

THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON COMMERCIAL PROPERTY INVESTMENT IN ASIA

GRAEME NEWELL
University of Western Sydney

and

MUHAMMAD NAJIB RAZALI
University Technology Malaysia

ABSTRACT

Commercial property investment in Asia has taken on increased importance in recent years. However, the global financial crisis of 2007-2009 has had a major impact on global property markets, including the Asian property markets. This paper examines global commercial property transactions in 2007-2008 to assess the impact of the global financial crisis on commercial property investment in Asia. Major property investor profiles and property transaction locations are also assessed. Clear differences emerge regarding the relative impact in Asia, both in a global context and regional context. The results highlight the increased relative contribution by the Asian property markets across a range of property investment characteristics during the global financial crisis. Issues relating to the ongoing impact of the global financial crisis over 2009-2010 are also highlighted.

Keywords: Global financial crisis, property investment, Asia, investor profiles, location analysis, relative impact.

INTRODUCTION

Commercial property is an important asset class for the major institutional investors (e.g., ING, RREEF), with over \$19 trillion in investible commercial property available globally (EPRA, 2009). With international property investment having taken on increased importance in recent years, this has seen institutional investors, REITs, pension funds, private equity funds and sovereign wealth funds acquire significant commercial property portfolios in both the mature and emerging property markets, including Asia.

Previous research has highlighted the benefits of including international property in a mixed-asset portfolio (e.g. Bond et al, 2003; Conover et al, 2002; Hoesli et al, 2004; Ling and Naranjo, 2002). International property diversification has also been shown to be more effective in the Asian property markets than in the traditional property markets (Bond et

al, 2003). This has been further enhanced by the increased property market maturity and the introduction of REITs in many Asian countries (Chin et al, 2006; JLL, 2008; Ooi et al, 2006).

While 2007 was a record year for global commercial property transactions, with a transaction volume exceeding \$1 trillion (Real Capital Analytics, 2008), the global financial crisis had a major impact on all financial markets in 2008, including the commercial property markets. This impact resulted from the reduced lending capacity of banks for the financing of commercial property. This was further compounded by the strong connection between the commercial property markets and the capital markets, which saw reduced funds committed to commercial property. This has seen major commercial property investors/lenders experience major financial difficulties; this includes Lehman Brothers, AIG, Merrill Lynch, Wachovia, Hypo and Fortis. With banks having a reduced lending capacity, this has seen an increased cost of capital and an increased risk premium attached to property. This has presented particular difficulties for those commercial property investors with high debt levels and needing to refinance this debt exposure. In many instances, these property investors have been unable or unwilling to sell their properties at reduced values and have sort to reduce their debt levels via recapitalising and restructuring their balance sheets using expensive and dilutive capital raisings (e.g. private placements). This has included major property investors in Australia, UK and US, including GPT and Goodman.

Similarly, there has been reduced investor demand (e.g. pension funds). This has seen many pension funds in Australia, US and Europe now being over-weight in property compared to their mandates and benchmarks, resulting from the more significant reduction in value of their stock portfolios. Individual pension fund members have also sought more defensive options in the current volatile environment. This over-exposure to property via the 'denominator effect' has resulted in pension funds not allocating any further current funds to property and also seeking to withdraw funds from unlisted property vehicles, often at significant discounts. This has clearly impacted on the ability of major property investors to make further property acquisitions, as well as the future likelihood of reduced tenant demand in a slowing global economy, despite major government efforts to stimulate the economy in many countries.

In this challenging investment context, it is important to assess the impact of the global financial crisis on commercial property. This is particularly so in Asia, given its significant growth and strong institutional investor support in recent years. By analysing the global commercial property transactions for 2007 and 2008, the impact of the global financial crisis on commercial property in Asia is assessed in this paper. Analyses are presented for 2007 and 2008 for the major countries in Asia, as well as a profile of major property investors and major property transaction locations in Asia. The ongoing strategic implications for international property investors and their continued property investment activities in Asia are also assessed.

SIGNIFICANCE OF COMMERCIAL PROPERTY IN ASIA

The significance of Asian commercial property is clearly shown in the Asian property markets accounting for 19% of global investible property; see Table 1 (EPRA, 2009). This sees Asia having some of the largest property markets in the world; e.g. Japan (#2), China/Hong Kong (#7); including both developed and emerging property markets.

Table 1. Value of global investible commercial property (US\$): 2008

| | | |
|--|--------------------------------|----------------------------|
| Asia: \$3.7 trillion (19% of global market) | | |
| Japan: \$2.0 trillion | Hong Kong/China: \$640 billion | South Korea: \$384 billion |
| India: \$157 billion | Taiwan: \$139 billion | Singapore: \$126 billion |
| Indonesia: \$70 billion | Thailand: \$52 billion | Malaysia: \$50 billion |
| Philippines: \$23 billion | Vietnam: \$9 billion | |
| Europe: \$7.8 trillion (40% of global market) | | |
| UK: \$1.4 trillion | Germany: \$1.4 trillion | France: \$1.1 trillion |
| Italy: \$866 billion | Spain: \$571 billion | |
| US: \$5.9 trillion (31% of global market) | | |
| Canada: \$557 billion (3% of global market) | | |
| Australia: \$333 billion (2% of global market) | | |

Global: \$19.4 trillion

Source: Authors' calculation from EPRA (2009)

These Asian property markets have also improved their property market transparency in recent years (see Table 2); this being a key ingredient for support by the major international property investors. This has seen considerable recent institutional investor interest in Asia, including China and India, given the significant economic growth and prospects in these key emerging property markets (see Table 3). This includes the major global property fund managers such as ING, RREEF, UBS and LaSalle (Gray, 2009). Both China and India are now classified into Tier 1, 2 and 3 markets to reflect the differing stages of these property market developments. This is further supported by the establishment of professional groups in Asia (e.g. Asian Public Real Estate Association), as well as improved global business competitiveness in many countries in Asia (see Table 4). Lower levels of corruption have also been evident (see Table 5), although high levels of corruption were still evident in many of the emerging markets in Asian countries.

Table 2. Transparency of global property markets***Highly transparent:**

Australia, USA, Canada, UK, France, Hong Kong, Singapore

Transparent:

Germany, Spain, Italy, Switzerland, Malaysia, Japan

Semi-transparent:

Taiwan, South Korea, Thailand, Philippines, China (Tier 1), India (Tier 1), India (Tier 2)

Low transparency:

Indonesia, Macau, China (Tier 2), India (Tier 3), China (Tier 3), Vietnam

Opaque:

Cambodia

Source: JLL (2009)

*: 82 countries are assessed for property market transparency

Table 3. Economic growth forecasts for Asia markets: 2009-2010

| Country | GDP (%) | | CPI (%) | | Industrial production (%) | |
|-------------|---------|------|---------|------|---------------------------|------|
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 |
| China | 6.6 | 8.1 | -0.8 | 0.1 | 8.1 | 9.7 |
| Hong Kong | -2.6 | 3.1 | 1.5 | 2.1 | NA | NA |
| Taiwan | -4.5 | 3.0 | -1.0 | 1.4 | -10.0 | 5.8 |
| Japan | -6.6 | 0.8 | -1.1 | -0.7 | -29.4 | 13.0 |
| South Korea | -3.5 | 0.9 | 1.9 | 2.3 | -13.3 | 3.5 |
| Philippines | -0.1 | 2.9 | 4.8 | 5.5 | -6.9 | 3.5 |
| Singapore | -8.0 | 2.8 | -0.2 | 1.2 | -17.4 | 3.4 |
| Malaysia | -1.8 | 2.8 | 1.1 | 1.9 | -11.0 | 6.7 |
| Thailand | -2.9 | 2.8 | -0.2 | 2.7 | -12.9 | 8.0 |
| Indonesia | 2.7 | 3.4 | 5.7 | 5.7 | -4.8 | 4.1 |
| Vietnam | 3.8 | 4.5 | 7.2 | 5.3 | 3.3 | 8.5 |
| India | 4.3 | 5.8 | 6.2 | 6.2 | -0.4 | 3.8 |
| Global | -2.6 | 1.7 | 1.5 | 2.2 | -10.7 | 3.1 |

Source: JLL (2009)

Table 4. Global competitiveness* of Asian countries: 2008**

| | | | |
|--------------|------------------|----------------|------------------|
| #1: USA | #2: Switzerland | #5: Singapore | #7: Germany |
| #9: Japan | #11: Hong Kong | #12: UK | #13: South Korea |
| #16: France | #17: Taiwan | #18: Australia | #21: Malaysia |
| #30: China | #34: Thailand | #50: India | #55: Indonesia |
| #70: Vietnam | #71: Philippines | #77: Sri Lanka | #109: Cambodia |

Source: WEF (2008)

*: 134 countries are assessed for global competitiveness

** : includes other selected countries as international benchmarks

Table 5. Corruption perception* of Asian countries: 2008**

| | | | |
|----------------------------------|-----------------|-------------------|-----------------|
| #1: Denmark, New Zealand, Sweden | #4: Singapore | #5: Switzerland | #9: Australia |
| #12: Hong Kong | #14: Germany | #16: UK | #18: Japan, USA |
| #23: France | #39: Taiwan | #40: South Korea | #47: Malaysia |
| #72: China | #80: Thailand | #85: India | #92: Sri Lanka |
| #121: Vietnam | #126: Indonesia | #141: Philippines | #166: Cambodia |

Source: TI (2008)

*: 180 countries are assessed for corruption perception

** : includes other selected countries as international benchmarks

This has seen the major institutional investors, including ING, RREEF, LaSalle, Morgan Stanley and Grosvenor, establish unlisted property funds with pan-Asia or specific Asian country mandates, as well as sovereign wealth funds such as GIC being active in Asia. Asia also has some of the largest stock markets in the world. These include Tokyo (#2), Shanghai (#6), Hong Kong (#7) and Bombay (#13), with the Asian stock markets accounting for 28% of the world's stock market capitalisation at December 2008 (WFE, 2009). Importantly, the level of securitised property in Asia (11%) and in many Asian countries is significantly above that of the mature markets and the global level. This includes Singapore (33%), Hong Kong/China (26%) and Philippines (18%), compared to US (6%), UK (4%), Germany (1%) and France (6%) and globally (6%) (EPRA, 2009).

The impact of these high levels of securitised property sees Asia accounting for 45% of global property securities markets at December 2008 (Macquarie Securities, 2009). This sees several Asian countries having some of the largest listed property companies sectors globally (see Table 6); this includes Hong Kong (#2), Japan (#3), China (#4), Singapore

(#7) and India (#10). Similarly, REITs in Asia have also expanded rapidly since 2002, accounting for 13% of global REIT market capitalisation at December 2008 (see Table 7); this includes Japan (#4), Singapore (#7) and Hong Kong (#9). This now sees five Asian REITs being in the top 50 REITs globally (see Table 8).

Table 6. Significance of listed property securities markets in Asia: December 2008

| Country | Number of property securities | Market capitalisation (US\$) | Percentage of Asia market | Percentage of global market | World ranking (by \$) |
|-------------------|--|---|--|--|--------------------------------------|
| Hong Kong | 126 | \$175B | 41.4% | 18.5% | 2 |
| Japan | 163 | \$107B | 25.3% | 11.3% | 3 |
| Singapore | 62 | \$39B | 9.2% | 4.1% | 7 |
| China | 78 | \$56B | 13.2% | 5.9% | 4 |
| India | 38 | \$16B | 3.8% | 1.7% | 10 |
| Taiwan | 47 | \$6B | 1.4% | 0.6% | 26 |
| Malaysia | 84 | \$9B | 2.1% | 0.9% | 18 |
| Philippines | 35 | \$7B | 1.5% | 0.7% | 24 |
| Thailand | 51 | \$4B | 0.9% | 0.4% | 29 |
| Indonesia | 40 | \$4B | 0.9% | 0.4% | 29 |
| South Korea | 7 | \$0.3B | <0.1% | <0.1% | 45 |
| Vietnam | 5 | \$0.7B | 0.2% | <0.1% | 42 |
| Sri Lanka | 17 | \$0.1B | <0.1% | <0.1% | 52 |
| Total Asia | 753 | \$422B | 100.0% | 44.7% | |
| Total | 2068 | \$943B | | 100.0% | |
| Global | | | | | |

Source: Macquarie Securities (2009)

Table 7. Significance of REITs in Asia: December 2008

| Country | Number of REITs | Market capitalisation (US\$) | Percentage of Asia market | Percentage of global market | World ranking (by \$) |
|---------------------|--------------------|------------------------------------|---------------------------------|-----------------------------------|-----------------------------|
| Japan | 41 | \$29B | 62.6% | 7.8% | 4 |
| Singapore | 20 | \$9B | 17.8% | 2.2% | 7 |
| Hong Kong | 7 | \$6B | 12.6% | 1.6% | 9 |
| Taiwan | 8 | \$1.4B | 3.1% | 0.4% | 13 |
| Malaysia | 13 | \$1.4B | 2.5% | 0.3% | 14 |
| South Korea | 6 | \$0.3B | 0.6% | 0.1% | 21 |
| Thailand | 6 | \$0.3B | 0.6% | 0.1% | 19 |
| Total Asia | 101 | \$48B | 100.0% | 12.5% | |
| Total Global | 509 | \$376B | | 100.0% | |

Source: Macquarie Securities (2009)

Table 8. Top 10 REITs in Asia: December 2008 (US\$)

#1: Nippon Building Fund: \$5.77B(#11 globally)

#2: Japan Real Estate Investment Corporation : \$3.84B (#23 globally)

#3: Link REIT: \$3.61B (#26 globally)

#4: Nomura Real Estate Office Fund: \$1.92B (#45 globally)

#5: CapitaMall Trust: \$1.86B (#49 globally)

#6: Japan Retail Fund Investment Corp: \$1.62B

#7: Mori Trust SOGO REIT: \$1.47B

#8: Japan Prime Realty Investment Corp. : \$1.43B

#9: Ascendas REIT: \$1.28B

#10: Champion REIT: \$1.25B

Sources: APREA (2009), Macquarie Securities (2009)

To reflect this increased significance of commercial property in Asia, recent research has examined various aspects of property performance in Asia. This includes risk-adjusted returns, portfolio diversification benefits and the added-value in a mixed-asset portfolio (e.g. Bond et al, 2003; Jin et al, 2007; Liow, 2007, 2008; Liow and Adair, 2009; Liow and Sim, 2006; Wilson et al, 2007). Similarly, these property performance issues have been

assessed for specific Asian countries, including Singapore (e.g. Liow, 2000, 2001a, 2001b; Sing and Low, 2000), Hong Kong (e.g. Chau et al, 2001, 2003; Newell and Chau, 1996; Newell et al, 2004, 2007; Schwann and Chau, 2003), China (Newell et al, 2005, 2009) and India (Newell and Kamineni, 2007). In many instances, this recent research has highlighted the added-value, dynamics and unique investment characteristics of the property markets in Asia.

METHODOLOGY

Global commercial property transactions were assessed in 2007- 2008 using the Real Capital Analytics (RCA) database. RCA is an independent research firm who track the sale of commercial property (including development sites) and portfolios valued at \$10 million and greater for the Americas, Europe, Middle East and Africa, and Asia-Pacific (comprises Asia and Australia/New Zealand).

For 2007, the RCA transactions database comprised over 32,200 global properties valued at over \$1.03 trillion, while for 2008, the RCA transactions database comprised over 16,800 global properties valued at \$504 billion (RCA, 2009). Table 9 presents the regional breakdown of these 2007-2008 commercial property transaction volumes. Given that 2007 was a record year for global commercial property transactions and September 2007 was the catalyst to the current global financial crisis, the comparison of 2007 and 2008 transaction volumes is an effective measure of the impact of the global financial crisis on commercial property investment in Asia. Data relating to commercial property transactions globally prior to 2007 is not available.

For these analyses, details of the specific commercial property transactions in Asia over 2007-2008 were identified from the RCA transactions database. These countries comprised China, Japan, Hong Kong, Singapore, India, Malaysia, South Korea, Taiwan and Asia (other), accounting for 14.2% and 25.8% of the value of transactions respectively in 2007 and 2008. Details of the top 100 commercial property investors and top 100 commercial property transactions in 2007-2008 were also provided by RCA to enable an assessment of the profile of major property investors and major property transaction locations in 2007-2008; particularly focusing on the significance of these property investment characteristics concerning the Asian property markets.

Table 9. Composition of RCA commercial property transaction database: 2007-2008

| | Number of properties | Percentage of number of properties | Volume of transactions (US\$) | Percentage of value of transactions |
|---------------|-----------------------------|---|--------------------------------------|--|
| 2007: | | | | |
| North America | 17,367 | 53.9% | \$534B | 51.5% |
| Latin America | 144 | 0.4% | \$5B | 0.5% |
| Europe | 12,054 | 37.4% | \$314B | 30.3% |
| Middle East | 30 | 0.1% | \$2B | 0.2% |
| Africa | 122 | 0.4% | \$2B | 0.2% |
| Asia | 1,998 | 6.2% | \$147B | 14.2% |
| Australia/NZ | 513 | 1.6% | \$32B | 3.1% |
| Global | 32,228 | 100.0% | \$1,036B | 100.0% |
| 2008: | | | | |
| North America | 6,071 | 36.1% | \$143B | 28.4% |
| Latin America | 397 | 2.4% | \$12B | 2.4% |
| Europe | 7,857 | 46.7% | \$207B | 41.1% |
| Middle East | 61 | 0.4% | \$3B | 0.6% |
| Africa | 139 | 0.8% | \$1B | 0.2% |
| Asia | 2,025 | 12.0% | \$130B | 25.8% |
| Australia/NZ | 262 | 1.6% | \$9B | 1.8% |
| Global | 16,812 | 100.0% | \$504B | 100.0% |

Source: Authors' calculation from Real Capital Analytics (2008, 2009)

SIGNIFICANCE OF COMMERCIAL PROPERTY TRANSACTION ACTIVITY IN ASIA: 2007-2008

While the global financial crisis has had a major impact on the performance of listed property in 2008, both in Asia and globally (see Table 10), these listed property entities are closely linked with the considerable stock market volatility over this period of the global financial crisis. Hence, a purer assessment of the impact of the global financial crisis is to assess commercial property transactions over the period of 2007-2008. In particular, this paper focuses on the impact of the global financial crisis on the property markets in Asia over 2007-2008.

Table 10. Impact of the global financial crisis on listed property performance in Asia: Dec. 2008

Panel A: Property securities

| | | |
|-----------------|-------------------|----------------------|
| Tokyo: -48.5% | Hong Kong: -56.9% | Singapore: -57.0% |
| Bangkok: -53.3% | Jakarta: -55.3% | Kuala Lumpur: -44.6% |
| Manila: -54.9% | Shanghai: -64.9% | Taipei: -45.8% |
| Other: | | |
| US: -40.7% | UK: -54.4% | Germany: -34.3% |
| France: -40.2% | Australia: -56.2% | Asia: -58.5% |
| Europe: -52.8% | Global: -53.7% | |

Panel B: REITs

| | | |
|---------------|-------------------|-------------------|
| Japan: -37.1% | Hong Kong: -28.5% | Singapore: -56.1% |
| Other: | | |
| US: -38.3% | Australia: -64.8% | France: -36.8% |
| UK: -59.1% | Global: -45.0% | |

Sources: Macquarie Securities (2009), Standard & Poor's (2009)

Tables 11 and 12 present the summary of commercial property transactions in Asia for 2007 and 2008 respectively. Importantly, Asia has significantly increased its contribution to global commercial property activity over the period of 2007-2008, increasing its market share from 14.2% to 25.8%. In comparison, the North America markets have dropped significantly from 51.5% to only 28.4% of global activity over this period.

This sees both China and Japan significantly increasing their global market share of transactions during the global financial crisis, to be the world's #2 and #4 markets in 2008. At \$53B, China was only exceeded by the US (\$132B), with China exceeding the UK (\$47B; #3) in 2008 for the first time. China and Japan accounted for nearly 18% of global property transactions activity in 2008, as well as accounting for over 65% of Asian property transaction activity in 2008. The eight specific Asian markets assessed are now all included in the top 25 countries globally, based on their 2008 transaction activity.

Table 11. Commercial property transactions in Asia: 2007

| Country | Transaction value (US\$) | Percentage of global market | World ranking (by US\$) | Percentage of Asia market |
|---------------------|--------------------------|-----------------------------|-------------------------|---------------------------|
| China | \$59.6B | 5.8% | 4 | 40.5% |
| Japan | \$38.1B | 3.7% | 5 | 25.9% |
| Singapore | \$18.6B | 1.8% | 9 | 12.7% |
| Hong Kong | \$14.4B | 1.4% | 11 | 9.8% |
| South Korea | \$4.9B | 0.5% | 18 | 3.3% |
| Taiwan | \$4.3B | 0.4% | 20 | 2.9% |
| India | \$3.2B | 0.3% | 25 | 2.2% |
| Malaysia | \$2.0B | 0.2% | 30 | 1.4% |
| Asia (Other)* | \$ 2.2B | 0.2% | NA | 1.5% |
| Total Asia | \$147B | 14.2% | | 100.0% |
| Total Global | \$1,036B | 100.0% | | |

* Asia (other) comprises Macau, Vietnam, Philippines, Thailand, Indonesia, Kazakhstan, Cambodia and Sri Lanka

Source: Authors' compilation from RCA database

Table 12. Commercial property transactions in Asia: 2008

| Country | Transaction value (US\$) | Percentage of global market | World ranking (by US\$) | Percentage of Asia market |
|---------------------|--------------------------|-----------------------------|-------------------------|---------------------------|
| China | \$52.8B | 10.5% | 2 | 40.5% |
| Japan | \$32.5B | 6.4% | 4 | 24.9% |
| Singapore | \$9.2B | 1.8% | 12 | 7.1% |
| Hong Kong | \$8.7B | 1.7% | 15 | 6.7% |
| South Korea | \$9.1B | 1.8% | 13 | 7.0% |
| Taiwan | \$4.2B | 0.8% | 22 | 3.2% |
| India | \$6.1B | 1.2% | 17 | 4.7% |
| Malaysia | \$3.5B | 0.7% | 24 | 2.7% |
| Asia (other) | \$3.9B | 0.8% | NA | 3.0% |
| Total Asia | \$130B | 25.8% | | 100.0% |
| Total Global | \$504B | 100.0% | | |

Source: Authors' compilation from RCA database

The impact of the global financial crisis is clearly shown in the changes in commercial property transactions activity over 2007-2008, as shown in Table 13. With global property transaction activity decreasing by 51%, Asia only saw a decrease of 12%, with similar decreases seen for China (-11%), and Japan (-15%). Only Singapore (-51%) and Hong Kong (-40%) saw decreases in activity comparable to the global decrease. In some cases, several Asian markets increased their transaction activity (e.g. South Korea, India, and Malaysia), although this was typically off lower activity bases in 2007. Importantly, the Asian markets did not see the dramatic reductions in activity seen for many of the mature markets in 2008; for example, US (-74%), UK (-55%), Germany (-49%), France (-53%) and Australia (-73%). While these lesser impacts in Asia were largely sustained by strong Q1 and Q2 2008 activity, they highlight the lesser overall impact in Asia, but also highlight the full global nature of the global financial crisis.

Table 13. Change in commercial property transactions: 2007-2008

| | | |
|--------------------|-------------------|--------------------|
| China: -11% | Japan: -15% | Singapore: -51% |
| Hong Kong: -40% | South Korea: +86% | Taiwan: -2% |
| India: +91% | Malaysia: +75% | Asia (other): +77% |
| Asia (total): -12% | | |

Other:

| | | |
|--------------|-------------------|---------------|
| US: -74% | UK: -55% | Germany: -49% |
| France: -53% | Australia: -73% | Canada: -43% |
| Sweden: +5% | Netherlands: +15% | Europe: -34% |
| Global: -51% | | |

The specific impact of the global financial crisis is shown in considering the make-up of the top 25 global property markets over 2007-2008; see Table 14. This has seen the minimum investment to be included in the top 25 global property markets decrease from \$8B to \$3B. Importantly, Asian cities now account for 36% of the top 25 cities compared to only 20% in the previous year, with the US significantly reducing its role in the top 25 cities.

Table 14. Significance of commercial property transactions in major Asian cities*: 2007-2008

Panel A: Top 25 cities in 2007

Investment (minimum) : \$8B

Regions:

*US: 56% *Europe: 20% *Asia: 20% *Australia: 4%

Major cities:

*#1: New York *#2: London *#3: LA *#6: Tokyo
 *#9: Singapore #10: Paris *#14: Hong Kong *#20: Shanghai
 *#21: Beijing

Panel B: Top 25 cities in 2008

Investment (minimum): \$3B

Regions:

*US: 40% *Europe: 24% *Asia: 36%

Major cities:

*#1: New York *#2: London *#3: Tokyo *#4: Beijing
 *#6: Paris *#7: Singapore *#8: Hong Kong *#11: Shanghai
 *#15: Seoul *#17: Tianjin *#21: Hangzhou *#24: Osaka

*: includes other selected cities as international benchmarks

Whilst New York (#1) and London (#2) remain the top two investment locations, the ranking for Asian cities has improved significantly. In particular, Tokyo (#3), Beijing (#4) and Singapore (#7) were the leading Asian markets, with all Asian cities in the top 25 cities globally improving their ranking in 2008. This now sees Asia having four of the top ten cities (based on transaction activity) in 2008, compared to only two in the top ten in 2007 (i.e. Tokyo (#6) and Singapore (#9)).

The number of property markets exceeding \$1B in transactions has also reduced significantly in 2008; further reflecting the impact of the global financial crisis (see Table 15). Over 2007-2008, the number of property markets exceeding \$1B in transactions has

dropped from 114 in 2007 to only 75 in 2008. The robustness of Asia is further reflected in the number of Asian cities meeting the \$1B market criteria increasing from 18% to 27%, with both the US and Europe losing some of their market share in this \$1B market sector in 2008.

Table 15. Significance of \$1B transaction markets in Asia: 2007-2008

Panel A: 2007

Number of cities exceeding \$1B: 114 cities

Regions:

* Americas: 46% *Europe: 32% * Asia: 18% *Australia: 4%

Panel B: 2008

Number of cities exceeding \$1B : 75 cities

Regions:

*Americas: 41% * Europe: 27% *Asia: 27% *Australia: 5%

SIGNIFICANCE OF CROSS-BORDER INVESTING

International property investment has taken on increased importance in recent years as institutional investors seek portfolio diversification opportunities in both the mature and emerging property markets, with Asia having been a strong focus for this activity. Table 16 clearly shows the impact of the global financial crisis on cross-border investing into specific Asian and global property markets.

In 2007 (see panel A: Table 16), with the global level of cross-border investing being 32%, the level of cross-border investing in Asia was higher (37%); particularly in some of the specific Asian markets, including China (45%), Singapore (40%) and South Korea (66%). In contrast, the local focus in some mature Asia markets was also evidenced, with Japan (26%), and Hong Kong (18%) having lower levels of cross-border investing. High levels of cross-border investing were evident in most of the European markets, with the US market at only 10% cross-border being dominated by local investors. Major cross-border investors in 2007 were Morgan Stanley (#1), Macquarie (#2), Dubai World (#3), as well as ING (#6), LaSalle (#7) and RREEF (#8) (RCA, 2008).

However, 2008 has presented a different scenario (see panel B: Table 16). Most property markets have seen reduced cross-border investing, with local players dominant and global investors retreating from a global focus to a local focus to maximise local market

opportunities. This reduced cross-border investing in 2008 has clearly been evident in Asia (27%), as well as for the emerging markets such as China (25%), India (26%) and South Korea (27%). This reduced cross-border investment activity was also evident in most European markets; although levels of cross-border investing in Europe (47%) were typically higher than for Asia (27%). This largely reflects the more homogeneous nature of the more mature European markets (e.g. EU regulations), compared to the diversity in the Asian markets.

Table 16. Significance of cross-border investing in Asia: 2007-2008

Panel A: 2007

| | | | |
|-------------------|------------------|----------------|------------------|
| Asia: 37% | | | |
| China: 45% | Japan: 26% | Singapore: 40% | South Korea: 66% |
| Hong Kong: 18% | Taiwan: 26% | India: 35% | Malaysia: 54% |
| Asia (other): 80% | | | |
| | | | |
| Global: 32% | Europe: 59% | US: 10% | Canada: 23% |
| Australia: 59% | UK: 46% | Germany: 71% | France: 58% |
| Sweden: 66% | Netherlands: 86% | Russia: 57% | |

Panel B: 2008

| | | | |
|-------------------|------------------|----------------|------------------|
| Asia: 27% | | | |
| China: 25% | Japan: 23% | Singapore: 50% | South Korea: 27% |
| Hong Kong: 11% | Taiwan: 12% | India: 26% | Malaysia: 49% |
| Asia (other): 49% | | | |
| | | | |
| Global: 31% | Europe: 47% | US: 9% | Canada: 10% |
| Australia: 17% | UK: 38% | Germany: 58% | France: 49% |
| Sweden: 21% | Netherlands: 23% | Russia: 36% | |

While 2008 saw less cross-border investing, some of the major institutional investors continued a strong global mandate; particularly in Q1 2008 (RCA, 2009). This included:

#1: Goldman Sachs: \$6.5B cross-border; 57% of total activity

#2: Morgan Stanley: \$2.7B cross-border; 91% of total activity

#3: LaSalle: \$2.5B cross-border; 69% of total activity.

This saw the top 25 cross-border investors in 2008 each investing in excess of \$1B internationally, accounting for \$45 billion (or 75%) of their \$60B investment activity in 2008. Amongst the Asia-based property investors, a number were also active internationally in 2008; this includes Mitsui Fudosan (11% cross-border), CapitaLand (61%), GIC (100%) and Mapletree (94%) (RCA, 2009).

PROFILE OF TOP 100 PROPERTY INVESTORS

The dynamics of the major property investors has changed considerably in the global financial crisis, with Table 17 detailing the top 100 commercial property investors in 2007-2008.

In 2007 (panel A: Table 17), the top property investors were dominated by the US, including Blackstone (#1; \$59B; 726 properties), Morgan Stanley (#2; \$32B; 233 properties) and Lehman Brothers (#3; \$29B; 401 properties). In the top 100 property investors in 2007, Asia accounted for 11% of these top 100 investors, with investor representation from Singapore, China, Hong Kong and Japan. These included:

#28: Government Investment Corp (GIC): \$5.2B; 28 properties

#39: Sino Land: \$3.9B; 9 properties

#41: CapitaLand: \$3.9B; 23 properties

#43: Wharf: \$3.8B; 8 properties.

However, 2008 via the global financial crisis has seen a significantly different investor profile (panel B: Table 17). With the minimum investment required for all of these groupings reducing significantly in 2008, US investors were much less prominent. This has reflected the demise of major property investors such as Lehman Brothers, Merrill Lynch and AIG in 2008, as well as the substantive losses incurred by the major investment banks from 2007. This resulted in a more significant role by both Asian investors and European investors amongst all of these investor groupings. For example, in the top 10 investors, Goldman Sachs was #1 (\$11.5B), but European investors figured prominently via AP Fastigheter (#2; \$6.5B) and Klepierre (#3; \$4.7B), as did Asian investors via Mitsui Fudosan (#7; \$3.9B). This lesser US role amongst the leading property investors is further reflected in only Goldman Sachs, Morgan Stanley and Prudential being amongst the top 25 investors in both 2007 and 2008.

Table 17. Profile of top 100 commercial property investors: 2007-2008

Panel A: 2007

| | |
|----------|---|
| Top 10: | Minimum investment: \$8.2B US (90%), Europe (10%), Asia (0%) |
| Top 25: | Minimum investment: \$5.5B US (80%), Europe (12%), Asia (0%), Other (8%) |
| Top 50: | Minimum investment : \$3.0B US (56%), Europe (26%), Asia (8%), Other (10%) |
| Top 100: | Minimum investment: \$1.9B US (53%), Europe (25%), Asia (11%), Other (11%) |

Panel B: 2008

| | |
|----------|--|
| Top 10: | Minimum investment : \$3.3B US (30%), Europe (50%), Asia (10%), Other (10%) |
| Top 25: | Minimum investment: \$2.2B US (36%), Europe (44%), Asia (12%), Other (8%) |
| Top 50: | Minimum investment: \$1.5B US (36%), Europe (32%), Asia (18%), Other (14%) |
| Top 100: | Minimum investment : \$0.9B US (35%), Europe (39%), Asia (15%), Other (11%) |

Source: Authors' compilation from RCA database

In the top 100 property investors in 2008, Asia figured more prominently, accounting for 15% of these top 100 investors, with investor representation from Japan, Singapore, Hong Kong, China and South Korea. These included:

7: Mitsui Fudosan: \$3.9B

17: Mitsubishi Estate: \$2.8B

#21: CapitaLand: \$2.4B

#39: GIC: \$1.7B

#41: Mapletree: \$1.7B

#43: Champion REIT: \$1.6B

#45: Samsung: \$1.6B

#46: Mori Trust: \$1.6B.

PROFILE OF TOP 100 PROPERTY TRANSACTIONS

Table 18 profiles the top 100 property transactions in 2007-2008; again, reflecting the more significant role by Asian properties as a consequence of the global financial crisis.

Whilst only accounting for one property in the top 10 transactions in 2007 (see panel A: Table 18) (#6: Tokyo hotel; \$2.1B), Asia accounted for 33% of the top 100 property transactions in 2007. This was comparable to Europe (36%) and above the US (28%), reflecting significant investment activity by both local and international investors in Asia in 2007. These properties were in China (15), Japan (7), Singapore (7), Hong Kong (2) and South Korea (2). These Asia properties in the top 100 were largely development sites (73%), with 100% of the fifteen China properties in the top 100 being development sites.

In 2008 (see panel B: Table 18), Asia figured more prominently amongst the top 10 transactions, accounting for 30%. Whilst the General Motors Building (New York; \$2.8B) was the #1 transaction in 2008, properties in Hong Kong (#6; office; \$1.6B), Japan (#7; office; \$1.6B) and South Korea (#9; development site; \$1.5B) were in the top 10 transactions. Similarly, Asia figured prominently across all top transaction groupings; accounting for 28% of properties in the top 100 transactions, exceeding the US (27%). These properties were in all major Asia countries including China (9), Japan (8), Singapore (4), Hong Kong (1), South Korea (3), India (1), Malaysia (1) and Macau (1). The significant contribution by development sites, particularly in China, was again evident.

Table 18. Profile of top 100 commercial property transactions: 2007-2008**Panel A: 2007**

| | |
|----------|---|
| Top 10: | Minimum investment: \$1.6B US (40%), Europe (50%), Asia (10%) |
| Top 25: | Minimum investment: \$1.2B US (44%), Europe (32%), Asia (16%), Other (8%) |
| Top 50: | Minimum investment : \$841M US (30%), Europe (36%), Asia (30%), Other (4%) |
| Top 100: | Minimum investment: \$585M US (28%), Europe (36%), Asia (33%), Other (3%) |

Panel B: 2008

| | |
|----------|---|
| Top 10: | Minimum investment : \$1.5B US (40%), Europe (30%), Asia (30%) |
| Top 25: | Minimum investment: \$926M US (24%), Europe (52%), Asia (24%) |
| Top 50: | Minimum investment: \$591M US (24%), Europe (44%), Asia (28%), Other (4%) |
| Top 100: | Minimum investment : \$256M US (27%), Europe (44%), Asia (28%), Other (1%) |

Source: Authors' compilation from RCA database

PROPERTY INVESTMENT IMPLICATIONS

The global financial crisis has had a major impact across all financial markets in 2007-2009; this includes the property markets globally. The Asian property markets have not been immune, reflecting the global nature of the current financial crisis. A key

consequence of the difficulties seen in many of the mature property markets in the US, UK and Australia has been an increased relative contribution by the Asian property markets over 2007-2008. This has seen China and Japan being major property markets for institutional investors in 2008; although there has been a reduction in cross-border investing, with global investors refocusing on local opportunities. This has also seen an increased role and contribution by Asian property investors and an increased role and contribution by Asian properties in a portfolio; particularly development sites.

Whilst this paper has highlighted the enhanced relative contribution by the Asian property markets as a consequence of the global financial crisis over 2007-2008, much of this enhanced performance was achieved in the early stages of 2008. With the continued impact of the global financial crisis into 2009, seeing significantly reduced property investment activity globally, this has seen many major international investors retreat to their local markets, seeking local investment opportunities in an often distressed local environment. This will continue to play out over 2009-2010, impacting all property markets including those in Asia.

ACKNOWLEDGEMENT

The authors would like to acknowledge the generous support of Real Capital Analytics for providing access to the RCA commercial property transactions database for the necessary analysis in this paper.

REFERENCES

Asian Public Real Estate Association (2009) *Weekly Asian REIT Report: January 2009*, APREA.

Bond, S., A. Karolyi and A. Sanders (2003) International real estate returns: a multifactor, multicounty approach, *Real Estate Economics*, 31, 481-500.

Chau, K.W., B. MacGregor and G. Schwann (2001) Price discovery in the Hong Kong real estate market, *Journal of Property Research*, 18, 187-216.

Chau, K.W., S.K. Wong and G. Newell (2003) Performance of property companies in Hong Kong: a style analysis approach, *Journal of Real Estate Portfolio Management*, 9, 29-44.

Chin, W., P. Dent and C. Roberts (2006) An exploratory analysis of barriers to investment and market maturity in Southeast Asian cities, *Journal of Real Estate Portfolio Management*, 12, 49-58.

- Conover, M., S. Friday and S. Sirmans (2002) Diversification benefits from foreign real estate investment, *Journal of Real Estate Portfolio Management*, 8, 17-26.
- European Public Real Estate Association (2009) *Global Real Estate Universe*, EPRA News, 27, 60.
- Gray, L. (2009) Asset values take a hit, *Institutional Real Estate Letter-Europe*, July/August.
- Hoesli, M., J. Lekander and W. Witkiewicz (2004) International evidence on real estate as a portfolio diversifier, *Journal of Real Estate Research*, 26, 165-206.
- Jin, C., T. Grissom and A. Ziobrowski (2007) The mixed-asset portfolio for Asia-Pacific markets, *Journal of Real Estate Portfolio Management*, 13, 249-256.
- Jones Lang LaSalle (2008) *Real Estate Transparency Index*, JLL.
- Jones Lang LaSalle (2009) *Asia Pacific Property Digest Q1:2009*, JLL.
- Ling, D. and A. Naranjo (2002) Commercial real estate return performance: a cross-country analysis, *Journal of Real Estate Finance and Economics*, 24, 119-142.
- Liow, K.H. (2000) The dynamics of the Singapore commercial property market, *Journal of Property Research*, 17, 279-292.
- Liow, K.H. (2001a) The long-term investment performance of Singapore real estate and property stocks, *Journal of Property Investment and Finance*, 19, 156-174.
- Liow, K.H. (2001b) The abnormal return performance of Singapore property companies, *Pacific Rim Property Research Journal*, 7, 104-112.
- Liow, K.H. (2007) The dynamics of return volatility and systematic risk in international real estate security markets, *Journal of Property Research*, 24, 1-29.
- Liow, K.H. (2008) Financial crisis and Asian real estate securities market interdependence: some additional evidence, *Journal of Property Research*, 25, 127-155.
- Liow, K.H. and A. Adair (2009) Do Asian real estate companies add value to investment portfolios, *Journal of Property Investment and Finance*, 27, 42-64.
- Liow, K.H. and M.C. Sim (2006) The risk and return profile of Asian real estate stocks, *Pacific Rim Property Research Journal*, 12, 283-310.

Macquarie Securities (2009) *Global Property Securities Analytics: December 2008*, Macquarie Securities.

Newell, G. and K.W. Chau (1996) Linkages between direct and indirect property performance in Hong Kong, *Journal of Property Finance*, 7, 9-29.

Newell, G., K.W. Chau and S.K. Wong (2004) The level of direct property in Hong Kong property company performance, *Journal of Property Investment and Finance*, 22, 512-532.

Newell, G., K.W. Chau and S.K. Wong (2009) The significance of Chinese commercial property in an Asian property portfolio, *Journal of Property Investment and Finance*, 27, 102-119.

Newell, G., K.W. Chau, S.K. Wong and K. McKinnell (2005) Dynamics of the direct and indirect real estate markets in China, *Journal of Real Estate Portfolio Management*, 11, 263-279.

Newell, G., K.W. Chau, S.K. Wong and K. McKinnell (2007) Factors influencing the performance of Hong Kong real estate companies, *Journal of Real Estate Portfolio Management*, 13, 75-86.

Newell, G. and R. Kamineni (2007) The significance and performance of real estate markets in India, *Journal of Real Estate Portfolio Management*, 13, 161-172.

Ooi, J., G. Newell and T.F. Sing (2006) The development of Asian REITs, *Journal of Real Estate Literature*, 14, 203-224.

Real Capital Analytics (2009), *Global Capital Trends: April 2009*, RCA (and miscellaneous previous copies).

Schwann, G. and K.W. Chau (2003) News effects and structural shifts in price discovery in Hong Kong, *Journal of Real Estate Finance and Economics*, 27, 257-271.

Sing, T.F. and S.H. Low (2000) The inflation-hedging characteristics of real estate and financial assets in Singapore, *Journal of Real Estate Portfolio Management*, 6, 373-386.

Standards & Poor's (2009) *Global Property and REIT Report: 4th Quarter 2008*, S&P.

Transparency International (2008) *Corruption Perception Index 2008*, TI.

Wilson, P., S. Stevenson and R. Zurbruegg (2007) Measuring spillover effects across Asian property stocks, *Journal of Property Research*, 24, 123-138.

World Economic Forum (2008) *Global Competitiveness Report 2008-09*, WEF.

World Federation of Exchanges (2009) *2008 Annual Report*, WFE.

Email contact: g.newell@uws.edu.au