Asian Property Outlook & Strategy

Executive Summary

Not all gloom and doom …

Global economic activity expanded at a measured pace in the first half of 2012. Leading indicators point to a continued deceleration for most major economies. The private sector recovery remains modest in many countries amidst weak sentiment. As the unresolved Eurozone debt crisis looms over the global economy, the path ahead is fraught with uncertainties and risks. However, not all is gloom and doom. While economic prospects for the U.S. and Europe remain muted, Asia will continue to stand out given resilient domestic demand and greater policy options.

… but state of inflection magnifies importance of entry timing

Macro concerns have resulted in greater investment caution in Asia, in part due to the deteriorating Chinese outlook. However, Asian real estate will see continued investment interest, driven by the search for yield and greater diversification programs. Fund raising activity is increasing and more opportunities could arise as European groups divest their real estate assets. The greater focus on income stability will favour core assets.

The key risk for real estate investments in Asia at this juncture remains the overall macro outlook. The global economy is in a state of inflection and the recovery for many markets is contingent on a macro recovery in 2013 and beyond. A further deterioration in the macro outlook could impact returns drastically, magnifying the importance of entry timing in this climate.

Office: Despite softer leasing demand by the financial sector, expansions by the non-financial sectors supported prime office demand. The decentralisation movement continued but momentum in tenant upgrading will help support prime office demand. Rents and capital values are expected to hold up better in cities with firm domestic demand and positive sentiment. Over the longer term, leasing demand will be sustained given the keen interest by many MNCs and financial institutions to expand their presence in Asia.

Retail: Consumer sentiment has weakened globally and spending is likely to proceed with more caution going forward. In the near term, leasing interest could be more measured but the longer term outlook remains favourable given the robust tourism outlook and the structural ascent of the Asian consumer.

Residential: Economic uncertainties and earlier policy restrictions should continue to weigh on prime capital values and rents. Recent housing policies have centred on supporting the mass-market housing sector, spelling more opportunities for this segment.

Pacific Star's picks

We favour the **retail sectors** of **Singapore**, **Kuala Lumpur** and **Bangkok** due to their healthy domestic conditions and tourism growth, but more caution is expected as the economic outlook dims. Within the **office sector**, our view is that **Singapore** remains as an attractive business hub and **Bangkok** is favoured for its improving economic prospects. We maintain a cautious outlook for the **residential sector** as property markets are still reeling from earlier cooling measures. For further details, please refer to the Property Drivers Framework within the report.

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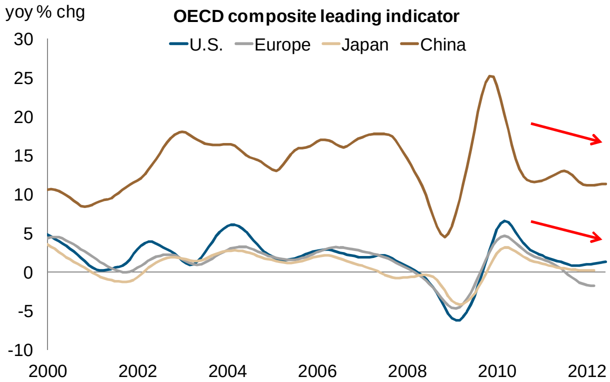
Macroeconomic Setting: Not all gloom and doom

Global economic activity expanded at a measured pace in the first half of 2012. Although economic indicators improved noticeably earlier this year, a more sombre outlook has now ensued. Leading indicators by the Organisation for Economic Co-operation and Development (OECD) point to a continued deceleration for most major economies (Exhibit 1). Business and consumer sentiment turned south and the private sector recovery remains modest in many countries. As the unresolved Eurozone debt crisis looms over the global economy, the path ahead is fraught with uncertainties and risks. The IMF expects global growth of 3.5% in 2012 and 3.9% in 2013, following 3.9% in 2011.[1] However, not all is gloom and doom. While economic prospects for the U.S. and Europe remain muted, we remain sanguine that Asia will continue to stand out given resilient domestic demand and greater policy options.

Exhibit 1: OECD composite leading indicator



Source: Bloomberg, Pacific Star Research

United States

The U.S. economy presents a mixed bag of news. On the positive front, housing construction has started to grow strongly again and lending standards are relaxed for loans relating to consumer credit, autos and commercial real estate. Falling oil prices will also provide some boost to household spending power. On the negative front, slower job creation and a sluggish manufacturing sector will weigh on consumer sentiment and spending.

While the Federal Reserve will likely maintain a loose monetary policy, we do not expect much fiscal stimulus, given looming risks of a 'fiscal cliff' at year-end. Debt levels have fallen, but further deleveraging is still needed and support from the private sector will likely be less than forthcoming. Interestingly, all the post-war recessions have been characterised by a pick-up in debt. With the looming political uncertainty, businesses will be hesitant to accelerate capital spending in the near term. Consequently, our base scenario is for a meagre U.S. recovery in 2012-13.

Europe

Europe's economic environment remains particularly fragile – the manufacturing sector has been contracting since the second half of last year. In Germany, the anchor for the region, growth and confidence are faltering while the peripheral countries remain under tremendous pressure to cut spending. The European economy will likely fall into a recession in 2012 with downside risks for 2013.

The sovereign debt crisis in Europe took global centre stage in May as risks of a Spanish contagion flared up. Market participants will continue to test the

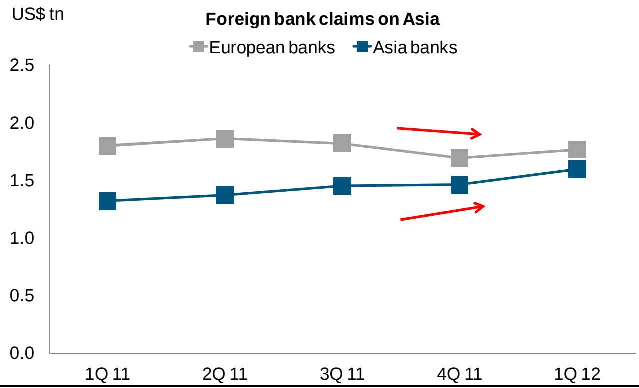
[1] IMF, World Economic Outlook Update, July 2012

commitment of the political leadership in establishing a credible financing mechanism for the Eurozone. Volatility in Europe's financial markets is expected to be the norm until a clearer resolution is obtained. However, risks of a banking crisis have declined somewhat given the ECB's readiness to support the banking system.

Asia

In Asia, growth prospects have dimmed as its bellwether economy, China, undergo a definite slower pace of growth. Many economies posted their weakest performance in the first part of 2012 since the Global Financial Crisis. However, Asia is demonstrating remarkable resilience on a couple of fronts in our view. For one, inter-regional trade links have strengthened considerably in recent years, providing a cushion in the face of waning external demand. Two, even as European banks cut back on lending, local banks in healthier positions have plugged the financing gap (Exhibit 2). As such, earlier market fears of a credit crunch did not materialise.

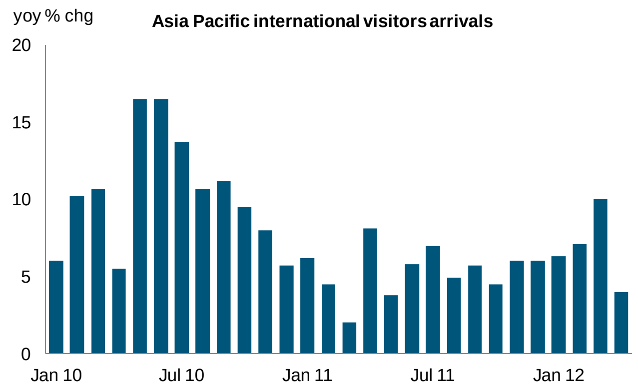
Exhibit 2: Financing gap chart



Source: Bank of International Settlements, Pacific Star Research

Consumer spending has held up reasonably well, supported by healthy labour markets, rising incomes and relatively low household debt. The positive equity market performance in 2012 is also translating into wealth effects for households. Asia is gaining market share in global tourism, while further liberalisation is expected in the lucrative gaming sector. For 2012, the United Nations World Tourism Organisation expects tourism in Asia to grow by 4-6% while the World Travel and Tourism Council expects growth of 4%.[2,3]

Exhibit 3: Asia Pacific international tourist arrivals



Source: Pacific Asia Travel Association, Pacific Star Research

Asia is gaining a firmer footing in re-orientating its economies towards greater domestic consumption. This year, a spate of wage increases was introduced across

[2] UNWTO, Presentation at the 24th joint meeting of the Commission for East Asia and the Pacific and the Commission for South Asia in Chiang Mai, 4 May 2012
[3] World Travel & Tourism Council, Asia Pacific Travel and Tourism Economic Impact, 2012

the region.[4] Thailand and Indonesia have raised their minimum wages by 40% and 20% respectively, while Malaysia has introduced a new minimum wage from May. Some cities in China (Beijing, Shenzhen, Tianjin) have also raised their minimum wages.

Policy makers in Asia have an arsenal of policy tools at their disposal to steer their economies. Of late, Asian central banks have eased interest rates at a more fervent pace to support growth. The scope remains open for further monetary easing as inflationary pressures are contained and will likely subside further. Fiscal positions are also stronger in this part of the world and a number of stimulus packages are being introduced, which will help offset the unwinding stimulus effects in the West.

At this juncture, we believe that Asia will weather the economic turbulence relatively well but risks are clearly to the downside. Besides a disorderly break-up of the Eurozone, another major wildcard is whether China can avoid a hard landing. Our analysis of the Chinese economy and property market is detailed as a separate research feature in this issue.

Japan

Economic activity picked up strongly in 1Q 2012 driven by reconstruction-related demand – the four supplementary budgets account for 4% of GDP. Consumer spending was boosted by policy-induced purchases of eco-friendly and fuel-efficient vehicles, but the eco subsidy is expected to be withdrawn before the end of the year. The growth figures for 2Q 2012 suggest that underlying demand may not be as robust as earlier expected. The hard-fought bill to raise consumption tax in two phases from 5% presently to 10% by 2015 obtained legislative approval in August.[5] If implemented, households are likely to shift forward their purchases and help support the economy. On the whole, a recovery in 2012 as all but given, but the outlook for 2013 remains somewhat cloudy.

Korea

The outlook for the Korean economy is softening in 2012, hampered by sluggish performance in the industrial and export sectors. In the first six months of 2012, retail sales grew by 4% (y-o-y), slowing from growth of 8% for 2011. Consumer confidence has been rising steadily before dipping in June. Inflation fell to a 12-year low of 1.5% in July and further policy loosening is expected in the months ahead after a surprise rate cut in July. To guard against capital flows volatility, the Bank of Korea has announced incentives to attract foreign currency deposits to banks.

Hong Kong

The Hong Kong economy saw a marked slowdown in growth, a direct consequence of its extensive trade and financial linkages with the global economy. Unemployment has ticked up although it remains modest on a historical basis, and private consumption is still relatively firm. However, tourist spending from Mainland China remains the bedrock of the retail and tourism industry. As Chinese growth slows, support for retail spending has waned. In May, retail sales grew by just 8.8% y-o-y, its weakest pace since 2009. We expect the slowdown in China to take the wind out of the Hong Kong economy and growth could likely disappoint in the next few months.

Thailand

A strong policy-induced economic rebound in 1Q 2012 was recorded for the Thai economy. Domestic spending remains supported by rising wages and a buoyant tourism outlook. Consumer sentiment rose to a nine-month high in June. Political tensions have been stoked again as the government seeks to amend the 2007

[4] The Wall Street Journal, Wage hikes ripple across Asia, 13 March 2012
[5] The Wall Street Journal, Japan raises sales tax to tackle debt, 13 August 2012

constitution but the situation remains under control. The economy will likely grow by a respectable pace of around 6% for 2012.

Malaysia

Economic growth moderated in 1Q 2012, led by a fall in exports. However, the domestic sector remains robust, and the trade surplus fell to a 10-year low as imports outpaced exports. Inward investment flowed strongly, encouraged by the Economic Transformation program and ample liquidity. Household spending has been exceptionally robust, supported by healthy wage growth and low unemployment. The central bank has kept interest rates unchanged since May 2011 but we expect monetary policy to be loosened in the coming months given that inflation in Malaysia is amongst the lowest in the region.

Singapore

Led by a decline in the manufacturing sector, the Singapore economy contracted by 0.7% in annualised terms in 2Q 2012, reversing the 9.5% expansion seen in 1Q 2011. The export sector is weighed down by weak European demand although exports bound for the U.S. are still firm. Low unemployment and strong visitor arrivals kept retail sales growing at a reasonable pace. To contain imported inflation, the Monetary Authority of Singapore opted for a tighter exchange rate policy in April. However, this could impact export competiveness and further depress export performance. The government has lowered the economic growth forecast to 1.5-2.5% for 2012.

Vietnam

Economic growth continued to slow in Vietnam but macroeconomic fundamentals have seen a definite improvement this year. Inflation has declined to 5.4% in July from a high of 23% last August. This will provide further scope for monetary easing by the State Bank of Vietnam which has already lowered the policy rate five times this year. The dong has remained fairly stable following a string of devaluations which ended in early 2011 and plans to restructure its state-owned enterprises are underway. Nevertheless, the risk of a banking crisis is still significant as the share of non-performing loan remains at an uncomfortable level of around 10%.

Whither the Chinese economy and property sector

The trajectory of the Chinese economy is a perpetual topic of interest, given its rising economic clout and the fact that much of Asia's fate is intertwined with it. In the second quarter of this year, the economy experienced its slowest growth (7.6% y-o-y) in three years. While retail sales grew by 17% in 2011, it has since slowed to 13% y-o-y in July this year.

In the face of weak external demand, export growth has ebbed. In particular, the growth of exports destined for China's largest export market – the European Union – has decelerated sharply. Even so, the external sector makes up only a quarter of the economy, in contrast with more than 150% for other open Asian economics like Singapore and Hong Kong.

Economy remains driven by state investment

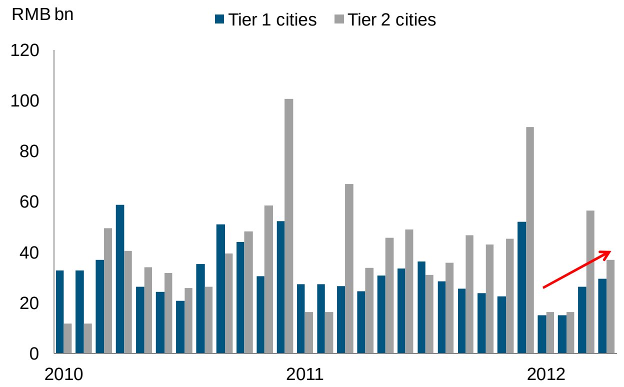
The Chinese economy remains largely driven by state investment and the impact of a slowdown in the West is likely to be contained. Nevertheless, the official leading indicator from the National Bureau of Statistics suggests that upcoming growth momentum is likely to be muted.

Most recently, Premier Wen Jiabao has signalled an increased focus on supporting economic growth.[6] In July, fiscal spending rose by 37% (y-o-y), the highest in five months. While the government tries to engineer a soft landing for the economy, it is also faced with the daunting task of cooling the property sector concurrently. The property sector accounts for 13% of GDP and a collapse will have widespread ramifications for the broader economy.

Aggressive price cuts have stimulated sales

Following repeated rounds of tightening measures, real estate investment growth has slowed although investments for the first seven months of 2012 are still 15% higher than the same period in 2011. Sales activity has also moderated noticeably for much of last year while average home prices tracked by SouFun in 100 cities fell for nine consecutive months before picking up in June. Anecdotal evidence suggests that the sales pick-up in recent months was in response to aggressive price cuts by some developers (Exhibit 4).

Exhibit 4: Residential sales



Tier 1: Beijing, Shanghai; Tier 2: Dalian, Tianjin, Chengdu, Chongqing
Source: CEIC, Pacific Star Research

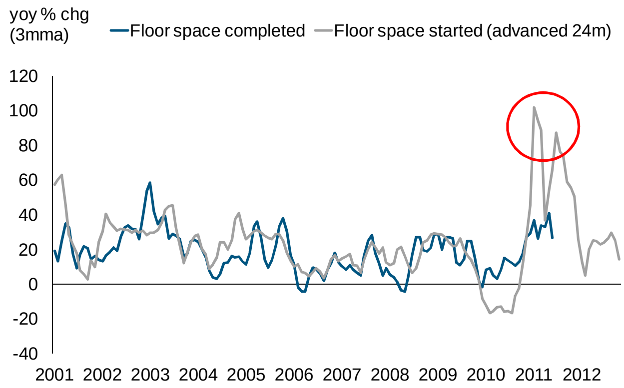
Supply fundamentals to improve from 2014

Floor space starts grew strongly in 2010 (Exhibit 5) and a surge in housing completions is expected this year. Downward pressures on property prices will likely

[6] China Daily, Wen urges more support for growth, 21 May 2012

persist in the near term. However, developers have also turned more cautious and have reduced significantly the pace of housing construction. Supply fundamentals should thus improve markedly in 2014 and beyond.

Exhibit 5: Real estate activity



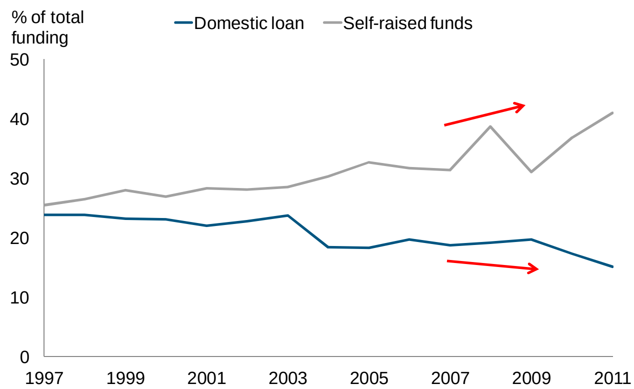
Source: CEIC, Pacific Star Research

The big question is the timing as to when policy relief will come and the extent of collateral damage that will be inflicted on developers. The official statements suggest that the government remains resolute in maintaining the property curbs to weed out excess speculation. Although the PBOC has lowered the bank reserve requirement rate (RRR) thrice since November last year, this was likely in response to liquidity shortages. We view that a genuine policy reversal could occur by the end of the year.

Developer reliance on bank loans has declined

Following a lending binge of more than RMB 4tn in 2009-10 in the real estate sector, banks have been much more stringent in making property loans. However, the evidence suggests that property developers have not been denied financing more severely than households. For instance, outstanding loans to property developers, as a share of total outstanding loans to the real estate sector stood at a constant 25% for the past several quarters. Structurally, the reliance by developers on bank loans has declined in general (Exhibit 6). Domestic loans as a share of total source of fund stood at 15% at the end of 2011, down from 24% in 1997. On the other hand, developers saw an increase in the share of self-raised funds from 25% in 1997 to 41% in 2011.

Exhibit 6: Developers' funding sources



Source: CEIC, Pacific Star Research

While several bankruptcy filings of developers have made the headlines, these are relatively small players when compared to the listed developers. The risk of bankruptcy is significantly lower for the group of listed developers who are likely to have access to alternative means of financing. Developers are seeking alternative sources of revenues by setting up property funds or selling commercial assets in key cities like Shanghai and Beijing to raise cash for their housing projects. The recent relaxation of mortgage borrowing for first-time homebuyers will also aid the cash flow for developers.

Developer projects concentrated in Tier 1/2 cities

When analysing the impact on developers, we should also consider their project locations. Citigroup's research suggests that about 70% of saleable resources of large developers are concentrated in Tier 1/2 cities. In our view, housing demand is expected to be more sustainable in Tier 1/2 cities (relative to Tier 3/4 cities) where populations are increasing rapidly due to urban migration. Accordingly, we are fairly sanguine about the main listed companies.

Cautious outlook

The cooling property market will continue to claim its natural victims in the quarters ahead. However, we are cautiously optimistic on the sector for a number of reasons discussed above. Policy relief will likely come by the end of the year and larger developers do not appear to have major financing difficulties. In addition, most of their projects are located in cities which will see substantial housing demand. Supply fundamentals will also likely be restored from 2014.

Exploring new frontiers in Southeast Asia

This research article will be published in the September issue of The Institutional Real Estate Letter – Asia Pacific.

More than a decade after the Asian Financial Crisis, investors are warming up gradually to the Southeast Asian region, targeting the relatively more developed economies of Singapore, Malaysia, Thailand and Indonesia. Most investments in these markets (with the exception of Singapore) fall towards the opportunistic end of the investment spectrum. While most have shied away from other emerging markets like Vietnam or the Philippines, some are starting to embrace new horizons as familiarity with the region deepens.

The recent emergence of Myanmar from its political and economic isolation has steered the international investor community towards the recognition of new growth markets in Southeast Asia. In this article, we take a closer look at the fringe economies of Myanmar, Vietnam and the Philippines. Our takeaway is that the interplay of strong fundamentals and recent growth catalysts point to a wealth of real estate investment opportunities that can complement Asian real estate portfolios.

Strong fundamentals

There are two key fundamentals that attest to the favourable growth prospects for Myanmar, Vietnam and the Philippines. The first relates to the favourable profiles in these markets. Their combined population is 230 million presently and high fertility rates will push this figure to above 280 million by 2030. The average median age of 26 compares very favourably to that of other regions such as Europe (40), the United States (37) and China (35). This youthful population will provide a positive demographic dividend through 2030 and support economic growth.

In addition a young and growing population, these markets are also endowed with a wealth of natural resources whose potential has been hardly tapped. Rich natural gas deposits as well as gold, jade and gemstones can be found in Myanmar, while Vietnam possesses abundant oil and coal reserves. The Philippines is endowed with copper, nickel, iron, silver and gold. A structured resource development program could unleash tremendous multiplier effects on other commercial activities. Recall how a mining boom brought prosperity to Australia and Brazil during the past few decades.

The proximity of Myanmar and Vietnam to China and India provides ready access to one-third of the world's population. At the time of this writing, manufacturing activities are already relocating to Vietnam on the back of rapid wage increases in China. The strategic location of the Philippines also facilitates economic exchanges between the East and West.

Exhibit 7: Economic statistics

	Myanmar	Vietnam	Philippines
GDP (2011, US$ bn)	52	123	213
GDP growth (2009-11, average)	5.3%	6.0%	4.2%
Population (2010, mn)	48	88	93
Working age population (2010, mn)	33	62	57
Foreign reserves (2011, US$ bn)	3.7*	12.1	62.1
Debt-to-GDP ratio (2011, %)	44	38	40
Credit rating (by Standard & Poor's)	n.a.	BB-	BB+

* 2010 data for Myanmar
Source: IMF World Economic Outlook Database April 2012, UN World Population Prospects 2010, Bloomberg, Pacific Star Research

Myanmar

The economy of Myanmar has been dormant for decades but a recent flurry of reforms suggests that this might not remain so for long. The government has made large strides in changing the world's perception of Myanmar as an authoritarian regime. The foremost opposition leader, Aung Sun Suu Kyi, was released after two decades of house arrest and allowed to contest in elections. In April 2012, she won a seat in the parliament.

The introduction of economic reforms will help level the playing field and mitigate risks for foreign investors. For a start, the Myanmar kyat was placed on a floating rate of 820 kyat to US$1 in April, which will provide greater clarity for investments. Previously, all foreign currency was converted at the rate of US$1 to 6.3 kyats while the informal market could fetch as much as 800 kyats. The proposed new foreign investment law also provides investors with a five-year tax holiday and fosters greater business transparency as it sets out land-use terms, legal structures and incentives for foreign companies. Plans for special economic zones are also underway.

In the wake of these reforms, the international community has reacted positively. The European Union, United States, Canada and Australia have eased longstanding economic sanctions against Myanmar, and this is expected to draw in a flood of investments and boost trade volumes. Japan, Myanmar's largest creditor, has waived its debt, while the Tokyo Stock Exchange and Daiwa Securities Group will assist Myanmar to set up its first stock exchange by 2015. After the last aid program ended 25 years ago, the World Bank is now engaging the nation again by setting up an office in Myanmar. The International Monetary Fund is optimistic that growth of at least 6% can be achieved in the next few years.

Vietnam

Since 1990, Vietnam has achieved rapid growth above 7% per annum on average, the fastest in Asia after China. Some have dubbed it as a 'mini China' before macroeconomic issues surfaced in the past few years. Investors have balked at how state-owned enterprises – which account for about 40% of the country's economic output – have exhausted much of the country's capital but delivered poor returns. In 2010, the state-owned shipbuilding firm Vinashin was almost bankrupt and was eventually rescued by the government. In hindsight, the unilateral emphasis on growth has saddled the country with high debt, persistent inflation and large trade imbalances.

Despite the challenges in the past few years, the recent pick-up in the macroeconomic environment may rejuvenate Vietnam's growth momentum. After hitting a peak of 23% in August 2011, inflation has eased to 7% in June, providing the country with greater scope to use monetary stimulus. At the recent central committee meeting, the government has affirmed the shift of its economic focus from one centred on pure growth to a 'three pillar' reform program which involves the restructuring of public investment and state-owned enterprises as well as the consolidation of the banking sector.

While the path ahead is littered with challenges, supporting Vietnam as an attractive investment market are its youthful population and abundant natural resources. The country is currently the world's second largest exporter of rice and coffee as well as the third largest producer of rubber and seafood. Should the government be successful in its reform programs, this will bring about much-needed stability to the economy and renew investor confidence, paving the next wave of growth.

Philippines

Investors generally have written off the Philippines as the 'sick man of Asia' following two decades of oppression under former president Ferdinand Marcos. Since 1998, however, the archipelago of 7,000 islands has achieved a remarkable 13 straight years of growth. The return of Indonesia to investment grade status has cast a greater spotlight on the Philippines, which now appears closer to become the 'next Indonesia'. Like Indonesia, the Philippines has achieved strong growth, lowered its debt and expanded its foreign reserves. At 40%, its debt-to-GDP ratio is amongst the lowest in Asia while foreign exchange reserves have more than tripled since 2005. Standard & Poor's and Fitch Ratings have raised Philippines's credit rating to a notch below investment grade. An investment rating upgrade will almost certainly lead to a catalytic surge in investments.

Another key positive is that the current president Benigno Aquino III is enjoying an unprecedented level of support from both chambers of the Congress after winning the 2010 elections by a record margin. His administration's Private-Public Partnership (PPP) is projected to increase GDP by as much as 3.8% when fully implemented. The program, which involves the construction of more than 600 kilometres of roads and expressways, will boost connectivity and increase land value, spelling more opportunities for real estate investments.

Real estate investment opportunities

As these economies restructure and attract foreign investments, the primary beneficiaries are likely the hospitality and retail sectors. Aided by greater international exposure, we expect visitors to be drawn to the rich cultural heritage and unruffled natural landscape in these countries. Various government initiatives to promote travel are also underway. In 2014, Myanmar will host the ASEAN summit while the Philippines will open its massive multi-billion dollar integrated resort with four casinos at the Manila Bay. The Vietnam government is also aggressively holding international tourism fairs to promote its UNESCO heritage sites. The number of tourists to the three markets is projected by the World Travel and Tourism Council to rise by 50% over the next decade, supported by an unrelenting flood of Chinese tourists (Exhibit 8).

Exhibit 8: Projected tourism arrivals

	Tourism arrivals (thousands)		
	2012	**2022**	**Growth**
Vietnam	5,002	8,138	63%
Philippines	3,850	5,238	36%
Myanmar	410	492	20%
Total	**9,262**	**13,868**	**50%**

Source: World Travel and Tourism Council 2012, Pacific Star Research

Notwithstanding the positive tourism outlook, the retail and hospitality sectors are currently hampered by a distinct shortage of quality facilities. Ample opportunities abound for the modernisation of existing properties or the development of new malls and accommodation facilities. We favour popular tourism spots such as Yangon in Myanmar, Manila and Cebu in the Philippines, and Ho Chi Minh City, Hanoi and Danang in Vietnam.

Rapid urbanisation is fuelling a genuine and sustained demand for affordable housing in the above cities. As the middle class expansion continues, aspirations of home-ownership and the convenience of city living will further drive basic housing demand. Luxury housing demand will largely be determined by the size of the expatriate community and prospects are most positive in Manila given the continued expansion of its outsourcing industry and the government's PPP program.

The Philippines is on the cusp of a rating upgrade and this could provide an uplift for office leasing demand. High education standards with English fluency in the majority (80%) of the population and relatively low labour costs have already made Manila a favoured location by multi-national companies for outsourcing operations. For Ho Chi Minh City, Hanoi and Yangon, the gestation of the office markets could take longer given the greater amount of work needed to provide a conducive business climate.

Balance between merits and risks

While a favourable picture has been painted, investors should note that Myanmar, Vietnam and the Philippines are in their early stages of economic maturity. A headlong entry without due regard for risks, difficulties or cultural differences will almost certainly lead to less-than-desired results. Investors expecting a quick flip could be sorely disappointed as real estate valuations may catch up less swiftly in younger markets.

The reality is that significant regulatory and legal reforms are required. For one, corruption remains a difficult obstacle to overcome. The countries are ranked above the 100th position in Transparency International's 2011 Corruption Perception Index for 182 countries, with Myanmar ranked third from the bottom. Jones Lang LaSalle's Global Real Estate Transparency Index 2012 rates Vietnam as 'low' transparency and the Philippines as 'semi-transparent', while omitting Myanmar.

A myriad of challenges confront the governments. Much of the infrastructure in the transport, communications and power-generation sectors is antiquated. Going forward, the private sector should be involved at a faster clip to ensure that the infrastructure can address incoming investments. Public institutions, especially in Myanmar, will also face significant tests in keeping up with the pace of reforms and investments. The authorities must thus work rapidly to raise education and skill standards, improve social systems and create a conducive business environment. The main wildcard, however, is political stability and any surprises to the top leadership could easily derail reforms pursued thus far.

In assessing real estate opportunities, investors should consider project financing issues carefully. Myanmar's formal finance sector remains limited, while the Philippines has further room to strengthen its banking regulations. Credit in Vietnam will stay tight as the banking sector undergoes a consolidation. In conducting due diligence, investors must examine not just the positive fundamentals but also issues like transparency, valuations and financing gap. We expect higher risk premiums or investment hurdle rates to be attached when evaluating these markets.

Notwithstanding the challenges, positive progress on multiple fronts is setting the wheel of fortune in motion. Myanmar's new investment law will likely be enacted in parliament soon while a national audit is underway for state-owned enterprises in Vietnam. The Philippines recently scored an important win in the battle against corruption when its chief justice was removed from office.

We believe that if the pace of reforms is maintained, the moment for these emerging markets to shine on the international stage could come very soon. Investors must weigh carefully the merits and risks of investing in these markets within their wider investment portfolio. Gaining a foothold in the right opportunity could reap tremendous first-mover advantages when these economies take off, eventually.

Real Estate Setting: State of inflection magnifies importance of entry timing

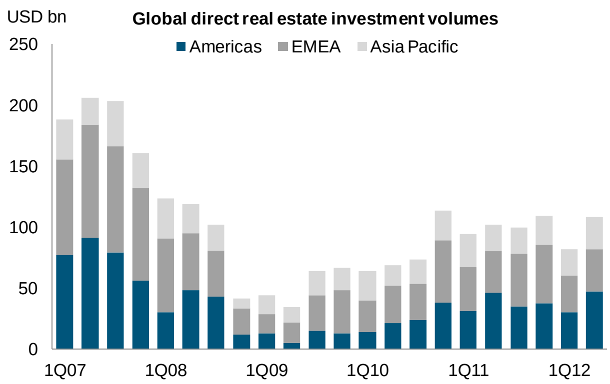
Global real estate investments picked up pace in 2Q 2012 following a quiet first quarter (Exhibit 9). However, transaction volumes in Asia Pacific were broadly unchanged in 1H 2012 relative to 2H 2011. Macro concerns resulted in an investment slowdown in China in 2Q 2012, but this was balanced by increased activity in Australia, Japan, Singapore, Hong Kong and Taiwan.[7] Mixed-use assets continued to dominate most transactions but greater interest in office and retail assets was also witnessed in the last few months. Given the cautious business sentiment, most of the transactions closed in 2Q 2012 were under US$20 million.

Looking ahead, we expect continued investment interest in Asian real estate. In the current low interest rate environment, the search for yield will compel global investors to look beyond their home markets. Greater cross border activity is expected as investors embark on diversification programs in this climate of uncertainty. We expect core assets to be favoured as investors focus more on income stability. 'Flight to quality' will also drive transaction volumes for prime assets.

Asia stands out as an attractive investment proposition, with its relatively healthy economic prospects and loose credit conditions. The Asian growth story remains underpinned by a young population, urbanisation and growing wealth. Compared to other asset classes, Asian real estate offers steady yields. Of late, Blackstone Group, MGPA, Pramerica, LaSalle and Prudential Asia Fund have been active in the Asian markets. Fund raising activity by Asia-focused REITs and property funds also increased in recent months, which will provide more liquidity to the market. We expect more opportunities to arise as European financial and investment groups seek to divest their non-core real estate assets.

The key risk for real estate investments in Asia at this juncture remains the overall macro outlook. The global economy is in a state of inflection and the recovery for many markets is contingent on a macro recovery in 2013 and beyond. A further deterioration in the macro outlook could impact returns drastically, magnifying the importance of entry timing in this climate.

Exhibit 9: Global commercial real estate investment volumes



Source: Jones Lang LaSalle, Pacific Star Research

Taking stock at half time

In our APOS 2012 issue, we forecasted the **retail sector** to outperform the office and residential sectors. For the first half of 2012, this sector has not disappointed investors as international retailer interest held firm. While we continue to favour the retail sectors in **Singapore** and **Kuala Lumpur**, spending is likely to proceed at a

[7] DTZ, Asia Pacific Investment Market Update, 2Q 2012

more cautious pace as the global economic outlook dims. We have upgraded to Tier I **Bangkok**'s retail sector, which is poised to benefit from the rebound in sentiment and tourism after the 2011 floods. Our view on **Hong Kong** is now less sanguine as the economic slowdown in China is likely to dampen tourist spending.

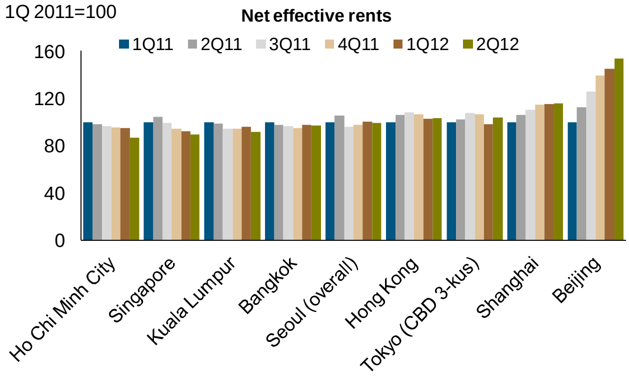
The **office sector** was resilient, supported by expansions in the non-financial industries and tenant upgrading. Many MNCs and financial institutions remain keen to expand their presence in Asia in the longer term and we view that attractive opportunities may be found in **Singapore, Bangkok** and **Tokyo**. However, the Japanese economic recovery is still not firmly entrenched in our view. We maintain a cautious outlook for the **residential sector** as property markets are still reeling from earlier cooling measures.

Office Snapshots

Emerging cracks in office rents

In the first half of 2012, Grade-A office markets across Asia came under pressure as the global slowdown took its toll on leasing demand. Slower economic growth and the fragile business outlook led corporates to maintain a cautious stance on hiring and expansion. The cutback in leasing demand by the financial sector was offset by strength in other non-financial sectors. Expansions were witnessed in the legal, IT, telecommunications, commodities and electronics sectors in Singapore, Beijing, Shanghai, Tokyo and Seoul. Across Asia, the rental performance was varied. Lower rents were recorded this year in cities like Hong Kong, Singapore and Ho Chi Minh City (Exhibit 10). Beijing and Shanghai turned in a stronger performance on the back of firm domestic demand and ongoing MNC expansions. Even so, rental growth in the Chinese cities moderated in 1H 2012.

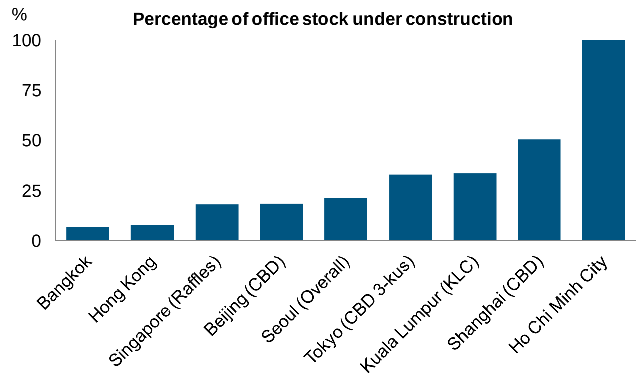
Exhibit 10: Net effective rents



Source: Jones Lang LaSalle, Pacific Star Research

Grade-A office occupancies generally improved across Asia from last year, with the exception of Singapore, Kuala Lumpur and Seoul which saw a number of new office completions. Vacancies are tightest in Hong Kong, Tokyo, Beijing and Shanghai. Going forward, the supply overhang is greatest in Ho Chi Minh City. In Shanghai, most of the upcoming projects are located in the CBD-fringe (Exhibit 11). Bangkok and Hong Kong will see a minimal increase in their Grade-A office stock.

Exhibit 11: Grade-A office supply in Asia, as at 2Q 2012



Source: Jones Lang LaSalle, Pacific Star Research

In the near term, we expect continued rental growth in Beijing, Shanghai and Bangkok, driven by domestic expansions and positive sentiment. Grade-A office performance in Tokyo will likely improve as tenant upgrading occur while the office market in Ho Chi Minh City, Kuala Lumpur and Seoul may face pressures in view of the concentrated supply this year. Over the longer term, overall leasing demand should turn around in the gateway cities of Singapore and Hong Kong as many MNCs and financial institutions remain keen to expand their presence in Asia.

Decentralised and strata spaces gain flavour

The challenging environment saw strong leasing demand in several decentralised sub-markets as firms sought out cost effective solutions for office space. Rents and occupancies were especially resilient in the decentralised sub-markets in Hong Kong, Singapore and Shanghai. Although the overall investment market in Asia was fairly muted, strata-titled office units or small buildings in Hong Kong and Singapore saw rising interest. Faced with the choice of renting or owning their premises, more occupiers now prefer the latter.

Bargaining power shifts to tenants

The weak economic climate is transferring bargain power from landlords to tenants. More signs of tenant upgrading are seen in Shanghai, Tokyo, Bangkok and Ho Chi Minh City. Tenants are also increasingly negotiating for more attractive lease terms. In cities like Kuala Lumpur and Ho Chi Minh City, we expect that landlords will continue to offer incentives to drive occupancies. The current lull in the leasing market will likely spur further tenant upgrading to prime office buildings. Importantly, this upgrading momentum will act as a counterbalance to the decentralisation movement and support prime office demand.

Singapore

The global overhang resulted in a quiet office leasing market for Singapore. Grade-A office rents in the Central Business District (CBD) moderated further as large financial firms abided on the sidelines. Vacancies climbed with the completions of Marina Bay Financial Centre (MBFC) Tower 3 and One Raffles Place Tower 2. The two projects achieved occupancies of 65% on average but leasing for MBFC Tower 3 could face headwinds given the large size of its floor plates.

While leasing demand from financial institutions has been weak, expansions have been observed in the commodities, pharmaceutical and IT industries. The market has also seen stronger backfill demand than expected, alleviating earlier concerns.[8] As Singapore opens up its legal sector to more foreign law firms, this will help support office demand in the CBD.[9] Office rents will likely soften further in the near

[8] The Business Times, Vacated spaces fill up in hardy office market, 12 July 2012
[9] Channel NewsAsia, More qualifying foreign law practice licenses to be issued in H2, 30 May 2012

term but should recover next year when global economic conditions turn around. Capital values remained resilient, particularly in the strata office market as investors and occupiers snapped up units in Robinson Square, PS100, Oxley Tower and EON Shenton.

Hong Kong

Grade-A office rents continued to decline in Hong Kong Central although the other sub-markets recorded slight improvements in 1H 2012. Due to cost pressures, some office tenants in Central downgraded to lower quality buildings within Central or favoured more affordable sub-markets in Kowloon like Tsim Sha Tsui and Kowloon East upon lease expirations. Such relocations accounted for the bulk of the leasing activity and the decentralisation movement is expected to continue. As the supply of high-specification buildings in Kowloon is limited, most of the concluded deals were for spaces below 10,000 sq. ft.

Capital values have held up, supported by improving investor sentiment and attractive financing rates. The limited supply of en-bloc office buildings in the market meant that the investment activity was largely focused on strata-titled office units. Several strata-titled properties were transacted at record high unit prices in Central (Shun Tak Centre, Bank of East Asia Harbour View Centre). Buying activity was also buoyant in Kowloon East, where a second CBD is envisioned. Although rental pressure is expected in the near term, we remain sanguine on the longer term outlook as healthy expansions of Chinese firms and the growth of the offshore RMB market will support office demand.[10]

China

Firm leasing activity was recorded in the overall Grade-A office market in Beijing as many domestic financial, IT and manufacturing firms continued with their expansion plans. This contributed to steady rental growth and the decline of the vacancy rate to an all-time low in 1H 2012. In the CBD, the Beijing International Financial Centre West Tower and the China World Tower were the only few quality buildings with available rental space. We expect rental growth to be maintained in the near term but could moderate in the longer term as a planned extension of the CBD and the Finance Street could result to an office supply spike beyond 2015.

In Shanghai, overall Grade-A rents and occupancy rates rose at a slower pace, due to softer demand from MNCs and caution by landlords in raising rents. Rental growth in the Pudong sub-market slightly outpaced that of the Puxi sub-market due to stronger domestic demand. Robust take-up in Grade-A buildings was observed in the decentralised markets in Puxi and Pudong as some tenants upgraded from Grade-B offices or relocated from the CBD due to cost constraints. The incoming supply in 2012 is primarily located at the CBD-fringe and should not overly impact most prime assets at the core-CBD. For the core-CBD in Puxi and Pudong, the overall supply situation remains tight and average vacancy rates fell slightly from 2011. Going forward, the continued expansion of domestic firms will be supportive of rents and occupancies in the CBD.

Tokyo

The pace of decline of Grade-A office rents in Tokyo slowed in recent months, pointing to further signs of stabilisation. According to Jones Lang LaSalle, rents in the 3-kus rose in 2Q 2012 for the first time in four years. A few major Grade-A office buildings (Palace Building, Marunouchi Eiraku Building, Akasaka-K Tower, JP Tower) were recently completed in Chiyoda-ku. As a result, Grade-A office vacancies rose slightly in 2Q 2012, but demand was supported by the continued attraction of tenants from lower quality buildings and relocation from non-CBD areas. For instance, Morgan Stanley will relocate from the Ebisu district to Otemachi.[11] We expect Grade-A office rents to outperform overall rents, as tenant

[10] The Wall Street Journal, China to boost offshore yuan flows in HK, 26 June 2012
[11] Bloomberg, Morgan Stanley to relocate Tokyo office, 12 April 2012

upgrading continues in Tokyo. Business sentiment is improving and we believe office rents could hit a bottom in the coming months. However, the somewhat lacklustre economic recovery merits a cautious view.

Investor interest in the Tokyo office market continued to pick up, especially from J-REITs and funds. For instance, Mori Hills REIT acquired a 20% stake in Atago Green Hills while MGPA purchased eight office buildings in Japan.[12,13] Further investment activity is expected with recent and impending IPOs.[14] Goldman Sachs and Fortress Investment Group are also raising funds to acquire Tokyo office assets. We expect the rising interest, coupled with the Bank of Japan's asset purchase program, to help support capital values in the market.

Seoul

Although Korea's economic performance has moderated, the office market in Seoul has been fairly resilient this year. Overall rents edged up slightly as expansions by domestic firms in the energy, IT, insurance and business services sectors underpinned prime office demand. The Chung-gu sub-market (CBD) registered the highest net absorption in 2Q 2012 with the conclusion of several leases larger than 20,000 sq. ft. of space. However, the upcoming supply – especially in the Yoido sub-market (YBD) – will likely weigh on rents and occupancies. The redevelopment of a new business district in Yongsan-gu will also create further supply pressures for the overall market.[15] Over the longer term, the implementation of the U.S.-Korea FTA in 1Q 2012 could attract more firms to Seoul and support the market.

Kuala Lumpur

Grade-A gross rents in the city centre (KLCC) moderated slightly in 1H 2012 as vacancies rose with the completion of two new buildings, Menara 3 Petronas and Menara Worldwide. Although Menara 3 Petronas has achieved full occupancy, the occupancy at Menara Worldwide is lacklustre. Significant supply pressures remain as about 2 million sq. ft. of Grade-A office space could come onstream in 2H 2012, in the form of Menara Felda Platinum 3, Integra Tower, Menara Darussalam and Menara Binjai. Landlords are offering longer rent-free periods to entice potential tenants and rents will likely weaken further. We expect leasing interest to gradually improve over time as the government's Economic Transformation Program has shown considerable success in attracting foreign investment.[16]

Bangkok

Post-flood recovery works have contributed to positive economic growth and improving business sentiment in Thailand. A flurry of leasing activity was witnessed in the Bangkok CBD as many firms took advantage of softening rents to expand or upgrade their offices. Riding on the improved outlook for the Bangkok office market, capital values rose in 1H 2012. Foreign interest picked up, as evinced from the sale of Mercury Tower at Ploenchit Road in 1Q 2012 to Real Estate Capital Asia Partners, a Singapore-based fund.[17] The outlook for the Grade-A office market remains optimistic in the face of rising leasing demand and minimal incoming supply. The approval of REITs on the Thai stock market from June will also support real estate investments, favouring office assets which offer a stable income.[18] We expect capital values to keep pace with rental growth.

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[12] Mori Hills REIT press release, 15 March 2012
[13] Bloomberg, MGPA said to pay 12 billion yen for eight buildings in Japan, 19 June 2012
[14] Recent IPOs include Kenedix Residential and Activia Properties Inc.; impending IPOs include Global Logistic Properties, Daiwa House Industry and Tokyu Real Estate
[15] Bloomberg, Skyscrapers to replace U.S. base as office glut looms for Seoul, 31 May 2012
[16] New Straits Times, Highest ever FDI for Malaysia in 2011, 22 February 2012
[17] The Nation, Recap acquires Mercury Tower, 28 March 2012
[18] Bangkok Post, SEC to allow REITs in June, 11 May 2012

Ho Chi Minh City

The soft office market saw average Grade-A rents moderate to the lowest level in nearly five years. However, tenants are beginning to relocate to the CBD as rental affordability improves. Some tenants also took advantage of the weak economic climate to negotiate for more attractive lease terms. Consequently, leasing activity picked up slightly in 1H 2012. Looking ahead, the large office development pipeline points to a potential demand-supply imbalance. 2012 will see the completions of The Times Square, Saigon One Tower and Lim Tower, which will add more than 800,000 sq. ft. of Grade-A office space, creating further pressures on rents and occupancies. On the positive front, the recent spate of interest rate reductions by the central bank and a greater policy emphasis on macro-economic stability may spur investments and support the office market.

Retail Snapshots

Outlook dims as spending slows amidst weaker sentiment

In Asia, domestic spending grew at a reasonable clip on average, supported by tight employment conditions, strong wage growth and the growth of the Asian tourism industry. However, spending growth decelerated significantly in a number of markets like China, Hong Kong, Korea and Vietnam (Exhibit 12), and we expect consumers to be more cautious and cut back on discretionary spending going forward. Sentiment has weakened globally with no exception in Asia. However, consumers in Asia remain more optimistic than their regional counterparts in North America and Europe.[19] We expect the wave of wage hikes recently introduced in Asia (e.g. China, Indonesia, Malaysia, Thailand) to support purchasing power and spending in the near term.

Exhibit 12: Asia retail spending

Note: *May 2012 for Singapore and Thailand; June 2012 for Thailand and Hong Kong; July 2012 for Korea, China and Vietnam
Source: Bloomberg, Pacific Star Research

Longer term outlook remains positive, underpinned by growing tourism

Over the longer term, the growing tourism industry in Asia bodes favourably for the retail outlook. Over the next decade, international tourist arrivals in Asia Pacific are projected to grow by about 60%, according to the World Travel and Tourism Council. This compares with 50% for the U.S. and 25% for Europe.[20] Supporting

[19] Nielsen Global Consumer Confidence Index 2Q 2012
[20] World Travel and Tourism Council 2012

the tourism industry in Asia is a growing number of attractions in Asia such as integrated resorts, major theme parks, and the rising number of budget airlines.[21]

Fast fashion and luxury labels lead retailer expansions

Prime retail space in key Asian cities remains highly sought after by international retailers. Many are powering their next phase of growth by tapping on rising Asian wealth. Strong leasing interest was seen especially amongst the fast fashion and luxury retailers. Notable leases in 2012 include H&M (Seoul, Singapore, Bangkok, Kuala Lumpur), UNIQLO (Seoul, Singapore, Shanghai, Bangkok), Coach (Beijing, Singapore, Seoul) and Louis Vuitton (Shanghai, Beijing, Bangkok).

Leading prime rental growth in Asia are the cities of Hong Kong and Beijing and to a lesser extent, Shanghai (Exhibit 13). In Tokyo and Seoul, caution has limited expansions to the prime main streets. Rents in Bangkok, Kuala Lumpur and Singapore were generally stable from last year while rents fell further in Ho Chi Minh City.

Exhibit 13: Prime retail rents

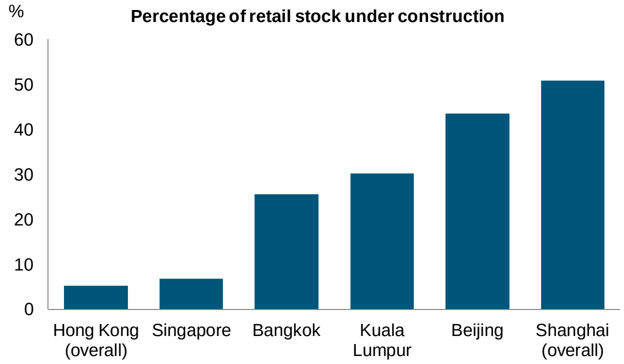
*2Q 2011=100 for Tokyo
Source: Jones Lang LaSalle, Cushman & Wakefield (for Tokyo and Seoul), CBRE (for Ho Chi Minh City), Pacific Star Research

Healthy supply fundamentals and pre-commitments

Supply fundamentals remain healthy in the prime retail markets of Asia – prime stock is limited in Hong Kong, Singapore, Tokyo and Seoul. In Shanghai, Beijing, Kuala Lumpur and Bangkok, a significant supply of retail space exists in the pipeline but this should not overly dampen the sector performance given a high degree of pre-commitments (Exhibit 14). Despite near term headwinds to spending, we expect leasing interest to remain firm given the robust tourism outlook and the structural ascent of the Asian consumer.

[21] Integrated resort with four casinos at Manila Bay is expected to open in 2014. South Korea, Tokyo, Vietnam and Taiwan are also considering to develop casino resorts to boost the tourism industry

Exhibit 14: Percentage of prime retail stock under construction (as at 2Q 2012)



Source: Jones Lang LaSalle, Pacific Star Research

Singapore

Strong leasing interest in 2012 was driven by the expansion of F&B operators and international retailers. Orchard Road saw the expanded presence of consumer high-end labels like Tag Heuer, Coach, Tory Burch, Pierre Balmain and Goyard. However, we expect retailers to proceed with greater caution going forward as shadows loom over the spending outlook. Stricter controls on foreign employment may also raise cost pressures for retailers. For the first half of 2012, tourism growth has been healthy and the new Gardens by the Bay attraction and the Marina Bay Cruise Centre will help draw tourism interest. Over the longer term, the limited supply pipeline bodes well for the prime retail outlook. Landlords are preparing for the next phase of growth by implementing asset enhancement initiatives (AEIs) at Suntec City, Shaw Centre, Tangs Orchard and The Heeren.

In the sub-urban retail market, rents will remain resilient as spending is supported by the population catchment and low unemployment. New malls have performed well, such as JCube (100% occupancy), Changi City Point (95%), Rochester Mall (>90%) and Alexandra Retail Centre (63%). Although the incoming supply is significant in the sub-urban market, healthy pre-commitments have been recorded in JEM (80%) and The Star Vista (>50%). Investment activity has also picked up as transactions were closed for Compass Point and Hougang Plaza.

Hong Kong

The Hong Kong retail sector turned in a stellar report card in 1H 2012 on the back of buoyant leasing interest. New market entrants include Tommy Bahama from the U.S., Marimekko from Finland and Hackett from the U.K. International luxury brands continued to fork out higher rents to gain a greater presence in popular districts like Causeway Bay and Tsim Sha Tsui. To free up prime ground floor retail spaces, several mall owners re-shuffled existing tenants to upper floors. The higher rents have motivated greater investment activity in recent months, driving up capital values. A greater number of tenants now prefer to own their own premises while others see the potential for investment. Retail supply remains tight at the more popular districts, however. Going forward, our outlook for the sector is cautious as we expect the economic slowdown in China to impact tourist spending in Hong Kong. In May, retail spending grew at the slowest pace in about three years (8.8% y-o-y), after growing by 29% in August last year.

China

As demand softens in the U.S. and Europe, international retailers are turning increasingly to China's Tier 1 cities (Beijing, Shanghai, Guangzhou, Shenzhen) for top line growth. The World Luxury Organisation expects China to emerge as the top consumer market for luxury goods in 2012[22]. Luxury brands such as Louis Vuitton, Burberry, Hugo Boss and Miu Miu are seeking to gain a larger slice of the expanding Chinese market. As a result, steady rental growth was witnessed in Beijing and Shanghai even though the pace has slowed in recent months. Several older malls are carrying out refurbishment works to enhance their appeal to retailers. While occupancies have been healthy, slower economic growth in China and the sizable supply coming onstream in Beijing and Shanghai may lead to more measured leasing activity. However, the government's emphasis on growing domestic consumption will support prime retail rents and capital values. The possibility of potential tax cuts on luxury goods could provide an additional catalyst for the retail sector in the future.[23]

Tokyo

Retail sales in Japan grew at a healthy pace in 1H 2012. This was driven by hefty sales of subsidised eco-vehicles, suggesting that the underlying retail demand may not be as robust. In Tokyo, prime retail rental growth was broadly flat for all districts in 1H 2012. Most retailers exercised prudence and limited their expansions to the traditional shopping districts and high streets. New retail entrants include Old Navy and American Eagle. Following the 2011 earthquake disaster, tourism is recovering, aided by new attractions such as the 634 metre tall Tokyo Skytree Tower. The MasterCard Index of Global Destination Cities expects Japan to post the highest tourism growth in 2012 among Asia-Pacific countries. Although Tokyo's retail market faces strong competition from other developing Asian markets, its international appeal as a key consumer market remains intact. A recent CBRE survey ranked Tokyo as the fifth target expansion market outside the home region for American retailers.[24]

Seoul

International retailers continue to seek a larger footprint in Seoul and new market entrants in 1H 2012 include Fossil and Hollister. Other domestic fast fashion retailers such as Mixxo and SPAO are also looking for expansion opportunities. In particular, Garosu-gil in Sinsa-dong has seen strong leasing interest from various brands and is gaining popularity with younger shoppers. Prime retail rents in the main streets have risen given the tight competition for space. Some owners adjusted their tenant mix so that prime spaces can be leased to the larger retail occupiers. The key project undergoing completion in 2012 is the IFC Seoul Mall in Yoido, which enjoys strong pre-commitment from tenants like CGV Cinema, H&M and Inditex.[25] Although retail sales growth has slowed in recent months, the prime retail outlook is supported by tight employment, strong tourism arrivals and rising aspirational purchases by Korean consumers.

Kuala Lumpur

Average occupancy rates and rents in Kuala Lumpur city centre improved on the back of sustained leasing interest. British department store Debenhams opened their new 37,000 sq. ft. Southeast Asia flagship store at Starhill Gallery. Other retail expansions include Agnes B. Voyage, Paul Frank and MUJI. Intermark Mall Phase 2 and Nu Sentral will come onstream in 2012-13 and have achieved pre-commitments of 50-60%. The spending outlook is favourable given the government's recent implementation of higher minimum wages for the private sector. Compared to other cities like Hong Kong and Singapore, Kuala Lumpur has a lower penetration of global brands and we can expect more international retailers to tap on the city's potential. With the gradual expansion of the Malaysian retail REIT universe, more opportunities are available for investors to acquire prime retail

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[22] China Daily, World Luxury Association names top brands in Beijing, 11 January 2012
[23] The Wall Street Journal, China likely to cut luxury import tax, former official says, 11 March 2012
[24] CBRE, How global is the business of retail, 2012
[25] Cushman & Wakefield, Seoul Marketbeat Retail Snapshot, 1Q 2012

assets at attractive yields. Older malls can also be re-positioned to attract international fashion and lifestyle brands.

Bangkok

The Bangkok retail sector shrugged off the flood disaster of 2011 as the economy recorded a strong recovery in 1H 2012. Tourism arrivals have recovered strongly to pre-flood levels. Consumer sentiment rose to a nine-month high in June, lifted by the recent increase in minimum wages. As confidence returns, international retailers are renewing their interest in the Bangkok retail market. More than 50 brands are expected to enter the market in 2012; including Levi's Vintage, H&M, Agnes B, Louis Vuitton and Miu Miu.[26] The newly opened Mega Bangna mall has achieved a high take-up with anchor tenants such as IKEA, Robinsons, Big C Extra, Mega Complex and Homepro. For the rest of 2012, a significant supply (400,000 sqm of gross floor area) is expected to come onstream and could exert some pressure on the market. However, we expect that this could be cushioned by improving leasing demand.

Ho Chi Minh City

Prime leasing demand in Ho Chi Minh City has remained soft given the challenging economic conditions. Average rents at department stores and shopping centres moderated in 1H 2012, but healthier occupancies were registered for department stores than shopping centres.[27] Given Vietnam's structural strengths, longer term retail investment opportunities exist, especially when the formal retail sector represents just 15-20% of the overall sector.[28] An uptick of foreign interest has been observed in recent months. Japanese retailers Takashimaya and the AEON Group committed to new leases in 1H 2012 and Singapore's Mapletree Investments has also begun construction of the 500,000 sq. ft. SC Vivocity. In the near term, a sizable amount of retail space is expected to be completed in the form of Vincom Centre A, Eden A, Saigon One Tower and Sunrise City, and this will likely weigh on overall rents and occupancies.

Residential Snapshots

Further moderation in the luxury housing sector

The tepid pace of global economic expansion posed a drag on the luxury housing sector in Asia. Slower corporate expansions and less generous expatriate packages dampened leasing demand while purchasing activity was curtailed by economic uncertainty and previous cooling measures. Capital values and rents moderated in a number of markets in the past few quarters. In Bangkok, capital values rose strongly in 1Q 2012 on the back of rising home-buying sentiment after the floods of 2011 (Exhibits 15 and 16).

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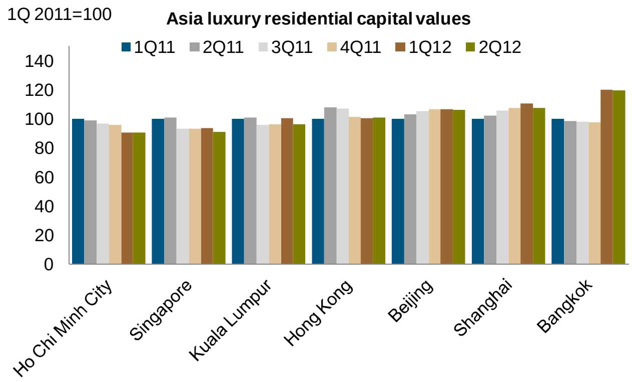
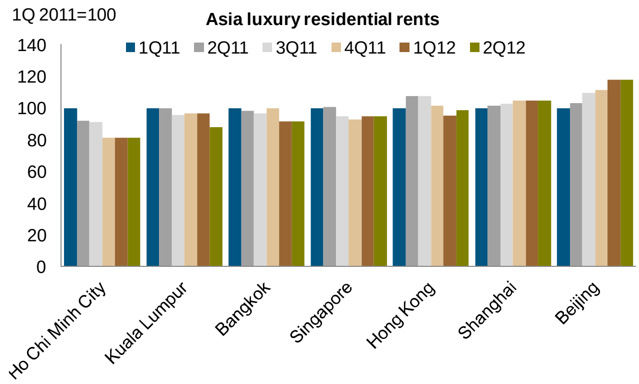
[26] Bangkok Post, 50 new brands expected to debut in Bangkok this year, 10 May 2012
[27] CBRE, Ho Chi Minh City Marketview, 2Q 2012
[28] CBRE, How global is the business of retail, 2012

Exhibit 15: Asia luxury residential capital values



Source: CBRE, Pacific Star Research

Exhibit 16: Asia luxury residential rents



Source: CBRE, Pacific Star Research

Policies drive mass-market housing sector

While previous cooling measures will likely remain in place, policy makers are increasingly supportive of the mass-housing market. Recent housing policies have centred on containing foreign demand while supporting domestic end-users. The Chinese government has encouraged banks to ease mortgage restrictions for first-time home buyers, while maintaining home purchase restrictions to curb foreign speculation.[29] In Singapore, the introduction of the Additional Buyer Stamp Duty (ABSD) in late 2011 was more punitive for foreigners. In Malaysia, the minimum floor price for foreign property purchases was raised in the state of Penang. The rest of the country could follow suit in later 2012.

Consequently, buoyant sales volumes were recorded for the mass-market segment in cities such as Hong Kong, Singapore, Kuala Lumpur and Bangkok. The contraction of housing budgets in Asia have also spurred leasing demand in cities like Tokyo for mid-range rental units in decentralised locations with good transport links. We expect more investment opportunities in the mass to mid-range residential segments in Asia. Cities with growing populations, high urbanisation and relatively under-supply will have strong growth potential.

Singapore

The prime and mass-market housing segments recorded contrasting performances in recent months. Faced with a hefty 10% ABSD, many foreigners have chosen to stay on the guidelines, contributing to lower prime market volumes. Prices have softened more convincingly in the secondary market. Demand for high-end residential units will likely moderate further. In contrast, the mass-market segment

[29] Bloomberg, China helps first-home buyers as market cools: mortgages, 26 April 2012

saw buoyant sales amidst a record number of launches. Abundant liquidity, low mortgage costs and strong upgrader demand will continue to support the mass-market, but the narrowing price gap between prime and mass-market properties may result in more selective buying activity in the months ahead. For the rental market, stricter foreign immigration policies and the release of unsold prime units will likely weigh on rental growth going forward. [30]

Hong Kong

Overall residential prices in Hong Kong have risen by about 10% in 1H 2012 due to favourable credit conditions and sustained Mainland demand. Selected residential launches such as the Lexington Hill in Kennedy Town and The Green in Sheung Shui have been well-received. However, the cautious economic outlook and the government's emphasis on arresting housing affordability could place a cap on home prices. Overall residential transactions have eased again following a pick-up in activity in 1Q 2012. The rental market will likely remain subdued as expatriate inflows slow and housing budgets are tightened.

China

The government remains resolute in maintaining property restrictions to curb speculation. Local governments such as Shanghai, Foshan and Wuhu attempted to relax house purchase restrictions but were quickly overruled by the central government. However, support for genuine property purchasers was stepped up in recent months. [31] Banks were encouraged to offer lower mortgage rates and offer discounts for first-time home buyers while developers were called to increase supply of affordable apartments. The People's Bank of China (PBOC) lowered interest rates in June and July. This has helped stem the decline of residential sales and prices. According to the National Bureau of Statistics, new home prices rose (m-o-m) in 50 out of 70 cities in July, the highest figure in 14 months. However, we expect a cap on house price increases while property curbs remain in place. The outlook for the leasing markets in Tier 1 cities like Beijing and Shanghai remains positive, supported by firm expatriate leasing demand and limited supply.

Tokyo

In line with the economic recovery, condominium take-ups in Tokyo have steadily improved – the average contract ratio climbed to 76% in 1H 2012 from 73% in 2H 2011. Average prices of new condominiums were stable in 1H 2012 as compared to the previous year. Activity in the leasing market was mixed; limited business expansions dampened expatriate demand for high-end apartments but robust demand was seen for the mid-range units. We expect the residential sales and leasing market to keep pace with the wider economic recovery, as the population expansion in Tokyo drives local demand for mid-range units.

Seoul

Seoul's residential market remained sluggish in the first six months of 2012. According to Kookmin Bank, apartment prices have retreated steadily since the beginning of 2011, and the decline was the most pronounced for luxury markets in southern parts of Seoul like Gangnam.[32] Overall apartment transaction volumes in Seoul have also fallen off after a brief recovery in late 2011, attesting to the frail state of the market.[33] In the leasing market, muted activity led to a moderation of Jeonse prices in recent months.[34] Given the high debt burden faced by households in Korea, we maintain a cautious view on Seoul's residential market. The recent

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[30] Channel NewsAsia, Developers looking to lease unsold units of new developments, 22 March 2012
[31] The Wall Street Journal, China steps up support for parts of housing market, 15 June 2012
[32] Korea Times, Deflating real estate bubble affecting Gangnam, 15 March 2012
[33] Data from Ministry of Land, Transport and Maritime Affairs
[34] The Jeonse system currently dominates the Korean rental housing market. In this system, tenants pay a lump-sum deposit for a typical two-year housing rental contract and get the deposits back with no interest when the contract expires. The imputed interest is counted as rent

rate cut by the Bank of Korea is a small step in easing the debt payments of households.

Kuala Lumpur

The Kuala Lumpur prime condominium market was generally quiet as developers refrained from launching new projects in view of the weak global outlook and upcoming elections. As a result, capital values and rents remained broadly stable. However, the positive response to the launch of G Residence at Desa Pandan – with over 80% sales achieved – suggests that demand remains strong for mid-range units of less than RM1 million. With the January 2012 introduction of stricter loan guidelines based on net salaries (instead of gross salaries), activity in the prime condominium market is expected to proceed at a cautious pace in 2H 2012. In our view, development opportunities exist for smaller, mid-range units which will appeal to purchasers and tenants with tighter budgets. Over the longer term, rising expatriate inflows and the extension of the rapid transit system in Kuala Lumpur should help revive the property market.

Bangkok

Thailand's strong economic recovery after the floods has boosted sentiment amongst local home-buyers at the beginning of 2012. Strong buying interest was exhibited in high-rise condominiums in the Bangkok city centre which have been relatively unaffected by the floods. Several condominium launches were very well-received, such as HQ Thonglor, The Capital Ekamai-Thonglor, Rhythm Sathorn-Narathiwas and The Room Sukhumvit 40. Riding on the positive sentiment, many developers have announced plans to launch condominium projects within the next 12 months. In the near term, the condominium market is likely to continue its positive sales momentum and support capital values, although the sizeable supply pipeline and unsold inventory may lead to more selective buying activity going forward. We expect quality projects located near transport nodes and amenities to outperform. Rents will likely remain under pressure as landlords offer greater discounts to entice tenants in the face of the incoming supply.

Ho Chi Minh City

Despite looser credit conditions in Ho Chi Minh City, condominium prices continued its slide in 1H 2012. Discounts and incentives offered by developers have failed to attract potential buyers who maintained a wait-and-see approach. Pricing of affordable housing units was more resilient (-2.8% y-o-y) than luxury units (-8.3% y-o-y) in 2Q 2012. Due to the large supply overhang in the luxury residential sector, prices are expected to moderate further in the next 6-12 months. The leasing market is also likely to remain soft given the small expatriate community and weak pace of corporate expansion. Although the State Bank of Vietnam has reduced interest rates on five occasions this year, it remains to be seen if activity in the residential market can be sufficiently stimulated in the next 6-12 months. The potential for investments in the affordable housing sector is most positive due to the genuine underlying demand and the relative lack of supply.

Property Drivers Framework

In this issue, we provide an update of Pacific Star's Property Drivers Framework (PDF) which was developed and presented in 2010. The PDF seeks to establish the attractiveness of real estate sectors across the various Asian markets, by scoring them along various macroeconomic and real estate drivers.[35] For each sector, drivers are constructed along two dimensions: 1) macroeconomic data points and 2) real estate financials.

The scores of the specific drivers are combined to arrive at an overall rating for each market. Further adjustments are made to account for qualitative factors that are not explicitly captured by the present set of drivers. They include the sustainability of the recovery, market depth, investor sentiment, and policy risk.

The markets have been classified into three bands of 'attractiveness'. Whilst care has been taken to evaluate the fundamentals of the markets to determine 'attractiveness', returns could exhibit an inverse relationship with attractiveness. For instance, less attractive markets may present more opportunities to acquire overlooked and mispriced assets. Conversely, excessive competition in attractive markets could lower investment returns potentially. The attractiveness of a market should be matched by the investor's risk appetite and strategic preferences.

Other things equal, markets classified as Tier I merit serious investment considerations over the coming 6-12 months in our view. Tier II markets are generally attractive although the risks could be considerably higher due to macroeconomic or supply issues. We caution against markets classified as Tier III in the current cycle.

Besides evaluating the fundamentals, investors need to consider other factors including valuations, affordability, and financing gap. As before, we expect risk premiums to feature strongly in today's uncertain environment i.e. volatile markets will require higher investment hurdle rates.

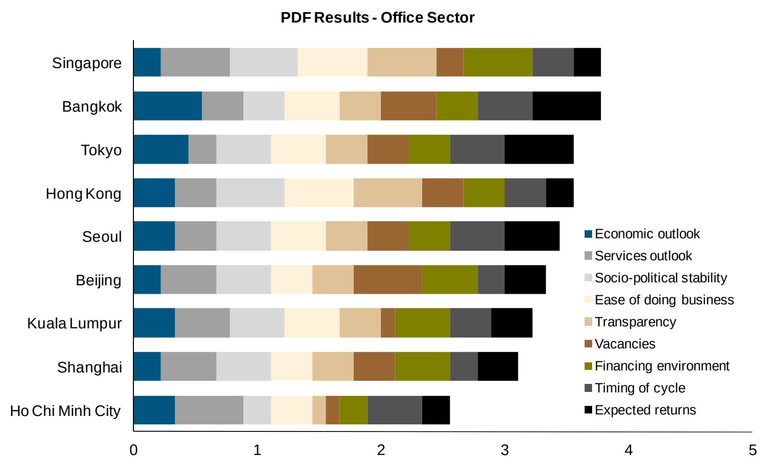
Additionally, the key risk for real estate investments in Asia at this juncture remains the direction of the global economy. **Many of our favoured markets in this issue are in a state of inflection where 'attractiveness' is highly contingent on an improving global outlook in 2013 and beyond.** If the macro outlook deteriorates, returns could be drastically impacted. While investment opportunities are still available in this climate, the importance of entry timing is magnified by the overall macro uncertainty.

[35] More details on the PDF drivers may be found in the APOS 2011 issue

PDF – Office sector analysis

The PDF analysis for the Asian office property sectors is shown in Exhibit 17.

Exhibit 17: PDF results for office sector



Source: Pacific Star Research

Tier I: Singapore, Bangkok

We have continued to classify the office markets of Singapore and Bangkok as Tier I. We favour the Singapore office market, which remains as an attractive business hub for MNCs on many grounds. Given the firm leasing demand exhibited by various non-financial sectors, we expect occupancies to gradually improve and are optimistic about the market's resilience in weathering the downturn. Buying opportunities could arise as redemptions draw near for some funds.

Bangkok's office recovery is closely tied with the improving economic prospects. Rents have stayed firm and enquiries are rising. Coupled with a tight supply pipeline, the market could possibly be one of the better performers going forward.

Tier II: Tokyo, Hong Kong, Seoul, Beijing, Shanghai, Kuala Lumpur

We downgraded Tokyo office market to Tier II as the economic recovery is still relatively vulnerable in our view. Nevertheless, we believe that the Tokyo office market is close to a bottom barring a stalled recovery. Pre-commitments for recent new projects have been healthy and greater J-REIT and foreign interest will aid in the market revival. Coming from a low base, the right timing could offer very attractive returns.

The limited supply of quality office stock will offer support for Hong Kong's office market although the high exposure to international finance and the slowing Mainland economy will dampen its prospects. The outlook for Central remains weaker than the other sub-markets and we expect greater investment opportunities in the decentralised markets which have shown greater resilience.

While Korea's economy has been supported to a large extent by the services sector, we expect the Seoul office market to be weighed down by the large supply pipeline in the near to medium term.

Rental growth is slowing in the core markets of Beijing and Shanghai but opportunities could be more prevalent in their fringe markets as decentralisation picks up momentum.

Investments have continued to pour into Kuala Lumpur, driven by the government's Economic Transformation Program (ETP), but supply issues remain a key concern.

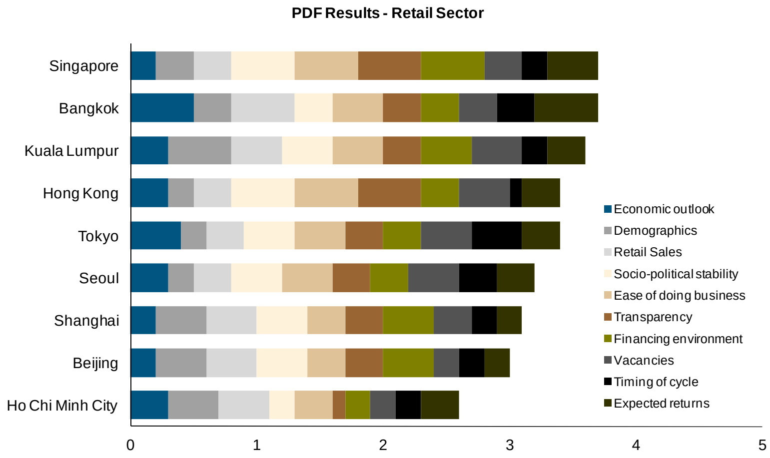
Tier III: Ho Chi Minh City

Macroeconomic fundamentals have improved markedly in Vietnam. However, the outlook for **Ho Chi Minh City** office market remains challenging given the softer economic environment and the large supply pipeline.

PDF – Retail sector analysis

The PDF analysis for the Asian retail property sectors is shown in Exhibit 18.

Exhibit 18: PDF results for retail sector



Source: Pacific Star Research

Tier I: Singapore, Bangkok, Kuala Lumpur

The ASEAN retail markets of **Singapore, Bangkok** and **Kuala Lumpur** hold the top spots in this issue. Underpinning the favourable outlook is their healthy domestic conditions and continued tourism growth. **Bangkok**, which was upgraded from Tier II in our last issue, has seen a strong improvement in consumer confidence and tourism. **Singapore** has laid up a string of attractions to draw tourism interest. The recent wage hikes and ongoing revitalisation of **Kuala Lumpur**'s retail scene will provide support for the sector.

Tier II: Hong Kong, Tokyo, Seoul, Shanghai, Beijing

The **Hong Kong** retail market was downgraded to Tier II given its close linkages to Mainland tourism spending. We view that the recent deceleration in the pace of retail spending warrants a more cautious outlook going forward.

Tokyo's prime retail streets are seeing firm retailer interest and the tourism recovery following last year's earthquake is supportive of further growth.

In **Seoul**, tourism is still growing reasonably. In particular, the 'Korean wave' has led to a boom in medical tourism (i.e. cosmetic surgery). However, the outlook for domestic spending is soft given the weakening sentiment of consumers amidst the economic uncertainty and a high household debt burden.

While international retailers remain keen to expand in **Beijing** and **Shanghai**, we expect more leasing caution going forward. Rental growth has slowed and the large number of malls coming onstream will exert further pressures. However, we expect greater opportunities for active asset management as the retail landscape is evolving rapidly.

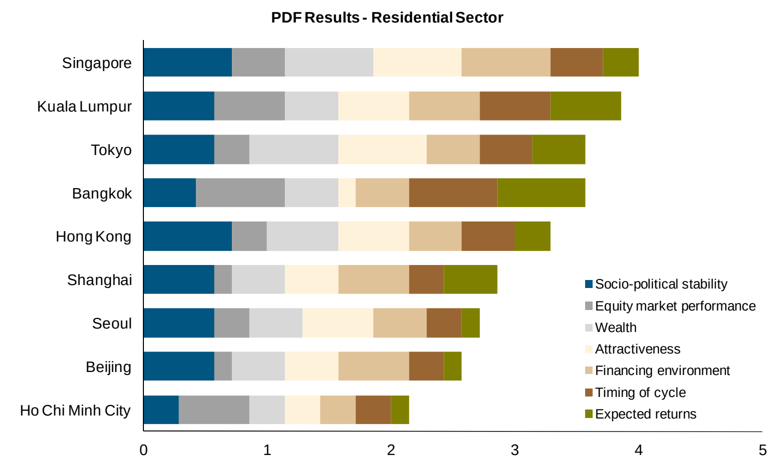
Tier III: Ho Chi Minh City

The outlook for **Ho Chi Minh City**'s retail sector remains soft given weak consumer confidence and a demand-supply imbalance. However, foreign retailer interest is still present and the recent tax break could provide some support for the sector.

PDF – Residential sector analysis

The PDF analysis for the Asian residential property sectors is shown in Exhibit 19.

Exhibit 19: PDF results for residential sector



Source: Pacific Star Research

In this issue, we refrained from classifying any residential markets in Tier I, in line with our assessment in the last issue. We view that residential markets across Asia will continue to face pressures as policy tightening measures remain in place. Greater mortgage financing, in line with the decline in interest rates, will help support genuine home buyer demand and greater opportunities are expected in the mass housing segment relative to the prime residential segment.

Tier II: Singapore, Kuala Lumpur, Tokyo, Bangkok, Hong Kong

Given **Singapore**'s widespread attractiveness as a cosmopolitan destination for work, play and stay, medium-long term prospects remain sound. However, headwinds to foreign interest will persist in the coming months in the wake of the Additional Buyer Stamp Duty (ABSD) measure. Developers and homebuyer sentiment has weakened and pricing could ease further.

In **Kuala Lumpur**, ongoing plans to attract foreign investments and improve city connectivity will generate greater interest in the city as a place to stay. However, the near term outlook is dampened by the significant supply pipeline.

The stabilisation in **Tokyo**'s and **Bangkok**'s residential markets continued as homebuyer confidence returned, aided by the economic recovery. We are sanguine about quality projects with good connectivity in these two cities.

Greater resilience than expected has been demonstrated in **Hong Kong**'s residential market, supported by low borrowing costs, high liquidity and significant homeowner equity. We upgraded the Hong Kong market to Tier II but remain cautious over greater land supply by the government following the new chief executive's pledge to address housing affordability.

Tier III: Beijing, Shanghai, Seoul, Ho Chi Minh City

Markets in Beijing and Shanghai will remain under pressure as home purchase restrictions are maintained alongside a weakening economy. Investment opportunities could arise as distressed smaller developers face financing issues.

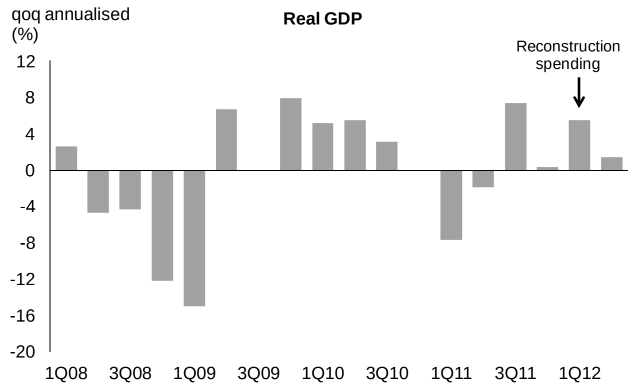
In Seoul, earlier stimulus measures have failed to prevent the slide in the residential market. Given the weak sentiment among homebuyers, we expect this downward trend to persist and have downgraded the market to Tier III.

Market conditions will remain challenging in Ho Chi Minh City given the supply overhang although this will be partly ameliorated by the aggressive easing of interest rates by the central bank.

Chart Appendix

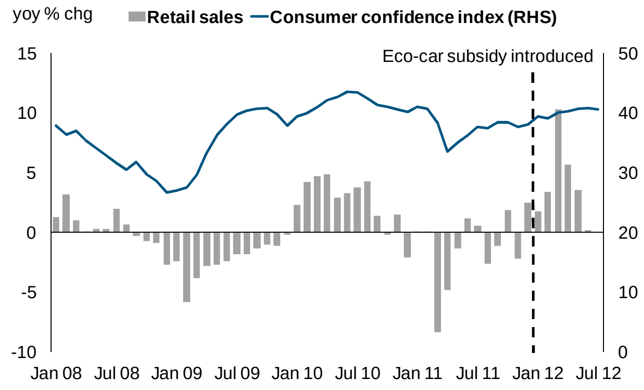
Japan

Exhibit J1: Reconstruction spending spurred 1Q 2012 growth



Source: Bloomberg, Pacific Star Research

Exhibit J2: Retail spending remains fragile

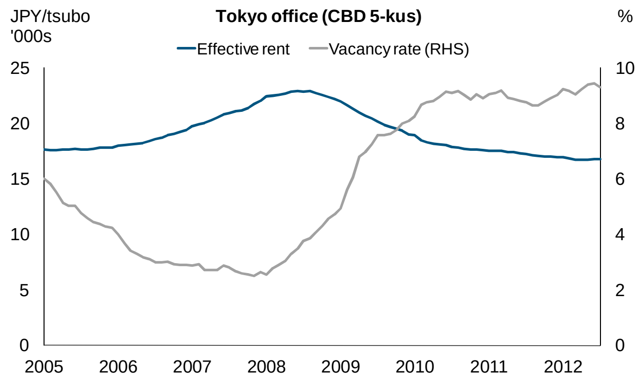


Source: Bloomberg, Pacific Star Research

Exhibit J3: Strong tourism recovery

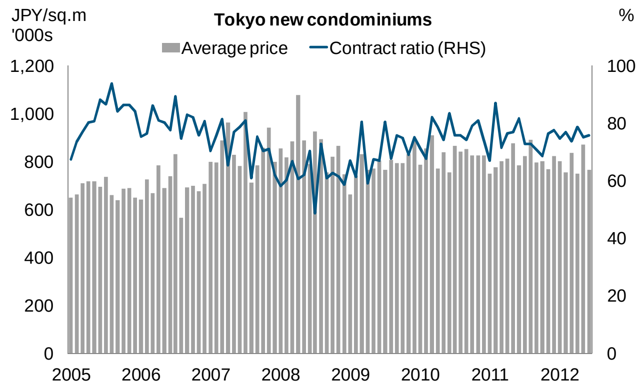
Source: CEIC, Pacific Star Research

Exhibit J4: Tokyo office rents finding a bottom



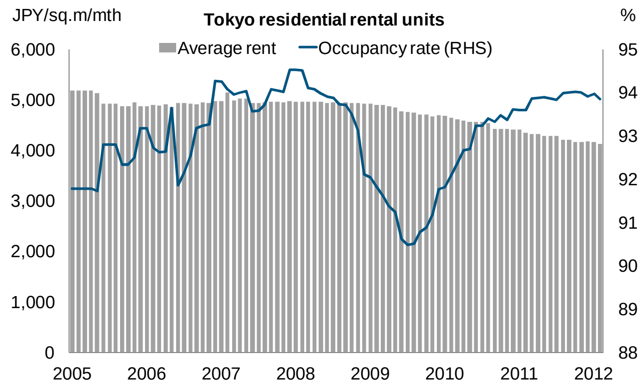
Source: Miki Shoji, Pacific Star Research

Exhibit J5: Healthy take-up of new condominiums in Tokyo



Source: CEIC, Pacific Star Research

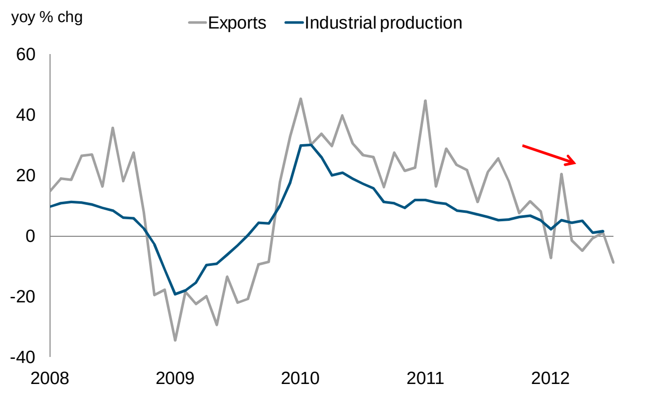
Exhibit J6: Healthy occupancies for rental market



Source: ARES J-REIT database, Pacific Star Research

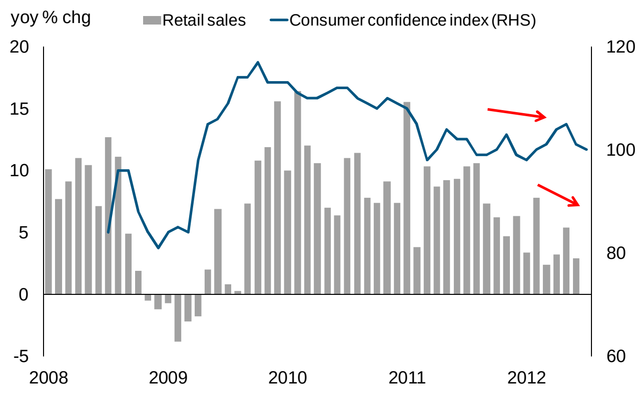
South Korea

Exhibit SK1: Industrial production and export growth have softened



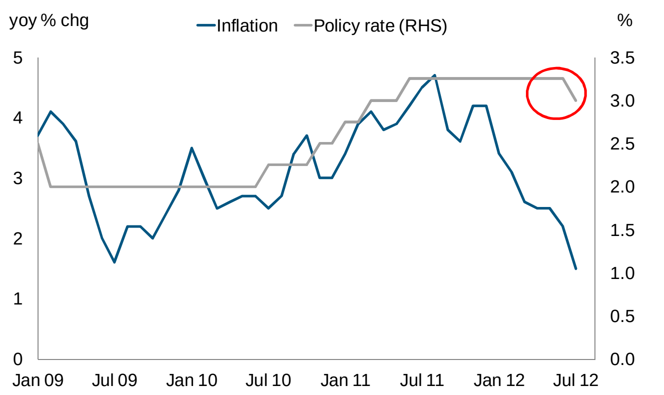
Source: Bloomberg, Pacific Star Research

Exhibit SK2: Slippage in consumer sentiment and spending



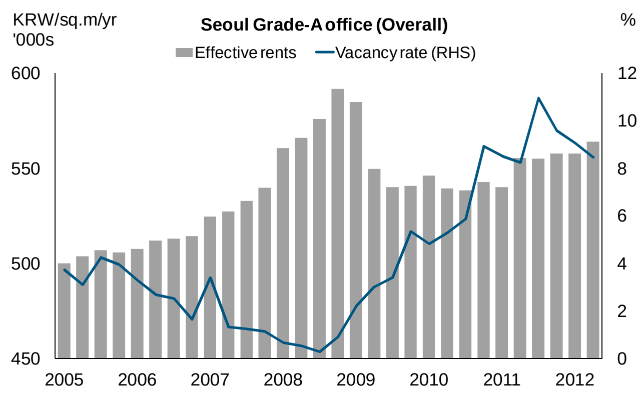
Source: Bloomberg, Pacific Star Research

Exhibit SK3: Bank of Korea cut rates in July to support growth



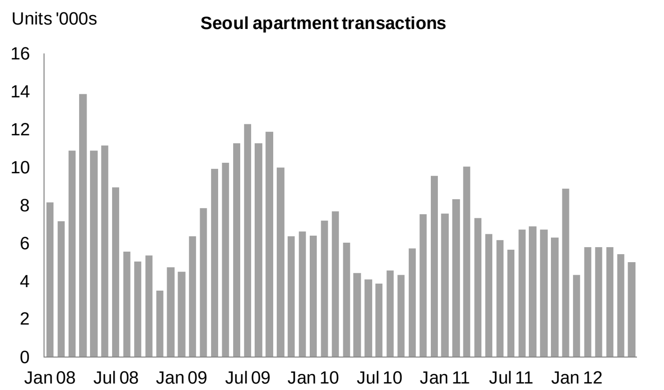
Source: Bloomberg, Pacific Star Research

Exhibit SK4: Firm office demand in Seoul



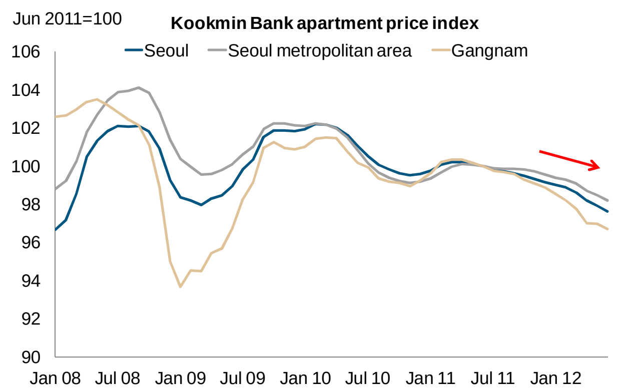
Source: Jones Lang LaSalle , Pacific Star Research

Exhibit SK5: Activity in Seoul's residential market remains muted



Source: CEIC, Pacific Star Research

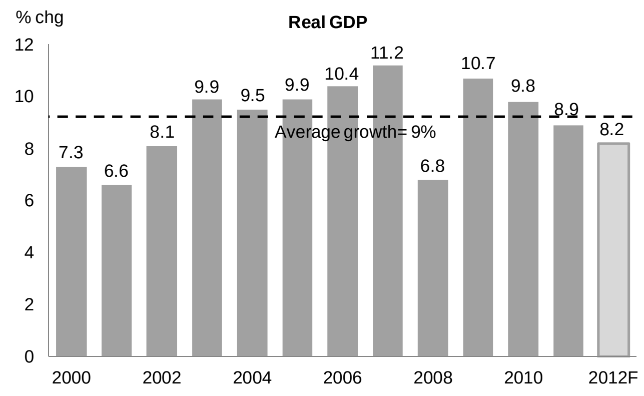
Exhibit SK6: Broad based moderation in apartment prices



Source: CEIC, Pacific Star Research

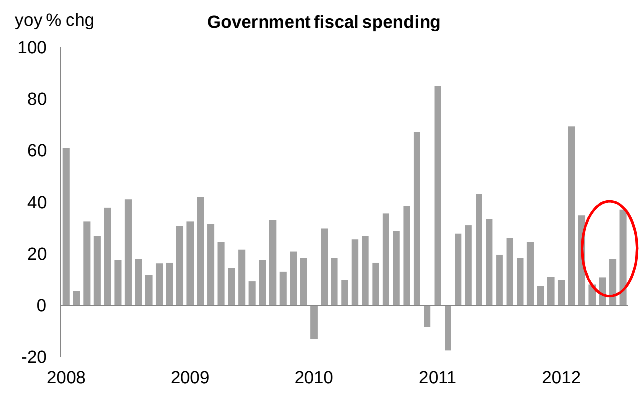
China

Exhibit C1: Soft landing expected in 2012



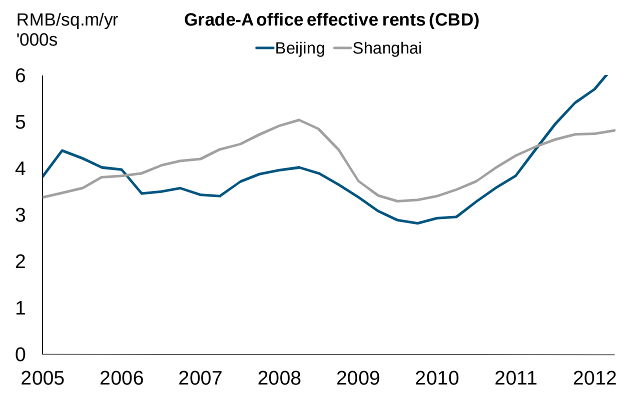
Source: Bloomberg, Pacific Star Research

Exhibit C2: Fiscal spending stepped up in recent months



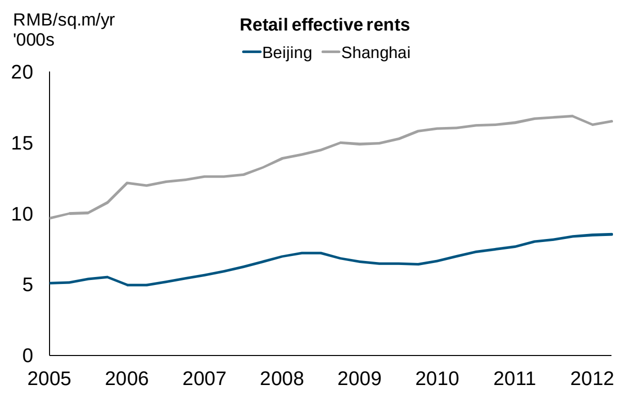
Source: Bloomberg, Pacific Star Research

Exhibit C3: Domestic expansions underpin demand for prime office



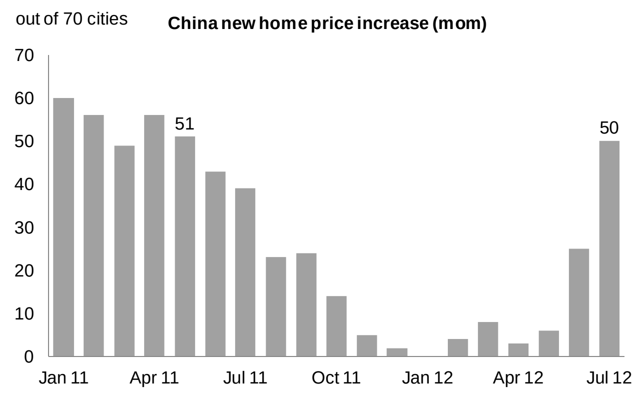
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit C4: Continued increase in prime retail rents



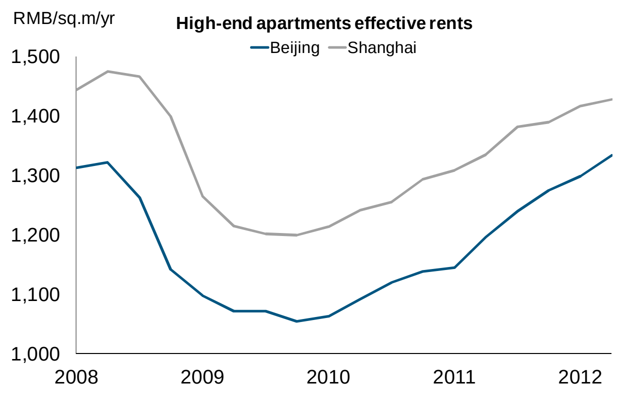
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit C5: Home prices increased in 50 cities in July



Source: National Bureau of Statistics, Pacific Star Research

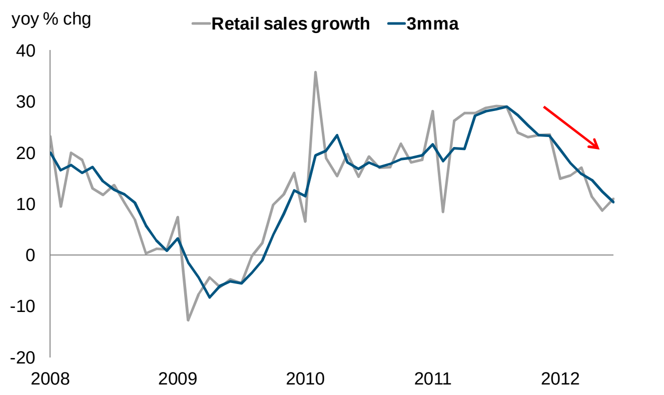
Exhibit C6: Resilient demand for rental apartments



Source: Jones Lang LaSalle, Pacific Star Research

Hong Kong

Exhibit HK1: Deceleration seen in retail sales growth

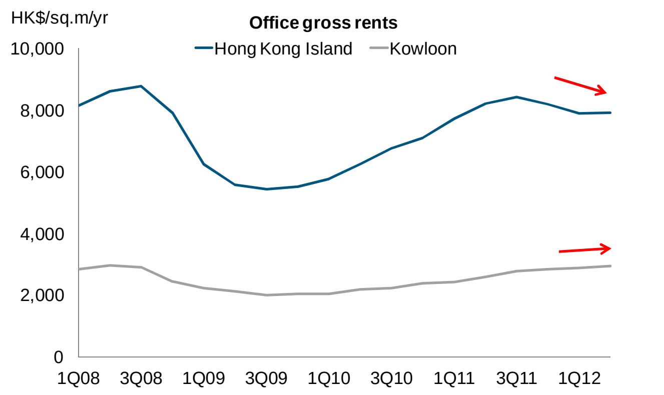


Source: Bloomberg, Pacific Star Research

Exhibit HK2: Tourism industry is driven by Mainland spending

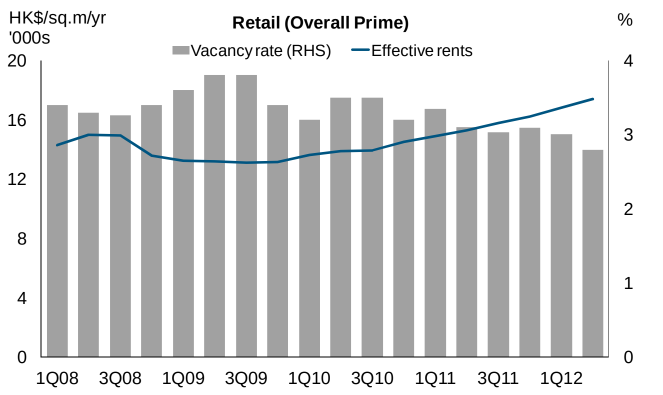
Source: CEIC, Pacific Star Research

Exhibit HK3: Diverging rental performance in Hong Kong office markets



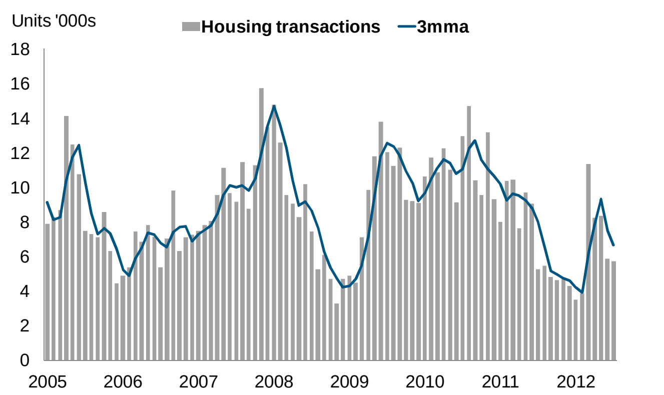
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit HK4: Prime retail spaces remain tight



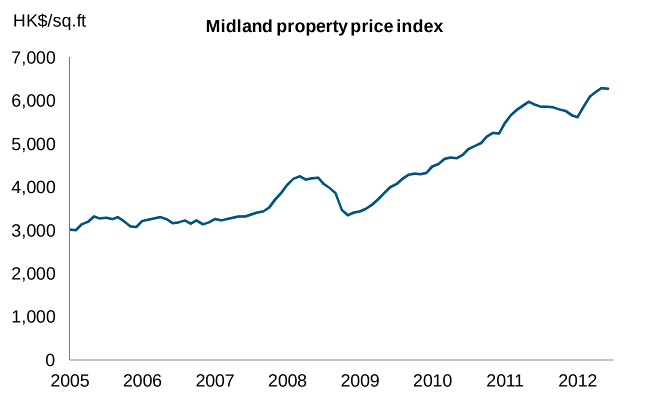
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit HK5: Housing transactions have eased again



Source: Bloomberg, Pacific Star Research

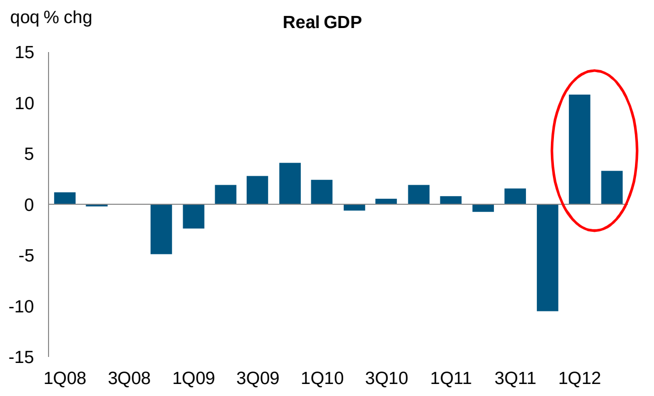
Exhibit HK6: ...and home price increases have slowed



Source: Midland Realty, Pacific Star Research

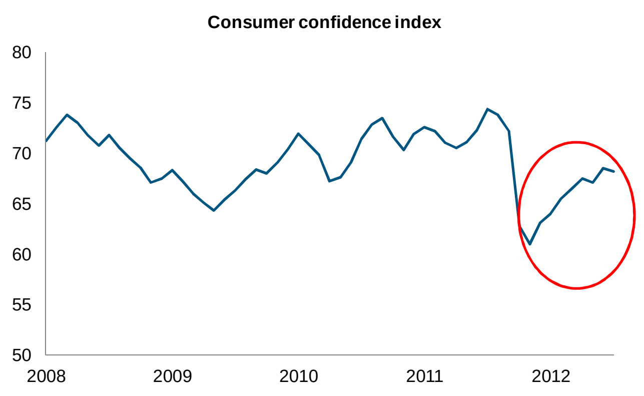
Thailand

Exhibit T1: Strong post-flood recovery



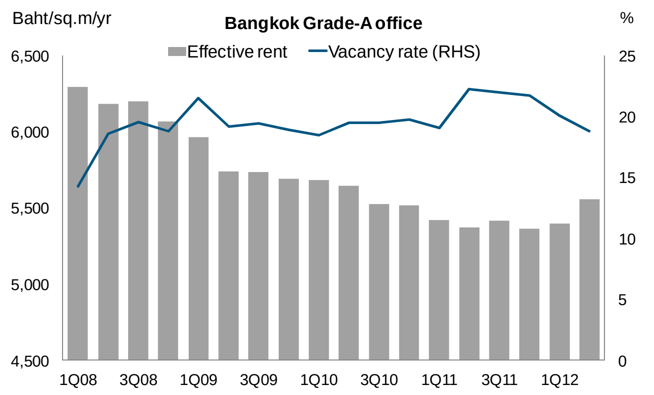
Source: Bloomberg, Pacific Star Research

Exhibit T2: Steady improvement in consumer confidence post-flood



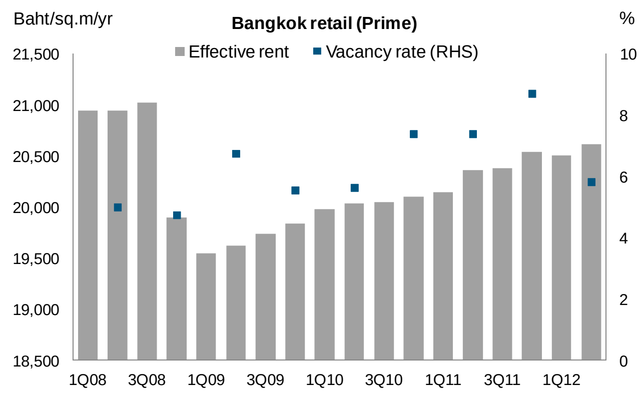
Source: Bloomberg, Pacific Star Research

Exhibit T3: Improving take-up of office space



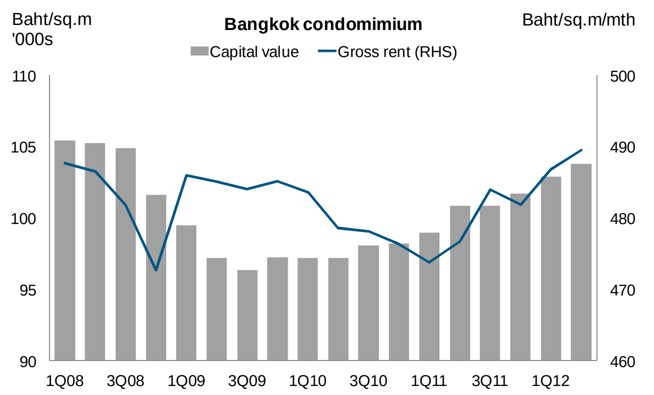
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit T4: Rising leasing interest underpin retail rents and occupancies



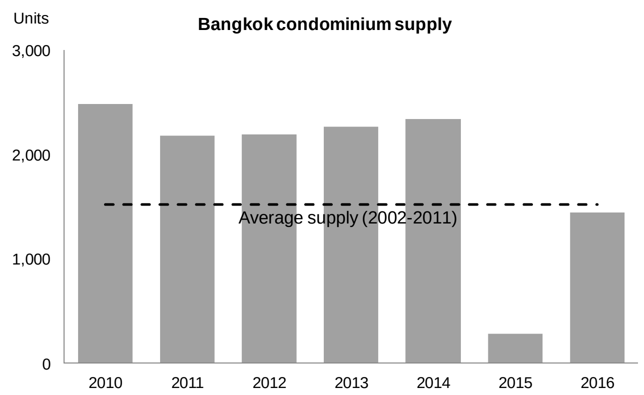
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit T5: Healthy demand drove condominium rents and capital values higher...



Source: Jones Lang LaSalle, Pacific Star Research

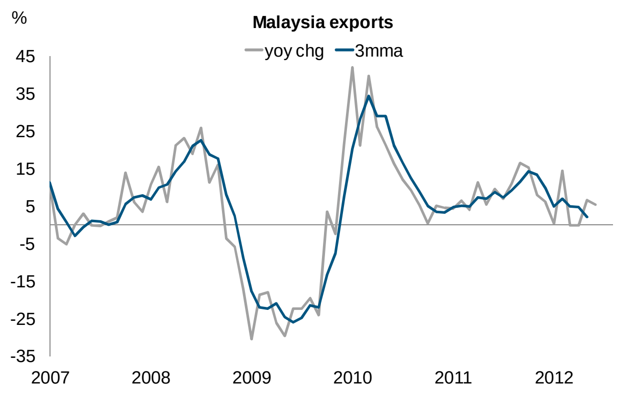
Exhibit T6: ...but more selective buying activity expected given the incoming supply



Source: Jones Lang LaSalle, Pacific Star Research

Malaysia

Exhibit M1: Weaker growth in the export sector

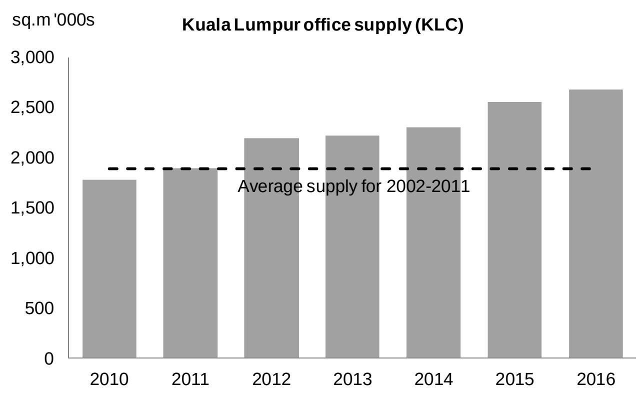


Source: Bloomberg, Pacific Star Research

Exhibit M2: ...but household spending remains robust

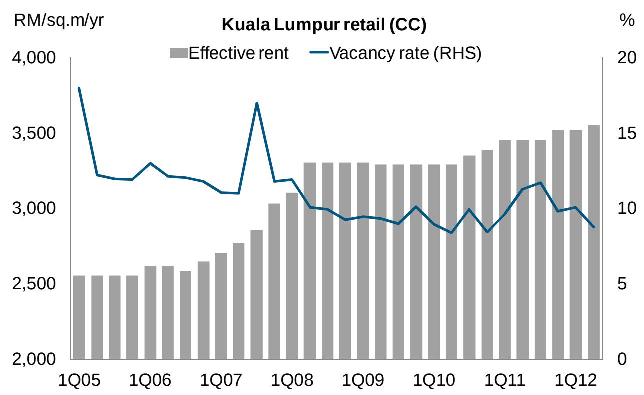
Source: Bloomberg, Pacific Star Research

Exhibit M3: Supply pressures in Kuala Lumpur's office sector



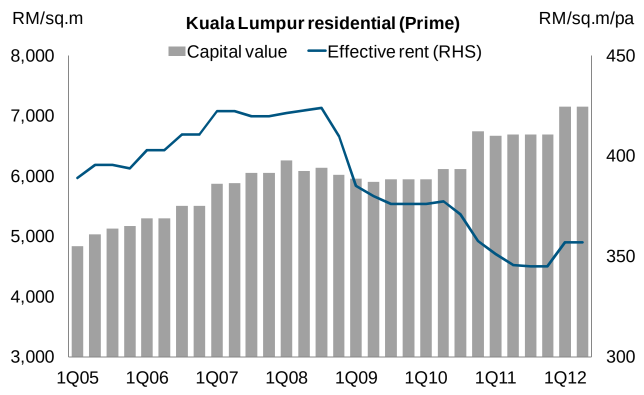
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit M4: Retail sector remains healthy



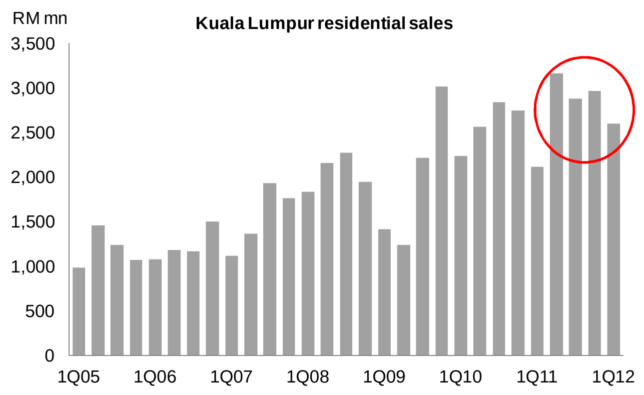
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit M5: Stable residential rents and capital values



Source: Jones Lang LaSalle, Pacific Star Research

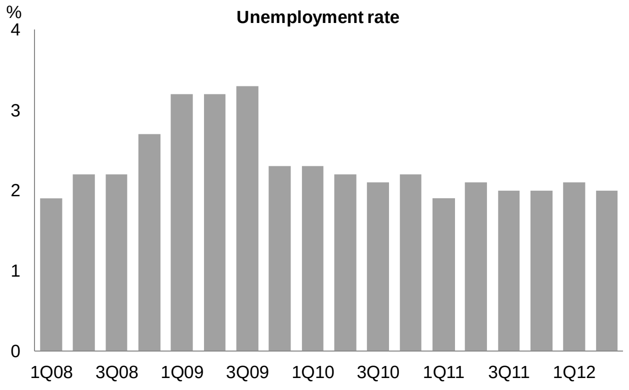
Exhibit M6: Residential sales have moderated recently



Source: CEIC, Pacific Star Research

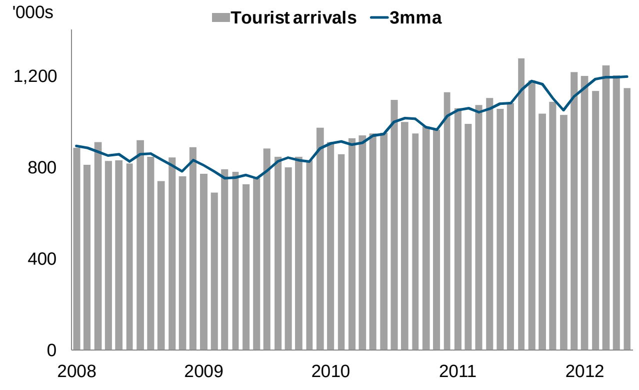
Singapore

Exhibit S1: Unemployment rate in Singapore stays low



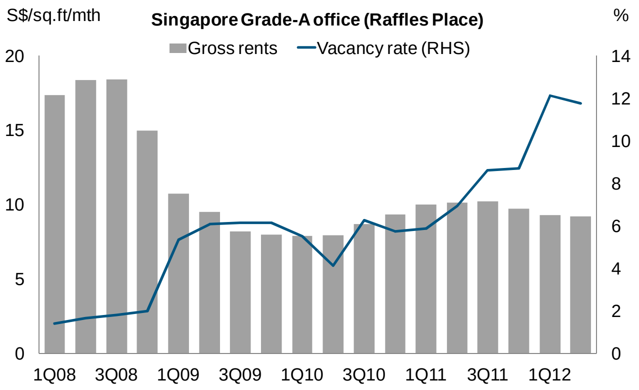
Source: Bloomberg, Pacific Star Research

Exhibit S2: Healthy tourist arrivals



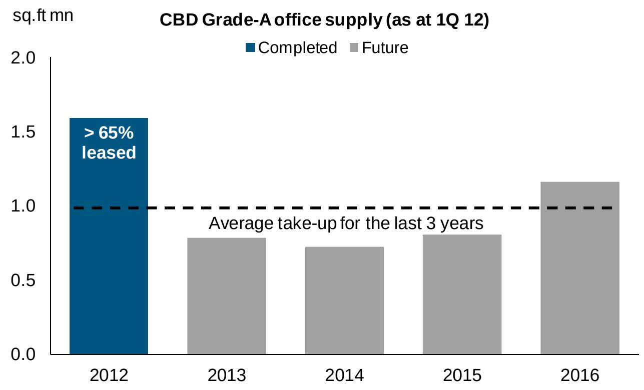
Source: CEIC, Pacific Star Research

Exhibit S3: Soft patch in the office market



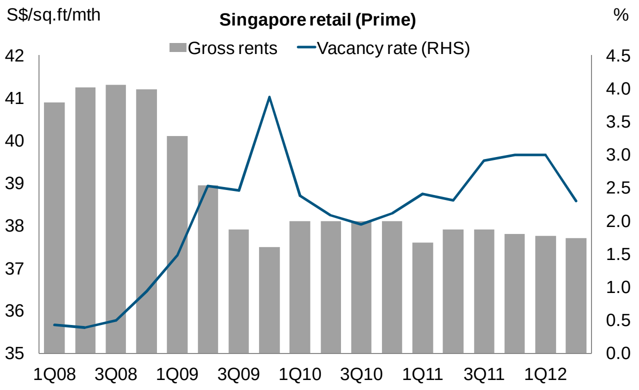
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit S4: Supply pressures are contained



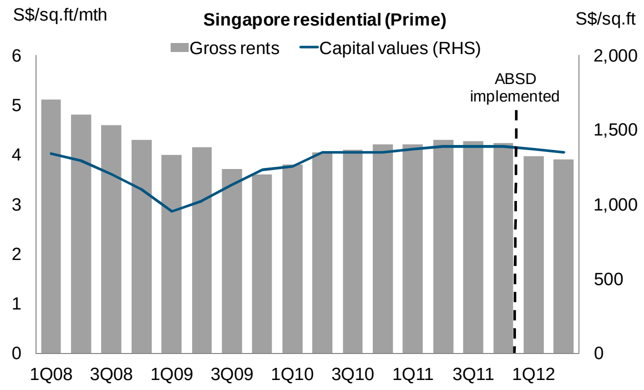
Source: Jones Lang LaSalle, Pacific Star Research

Exhibit S5: Prime retail rents moderated slightly



Source: Jones Lang LaSalle, Pacific Star Research

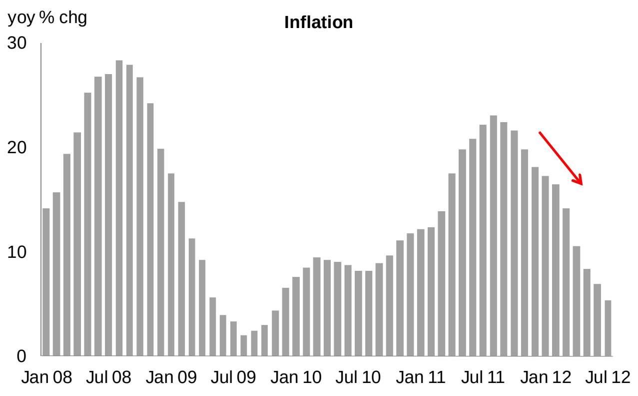
Exhibit S6: Prime residential rents and capital values affected by the Additional Buyer Stamp Duty (ABSD)



Source: Jones Lang LaSalle, Pacific Star Research

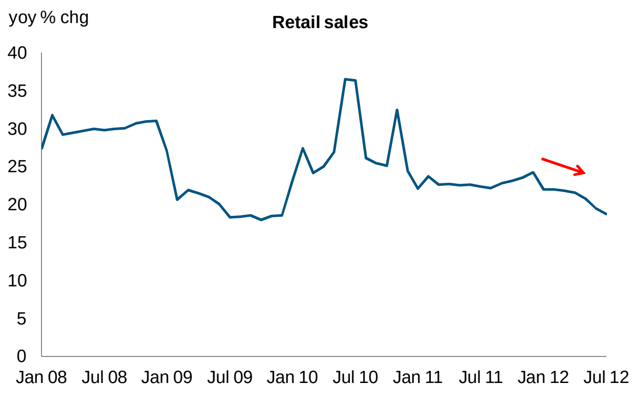
Vietnam

Exhibit V1: Inflationary pressures have eased markedly



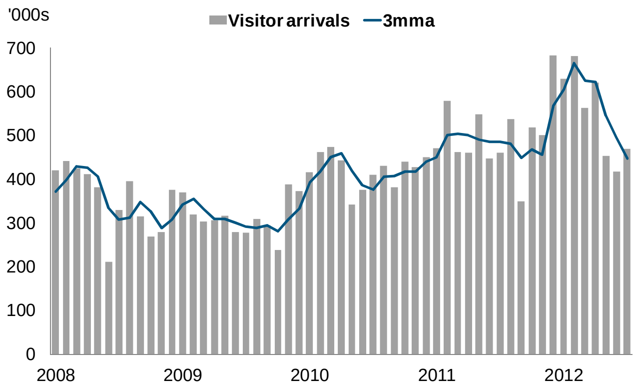
Source: Bloomberg, Pacific Star Research

Exhibit V2: Softening in retail sales growth



Source: Bloomberg, Pacific Star Research

Exhibit V3: Visitor arrivals have eased in 2012

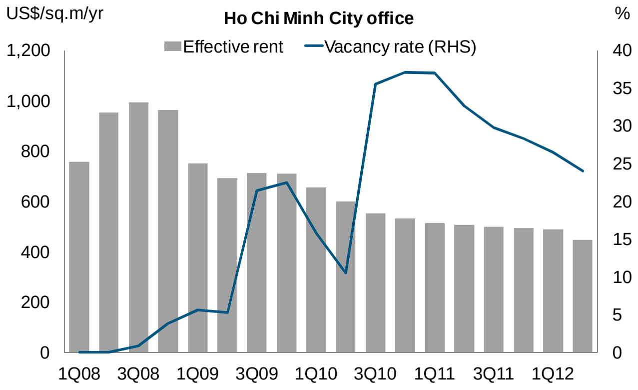


Source: CEIC, Pacific Star Research

Exhibit V4: Retail rents in Ho Chi Minh City have moderated

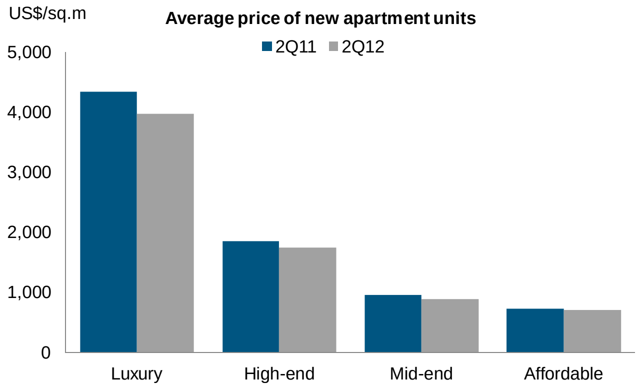
Source: CBRE, Pacific Star Research

Exhibit V5: Office rents remain under pressure



Source: Jones Lang LaSalle, Pacific Star Research

Exhibit V6: Greater resilience for affordable housing



Source: CBRE, Pacific Star Research

Statistical Appendix

Economic statistics of Asian countries

Japan	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	-0.7	2.4	1.5	1.5	1.3	1.1
Consumer price inflation (%)	-0.3	0.0	0.0	0.3	0.5	0.7
Unemployment rate (%)	4.5	4.5	4.4	4.3	4.2	4.1
Exports (y-o-y, %)	0.0	5.2	7.1	7.0	6.8	6.5
Imports (y-o-y, %)	5.9	8.5	5.9	7.0	7.0	7.0
Fiscal balance (% of GDP)	-10.1	-10.0	-8.7	-7.9	-7.6	-7.5
Current account balance (% of GDP)	2.0	2.2	2.7	2.6	2.4	2.0
Central bank rate (%)	0.1	0.1	0.1	n.a.	n.a.	n.a.
Currency vs USD	76.9	79.0	84.0	85.0	n.a.	n.a.

Korea	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	3.6	3.5	4.0	4.0	4.0	4.0
Consumer price inflation (%)	4.0	3.4	3.2	3.0	3.0	3.0
Unemployment rate (%)	3.4	3.3	3.3	3.3	3.3	3.3
Exports (y-o-y, %)	9.5	6.6	10.0	10.2	10.8	10.5
Imports (y-o-y, %)	6.5	3.9	9.7	11.2	12.2	12.1
Fiscal balance (% of GDP)	2.3	2.4	2.8	2.8	2.8	2.8
Current account balance (% of GDP)	2.4	1.9	1.5	1.0	0.9	0.7
Central bank rate (%)	3.3	2.6	3.0	n.a.	n.a.	n.a.
Currency vs USD	1,152	1,125	1,105	1,050	n.a.	n.a.

China	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	9.2	8.0	8.5	8.7	8.7	8.6
Consumer price inflation (%)	5.4	3.3	3.0	3.0	3.0	3.0
Unemployment rate (%)	4.0	4.0	4.0	4.0	4.0	4.0
Exports (y-o-y, %)	8.2	6.7	9.9	10.9	11.4	11.5
Imports (y-o-y, %)	9.5	10.1	10.9	11.4	10.4	10.0
Fiscal balance (% of GDP)	-1.2	-1.3	-1.0	-0.6	-0.1	0.3
Current account balance (% of GDP)	2.8	2.3	2.6	3.0	3.4	3.9
Central bank rate (%)	6.56	5.88	5.88	n.a.	n.a.	n.a.
Currency vs USD	6.30	6.31	6.20	5.88	n.a.	n.a.

Hong Kong	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	5.0	2.6	4.2	4.3	4.3	4.4
Consumer price inflation (%)	5.3	3.8	3.0	3.0	3.0	3.0
Unemployment rate (%)	3.4	3.5	3.5	3.4	3.2	3.2
Exports (y-o-y, %)	4.2	-1.7	7.9	7.7	7.8	7.8
Imports (y-o-y, %)	4.6	-0.9	7.9	7.8	7.8	7.8
Fiscal balance (% of GDP)	3.7	0.5	2.0	2.9	1.5	4.5
Current account balance (% of GDP)	4.1	3.2	3.5	4.1	4.6	5.6
Central bank rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Currency vs USD	7.77	7.78	7.78	7.78	n.a.	n.a.

Thailand	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	0.1	5.5	7.5	4.5	4.6	4.8
Consumer price inflation (%)	3.8	3.9	3.3	3.0	3.0	3.0
Unemployment rate (%)	0.7	0.7	0.7	0.7	0.7	0.7
Exports (y-o-y, %)	9.9	9.9	8.2	7.7	7.3	7.0
Imports (y-o-y, %)	11.5	11.3	8.1	7.7	8.3	7.8
Fiscal balance (% of GDP)	-1.9	-3.1	-3.7	-4.0	-2.4	-2.1
Current account balance (% of GDP)	3.4	1.0	1.4	2.0	1.5	1.3
Central bank rate (%)	3.48	3.00	3.75	n.a.	n.a.	n.a.
Currency vs USD	31.6	31.3	30.0	29.2	n.a.	n.a.

Malaysia	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	5.1	4.4	4.7	5.0	5.0	5.0
Consumer price inflation (%)	3.2	2.7	2.5	2.5	2.5	2.5
Unemployment rate (%)	3.2	3.1	3.0	3.0	3.0	3.0
Exports (y-o-y, %)	2.9	6.7	7.4	8.3	8.9	8.3
Imports (y-o-y, %)	2.8	7.7	7.8	8.7	9.5	8.8
Fiscal balance (% of GDP)	-5.1	-4.3	-4.8	-4.9	-4.9	-5.0
Current account balance (% of GDP)	11.5	10.8	10.5	10.1	9.6	9.1
Central bank rate (%)	3.00	3.00	3.50	n.a.	n.a.	n.a.
Currency vs USD	3.17	3.10	3.00	2.85	n.a.	n.a.

Singapore	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	4.9	2.7	3.9	4.1	4.0	4.0
Consumer price inflation (%)	5.2	3.5	2.3	2.1	2.0	2.0
Unemployment rate (%)	2.0	2.1	2.1	2.1	2.1	2.1
Exports (y-o-y, %)	2.6	2.8	5.5	5.7	5.6	5.6
Imports (y-o-y, %)	0.0	2.8	5.9	6.2	6.2	6.1
Fiscal balance (% of GDP)	7.3	5.5	5.4	5.1	4.8	4.5
Current account balance (% of GDP)	21.9	21.8	21.3	20.8	20.0	19.3
Central bank rate (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Currency vs USD	1.30	1.25	1.21	1.23	n.a.	n.a.

Vietnam	2011	2012F	2013F	2014F	2015F	2016F
GDP growth (%)	5.9	5.6	6.3	6.9	7.3	7.5
Consumer price inflation (%)	18.7	12.6	6.8	5.7	5.3	5.0
Unemployment rate (%)	4.5	4.5	4.5	4.5	4.5	4.5
Exports (y-o-y, %)	3.8	15.1	12.0	14.4	12.4	7.2
Imports (y-o-y, %)	-3.9	18.2	9.8	11.6	9.9	5.1
Fiscal balance (% of GDP)	-2.7	-3.6	-2.8	-2.4	-1.8	-1.8
Current account balance (% of GDP)	-0.5	-1.6	-1.4	-1.2	-1.5	-1.4
Central bank rate (%)	9.00	n.a.	n.a.	n.a.	n.a.	n.a.
Currency vs USD	21,034	21,150	21,250	20,750	n.a.	n.a.

Source: IMF World Economic Outlook Database April 2012 and July 2012 Update, Bloomberg forecast as at 22 August 2012

About Pacific Star Group

The Pacific Star Group is a real estate investment house specialising in investment management, fund management, development management, REIT management, asset management and private equity. Headquartered in Singapore, the group is one of Asia's most successful real estate investment houses, serving a premier global investor base spread across Asia, Europe, North America and the Middle East. Since its inception, the Pacific Star Group has transacted multi-billion dollar deals in prime Grade-A office, retail and residential properties in key cities spread across Asia.

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