

THE PERCEPTION OF REAL ESTATE INVESTMENT OPPORTUNITIES IN SOUTHEAST ASIA

LAY CHENG LIM, ALASTAIR ADAIR AND STANLEY MCGREAL
University of Ulster

ABSTRACT

This research uses two independent investor surveys undertaken in Singapore and the UK to examine the attitudes and perceptions towards property investment opportunities in the Southeast Asian region. The analysis considers the characteristics of investors active in the Southeast Asian property market and factors influencing their decision-making process. The results show that market players target neighbouring countries where investment characteristics are familiar. This study also shows that there are differential behaviour patterns regarding risk perceptions across the two cohorts of investors. Differences in attitudes between a regional player (Singapore) and a foreign player (UK) in the Southeast Asia region may partially be explained by the risk averse behaviour of institutions.

Keywords: Property investment, decision-making process, globalisation, investor surveys, Southeast Asia.

INTRODUCTION

The Asia Pacific region was, until mid 1997, one of the most dynamic parts of the global economy (Le Heron and Ock Park, 1995; Lo and Yeung, 1996; Cook et al., 1996). While there is a great diversity of cultural and economic traditions, Castells (1993) acknowledges that the Pacific Rim is becoming more economically integrated as a consequence of the increase in trading and investment, particularly the flows of foreign direct investment. In this respect, Asia's newly industrialised economies, namely Hong Kong, Singapore, South Korea and Taiwan ("the four tigers") have been prime players in enhancing external trade and direct foreign investment.

International investors may be short-term traders or long-term investors and include wealthy individuals, corporations, institutional investors and international property funds. The interest of investors, institutions and notably private individuals in the Southeast Asian region has been partially motivated by the high expected rates of return, as well as the potential portfolio risk-reducing effects of asset diversification (Tang and Villafuerte, 1995). Nevertheless, in the context of this region, it is important to consider the effect of different cultural backgrounds which can influence investment decision-making. Indeed, Worzala and Newell (1997) agree that investor characteristics are implicit in considering property investment decisions. This hypothesis underpins the basis of this study, which examines the behavioural similarities and differences of real estate investors from the perspectives of eastern (Singapore) and western (United Kingdom) property investors. The main factors governing decision-making are assessed, together with the perception of risk and return within Southeast Asian property markets.

The remainder of the study is organised as follows. Section two provides, through a literature review, the potential role and benefits of international property diversification. Section three outlines the methodology underlying the empirical analysis and surveys used. Section four presents the results and draws comparisons between the respective surveys carried out in London and Singapore, and section five presents conclusions regarding decision-making behaviour.

PROPERTY INVESTMENT DECISION-MAKING

The property market exists within a broad institutional context defined by the prevailing political, economic, social and legal system (D'Arcy and Keogh, 1998). It is conditioned, amongst other things, by landlord and tenant law, planning law and urban policy, which in turn provide an institutional context for the activities of those who participate in the market to develop, use or invest in property. Keogh and D'Arcy (1999) contend that the property market can be explored from an institutional perspective, which provides an understanding of what real property represents and the ways in which it is held, used and traded. Clearly, institutional characteristics vary from one national property market to another and from one time period to another. These differences are important to the analysis of market outcomes and behaviour.

Real property investment is becoming increasingly international. As markets around the world become more sophisticated, large real estate investors are looking to diversify their portfolios on a global scale (Lizieri and Finlay, 1995; Newell and Worzala, 1995; McAllister, 1999). The main argument in favour of international diversification is that foreign investments offer additional potential to reduce the total risk of a portfolio (Eichholtz, 1996; Geurts and Jaffe, 1996; Gordon, 1992; Newell and Webb, 1996; Rubens et al, 1998; Solnik et al, 1996; Sweeney, 1994). Worzala (1994) identified the three most popular reasons for international property investment as diversification, higher yields and lower risk. The Investment Property Forum (IPF, 1993) identifies some other less easily explained factors, such as lack of opportunities in the local market, illiquidity, and liability matching.

Indeed, the motivations for international property investment vary according to the background of the investors involved. For the corporate sector, investment may be for operational or strategic reasons. Short-term traders may be seeking higher returns than are available in their domestic markets, either due to local market conditions or currency factors. Longer-term investors may seek portfolio diversification and higher risk-adjusted returns. For institutional investors from small countries, the size of the local market may be insufficient in relation to available capital; a reported motive for Dutch and Swedish pension funds overseas investment strategies. Wealthy individuals may be seeking politically or economically more stable environments for their capital. Furthermore, deregulation and liberalisation of global markets, with erosion of currency controls and regulations which limited foreign ownership of assets, led to the rapid expansion of international property investment during the 1990s (Ball et al., 1998).

In a study of the success and failure of foreign real estate investment, Baum (1995) argues that a foreign investor could actually have an information advantage known as 'advantage in perspective' over the domestic market participants. He contended that while local players will have superior information about local property and rental market conditions, exposure to the world asset markets can give the foreign investor a

unique perspective from which to view the relative investment value of local assets. In essence, if an information disadvantage can be countered by the use of local expertise, a foreigner's global perspective can exploit inertia such as inefficiency, local myopia and constraints that may affect domestic investors, but do not bind the foreign investor. The Asian currency and economic meltdown illustrates this point. For example, sudden changes in the international capital and currency exchange markets often present key opportunities to foreign institutions, since local real estate markets tend to respond sluggishly to such events. This is evident from the influx of capital flows, particularly from US vulture funds seeking bargains in some depressed Asian markets (Cushman and Wakefield, 1998).

Indeed, there appears to be certain country preferences between international security and real estate investors depending upon country of origin. It seems that the first preference of the real estate investor is internally within the country of origin, while the second preference is a neighbouring country whose investment characteristics are familiar to the investor (Hines, 1988). Country preferences usually reflect common languages, culture, location and historic origins. Furthermore, investors frequently follow each other in decisions, a phenomenon known as "herding", irrespective of whether the particular investment is warranted by economic fundamentals (Krugman, 1998). In some countries, foreign capital has been channelled into sectors that were open, such as property and equities, leading to sharp increases in these asset prices (Asian Development Bank, 1998; Eschweiler, 1998). As an illustration, exposure to the real estate sector as at the end of 1997, accounted for roughly 35-40% of total bank loans in Thailand, Indonesia, Malaysia and Singapore (Goldstein and Hawkins, 1998).

The foreign investor also faces some unique challenges and problems. For example, paucity of information at the local level explains why foreign investment tends to be concentrated in national capitals and major international money centres, where local property market information is better developed. Hence firms embarking upon international investment strategies are likely to concentrate on a small range of target countries or cities or on larger size property units (Ball et al, 1998). While such a strategy lowers the overall unit cost, it sacrifices potential diversification benefits. The other problems arising within an international property investment strategy are performance measurement, since these benchmarks rely on valuations to estimate capital appreciation. This problem is exacerbated by differences in appraisal methodology, terminology, ownership, lease terms and taxation (Adair et al, 1996).

METHODOLOGY

This study examines the premise that similarities and differences can be identified between property investors of different cultural backgrounds regarding overseas property investment. Two independent samples of investors, one consisting of 40 UK institutions and the other consisting of 47 Singapore institutions and property companies constitute the core data source for this study. Important considerations for the two countries include factors, such as Singapore's and London's respective position as major international business and financial centres. Both are stable economies and the property markets show common characteristics, with both deemed to be at the mature stage of market development (Keogh and D'Arcy, 1999).

The initial sampling frame comprised 134 and 145 potential respondents from the London and Singapore markets respectively. The data sources include the Directory of the Investment Property Forum (1997); the Directory of the Society of Property Researchers (1997); Pension Funds and Their Advisers (1996); the Directory of the Real Estate Developers Association of Singapore (1997); Journal of Institutional Investors - Ranking Asia's Biggest Institutional Investors (1996); and other personal contacts with academics and practitioners. Of these, 97 and 113 respondents respectively were successfully contacted in the UK and Singapore, but nearly 60% of the firms were either unable or unwilling to participate, producing a response rate of 30% and 32% for the UK and Singapore samples respectively.

In both surveys, face-to-face interviews were performed with a range of major investment institutions, including insurance companies, pension funds and property companies. The sample included companies that are active and those that are not currently active in real estate investment in Southeast Asia. In the case of the UK survey, foreign investment refers to investments that are outside the UK, whilst foreign investment in the Singapore survey refers to investment outside Singapore. Utilisation of a common questionnaire permitted behavioural differences between the two surveys to be examined. The survey included directors, senior partners, partners and heads of fund/property investment divisions of the companies participating. Hence the interviewees in both surveys possessed a considerable wealth of expertise and experience. Interviews were conducted between November 1998 and February 1999 in London and Singapore respectively.

In order to gauge attitudinal opinions and the significance of various factors influencing investor behaviour, the survey utilised a scaling technique, containing descriptive terms based on a gradual progression in magnitude, with 1 representing very important and 5 representing least important. Utilising the mean score computed for each factor, the relative order of importance of each factor within its respective sample is determined. Comparisons between the UK and Singapore samples are carried out (at the 0.05 probability level) to ascertain whether the observed differences are statistically significant.

ANALYSIS OF THE UK AND SINGAPORE SURVEYS

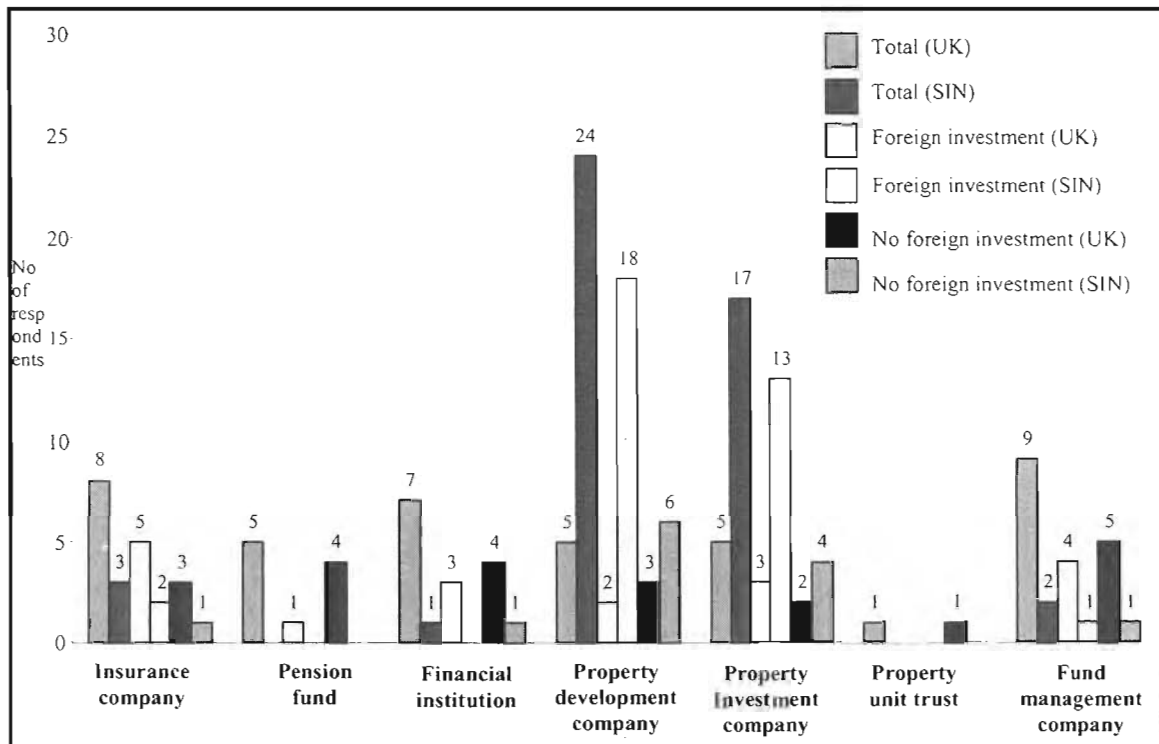
Background Information

A total of 40 UK institutions participated in this survey conducted in November 1998. Whilst 23% of the respondents classify their principal activity as fund management companies, insurance companies formed the second largest cohort representing 20%, followed by financial institutions (18%). Of those 22 companies active in overseas investment, 28% and 23% of the respondents are insurance companies and fund management companies respectively. Financial institutions and property investment companies form the next largest group, representing 17% of firms in the survey, with property development companies constituting 11% of the sample. Pension funds had a small representation of 6% (see Figure 1).

The majority of the respondents within the Singapore survey (51%) were property development companies. Property investment companies formed the second largest cohort representing 36% of the respondent companies. Insurance firms and financial institutions had a small representation of 7% and 2% respectively, and fund

management companies accounted for the remaining 4% of the sample. Of the 47 companies in the survey, 72% (34 companies) are active in overseas investment, while 28% (13 companies) do not currently invest in foreign real estate. For those active in foreign investment, property development companies and investment companies had a representation of 53% and 38% respectively. The distribution of respondents reflects the importance of real estate companies in Singapore, since they hold a substantial proportion of the total investment in the real estate market (see Figure 1).

Figure 1: Response Rate and Sample Profile



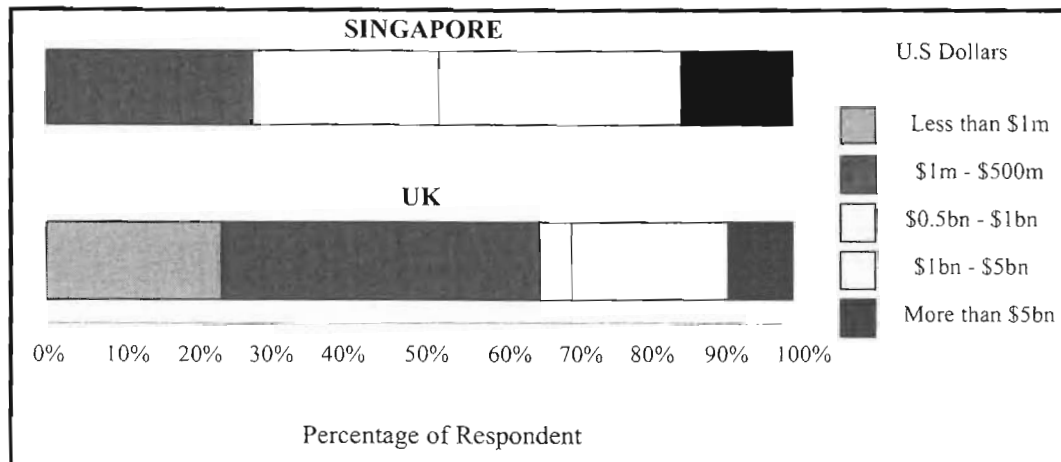
In terms of allocation to real estate, 32% of the UK respondents have a portfolio within the range USD\$1 billion to USD\$5 billion. In contrast, 28% and 25% of companies invest within the range USD\$1 million to USD\$500 million and USD\$501 to USD\$1 billion respectively into real estate. Overall, 14% have more than USD\$5 billion of their portfolio totally dedicated to real estate (see Figure 2).

The Singapore survey includes a wide spectrum of companies with the value of the real estate portfolio ranging from less than USD\$1 million at the lower end to USD\$5 billion at the upper end. Of these, 43% of the companies have a property portfolio within the range USD\$1 million to USD\$500 million, 23% invest less than USD\$1 million into real estate, 21% within the range USD\$1 billion to USD\$5 billion and 9% have more than USD\$5 billion of their portfolio totally dedicated to real estate. Only 4% of the companies have invested within the range USD\$501 million - USD\$1 billion (see Figure 2).

This distribution gives a particular insight into the size of funds held by Singapore institutions which are predominantly smaller than institutional investors in the UK. These responses suggest that in terms of size, a varied range of property investors have participated in this study. In contrast to the smaller funds held by the Singapore

institutions, it should be noted that whilst fund managers and financial institutions represent the main groupings in the UK sample, they are poorly represented in the Singapore sample.

Figure 2: Value of Real Estate Portfolio



Direct Investment Into Real Estate

Of those companies active in overseas real estate, only 17% and 9% of the UK and Singapore respondents respectively have specified allocations to foreign direct investment. In this respect, UK respondents indicate that a certain percentage of the fund is strategically allocated to add overseas property to the portfolio and investment opportunities are then solicited to conform to target allocations between countries and sectors. On the other hand, most Singapore companies indicated that their investment strategy is opportunist.

As to whether firms have a formal/strategic plan for foreign real estate investment, 67% and 97% of active UK and Singapore investors respectively indicate that they hold a flexible plan that can be changed according to advice. The remaining 22% and 3% of UK and Singapore respondents respectively have an unstructured and highly speculative strategy. Both respondent surveys indicate that while they have no strategic plans for their foreign property investment, the majority of them are moving towards a more flexible approach. The analysis shows that while similarities can be identified from investors with different cultural backgrounds regarding real estate investment, the results of the survey in each country are compared to see whether the observed differences are statistically significant. In relation to companies' motives for holding foreign real estate, it is apparent that the search for higher returns remains the principal motivating factor in both samples. However, potential capital appreciation emerges as being more important in the Singapore survey. There is agreement within and between the samples that risk reduction is regarded as less important.

Similarly, there is a large difference in the ranking of poor returns in the home country, which achieves rank 10 in the UK sample, in contrast to rank 7 in the Singapore sample, perhaps reflecting the fact that current low returns in the Singapore property markets are generally the driving force for investors to venture into neighbouring Asian countries. The availability of institutional investment grade properties achieves the rank of 4 in the UK sample, as opposed to the rank of 8 in the Singapore sample. A significant

difference is also apparent in mean scores for matching foreign assets to foreign liabilities, with UK investors placing greater emphasis upon this factor. Apart from these issues, there is a general level of consistency between the surveys (see Table 1). Indeed, a strong positive correlation coefficient ($r = 0.818$) at the 0.01 level, indicates a high level of statistical significance in the rank orders.

In terms of the countries to be monitored in relation to potential foreign real estate investment, variations are apparent among the UK and Singapore institutions (see Table 2). From the perspectives of the latter, three-quarters of the selected Asian countries are perceived to have considerable potential for property investment. Preferences usually reflect common language, culture, location and origins. More specifically, countries such as Thailand and Hong Kong emerge as the most favoured destination for new real estate investment. At the second tier of interest is China, Japan, the Philippines and Malaysia, which are perceived to have good prospects for investment purposes. Asian countries ranked as the least popular are South Korea, Taiwan and Indonesia. The analysis suggests that although such markets have experienced a rapid pace of change from semi-rural to industrial to service oriented economies, which appear to run with a smooth efficiency, the ability for international investors to enter these markets has been severely limited (Schultz, 1990). For instance, in South Korea and Taiwan, direct foreign ownership of land is effectively limited to real estate connected with the foreign investor's main business (Colliers Jardine and Jackson, 1996). However, since 1998, restrictions in the Seoul property market have become progressively relaxed, notably in relation to the ability of foreign investors to buy land and real estate for business purposes. Nevertheless, the commercial property market remains characterised by a high level of owner occupation and limited investor potential, which results in a general lack of transparency (Cushman and Wakefield, 1998).

Table 1: Mean Values and Rank Orders - Reasons for Holding Foreign Property

REASONS	SINGAPORE		UK		Sig Level (2-tailed)
	Mean Value	Rank	Mean Value	Rank	
Search for higher returns	1.21	1	1.22	1	0.904
Potential capital appreciation	1.26	2	1.83	2	0.015*
Steady income stream	2.44	3	2.78	5	0.221
Lack of opportunities in domestic markets	2.74	4	2.50	3	0.476
Sound economic policies and market oriented reforms in foreign countries	2.82	5	2.89	6	0.808
Different economic and political environment	2.85	6	2.94	7	0.791
Poor returns in home country	3.12	7	3.28	10	0.652
Availability of institutional investment grade properties	3.29	8	2.61	4	0.026*
Tax incentives	3.38	9	3.61	12	0.505
Risk reduction	3.50	10	3.11	9	0.209
Match foreign assets to foreign liabilities	3.62	11	2.94	8	0.090
Operational purposes	4.00	12	3.50	11	0.236

* Significance at the 0.05 level

Within the UK survey, there is a notable preference for institutions to favour countries within the EU, particularly France and Germany. This result is consistent with a survey by Baring, Houston and Saunders (1995) and McAllister (1999) which found most enthusiasm for continental Europe as the target investment destination. Respondents feel that the introduction of the euro and the push for harmonisation of investment and valuations standards will act as a potential driving force to increase the value of their European investments. Seemingly, these UK institutions are uncertain about investment potential in Asian cities, although some firms viewed Japan, Hong Kong and Singapore as potential locations for new property investment. More specifically for British institutional investors, the highly volatile nature that characterises overseas investment exposes a fund to an increased level of risk, especially when the majority of their liabilities are denominated in sterling. It is also apparent that life and pension funds tend to be risk averse and hence the high risk Asian property market is less appealing to these UK institutions.

Indeed, the analysis indicates that there are major differences in the perceptions and ranking of the potential for foreign real estate investment within Europe and the Southeast Asian region. In this respect, a significant difference (a weak negative correlation coefficient of -0.297 at the 0.01 level) is apparent in mean scores with respondents in the Singapore sample placing greater emphasis on neighbouring Asian countries, such as China, Japan, Philippines and Malaysia. Conversely, within the UK

survey, respondents are of the opinion that Asian real estate investment is less favourable, compared to investment within the EU.

In terms of investment into Asian property, only six UK firms indicate that they have Asian investments within their real estate portfolio. In contrast, 34 firms in the Singapore sample indicate that they hold property investments in some Asian cities, particularly in Malaysia and China, inferring a willingness to invest within the Southeast Asian region. This may be a function of cultural similarity acting as a driver for cross-border investment flows within Southeast Asian countries. Furthermore, various reasons for investing into other Asian real estate markets are given, including the search for higher returns, investment potential within the Asia Pacific region, globalisation and opportunistic factors. Factors such as a common language, cultural similarity and mutual understanding are among the cited reasons. It is also apparent that many investors take an interest in Asian real estate as a result of the information provided by friends, business associates and kinsmen who are in the region. This suggests a greater preference among Singaporean investors for neighbouring countries whose investment characteristics are more familiar to the domestic markets (Hines, 1988). The results of this study reinforce this perspective.

Table 2: Mean Values and Rank Orders – Potential Countries Considered for Foreign Property Investment

COUNTRIES	SINGAPORE		UK		Sig Level (2-tailed)
	Mean Value	Rank	Mean Value	Rank	
Singapore	1.02	1	4.10	10	0.000*
Thailand	1.79	2	4.25	11	0.000*
Hong Kong	1.94	3	4.05	9	0.000*
China	2.17	4	4.43	13	0.000*
Japan	2.34	5	4.03	8	0.000*
UK	2.57	6	1.40	1	0.000*
Philippines	2.60	7	4.40	12	0.000*
Malaysia	2.64	8	4.55	14	0.000*
South Korea	3.00	9	4.58	15	0.000*
Taiwan	3.36	10	4.65	17	0.000*
USA	3.43	11	3.20	5	0.529
France	3.70	12	2.60	2	0.000*
Indonesia	3.85	13	4.60	16	0.001*
Sweden	3.87	14	3.40	6	0.096
The Netherlands	3.98	15	2.90	4	0.000*
Germany	4.02	16	2.65	3	0.000*
Canada	4.21	17	3.82	7	0.193

* Significance at the 0.05 level

Concerning the extent of factors influencing decision-making behaviour, results from both surveys indicate that expected returns and internal political stability are the most significant factors (see Table 3). There is also a large difference in the ranking of currency exchange rates and convertibility, which achieve ranks 3 and 5 in the Singapore sample respectively, as opposed to ranks 19 and 13 respectively in the UK sample. This finding suggests that with the dramatic events in the Asian economies in mid-1997, Singapore investors have become more aware of issues surrounding foreign exchange and currency fluctuations. As far as currency risk is concerned, it is apparent that there is a lack of enthusiasm among UK investors. This result is consistent with the conclusions drawn by Worzala and Newell (1997), who suggest that there are significant differences between Asian and European investors regarding the relative importance attached to currency risk.

Factors considered to be of importance within both samples include strength and stability of currency and personal contacts, although they are only ranked 10th and 18th respectively. The way of doing business, risk diversification and balance of trade achieve ranks of 22, 24 and 26 respectively. Other factors that are significantly different (at 0.05 level) include state of general economic health, transparency of regulatory system, governmental policies, language barriers, environmental protection regulation and removal of trade barriers. For the first four of these factors, mean scores in the Singapore sample are lower than the UK sample, reflecting their importance from the perspective of the Singapore institutions. The two remaining factors, both with a mean score of 2.15 and 2.25 respectively, are perceived to be of greater significance to the UK institutions. Likewise, perceived corruption levels achieves a rank of 19 in the Singapore sample (unimportant) in contrast to rank 12 in the UK sample. In addition, certainty about future political climate and external political stability are viewed as highly significant factors influencing Singapore institutions as opposed to the UK institutions.

Perception of Risk in Asian Property Markets

Respondents were asked to describe their attitude towards risk in terms of their real estate investment decision-making process on a scale of 0 (risk averse) to 10 (risk seeking). In this aspect, the majority of the UK institutions consider themselves to be low risk takers (mean value of 4.50). In contrast, the mean score for Singapore respondents is 6.74, indicating a willingness to take risks in the investment decision-making process. This latter group of higher risk-taking respondents is composed primarily of companies active in development or investment.

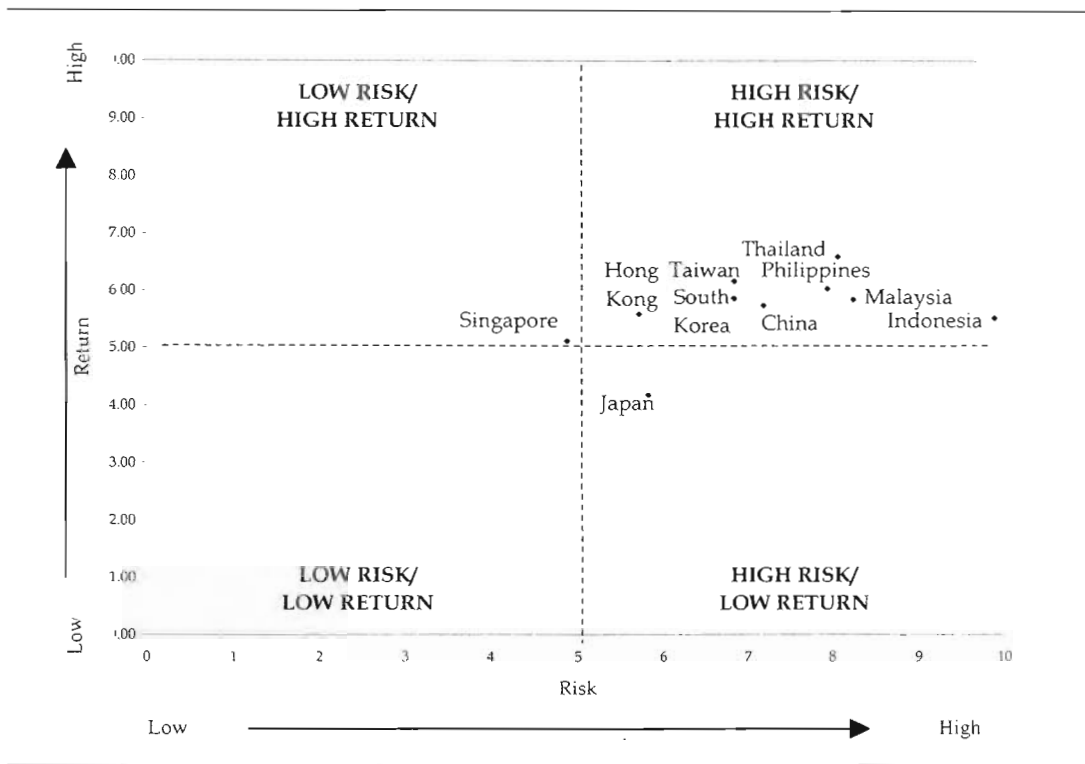
In relation to the perceptions of risk and return, UK respondents perceive Indonesia to have the highest risk (score of 10), with China, Malaysia, the Philippines and Thailand also perceived to be of high risk. Respondents stress the lack of transparency, cultural differences and legal difficulties. Japan, Hong Kong and Singapore are perceived to have a risk score within the range of 4 through 6. On average, UK respondents score Japan with the lowest return while at the other extreme, China is considered to have the highest potential return. Overall, it is found that active UK investors are of the opinion that eight out of the ten selected countries are considered to be in the high risk/high return spectrum (see Figure 3). With the exception of investment in Japanese real estate, UK investors perceive Asian markets to display higher risk, compared to the findings from the Singapore investor surveys. Respondents indicate that lack of expertise in terms of local information and knowledge are reasons for the high perceived risk.

Table 3: Mean Values and Rank Orders - Factors Influencing Decision-Making

FACTORS	SINGAPORE		UK		Sig Level (2-tailed)
	Mean Value	Rank	Mean Value	Rank	
Expected returns	1.11	1	1.13	1	0.789
Internal political stability	1.21	2	1.35	2	0.208
Removal of restrictions on foreign investors	1.34	3	1.60	5	0.089
Currency exchange rate	1.34	3	2.10	19	0.000*
Currency convertibility	1.38	5	1.80	13	0.014*
Legal framework	1.40	6	1.58	4	0.207
Good demand and supply fundamentals	1.43	7	1.48	3	0.715
State of general economic health	1.45	8	1.75	11	0.015*
Transparency of regulatory system	1.47	9	1.90	15	0.007*
Strength and stability of currency	1.49	10	1.75	10	0.063
Governmental policies	1.53	11	1.85	14	0.034*
Governmental intervention	1.57	12	1.65	6	0.572
Regulatory law	1.57	13	1.73	9	0.253
Certainty about future political climate	1.64	14	1.73	8	0.439
External political stability	1.70	15	1.73	7	0.870
Liberalisation of financial markets	1.85	16	2.13	20	0.083
Creditworthiness of country	1.89	17	1.93	16	0.853
Personal contacts	1.96	18	2.03	18	0.687
Perceived corruption levels	1.96	19	1.80	12	0.424
Good track records of sound macroeconomic policies	2.02	20	2.03	17	0.983
Language barriers	2.11	21	2.90	28	0.000*
Way of doing business	2.19	22	2.15	22	0.820
Cultural differences	2.32	23	2.65	25	0.137
Risk diversification	2.38	24	2.43	24	0.824
Environmental protection regulation	2.66	25	2.15	21	0.002*
Balance of trade	2.83	26	2.68	26	0.441
Removal of trade barriers	2.85	27	2.25	23	0.007*
Custom and habit	2.92	28	2.83	27	0.619

* Significance at the 0.05 level

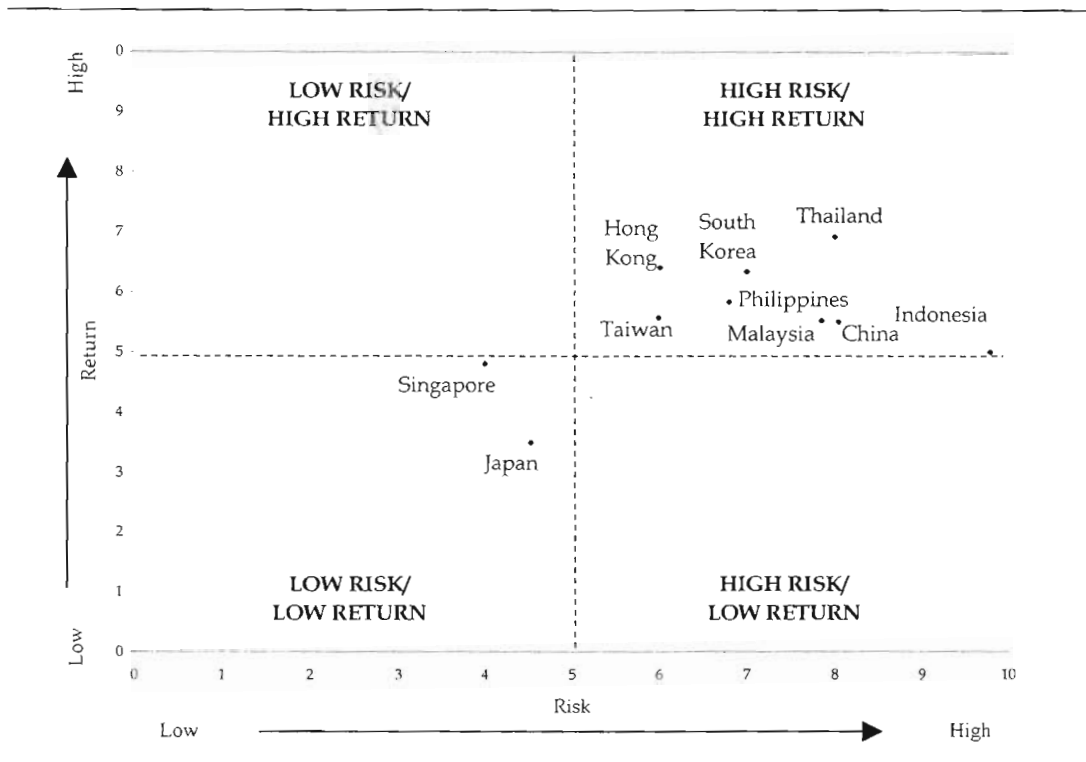
Figure 3: UK Survey: Perception of Risk and Return by Country



Analysis of the Singapore sample indicates that the majority of the respondents perceive Indonesia as having the highest risk, with economic and political uncertainties the main cause of concern to real estate investors. In contrast, respondents consider Japan to have the lowest risk level. Respondents feel that the property markets in Japan and Singapore are relatively stable and mature. Both have a sophisticated financial structure and, in terms of the efficient operation of the property market, it is considered that each country has a well regulated and developed real estate market. This is reflected by the ability to accommodate complex requirements for use and investment. Furthermore, the availability of market information is evident in the strong presence of international real estate consultancy firms with networks established throughout the region. Singapore respondents perceive the Philippines, Hong Kong, South Korea and Taiwan to exhibit slightly higher risk. Although Hong Kong is considered to display the characteristics of a mature market, respondents stress that a higher perception of risk is due to the uncertainty over its political environment.

In relation to return, Singaporean respondents perceive Japan as yielding the lowest return, followed by Indonesia. At the higher end of the return spectrum are Hong Kong, South Korea and Thailand. Overall, Singapore respondents perceived the majority of the Asian countries to lie within the high risk/high return quadrant. This includes China, Hong Kong, Indonesia, Malaysia, Philippines, South Korea, Taiwan and Thailand. Japan and Singapore occupy the low risk/low return quadrant, although Singapore lies close to the high/low return threshold (see Figure 4). This analysis shows that emerging economies, although possessing high earning potential, also display a high-risk environment in relation to the real estate market. On the other hand, mature markets such as Japan and Singapore enjoy stability and lower risk, but there is a less opportunity for high returns.

Figure 4: Singapore Survey: Perception of Risk and Return by Country



Indeed, the survey findings suggest (both the Singapore and UK samples) that Singapore is perceived to have the lowest risk amongst the Southeast Asian countries (see Table 4). Although statistical tests ($r = 0.814$ at the 0.01 level) indicate that there is a significant difference in the mean score of both samples, Singapore is ranked first in both surveys. This suggests that Singapore, being the least affected of the Asian markets, is the most open and apparently transparent country in Southeast Asia with a well regulated real estate market. Countries considered as being significantly different include Japan, Taiwan and Philippines. In all cases, UK institutions discern higher risk levels, indicating that Japan, in particular, is the major driving force for the Asian region and holds the key to wider recovery throughout the region. Comparison of rank orders for Hong Kong and Thailand indicates that the Singapore sample displays lower risk, ranked 4 and 8 respectively, as opposed to ranks 2 and 4 in the UK survey. Indonesia is the only country achieving a mean in excess of 9 in each sample, indicating a higher perception of risk irrespective of cultural background. Overall, UK institutions display a higher perception of risk than Singapore institutions in Southeast Asian real estate markets.

Perceptions of return, in both surveys, are within a much narrower band (see Table 5). Japan is considered to have the lowest rates of return on real estate investment followed by Indonesia and Singapore, though the ranking of the latter differs between the two surveys. The main difference occurs in relation to China which is perceived by UK investors to have potentially the highest rates of return, an opinion not shared by Singaporean investors. Similarly, there is a statistically significant difference in the perceptions of investment returns for Hong Kong. In this case, Singaporean investors attach a higher scoring than those in the UK survey; the correlation coefficient is moderate ($r=0.539$), implying that the rank order is not of statistical significance.

Table 4: Mean Values and Rank Orders - Perception of Risk

COUNTRIES	SINGAPORE		UK		Sig Level (2-tailed)
	Mean Value	Rank	Mean Value	Rank	
Singapore	4.00 ^[47]	1	4.91 ^[34]	1	0.001*
Japan	4.53 ^[45]	2	5.82 ^[34]	3	0.002*
Taiwan	6.00 ^[45]	3	6.83 ^[30]	4	0.017*
Hong Kong	6.02 ^[47]	4	5.71 ^[35]	2	0.324
Philippines	6.80 ^[44]	5	7.94 ^[31]	7	0.000*
South Korea	7.00 ^[45]	6	7.18 ^[28]	5	0.243
Malaysia	7.85 ^[47]	7	8.24 ^[33]	9	0.186
Thailand	8.00 ^[47]	8	7.31 ^[32]	4	0.371
China	8.04 ^[47]	9	8.06 ^[35]	8	0.966
Indonesia	9.79 ^[47]	10	9.88 ^[32]	10	0.533

* Significance at the 0.05 level

Table 5: Mean Values and Rank Orders- Perception of Returns

COUNTRIES	SINGAPORE		UK		Sig Level (2-tailed)
	Mean Value	Rank	Mean Value	Rank	
Japan	3.49 ^[45]	1	4.18 ^[33]	1	0.116
Indonesia	4.77 ^[47]	2	5.02 ^[31]	3	0.371
Singapore	4.91 ^[47]	3	5.12 ^[33]	2	0.598
China	5.49 ^[47]	4	6.59 ^[34]	10	0.064
Malaysia	5.51 ^[47]	5	5.84 ^[32]	6	0.554
Taiwan	5.56 ^[45]	6	5.86 ^[29]	7	0.448
Philippines	5.82 ^[44]	7	6.03 ^[30]	8	0.633
South Korea	6.33 ^[45]	8	5.74 ^[29]	5	0.188
Hong Kong	6.40 ^[47]	9	5.59 ^[34]	4	0.006*
Thailand	6.91 ^[47]	10	6.16 ^[31]	9	0.121

* Significance at the 0.05 level

As to whether respondents would invest within the Southeast Asian region, 50% of UK respondents indicate Japan as the most favourable country, followed in order of preference by Singapore, Taiwan, China, Hong Kong, South Korea, Philippines, Thailand, Indonesia and Malaysia. Political stability is the most important factor underpinning choice of country, followed by capital growth, rental growth potential, economic growth and security of return. Secondary factors include the well organised

nature of the real estate market, yield and length of lease. Conversely, the analysis reveals that 88% of Singapore respondents indicate Hong Kong as the most favourable country, followed by South Korea, Japan and Thailand. The majority of respondents stress potential capital growth as the most important factor underpinning choice of country, followed by political stability, rental growth potential and yield on investment and length of lease. Secondary factors include security of return, economic growth and a well organised real estate market.

In relation to the before and after impact of the financial crisis, there is a significant difference in the preference of Singapore in the UK sample, indicating its attractiveness for investment purposes. Many respondents feel that among the Southeast Asia countries, Singapore weathered the crisis comparatively well, albeit with a slight slowdown in growth. On the other hand, there is a large agreement that China, Indonesia and the Philippines have become less favourable destinations for investment. The respondents in both surveys also show a greater willingness to consider investment in Thailand, Japan and South Korea, confirming their increased potential for investment after the crisis. Some respondents indicate that the Asian crisis could provide opportunities for investors as a result of the lower costs following asset deflation and currency devaluation. Certain differences again emerge, with respondents in the Singapore survey showing a lack of enthusiasm for Malaysia and Hong Kong after the crisis, while UK firms indicate a greater willingness to consider investment potential in Hong Kong (see Table 6). Both the UK and Singapore groups of institutions consider China and Indonesia as the least preferred destinations for investment following the crisis. Respondents again emphasise the inadequacy of political and legal infrastructure, particularly the underlying ethnic problems within Indonesia. Another issue that needs to be considered is the extent of restriction on ownership of property in Indonesia as foreigners can enjoy only the "Right to Use or Rent" and not the "Right to Own".

CONCLUSION

The findings from these two complementary surveys clearly indicate that while there are similarities, differences clearly exist between UK and Singapore investors in how they perceive international real estate investment opportunities, the degree of risk and return, particularly with respect to Southeast Asian property. In evaluating destinations for international investment, the findings reveal that there is country bias in both samples. Singapore investors are higher risk takers and, in general, eastern companies display a greater willingness to invest, particularly in high-risk emerging economies. Indeed, familiarity and knowledge of local markets within some of the countries in the Southeast Asian region has meant that Singapore investors are increasingly willing to seek opportunities in the region where they recognise the potential to add value through management or development.

Table 6: Mean Values and Rank Orders- Before and After Crisis

COUNTRIES	SINGAPORE			UK		
	(BEFORE) Mean Value	(AFTER) Mean Value	Sig Level (2-tailed)	(BEFORE) Mean Value	(AFTER) Mean Value	Sig Level (2-tailed)
Singapore	1.38	1.32	0.733	2.00	1.50	0.017*
China	1.94	3.59	0.328	2.50	3.25	0.520
Indonesia	1.94	4.53	0.290	2.50	3.75	0.063
Malaysia	2.03	3.38	0.336	2.75	2.75	0.311
Hong Kong	2.18	2.26	0.898	2.25	2.00	0.602
Thailand	2.35	1.79	0.461	2.75	1.75	0.923
Philippines	2.53	2.74	0.945	2.50	3.25	0.358
Japan	3.15	2.12	0.118	2.00	1.50	0.213
Taiwan	3.59	3.27	0.322	3.00	3.00	0.648
South Korea	3.85	2.56	0.292	3.25	3.00	0.493

* Significance at the 0.05 level

In contrast, UK institutional real estate investors are generally risk averse. In this respect, they perceive high returns from booming Asian real estate markets to be essentially short-term. Indeed, many UK investors have considered investment within the Southeast Asian region to be too risky and/or difficult; in other words, too culturally dissimilar. The movement into Europe for the UK institutions is seen as a further step in portfolio diversification, while investment into Southeast Asian countries is preferred by eastern institutional real estate investors. The results of this study provide evidence of country bias in both cultures. Certainly, cultural differences account for some of the difficulties involved in international investments.

The search for higher returns is the most important motive for inclusion of overseas real estate in an investment portfolio. Research has highlighted the diversification benefits to be obtained by investing internationally. Furthermore, it is important to consider that individual investment decisions are often driven by a range of stimuli. At the strategic level, countries may be selected for diversification potential, while at the selection level, maximising returns may be the key issue. Indeed, it is apparent that Singapore investor groups have been very active in a number of foreign markets in the Southeast Asian region and they are more likely to invest in high-risk emergent countries. Politically, Singapore, with a large Chinese base, appeals to many of the ethnic Chinese investors from the neighbouring countries, suggesting that eastern investors are more likely to be able to cultivate business contacts in the Southeast Asian property markets due to cultural similarities.

Conversely, this study also shows a marked reluctance of UK property investors to invest in countries with which they have not had a previous association. This has principally been a function of watching the experience of other investors, a lack of knowledge of foreign markets and fear of increased risk exposure from investing in an

unknown region. Overall, exposure to the Asian market by UK funds is low, arising largely from the established principle that investment institutions will follow only known markets for which the degree of market intelligence is good. In this context, Southeast Asian investments are considered to pose particular problems and expose the investment institutions to an undue level of perceived risk. In a global context, the lack of knowledge and research into Asian real estate, together with the perception of high risks and cultural differences, seem to pose major psychological barriers to UK investors.

The globalisation of financial markets as well as internationalisation of the property market has not only highlighted the need to understand the investors' decision-making process, but also calls for further investigation of the behavioural patterns among investors from different cultural backgrounds. In order to facilitate a better understanding of the market participants and the underlying dynamics and motivations that influence investors in the property market, subsequent research may adopt a more extensive approach encompassing other countries, particularly those in the wider Southeast Asian region. This would have the merit of including more diverse cultural backgrounds that may yield additional insights into the behaviour of property investors. Furthermore, analysis of cultural similarity and the relationship between the 'herding' patterns and the cultural origin of investors is a major area for future investigation. Indeed, the contribution of this paper and the work of other authors are raising an awareness of the significant role of cultural influences upon investment decision-making processes. Arguably, this is a major issue impacting upon real estate markets in the first decade of the twenty-first century and one which currently remains relatively under-researched, in spite of the growth of global processes with implications for the wider property research agenda; in particular, the need to embrace behavioural issues to greater effect.

Similar to any survey work, the findings of the present study have to be interpreted with caution. The effect of the heterogeneity of the sample – mainly property companies in Singapore as opposed to institutions in the UK – does limit the generalisability of the findings. While differences in risk perception between a regional player (Singapore) and a foreign investor (UK) in the Southeast Asian real estate market is obvious, it should be borne in mind that investment behaviour in Singapore does not represent the totality of Asian investment attitudes in the Asia Pacific region. Subsequent research, using different samples within the Southeast Asian region, will provide more insight into the strategies and attitudes of investment opportunities in Asia.

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