PCA) recorded just over 1.8 million sq. m. of office space currently under construction in Australia, which includes refurbishments and new developments. This represents approximately 9% of the current Australian stock.
- According to the PCA and the Investment Property Databank (IPD), the total return on direct commercial property was 22.7% in the 12 months to March 2008.

Retail Property

- Although there has been a significant slowdown in retail trade throughout the year, vacancy rates in retail premises have continued to remain low, particularly in highly sought-after CBD locations,
- Investment activity within Australian retail property is forecast to strengthen over the coming quarters. Popular retail locations within high pedestrian traffic areas such as Sydney's Pitt Street Mall and Melbourne's Bourke Street Mall should continue to flourish in the long term.
- In the year to March 2008, direct return on retail property calculated by the PCA and the IPD was recorded at 14%.

Industrial Property

- Industrial areas benefiting from an increase in infrastructure or possessing high levels of transport facilities generally command higher rents per sq. m.
- High land values and the limitation of supply in regions close to major business hubs are forcing developers to expand outwards, where land is cheaper and there is an increased level of supply.
- The first quarter of 2008 saw a slight weakening in the amount of investment activity across Australia, although by mid-year an increased volume of sales transactions over $10 million had been negotiated.

Hotel and Leisure Property

- Throughout the year, the number of short-term visitor arrivals has increased at a steady rate. Seasonally adjusted data released by the ABS indicates that there has been a 1.8% increase in short-term arrivals between April and May 2008. Australia's popularity as a holiday destination has led to high levels of investment activity for the year to June 2008, with one of the more predominant sales being the sale of the Park Hyatt Hotel in Sydney, in late 2007.

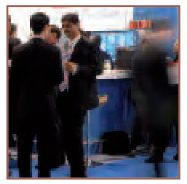
RISKS

As with all markets, there are a number of risks when determining whether or not to invest in Australian property. Investors may be affected by:

- the possibility of further interest rate rises and strengthening of the Australian Dollar
- changes in state and federal policies
- slowing of the Australian economy
- continuation of drought in the eastern states
- imported inflation
- lack of capital

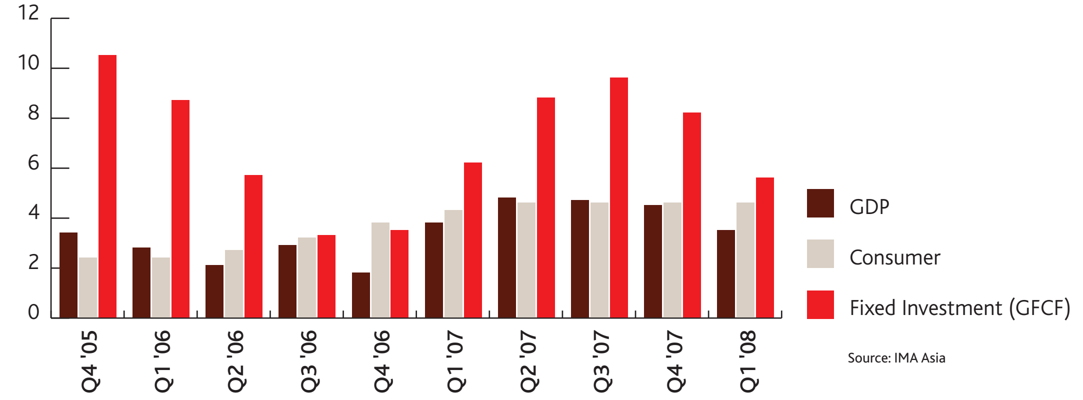
FINANCING ROUTES AND DEVELOPMENT

- Fringe lenders appear to have left the market, with a refocus on traditional banking sources.
- Interest rate margins have risen and equity level requirements have increased as a result of the U.S. subprime crisis, which has brought about a re-pricing risk to lenders.



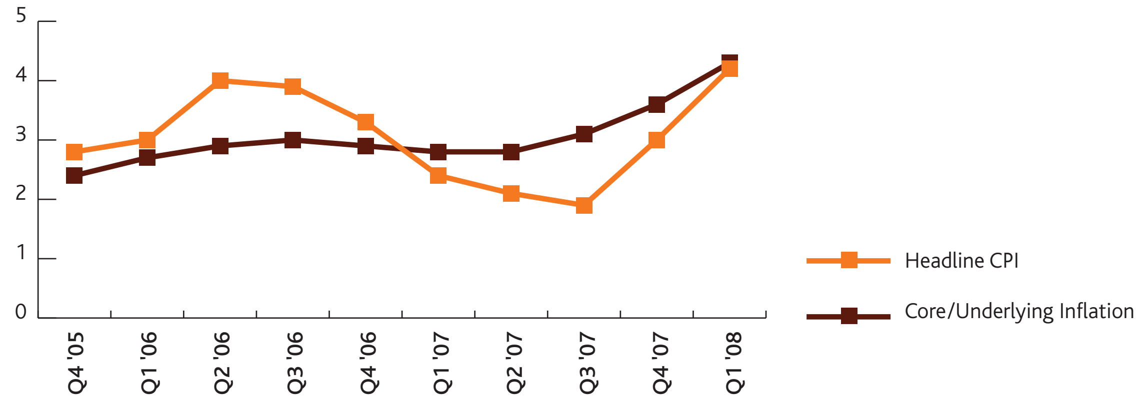
Australia

Australia: Real GDP Growth (%YOY)

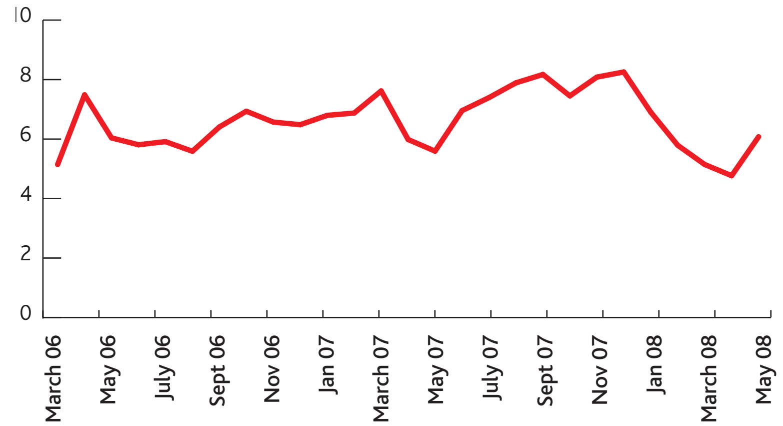


Source: IMA Asia

Australia: Inflation (%YOY)



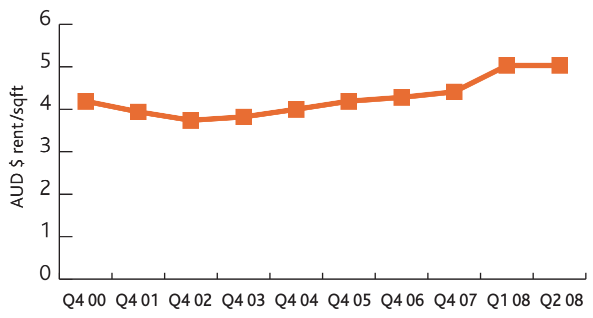
Australia: Retail Sales Growth, sa (%YOY)



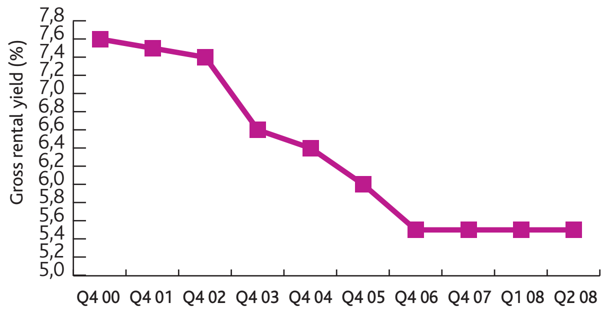
Source: RBA via IMA Asia

Australia

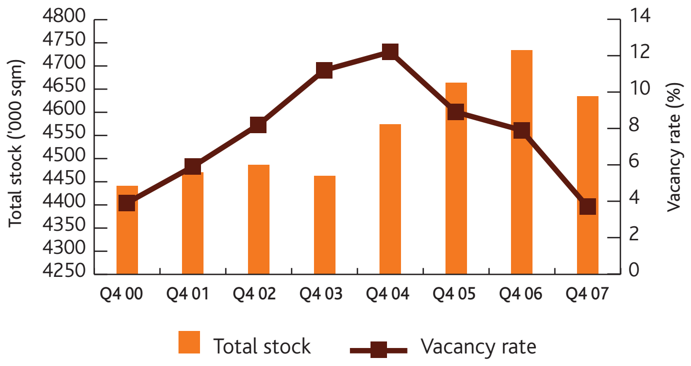
Sydney CBD office rent (prime grade)



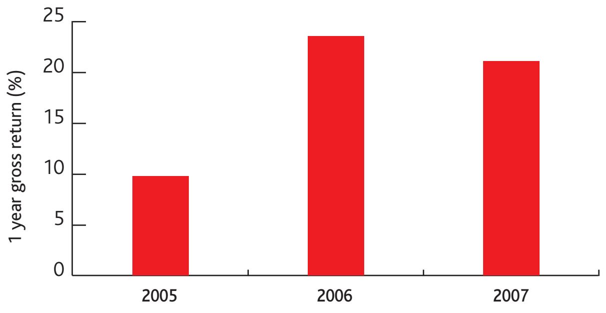
Sydney CBD office gross rental yield (prime grade)



Sydney CBD office stock & vacancy rate (all grades)



Sydney CBD office 1 year gross return



China

MARKET OVERVIEW

While the rest of the world continues to struggle with the credit crisis, China's real economy looks relatively unaffected, and it appears that the country is ready to assume its role as the main driver of global economic growth.

Estimates for China's 2008 GDP growth have been reduced, but are still robust at 9.4%, with slowing exports to the U.S. one of the major issues that China is facing.

Foreign investment in China continues unabated. China received $74.7 billion in foreign direct investment in the non-financial sectors in 2007, up 13.6%. Projections for 2008 are that FDI will continue to grow, albeit somewhat refocused on different industry sectors.

CHINA ECONOMIC SNAPSHOT

- China's GDP grew at a robust rate of 11% in 2007.
- GDP is projected to grow at a healthy 9.4% in 2008, according to the World Bank.

CHINA BUSINESS GROWTH DRIVERS

- Domestic demand from a growing consumer base is a major growth driver, and retail sales grew at 21.1% in the year to May 2008.
- China still holds its position as the world's factory with strong industrial growth. While the costs of production in China are increasing, China's market share continues to grow through movement into higher value added products.
- China continues to attract high levels of foreign investment.

A number of new regulations issued in 2007 are likely to impact foreign investment in real estate. Circulars 171, 50 and 130 require investors to invest through an onshore WOFE and restrict their options for debt funding. More worryingly, approval of new WOFE seems slow and uncertain in both Beijing and Shanghai.

Despite new regulations, in 2007 total investment sales still increased rapidly. Total investment sales transaction value for the office, industrial and retail sectors is estimated at $15 billion in 2007, compared to $7 billion in 2006.

While the investment market grows, China's housing market also continues to be hot, despite both regulatory measures and multiple interest rate rises. In 2006-2007, there were a total of eight lending rate rises totalling 189 basis points.

On May 12, 2008 China suffered a major national tragedy as a result of the Wenchuan earthquake. Disaster recovery was dealt with swiftly and efficiently by the Chinese leadership, and the economic impacts, while significant, are considered limited and regional in nature.

MARKET OUTLOOK

We expect China to continue to be relatively unaffected by global economic uncertainty, with strong economic growth and foreign investment continuing. Further appreciation of the RMB is anticipated. The yuan broke the 7.00 to a dollar barrier in April 2008, and is expected to break 6.50 to the dollar in the next 12 months.

While property developers are currently affected by less readily available financing, we expect the pace of development to continue unabated this year with 2.4 billion sq. m. of residential space currently under construction and many more projects under planning.

Early signs show that growth in investment transactions is slower in 2008, with a majority of completed transactions with foreign investors being offshore share-based transactions, rather than onshore asset-based transactions.

RISKS

The risks of investment in China's real estate market are well recognised:

- lack of a freehold system
- currency not freely convertible
- lack of institutional quality stock
- lack of market transparency

While foreign investors now understand some of these risks, and the transparency of the market appears to be increasing, a rise in market regulation over the last 12 months has become the new risk for foreign investors. There is lack of clarity as to how current regulations will be implemented. There are also concerns about potential future regulation.

RETURNS

Residential Property

- Rental growth in the luxury rental market segments of Shanghai and Beijing has been strong over the last 12 months, with rents in Shanghai up 13.61% in June 2008 compared to a year ago and rents in Beijing up 7.96%. The luxury residential rental market is driven by expatriate and overseas Chinese demand, with some domestic demand from senior staff working temporarily in another location.
- Capital values in some major cities have had a bumpy ride over the last year. However, the general trend is upward, with Shanghai prices now 9.6% higher than a year ago and Beijing prices 15.7% up in the year to May 2008. Nationally, house prices continue to rise, with an average national increase of 9.2% in the year to May 2008.
- Gross yields in the luxury residential market range between 4% and 8%, while in the overall market gross rental yields are as low as 3%. In most markets, demand for rental property is weak with most people aspiring to buy.

Office Property

- Rental growth in the Grade A office market in Shanghai this year has been strong. Shanghai, with a continuing shortage of high quality space and vacancy rates of just 2.2%, has seen 18.9% rental growth in the 12 months to June 2008. Beijing has performed better than anticipated over the year in the face of huge volumes of new Grade A office supply. Demand for Beijing offices has proved strong, keeping vacancy rates at 14.6%. Meanwhile, Grade A rentals have fallen 15.3% over the year to June 2008. Capital values increased over the year in Shanghai and Beijing, with average increases estimated at 20.7% and 9.5% respectively. Gross yields in the Grade A office market range between 5.5% and 10%, with Grade A properties in Shanghai currently attracting the keenest yields.
- Elsewhere in China, demand has proved strong and rental growth has not been good despite consistently high levels of supply. Rentals in Chengdu increased 12.2% over the 12 months to June 2008, while rentals in Guangzhou and Shenzhen increased 7.75% and 20.6% respectively.

Industrial Property

- Rentals in the industrial market have been stable, reflecting ample supply of new property. In Beijing, rentals for the best industrial space reached RMB1.7 per sq. m. per day in June 2008, while in Shanghai rentals reached RMB1.45 per sq. m. per day. China's industrial economy continues to grow rapidly, outpacing growth in the service industry. In 2007, industry and services grew at 13.5% and 11.4% respectively.

Retail Property

- China's major shopping streets have experienced strong rental growth with rents on Beijing's Wangfujing and Shanghai's Nanjing Road reaching $200 per sq. m. per month and $212 per sq. m. per month respectively.

  Secondary cities with strong retail markets are also showing good prime rental growth and rental rates to rival Beijing and Shanghai. Chengdu prime rentals are as high as $171 per sq. m. per month, while Guangzhou rentals have risen to $168 per sq. m. per month.
- Strong retail sales continue to drive the market, and the latest figures show retail sales growth at 21.1% in the year to May 2008. The top 100 chain stores' sales now account for 11.2% of overall sales in 2007.

Hospitality Property

- While Shanghai offices outperformed Beijing, Shanghai hotels performed less well, with room rates increasing just 3% in 2007, compared to over 10% for Beijing. Longer term outlook is for strong growth in both supply and demand as the latter continues to grow in the corporate and tourist sectors, and the domestic and international sectors are active in the market.

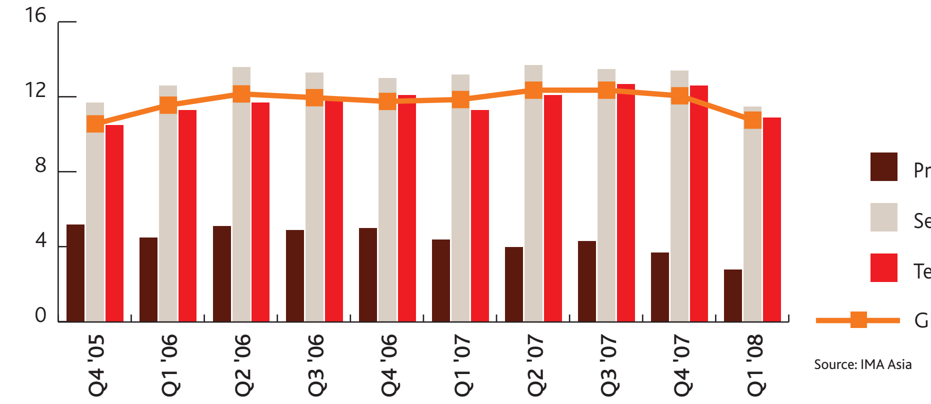
FINANCING ROUTES AND DEVELOPMENTS

IPO has been a popular method of financing real estate development in China. In the last 12 months, developers including Soho China, Sino-Ocean Land and China Aoyuan Property Group have listed either in China or in Hong Kong. The IPO market, however, has slowed markedly due to weaker market sentiment in 2008, with a number of major developers delaying their IPOs.

China currently has no REIT market, though there are a number of REITs listed in Hong Kong and Singapore which contain Chinese assets. China's Security Regulatory Commission is reported to be exploring the potential of the local REIT market.

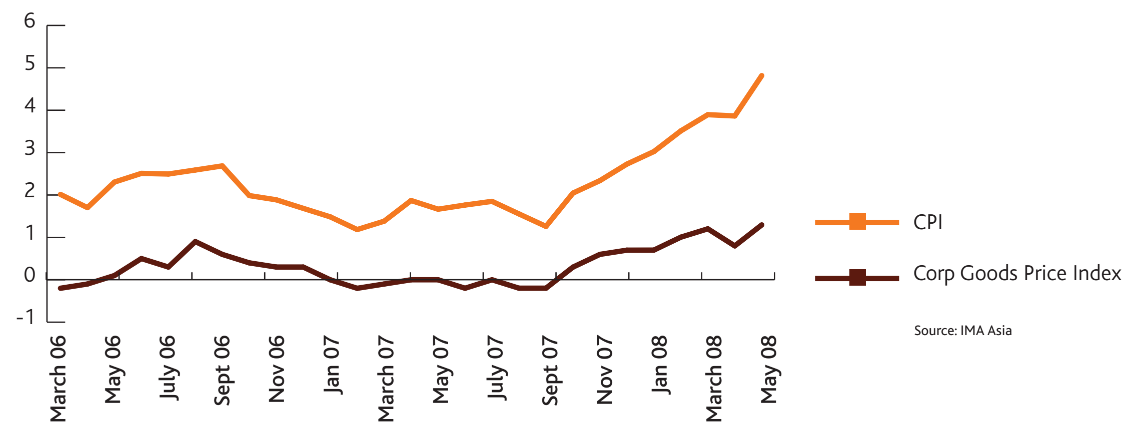
Generally speaking, developers are currently feeling capital constrained in an environment of higher interest rates and limited availability of financing. Despite these financial constraints, development activity is still at high levels. Overall levels of investment in property development increased by 32% in 2007 to RMB 2.85 trillion yuan.

China: GDP by Production (YTD, %YOY)



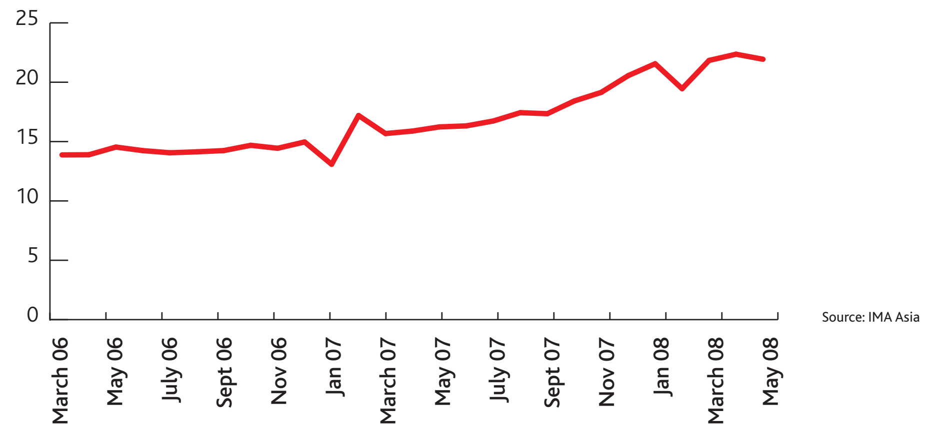
Source: IMA Asia

China: Inflation (%YOY)



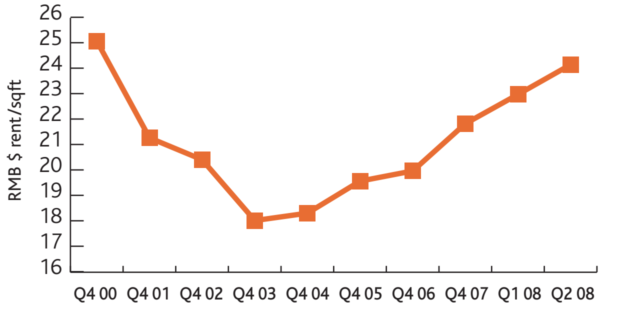
Source: IMA Asia

China: Retail Sales Growth, nsa (%YOY)

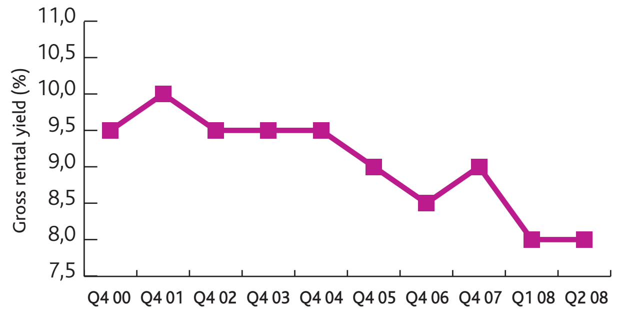


Source: IMA Asia

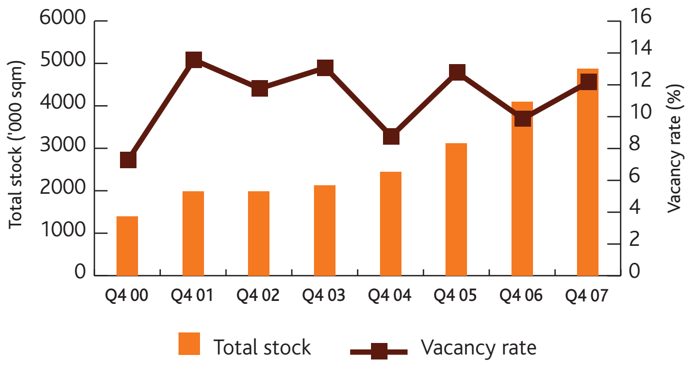
Beijing office rent (overall grade A)



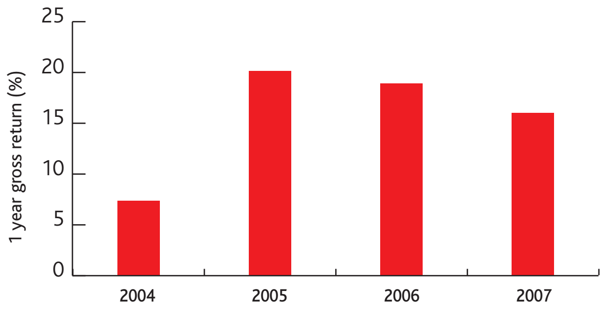
Beijing office gross rental yield (grade A)



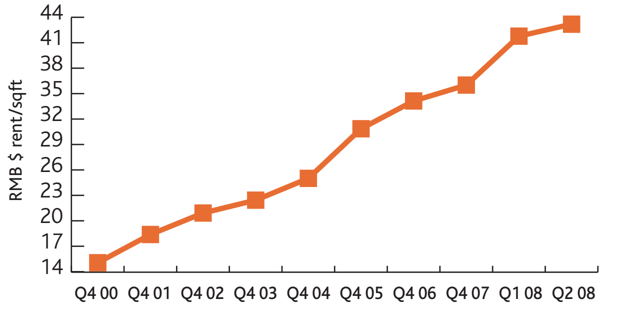
Beijing grade A office stock & vacancy rate



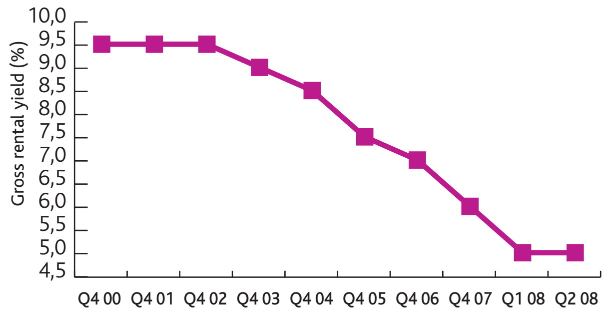
Beijing office 1 year gross return (grade A)



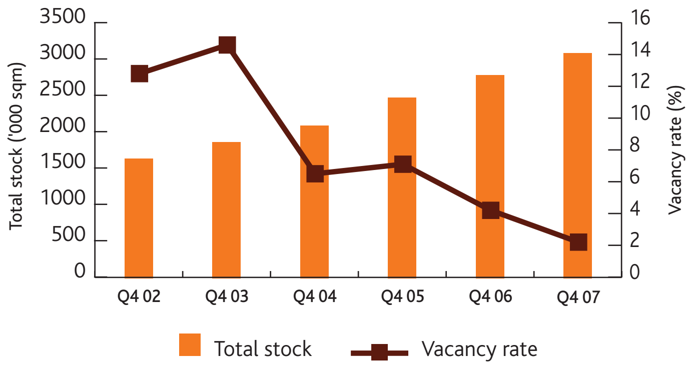
Shanghai office rent (overall grade A)



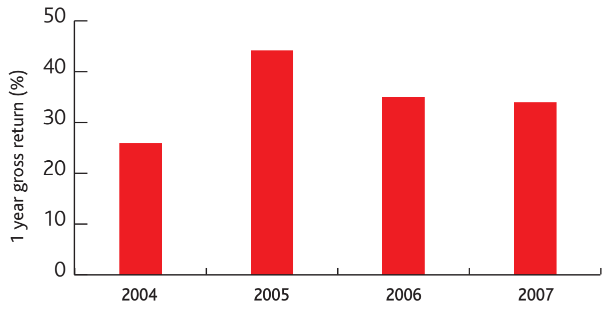
Shanghai office gross rental yield (grade A)



Shanghai grade A office stock & vacancy rate



Shanghai office 1 year gross return (grade A)



Hong Kong

MARKET OVERVIEW

- The Hong Kong economy has been growing rapidly since 2004. In the first quarter of 2008, GDP grew at a better-than-expected rate of 7.1% y-o-y fuelled by increases in private consumption and gross domestic fixed capital formation.
- Negative real interest rates are being brought about by a depreciating USD. As a result, these interest rates, coupled with rising inflation, are persuading people to shift their monetary investments from deposits to tangible and value-preserving goods like commodities and real estate.

HONG KONG ECONOMIC SNAPSHOT

- Hong Kong's GDP grew at a robust and better-than-expected rate of 7.1% in the first quarter of 2008.
- GDP is projected to grow at a healthy rate of 4% to 5% in 2008.
- Unemployment fell to 3.3% for the period March-May 2008, a ten-year low.

- The Hong Kong economy is becoming more dependent on mainland China and less on the U.S.
- Although foreign ownership is not restricted, and there is no capital gains tax in Hong Kong, local buyers and sellers continue to dominate the investment market. Prime properties are mostly owned by a handful of developers and are rarely available for sale. While there are some en bloc investment purchases, transactions are usually only for portions of a building.
- The banking and finance industry has stopped expanding. On the other hand, legal, accounting and insurance firms are cautiously expanding their operations in this self-governing territory.
- Landlords in Kowloon East have become more accommodating in their rent negotiations as new office developments become ready for occupancy.

MARKET OUTLOOK

- Local GDP growth in the second half of the year is expected to slow due to the cumulative effects of the weakening U.S. economy, three brutal natural calamities less than five months apart and rising inflation across the world caused primarily by soaring oil prices.
- Rebate checks issued by the U.S. government to inject cash into their economy and spur consumption, in addition to increased spending by the Chinese government and people to rebuild Sichuan province, might give a boost to these two major world economies. On the other hand, they might also stoke already high inflation rates.
- Negative real interest rates will likely continue to prevail in the near term. However, the U.S. Federal Reserve is keeping a close eye on inflation and will raise its benchmark rates if inflationary developments and expectations continue to worsen. If so, Hong Kong will surely follow suit because of the currency peg.
- The downward bias of the local stock market will dampen investment sentiment.

OFFICE RELOCATION TREND

To achieve greater savings in business costs without sacrificing building quality, some companies have decided to move some or all of their operations to non traditional business districts. Morgan Stanley, Deutsche Bank and Credit Suisse First Boston have taken up several floors in the International Commerce Centre in Tsim Sha Tsui.

RISKS

- As Hong Kong's economic fundamentals are solid, the risks are mostly external. The most critical risk factors are the economies of mainland China and the U.S.
- Inflation has become a global problem and is exacerbated locally by the weak currency, due to the peg on the U.S. dollar.
- Unforeseen health epidemic outbreaks like SARS or bird flu will be detrimental to the local economy.

RETURNS

Yields in Hong Kong are typically quoted on a gross area basis before deduction of transaction costs, depreciation and non-recoverable management fees. Compared to other Asian countries, real estate investment yields in Hong Kong are quite low. Yields in residential and strata-titled office properties have been steadily declining because rents, although rising, haven't been able to catch up with surging capital values as speculation is rife in the market.

Hong Kong

Office

- Yields are around 4.84% per annum on average.
- Large sales and purchase transactions of strata-titled offices are most active in Central and Tsim Sha Tsui.

Industrial

- Yields are around 7.43% per annum on average.
- Capital values of good quality warehouses have been rising because of scarce supply, coupled with strong demand from logistics firms.

Retail

- Yields are around 6.53% per annum on average.
- Well known international brands are setting up flagship stores in Hong Kong as they recognise that its popularity as a tourist destination is increasing. This is especially true as the weak local currency will make it cheaper for tourists, particularly from the mainland, to buy retail goods.

Residential

- Yields are around 3.5% per annum on average.
- The number and consideration of sales and purchase agreements for residential units have been steadily declining since February 2008, mostly due to future uncertainties in the local economy.

Hospitality

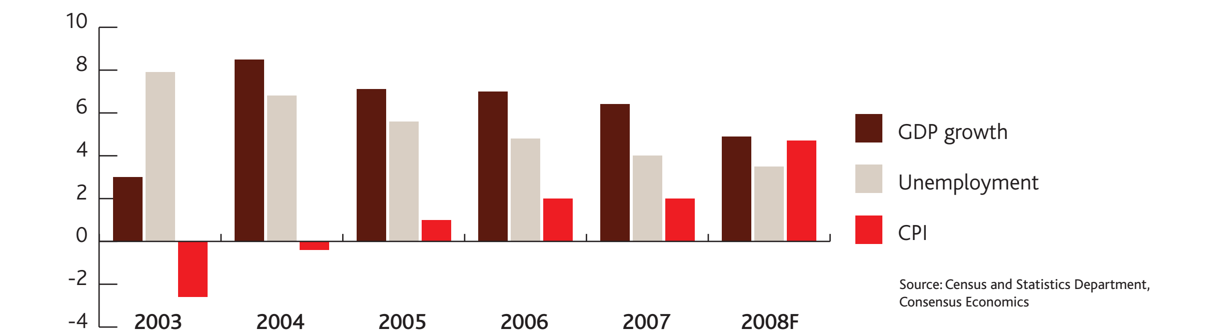
- The scrapping of the hotel accommodation tax in July 2008 will further boost already high occupancy rates. Yields have also remained quite attractive for investors.

FINANCING ROUTES AND DEVELOPMENTS

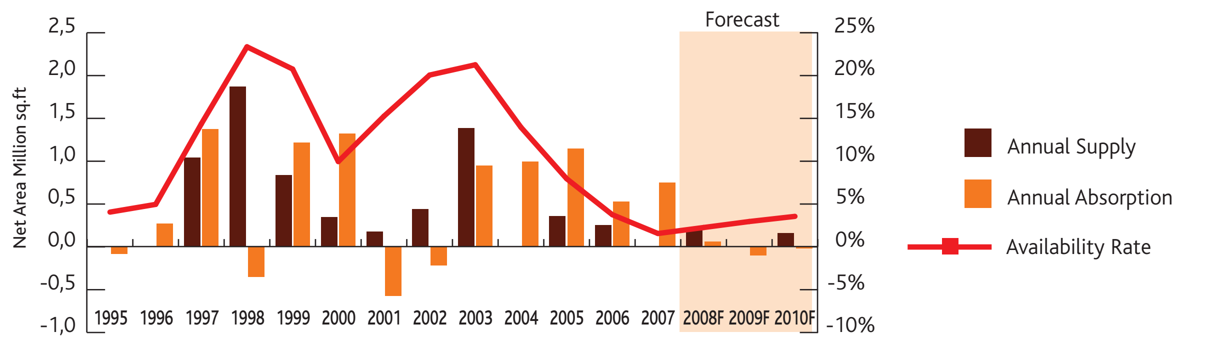
As with the rest of the world, financial institutions have become more cautious in their lending activities. The real estate sector has not escaped this phenomenon. Financial institutions are generally taking a more conservative approach, reducing loan-to-valuation ratios and shortening tenures. Furthermore, as the cost of capital and funding has increased for financial institutions, coupled with the perceived change in risk fundamentals, credit spreads have widened materially. However, corporate balance sheets in Hong Kong are relatively sound, having recovered from the Asian financial crisis and the SARS epidemic.

There are alternative routes to conventional bank borrowing to monetise property assets in the form of REITs. However, the REIT market in Hong Kong is still quite shallow due to a lack of availability of prime assets, low passing initial yields and a lack of appreciation of the underlying asset group. These will undoubtedly improve over time as the market gradually accepts REITs as being a viable alternative asset group, providing liquidity to investors wanting to take pure property exposure.

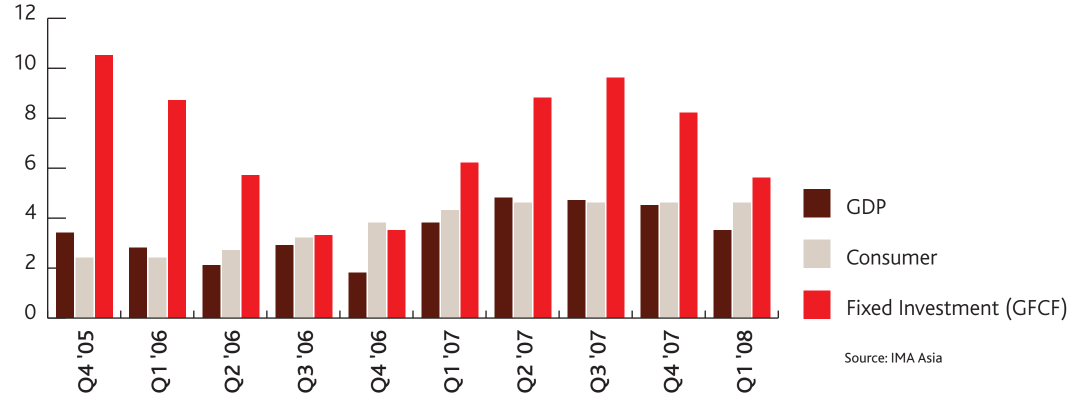
Hong Kong: Key Economic Indicators (%YOY)



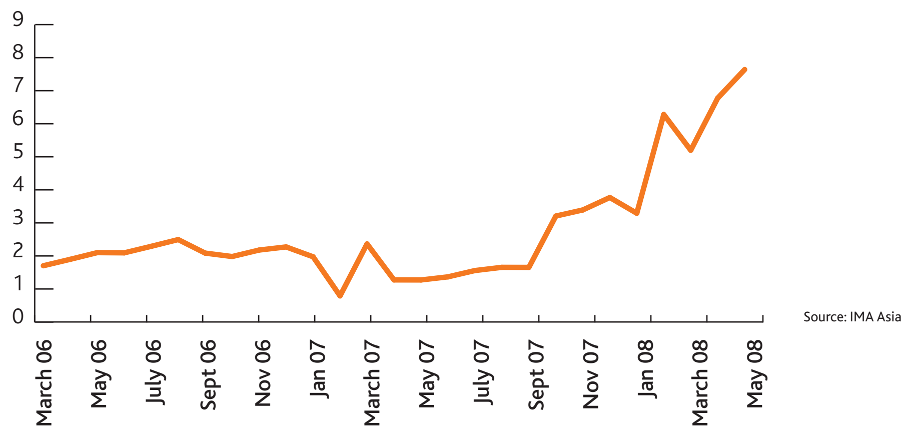
Greater Central Grade A Supply, Absorption and Availability



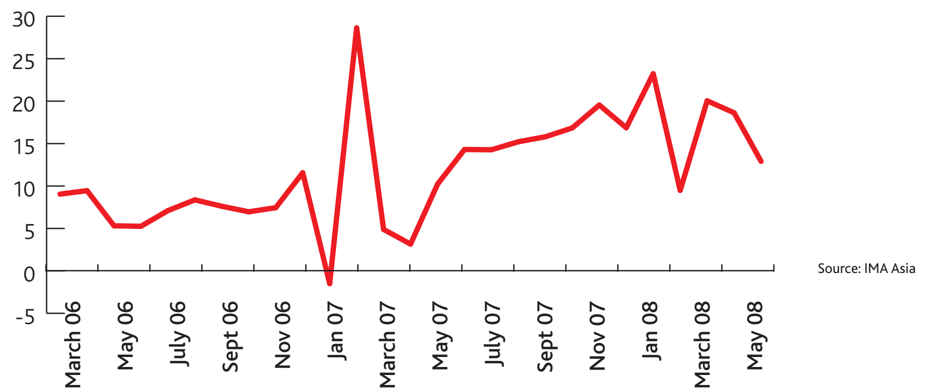
Hong Kong: Real GDP Growth (%YOY)



Hong Kong: Inflation (%YOY)

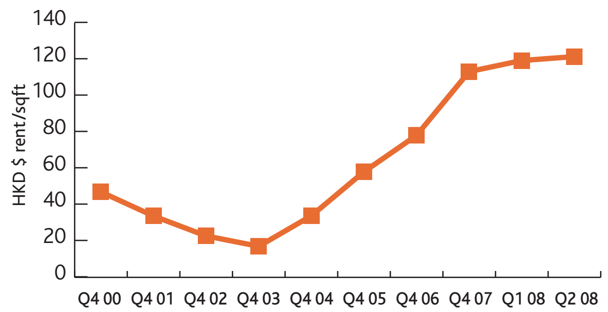


Hong Kong: Retail Sales Growth, nsa (%YOY)

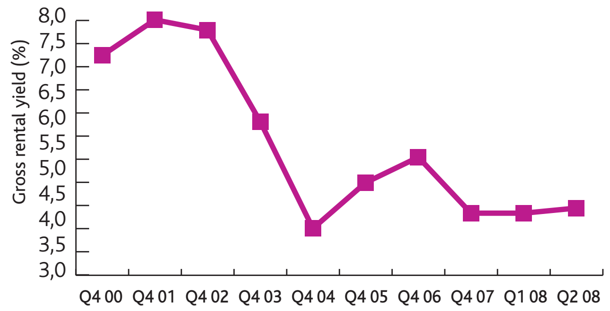


Hong Kong

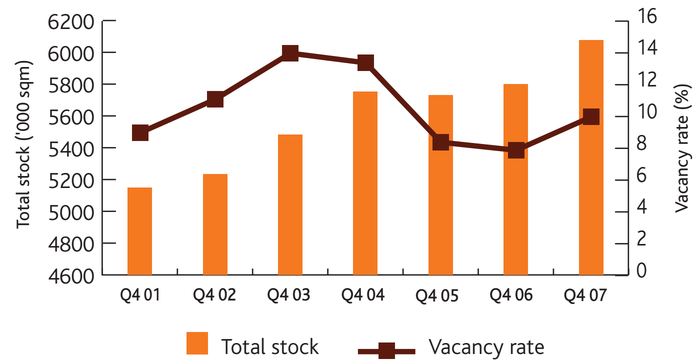
Hong Kong central office rent (Grade prime, A & A/B)



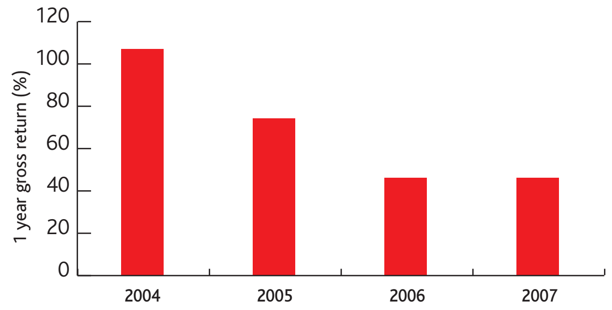
Hong Kong office gross rental yield (Grade A)



Hong Kong overall office stock & vacancy rate (Grade A)



Hong Kong central office 1 year gross return (Grade A & prime)



India

MARKET OVERVIEW

- The GDP growth figure of 9% recorded in 2007-08 was remarkable, surpassing the estimate of 8.7% amidst the economic uncertainty in global markets. The services sector performed well, with growth registered at 11.2% in contrast to the manufacturing sector, which witnessed a slowdown, with growth of 5.8% in the last quarter of the financial year from 9.6% in the quarter ending December 2007. The Finance Ministry has expressed an optimistic outlook for the current financial year, with a GDP growth rate projected at 8.5%.
- Inflation reached a 13-year high of 11.05% for the week ending on 7th June 2008, fuelled by increase of oil prices. This has compelled the government to take control measures in terms of raising the repository rate.

INDIA ECONOMIC SNAPSHOT

- GDP growth recorded at 9% in 2007-08 surpassed the projections.
- GDP forecast to grow at 8.5% in the current fiscal year.
- Exports recorded at $155.5 billion, registering an increase of 23% in dollar terms and 9.4% in rupee terms over the last year.
- Trade deficit widened by 35% to reach $80.4 billion in 2007-08.

- External Commercial Borrowing (ECB) norms have been relaxed to enable the domestic companies to access relatively cheaper debt markets and to control volatility of the rupee, which has depreciated over last couple of months. The government eased the repatriation norms and relaxed the spread over LIBOR, making it easy for SMEs to raise ECBs in foreign debt markets. In the second quarter of this year, the central bank announced an increase of the ECB limit, under the approval route for infrastructure and other sectors, to $100 million and $50 million respectively from $20 million.
- The Reserve Bank of India recently hiked the Cash Reserve Ratio (CRR) by 50 basis points to 8.75% and the repo rate by 50 basis points to 8.5% in the 2nd quarter of 2008 with the aim of curbing inflation and ensuring growth momentum for the economy.
- The Foreign Institutional Investment (FII) limit for government securities and corporate bonds is raised by $3.3 billion, implying additional investment opportunities in the Indian bond market.
- India received foreign investment of $20.8 billion in the energy, services, construction and real estate sectors over the last four fiscal years. The real estate sector witnessed an increase of $2.17 billion in 2007-08 , growing four times over the last year.

MAJOR INFRASTRUCTURE INITIATIVES

- Airport modernisation
- Golden Quadrilateral
- Mass Rapid Transit System in major cities
- Port developments
- Dedicated freight corridors

- The increase in the credit limit for housing loans to individuals carrying a risk weight of 50% was enhanced to INR 3 million from INR 2 million. It is aimed at reviving growth in the housing sector. This would enable banks to cater to the growing demand in the mid-segment housing category by funding properties which fall in the stipulated category.
- RBI increased the limit on individual housing loans from INR 2.5 million to a maximum of INR 5 million in respect to Tier II Urban Cooperative Banks, subject to certain conditions. This would enable the housing sector in Tier II cities to witness necessary momentum.
- The sunset clause to Software Technology Parks of India (STPI), under which companies receive tax exemption, has been extended by a year until March 31, 2010. As the demand in the commercial sector is driven by the IT/ITeS sector, the announcement strengthened the confidence of companies.
- An announcement by the Department of Industrial Policy & Promotion (DIPP) made early this year, permitted FDI up to 100% under the automatic route in developing and established Industrial Parks. It is subject to certain conditions such as minimum capitalisation of the companies, minimum area requirements for services, housing plots and construction projects, as well as lock-in periods for investments.
- Corporate office space is likely to witness an upsurge in demand across the major cities in the country as the IT/ITeS sector looks for opportunities in the SEZs. Office space demand in the first quarter of 2008 was recorded at approximately 14.48 million sq. ft. compared to 9.41 million sq. ft. in the same quarter of 2007. The projected supply is estimated at 83 million sq. ft. for the current year across seven major cities.



India

MARKET OUTLOOK

The office rental values have shown signs of stagnation across all CBD in major cities and are likely to witness a decline towards the end of this year. This is due to the high price points attained by these locations, restraining them to command further appreciation.

The residential sector catering to the high-end segment continues to witness buoyant demand. The mid segment has witnessed renewed interest from developers to cater to the demand from the mid segment, unaddressed until now. As the momentum is spreading to newer geographies, the investor community is continuously looking for areas with favourable socio-economic environments.

The government recognises that the current infrastructure is inadequate to sustain the impressive growth the country is poised for. The 11th 5-year plan (2007-2012) has announced expenditure of approximate $500 billion for the increased gradation, modernisation and expansion of existing infra-structure. Airports, Mass Rapid Transit Systems (MRTS) and Special Economic Zones (SEZs) are some of the key initiatives which will be instrumental in identifying new geographies to continue the successful development of the Indian realty sector.

RISKS

The RE sector is continuously metamorphosing to emerge as an organised industry in the country. In the process, it strives to address certain challenges in defining the regulatory guidelines that can pose the following risks to investors:

- Fragmented and unclear titles, as well as outdated land records, make acquisitions difficult.
- Diverse state policies regulate real estate across the country, such as the stamp duty and property tax.
- Bureaucracy lengthens the process of attaining approvals and clearances, resulting in delays.
- Projects and developers are undercapitalised, resulting in lack of finance which impacts on timely execution and sustainable growth.
- Long-term leases are not signed due to high transaction costs. Typically, lease tenures exist for a period of 9 years.
- Infrastructure development is slow, and systemic inefficiencies make it difficult to maintain the growth of urban centres.
- Hybrid financing structures are absent due to lack of policy initiatives and restrictive regulation.
- Financial leverage options are limited and liquidity is controlled by the authorities.

RETURNS

Expected project returns across product types

Project type	Range of project IRR	Investment horizon
Residential	30% - 40% un-levered	3 - 4 years
Retail	20% - 30% levered	4 - 6 years
Commercial	20% - 30% levered	3 - 5 years
Hotel	20% - 25% levered	3 - 5 years
Mixed-Use Township	25% - 35% levered	> 7 years

Note:

- There is a variance in returns across markets.
- Project figures compiled on the basis of past experience across projects.
- Range of projected IRR is all pre-tax.

Residential Property

- Rising interest rates, coupled with an increase in the prices for apartments over the year, have resulted in demand slowing down across major cities. There is a conscious effort by realtors to lure prospective buyers by way of incentives.
- The luxury segment, which was dominant in major cities, continues to register buoyant demand. This segment is predominantly driven by the demand from the HNI (High Net Worth Individuals) and NRI (Non Resident Indian) communities, which are insulated from the impressive economic dynamics. Recently, a majority of large developers have started catering to the increasing demand in the mid segment as well. Tier II and Tier III cities are emerging as locations where the residential sector for the price-sensitive segment is the leading asset class.
- The gross yield in residential markets is anticipated to be approximately 4-5% for the current year.

Office Property

- The rate of rental growth in the CBD areas across the major cities slowed down marginally to 11% in the first quarter of 2008 from 14% in the corresponding period last year. This slowdown can be attributed to the infusion of new commercial stock with better infrastructure in the suburban and peripheral locations, resulting in companies moving towards these locations to enjoy better and more cost-effective facilities.



- The year 2007 witnessed a total supply of approximately 45 million sq. ft. across the major seven cities, including 10 million sq. ft. of space in the SEZs catering specifically to the IT/ITeS sector, which continues to be the key demand driver for commercial office space. Major developments currently in progress across the nation are likely to add approximately 83 million sq. ft. of commercial office space in 2008, with an increased share of the SEZ market amounting to 24 million sq. ft.
- The gross rental yields for CBD locations continue to be in the range of 8-10%. However, the peripheral and suburban areas have witnessed a higher yield, ranging from 10-12% due to increased risk perception of these markets.

Industrial Property

- Industrial locations in the suburbs of the major cities are undergoing a transformation as several manufacturing and warehousing units are being established there. The rental values that were prevalent last year continue to remain the same.
- As India emerges as the preferred destination for manufacturing outsourcing, many Indian states are luring industrialists by offering incentives to their investments and improving the infrastructure. Industrial zones have been identified by several states for large manufacturing units, as well as small sheds within the industrial parks.
- The rental yield for manufacturing and warehousing space in industrial locations across the country was in the range of 10-12% in the first quarter of 2008. This rate is likely to continue in the medium term, expecting a similar growth momentum for the segment.

Retail Property

- In the first quarter of 2008, retail real estate supply, comprised mainly of retail malls, stood at approximately 2 million sq. ft. of the 20 million sq. ft. projected for the current year.
- Demand from retailers continues to be buoyant as evinced by the increase in rental values across selected malls and main streets by 8-10% over the fourth quarter of 2007. As the organised retail sector is slated to grow 16% by 2011-12, the rental values in retail malls will likely scale new heights.
- The retail sector is expected to yield 9-11% annually and is likely to continue at the same rate in the coming years. This is in anticipation of robust growth in the organised sector, as India is among the most attractive emerging market destinations for investment in the retail sector.

Hospitality Property

- Domestic and international tourists increased by 14.6% and 12.4% respectively in 2007. The tourism sector continues to expand rapidly, with domestic demand comprised of a significant fraction of the total growth recorded in the country in the last year.
- The increase in domestic tourism has created a need for mid-market hotels. To cater to this demand, approximately 40-45% of rooms will be added, to the existing stock across major cities, spread over 2008 and 2009. The industry is also witnessing mixed-use developments where hotels are built atop malls to mitigate commercial risks.
- In-bound tourism in India is poised to grow at the rate of 7.9% CAGR during 2007-2017, as estimated by the World Travel & Trade Council (WTTC). Health tourism has also emerged in the past few years and is likely to strengthen as an increasing number of travellers seek healthcare solutions in India and uninsured individuals from developed countries leverage the cost differentiation. The country is also attracting a sizable proportion of patients from underdeveloped countries where healthcare facilities are inadequate.

FINANCING ROUTES AND DEVELOPMENTS

Several modes of financing have evolved, ranging from private equity investments to equity markets. The preferred debt mode of financing is now getting replaced by newer options.

Debt

- The existing inflationary pressures that led to a tightening of liquidity by increasing the Cash Reserve Ratio (CRR) by 25bps to 8.25%, made debt financing dearer.
- Relaxation of ECB norms provided broad access to the debt market to infrastructure companies, which can now borrow up to $100 million for rupee expenditure in infrastructure under the approval route.

Equity

- Foreign entities make private equity investments to India through Foreign Direct Investments (FDI), Foreign Venture Capital Investor (FVCI) and Foreign Institutional Investor (FII).
- Private equity also has its share of uncertainties. Foreign investors are doubtful on the potential of their returns due to the increased cost of inputs and the delay in execution resulting in increased risk perception. This is leading investors to follow a selective and cautious approach while investing and selecting partners.
- PE firms invested about $3.3 billion in the first three months of this year, an increase of 22% in value over the same period last year.

SECONDARY MARKET OPTIONS

As the economy is doing well, with real estate being part of the growth story, there is great enthusiasm about the structure and the framework of products like Real Estate Investment Trust (REIT) and Real Estate Mutual Fund (REMF). These instruments provide an opportunity for the investor to select from among a diversified portfolio of real estate assets and choose an appropriate risk profile.

Real Estate Investment Trusts (REITs)

- The draft guidelines on REITs released by the government in December 2007 outlined the scope of investment, structure and regulatory requirements to adhere to when launching a financial product. However, the final regulation will be formulated after incorporating some of the key recommendations by industry stakeholders.
- Offshore REITs cater to the capital requirement of the real estate sector as it gives the company easy access to funds and preferable exit options. The performance of some of the recently listed property trusts on the Singapore REIT market has failed to meet investor expectations, making it a challenge for Indian realty firms to raise funds through this route. Two prominent real estate developers, Unitech Ltd. and DLF Ltd., have deferred their plans of listing REITs, forcing them to find alternate channels of funding.

Real Estate Mutual Funds (REMF)

- The recently released amended guidelines for REMFs have brought clarity about the instrument. They enable entities to structure the instrument to bring liquidity and transparency into the market and thus institutionalise the sector.
- The guidelines state that at least 35% of net assets shall be invested in real estate assets directly. The balance will be invested in mortgage-backed securities, or in securities of companies dealing in real estate, assets or real estate development projects, as well as other securities. In total, investments in real estate and real estate related securities shall be at least 75% of the net assets.

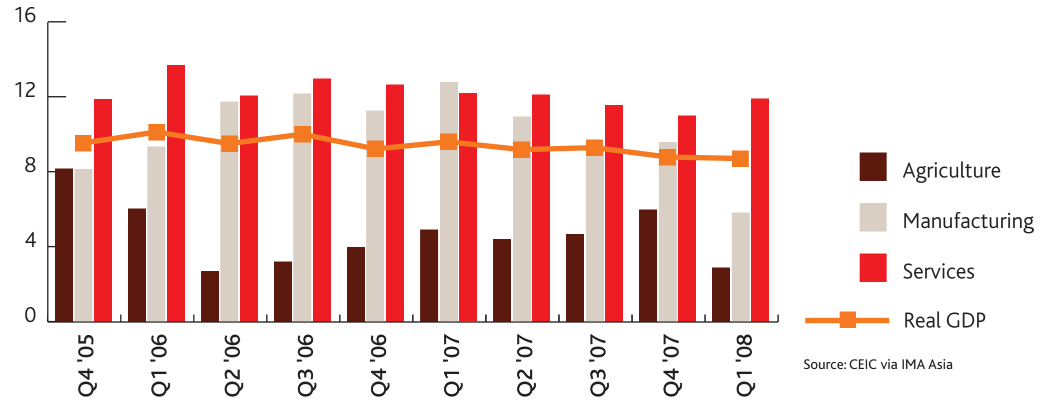
Public Offerings

- Major Indian real estate companies have raised funds from the domestic and international markets, including the Alternate Investment Management (AIM).
- Raising funds through public offerings is turning out to be challenging for reputed developers, as most of the listed stocks are trading below the listing price and depict a lack of confidence in the sector.
- Realty majors like Unitech, Hiranandani Constructions and K. Raheja have successfully tapped the international financial markets through AIM because of the simplified listing procedure.

Hybrid

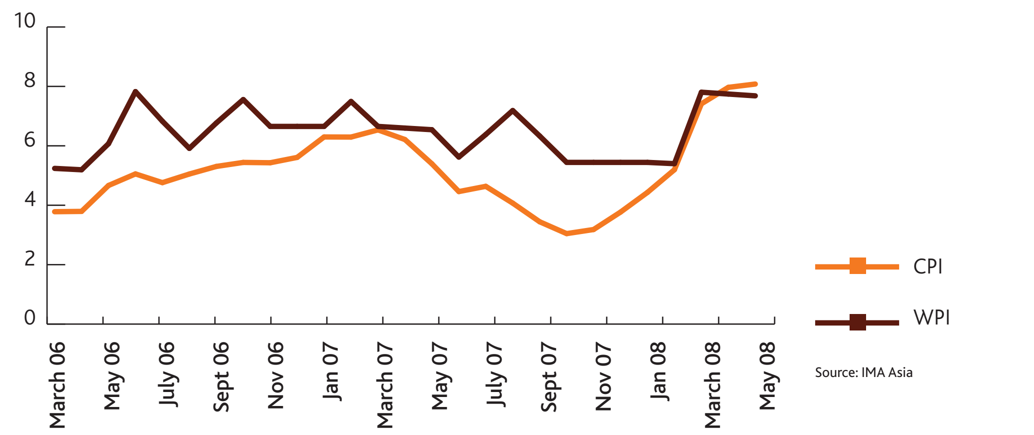
- These structured finance instruments have not become popular. The reasons include the unorganised nature of the industry, the uncertainty of foreclosures in the legal system, tax implications and lack of encouragement from regulators.
- As the government contemplates the introduction of structured debt instruments like RMBS, CMBS, CDO and ABS, the traditional sources of funding have been difficult to tap. This will also lead to the development of innovative financing options.

India: Real GDP by Production (%YOY)



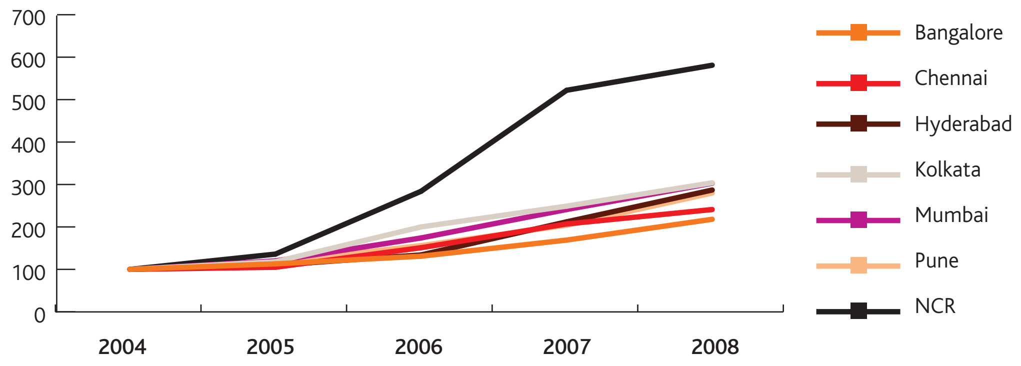
Source: CEIC via IMA Asia

India: Inflation (%YOY)



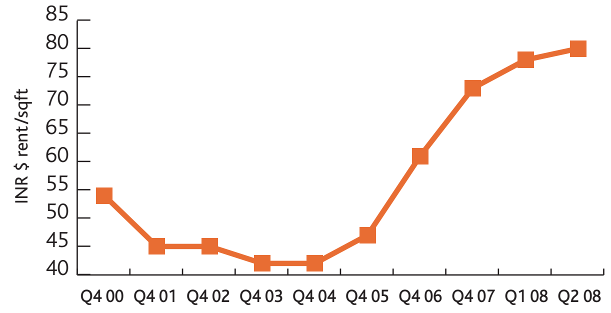
Source: IMA Asia

CBD Capital Value Index

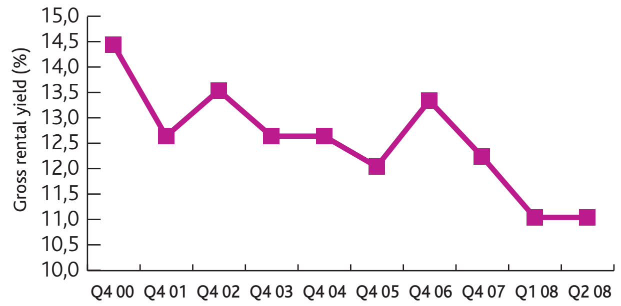


India

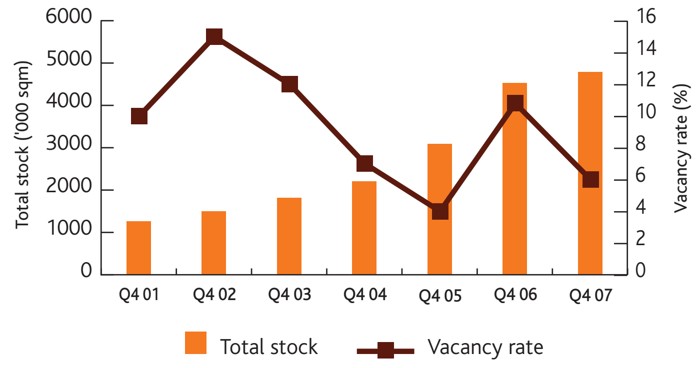
Bangalore CBD office rent (Grade A)



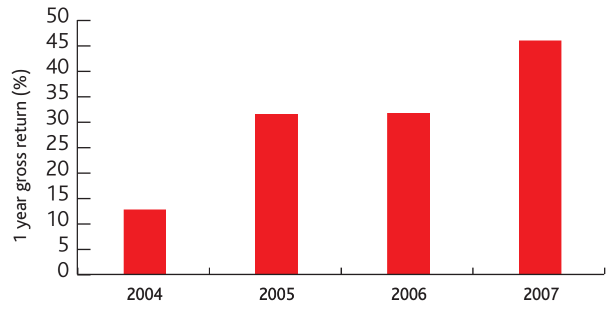
Bangalore office gross rental yield



Bangalore grade A office stock & vacancy rate

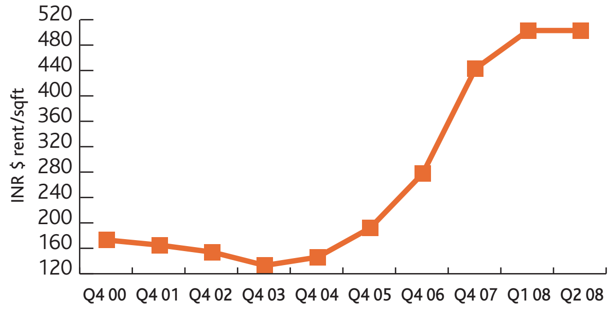


Bangalore CBD office 1 year gross return (Grade A)

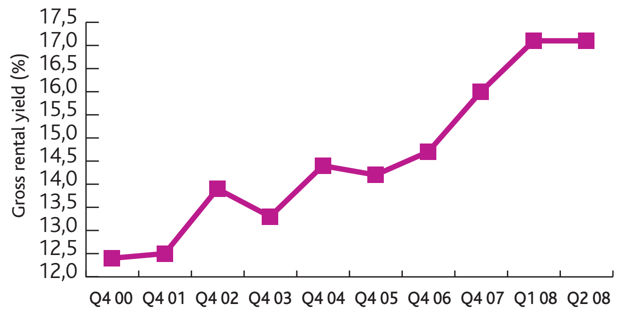


India

Mumbai CBD office rent (Grade A)



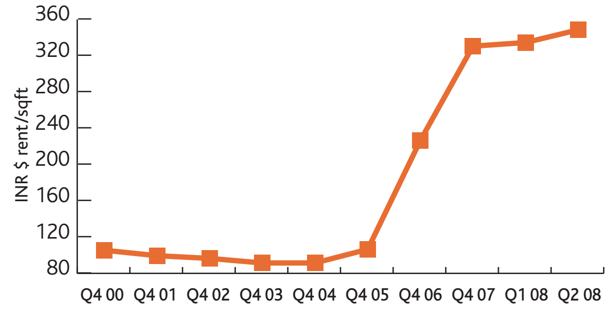
Mumbai CBD office gross rental yield



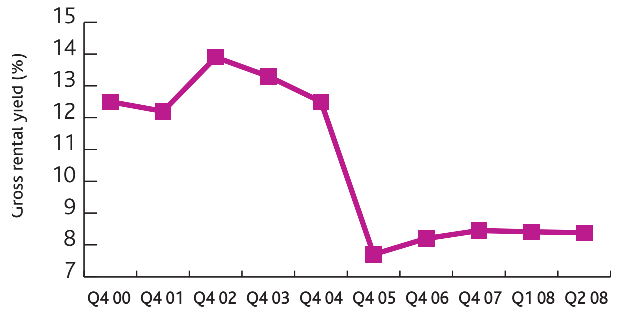
Mumbai CBD office 1 year gross return (Grade A)

India

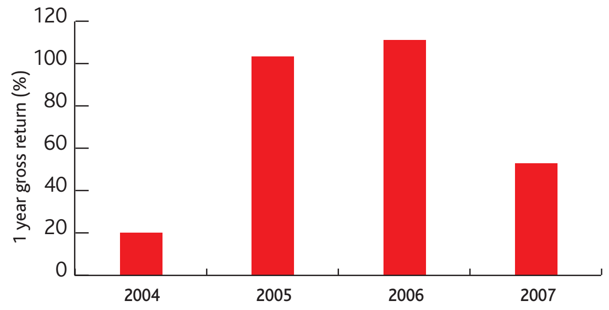
New Delhi CBD office rent (Grade A)



New Delhi office gross rental yield (Grade A)



New Delhi CBD office 1 year gross return (Grade A)



Indonesia

MARKET OVERVIEW

Despite global economic uncertainties, Indonesia's economy continued to show healthy growth in the first quarter of 2008. GDP for 2007 was 6.3%, representing the highest growth in GDP since 1997. After almost 12 months of progressive decline, interest rates (3-month SBI rate) rose to 9.15% in the second quarter of 2008. Inflation also showed a marked increase during the second quarter, mainly driven by the increase in fuel prices during the period following the government's reduction in local fuel subsidies.

INDONESIA ECONOMIC SNAPSHOT

- Indonesian GDP grew at a robust rate of 6.3% in 2007.
- GDP is projected to grow at 6.0% to 6.5% in 2008.

- In 2007, the Jakarta office market recorded its highest annual net take-up since the 1997 financial crisis, and this continued into the first quarter of 2008. Inquiries and net take-up are projected to remain strong throughout 2008 and for the coming 2-3 years.
- Despite high levels of additional supply over the next two years, sales rates within existing condominiums in Jakarta will likely remain stable at above 90%, and new projects coming up for completion have achieved significant pre-sales rates in excess of 70%, proving the increasing popularity of condominium living by end users in the middle and upper segments within Jakarta.
- In an attempt to further boost this condominium demand, the national Real Estate Agent and Developer's Association continues to lobby for reform of the existing condominium ownership regulations, which ban property ownership by foreigners.
- Leasing transactions within Jakarta's retail market remained active during both 2007 and early 2008, particularly within newly opened and renovated retail centers. Anchor tenants came from the supermarket/hypermarket sector, as well as department stores and entertainment centres, as well as several new international F&B and fashion retailers opening their first outlets in Jakarta during the review period.
- In the Greater Jakarta industrial market, transactions of large industrial vacant land plots remained limited due to the absence of significant foreign direct investment, while small-scale demand for standard factory buildings and warehouses showed opportunity for further growth.
- Indonesia, with its wide array of tourist attractions, ranging from ancient temples to rainforests, beaches, and volcanoes, as well as its ethnic and cultural diversity, launched "Visit Indonesia Year 2008", a campaign to increase the number of foreign arrivals from 5.5 million in 2007 to 7 million this year. Bali (voted again as the world's "Best Island" in 2007), experienced its highest-ever number of foreign direct tourist arrivals, representing an increase of 31.9% over arrivals in 2006. This had an obvious positive impact on hotel demand growth throughout the island, which continued into 2008.

MARKET OUTLOOK

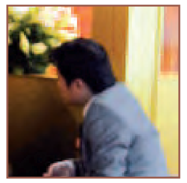
Despite the global economic situation, the overall Indonesian economy is expected to remain relatively resilient, although economic growth will be lower than in 2007.

Within the overall Jakarta property market, the retail sector has almost reached the peak in its cycle, while offices and condominiums are projected to remain strong throughout 2008 and into 2009, as will hotels in certain key cities. In contrast, rental apartments and industrial estates are expected to remain more subdued given the high supply of competition coming from condominiums-for-lease and limited new foreign direct investment in the industrial sector.

INVESTMENT OPPORTUNITIES

While most local investors were actively investing in office buildings in Jakarta, it is the islands of Bali and Lombok that remain the preferred investment destination for hotel/leisure/resort opportunities among foreign investors.

Other active property investment locations with available opportunities include Medan for retail and hotels; apartments, retail and hotels in Surabaya: apartments and hotels in Balikpapan; and hotels in Manado. These property markets are all at various stages of growth in demand and value.



RISKS

Despite the positive improvements within Indonesia over the last few years, some economic and business concerns remain, including:

- onerous labour laws
- continued unreliability of Indonesia's legal system
- lack of additional investment in essential infrastructure improvements
- excessive property transaction taxes (especially for condominiums)
- clarity on tenure extension rights on properties held by foreigners

The current lack of infrastructure and regulations for the establishment of a property capital market, including the provision of tax incentives for Real Estate Investment Trusts (REITS) is another area that is presently absent.

RETURNS

For foreign property investors, the macroeconomic and transparency issues mentioned above translate into a higher "country risk" assessment, which, in turn, equates to higher return expectations from investing parties. There are also only a limited number of property assets available at acceptable rates of return and of a large enough size to be considered attractive by foreign investors.

Office Market

- Despite significant additional supply, the consistently strong demand over the last several quarters and higher inquiry levels for office space both within and outside the Jakarta CBD, the sector is expected to experience higher growth over the next three years. In 2008 and 2009, yields for prime offices within the CBD are expected to be between 8% and 10%.

Residential Market

- While higher supply levels are expected to enter the market in the next three years, condominium living by both owner-occupiers and tenants in the middle and upper segments of the Jakarta CBD will continue to increase, especially given the traffic congestion in the city. Yields for upper segment residential condominiums are projected to be 7% to 8%. However, more robust returns in the range of 9% to 10% are expected in the middle "mass-market" development segment.

Retail Market

- The retail sector was the first to recover after the crisis and enjoyed several years of very strong leasing and sales activity. The decline in consumer spending and increased competition from the large supply of both leased malls and strata-title trade centres delivered in the last 1-2 years, has finally begun to see a fall in overall occupancy levels (despite demand growth remaining positive), indicating that this sector is close to the peak of its cycle. Retail yields within the CBD area remain around 8%.

Hotel Market

- In line with the relatively healthy overall economy, improvements in occupancy levels of hotels in Bali and Jakarta were recorded in 2007. All hotel sub-markets experienced increases in occupancy rates, on average rising by 5% to 7% from their 2006 levels. Bali and Jakarta again enjoyed continued recovery, achieving higher Average Room Rate (ARR) and Revenue per Available Room (RevPAR) levels.

Industrial Market

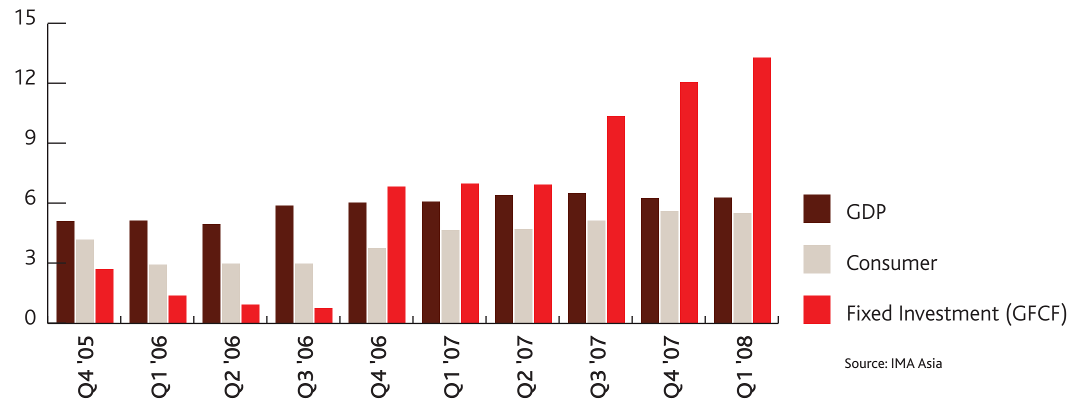
- The early signs of recovery for the industrial sector seen in 2006, with significant new net take-up, were not repeated in 2007. Transactions of larger industrial land plots remained few in number and this is expected to continue in the coming 1-2 years due to the limited foreign investment realisations. Smaller-scale demand for standard factory buildings and warehouses is, however, expected to remain strong.

FINANCING ROUTES AND DEVELOPMENTS

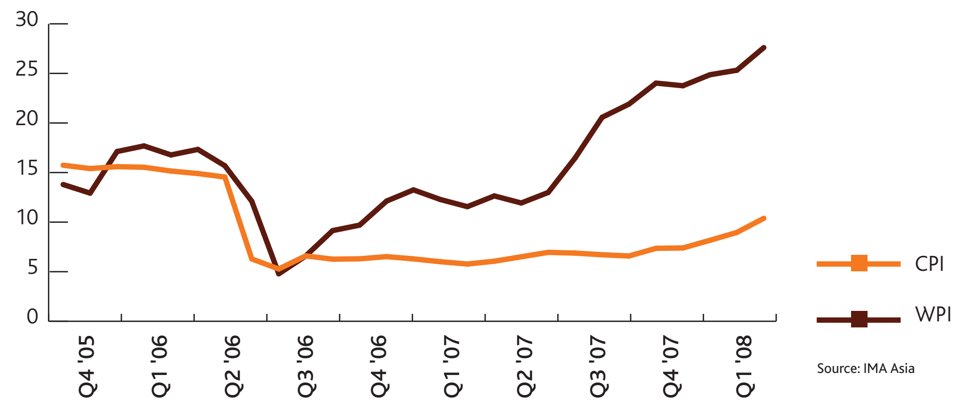
The market is predominantly funded through debt (raised from financial institutions) and private equity. Local investors have been actively investing in property assets in Jakarta, especially office buildings over the last few years.

Indonesia

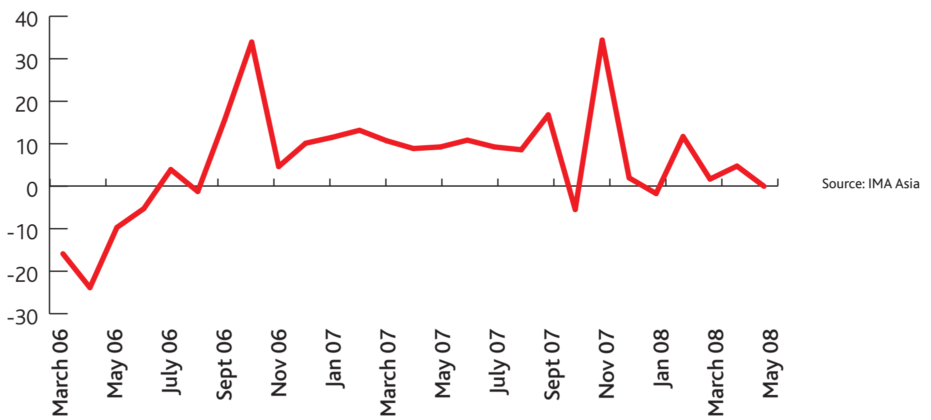
Indonesia: Real GDP Growth (%YOY)



Indonesia: Inflation (%YOY)



Indonesia: Retail Sales Growth (%YOY)



Japan

MARKET OVERVIEW

The Japanese economy has held up relatively well despite the recent global downturn, with GDP in the first quarter of 2008 picking up to a stronger-than-expected 0.8%, up from 0.6% in the previous quarter. However, the economic outlook is uncertain. GDP growth forecast is a modest 1.1% in 2008 and 1.3% in 2009. Although the forecast rates of economic expansion are lower than those projected for other developed countries, they should be viewed in the context of the expected contraction in Japan's labour force of almost 1% a year over the next few years.

JAPAN ECONOMIC SNAPSHOT

- The world's second largest economy.
- High per-capita income and savings rates.

JAPAN BUSINESS GROWTH DRIVERS

- Highly educated and skilled workforce.
- Leader in car and electronic manufacturing.

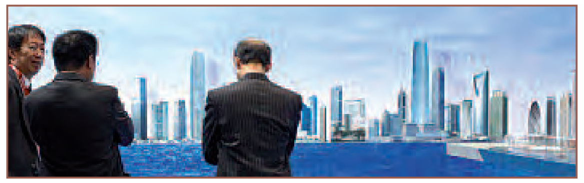
- The unemployment rate remains under 4% and is forecast at 3.8% for 2008.
- The yen appreciated to 114 to the USD (Euro 166.5) at 2007 year-end, and it is forecast to continue its appreciation moving forward.
- High oil prices (and companies' inability to pass these on to consumers) will hurt Japan's economy, especially its corporate sector. The Governor of the Bank of Japan, Masaaki Shirakawa, recently underscored the importance of the developments in energy markets, as they could not only undermine exports but also, through their effect on capital expenditure and consumption, "cause domestic demand to fall."
- The consumer confidence index has fallen since the start of the credit crisis in all sub-components of the index, including overall livelihood, income growth, employment and willingness to buy durable goods.
- According to data published by the Ministry of Finance, the slowdown in world commerce and yen appreciation combined to reduce export growth (in yen terms) from the 2007 annual average y o y growth rate of almost 12% to just 4%.
- Nominal wages at companies with 30 or more employees fell by 1.8% in 2007. The active opening to application ratio, an indicator of labour demand, is also softening, falling to 0.95% in March, down from 1.05% in March 2007. Coupled with a commodities-driven pick-up in overall inflation, this caused consumer prices to rise by 1.2% y o y in March 2008, dampening consumer sentiment.

Yasuo Fukuda began his term as Prime Minister in September 2007 with a reasonable degree of popular support. He further enhanced his position by scoring some quick successes in his policy towards China and South Korea. Since then, however, the weakness of the ruling Liberal Democratic Party (LDP) in the House of Councillors (the upper house of parliament), and Mr. Fukuda's lacklustre leadership, has combined to push his approval ratings even lower. An opinion poll found that only 18% of the public approved of the Prime Minister's performance. This figure was lower than the 20% level of support of the previous Prime Minister, Shinzo Abe, following the LDP's electoral defeat in July 2007.

The key challenge is the economic outlook. Despite being the second largest economy in the world, with a great manufacturing base, low growth from a falling birth rate, and previous risks of deflation and slow growth may resurface under the lacklustre leadership. Global inflation, while dampening consumer confidence, will have little effect on Japan's largely deflationary economy. The Bank of Japan is unlikely to lift its rates from 0.5%.

MARKET OUTLOOK

Despite the global economic uncertainty, many of the local fundamentals in the real estate market remain strong, with insufficient supply following a revision of earthquake construction regulations last year, which temporarily halted new construction. Not surprisingly, global market conditions have led some investors to tighten their lending criteria. At the same time, foreign banks, while still active, are being more judicious in their lending. Japanese banks appear to be constrained from seizing this golden opportunity to regain market share and use their liquid balance sheets. Both internally and at the regulatory level, there appears to be a domestic reluctance to overly increase property exposure.



It is possible that there will be refinancing difficulties for some of the more extended property developers, particularly those needing to finance large land banks. We do not believe that this will be on the magnitude of the property crisis of the 1990s. It is a number of smaller problems which add up to a temporary issue, rather than a major catastrophe.

RISKS

Despite the fact that Japan remains a relatively safe and easy country for real estate transactions, investing in the country is not without its risks and hurdles. Foreign investors may be affected by:

- an increase in the risk portion of interest rates and a further strengthening of the Japanese yen
- more judicious lending policies for property acquisition and refinancing
- language and cultural barriers for foreign players entering the market
- earthquake risks and other natural disasters

RETURNS

Residential Property

- On the supply side, private sector residential investment grew at an annualised 19.5% rate in the first quarter of 2008.
- There are worrying signs on the demand side. Under normal market conditions, a supply squeeze such as that of 2007 should lead to an increase in demand and, therefore, higher prices. For Japan, however, the evidence is that buyers are unwilling or unable to pay increased prices. With wages not moving, the demand side may be the problem in the immediate future.

Commercial Property

- Tokyo CBD average Grade A office rents stood approximately at $165/sq. ft./annum (inclusive of service charge). The highest achievable rents continued to be in the Marunouchi/Otemachi sub-market, with some tenants paying as much as $220/sq. ft./annum (inclusive of service charge) for smaller blocks of space. The average vacancy rate was 1.9%. If GDP growth stalls at 0.5%, rents are forecast to peak in 2009-10.
- Strong pre-leasing of new developments continues. Currently, the incoming new stock level is assessed to be low to moderate, with an estimated annual increase of around 2.5-3.0% of the year-end annual stock. A relatively larger amount of new office supply is scheduled to come onto the market in late 2010-2012.
- In 2008, we expect gross rental yields for prime office in the CBD will remain competitive at around 3.0%.
- We expect increased product coming onto the market through the end of 2008 and into 2009 as many funds and investors are forced to sell assets.

Retail Property

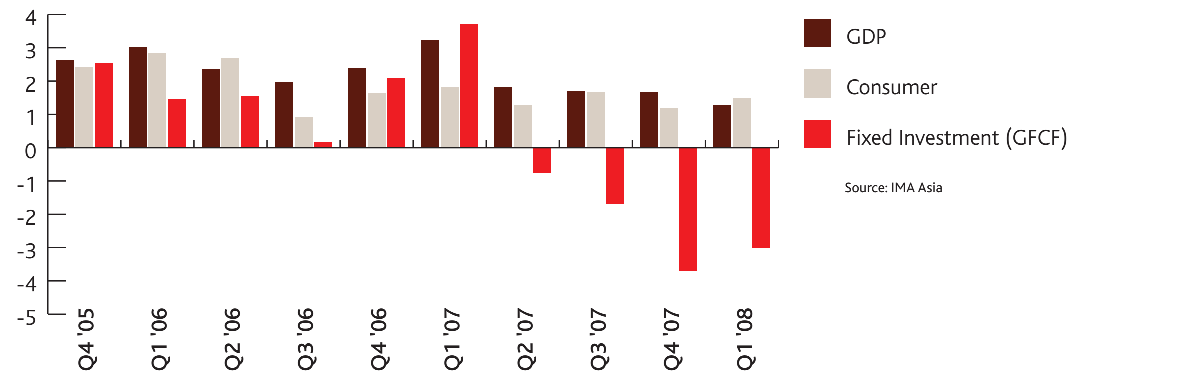
- Retail properties in prime areas are seeing rents increase and hold firm due to continued strong competition among high-end brands for prime locations.
- Land prices for prime retail sites are increasing significantly.

FINANCING AND DEVELOPMENT ROUTES

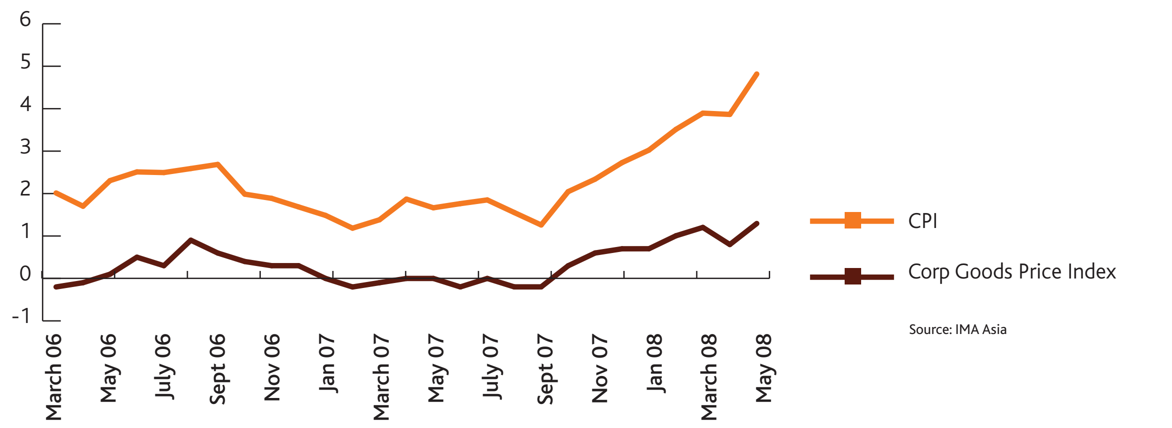
- Japanese Real Estate Investment Trusts (J-REITs) are now allowed to include foreign properties in their portfolios, following a revision by the Tokyo Stock Exchange (TSE) of its listing regulations, implemented on May 12, 2008.
- The change in listing regulations affects the 42 J-REITs that are listed on the TSE, allowing them to own foreign (non-Japanese) assets, while requiring them to extend information transparency.
- The Japanese property trust market has grown in excess of $40 billion and covers office space, shopping malls, warehouse and private residential property, as well as specialist sectors such as capsule accommodation and logistics.

Japan

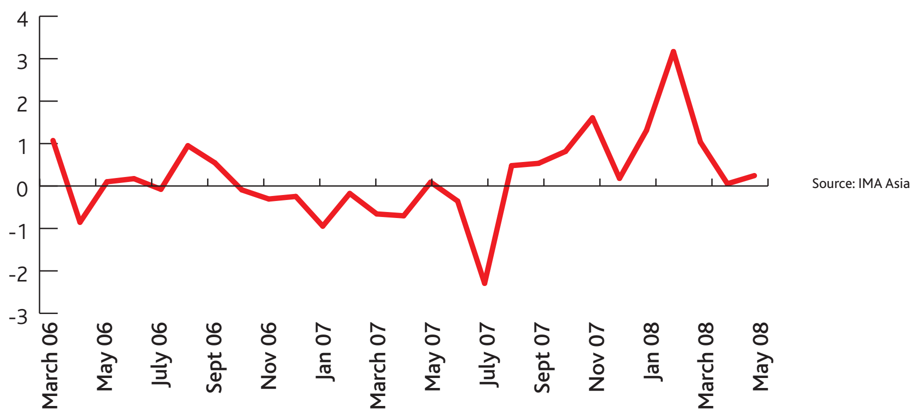
Japan: Real GDP Growth (%YOY)



Japan: Inflation (%YOY)

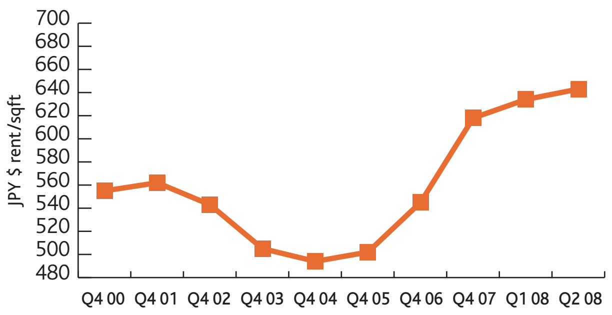


Japan: Retail Sales Growth (%YOY nsa)

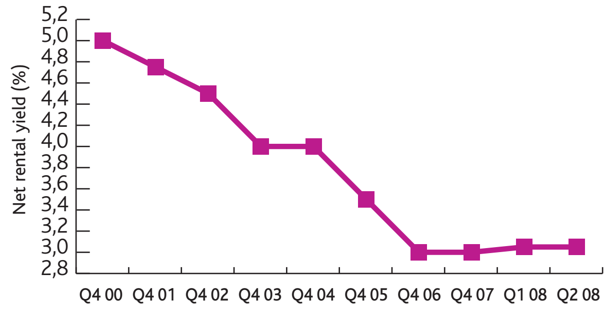


Japan

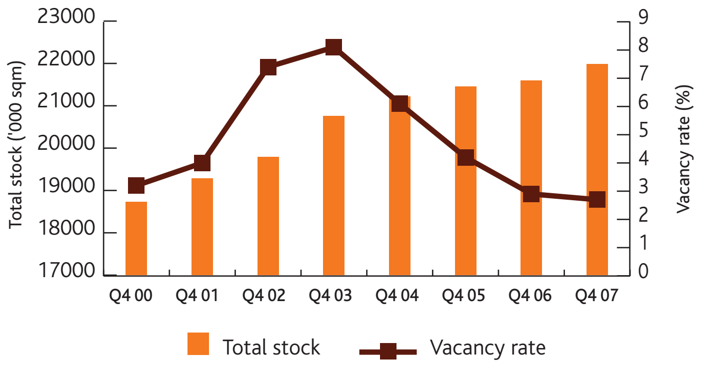
Tokyo (5 central ward) average office rent (all grades)



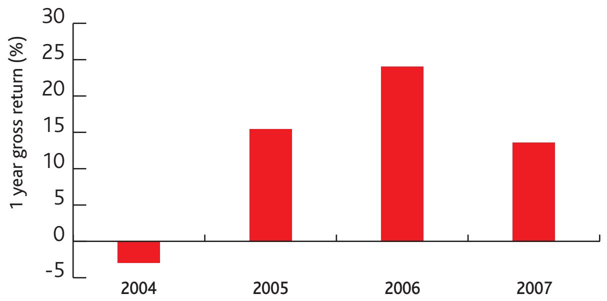
Tokyo office net rental yield



Tokyo 5 central ward office stock & vacancy rate (all grades)



Tokyo (5 central ward) office 1 year gross return (all grades)



Malaysia

MARKET OVERVIEW

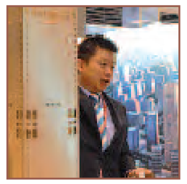
- The Malaysian economy continued its strong growth, expanding by 6.3% in 2007. This was driven by a robust domestic demand despite the weaker external environment, which moderated export growth.
- Private consumption and investment activities expanded strongly in 2007.
- Private consumption recorded its highest growth rate since 2000, buoyed by rising disposable income. This can be attributed to high commodity prices, salary increments in the public and private sectors, as well as favourable labour market conditions.
- Strong investment in the manufacturing, services, construction, oil & gas industries and positive business sentiment, coupled with large inflows of foreign direct investment, supported expansion in private investment.
- After three years in decline, the construction sector expanded to record positive growth of 4.6%. This was driven mainly by the civil engineering sub-sector, and supported by increased activity in the non-residential and residential sub-sectors.
- During the year, the government undertook several measures to enhance the public delivery system relating to the construction sector. It establisheda a one-stop centre to enable "fastlane" approval for certain categories of projects. These included those under the build-then-sell concept, government projects, high-impact projects, and those with the potential to attract foreign investment.
- This framework substantially shortens the approval process to four months. In addition, the Certificate of Fitness for Occupation was replaced with the Certificate of Completion and Compliance, enabling the faster occupation of completed projects.

MALAYSIA'S ECONOMY IN 2008

- The Malaysian economy registered strong growth of 7.1% in the first quarter of 2008. This was despite the financial crisis in the United States, rises in global oil prices and increased inflation and cost of building materials. The growth was led by a double digit expansion in private and public consumption spending, while investment activities remained resilient.
- The services sector continued to be the main driver of growth, expanding by 8% in the first quarter of 2008. Strong consumption activities contributed to increases in the sub-sectors of wholesale and retail trade, accommodation and restaurant, finance and insurance as well as transport and storage.
- The manufacturing sector expanded by 6.9%, reflecting higher growth in export and domestic-oriented industries, particularly in resource-based products such as petroleum and chemical products, as well as the Electronics & Electrical (E&E) sector.
- Inflation increased to 2.6% compared to 2.2% in the fourth quarter of 2007, mainly due to higher prices in the food and non-alcoholic beverages category.
- The Overnight Policy Rate (OPR) remained steady at 3.50% throughout the first quarter of 2008.
- In terms of lending rates, the average Base Lending Rate (BLR) remained unchanged during the quarter, at 6.75%.
- The US economic slowdown coupled with positive investor sentiment towards the Asian region has enabled the Ringgit to continue to strengthen against the US dollar.

MARKET OUTLOOK

- The uncertainties in the global economic environment will remain, with global growth expected to moderate further forward movement.
- In spite of the 12th General Election result, which reshaped Malaysia's political landscape, the Malaysian economy is expected to remain resilient, supported by sustained growth in domestic demand.
- Consumption activities are expected to be supported by favourable labour market conditions and high commodity prices despite rising concern about inflation.
- Private investment activity remains positive, according to key investment indicators such as imports of capital goods, loans to businesses, manufacturing investment approvals and inflows of foreign direct investment..
- The real estate and business services sub-sector is projected to continue its growth. This is due to increased property transactions, in response to incentives announced in 2007, and new ones coming into effect through 2008. These include the withdrawal of EPF funds to repay monthly housing loan instalments and the 50% stamp duty waiver for residential properties below RM250,000.



Malaysia

- Regional developments, such as the Iskandar Development Region (IDR)in Johor launched in November 2006, introduced incentives including tax breaks and liberalised rules on use of foreign labour and capital. As a result, they have successfully received investment commitments totalling $2.3 billion for the first 10 months of 2007. Foreign investment is expected to continue in 2008.
- In addition, tourism activity is expected to intensify with the government aiming to achieve 22.5 million tourist arrivals in 2008. This would duly support the wholesale and retail trade, as well as the accommodation and restaurant sub-sectors.

RETURNS

Office Property

- Growth in the office sector picked up further in 2007 in tandem with robust business activity.
- Increased demand from new businesses, as well as expansion by existing companies in the financial services, information technology and oil and gas related sectors caused a sharp increase in demand for office space, in particular Kuala Lumpur City (KLC).
- The strong demand was also evidenced by increases in rentals within prime office buildings in the CBD area.
- Gross returns range between 6%-12%, with capital values ranging from RM300 psf in excess of RM1,000 psf.

Retail Property

- The strong growth in private consumption stimulated demand for retail properties in 2007.
- Approximately 31 new shopping complexes were completed, nine of which are located in Klang Valley, based on Bank Negara's annual report. The total amount of lettable retail space in the Valley had thus increased to approximately 40 million sq. ft.by the end of 2007.
- The new retail space was geared mainly towards high-end facilities. Given the rise in supply, rentals remained largely unchanged, except for choice properties. With the growing attraction of this sector, several shopping complexes were bought by foreign-based Real Estate Investment Trusts (REITs) in 2007.
- Gross returns range between 6%-12%, with capital values ranging from RM500 psf in excess of RM1,000 psf.

Residential Property

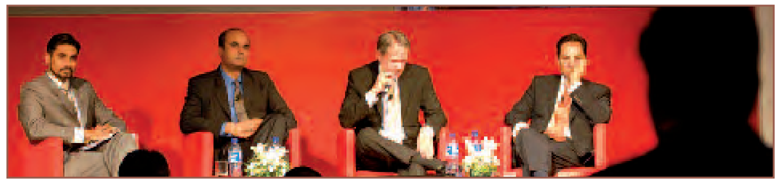
- Activity in the residential sub-sector remained positive in 2007 following several policy measures introduced by the government since December 2006.
- These included the liberalisation of the Foreign Investment Committee (FIC) ruling on foreign purchases, the exemption from Real Property Gains Tax and relaxation on the number of residential or commercial property loans that foreigners could obtain.
- A total of 199,482 transactions worth approximately RM36.49 billion were recorded in 2007. This represented an increase of 9.3% and 23.9% respectively compared to 2006.
- Increased interest, especially from foreign property owners in the KLCC enclave has resulted in q surge of land prices and selling prices of luxury condominiums / serviced apartments.
- A Real Estate and Housing Developers Association survey showed the volume of high-end residential property transactions by foreigners rose to approximately 30% in the first half of 2007, compared to 13.9% in 2006.
- Demand was also supported by the availability of end-financing, as reflected in higher housing loan applications, approvals and disbursements in 2007.
- Gross returns range between 6%-9%, with capital values ranging from RM250 psf in excess of RM1,000 psf.

HOSPITALITY PROPERTY

- The tourism sector has maintained its position as the second largest foreign exchange earner since 2000.
- Tourist arrivals, mainly from ASEAN countries, China, India and the Middle East expanded strongly by 19.5% to 21 million visitors, attributable to the Visit Malaysia Year 2007 campaign.
- Greater air service connectivity and rising income levels spurred tourism growth from regional countries, while the simplified processes and relaxation of visa requirements continued to support growth of tourists from China and India. Similarly, numbers of mid to long-haul tourists from the Americas, Europe and Oceania also increased in 2007.
- Malaysia anticipates approximately 26 million international tourists by the year 2010, which are expected to spend more than RM56 million. The hotel market is thus expected to continue to perform well with good occupancy and average room rates.

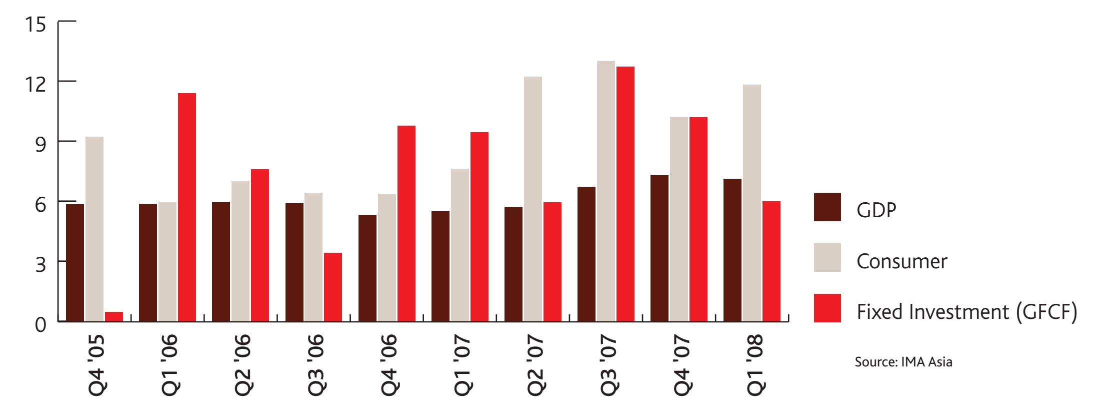
RISKS

- Risks include increases in property prices due to rising land prices and costs of building materials in the country.
- There is the possibility of higher inflation rates due to increases in the cost of living related to the petrol price hike.
- The Bank Negara Malaysia may increase the Base Lending Rate (BLR) to overcome inflation.



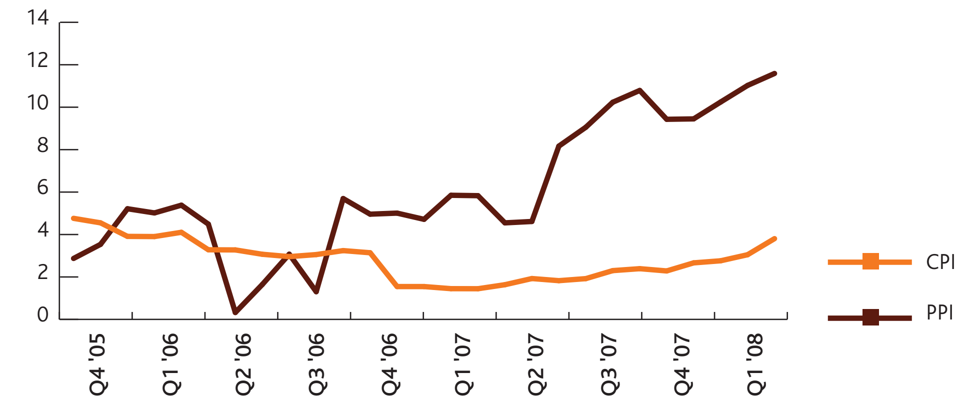
Malaysia

Malaysia: Real GDP Growth (YTD, %YOY)



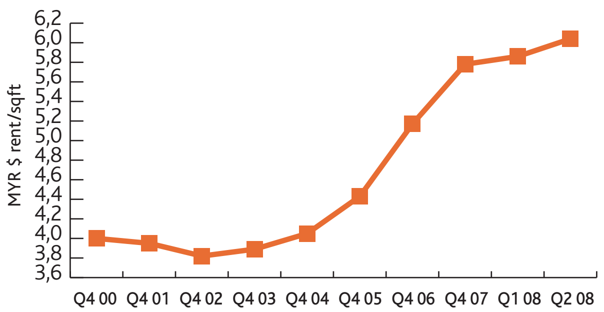
Source: IMA Asia

Malaysia: Inflation (%YOY)

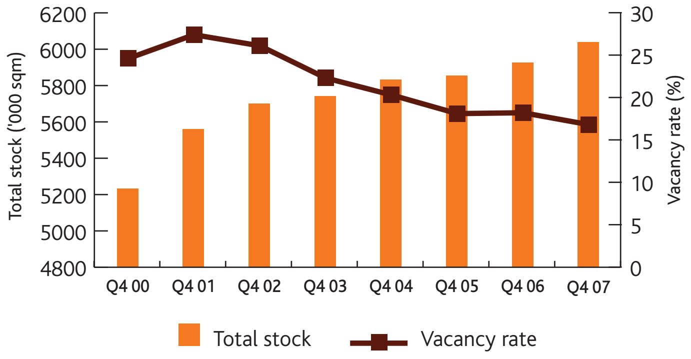


Malaysia

Kuala Lumpur CBD office rent (grade A)



Kuala Lumpur grade A office stock & vacancy rate



Pakistan

MARKET OVERVIEW

Pakistan's economy grew at a rate of 5.8% in the fiscal year ending in June 2008. Growth was moderated from 7% in 2006-2007 as a result of domestic uncertainty. The government is confident the economy will continue to grow around 5.5% in the fiscal year to June 2009.

- Pakistan's residential market has remained stable in 2007. The last few years have seen an increase in interest in buying from local and non-resident Pakistan nationals.
- The government has launched a framework of REITs in February 2008, which has opened new opportunities for investment in this lucrative market.

PAKISTAN ECONOMIC SNAPSHOT

- Pakistan's GDP grew at 5.8% in the fiscal year ending June 2008.
- The GDP is forecast to grow at a healthy 5.5% in the fiscal year 2008-2009.

PAKISTAN BUSINESS GROWTH DRIVERS

- Focus on the IT, banking, telecom, energy and service sectors, as well as consumer goods.
- Favourable Government Policies aimed at foreign direct investment.
- An improved ranking by 10 places (ranked 83) in Forbes' 2008 "Best Countries for Business."

- The government announced new taxes on rental income of real estate assets with progressive tax rates for higher income brackets, ranging from 5% to a maximum of 15% on different rental income brackets.

INVESTMENT OPPORTUNITIES

Various large real estate developments in the country provide ample investment opportunities. Development of suburban areas in first tier cities also provides investment options for property investors. The recent launch of the REIT framework will further provide new avenues for investment in the real estate market of the country.

MARKET OUTLOOK

Pakistan's economy is driven mainly by private consumption and investment. The Economist Intelligence Unit forecasts their GDP to 2012 to maintain average growth of 4.7%. The economy is likely to remain dependent on textiles and other manufacturing. Domestic politics remain uncertain and, like any other Asian economies, inflation is posing a problem for the government. There has been stabilisation in office and retail rentals and residential property prices in 2008. This trend is likely to continue in the next few quarters, with chances of further lower correction within the residential markets to a more affordable level. The consolidation period could be considered as healthy and necessary to help Pakistan boost its long-term competitiveness in terms of business operating costs and living expenses.

To facilitate real estate development, the government continues to pursue re-zoning in CBD, suburban and peripheral areas in first tier cities, and an increase in floor area ratios within the CBD for integrated development schemes. Expansion of road networks, highways, express overpasses and power infrastructures coupled with mega real estate projects will continue over the next few years. In particular, a number of major Middle-Eastern real estate developers are making multi-billion dollar projects.

RISKS

Despite the positive and relatively stable economic outlook in Pakistan, investing in the country is not without its risks and hurdles. Foreign investors may be affected by:

- the applicability of capital gains tax on real estate investments which, although not levied in the current budget,, has an increasing chance of being applied
- tighter monetary policy stance by the central bank to curb rising inflation
- increases in interest rates and devaluation of the Pakistan Rupee
- unclear land titles and out-of-date land records that make land parcels difficult to acquire
- bureaucracy that requires developers to seek multiple approvals and clearances

RETURNS

Residential Property

- Sales transactions in the high-end luxury segment have slowed considerably in the first half of 2008. Nonetheless, the mass market segment with more affordable pricing is still robust. Gross rental yield in 2008 and 2009 (before tax) for the residential segment in the next few years will be 2%-3%. A total one-year investment return (including changes in capital gain) is estimated to be around 8%. Sales transaction activity within the mass market is anticipated to be relatively stable in 2008 with leasing activity showing resilience.

Office Property

- Average prime office rentals have stabilised in the first tier cities of Karachi, Lahore and Islamabad following a 75% increase throughout 2007. The rapid run up in office rents and returns has induced more new office development. An estimated 5 million sq. ft. of office space is due to be completed in Karachi and 2 million sq. ft. in both Lahore and Islamabad between 2009 and 2013. Supplies in 2012 are likely to exceed demand.
- In 2008 and 2009, we expect gross rental yields of 7%-9% (before tax) for prime offices in the first tier cities of Karachi, Lahore and Islamabad. With rental increases of 5%-8%, it is expected that a one-year gross total investment return (including changes in capital value) for CBD offices would be around 15%, down from 50% in 2007.

Retail Property

- In the first half of 2008, retail supply stood at about 1.5 million sq. ft. in Karachi, 750,000 sq. Ft. in Lahore and 200,000 sq. ft. in Islamabad. There are very limited retail format malls. The average vacancy rate in prime shopping areas of Karachi and Islamabad is below 0.5%, whereas in Lahore it is 15% in newer malls on Gulberg Main Road. However, over the past two years, growth in retail rents has begun to exceed the retail sales generated per space occupied. This rapid increase in rents may be unsustainable, and retail rents in the CBD area could therefore grow at below 3% in 2008. The bigger supply pipeline anticipated to be completed in 2008 and 2009 is also expected to curtail a strong rise in retail rents. Average capital gain in 2008 for retail space in CBD areas is expected to increase by 8%.
- The increased purchasing power coupled with rising disposable income resulted in a retail boom in the economy. The current size of the retail sector in Pakistan is estimated to be about $15 billion. Only of this is organised, with small neighbourhood shops serving the rest of the market. Annual investment return in 2008 and 2009 is estimated to be around 15%, compared to 40% in 2007.
- The market is now observing the establishment of mid-sized malls, and planning is also underway for the development of large format malls, with supply expected to reach the market by 2009-10. There is also a growing trend of mixed-use developments with adequate provisioning for retail and shopping areas. These include the Karachi Financial Towers, Dolmen City, JS Center, Creekside G4 and Sofitel Towers in Karachi, PACE in Lahore and Centaurus in Islamabad.
- Grocery and fast food retails chains are also expanding in Pakistan, with the likes of Makro, Metro and D-Mart opening stores in first and second tier cities. The multinational superstores Spinneys and Carrefour are also commencing operations in the country. Metro and Makro have planned to open multiple stores with investment outlays of more than $300 million.

Industrial Property

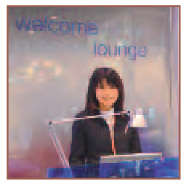
- Warehousing sector space development continues to remain strong due to stable demand and limited supplies. Demand for factory space is expected to rise in 2009.
- Industrial/warehousing space is expected to post a gross rental yield (before tax) of 6%-8% in the next two years. Industrial/warehouse properties posted a one-year total property investment return of 30% in 2007, mainly due to capital appreciation.

Hospitality Property

- Average nominal room rates were reported to have increased approximately 45% in 2007 with occupancy for four and five-star hotels hitting as high as 89% in the third quarter of 2007 in Islamabad and Lahore. In Karachi it has remained stable with approximately 60% occupancy. Budget hotels have about a 90% occupancy rate. In the first quarter of 2008, the average room rate for hotels with five-star facilities in Islamabad was reported to have increased to $300 per night with an occupancy rate of 83%. Meanwhile, in Karachi and Lahore, it is $200 per night. Total hotel revenue was reported to have increased by 45% in 2007 compared to 20% in 2006. Total hotel revenue has remained stable in the first quarter of 2008 in regards to its y o y performance and when compared to the fourth quarter of 2008.
- Pakistan's hospitality industry is driven by local and foreign business travellers. The Intercontinental, Grand Hyatt and Conrad brand of Hilton Hotels are being built in Islamabad. JW Marriot and Novotel hotels are in the process of being built in Lahore as are Sofitel and Raffles hotels in Karachi.

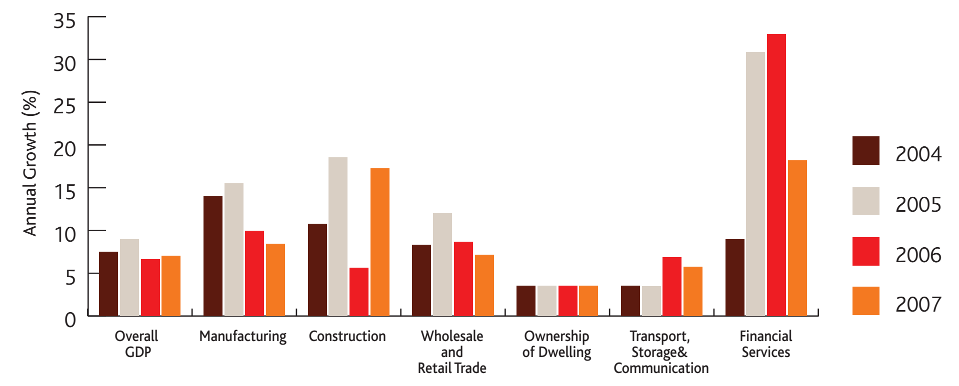
FINANCING ROUTES AND DEVELOPMENTS

Currently, most financing for real estate developments is dominated by debt markets (raised from financial institutions). The government has introduced the framework of Real Estate Investment Trusts (REITs) in the country, paving ways for increasing investment in this lucrative sector and opening a new mode of financing for real estate developments.

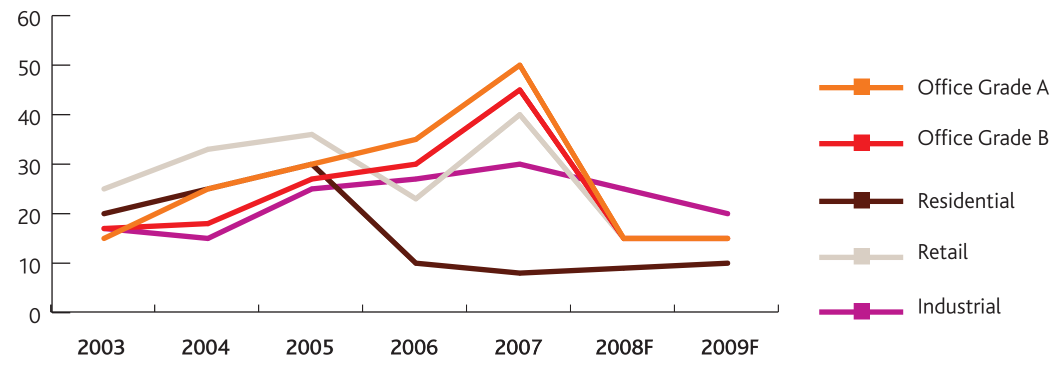


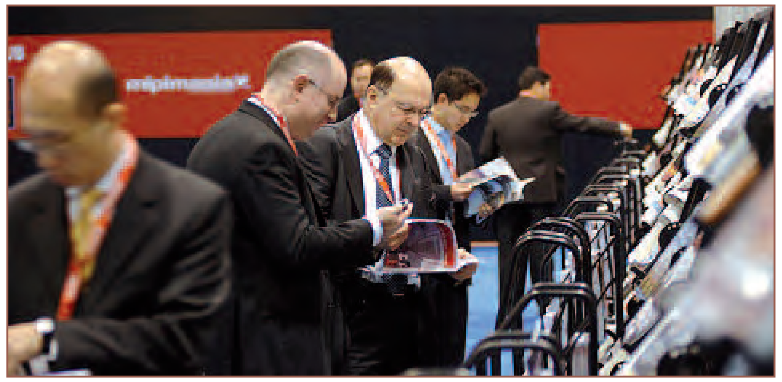
Pakistan

Pakistan: Economic sector annual GDP Real growth (2004-2007)



Pakistan: Total one year gross investment return by property type (2003-2009)





Philippines

MARKET OVERVIEW

Rocketing inflation, spluttering growth in the United States and the soaring cost of importing oil dragged annual growth in the first quarter down to 5.2%, well below expectations, and down sharply from the previous quarter's 6.4%.

The skyrocketing oil prices can put a hole in consumers' pockets, make a huge dent in company profits, and slow down the economy. Faster inflation tends to restrain consumption, which then leads to lower corporate income and less opportunity for jobs creation.

When the price of oil hit the $130-a-barrel mark, the government's official growth target of 6.3% - 7% in gross domestic product (GDP) was no longer attainable. When the GDP growth target was set, the government assumed that the price of oil would only average $110 a barrel.

For households, higher oil prices mean an increase in the prices of food, electricity and transport fares. Industries will suffer from higher operational costs resulting from the increase in costs of raw materials and labour. When this happens, the economy's growth will slow down because it is dependent on the income of households and businesses. While it takes time for the economy to adjust to higher oil prices, the short-term effects are restrained household spending and, in turn, lower corporate profits.

Hard-earned savings from foreign workers and government spending boosted growth in the Philippines to a three-decade high last year, but the surge was lopsided and could be short-lived. As inflation soars this year, consumption of non-food items will shrink and growth will slow.

MARKET OUTLOOK

The Philippines' economy is likely to show growth of 5.3%-5.9% in the second quarter from a year earlier, picking up from the first quarter due to higher farm output and a recovery in consumer spending. Sustained investments and dollar inflows from overseas Filipino workers will make the economy bounce back from the slow growth in the first quarter.

Foreign Direct Investments Inflows

Investments registered with the Board of Investments and the Philippine Economic Zone Authority in the period from January to April totalled P113.65 billion, up 54% from P73.63 billion in the same period last year.

Influx of OFW Remittances

Money sent home by overseas Filipino workers (OFWs) through banks surged by 18.4% in April—the fastest year on year growth in 12 months—as foreign demand for Filipino labour remained strong despite a global economic slowdown. The remittances in April amounted to $1.4 billion, bringing the January-April total to $5.4 billion, up 14.5% from the same period last year.

Real Estate

Real estate investments surged to P17.15 billion from P14.35 billion in the same months in 2007, amid increased demand for office space by information technology and business process outsourcing, and for mass housing.

In the Philippines, the growth of the BPO (business process outsourcing) industry has driven the demand (and also cost) for prime office space not only in Manila, but also in other cities in the country. These cost increases are dominated by emerging markets, caused by both supply and demand imbalance and the depreciation of the dollar relative to local currencies. In some of these emerging markets, Class A office space is seriously lacking.

Meanwhile, construction costs had risen about 20%, which would translate to an average increase of 10% in condominium unit prices. The rise in steel prices was caused mainly by an increase in the cost of iron ore, the basic raw material in making steel, as well as higher fuel and electricity prices, and the deterioration of the peso's exchange rate. Cement prices have also risen by P8 to P185-P195 per 40-kilogramme bag.

Philippines

Tourism Market

Despite capacity constraints and a shaky global economy, the Philippines is still aiming to increase tourist arrivals by 13% this year, aided by South Koreans wishing to learn English and newly-minted Chinese seeking warmer climes.

Last year was a record for Philippine tourism with nearly 3.1 million arrivals, translating to $4.8 billion in receipts, nearly meeting the $5.0 billion in receipts President Arroyo had envisaged from five million visitors by 2010. The main foreign market in 2007 was South Korea, accounting for around 21% of arrivals. Koreans come to the Philippines to learn English and often tour the country while doing so.

Philippine tourism is strong and there is a lot of potential. It is primarily driven by demand from the Chinese, Koreans and Americans, which makes it somewhat independent of the crisis.

RISKS

The macroeconomic policy environment has become more challenging. The Philippines, together with its peers in the region, faces the twin challenges of a slowing global economy and escalating food and fuel prices.

Food prices y o y jumped 14.3% in May, after rising 12.0% in April from a year earlier, pushing the overall inflation rate to 9.6%, the highest in nine years, according to data from the National Statistics Office. Overall inflation was 8.3% in April.

Some economists are hopeful that the slowdown in the US economy would help temper global demand for oil, thereby resulting in the easing of crude oil prices. Oil companies in the Philippines were earlier reported as saying that the public could expect weekly increases of P1.50 per litre because of the unabated rise in prices abroad. Imported oil accounts for 35%-40% of Philippine energy needs. The rise in global fuel prices was largely supply-driven, rather than from demand. The restraint exercised by the biggest oil producers in using their spare capacity to produce oil was causing supply to fall short of demand, thereby pushing prices up.

The peso tumbled to an eight-month month low of 44.60 to the US dollar on June 23 on heightened jitters over a global environment weakened not just by the U.S. credit crunch but the unabated oil and food price increases.

Tourism-wise, the lack of road links and suitable airports prevented the Philippines, which has more than 7,000 islands, from taking off as a major tourism player.

Soaring prices of construction materials—particularly steel and cement—are beginning to hurt property companies. Some are rushing to acquire raw materials several years ahead of the required schedule, while others are considering increasing the prices of their units to cover for the spike in construction costs.

RETURNS

The economy is getting a little bit used to high prices and, therefore, production and consumption is resuming.

The government recorded a surplus of $42 million in its balance of payments (BOP) for May, bringing the cumulative surplus in the first five months of the year to $2.2 billion. This was achieved on account of continued foreign exchange inflows from overseas Filipino remittances, merchandise exports, net foreign direct investments and net investment income of the Bangko Sentral ng Pilipinas (Philippine central bank).

Philippine homebuilders continue to spend heavily on building more homes as domestic sales remain strong, and with Filipinos working abroad sending home at least $1 billion of their earnings every month. Remittances in the first four months of the year reached $5.4 billion, 14.5% higher than the year-earlier figure.

Office

Megaworld's rental income rose 59% to P333.53 million from P209.20 million last year largely from BPO office spaces and retail developments. The company expects to complete about 104,000 sq. m. of BPO space this year and about 40,000 sq. m. of retail space with pre-leasing reaching 60% and 80%, respectively. These developments are expected to boost rental income further starting next year.

Several new BPO office buildings slated for completion this year are E-Commerce Plaza at Eastwood City, Two and Three World Square at McKinley Hill, One Campus Place at McKinley Hill and Newport Corporate Plaza at Newport City.

Real estate giant Ayala Land Inc. will spend P1.3 billion to build a business process outsourcing (BPO) village in the Camp John Hay, Baguio City. The project is part of a joint-venture arrangement between Ayala and Fil-Estate Corp. that is meant to revitalise Camp John Hay, a leisure estate and special economic zone,

Retail

Officials of Clark Development Corp., which oversees development of this special economic zone north of Manila, and the SM group's Premier Central Inc. have signed a lease agreement allowing the latter to start a P500-million expansion project for SM City Clark mall here. The expansion project of Premier Central, the property development arm here of the SM group of the mall magnate Henry Sy Sr., comes five years after the mall was opened in 2003. Under the agreement, Premier Central will put up and operate a mixed-use facility for office, retail, commercial, leisure, entertainment and hotel and other tourism-related projects. It expects that it will hire some 2,000 employees to see the expansion project through.

Hospitality

SM Investments Corp. (SMIC), the publicly listed conglomerate of mall magnate Henry Sy, expects strong demand for its exclusive leisure and residential developments in Batangas province, south of Manila, despite the prevailing weakness in the property market. Sales at SMIC's Pico de Loro project—the first of the 13 coves in the Hamilo Coast—are expected to reach P2 billion by the end of the year.

Alliance Global Group Inc. and Malaysian conglomerate Genting Group were considering investing more than $1 billion in a government-led, multibillion-dollar casino and tourism complex in the 40-hectare Manila Bay reclamation area.

Home builder Vista Land & Lifescapes Inc. is planning to enter the leisure property segment, with possible projects in the islands of Palawan and Mindoro in view of the burgeoning tourism sector.

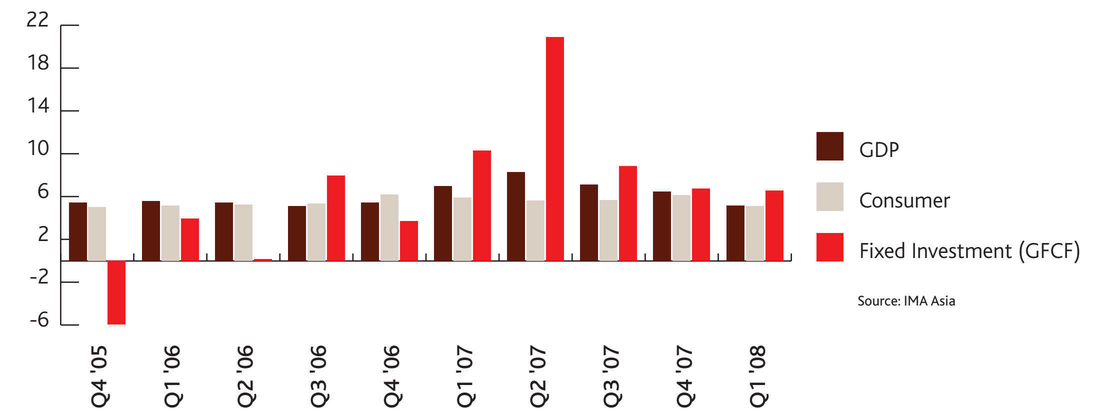
FINANCING ROUTES AND DEVELOPMENTS

Last April, Shang Properties signed a P3.5-billion loan agreement with Metropolitan Bank and Trust Co. and Bank of the Philippine Islands to help fund key development projects in Metro Manila. These projects form part of a three-year investment program estimated at P11 billion.

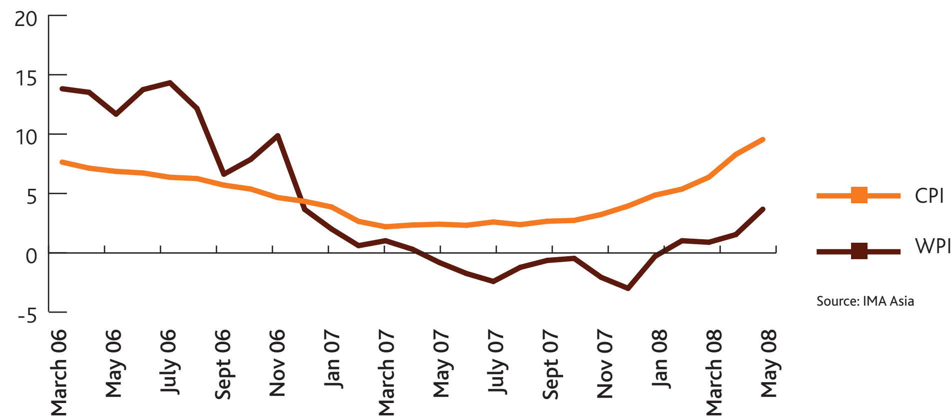
Most of the property developers now are inclined towards spreading their capital out, say in a 3 year period and as cash comes in, they will evaluate the options to continue with the expansion. This so-called hedging has been one of the common practices of developers to stay resilient to fluctuating economic movement.

Philippines

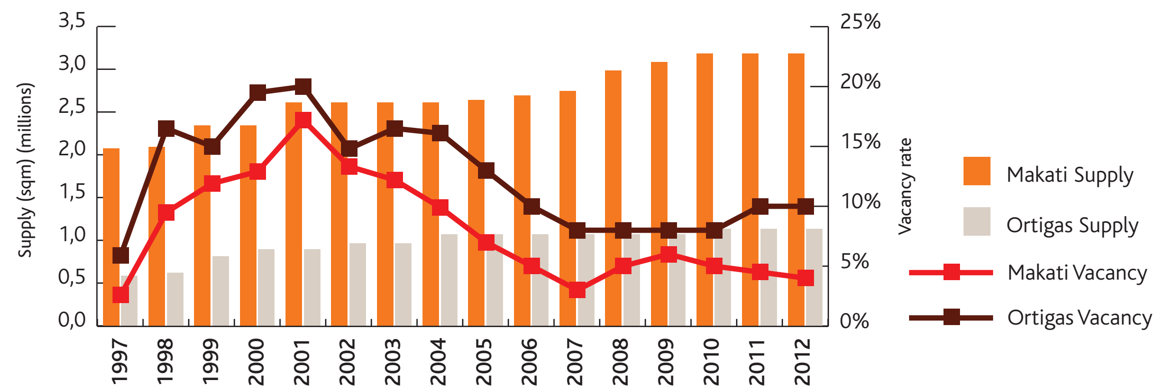
Philippines: Real GDP Growth (%YOY)



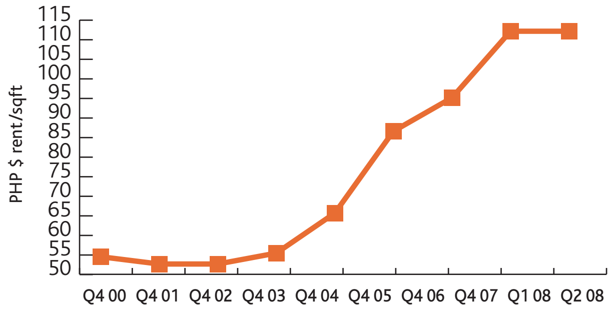
Philippines: Inflation (%YOY)



Makati and Ortigas office supply and vacancy rate



Manila Makati CBD office rent (Grade A)



Singapore

MARKET OVERVIEW

Singapore's economy continues to show healthy growth in the first half of 2008. It has remained resilient in the last few quarters despite global economic uncertainty. Advanced GDP figures for the first quarter of 2008 showed a healthy 7.2% y-o-y growth and the government is confident the economy should continue to remain robust, growing 4%-6% in 2008 with no significant risk of recession.

- The total investment sales transaction value for office, industrial and retail sectors (excluding government land sales) shows a record sales volume of $9.7 billion in 2007 compared to $7.6 billion in 2006. The transaction value for the same types in the first half of 2008 shows $1.7 billion (excluding government land sales).

SINGAPORE ECONOMIC SNAPSHOT

- Singapore's GDP grew at a robust rate of 7.7% in 2007.
- GDP is forecast to grow at a healthy 4%-6% in 2008.

SINGAPORE BUSINESS GROWTH DRIVERS

- Focus on tourism, high value-added industries, wealth management and financial services.
- Stable government in place.

- Singapore's residential market posted good growth. Median prices were reported to have increased 33%, and total sales transactions increased by 90% in 2007. The last few years have witnessed an increase in interest from foreigners buying in the markets.
- In a bid to enhance Singapore's tourism sector, the government has been encouraging new hotel development through frequent injections of hotel land sales in support of their target of 17 million visitors per annum by 2015. An estimated 10,000 hotel rooms are slated for completion between 2008 and 2011. The two integrated resorts at Marina Bay and Sentosa will contribute approximately 4,400 new hotel rooms.
- To rein in the rapid rise in the property market, the government has decided to increase development charges and withdraw the deferred payment scheme. Stricter planning controls have also been adopted to restrict the conversion of office space in the CBD area to other usage. Tighter regulations governing residential en-bloc sales have also been introduced.

MARKET OUTLOOK

Despite the global economic uncertainty, Singapore's economy is expected to remain resilient. Recession is unlikely, though growth will slow compared to the figures in 2007. The fast rise in office rental and residential property prices should stabilise in the next few quarters with chances of correcting to a more affordable level. The consolidation period is considered as healthy and necessary to help Singapore boost long-term competitiveness in terms of business operating costs and living expenses.

To alleviate the scarce land resources in the CBD and central region, the government continues to pursue a decentralisation effort. Expansion of the transport infrastructure into more suburban residential areas will continue over the next few years. Recent grand decentralisation plans to spearhead development include a second financial hub in the east, located in Changi Business Park and the Tampines regional centre. A blueprint to transform Jurong Lake District in the west region into a key destination for leisure and business was also recently released. Feasible investment opportunities abound in the suburban area, and in a land-scarce nation such as Singapore, this trend will continue for the foreseeable future.

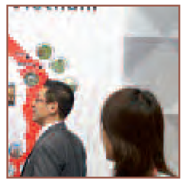
RISKS

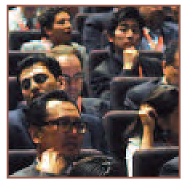
Despite the positive and relatively stable economic outlook in Singapore, investing in the country is not without its risks and hurdles. Foreign investors may be affected by:

- increases in land supply through the government land sales program
- changes in government policies
- increases in interest rates and strengthening of the Singapore dollar
- tighter credit control and financing requirements from the bank.

INVESTMENT OPPORTUNITIES

To achieve greater savings in business costs, some companies have decided to move some of their operations to suburban locations. Standard Chartered Bank and Citibank have begun developing two "build-to-suit" sites in the developing financial hub in Changi Business Park (Singapore east region).





Singapore

RETURNS

Residential Property

- Sales transactions in the high-end luxury segment have slowed considerably in the first half of 2008. Nonetheless, the mass market segment with more affordable pricing is still robust. Gross rental yields for the residential segment in 2008 and 2009 (before tax and other expenses) in the next few years will be 4%-5%. A total one year investment return (include changes in capital gain) is estimated to be below 3%. Sales transaction activity is anticipated to be relatively low in 2008 with leasing activity showing resilience.

Office Property

- The average prime office quarterly rental growth in the CBD area slowed to 6.3% in the first quarter of 2008 following a 77% increase for the whole year of 2007. The rapid rise in office rents and returns has induced more new office development. An estimated 1.3 million sq. m. of office space is due to be completed between 2008 and 2013, with supply from 2009-2011 likely to exceed 250,000 sq. m..
- In 2008 and 2009 gross rental yields for prime offices in the CBD (before tax and other expenses) are expected to be 5.5%-6%, with fringe area office gross rental yield slightly higher at 6%-7%. With lower rental increases in 2008, it is expected that a one year gross total investment return (including changes in capital value) for CBD offices would decline to around 8% from 56% in 2007. Similarly, one-year total returns for fringe area offices in 2008 are estimated to be 7% compared to 34% in 2007. With an anticipated office rental correction in 2009 likely to affect CBD offices, the one-year total investment return for CBD prime offices is expected to be -4%, with the fringe area offices posting a flat 0.1% return.

Industrial Property

- The shortage of office supply and high rents in the CBD led many corporations to relocate their back-office operations to the business parks space. As a result, overall occupancy rate hit an all time high of 89% in the fourth quarter of 2007, and is expected to reach 91% by the end of 2008. We expect business park rental growth to continue growing at double-digit rates into 2009 before slowing to mid-single digits by 2010.
- Factory space development continues to remain strong particularly that of single user facilities which are typically built to suit. The Singapore Economic Development board has succeeded in attracting high value-added investment which is helping to transform Singapore's manufacturing sector from one based on a cost competitive landscape to one that is driven by the knowledge-based sector.
- Multiple user factory space is expected to post a gross rental yield (before tax and other expenses) of 5.8% in the next two years with its total one-year investment return in 2008 and 2009 estimated to be 16.4% and 6.7% respectively. Multiple user factories posted a one-year total investment return of 29% in 2007.

Retail Property

- In the first quarter of 2008, retail supply stood at about 34.5 million sq. ft. and the average vacancy rate of prime shopping centres in Orchard Road was 3.3%. However, in the past two years growth in retail rents has begun to exceed the retail sales generated per space occupied. Such rapid increases in rents are considered to be unsustainable and retail rents in the CBD area are therefore forecast to grow below 3% in 2008. The bigger supply pipeline anticipated to be completed in 2008 and 2009 is also expected to curtail a strong rise in retail rents. The average capital gain in 2008 for retail space in CBD areas is expected to increase by 8.4%.
- Singapore's retail sector is one of the most "resilient" sectors, showing the weakest correlation to any cyclical swing in the general economy. This "defensive" trend will likely continue, in which case the total one-year investment return in 2008 will be around 16%, compared to 22% in 2007. The one year total investment return for 2009 is currently estimated to be around 7.7%, which is higher than the expected return for office, multiple-user factory and residential sectors.

Hospitality Property

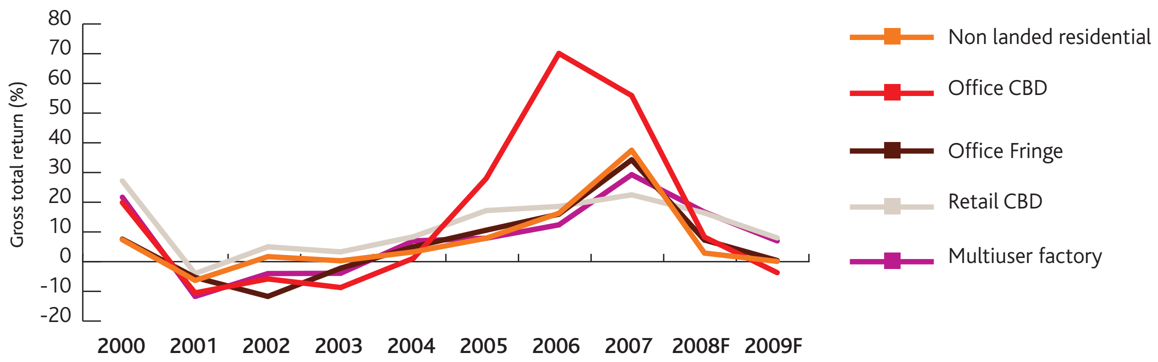
- The average nominal room rate was reported to have increased by 28.6% in 2007 with occupancy hitting as high as 89% in the third quarter of 2007. In the first quarter of 2008, the average nominal room rate was reported to have increased to $256 per night with an occupancy rate of 83%. Total hotel revenue was reported to have increased by 25.6% in 2007 compared to 20.9% in 2006. Total hotel revenue increase by 33.7% y o y figures in the first quarter of 2008. When compared to last year's fourth quarter, hotel revenue increase by 12% in this year's first.
- In 2007, Singapore tourist arrivals reached 10.3 million, and are expected to reach 11 million in 2008. Tourist arrivals in the first quarter of 2008 recorded a 6.6% increase year on year. The government intends to reach to 17 million tourist arrivals per annum by 2015. Some key tourist developments in the next few years include integrated resorts, two Casinos, a Formula One race and a new regional cruise centre. An estimated 10,000 new hotel rooms will be completed between 2008 and 2011 with the two integrated resorts at Marina Bay and Sentosa contributing approximately 4400 hotel rooms.

FINANCING ROUTES AND DEVELOPMENTS

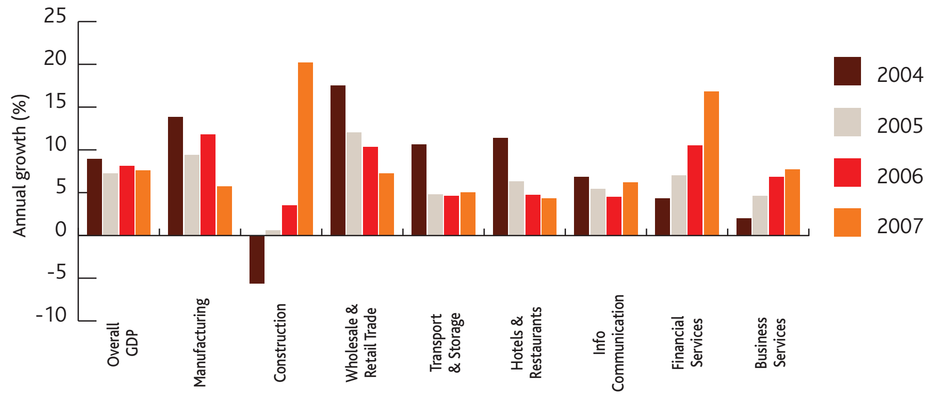
Financing routes and developments predominantly come from debt (raised from financial institutions) and private equity. Foreign Investors also have REIT structures in place.

Singapore

Singapore: Total one year gross investment return by type (2000-2009)

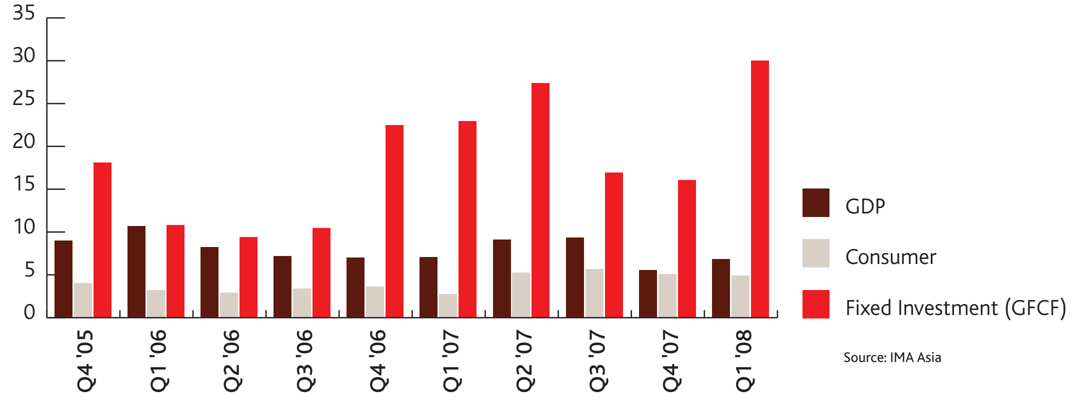


Singapore: Economic sector annual GDP real growth (2004-2007)

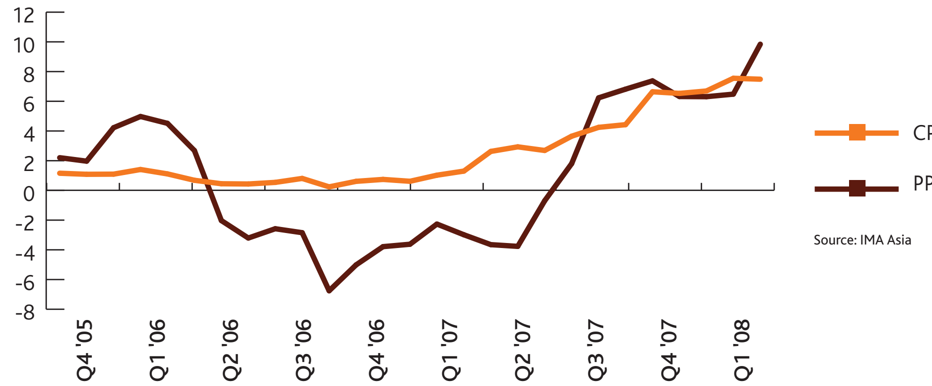


Singapore

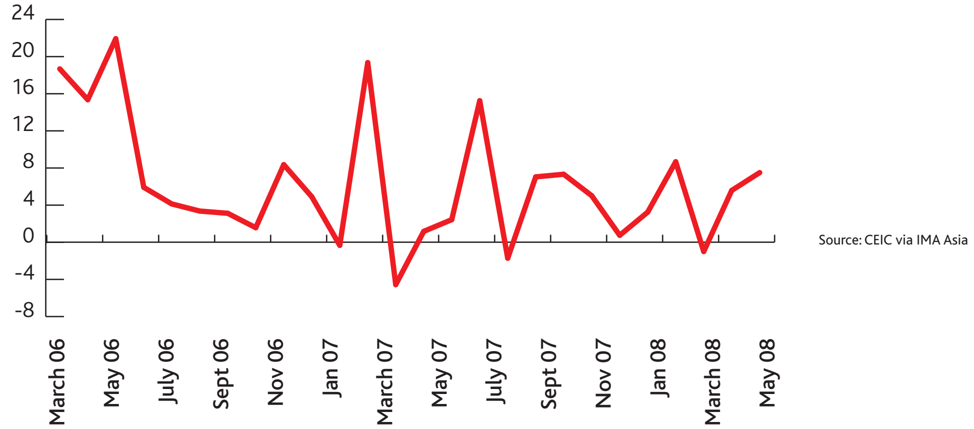
Singapore: Real GDP (%YOY)

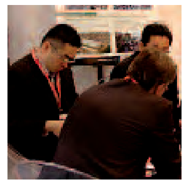


Singapore: Inflation (%YOY)



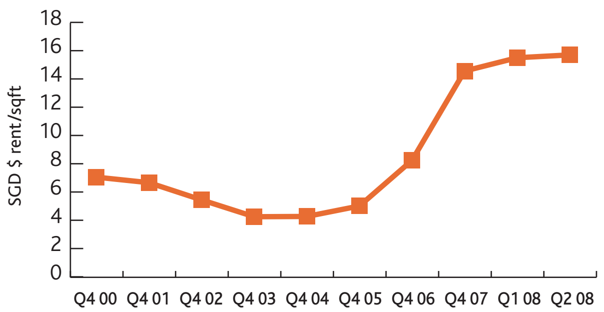
Singapore: Retail Sales Growth, nsa (%YOY)



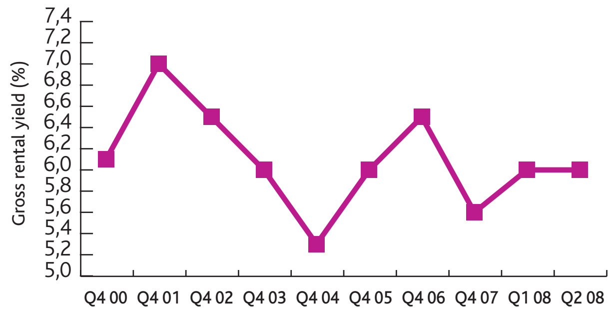


Singapore

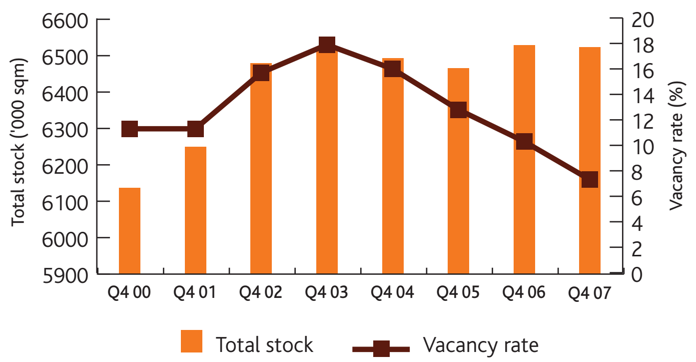
Singapore CBD office rent (Grade A & A-)



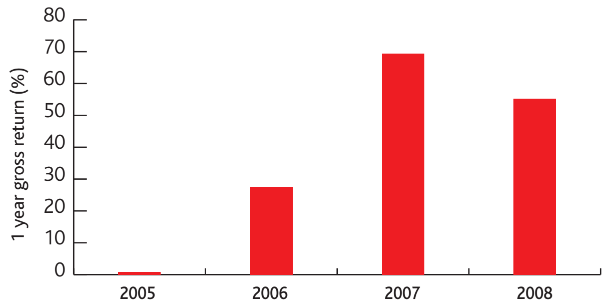
Singapore CBD office gross rental yield (Grade A & A-)



Singapore overall office stock & vacancy rate (all grades)



Singapore CBD office 1 year gross return (Grade A & A-)



South Korea

MARKET OVERVIEW

Inflation and a weak currency are the two major characteristics of the economic situation in South Korea. Despite rising commodity prices due to the soaring cost of fuel, the overall economy held up well to record 5.8% of GDP growth during the first quarter of 2008. Exporters have benefited from the won through increased industrial production which was followed by strong overseas orders.

Lee Myung-bak took office in February 2008 as the 17th President of the Republic of Korea. The election of the National assembly was held shortly after the inauguration, with the ruling party barely managing to hold a majority, taking 153 seats out of 299.

SOUTH KOREA ECONOMIC SNAPSHOT

- In 2007, South Korea's GDP grew at a rate of 5.0%.
- Despite strong figure of 5.8% in Q108, GDP growth rate is likely to decline throughout 2008.

SOUTH KOREA BUSINESS GROWTH DRIVERS

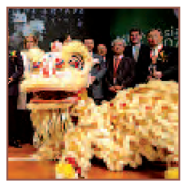
- Industries of semiconductor, automobile and electronic gadgets
- Export growth owing to weak currency.

- The Grand Canal Construction, one of the largest government-led public projects, is likely to be scrapped after the President announced he will not proceed with any policies which go against public opinion.
- The traditionally speculative residential areas in Seoul Metropolitan Area (SMA), dubbed the "Bubble Seven", have all experienced a decline in property value of 1%-9.7%, according to a survey by the Ministry of Land, Transport and Maritime Affairs. Outside the SMA, the number of unsold residential properties, especially apartments, has increased to almost 130,000 units.
- Restrictions on the military facility protection area around the demilitarized zone and military bases will either be lifted or eased. The total amount of the subject area is about 31,900 ha. After the sanction has been lifted, new developments will be able to start in the northern part of the Seoul Metropolitan Area.
- Developments of multiplex properties are booming across the country. In the city of Changwon, the "City 7" has started an operation which consists of four mixed-use buildings, a trade centre, three shopping malls and a luxurious hotel. The total gross floor area of the complex is 430,000 sq. m.. There are several other multiplex properties under construction such as D-Cube in Shindorim, Gwell City in Cheongju, Pentaport in Asan and Metapolis in Dongtan.

MARKET OUTLOOK

With increasing oil and commodity prices pulling up consumer prices in natural resource-dependent countries, the government's initial plan to relieve restriction and pursue market-oriented, small government is to be delayed. Even though a weak won is the main driver for economic advancement, continuous growth might be hindered should the high level of inflation continue to prevail in the future.

Lack of supply for commercial properties will continue until 2010, while market demand will still hold strong. However, the issue of unsold new housing stocks, especially apartments outside of the Seoul Metropolitan Area, seems unlikely to be resolved in the near future unless incentive measures are provided for both buyers and investors. In terms of the industrial market, the government is planning to supply land for factories of 33 million sq. m. within the next 10 years to support manufacturing companies looking for available space for expansion.



RISKS

Investing in the country may bear some risks which could be summarized as follows:

- low popularity of the new government leading to delays of pro-market policies such as lowering transaction taxes
- inactive transactions of the existing properties
- a potential interest rate hike in order to cool down inflation.

RETURNS

Office Property

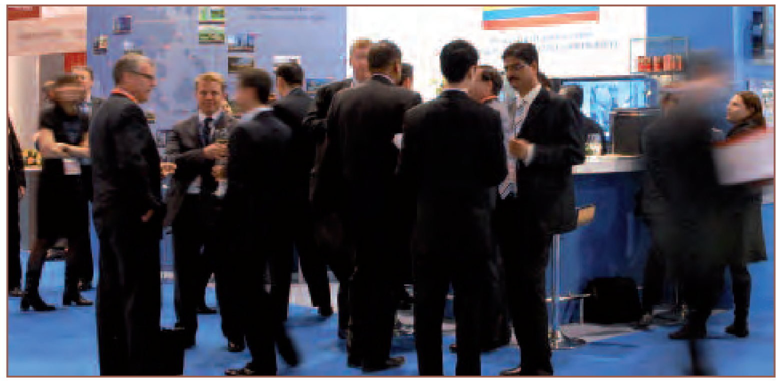
- Rental growth for prime and Grade A office properties have increased between 1.74% and 3.08% in the first quarter of 2008 compared to the last quarter of 2007. Figures indicated record-high growth rates, with quarterly and annual growth between 3.7%-10.03%. Vacancies of commercial properties in three major business districts in Seoul have not shown any sign of relaxation, remaining at about 1% for the first quarter of 2008, and it is likely to continue this year.
- The capitalisation rate for prime commercial properties across Seoul has ranged between 5% and 5.5% in the first quarter of 2008. Yield has almost reached its minimum level given the uncertainty of the economic environment of the market.

Retail Property

- Rental growth for prime locations in the three major high streets of Myeongdong, Apgujeong and Gangnam Station increased between 13.5% and 24.8% in the fourth quarter of 2007 compared to the first quarter that year. Competition among major fashion brands in top high streets and various developments in these districts attributed to the high records.
- The vacancy rates in 2007 for prime locations in Myeongdong and Gangnam Station were at 4%, and a 6% in Apgujeong.

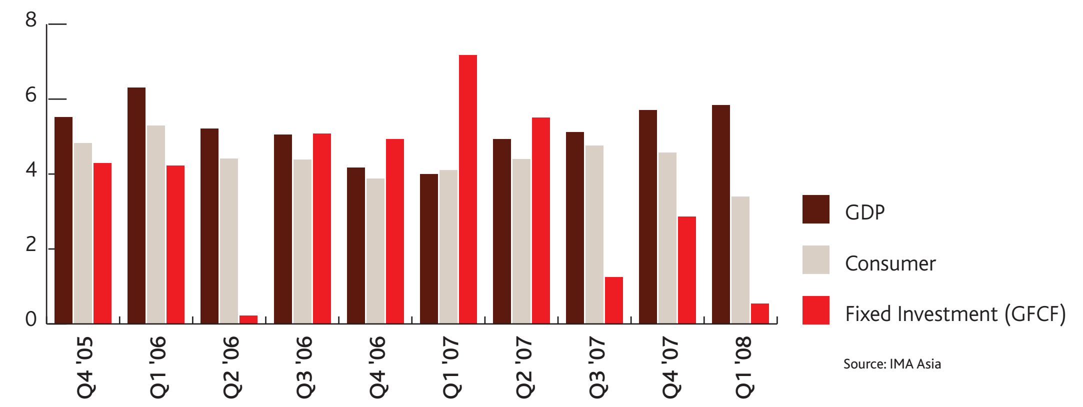
FINANCING ROUTES AND DEVELOPMENTS

- The most widely used financing method is debt, which is usually raised by financial institutions with bank guarantees from construction companies. Asset-backed and mortgage-backed securities also play an important role, having been introduced after the Asian financial crisis in 1997.
- Investors also participate through equity structures such as the Real Estate Investment Trust (REIT) or Real Estate Funds (REF). While the REF has become a preferable method for equity participation, the REIT is becoming an alternative investment tool for REF after the REIT law was amended, lowering the bar for REIT companies entering the market.

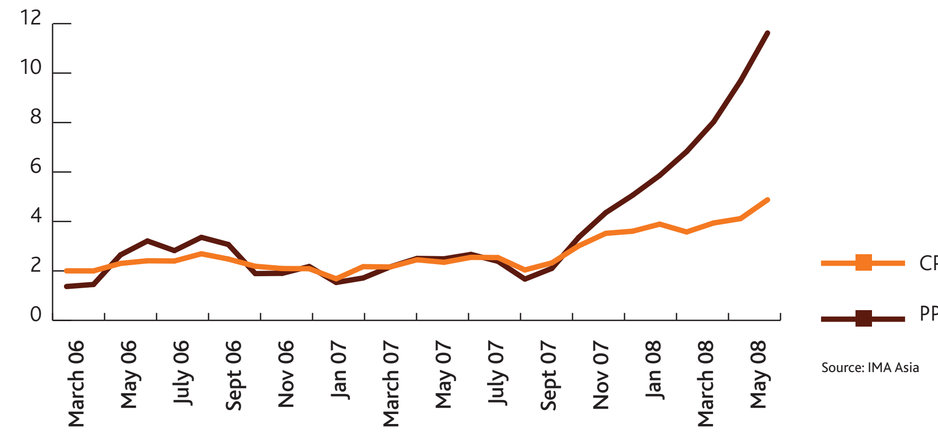


South Korea

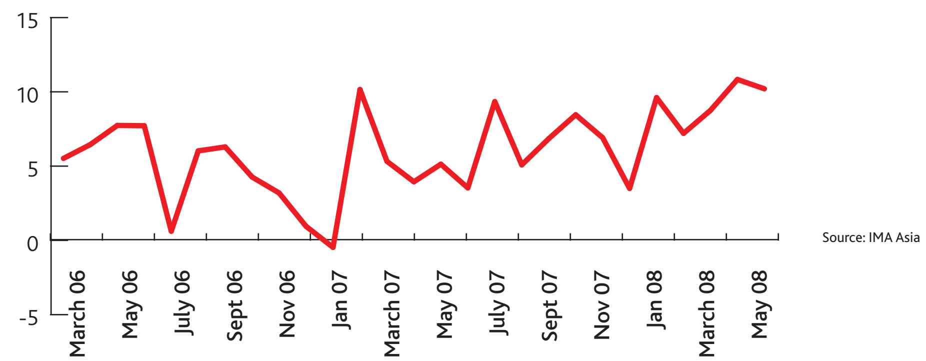
South Korea: Real GDP Growth (%YOY)



South Korea: Inflation (%YOY)

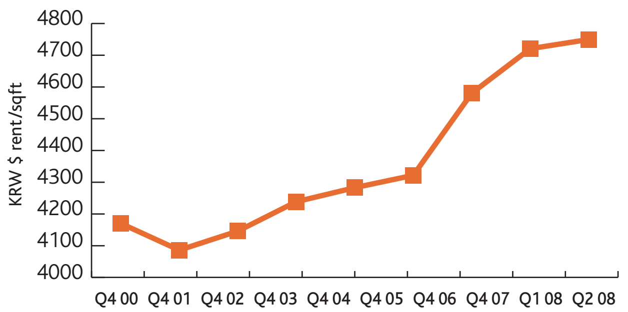


South Korea: Retail Sales Growth, nsa (%YOY)

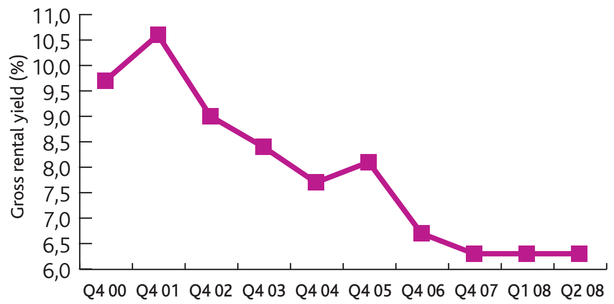


South Korea

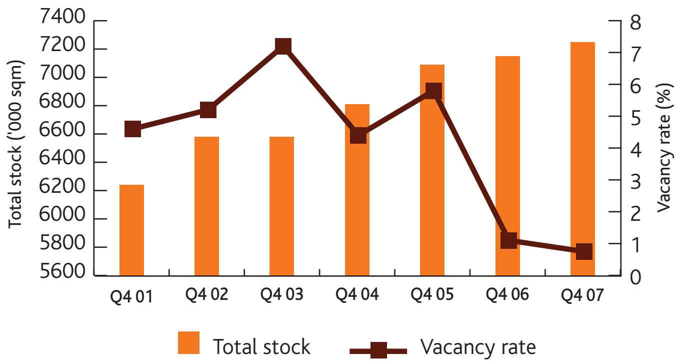
Seoul CBD office rent (grade A)



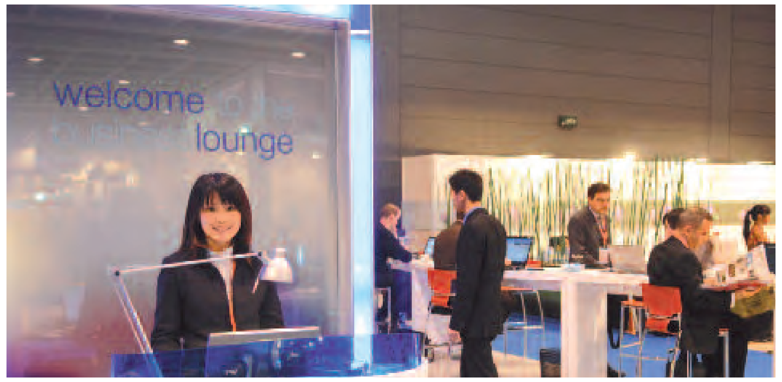
Seoul CBD office gross rental yield (grade A)



Seoul CBD office stock & vacancy rate (all grades)



Seoul CBD office 1 year gross return (grade A)



Taiwan

MARKET OVERVIEW

The outlook for Taiwan's economy is one of steady growth. The government predicts local economic growth in 2008 to be at 4.78%. Increased demand for Taiwanese products from emerging markets and the weakening impact of the credit card debt crisis, has allowed growth of internal consumption and export which in turn has enabled steady growth.

- In light of the weaker U.S. economic activity, Taiwan's exports to emerging Asian countries outperformed those to their U.S. and European counterparts. This has helped reduce the impact of the U.S. recession on Taiwan's economy.
- The Swiss-based International Institute for Management and Development (IMD) ranks Taiwan 13th for global competitiveness in 2008 and third in Asia in their annual report.
- In 2007, investors were optimistic about the real estate market in Taiwan due to expectations of improved cross-strait relationships. The commercial investment market was also very active.
- The major transactions of commercial properties in 2007 amounted to $3.35 billion, a 160% increase from 2006.
- Affected by the recession and the downturn of the real estate market in the US, many investors are turning to the Asian market. After Taiwan's presidential election, more global investors are exploring opportunities in the country's market due to the potential of market growth and the benefits of improved cross-strait relationships.

TAIWAN ECONOMIC SNAPSHOT

- GDP grew at a steady rate of 5.72% in 2007
- GDP is forecast to be 4.78% in 2008

TAIWAN BUSINESS GROWTH DRIVERS

- Emerging innovating capacity leading to a high rate of investment in modern production methods and assimilating technology
- Export of hi-tech optical, electrical, electronic, machinery and PCV products
- Increase in tourism from mainland China
- 12 major government constructions

MARKET OUTLOOK

- National projects, such as the "Taiwan 12", with global strategies are proposed by the new government and are expected to boost domestic consumption through the construction of major national infrastructure.
- In light of expectations for the "3 Direct Links and the 4th Link (Tourism)", local and foreign institutional investors are very positive about Taiwan's real estate market. In addition, given the low interest rate and high inflation, investors are keen to back solid inflation-proof investments such as real estate properties.
- It is expected that Chinese tourism will increase from July 2008, following the signing of an agreement between Taiwan and mainland China on June 13 to launch direct weekend passenger chartered flights and tour groups. The increase in mainland Chinese tourists is expected to enhance market sentiment and domestic demand, and also to offset the negative impacts of a slow U.S. economy and uptrend inflation caused by oil prices.
- Taiwan's government plans to relax controls on mainland Chinese investors entering Taiwan's market in an incremental process starting in the second half of 2008. The government expects that the investment of large capital from mainland China in Taiwan's national projects will improve economic growth and stimulate the real estate market.
- Taiwan's interest rate for real estate loans (about 3.5%) is relatively low compared to other countries, as is the leverage cost, which draws investors to the real estate market. It is expected that more capital around the world will be invested in Taiwan, particularly in its real estate market, due to expectations for an appreciation of the New Taiwan dollar against the US dollar.

RISKS

Increasing Interest Rates and Inflation

With the new government deciding to raise fuel and electricity prices to resume the floating oil pricing mechanism, Taiwan, like other countries, will experience considerable upside inflation pressure due to the cutback of fuel subsidies. Due to the high CPI, the interest rate in Taiwan may further increase. In June 2008, the Central Bank increased the interest rate for a total of 2.25% for the 16 straight quarters since October 2004. If the yield of long-term government bond increases and the cap rate of commercial property decreases, real estate investment becomes less attractive to investors due to the low yield pick-up.

Uncertain Policy

The "Three Direct Link" is still under negotiation, and the implementation schedule and details have not been confirmed.

Relax the Direct Investment of Taiwanese Companies in Mainland China

If the government relaxes the restrictions of the 40% cap on China-bound investments, more manufacturing facilities may be moved to mainland China in the short term.

RETURNS

Residential Property

- The luxury residential real estate market has heated up, and the sale price of luxury residential properties situated in premium locations such as the Xinyi Planned Area, has increased by at least 30% from early 2008 to mid 2008.
- Many investors from Hong Kong and mainland China have explored and studied the luxury residential real estate market since the presidential election in March. It is one of the major factors driving up the growth of the luxury residential real estate market.
- Additionally, the government has encouraged and provided incentives for Taiwanese to move their business back to Taiwan. It is expected the sale price of well-located luxury residential properties will continue to increase.
- However, the low-mid end residential market may not be as strong as its high end counterpart since most middle-income families have experienced slow growth in annual disposable income in the past few years.

Office Property

- Due to the limited supply of Grade A office space in the CBD, the average unit rent of Grade A office buildings came to $27.97 per sq. ft. per year (on gross area basis) in early 2008. The annual rental increase of Grade A office buildings in 2007 amounted to 8%. Since there would be no new supply in 2008, it was expected the rental of Grade A office buildings would further increase until the new supply became available in 2009 and 2010.
- The capital value of Grade A offices in downtown Taipei in 2007 increased by about 25% from 2006.
- It is expected that the interaction between the new Taiwanese government and mainland China, and the cross-strait relationship, will improve gradually. Many investors compare Taiwan's future commercial real estate market with the Hong Kong commercial real estate market in 1997 (before the change of sovereignty), and in 2004 (after the execution of CEPA – the Closer Economic Partnership Agreement between Hong Kong and China). Many of them expect the capital value of Taiwan's commercial real estate to be subjected to at least a further 20%-30% increase.
- Given that the cumulative increase in the sale price of commercial properties had already been more than the cumulative rental increase, the average market direct capitalisation rate has decreased. Some investors are turning to explore the investment opportunities of the properties under construction or joint development projects to seek higher profit margins.

Industrial Property

- As the investment environment in mainland China becomes more stringent with the implementation of labour contracts and tightened environmental policies, Taiwan's industrial real estate market is becoming active, with more Taiwanese companies returning to Taiwan.
- The executive Yuan approved to add NT$20 billion to extend the "006688" industrial-zone land rental incentive scheme to the end of this year. The scheme allows companies to lease the land rent-free for the first two years (during construction), offers a 40% discount off the regular fee for the third and fourth years, and discounts 20% during the fifth and sixth years. If the company wants to purchase the leased land, part or all of the paid rent can be deducted from the purchase price.

Taiwan

- The demand of industrial land in the Taipei area and the area in the proximity of the airport will increase because it is expected that cross-strait direct flight (passenger and freight) transportation will increase. The land sale price of the major industrial land in Taipei increased by 20%-50% from last year. The industrial land sale price in the Taipei area is between NT$200K/ping ($181/sq. ft.) to NT$400K/ping ($363/sq. ft.) whereas the industrial land sale price in Taoyuan and Taichung is between NT$60K/ping ($54/sq. ft.) to NT$120K/ping ($109/sq. ft.).

Retail Property

- In light of the recently signed official agreements to launch direct weekend passenger chartered flights and tour-group visits, it is expected that visitors from the mainland will increase substantially, driving up the retail real estate market. Many real estate investors are interested in acquiring high quality retail real estate now in order to capture the possible capital value appreciation in the coming years.
- Given the strong consumption power of visitors from the mainland, Taiwan's retail industry will be buoyant about the prospect of increased tourism. This will stimulate demand for retail facilities in Taipei and in "hot spot" areas.
- The cap rate of the street front shops in the Taipei prime retail area is 3.5%- 4.5%.

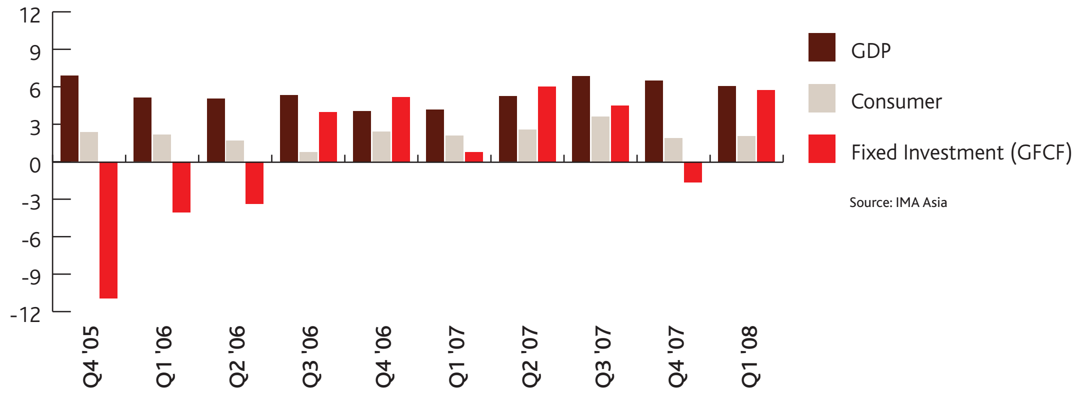
Hospitality Property

- The average nominal room rate of hotels in Taiwan was about NT$3,220 ($104) per night in 2007, with an occupancy rate of 67%.
- Investors are actively searching for opportunities to invest in hospitality properties in proximity to the "hot spots" where tourists from the mainland will visit, such as Sun Moon Lake, Alishan National Scenic Area, Taroko National Park, Kenting National Park and Xinyi Planned Area in Taipei.
- Due to expectations of a closer relationship and increasing commercial activities following the implementation of "Three Links" between mainland China and Taiwan, some investors have purchased the existing Grade B office buildings and refurbished them into business hotels in Taipei's downtown to accommodate the influx of tourists and business travellers.

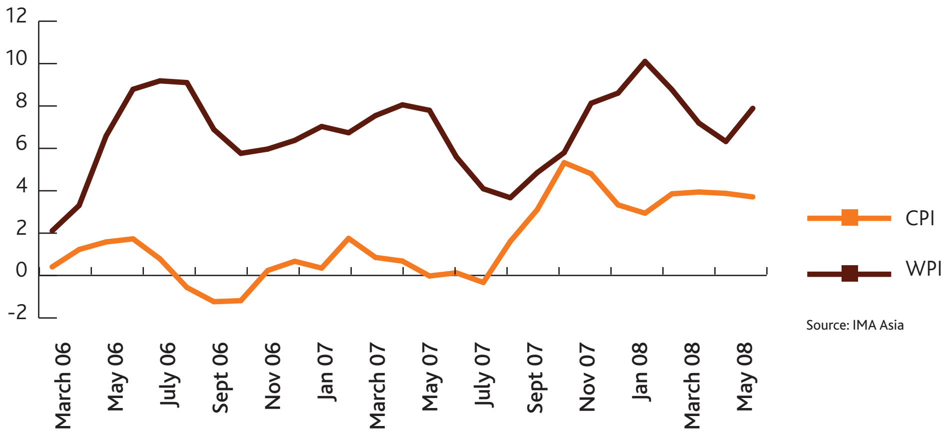
FINANCING ROUTES AND DEVELOPMENTS

- In Taiwan, most real estate developers and investors obtain financing from the banks. Banks will usually finance 70% of the real estate project amount, and the investors and developers pay the remaining 30% of the project amount (i.e. equity).
- As the Central Bank of Taiwan gradually increases interest rates due to upward inflation, the financing cost and cost of capital of the real estate developers and investors will also increase.

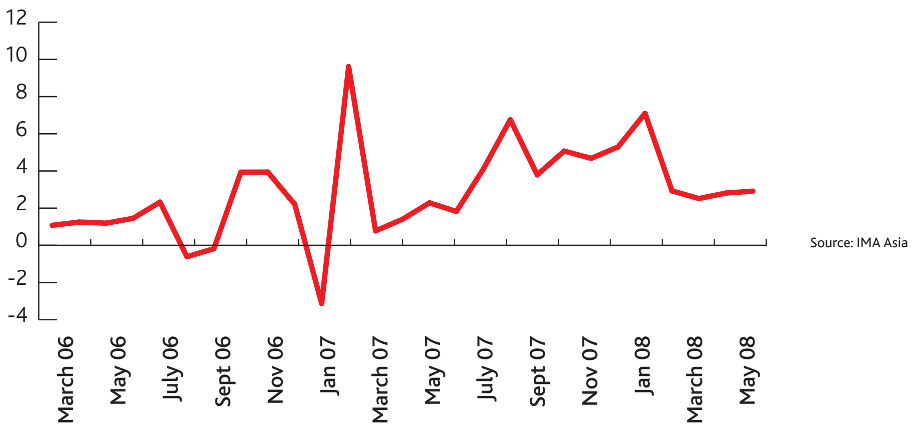
Taiwan: Real GDP Growth (%YOY)

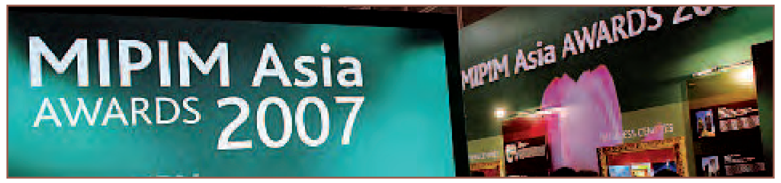


Taiwan: Inflation (%YOY)



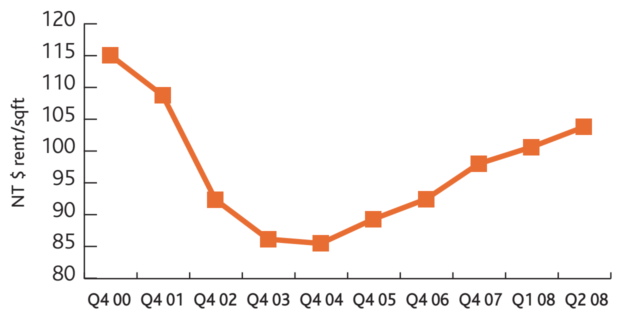
Taiwan: Retail Sales Growth, nsa (%YOY)



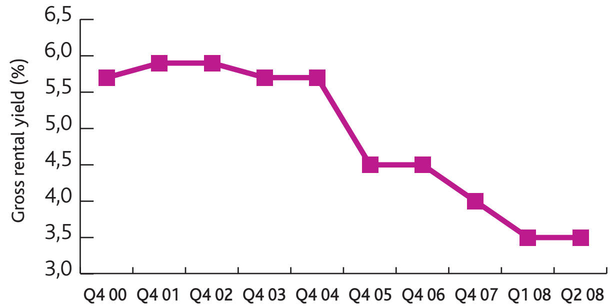


Taiwan

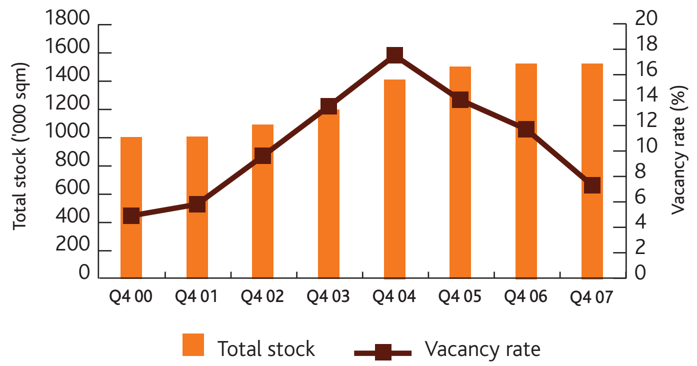
Taipei CBD office rent (Grade A)



Taipei CBD office gross rental yield



Taipei grade A office stock & vacancy rate



Thailand

MARKET OVERVIEW

- Thailand's economic outlook remains optimistic despite political uncertainty.
- Increases in fuel and food costs have been the major drivers of inflationary pressure, given that food prices make up about a third of the consumer price index.
- Total investment activity increased by 5.4%. Rises in private construction resulted from increases in commercial and industrial building while residential building has shown a downward trend, the tax policies that came into effect in early 2008 may help to boost this market.
- Government policy continues to support infrastructure projects including the expansion of the Bangkok sky train and subway. This will help stimulate the real estate market in Thailand.

THAILAND ECONOMIC SNAPSHOT

- GDP is expected to be 4.5-5.5% in 2008.
- Thailand's inflation rate is higher than expected. In the first quarter of 2008, the inflation rate rose to 5%.

MARKET OUTLOOK

Thai economy maintains its upward momentum

The first quarter of 2008 was promising, reporting 6.0% growth, while the GDP for the rest of the year is projected to register 4.5%-5.5%. The reason for this conservative yearly forecast is that the first quarter's higher than expected performance came off the back of a large amount of farm crop exports, an upward lift of the minimum wage and special business tax incentives. Although the private sector is ready to expand business, it is still waiting for clear economic policies from the new government.

High oil, food and commodity prices have started to build inflationary pressure

Headline inflation rose from 2.3% in 2007 to 4%-5% in 2008, forecast in April 2008. While some countries in Asia have increased their inflation noticeably, Thailand could still control the increase with only 2%-3% change. Inflation could decrease business margins slightly in all sectors, due to higher expenses and the limited gap to adjust product prices or service fees.

Property market faces limited growth in 2008 due to high construction costs

Development projects which had been planned with low margins may face financial trouble due to higher than expected construction costs. On the consumer side, the higher costs may inflate property prices by at least 5% in 2008 from 2007. The property development trend in 2008 is towards the retail market. The residential market has slowly shifted from inner-Bangkok vertical buildings to outer Bangkok horizontal projects, due to the scarcity of vacant land near mass transit railway lines. In addition, 2008 could be another good year for the industrial market due to renewed confidence by foreign investors from the new government's formation, following the election in early 2008.

OPORTUNITIES FOR INVESTMENT

- Residential development in Bangkok and other major cities
- Retirement and vacation homes in key tourist cities/islands
- Serviced apartments for the increasing number of expatriates and leisure visitors in commercial and industrial cities
- Boutique hotels in urban cities or resorts in established tourist destinations
- Grade A office buildings in Bangkok CBD
- Ready-built factories for manufacturing in East Bangkok and the eastern seaboard region

RISKS

- The instability of Thai politics could impact the economy in many ways. This issue is a concern for foreign investors.
- The increase in the inflation rate may affect growth of the property market in Thailand.

RETURNS

Residential

The residential market is experiencing higher competition as a large amount of supply enters the market, especially from international chains. As a result, the asking price is expected to increase only slightly despite demand growing steadily. Luxury residences show an upward trend. The market is sensitive to external factors including political uncertainty, the weak dollar, and the tourism market situation. The estimated return is 6.5% per annum.

Office

About 100,000 sq. m. of office supply will be added every year to the Bangkok metropolitan area between 2007 and 2010. The additional stock is slowly converting the market from a strong landlord's market to a price-competitive tenant market. Bangkok CBD's vacancy rate is on track to rise from 8% in 2007 to 15% in 2010. The estimated return is 7.5% per annum.

Retail

Following the boom in the residential market in 2006-2007, several retail developers have planned to launch their projects onto the market. Retail space is being developed in many forms including shopping malls, hypermarkets, community malls and shop houses in the Bangkok metropolitan area, as well as other major cities. The estimated return is 8.5% per annum.

Industrial

Last year marked a boom in factory investment which has maintained momentum through 2008. The Board of Investment reported a 32% increase from 2006 to 2007 in total Thai baht investment. Most industrial activities occurred in the eastern seaboard region, while some new opportunities took place around the new international airport area. The estimated return is 10.0% per annum.

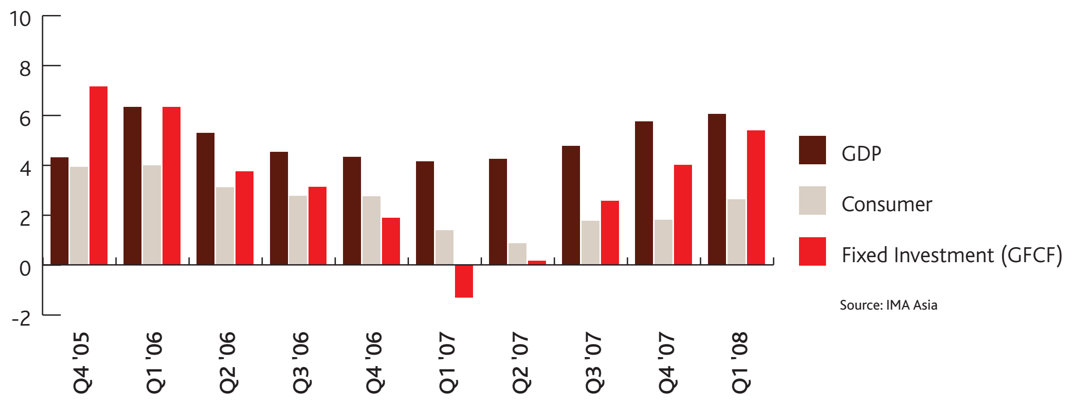
Hospitality

An increase in the number of foreign visitors has led to high growth in the hospitality sector. Hotel occupancy in the CBD stayed steady at approximately 70%. The hospitality market is expected to face greater competition, with many new supplies scheduled to open in the next couple of years. As a result of the growing Asian tourist market, this sector will continue to perform well.

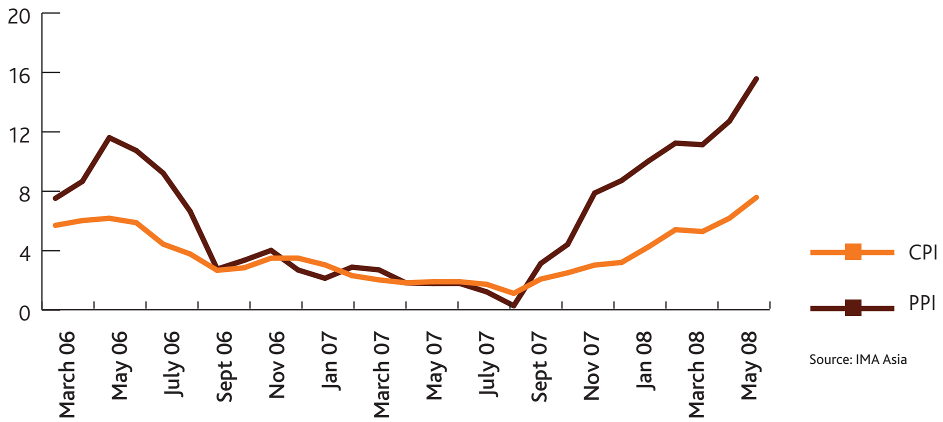
FINANCING ROUTES AND DEVELOPMENTS

Property funds have become more appealing for financial investors. Four property funds were in IPO in 2007 while four more funds were launched in the first quarter of 2008. As of June 2008, 20 property funds cover several sectors, including low-rise housing, serviced apartment, office, industrial, airport and hospitality.

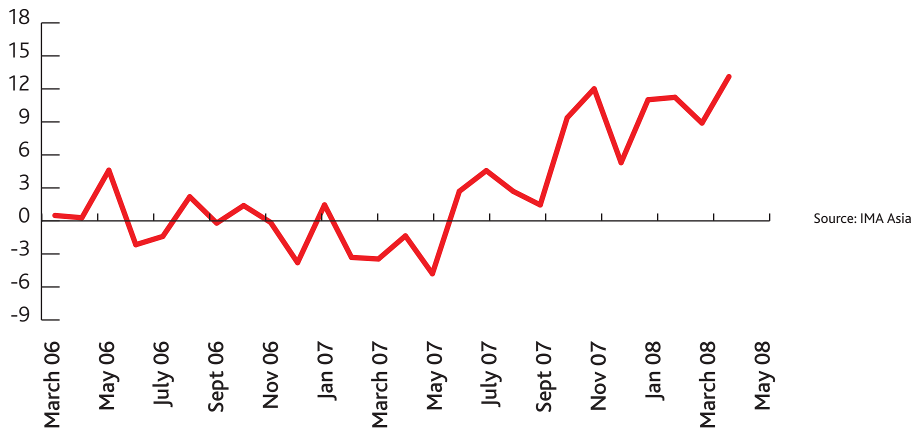
Thailand: Real GDP Growth (%YOY)



Thailand: Inflation (%YOY)

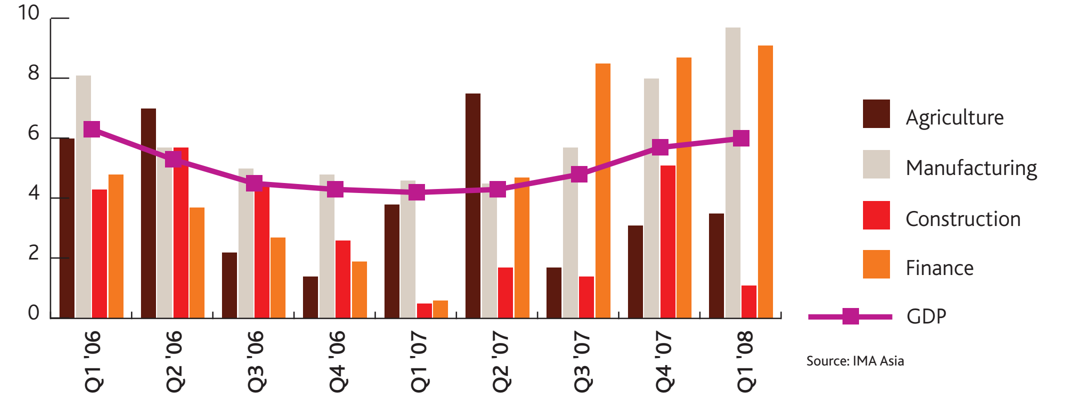


Thailand: Retail Sales Growth, nsa (%YOY)

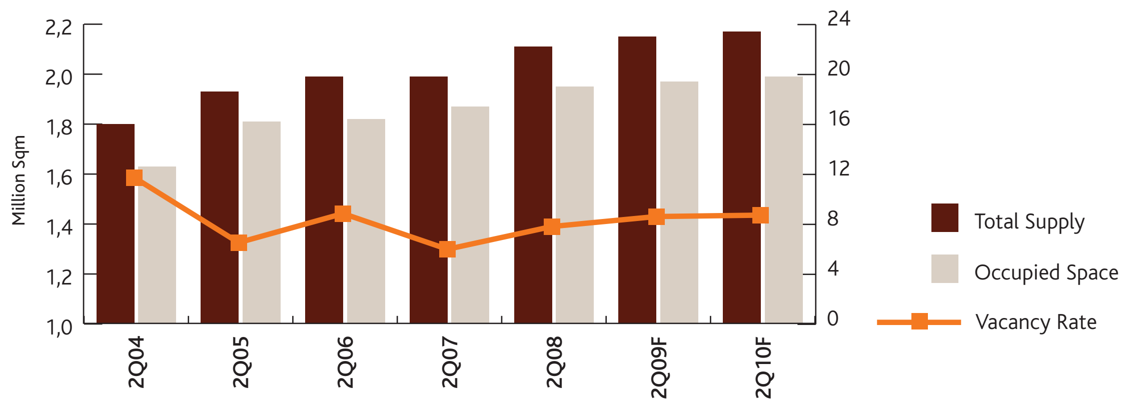


Thailand

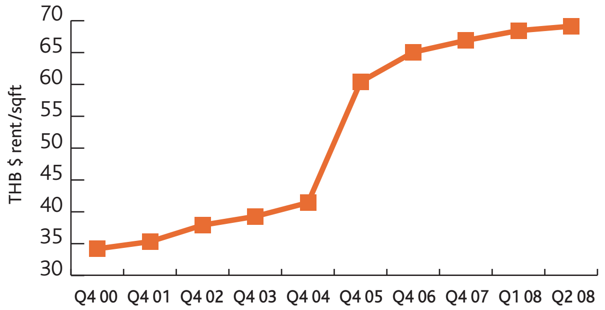
Thailand: GDP by production (%YOY)

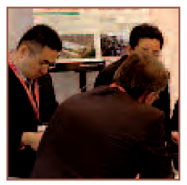


Bangkok: CBD office market



Bangkok CBD office rent (grade A)





Vietnam

MARKET OVERVIEW

Since Vietnam joined the World Trade Organisation at the end of 2006, investment in the country has taken off. However, the speed of development and investment has left the economy reeling. An uncontrolled surge in money supply in 2008, together with spectacular growth in imports is leading to short-term instability in the economy. It is possible that the current high inflation rate of 20% will require drastic action by the government if a wider economic crisis is to be avoided. The longer term picture for Vietnam is still excellent. Much of the import growth is for capital goods which will boost productive capacity and infrastructure. This augers well for long-term economic prosperity.

VIETNAM ECONOMIC SNAPSHOT

- GDP forecasts have been reduced to a rate of 7.5% in 2008.
- GDP is projected to grow at 7.6% in 2009.

VIETNAM BUSINESS GROWTH DRIVERS

- Focus on tourism and manufacturing
- Continuing government reforms
- Undersupply across many real estate sectors

Far from running for the exit at the first sign of trouble, foreign investors are still falling over themselves to pour money into the country in the firm belief that the short-term economic issues are nothing but a blip in the long-term path to prosperity. Vietnam's future remains bright, with the majority of citizens still believing they are in the midst of an economic boom. GDP growth forecasts for the year have been reigned in to 7.5%, with the consensus view of about 7.6% for 2009.

- Vietnam's residential market posted a good growth with median prices reported to have increased by 33% and total sales transactions increased by 90% in 2007. The last few years have seen an increase in interest from foreigners buying in the markets.
- Vietnam's tourism market is projected to have the sixth highest tourism growth rate in the world, at an annual average rate of 7.5% between 2007 and 2016 according to the Economist Intelligence Unit (EIU). In an effort to enhance Vietnam's tourism sector, the government has been encouraging new hotel development.

To rein the rapid run up in the property market, the government has decided to increase development controls by restricting certain classes of development in certain areas as an attempt to cool the markets.

MARKET OUTLOOK

Despite the global and domestic uncertainty, Vietnam's economy is still forecast to grow at 7.5% in 2008, with FDI forecasted to exceed 2007's record of $20 billion by 100%. The recent correction in the residential market is likely to be mirrored in office rents which have also seen unrealistic and unsustainable increases in the past two years. Many foreign investors consider the current cooling off well overdue and welcome the market's return to normality. Hopefully, this will allow Vietnam to continue its economic growth and maintain its competitiveness with China and India as an outsourcing destination.

OPPORTUNITIES

Despite the current economic issues, the fundamentals that have attracted significant FDI remain strong:

- young population
- undersupply of real estate across most asset classes and an increase in land supply through the government land sales program
- foreigners can now buy real estate subject to certain government rules
- manufacturing demand for space and shortage of industrial parks

INVESTMENT OPPORTUNITIES

Every market is has an undersupply of space. There is both an undersupply in absolute terms and a greater undersupply of quality space. The only exception is the office market in Ho Chi Minh City which will double the inventory of current Grade A space.

RETURNS

Residential Property

- The high-end luxury apartment market has seen a considerable drop in the region of 40% since the Lunar New Year. With the poor performance of the stock market, investors turned to the real estate market which saw a dramatic hike in prices for options on future supply. A recent loss of confidence has seen a fall in the price of these options. Limited bank lending has helped restore the market to sustainable levels with the exit of many speculators. Problems remain for tenants looking for properties to rent, as the future supply has yet to be built. Despite the recent rise and fall of the market, many of the new developments remain unfinished. This is leaving a significant undersupply since the rise in rents for modern apartments has gone hand in hand with rises in expatriate ranks in Ho Chi Minh City.

Office Property

- Office rents have continued to increase over the past quarter, with Grade A rents being quoted in the region of $70.00 per sq. m. per month including service charges.
- This continual increase of rents has made Ho Chi Minh City the most expensive office location in Southeast Asia, excluding Singapore. This has forced tenants to either reconfigure current office space or relocate to lower quality buildings in suburban or semi-suburban locations.
- Over the next 12 months, the office market should see the delivery of circa 165,000 square metres of Grade A and B space, over two times the current Grade A inventory (75,000 sq. m.).
- Early indications of falling rents have started in the Grade B market with landlords willing to offering reductions of 5%-10%.

Industrial Property

- Vietnam's Industrial market saw further positive developments in 2007, with interest from diversifying international manufacturers. Rental levels in popular locations of Binh Duong and Dong Nai rose by up to 60% as demand continued to outstrip supply. A number of new parks launched in 2007 have helped satisfy demand, while industrial zones have continued to expand across the country.
- Multiple-user factory space is expected to post a gross rental yield (before tax and other expenses) of 5.8% in the next two years, with total one-year investment returns in 2008 and 2009 estimated to be 16.4% and 6.7% respectively. Multiple-user factories posted a one-year total investment return of 29% in 2007.

Retail Property

- Vietnam's retail market, recently ranked #1 in the A.T. Kearney 2008 Global Retail Development Index, boasted total retail sales of $44.8 billion in 2007, with forecasted CAGR of about 13.6% forecast for 2008 – 2012. Ho Chi Minh City and Ha Noi make up one-third of the country's total retail sales.
- Vietnam's young population (65% under 30) with increased disposable income has been quick to embrace new shopping ideas and trends, with modern retailing formats becoming more prevalent and luring consumers away from traditional outdoor markets and street shops. Demand for international brands and luxury goods will rise as income levels increase across the country.
- With no shopping malls and limited planned retail, most fashion brands are forced to operate retail units in podium centers or street-front shops at prime locations. Total modern retail space in Ho Chi Minh City and Hanoi is around 530,000 sq. m.
- In Ho Chi Minh City, modern retail space totalled about 255,000 sq. m. in the first quarter of 2008, consisting of 16 shopping centres, 11 podium centres, three wholesalers, 15 specialty stores, 20 convenience stores and 38 supermarkets. The average occupancy rate was 99%.
- Average monthly rental rates for shopping and podium centres range from $40-$140 per sq. m. and super prime rents of $200 per sq. m.
- Vietnam's WTO commitments will create a new retail environment from January 2009 with 100% foreign ownership permitted, and foreign parties will be able to buy out their Vietnamese partners
- With new supply of modern retail space from the end of 2008-2012, Ho Chi Minh City and Hanoi's total retail space should reach 720,000 square metresand785,000 respectively by 2012.

Hospitality Property

By 2010, the Vietnam National Administration of Tourism (VNAT) is aiming to attract 5.5- 6.0 million international arrivals, 25-26 million domestic visitors, and achieve tourism revenues of $4.0-4.5 billion. It is projected to be the sixth fastest growth in tourism globally.

As at 2007, Vietnam's hospitality industry approximately comprises 224 hotels classified under the three, four and five-star categories, totalling approximately 45,000 rooms. At present, the hotel market achieves record high occupancies above 75%.

HCMC, the economic hub, is one of the two most established destinations in Vietnam. The following provides a summary of the existing accommodation options in HCMC:

- Twenty-three three-star hotels with 1,903 rooms
- Eight four-star hotels with 1,447 rooms
- Ten five-star hotels (questionable by international standards) with 3,435 rooms

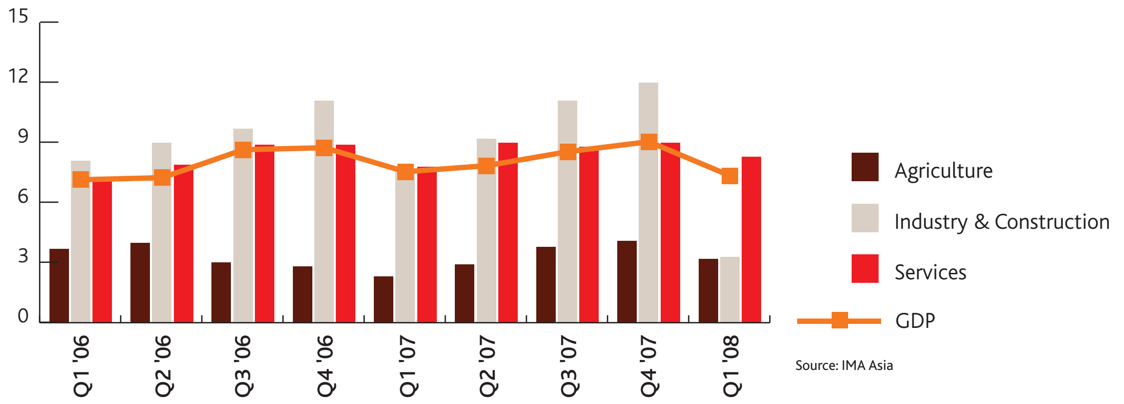
As a result of the strong tourism development, Ho Chi Minh City's tourism authorities estimate that the city would face a shortage of 7,000 hotel rooms in the three to five-star room category by 2010. Based on available information, there are over 3,200 upscale rooms planned for HCMC, which represents increases of approximately 50% on the current supply of their three, four and five-star inventory by 2010. Notwithstanding, the rate of hotel development may not meet the present shortage of rooms.

In addition to the city market, significant interest and investment has continued in costal resorts of Ha Long Bay, Danang, Phan Thiet, Nha Trang and Vung Tau, as well as Phu Quoc Island of the southern coast, although infrastructure remains a factor holding back the full potential of these locations.

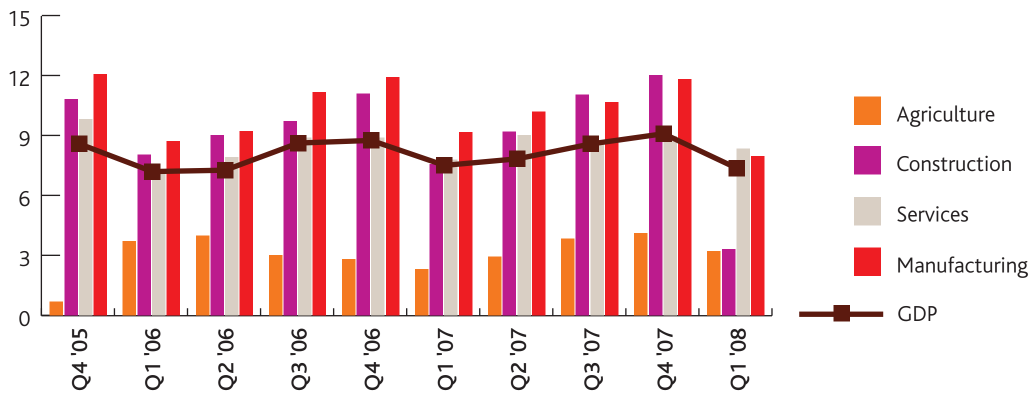
FINANCING ROUTES AND DEVELOPMENTS

Vietnam is currently experiencing significant lack of liquidity both with foreign and local banks, which has stifled the progress of many developments.

Vietnam: Real GDP by Production (%YOY)

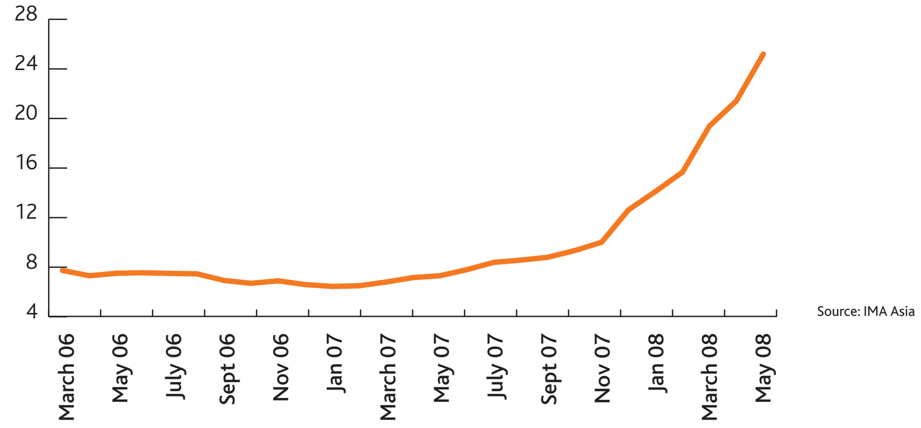


Vietnam: Real GDP by Production (%YOY)

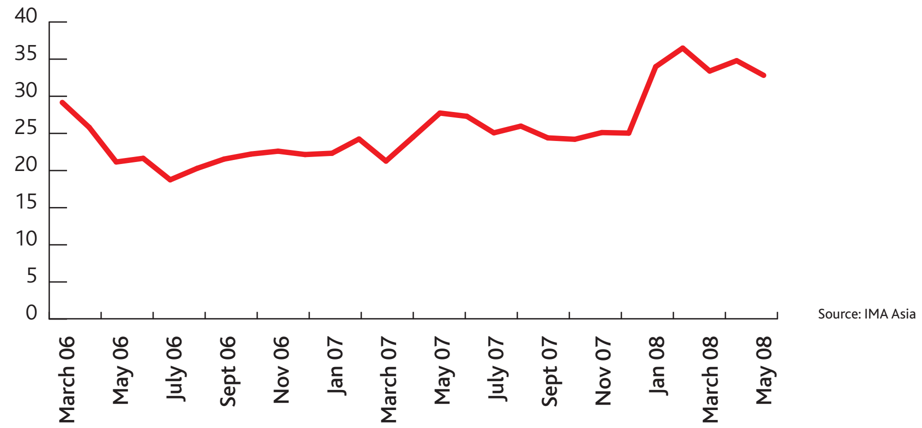


Vietnam

Vietnam: Inflation (%YOY)

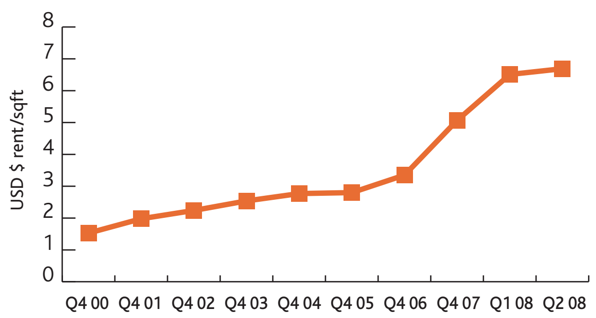


Vietnam: Retail Sales Growth (%YOY)

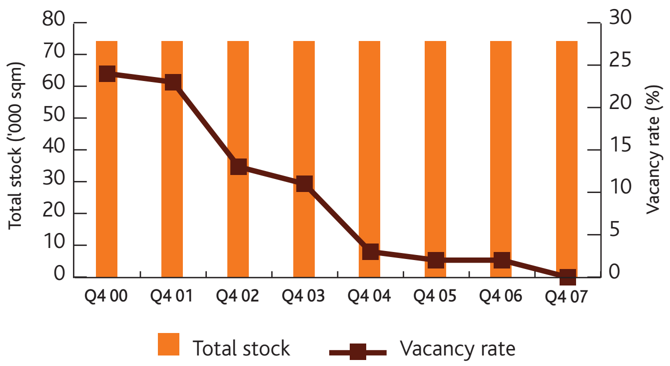


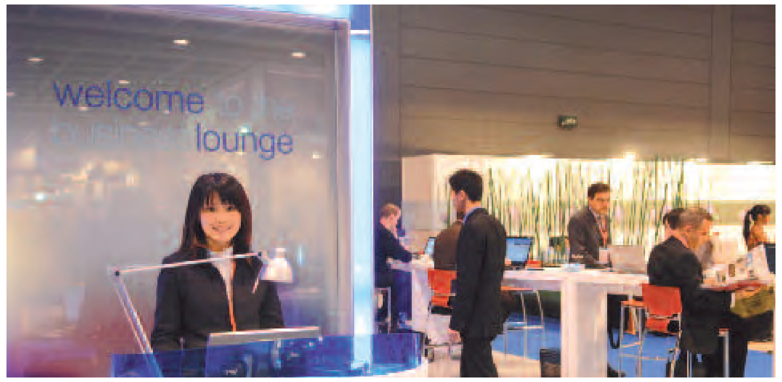
Vietnam

Ho Chi Minh CBD office rent (Grade A)



Ho Chi Minh office stock & vacancy rate (Grade A)





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