



Looking to the East Asian Property

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Emerging Market Characteristics

- Have a large percentage of the world's population but account for a disproportionately small percentage of its economic production & wealth
- Short and uncertain history of open market relations and foreign investment
- History of centrally planned and isolated economy or long standing one-party political and socioeconomic systems
- More politically and financially volatile than developed markets



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Real Estate demand drivers associated with Emerging Asian Markets

- **Globalization** - movement of capital and production has unleashed major new employment and economic growth.
- **Demographics** – large, young populations entering the productive workforce over extended period of time (decades) require new housing, retail, entertainment and other use
- **Urbanization** – economic opportunity draws educated and skilled workers from rural areas into the major cities. Major employers seek the talent pools, which perpetuates the cycle



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Real Estate demand drivers associated with Emerging Asian Markets (Cont)

- **Emergence of a middle class** – greater economic stability and opportunity allow wealth accumulation, discretionary retail spending and home ownership
- **Foreign direct investment** – new investment in the economy drives capital spending, economic growth and new jobs



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Supply factors associated with Asian Real Estate Markets

- **Lack of supply** – legacy of inefficient asset and capital markets with major space shortages
- **Poor quality** – does not meet international standards for design, construction and operation



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Risk factors

- Economic and political instability
- Higher degree of government intervention in the market
- Restrictive currency, capital & FDI rules and regulations
- High speculative land pricing
- Less diversified economies exposed to a small number of business sectors



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Risk factors (Cont)

- Lack of transparency
 - Poor real estate market information
 - Inconsistently applied accounting standards and weak financial controls
 - Government uncertainty, arbitrariness & corruption
- Insufficient and expensive debt financing
- Uncertain land title (title insurance not widely available)
- Illiquid property markets and limited exit options



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Risk Mitigants

- **Over concentration in certain industries**
 - Leverage existing diversified global tenant relationships
 - Diversify by property type and location
- **No title insurance**
 - Pursue land acquisitions from government or large corporate owners
- **Liquidity and exit options**
 - Require substantial office pre-leasing and residential pre-sales



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Risk Mitigants (Cont)

- **Market Volatility**

- Develop and exit in phases
- Use pre-sale proceeds to finance construction

- **Permits & entitlement**

- Purchase pre-entitled land
- Local presence enables close coordination with local governments



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Investment Alternatives

- **Direct strategy** - Buy land or buildings directly
- **Semi-direct** - Invest in joint-venture with a capable real estate operator
- **Indirect strategies:**
 - Buy shares in listed real estate companies, or Funds focused on the same
 - Invest in non-listed private funds



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Investment Alternatives (Cont)

- **Considerations:**

- Ability to create effective internal management (for direct strategy)
- Diversification
- Correlation to public equity markets performance
- Liquidity



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Questions & Answers

